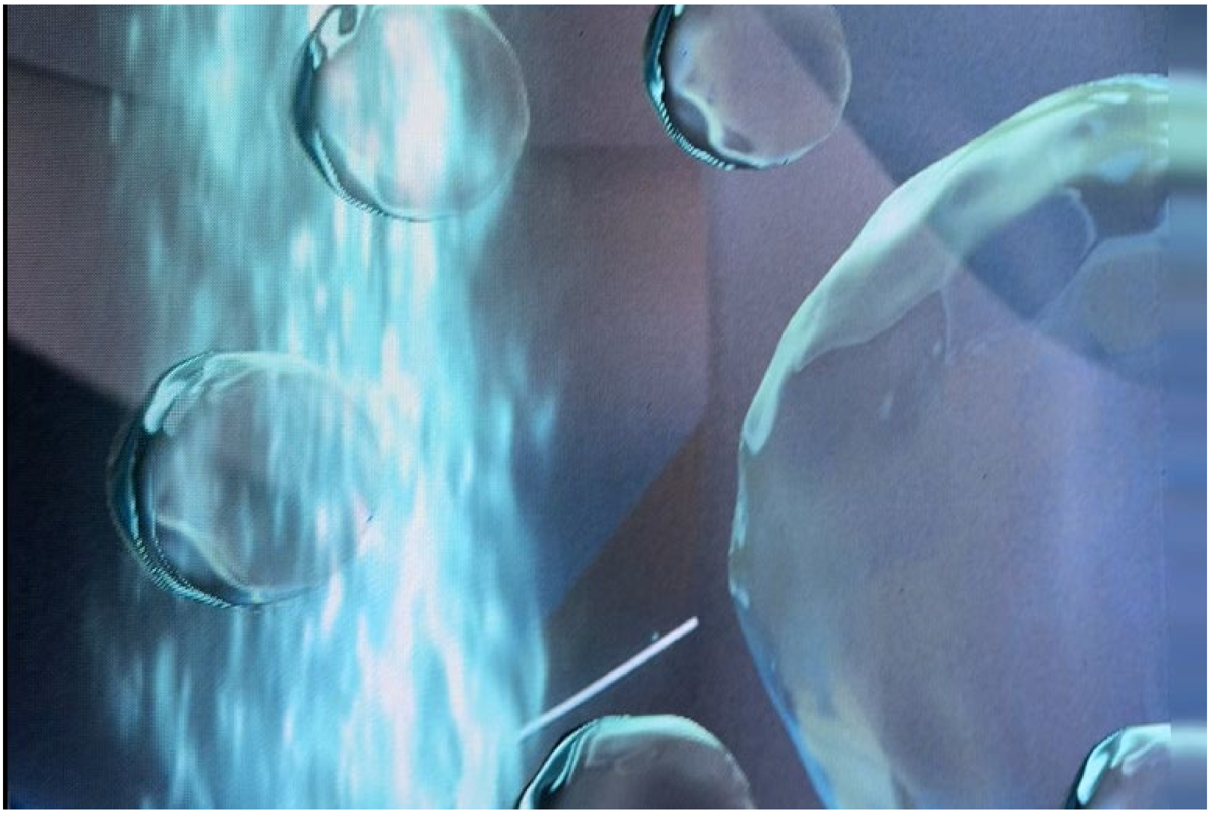
Issue of Digital Bonds: How Issuers Can Tap the Digital Bond Grant Scheme in Hong Kong



As Hong Kong is positioning itself as a leading hub for tokenised and digital bond issuances, building on the HKSAR Government's two landmark digital green bond offerings in 2023 and 2024 and on-going Project Evergreen work by the Hong Kong Monetary Authority (HKMA). Issuers can, through HKMA's Digital Bond Grant Scheme (DBGS), recover up to HK$2.5 million of eligible expenses, including legal, arranger, and technology fees. Successfully tapping this scheme requires strategic foresight, as early decisions regarding your syndicate, technology platform, and distribution directly dictate your grant eligibility.

Structuring the Syndicate and Tech Stack – Qualifying Conditions

For potential issuers, early decisions around choice of arranger group and technology stack are not purely commercial, they directly determine grant eligibility and your ability to demonstrate the required Hong Kong footprint.

To qualify at all under DBGS, a digital bond must first be regarded as "issued in Hong Kong", which is satisfied where at least 50% of the involved lead arrangers are "recognised arrangers" with substantial Hong Kong debt capital market operations. The list of recognised arrangers is shared with HKMA's Green and Sustainable Finance Grant Scheme and is referenced in that guideline.

In addition, the issuance must meet one of two Hong Kong nexus conditions: either (i) the team responsible for Distributed Ledger Technology (DLT) platform development/operations and other digital aspects has substantial presence in Hong Kong, assessed case-by-case based on size, composition and seniority of Hong Kong-based staff; or (ii) the bond is issued on a DLT platform operated by the HKMA's Central Moneymarkets Unit (CMU), such as the CMU extension used in the HKSAR Government's February 2024 multi-currency digital green bond.

Sizing and Distribution Strategy

Grant amount

- 50% of eligible expenses, reimbursed per qualifying issuance
- Half Grant — up to HK$1.25 million — where the Basic Requirements are met
- Full Grant — up to HK$2.5 million — where the Additional Requirements are also met

Available for up to two digital bond issuances per issuer (together with its associates)

Additional Requirements: conditions for the Full Grant

To upgrade from the Half Grant to the Full Grant of up to HK$2.5 million, the issuance must satisfy all four Additional Requirements on top of the Basic Requirements.

Those requirements are:

- The digital bond must be issued on a DLT platform provided by an entity that is not an associate of the issuer;
- The issuance size must be at least HK$1 billion equivalent, aggregating all tranches;
- At issuance, the bond must be placed to at least 5 independent investors who are not associates of the issuer or any DLT platform provider involved; and
- The bond must be listed either on the Stock Exchange of Hong Kong Limited (SEHK) or on virtual asset trading platforms licensed by the Securities and Futures Commission.

Eligible Expenses that can be recovered

- Fees to the DLT platform provider (excluding an issuer's associate)
- Fees to Hong Kong-based arrangers (excluding associates)
- Fees to Hong Kong legal advisers
- Fees to Hong Kong-based auditors, accountants and rating agencies
- HKEX or licensed VATP listing fees
- CMU lodging and clearing fees

Expenses covered by other grant scheme(s) in Hong Kong or outside Hong Kong will be excluded.

Where a digital bond is also a use-of-proceeds or sustainability-linked instrument (green, social, sustainability, sustainability-linked or transition), DBGS interacts with the Green and Sustainable Finance Grant Scheme: issuers can choose to cover general issuance costs under either DBGS or Track I of the GSF scheme (up to HK$2.5 million, but not both), while external sustainability review costs may be covered under Track II of GSF (up to HK$800,000 for all external reviews combined).

Eligibility is assessed issuance-by-issuance, and “digital bond” for DBGS purposes broadly refers to bonds that leverage DLT for digital representation of ownership, including legal or beneficial interests. Each issuer, together with its associates (defined by reference to control relationships but carving out independently operated state-owned entities), may obtain DBGS subsidies for a maximum of two digital bond issuances, so issuers should think strategically about which transactions to nominate.

Implementation timeline and application process

The DBGS accepts applications from 28 November 2024 and runs initially for three years, with the HKMA reserving flexibility to adjust its design over time in light of market developments. Importantly, applications can be made for bonds issued on or after 16 October 2024, the date of the Policy Address announcement, so issuers whose transactions straddle the launch period may still benefit.

The application process has two stages:

1. Optional pre-application consultation: Prior to or after issuance, the issuer, lead arrangers or DLT platform providers may consult the HKMA via the dedicated DBGS email address to discuss preliminary eligibility. If HKMA is satisfied based on preliminary information, it will issue a “no-objection".
2. Formal application: A formal application must be submitted within 3 months after bond issuance by the issuer, lead arrangers or DLT platform providers. Application forms are obtained directly from HKMA via the same email channel.

Issuers should build the three-month deadline into their transaction timetables and ensure that documentation, cost breakdowns and evidence of meeting Basic and Additional Requirements are collated contemporaneously rather than reconstructed after the fact.

For issuers contemplating one or more HKEX-listed digital bonds, the DBGS is effectively a co-funding mechanism to offset incremental costs of tokenisation while anchoring the fundraising in the financial ecosystem of Hong Kong.

Sources:
https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/bond-market-development/digital-bond-knowledge-repository/
https://www.hkma.gov.hk/media/eng/doc/key-functions/ifc/bond-market-development/Guideline_on_the_Digital_Bond_Grant_Scheme.pdf

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