

Darryl Chan: Keynote speech - International Capital Market Association event

Keynote speech by Mr Darryl Chan, Deputy Chief Executive of the Hong Kong Monetary Authority, at the International Capital Market Association (ICMA) "The Chinese and Asian Cross-border Bond Markets – Innovations and Opportunities" Event, Hong Kong, 26 March 2024.

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Bryan [*Pascoe, Chief Executive*],

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Ladies and gentlemen, good morning!

Let me first congratulate ICMA on its successful inaugural China Bond Market Forum in Beijing last week, and the release of the fourth edition of its Asian international bond markets report. Against this backdrop, it gives me great pleasure to join industry participants today in Hong Kong to extend the conversation to cover the Chinese and Asian cross-border bond markets.

2023 was a fairly stable year for the Asia bond market. After a notable drop in 2022 due primarily to interest rate hikes, issuance volumes levelled in 2023 at around US\$380 billion. Entering 2024, with more clarity on the interest rate outlook, there is hope that issuers will gradually come back to the market. The increased supply may also help take some of the tightness out of the secondary market. That said, we should stay vigilant of the macro factors that may continue to spur market volatility.

Within Asia, China continued to hold significant weight. Despite some headwinds, China still accounted for around one-third of the region's international issuances in 2023. In particular, dim sum bond issuances recorded another year of remarkable growth, driven by relative cost advantage in the prevailing global interest rate environment.

In recent years there has been a lot of focus on the slow down in the market. But let us not lose sight of the opportunities lying ahead. Let me highlight some recent positive developments that we believe are highly relevant to our audience today, who has been actively participating in the capital markets in this region.

First is the continued opening up of the Mainland market. Just two weeks ago, China's National Development and Reform Commission, or NDRC, released a consultation notice on supporting the cross-border financing of high-quality enterprises. There are proposed facilitative measures that aim to streamline the offshore issuance approval and registration process for high-quality issuers that meet certain qualifying criteria. Back in October last year, the HKMA and the NDRC signed an MOU to better support Mainland cross-border financing activities and promote the development of Hong Kong's bond market. These are encouraging developments that reaffirm the

authorities' continued support for Mainland issuers to tap the international market for cross-border financing. Clearly Hong Kong and many of you here are well positioned to seize the flows that come as the market turns.

Speaking of cross-border opportunities, Hong Kong is an important gateway for international investments in the onshore bond market. Bond Connect, for example, accounted for two-thirds of foreign investors' total turnover in the onshore China Interbank Bond Market in 2023. Meanwhile, we are making good progress in helping bond holders to better manage their risks and liquidity. The Swap Connect launched last year complements the Bond Connect by facilitating global investors' management of interest rate risks arising from their allocation to Mainland bonds.

The HKMA is also in discussion with Mainland authorities in enhancing cross-border connectivity in the repo market. In January this year, the HKMA and the People's Bank of China jointly announced the further opening up of the onshore repo market to all foreign institutional investors that already have access to the onshore bond market, including Bond Connect investors. The market consultation ended last month and we will support the PBoC's work in taking forward this important initiative. A month ago the HKMA started accepting certain onshore RMB bonds as eligible collateral for our RMB liquidity facility.

These new measures will facilitate international investors' diverse use of their Mainland bond holdings and provide them with more liquidity management tools, thereby enhancing the depth and breadth of their participation in the Mainland bond market.

The second development, or more accurately, longer term trend, is the continued shift towards green and sustainable finance. Indeed the ICMA report has covered this in length, and for good reasons. Asia's transition to a sustainable development is critical to the global climate agenda given the region's share of global carbon emission. Yet the transition is challenging given that many Asian economies lack the requisite financial resources. Encouragingly, the Asia bond market is shaping up to meet this challenge. Last year, more than 20% of the region's international bond issuances were in green and sustainable format, considerably higher than the global average of around 10%.

Hong Kong is playing its part. In recent years, over one-third of Asia's green and sustainable bond issuances were arranged in Hong Kong. In 2023, the volumes amounted to US\$30 billion, equivalent to 37% of the market. Hong Kong was also the most preferred listing location for green issuances.

The HKMA and the Government have kept enhancing our platform to support sustainable financing activities. We appreciate that while green is on the agenda for many corporate issuers, some are concerned about the additional cost and effort for issuing in green versus conventional format. We therefore rolled out a subsidy scheme three years ago, what we call the Green and Sustainable Finance Grant Scheme, to help cover these additional costs and, more importantly, to promote transparency and accountability in the use of sustainable finance. Recently, the Financial Secretary announced to extend the scheme by three more years, and expand its scope to cover transition bonds and loans. We will engage the market on the details, so stay tuned.

No discussion about the future of finance these days is complete without covering tech. The ICMA report highlights that digitalisation has been gaining traction particularly among Asian issuers. Last year, there were globally more than 30 outstanding bonds that had digital exposure, whether being on a digital ledger, digital exchange or digital clearing house; and Asian issuers accounted for almost half of these issuances by deal counts.

In Hong Kong, we completed two tokenised government green bond issuances in just one year. The issuances have demonstrated clearly the potential of technology in enhancing the efficiency and transparency of the bond market. The most recent issuance that we did just last month was in four major currencies with a combined size of around US\$750 million, matching the benchmark sizes of many traditional issuances and attracting subscription from a wide range of global institutional investors.

In this issuance, investors had the option to follow largely business-as-usual processes through traditional market infrastructure, i.e. the Central Moneymarkets Unit in Hong Kong and its external linkages with Euroclear and Clearstream. This has significantly broadened the bond's investor base and enhanced its liquidity. It is fair to say that the issuance brought tokenised bonds further beyond proof-of-concept, towards achieving more common application.

The recent issuance also adopted ICMA's Bond Data Taxonomy, which is a set of machine-readable language for key bond terms and information. When widely adopted across the market, this holds the potential to facilitate the exchange of information across parties and systems and pave the way for further automating capital market processes.

Ladies and gentlemen, a lot more is happening beyond what I have just talked about. With that I very much look forward to the insightful sharing of our presenters and speakers in the following sessions.

One last thing before I conclude: this is an eventful week in Hong Kong packed with summits and forums surrounding the themes of investment, family offices, sustainability and arts. So, find some time out of your busy schedule to explore what this vibrant city has to offer.

Thank you Bryan and the ICMA team once again, and I wish you all a most productive event.