



HKCMA – Investor Forum – 18 October 2002

Room 3103, Citibank Tower, 3 Garden Road, Central, Hong Kong

Agenda :

• **Short Presentations :**

- (1) The HK\$ Bond Market – A new issue person’s perspective
Tony Li - BNP Paribas
- (2) The HK\$ Bond Market – A trader’s perspective
Mitchell Lim - Barclays Capital
- (3) Electronic Trading Platform
Albert L. Cobetto - BondsInAsia

• **Open Forum Discussion Summary**

Moderator: Brian Yiu - Standard Chartered

- ◆ Panel - It is a vicious cycle, there is not sufficient liquidity in the secondary market and therefore investors continue to buy from the primary issuance. Investors do not buy much from the secondary market. This in turn forces banks to quote more defensively in the secondary market.
- ◆ Investor - From the perspective of a fund manager, there has been little action in trading HKD papers through the secondary market in the last 10 years due to the liquidity issue. Large transaction cost will incur in implementing and applying trading strategies to the portfolio. The result after taking into consideration the breakeven point and investment time frame is usually negative if one tries to apply portfolio strategies. It is always better to buy and hold.
- ◆ Panel: Some bond sales are able to get better sales credit by doing new issues.
- ◆ Investor: There are major inflexibilities in the secondary market on amount and maturity. Also because of the perceived lack of liquidity in the secondary market, traders hold smaller inventories.
- ◆ Panel: To increase activities in the secondary market, issuers must be encouraged to issue bigger size in the HKD market ; issuing transactions like a bond and also executing it as a public bond issue. It was recommended that investors should buy



THE HONG KONG CAPITAL MARKETS ASSOCIATION

- issues with more managers involved (therefore involving more market makers and issues executed more like a bond transaction than a private placement or syndicated loan.)
- ◆ Panel: Investors opting for more “tailor made” investments will result in a decrease in the liquidity of the issue and the market.
 - ◆ Investor: The HKD market is relatively small and lacks strategic holding/benchmark, which denies any major exposure by the bigger funds. The domestic currency bond exposure of the balance fund portfolio in the US and UK is approximately 50%.
 - ◆ Investor: HKD bonds are not an essential component of fund managers’ portfolios because of the insufficient liquidity. However, for pension portfolios, their investment is usually in HKD as their liabilities are denominated in HKD. Hence, there is natural exposure and no currency risk.
 - ◆ Investors: HKD bonds for pension and provident funds should become strategic holding. We may need to work with large investment consultants to promote the idea of HKD bonds as core holding. With benchmarking holding status established, fund managers will follow and demand liquidity, which will ultimately boost demand and growth in the HKD market.
 - ◆ Trader: One major constraint for some banks is the “concentration limit” applied to all securities including EFBNs. If more than a certain percentage of the bond is being held, an internal penalty will be applied to the trading portfolio and this deters traders from taking big positions. For banks, there is not a problem in selling a new issue, no matter of its size, but if banks are asked to buy back the whole issue, difficulties will arise. In addition to the concentration limit, there is also an ‘aging limit’ that traders need to worry about.
 - ◆ Trader: currently the major concern is that investors adopt buy- and- hold strategy, with assets matching liabilities. Preference is on 3-5 years. Once, it is beyond 5 years, there will be concerns on the liquidity.
 - ◆ Investors: government bodies and authorities should take the lead in creating and encouraging strategic demand for HKD bonds by formulating guidelines. The MPF funds will be a good starting point. In order to encourage HKD bonds as strategic investment, it was recommended that HKD bond should be a benchmark holding in the MPF funds.



- ◆ Panel: the issue of tax treatment of different types of instruments has been extensively discussed within the Association. The discussion has been going on for many years. HKCMA advocated a level playing field whereby all issues would be tax exempted. We know that it is difficult to ask for this in today's difficult fiscal situation of the Government and hence we also advocate all issues becoming equally taxable.
- ◆ Panel: if there is a level playing field for EFN and also private sector bonds, it will encourage investors who have concentrated on the private sector bonds to shift to EFN, increasing the number of market players and activities.
- ◆ Investor: tax imposed on all HKD debt securities could drive some investors to shift to USD securities because they can be treated as income derived from overseas and hence tax exempted.
- ◆ Panel: The retail bond phenomenon is quite new, the lack of liquidity and transparency are all current valid issues that have to be dealt with.



THE HONG KONG CAPITAL MARKETS ASSOCIATION

List of attendees :

Company	Title	Firstname	Surname
BA Asia Limited	Mr.	Raymond	Chan
BA Asia Limited	Ms.	Cammy	Lam
BA Asia Limited	Mr.	Andrew	Ho
Barclays Capital	Mr	Mitchell	Lim
BNP Paribas	Mr.	Tony	Li
BondsInAsia	Mr.	Albert	Cobetto
BondsInAsia	Ms.	Jennifer	Chen
BondsInAsia	Mr.	Kenny	Ho
BondsInAsia	Ms.	Vanessa	Ko
BondsInAsia	Ms.	Polly	Lee
Citibank, N.A., Hong Kong Branch	Ms.	Jenny	Chau
Citibank, N.A., Hong Kong Branch	Ms.	Karen	So
Dah Sing Bank	Mr.	W.S.	Wong
Deutsche Bank AG	Ms.	Angel	Chan
Deutsche Bank AG	Mr.	Colin	Zhong
Finance Services and the Treasury Bureau	Mr.	George	Tam
Finance Services and the Treasury Bureau	Mr.	Stanley	Wong
First State Investments (Hong Kong) Limited	Mr.	Ben	Yuen
HKCMA Secretariat	Ms.	Carlinda	Sum
HKCMA Secretariat	Ms.	Tessa	Chiu
Hong Kong Housing Authority	Mr.	Richard	Lee
Hong Kong Investment Funds Association	Ms.	Sally	Wong
Hong Kong Jockey Club	Mr.	Roger	Tang
Hong Kong Monetary Authority	Mr.	Guorong	Jiang
Hong Kong Monetary Authority	Ms.	Nancy	Tang
HSBC	Mr.	Francis	Wu
HSBC	Ms.	Elaine	Chan
HSBC Asset Management	Ms.	Cecilia	Chan
JPMorgan Chase	Mr.	Aaron	Poon
Manulife	Ms.	Victoria	Ip
MPF Authority	Mr.	Don	Sneddon
MPF Authority	Mr.	Joseph	Lee
Standard Chartered Bank	Mr.	Brian	Yiu
Standard Chartered Bank	Ms.	Kara	Cheung
Standard Chartered Bank	Ms	Paula	Chan



THE HONG KONG CAPITAL MARKETS ASSOCIATION

Tokyo-Mitsubishi International (HK) Limited	Ms.	Karen	Mak
Tokyo-Mitsubishi International (HK) Limited	Mr.	Masaya	Ito
Town Gas, Hong Kong	Mr.	W.K	Lo
UBS Warburg	Mr.	Joseph	Lam

Discussion Panel Members

Company	Title	Firstname	Surname
Standard Chartered Bank	Mr.	Brian	Yiu
Barclays Capital	Mr	Mitchell	Lim
BNP Paribas	Mr.	Tony	Li
First State Investments (Hong Kong) Limited	Mr.	Ben	Yuen