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APSA
亚太结构融资公会
Asia-Pacific Structured Finance Association

STRUCTURED FINANCE GLOBAL CONNECT

A PROPOSAL TO DEEPEN THE CHINESE MAINLAND BOND MARKET AND CREATE A GLOBAL STRUCTURED FINANCE HUB IN HONG KONG



2025

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Introduction

EXECUTIVE SUMMARY

The Proposal contained in the following pages sets our vision for Structured Finance Global Connect (**SFGC**): a targeted enhancement of Hong Kong-Chinese Mainland market connectivity that enables accredited Hong Kong "orphan" special purpose vehicles (**HK SPVs**) to acquire Chinese Mainland bonds and securitisation products (**Onshore Bonds**) via Bond Connect and repackage them into offshore asset-backed securities (**Offshore ABS**) for purchase by global institutional investors. SFGC is designed to broaden and diversify international participation in China's fixed income and securitisation markets, deepen liquidity and price discovery and reinforce Hong Kong's role as the region's structured finance hub. It builds on existing market infrastructure, governance and supervisory arrangements and advances policy priorities including RMB internationalisation, green finance, digital asset innovation and support for real-economy sectors.

At its core, SFGC refines who can invest through Bond Connect and what they can buy. First, it admits accredited Hong Kong "orphan" SPVs as a defined category of Eligible Foreign Investor, supervised by the Hong Kong Monetary Authority (**HKMA**) and anchored by clear prudential, governance and risk-ringfencing criteria. Second, it expands access beyond the China Interbank Bond Market (**CIBM**) to include the Exchange Market, which is essential to reach the depth and diversity of Mainland securitisation, notably Asset-Backed Special Plans (**ABSPs**). With these adjustments, HK SPVs can purchase RMB-denominated Onshore Bonds and issue Offshore ABS in Hong Kong—potentially hedged and/or denominated in other currencies—allowing investors to gain calibrated exposure to Chinese Mainland credit without intermediary balance-sheet risk or onshore account opening.

In the following pages of this Proposal, we set out a practical, phased path to implementation. A Pilot Programme (initially limited to Bond Connect Northbound), capped initially at a macro-prudential limit, will test standardised transaction types—originator-led securitisations and intermediary/investor repackagings—using simple, high-familiarity asset classes first (e.g., auto and consumer receivables, SME loans, investment-grade bonds), before expanding to more complex pools, exchange-traded securitisations and tokenised issuances. CMU will remain the post-trade anchor for custody and settlement in the Pilot Programme; interconnections with the Exchange Market and bridges to ICSDs can scale as operational confidence builds.

To support orderly growth, this Proposal sets out a clear supervisory and governance overlay. HKMA would vet and accredit HK SPVs and oversee completion notifications, drawing on an Enhanced Governance Framework. APSA will publish mandatory endorsement criteria for transactions and HK SPVs, coordinate industry participants and provide structured feedback loops to regulators. Investor eligibility will be limited to professional/institutional participants, with robust KYC/AML, disclosure standards and risk controls aligned to international practice.

Realising SFGC's potential requires limited, targeted policy actions. On the Chinese Mainland side, clarity is sought on (i) formal recognition of HK SPVs as Eligible Foreign Investors, (ii)

Bond Connect access to Exchange Market instruments, (iii) a long-dated extension of the CIT/VAT exemption for foreign investors including securitisation instruments and (iv) confirmation that Bond Connect purchases by HK SPVs are not "indirect foreign debt" requiring NDRC registration. In Hong Kong, a tax-neutral (or nominal-tax) regime for HK SPVs is needed to align with international securitisation centres, alongside technical refinements in related regimes to facilitate efficient, ring-fenced issuance structures.

The benefits are material and symmetrical. For Chinese Mainland markets, SFGC mobilises diversified, stable foreign capital, supports bank balance-sheet relief and SME/consumer finance, enhances secondary liquidity and risk distribution and accelerates policy objectives from green transition to IP monetisation and BRI refinancing. For Hong Kong, it scales an issuance, listing and clearing franchise in structured finance, catalyses professional services and fintech integration and underpins the evolution of CMU toward an Asian International central securities depository (**ICSD**). For global investors and intermediaries, it provides institutional-grade access to Chinese Mainland assets through familiar structures, currencies and laws, with improved net yield via hedging and without intermediary credit concentration.

In the following pages, we set out details of the proposal (*Section I*), the onshore market context and case for diversified offshore participation (*Section II*), the Bond Connect enhancements needed for SFGC (*Section III*), the operating model and scale-up path, including the HK SPV structure and safeguards (*Section IV*), the Pilot Programme design and test cases (*Section V* and *Annex A*), governance and risk management frameworks (*Sections VI-VII*) and the strategic policy and sector applications—from green finance and digital assets to transport, insurance, technology and IP—together with Hong Kong's broader role as Asia's bond hub and the regulatory enablers in both jurisdictions (*Sections VIII–XI; Annexes B–E*).

The direction is clear: a controlled, standards-driven market opening that channels international best practice into Chinese Mainland credit via Hong Kong, delivering deeper markets, stronger resilience and a durable platform for cross-boundary structured finance.

Section I

APSA PROPOSAL: STRUCTURED FINANCE GLOBAL CONNECT

A. The Chinese Mainland Bond Market

1. The Chinese Mainland bond market has experienced remarkable growth and innovation over the past two decades, becoming the second-largest bond market in the world after the US. However, it remains largely a domestic bond market, with foreign investment restricted to certain types of institutional investors and certain types of bonds.

2. In the US and Europe, techniques such as securitisation and bond repackaging fuel growth across the economy. We believe that these techniques can be used to attract a broader group of sophisticated offshore investors to the Chinese Mainland bond market. Investors will be attracted to the opportunity to diversify their portfolios and gain exposure to RMB-denominated underlying assets and Chinese Mainland capital markets. Increasing capital inflows to the Chinese Mainland bond market will further enhance liquidity and deepen the investor base, supporting RMB internationalisation and broader economic growth objectives.

B. APSA's Proposal for Structured Finance Global Connect

3. APSA's Proposal is to expand the scope of the existing Bond Connect framework to support a structured finance issuance pipeline in Hong Kong, referred to as "**Structured Finance Global Connect**" (**SFGC**).

We refer to this proposal as "Structured Finance Global Connect" or "SFGC"

4. Under SFGC, accredited orphan special purpose vehicles incorporated in Hong Kong (**HK SPVs**) would access debt securities issued in the Chinese Mainland through Bond Connect and repackage those holdings into asset-backed securities for issuance to global institutional investors in Hong Kong (**Offshore ABS**).



5. SFGC is designed to operate within, and build upon, the existing Bond Connect architecture. It will rely on the core market access infrastructure for trading through Bond Connect's "Northbound Trading Link"[1] (**Bond Connect Northbound**), while introducing a clearly defined investor category and a transparent issuance channel in Hong Kong for

[1] Bond Connect's "Northbound Trading Link" means the mutual market access arrangement operated under Hong Kong and Chinese Mainland laws that enables Eligible Foreign Investors to directly trade Northbound Trading Link Instruments on the CIBM via one or more electronic trading platforms that are recognised by the PBOC and admitted by Bond Connect Company Limited.

repackaged structured finance products. The SFGC proposal complements the policy and economic ambitions of the Chinese Mainland and Hong Kong to deepen the investor base, align onshore and offshore price discovery and develop a scalable structured finance bond market in Hong Kong.

C. What is Bond Connect?

Key Terms

Bond Connect is a mutual market access scheme linking the China Interbank Bond Market (**CIBM**) with Hong Kong's bond market infrastructure as approved by the People's Bank of China (**PBOC**) and the Hong Kong Monetary Authority (**HKMA**).

Bond Connect Northbound is the framework under Bond Connect which enables "Eligible Foreign Investors" to trade "Eligible Instruments" on the CIBM via access arrangements recognised by the PBOC.

An **Eligible Foreign Investor** under Bond Connect Northbound is a legal person or an investment product issued, managed or supervised by a legal person, in each case recognised by the PBOC pursuant to all applicable laws and regulations.

An **Eligible Instrument** under Bond Connect Northbound is an individual financial instrument that is eligible for trading by Eligible Foreign Investors under the laws and regulations applicable to Bond Connect Northbound.

6. Holdings of Eligible Instruments purchased through Bond Connect Northbound by Eligible Foreign Investors must be maintained in Hong Kong indirectly through the nominee holder, i.e., the Central Moneymarkets Unit (**CMU**), a central securities depository operated by the HKMA. Secondary transfers of interests in the Eligible Instruments may only be made to other Eligible Foreign Investors.

Eligible Foreign Investors in Bond Connect Northbound:

- Central banks/monetary authorities
- Sovereign wealth funds/international financial institutions
- Commercial banks
- Securities firms/brokers
- Insurers
- Asset managers and their managed funds
- Pension funds and endowments

7. While we note that some financial institutions (**FIs**) in Hong Kong may choose to sell financial products to their institutional customers which *reference* the performance of the Eligible Instruments that the FI has acquired through Bond Connect Northbound, the institutional customers cannot avoid taking credit risk on the relevant FI as well as the Eligible Instruments, thereby utilising their institutional credit exposure to the relevant FI in the process.

D. Enhancements to Bond Connect to Support SFGC

8. By utilising HK SPVs to acquire Eligible Instruments through Bond Connect Northbound, SFGC will mirror global structured finance techniques for the issuance of structured finance products and invigorate foreign investment in the Chinese Mainland bond market by opening the market to a wider range of offshore investors (beyond those currently permitted to invest through Bond Connect Northbound from Hong Kong or through the QFI Scheme or CIBM Direct Scheme). The influx of more diverse sources of foreign capital into the market will support Chinese Mainland GDP growth and fund under-banked and emerging sectors, delivering other strategic benefits to the economies of the Chinese Mainland and Hong Kong.

9. The success of SFGC will be supported by targeted adjustments to the Bond Connect Northbound framework[2] including:

- ❖ Refining the scope of "Eligible Foreign Investors" to accommodate accredited "orphan special purpose vehicles" incorporated in Hong Kong (**HK SPVs**) meeting specified prudential, governance and risk isolation criteria for the purposes of SFGC; and

- ❖ Extending the range of "Eligible Instruments" available for acquisition by Eligible Foreign Investors (including HK SPVs).

Eligible Foreign Investors	Eligible Instruments
• Investment through Bond Connect is currently limited to approved Eligible Foreign Investors • SFGC will extend the scope of this definition to include HK SPVs • Investment through "orphan special purpose vehicles" is widely used in international structured finance markets (in securitisation and repackaging structures). See below.	• Eligible Foreign Investors under Bond Connect Northbound may currently only invest in Eligible Instruments (i.e., CIBM traded bonds and securitisation products) • SFGC proposes to extend the range of these Eligible Instruments to include Exchange Market traded bonds and securitisation products • Permitting access to the bonds and securitisation products traded on both the CIBM and Exchange Market will significantly enhance the success of SFGC

10. Our proposed enhancements to Bond Connect will be implemented in a controlled and well-regulated manner, ensuring price curve alignment between onshore and offshore markets, maintaining the quality and stability of the investor pool, avoiding excessive leverage or systemic risk and ensuring transparency in cross-boundary data and fund flows. See *Section III*: *Bond Connect: Proposed Enhancements*.

What is an "orphan special purpose vehicle"?

"Orphan special purpose vehicles" (**SPVs**) are legal entities (e.g., a company) established for a specific, limited purpose. The term "orphan" refers to the fact that the SPV is deliberately structured so that it is not owned, directly or indirectly, by the sponsor or any related party. Instead, the shares or beneficial interests in the SPV are typically held by an independent third party, such as a professional trust company or a charitable trust, on behalf of a charitable purpose.

SPVs are commonly used in structured finance transactions, such as securitisation and repackaging transactions, to isolate financial risk and ensure that the assets and liabilities of the SPV are not legally consolidated with those of the sponsor to protect investors from the insolvency risk of the sponsor or originator.

[2] The Bond Connect Northbound framework comprises (i) the *Bond Connect Company Limited Access Rule Book*, as of 9 June 2021: https://bcclweb.s3.ap-east-1.amazonaws.com/uploads/docs/final%20AccessRules%20clean.pdf and (ii) all laws, regulations, directives, guidelines, rules, notices or orders issued by PBOC or any other Chinese Mainland governmental or regulatory authority, self-regulatory industry organisation, organised trading platform, settlement institution or clearing house that are in force from time to time which govern trading, clearing and/or settlement of bonds on the CIBM and, in particular, through Bond Connect Northbound.

E. Bond Connect and SFGC: Operating Synergies

11. Following the enhancements to Bond Connect set out above, HK SPVs would be classified as "Eligible Foreign Investors" under Bond Connect Northbound for the limited purpose of acquiring Eligible Instruments, using the same access, onboarding and compliance processes as other Eligible Foreign Investors.

12. With the support of Chinese Mainland and Hong Kong regulators, SFGC will augment Bond Connect Northbound by establishing a scalable, Hong Kong-centred issuance channel for Offshore ABS backed by Eligible Instruments acquired under Bond Connect Northbound, initially in traditional format and, subsequently, in tokenised format where permitted. This would deepen the investor base, improve liquidity in Chinese Mainland issued bonds and securities and consolidate Hong Kong's position as a regional centre for structured finance issuance, listing and clearing, while adhering to the Bond Connect Northbound framework.

13. Hong Kong offers a mature ecosystem for this initiative, including the existing Bond Connect Northbound framework and the professional services infrastructure necessary to structure, rate, distribute and service Offshore ABS backed by Eligible Instruments acquired through Bond Connect Northbound. This allows a robust, regulatorily aligned foundation for expanding foreign participation in Chinese Mainland credit through Bond Connect while maintaining prudential safeguards and market integrity:

Finance Ecosystem	Experienced Institutions	Fintech
• Hong Kong is a leading international capital market, as well as a global finance centre and hub for RMB investment and trading • All the necessary components of a bond ecosystem are already in place (including highly qualified professionals)	• HKMA, HKEX and CMU will provide a well-regulated, familiar and transparent structure of oversight, listing and clearing for offshore investors	• Hong Kong's status as a fintech hub will allow the incorporation of blockchain or distributed ledger technology (**DLT**) for enhanced transparency and accountability in tracking receivables and fund flows

F. Benefits of SFGC for Market Participants

Benefits to Originators

14. Chinese Mainland entities seeking to broaden their investor base or access global fixed income markets (**Onshore Originators**) can initiate structured finance transactions under SFGC by engaging arrangers to structure deals that leverage their onshore receivables or assets. These onshore receivables and assets can be issued or securitised within the Chinese Mainland and, if they qualify as Eligible Instruments under Bond Connect, acquired by an HK SPV under SFGC and repackaged by the HK SPV as Offshore ABS. The Offshore ABS will be sold to global institutional investors, enabling the Onshore Originators to tap into a broader and more diverse pool of international capital.

Benefits to Global Institutional Investors

15. There are several benefits for global institutional investors in making an investment in bonds or asset-backed securities issued or originated by Chinese Mainland enterprises, financial institutions, local governments and sovereign entities through an HK SPV repackaging or securitisation under SFGC rather than by direct investment through Bond

Connect, the QFI Scheme or CIBM Direct Scheme or by investment through an intermediary (i.e., an FI).

16. The benefits include: (i) minimising use of available counterparty risk limits when investing through FIs under Bond Connect, (ii) privacy by being able to invest through the HK SPV rather than directly, (iii) avoiding internal investment limits on direct holdings of Chinese Mainland exposures and (iv) being able to invest in a non-RMB currency (as Eligible Instruments will all be issued in RMB, the HK SPV may enter into a currency hedge to convert the RMB into another currency).

17. Accordingly, two types of global institutional investors will be attracted to SFGC investment:

- Global institutional investors who *are qualified* to invest through Bond Connect, the QFI Scheme or CIBM Direct Scheme but who, for their own reasons, prefer the flexibility of repackaging their investment into a product denominated in a different currency through an HK SPV (as offshore markets offer a wider range of more flexible derivative instruments), or who seek a lower profile investment for risk management or geo-political purposes, or who wish to avoid lengthy onshore account opening procedures (and the related language issues that may arise), or who may prefer to invest in securities that are governed by common laws given their confidence in more traditional common-law governed debt securities markets.

- Global institutional investors who *do not qualify* for direct investment in Bond Connect, the QFI Scheme or the CIBM Direct Scheme or the domestic exchange market (**Exchange Market**), but who are keen to add exposure to Chinese Mainland assets to their investment portfolios. These investors can only invest in products issued by intermediaries currently and may face internal restrictions on counterparty risk limits.

18. With the introduction of SFGC, both types of global institutional investors will be able to invest in deals that have been arranged and marketed through SFGC by Onshore Originators (advised by local intermediaries) or packaged and sold by offshore intermediaries in a much more flexible manner.

Benefits to Onshore (Southbound) Investors

19. In time, we expect that SFGC will be used for "Southbound" investment in offshore bonds and other assets by onshore investors who will be able to use an HK SPV to acquire bonds and repackage them into asset-backed securities to be sold to Mainland investors. Offshore bonds are not limited to Hong Kong local bonds but may include offshore asset-backed securities issuances issued in Hong Kong to finance infrastructure and development projects in the Belt and Road countries. This, together with SFGC and Bond Connect Northbound which attracts global institutional investors to invest in the Chinese Mainland, makes SFGC a true global connect scheme.

Benefits to Intermediaries

20. Intermediaries, such as investment banks or securities firms based in Hong Kong and the Chinese Mainland, who are already qualified to invest through Bond Connect, may utilise SFGC to set up investment structures and programmes for HK SPVs to acquire Eligible Instruments through Bond Connect Northbound and use such Eligible Instruments as collateral

for a repackaging or securitisation issuance of Offshore ABS for distribution to global institutional investors. Intermediaries will be able to serve international investors who may be unable or unwilling to purchase Eligible Instruments directly or who may require embedded currency conversion from RMB to another currency, thereby facilitating cross-border investment flows and broadening market participation. Similarly, these intermediaries (in Hong Kong and the Chinese Mainland) may help Onshore Originators structure and market transactions to offshore investors through HK SPVs. Transactions arranged by intermediaries through SFGC will be more attractive to global institutional investors than transactions arranged by intermediaries under Bond Connect. The reason is that by investing through HK SPVs under SFGC, investors can avoid running intermediary credit risk on the transaction (as assets acquired through Bond Connect must remain on the intermediary's balance sheet) and avoid utilising available counterparty risk limits against the intermediary.

Section II

THE MAINLAND SECURITISATION MARKET: EXPANDING THE REACH

A. The Scale and Potential of the Chinese Mainland Bond and Securitisation Markets[3] [4]

21. In 2024, the Chinese Mainland bond market was the second-largest bond market in the world, by issuance volumes and outstanding values. In 2024, the total bond issuances in the Chinese Mainland amounted to RMB79.3 trillion (approximately USD10.9 trillion), which is similar or close to the issuance volume in the US in 2024[5]. For 2024, the total bond outstanding value in the Chinese Mainland amounted to RMB177 trillion (approximately USD24.2 trillion), second only to the US (at USD46.8 trillion) globally. Despite this impressive scale, domestic securitisation issuance volumes in 2024—at approximately RMB1.98 trillion (approximately USD271 billion)—remained significantly lower than the US (USD2 trillion[6]) for the same period, although higher than those of the EU market (EUR244.9 billion (approximately USD252.5 billion)). The outstanding value of the Chinese Mainland securitisation market stands at RMB3.82 trillion (approximately USD523 billion), only behind the US[7] and the EU[8].

B. Offshore Access to Onshore Bond Market

22. The true potential of the Chinese Mainland's bond and securitisation markets remains untapped, largely due to limitations around issuance to offshore investors. As of 2024, offshore investors held only RMB4.20 trillion (2.4%) of onshore bonds, with their holdings concentrated in government bonds (49.5%), interbank certificates of deposit (25%) and policy financial bonds (21.2%). This underlines a significant opportunity: by opening the bond market and offering higher value products (such as structured and asset-backed securities) to offshore

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[3] Data included in this section are compiled based on information published in the following sources:
- Bond market: PBOC, "*Financial Market Report (2024)*": http://www.pbc.gov.cn/en/3688247/3688978/3709134/5579031/2025013009512017217.pdf.
- Securitisation market: CCDC Research Centre, Securitisation Market Development Reports (2024): https://www.chinabond.com.cn/yjfx/yjfx_zzfx/zzfx_nb/202502/t20250211_854527824.html.
- European Union: SIFMA.org, 2025 "*Fixed Income Issuance*": https://www.sifma.org/resources/research/statistics/fixed-income-chart/
- United States: AFME, "*Securitisation Data Report Q4 2024 & 2024 Full Year*": https://www.afme.eu/publications/data-research/details/securitisation-data-report-q4-2024--2024-full-year.

[4] For the purposes of calculations in this Proposal, the RMB/USD exchange rate is 7.30 as of 31 December 2024.

[5] The total issuance volume for the US fixed income market is approximately USD10 trillion to USD14 trillion based on information published by different sources. For example, SIFMA indicates that the total issuance volume for the US fixed income (including, corporate bonds, MBS, ABS, federal agency securities, treasury securities and municipal securities) is USD10.429 trillion.

[6] Based on the research by SIFMA, the total issuance volume for ABS and MBS in the US is approximately USD1.98 trillion in 2024.

[7] Although SIFMA does not publish data on total outstanding value of ABS and MBS, the total outstanding value of the US securitisation market is expected to be much larger than the Chinese Mainland as the total issuance volume in the US securitisation market in 2024 alone is higher than the total outstanding value of securitisation in the Chinese Mainland.

[8] Based on the data published by AFME, the total outstanding value for securitisation (including CLOs) in EU for 2024 is EUR1,217.6 billion (approximately USD1,255 billion).

investors, the Chinese Mainland can catalyse further market growth, diversify its investor base and unlock a range of economic and policy benefits.

23. There are currently three ways in which an offshore investor can directly invest in the onshore bond market: (i) through Bond Connect if such bonds are Eligible Instruments, (ii) through the QFI Scheme or (iii) through CIBM Direct. Eligibility to invest in each scheme is limited to certain types of qualified institutional investors (such as FIs, funds and insurance companies). If an investment is made through the QFI Scheme or CIBM Direct Scheme, the investor must hold the bonds onshore with a depository. The Bond Connect scheme allows investors to hold their bonds offshore through CMU in Hong Kong. However, each of these channels for investment has limitations in terms of scale and accessibility.

24. Non-Eligible Foreign Investors seeking to access Chinese Mainland bond markets from overseas must do so indirectly, generally by subscribing for structured products created by FIs which are backed by pools of Eligible Instruments owned by the FI. This is not, however, a popular or convenient option for most investors as it exposes the investor to the credit risk of the FI (as the Eligible Instruments remain on the FI's balance sheet) and uses up valuable counterparty risk limits (which may be needed for their other lines of business).

C. The Case for Offshore Participation: Lessons from Global Markets

25. A robust and diversified investor base is the cornerstone of a resilient and liquid debt capital market. In the US, institutional investors such as pension funds, mutual funds and hedge funds dominate the bond and securitisation markets, providing depth and liquidity that help the market withstand banking sector disruptions and interest rate fluctuations. Retail and foreign investors also play a significant role, contributing to a healthy balance between bank financing and market-based funding.

If investment from offshore investors was increased from 2.4% to 5%, it would add RMB4.55 trillion into the Chinese Mainland bond market.

26. In contrast, the Chinese Mainland bond and securitisation markets remain heavily reliant on domestic banks (including international banks' onshore operations), which are the largest single class of investors. This bank-centric model, while effective in mobilising domestic capital, exposes the financial system to concentration risks and limits the market's ability to absorb shocks. The European experience further illustrates the risks of over-reliance on bank funding: the European Systemic Risk Board[9] has highlighted that the EU's dependence on banks contributed to a widening economic growth gap with the US after the 2008 global financial crisis.[10]

D. Strategic, Economic and Policy Benefits of Expanded Access

27. Expanding offshore access to the Chinese Mainland bond market by encouraging the issuance of Offshore ABS to offshore investors through Hong Kong offers several tangible strategic, economic and policy benefits, as set out below.

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[9] European Systemic Risk Board, "*Monitoring systemic risks in the EU securitisation market*" (July 2022): https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf. Also, International Monetary Fund: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/WEOWORLD/USA/EU.

[10] During the four years after the Global Financial Crisis, US annual GDP growth averaged 1% higher than the EU GDP.

Boost to GDP and Real Economy

28. *Diversification of Capital Sources*: By offering Offshore ABS tailored to the preferences of global institutional investors—across risk, duration and yield spectrums—the Chinese Mainland capital market can attract a wider range of institutional investors, including pension funds, insurance companies and sovereign wealth funds. This diversification reduces reliance on domestic funding and brings in stable, long-term capital.

29. *Enhanced SME and Consumer Financing*: Credit institutions will have increased opportunities to offload existing loan portfolios to capital market investors, freeing up balance sheet capacity for new lending, particularly to small- and medium-sized enterprises (**SMEs**) and consumers. A European study has shown that funds raised through securitisation for SMEs can significantly boost GDP growth by improving SME access to finance[11].

30. *Catalysing Innovation*: The influx of foreign capital from investments in Offshore ABS can be channelled into innovative sectors, such as technology, green energy and advanced manufacturing, supporting the Chinese Mainland's transition to a high value-added economy.

Enhance Market Liquidity and Depth

31. *Development of a Robust Secondary Market*: The Chinese Mainland securitisation market has long suffered from a lack of secondary market liquidity (for detailed data, see *Annex D: Market Data: Onshore Securitisation Market*). The issuance of tradable securities backed by RMB-denominated assets available to offshore investors would contribute to the development of a more liquid and transparent secondary market, improving pricing and market efficiency.

32. *Market Diversification*: Global investors (including, in particular, private credit investors) bring a variety of different preferences to the market, driving innovation for more sophisticated structures, broader ranges of assets and novel product types that will enrich the domestic and cross-boundary markets, leading to enhanced market depth and stability.

Strengthen Financial Stability

33. *Mitigation of Systemic Risk*: Securitisation distributes credit risk from domestic banks to a broader investor base, reducing concentration risk within the Chinese Mainland banking sector and enhancing the resilience of the financial system.

34. *Improved Risk Management Practices*: The need to meet international investor standards encourages the adoption of global best practices in risk assessment, disclosure and governance, strengthening the overall financial ecosystem.

35. *Financial Stability*: By broadening the investor base and deepening capital markets, the Chinese Mainland can strengthen the resilience of its financial system, thereby better addressing external volatility and internal challenges.

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[11] Association for Financial Markets in Europe, "*Bridging the growth gap, Investor views on European and U.S. capital markets and how they drive investment and economic growth*" (February 2015): https://www.icmagroup.org/assets/documents/Regulatory/Private-placements/AFME---Bridging-the-growth-gap---February-2015.pdf

Align with Policy Objectives

36. *Five-Year Plan*: SFGC aligns with the Chinese Mainland broader policy objectives, including strategic priorities set out in the 14th Five-Year Plan[12]. These priorities include the promotion of RMB internationalisation, elevating the standards of market infrastructure, promoting digitalisation and technological innovation, supporting green transition and building an intellectual property powerhouse. Each of these strategies is further elaborated in *Section VIII: Policy Benefits: Chinese Mainland* and *Section IX: Sector Benefits: Structured Finance Global Connect*.

37. *Supporting Belt and Road Initiatives*: Offshore ABS issuance can be used to finance infrastructure and development projects in the Chinese Mainland's Belt and Road Initiative (**BRI**) countries, promoting regional economic integration and Chinese Mainland global influence. The BRI is further elaborated in *Section X: Hong Kong: Asia's Bond Hub*.

Strengthen Hong Kong's Markets

38. *Reinforcing Hong Kong's Role as a Financial Hub*: Utilising Hong Kong's mature legal, regulatory and financial infrastructure to offer Offshore ABS provides international investors with confidence and transparency, cementing Hong Kong's status as the "super-connector" to the Chinese Mainland and global financial hub.

39. *Synergistic Development*: The collaboration between the Chinese Mainland and Hong Kong in structured finance can foster knowledge transfer, talent development and the creation of new financial products, benefiting both markets.

E. Realising the Full Potential of the Onshore Securitisation Market

40. Our proposal to enhance the Bond Connect scheme through Structured Finance Global Connect will build on existing market infrastructure to facilitate cross-boundary investment in the broader bond market. By doing so, the Chinese Mainland can unlock the full potential of its onshore capital market, attract global capital and accelerate the development of a robust, internationally integrated financial ecosystem. See *Section III: Bond Connect: Proposed Enhancements*.

41. Chinese Mainland bond markets are already among the largest in the world, but growth and resilience are constrained by limited offshore participation and a concentrated investor base. SFGC will open the bond market to offshore investors, allowing the Chinese Mainland to realise the strategic, economic and policy benefits outlined above. SFGC will be critical in realising these benefits and positioning the Chinese Mainland as a global leader in capital market innovation and integration.

> The implementation of initiatives like Structured Finance Global Connect will be critical in…positioning China as a global leader in capital market innovation and integration

[12] Xinhua. "*Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035*" (March 2021) https://www.xinhuanet.com/fortune/2021-03/13/c_1127205564.htm.

Section III

BOND CONNECT: PROPOSED ENHANCEMENTS

A. Proposed Enhancements to Bond Connect

42. Even though the Chinese Mainland bond market is the world's second largest, further opening it to foreign capital in a well-regulated manner presents significant challenges. Hong Kong is uniquely positioned to address these challenges by enhancing the existing Bond Connect scheme. Structured Finance Global Connect is designed with the objective of building upon the current Bond Connect infrastructure to facilitate offshore issuance of Offshore ABS, thereby broadening international participation in the Chinese Mainland bond market.

B. Eligible Foreign Investors: HK SPVs

43. We recommend that Bond Connect is opened to a new category of "Eligible Foreign Investor", i.e., accredited "orphan" special purpose vehicles incorporated in Hong Kong (**HK SPVs**) under the oversight of the Hong Kong Monetary Authority (**HKMA**), given HKMA is one of the primary Hong Kong regulators for Bond Connect. The HK SPVs will be incorporated for the sole purpose of issuing securities to offshore investors (**Offshore ABS**) which are backed by pools of Eligible Instruments acquired by the HK SPV (**Onshore Bonds**) under SFGC through Bond Connect Northbound.

In this Proposal: "**Onshore Bonds**" means Eligible Instruments acquired by HK SPVs under SFGC through Bond Connect Northbound and "**Offshore ABS**" means asset-backed securities issued by HK SPVs in Hong Kong to offshore investors

44. The HKMA plays a key regulatory and operational role in Bond Connect, particularly on the Hong Kong side of the scheme. It operates the Central Moneymarkets Unit (**CMU**), which acts as the nominee holder for foreign investors accessing the Chinese Mainland's bond market via Bond Connect Northbound. It works in close coordination with the People's Bank of China (**PBOC**), which regulates the access of the CIBM by offshore investors on the Chinese Mainland side of the scheme. HKMA also helps implement enhancements like currency conversion arrangements, settlement infrastructure, and repo services for Bond Connect investors. Given the various roles currently played by the HKMA under Bond Connect, it would seem appropriate for the HKMA to take on the expanded role as the supervisory authority for HK SPVs under Bond Connect. See also paragraph 63 for the proposed supervisory role to be assumed by HKMA for HK SPVs under SFGC.

45. If HK SPVs are permitted to invest through Bond Connect, then international-standard structured finance structures can be created with greater ease and efficiency in Hong Kong for investment by offshore investors who might not otherwise be able to invest in the Chinese Mainland bond market.

46. To ensure the integrity and stability of the market, HK SPVs should be accredited and subject to robust regulatory oversight. This includes measures to prevent price curve divergence between onshore and offshore markets, ensure the quality and stability of the

investor pool, avoid excessive leverage or systemic risk, and maintain transparency in data and fund flows. Oversight by the HKMA, with support from relevant industry bodies, will be critical in achieving these objectives. See *Section IV: Establishing and Scaling up Structured Finance Global Connect* for further details.

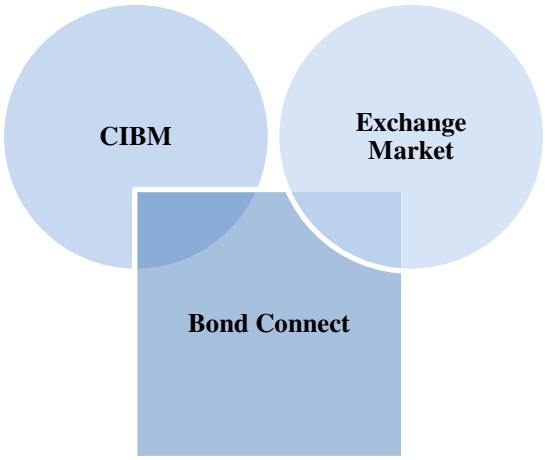
47. As the HK SPV will have a dual role as (i) investor in Eligible Instruments (i.e. Onshore Bonds) through Bond Connect Northbound and (ii) issuer of Offshore ABS under SFGC backed by such Onshore Bonds, it will need to comply with all relevant Chinese Mainland and Hong Kong laws and regulations:

- ***Role as Investor***: In its role of investor under Bond Connect, the HK SPV must comply with inbound investment rules under Bond Connect and demonstrate eligibility to access the CIBM and Exchange Market, including transparency around beneficial ownership and regulatory status.

- ***Role as Issuer***: In its role as issuer of the Offshore ABS to offshore investors, the HK SPV must comply with all applicable Hong Kong laws and regulations, including those governing the sources of funds (such as anti-money laundering). In addition, similar to other securities issued in Hong Kong, the issuance of Offshore ABS by the HK SPV and their distribution will be subject to the marketing and licensing requirements under the Securities and Futures Ordinance (Cap. 571) (**SFO**) overseen by the SFC.

C. Eligible Instruments: Exchange Market

48. Bond Connect currently only provides investors with access to the CIBM, which severely limits the range of bonds and products available for investment (as significant volumes of securitisation products are issued through the Exchange Market). Granting access to the Exchange Market to Bond Connect investors (including HK SPVs) will be a crucial step towards attracting international investors. See *Annex D: Market Data: Onshore Securitisation Market.*



49. Permitting access to the Exchange Market will require coordination among multiple regulatory and market infrastructure bodies, including the PBOC, HKMA, China Securities Regulatory Commission (**CSRC**) and China Securities Depository and Clearing Corporation Limited. (**CSDC**).

50. As an initial step, access could be piloted for HK SPVs under SFGC, with simplified trading and settlement arrangements through CMU (potentially via a direct link with CSDC, or via the existing settlement and custody link between CSDC and Hong Kong Exchanges and Clearing Limited (**HKEX**) and leveraging CMU and HKEX's existing collaboration [13]).

[13] CMU OmniClear and HKEX jointly issued a memorandum of understanding on 4 March 2025 agreeing to explore cooperation in areas such as realising cross-asset class efficiencies across equities and fixed income products, expanding the mobilisation of Mainland bonds as collateral, enhancing Hong Kong as a bond issuance centre and developing an international central securities depository (**ICSD**) in Asia. See HKEX, "*HKEX Signs MOU with CMU OmniClear to*

Securitisation and repackaging SPVs will generally buy and hold underlying assets (such as Eligible Instruments under Bond Connect), so a more limited trading and settlement arrangement can be put in place specifically for HK SPVs approved under SFGC to purchase bonds from the Exchange Market.

51. Access to the Exchange Market would allow HK SPVs (as Eligible Foreign Investors) to purchase a broader range of Eligible Instruments (i.e. Onshore Bonds) and issue Offshore ABS backed by such Onshore Bonds in Hong Kong. The structure is analogous to the H-share model introduced in 1993, which enabled international investment in Chinese Mainland equities via Hong Kong.

52. In this Proposal, we will detail how our proposed enhancements to Bond Connect can be effected to create SFGC and examine the benefits that will flow to the Chinese Mainland and Hong Kong from the creation of a cross-boundary structured finance bond market. [14]

> "Hong Kong should act soon to explore foreign investor participation in exchange market securitisation transactions by expanding the scope of Bond Connect or through other mechanisms…[to] provide foreign investors with a broader range of investment options, enabling optimal diversification…[and] offer domestic issuers in the exchange market access to an alternative investor base, thereby further deepening the offshore RMB bond market.
>
> *FSDC, March 2024*

Enhance the Post-Trade Securities Infrastructure of Hong Kong's Capital Markets" (4 March 2025): https://www.hkex.com.hk/News/News-Release/2025/2503042news?sc_lang=en

[14] FSDC, "*Accelerating Offshore RMB Market Development: Enriching Hong Kong's Offerings as an International Financial Centre*" (March 2024) https://www.fsdc.org.hk/en/insights/accelerating-offshore-rmb-market-development-enriching-hong-kong-s-offerings-as-an-international-financial-centre at p.41

Section IV

ESTABLISHING AND SCALING-UP STRUCTURED FINANCE GLOBAL CONNECT

A. Establishing Structured Finance Global Connect

53. We have set out above our proposal to deepen and broaden the Chinese Mainland bond (and securitisation) markets by creating SFGC. In this *Section IV*, we will explore the practical steps of setting up SFGC and outline our vision for how it can be scaled up to achieve maximum potential.

B. Relationship between SFGC and Bond Connect

54. Before setting out the practical steps for establishing SFGC, it is important to note that SFGC will not affect the current structure of an investment through Bond Connect Northbound. All elements of the onshore structuring of the issuance of Eligible Instruments, the acquisition of the Eligible Instruments and the method for holding Eligible Instruments in a Bond Connect account will remain exactly the same.

55. The key aim of this Proposal is *to allow HK SPVs to access the Chinese Mainland bond market through Bond Connect*. SFGC is the mechanism by which HK SPVs can acquire Eligible Instruments through Bond Connect and then structure repackagings or securitisations of those Eligible Instruments (i.e. Onshore Bonds) into Offshore ABS for sale to global investors.

C. Procedural Steps to Implement SFGC

56. The Bond Connect scheme is based on a framework of rules, guidelines and operational procedures issued by the PBOC, the HKMA and other relevant regulatory bodies. The current regulatory framework and operational procedures for Bond Connect will need to be refined and expanded to support the establishment of SFGC:

- **Step 1**: Regulators should agree on the definition of "special purpose vehicle" for the purposes of Bond Connect. We suggest that the definition could be formulated based on the definition of "special purpose entity" set out in the HKMA's Banking (Capital) Rules[15]:

> "***special purpose entity*** means a company, trust or other entity (a) which is created for the sole purpose of acquiring and holding the underlying exposures in a traditional securitisation transaction or assuming credit risk in respect of the underlying exposures in a synthetic securitisation transaction, as the case may be, and engaging in activities related or incidental to the issuance of securitisation issues in the transaction; and (b) which is insulated from the effects of default, insolvency or bankruptcy of the originator in the transaction".

[15] Banking (Capital) Rules, (Cap. 155, section 97C), section 227(1)

- **Step 2**: Bond Connect procedures should be updated to include HK SPVs as a new type of "Eligible Foreign Investor" or as a type of "other qualified investor" (subject to the preference of the HKMA and the PBOC).

- **Step 3**: Bond Connect rules should be updated to permit investor access to the Exchange Market (which will be made contingent on a formal launch of the direct connection between CMU and the Exchange Market or the CIBM and Exchange Market interconnection infrastructure).

- **Step 4**: Oversight criteria for HK SPVs accessing Bond Connect to be established (see below).

- **Step 5**: Launch of SFGC to be made by a public announcement jointly delivered by the PBOC and the HKMA (an **Announcement**).

D. Required Regulatory Actions

57. In addition to the procedural steps set out below, certain regulatory actions will need to be taken in Hong Kong and the Chinese Mainland in order to support SFGC.

Hong Kong

58. The most critical regulatory constraint in Hong Kong to the success of SFGC relates to Hong Kong profits tax. There is currently no exemption from profits tax for Hong Kong incorporated special purpose vehicles, including HK SPVs under SFGC. An exemption from profits tax and other taxes will be required for HK SPVs.

It is critical for the HKSAR to expressly provide for an exemption from profits tax for HK SPVs under SFGC (or agree to levy tax only on a small retained profit of the HK SPV).

59. Many SPV-friendly jurisdictions (e.g., Singapore, UK, Ireland, Luxembourg, Cayman Islands) exempt securitisation and repackaging SPVs from all taxes, or only levy tax on a minimal retained profit (e.g., USD1,000 per annum) irrespective of the accounting profit or loss for the securitisation and repackaging SPV. This certainty is necessary to attract investors to the structure, as unpredictable taxes will impact the cash flow passing from the Underlying Assets through the HK SPV to the investors.

60. A comprehensive analysis of the Hong Kong regulatory constraints to establishing SFGC is set out in *Annex C: Proposed Regulatory Actions: Hong Kong*.

Chinese Mainland

61. To support the establishment of SFGC, the following regulatory actions and steps should be taken to ensure the attractiveness of SFGC to offshore investors. A comprehensive analysis of Chinese Mainland regulatory constraints to establishing SFGC is set out in *Annex B: Proposed Regulatory Actions: Chinese Mainland*.

Onshore Regulators	Regulatory Action
CSRC, PBOC	***Eligible Foreign Investors***: Regulatory support required to ensure that HK SPVs are recognised as Eligible Foreign Investors under Bond Connect.
CSRC, PBOC	***Eligible Instruments***: Regulatory support required to grant access to investors through Bond Connect to Eligible Instruments (including bonds and securitisation products) issued in the Exchange Market as well as in the CIBM.
State Taxation Administration (**STA**)	***Tax***: The current exemption to CIT/VAT on investments in Eligible Instruments by foreign institutions is temporary and expires on 31 December 2025[16]. For SFGC to succeed, STA should make the exemption permanent, and ensure it extends to securitisation products issued in the CIBM and Exchange Market.
National Development & Reform Commission (**NDRC**)	***Exchange Control***: Express clarification is needed from NDRC to ensure SFGC transactions would not be classified as "indirect incurrence of foreign debts" that would require NDRC registration[17]. Law firms may otherwise be unable to provide the necessary legal opinions to transaction parties.

E. Prudent Oversight for HK SPVs

62. To align with the principle of prudent market oversight, it is important that HK SPVs participating in SFGC are subject to appropriate administration and supervision in Hong Kong. This is consistent with the approach taken for other categories of Eligible Foreign Investor under Bond Connect, which are generally licensed institutions under regulatory oversight.

63. We propose that HKMA serves as the designation and supervisory authority for HK SPVs under SFGC. While Bond Connect Company undertakes investor eligibility vetting for the Bond Connect scheme, SFGC supervision will require a broader scope of oversight and expertise. We note that HKMA currently performs some supervisory roles under Bond Connect[18] In Singapore, the Monetary Authority of Singapore (**MAS**) administers the Approved Special Purpose Vehicle (**ASPV**) regime, overseeing the approval of securitisation and covered bond SPVs for tax concessions[19].

64. As the activities of HK SPVs will be confined to specific securitisation and repackaging transactions, their administration and supervision should focus primarily on initial vetting and completion registration:

- ***Initial Vetting***: The initial vetting procedure will ensure that the HK SPV meets the relevant admission criteria and that the proposed transaction structure does not introduce systemic risks, such as excessive leverage. A timeline for the initial vetting procedure (e.g., 7 or 14 days) should be set and adhered to so that the transaction parties will have confidence in the process.

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16 See Circular [2018] No. 108 of MOF and State Taxation Administration (extended to 31 December 2025 by Circular [2021] No. 34).

17 See Article 33 of the Administrative Measures for the Review and Registration of Medium- and Long- Term Foreign Debt of Enterprises.

18 HKMA is responsible for overseeing the "*Arrangement for Offshore RMB Bond Repurchase Business Using Bonds Held under Northbound Bond Connect*" and has the role of designating the offshore liquidity providers under such scheme.

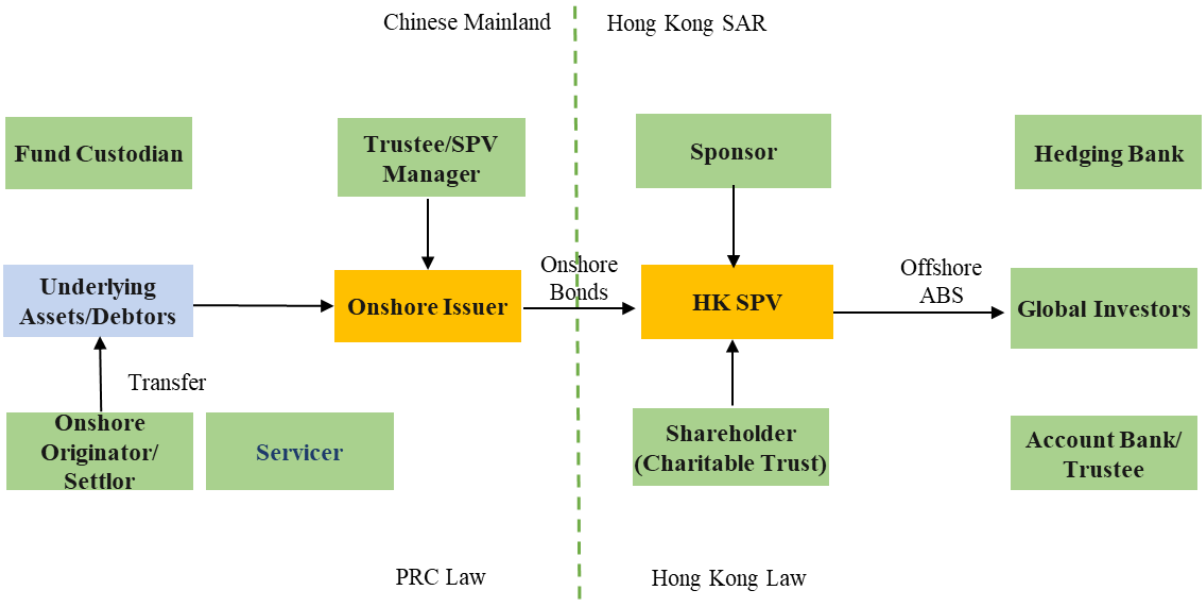
19 The ASPV regime was introduced by the MAS to support the development of Singapore as a structured finance centre in Asia. MAS grants a suite of tax concessions to an ASPV engaged in asset securitisation transactions, including a tax exemption on income derived by an ASPV from asset securitisation transactions.

❖ ***Completion Registration***: If the HK SPV intends to list the Offshore ABS on the Hong Kong Stock Exchange (**SEHK**), then the structure and disclosure will be subject to their debt-listing procedures. If the Offshore ABS are not to be listed in Hong Kong, a notification should be made to the HKMA by the lead arranger to the transaction prior to completion, confirming that the structure has not deviated substantially from the initial vetting stage.

65. To help the regulators and market participants make a better assessment of each securitisation transaction, APSA will separately publish the APSA endorsement criteria (**APSA Endorsement Criteria**). It is expected that compliance with the minimum thresholds set out in the APSA Endorsement Criteria will be mandatory. More information is set out in *Section VI: Governance Framework*.

F. Proposed SFGC Structure

66. This Proposal envisages that the typical SFGC structure[20] would involve an HK SPV (i) acquiring, through Bond Connect Northbound, Onshore Bonds issued or originated by a Chinese Mainland enterprise, FI, local government or sovereign entity or an SPT or ABSP (an **Onshore Issuer**[21]) and (ii) issuing offshore bonds to investors in Hong Kong which are backed by the Onshore Bonds (**Offshore ABS**). The typical structure is as follows:



❖ ***HK SPV***: The HK SPV will be sponsored by an Onshore Originator, an offshore arranger or an overseas investor and structured as an off-balance sheet "orphan special purpose vehicle". The shares in the HK SPV will be held by a licensed trustee on trust for the benefit of a named charity. The affairs of the HK SPV will be managed by a licensed corporate services provider in accordance with the requirements set out in the issuance documents of the Offshore ABS.

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[20] The structure in the initial stage will be a Bond Connect Northbound structure whereby the investor acquires Onshore Bonds. SFGC may also be expanded to cover "southbound" transactions in due course, where bonds can be acquired offshore and securitised for sale to onshore investors.

[21] The Onshore Issuer will either be a Chinese Mainland issuer of bonds or a special purpose vehicle established for asset-backed securitisation purposes in the Chinese Mainland. See "Onshore Issuer" in paragraph 66 below.

❖ ***Offshore ABS***: The Offshore ABS may be structured as simple "passthrough" bonds (i.e., passing through net distributions from the Onshore Bonds to the bondholders) or as bonds offering different risk and reward profiles (e.g., senior, mezzanine or junior bonds with different interest rates) or denominated in different currencies. The transaction for all structures should ensure transparency as well as not breaching the re-securitisation restrictions. If needed, the HK SPV will execute cross-currency hedging arrangements with a regulated hedging bank in Hong Kong. From a regulatory capital treatment perspective, it is intended that an offshore financial institution subject to regulatory capital rules will adopt the same regulatory capital treatment by investing through a "passthrough" structure compared to investing directly through Bond Connect Northbound.[22]

❖ ***Onshore Issuer***: The issuer of the Onshore Bonds (i.e. Eligible Instruments under Bond Connect Northbound) could take one of two forms. It will either be (a) a Chinese Mainland enterprise, FI, local government entity or sovereign entity which has issued bonds into the CIBM or Exchange Market or (b) a Chinese Mainland special purpose vehicle (i.e., a special purpose trust (**SPT**) established by a licensed trust company for issuance of asset-backed securities in the CIBM or an Asset-Backed Special Plan (**ABSP**) established by a manager (i.e., a licensed securities company or other financial institution accepted by the CSRC) for issuance of asset-backed securities in the Exchange Market).

❖ ***Transfer of Underlying Assets***: In accordance with the prevailing law and practice in the Chinese Mainland, in an onshore securitisation structure, the Onshore Originator will transfer a pool of assets (e.g., a pool of auto or consumer loans) (the **Underlying Assets**) to the Onshore Issuer by entrustment or true sale to ringfence the Underlying Assets from the Onshore Originator's bankruptcy risk. Legal title to the Underlying Assets will be held by an onshore trustee or SPV manager for all investors (including Eligible Foreign Investors under Bond Connect Northbound). In the event of payment default or disputes regarding the Underlying Assets, only the onshore trustee or SPV manager may pursue recovery and enforcement; investors have no direct enforcement rights and may act only through the trustee/SPV manager. Eligible Foreign Investors (including HK SPVs) may seek legal remedies only in limited cases, such as failure by the trustee/SPV manager to perform or fraud.

❖ ***Information Disclosure for Underlying Assets***: Eligible Foreign Investors under Bond Connect Northbound (including HK SPVs) will be able to access comprehensive disclosure on the Underlying Assets backing the Eligible Instruments through onshore regulator-authorised platforms throughout all phases of the investment.

❖ ***Ownership of Onshore Bonds***: As an Eligible Foreign Investor under Bond Connect Northbound, the HK SPV will open a Bond Connect account with a Hong Kong account bank and hold the Eligible Instruments that it acquires (i.e. the Onshore Bonds) indirectly through CMU. At the time of issuance of the Offshore ABS to overseas investors, the HK SPV will grant a security interest over the Bond Connect account, including its beneficial interest in the Onshore Bonds, to the offshore trustee acting for the investors, together with the HK SPV's other assets. The HK SPV's beneficial interest in the Onshore Bonds may be disposed of only by the offshore trustee

[22] Financial institutions are advised to seek internal and/or external advice on regulatory capital treatment given that different regulatory capital rules may apply to different types of financial institutions in different jurisdictions.

(or its agent) via the Bond Connect Northbound infrastructure, subject to the transfer restrictions in the asset terms and the CIBM or Exchange Market rules. Legal title will either remain with CMU where the transfer occurs between CMU members, or pass to another eligible onshore or offshore investor capable of holding Eligible Instruments directly.

G. Scaling up Structured Finance Global Connect

67. After the successful launch of SFGC and the commencement of the Pilot Programme (see *Section V: Pilot Programme: APSA's Proposal*), the PBOC and the HKMA can open the market to clearance and settlement through international central securities depository systems (**ICSDs**) such as Euroclear and Clearstream via the bridge with the CMU. As an incentive to market participants to use CMU only, incentives can be offered (such as rebates and lower filing fees) subject to regulatory approvals.

68. SFGC can also serve as a pilot platform for attracting offshore investment into a broader range of Eligible Instruments. For example, non-standardised ABS such as trust plans[23] or asset-backed plans[24]—which typically offer higher yields than standardised ABS issued in the CIBM or Exchange Market—could be funded through this channel, appealing to offshore investors seeking enhanced returns.

69. More innovative applications could include HK SPVs acquiring a broader range of onshore assets, such as trade receivables, non-performing loans or other asset types (beyond bonds and asset-backed securities), to support the issuance of Offshore ABS. This approach would resemble true cross-boundary financing, which usually requires foreign debt registration in the Chinese Mainland. However, using SFGC could offer benefits such as a more diverse investor base, lower funding costs and potentially simplified foreign debt management for Chinese Mainland regulators. Another way to scale up the platform is to introduce southbound transactions, including the securitisation of Belt & Road Initiative-related products and financings.[25] This would further broaden the scope and impact of SFGC.

Industry Best Practices

To ensure sustainable growth, the market should focus on developing industry best practices and standardised documentation. Hong Kong, with its deep pool of structured finance professionals experienced in both onshore and offshore markets, is well-positioned to bridge the documentation and regulatory frameworks between the two jurisdictions. Enhancing disclosure and transparency in relation to Onshore Bonds and structures—which could ultimately be conducted through an open, fintech-enabled platform for timely data exchange—would help build investor confidence. The European Union and the United Kingdom have addressed similar issues by imposing due diligence requirements on institutional investors in their securitisation rules. Adopting comparable standards in SFGC could improve disclosure practices and raise the overall quality of securitisation in Chinese Mainland.

[23] The trust plan (信托计划) is a collective trust plan established and operated by a licensed trust company in the Chinese Mainland, which will use the proceeds to purchase leasing receivables or SME loans. The cash flows derived from these assets will be applied by the trust company to pay principal and interest on the trust plan due to the investors. This product is not regulated under the Chinese Mainland securitisation framework. It is similar to warehouse or forward flow facilities commonly seen in international securitisation markets.

[24] The asset-backed plan (资产支持计划) is a type of asset management product issued and operated by a licensed insurance asset management company, which highly resembles an asset-backed special plan (资产支持专项计划) (the special purpose vehicle adopted in an exchange market securitisation). The main difference between the two products is that the asset-backed plan is registered and traded on the insurance asset registration and trading system (namely "*Zhong Bao Deng*" (中保登)) designated by the National Financial Regulatory Administration (**NFRA**).

[25] See *Section X: Hong Kong: Asia's Bond Hub* for further details.

Section V

PILOT PROGRAMME: APSA'S PROPOSAL

A. Purpose, Objectives and Coordination

70. The Pilot Programme is designed to demonstrate, in a controlled and scalable manner, how Structured Finance Global Connect will enable cross-boundary investment into the Chinese Mainland bond and securitisation markets through accredited HK SPVs. The objectives of the Pilot Programme are to validate market readiness, refine operational processes across market infrastructures, test regulatory oversight and reporting workflows and establish repeatable structures for subsequent scale-up.

71. To ensure an efficient launch and coherent industry engagement, APSA will act as the industry coordinator (**Industry Coordinator**). In this role, APSA will convene arrangers, trustees, SPV administrators, legal and tax advisors, rating agencies and investors; coordinate with Chinese Mainland and Hong Kong regulators on implementation issues; and operate a structured feedback loop to surface lessons learned and prioritise refinements to rules, processes and documentation. APSA's coordination approach mirrors the successful collaborative model used in the HKMA's Project Ensemble Sandbox [26] (**Project Ensemble Sandbox**) and the tokenisation pilot in 2024, with structured milestones, data-driven progress reviews and transparent reporting to stakeholders.

APSA

The Asia-Pacific Structured Finance Association (**APSA**) was set up in 2006 in Hong Kong by leading industry professionals to promote the efficient growth and continued development of structured finance throughout the Asia-Pacific region, and to advocate the interests and serve the needs of the structured finance industry. It is now the leading industry association for structured finance in Asia-Pacific.

72. Just as Project Ensemble Sandbox established Hong Kong as a financial centre for tokenisation and innovation, SFGC's Pilot Programme will lay a solid foundation for broader market participation and future growth.

B. Scope, Phasing and Limits

73. The initial scope of the Pilot Programme will be limited to Bond Connect Northbound. accredited Hong Kong SPVs will acquire Eligible Instruments (i.e., Onshore Bonds) through Bond Connect and issue Offshore ABS to offshore institutional investors via Hong Kong. Within this scope:

[26] HKMA, "*HKMA launches Project Ensemble Sandbox to accelerate adoption of tokenisation*" (28 August 2024): https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/08/20240828-3/; and HSBC: "*HSBC supports Zhuhai Huafa Group to issue its first digital bond of RMB1.4 billion*" (23 December 2024) https://www.about.hsbc.com.hk/news-and-media/hsbc-supports-zhuhai-huafa-group-to-issue-its-first-digital-bond-of-rmb-1-4-billion

❖ The initial focus includes both securitisation assets and non-securitisation assets, purchased in primary or secondary markets, with a preference for simple, standardised assets that match institutional investor familiarity.

❖ Aggregate purchases of Onshore Bonds by HK SPVs will be capped at an amount to be jointly agreed by the PBOC and HKMA (such as RMB150 billion) for the Pilot Programme. This limit acts as a macroprudential guardrail while operational processes are tested and refined, and is expected to be increased substantially (or removed entirely) to facilitate larger transactions once the Pilot Programme ends.

❖ Market infrastructure for clearance and settlement will run through CMU during the Pilot Programme to facilitate close monitoring of issuance, trading and post-trade data.

74. The transactions under the Pilot Programme will showcase the benefits of the new access scheme to offshore investors and provide regulators and market infrastructure operators with valuable opportunities to refine operational processes. Further details on these test cases under Bond Connect Northbound are provided in *Annex A: Pilot Programme: Test Cases*.

Southbound Transactions

Pilot transactions under SFGC which enable qualified Chinese Mainland investors to access bonds or ABS issued offshore via HK SPVs will follow the successful completion of the pilot programme under SFGC/Bond Connect Northbound. APSA will submit detailed proposals for regulatory discussion and review before the Southbound phase of SFGC commences.

C. Guiding Principles

75. Implementation of the Pilot Programme will adhere to four guiding principles:

❖ ***Market-Driven Approach***: All stakeholders, including asset originators, intermediaries and investors, will participate voluntarily, ensuring that pilot transactions are responsive to market needs.

❖ ***Simplicity & Efficiency***: Pilot transactions will prioritise simple and standardised structures to facilitate smooth execution and expedite completion.

❖ ***Replicability & Scalability***: The focus will be on assets or sectors with strong market representation and growth potential, ensuring that pilot transactions can serve as models for broader market development.

❖ ***Investor Familiarity***: Priority will be given to the securitisation of granular, standardised pools of assets that can be internationally rated.

D. Initial Participants, Gatekeeping and Markets

76. To preserve market quality and ensure operational readiness, initial participation in the Pilot Programme will be limited and curated.

❖ ***Investors***: Professional/institutional investors only, consistent with the complexity profile of structured finance, and to ensure appropriate risk management, disclosure and distribution controls.

❖ ***SPV Administrators***: Licensed Hong Kong corporate services providers experienced in managing orphan issuance vehicles for structured transactions.

❖ ***Arrangers***: Designated banks or securities firms with demonstrable expertise in securitisation and repackaging across onshore and offshore markets, with transactions featuring asset classes aligned to their capabilities. If regulators prefer an approved list of Arrangers for the initial transactions under the Pilot Programme, APSA as the Industry Coordinator could seek interest from the market participants and compile a list of arrangers with the relevant experience in the Chinese Mainland and Hong Kong for consideration by the regulators.

❖ ***Trustees***: Licensed Hong Kong trust companies accustomed to complex structured transactions.

❖ ***Markets***: Initial reliance on Bond Connect Northbound access to CIBM. Access to Exchange Market assets will be implemented when the direct interconnection between the CMU and Exchange Market (or the CIBM–Exchange Market interconnection) is launched for Bond Connect Northbound investors.

E. Onshore Bonds and Phased Asset Rollout

77. The Pilot Programme will proceed in phases that align asset complexity and investor familiarity:

❖ ***Initial Assets***: Eligible Instruments such as securities backed by assets such as auto loans and leases, consumer credit, SME/MSE loans and leases and mortgage assets capable of supporting high international credit ratings and robust investor disclosure, and bonds issued by the central government, large commercial/policy banks and top-tier corporates which are capable of supporting investment-grade international credit ratings.

❖ ***Later-Stage Assets***: Cashflows from infrastructure/data centre/new energy projects and tokenised ABS once base operational processes are proven.

Asset Category	**Pilot Stage**	**Underlying Assets**
Asset-Backed Securities (ABS)	Initial Stage	○ Auto loans/leases ○ Bank/internet consumer loans/instalment sales receivables ○ Lease receivables/loans (to micros and small enterprises) ○ Residential mortgage loans ○ Non-performing loans ○ Trade Receivables
	Later Stage	○ Project cashflows from infrastructure/data centres/new energy ○ Auto battery lease ABS ○ Rental fleet ABS, etc.
Non-ABS	Initial Stage	○ China Government Bonds (**CGBs**) ○ Bonds issued by large commercial/policy banks ○ Bonds issued by large corporates ○ Bonds with international ratings ○ Pools of non-ABS bonds
Tokenised ABS	Later Stage	ABS (tokenised form)

F. Standard Transaction Mechanics

78. Pilot transactions will utilise a standardised, transparent structure:

❖ ***Acquisition via Bond Connect***: The HK SPV will open a Bond Connect account with its Hong Kong account bank and hold Eligible Instruments (i.e., Onshore Bonds) indirectly through CMU.

❖ ***Issuance of Asset-Backed Bonds***: The HK SPV will issue Offshore ABS to institutional investors, with security granted over the Bond Connect account (including the beneficial interest in the Onshore Bonds (i.e., Eligible Instruments)), cash accounts and other SPV property in favour of an offshore trustee.

❖ ***Hedging Overlays***: Where appropriate, the HK SPV will execute cross-currency and/or interest rate hedges with regulated banks in Hong Kong to align currency and rate profiles between RMB asset cash flows and offshore bond obligations.

❖ ***Single- vs Multiple-Issuance SPVs***: HK SPVs may be structured as single- or multiple-issuance vehicles. Many international banks already operate multiple-issuance SPVs for repackaging business in other financial centres, such as Luxembourg. To encourage the establishment of similar vehicles in Hong Kong, APSA proposes that the HKSAR Government consider a subsidy scheme (like the HKMA's Green and Sustainable Finance Grant Scheme) to incentivise international banks to set up multiple-issuance SPVs for Onshore Bond repackaging using accredited HK SPVs.

❖ ***Governing Law and Dispute Resolution***: Eligible Instruments will remain governed by Chinese Mainland law and subject to Chinese Mainland courts; Offshore ABS will follow Hong Kong or English law as agreed, with Hong Kong courts for dispute resolution.

G. Pilot Transaction Types

79. Two archetypal transaction types will be used to test the platform end-to-end.

❖ ***Securitisation by an Onshore Originator***: An Onshore Originator may drive a pilot transaction by transferring a defined pool (for example, auto or consumer receivables) of assets to an onshore SPT/ABSP in compliance with Chinese Mainland laws and regulations. A Chinese Mainland or Hong Kong based FI will assist the originator in setting up an HK SPV to subscribe for senior and, where appropriate, mezzanine tranches via Bond Connect Northbound. The HK SPV will then issue Offshore ABS backed by the onshore tranches, applying hedging as needed.

❖ ***Repackaging of Onshore Bonds by an Intermediary or Investor***: An intermediary (such as an FI) or an investor may drive a pilot transaction where an HK SPV purchases Eligible Instruments (i.e., Onshore Bonds) in the primary or secondary market via Bond Connect Northbound. The HK SPV will issue Offshore ABS with specified currency and term features and apply hedging to align with investor demand. Two types of global institutional investors will be keen on SFGC transactions: those already qualified to invest through Bond Connect Northbound, the QFI Scheme or the CIBM Direct Scheme but who prefer the flexibility or lower profile of investing via an

HK SPV, and those who cannot invest directly in the CIBM or Exchange Market but who want exposure to Chinese Mainland assets.

80. The table set out in *Annex A*: *Pilot Programme: Test Cases* outlines the different types of potential transactions under the Pilot Programme, as well as the illustrative test cases.

H. Operational Constraints and Market Access During Pilot

81. During the Pilot Programme, investor access will be limited to the CIBM through Bond Connect Northbound; access to the Exchange Market will be assumed once the direct interconnection is formally launched. Clearance and settlement for offshore bonds will be conducted through CMU, with reporting structured to facilitate supervisory monitoring of issuance, secondary trading, collateral flows and hedging exposures.

I. Roles, Responsibilities and Controls

82. APSA will act as Industry Coordinator, responsible for convening market participants, collating structured feedback and engaging regulators with data-backed recommendations. Designating criteria for SPV administrators, arrangers and trustees will be adopted at a high level for the pilot and further detailed under the governance framework and APSA Endorsement Criteria. The HKMA's prudent oversight, coupled with APSA's Endorsement Criteria, will guide initial vetting and completion-stage notifications for each transaction. Investor eligibility, disclosure, KYC/AML and product governance controls will be applied consistently across the pilot cohort.

J. Feedback, Reporting and Scale-Up Path

83. APSA will collect feedback from originators, arrangers, trustees, investors, custodians, hedging providers and market infrastructures on transaction timelines, data flows, settlement frictions, disclosure templates, hedge execution and documentation standards. APSA will synthesise feedback and engage Chinese Mainland and Hong Kong regulators on targeted refinements. Upon satisfactory completion of the pilot and resolution of identified operational issues, the aggregate cap may be increased substantially or removed, investor and asset scopes may be expanded, Exchange Market access can be activated, and clearance may be extended to international CSDs via a bridge to CMU with appropriate incentives to continue using CMU.

K. Comparison of CIBM and the Exchange Market

84. Onshore asset-backed securities are issued either on the CIBM or through the Exchange Market depending on the nature of the originator and the Underlying Assets:

- *Credit Asset Securitisation*: Licensed FIs (bank or non-bank) can issue securities backed by credit assets (generally) on the CIBM as a "credit asset-securitisation" (**CAS**).

- *Asset-Backed Notes*: Non-financial enterprises (**NFEs**)[27] can issue securities backed by receivables, small loans, financial leases and other types of assets on the CIBM as "asset-backed notes" (**ABN**).

[27] The originators of ABNs are typically limited to NFEs, with limited exceptions of FIs such as trust companies and asset management companies where the underlying assets are not permissible under a CAS.

❖ *Asset-Backed Special Plan*: NFEs can also issue their asset-backed securities through the Exchange Market "asset-backed special plan" (**ABSP**).

85. The table below highlights the main differences in regulatory framework, investor access and market practice across the onshore securitisation markets[28].

Onshore Securitisation Markets	**CIBM**		**Exchange Market**
Securitisation Type	Credit Asset Securitisation (**CAS**)	Business Asset Securitisation (**ABNs**)	Business Asset Securitisation (**ABSPs**)
Onshore Originators	FIs	NFEs	NFEs
SPV Format	Special Purpose Trust	Special Purpose Trust	Asset-Backed Special Plan
Methods of Issuance	○ Public Offering (most) ○ Private Placement	○ Public Offering ○ Private Placement (most)	○ Private Placement
Regulators ○ *Shelf Registration* ○ *Subsequent Filings* ○ *Information Registration*	○ PBOC ○ CCRE[29](NFRA regulated)	NAFMII (*PBOC regulated*)	SH/SZ Stock Exchange (*CSRC regulated*)
Offshore Investor Access	○ Bond Connect ○ QFI ○ CIBM Direct	○ Bond Connect ○ QFI ○ CIBM Direct	○ QFI ○ CIBM Direct
Offshore Investors	Many	Some	Few
International Ratings	Many (retail assets)	Some (leasing assets)	Few (consumer loans)

[28] A comprehensive guide to the legal framework and practices of China's securitisation market can be found at: https://practiceguides.chambers.com/practice-guides/securitisation-2025/china

[29] Before each issuance, the Onshore Originator and the Onshore Issuer need to apply to the China Credit Assets Registry & Exchange Co., Ltd. (**CCRE**) for initial registration of the information in relation to the relevant CAS and related Underlying Assets. CCRE requires updates each time payments are made on the CAS throughout the transaction.

Section VI

GOVERNANCE FRAMEWORK

A. Governance Framework

86. We recommend that HKMA (as one of the primary Hong Kong regulators for Bond Connect) introduces a governance framework (**Enhanced Governance Framework**) to ensure proper supervision and monitoring of HK SPVs and SFGC operations and provide transparency to market participants and clear supervisory guidelines for regulators.

87. The Enhanced Governance Framework will include:

- ❖ accreditation criteria for HK SPVs to become Eligible Foreign Investors under Bond Connect Northbound;
- ❖ accreditation criteria for SFGC transactions; and
- ❖ such other recommendations as specified in the APSA Endorsement Criteria (to be developed in consultation with the HKMA, as discussed below), to ensure that the HK SPVs participating in the SFGC programme and the securitisation transactions operate under rigorous standards and promote transparency, accountability and investor confidence in Hong Kong's structured finance market.

88. APSA will separately publish its APSA Endorsement Criteria in consultation with the HKMA. The APSA Endorsement Criteria will include:

- ❖ APSA's recommendations for initial transaction thresholds; and
- ❖ APSA's recommendations for ongoing compliance thresholds.

89. Adherence to APSA's recommendations will be mandatory and form part of the HKMA's Enhanced Governance Framework.

90. APSA will offer to review securitisation transactions at the proposal stage and on an ongoing basis during the life of the transaction, for the purposes of providing a formal APSA endorsement. While adherence to APSA's recommendations in the APSA Endorsement Criteria is mandatory, the need for formal endorsement by APSA is entirely voluntary and is intended to help the regulators and market participants make a better assessment of each securitisation transaction.

91. APSA will also work with HKMA to make available accredited or other training programmes under the HKMA's Enhanced Competency Framework for market participants.

B. Accreditation Criteria for SPVs and Transactions

92. The accreditation criteria for HK SPVs and transactions under SFGC should comply with the base criteria set out below and with such other criteria as the regulators may require from time to time. A designated transaction party will be required to certify to the HKMA that the proposed transaction meets or will meet the accreditation criteria in the application for the SFGC.

HK SPVs	**Accreditation Criteria**
Incorporation Jurisdiction	Hong Kong
Directors	Two+ independent directors: natural persons resident in Hong Kong who are nominated by the licensed Hong Kong trust and company service provider managing the HK SPV
Share Capital	Issued shares held independently by a trustee licensed and resident in Hong Kong holding on behalf of one or more registered charities in Hong Kong (i.e., making the HK SPV an "orphan" company)
Governance	Sound governance structure and internal control systems
Restriction on Activities	Restriction in constitutive documents from conducting any activity other than the issuance of Offshore ABS, the purchase of Onshore Bonds and ancillary activities necessary to give effect to the relevant transaction
SFGC Transactions	
Compliance	Issuance of Offshore ABS complies with all relevant laws and regulations in Hong Kong
Investors	Sales of Offshore ABS are limited to investors qualified to purchase such bonds (including having completed relevant know-your-customer and source of funds reviews) under applicable laws and regulations
Acquisition	Purchase of Onshore Bonds complies with all relevant laws and regulations in the Chinese Mainland
Advisors	Advisors and agents possess reasonable competence to handle such transactions
APSA Endorsement Criteria	Meet the minimum thresholds specified in the APSA endorsement criteria

Section VII

RISK MANAGEMENT AND MITIGATION

A. Key Risks of SFGC

93. While SFGC offers significant benefits for market development, capital mobilisation and policy alignment, it is essential to recognise and address the associated risks to ensure the long-term sustainability and resilience of SFGC. The following analysis and assessment of the key risks reflects industry feedback and international best practices, providing a balanced view of the opportunities and challenges inherent in SFGC. Each risk will be carefully assessed by APSA and other parties to the Pilot Programme.

94. ***Cross-Border Legal Uncertainties***

Risk	SFGC involves the interaction of the legal frameworks of the Chinese Mainland and Hong Kong, particularly in the areas of enforcement and investor protection. There is a risk of legal uncertainty in the event of disputes or insolvency, especially in stress scenarios or if laws change.
Mitigation	The Bond Connect procedures are already well established. There will be robust HK SPV governance and alignment with both the Chinese Mainland and Hong Kong regulatory requirements. Hong Kong courts will generally govern any disputes related to the Offshore ABS. There will be ongoing review and dialogue between regulators.

95. ***Regulatory Arbitrage and Compliance***

Risk	Differences in regulatory standards between jurisdictions may create opportunities for regulatory arbitrage or gaps in oversight. Gaps or delays in information sharing could hinder effective supervision, especially in crisis situations.
Mitigation	The Enhanced Governance Framework with HKMA oversight and APSA endorsement criteria will ensure gaps and delays are minimised. Formal information-sharing protocols, joint supervisory committees and real-time data exchange platforms are recommended between regulators, with regular joint exercises and scenario planning.

96. ***Speculative Investment and Excessive Leverage***

Risk	Broader investor access and new structured products may attract speculative investors, leading to excessive trading, leverage or short-termism, increasing volatility and destabilising the market.
Mitigation	Investor eligibility criteria (e.g., professional/institutional investors only), leverage limits, robust disclosure requirements, ongoing reporting to regulators and restrictions on high-risk products or trading strategies will be applied during the Pilot Programme to ensure measures are in place to isolate speculative investment risk.

97. ***Money Laundering and Illicit Flows***

Risk	HK SPVs and cross-border structures may be exploited for money laundering, terrorist financing or evasion of capital controls.

Mitigation	Strict KYC/AML requirements, information sharing between authorities and regular audits of HK SPV activities will mitigate these risks. HK SPVs will be required to use regulated financial institutions and trustees/agents for all fund flows and administration.

98. *Market Destabilisation and Systemic Risk*

Risk	Large-scale cross-border flows, especially during periods of market stress, could amplify volatility in both onshore and offshore markets. Rapid inflows or outflows may impact liquidity, asset prices and financial stability.
Mitigation	Phased implementation and pilot limits, macroprudential tools (e.g., countercyclical buffers), real-time monitoring of capital flows and coordination between Chinese Mainland and Hong Kong regulators will mitigate this risk. Circuit breakers or temporary restrictions can be imposed in times of market stress.

99. *Foreign Currency Risk and Currency Mismatch*

Risk	SFGC allows for issuance in non-RMB currencies, while Underlying Assets are RMB-denominated. Currency mismatches may expose issuers and investors to foreign exchange risk, especially during periods of RMB volatility or capital outflows.
Mitigation	HK SPVs will be required to enter into currency hedging only with regulated Hong Kong FIs. Regulatory limits on unhedged currency positions could be considered by regulators during the Pilot Programme, and contingency plans developed for extreme foreign exchange movements.

100. *Tax Uncertainty for SPVs*

Risk	The absence of a clear, tax-neutral regime for Hong Kong SPVs could result in unpredictable tax liabilities, undermining the economics of SFGC transactions. In addition, the uncertainty around the applicability and continuity of the Chinese Mainland VAT/CIT tax exemption policy for foreign investors of onshore products may cause extra tax risk for HK SPVs.
Mitigation	A tax-neutral regime or nominal tax treatment must be applied for HK SPVs, aligning with international best practices and providing certainty for investors and issuers. The Chinese Mainland tax authorities are requested to extend the CIT/VAT tax exemption and to confirm its applicability to securitisation products.

101. *Asset Quality and Performance*

Risk	The Underlying Assets may be subject to credit, operational or market risks, including economic downturns, sector-specific shocks or changes in regulatory policy.
Mitigation	Require robust asset selection (no "cherry-picking") and ongoing monitoring, with clear disclosure to investors. Encourage the use of credit enhancement mechanisms, such as tranching and over-collateralisation. In addition, the Onshore Originators need to comply with the risk retention rules promulgated by the Chinese Mainland regulators, to ensure their interests are aligned with the investors.

102. *Product Complexity and Investor Understanding*

Risk	Structured finance products can be complex and may not be fully understood by all investors, increasing the risk of mis-selling, inappropriate risk-taking or market mispricing.
Mitigation	Clear, standardised disclosure documents should be developed. Investment opportunities will be limited to institutional/sophisticated Eligible Foreign Investors only.

103. ***Concentration Risk***

Risk	If the Underlying Assets are dominated by a limited range of asset classes, shocks to these entities or sectors could have outsized effects on the performance of Offshore ABS.
Mitigation	The Chinese Mainland's asset securitisation market offers investors a diverse range of asset types. As SFGC matures and expands, diversification of participants and asset types should be encouraged by regulators.

104. ***Cross-Border Data Transfer and Privacy***

Risk	SFGC transactions may involve the transfer of personal or sensitive data across jurisdictions, raising compliance and privacy concerns.
Mitigation	All data transfers will be required to comply with relevant Chinese Mainland and Hong Kong data protection laws, with appropriate safeguards and regulatory approvals in place.

105. ***Data Security and Cyber Risk***

Risk	Increased reliance on digital platforms, cross-border data flows and fintech solutions (e.g., DLT) raises the risk of cyberattacks, data breaches or operational disruptions.
Mitigation	HK SPVs and service providers will be required to meet all relevant cybersecurity standards minimum security requirements and report incidents promptly.

106. ***Operational Complexity***

Risk	The multi-jurisdictional nature of SFGC structures increases operational complexity and the risk of errors or delays.
Mitigation	SFGC will stipulate that only experienced administrators, trustees and service providers may be engaged, with clear operational procedures to reduce operational risk.

B. Risk Comparison with Bond Connect Northbound

107. The risks associated with Bond Connect Northbound are broadly similar to those identified for the SFGC structure above, encompassing areas such as legal uncertainty, regulatory arbitrage, market volatility and operational complexity. However, under the current Bond Connect Northbound framework, these risks are more contained due to the restriction of investor access to a defined group of qualifying Eligible Foreign Investors, typically large institutional participants subject to stringent regulatory oversight.

108. By granting access to HK SPVs, the market is potentially opened to a broader spectrum of investor interest and demand, which can enhance liquidity and product diversity but also introduces additional layers of risk. It is important to recognise that expanding the range of RMB-denominated products available to overseas investors will inherently increase exposure to certain risks, including those related to market stability, currency flows and investor behaviour. Nevertheless, the proposed HK SPV regime is designed to ensure that these risks are effectively managed by requiring the involvement of Hong Kong-regulated banks and institutions and by placing HK SPVs under the supervision of robust regulatory authorities such as the HKMA (supported by APSA and industry specialists). This approach leverages Hong Kong's established regulatory infrastructure to provide enhanced oversight, transparency and risk mitigation as the market evolves.

C. Conclusion

109. SFGC introduces new opportunities and risks compared to existing channels such as Bond Connect Northbound. By proactively identifying, assessing and mitigating these risks through robust governance, legal certainty, tax clarity and market infrastructure, SFGC can deliver its intended benefits while maintaining market integrity and investor confidence.

Section VIII

POLICY BENEFITS: CHINESE MAINLAND

A. Policy Benefits of SFGC

110. From the perspective of the Chinese Mainland, the benefits of SFGC go well beyond channelling international capital to the Chinese Mainland economy and supporting BRI projects. SFGC will support the political and economic priorities of the Chinese Mainland government, specifically set out in the 14th Five-Year Plan[30].

B. Policy Alignment

111. Certain strategic priorities of SFGC naturally align with the broader national strategy set out in the 14th Five-Year Plan as summarised below.

> "The advantageous position of the Hong Kong market could be effectively leveraged to help advance RMB internationalisation through promoting the further building up of the offshore RMB liquidity pool and the increased utilisation of the RMB in the offshore market."
>
> HKEX, "*Leveraging Hong Kong as an Offshore Renminbi Centre for Advancing Renminbi Internationalisation*" (March 2021)

RMB Internationalisation

112. The development of SFGC will fully support RMB internationalisation by further opening the Chinese Mainland financial markets to offshore investors, enhancing the infrastructure for cross-boundary RMB payments and settlements and supporting the development of offshore RMB markets. As the RMB's role as a global reserve currency grows, demand for RMB-denominated assets is rising. The HKEX has highlighted that more diversified RMB products, including securitisation, can support the development of the offshore RMB market. Issuing RMB-denominated securitisation products in Hong Kong would enhance RMB liquidity, meet Mainland enterprises' offshore financing needs and provide offshore investors with more options for managing RMB portfolios. The Financial Services Development Council (**FSDC**) makes several recommendations for enhancing the depth and breadth of the offshore RMB market and accelerating RMB ecosystem development, some of which are echoed in this Proposal.

Promoting Innovation, Tokenisation and Digitisation

113. The Chinese Mainland government has set a national strategy focused on enterprise innovation and digitalisation across the economy and society. SFGC will enable Hong Kong to further advance this agenda by positioning itself as a global fintech, digital assets and Web3 hub. Web3 extends beyond cryptocurrencies to include DLT, such as blockchain, which can modernise trading, custody and transfer systems for assets and data. In the context of structured finance, DLT will ultimately streamline issuance and investment and increase transparency for investors. The issuance of CMU-cleared[31] digital (tokenised) bonds by the HKSAR in 2023

[30] See footnote 12.

[31] CMU Participated in the HKSAR Government's Inaugural Tokenised Green Bond Offering - CMU OmniClear.

and 2024[32] and the HKMA's Project Ensemble Sandbox and tokenisation pilot[33] in 2024**,** have created the basis on which structured finance debt could be tokenised. [34] The HKSAR Government's second policy statement on the development of digital assets also emphasised the need to expand the suite of tokenised products by "promoting the tokenisation of a broader range of assets and financial instruments"[35]. As part of APSA's proposal, structured finance transactions in tokenised format would be undertaken in the second batch of pilot transactions.

Energy Transition and ESG

114. The SFGC can bring international capital into the Chinese Mainland to meet the trillions of dollars in financing needed to support its transition into a low-carbon economy. As well as the actual costs of transition, there will be further funding needed to support transitioning industries. The SFGC can facilitate the securitisation of green bonds, renewable energy receivables and ESG-linked assets, aligning with global and regional taxonomies. The tokenisation of green real-world assets using DLT will enhance transparency and traceability. The HKSAR has committed to leading in this emerging field[36]. Methods for financing green projects under SFGC include the following:

Securitisation Method	**Underlying Asset/Receivable**	**Key Benefit**
Green Asset-Backed Securities	Renewable energy project receivables (solar, wind, hydro), energy efficiency loans	Mobilises international capital, accelerates renewable energy buildout, and supports emissions reduction targets
Green Collateralised Loan Obligations (CLOs)	Bundled green corporate loans (e.g., to clean tech firms, sustainable agriculture)	Supports decarbonisation of industry & agriculture, diversifies risk, channels capital to ESG sector, supports industrial transition
Green Project Bonds	Receivables from specific large-scale green infrastructure projects (e.g., offshore wind farms, grid upgrades)	Attracts global ESG investors, enables project-specific risk allocation and increases transparency
Green Residential Mortgage-Backed Securities	Mortgages on certified green residential buildings	Encourages sustainable housing and urbanisation, promotes energy-efficient construction, green urban growth and reduces building sector emissions
Green Auto Loan Securitisation	Receivables from loans for electric vehicles (**EVs**)	Accelerates EV adoption and clean transport transition, expands access to EV financing, supports clean mobility targets and reduces transport emissions
Carbon Credit Securitisation	Future cash flows from carbon credits or emissions reduction certificates	Monetises emissions reductions and supports carbon market development, provides upfront capital for decarbonisation projects, incentivises emissions reduction and supports carbon trading mechanisms

[32] Hong Kong Monetary Authority - HKSAR Government's Digital Green Bonds Offering, https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/02/20240207-6/

[33] See footnote 26.

[34] FSDC, "*Realising the Potential of Blockchain in Advancing Hong Kong's Financial Services Industry"* (March 2024) https://www.fsdc.org.hk/media/t3tojry2/blockchain-report_en_final.pdf.

[35] Financial Services and the Treasury Bureau of the HKSAR Government, Policy Statement 2.0 on the Development of Digital Assets in Hong Kong (26 June 2025) https://gia.info.gov.hk/general/202506/26/P2025062600269_500089_1_1750909574183.pdf.

[36] FSDC, "*Navigating the Evolving Sustainable Landscape: Hong Kong's Crucial Role in Financing the Transition to Sustainability*" (November 2024) https://www.fsdc.org.hk/media/tg2heul2/eng-fsdc-paper_navigating-the-evolving-sustainable-landscape-hong-kong-s-crucial-role-in-financing-the-transition-to-sustainability_fv.pdf.

Building an Intellectual Property Powerhouse

115. Building an intellectual property powerhouse through cross-boundary securitisation of Chinese Mainland intellectual property rights via SFGC can significantly advance the goals outlined in the 14th Five-Year Plan and the *Outline of Building an Intellectual Property Rights Powerhouse (2021-2035)*[37] issued by the Central Committee of the Communist Party of China and the State Council. By enabling Chinese Mainland enterprises to package and securitise their intellectual property assets and access international capital markets through Hong Kong, the effectiveness of intellectual property (**IP**) transfer and transformation is enhanced. This increased access to capital can stimulate research and development, accelerate the commercialisation of new technologies and raise the overall market value of Chinese Mainland intellectual property, all of which are central to the vision of fostering a more dynamic and competitive innovation ecosystem.

116. Chinese Mainland firms, particularly in the technology, pharmaceuticals and entertainment sectors, can leverage their extensive IP portfolios (including patents, trademarks and copyrights) to access international investment. Large technology companies can repackage and securitise future licensing or royalty revenues, providing upfront capital for reinvestment, operational expansion and international competitiveness. Investors are drawn to the predictable revenue streams generated by securitised IP assets, thereby increasing liquidity for Chinese Mainland companies and supporting their growth ambitions. SFGC not only facilitates the conversion of future IP income into immediate funds but also stimulates innovation and economic development across multiple sectors. By pooling and securitising a diverse range of IP assets, Chinese Mainland firms can drive technological advancement and strengthen their global market position, helping to realise the Chinese Mainland's ambition to become an intellectual property rights powerhouse by 2035.

Regional Dispute Resolution Services

117. The 14th Five-Year Plan sets out a clear vision for Hong Kong to strengthen its role as a global financial centre and, crucially, as a regional hub for international legal and dispute resolution services, as evidenced by the recent establishment of the International Organisation for Mediation (**IOMed**) headquarters in Hong Kong. The development of SFGC in Hong Kong directly supports these objectives. By facilitating the flow of global capital into Chinese Mainland markets through SFGC, Hong Kong creates a fertile environment for complex, cross-border transactions that require robust legal frameworks and dispute resolution mechanisms. This dynamic will naturally drive demand for advanced mediation services, aligning perfectly with the city's ambition to become a leading centre for international mediation. As the world's first intergovernmental organisation dedicated to mediation, IOMed will attract a diverse array of international stakeholders, further enhancing Hong Kong's reputation as a trusted venue for resolving commercial and investment disputes.

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[37] China National Intellectual Property Administration, https://english.cnipa.gov.cn/attach/0/9ba5e059884d43c0abbe3a3e839ba6f8.pdf.

Section IX

SECTOR BENEFITS: STRUCTURED FINANCE GLOBAL CONNECT

A. Traditional Sectors

118. Growth in the consumer finance sector is driven by the securitisation of mortgages, credit card receivables and auto loans in many jurisdictions, including the US, the EU, South Korea and the Chinese Mainland. By removing these obligations from their balance sheet, originators can free up capital to lend more to consumers. The predictability of these sectors is familiar to investors, and such transactions can be structured and issued very quickly, pumping funds back into the market.

119. As well as fuelling the growth of these traditional asset classes, securitisation and repackaging can be deployed to support the growth and development of other sectors and industries that can be more difficult to finance in the traditional banking sector.

B. The Insurance Sector

120. SFGC would significantly enhance the Chinese Mainland insurance market by enabling insurers to issue asset-backed securities and insurance-linked securities (**ILS**) such as catastrophe bonds (**Cat Bonds**) or longevity bonds to offshore investors. This would help insurers reduce reliance on traditional reinsurance and mitigate market cyclicality. By converting illiquid risks into asset-backed securities, insurers could free up capital for underwriting new policies, improving liquidity and balance sheet flexibility. Additionally, insurers could lower their funding costs by providing access to global capital, enabling insurers to scale operations, invest in digitalisation and expand into underserved segments like microinsurance.

Insurance - SFGC Use Cases	Description
ILS	SFGC could facilitate cross-boundary collaboration by promoting an ILS ecosystem in the region to help address increasingly intensified emerging risks arising from natural catastrophes and demographic shifts.
Alternative Risk Transfer for Insurers	SFGC could advocate for using ILS as an alternative risk transfer tool for insurers to offload, for example, natural catastrophe risk (e.g., typhoons, earthquakes) to capital markets.
Cat Bonds	SFGC could promote Cat Bonds as a tool for Chinese Mainland insurers to mitigate exposure to climate-related risks (e.g., floods).
Longevity/Mortality Risk Securitisation	With the Chinese Mainland's ageing population, securitising longevity risk (e.g., pension liabilities) or mortality risk (e.g., pandemic bonds) could attract institutional investors seeking uncorrelated returns.

121. Notably, the Chinese Mainland's insurance market saw a domestic premium income of RMB5,077.3 billion in the first ten months of 2024, up 12.4% year-on-year, indicating a strong foundation for further growth through securitisation. However, the Chinese Mainland's natural catastrophe protection gap exceeds USD100 billion

annually. Enhancing insurance coverage for even 5%-10% of such a large protection gap, followed by securitisation in the form of Cat Bonds, has huge potential for the insurance market.

C. The Tech Sector

122. The tech sector in Hong Kong, the Greater Bay Area (**GBA**) and the Chinese Mainland is highly dynamic and interconnected. Hong Kong excels in fintech and acts as a gateway for international business. The GBA is a powerhouse for hardware and innovation, and the Chinese Mainland, as a whole, is a global leader in a wide range of advanced technologies. Integration of these regions will further accelerate technological development and commercialisation, both domestically and internationally.

Hong Kong	GBA	China (National)
• Fintech • Smart city • Biotech • ICT (Information & Communication Technology)	• AI • Hardware • Robotics • Advanced manufacturing	• AI • 5G • e-commerce • Semiconductors • EVs • Biotech

123. Bank borrowing and venture capital drive tech industry growth. However, other sources of funds are available and could be better utilised as the market matures. For example, future revenues, intellectual property (as discussed above) and other intangible assets can be repackaged into tradable securities, allowing tech scale-ups to access funding that might otherwise be unavailable from banks and venture capital funds. Being able to monetise assets such as software licences, subscription receivables, or even data allows tech scale-ups to invest the proceeds in research, development and market expansion. The resulting increased liquidity and diversification of funding sources reduce reliance on a narrow pool of investors and generally improve the financial health of tech enterprises.

Product Type	Typical Underlying Asset	Suitable Tech Sectors	Key Benefits
Receivables ABS	Trade receivables	SaaS, e-commerce, fintech	Liquidity, off-balance sheet
Intellectual Property Securitisation	Royalties, licences	Software, gaming, biotech	Monetise IP, non-dilutive
Loan Securitisation	Consumer/SME loans	Fintech	Capital relief, risk transfer
Future Flow Securitisation	Future contractual revenues	Cloud, platforms IoT	Upfront capital, predictable
Project Securitisation	Data centre, smart city income	Infrastructure, IoT	Long-term funding
Supply Chain Securitisation	Payables, receivables	Hardware, manufacturing	Supply chain liquidity

124. The tech sector is also likely to utilise Web3 technologies, such as blockchain and tokenisation, to raise funds in innovative ways and attract new investors.

125. Blockchain-based securitisation is efficient, potentially cheaper than traditional forms of securitisation and transparent, all factors that enhance investor confidence and facilitate cross-boundary investment.

D. The Space Sector

126. The Chinese Mainland commercial space sector is experiencing rapid growth, driven by national strategies such as the China Space 2030 initiative and integration with the Belt and Road Initiative. Satellite constellations—networks of satellites providing broadband, earth observation and navigation services—are at the heart of this transformation. The sector is projected to reach USD150 billion by 2025, with a compound annual growth rate exceeding 20%. Key drivers include rural broadband expansion, 5G backhaul, agricultural monitoring and government/military contracts. Both state-led projects (e.g., CASC's Hongyun and Hongyan) and private sector players (e.g., Galactic Energy, Landspace, Commsat) are actively developing and launching satellite constellations, positioning the Chinese Mainland to rival global leaders like Starlink.

Sector	2024–25 Market Size	2026–28 Market Size (estimated)	Securitisation Potential
	USD billions		
Broadband & Communication	8–12	20–30	High (govt./enterprise contracts)
Earth Observation	3–5	8–12	Moderate (niche data buyers)
Navigation	5–7	10–15	Moderate (royalty streams)
Manufacturing/ Launch	4–6	10–15	Low (asset-heavy cyclical)

127. Satellite constellations generate predictable, long-term cash flows from government contracts, commercial subscriptions and data monetisation, making them ideal candidates for securitisation. Collateral could include satellites and ground infrastructure, with credit enhancement provided by sovereign guarantees, insurance wraps, or over-collateralisation. Insurance partnerships and rating agency engagement will be critical to mitigate risks such as launch failures, technological obsolescence and market uncertainties.

128. By 2028, the total addressable market for satellite constellation securitisation in the Chinese Mainland could reach USD50 billion-USD70 billion in annual revenue. The most promising sectors for early pilot programmes are broadband and earth observation, which benefit from long-term government contracts and multi-year data licensing agreements. The table below summarises the current market size and securitisation potential across key segments.

E. The Transport Sector

129. The shipping and aviation sectors have utilised structured finance as a source of funding globally for many years to great effect. In Asia, the first shipping-related structured transaction was backed by COSCO Shipping's cargo receivables in 1999. The aviation sector in Asia has largely been focused on raising funds against future revenues by securitising airline ticket and cargo receivables (for Korean Air and Philippine Airlines). Access to SFGC will allow Chinese Mainland aviation lessors, airlines and shipping companies to raise funds from leases, cargo, tickets and loans, as well as releasing capital tied up in leases, ships and aircraft.

130. By converting future cash flows from vessel operations or leases into tradable securities, airline and shipping companies can access a broader pool of investors, both domestically and internationally. This influx of capital enables fleet modernisation, investment in green

technologies and expansion of operational capacity, all while reducing reliance on traditional bank financing.

131. Similarly, receivables arising from transport logistics, shipping ports and airports and toll roads are all commonly securitised globally (for example, the 2004 Hong Kong Link securitisation whereby the HKSAR securitised revenues from five toll roads and one bridge and issued HKD6 billion of asset-backed securities). The funds raised by governments and private companies from these future revenues securitisation can be applied to further infrastructure investment, providing financing at competitive long-term rates from the capital markets.

❖ ***Shipping Securitisation***: Chinese Mainland dominance of the global shipping industry will attract offshore investors. The table below shows how global shipping companies currently use securitisation techniques to raise funds.

Shipping Securitisation Models	**Description**	**Key Benefits**
Asset-Backed Securities	Bundling future cash flows from vessels and selling them as securities	Unlocks capital, diversifies funding, supports fleet renewal
Operating Lease with Call Option	A structure developed in Japan allows investors to purchase vessels, lease them back to companies and securitise payments (**JOLCO**)	Off-balance sheet financing, competitive rates, tax benefits
Maritime Mortgage-Backed Securities	Securitising portfolios of ship mortgages	Transfers credit risk, frees up bank balance sheets
Container Lease Receivables Securitisation	Pooling lease payments from containers, issuing backed securities	Access to large capital, supports fleet expansion
Cargo Receivables Securitisation	Pooling cargo receivables from bills of lading on specific shipping routes (as per COSCO Shipping's offshore securitisation in 1999)	Bridges funding gaps, reduces reliance on traditional banks

❖ ***Aircraft Leases***: The Chinese Mainland's commercial aircraft fleet is forecast to more than double from 4,345 to 9,740 by 2043, accounting for 20% of global deliveries. CALC's fleet and order book now exceed USD10 billion in asset value, with the first aircraft leasing ABS in the Chinese Mainland (2018, USD171 million, AAA-rated) setting a precedent for future deals. Given the Chinese Mainland aviation growth forecasts, aircraft leases are a natural candidate for SFGC issuance.

Aircraft Leases	**Description**
Securitisation Structure	Aircraft leases and receivables can be pooled, enabling the issuance by the HK SPV of investment-grade securities to global institutional investors. Aircraft securitisation offers stable, long-dated cash flows.
Strategic Implications	SFGC will enable off-balance sheet treatment and efficient risk transfer, helping lessors and airlines optimise capital usage. If SFGC raises offshore investor participation in onshore bonds from **2.4% to 5%**, it could inject an additional **RMB4.55 trillion** into the Chinese Mainland bond market. The aircraft sector could conservatively support several billion USD in annual securitisation issuance as the platform matures.

Section X

HONG KONG: ASIA'S BOND HUB

A. Positioning Hong Kong as Asia's Bond Hub

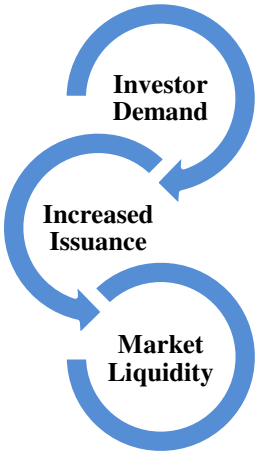
132. The development of SFGC and cross-boundary securitisation channels from the Chinese Mainland and the flow of RMB into Hong Kong have the potential to transform Hong Kong into the leading hub in Asia for the issuance, clearing, settlement and trading of asset-backed securities and bonds.

133. Hong Kong already boasts a robust, transparent and investor-friendly finance ecosystem that attracts investors from across the globe. The remaining steps to becoming a central hub for bond issuance and trading are within its reach.

B. Creating a Virtuous Cycle of Issuance and Investment

134. As Hong Kong's market for structured debt securities backed by Chinese Mainland assets matures, it will become a magnet for global institutional investors—private credit funds and institutions from Asia, Europe, the US and the Middle East—all seeking exposure to the Chinese Mainland. This surge of capital will, in turn, attract more issuers from the Chinese Mainland, Hong Kong and beyond, who are eager to tap into Hong Kong's deepening investor base and world-class financial infrastructure.

135. To further boost issuance, Hong Kong can offer targeted incentives, such as rebates or lower filing fees for bonds issued by HK SPVs, listed on SEHK and cleared through CMU. Competing markets like Singapore already use similar strategies, tying incentives to local economic benefits.



136. This creates a powerful virtuous cycle: more investor demand drives higher issuance volumes, which deepens market liquidity and scales up the bond and structured finance market across the Chinese Mainland, Hong Kong and Asia. As a result, a vibrant secondary trading market will emerge, giving investors more flexibility to trade and diversify their portfolios.

137. A liquid secondary market is especially attractive to private credit funds, enabling them to create their own exits by repackaging or securitising portfolios. Ultimately, a dynamic trading environment in bonds and structured finance products will spur growth across other sectors, supporting broader economic diversification and development.

138. See *Annex E: Structured Finance Ecosystem* for a discussion of Hong Kong's impressive securitisation ecosystem and the potential for exponential growth.

C. Asian Hub for Clearing & Settlement

139. The expected volumes of RMB-denominated debt issuance and trading that will arise from SFGC, as well as trading in other currencies, will demand enhanced local clearing, settlement and trading infrastructure. Each Asian country typically operates its own central securities depository (**CSD**) to handle the clearing and settlement of debt securities traded on its domestic exchanges (such as the CMU in Hong Kong). There is no single pan-Asian CSD, so investors and issuers rely on international CSDs (**ICSDs**) such as Euroclear and Clearstream to provide cross-border settlement and custody services for international securities.

140. The huge volumes of RMB settlement from SFGC will create an opportunity for Hong Kong's CMU to be transformed into the leading Asian international central securities depository (**Asian ICSD**). This is the stated ambition of the HKSAR Government[38] and the HKEX. According to the HKEX, an Asian ICSD is needed for the following reasons:

Reasons for the Asian ICSD	Explanation
Asian Time Zone Trading	The internationalisation of RMB and the growth of Asian bond markets require a secure, reliable and internationally standardised cross-border trading and settlement system operating within the Asian time zone.
Reduced Settlement Risks	Issuers and investors in Asian debt currently depend on Euroclear or Clearstream for cross-border settlements, which increases risks due to time zone differences.
Building Global-Standard Infrastructure	Establishing an Asian ICSD will align with international trading practices and regulatory transparency, allowing direct investment in global bonds, efficient liquidity access and improved capital efficiency for Asian investors [39].

D. Case Study: Belt & Road Initiative

141. As an example of the types of offshore issuers who might be attracted to Hong Kong as an issuance and settlement market, we examine below the advantages to the "Belt and Road" countries.

142. Since the inception of the BRI by the Chinese Mainland government, Chinese companies have established thousands of overseas enterprises and invested hundreds of billions of dollars in infrastructure projects across more than 150 countries. [40] These large-scale projects require substantial and sustained financing, which securitisation can efficiently provide.

143. Hong Kong's established infrastructure—exemplified by the HKMC and its successful infrastructure loan-backed securitisations—demonstrates the city's capability to facilitate such transactions. Chinese Mainland policy banks and commercial banks, for example, can refinance their BRI project loans through international capital market issuances in Hong Kong.

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38 The Chief Executive of HKMA reported the development plan in 2022: Eddie Yue, "*Developing the CMU to reinforce Hong Kong's status as an IFC*" (13 June 2022) https://www.hkma.gov.hk/eng/news-and-media/insight/2022/06/20220613/. The most recent developments are the commercialisation of CMU via CMU OmniClear (Hong Kong Monetary Authority - HKMA Establishes CMU OmniClear Limited) and the signing of a memorandum of understanding between CMU OmniClear and HKEX to enhance post-trade securities infrastructure of Hong Kong's capital markets, including developing an Asian ICSD (see footnote 13).

39 See footnote 25.

40 Belt and Road Portal, "*Xi Focus: Xi stresses comprehensively advancing high-quality Belt and Road cooperation*" (3 December 2024) https://eng.yidaiyilu.gov.cn/p/0NE0UMNG.html

Whether these loans are onshore or offshore, the HK SPV regime under SFGC offers a flexible and efficient platform for securitising these assets. HKMC has, through HK SPVs, issued two infrastructure loan-backed securitisations, raising more than USD800 million.[41] In Singapore, Clifford Capital has also issued six infrastructure asset-backed securitisations, raising more than USD2 billion[42]. Similar transactions were also completed in the US by STWD Investment Management LLC and RREEF America LLC.

- ***Benefits for BRI Issuers and Investors***: Securitisation through Hong Kong allows Chinese Mainland banks to free up balance sheet capacity, manage concentration risks and transfer debt exposure internationally. Institutional investors, such as pension funds and insurers, gain access to diversified infrastructure assets that may otherwise be inaccessible due to internal investment guidelines. Furthermore, the ability to select green or sustainability-linked assets for securitisation aligns with global ESG trends and supports the Chinese Mainland's climate commitments.

  When SFGC is opened for investors from the Chinese Mainland through Bond Connect (Southbound), it will open new channels for onshore Chinese institutional investors to participate in BRI-backed securitisations issued by HK SPVs, complementing existing schemes like the Qualified Domestic Institutional Investor scheme (**QDII**) and further integrating the Chinese Mainland and Hong Kong capital markets.

- ***Expanding Hong Kong's Role as a Regional Finance Hub***: Beyond direct financing, Hong Kong's structured finance ecosystem offers additional advantages to BRI project sponsors and other international issuers. These include standardised contracts, a transparent regulatory framework, advanced fintech platforms and world-class dispute resolution mechanisms. By leveraging these strengths, Hong Kong can extend its structured finance expertise to BRI countries, enabling project sponsors to securitise assets and tap into global institutional investor demand through the city's capital markets.

144. In summary, cross-boundary securitisation out of the Chinese Mainland into Hong Kong will not only support the financing needs of major initiatives like the BRI but will also cement Hong Kong's status as the central hub for structured finance in Asia. The city's unique position, regulatory environment, and financial infrastructure create a compelling ecosystem for both issuers and investors, fostering regional cooperation and driving the next phase of growth in Asian capital markets.

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41 HKMC's webpages "*Bauhinia IBLS 1*": https://www.hkmc.com.hk/eng/investor_relations/ilbs/bauhinia_ilbs_1.html# and "*Bauhinia ILBS 2*": https://www.hkmc.com.hk/eng/investor_relations/ilbs/bauhinia_ilbs_2.html#

42 Clifford Capital "*Flagship Infrastructure Asset-backed Securities (IABS) products*": https://www.cliffordcapital.sg/products

Section XI

HKSAR POLICY: SFGC AS A STRATEGIC ENABLER

A. HKSAR Policy Alignment

145. In recent months, the Chief Executive of the HKSAR, Mr. John Lee[43] and the HKMA and the SFC[44] have announced policies and initiatives which will be greatly enhanced and supported by the SFGC initiative. Their collective vision aims to transform Hong Kong's debt capital markets, cementing Hong Kong's position as a global financial super-connector and fixed income and currency (**FIC**) market hub.

146. By integrating SFGC into Hong Kong's capital markets strategy, this Proposal delivers on multiple priorities set out in the Chief Executive's 2025 Policy Address, including:

- ❖ Expanding the product suite (including RMB-denominated products) and the investor base for Hong Kong's debt capital markets.
- ❖ Supporting innovative, market-based financing for mega-infrastructure projects and urban development.
- ❖ Reinforcing Hong Kong's leadership in green and sustainable finance by enabling the securitisation of ESG-linked and green assets.
- ❖ Demonstrating Hong Kong's capability to finance regional large-scale projects through capital markets, thereby reinforcing its status as Asia's premier international financial centre.
- ❖ Enabling private equity and alternative asset investors to structure exits via HK SPVs, thereby enhancing Hong Kong's appeal as a booking centre for private credit and fund transactions.

147. In the following sections, we demonstrate SFGCs' application in four important initiatives: the Northern Metropolis, the FIC Markets Roadmap, the Digital Asset Strategy and Sustainable Finance.

B. Northern Metropolis

148. In his 2025 Policy Address, the Chief Executive of Hong Kong, Mr. John Lee, has set out a bold vision for the Northern Metropolis as a new economic engine for Hong Kong, emphasising the need for innovative, market-based financing to support its large-scale infrastructure and urban development.[45] The Policy Address specifically calls for the expansion

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43 The Chief Executive's 2025 Policy Address: https://www.policyaddress.gov.hk/2025/en/policy.html

44 "*Roadmap for Developing Hong Kong's Fixed Income and Currency Markets*" (FIC Roadmap), SFC/HKMA, 2025: https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2025/20250925e3a1.pdf

45 See footnote 43.

and deepening of Hong Kong's bond market, the use of ABS and the mobilisation of both public and private capital to meet the immense investment requirements of the Northern Metropolis.

149. SFGC is uniquely positioned to deliver on this policy vision. By enabling the securitisation of infrastructure and development-related assets through HK SPVs, SFGC provides a ready-made platform for mobilising international, local and Chinese Mainland capital. This approach directly supports the HKSAR Government's commitment to innovative financing, public-private partnerships and the use of capital markets to drive the Northern Metropolis and other major development initiatives. As set out below, SFGC offers a practical, scalable solution to the financing challenges and opportunities presented by the Northern Metropolis.

Infrastructure Asset-Backed Securities

150. SFGC enables the transformation of illiquid infrastructure assets—such as transportation networks, utilities and technology parks—into tradable securities. This allows the government and private developers to assign rights to future cash flows from Northern Metropolis assets to HK SPVs, raising immediate capital while retaining ownership and control over strategic infrastructure.

Phased and Diversified Funding

151. The Northern Metropolis development will be structured in phases, with multiple projects and revenue streams. SFGC will allow for the bundling of diverse assets into diversified securities through HK SPVs, mirroring successful models such as HKMC's ILBS and supporting staged financing as development milestones are achieved.

Institutional Investor Engagement

152. SFGC's robust legal and regulatory framework, combined with government credit enhancement and diversified asset pools, can achieve investment-grade ratings, attracting sovereign wealth funds, pension funds, insurance companies and international financial institutions. The Asian Infrastructure Investment Bank's investment in HKMC's ILBS demonstrates a strong institutional appetite for such securities.

Green and Sustainable Finance

153. The Policy Address highlights the importance of green and sustainable finance. SFGC supports the securitisation of green assets and ESG-linked infrastructure, aligning with Hong Kong's leadership in sustainable finance and attracting ESG-focused investors.

C. FIC Markets Roadmap

154. The HKMA and the SFC have set out a comprehensive Fixed Income and Currency (**FIC**) Markets Roadmap to reinforce Hong Kong's position as a global FIC hub[46]. Key pillars of this Roadmap include boosting primary market issuance, enhancing secondary market liquidity, expanding offshore RMB business and building next-generation market

[46] See footnote 44.

infrastructure. SFGC is directly aligned with these strategic objectives and is positioned to play a transformative role in their realisation.

Expanding Investor Base in RMB Fixed Income Assets

155. A central theme of the FIC Roadmap is to broaden the overseas investor base in RMB-denominated fixed income products. In 2025, global investors have increasingly sought to diversify away from USD assets, with Chinese Mainland and other Asian bonds benefiting from this trend. However, the pace of this shift has been constrained by the relative shallowness of Asian bond markets compared to the US, particularly in the area of securitised products such as RMBS and ABS, which offer floating rate exposure and portfolio diversification.

156. SFGC directly addresses this market gap by enabling overseas investors to access a much wider range of Chinese Mainland-sourced ABS and securitised products through Hong Kong. By leveraging Hong Kong's robust legal, regulatory and market infrastructure, SFGC will:

- ***Broaden Product Access***: Open up convenient and efficient channels for global investors to invest in products backed by Eligible Instruments (i.e., Onshore Bonds), which have historically been less accessible to international capital.

- ***Enhance Market Depth and Liquidity***: Attract a more diverse and sophisticated investor base, thereby deepening the Chinese Mainland bond and securitisation markets and supporting the development of a more liquid and resilient secondary market.

- ***Support Floating Rate and Diversified Exposures***: Enable investors to gain exposure to floating rate instruments and a broader spectrum of credit and asset types, addressing a key limitation cited by global asset managers when comparing Chinese Mainland and US bond markets.

- ***Facilitate RMB Internationalisation***: By expanding the range of investable RMB-denominated products and supporting cross-border capital flows, SFGC will reinforce Hong Kong's role as the leading offshore RMB centre and super-connector for Chinese Mainland capital markets.

Supporting Policy and Market Innovation

157. SFGC's alignment with the FIC Roadmap is further demonstrated by its support for:

- ***Product Innovation***: Facilitating the issuance and trading of tokenised and digital ABS products, in line with the SFC's ASPIRe roadmap[47] and the HKMA's Project Ensemble Sandbox.

- ***Investor Base Expansion***: Enabling participation by family offices, funds and corporate treasury centres, as encouraged by the Roadmap.

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[47] "*A-S-P-I-Re" for a brighter future SFC's regulatory roadmap for Hong Kong's virtual asset market*", Securities and Futures Commission, 19 February 2025: https://www.sfc.hk/en/News-and-announcements/Policy-statements-and-announcements/A-S-P-I-Re-for-a-brighter-future-SFCs-regulatory-roadmap-for-Hong-Kongs-virtual-asset-market

❖ ***Market Infrastructure Modernisation***: Leveraging Hong Kong's next-generation clearing, settlement and digital asset platforms to support efficient cross-border investment and risk management.

158. By providing a scalable, market-based platform for international-standard securitisation and repackaging of Chinese Mainland assets, SFGC will help realise the FIC Roadmap vision of a deeper, more liquid and globally integrated RMB fixed income market. This will not only attract new classes of investors to RMB products but also reinforce Hong Kong's status as Asia's premier fixed income and currency hub.

D. Green and Sustainable Finance

159. The HKSAR Government has prioritised the development of green and sustainable finance, as reflected in its policy statements and the FIC Roadmap. SFGC will actively support these ambitions by:

❖ ***Facilitating Green Securitisation***: SFGC will enable the securitisation of green assets, renewable energy receivables and ESG-linked assets through HK SPVs, providing a scalable platform for green finance innovation.

❖ ***Alignment with Taxonomies***: SFGC will ensure that green ABS and related products are aligned with international and Chinese Mainland green finance taxonomies and disclosure standards, supporting investor confidence and regulatory compliance.

❖ ***Incentivising Green Issuance***: SFGC will work with the HKMA and SFC to develop incentives for green securitisation, such as grant schemes, preferential listing treatment and streamlined approval processes for qualifying green products.

❖ ***Impact Measurement and Reporting***: SFGC will require robust impact measurement and ongoing reporting for green and sustainability-linked ABS, in line with best practices and regulatory expectations.

❖ ***Supporting Carbon Market Development***: SFGC will support the HKSAR Government's goal of developing a regional carbon market ecosystem by enabling the securitisation of carbon credits and related assets, broadening the range of investable green products in Hong Kong.

E. Digital Asset Strategy

160. SFGC is fully aligned with Hong Kong's ambition to be a leader in digital assets and fintech innovation, as set out in the SFC's ASPIRe roadmap and the HKMA's Project Ensemble Sandbox. SFGC will:

❖ ***Tokenised ABS and Digital Products***: Support the issuance and trading of tokenised ABS and digital structured finance products, leveraging DLT for enhanced transparency, efficiency and settlement.

❖ ***Regulatory Sandboxes and Pilots***: Participate in regulatory sandboxes and pilot programmes for digital bond issuance, in partnership with the HKMA, SFC and industry stakeholders, to test and refine digital asset solutions.

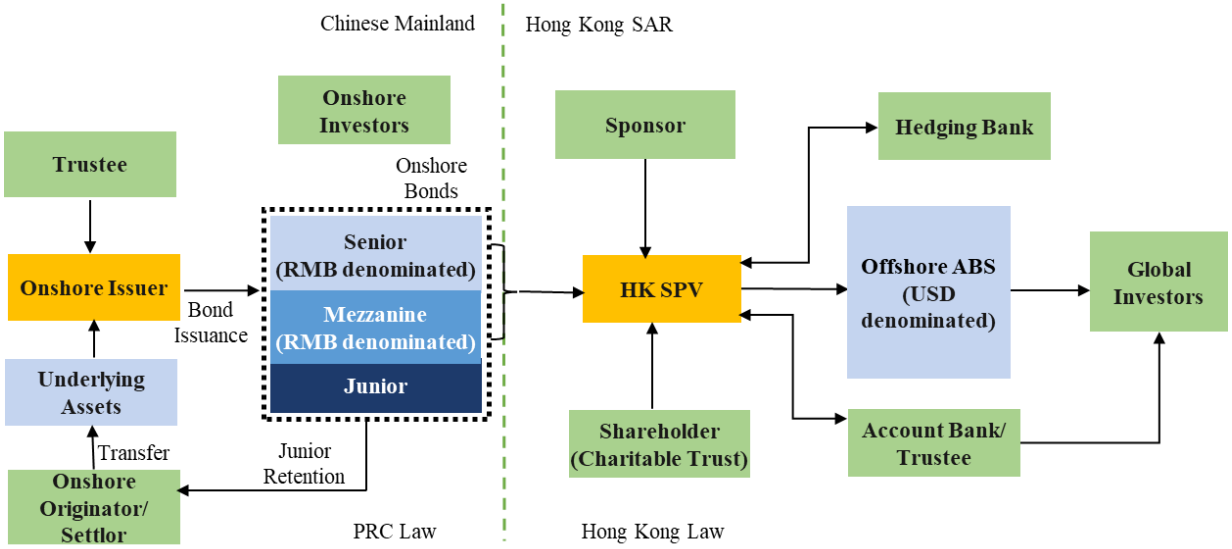
❖ ***Investor Education and Best Practices***: Develop investor education initiatives and industry best practices for digital asset securitisation, ensuring market participants are equipped to navigate new technologies and risks.

❖ ***Interoperability with Market Infrastructure***: Ensure interoperability with next-generation market infrastructure, including CMU OmniClear and digital trading platforms, to support seamless issuance, trading, and settlement of digital ABS.

ANNEX A
PILOT PROGRAMME: TEST CASES

1. Test Case 1 – Securitisation by Onshore Originator

Test Case I assumes that an Onshore Originator in the Chinese Mainland retail finance sector (such as auto, consumer and micro- and small-finance) will arrange for a securitisation of certain assets to be issued in the CIBM or Exchange Market under the Pilot Programme:



Key Terms

Key Terms	Onshore Bonds	Offshore ABS
Collateral/ Underlying Asset	Retail Finance Assets (auto, consumer loan, MSE, lease receivables)	Senior and Mezzanine Tranches of Onshore Bonds
Onshore Originator	○ Financial Institution (**FI**) regulated by NFRA ○ Non-financial Enterprise (**NFE**)	N/A
Sponsor	○ Onshore Originator	○ Onshore Originator ○ Overseas Investor ○ Investment Bank
Issuer	○ Special Purpose Trust (**SPT**) ○ Asset-Backed Special Plan (**ABSP**)	HK SPV (Orphan SPV)
Trustee/ SPV Manager	○ Licensed Trust Company (Trustee) ○ Licensed Securities Company or its Subsidiary, Fund Management Company or its subsidiary (SPV Manager)	○ Hong Kong licensed trustee and corporate service providers
Market	○ CIBM ○ Exchange Market	○ SEHK ○ Private Placement ○ CMU Settlement

Transaction Process

- ❖ The Onshore Originator will transfer, by way of entrustment or true sale, a pool of Underlying Assets (such as auto-loans or consumer loans) to an Onshore Issuer to ringfence the Underlying Assets from the bankruptcy risk of the Onshore Originator.
- ❖ The Senior Tranche of the Onshore Bonds (RMB-denominated) will be subscribed by the HK SPV. The Mezzanine Tranche (RMB-denominated) will be subscribed

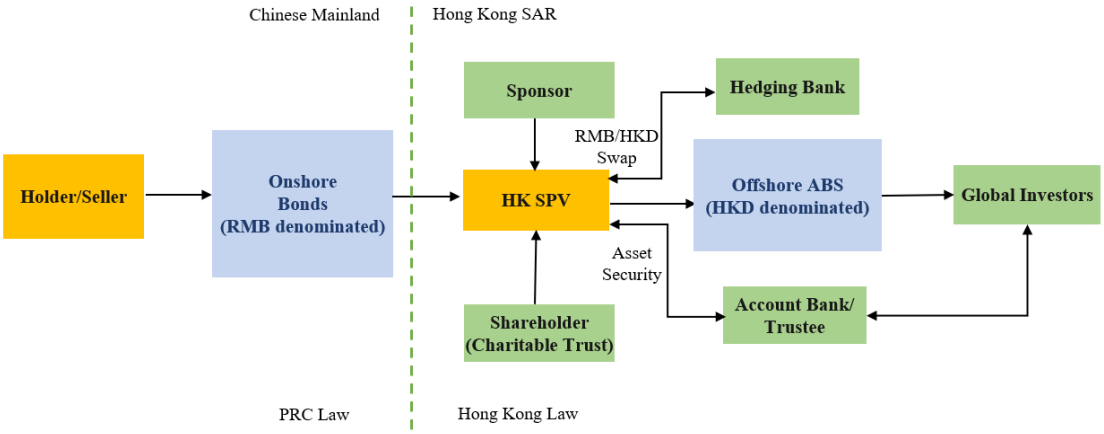
by onshore investors or the HK SPV. The entire subordinated tranche will be retained by the Onshore Originator as "risk retention".

- ❖ The HK SPV will subscribe for the Senior Tranche and/or Mezzanine Tranche of the Onshore Bonds through Bond Connect Northbound. This will involve the HK SPV (a) opening a Bond Connect account with one of Hong Kong banks (which will act as account bank in connection with the Offshore ABS) and (b) creating security interest over such Bond Connect account in favour of the trustee for the Offshore ABS (along with all of the other assets of the HK SPV, including for example, the cash account of the HK SPV opened with the same account bank). The account bank role will preferably be played by the arranger bank or the trustee bank.
- ❖ The HK SPV will issue foreign currency (e.g. USD) denominated Offshore ABS to global institutional investors. The Offshore ABS will effectively be backed by and pass on the cashflow received (through Bond Connect Northbound) from the Senior Tranche and/or Mezzanine Tranche of the Onshore Bonds, which in turn is serviced by the Underlying Assets.
- ❖ If needed, the HK SPV will enter into a cross-currency hedging arrangement with a hedging bank in Hong Kong (preferably the hedging desk of the arranger).

2. Test Case II –Repackaging by Intermediary or Investor

Test Case II assumes that either: (i) an investment bank (acting as intermediary) may structure a repackaging of Onshore Bonds through the HK SPV for sale to global institutional investors, or (ii) a global institutional investor may approach an investment bank (as intermediary) for help investing in Onshore Bonds.

In both scenarios, the investment bank will have experience arranging repackaging programmes through SPVs in financial centres such as Luxembourg or the Cayman Islands, often tailoring these structures to meet specific investor requirements such as currency or interest rate preferences. The investors may not have access to the Chinese Mainland bond market (for qualification, language or other practical reasons) or may simply prefer that an intermediary execute the necessary currency and interest rate swaps. The intermediary will arrange the repackaging through an HK SPV as follows:



Key Terms

Key Terms	Onshore Bonds	Offshore ABS
Collateral	Non-securitised bonds	Onshore Bonds
Issuer	○ Corporate ○ FI ○ Governmental Entity	HK SPV
Sponsor	N/A	○ Overseas Investor ○ Investment Bank
Trustee/ SPV Manager	N/A	○ Hong Kong licensed trustee and corporate service providers
Market	Secondary Market ○ CIBM or Exchange Market	○ SEHK ○ Private Placement ○ CMU Settlement

Transaction Process

- ❖ The HK SPV will be incorporated as an orphan special purpose vehicle. The HK SPV can be sponsored by an investment bank or investor but will not be owned by its sponsor nor consolidated into its sponsor's balance sheet.
- ❖ The HK SPV will purchase part of an existing CIBM or Exchange Market issuance of Onshore Bonds from a secondary market seller through Bond Connect Northbound. This will involve the HK SPV: (a) opening a Bond Connect account with one of Hong Kong banks (which will act as account bank in connection with the Offshore ABS); and (b) creating security interest over such Bond Connect account in favour of the trustee for the Offshore ABS (along with all of the other assets of the HK SPV, including for example, the cash account of the HK SPV opened with the same account bank). The account bank role will preferably be played by the investment bank or the trustee bank.
- ❖ The HK SPV will enter into interest rate and currency hedging (with the investment bank) to convert, e.g., fixed-rate RMB cashflow from the Onshore Bonds into floating-rate HKD cashflow.
- ❖ The HK SPV will issue HKD-denominated floating-rate Offshore ABS to the investors.

If a global institutional investor has the relevant licences and expertise, it could, in theory, invest directly without using an intermediary. In practice, however, this is uncommon. Most investors prefer to engage intermediaries to handle the establishment of the SPV, account opening, sourcing of investment assets, settlement and the arrangement of any necessary interest or currency swaps.

ANNEX B
PROPOSED REGULATORY ACTIONS: CHINESE MAINLAND

To support the SFGC initiative, we propose the following requests be actioned by the relevant Chinese Mainland regulators:

1. Essential Actions

The regulatory issues set out below should be addressed prior to the launch of SFGC's first issuance under the Pilot Programme.

Access to CIBM and Exchange Market

Authorities	Access to Markets	Action Required
PBOC **CSRC**	*CIBM*: HK SPVs will require access to CIBM once they become eligible to invest through Bond Connect.	Guidance or policy update explicitly allowing HK SPVs to participate in the CIBM through Bond Connect and related markets as Eligible Foreign Investors (under the same standards and procedures as other eligible foreign institutional investors).
	Exchange Market: Bond Connect investors (including HK SPVs) will require access to the Exchange Market to invest in a broader range of assets.	*Option 1*: Connect CMU with the Exchange Market infrastructure directly, to avoid the burden of multiple-tier custody and clearing. *Option 2*: Expand the Mutual Connect Mechanism[48] to include Bond Connect investors.

Tax Relief for HK SPVs and Investors

Authorities	Tax Requests	Action Required
STA **MOF**	Extend CIT/VAT exemption[49] for foreign investors beyond 31 December 2025 and clarify ambiguity on ABS returns qualifying as "bond interest"[50]. Unambiguous, long-term tax relief for ABS investments will align the regulatory framework with global practices[51] .	STA and MOF to formally announce the extension of the CIT/VAT tax exemption, specifying the duration (e.g., 5–10 years), with a clear transitional period. Issue explicit guidance confirming the inclusion of all ABS tranches (including senior and subordinated tranches) in the CIBM and Exchange Market under the "bond interest income" tax exemption.

[48] Announcement [2020] No.7 by PBOC and CSRC allows investors in the CIBM to invest in the Exchange Market (and *vice versa*) under a two-tier custody and clearing mechanism between the infrastructures of the two markets (the **Mutual Connect Mechanism**)

[49] According to Circular [2018] No. 108 and Circular [2021] No. 34 of the STA and MOF (collectively, **Circular 108/34**), foreign institutions are temporarily exempted (until 31 December 2025) from corporate income tax (**CIT**) and value-added tax (**VAT**) on bond interest income derived from Mainland bond market investments.

[50] Circular 108/34 does not explicitly define whether returns on ABS qualify as "bond interest".

[51] In developed markets (e.g., the U.S., EU), securitisation SPVs are designed as tax-neutral passthrough entities to avoid double taxation. Applying CIT/VAT to ABS would: (i) undermine the economic rationale of securitisation; (ii) deter cross-border investment, as global funds prioritise jurisdictions with tax certainty and alignment with international standards; (iii) contradict Mainland policy goals of opening capital markets and promoting ABS as a tool for financial innovation. By addressing these points, regulators can mitigate investor concerns and foster a stable environment for ABS market growth.

2. Ancillary Actions

The regulatory issues set out below will require clarification and should be completed as soon as possible following the launch of the Pilot Programme.

Foreign Debt Administration

Authority	Foreign Debt Administration	Action Required
NDRC	Exempt Bond Connect transactions from foreign debt registration with the National Development and Reform Commission (**NDRC**)[52].	Issue written notice/announcement confirming that Onshore Issuers selling bonds/ABS to offshore investors (including HK SPVs) via Bond Connect do not fall within the scope of "indirect borrowing from overseas by domestic enterprises" and thus do not require foreign debt registration with the NDRC.

Information Disclosure Methods for Credit Asset Securitisation (CAS)

Authority	CAS Disclosure	Action Required
PBOC	Permit non-public disclosure for CAS issuance in relation to private placements.	Issue clarification/guidance on non-public disclosure for CAS offerings to align with business asset securitisations under the CIBM and the Exchange Market[53].

[52] NDRC: *Administrative Measures for the Review and Registration of Medium- and Long-Term Foreign Debt of Enterprises* (the **Measures**). Article 33 of the Measures applies to "indirect borrowing from overseas by domestic enterprises" i.e., borrowing (under a loan or by bond issuance) by an enterprise registered outside China from an enterprise whose main business activities are conducted within the territory of China (based on its equity, assets, income or other similar interests).

[53] Non-public disclosure to specific investors is permitted by NAFMII for business asset securitisation in the CIBM if the notes are privately placed. All notes issued in the Exchange Market are currently (due to constraints in laws) privately placed and the information disclosure is non-public.

ANNEX C
PROPOSED REGULATORY ACTIONS: HONG KONG

1. Essential Actions

Tax Neutrality

The Hong Kong tax regime does not currently support the notion of "tax neutrality" for SPVs in structured finance transactions. This is why most Hong Kong securitisations are issued through offshore SPVs. We explain below why this tax treatment is important and set out our proposed changes to the Hong Kong tax regime to support the SFGC.

- *The Importance of Tax Neutrality for SPVs*: Securitisation and repackaging SPVs are intended to be tax-neutral, acting solely as pass-through entities that pool and channel cash flows to investors without incurring incremental liabilities such as taxes. This tax neutrality is essential to ensure that the underlying economics of the structured finance transaction are not distorted and that investors have certainty regarding the treatment of revenue streams. As a result, jurisdictions that offer a clear and predictable tax-neutral regime, such as the Cayman Islands, have become the preferred locations for establishing SPVs.

Jurisdiction	Tax Treatment of SPVs
Cayman Islands, BVI	No corporate income tax payable by SPVs
Singapore	Full exemption from corporate income tax for ASPVs (approved special purpose vehicles)[54]
UK, Ireland	Taxed only on a small, retained amount (e.g., USD1,000 per annum)
South Korea	Pass-through taxation if 90%+ of income is distributed or otherwise, corporate tax applies
Hong Kong	Subject to profits tax on full amount of interest received (gross basis)

- *Proposed Regulatory Change in Hong Kong*: Hong Kong companies, including HK SPVs, are currently subject to profits tax under Part 3 of the Inland Revenue Ordinance (Cap. 112) (the **IRO**) on the profits during a particular accounting period (section 14) and are only permitted to deduct certain amounts from those profits (section 16).

  The "profits" under section 14 which would be applicable to an HK SPV are likely to be the full amount of interest received on the Underlying Assets. These amounts may not be deductible under section 16 of the IRO, which means an HK SPV might be liable to pay tax on those amounts.

We recommend that the Inland Revenue Department of Hong Kong agree on one of the following two options for profits tax for HK SPVs:

[54] In Singapore, the ASPV regime was introduced by the MAS to support the development of Singapore as a structured finance centre in Asia. MAS grants a suite of tax concessions to an ASPV engaged in asset securitisation transactions, including a tax exemption on income derived by an ASPV from asset securitisation transactions.

Options	Policy Recommendation	Rationale
Option 1	Exempt HK SPVs established under SFGC from profits tax	• Ensures tax neutrality • Aligns with international practice • Makes HK competitive for SPV establishment • Provides certainty and predictability for market participants
Option 2	Introduce a regime to tax only a nominal retained profit for SPVs (similar to UK/Ireland model)	

❖ *Economic Rationale for Tax Exemption*: The rationale for exempting SPVs from taxation is not unique to traditional "low tax" jurisdictions. Many countries that are otherwise not considered tax havens have introduced specific exemptions for securitisation vehicles, such as Singapore. This policy choice is driven by the recognition that attracting SPVs generates significant ancillary economic benefits: (i) increased demand for legal, accounting, administrative and financial services, (ii) increased activity in related sectors such as stock exchange listings, clearing and settlement and ongoing transaction management and (iii) annual revenue from fees associated with the incorporation, registration and ongoing maintenance of SPVs.

2. Ancillary Actions

The following legal constraints to the growth of securitisation in Hong Kong should be removed in due course in order to create an SPV regime in Hong Kong and support the growth of SFGC. In due course, if underlying assets are originated in Hong Kong for the purposes of securitisation, the removal of the following legal constraints will be essential for the development of a local securitisation market in Hong Kong.

Money Lenders Ordinance

In order for an HK SPV to fund the origination of new loans, or even to enforce loans in a default situation, the HK SPV may be construed as making "loans" in Hong Kong and be required to comply with the licensing requirements for "money lenders" under the Money Lenders Ordinance (Cap. 163) (the **MLO**). It is a criminal offence under section 29(1) of the MLO to engage in money lending activities without a licence unless an exemption applies. None of the exemptions in Schedule 1 to the MLO are designed to exempt securitisation and repackaging SPVs.

	Policy Recommendation	Rationale
MLO	Exempt HK SPVs established under SFGC from the licensing regime under the MLO if the SPV appoints an authorised institution or licensed money lender in Hong Kong to act as a "servicer" and administer the Underlying Assets.	Aligns with international practice Makes HK competitive for SPV establishment

Trust Company Licensing

Express trusts, in particular, bare trusts, are a common feature of structured finance transactions in jurisdictions like Singapore, the UK and Australia. Trusts are flexible tools that can help achieve the objectives of the parties to a transaction. A securitisation or repackaging SPV will generally need to create a trust over its assets for the benefit of investors.

Under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (**AMLO**), any person who acts as trustee of an express trust by way of business must have a trust or company service licence from the Companies Registry in order to reduce the risk of

money laundering. An HK SPV which grants a trust of the assets it has acquired may fall within this definition and require a licence, which would be difficult to obtain as it is merely creating the trust as part of the structure of the transaction, rather than as a core business.

In common law jurisdictions like Hong Kong, regulators have concluded that a balance should be found between the policy objectives and day-to-day commercial activity, particularly where the use of trust is merely incidental or ancillary to the principal real commercial activity being carried on. In Singapore, these types of trusts are excluded from similar regulations[55]. In the UK, trusts which are incidental to the principal purpose of a transaction and simply enable or facilitate the transaction for genuine commercial reasons, or for enforcing rights relating to such a transaction, are exempted[56].

	Policy Recommendation	**Rationale**
AMLO	Exempt HK SPVs established under Structured Finance Global Connect from the scope of the trustee licensing requirement in the AMLO.	Aligns with international practice for common law trusts Enables typical structuring required by offshore investors

Securities and Futures Ordinance

Securities and Futures Ordinance (Cap. 571) (**SFO**) defines "collective investment scheme" (**CIS**) broadly, and it is likely that many securitisation and repackaging SPVs would fall within the scope of this definition. CISs are subject to several regulatory requirements relating to their marketing and operation, with which it may be difficult or impossible for a securitisation or repackaging SPV to comply. There are limited exemptions to the CIS regulation which would apply to securitisation or repackaging SPVs in Hong Kong, and the most common exemption is the offer of CIS to professional investors only.

Securitisation and repackaging SPVs raise funds by issuing notes or borrowing loans. Each of these methods of raising funds is already regulated in Hong Kong. Provided that a securitisation or repackaging SPV complies with the applicable regulations around issuing notes and/or borrowing loans, then investors will be adequately protected.

	Policy Recommendation	**Rationale**
SFO	Exempt HK SPVs established under Structured Finance Global Connect from the scope of CIS in the SFO.	Aligns with international practice

Segregation of Assets On-Balance Sheet

In order for a securitisation market to scale up, it is important to ensure that multiple, ring-fenced transactions can be structured through a single special purpose vehicle. This is generally achieved by contractual agreement among parties, i.e., certain assets on the SPV's balance sheet are contractually ring-fenced to support a specific series of Offshore ABS. In some jurisdictions such as the Cayman Islands, certain vehicles can ring-fence assets on-balance sheet by law, which gives certainty to investors in particularly complex structures. It is also used in the funds industry as a convenient tool for managing multiple businesses and assets under one corporate entity. As the securitisation market grows, consideration should be given to on-balance sheet segregation of assets in Hong Kong through changes to the relevant laws.

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55 Paragraph 1(a) and 2 of the Second Schedule to the Trust Companies Act.

56 Paragraph 14 of Schedule 3A to The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

ANNEX D
MARKET DATA: ONSHORE SECURITISATION MARKET

1. Issuance Volumes

From 2022-2024, approximately RMB2 trillion of asset-backed securities were issued annually on the CIBM and Exchange Market. As set out in the table below, ABSP issuance volumes on the Exchange Market exceeded total CIBM issuance volumes by more than 50%. CAS issuance volumes have decreased significantly since 2021 as mortgage loans and consumer loans were adversely affected by regulatory tightening of the real estate market, reduced consumer spending and competition from internet-based consumer finance companies.

Market[57]	2022	2023	2024
Exchange Market (ABSP)	(RMB bn)		
Issuance Volume	1,149.87	1,178.41	1,182.46
Trading Volume	762.76	774.52	693.53
Outstanding Balance	2,030.16	1,998.16	1,997.60
CIBM (CAS)			
Issuance Volume	356.73	348.52	270.38
Trading Volume	619.34	222.30	125.12
Outstanding Balance	2,427.28	1,802.63	1,152.33
CIBM (ABN)			
Issuance Volume	467.88	321.22	524.00
Trading Volume	642.60	544.26	559.15
Outstanding Balance	837.04	550.91	669.92

2. Trading Volumes

The Chinese Mainland securitisation market has long suffered from low liquidity due to multiple factors: First, the market is split between the CIBM and the Exchange Market, leading to dispersed trading and weak price discovery. Second, major investors (banks, asset managers, insurance companies) tend to hold securities until maturity rather than trade actively. Lack of diverse investor types reduces secondary market activity. In addition, the ABS products in the Exchange Market lack standardisation; complex Underlying Assets and heterogeneous deal structures make valuation difficult. Lastly, limited market-making and liquidity support mechanisms also contribute to the lack of liquidity in the secondary market. Secondary market trading volumes from 2022 to 2024 are set out in the table above.

3. Asset Classes

The table below shows the percentage share (rounded up to the nearest percentage) of issuance volume of the top 3 asset classes in the Exchange Market and CIBM between 2022 and 2024.

Year	Exchange Market	CIBM (CAS)	CIBM (ABN)
2022	Financial Leases (22%) Accounts Receivable (22%) Supply Chain Receivables (15%)	Auto Loans (62%) Corporate Loans (12%) Non-Performing Assets (9%)	Micro-credit Loans (22%) Supply Chain Receivables (18%) Financial Leases (15%)
2023	Financial Leases (25%) Accounts Receivable (22%) Supply Chain Receivables (12%)	Auto Loans (52%) MSE Loans (21%) Non-Performing Assets (13%)	Financial Leases (26%) Accounts Receivable (20%) Subsidies (17%)
2024	Financial Leases (21%) Accounts Receivable (18%) Micro-credit Loans (15%)	Auto Loans (48%) MSE Loans (24%) Non-Performing Assets (19%)	Internet Consumer Loans (27%) Accounts Receivable (16%) Micro-credit Loans (11%)

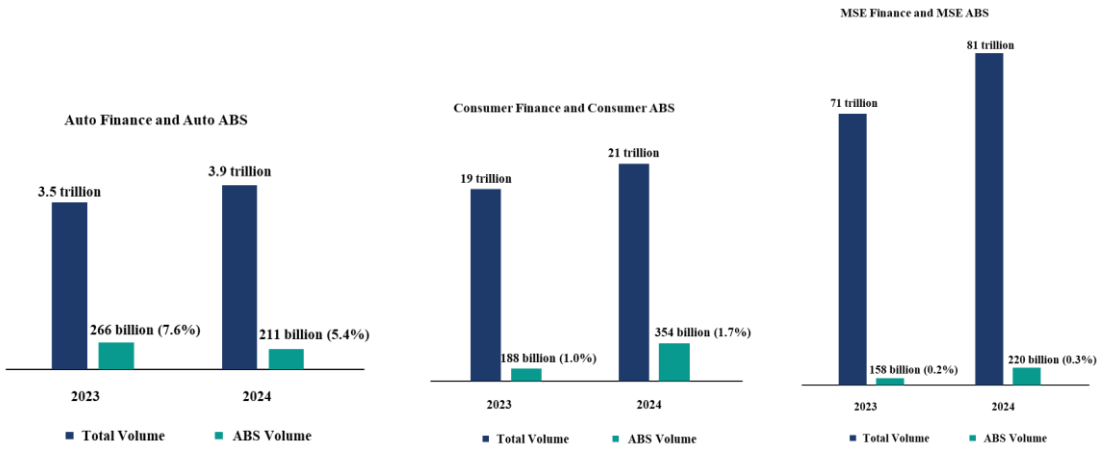
Source: *Securitisation Market Development Reports, CCDC Research Centre (2022, 2023, 2024); China Securitisation Market Report, CNABS (2022, 2023, 2024)*

[57] Source: Securitisation Market Development Reports, CCDC Research Centre (2022, 2023, 2024) and China Securitisation Market Reports, CNABS (2022, 2023 and 2024)

The scope for securitisation issuance volumes to increase in certain asset classes is evident when viewed in the context of the scale of the overall market. China Retail ABS in the CIBM or Exchange Market, where the Underlying Assets are granular, diversified and standardised (e.g., auto loans, consumer credit and micro and small-enterprise (**MSE**) financing), may receive AAA international ratings from Moody's/Fitch/S&P if their securitisation aligns with international standards. Such ABS products are well-suited and have huge potential for SFGC's global distribution. In 2024, the asset-backed securitisation issuance volumes for auto loans, consumer finance and MSE finance were not greater than 6% of the total size of the respective credit markets (see Figure 1 below).

Providing access to offshore investors to the onshore securitisation market will present opportunities for growth in each of these asset classes, some of which are predicted to grow by 16% (compound annual growth rate) in 2025/2026.

Figure 1: Comparison of ABS Volumes to Total Market Volumes



Sources: *National Bureau of Statistics of China, National Financial Regulatory Administration (China), China Automobile Dealers Association, Roland Berger, i-research, CNABS, WeShare*

4. Coupon Rates and Yield

Coupon rates on domestic asset-backed securities have been trending at a comparatively low rate in recent years as a result of various factors, including generally low RMB interest rates, strong demand from domestic investors (with limited alternative investment options), strong regulatory support for the product and certain credit enhancement features (such as full guarantees) that are not typical offshore. The average interest rates for domestically rated senior securities and mezzanine securities issued on the Exchange Market and CIBM from 2022 to 2024 are set out in the following table:

Market[58]	2022	2023	2024
Exchange Market (ABSP)			
Senior Coupon Rate	2.88	3.34	2.60
Mezzanine Coupon Rate	3.45	3.79	3.21
CIBM (CAS)			
Senior Coupon Rate	2.51	2.61	2.24
Mezzanine Coupon Rate	2.55	3.79	2.48
CIBM (ABN)			
Senior Coupon Rate	3.07	3.11	2.41
Mezzanine Coupon Rate	4.05	3.74	2.69

From an offshore investor's perspective, low domestic coupon rates are not necessarily a

[58] Source: Securitisation Market Development Reports, CCDC Research Centre (2022, 2023, 2024)

concern. As with all cross-border markets, the cross-currency swap market will have an impact on actual yields available to offshore investors. For example, on a repackaging of domestic bonds into offshore securities, offshore investors will have the opportunity to pick up additional yield once the domestic coupon has been swapped into another currency (e.g. USD or Euro). At current rates, the yield pick-up could exceed 100 basis points upon conversion into USD as a result of high USD inflation rates.

From an Onshore Issuer perspective, advantageous swap rates will allow them to convert foreign currency proceeds back to RMB at better rates. They will balance the benefit of issuing lower volumes locally at lower yields with issuing higher volumes offshore with higher yields, but in a favourable swap market.

As the market matures and onshore issuers look to issue securities offshore instead of repackaging local issuances, yields will diverge from the local market because offshore investors assess credit risk and enhancement packages differently. Local investors typically understand local asset performance and originator risk better. Offshore investors may not want an originator guarantee but could require more collateral or liquidity support. The demand for notes with varying ratings (tranches) will also influence yields. Issuers can manage higher offshore interest rates by issuing in currencies with favourable FX rates. As the market develops, issuers will pivot between local and offshore markets to take advantage of interest rates and foreign exchange opportunities.

Yield is not the only factor driving international appetite for Chinese Mainland asset-backed securitisations. Diversification of global investment portfolios helps large investors minimise their global portfolio risk and improve risk-adjusted returns, particularly as the Chinese Mainland's economic cycle and credit environment may differ from those of other major markets, providing cyclical stability to portfolios. Additionally, senior tranches of securitised bonds can achieve an international AAA rating with relatively low capital charge risk weighting, which makes them appealing to offshore investors.

ANNEX E
STRUCTURED FINANCE ECOSYSTEM

The success of the SFGC will depend on a robust network of participants, institutions, infrastructure, regulations and processes that collectively support the functioning of a vibrant structured finance market.

Hong Kong is fortunate to already possess many of the foundational elements of this network. By leveraging the depth and experiences of Chinese Mainland securitisation markets, Hong Kong is well positioned to build on its unique strengths in financial expertise, legal infrastructure and its cross-boundary connectivity with the GBA and the Chinese Mainland to foster a cohesive and dynamic structured finance ecosystem.

However, as we explore below, for SFGC to achieve its full potential, some thoughtful steps need to be taken to develop certain processes that are a fundamental element of the ecosystem.

1. Key Participants

This element of the ecosystem is already well covered in Hong Kong. When the Asian cross-border securitisation market started in the mid-1990s, finance professionals and lawyers based in Hong Kong arranged, structured and documented those first transactions across the region.

Today, Hong Kong-based bankers, lawyers, investors, trustees and rating agents continue to dominate the cross-border structured finance space across Asia, closely followed by similar professionals in Singapore.

Key Participant	Role/Description
Originators	Companies or FIs (such as banks or mortgage lenders) that create and sell pools of assets (like loans or receivables) to be securitised.
Special Purpose Vehicles (SPVs)	Legal entities created to purchase the asset pools from originators and issue securities to investors.
Investors	Entities such as pension funds, insurance companies, mutual funds and banks that purchase the securities issued by SPVs.
Credit Rating Agencies	Organisations that assess and rate the credit risk of the securities issued.
Servicers	Entities responsible for managing the Underlying Assets, collecting payments and distributing proceeds to investors.
Trustees & Custodians	Parties that hold the assets on behalf of investors and ensure compliance with the terms of the securitisation.

Once the steps outlined elsewhere in this Proposal relating to the structure of Hong Kong-incorporated SPVs are complete, our ecosystem of key participants is fully formed and ready to embrace SFGC.

Continued investment by universities, banks, law firms and other institutions in educating future talent on Hong Kong's financial infrastructure, regulation and systems, including Bond Connect and SFGC, will be a critical element in ensuring we have a steady stream of qualified debt capital markets experts in the market. Hong Kong has an advantage over similar Asian jurisdictions in that it has a deeper pool of educated talent to draw on locally as well as from the Chinese Mainland and international markets.

2. Infrastructure and Market Institutions

As a common law jurisdiction, Hong Kong does not need to introduce any specific laws to permit the development of a structured finance market. The existing framework of laws and regulations in Hong Kong is fully able to support the SFGC. We have noted elsewhere in this

Proposal that certain minor changes should be considered to ensure that the HK SPV structure is taxed and regulated in the way that the international capital markets would expect.

Infrastructure/Institution	Role/Description
Legal and Regulatory Framework	Laws, regulations and guidelines that govern securitisation and structured finance transactions, investor protection, disclosure requirements and bankruptcy procedures.
Market Infrastructure	Systems and platforms for listing, trading, clearing and settlement of structured products.
Accounting and Taxation Rules	Standards and policies that affect how structured finance transactions are reported and taxed.
Technology Platforms	Digital tools and systems that facilitate the origination, servicing and monitoring of securitised assets.

Hong Kong's market infrastructure is also sophisticated, although certain strategic investments will need to be made to ensure that the current institutional capability is able to manage the predicted increase in debt issuance which will flow from SFGC. While Hong Kong has historically been a highly developed equity capital market, its infrastructure capability to list, trade, clear and settle debt is advanced and well developed (as evidenced by Bond Connect) and can easily be grown and adapted to meet growing debt trading demand.

As we have outlined elsewhere in this Proposal, more regulatory oversight will be required to ensure the SFGC develops as intended, and support for that will come from our existing deep bench of structured finance specialists and lawmakers in the Chinese Mainland and Hong Kong. We will also be able to build on the successful models of Stock Connect and Bond Connect, integrating with the HKEX and the CMU, to facilitate seamless cross-boundary trading, clearing and settlement. The development of CMU in Hong Kong into an Asian ICSD will further enhance Hong Kong's position as a global gateway to debt capital market investment and trading. See *Section X: Hong Kong: Asia's Bond Hub* for further discussion of the strategic importance of an Asian ICSD.

One exciting opportunity for infrastructure development lies in the Web3 digital technology space. Given that Hong Kong will need to consider how best to deploy resources towards fine-tuning current market infrastructure, it is an excellent opportunity to fully digitise the processes and utilise distributed ledger technology for the issuances of asset-backed securities.

3. Processes and Interactions

All mature securitisation and structured markets in Europe and the US have the processes and interactions set out in the table in abundance. These elements are the "secret sauce" which create investor demand.

Process/Interaction	Role/Description
Asset Pooling and Structuring	The process of selecting, bundling, and structuring assets into securities with different risk and return profiles (tranches).
Issuance and Distribution	The creation and sale of securities to investors.
Credit Enhancement	Techniques such as over-collateralisation, third-party guarantees or insurance to improve the credit quality of the securities.
Ongoing Reporting and Monitoring	Regular disclosure of performance data and compliance with regulatory requirements.
Secondary Market Activity	The buying and selling of securitised and structured products after their initial issuance, which adds liquidity to the market.

As the SFGC market matures, these elements of the structured finance "ecosystem" will start to develop and grow. Asian structured finance has traditionally lagged behind Europe and the US in many of these elements. This is where the golden opportunity arises

for Hong Kong, that will lead to even broader benefits for the Chinese Mainland and Hong Kong markets.

The following processes will be particularly important:

- ***Asset Pooling and Structuring***

  Tranching securities means structuring different classes of risk for investors. Senior tranches will have the lowest risk profile (and the highest potential ratings), whereas mezzanine and junior classes will have higher risk profiles but will enjoy higher returns.

  In Europe and the US, tranching structured finance securities is the norm, but it is relatively uncommon for Asian-sourced structures to have mezzanine tranches. This points to a lack of development of investor appetite for anything other than highly-rated senior notes. Volumes of issuance out of the more active cross-border markets (such as Korea) are focused on senior and AAA-rated investor demand. Lower tranches of asset-backed securities tend to be popular among investment funds.

  Therefore, creating an environment in which larger portfolios of Chinese assets can be issued and tranched into different classes of securities, to be acquired by investors with a range of risk appetites, is the way to develop issuance volumes. The development of robust secondary market trading (as discussed below) is also crucial to support this sort of growth.

- ***Credit Enhancement***

  Certain types of credit enhancement (such as liquidity facilities from third-party lenders) can help attract specific investors or support innovative deals where the credit rating might not be as high as the market demands. For example, it is common in some markets for development banks to provide credit facilities to back higher-risk, strategically important securities. Guarantees by originators or connected parties are not acceptable forms of credit enhancement in the international structured finance markets.

- ***Ongoing Reporting and Monitoring***

  Robust reporting is key to investor confidence in structured securities. Capital markets investors rely on regular performance reports—monthly, quarterly and annual—to assess Underlying Assets. The EU sets high standards for reporting content, and Asian structured finance reporting generally matches this quality. SFGC and the relevant institutions (such as SEHK) should maintain these strong reporting practices to ensure transparency and foster trust among investors.

- ***External Influences***

  To minimise the impact of turbulent and challenging macroeconomic conditions on the success of the SFGC, it will be important to aim towards attracting a broad range of investors and issuers to the market to ensure that activity remains high. Regulatory and policy support from the Chinese Mainland and Hong Kong regulators and policymakers can create initiatives that support the development of the market. For example, in Singapore, the MAS offers rebates for asset-backed securities issued through Singapore SPVs and listed on the Singapore Stock Exchange. This incentive can be very attractive and move the needle between choosing one jurisdiction for listing/issuance over another.

❖ ***Secondary Market Activity***

A vibrant secondary trading market is essential for a dynamic investment ecosystem. Without it, investors are limited to "buy and hold" strategies, which deters those seeking flexibility or higher returns.

A secondary market also provides a crucial exit route for investors to sell their positions. To succeed, it must be well-regulated, transparent and inspire confidence through robust disclosure and reporting standards.

In Hong Kong, the SEHK, CMU and emerging distributed ledger technology will underpin this market. A secondary market thrives when it attracts a wide range of investors, including both institutional and retail participants. The benefits of attracting a broad range of investors are set out in the table.

Secondary Market Benefits	Description
Enhanced Liquidity	A broad spectrum of investors increases the volume and frequency of trades, making it easier for participants to enter and exit positions at prevailing market prices.
Reduced Volatility	Diversity in investment strategies, time horizons and risk appetites help to balance buying and selling pressures, which can reduce price swings and promote market stability.
Robust Price Discovery	Different types of investors bring varied perspectives and information to the market, contributing to more accurate and efficient pricing of securities.
Market Resilience	A market with many types of investors is less susceptible to manipulation or the outsized influence of any single participant, making it more resilient to shocks.

GLOSSARY OF TERMS

14th Five-Year Plan	Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035
ABN	Asset-backed notes issued by an NFE on the CIBM which are backed by receivables, small-loans, financial leases and other types of assets
ABS	Asset-backed securities; in Chinese Mainland bond market, it includes ABN, and the securities issued in a CAS or ABSP
ABSP	Asset-backed special plan established by a licensed securities company or other financial institution accepted by the CSRC for the purpose of issuance of asset-backed securities in the Exchange Market
AFME	Association for Financial Markets in Europe
AMLO	Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615)
Announcement	A public announcement of the PBOC and the HKMA on the launch of SFGC
APSA	The Asia-Pacific Structured Finance Association
APSA Endorsement Criteria	APSA's recommendations for initial transaction thresholds and ongoing compliance thresholds under the Enhanced Governance Framework
Asian ICSD	Asian international central securities depository
ASPV	Approved special purpose vehicle in Singapore
Bond Connect	The mutual bond market access scheme between the Chinese Mainland and Hong Kong
Bond Connect Northbound	Bond Connect's "Northbound Trading Link" that enables Eligible Foreign Investors to directly trade in Eligible Instruments via one or more electronic trading platforms that are recognised by the PBOC and admitted by Bond Connect Company Limited
BRI	The Chinese Mainland's Belt and Road Initiative
BVI	British Virgin Islands
CAS or **Credit Asset Securitisation**	The securitisation of certain credit assets by licensed FIs (bank or non-bank) on the CIBM
Cat Bonds	Catastrophe bonds
Cayman	The Cayman Islands
CCRE	China Credit Assets Registry & Exchange Co., Ltd.
CGB	Chinese government bonds
Chinese Mainland	The People's Republic of China (excluding HKSAR, Macao SAR and Taiwan Region)
CIBM	China Interbank Bond Market
CIBM Direct or **CIBM Direct Scheme**	An onshore investment channel allowing offshore investors to invest directly in CIBM
Circular 108/34	Circular [2018] No. 108 and Circular [2021] No. 34 of the STA and MOF
CIS	Collective investment scheme
CIT	Corporate income tax

Clearstream	Clearstream Banking SA
CMU	Central Moneymarkets Unit of the HKMA
CSD	Central Securities Depository
CSDC	China Securities Depository and Clearing Corporation Limited
CSRC	China Securities Regulatory Commission
DLT	Distributed ledger technology
Eligible Foreign Investor	Eligible investors under Bond Connect Northbound
Eligible Instrument	The range of accessible investment assets (including bonds and securitisation products) available for investment by Eligible Foreign Investors under Bond Connect Northbound
Enhanced Governance Framework	Proposed governance framework for the HK SPV under the Pilot Programme
EU	European Union
Euroclear	Euroclear Bank SA/NV
EV	Electric vehicle
Exchange Market	Domestic exchange market, including Shanghai Stock Exchange (**SSE**) and Shenzhen Stock Exchange (**SZSE**)
FI	Financial institution
FSDC	Financial Services Development Council
GBA	Greater Bay Area
GDP	Gross Domestic Product
HK	Hong Kong
HKD	Hong Kong Dollars
HKEX	Hong Kong Exchanges and Clearing Limited
HKMA	The Hong Kong Monetary Authority
HKMC	The Hong Kong Mortgage Corporation Limited
HKSAR or **Hong Kong**	The Hong Kong Special Administrative Region of The People's Republic of China
HKSAR Government	The Government of the Hong Kong Special Administrative Region
HK SPV	Accredited orphan special purpose vehicles incorporated in Hong Kong
ICSD	International central securities depositories
ILBS	Infrastructure loan-backed securities
ILS	Insurance-linked securities
Industry Coordinator	APSA, as the coordinating body among the structured finance market professionals and regulators in the Chinese Mainland and Hong Kong for SFGC, aimed at facilitating best practices of the market and advocating for the overall interests of the industry
IOMed	International Organisation for Mediation in Hong Kong
IP	Intellectual property
IRO	Inland Revenue Ordinance (Cap. 112)
MAS	Monetary Authority of Singapore
MBS	Mortgage-backed securities
Measures	Administrative Measures for the Review and Registration of Medium- and Long-Term Foreign Debt of Enterprises
MLO	Money Lenders Ordinance (Cap. 163)

MOF	Ministry of Finance of the People's Republic of China
MSE	Micro & small enterprise
Mutual Connect Mechanism	The mutual connect mechanism between the CIBM and the Exchange Market announced by PBOC and CSRC under Announcement [2020] No.7
NAFMII	National Association of Financial Market Institutional Investors
NDRC	National Development and Reform Commission
NFE	Non-financial enterprise
NFRA	National Financial Regulatory Administration
Offshore ABS	Asset-backed securities issued by an HK SPV which are collateralised by Onshore Bonds
Onshore Bonds	Eligible Instruments acquired by an HK SPV under SFGC through Bond Connect Northbound
Onshore Issuer	An entity or vehicle that is either (a) a Chinese Mainland enterprise, FI, local government entity or sovereign entity which is issuing bonds into the CIBM or Exchange Market or (b) an SPT or an ABSP
Onshore Originator	A Chinese Mainland enterprise or financial institution that transfers its assets to an SPT or ABSP for the purposes of a securitisation transaction
PBOC	People's Bank of China
Pilot Programme	The proposal by APSA for the initial pilot transactions
Project Ensemble Sandbox	A project launched by the HKMA for the facilitation of interbank settlement using experimental tokenised money
QDII	Qualified Domestic Institutional Investor scheme
QFI or QFI Scheme	Qualified Foreign Investor Scheme, including Qualified Foreign Institutional Investor (**QFII**) scheme and RMB Qualified Foreign Institutional Investor (**RQFII**) scheme
RMB	Renminbi
SEHK	The Stock Exchange of Hong Kong Limited
SFC	The Securities and Futures Commission
SFGC	Structured Finance Global Connect
SFO	Securities and Futures Ordinance (Cap. 571)
SMEs	Small and medium-sized enterprises
SPT	Special purpose trust established by a licensed trust company for the issuance of asset-backed securities in the CIBM
SPV	Orphan special purpose vehicle
STA	State Taxation Administration of the People's Republic of China
Underlying Assets	The pool of assets transferred by an Onshore Originator in a securitisation transaction to an SPT or ABSP
US	United States of America
USD	US dollars
VAT	Value-added tax

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Special Advisors

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This Proposal was conceived, researched and drafted by the members of the APSA Working Group listed below. We are grateful to the many advisors, contributors and industry participants who provided insights and comments during the process. Their input was advisory in nature; all analysis, conclusions and any errors remain the sole responsibility of the APSA Working Group:

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Industry Consultation Panel

We are grateful to the **17** distinguished members of our Industry Consultation Panel for their expert review of this Proposal. The panel comprised leading international organisations from across the structured finance sector, including banks, securities firms, international rating agencies, reinsurers, professional service providers and investor groups. Their industry expertise and practical insights have been invaluable in refining the Proposal's recommendations and ensuring its alignment with current market practices.

Whilst not all panel members are able to be named due to internal compliance requirements, we extend our sincere appreciation to all members of the Industry Consultation Panel. The organisations listed below have kindly permitted disclosure of their participation:

中国银行 BANK OF CHINA	Bank of China Limited
FitchRatings	Fitch Ratings
HSBC	The Hongkong and Shanghai Banking Corporation Limited ("HSBC")
ICBC 中国工商银行（亚洲）	Industrial and Commercial Bank of China (Asia) Limited
VISTRA	Vistra