

Hong Kong (SAR) Tax Alert

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The proposed stamp duty exemption for certain transactions related to dual-counter stock

Summary



A tax bill was recently gazetted to introduce a stamp duty exemption for certain transactions related to dual-counter stock made by market makers conducting market making and liquidity providing activities.

It is expected that the Hong Kong Exchanges and Clearing Limited (HKEX) and the Inland Revenue Department (IRD) will work together on the detailed administrative rules and arrangements on this proposed stamp duty exemption.

In the 2022 Policy Address delivered in October this year, the HKSAR Government proposed to waive the stamp duty payable for certain transactions relating to dual-counter stock¹ made by market makers.

The Stamp Duty (Amendment) Bill 2022² (the Bill) was gazetted on 18 November 2022 to implement the above proposed stamp duty exemption. The Bill has been introduced into the Legislative Council for scrutiny on 30 November 2022. The Bill provides a stamp duty exemption for the following transactions:

- transactions relating to dual-counter stock made by the market makers conducting market making activities; and
- transactions relating to dual-counter stock made by market makers conducting liquidity providing activities.

Dual-counter stock is defined in the new Schedule 11 of the Stamp Duty Ordinance as a Hong Kong stock in two tranches denominated in different currencies both of which may be traded in two counters, which are designated by a recognized exchange company as the primary counter and the secondary counter of the stock.

For descriptions of the market making activities and liquidity providing activities, please refer to page 4 of the Legislative Council brief in this [link](#).

Similar to the existing market making mechanisms for exchange-traded funds (ETFs) and derivatives, the HKEX will formulate the detailed administrative rules and devise the administrative arrangements with the IRD for the proposed stamp duty exemption and set up a monitoring mechanism (including regular review of the trading activities and the record keeping and reporting requirements) to prevent any abuse of the proposed stamp duty exemption.

¹ The "Dual-Tranche, Dual-Counter" model supports simultaneous issuance of both Hong Kong dollar and RMB securities by the same issuer, trading under two separate counters in the secondary market, and transfer of shares between the two counters.

² The Bill can be accessed via this link: <https://www.legco.gov.hk/yr2022/english/bills/b202211181.pdf>

KPMG observations

We welcome the implementation of the above stamp duty exemption which would lower the transaction costs of market makers and promote the liquidity of RMB-denominated stocks. This would in turn facilitate the setting up of RMB-denominated stock counters in Hong Kong, further enhance the capital market development and strengthen Hong Kong's role as a global offshore RMB business hub.

Exchange participants planning to register as market makers and engage in dual-counter stock transactions should monitor the above development and assess whether they would be eligible to the proposed stamp duty exemption.

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