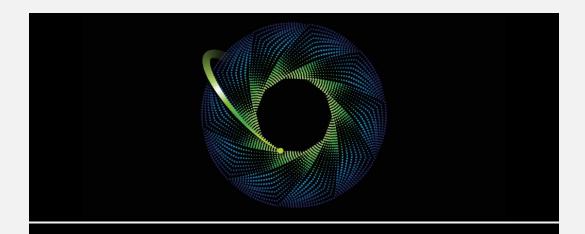
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Hong Kong Tax Newsflash

Passage of stamp duty exemption for certain dual-counter stock transactions

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The *Stamp Duty (Amendment) Bill 2022* (Bill) was passed by the Legislative Council yesterday. The Bill seeks to give effect to the proposal in the 2022-2023 Budget to waive the stamp duty payable on certain transactions relating to dual-counter stock made by market makers.

Dual-counter stock

It refers to a Hong Kong stock in two tranches denominated in different currencies, both of which may be traded in two counters, which would be designated by the Hong Kong Exchanges and Clearing Limited (HKEX) as the primary counter and the secondary counter of the stock.

Market maker

It means a person approved by or registered with the HKEX for performing market making or liquidity providing activities in respect of the stock.

Qualifying transactions

The Bill provides stamp duty exemption for transactions relating to the following activities of the dual-counter stock market makers:

- Market making activities: activities to continuously provide bid and ask quotes within a specified range of the latest market price in the Renminbi (RMB) counter for matching investors' orders.
- Liquidity providing activities: mainly for arbitrage purposes, for example, if one finds that having discounted the currency exchange rate, the market price of Hong Kong dollar (HKD) stock in RMB is higher than that of RMB stock, a market maker can conduct arbitrage transactions to sell HKD shares and buy RMB shares to reap a margin from the price differences.

Effective date

The above stamp duty exemption will come into operation on the gazettal date of the ordinance (i.e. 27 January 2023).

Our comments

We welcome the captioned stamp duty exemption, which can promote the issuance and trading of RMB securities. This will reduce the transaction costs of the relevant stock trading by dual-counter market makers and create favourable conditions for them to carry out the qualifying transactions. Hopefully as a result, the liquidity and price efficiency of RMB counters of Hong Kong stocks can be improved. We believe this can strengthen Hong Kong's status as the world's offshore RMB hub.

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