

International Financial Centre

Overview

A leading international financial centre, Hong Kong has a prudent and robust financial regulatory regime commended by an International Monetary Fund Staff Mission to the HKSAR in 2018. The Linked Exchange Rate System (US dollar peg) has served Hong Kong well as the pillar of monetary and financial stability. The financial sector employs over 263,000 people (6.8% of workforce) (2018) and directly contributes 18.9% to Hong Kong's GDP (2017).

Robust Regulatory Environment

The Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Insurance Authority (IA) are three statutory bodies regulating the market.

- **HKMA**, established in 1993, is responsible for maintaining monetary and banking stability, including currency stability within the framework of the Linked Exchange Rate System, promoting integrity of the financial system, and managing the Exchange Fund
- **SFC**, set up in 1989, regulates Hong Kong's securities and futures markets. Principal responsibilities include maintaining and promoting the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry
- **IA** was established in 2015. Since mid-2017, the IA has regulated insurance companies, and plans to implement a statutory licensing regime for insurance intermediaries in the second half of 2019
- **The Financial Leaders Forum (FLF)**, established in August 2017 and chaired by the Financial Secretary, is to provide overall direction to the three independent statutory bodies to regulate the market
- Four new pieces of legislation commenced operation in 2018 to bring the regulatory regime for **combating money laundering and terrorist financing** in line with the latest international standards
- The **Financial Reporting Council (Amendment) Bill 2018** was passed by the Legislative Council (LegCo) in January 2019, which will enhance the regulatory regime for auditors of listed entities.

Provision of Services

- HKMA launched a **Faster Payment System** in September 2018, offering 24-hour real-time payment function
- HKMA has issued the first batch of **virtual bank** licences in March 2019
- **Fintech Facilitation Office** to enhance Hong Kong's fintech ecosystem
- HKMA to establish an **Academy of Finance** in around mid-2019
- The first phase of the **Open Application Programming Interface (API)** for the banking industry in Hong Kong was launched in January 2019
- HKMA **Banking Made Easy** initiative allows adoption of innovative technology, such as big data, for credit risk management.

Facilitating Financial Services

- The Hong Kong Exchanges and Clearing Limited (HKEX) introduced a new listing regime in April 2018 to enhance **Hong Kong's competitiveness as a listing platform**
- The launch of **Shanghai-Hong Kong Stock Connect** and **Shenzhen-Hong Kong Stock Connect** in 2014 and 2016 respectively, are of groundbreaking significance to mutual capital market access

between Hong Kong and the Mainland. With effect from 1 May 2018, **the daily quota of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were quadrupled**

- The **Bond Connect** scheme, launched in July 2017, further improves financial connectivity between market infrastructures in Hong Kong and the Mainland. In 2018, a number of operational enhancements to the Bond Connect were implemented
- To expand Hong Kong's fund distribution network, Hong Kong has so far reached **mutual recognition of funds** ("MRF") arrangement with **the Mainland, Switzerland, France, the United Kingdom and Luxembourg**
- In 2016, Hong Kong halved profits tax to 8.25 per cent on specified activities of qualifying **corporate treasury centres** to foster a headquarters economy by attracting more multinational and Mainland companies to centralise their corporate treasury activities in Hong Kong. In 2018, the half-rate concessions were extended to profits derived from domestic transactions.
- The **Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)**, provides for preferential trade and investment policies, encourages cross-boundary insurance and reinsurances services etc
- The development of Guangdong-Hong Kong-Macao **Greater Bay Area** would consolidate Hong Kong's role as the financial gateway connecting Mainland and global financial markets. It also seeks to facilitate flow of factors of production (including capital) in the region by enhancing the efficiency of cross-boundary financial services.

Promoting Financial Services

- A number of major **international financial services-related events** are held in Hong Kong annually, including Asian Financial Forum (AFF), International Financial Week (IFW), Belt and Road Summit etc.
- The Government continues to expand Hong Kong's network of **Comprehensive Avoidance of Double Taxation Agreements (CDTAs)**. Hong Kong has so far signed 40 CDTAs
- The **Financial Services Development Council (FSDC)** was established in 2013 as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of Hong Kong's financial services industry
- The 2019-20 Budget set aside \$400 million seed capital for the **Financial Reporting Council (FRC)** to migrate to a new auditor regulatory regime. FRC is a statutory body established in 2006 under the Financial Reporting Council Ordinance.

Premier offshore RMB business hub

- **About 76 per cent of the world's Renminbi (RMB) payment transactions** are processed via Hong Kong (February 2019)
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement** system reached over RMB 1,000 billion in 2018
- **World's largest offshore RMB business hub** (total deposits including certificates of deposit RMB639.8 billion at end-January 2019).

Stock market

- **World's 5th largest and Asia's 3rd largest stock market** by market capitalisation at end-March 2019 (US\$4,308 billion)
- **World's No.1 for Initial Public Offering (IPO) funds raised** in 2018 (US\$36.6 billion). HK ranked No.1 for IPO funds raised six times since 2009
- **World No.1 environment for IPO and M&A (mergers and acquisitions) activity** (Global Transactions Forecast 2019 compiled by Baker McKenzie and Oxford Economics).

Asset and wealth management

- As the **premier fund management hub** in Asia, Hong Kong's asset and wealth management business at end-2017 amounted to HK\$24.3 trillion (approx. US\$3.1 trillion)
- Apart from unit trust, a fund can be set up in a **new corporate fund structure**, i.e. open-ended fund companies ("OFCs"), in Hong Kong since 30 July 2018
- Public and private funds, irrespective of whether they are onshore or offshore, can enjoy profits tax exemption at the fund level subject to meeting certain conditions
- The Government is looking into the introduction of a **limited partnership regime** to attract private equity funds to domicile and operate in Hong Kong.

Bond market

- **Pilot Bond Grant Scheme** launched in May 2018 to provide grant for eligible enterprises issuing bonds in Hong Kong
- **Green Bond Grant Scheme** launched in June 2018 to subsidise eligible green bond issuers in obtaining certification under the local Green Finance Certification Scheme, and **green bonds under the Government Green Bond Programme** to be issued to promote green finance
- Enhance the **qualifying debt instrument scheme** by increasing the types of qualified instruments
- Continue issuing **Silver Bonds** targeting residents aged 65 or above.

Insurance

- One of the **most open insurance markets** in the world
- **Highest concentration of insurers** in Asia (162 authorised insurers at end-March 2019)
- Total **gross premium income** of HK\$531.7 billion (approx. US\$68.2 billion generated in 2018 according to provisional statistics)
- Promote **marine insurance** through proposed 50% profits tax concessions for marine insurance and the underwriting of specialty risks
- The **International Union of Marine Insurance** ("IUMI") set up its first Asian chapter in Hong Kong in 2016, the first time in the organisation's 142-year history to establish a permanent presence outside of Europe.

Rankings

- **World's No. 3 global financial centre**, behind New York & London; **1st in Asia** (Z/Yen and China Development Institute: Global Financial Centres Index released in March 2019)
- **World's No.2 for financial system** (World Economic Forum's Global Competitiveness Report 2018)
- **Leading investment hub:** World No.3 for foreign direct investment (FDI) inflows and World No.5 for FDI outflows in 2017 (UNCTAD: World Investment Report 2018)
- **77 of the world's 100 top banks** operate in Hong Kong (February 2019).