

# International Financial Centre

## Overview

A leading international financial centre, Hong Kong has a prudent and robust financial regulatory regime. The Linked Exchange Rate System (US dollar peg) has served Hong Kong well as the pillar of monetary and financial stability. The financial sector employed about 269,200 people (7.4% of workforce) in 2022 and directly contributed 21.3% to Hong Kong's GDP in 2021. Amid the complex and constantly evolving international political and economic landscape, the Government and regulators monitor Hong Kong's markets to ensure financial stability.

## Robust Regulatory Environment

The Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC), the Insurance Authority (IA) and the Mandatory Provident Fund Schemes Authority (MPFA) are four statutory bodies regulating the market.

- **HKMA**, established in 1993, is responsible for maintaining monetary and banking stability. The HKMA's four key functions are: maintaining currency stability within the framework of the Linked Exchange Rate System; promoting the stability and integrity of the financial system, including the banking system; helping maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure; 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**, established in December 2015, is responsible for regulating and supervising the insurance industry to promote sustainable market development and protect policyholders. It started regulating insurance companies and insurance intermediaries in June 2017 and September 2019 respectively.
- **MPFA**, established in 1998, regulates and supervises the operation of Mandatory Provident Fund (MPF) schemes, MPF trustees and intermediaries, and occupational retirement schemes.
- Hong Kong is the first jurisdiction in the Asia-Pacific region assessed by the Financial Action Task Force (FATF) to have achieved an overall compliant result for having an anti-money laundering and counter-terrorist financing regime that is both technically compliant and effective. Hong Kong has also completed the FATF follow-up process.
- The **Accounting and Financial Reporting Council** (formerly known as the Financial Reporting Council) was established in 2006 and has become a full-fledged independent regulatory and oversight body of Hong Kong's accounting profession since October 1, 2022.
- In December 2022, the Legislative Council passed the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022, which introduces a licensing regime for Virtual Asset (VA) service providers with full-fledged anti-money laundering and investor protection measures.

## Facilitating Financial Services

- The Hong Kong Exchanges and Clearing Limited (HKEX) introduced a new listing regime in April 2018 to facilitate the listing of companies from emerging and innovative sectors, enhancing the

**competitiveness of Hong Kong's listing platform.** In January 2022, HKEX further enhanced the listing regime for overseas issuers and launched a listing regime for special purpose acquisition companies (SPACs).

- HKEX introduced the listing regime for **specialist technology companies** in March 2023. The regime has expanded the listing channel for issuers, facilitating specialist technology enterprises that have yet to meet the existing profit or revenue requirements of the Main Board to list and raise funds.
- The launch of **Shanghai-Hong Kong Stock Connect** and **Shenzhen-Hong Kong Stock Connect** in 2014 and 2016 respectively are of groundbreaking significance for the mutual capital market access between Hong Kong and the Mainland. In 2022, total trade value of Northbound and Southbound Trading of Stock Connect amounted to RMB23.3 trillion and HK\$7.2 trillion respectively.
- **Companies with weighted voting rights structures and pre-revenue/pre-profit biotechnology companies listed in Hong Kong** as well as **stocks listed on the Mainland Sci-Tech Innovation Board** meeting certain criteria can be included into the universe of **Stock Connect**. Further to the inclusion of Exchange-traded Funds (ETFs), the scope of eligible stocks under Stock Connect has been further expanded in March 2023 to cover eligible stocks of **foreign companies**.
- The Northbound Trading and the Southbound Trading under **Bond Connect**, launched in July 2017 and September 2021 respectively, further improve financial connectivity between market infrastructures in Hong Kong and the Mainland.
- In July 2022, Mainland and Hong Kong regulators jointly announced the introduction of **Swap Connect**, which would, for the first time, enable mutual access to financial derivatives products. The **Northbound Trading of Swap Connect** was officially launched on May 15, 2023.
- In September 2022, the China Securities Regulatory Commission announced that it would take forward the further expansion of mutual access between the Mainland and Hong Kong financial markets. The measures cover the study to set up a RMB securities trading counter under Southbound Trading of Stock Connect; and support for the issuance of Mainland government bond futures in Hong Kong. The Government are closely collaborating with relevant Mainland institutions to speed up the implementation of the above measures.
- **Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)** enables residents in Hong Kong, Macao and nine cities in Guangdong Province to carry out cross-boundary investment in wealth management products distributed by banks in the area.
- To expand Hong Kong's fund distribution network, Hong Kong has so far reached **mutual recognition of funds** arrangement with **the Mainland, Switzerland, France, the United Kingdom, Luxembourg, the Netherlands** and **Thailand**.
- The **Faster Payment System (FPS)** offers 24-hour real-time payment and transfer function, supporting person-to-person payments, business payments (including bill payment), account top-up, etc. As at May 2023, FPS recorded 12 million registrations.
- Eight **virtual banks** and four **virtual insurers** are authorised to operate in Hong Kong.
- In October 2022, the Government issued a policy statement on the development of VA in Hong Kong setting out the Government's stance that Hong Kong is open and inclusive towards the global community of innovators engaging in VA businesses.
- As at end-March 2023, over 1,300 registrations from third-party service providers have been recorded for using banks' **Open Application Programming Interface (Open API)**, while the IA is

conducting preliminary consultation for the Open API framework for the insurance sector, to facilitate incubation of enhanced services for users.

- The **Fintech Proof-of-Concept Subsidy Scheme** provides financial incentives for financial institutions to partner with fintech companies to conduct Proof-of-Concept projects. The 2022-23 Budget allocates HK\$10 million to launch a new round of the Scheme.
- 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 **GBA** 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.
- In respect of the governance system on government investments, it was announced in the 2022 Policy Address that a new **Hong Kong Investment Corporation Limited** would be set up to further optimise the use of fiscal reserves for promoting the development of industries and the economy.
- On June 19, 2023, the HKEX introduced the **HKD-RMB Dual Counter Model** to the secondary market for trading and settlement purposes. The Model covers securities listed in both HKD and RMB counters. All shares or units of the same securities but in different trading counters are generally of the same class, with the same holders' rights and entitlements, and fully interchangeable between counters.

### **Promoting Financial Services**

- A number of **major international financial services-related events** are held in Hong Kong annually, including Asian Financial Forum, Hong Kong Fintech Week, International Financial Week and Belt and Road Summit.
- The Government continues to expand Hong Kong's network of **Comprehensive Avoidance of Double Taxation Agreements (CDTAs)**. Hong Kong has so far signed 46 CDTAs.
- The **Financial Services Development Council** 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.

### **Premier Offshore Renminbi (RMB) Business Hub**

- **About 73% of the global offshore RMB payments** are processed via Hong Kong (January to August 2023).
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement System** reached over RMB1.6 trillion in 2022.
- **Hong Kong is the world's largest offshore RMB business hub** (total deposits including certificates of deposit reached RMB1,067 billion at end-July 2023).

### **Stock Market**

- World's 7<sup>th</sup> largest and Asia's 4<sup>th</sup> largest stock market by market capitalisation among exchanges at end-July 2023 (US\$4.6 trillion). The Hong Kong stock market recorded an average daily turnover of about US\$16 billion in 2022.
- Vibrant IPO activities, raising US\$13.4 billion in 2022, 4<sup>th</sup> in the world and 3<sup>rd</sup> in Asia. Continues to be one of the world's major listing platforms.

- HKEX launched a new listing regime for new economy listings in 2018. Since then, there have been 90 firms listed under the new listing regime, raising about HK\$586.5 billion (end-August 2023). Among them, 57 companies were pre-revenue or pre-profit biotechnology companies, raising over HK\$116 billion and making Hong Kong **one of the world's leading fundraising hubs for biotechnology**.
- In October 2021, HKEX launched the **MSCI China A50 Connect Index Futures contract**, giving international investors an extra investment tool to access A-shares markets, as well as manage their Mainland-related exposure risks in one place through Hong Kong's capital market. The first batch of A-share structured products, the MSCI China A50 Connect Index Derivatives Warrants, were listed in August 2022, providing a new risk management tool for Mainland investments and further enhancing Hong Kong's role as an offshore A-share risk management centre.

### **Asset and Wealth Management**

- As the **premier fund management hub in Asia**, Hong Kong's asset and wealth management business at end-2022 amounted to HK\$30.5 trillion (approx. US\$3.9 trillion).
- Apart from unit trusts, a fund can be set up in a **new corporate fund structure**, i.e. open-ended fund companies (OFCs), in Hong Kong since 2018. Subsidies will be provided to cover the expenses paid to local professional service providers for OFCs set up or re-domiciled to Hong Kong in the three years from May 2021.
- 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 established a **limited partnership fund regime** in August 2020 to attract private equity funds to domicile and operate in Hong Kong.
- **Tax concessions are provided for carried interest issued by private equity funds** subject to the fulfilment of certain conditions to attract more private equity funds to domicile and operate in Hong Kong.
- To develop Hong Kong into a **vibrant real estate investment trust (REIT) market**, measures including relaxation of investment restrictions of REIT, broadening investor base, provision of subsidies for qualifying REITs, exploring facilitation of market operation through legislative and regulatory enhancements and stepping up promotion are being pursued.
- The Government issued the **Policy Statement on Developing Family Office Businesses in Hong Kong** in March 2023 to set out the Government's policy stance and measures on developing a vibrant ecosystem for global family offices and asset owners, with a view to supporting asset owners in deploying and managing wealth and capturing new investment opportunities in Hong Kong.
- The 2023-24 Budget allocates HK\$100 million to InvestHK over the next three years for attracting more family offices to Hong Kong.

### **Bond Market**

- Hong Kong is the largest centre for arranging bonds issued internationally by Asia-based entities.
- The Government issued a new round of **Silver Bonds** (targeting residents aged 60 or above) totalling HK\$55 billion on August 18, 2023 to develop the retail bond market.
- **The borrowing limit of the Government Bond Programme** was further increased from HK\$200 billion to **HK\$300 billion** in July 2021 to allow sufficient room for bond issuances.
- Efficiency and capacity of the domestic **Central Moneymarkets Unit (CMU)** will be enhanced to

cope with the increasing market demand of Bond Connect, providing a risk-controlled channel for Mainland investors to participate in local and overseas bond markets and help develop Hong Kong into a major central securities depository platform.

- In March 2023, the World Bank (International Bank for Reconstruction and Development) issued insurance-linked securities in the form of a catastrophe bond in Hong Kong with a size of US\$350 million (equivalent to about HK\$2.75 billion), offering protection against losses related to earthquake risks in Chile over the next three years.

### **Insurance**

- One of the **most open insurance markets** in the world, with over 160 authorised insurers operating in Hong Kong.
- Total **gross premium income** of HK\$556 billion (about US\$71 billion) according to the provisional statistics of the Hong Kong insurance industry for 2022.
- The Government implemented since 2021 a number of **measures to enhance Hong Kong's competitiveness as an international risk management centre**, including reducing profits tax rate by 50% for marine and specialty insurance businesses, expanding the scope of insurable risks by captive insurers and enhancing the regulatory framework for multinational insurance groups.
- The Government has also established a dedicated regulatory regime for insurance-linked securities (ILS) and launched **a Pilot ILS Grant Scheme**. These measures have thus far facilitated four ILS issuances in Hong Kong with a total amount of over US\$560 million (equivalent to about HK\$4.4 billion), one of them being listed in Hong Kong Exchange and Clearing Limited, all in the form of catastrophe bond to secure protection against losses inflicted by typhoons and earthquakes in the Mainland and overseas places.
- The Government issued a **Development Roadmap for the Insurance Sector in Hong Kong** in December 2022, outlining visions and missions, as well as targeted policy measures, to consolidate the status of Hong Kong as a global risk management centre and facilitate the insurance sector in seizing opportunities under the national "Dual Circulation" strategy.

### **Banking**

- **73 of the world's 100 top banks** operate in Hong Kong (as of end-August 2023).
- **Hong Kong's banking system holds assets equivalent to around 9.5 times its gross domestic product** (GDP) in 2022 as at end-April 2023, and is a major contributor to the profitability and total assets of several global systemically important banks.
- The banking system remains robust with the **capital adequacy ratio** of 20% and **average liquidity coverage ratio at around 170%** as at end-June 2023, both well above the international regulatory standards.

### **Green and Sustainable Finance**

- The Government has issued a total of close to US\$22 billion worth of green bonds under the **Government Green Bond Programme** (GGBP), targeting global institutional investors and covering multiple currencies and different tenors. The issuances achieved a number of breakthroughs: the first "Global Medium Term Note Programme" by a government dedicated to green bond issuances; the world's largest US dollar-denominated government green bond deal; the longest tenor US dollar-denominated government green bond in Asia; the longest tenor euro-denominated government green

bond in Asia; and the largest ESG bond issuance in Asia. In February 2023, the Government issued the **inaugural tokenised Government green bond of HK\$800 million** under the GGBP, the first of its kind globally, demonstrating that Hong Kong's legal and regulatory environment is flexible and conducive to innovative forms of bond issuances.

- In May 2022, the Government issued the **inaugural retail green bond of HK\$20 billion** under the GGBP, further promoting the development of green and sustainable finance in Hong Kong. The Government plans to issue no less than HK\$15 billion of **retail green bonds** in the 2023-24 financial year to continue to develop the retail bond market.
- A **Green and Sustainable Finance Grant Scheme** was launched in May 2021 to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. As of end-July 2023, about HK\$186 million has been granted to close to 280 green and sustainable debt instruments issued in Hong Kong.
- HKEX launched **Core Climate, an international carbon marketplace**, in October 2022, providing trading of voluntary carbon credits and instruments across Asia and beyond.
- The Government will set up a Green Technology and Finance Development Committee, inviting industry representatives from green technology, green finance and green standard certification, etc. to assist in the formulation of an action agenda for promoting the development of Hong Kong into an international green technology and finance centre.

### **Mandatory Provident Fund**

- The MPF asset surpassed HK\$1 trillion in August 2020 and stood at HK \$1.078 trillion at May 2023.
- The **annualised net return** since the inception of the MPF System was 2.3% (at May 2023), outperforming the average inflation rate of 1.8% over the same period.
- **The Default Investment Strategy** was introduced in 2017 to offer ready-made investment solution to MPF scheme members with fee caps, risk diversification and automatic de-risking features.
- To increase and diversify investment options for MPF funds, the Shanghai and Shenzhen stock exchanges were added to MPFA's list of approved stock exchanges in 2020 to facilitate MPF investment into A-shares. The law was also amended in 2022 to expand the scope of MPF investment in debt securities issued or unconditionally guaranteed by the Central People's Government, the People's Bank of China and the three Mainland policy banks.
- **The average Fund Expense Ratio** of MPF funds has dropped from 2.1% in 2007 to 1.33% in May 2023.
- The MPFA is pressing ahead with the development of the **eMPF Platform**. The target is to commence the phased onboarding of MPF trustees starting from around early-2024 upon completion of relevant system testing and enable the full implementation of the eMPF Platform in 2025.
- With the phased implementation of the eMPF Platform, the average scheme administration fee of MPF funds is expected to be lowered by 30% in 2023-2025 and will be further reduced progressively, to achieve a total cumulative cost savings of HK\$30 billion-HK \$40 billion after 10 years of operation of the eMPF Platform.

(Revision date: October 3, 2023)