

# 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 268,800 people (7.3% of workforce) in 2023 and directly contributed 22.4% to Hong Kong's GDP in 2022. 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.
- The licensing regime for Virtual Asset (VA) service providers with full-fledged anti-money laundering and investor protection measures came into effect on June 1, 2023.

## 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 to list and raise funds through the new eligibility test.
- To provide a more effective fundraising platform for **small and medium enterprises**, HKEX implemented a series of measures to **reform GEM** in January 2024, including launching a new financial eligibility test for high growth enterprises that are heavily engaged in research and development activities, and introducing a new “streamlined transfer mechanism” to facilitate eligible GEM issuers to transfer to the Main Board.
- 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 2023, total trade value of Northbound and Southbound Trading of Stock Connect amounted to RMB25.1 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** with primary listing in Hong Kong.
- 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.
- The **Northbound Trading of Swap Connect** was officially launched in May 2023, introducing mutual access in the realm of financial derivatives products for the first time.
- **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.
- A **new integrated fund platform** will be established by HKEX within 2024 to expand Hong Kong’s fund distribution network, enhance market efficiency and lower transaction costs. Hong Kong has also 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 November 2023, FPS recorded over 13.4 million registrations.
- In December 2023, the HKMA and the Bank of Thailand announced the launch of the FPS x PromptPay Link for cross-border QR payment between Hong Kong and Thailand, providing a fast, secure and easily accessible cross-border retail payment service to people travelling between Hong Kong and Thailand.
- 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-October 2023, over 1,500 registrations from third-party service providers have been recorded for using banks' **Open Application Programming Interface (Open API)**, while the IA rolled out the Open API framework for the insurance sector in September 2023, to facilitate incubation of enhanced services for users.
- 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** 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.
- The Government will facilitate Hong Kong's limited partnership funds to be qualified under the **Qianhai Qualified Foreign Limited Partnerships (QFLP)** to participate in private equity investment in the Mainland, and co-establish the **Shenzhen-Hong Kong Financial Co-operation Committee** with the Shenzhen authorities in the first half of 2024.

### **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 49 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.

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

- **About 80% of the global offshore RMB payments** are processed via Hong Kong (January-March 2024).
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement System** reached over RMB2 trillion in 2023.
- **Hong Kong is the world's largest offshore RMB business hub** (total deposits including certificates of deposit reached RMB1,080 billion at end-February 2024).

### **Stock Market**

- World's 8<sup>th</sup> largest and Asia's 5<sup>th</sup> largest stock market by market capitalisation among exchanges at end-February 2024 (US\$3.8 trillion). The Hong Kong stock market recorded an average daily turnover of about US\$13.4 billion in 2023.

- Vibrant IPO activities, raising US\$5.9 billion in 2023, 6<sup>th</sup> in the world and 4<sup>th</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 96 firms listed under the new listing regime, raising about HK\$592.8 billion (end-March 2024). Among them, 63 companies were pre-revenue or pre-profit biotechnology companies, raising about HK\$120 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.
- HKEX introduced new enhancements to its market data suite as a pilot programme in December 2023, including launching a new enterprise data package with fixed monthly fee and reduce the monthly fee for retail mobile subscribers, so as to reduce relevant costs, enhance market transparency, and strengthen the competitiveness of Hong Kong's market.

### **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 the form of an open-ended fund company (OFC) or a limited partnership fund in Hong Kong. Subsidies are provided to cover the expenses paid to local professional service providers for OFCs set up or re-domiciled to Hong Kong.
- 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.
- **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, etc. are being pursued. To further enhance market competitiveness, the 2024-25 Budget announced that stamp duties on the transfer of REIT units will be waived.
- 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 facilitating asset owners in deploying and managing wealth and capturing diverse investment opportunities in Hong Kong.
- The 2023-24 Budget allocates HK\$100 million to InvestHK in 2023-24 to 2025-26 for attracting more family offices to Hong Kong.
- The **Hong Kong Academy for Wealth Legacy** was established under the FSDC in November 2023 to provide a comprehensive talent training platform for the family office sector, asset owners and wealth inheritors, and to facilitate the development of family offices in Hong Kong.
- The **New Capital Investment Entrant Scheme** has been open for application from March 1, 2024. Eligible investors may apply to reside and pursue development in Hong Kong.

## **Bond Market**

- Hong Kong, as a long-standing leader in bond issuance in Asia, has ranked first in the region for seven consecutive years in terms of the volume of international bond issuance.
- The Government will issue HK\$120 billion worth of bonds to generate financial inclusiveness and enhance participation in infrastructure and sustainable development among the public. The HK\$70 billion retail tranche includes **Silver Bonds** (targeting residents aged 60 or above) totalling HK\$50 billion, and Green and infrastructure bonds totalling HK\$20 billion in 2024-25.
- The 2024-25 Budget announced that the **total borrowing ceiling of HK\$500 billion** will be set for the Government Green Bond Programme with expanded scope and the Infrastructure Bond Programme, allowing more flexibility in quota re-allocation. These two programmes will gradually replace the existing Government Bond Programme.
- 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\$549.7 billion (about US\$70.5 billion) according to the provisional statistics of the Hong Kong insurance industry for 2023.
- 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-March 2024).

- **Hong Kong's banking system holds assets equivalent to around 9 times its gross domestic product (GDP)** in 2023 as at end-January 2024, 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 over 20% and average liquidity coverage ratio at around 175% as at end-2023**, both well above the international regulatory standards.

### **Green and Sustainable Finance**

- The Government has issued a total of about US\$24 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 and October 2023, the Government issued **retail green bond of HK\$20 billion each** under the GGBP, further promoting the development of green and sustainable finance in Hong Kong.
- 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 February 2024, about HK\$210 million has been granted to around 340 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.
- To further promote the development of green and sustainable finance and expand Hong Kong's green Fintech ecosystem, the **Green and Sustainable Fintech Proof-of-Concept Subsidy Scheme** will be launched in 2024 to provide early-stage funding support for green fintech, facilitating commercialisation and fostering the development of new green fintech initiatives.

### **Mandatory Provident Fund**

- The MPF asset surpassed HK\$1 trillion in August 2020 and stood at HK \$1.121 trillion at January 2024.
- The **annualised net return** since the inception of the MPF System was 2.2% (at January 2024), 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 1.37% in January 2024.
- The MPFA and its wholly-owned eMPF Platform Company Limited are pressing ahead with the **eMPF Platform Project**. The target is to commence the phased migration of MPF account information to the eMPF Platform the second quarter of 2024, with a view to achieving full implementation of the eMPF Platform in 2025.
- With the phased implementation of the eMPF Platform, MPFA expects that the average scheme administration fee of MPF funds will be lowered by around 36% during the onboarding period and will be further reduced progressively, so as to achieve a total cumulative cost savings of around HK\$30 billion-HK\$40 billion during the first 10 years of operation of the eMPF Platform.

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