

# 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 274,000 people (7.5% of workforce) and directly contributed 23.4% to Hong Kong's GDP in 2020. Hong Kong **ranked third in the *Global Financial Centres Index*** issued by UK-based Z/Yen and China Development Institute from Shenzhen in March 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.
- **The Financial Leaders Forum**, established in August 2017 and chaired by the Financial Secretary, has been discussing and providing policy steer on strategic and forward-looking proposals to develop and strengthen Hong Kong's position as an international financial centre.
- Hong Kong is the first jurisdiction in the Asia-Pacific region assessed by the Financial Action Task Force 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.
- The **Financial Reporting Council** was established in 2006 and has been regulating auditors of listed entities since October 1, 2019. It will become a full-fledged independent regulatory and oversight body of Hong Kong's accounting profession from October 1, 2022 onwards.

## 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).

- 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 2021, total transaction value of the Southbound and Northbound Trading of Stock Connect increased by more than 40% over that of 2020.
- **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**. In July 2022, inclusion of Exchange-traded Funds (ETFs) under Stock Connect officially commenced.
- 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 will, for the first time, enables mutual access to financial derivatives products. Swap Connect will be launched after preparatory work and obtaining relevant regulatory approvals. Northbound trading will be launched initially, while Southbound trading will be explored in due course.
- **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. At end-July 2022, FPS recorded over 10.7 million registrations.
- Eight **virtual banks** and four **virtual insurers** are authorised to operate in Hong Kong.
- As at end-June 2022, over 1,250 registrations from third-party service providers have been recorded for using banks' **Open Application Programming Interface (Open API)**, while the Open API for the insurance sector is being developed for launch later this year, 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 his 2022-23 Budget Speech, the Financial Secretary announced that he will increase the funding allocated to the Hong Kong Growth Portfolio under the Future Fund by HK\$10 billion, of which HK\$5 billion will be used to set up a **GBA Investment Fund**, which will focus on investment opportunities in the GBA.

### **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 45 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 75 % of the global offshore RMB payments** are processed via Hong Kong (2021).
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement System** reached over RMB1.7 trillion in the first quarter of 2022.
- **Hong Kong is the world's largest offshore RMB business hub** (total deposits including certificates of deposit reached RMB906.3 billion at end-June 2022).

### **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-June 2022 (US\$4.978 trillion). The Hong Kong stock market recorded an average daily turnover of about US\$21.4 billion in 2021, representing an increase of 28.8% over 2020.
- Vibrant IPO activities, raising US\$42.5 billion in 2021, 4<sup>th</sup> in the world and 2<sup>nd</sup> in Asia. Continues to be one of the world's major listing platforms.
- World **No.1 environment for IPO and M&A (mergers and acquisitions) activity** (Global Transactions Forecast 2020 compiled by Baker McKenzie and Oxford Economics).
- HKEX launched a new listing regime for new economy listings in 2018. Since then, there have been 75 firms listed under the new listing regime, raising more than HK\$580.7 billion (end-June 2022). Among them, 50 companies were pre-revenue or pre-profit biotechnology companies, raising around HK\$114 billion and making Hong Kong the **world's second-largest fundraising hub for biotechnology**.
- In October 2021, HKEX launched the **MSCI China A50 Connect Index Futures contract**, a new derivatives product covering mid- and large-cap A shares listed in Shanghai and Shenzhen that are accessible through Stock Connect. The scheme gives 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.

### **Asset and Wealth Management**

- As the **premier fund management hub** in Asia, Hong Kong's asset and wealth management business at end-2021 amounted to HK\$35.5 trillion (approx. US\$4.6 trillion).

- Apart from unit trusts, a fund can be set up in a **new corporate fund structure**, i.e. open-ended fund companies (OFC), 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 from 2022-2024.
- 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.
- InvestHK has stepped up promotion of **family office business** and offers one-stop support services to family offices to establish a presence or expand in Hong Kong.

### **Bond Market**

- Hong Kong is the largest centre for arranging bonds issued internationally by Asia-based entities.
- New rounds of **inflation-linked retail bonds (iBond)** and **Silver Bonds** (targeting residents aged 60 or above) totalling no less than HK\$50 billion in the 2022-23 financial year 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.

### **Insurance**

- One of the **most open insurance markets** in the world.
- **One of the highest concentration of insurers** in Asia, with over 160 authorised insurers.
- Total **gross premium income** of HK\$602.7 billion (US\$77.5 billion) in 2021 (provisional statistics).
- The Government implemented in March 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 new regulatory regime for insurance-linked securities (ILS) and launched a **Pilot ILS Grant Scheme** in the first half of 2021 to facilitate and attract insurance enterprises and organisations to issue ILS in Hong Kong. These measures have facilitated two ILS issues securing protection against losses inflicted by typhoons in the Mainland and Japan.

## **Banking**

- **78 of the world's 100 top banks** operate in Hong Kong.
- The banking system remains robust with the capital adequacy ratio at about 20% and **major banks' average liquidity coverage ratio** at about **150%**, both well above the international regulatory standards.
- The total deposits of banks grew by 4.6% year-on-year to about HK\$15.1862 trillion (US\$1.947 trillion) in 2021, and continued to grow by 0.4% in the first half of 2022 to HK\$15.2394 trillion (US\$1.9421 trillion)<sup>1</sup>.

## **Green and Sustainable Finance**

- The Government has issued a total of nearly US\$10 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; and the longest tenor euro-denominated government green bond in Asia.
- In May 2022, the Government issued the **inaugural retail green bond of HK\$20 billion**, further promoting the development of green and sustainable finance in Hong Kong.
- **The borrowing ceiling of the GGBP was doubled to HK\$200 billion** in July 2021 to allow further issuance of green bonds totalling HK\$175.5 billion within the five years from 2021-22, having regard to the market situation.
- 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 at June 2022, around 110 applications have been approved.
- The Government will join hands with the relevant stakeholders to take forward the strategic plan announced in end-2020 by the Green and Sustainable Finance Cross-Agency Steering Group to strengthen Hong Kong's financial ecosystem for a greener and more sustainable future.

## **Mandatory Provident Fund**

- The MPF asset surpassed HK\$1 trillion in August 2020 and stood at HK \$1.1 trillion at May 2022.
- The **annualised net return** since the inception of the MPF System was 3.6% (at May 2022), 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 scope of MPF investment in debt securities issued by the Central People's Government, the People's Bank of China and three Mainland policy banks.
- **The average Fund Expense Ratio** of MPF funds has dropped from 2.1% in 2007 to 1.39% in May 2022.

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<sup>1</sup> While total deposits in terms of HKD increased in the first half of 2022, total deposits in terms of USD showed a decrease due to the movement in USD/HKD exchange rate during the period.

- With the phased implementation of the **eMPF Platform** starting from the second quarter of 2023, the average scheme administration fee of MPF funds will 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 the platform's operation.

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