

# 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 19.7% to Hong Kong's GDP (2018).

## 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 has implemented a statutory licensing regime for insurance intermediaries since September 23, 2019.
- **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 (Amendment) Bill 2018** was passed by the Legislative Council in January 2019. The new auditor regulatory regime commenced on 1 October 2019 under which the **Financial Reporting Council (FRC)** has become an independent oversight body regulating auditors of listed entities.

## 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** arrangement with **the Mainland, Switzerland, France, the United Kingdom, Luxembourg and the Netherlands**.

- HKMA launched the **Faster Payment System** in September 2018, offering 24-hour real-time payment and transfer function.
- HKMA issued the first batch of **virtual bank** licences in March-May 2019, and IA issued two **virtual insurer** authorisations in December 2018 and October 2019 respectively.
- The first and second phase of the **Open Application Programming Interface (API)** for the banking industry in Hong Kong was launched in January and October 2019 respectively.
- **Banking Made Easy** initiative allows adoption of innovative technology and facilitates Regtech
- 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), Hong Kong Fintech Week (HKFTW) 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 43 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 **FRC** to migrate to a new auditor regulatory regime.

### **Premier offshore Renminbi (RMB) business hub**

- **About 75 per cent of the global offshore RMB payments** are processed via Hong Kong (2019)
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement** system reached over RMB 1,100 billion in December 2019.
- **World's largest offshore RMB business hub** (total deposits including certificates of deposit reached RMB658 billion at end 2019).

### **Stock market**

- **World's 5<sup>th</sup> largest and Asia's 3<sup>rd</sup> largest stock market** by market capitalisation at end-December 2019 (US\$4,899 billion)
- **World's No.1 for Initial Public Offering (IPO) funds raised** in 2019 (US\$40.1 billion). HK ranked No.1 for IPO funds raised seven 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)
- The 2020-21 Budget proposes to waive stamp duty on stock transfers paid by **Exchange Traded Fund (ETF)** market makers in the course of creating and redeeming ETF units listed in Hong Kong.

### **Asset and wealth management**

- As the **premier fund management hub** in Asia, Hong Kong's asset and wealth management business at end-2018 amounted to HK\$24 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 working on the introduction of a **limited partnership fund regime** to attract private equity funds to domicile and operate in Hong Kong.
- The 2020-21 Budget proposes to provide **tax concessions 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.

### **Bond market**

- **Green Bond Grant Scheme** launched in June 2018 to subsidise eligible green bond issuers in obtaining certification under the local Green Finance Certification Scheme to promote green finance.
- Following the **successful issuance of the inaugural government green bond under the Government Green Bond Programme** in May 2019, the 2020-21 Budget proposes to **issue green bonds totalling \$66 billion** under the Programme over the next five years to develop Hong Kong's position as a green finance hub.
- The 2020-21 Budget proposes to issue **inflation-linked retail bonds and Silver Bonds** (targeting residents aged 65 or above) **totalling at least \$13 billion** to develop the retail bond market.
- **Pilot Bond Grant Scheme** launched in May 2018 for a period of 3 years to provide grant for eligible enterprises issuing bonds in Hong Kong.

### **Insurance**

- One of the **most open insurance markets** in the world
- **Highest concentration of insurers** in Asia (163 authorised insurers at end 2019)
- Total **gross premium income** of HK\$514.5 billion (approx. US\$65.7 billion generated in 2018)
- To keep our business environment conducive to insurance business through a 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**

- **Global Financial Centres Index: World's No.6** (Report published by Z/Yen and China Development Institute in 2020)
- **World's No.1 for financial system** (World Economic Forum: Global Competitiveness Report 2019)
- **Leading investment hub:** World No.3 for foreign direct investment (FDI) inflows and World No.4 for FDI outflows in 2018 (UNCTAD: World Investment Report 2019)
- **78 of the world's 100 top banks** operate in Hong Kong (end Jan 2020)