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 employs about 273,000 people (7.1% of workforce) (2019) and directly contributes 21.2% to Hong Kong’s GDP (2019). The Government and regulators monitor Hong Kong’s financial markets to ensure stability in this turbulent time of international and geopolitical tension.

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. It started regulating insurance companies, and insurance intermediaries in June 2017 and September 2019, respectively.
- **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 (FRC)** has become an independent oversight body regulating auditors of listed entities under the new auditor regulatory regime commenced on October 1, 2019. It is responsible for the inspection, investigation and disciplinary functions with regard to 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 May 1, 2018, **the daily quota of Shanghai–Hong Kong Stock Connect and Shenzhen–Hong Kong Stock Connect were quadrupled**.
- **Pre-revenue / Pre-profit biotechnology companies listed in Hong Kong** and **stocks listed on the Mainland Sci-Tech Innovation Board** meeting certain criteria will be included into the stock universe of the mutual market access programmes.
- **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.
- The relevant authorities are expediting the implementation of the **Wealth Management Connect** under which residents in Hong Kong, Macao and nine cities in Guangdong Province could carry out
cross-boundary investment in wealth management products distributed by banks in the Guangdong-Hong Kong-Macao Greater Bay 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 and the Netherlands.

- HKMA launched the Faster Payment System (FPS) in September 2018, offering 24-hour real-time payment and transfer function. The FPS payment function has been extended to cover various Government payments for greater convenience for the public.

- HKMA issued virtual bank licences to eight virtual banks so far, seven of which has already officially opened. IA has also issued four virtual insurer authorisations.

- The first and second phase of the Open Application Programming Interface (Open API) for the banking industry in Hong Kong was launched in January and October 2019 respectively. Study of the third and fourth phases of Open API is underway.

- Banking Made Easy initiative allows adoption of innovative technology and facilitates Regtech.

- The Fintech Proof-of-Concept Subsidy Scheme was launched to provide financial incentives for traditional financial institutions to partner up with fintech companies to conduct Proof-of-Concept projects.

- 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, Hong Kong Fintech Week, International Financial Week, 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.

- 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 RMB1,100 billion in Q3 2020.

- Hong Kong is the world’s largest offshore RMB business hub (total deposits including certificates of deposit reached RMB756.6 billion at end-November 2020).

**Stock market**

- World’s 5th largest and Asia’s 3rd largest stock market by market capitalisation at end-November 2020 (US$5,900 billion)
World’s No.1 for Initial Public Offering (IPO) funds raised in 2019 (US$40.1 billion). Hong Kong 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 2020 compiled by Baker McKenzie and Oxford Economics)

Since listing rules were amended in 2018 and up to mid-Dec 2020, a total of 38 companies with weighted voting rights structure, pre-revenue /pre-profit biotechnology companies and secondary listed companies have been listed in Hong Kong, with a total current market capitalisation of over HK$10 trillion.

Asset and wealth management

As the premier fund management hub in Asia, Hong Kong’s asset and wealth management business at end-2019 amounted to HK$29 trillion (approx. US$3.7 trillion).

Apart from unit trust, a fund can be set up in a new corporate fund structure, i.e. open-ended fund companies, in Hong Kong since July 30, 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 established a limited partnership fund regime on August 31, 2020 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.

To develop Hong Kong into a vibrant real estate investment trust (REIT) market, measures including relaxation of investment restrictions of REIT, broadening investor base, exploring facilitation of market operation through legislative and regulatory enhancements and stepping up promotion are being pursued.

InvestHK will step up promotion of family office business and offer one-stop support services to family offices to establish a presence or expand 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 and sustainable finance.

Following the successful issuance of the inaugural government green bond under the Government Green Bond Programme in May 2019, the Government plans to issue green bonds totalling $66 billion under the Programme in the five years from 2020/21 having regard to the market situation to elevate Hong Kong’s position as a regional green and sustainable finance hub.

New rounds of inflation-linked retail bonds (iBond) and Silver Bonds (targeting residents aged 65 or above) totalling $30 billion in 2020 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 (164 authorised insurers at end-November 2020)

Total gross premium income of HK$566.9 billion (approx. US$72.3 billion generated in 2019)

The Government is pursuing a number of measures to increase Hong Kong’s competitiveness as an international insurance hub, including reducing profits tax rate by 50% for marine and specialty insurance businesses, facilitating the issuance of insurance-linked securities in Hong Kong, expanding
the scope of insurable risks by captive insurers and enhancing the regulatory framework for multinational insurance groups.

**Banking**

- **77 of the world’s 100 top banks** operate in Hong Kong (end-December 2020)
- The banking system remains robust with major banks’ average liquidity coverage ratio and average capital adequacy ratio exceeding **150%** and **20%** respectively, both well above the international regulatory standards.
- The aggregate balance of the banking system increased significantly in the past year, reflecting continued investor interest and confidence in Hong Kong’s capital market. As at December 31, 2020, the Aggregate Balance amounted to HK$457.5 billion.
- From end-2019 to end-2020, the **total deposits of banks grew by 5.4%** to HK$14,513.6 billion.

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