

# 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 274,000 people (7.3% of workforce) (2020) and directly contributes 21% to Hong Kong's GDP (2019). Hong Kong **ranked fourth in the *Global Financial Centres Index*** issued by UK-based Z/Yen and China Development Institute from Shenzhen in March 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) and the Insurance Authority (IA) are three 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 to 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** 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 for the 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**. In 2020, total transaction value of the Southbound and Northbound Trading of Stock Connect programmes more than doubled that of 2019.
- **Pre-revenue / Pre-profit biotechnology companies listed in Hong Kong** and **stocks listed on the Mainland Sci-Tech Innovation Board** meeting certain criteria can 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.
- 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 and Thailand**.

- 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, all have already officially opened. IA has also issued four **virtual insurer** authorisations.
- HKMA has been facilitating the development and adoption of **Open Application Programming Interface (Open API)** by the banking sector, with over 1,000 Open APIs launched by more than 20 banks since 2019.
- **Banking Made Easy** initiative allows adoption of innovative technology and facilitates Regtech.
- The **Fintech Proof-of-Concept Subsidy Scheme** provides financial incentives for 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 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.
- 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 (2020).
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement System** reached over RMB1.5 trillion in Q1 2021.
- **Hong Kong is the world's largest offshore RMB business hub** (total deposits including certificates of deposit reached RMB853.1 billion at end-June 2021).

### Stock market

- **World's 5<sup>th</sup> largest and Asia's 2<sup>nd</sup> largest stock market** by market capitalisation at end-June 2021 (US\$6,803 billion). The Hong Kong stock market recorded **an average daily turnover of US\$16.7 billion** in 2020, representing an increase of 49% over 2019.
- **World No.2 for Initial Public Offering (IPO) funds raised** in 2020 (US\$51.6 billion). Hong Kong had 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)
- **World's second-largest hub for biotech companies**. 50 companies listed under the new listing regime in Hong Kong since its introduction in 2018, accounting for about 40% of total IPO funds raised in the period. These companies have a total market capitalisation of over US\$1.6 trillion.
- On August 20, 2021, the SFC announced the approval for HKEX to launch the **MSCI China A-share index futures contract** in Hong Kong to further expand the product scope offering in Hong Kong's capital markets, strengthen Hong Kong's offshore Renminbi businesses and deepen the collaboration between the two capital markets, thereby contributing to the further development of the Mainland's capital market towards internationalisation.

### Asset and wealth management

- As the **premier fund management hub** in Asia, Hong Kong's asset and wealth management business at end-2020 amounted to HK\$35 trillion (approx. US\$4.5 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. The 2021-22 Budget proposes to provide subsidies for the setting up of OFCs.
- 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.
- **Tax concessions will be 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 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**

- 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) **no less than totalling HK\$39 billion** in 2021 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 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.
- Bond Connect will be **expanded to cover both Southbound and Northbound Trading**. Southbound Trading of Bond Connect, further facilitating Mainland investors to make diversified asset allocations, is planned to be launched within 2021.

### **Insurance**

- One of the **most open insurance markets** in the world
- **Highest concentration of insurers** in Asia (165 authorised insurers at end-June 2021)
- Total **gross premium income** of HK\$608.4 billion (US\$78.4 billion) in 2020 (based on provisional statistics of Hong Kong insurance industry)
- The Government has implemented 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 (ILS) in Hong Kong, expanding the scope of insurable risks by captive insurers and enhancing the regulatory framework for multinational insurance groups.
- The 2021/22 Budget proposes to introduce **a two-year Pilot ILS Grant Scheme** to attract insurance enterprises or organisations to issue ILS in Hong Kong. Details of the Scheme were announced by the IA in May 2021.

### **Banking**

- **78 of the world's 100 top banks** operate in Hong Kong (end-July 2021)
- The banking system remains robust with **major banks' average liquidity coverage ratio** at about **150%** and **average capital adequacy ratio exceeding 20%**, 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 (US\$59 billion).
- From end-2019 to end-2020, the **total deposits of banks grew by 5.4%** to HK\$14,513.6 billion (US\$1,872 billion).

### **Green and Sustainable Finance**

- Following the successful issuance of the inaugural government green bond totalling US\$1 billion under the **Government Green Bond Programme (GGBP)** in May 2019, a further US\$2.5 billion of green bonds were successfully issued in February 2021 under a newly established "Global Medium Term Note Programme". The issuance achieved a number of breakthroughs: the world's largest US dollar government green bond deal; the longest tenor US dollar government green bond in Asia; and the first "Global Medium Term Note Programme" by a government dedicated to green bond issuances.
- Government green bonds will be issued regularly. **The borrowing ceiling of the GGBP will be doubled to HK\$200 billion** to allow further issuance of green bonds totalling HK\$175.5 billion

within the next five years, having regard to the market situation. **Retail green bonds** will be issued for the participation of the general public.

- 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.
- 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.

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