*Chapter 4*

# Financial and Monetary Affairs

*As a key global financial centre, Hong Kong offers a robust regulatory framework and an extensive network with other major financial hubs as well as fast-growing economies in the region, particularly Mainland China. Hong Kong ranked in the top three of 80 financial centres in the latest Global Financial Centres Index, and its stock market ranked second globally in terms of funds raised through initial public offerings in 2013. The city also has the world's largest offshore pool of Renminbi liquidity, of over RMB1,000 billion. The financial sector has a 234,400-strong workforce, or 6.2 per cent of the city's total workforce, and contributes 15.9 per cent of the city's Gross Domestic Product.*

## Hong Kong as an International Financial Centre

### *Overview*

Hong Kong holds a unique position in the increasingly integrated global financial system. Hong Kong enjoys extensive geographical, cultural and linguistic links with the dynamic Mainland economy, and has long served as a gateway between the Mainland and the rest of the world. At the same time, Hong Kong's location at the heart of Asia forms a 24-hour continuous trading system together with New York and London. Hong Kong's position as the leading international financial centre in Asia is further fortified by the strong links with the whole Asia-Pacific region and excellent communications with the rest of the world; the rule of law; a level playing field for conducting business and a sound regulatory regime. The absence of restrictions on capital flows into and out of Hong Kong and strong protection for investors are other advantages.

Hong Kong's financial markets operate under effective and transparent regulations, which are in line with international standards. A well-educated workforce and ease of entry for professionals from outside Hong Kong ensure availability of talent, and this and the highly liquid market are also conducive to the operations of financial institutions in Hong Kong. Hong Kong's competitiveness as an international financial centre is well recognised: the Global Financial Centre Index published by Z/Yen Group in September 2013 ranked Hong Kong as the third global centre, behind only London and New York.

### *A vibrant securities and derivatives market*

With a total market capitalisation of about $24 trillion at the end of 2013, Hong Kong's stock market ranked sixth in the world and second in Asia. The daily turnover averaged $62.6 billion in 2013. At the end of the year, 1,643 public companies were listed on the Stock Exchange of Hong Kong Limited (SEHK), representing a wide range of industries from finance and property to resources and telecommunications. In 2013, the SEHK ranked second worldwide in terms of initial public offering (IPO) funds raised. In addition to new share issues, another $210 billion was raised on the secondary market, also ranked second globally.

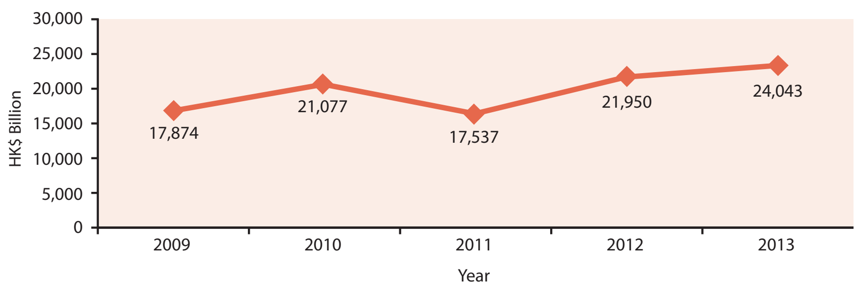
At the end of 2013, some 797 Mainland enterprises[1] were listed on the SEHK, raising $3.7 trillion from the Hong Kong market since 1993. Hong Kong is also an increasingly attractive listing destination for international companies. Funds raised by international and Mainland companies represented 95 per cent of IPO equity funds raised in 2013.

The Hong Kong Futures Exchange Limited (HKFE) operates a futures market in Hong Kong. Total turnover of derivatives contracts in 2013 was 130,028,864, the second highest ever and an increase of about 9 per cent from 2012, largely driven by strong trading in stock options and index futures and options. Open interest at year-end was 6,230,082 contracts, up from 5,317,952 at the previous year-end. In April 2013, After-hours Futures Trading (AHFT) was introduced with the inclusion of Hang Seng Index and H-shares Index futures. In 2013, AHFT trading accounted for approximately 4 per cent of day session trading volume.

As an international and open market, Hong Kong attracts many intermediaries from other markets to set up companies here and most international brokerages have branches in the city. At the end of 2013, 28 per cent of the 504 SEHK trading participants were from the Mainland or other overseas markets, and 49 per cent of the 179 HKFE trading participants were from markets outside Hong Kong.

The Hong Kong Exchanges and Clearing Limited (HKEx) now operates four clearing houses (Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited, SEHK Options Clearing House Limited and OTC Clearing Hong Kong Limited), providing integrated clearing, settlement, depository and nominee services for its participants or members. Launched in November 2013, OTC Clearing Hong Kong Limited provides clearing services for inter-dealer interest rate swaps and non-deliverable forwards, and represents Hong Kong's further expansion into another new asset class.

**Chart 1** **Market Capitalisation of Stock Market**




1 Mainland enterprises include H-share companies, red-chip companies and non-H share Mainland private enterprises.

Chart 2 Equity Funds Raised Through IPOs

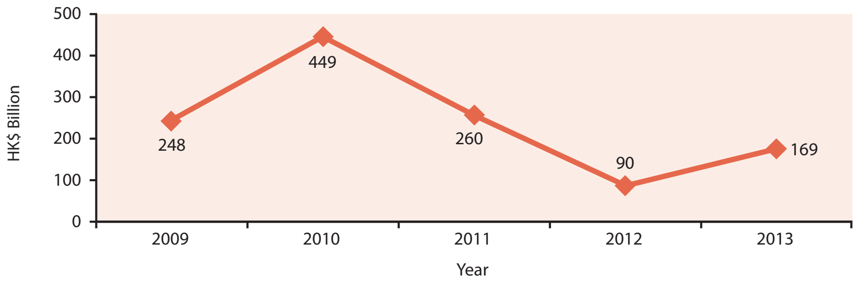
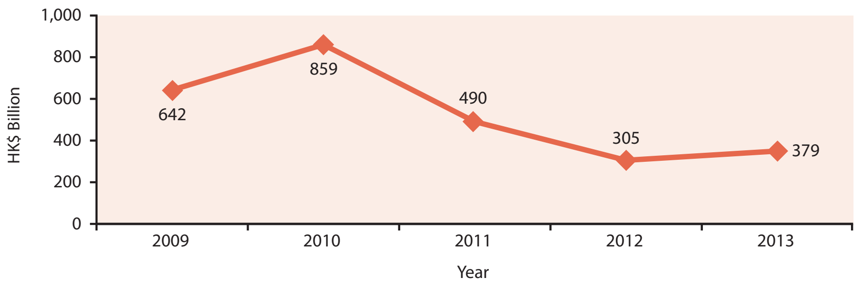



Chart 3 Total Equity Funds Raised in Hong Kong



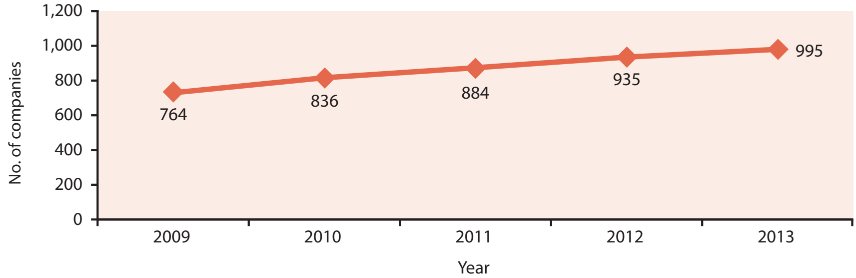

### *Asset Management Hub*

Hong Kong with its strong asset management foundation and world-class financial infrastructure benefits greatly from the huge demand for wealth and asset management services in the Mainland and Asia. Thanks to the continuing inflows of investment capital into the Asia-Pacific region, Hong Kong is also well placed to become Asia's premier asset management centre.

At the end of 2013, 995 companies were licensed or registered to carry out asset management business in Hong Kong, a rise of 6.4 per cent from a year earlier, with international fund managers strongly represented in the industry. Hong Kong's asset management business is highly international, with about 65 percent of assets under management from outside Hong Kong.

The government, together with other agencies, continues to explore ways to improve the international competitiveness of Hong Kong's financial markets and provide a more favourable operational, regulatory and tax environment.

**Chart 4** **Number of Asset Management Companies in Hong Kong**

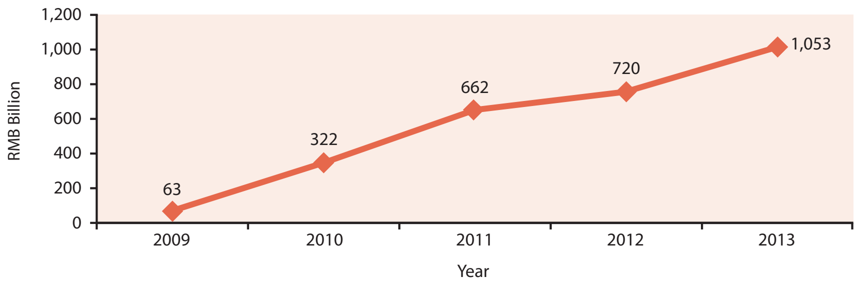



### *Largest Offshore RMB Centre*

The government has promoted the development of offshore Renminbi (RMB) business in Hong Kong since 2004. In tandem with the increasing use of RMB in cross-border transactions, the offshore RMB business in Hong Kong has grown rapidly in recent years. Hong Kong is now the world's largest offshore RMB business hub, with the world's largest offshore pool of RMB funds, and has also become the leading offshore RMB financing and asset management centre.

At the end of 2013, RMB customer deposits and outstanding RMB certificates of deposit issued amounted to RMB860 billion and RMB193 billion respectively. The combined sum of RMB1,053 billion represented an annual growth of about 46 per cent. Apart from the sizable liquidity pool, Hong Kong also offers a wide range of products including investment funds (both listed and unlisted), insurance products, currency futures, real estate investment trusts, shares and derivative products.

**Chart 5** **RMB Deposits and RMB Certificates of Deposit in Hong Kong**




### *International Banking and Payment Centre*

International financial institutions maintain a strong presence in Hong Kong. Of the world's top 100 banks, 70 operate in Hong Kong. At year-end, 147 of the 156 licensed banks in Hong Kong were beneficially-owned by parties outside Hong Kong.

Hong Kong was the world's ninth and Asia's second largest banking centre in terms of external positions[2] in the Bank for International Settlements Quarterly Review for the end of 2013 position.

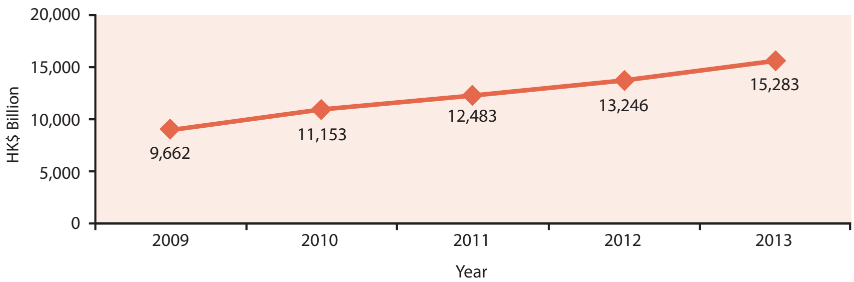
The interbank money market is well established. Hong Kong dollar (HKD) wholesale deposits are traded actively among local authorised institutions (AIs), and between local and overseas AIs, with an average daily turnover of $217.4 billion in 2013.

Hong Kong has a robust real time gross settlement (RTGS) interbank payment system. All banks in Hong Kong maintain settlement accounts with the Hong Kong Monetary Authority (HKMA) through the HKD RTGS system. All RTGS payment transactions are settled in real time. The banks may obtain intra-day and overnight liquidity through repurchase agreements with the HKMA using the Exchange Fund Bills and Notes (EFBNs) as collateral.

US dollar (USD), euro and RMB RTGS systems also enable transactions in these currencies to be settled in real time, eliminating settlement risk. RTGS systems in Hong Kong are linked to enable foreign exchange transactions to be settled on a payment-versus-payment basis.

The HKMA's Central Moneymarkets Unit (CMU) provides clearing, settlement and custodian services for EFBNs and other HKD or foreign-currency private debt securities. It is linked to a number of international and regional central securities depositories to enable non-local investors to hold and settle securities lodged with the CMU and local investors to hold and settle securities lodged with overseas systems. Through its integration with the RTGS systems, the CMU enables securities to be settled on a delivery-versus-payment basis, enhancing settlement efficiency and eliminating settlement risk. The interface also enables users of the RTGS system to access intra-day and overnight liquidity through repurchase agreements.

**Chart 6** **External Positions of Authorised Institutions**



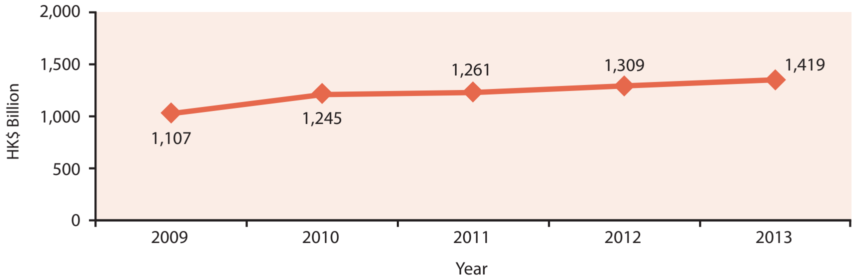

***Bond Market Development***

Outstanding HKD debt securities, including Exchange Fund Bills and Notes, totalled $1,419 billion at the end of 2013, or 8.5 per cent higher than the previous year's $1,309 billion. The

[2] Sum of liabilities to banks and non-bank customers outside Hong Kong and claims on banks and non-bank customers outside Hong Kong (such as equities, securities and capital instruments).

government bond programme, with the current borrowing ceiling at $200 billion, was established in 2009 to promote the further and sustainable development of the bond market in Hong Kong. From July 2013, new legislation also provided a tax framework for Islamic bonds (*sukuk*) comparable to that for conventional bonds.

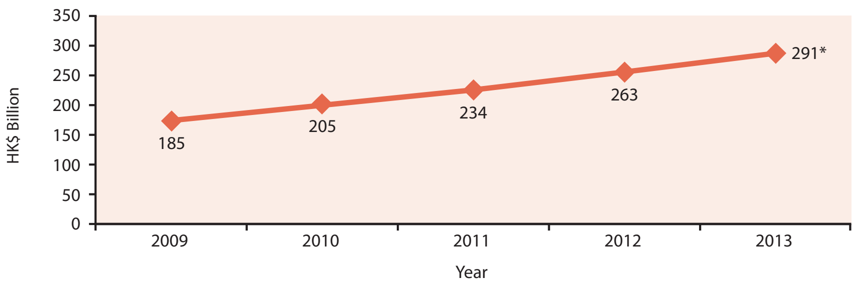
**Chart 7** **Total Outstanding HKD Debt Securities**




### *An Open Insurance Market*

Hong Kong continues to be one of the most open insurance centres in the world, with 13 of the world's top 20 insurers authorised to conduct insurance business in Hong Kong either directly or through a group company. Of the 155 authorised insurers at the end of 2013, 70 were from the Mainland or one of 20 overseas jurisdictions. There were 18 professional re-insurers in Hong Kong, including most of the world's top re-insurers. Gross premium income in 2013 was $290.7* billion, representing an increase of 10.4 per cent over 2012.

**Chart 8** **Annual Gross Premiums of Insurance Market**




### *Mandatory Provident Fund*

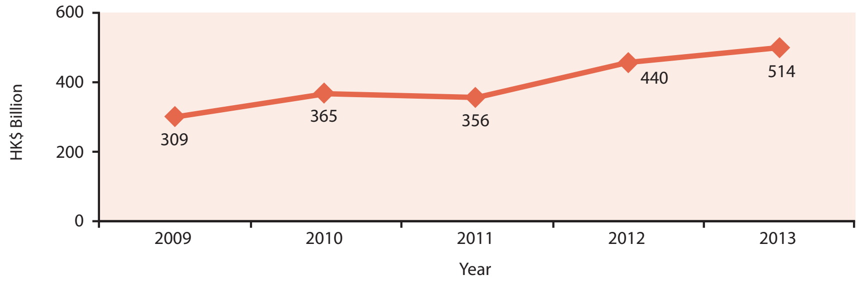
The Mandatory Provident Fund (MPF) system has been in operation since December 2000 to assist the employed population of Hong Kong to accumulate retirement savings. Net asset values (NAV) of MPF schemes stood at $514 billion at the end of 2013 with an annualised rate of

---

* Provisional statistics.

return of 4.4 per cent for the period from December 2000 (the inception of the MPF system) to December 2013.

**Chart 9** **Total NAV of MPF Schemes**




### *Product Offerings in Commodity Trading*

Hong Kong operates one of the most active physical gold markets in the world. Spot gold can be traded through two closely related yet independent markets in the city: the Chinese Gold and Silver Exchange Society and the Loco London gold market. The society provides trading of both tael and kilo bars[3]. Prices track closely those in the major gold markets in London, Zurich and New York. In addition, Hong Kong is one of Asia's largest over-the-counter gold trading centres.

In addition to operating Hong Kong's securities and derivatives markets, HKEx also owns the London Metal Exchange (LME). The LME is the world centre for industrial metals trading and price-risk management. More than 80 per cent of global non-ferrous business is conducted on the LME and its prices are used as the global benchmark. The LME registered another record trading year in 2013, with 171.1 million lots transacted, up 7.1 per cent from 2012. HKEx is building a clearing house in London, LME Clear, to support the LME's commodity business.

## Major Initiatives in 2013

Continuous efforts were made in 2013 to enhance Hong Kong's competitiveness as an international financial centre. The government continues to work closely with regulators and the industry to align with the international regulatory reform agenda to promote stability of the financial system, improve market quality and strengthen investor protection. It also continues to press ahead with various initiatives to consolidate Hong Kong's leading role as the Asia-Pacific region's asset management centre, advance financial co-operation with the Mainland, further develop offshore RMB business and enhance the functions of its funding platform.

3 Tael bars are of 99 per cent fineness and weighted in taels (one tael equals approximately 1.20337 troy ounces). Kilo bars are of 999.9 parts per thousand fineness and weighted in kilograms.

## Enhancing Hong Kong's Competitiveness as an International Financial Centre

To build on Hong Kong's strength as China's global financial centre, the government has been working to enhance the quality of the local financial markets and increase their depth and breadth, to keep abreast of local and international developments and to further optimise Hong Kong's regulatory framework. The financial services industry also provides a catalyst for the growth of related sectors such as professional and commercial services. High quality financial services underpin Hong Kong's position as an international business hub, helping local enterprises to seize business opportunities and attracting Mainland and overseas companies to use Hong Kong as a platform for raising funds and developing regional business.

### *Fund-raising Centre*

The SEHK attracted 110 new listings in 2013 (including eight transfers of listing from the Growth Enterprise Market to the Main Board). Apart from Mainland and Hong Kong companies, five companies (from Malaysia, Japan, Macau, Singapore and the United States) also listed on the SEHK in 2013. Newly listed companies are attracted by the market's liquidity and access to investors across Asia. The SEHK is working to accept more overseas jurisdictions as places of incorporation.

### *Regulation of Corporate Conduct*

The new statutory regime on disclosure of inside information came into effect on 1 January 2013. It aims to cultivate and encourage a culture of timely disclosure by listed companies to the investing public. The Securities and Futures Commission (SFC) monitors listed companies' compliance with the regime to promote enhanced disclosure, foster a change in corporate culture and facilitate timely regulatory action in cases of non-compliance.

The new requirements for IPO sponsors took effect on 1 October 2013. They emphasise early, comprehensive due diligence and a properly drafted prospectus, and encourage sponsors to take a responsible, proactive and constructive role when leading IPOs.

In addition, the SFC established a dedicated corporate regulation team to review company announcements, circulars and reports and conduct periodic in-depth reviews of companies, in line with a broader and more proactive approach in the SFC's oversight of corporate conduct of listed companies.

### *Regulation of Electronic Trading*

In March 2013, the SFC issued the conclusions to a July 2012 consultation on the regulation of electronic trading, and strengthening the regulatory framework. It is planned to implement the enhanced regulatory framework (spelling out compliance responsibilities and regulatory standards for intermediaries) in January 2014.

### *Developing an Uncertificated Securities Market*

Hong Kong currently has a paper-based securities market regime. Following earlier consultation, the government proposes to progress to an uncertificated securities regime, allowing investors to hold and transfer legal ownership, instead of beneficial interest only, in securities in uncertificated form. This will enhance the securities market's overall efficiency and competitiveness, strengthen corporate governance, and improve investor protection. The government plans to introduce a bill into the Legislative Council in the second quarter of 2014 to provide the regulatory framework for the uncertificated securities market regime.

### *Asset Management and Private Wealth Management*

The city's combined fund management business was valued at $12,587 billion at the end of 2012, about 65 per cent of which came from non-Hong Kong investors, indicating that overseas investors see Hong Kong as an attractive investment platform[4]. At the end of 2013, there were 1,908 unit trusts and mutual funds authorised by the SFC[5].

To enhance the operational, regulatory and tax environment for fund managers in Hong Kong, the Financial Secretary announced in the 2013-14 Budget a number of measures to further develop the business, including a proposal to allow private equity funds to enjoy tax exemption as offshore funds, and an initiative to introduce a legal and regulatory framework for the open-ended investment company as a legal form of funds to be domiciled in Hong Kong.

The Private Wealth Management (PWM) Association, established by the PWM industry in 2013 to promote proper conduct, integrity and professional competence of PWM practitioners, has been working closely with the regulators and professional training institutes in developing a framework covering the requisite level of competence and on-going professional development of PWM practitioners.

### *Trust Law Reform*

Hong Kong's reformed trust laws came into effect on 1 December 2013, enhancing Hong Kong's status as an international asset management centre and giving Hong Kong a competitive edge over other major common law jurisdictions by enabling settlors to establish perpetual trusts in Hong Kong and ensuring that the allocation of the assets of trusts set up in Hong Kong would not be affected by other jurisdictions' forced heirship rules.

### *Preparing for Implementation of the new Companies Ordinance*

Following the 2012 enactment of the new Companies Ordinance, which will provide a modernised legal framework for the incorporation and operation of companies in Hong Kong, the remaining 12 pieces of subsidiary legislation were enacted in 2013. The new regime seeks to enhance corporate governance, ensure better regulation, facilitate business and modernise the law, thereby consolidating Hong Kong's status as a major international business and financial centre. In preparation for the new ordinance's commencement on 3 March 2014, the Companies Registry upgraded its IT system, reviewed its procedures and forms and carried out a series of promotional and educational activities (including issuing circulars, pamphlets and guidelines and conducting briefings) to enhance public awareness of the major changes introduced by the new ordinance.

---

4 Figures are quoted from the Fund Management Activities Survey for 2012, a survey conducted by the SFC annually to collect information and data on the general state of affairs in the local fund management industry.

5 It includes 116 MPF pooled investment funds offered both as retail unit trusts and for mandatory provident fund purposes.

### *Improvement of Corporate Insolvency Law*

The government conducted public consultation on a package of legislative proposals to improve the corporate insolvency law in mid-2013. The proposals seek to facilitate more efficient administration of the winding-up process and increase protection of creditors through streamlining and rationalising the company winding-up procedures and enhancing regulation of the winding-up process having regard to international experience. The government plans to introduce an amendment bill into the Legislative Council in the 2014-15 legislative session.

### *Development of the Bond Market*

The Government Bond Programme (GBP) was established in 2009 to promote the further and sustainable development of the bond market in Hong Kong. In May, the Legislative Council passed a resolution raising the borrowing ceiling under the GBP from $100 billion to $200 billion providing further room for the on-going implementation of the GBP.

Bonds totalling $20 billion were issued to institutional investors under the GBP in 2013, attracting a diverse group of investors. In June, the government issued a $10 billion inflation-linked retail bond (iBond), with a tenor of three years, for the third time under the GBP to Hong Kong residents to promote further development of the retail bond market in Hong Kong. At the end of 2013, outstanding HKD debts, including Exchange Fund Bills and Notes, totalled $1.42 trillion.

### *Developing Islamic Finance*

The government continued to create an environment conducive to the development of Islamic finance in Hong Kong in collaboration with the financial regulators and the private sector. The Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013, providing a tax framework for Islamic bonds (*sukuk*) comparable to that for conventional bonds, was enacted by the Legislative Council in July 2013.

### *Establishment of the Financial Services Development Council*

The government established the Financial Services Development Council (FSDC) in January 2013 as a high-level and cross-sectoral advisory body to engage the industry and formulate proposals to promote the further development of Hong Kong's financial services industry and map out the strategic direction for development. In November the FSDC released six research reports containing proposals on the strategic development of Hong Kong's financial services industry.

### *Alignment with International Agenda, Improving Market Quality and Financial Consumer Education and Protection*

Following the global financial crisis in 2008, a number of international financial centres have pledged to pursue a series of regulatory reform initiatives under the G20 agenda to enhance the resilience and stability of the global financial system. These include Basel III implementation, regulation of the over-the-counter (OTC) derivative market and establishment of effective resolution regimes.

### *Basel III Implementation in Hong Kong*

Hong Kong follows the international timeline of the Basel Committee on Banking Supervision (BCBS) for implementing the Basel III reform package. The first phase of Basel III capital standards was implemented with effect from 1 January 2013. The associated disclosure standards, alongside further technical refinements to reflect the BCBS's latest guidance on the Basel III capital standards, were implemented with effect from 30 June through the enactment of the Banking (Disclosure) (Amendment) Rules 2013 and the Banking (Capital) (Amendment) Rules 2013.

### *Regulation of OTC Derivatives*

To give effect to the OTC derivative regulatory regime, the Securities and Futures (Amendment) Bill 2013 was introduced to the Legislative Council in July and is being examined by the Legislative Council. The SFC and the HKMA are preparing the related subsidiary legislation. OTC Clearing Hong Kong Limited, a subsidiary of HKEx, has commenced operation in November to provide clearing services for OTC derivatives. Initially it provides clearing services for plain vanilla interest rate swaps and non-deliverable forwards.

### *Development of an effective Resolution Regime for Financial Institutions in Hong Kong*

According to the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) published by the Financial Stability Board in November 2011, relevant authorities are to be vested with the resolution powers in resolving financial institutions in an orderly manner and without exposing taxpayers to the risk of loss from solvency support, while maintaining continuity of their vital economic functions.

In order to meet the standards, it will be necessary for Hong Kong to vest in its relevant authorities the resolution powers set out in the Key Attributes for resolving financial institutions which are deemed systemically significant or critical if they fail. A two-stage public consultation will be launched in 2014 on bridging the gaps in Hong Kong's resolution regimes for different types of financial institutions relative to the Key Attributes (in the first stage) and specific details and operation of the resolution regime (second stage). The government aims to introduce legislative proposals into the Legislative Council in 2015.

### *Auditor Regulatory Reform*

The international trend is that the oversight of the regulation of auditors is independent of the profession itself. The government has been discussing with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants reforms to Hong Kong's auditor regulatory regime so that it complies with international standards and the government plans a public consultation on the reform proposals in 2014.

### *Establishment of an Independent Insurance Authority*

The policy objectives of setting up an independent Insurance Authority (IIA) are to modernise the insurance industry regulatory infrastructure to facilitate the industry's stable development, provide better protection for policyholders, and align with international practice that financial regulators should be financially and operationally independent of the government. The government plans to introduce the enabling legislation into the Legislative Council in 2014.

### *Policyholders' Protection Fund*

The government is preparing the enabling legislation to establish a Policyholders' Protection Fund to enhance market stability and provide a safety net for policyholders in the event of an insurer's insolvency.

### *Enhanced Regulation of Investment-linked Assurance Scheme Products*

The Insurance Authority continues to work closely with the Hong Kong Federation of Insurers (HKFI), the HKMA and the SFC to formulate policyholder protection measures relating to the sale of Investment Linked Assurance Scheme (ILAS) products. New measures were introduced in 2013 to improve the transparency of product features at the point-of-sale, make sure that investors were aware of their rights to seek information on remuneration receivable by insurance intermediaries, and extend audio-recorded post-sale confirmation calls (originally limited to vulnerable policyholders) to all policyholders. In July, the Investor Education Centre also rolled out a campaign to enhance public understanding of ILAS products.

### *New Regulatory Regime for Stored-Value Facilities and Retail Payment Systems*

Public consultation was launched in May on proposals to establish a regulatory regime for stored value facilities and retail payment systems in Hong Kong to ensure the safety and soundness of such products and services and to maintain public confidence in payment systems. The proposed legislative amendments will be introduced to the Legislative Council in the 2014-15 legislative year.

### *Investor Education Centre*

Established in November 2012 as a subsidiary of SFC and supported by all the four financial regulators in Hong Kong (the SFC, the HKMA, the Mandatory Provident Fund Schemes Authority, and the OCI), the Investor Education Centre (IEC) aims to improve financial literacy in Hong Kong[6] and better equip the general public with skills and knowledge to make informed financial decisions and manage their money wisely.

In 2013, the IEC released its three-year strategic plan (2013-2016), launched a wide range of education campaigns and workshops, and provided resources to help educate and inform the public about financial planning, money management, investing concepts, financial products, as well as the importance of consumer and investor rights and responsibilities.

### *Financial Dispute Resolution Centre*

The Financial Dispute Resolution Centre (FDRC) was established in 2012 to provide an independent, accessible and efficient avenue for resolving monetary disputes between individual clients and financial institutions. Since its establishment, the FDRC has endeavoured to promote mediation as a means to resolve disputes among financial institutions and investors. To help the community better understand how FDRC services may help resolve their monetary disputes with financial institutions, FDRC launched a free public enquiry meeting service in

---

6 The Securities and Futures Ordinance mandates the SFC to help the public understand financial products and services and their risks. In this connection the SFC's investor education function is delegated to its subsidiary, the IEC.

January. At these meetings, FDRC Case Officers meet individual members of the public to explain the case intake criteria, mediation and arbitration processes, and answer questions.

## Hong Kong as China's Global Financial Centre — Financial Co-operation with the Mainland

### *Capital Formation Centre and Global Investment Platform for the Mainland*

Hong Kong's fundamental strengths make it an ideal provider to Mainland enterprises of top class investment banking services for mergers and acquisitions as well as consultancy on restructuring. The growing presence of Mainland companies listed on the SEHK in turn has increased the breadth and depth of Hong Kong's securities and futures markets through a greater diversity of constituent stocks in the equity market and a wider range of products. Mainland enterprises also raise capital in Hong Kong through the issuance of bonds, project financing and loan syndication.

### *Development of Offshore RMB Business*

In 2013, the offshore RMB business in Hong Kong gained further momentum. Banks in Hong Kong handled RMB trade settlement of RMB3,841 billion in 2013, representing a 46 per cent growth as compared to 2012. Hong Kong's RMB liquidity pool has expanded steadily. At the end of 2013, the RMB customer deposits and outstanding RMB certificates of deposit issued amounted to RMB860 billion and RMB193 billion respectively, totalling RMB1,053 billion, up 46 per cent compared with RMB720 billion at the end of 2012.

Meanwhile, RMB financing activities remained buoyant. There was a significant growth in RMB bank lending, with the outstanding amount of RMB loans increasing to RMB116 billion at the end of 2013, from RMB79 billion at the end of 2012. RMB bond issuance in Hong Kong (or so-called 'dim sum bond') totalled RMB117 billion in 2013 and outstanding RMB bonds amounted to RMB310 billion at the end of 2013, up more than 30 per cent from the end of 2012. In 2013, the Central People's Government issued sovereign bonds twice with total size of RMB23 billion and regularised the issuance programme. Retail investors in Hong Kong were able to subscribe for sovereign bonds for the first time through participants of HKEx's Central Clearing and Settlement System (or CCASS). In June the CNH Hong Kong Interbank Offered Rate fixing (CNH HIBOR fixing) was launched, providing a reliable benchmark for the pricing of loan facilities and helping the development of the RMB financing market.

Hong Kong is also the world's largest offshore RMB investment product market. A wide range of RMB products (including investment funds (both listed and unlisted), insurance products, currency futures, real estate investment trusts, shares and derivative products) are available in the market. The Renminbi Qualified Foreign Institutional Investors (RQFII) scheme was expanded further in March, allowing financial institutions which are registered and have major operations in Hong Kong to apply for RQFII status and relaxing the investment restriction of RQFII funds, thereby enriching the types of RMB products. Qualified institutions continued to show interest in developing RQFII products in Hong Kong. With the expansion of the RQFII scheme, the number of RQFII fund management companies managing SFC-authorised RQFII funds increased from 19 at the end of 2012 to 24 at the end of 2013. In August, the first RQFII A-share exchange-traded fund (ETF) tracking an index from China Exchanges Services Company

Limited (an HKEx joint venture with the Shanghai and Shenzhen stock exchanges) was listed on the SEHK. In November, the first RQFII A-share ETF managed by a local financial institution was launched and listed on the SEHK. At the end of 2013, there were 26 SFC-authorised RQFII unlisted funds with an aggregate net asset value of RMB13.2 billion and 11 SFC-authorised RQFII A-share ETFs adopting dual counter trading arrangements (ie RMB and HKD trading counters) with an aggregate net asset value of RMB36.8 billion. The scheme continues to promote the development of a broader range of RMB investment offerings in Hong Kong and to reinforce the city's role as the leading offshore RMB centre.

Other RMB-based product developments in 2013 included RMB-denominated money market funds for investment by mandatory provident fund schemes; dual-counter RMB 'dim sum bond' index ETFs; equity-linked investments with RMB features; and an RMB share class offered by an SFC-authorised fund with underlying investments mostly in non-RMB denominated assets.

Since the pilot scheme for eligible institutions to invest in the Mainland's interbank bond market was extended to insurance companies in Hong Kong in 2012, 11 Hong Kong insurance companies have been permitted to invest in the Mainland's interbank bond market.

Hong Kong's role as a platform to support global RMB payments has been deepening. In December 2013, the average daily turnover of Hong Kong's RMB RTGS system amounted to RMB500 billion. At the end of 2013, there were a total of 216 banks participating in the RMB clearing platform in Hong Kong, of which 191 were branches and subsidiaries of foreign banks and overseas presence of Mainland banks, forming a global RMB payment network covering some 40 countries and regions. According to statistics from the Society for Worldwide Interbank Financial Telecommunication (or SWIFT), Hong Kong handled around 70-80 per cent of global RMB payments.

### *Mutual recognition of funds between the Mainland and Hong Kong*

The SFC has been working with Mainland authorities on a proposed arrangement for mutual recognition of funds between the Mainland and Hong Kong. Under the proposed arrangement, qualified SFC-authorised funds which are domiciled in and operating from Hong Kong would enjoy the status of 'recognised Hong Kong funds' and qualified Mainland funds would enjoy the status of 'recognised Mainland funds'. These funds could then obtain authorisation subject to a streamlined vetting process and be sold directly in each other's market. When implemented, a mutual recognition arrangement would bring new opportunities to investors and fund managers both on the Mainland and in Hong Kong.

### *Mainland and Hong Kong Closer Economic Partnership Arrangement*

The Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong, which came into force in 2004, gives Hong Kong's financial service providers and professionals greater market access and flexibility for their Mainland operations. It has also enhanced Hong Kong's attractiveness to market users and strengthened the city's competitiveness as an international financial centre and the premier capital formation centre for Mainland enterprises.

On 29 August 2013, the Central People's Government and the Hong Kong Special Administrative Region Government signed Supplement X to CEPA, which further strengthened co-operation in the following financial services:

(a) Banking: A Hong Kong bank's operating institution in the Mainland which has obtained approval to conduct RMB business for Hong Kong enterprises may provide service to enterprises in the Mainland that are recognised as owned by Hong Kong investors, even if the investors are based in a place other than Hong Kong;

(b) Securities: Allowing Hong Kong-funded securities companies to make reference to the securities assets being managed by the respective group when applying for Qualified Foreign Institutional Investors (QFII) status; allowing qualified Hong Kong-funded financial institutions to set up joint-venture fund management companies in the Mainland, and the Hong Kong-funded institutions' shareholding in the joint venture can exceed 50 per cent; allowing Hong Kong-funded financial institutions which satisfy the requirements for establishing foreign-invested securities companies to set up one full-licensed joint venture securities company each in Shanghai, Guangdong Province and Shenzhen with the Hong Kong-funded institutions permitted to hold up to 51 per cent of the aggregate shareholding, and the Mainland shareholders are not restricted to securities companies; allowing Hong Kong-funded financial institutions which satisfy the requirements for establishing foreign-invested securities companies to set up one new full-licensed joint venture securities company each in certain reform experiment zones for 'piloting financial reforms' as approved by the Mainland with the Hong Kong-funded institutions permitted to hold up to 49 per cent of the aggregate shareholding and the requirement for a single Mainland shareholder to hold 49 per cent of shareholding in the joint venture removed; and allowing Hong Kong-funded securities companies to hold more than 50 per cent shareholding in joint venture securities investment advisory companies in certain reform experiment zones for 'piloting financial reforms' as approved by the Mainland; and

(c) Insurance: Supporting qualified Hong Kong insurers to take part in compulsory traffic accident liability insurance business in the Mainland.

## Banking Sector

### *Main Features*

Hong Kong maintains three tiers of deposit-taking institutions: licensed banks (LBs), restricted licence banks (RLBs) and deposit-taking companies (DTCs)[7]. They are known collectively as 'authorised institutions' (AIs) under the Banking Ordinance[8] and are licensed by the HKMA.

7 Only LBs may conduct full banking services, including in particular the provision of current and savings accounts and acceptance of deposits of any size and maturity. RLBs may take deposits of any maturity of $500,000 or above. DTCs may take deposits of $100,000 or above with an original maturity of at least three months.

8 The Banking Ordinance provides the legal framework for banking supervision in Hong Kong. Under the ordinance, the HKMA is the licensing authority responsible for granting and revoking the authorisation of all AIs, and the approval and revocation of money broker licences.

Hong Kong has one of the highest concentrations of banking institutions in the world. At the end of 2013, there were 156 LBs, 21 RLBs and 24 DTCs. These 201 AIs maintained a network of more than 1,380 local branches. There were also 62 representative offices of banks incorporated outside Hong Kong.

### *Hong Kong Monetary Authority*

The HKMA's objectives are to maintain currency stability within the framework of the linked exchange rate system through sound management of the Exchange Fund, monetary policy operations and other means deemed necessary; to promote safety and stability of the banking system through the regulation of banking business, the business of taking deposits and the supervision of AIs; and to promote efficiency, integrity and development of the financial system, particularly the payment and settlement arrangements.

The HKMA is an integral part of the government, but can employ staff on terms that differ from those of the civil service to attract personnel of the appropriate experience and expertise. The HKMA is accountable to the Financial Secretary, who is advised by the Exchange Fund Advisory Committee on investment policies and strategies for the Exchange Fund and on projects that are charged to the Exchange Fund, such as the development of financial infrastructure.

The Banking Advisory Committee and the Deposit-taking Companies Advisory Committee are established under the Banking Ordinance to give advice on relevant policy matters. They are chaired by the Financial Secretary and comprise members from the banking industry and other professions.

The HKMA seeks to maintain a regulatory framework that is fully in line with international standards. The aim is to devise a prudential supervisory system to help preserve the general stability and effective operation of the banking system, while at the same time providing sufficient flexibility for AIs to make commercial decisions.

### *Recent Developments*

The Hong Kong banking sector remained robust in 2013, despite the heightened uncertainties in the global economy and external environment. Credit growth was high during the year but asset quality remained sound. The liquidity ratio was healthy and locally incorporated AIs continued to be well capitalised.

At the end of 2013, AIs' total deposits and the loans and advances extended by AIs totalled $9,178 billion and $6,457.4 billion respectively, 10.6 per cent and 16 per cent higher than a year earlier. AIs' total assets also rose 14 per cent, to $16,943.5 billion.

Statistics on AIs

| | | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| AIs | | 198 | 200 | 201 |
| Of which: | LBs | 152 | 155 | 156 |
| | RLBs | 20 | 21 | 21 |
| | DTCs | 26 | 24 | 24 |
| Local branches of AIs | | 1,422 | 1,404 | 1,384 |
| Total deposits ($ billion) | | 7,591.3 | 8,296.4 | 9,178 |
| Total loans and advances ($ billion) | | 5,080.7 | 5,566.8 | 6,457.4 |
| Total assets ($ billion) | | 13,741.9 | 14,858.7 | 16,943.5 |

The HKMA has always been vigilant towards AIs' property mortgage business, which constitutes a significant portion of their lending portfolios. Against this background, the HKMA introduced in February the sixth round of macroprudential measures to strengthen the resilience of the banking sector against a severe adjustment in property prices. These measures included increasing the interest rate hike assumption for stress testing borrowers' repayment ability, lowering the applicable loan-to-value ratio limits for non-residential property mortgages and introducing a 15 per cent risk weight floor for all new residential mortgage loans granted by banks using the Internal Ratings-Based Approach.

## Securities and Futures Sector

### *Main Features*

The securities market in Hong Kong is operated by the SEHK and the futures market by the Hong Kong Futures Exchange Limited, both being wholly owned subsidiaries of the HKEx. At the end of 2013, there were 1,643 companies listed on the Main Board and the Growth Enterprises Market (GEM) of the SEHK with a total market capitalisation of about $24 trillion. With improved financial market conditions, total equity funds raised increased 24 per cent in 2013 to $379 billion during the year, while total turnover of the securities market increased by 14.8 per cent, to $15,265 billion, with 34,439.7 billion shares traded.

In 2013, 16 new ETFs were authorised and the total number of ETFs listed on the SEHK increased to 116, offering a wide range of investment exposures to world, regional and Mainland indices and commodities for investors. Issuance of ETFs with dual HKD and RMB trading counters also increased significantly, with nine such funds raising a total of HK$6.55 billion during 2013, tracking a variety of onshore equity and bond indices as well as commodities. According to the HKEx, turnover of ETFs reached $903.1 billion.

Since October 2011, managers of synthetic ETFs primarily regulated by the SFC were required to achieve and maintain at least 100 per cent collateralisation to minimise the risk that could arise from the use of financial derivatives by synthetic ETFs in replicating index performance.

Statistics on Securities Market (Main Board and GEM)

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Number of listed companies (year-end) | 1,496 | 1,547 | 1,643 |
| Total market capitalisation (year-end) ($ billion) | 17,537 | 21,950 | 24,043 |
| Total equity funds raised ($ billion) | 490 | 305 | 379 |
| Total securities market turnover ($ billion) | 17,154 | 13,301 | 15,265 |
| Total number of shares traded (billion) | 39,907 | 33,968 | 34,440 |
| Number of derivative warrants (DWs) listed (year-end) | 4,027 | 3,747 | 4,715 |
| Turnover of DWs ($ billion) | 2,630 | 1,646 | 1,783 |
| Number of Callable Bull/Bear Contracts (CBBCs) listed (year-end) | 901 | 1,214 | 1,620 |
| Turnover of CBBCs ($ billion) | 1,852 | 1,533 | 1,269 |
| Number of ETFs listed (year-end) | 77 | 100 | 116 |
| Turnover of ETFs ($ billion) | 545 | 522 | 903 |

In the derivatives market, around 130 million futures and options contracts were traded in 2013, 8.5 per cent more than in 2012. Trading of major derivatives products included Hang Seng Index (HSI) Futures with total turnover of 19.6 million contracts; H-shares Index Futures with total turnover of 20.9 million contracts; HSI Options with total turnover of 8.6 million contracts; H-shares Index Options with total turnover of 8 million contracts; and Stock Options with total turnover of 60.8 million contracts.

Statistics on Derivatives Market Turnover (million contracts)

| | | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| All options and futures contracts | | 140 | 120 | 130 |
| Of which: | HSI Futures | 23 | 20 | 20 |
| | H-shares Index Futures | 15 | 16 | 21 |
| | HSI Options | 11 | 9 | 9 |
| | H-shares Index Options | 4 | 6 | 8 |
| | Stock Options | 74 | 56 | 61 |

At the end of 2013, there were 29 automated trading services providers, comprising mainly foreign exchanges and regulated entities, authorised by the SFC to provide automated trading services in Hong Kong. Automated trading services are services provided by means of electronic facilities, not being facilities provided by a recognised exchange company or a recognised clearing house, to transact or settle transactions in securities or futures contracts.

### *Securities and Futures Commission*

The SFC is the statutory regulator of Hong Kong's securities and futures markets. The SFC's work is defined and governed by the Securities and Futures Ordinance and broadly speaking can be divided into five areas: intermediaries, market infrastructure and trading, listing and takeovers, investment products, and enforcement.

Intermediaries – The SFC's licensing regime sets standards with which industry practitioners seeking to be, and to remain, licensed must comply. It supervises licensed corporations, including stockbrokers, investment banks, futures and leveraged forex dealers, fund managers, investment advisers and credit rating agencies in Hong Kong, with a particular focus on their business conduct and financial soundness.

Market infrastructure and trading – The SFC supervises market operators, namely, the HKEx's exchanges and clearing houses, and automated trading services, including overseas exchanges operating in Hong Kong.

Listing and takeovers – The SFC oversees the listing-related functions of the SEHK, mergers, takeovers and share repurchases of public companies. It monitors announcements of listed companies and vets listing applications alongside the SEHK, in addition to granting approval for the creation of new listed products and enhancing listing rules.

Investment products – The SFC helps to develop Hong Kong both as an asset management centre and a premier offshore RMB centre. While facilitating market growth and product innovation, it continues to perform its gate-keeping functions in authorising investment products offered to the public and monitoring their compliance with disclosure and other requirements.

Enforcement – The SFC takes firm and prompt action in combating misconduct and malpractice in the securities and futures markets. It has statutory powers to discipline licensed intermediaries through reprimands, suspension of licences and imposing fines. It can also take market misconduct cases, such as insider dealing and market manipulation, directly to the Market Misconduct Tribunal for hearing[9]. Through prosecution and disciplinary action against rule-breakers, it strives to protect the investing public and send strong deterrent messages to the markets.

The SFC's powers are subject to external checks and balances, designed to ensure fairness in its decision-making, observance of due process and proper use of its regulatory powers. Specified SFC decisions are subject to review by the Securities and Futures Appeals Tribunal. The SFC's procedures, actions and decisions are also subject to other checks and balances including the Process Review Panel for the SFC, the Ombudsman, and the courts.

### *Recent Developments*

At the end of 2013, there were 38,985 licensed entities, including securities brokers, futures dealers, investment advisors and fund managers, as well as their representatives, and 121 registered institutions, such as banks, engaging in regulated activities such as dealing and advising on securities and futures.

---

9 The tribunal is an independent body established under the Securities and Futures Ordinance, and is chaired by a judge or former judge of the High Court who sits with two members.

Statistics on Licensing for SFC-regulated Activities (year-end)

| | | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Licensed entities | | 39,296 | 39,119 | 38,985 |
| Of which: | Licensed corporations | 1,804 | 1,897 | 1,956 |
| | Licensed individuals | 37,492 | 37,222 | 37,029 |
| Registered institutions | | 110 | 117 | 121 |

In 2013, the SFC enhanced regulation related to intermediaries, including the new IPO sponsor regime, and updated regulation of electronic trading. A three-month consultation was also launched in May 2013, on proposals concerning the professional investor regime. The key proposals include requiring intermediaries to comply with all Code of Conduct[10] requirements when dealing with investors who are individuals, including their wholly owned investment vehicles and family trusts, and streamlining the criteria under the Code of Conduct in assessing the knowledge and experience of corporate professional investors by removing specific tests (eg the 40 transactions per annum requirement).

The SFC's Risk and Strategy unit conducted a series of meetings with senior executives of global systemically important financial institutions (G-SIFIs) between March and August 2013 and subsequently published the 'Risk-focused Industry Meeting Series: G-SIFI Trends in Risk and Risk Mitigation' report in December.

On the enforcement front, in 2013, disciplinary action against SFC licensees involved 35 individuals and 10 corporations with fines totalling $40.29 million; separately, 18 individuals and seven corporations were successfully prosecuted for various criminal offences, including insider dealing, illegal short-selling and market manipulation.

High profile cases during the year included legal proceedings commenced against a former chairman of another listed company over alleged embezzlement of corporate assets and false accounting. The SFC is seeking orders that the company be repaid $84 million. In addition, the SFC applied for the first time to wind up a listed company under the Securities and Futures Ordinance to protect the interests of its shareholders, creditors, and the investing public.

Separately, the SFC has secured a court order against an asset management company and three of its officers to return over $45 million to around 1,800 investors. The SFC has also secured an order from the Court of First Instance against an insider dealer, an ex-managing director of an investment bank, to pay $23.9 million to 297 investors.

The Market Misconduct Tribunal heard two cases and one case was concluded in 2013 in which a person was ordered to disgorge profits of $21.1 million arising from misconduct and was disqualified from being a company director for a period of nine months.

---

10 The Code of Conduct for Persons Licensed by or Registered with the SFC.

## Insurance Sector

### *Main Features*

At the end of 2013, there were 155 authorised insurers, 85 of which were incorporated in Hong Kong while the remaining 70 were incorporated in the Mainland or overseas jurisdictions.

During the past five years, the Hong Kong insurance industry achieved an average annual growth of 9 per cent. In 2013, the total gross premiums of the Hong Kong insurance industry amounted to $290.7* billion, representing an increase of 10.4 per cent over 2012. The total revenue premiums[11] of in-force long term business rose by 10.9 per cent to $248.6* billion in 2013. Individual life insurance remained the leading business, accounting for $228* billion or 91.7* per cent of total revenue premiums, while the corresponding number of policies stood at 10.5* million.

General insurance business rose in money terms from $39.2 billion in 2012 to $42.1* billion in 2013, representing a 7.4 per cent increase in gross premiums. The growth was largely led by insurance policies relating to general liability business (comprising employees' compensation business) and property damage business. The overall underwriting performance of general insurance business increased from $2 billion in 2012 to $3* billion in 2013, due to the increase in the underwriting profit of ships, property damage and motor vehicle businesses.

At the end of December 2013, there were 77,946 individual insurance intermediaries, comprising 9,198 Chief Executives or Technical Representatives (TRs) of 632 broker firms, 27,425 Responsible Officers or TRs of 2,464 agency firms, and 41,296 individual agent and their 27 TRs.

Statistics on Insurance Business

| | | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Number of authorised insurers | | 163 | 155 | 155 |
| Of which: | Incorporated in Hong Kong | 85 | 83 | 85 |
| | Incorporated in the Mainland or overseas | 78 | 72 | 70 |
| Premium income ($ billion) | | 233.7 | 263.3 | 290.7* |
| Total gross premiums | | | | |
| Of which: | Long-term in-force business (Office / Revenue premiums) | 198.9^ | 224.1^ | 248.6*# |
| | General insurance (Gross premiums) | 34.8 | 39.2 | 42.1* |

* Provisional statistics
^ Office premiums
# Revenue premiums

* Provisional statistics.

11 The premiums actually received during the financial year.

### *Insurance Authority*

Appointed by the Chief Executive as the Insurance Authority (IA) under the Insurance Companies Ordinance, the Commissioner of Insurance's principal function is to regulate and supervise the insurance industry to promote its general stability and protect policyholders[12]. The Insurance Advisory Committee advises the Chief Executive on matters relating to the administration of the Insurance Companies Ordinance and the carrying on of insurance business in Hong Kong.

As a member of the International Association of Insurance Supervisors (IAIS), Hong Kong is also required to observe international principles and standards in its insurance supervisory regime.

### *Recent Developments*

In response to the financial crisis and its impact on the global insurance industry, the IAIS revamped international standards to strengthen insurance supervision. The IA is examining the standards and their application in Hong Kong, taking local circumstances into account. To align with the international regulatory trend, the IA is currently developing a framework for a risk-based capital regime for the insurance industry in Hong Kong.

The IA works closely with regulators in other jurisdictions in regulating major insurance groups. In 2013, the IA continued to participate in supervisory colleges organised by the home regulators of such groups.

## Mandatory Provident Fund Schemes and Occupational Retirement Schemes

### *Main Features*

The Mandatory Provident Fund (MPF) System, implemented in 2000 to assist the workforce to save for retirement, is a privately managed, employment-related mandatory system of provident fund schemes. Unless exempted, employees and self-employed persons (SEPs) who are aged 18 to 64 are required to join an MPF scheme.

An employee and his or her employer are both required to contribute five per cent of the employee's relevant income (RI) to an MPF scheme as mandatory contributions for and in respect of the employee, subject to a maximum RI level for MPF contribution purposes. An employee whose income is less than the minimum RI level is not required to contribute. SEPs also have to contribute five per cent of their RI as mandatory contributions, subject to the minimum and maximum RI levels. Accrued benefits (ie accumulated contributions and investment returns) of an employee can be transferred to another MPF scheme when the employee changes employment or ceases to be employed. Employees may also elect to

---

12 The Insurance Companies Ordinance prescribes a regulatory framework for all classes of insurance business to ensure the financial stability of all insurers authorised in Hong Kong and the fitness and propriety of their management. The IA may take appropriate actions under the ordinance against an insurer to safeguard the interests of policyholders.
The ordinance also sets out the self-regulatory framework for insurance intermediaries. The self-regulatory organisations include the Insurance Agents Registration Board under the HKFI, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association.
With effect from 1 November 2012, the IA assumed the statutory role of ensuring compliance by MPF intermediaries from the insurance sector with the conduct requirements stipulated in the Mandatory Provident Fund Schemes Ordinance.

transfer from their current contribution accounts the accrued benefits derived from the employees' mandatory contributions made during the current employment to another MPF scheme on a lump sum basis once every calendar year. Accrued benefits derived from mandatory contributions must be preserved until a scheme member reaches the retirement age of 65, unless the member meets a statutory condition for early withdrawal of benefits. At the end of 2013, 99 per cent of employers (about 264,400), 100 per cent of relevant employees (about 2,485,300) and 62 per cent of self-employed persons (about 212,400) participated in MPF schemes. Total NAV of MPF schemes amounted to about $514 billion.

Unlike MPF schemes, occupational retirement schemes (ORSO schemes) operated under the Occupational Retirement Schemes Ordinance (ORSO) are voluntary schemes set up by employers. To tie in with the implementation of the MPF System in 2000, operators of ORSO schemes that fulfil certain conditions may apply for exemption from MPF requirements. Members of ORSO schemes that have been granted exemption may choose to remain in the existing ORSO scheme or join an MPF scheme. At the end of 2013, 3,601 ORSO schemes registered under the ORSO were exempted from MPF requirements.

Statistics on MPF Schemes and MPF-exempted ORSO Registered Schemes (year-end)

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| MPF Enrolment | | | |
| Number of participating employers | 252,500 | 259,800 | 264,400 |
| Number of participating relevant employees | 2,341,200 | 2,375,100 | 2,485,300 |
| Number of participating SEPs | 229,400 | 220,400 | 212,400 |
| Estimated MPF Enrolment Rate (per cent) | | | |
| Employers | 98 | 100 | 99 |
| Relevant employees | 99 | 99 | 100 |
| SEPs | 70 | 65 | 62 |
| MPF Schemes | | | |
| Number of registered schemes | 41 | 41 | 41 |
| Number of approved constituent funds | 445 | 464 | 477 |
| Aggregate NAV of all MPF schemes ($ billion) | 356 | 440 | 514 |
| MPF-exempted ORSO Registered Schemes | | | |
| Number of MPF-exempted ORSO registered schemes | 3,804 | 3,705 | 3,601 |
| Number of participating employees in MPF-exempted ORSO registered schemes | 369,865 | 361,083 | 351,497 |
| Aggregate NAV of MPF-exempted ORSO registered schemes ($ billion) | 251 | 250 | 273 |

### *Mandatory Provident Fund Schemes Authority*

The Mandatory Provident Fund Schemes Authority (MPFA) was established under the Mandatory Provident Fund Schemes Ordinance to regulate, supervise and monitor the operation of the MPF System. It is also the Registrar of Occupational Retirement Schemes. Its prime objectives are to ensure compliance with MPF legislative requirements and protect the interests of scheme members. The MPFA monitors MPF trustees and other service providers, investigates cases of non-compliance, conducts proactive inspections, and takes enforcement action where necessary. It also arranges programmes to strengthen scheme members' understanding of the MPF System, publicise significant changes to the system and educate scheme members on practical issues about managing MPF investment. The MPFA's operations are primarily financed by investment returns generated from a one-off Capital Grant of $5 billion from the government.

### *Recent Developments*

Legislation to raise the monthly minimum RI level from $6,500 to $7,100 and the monthly maximum RI level from $25,000 to $30,000 were passed by the Legislative Council in 2013. The new minimum RI level took effect on 1 November and the new maximum RI level will take effect on 1 June 2014. A review of the statutory adjustment mechanism of the minimum and maximum RI levels is under way and views of key stakeholders have been sought. A simplified MPF contribution calculation method and a unified contribution scale for casual employees and their employers under Industry Schemes also took effect on 1 November 2013.

A bill will be introduced into the Legislative Council in 2014 to increase flexibility of withdrawal of MPF accrued benefits and improve the withdrawal process, and facilitate the implementation of short-term measures to streamline administrative procedures of MPF schemes.

The MPFA is taking forward short-term measures to enhance the efficiency of the MPF System. These include measures to standardise, simplify and automate administrative MPF schemes' procedures (worked out with the MPF industry), the development of an electronic payment and settlement system to facilitate transfers of MPF accrued benefits among trustees, actions by trustees to consolidate small scale or less efficient MPF schemes and funds, and provision of low-fee MPF funds. In the one year since 1 November 2012, 145 MPF funds had reduced fees. By early 2014, all MPF schemes are expected to have low-fee funds (charging a management fee of 1 per cent or below or a fund expense ratio of 1.3 per cent or below) that invest in equities and/or bonds.

The MPFA is also conducting studies to support long-term reforms of the MPF System, including full portability of MPF accrued benefits and the provision of a core fund in each MPF scheme as the default fund. The core fund will be subject to fee control and based on a long-term investment strategy.

## Companies Registry

The Companies Registry administers and enforces most parts of the Companies Ordinance. The registry records local and non-Hong Kong companies and documents required to be filed under the Companies Ordinance and related ordinances, de-registers defunct solvent private companies and provides the public with services and facilities for inspecting and obtaining company information kept by the registry. It administers and enforces several other ordinances, including the Trustee Ordinance (insofar as it relates to trust companies), the Registered Trustees Incorporation Ordinance and the Limited Partnerships Ordinance. The registry is also responsible for processing applications related to money lenders licences and maintaining a register of money lenders for inspection by the public.

The registry operates as a trading fund department, allowing it to deploy its resources more flexibly to meet public demands and expectations.

The Integrated Companies Registry Information System provides electronic search services and about 99 per cent of company searches are now conducted online. Electronic Certificates of Incorporation and Business Registration Certificates can normally be issued together in less than one hour after receipt of the applications through the e-Registry portal (www.eregistry.gov.hk).

The electronic filing service at the e-Registry portal also covers submission of annual returns for private companies as well as the more commonly filed specified forms for reporting changes of company information. A Company Search Mobile Service (www.mobile-cr.gov.hk) is also available to enable company searches through mobile devices.

Companies Registry Statistics (year-end)

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Local companies incorporated | 148,329 | 150,165 | 174,031 |
| Local companies on the register | 956,392 | 1,044,644 | 1,162,931 |
| Non-Hong Kong companies registered | 798 | 686 | 780 |
| Non-Hong Kong companies on the register | 8,554 | 8,848 | 9,258 |

## Bankruptcies, Individual Voluntary Arrangement and Compulsory Winding-up

The Official Receiver (OR)'s Office ensures that service in personal and corporate insolvencies is of high quality on a par with international standards.

When acting as the trustee-in-bankruptcy or liquidator, the OR or a private sector insolvency practitioner investigates the affairs of the bankrupt or the wound-up company, realises assets and distributes dividends to creditors. The OR also prosecutes insolvency related offences under the Bankruptcy Ordinance and the Companies Ordinance, applies for disqualification orders against unfit company directors of wound-up companies, and monitors the conduct of outside liquidators and trustees, and the liquidation monies.

Statistics on Bankruptcy Orders, Interim Orders in Individual Voluntary Arrangements (IVAs) and Winding-up Orders

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Bankruptcy Orders | 7,981 | 8,178 | 9,371 |
| Interim Orders in IVAs | 840 | 778 | 817 |
| Winding-up Orders | 333 | 312 | 274 |

## Professional Accountancy

The Hong Kong Institute of Certified Public Accountants (HKICPA), established under the Professional Accountants Ordinance, performs a wide range of functions, such as registering certified public accountants (CPAs); setting and maintaining financial reporting, auditing and ethical standards for the profession; and conducting training programmes and qualifying examinations.

Statistics on CPAs, CPA Firms and Corporate Practices in Hong Kong

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Number of CPA | 32,636 | 34,423 | 36,094 |
| Of which : CPA (Practising) | 3,851 | 4,012 | 4,166 |
| Number of firms of CPA (Practising) | 1,214 | 1,228 | 1,246 |
| Number of corporate practices | 365 | 392 | 427 |

The Hong Kong Financial Reporting Standards, issued by the HKICPA, apply the International Financial Reporting Standards (IFRS). This is beneficial to Hong Kong because international investors and financial analysts are well acquainted with the IFRS.

The Financial Reporting Council (FRC), a statutory body established under the Financial Reporting Council Ordinance, is responsible for investigating Hong Kong listed companies' non-compliance with accounting standards as well as their auditors' auditing and reporting irregularities. The FRC reviews financial reports based on a risk-based approach and screens modified auditor's reports of financial statements of entities listed in Hong Kong.

Statistics on FRC's Work

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Number of complaints received | 7 | 19 | 20 |
| Number of modified auditors' reports screened | 131 | 138 | 168 |
| Number of financial reports reviewed under risk-based approach | 70 | 75 | 75 |
| Number of investigations initiated | 6 | 9 | 7 |
| Number of investigations completed | 5 | 9 | 5 |
| Number of enquiries initiated | 1 | 3 | — |
| Number of enquiries completed | 2 | 1 | 2 |

A Process Review Panel reviews the FRC's handling of cases to ensure its actions and decisions comply consistently with established procedures.

## Monetary Policy

Hong Kong's monetary policy objective is currency stability, defined as a stable external exchange value of the currency of Hong Kong, in terms of its exchange rate in the foreign exchange market against the USD, at around $7.80 to US$1. This objective is achieved through the linked exchange rate system introduced in 1983.

The linked exchange rate system consists of currency board arrangements requiring the HKD monetary base to be at least 100 per cent backed by — and changes in it to be 100 per cent matched by — corresponding changes in USD reserves held in the Exchange Fund at the fixed exchange rate of $7.80 to US$1. In Hong Kong, the monetary base includes the amount of currency notes and coins issued, the Aggregate Balance[13], and the outstanding amount of EFBNs. Banks have unrestricted access to a Discount Window for overnight liquidity through repurchase agreements using EFBNs as collateral. Under the currency board system, HKD exchange rate stability is maintained through an interest rate adjustment mechanism. The expansion or contraction in the monetary base leads interest rates for the domestic currency to fall or rise, respectively, creating the monetary conditions that automatically counteract the original capital movements, ensuring stability of the exchange rate.

A Currency Board Sub-Committee under the Exchange Fund Advisory Committee (EFAC) oversees the operation of the currency board system in Hong Kong and recommends to the Financial Secretary through EFAC measures to enhance the robustness and effectiveness of Hong Kong's currency board arrangements.

The government is fully committed to the maintenance of the linked exchange rate system, which is a cornerstone of Hong Kong's monetary and financial stability, and to the strict discipline of the currency board arrangements under that system.

## Monetary Situation

The HKD exchange rate traded within a tight range of 7.751 to 7.765 in 2013. The strong-side Convertibility Undertaking was not triggered during the year. A total of $92 billion worth of additional Exchange Fund Bills were issued from January to June 2013 to meet increased demand for such bills following the expansion of the Aggregate Balance in the last quarter of 2012 due to net inflows. As a result, the Aggregate Balance fell in the first half of 2013 to $163.9 billion at the end of June and stayed at this level until the end of 2013.

Interbank liquidity remained abundant during the year. The one-month HKD interbank offered rate eased slightly from 0.12 per cent at the beginning of 2013 to 0.09 per cent in mid-June, mainly reflecting a decline in the USD interbank interest rates. It then edged back up to 0.13 per cent by the end of 2013, partly due to active equity fund-raising activities during the year. Overall, the HKD money market and foreign exchange market continued to operate in an orderly and smooth manner in 2013.

## Exchange Fund

The Exchange Fund's primary statutory role under the Exchange Fund Ordinance is to affect the exchange value of the HKD. It can also be used to maintain the stability and integrity of the

[13] Aggregate Balance is the sum of the clearing balances of banks held with the HKMA for the purpose of effecting the clearing and settlement of transactions between banks themselves and also between the HKMA and banks.

monetary and financial systems, with a view to maintaining Hong Kong as an international financial centre.

The HKMA is responsible to the Financial Secretary for the use and the investment management of the Exchange Fund. To meet the objectives of preserving capital, providing liquidity to maintain financial and currency stability and generating an adequate long-term return, the Exchange Fund is managed as distinct portfolios. The Backing Portfolio holds highly liquid USD-denominated debt securities to fully back the monetary base. The Investment Portfolio aims to preserve the fund's long-term purchasing power. The Exchange Fund's asset allocation strategy is guided by the investment benchmark approved by the Financial Secretary on the advice of the EFAC[14]. A Strategic Portfolio was set up in 2007 to hold all the shares of the HKEx acquired for strategic purposes by the Financial Secretary using the Exchange Fund. At the end of 2013, the Exchange Fund's total assets stood at $3,032.8 billion. The accumulated surplus of the Exchange Fund amounted to $637.5 billion[15].

Another function related to the Exchange Fund is currency issuance. Bank notes in denominations of $20, $50, $100, $500 and $1,000 are issued by the three note issuing banks: Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited. The note-issuing banks may issue currency notes only by surrendering non-interest bearing USD backing at a fixed exchange rate of $7.80. All five denominations of the 2010 series of banknotes, which incorporate state-of-the-art security features, have been in circulation since January 2012.

Through the HKMA, the government issues $10 currency notes and coins of $10, $5, $2, $1, 50 cents, 20 cents and 10 cents denominations. The value of all notes and coins in circulation at the end of 2013 was $339.7 billion.

### *Websites*

Companies Registry: www.cr.gov.hk
Financial Dispute Resolution Centre: www.fdrc.org.hk
Financial Reporting Council: www.frc.org.hk
Financial Services and the Treasury Bureau: www.fstb.gov.hk
Financial Services Development Council: www.fsdc.org.hk
Hong Kong Exchanges and Clearing Limited: www.hkex.com.hk
Hong Kong Monetary Authority: www.hkma.gov.hk
Investor Education Centre: www.hkiec.hk
Mandatory Provident Fund Schemes Authority: www.mpfa.org.hk
Office of the Commissioner of Insurance: www.oci.gov.hk
Official Receiver's Office: www.oro.gov.hk
Securities and Futures Commission: www.sfc.hk

---

14 The details of the management of the fund and the investment style adopted are set out and explained in the HKMA's annual report.

15 Foreign currency asset figures have been published monthly since January 1997 to demonstrate the government's continued commitment to greater openness and transparency. In addition, an abridged balance sheet of the Exchange Fund and a set of Currency Board accounts are published monthly.