Chapter 4

Financial and Monetary Affairs

As Asia's premier international financial centre, Hong Kong is first in finance efficiency according to the World Competitiveness Yearbook*, and also first in rankings in terms of equity funds raised through initial public offerings for two consecutive years. With a 246,000-strong workforce, the financial sector contributed to 17.6 per cent of the local economy in 2016.*

Hong Kong as International Financial Centre

Hong Kong is a vibrant global financial centre invigorated by a sophisticated financial infrastructure, world-class financial professionals, high level of liquidity and efficiency. With its prime location in the heart of Asia, the city forms a 24-hour continuous trading system worldwide with leading global financial hubs including New York and London. Its extensive geographical, cultural and linguistic links with the dynamic Mainland economy and financial system, fortified by the principle of 'one country, two systems', also accord Hong Kong a unique position in the increasingly integrated global financial system.

The robustness of Hong Kong's financial services industry lies in its excellent communications with the rest of the world, the rule of law, a level playing field for conducting business, a sound regulatory regime, an absence of restrictions on capital inflows and outflows, an emphasis on investor protection, and a well-educated workforce and ease of entry for non-local professionals. The city's financial markets are governed by effective and transparent regulations that are in line with international standards.

Hong Kong is not only the world's most competitive economy, it also topped rankings in finance efficiency compiled by the International Institute for Management Development's *World Competitiveness Yearbook 2016*. An International Monetary Fund (IMF) Mission, following the 2016 Article IV Consultation, also commended Hong Kong for its strong policy frameworks, vigorous regulation and supervision of the financial system and ample buffers that bolstered the resilience of Hong Kong to weather any unfavourable environment. Testifying to Hong Kong's role in the international arena, the Chief Executive Officer of the Securities and Futures Commission (SFC) was appointed Chairman of the Board of the International Organisation of Securities Commissions in 2016. Active participation of the city's regulators in global standard-setting bodies advances Hong Kong's and Asia's interests and influence in the development of international regulatory standards and policies for the financial sector.

Securities and Derivatives Market

The city's stock market capitalisation totalled about $24.8 trillion as at end-2016, eighth in the world and fourth in Asia. At the end of the year, 1,973 public companies were listed on the Stock Exchange of Hong Kong Limited (SEHK), representing a wide range of industries from finance and property to consumer goods, information technology and telecommunications. The SEHK ranked first worldwide in 2016 for the second consecutive year in terms of equity funds raised via initial public offerings (IPOs), raising $195 billion notwithstanding the challenging global financial conditions. In addition to new share issues, another $294 billion was raised on the secondary market. At the Hong Kong Exchanges and Clearing Limited (HKEX), the turnover of securitised derivatives has ranked first in the world since 2007.

At the end of 2016, 1,002 Mainland enterprises were listed on the SEHK, raising $5.4 trillion from the Hong Kong market since 1993. Hong Kong is also a listing destination for international companies. Funds raised by international and Mainland companies represented 95 per cent of IPO equity funds raised in 2016.

The Hong Kong Futures Exchange Limited (HKFE) operates a futures market. Total turnover of derivatives contracts in 2016 was 188 million, the second highest ever. Open interest at the year end was 9.3 million contracts.

As an international and open market, Hong Kong attracts many intermediaries from other markets to set up companies locally and most international brokerages have branches in the city. At the end of 2016, 26.3 per cent of the 556 SEHK trading participants, and 48.9 per cent of the 180 HKFE trading participants, were from the Mainland or overseas markets.

The HKEX 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. These provide integrated clearing, settlement, depository and nominee services for its participants and members.

Chart 1 **Stock Market Capitalisation**

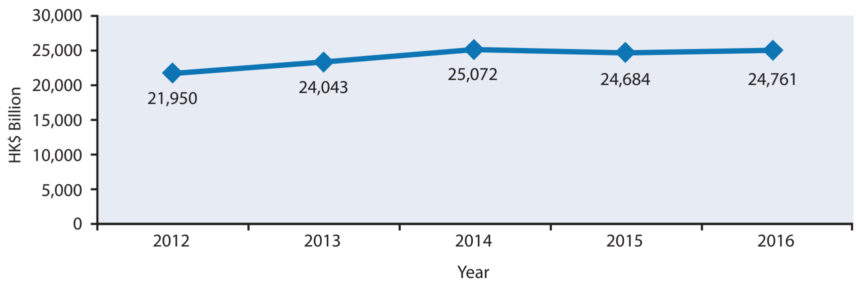


Chart 2 **Equity Funds Raised Through IPOs**

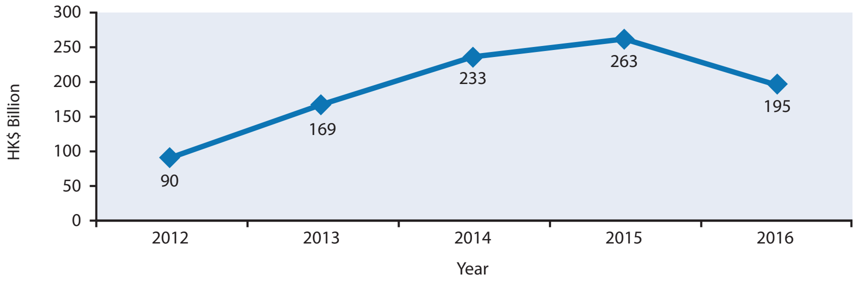
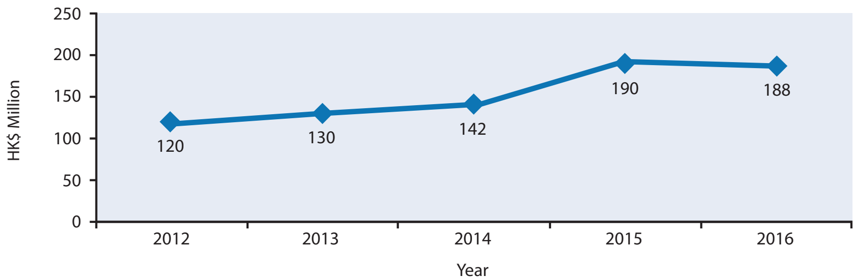


Chart 3 **HKFE Turnover of Derivatives**



Asset Management Hub

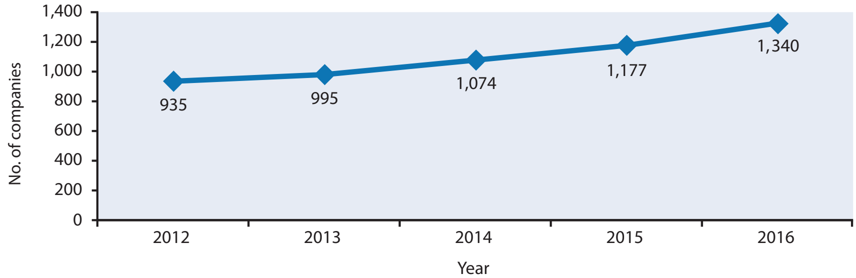
Hong Kong is well placed as Asia's premier asset management centre amid huge demand for wealth and asset management services on the Mainland and the city's strong nexus with the rest of Asia. The asset management business is highly international, with about 69 per cent of the assets under management, excluding real estate investment trusts (REITs), coming from investors outside Hong Kong[1].

The city has a strong asset management foundation and world-class financial infrastructure. At the end of 2016, 1,340 companies were licensed by or registered with the SFC to carry out asset management business locally, up 13.8 per cent from end-2015.

The government, together with other agencies, works to provide a conducive operational, regulatory and tax environment as well as easier access to other markets, thereby growing a full spectrum of asset management activities.

1 Figures are quoted from the Fund Management Activities Survey for 2015, an annual SFC survey about the general state of affairs in the local fund management industry.

Chart 4 **Number of Asset Management Companies**



Global Offshore RMB Business Hub and Foreign Exchange Centre

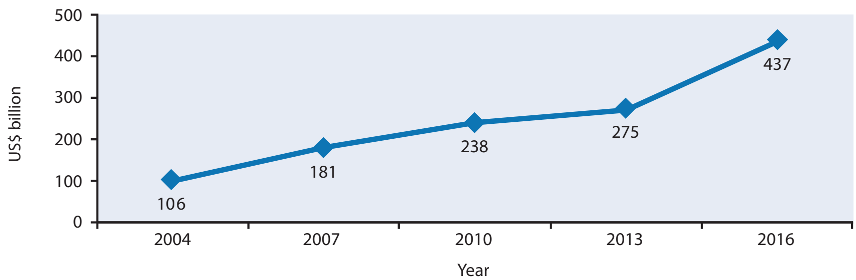
The Renminbi (RMB) is increasingly used in cross-border transactions, investment, financing and asset management amid further internationalisation of the currency and opening up of the Mainland financial markets. Hong Kong continues to be the global offshore RMB business hub, complementing its position as a major global foreign exchange centre.

In 2016, the city's ranking in the global forex market turnover rose to fourth from fifth in the Bank for International Settlements' previous Triennial Survey of Foreign Exchange and Derivatives Market Turnover, conducted in April 2013. Turnover in the Hong Kong market jumped 58.9 per cent to US$437 billion between April 2013 and April 2016 even as average daily forex turnover fell 5 per cent globally. In particular, average daily turnover of RMB forex transactions in Hong Kong reached US$77 billion in 2016, 55.8 per cent higher than in 2013.

As the global offshore RMB business hub, Hong Kong offers a wide range of RMB-denominated investment products, including listed and unlisted investment funds, insurance products, currency futures, real estate investment trusts, shares and derivatives products. With the world's largest pool of offshore RMB funds, the city has ample capacity to allow international investors and enterprises to conduct transactions in RMB. At the end of 2016, total RMB deposits, including customer deposits and outstanding certificates of deposit, stood at RMB625.1 billion.

In the National 13th Five-Year Plan promulgated in March 2016, the Central People's Government affirmed Hong Kong's status as the global offshore RMB business hub and its support for Hong Kong to enhance that status.

Chart 5 **Average Daily Foreign Exchange Turnover in Hong Kong**



International Banking and Payment Centre

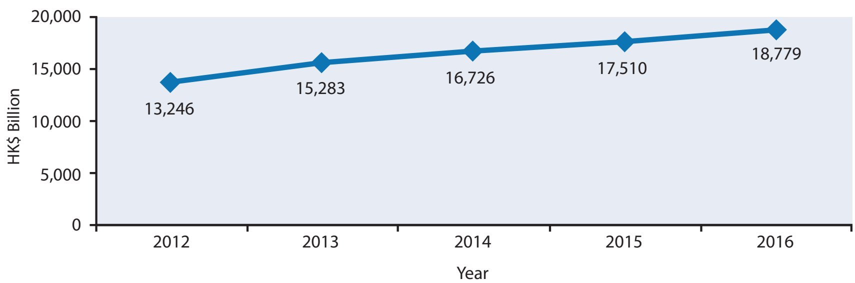
Hong Kong was the world's sixth and Asia's second largest banking centre in terms of external positions[2] in the Bank for International Settlements Quarterly Review for end-2016.

International financial institutions maintain a strong presence in Hong Kong. Of the world's top 100 banks, 75 operate in the city. At the year end, 149 of the 156 licensed banks in Hong Kong were beneficially owned by parties outside Hong Kong.

Hong Kong has a robust real-time gross settlement (RTGS) interbank payment system. All banks in the city maintain settlement accounts with the Hong Kong Monetary Authority (HKMA) through the Hong Kong dollar (HKD) RTGS system[3]. The US dollar (USD), euro and RMB RTGS systems enable transactions in these currencies to be settled in real time. All four RTGS systems are linked to enable forex transactions to be settled on a payment-versus-payment basis.

The HKMA's Central Moneymarkets Unit (CMU) provides clearing, settlement and custodian services for Exchange Fund Bills and Notes (EFBNs), government bonds and other HKD or foreign currency public/private debt securities. It is linked to a number of international and regional central securities depositories to enable overseas investors to hold and settle securities lodged with the CMU, and local investors to hold and settle securities lodged with overseas systems. Through its seamless interface with the RTGS systems, the CMU system is able to settle securities transactions on a delivery-versus-payment basis. Besides debt securities, the CMU provides a standardised and automated platform for the investment fund industry to streamline the handling of investment fund order instructions.

Chart 6 **External Positions of AIs**



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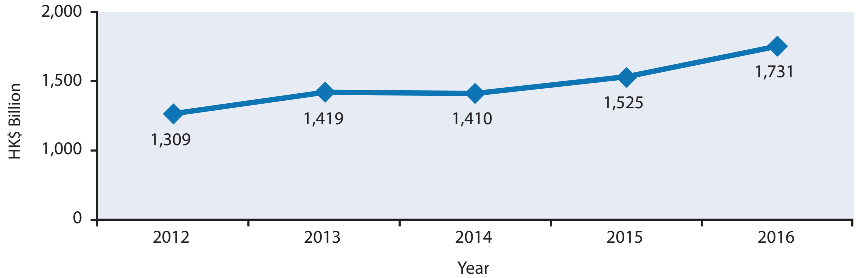
2 Sum of liabilities to banks and non-bank customers outside Hong Kong and claims on banks and non-bank customers outside Hong Kong, such as equities, securities and capital instruments.

3 Banks may obtain intra-day and overnight liquidity through repurchase agreements with the HKMA using Exchange Fund Bills and Notes and government bonds as collateral.

Bond Market Development

Outstanding HKD debt securities, including EFBNs, totalled $1,730.6 billion at the end of 2016.

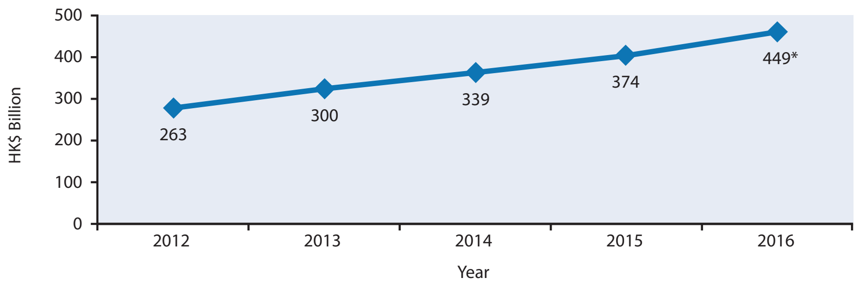
Chart 7 **Total Outstanding HKD Debt Securities**



Open Insurance Market

Hong Kong is one of the most open insurance centres in the world. Of the 160 authorised insurers at the end of 2016, 73 were from the Mainland or overseas jurisdictions. In addition, 14 of the world's top 20 insurers were authorised to conduct insurance business in Hong Kong either directly or through a group company. The city had 18 professional re-insurers, including most of the world's top re-insurers. Gross premium income was $448.8* billion, an increase of 20 per cent over 2015.

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

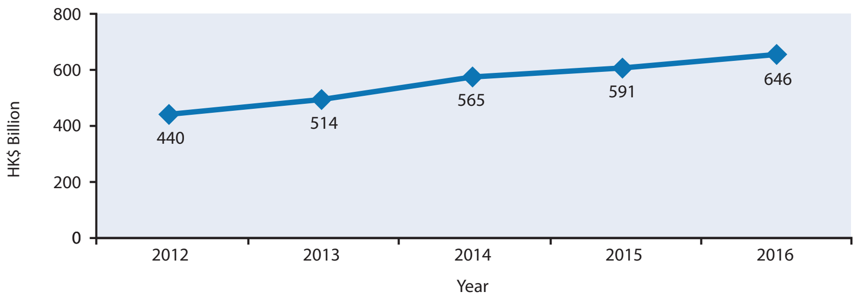


*Provisional statistics

Mandatory Provident Fund

Mandatory Provident Fund schemes had a net asset value (NAV) of $646 billion at the end of 2016 and an annualised rate of return of 2.8 per cent between December 2000, when the MPF System was launched, and December 2016.

Chart 9 **Total NAV of MPF Schemes**



Commodity Trading

Hong Kong operates one of the most active physical gold markets in the world and is one of Asia's largest over-the-counter (OTC) gold trading centres. Spot gold can be traded through two closely related yet independent markets: the Chinese Gold and Silver Exchange Society and the Loco London gold market. The society provides trading of both tael and kilo bars[4]. Prices track closely those in the major gold markets in London, Zurich and New York.

In addition to operating Hong Kong's securities and derivatives markets, the HKEX owns the London Metal Exchange (LME), the world centre for industrial metals trading and price-risk management. More than three-quarters of global non-ferrous business is conducted on the LME and its prices are used as global benchmarks. The average daily volume for 2016 was 618,627 lots. The LME's in-house clearing house in London, LME Clear, supports the exchange's commodity business.

Enhancing Hong Kong's Competitiveness as International Financial Centre

Hong Kong strengthens its competitiveness as an international financial centre through both enhancing the regulatory framework and promoting market development. The government works to consolidate the city's leading role as the Asia-Pacific region's asset management centre, advance financial cooperation with the Mainland, further develop offshore RMB business and enhance the functions of its funding platform. The government also encourages the use of technology to enhance operational efficiency and foster innovative services in the financial services industry. At the same time, it works 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.

4 Tael bars are of 99 per cent fineness and weighted in taels. One tael equals about 1.20337 troy ounces. Kilo bars are of 999.9 parts per thousand fineness and weighted in kilograms.

The city will capitalise on opportunities arising from the implementation of the National 13th Five-year Plan and the Belt and Road Initiative to consolidate and enhance its position as a major platform of capital raising and financing for Mainland and overseas enterprises as well as a global hub for offshore RMB business.

The financial services industry also provides a catalyst for the growth of related sectors, such as professional and commercial services. 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 the city as a platform for raising funds and developing regional business.

Fund-raising Centre

In 2016, the SEHK ranked first worldwide for the second year in a row in terms of the IPO equity funds raised, at $195 billion. It attracted 126 new listings, including six transfers of listing from the Growth Enterprise Market to the Main Board. Apart from Mainland and Hong Kong companies, 11 non-local companies, from Japan, Macau, Malaysia, Singapore and South Korea, also listed on the SEHK. 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.

Asset Management and Private Wealth Management

Fund domiciliation in Hong Kong builds up the city's fund manufacturing capabilities by driving demand for professional services along the whole service chain, including fund management, investment advice, legal and accounting services, and sales and marketing. This allows the city to develop into an all-rounded asset management hub. The combined fund management business was valued at $17,393 billion at the end of 2015. About 69 per cent, excluding REITs, came from non-local investors, indicating that investors outside Hong Kong see the city as a preferred investment platform[5]. At the end of 2016, there were 2,196 SFC-authorised unit trusts and mutual funds[6], of which 705 were domiciled in Hong Kong, up 10.8 per cent from a year earlier and 231 per cent more than five years ago.

Open-ended Fund Company Structure

Hong Kong now has in place a legal framework for the introduction of a new open-ended fund company structure as an alternative fund vehicle, after the Legislative Council (LegCo) passed the Securities and Futures (Amendment) Ordinance 2016 in June. This structure allows funds to be set up in an open-ended structure like a company, but with the flexibility, not enjoyed by conventional companies, to create and cancel shares for investors' subscription and redemption in the funds. This additional choice would help attract more funds to use Hong Kong as their base. The SFC and relevant departments are formulating the relevant subsidiary legislation and code to set out the operational and procedural details.

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5 Figures are quoted from the SFC's annual Fund Management Activities Survey for 2015.

6 These include 125 MPF pooled investment funds offered both as retail unit trusts and for MPF purposes.

Fund Authorisation

After a six-month pilot period, the SFC formally adopted the revamped fund authorisation process and the six-month application lapse policy for new MPF and pooled retirement fund products with effect from 9 May. These initiatives aim to make the authorisation process more streamlined, efficient and focused on key risks without compromising investor protection.

Mutual Recognition of Funds

In December, the SFC and the Swiss Financial Market Supervisory Authority signed a Mutual Recognition of Funds (MRF) agreement which allows eligible public funds to be distributed in each other's market through a streamlined vetting process. This creates more opportunities for the local asset management industry and provides investors in both markets with a broader selection of fund products. The Mainland-Hong Kong MRF arrangement, launched in 2015, continued to operate smoothly during the year. As at end-2016, the regulators of the two places had authorised 54 funds, with aggregate net sales of about RMB8 billion.

Corporate Treasury Centres

Hong Kong is Asia's premier location for multinational corporations to manage their global or regional treasury functions. Its favourable tax and regulatory environment helps attract Mainland and overseas companies to establish Corporate Treasury Centres (CTCs) in the city. The Inland Revenue (Amendment) (No. 2) Ordinance 2016 was enacted in June, allowing interest deduction in calculating profits tax for the intra-group financing business of corporations operating in Hong Kong under specified conditions, and profits tax reduction by 50 per cent for qualifying CTCs.

Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank which plays an important role in supporting infrastructure development in Asia and promoting regional connectivity. Hong Kong's capital markets and asset management professionals and various financial products can support the bank's operations in areas such as project financing, bond issuance, investment, financial management and forex management.

Infrastructure Financing Facilitation Office

Hong Kong's unique position as an international financial centre and the most important springboard for Mainland corporates to expand overseas facilitates infrastructural investments and their financing. To this end, the HKMA established the Infrastructure Financing Facilitation Office on 4 July, followed by an inaugural conference co-organised with the Boao Forum for Asia the next day. The office's mission is to facilitate infrastructural investments and their financing by working with a cluster of key stakeholders. By end-2016, it had welcomed 54 organisations from Hong Kong, the Mainland and overseas as partners.

The office also signed Memorandums of Understanding to enhance cooperation with the IFC, Global Infrastructure Hub, China Development Bank and Export-Import Bank of China.

Bond Market

The Government Bond Programme promotes the development of the bond market in Hong Kong. It has a borrowing ceiling of $200 billion. Successful issuances of institutional bonds, retail inflation-linked bonds and Islamic bonds in the past testify to the vibrancy and robustness of the local bond market.

Bonds totalling $16.4 billion were issued to institutional investors under the programme in 2016. In June, under the retail part of the programme, the government issued a $10 billion inflation-linked retail bond (iBond) with a tenor of three years, for the sixth consecutive year to Hong Kong residents. Then in August, the government issued a $3 billion inflation-linked Silver Bond, with a tenor of three years, to Hong Kong residents aged 65 or above to encourage financial institutions to tap into the immense potential of the 'silver market' by introducing a larger spectrum of appropriate products.

Financial Technologies

A Steering Group on Financial Technologies (fintech), formed in 2015 to examine the challenges and opportunities of applying technology in the financial sector, completed its mission and released its report in February 2016. The group proposed how Hong Kong could develop further as a fintech hub. The government, together with financial regulators and stakeholders, has made good progress on implementing various measures to support the fintech sector.

On the regulatory front, financial regulators set up fintech liaison platforms to enhance communication with the industry. The HKMA also established a Fintech Supervisory Sandbox in September, allowing banks to test new technologies and applications on a pilot basis.

Cyberport started an incubation programme to provide support for 150 fintech start-ups over the next five years. It launched a fintech co-working space, Smart-Space FinTech, in December to further develop an innovative cluster for fintech start-ups.

InvestHK formed a fintech team in September to attract fintech enterprises, investors and research and development institutions to establish a presence in Hong Kong. It organised an inaugural Fintech Week in November to showcase Hong Kong's fintech advantages.

In December, the Cyber Resilience Assessment Framework, Professional Development Programme and Cyber Intelligence Sharing Platform were implemented under the HKMA's Cybersecurity Fortification Initiative. These projects enhance protection for e-banking consumers and strengthen Hong Kong's expertise in cybersecurity.

During the same month, the HKMA and Britain's Financial Conduct Authority entered into a cooperation agreement on fintech. Both sides will work closely on initiatives such as referrals of fintech firms, joint innovation projects, information exchange and experience sharing.

Talent Training

In August, the government launched a three-year Pilot Programme to Enhance Talent Training for the Insurance Sector and the Asset and Wealth Management Sector. Initiatives were rolled out in phases, including enhanced public education, summer internships for undergraduates, placements for graduates and a financial incentive for in-service practitioners to undergo training. The objective of the programme is to enable the community, particularly students, to better understand the wide spectrum of jobs available in these two sectors so as to attract new blood and enhance the professional competency of the sectors.

Financial Services Development Council

The Financial Services Development Council is a high-level, cross-sectoral government advisory body that collects industry views to formulate strategic proposals for the development of the industry. It published seven reports in 2016 on these subjects: regulations on exchange-traded derivatives, equity crowdfunding, RMB capital account convertibility, green finance, the Mainland-Hong Kong Bond Market Connect, the National 13th Five-Year Plan and tax issues related to international financial products. The government seeks to implement the council's recommendations where appropriate to boost the financial services industry, and provides the necessary resources and fully supports the council's work.

Improving Market Quality and Financial Consumer Education and Protection

International financial centres pursue regulatory reform to enhance the resilience and stability of the global financial system and ensure adequate investor protection to promote confidence in the financial system. In Hong Kong, the government drives, facilitates and coordinates initiatives to ensure the overarching framework will enhance protection for investors and promote market development in the face of both global needs and local circumstances.

Short Position Reporting

Following a public consultation, the SFC announced in February 2016 that reporting would be required for short positions in all designated securities eligible for short selling specified by the SEHK. The new requirement will take effect on 15 March 2017, when the Securities and Futures (Short Position Reporting) (Amendment) Rules 2016 becomes effective.

Regulation of Asset Management

The SFC seeks to ensure Hong Kong's regulatory regime for asset management is in line with international regulatory developments. It launched a public consultation in November on proposed changes to its Fund Manager Code of Conduct in respect of areas including securities lending and repurchase agreements, custody of fund assets, liquidity risk management, and disclosure of leverage by fund managers. Amendments were also proposed to the Code of Conduct for Persons Licensed by or Registered with the SFC to address potential conflicts of interest in the sale of investment products and enhance disclosure at the point of sale.

Regulation of OTC Derivatives

Following an HKMA-SFC joint public consultation, six pieces of subsidiary legislation were gazetted on 5 February 2016 to implement the second stage of the OTC derivatives regulatory regime. These include the introduction of mandatory clearing of certain interest rate derivatives on 1 September 2016, and the expansion of mandatory reporting to cover all five main asset classes on 1 July 2017. The revised Guidelines for the Regulation of Automated Trading Services, which provide more specific requirements for central counterparties that wish to provide clearing services for OTC derivatives transactions, came into effect in September 2016.

International Banking Standards

Hong Kong is a member of the Basel Committee on Banking Supervision and implements locally the international standards set by the committee for banks, including the Basel III framework and other elements of the committee's post-crisis reform package. The city implements the international standards through amending the Banking Ordinance and issuing rules supplemented by regulatory guidance.

Deposit Protection

The Deposit Protection Scheme (Amendment) Ordinance 2016 started operation on 24 March to enhance the payout process of the scheme in the event of a bank failure. It allows the adoption of gross payouts and other operational enhancements to speed up the compensation process from the previous six weeks to within seven days in most cases. The enhanced scheme strengthens banking stability and inspires depositors' confidence in the financial safety net.

Anti-Money Laundering and Counter Financing of Terrorism

Money laundering and terrorist financing (ML/TF) is a global problem that can undermine the integrity and stability of international financial markets. Being an international financial centre and an externally oriented economy, Hong Kong is inevitably exposed to ML/TF threats from within the city and more so from other places. The government enforces a robust anti-money laundering and counter-terrorist financing regime to safeguard the integrity of Hong Kong's business environment and reputation as an international financial centre.

Regulation of Stored-value Facilities and Retail Payment Systems

The Payment Systems and Stored Value Facilities Ordinance started full operation on 13 November. It empowers the HKMA to implement a licensing system for stored-value facilities and designate retail payment systems to ensure their operations are safe and robust. Thirteen licences were granted to mobile and internet payment service providers and prepaid card issuers in 2016. The licensed operators are launching new or enhanced services to provide consumers with more novel and convenient payment choices.

Independent Insurance Authority

The policy objectives of setting up an Independent Insurance Authority (IIA) are to modernise the regulatory infrastructure to facilitate the insurance 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 Insurance Companies (Amendment) Ordinance provides for a legal framework to establish an IIA and a statutory licensing regime for insurance intermediaries. It is being implemented in three stages to allow for a smooth transition from the existing regime to an IIA-administered regime. Pursuant to the ordinance enacted in 2015, the IIA has been renamed the Provisional Insurance Authority (PIA). The PIA is vested with administrative powers to undertake essential preparatory work for the IIA to take over the functions of the Office of the Commissioner of Insurance (OCI) and the three existing Self-regulatory Organisations during the next stages. The IIA Chairman and members were appointed by the Chief Executive and took office in 2015.

On 1 June, the Financial Secretary appointed members to the two Industry Advisory Committees for a term of two years. The committees are to advise the IIA on the long-term and general business development of the insurance industry respectively.

Risk-based Capital Regime for Insurance Industry

The Insurance Authority (IA) is engaging relevant stakeholders in developing a risk-based capital regime. It started phase 2 of the development of the regime in 2016 and commissioned a consultancy study on the formulation of detailed rules for Hong Kong's insurance industry. It aims at developing guidance for a quantitative impact study to be launched in the second half of 2017 to obtain data on both quantitative and qualitative aspects. Four industry focus groups have been established to engage the industry on technical aspects of the regime.

Resolution Regime for Financial Institutions

The Financial Institutions (Resolution) Ordinance provides for a cross-sectoral resolution regime for financial institutions in Hong Kong to meet international standards set by the Financial Stability Board in its 'Key Attributes of Effective Resolution Regimes for Financial Institutions'. The ordinance was enacted by LegCo in June and is expected to come into operation on a date to be set by the Secretary for Financial Services and the Treasury, at the same time as subsidiary legislation entitled the Protected Arrangements Regulation, to be made under the ordinance.

Recovery and resolution planning frameworks have been, and will continue to be, developed for banks both locally and internationally to support the operation of the ordinance and contribute to financial stability.

Investor Education Centre

The Investor Education Centre seeks to raise financial literacy by providing free and impartial tools and resources to help the public make informed financial decisions. Its work is supported by Hong Kong's four financial regulators[7] and the Education Bureau.

In April, the centre launched a new consumer brand, The Chin Family, to present financial education information in a fun and enjoyable manner. During the year, it organised 230 community events reaching more than 15,520 people, and recorded 618,973 website visitors with more than 1.7 million page views.

The centre is the secretariat for the Hong Kong Strategy for Financial Literacy, which aims to harness the efforts of various sectors to advance financial education and literacy. At the end of 2016, over 100 supporting organisations and 12 ambassadors had committed to improving the public's financial literacy.

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7 The SFC, the HKMA, the Mandatory Provident Fund Schemes Authority and the OCI.

Financial Dispute Resolution Centre

The Financial Dispute Resolution Centre administers in an independent and impartial manner a scheme to facilitate the resolution of monetary disputes between individual customers and financial institutions by 'mediation first, arbitration next'. To raise public awareness of its services, the centre launched programmes in 2016 that promoted its services to industry professionals and the public. It also conducted a consultation on how to enhance its services.

Auditor Regulatory Reform

The international trend is for oversight of the regulation of auditors of public interest entities to be independent of the profession itself. The government is continuing its liaison with the relevant stakeholders on detailed proposals to reform Hong Kong's regulatory regime for auditors of listed entities following a public consultation exercise concluded in 2015 and is preparing an amendment bill for implementation.

Money Lenders

The government tackles money lending-related malpractice through enhanced enforcement, public education and publicity, advisory services to the public, and more stringent licensing conditions on money lenders. The more stringent licensing conditions, which were imposed on all money licences by the Licensing Court, took effect in December. A money lender is required to undertake due diligence before entering into a loan agreement, particularly when a third party is involved, to protect the borrowers' interest.

Corporate Insolvency Law

The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016 aims to improve and modernise Hong Kong's corporate winding-up regime to increase creditor protection, streamline the winding-up process and enhance its integrity. LegCo enacted the ordinance in May.

Hong Kong as China's Global Financial Centre

Capital Formation Centre and Global Investment Platform for Mainland

Hong Kong is the ideal centre for Mainland enterprises to raise capital. The growing presence of Mainland companies listed on the SEHK has in turn increased the breadth and depth of Hong Kong's securities and futures markets through a greater diversity of products and of constituent stocks in the equity market. Mainland enterprises also raise capital in Hong Kong through the issuance of bonds, project financing and loan syndication. Moreover, they can leverage Hong Kong's position as an international business centre and its world-class investment banking services to invest in international markets via mergers and acquisitions.

Offshore RMB Business

In 2016, Hong Kong maintained its status as the global offshore RMB business hub despite a moderation in RMB business worldwide. Total offshore RMB liquidity in Hong Kong, including customer deposits and outstanding certificates of deposit, fell 38.1 per cent to RMB625.1 billion at the end of 2016, but the city remained the largest offshore RMB business hub in the world and continued to support a large amount of payment activities taking place locally. Average daily turnover in the RMB Real Time Gross Settlement system stayed at RMB863.6 billion, down 8.8 per cent from 2015. Hong Kong processed some 70 per cent of RMB payment activities, according to the Society for Worldwide Interbank Financial Telecommunication. RMB bank lending dropped 0.9 per cent to RMB294.8 billion between the start and end of the year, and RMB bond issuance also moderated to RMB52.8 billion. Banks in the city handled RMB4,542.1 billion of RMB trade settlement transactions.

Hong Kong is also the world's largest offshore RMB investment product market. Its offerings include listed and unlisted investment funds, insurance products, currency futures, real estate investment trusts, shares and derivatives products. Qualified institutions show interest in developing funds which invest in Mainland onshore markets via the Renminbi Qualified Foreign Institutional Investor (RQFII), Stock Connect or China's Interbank Bond Market (CIBM)[8]. At the end of 2016, there were 40 fund management companies managing 68 SFC-authorised unlisted funds investing onshore via the RQFII, Stock Connect and/or CIBM with an aggregate NAV of RMB10 billion, and 26 SFC-authorised RQFII/Stock Connect exchange traded funds (ETFs) adopting dual trading counters in RMB and HKD with an aggregate NAV of RMB28.9 billion.

Since February, qualified overseas institutional investors, including Hong Kong insurance companies, have been allowed to invest in the Mainland's interbank bond market without the need for approval from the People's Bank of China.

On 1 October, the RMB was included in the IMF's Special Drawing Right basket of currencies. The move establishes the status of the RMB as a freely usable currency, and would add impetus to the internationalisation of the RMB and the development of Hong Kong's offshore RMB business.

Stock Connect

The Shanghai-Hong Kong Stock Connect has been operating smoothly since its launch in 2014. The programme marks an important step in opening up the Mainland's capital markets and internationalising the RMB. It also reinforces Hong Kong's position as a premier international financial centre and a global offshore RMB business hub. The aggregate quota under the Shanghai-Hong Kong Stock Connect was abolished in August 2016.

Building on the success of the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect was launched in December, deepening the mutual access between the Hong Kong and Mainland stock markets. It allows international investors to invest more widely in the Mainland's markets through Hong Kong's markets. Through the SEHK, they can trade in not only over 560 shares listed on the Shanghai Stock Exchange, but also about 880 eligible stocks listed on the Shenzhen Stock Exchange. Mainland investors also get more choices, with about 100 Hong Kong-listed small cap stocks available through the Shenzhen-Hong Kong Stock Connect.

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8 The unlisted funds and ETFs that invest in the Mainland onshore markets via the RQFII, Stock Connect or CIBM are RMB-denominated funds which primarily invest in Mainland securities markets through the RQFII quota, Stock Connect or CIBM.

Mainland and Hong Kong Closer Economic Partnership Arrangement

The Closer Economic Partnership Arrangement (CEPA) gives Hong Kong's financial service providers and professionals greater market access and flexibility in their Mainland operations. It also enhances Hong Kong's attractiveness to market users and strengthens the city's competitiveness as an international financial centre and the premier capital formation centre for Mainland enterprises.

The Agreement on Trade in Services, signed in 2015 under the CEPA framework, was implemented on 1 June 2016. The agreement basically achieves liberalisation of trade in services between the Mainland and Hong Kong, including accounting, insurance, securities and banking.

Banking

Hong Kong maintains three tiers of deposit-taking institutions: licensed banks (LBs), restricted licence banks (RLBs) and deposit-taking companies (DTCs)[9]. They are known collectively as authorised institutions (AIs) under the Banking Ordinance and are licensed by the HKMA.

The city has one of the world's highest concentrations of banking institutions. At the end of 2016, there were 156 LBs, 22 RLBs and 17 DTCs. These 195 AIs maintained a network of 1,289 local branches. There were also 54 representative offices of banks incorporated outside Hong Kong.

Hong Kong Monetary Authority

The HKMA's main functions 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 stability and integrity of the financial system, including the banking system; to help maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure, and to manage the Exchange Fund.

The HKMA is an integral part of the government, but operates with a high degree of autonomy complemented by a high degree of accountability and transparency, and can employ people on terms different from those of the civil service to attract personnel of suitable experience and expertise. It is accountable to the Financial Secretary, who is advised by the Exchange Fund Advisory Committee in control of the Exchange Fund.

The Banking Advisory Committee and Deposit-taking Companies Advisory Committee are established under the Banking Ordinance to advise on policy matters. They are chaired by the Financial Secretary and comprise members from banking 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 preserve the stability and

9 Only LBs may conduct full banking services, including 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.

effective working of the banking system, while at the same time providing flexibility for AIs to make commercial decisions.

Recent Developments

The Hong Kong banking sector remained resilient in 2016 despite global market volatility and uncertainties arising from political events such as Brexit and the US presidential election. The quality of retail banks' assets remained healthy by historical standards. Liquidity ratios of AIs remained well above the regulatory minimum. Locally incorporated AIs continued to be well capitalised.

At the end of 2016, total deposits and total loans and advances of AIs amounted to $11,727.2 billion and $8,023.4 billion respectively, marking increases of 9.1 per cent and 6.5 per cent from a year earlier. Total assets rose 7.7 per cent to $20,654 billion.

Statistics on AIs

		2014	2015	2016
AIs		203	199	195
Of which:	LBs	159	157	156
	RLBs	21	24	22
	DTCs	23	18	17
Local branches of AIs		1,384	1,370	1,289
Total deposits ($ billion)		10,073.1	10,749.7	11,727.2
Total loans and advances ($ billion)		7,276.3	7,534.5	8,023.4
Total assets ($ billion)		18,441.5	19,181.1	20,654.0

The HKMA keeps a vigilant watch on the property mortgage business of AIs. It has introduced seven rounds of countercyclical macroprudential measures since 2009 to ensure AIs' resilience in coping with a potential property downturn.

The HKMA established the Fintech Facilitation Office in 2016 to facilitate the healthy development of the fintech ecosystem in Hong Kong. The office acts as:

- a platform to exchange ideas about innovative fintech initiatives among key stakeholders and to conduct outreach activities,

- an interface between market participants and HKMA regulators to improve the industry's understanding about the parts of the regulatory landscape which are relevant to it,

- an initiator of industry research in potential application and risks of fintech solutions, and

- a facilitator to nurture talent to meet the growing needs of fintech in Hong Kong.

Securities and Futures

Hong Kong's securities market is operated by the SEHK and its futures market by the HKFE, both being wholly owned subsidiaries of the HKEX. At the end of 2016, 1,973 companies were listed on the Main Board and Growth Enterprises Market (GEM) of the SEHK, with a total market capitalisation of about $24.8 trillion. The total equity funds raised decreased 56.2 per cent in 2016 to $489 billion, while the securities market's total turnover fell 37.2 per cent to $16.4 trillion, with 45.6 trillion shares traded.

ETFs offer investors a wide range of investment exposure to world, regional and Mainland indices and commodities. In 2016, 34 new ETFs, including leveraged and inverse products, were authorised, bringing the total number of SEHK-listed ETFs to 145. The introduction of leveraged and inverse products has brought new trading and hedging tools to investors, while the issuance of ETFs with multiple trading counters in HKD, USD and RMB has provided additional flexibility in the settlement and trading of ETFs. Turnover of ETFs was about $1 trillion.

Statistics on Securities Market (Main Board and GEM)

	2014	2015	2016
Number of listed companies (year end)	1,752	1,866	1,973
Total market capitalisation (year end) ($ billion)	25,072	24,684	24,761
Total equity funds raised ($ billion)	943	1,116	489
Total securities market turnover ($ billion)	17,156	26,091	16,396
Total number of shares traded (billion)	34,287	53,694	45,612
Number of derivative warrants (DWs) listed (year end)	4,938	4,590	3,705
Turnover of DWs ($ billion)	2,045	4,504	2,727
Number of callable bull/bear contracts (CBBCs) listed (year end)	1,579	1,630	1,844
Turnover of CBBCs ($ billion)	1,230	1,837	1,372
Number of ETFs listed (year end)	122	133	133
Turnover of ETFs ($ billion)	1,168	2,171	1,011

In the derivatives market, 188.15 million futures and options contracts were traded, 0.9 per cent fewer than in 2015. Trading of major derivatives products included Hang Seng Index (HSI) Futures, with a total turnover of 32.31 million contracts; H-shares Index Futures with a turnover of 33.03 million contracts; HSI Options with a turnover of 9.35 million contracts; H-shares Index Options with a turnover of 19.48 million contracts; and Stock Options with a turnover of 73.58 million contracts.

Statistics on Derivatives Market Turnover (million contracts)

		2014	2015	2016
All options and futures contracts		142	190	188
Of which:	HSI Futures	17	21	32
	H-shares Index Futures	22	33	33
	HSI Options	8	8	9
	H-shares Index Options	9	15	19
	Stock Options	75	92	74

At the end of 2016, there were 76 SFC-authorised automated trading services providers, comprising mainly foreign exchanges and regulated entities. They provide automated trading services by means of electronic facilities, instead of a recognised exchange company or recognised clearing house, to transact or settle transactions in securities or futures contracts.

Securities and Futures Commission

As Hong Kong's statutory securities and futures regulator, the SFC derives its statutory powers from the Securities and Futures Ordinance (SFO). Its work can be divided into five areas: intermediaries, investment products, listings and takeovers, market infrastructure and trading, and enforcement.

Intermediaries – The SFC sets standards for industry practitioners seeking to be, and to remain, licensed. It supervises licensed corporations, including stock brokers, futures and leveraged forex dealers, fund managers, investment and corporate finance advisers and credit rating agencies, with a particular focus on their business conduct and financial soundness.

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

Listings and takeovers – The SFC oversees the SEHK's listing-related functions and the merger, takeover, privatisation and share buy-back activities of public companies in Hong Kong. It monitors the timeliness of corporate disclosures under the statutory inside information disclosure regime and vets listing applications alongside the SEHK under a dual filing regime, in addition to enhancing listing rules. It also performs detailed reviews of specific companies and broader thematic reviews of market activities which may signal corporate misconduct.

Market infrastructure and trading – The SFC supervises HKEX's exchanges and clearing houses, share registrars and automated trading services, including overseas exchanges and clearing houses operating in Hong Kong.

Enforcement – The SFC takes firm and prompt action to combat misconduct and malpractice in the securities and futures markets. It can discipline licensed intermediaries through reprimands, suspension or revocation of licences and imposition of fines. It can also deal with market misconduct cases, such as insider dealing and market manipulation, by criminal prosecution or by bringing them to the Market Misconduct Tribunal[10]. In addition, the SFC can apply to the court for injunctive and remedial orders against wrongdoers in favour of victims. Through criminal, administrative, compensatory and disciplinary actions, it strives to protect the interests of the investing public and send strong deterrent messages to the markets.

The Investor Compensation Company Limited is a wholly owned SFC subsidiary established under the SFO to manage the Investor Compensation Fund. It receives and assesses claims and pays from the fund those claims deemed valid in respect of defaults of authorised intermediaries and financial institutions.

The SFC's powers are subject to both internal controls and external scrutiny, 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. Other checks and balances include the Process Review Panel for the SFC, the Ombudsman and the courts.

Recent Developments

At the end of 2016, there were 42,544 licensed entities, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 121 registered institutions, such as banks, engaging in regulated activities such as dealing in and advising on securities and futures.

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

		2014	2015	2016
Licensed entities		39,621	41,347	42,544
Of which:	Licensed corporations	2,034	2,172	2,411
	Licensed individuals	37,587	39,175	40,133
Registered institutions		118	119	121

Following a public consultation, the SFC issued Principles of Responsible Ownership in March to provide guidance on how investors of Hong Kong-listed companies should fulfil their ownership responsibilities. In June, the SFC and HKEX jointly issued a consultation paper on proposed enhancements to the SEHK's decision-making and governance structure for listing regulation. The SFC also launched a consultation exercise in September proposing enhancements to the position limit regime to expand its scope and make it more responsive to financial market developments.

To promote the diversity of investment products offered in Hong Kong, the SFC authorised the first batch of leveraged and inverse products for listing in June. In December, the eligible

10 The Market Misconduct Tribunal is an independent body established under the SFO, and is chaired by a judge or a former judge of the High Court who sits with two members.

underlying indices for these products were expanded from foreign equity indices to include Hong Kong equity indices. At the year end, 12 of these products were offered to the public.

In 2016, the SFC published guidelines on subjects including senior management obligations, regulatory requirements on account opening, algorithmic trading, operation of introducing broker business and suitability obligations. It also started three thematic reviews on licensed corporations in relation to the cybersecurity of internet and mobile trading systems, alternative liquidity pools[11] as well as best execution and client facilitation.

On the enforcement front, the SFC took disciplinary action to maintain market integrity. The disciplined SFC licensees comprised 34 individuals and 17 corporations, with fines totalling $64.75 million. Separately, seven individuals and two corporations were prosecuted successfully for criminal offences including unlicensed activities and provision of false or misleading statements.

The SFC started legal proceedings in the Court of First Instance to seek disqualification orders against 10 directors of a listed company for allegedly breaching director duties. The Market Misconduct Tribunal handed down an order to ban a short seller from trading securities in Hong Kong for five years after finding him culpable of disclosing false or misleading information in a research report on a Hong Kong-listed company. In addition to the ban, the short seller was ordered to disgorge his profit of $1.59 million from shorting the shares of the Hong Kong company and issued with a cease and desist order[12].

In March, the SFC established a Fintech Contact Point on its website to receive enquiries and requests from the fintech community. This is to encourage businesses involved in the development and application of fintech in Hong Kong to engage with the SFC.

Insurance

At the end of 2016, there were 160 authorised insurers, 87 of which were incorporated in Hong Kong while the remaining 73 were incorporated on the Mainland or in overseas jurisdictions.

During the past five years, the Hong Kong insurance industry grew 13.9 per cent on average annually. In 2016, gross premiums amounted to $448.8* billion, a 20 per cent increase over 2015. The total revenue premiums of in-force long-term business rose 22.9 per cent to $403.2* billion. Individual life insurance remained the leading business, accounting for $373.5* billion, or 92.6* per cent, of total revenue premiums, with 12.1* million corresponding policies.

General insurance business declined to $45.6* billion from $46 billion in 2015, representing a 0.7 per cent decrease in gross premiums. The reduction was largely due to insurance policies relating to property damage and general liability. The overall underwriting performance of general insurance business declined from $1.7* billion to $1.6* billion.

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11 Also known as alternative trading systems or dark pools.

12 According to the SFO, a person under a cease and desist order shall not again perpetrate the market misconduct specified in the order.

Statistics on Insurance Business

		2014	2015	2016
Number of authorised insurers		158	157	160
Of which:	Incorporated in Hong Kong	86	86	87
	Incorporated on the Mainland or overseas	72	71	73
Premium income ($ billion)		339.3	374.1	448.8*
Total gross premiums				
Of which:	Long-term in-force business (Office/Revenue premiums)	295.7^	328.1^	403.2*#
	General insurance (Gross premiums)	43.6	46.0*	45.6*

^ Office premiums

Revenue premiums

* Provisional statistics

At the end of 2016, there were 99,435 individual insurance intermediaries, comprising 9,452 Chief Executives or Technical Representatives (TRs) of 756 broker firms, 26,798 Responsible Officers or TRs of 2,482 agency firms, and 63,148 individual agents and their 37 TRs.

Insurance Authority

The Commissioner of Insurance is appointed by the Chief Executive as the IA under the Insurance Companies Ordinance with the principal function of regulating and supervising the insurance industry to promote its general stability and protect policyholders[13].

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. The IA works closely with regulators in other jurisdictions in regulating major insurance groups and takes part in supervisory colleges organised by the home regulators of such groups.

Recent Developments

The IA issued a guidance note in July 2015 on underwriting life insurance policies other than investment-linked assurance schemes, to enhance standards of conduct and promote sound and prudent business practices among insurers. The guidance note took effect on 1 April 2016

[13] 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 action under the ordinance against an insurer to safeguard the interests of policyholders.

The ordinance also sets out a self-regulatory framework for insurance intermediaries. The self-regulatory organisations include the Insurance Agents Registration Board under the Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association.

The IA also plays the statutory role of ensuring MPF intermediaries from the insurance sector comply with conduct requirements stipulated in the MPF Schemes Ordinance.

for new insurance products and will apply on 1 January 2017 to new and existing policies of current products. It makes reference to a 'fair treatment of customers' principle announced by the IAIS, and sets out comprehensive requirements, including the benefit illustration for participating policies, sales processes, remuneration of intermediaries and post-sale control requirements.

To manage risks underwritten by insurers, reinsurance is one of the most important tools. The IA issued a guidance note on reinsurance on 1 June 2016 which sets out the principles for establishing reinsurance management frameworks and related arrangements, and provides guidance on how the IA will assess the adequacy of an insurer's reinsurance arrangements. The guidance note will come into force on 1 January 2017.

The number of Mainland visitors buying long-term insurance policies in Hong Kong has been increasing. In view of this, the IA has required, from 1 September 2016, all new applications of individual long-term policies made by Mainland visitors to include an Important Facts Statement for Mainland Policyholder which reminds them the entire selling process must be conducted in Hong Kong and highlights the factors and risks they need to consider before taking out insurance policies in Hong Kong.

A robust corporate governance regime is a cornerstone of Hong Kong's success as an international financial centre. It is also important to the long-term development of the insurance market. In this regard, the IA issued on 7 October 2016 a revised guidance note on the corporate governance of authorised insurers that incorporates high-level standards adopted internationally. It will take effect in two phases, on 1 January 2017 and 1 January 2018.

In 2016, the OCI established a Fintech Liaison Team to facilitate the fintech community's understanding of the regulatory regime and act as a platform for key stakeholders to exchange ideas about fintech innovation.

Mandatory Provident Fund System

As one of the pillars of retirement protection, the MPF System helps the Hong Kong workforce set aside savings for retirement. Unless exempted, employees and self-employed persons (SEPs) aged 18 to 64 are required to join an MPF scheme. At the end of 2016, about 85 per cent of the employed population were covered by the MPF System or other forms of retirement schemes.

The MPF System is employment-based. An employer is required to contribute 5 per cent of an employee's relevant income (RI) as mandatory contribution for the employee, subject to a maximum RI level. Employees are required to make the same amount of contributions for themselves unless their RIs are below the minimum level. SEPs must also contribute 5 per cent of their RIs, subject to the minimum and maximum levels.

MPF accrued benefits, that is, accumulated mandatory contributions and investment returns, must be preserved until a scheme member reaches the age of 65 or meets a statutory condition for early withdrawal of benefits.

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

	2014	2015	2016
Number of MPF-enrolled participants *(Estimated rate)*			
Employers	271,500 (99%)	276,000 (100%)	277,200 (100%)
Relevant employees	2,506,600 (99%)	2,548,800 (100%)	2,583,800 (100%)
SEPs	208,000 (66%)	205,300 (68%)	202,200 (68%)
MPF schemes			
Number of registered schemes	38	38	36
Number of approved constituent funds	458	459	484
Aggregate NAV ($ billion)	565	591	646
MPF-exempted Orso registered schemes[14]			
Number of schemes	3,500	3,382	3,294
Number of participating employees	341,894	337,627	333,394
Aggregate NAV ($ billion)	278	290	294

MPF schemes are privately managed and stringently regulated. At the year end, there were 14 active approved MPF trustees providing MPF schemes and funds and 33,022 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes.

Mandatory Provident Fund Schemes Authority

The Mandatory Provident Fund Schemes Authority, established under the Mandatory Provident Fund Schemes Ordinance, regulates and supervises the MPF System. One of its objectives is to ensure compliance with MPF legislative requirements, thus protecting the interests of scheme members. It monitors MPF trustees, investigates cases of non-compliance, conducts inspections and takes enforcement action. Furthermore, it arranges programmes to strengthen the public's understanding of new developments of the MPF System, and to educate scheme members on MPF investments. It is also the Registrar of Occupational Retirement Schemes.

Recent Developments

The Mandatory Provident Fund Schemes (Amendment) Ordinance 2016 was passed by LegCo in May. It regulates the default investment arrangement for all MPF schemes by requiring MPF trustees to provide in each scheme a highly standardised and fee-controlled default investment strategy. The strategy follows a globally diversified and de-risking investment strategy.

[14] MPF-exempted Orso registered schemes are occupational retirement schemes set up voluntarily by employers and registered under the Occupational Retirement Schemes Ordinance before the launch of the MPF System, and subsequently granted exemption from MPF requirements.

Management fees and recurrent out-of-pocket expenses are capped at 0.75 per cent and 0.2 per cent of the NAV of the constituent funds respectively. The launch of the strategy on 1 April 2017 would be another milestone and a major reform of the MPF System to provide scheme members with better retirement protection.

Company Registration

The Companies Registry administers and enforces most parts of the Companies Ordinance. It registers local and non-Hong Kong companies and statutory returns, de-registers defunct solvent companies and provides the public with services and facilities for inspecting and obtaining company information kept by the registry. It also processes applications for money lenders' licences and maintains a register of money lenders for inspection by the public.

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

The registry provides electronic search services through the Cyber Search Centre. More than 99 per cent of company searches are conducted online. The public may also retrieve company information through the Company Search Mobile Service, which was enhanced in May to cover all types of company searches.

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. A full-scale electronic filing service covering all specified forms is also available. Electronic forms can be filed and made available for searching within 24 hours to facilitate business.

Companies Registry Statistics

	2014	**2015**	**2016**
New local companies	167,280	139,209	144,883
Local companies on the register	1,272,693	1,288,666	1,341,223
New non-Hong Kong companies	811	894	874
Non-Hong Kong companies on the register	9,624	10,029	9,983

Individual and Corporate Insolvencies

The Official Receiver's Office ensures 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 Official Receiver or a private-sector insolvency practitioner investigates the affairs of the bankrupt or wound-up company, realises assets and distributes dividends to creditors. The Official Receiver also prosecutes insolvency-related offences under the Bankruptcy Ordinance and Companies (Winding Up and Miscellaneous Provisions) 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

	2014	2015	2016
Bankruptcy Orders	9,674	9,750	8,919
Interim Orders in IVAs	798	588	501
Winding-up Orders	271	305	325

Professional Accountancy

The Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance, registers certified public accountants (CPAs); carries out practice reviews and regulates the professional conduct and standards of members; sets and maintains financial reporting, auditing and ethical standards for the profession; and conducts training and qualifying examinations.

Statistics on CPAs, CPA firms and corporate practices

	2014	2015	2016
Total number of CPAs	38,426	39,201	40,806
Number of practising CPAs	4,353	4,428	4,598
Number of practising CPA firms	1,275	1,267	1,284
Number of corporate practices	467	491	524

The institute issues the Hong Kong Financial Reporting Standards, which apply the International Financial Reporting Standards. This is beneficial to Hong Kong because international investors and financial analysts are well acquainted with these standards.

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

Statistics on FRC's work

	2014	2015	2016
Number of modified auditors' reports screened	171	174	178
Number of financial reports reviewed under risk-based approach	34	42	43
Number of investigations completed[15]	4	9	11
Number of enquiries completed[16]	1	-	1

[15] The FRC is empowered under the Financial Reporting Council Ordinance to conduct independent investigations into possible auditing and reporting irregularities in relation to listed entities.

[16] The FRC is also empowered under the ordinance to conduct independent enquiries into possible non-compliance with accounting requirements on the part of listed entities.

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

Monetary Policy

The city's monetary policy objective is currency stability, defined as a stable external exchange value of the HKD, in terms of its exchange rate in the forex market against the USD, at around HK$7.80 to US$1. This objective is achieved through the Linked Exchange Rate System introduced in 1983. The government is fully committed to maintaining this system, which is a cornerstone of Hong Kong's monetary and financial stability, and to the strict discipline of the system's currency board arrangements.

The Linked Exchange Rate System is characterised by 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 – the USD reserves held in the Exchange Fund at the fixed exchange rate of HK$7.80 to US$1. In Hong Kong, the monetary base includes the amount of currency notes and coins issued, the aggregate balance[17], 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 and the HKMA's commitment to honour the Convertibility Undertaking. In particular, the HKMA undertakes to buy USD from licensed banks at HK$7.75 to US$1 (strong-side Convertibility Undertaking) and sell USD at HK$7.85 to US$1 (weak-side Convertibility Undertaking). The expansion or contraction in the monetary base arising from these currency board operations leads interest rates for the domestic currency to fall or rise respectively, creating the monetary conditions that automatically counteract the original capital movements and ensuring exchange rate stability.

A Currency Board Sub-Committee under the Exchange Fund Advisory Committee (EFAC) oversees the Currency Board system and recommends to the Financial Secretary measures to enhance the robustness and effectiveness of the Currency Board arrangements.

Monetary Situation

In 2016, the HKD exchange rate remained largely stable although global financial market volatility increased against the backdrop of weaker global growth prospects, uncertainty over the pace of US interest rate normalisation and unexpected outcomes of major market events, such as the results of the Brexit referendum in Britain and the US presidential election. Following the US interest rate hike in December 2015, the widened interest rate spreads between the HKD and USD led to an easing in the HKD exchange rate in early 2016, which was later exacerbated by sell-offs in global stock markets amid investors' concerns about slowing growth on the Mainland as well as weakness in the RMB and other emerging market currencies. The HKD to USD exchange rate eased briefly to beyond 7.80 in late January. Thereafter, along with improvements in global risk sentiment, the HKD strengthened and stabilised at levels near 7.75,

[17] 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.

that is, the rate for strong-side Convertibility Undertaking. While the unexpected results of Britain's referendum vote to leave the European Union and the US presidential election sent shock waves through global financial markets in late June and early November respectively, the HKD remained strong against the USD, with the exchange rate staying between 7.75 and 7.76 most of the time. Only when the US Federal Open Markets Committee raised interest rates again in December 2016 did the HKD ease slightly along with weakness in other Asian currencies on expectation of a possibly faster pace of US interest rate rises ahead. Overall, the HKD to USD exchange rate moved mostly between 7.75 and 7.82 during 2016, before closing the year at 7.7545.

The Convertibility Undertaking was not triggered during the year and interbank liquidity continued to remain abundant, given significant inflows over the past few years. Yields of short-dated Exchange Fund Bills (EFBs) traded at very low levels. To meet banks' strong demand for the papers, the HKMA issued $132 billion of additional EFBs, raising the outstanding amount of Exchange Fund papers to $962.4 billion at the end of 2016 from $829.6 billion a year ago. The additional issuance was well received by the market and had little impact on HKD money market conditions. The aggregate balance fell correspondingly from $391.3 billion at the end of 2015 to $259.6 billion at the end of 2016, while the monetary base remained largely unchanged at $1.6 trillion.

HKD wholesale deposits were traded actively among local AIs, and between local and overseas AIs, recording an average daily turnover of $287.5 billion in 2016. Amid ample liquidity in the money market, short-dated HKD interbank interest rates were steady throughout the year, with intermittent fluctuations due to equity fund-raising and seasonal liquidity demand. Nonetheless, longer-dated HKD interbank interest rates rose in January and in the fourth quarter, reflecting primarily a catch-up with the increases in the USD interbank interest rates. Overall, the HKD money market and forex market continued to operate in an orderly and smooth manner.

Exchange Fund

The 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 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 investment management of the Exchange Fund. To meet the objectives of preserving capital, providing liquidity to maintain financial and currency stability and generating adequate long-term returns, the 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 fund's asset allocation strategy is guided by an investment benchmark approved by the Financial Secretary on the advice of the EFAC[18]. A Strategic Portfolio holds all HKEX shares

[18] The management and investment style of the fund are explained in the HKMA's annual report.

acquired for strategic purposes by the Financial Secretary using the fund. To better manage risks and enhance returns in the medium and long term, the HKMA has been diversifying part of the fund's investment in a prudent and incremental manner into a greater variety of asset classes, including private equity and real estate investments housed under the Long-Term Growth Portfolio.

At the end of 2016, the fund had total assets of \$3,629.9 billion and an accumulated surplus of \$546.7 billion[19].

Another function related to the 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 HK\$7.80 to US\$1.

Through the HKMA, the government issues \$10 currency notes and coins in denominations of \$10, \$5, \$2, \$1, 50 cents, 20 cents and 10 cents. The value of all notes and coins in circulation at the end of 2016 was \$420 billion.

Websites

Companies Registry: www.cr.gov.hk
Companies Registry e-Registry: www.eregistry.gov.hk
Company Search Mobile Service: www.mobile-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
Hong Kong Strategy for Financial Literacy: www.hksfl.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
The Chin Family: www.thechinfamily.hk

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[19] 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.