

Chapter 4

Financial and Monetary Affairs

Well-established as the world's premier international financial centre, Hong Kong is ranked third in the Global Financial Centres Index and has been commended by the International Monetary Fund. The vibrant financial sector has a workforce of about 260,000, contributing to 18.9 per cent of the local economy.

Hong Kong as International Financial Centre

Hong Kong, with its strategic location in the heart of Asia, is firmly anchored in the increasingly integrated global financial system. The city's trading system interacts 24 hours a day with other global financial centres, such as New York and London. Key markets in Asia and half the world's population can be reached within a five-hour flight time. As part of China under the 'one country, two systems' principle, Hong Kong enjoys extensive geographical, cultural and linguistic links with the Mainland and yet retains the uniqueness that sets it apart from Mainland cities.

Hong Kong's financial markets are characterised by effective and transparent regulations that are in line with international standards. The rule of law, open market, free flow of capital and information, deep liquidity, strong emphasis on investor protection, well-educated and very efficient workforce and ease of entry for non-local professionals are all cornerstones of the city's competitive financial services. These strengths contribute to Hong Kong's unique position in bridging opportunities in the Mainland of China with the rest of the world, particularly in leveraging opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiative.

The city's status as a leading international financial centre is widely acknowledged: the Global Financial Centres Index, published by the Z/Yen Group in September, ranked New York, London and Hong Kong as the world's top three financial centres. The International Monetary Fund Staff Mission, following its 2018 Article IV Consultation, also commended Hong Kong for having robust policy frameworks and strong buffers to ensure continued financial stability.

To strengthen its competitiveness, Hong Kong improves the regulatory framework, promotes market development and encourages the use of technology to raise operational efficiency and foster the development of innovative services in the financial services industry. The city will also

capitalise on opportunities arising from the Belt and Road Initiative and Greater Bay Area 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 Renminbi (RMB) business.

Financial Regulators

Hong Kong Monetary Authority

The Hong Kong Monetary Authority (HKMA) maintains 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; promotes stability and integrity of the financial system, including the banking system; helps maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure; and manages 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 (EFAC) in exercising control of the Exchange Fund.

The Banking Advisory Committee and Deposit-taking Companies Advisory Committee are established under the Banking Ordinance to advise on matters relating to the banking industry. Both committees are chaired by the Financial Secretary and comprise members from the banking and other professions.

Securities and Futures Commission

As the statutory regulator of Hong Kong's securities and futures markets, the Securities and Futures Commission (SFC) derives its powers from the Securities and Futures Ordinance (SFO). Its regulatory work can be categorised into five areas: intermediaries, investment products, listings and takeovers, market infrastructure, 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 foreign exchange (forex) dealers, fund managers, investment and corporate finance advisers, and credit rating agencies, to ensure their financial soundness and compliance with conduct requirements.

Investment products – The SFC maintains a robust regulatory regime and performs gatekeeping functions in authorising investment products offered to the public in Hong Kong under the SFO, monitoring compliance with disclosure and other requirements. It formulates policies to regulate the asset and wealth management industry, and pursues initiatives that facilitate Hong Kong's development as a full-fledged international fund service centre.

Listings and takeovers – The SFC oversees listings and takeovers in Hong Kong, including the vetting of listing applications, disclosure requirements for listed companies, corporate conduct,

the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK), and the merger, takeover, privatisation and share buy-back activities of listed companies in Hong Kong.

Market infrastructure and trading – The SFC supervises the Hong Kong Exchanges and Clearing Limited (HKEX)'s exchanges and clearing houses, share registrars and providers of 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 disciplines licensed corporations through reprimands, licence suspensions or revocations, and monetary fines. It deals with market misconduct, such as insider dealing and market manipulation, by bringing cases to the Market Misconduct Tribunal¹ or initiating criminal proceedings. It can apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

Separately, the Investor Compensation Company Limited under the aegis of the SFC manages the Investor Compensation Fund. The fund compensates investors who have suffered losses in exchange-traded securities or futures contracts in Hong Kong as a result of a default by a Hong Kong intermediary. The Investor and Financial Education Council², also under the aegis of the SFC, carries out investor education on all financial products and enhances the public's financial literacy.

Insurance Authority

The Insurance Authority (IA) is the statutory regulator of insurance companies. It also plans to implement a new statutory regulatory regime for insurance intermediaries and take over the regulation of insurance intermediaries from the three Self-Regulatory Organisations³ within 2019.

The IA is financed by fees payable by insurance companies and insurance intermediaries, user fees for providing specific IA services and a levy on insurance premiums payable by policyholders.

As a member of the International Association of Insurance Supervisors, Hong Kong is required to observe international principles and standards in its insurance supervisory regime. The IA works with regulators in other jurisdictions in regulating major insurance groups, organises supervisory colleges for insurance groups of which IA is the home regulator and takes part in supervisory colleges organised by the home regulators of such groups.

Mandatory Provident Fund Schemes Authority

The Mandatory Provident Fund Schemes Authority (MPFA), established under the Mandatory Provident Fund Schemes Ordinance, regulates and supervises the MPF System. It ensures

¹ 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.

² Previously called the Investor Education Centre.

³ The three organisations are the Insurance Agents Registration Board, established under the Hong Kong Federation of Insurers; the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association.

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. It arranges programmes to strengthen the public's understanding of new developments in the MPF System and to educate scheme members on MPF investments. The MPFA is also the Registrar of Occupational Retirement Schemes.

Financial Reporting Council

The Financial Reporting Council (FRC), a statutory body established under the Financial Reporting Council Ordinance, conducts independent investigations and enquiries into Hong Kong-listed entities' possible non-compliance with accounting standards as well as their auditors' possible auditing and reporting irregularities. The council also reviews the financial statements of listed entities regularly. It completed 16 investigations and one enquiry in 2018.

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.

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. To implement auditor regulatory reform, an amendment bill was under scrutiny in the Legislative Council in 2018 that would allow the FRC to become a full-fledged independent oversight body regulating auditors of listed entities.

The following sections set out the development of various sectors of financial services in 2018.

Banking and Payment System

Banking System

Hong Kong has a resilient banking sector, with healthy asset quality and strong liquidity and capital positions. The city was the world's sixth and Asia's second largest banking centre in terms of external positions⁴, according to the Bank for International Settlements Quarterly Review for December 2018.

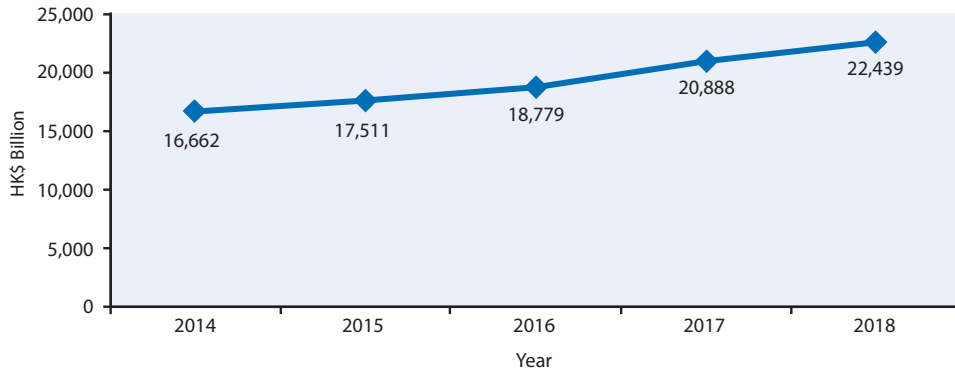
International financial institutions maintain a strong presence in Hong Kong. Of the world's top 100 banks, 77 operate in the city. At the year end, 145 of the 152 licensed banks in Hong Kong were beneficially owned by parties outside Hong Kong.

Hong Kong maintains three tiers of deposit-taking institutions: licensed banks (LBs), restricted licence banks (RLBs) and deposit-taking companies (DTCs)⁵. They are known collectively as authorised institutions (AIs) under the Banking Ordinance and are licensed by the HKMA.

⁴ 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.

⁵ 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.

Chart 1 External Positions of AIs



The city has one of the world's highest concentrations of banking institutions. As at end-2018, there were 152 LBs, 18 RLBs and 16 DTCs. These 186 AIs maintained a network of 1,285 local branches. There were also 48 representative offices of banks incorporated outside Hong Kong.

Total deposits and total loans and advances of AIs amounted to \$13,386.4 billion and \$9,722.6 billion respectively, marking increases of 5 per cent and 4.4 per cent from a year earlier. Total assets rose 5.9 per cent to \$24,042.7 billion.

Statistics on AIs

	2016	2017	2018
AIs	195	191	186
Of which:			
LBs	156	155	152
RLBs	22	19	18
DTCs	17	17	16
Local branches of AIs	1,289	1,261	1,285
Total deposits (\$ billion)	11,727.3	12,752.5	13,386.4
Total loans and advances (\$ billion)	8,023.4	9,313.7	9,722.6
Total assets (\$ billion)	20,652.3	22,696.7	24,042.7

Hong Kong maintains a robust deposit protection regime which underpins the stability of the banking system. The Deposit Protection Scheme protects eligible deposits held with banks in Hong Kong by guaranteeing compensation up to \$500,000, thereby ensuring the confidence of depositors in the banking system.

The HKMA stays vigilant to developments in the property mortgage business of AIs. It has introduced eight rounds of countercyclical macroprudential measures since 2009 to strengthen the risk management of AIs' mortgage lending business.

International Banking Standards

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

As a member of the Basel Committee on Banking Supervision and the Financial Stability Board (FSB), Hong Kong is committed to implementing international standards on banking regulation, including the Basel III framework and other post-crisis reform packages. The city implements the international standards through amending the Banking Ordinance and issuing rules supplemented by regulatory guidance.

The Banking (Amendment) Ordinance 2018 was enacted by LegCo in early 2018 for the purposes of implementing the latest Basel standards on AIs' financial exposure limits, as well as recovery planning requirements promulgated by the FSB. The Banking (Capital) Rules and the Banking (Exposure Limits) Rules were also amended in the year to implement the latest Basel requirements on capital adequacy and large exposure limits.

Financial Infrastructure

Real-time Gross Settlement Systems

Hong Kong has robust real-time gross settlement (RTGS) interbank payment systems. All banks in the city maintain settlement accounts with the HKMA in the Hong Kong dollar (HKD) RTGS system⁶. The US dollar (USD), euro and RMB RTGS systems enable transactions in these currencies to be settled in real time among banks. All four RTGS systems are linked to enable forex transactions to be settled on a payment-versus-payment basis.

Central Moneymarkets Unit

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 and private debt securities. Through its seamless interface with the RTGS systems, the CMU system is able to settle securities transactions on a delivery-versus-payment basis. It is linked to a number of international and regional central securities depositories to enable overseas and local investors to hold and settle securities lodged with the CMU and with overseas systems respectively. Northbound trading of Bond Connect, an arrangement for overseas investors to access the Mainland bond market through Hong Kong, experienced increasing usage over the course of 2018 after its launch in July 2017.

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.

Stored Value Facilities and Retail Payment Systems

The Payment Systems and Stored Value Facilities Ordinance provides the regulatory regimes for stored value facilities (SVFs) and retail payment systems (RPSs). By the end of 2018, the HKMA

⁶ 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.

had issued 13 SVF licences, in addition to which three banks had rolled out SVFs. The SVF industry continued to grow during the year as the licensees launched new products and services, offering consumers and merchants more choices and convenience. To promote the safety and efficiency of the local retail payment industry, the HKMA designated two more RPSs under the ordinance in August, bringing a total of six RPSs under its regulatory oversight.

Faster Payment System

The Faster Payment System (FPS) was launched in September. It supports instant payment in both the HKD and the RMB round the clock. Users can easily transfer funds 24/7 across different banks and SVFs by entering the mobile phone number or email address, instead of the account number, of the recipient.

By providing an open platform for access by banks and SVF operators, the FPS creates a level playing field, thus encouraging innovation and healthy competition among payment service providers while offering the public an efficient and user-friendly service. All the participating banks and SVF operators waive their fees for small-value peer-to-peer transfers, which promotes the adoption of electronic payment.

As at 31 December, the FPS had recorded 21 participating banks and 10 SVF operators, over two million registrations, and over 4.8 million transactions involving more than \$104 billion and RMB2.75 billion.

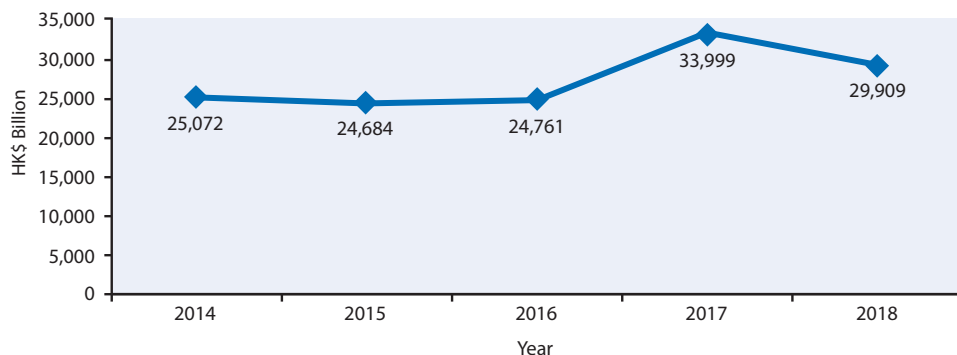
Fund-raising Centre

Securities and Futures Markets

Hong Kong's securities market is operated by the SEHK and its futures market by the Hong Kong Futures Exchange (HKFE), both wholly owned subsidiaries of the HKEX. The city's stock market capitalisation totalled about \$29.9 trillion as at end-2018, fifth in the world and third in Asia, and equivalent to about 10 times Hong Kong's Gross Domestic Product. At the end of the year, 2,315 companies were listed on the SEHK, representing a wide range of industries from finance and property to consumer goods, information technology and telecommunications.

Chart 2

Stock Market Capitalisation



The Hong Kong market's liquidity and access to international investors are attractive to companies seeking to raise capital. At the end of 2018, 1,146 Mainland enterprises were listed on the SEHK, raising \$6.3 trillion from the Hong Kong market since 1993. Funds raised by Mainland companies represented 95 per cent of initial public offering (IPO) equity funds raised in 2018. Apart from Hong Kong and Mainland companies, 28 non-local companies, from Australia, Canada, France, Macao, Malaysia, Singapore, Thailand and the United States, were also listed on the SEHK in 2018. The SEHK is working to accept companies from more overseas jurisdictions to list in Hong Kong.

The SEHK has ranked first for six out of the past 10 years since 2009 in terms of equity funds raised via IPOs. This included 2018, when IPOs raised over \$280 billion. There were 218 new listings during the year, including 10 transfers of listing from the Growth Enterprise Market (GEM) to the Main Board. In addition to new share issues, more than \$250 billion was raised on the secondary market, bringing the total equity funds raised to over \$540 billion, fourth in the world and second in Asia. The securities market's total turnover rose 21.7 per cent to \$26.4 trillion. At the HKEX, the turnover of securitised derivatives has ranked first in the world since 2007.

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 year end, 27 per cent of the 647 SEHK trading participants and 55 per cent of the 194 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 over-the-counter (OTC) Clearing Hong Kong Limited. These provide integrated clearing, settlement, depository and nominee services for its participants and members.

Exchange-traded funds (ETFs) offer investors a wide range of investment exposure to world, regional and Mainland indices and commodities. During the year, 15 new ETFs, including leveraged and inverse products, were authorised, bringing the total number of SEHK-listed ETFs to 137. Leveraged and inverse products provide investors with new trading and hedging tools, while ETFs with multiple trading counters in the HKD, USD and RMB increase flexibility in settlement and trading. Turnover of ETFs was about \$1 trillion.

Statistics on Securities Market (Main Board and GEM)

	2016	2017	2018
Number of listed companies (year end)	1,973	2,118	2,315
Total market capitalisation (year end) (\$ billion)	24,761	33,999	29,909
Total equity funds raised (\$10 billion)	49	58	54
Total securities market turnover (\$ billion)	16,396	21,709	26,423
Total number of shares traded (billion)	45,612	44,283	55,647
Number of derivatives warrants (DWs) listed (year end)	3,705	6,094	6,763
Turnover of DWs (\$ billion)	2,727	3,008	3,866
Number of callable bull/bear contracts (CBBCs) listed (year end)	1,844	3,374	2,847
Turnover of CBBCs (\$ billion)	1,372	1,189	1,837
Number of ETFs listed (year end)	133	106	115
Turnover of ETFs (\$ billion)	1,011	1,065	987

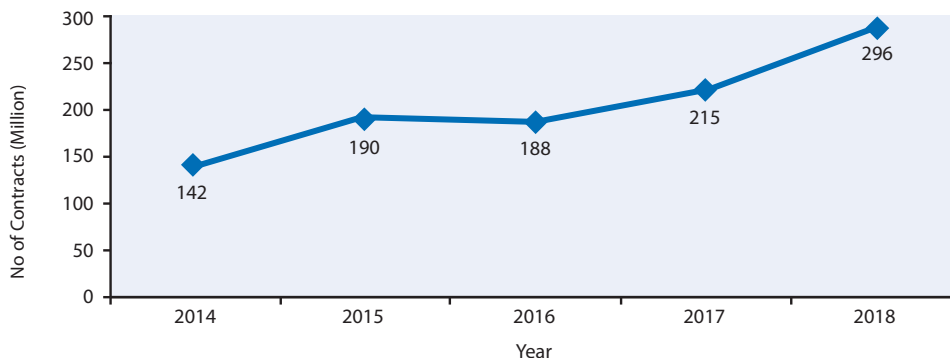
Total turnover of derivatives contracts in 2018 was 296.18 million, the highest ever and about 38 per cent more than in 2017. Open interest at the year end was about 10.6 million contracts. Trading of major derivatives products included Hang Seng Index (HSI) Futures, with a total turnover of 57.67 million contracts; Hang Seng China Enterprises Index Futures with a turnover of 37.45 million contracts; HSI Options with a turnover of 12.72 million contracts; Hang Seng China Enterprises Index Options with a turnover of 24.26 million contracts; and Stock Options with a turnover of 127.28 million contracts.

Statistics on Derivatives Market Turnover (million contracts)

	2016	2017	2018
All options and futures contracts	188	215	296
Of which:			
HSI Futures	32	31	58
Hang Seng China Enterprises Index Futures	33	29	37
HSI Options	9	10	13
Hang Seng China Enterprises Index Options	19	20	24
Stock Options	74	106	127

Chart 3

HKFE Turnover of Derivatives



At the end of 2018, there were 46,254 licensed corporations and individuals, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 117 registered institutions, such as banks, engaging in regulated activities such as dealing in and advising on securities and futures.

There were also 48 SFC-authorized automated trading services providers. Most were overseas exchanges and clearing houses that provided automated trading services by means of electronic facilities to transact or settle transactions in securities, futures and OTC derivatives.

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

	2016	2017	2018
Licensed entities	42,544	44,050	46,254
Of which:			
Licensed corporations	2,411	2,660	2,905
Licensed individuals	40,133	41,390	43,349
Registered institutions	121	119	117

Recent Developments

During the year, amendments to the Codes on Takeovers and Mergers and Share Buy-backs took effect to enhance investor protection and ensure a fair and informed market. Rule amendments standardising the prescription of professional investors to promote consistent application of the regulations also became effective.

The SFC amended its guidelines on anti-money laundering and counter-terrorist financing to align with the latest international standards and industry developments, and to allow firms more flexibility under the risk-based approach in complying with some of the requirements.

In the light of growing investor interest in virtual assets and the significant investment risks involved, the SFC announced a conceptual framework for the potential regulation of virtual asset trading platforms, with a view to exploring whether these platforms are suitable for

regulation. The SFC also provided guidance on the expected standards and practices for virtual asset portfolio managers and fund distributors.

On the enforcement front, the SFC takes disciplinary action to maintain market integrity. Of the SFC licensees disciplined in 2018, 14 were individuals and 20 were corporations. Total fines were \$193 million.

Commodity Trading

Hong Kong operates one of the most active physical gold markets in the world and is among Asia's largest 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. 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 are conducted on the LME and its prices are used as global benchmarks. The average daily volume for 2018 was 730,498 lots. The LME's in-house clearing house in London, LME Clear, supports the exchange's commodity business.

Listing Regime for Companies from Emerging and Innovative Sectors

In April, the SEHK revised its listing rules to facilitate the listing of companies from emerging and innovative sectors, subject to safeguards. The expanded listing regime allows the Main Board listing of pre-revenue and pre-profit biotechnology companies, high-growth and innovative companies with weighted voting rights structures, and qualifying issuers seeking a secondary listing on the SEHK through a new concessionary route.

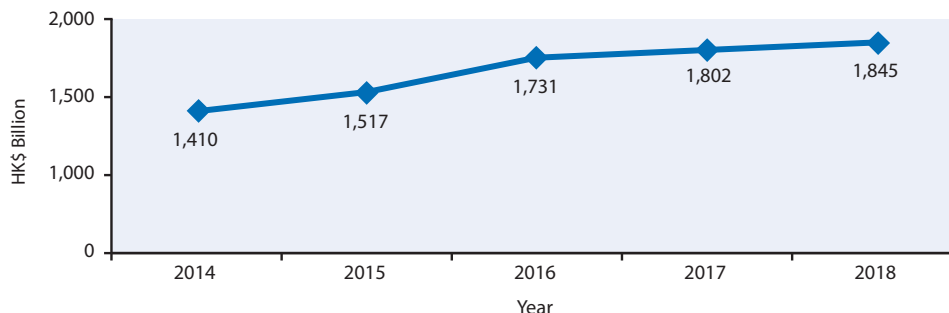
The new listing regime caters for the fund-raising needs of the new economic environment and makes Hong Kong's listing platform more attractive to issuers from different jurisdictions, thereby strengthening the city's overall competitiveness vis-à-vis other major international listing venues. As at end-2018, seven companies were listed successfully on the SEHK under the new regime.

Bond Market Development

Hong Kong is a major bond market in Asia. Outstanding HKD debt securities, including EFBNs, totalled \$1,844.5 billion at the end of 2018.

Chart 4

Total Outstanding HKD Debt Securities



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 \$19.6 billion were issued under the programme in 2018, including \$16.6 billion to institutional investors and a \$3 billion inflation-linked Silver Bond to Hong Kong residents aged 65 or above.

In May, the government introduced a three-year Pilot Bond Grant Scheme to encourage enterprises to issue bonds in Hong Kong. Eligible enterprises issuing bonds in Hong Kong for the first time may receive a grant equivalent to half of its issuance expenses, capped at \$2.5 million per issuance for up to two bond issuances.

The Qualifying Debt Instrument Scheme under the Inland Revenue Ordinance was amended in November to promote trading and investment in the bond market. The amendments extend the scope of tax exemption for debt instruments and allow SEHK-listed debt instruments to qualify for tax exemption in addition to instruments lodged with and cleared by the HKMA's CMU.

Asset and Wealth Management

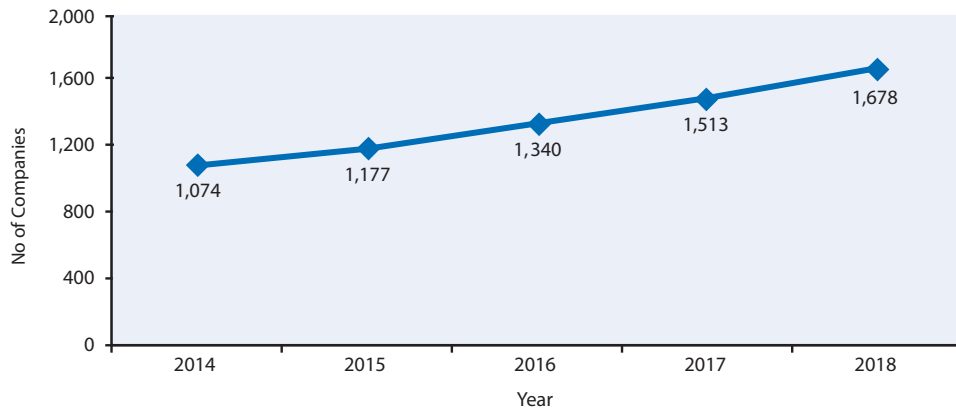
Hong Kong is well placed as Asia's premier asset and wealth management centre, amid fast wealth creation in Asia and deepening financial market liberalisation in the Mainland. At the end of 2017, Hong Kong's asset and wealth management business was valued at \$24,270 billion, of which 66 per cent came from non-local investors, showcasing the city's attractiveness to international investors⁷. At the end of 2018, 1,678 companies were licensed by or registered with the SFC to carry out asset management business locally, up 10.9 per cent from end-2017. There were 2,195 SFC-authorized unit trusts and mutual funds⁸, of which 775 were domiciled in

⁷ Figures are quoted from the Asset and Wealth Management Activities Survey for 2017, an annual SFC survey about the general state of affairs in the local asset and wealth management industry.

⁸ These include 125 MPF pooled investment funds offered both as retail unit trusts and for MPF purposes.

Hong Kong, up 2.6 per cent from a year earlier and 126 per cent from five years ago. Fund domiciliation builds up Hong Kong's fund manufacturing capabilities by driving demand for professional services along the whole value chain, including fund management, investment advice, legal and accounting services, and sales and marketing.

Chart 5 **Number of Asset Management Companies**



Leveraging the world-class financial infrastructure of Hong Kong, the government, together with other agencies, promotes the development of Hong Kong's asset and wealth management sector through a multi-pronged approach. This includes working to provide a conducive operational, regulatory and tax environment as well as improved access to other markets, thereby growing a full spectrum of asset and wealth management activities. This also includes diversifying fund structures and expanding the fund distribution network.

Open-ended Fund Company Structure

In July, a new open-ended fund company regime took effect, introducing a new corporate fund structure in addition to the unit trust. The structure allows funds to be set up in the form of companies but with the flexibility to create and cancel shares for investors' subscription and redemption in the funds. It broadens the choice of investment fund vehicles and makes Hong Kong a more attractive fund domiciliation location.

Mutual Recognition of Funds

In October, the SFC and the United Kingdom's Financial Conduct Authority signed a Memorandum of Understanding on Mutual Recognition of Funds (MRF) to allow the distribution of eligible public funds in each other's market through a streamlined process. Apart from the UK, Hong Kong has MRF arrangements with the Mainland, France, Luxembourg and Switzerland. As at the year end, 67 funds had been authorised under the Hong Kong-Mainland MRF arrangement, enabling aggregate net sales of more than RMB9.45 billion.

Corporate Treasury Centres

Hong Kong is a premier location for multinational corporations to establish corporate treasury centres (CTCs) to manage their regional and global treasury activities. The Inland Revenue Ordinance allows interest deduction in calculating profits tax for the intra-group financing business of corporations operating in Hong Kong under specified conditions, and reduces qualifying CTCs' profits tax for specified treasury activities by 50 per cent. In 2018, the half-rate concessions were extended to profits derived from domestic transactions.

Regulation of Asset and Wealth Management

The SFC seeks to ensure Hong Kong's regulatory regime for asset and wealth management is in line with international regulatory developments in order to facilitate orderly development of the sector. New requirements on refining asset management regulation and point-of-sale transparency to better address conflicts of interest in the sale of investment products took effect in 2018. Following a public consultation in the year, an updated Code on Unit Trusts and Mutual Funds, meant to strengthen requirements for key operators of SFC-authorized funds and introduce new fund types such as active ETFs, will take effect in January 2019.

Regulation of OTC Derivatives

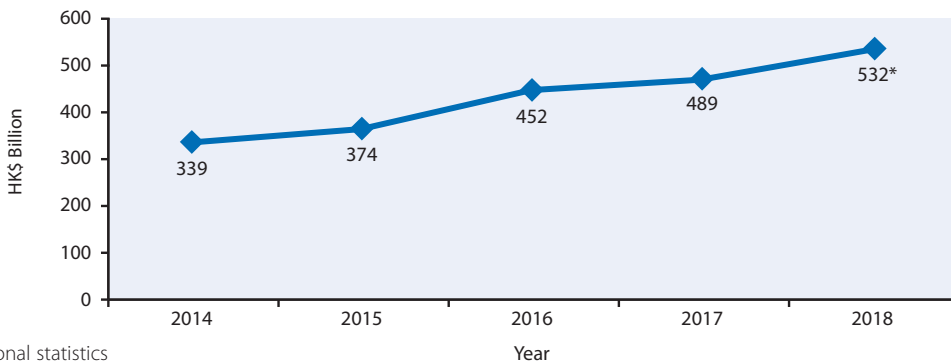
In line with G20 commitments to reform OTC derivatives markets, the HKMA and the SFC are working on implementing an OTC derivatives regulatory regime in Hong Kong. Notably, the SFC issued in December consultation conclusions on its proposals to enhance the OTC derivatives regime and address conduct risks posed by dealings with group affiliates and other connected persons.

Insurance

Hong Kong is one of the most open insurance centres in the world, with the highest insurance density in Asia in 2018. Of the 161 authorised insurers operating in the city at the end of 2018, 72 were from the Mainland or overseas jurisdictions. Thirteen 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 16 professional reinsurers, including most of the world's top reinsurers.

Chart 6

Annual Gross Premiums of Insurance Market



*Provisional statistics

During the past five years, the Hong Kong insurance industry grew 12.2 per cent on average annually. In 2018, gross premiums amounted to \$531.7 billion*, a 8.7 per cent increase over 2017. The total revenue premiums of in-force long-term business rose 8.5 per cent to \$478.2 billion*. Individual life insurance remained the leading business, accounting for \$431.3 billion*, or 90.2 per cent* of total revenue premiums, with 13.4 million* corresponding policies.

General insurance business rose to \$53.6 billion* from \$48.3 billion in 2017, representing a 11 per cent increase in gross premiums. The growth was driven mainly by an increase in gross premiums of accident and health business (comprising medical business), general liability business (comprising employees' compensation business) and property damage business. The overall underwriting performance of general insurance business turned from a loss of \$0.8 billion* to a profit of \$0.6 billion*.

Statistics on Insurance Business

	2016	2017	2018
Number of authorised insurers	160	159	161
Of which:			
Incorporated in Hong Kong	87	88	89
Incorporated in the Mainland or overseas	73	71	72
Premium income (\$ billion)	451.7	489.2	531.7*
Total gross premiums			
Of which:			
Long-term in-force business (Office/Revenue premiums)	406.2^	440.9^	478.2*#
General insurance (Gross premiums)	45.5	48.3	53.6*

^ Office premiums
Revenue premiums
* Provisional statistics

At the end of 2018, there were 104,201 individual insurance intermediaries, comprising 9,560 Chief Executives or Technical Representatives (TRs) of 788 broker firms, 25,310 Responsible Officers or TRs of 2,422 agency firms, and 69,285 individual agents and their 46 TRs.

Recent Developments

To achieve full cost recovery in the long run, the IA started collecting a levy of 0.04 per cent on insurance premiums from policyholders through insurance companies from 1 January 2018. The levy rate will increase gradually until it reaches the target level of 0.1 per cent in 2021-22. Each policy is subject to a levy cap.

Risk-based Capital Regime

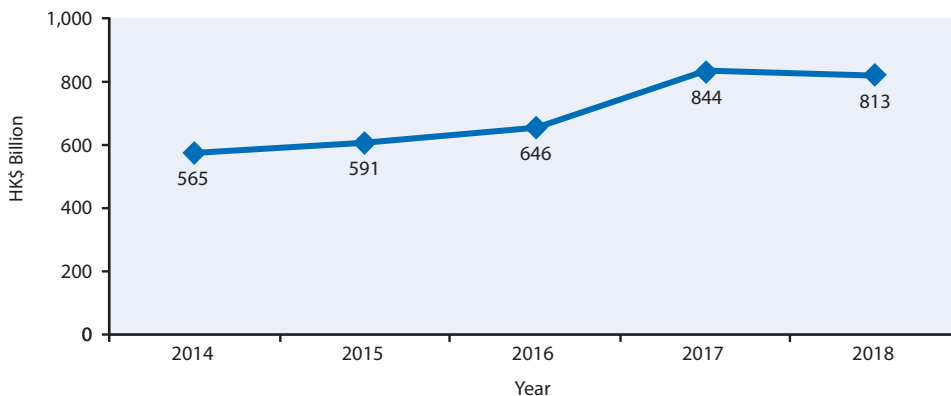
The IA is engaging stakeholders in developing a risk-based capital (RBC) regime for Hong Kong's insurance industry. It plans to conduct the third quantitative impact study within 2019 to collect industry data so as to analyse the impact of RBC to the industry and determine the capital requirements. It also plans to issue the Guideline on Enterprise Risk Management within 2019.

Mandatory Provident Fund System

MPF schemes had a net asset value (NAV) of around \$813 billion at the end of 2018 and an annualised rate of return of 3.2 per cent between December 2000, when the MPF System was launched, and December 2018.

Chart 7

Total NAV of MPF Schemes



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 2018, about 84 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 benefits, comprising 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 Occupational Retirement Schemes Ordinance (Orso) Registered Schemes (year end)

	2016	2017	2018
Number of MPF-enrolled participants (Estimated rate)			
Employers	277,200 (100%)	280,200 (100%)	290,500 (100%)
Relevant employees	2,583,800 (100%)	2,581,100 (100%)	2,633,300 (100%)
SEPs	202,200 (68%)	205,000 (70%)	207,800 (70%)
<i>MPF schemes</i>			
Number of registered schemes	36	32	32
Number of approved constituent funds	484	469	467
Aggregate NAV (\$ billion)	646	844	813
<i>MPF-exempted Orso registered schemes⁹</i>			
Number of schemes	3,294	3,195	3,048
Number of participating employees	333,394	329,021	317,308
Aggregate NAV (\$ billion)	294	301	336

MPF schemes are managed privately and regulated. At the year end, there were 14 active approved MPF trustees providing MPF schemes and funds and 32,867 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes.

Recent Developments

In May, a Governance Charter developed by the MPFA was endorsed by MPF trustees to promote a stronger governance culture and deliver better value-for-money outcomes for scheme members. In November, the MPFA launched a set of governance principles to guide MPF trustees' boards of directors in upholding good governance practices.

The government and the MPFA are preparing to set up a centralised platform, which will standardise, streamline and automate MPF scheme administration processes to maximise operational efficiency so as to create room for fee reduction, and to create a predominantly paperless MPF experience. The target is to complete the development of the centralised platform in 2022.

⁹ MPF-exempted Orso registered schemes are occupational retirement schemes set up voluntarily by employers and registered under the ordinance before the launch of the MPF System, and subsequently granted exemption from MPF requirements.

Anti-money Laundering and Counter-terrorist Financing

Money laundering and terrorist financing 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 such threats from within the city and more so from other places. As a member of the Financial Action Task Force, Hong Kong has a robust, mature and effective regulatory regime in place to combat money laundering and terrorist financing, which effectively safeguards the integrity of its business environment and reputation as an international financial centre.

During the year, the city's regulatory framework was reinforced with the enactment of several pieces of legislation – the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018, which prescribes statutory customer due diligence and record-keeping requirements for designated non-financial businesses and professions, and introduces a licensing regime for trust or company service providers; the Companies (Amendment) Ordinance 2018, which requires companies incorporated in Hong Kong to maintain beneficial ownership information; the Cross-boundary Movement of Physical Currency and Bearer Negotiable Instruments Ordinance, which establishes a declaration and disclosure system to detect the cross-boundary movement of large quantities of currency and bearer negotiable instruments; the United Nations (Anti-Terrorism Measures) (Amendment) Ordinance 2018, which strengthens the freezing mechanism of terrorist property and prohibits the financing of travel of foreign terrorist fighters; and the United Nations Sanctions (Amendment) Ordinance 2018, which enables regulations made under the ordinance to impose sanctions directly against persons designated by the United Nations Security Council.

Resolution Regime for Financial Institutions

The Financial Institutions (Resolution) Ordinance establishes a cross-sectoral resolution regime for financial institutions in Hong Kong and confers powers on the Monetary Authority, the SFC and the IA as the resolution authorities for within-scope financial institutions under their respective purview. Its main provisions came into operation in July 2017. In February 2018, the FSB noted in its publication, the Peer Review Report of Hong Kong, that the city was 'one of the few FSB jurisdictions with a fully cross-sectoral resolution regime'.

The Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules came into effect on 14 December, requiring AIs and certain group companies of AIs to maintain minimum loss-absorbing capacity. The requirements are designed to implement, and are broadly aligned with, the FSB's Total Loss-Absorbing Capacity standard.

The resolution authorities will continue to develop resolution planning and the associated standards for financial institutions in order to improve the resolvability of financial institutions such that, in the event of a financial institution's non-viability, resolution may take place in an orderly manner. This work would support the operation of the resolution regime in Hong Kong, which would in turn contribute to financial stability.

Hong Kong as China's Global Financial Centre

With the continued internationalisation of the RMB and the opening up of Mainland financial markets, the currency is increasingly used in global transactions, ranging from cross-border trade and direct investment transactions to financial investment and asset management activities.

Thanks to its deep pool of liquidity, efficient financial infrastructure and multitude of cross-border portfolio flow channels, Hong Kong continues to be the largest and most important global offshore RMB business hub, offering a wide range of RMB-denominated investment products, including listed and unlisted investment funds, insurance products, currency futures, real estate investment trusts, shares, derivatives products and bonds.

Hong Kong is the global leader in RMB financial intermediation activities. In 2018, according to statistics from the Society for Worldwide Interbank Financial Telecommunication, more than 70 per cent of global offshore RMB payment transactions were handled by Hong Kong. The city's RMB RTGS system also recorded a high volume of RMB transactions, averaging RMB1,010 billion daily during the year.

Capital Raising 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

Hong Kong is the leading and most important offshore RMB business hub. As at the year end, the offshore RMB deposit pool in Hong Kong, including customer deposits and outstanding certificates of deposit, amounted to RMB657.7 billion, while RMB bank lending and outstanding RMB bonds stood at RMB105.6 billion and RMB170.6 billion respectively. RMB trade settlement handled by banks in Hong Kong totalled RMB4.2 trillion in 2018.

Qualified institutions develop a wide range of products investing in Mainland onshore markets via platforms such as the Renminbi Qualified Foreign Institutional Investor scheme, Stock Connect and Bond Connect. At the end of 2018, there were 36 fund management companies managing 47 SFC-authorized unlisted funds investing onshore via these channels with an aggregate NAV of RMB6.3 billion, and 33 SFC-authorized ETFs investing onshore via these channels with an aggregate NAV of RMB51.4 billion.

In November, the People's Bank of China (PBoC) issued a total of RMB20 billion bills for the first time in Hong Kong, enriching the spectrum of RMB financial products and improving the offshore RMB bond yield curve.

Stock Connect

Under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, international investors can trade in over 580 shares and over 740 shares listed on the Shanghai and Shenzhen stock exchanges respectively. Mainland investors also get to choose from over 480 Hong Kong-listed stocks.

With effect from 1 May, the daily quota of each of the northbound trading links under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect was quadrupled to RMB52 billion, while that of each of the southbound trading links was quadrupled to RMB42 billion.

Bond Connect

Northbound trading under Bond Connect has been operating smoothly since its launch in July 2017. There were a number of major breakthroughs in 2018, including full implementation of delivery-versus-payment settlement, the launch of block trade functionality, clarification of tax treatment, and addition of a second electronic trading platform.

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.

Belt & Road and International Cooperation

Asian Infrastructure Investment Bank

Hong Kong has been a member of the Asian Infrastructure Investment Bank (AIIB) since 2017. The AIIB is a multilateral development bank (MDB) set up to improve social and economic outcomes in Asia by supporting infrastructural development and promoting regional connectivity. It is amongst the MDBs of which Hong Kong is a full and separate member, showcasing the principle of 'one country, two systems'.

Hong Kong's capital markets and professional services are well-positioned to support the AIIB's operation. The city was the fifth largest service provider to the AIIB in 2017.

Asian Development Bank

Hong Kong joined the Asian Development Bank (ADB) in 1969, three years after its establishment. The ADB is an MDB working to reduce poverty in the Asia Pacific region by providing its members with loans, grants and technical assistance to undertake development activities. Since July 1997, the city has continued to participate in the ADB on its own using the name 'Hong Kong, China', demonstrating the principle of 'one country, two systems'.

As an international financial centre, Hong Kong is well-positioned to contribute to the ADB's efforts in bridging the financing gap in the region. In 2018, the city's capital markets raised the equivalent of some US\$472 million for the ADB's Global Medium-term Note Programme.

HKMA Infrastructure Financing Facilitation Office

The Infrastructure Financing Facilitation Office facilitates infrastructure investments and financing by working with key stakeholders, thereby raising Hong Kong's international profile as an infrastructure financing centre. The office maintains an effective collaborative network of key stakeholders, having welcomed 95 organisations from Hong Kong, the Mainland and overseas as partners by end-2018.

During the year, the office hosted seven seminars on topics including project preparation, co-investment experience sharing, risk mitigation and public-private partnerships. In October, it hosted the second Investors and Debt Financing Roundtables, during which a debt financing reference term sheet was developed to provide project owners and developers with a tool to make their projects more 'bankable' and to facilitate private-sector financing of projects in emerging markets.

Belt and Road Insurance Exchange Facilitation

Hong Kong, being a global risk management centre and regional insurance hub, is in an advantageous position to seize opportunities arising from the Belt and Road Initiative. On 11 December, the IA launched the Belt and Road Insurance Exchange Facilitation platform for key stakeholders to exchange intelligence on risk management and insurance and to forge alliances. By the year end, 29 insurers, reinsurers and insurance brokers had joined as members.

Green Finance

Hong Kong is making progress in establishing itself as the region's green finance hub. Green bonds arranged and issued in Hong Kong in the year totalled US\$11 billion, an increase of 237 per cent from 2017. The issuers were private corporations from Hong Kong, the Mainland and abroad, and multilateral agencies such as the ADB, World Bank and European Investment Bank.

The Financial Secretary announced in the 2018-19 Budget a three-year Pilot Bond Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds, including green bonds, in Hong Kong. The scheme was launched in May.

In June, the Green Bond Grant Scheme was launched to subsidise eligible green bond issuers in obtaining certification under the Green Finance Certification Scheme, established in January by the Hong Kong Quality Assurance Agency. The HKMA hosted the International Capital Markets Association's Green and Social Bond Principles Annual General Meeting and Conference, and a seminar with the PBoC on Hong Kong-Mainland green finance opportunities, altogether attracting some 1,300 market participants. The events showcased Hong Kong's credentials as a premier centre for green finance.

In September, the SFC announced the Strategic Framework for Green Finance. The framework goes beyond Hong Kong's current focus on green bonds and includes enhancing listed

companies' disclosure of environmental information with an emphasis on climate-related risks and opportunities, formulating policies obliging asset managers to disclose how and to what extent they consider environmental and climate change risks in the investment and risk analysis process, and facilitating the development of green financial products.

The new Government Green Bond Programme received LegCo's authorisation in November. The programme aims to encourage more issuers to arrange financing for their green projects through the city's capital markets and help grow the local green investor base.

Financial Technologies

With the joint effort of the government, financial regulators and industry players, the local financial technology (fintech) ecology is increasingly vibrant. Some 550 fintech companies and start-ups are operating in Hong Kong. World-renowned innovation laboratories and accelerator programmes, such as Accenture Fintech Innovation Lab and Deloitte Asia Pacific Blockchain Lab, have established their presence in Hong Kong.

InvestHK organised the third Hong Kong Fintech Week in November, attracting some 8,000 attendees from over 50 countries and regions. This was the first cross-boundary fintech event incorporating a Shenzhen Day, bringing fintech communities from overseas, Hong Kong and the Mainland to Shenzhen for business exchanges.

HKMA Fintech Initiatives

To strengthen Hong Kong's position as a fintech hub in Asia, the HKMA implements the seven initiatives announced in 2017 and aimed at facilitating the development and use of fintech in the banking and payment industries. Considerable progress was made in implementing these initiatives and transforming the local financial ecosystem.

Apart from putting the FPS into operation, the HKMA facilitated the launch of eTradeConnect, a blockchain-based trade finance platform, by a consortium of banks in Hong Kong. The platform aims to reduce error and risk of fraud by digitising paper-based documents and automating the trade finance process. The HKMA also published a framework on the Open Application Programming Interface (API) to help the banking sector adopt and implement Open API functions.

To enlarge the fintech talent pool, the HKMA rolled out Fintech Career Accelerator Scheme 2.0 jointly with strategic partners, namely the Hong Kong Applied Science and Technology Research Institute, Cyberport Hong Kong and Hong Kong Science and Technology Parks. Agreements were signed with authorities from Abu Dhabi, Brazil, Poland and Switzerland to enhance fintech collaboration. The HKMA also announced initiating a Global Financial Innovation Network in collaboration with 11 other financial regulators and related organisations to provide an efficient way for innovative firms to interact with regulators and for financial services regulators to cooperate on innovation topics.

On the supervisory front, usage of the Fintech Supervisory Sandbox, including the Fintech Supervisory Chatroom, continued to increase steadily. By the end of 2018, the HKMA had

allowed 42 pilot trials. The sandbox, including the chatroom, was opened to regulatory technology (regtech) projects and ideas raised by banks and technology firms starting from September to develop the regtech ecosystem.

Under the Banking Made Easy initiative, the HKMA streamlined regulatory requirements on remote onboarding, online finance and online wealth management. These enhancements helped banks offer better user experience in online banking. The scope of the initiative was expanded in September to encourage banks to adopt regtech.

A revised Guideline on Authorisation of Virtual Banks was issued on 30 May to facilitate the introduction of virtual banking in Hong Kong. About 30 applications had been received up to the year end. The HKMA will start granting virtual banking licences in the first quarter of 2019.

SFC Fintech Initiatives

Since the establishment of a Fintech Contact Point and Regulatory Sandbox, the SFC has fielded enquiries from firms and individuals intending to operate fintech businesses. These include robo-advising, equity crowdfunding platforms and the application of blockchain in delivering financial services and products.

On the international front, the SFC maintains close contact with overseas regulators on fintech trends and market intelligence. Fintech cooperation agreements are in place with counterparts in Abu Dhabi, Australia, Dubai, Malaysia, Switzerland and the UK. During the year, the SFC joined the Global Financial Innovation Network as a Coordination Group member.

IA Fintech Initiatives

The IA facilitates development in insurance technology (insurtech) through:

- the Insurtech Sandbox, which allows authorised insurers to conduct a pilot run of innovative insurtech applications to be applied in their business operations;
- a Fast-Track application scheme for the authorisation of new insurers owning and operating solely digital distribution channels, under which the licence for the first virtual insurer was granted in December;
- the Insurtech Facilitation Team, which enhances communication with businesses involved in the development and application of insurtech in Hong Kong; and
- a fintech cooperation agreement signed with the Gibraltar Financial Services Commission in March to enhance collaboration in supporting fintech innovation.

Other Measures to Enhance Hong Kong's Competitiveness as International Financial Centre

The government drives, facilitates and coordinates initiatives to ensure the overarching regulatory framework will protect investors and promote market development in the face of both global needs and local circumstances.

Financial Services Development Council

The Financial Services Development Council is a high-level, cross-sectoral advisory body that collects industry views to formulate strategic proposals for the development of the industry. It published four reports in 2018 on maritime leasing; digital identity and know-your-client utilities; environmental, social and governance strategy; and life insurance. In September, the council was incorporated as a company limited by guarantee to allow it to discharge market promotion, research and human capital development functions with more flexibility. Its operation is supported by recurrent subvention from the public coffers.

Financial Dispute Resolution Centre

The Financial Dispute Resolution Centre administers in an independent and impartial manner the Financial Dispute Resolution Scheme to facilitate the resolution of monetary disputes between individual customers and financial institutions by primarily a 'mediation first, arbitration next' approach. Following a public consultation on how to enhance its service, the centre implemented measures in 2018 to enhance the accessibility and flexibility of its service.

Money Lenders

The government closely monitors money lenders' compliance with the Money Lenders Ordinance and the licensing conditions imposed by the licensing court. Public education activities are conducted to alert the public to money lending-related malpractices.

Talent Training

A three-year pilot programme to enhance talent training for the insurance sector and the asset and wealth management sector, launched in 2016, helps the community, particularly students, understand the career prospects in these two sectors so as to attract new blood and enhance the professional competency of the sectors. Initiatives rolled out in the year included educational and promotional activities, summer internships for undergraduates, placements for graduates and financial incentives for practitioners to undergo training.

The HKMA works closely with the banking industry and professional bodies to develop modules under the Enhanced Competency Framework for capacity building and talent development. There are five modules covering private wealth management, anti-money laundering and counter-terrorist financing, cyber security, treasury management and retail wealth management. A new module, on credit risk management, will be launched in 2019.

Asian Financial Forum

The government co-organises the annual Asian Financial Forum with the Hong Kong Trade Development Council to facilitate high-level exchanges over financial and economic issues and to showcase Hong Kong's unique advantages in financial services. In 2018, the signature event was held with the theme 'Steering Growth and Pioneering Innovation: Asia and Beyond', attracting over 3,000 participants from around 46 jurisdictions.

Company Registration

The Companies Registry administers and enforces 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. On 1 March, the registry assumed a new role as the licensing authority for trust and company service providers.

The registry provides electronic filing and search services round the clock. Electronic Certificates of Incorporation and Business Registration Certificates are normally issued together in less than one hour after receipt of the applications for company incorporation through the e-Registry portal.

Companies Registry Statistics

	2016	2017	2018
New local companies	144,883	160,229	151,739
Local companies on the register	1,341,223	1,383,946	1,400,950
New non-Hong Kong companies	874	1,028	1,193
Non-Hong Kong companies on the register	9,983	10,434	11,061

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

	2016	2017	2018
Bankruptcy Orders	8,919	7,627	7,146
Interim Orders in IVAs	501	529	555
Winding-up Orders	325	296	255

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

	2016	2017	2018
Total number of CPAs	40,806	42,237	43,585
Number of practising CPAs	4,598	4,735	4,869
Number of practising CPA firms	1,284	1,292	1,288
Number of corporate practices	524	555	591

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.

Monetary Policy

The objective of Hong Kong's monetary policy 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 observing the strict discipline of the system's currency board arrangements.

The 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 – 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 balance¹⁰ and the outstanding amount of EFBNs. Under the currency board system, HKD exchange rate stability is maintained through an interest rate adjustment mechanism and the HKMA's commitment to honour Convertibility Undertakings. 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 will cause 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.

The Currency Board Sub-Committee under the EFAC monitors and reports on the Currency Board system, and recommends to the Financial Secretary measures to enhance the robustness and effectiveness of the Currency Board arrangements.

¹⁰ 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 among the banks themselves and also between the HKMA and banks.

Monetary Situation

The HKD monetary situation was stable in 2018. The forex market operated in a smooth and orderly way, and the HKD exchange rate traded between HK\$7.8062 and HK\$7.8500 to US\$1. The weak-side Convertibility Undertaking was triggered 27 times from April to August, with the HKMA buying HK\$103.5 billion against the USD upon requests from banks according to the design of the Linked Exchange Rate System. The monetary conditions in Hong Kong remained accommodative in general, with the monetary base amounting to HK\$1.6 trillion at the year end.

The HKD money market also operated in a smooth and orderly manner in 2018. HKD interbank interest rates picked up broadly, reflecting in part the reduced aggregate balance and in part the continued US monetary policy normalisation. Overnight and one-month interbank interest rates averaged 0.69 per cent and 1.35 per cent respectively. Average daily turnover of HKD interbank transactions was around \$443 billion.

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. The fund is managed as distinct portfolios to meet the objectives of preserving capital, fully backing the entire monetary base, providing liquidity to maintain financial and monetary stability and preserving the fund's long-term purchasing power. The Backing Portfolio holds highly liquid USD-denominated assets 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 determined by the Financial Secretary in consultation with the EFAC. A Strategic Portfolio holds all HKEX shares 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 diversifies part of the fund's investment in a prudent and incremental manner into a wider variety of asset classes, including private equity and real estate investments.

At the end of 2018, the fund had total assets of \$4,054.9 billion and an accumulated surplus of \$609.7 billion¹¹.

¹¹ Foreign currency asset figures have been published monthly since January 1997 to demonstrate the government's continued commitment to greater openness and transparency. An abridged balance sheet of the Exchange Fund and a set of Currency Board accounts are published monthly.

Another function related to the fund is currency issuance. Bank notes in denominations of \$20, \$50, \$100, \$500 and \$1,000 are issued by 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. In July, the HKMA and the three banks announced the issue of the 2018 new series of Hong Kong banknotes, which incorporated advanced security features.

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 2018 was \$497 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.fsdcc.org.hk

Hong Kong Deposit Protection Board: www.dps.org.hk

Hong Kong Exchanges and Clearing Limited: www.hkex.com.hk

Hong Kong Monetary Authority: www.hkma.gov.hk

Insurance Authority: www.ia.org.hk

Investor and Financial Education Council: www.ifec.org.hk

Mandatory Provident Fund Schemes Authority: www.mpfa.org.hk

Official Receiver's Office: www.oro.gov.hk

Securities and Futures Commission: www.sfc.hk