

Chapter 4

Financial and Monetary Affairs

Hong Kong is well-recognised as the world's premier international financial centre, connecting opportunities between the Mainland market and the rest of the world. The city's vibrant financial sector has a workforce of over 260,000, contributing to 19.8 per cent of the local economy.

Hong Kong as International Financial Centre

With its favourable location in the heart of Asia, Hong Kong is firmly anchored in the increasingly integrated global financial system. The city's trading system plugs fully into the round-the-clock global financial trading cycle and provides certain and seamless connectivity with other major financial hubs. Within a five-hour flight time, key markets in Asia and half the world's population can be reached from Hong Kong. As part of China, Hong Kong is blessed with the advantages of 'one country, two systems'. The city has close geographical, cultural and linguistic links with the Mainland, and yet it retains the uniqueness that sets it apart from Mainland cities.

Hong Kong's unique fundamental strengths include the rule of law, an independent judiciary, open market, free flow of capital and information, deep liquidity, strong emphasis on investor protection, well-educated and highly efficient workforce and ease of entry for non-local professionals. Its financial markets are characterised by effective and transparent regulations aligned with international standards. These strengths contribute to Hong Kong's unique position as the business bridge between the Mainland of China and the rest of the world.

The city's status as a leading international financial centre is widely acknowledged: the International Monetary Fund Staff Mission, following its 2019 Article IV Consultation, once again commended the resilience of Hong Kong's financial system and the Linked Exchange Rate System, noting that many years of prudent macroeconomic policies had afforded the city ample buffers to navigate through cyclical and structural challenges.

To strengthen its competitiveness, Hong Kong improves the regulatory framework and promotes market development and the application of financial technology to increase productivity, enhance financial inclusion and drive sustainable development. The city will also step up efforts in capitalising on the emerging opportunities from the development of the

Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road (B&R) Initiative to further 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 Services

The financial services industry is an important pillar of the Hong Kong economy, contributing to nearly a fifth of Gross Domestic Product and providing over 260,000 jobs, which account for nearly 7 per cent of the working population. Hong Kong is constantly striving to consolidate its strengths and develop the financial markets whilst ensuring its regulatory framework can keep pace with the times, manage systemic risks effectively and provide protection for investors.

Financial Regulators

Hong Kong Monetary Authority

The Hong Kong Monetary Authority (HKMA) maintains currency stability within the framework of the Linked Exchange Rate System; 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. 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 is 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 Hong Kong public under the SFO, and monitors 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 public companies in Hong Kong.

Market infrastructure – The SFC supervises the Hong Kong Exchanges and Clearing Limited (HKEX)'s exchanges and clearing houses, authorises automated trading service providers, regulates share registrars and manages investor compensation funds.

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 manages the Investor Compensation Fund under the SFC's supervision. The fund compensates investors who have suffered losses in certain listed securities or futures contracts as a result of a default by an intermediary licensed by or registered with the SFC or an authorised financial institution.

The Investor and Financial Education Council is a wholly owned SFC subsidiary. It provides financial education resources and programmes through its consumer education platform, the Chin Family, and leads the Hong Kong Financial Literacy Strategy to promote a conducive environment for stakeholders to deliver quality financial education.

Insurance Authority

The Insurance Authority (IA) is an independent insurance regulator established in 2015 under the Insurance Ordinance. Its principal function is to regulate and supervise the insurance industry to promote industry stability and protect existing and potential policyholders. It also works with regulators in other jurisdictions to perform group-wide supervision of three multinational insurance groups. Apart from supervising insurance companies since June 2017, the IA assumed direct regulation of insurance intermediaries in September 2019.

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 compliance with MPF legislative requirements to protect 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 understanding of new

¹ The Market Misconduct Tribunal is an independent body established under the SFO and is chaired by a judge or former judge of the High Court who sits with two members.

developments in the MPF System and education on MPF investments. The MPFA is also the Registrar of Occupational Retirement Schemes.

Financial Reporting Council

The Financial Reporting Council (FRC) is a statutory body. The Financial Reporting Council (Amendment) Ordinance 2019 was enacted in January and the new auditor regulatory regime began on 1 October, making the FRC the full-fledged independent auditor regulator of Hong Kong. It is vested with direct powers of inspection, investigation and discipline concerning auditors of Hong Kong-listed entities, recognition of overseas auditors of listed entities and oversight of the performance of the Hong Kong Institute of Certified Public Accountants (HKICPA). The expanded scope of statutory duties puts the FRC on a strong footing to uphold the quality of the financial reporting of listed entities in Hong Kong and enhance investor protection. In 2019, the council completed 12 investigations and three enquiries.

Cross-regulator Coordination

The government maintains regular dialogue with financial regulators through established platforms such as the Council of Financial Regulators chaired by the Financial Secretary, and the Financial Stability Committee chaired by the Secretary for Financial Services and the Treasury. These cross-sectoral platforms work towards the common objective of promoting efficiency and effectiveness in the regulation and supervision of financial institutions, and maintaining financial stability in Hong Kong. The government also holds meetings with regulators to discuss regulatory and supervisory issues and monitor the financial markets.

Monetary Policy

The objective of Hong Kong's monetary policy is currency stability, defined as a stable external exchange value of the Hong Kong dollar (HKD), in terms of its exchange rate in the forex market against the US dollar (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 balance² and the outstanding amount of Exchange Fund Bills and Notes (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

² 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.

(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.

Monetary Situation

The HKD monetary situation was stable in 2019. The forex market operated in a smooth and orderly manner, and the HKD exchange rate traded between HK\$7.7860 and HK\$7.8500 to US\$1. The weak-side Convertibility Undertaking was triggered eight times in March, with the HKMA buying HK\$22.1 billion against the USD upon requests from banks according to the design of the Linked Exchange Rate System. Hong Kong's monetary conditions remained stable, with the monetary base amounting to HK\$1.7 trillion at the year end.

The HKD money market also operated in a smooth and orderly manner in 2019. HKD interbank interest rates picked up broadly, reflecting in part the reduced aggregate balance and vibrant fund-raising activities in the equity market. Overnight and one-month interbank interest rates averaged 1.27 per cent and 1.89 per cent respectively. Average daily turnover of HKD interbank transactions was around \$502 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 2019, the fund had total assets of \$4,206.7 billion and an accumulated surplus of \$748.7 billion³.

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. These 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 2018, the three banks launched a new series of Hong Kong banknotes incorporating advanced security features. The new \$1,000 notes entered circulation in late 2018, followed by the \$500 and \$100 notes in 2019.

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 2019 was \$530 billion.

The following sections set out the development of various sectors of financial services in 2019.

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 2019.

International financial institutions maintain a strong presence in Hong Kong. At the year end, 155 of the 164 licensed banks in Hong Kong were beneficially owned by parties outside Hong Kong and 78 of the world's top 100 banks operated in the city.

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 supervised by the HKMA.

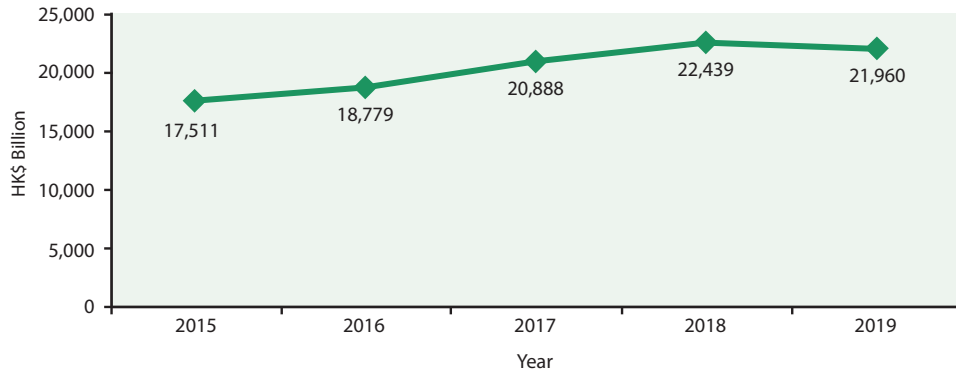
The city has one of the world's highest concentrations of banking institutions. As at end-2019, there were 164 LBs, 17 RLBs and 13 DTCs. These 194 AIs maintained a network of 1,262 local branches. There were also 43 representative offices of banks incorporated outside Hong Kong.

³ 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 also published monthly.

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



Total deposits and total loans and advances of AIs amounted to \$13,771.6 billion and \$10,376.7 billion respectively, representing increases of 2.9 per cent and 6.7 per cent from a year earlier. Total assets rose 1.7 per cent to \$24,462.1 billion.

Statistics on AIs

	2017	2018	2019
AIs	191	186	194
Of which:			
LBs	155	152	164
RLBs	19	18	17
DTCs	17	16	13
Local branches of AIs	1,261	1,285	1,262
Total deposits (\$ billion)	12,752.5	13,386.4	13,771.6
Total loans and advances (\$ billion)	9,313.7	9,722.6	10,376.7
Total assets (\$ billion)	22,696.7	24,042.7	24,462.1

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 and the resilience of the banking sector against any possible downturn in the property market.

International Banking Standards

The HKMA seeks to maintain a regulatory framework 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 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.

A set of comprehensive Banking (Exposure Limits) Rules came into effect on 1 July to implement the latest Basel standards on AIs' large exposures and update other local risk concentration limits. The Banking (Liquidity) (Amendment) Rules 2019 were introduced to expand the scope of quality liquid assets under the Liquidity Coverage Ratio and implement a required stable funding requirement on total derivative liabilities under the Net Stable Funding Ratio. The Banking (Capital) Rules were also amended in the year to implement the latest Basel requirements on capital adequacy and capital requirements on sovereign concentration risk to complement the Basel standards on large exposures.

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 HKD RTGS system⁶. The 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 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, which allows overseas investors to access the Mainland interbank bond market through Hong Kong, experienced increasing usage over the past two years 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.

⁶ Banks may obtain intra-day and overnight liquidity through repurchase agreements with the HKMA using EFBNs as collateral.

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). As at end-2019, the HKMA had issued 15 SVF licences, in addition to which three banks had rolled out SVFs. To promote the safety and efficiency of the local retail payment industry, the HKMA oversees six RPSs designated in accordance with the ordinance.

Faster Payment System

The Faster Payment System (FPS) has seen significant adoption since its launch in 2018. As at 31 December 2019, the number of participants had increased to 30 banks and 11 SVFs after nine banks, including virtual banks preparing to launch their services, and one SVF came on board during the year. The FPS had also recorded four million registrations and processed 44 million transactions involving HK\$749 billion and RMB17 billion in total.

In December 2019, average daily turnover reached 168,000 transactions worth HK\$2.4 billion and RMB38 million, compared with 51,000 transactions in October 2018, its first full month of operation. Since 1 November 2019, bills issued by the Inland Revenue Department, Rating and Valuation Department and Water Supplies Department have been printed with an FPS QR code and can be settled through the FPS with supporting mobile banking or SVF e-wallet apps.

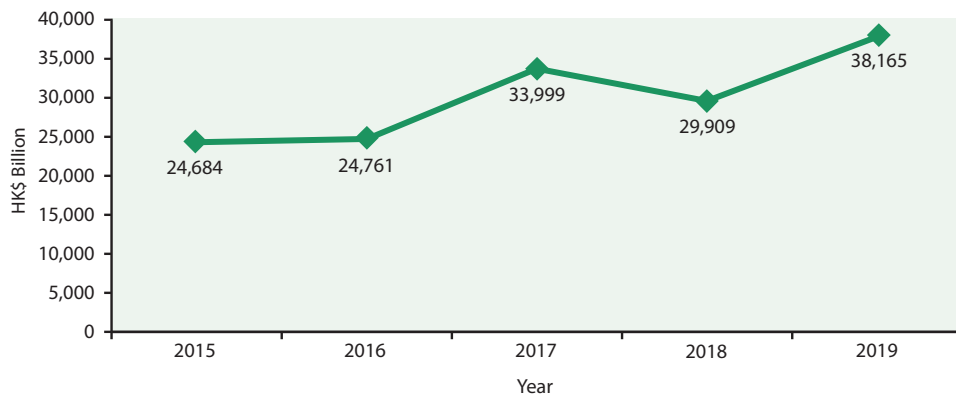
Fund-raising Centre

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 \$38.2 trillion as at end-2019, fifth in the world and third in Asia, and equivalent to about 13 times Hong Kong's Gross Domestic Product. At the end of the year, 2,449 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 2019, 1,241 Mainland enterprises were listed on the SEHK, raising \$6.6 trillion from the Hong Kong market since 1993. Funds raised by Mainland companies represented 82 per cent of initial public offering (IPO) equity funds raised in 2019. Apart from Hong Kong and Mainland companies, 25 non-local companies from Germany, Macao, Malaysia, Singapore, South Africa, Thailand and the United States were newly listed on the SEHK in 2019. The SEHK is working to accept companies from more overseas jurisdictions to list in Hong Kong.

The SEHK has ranked first for seven out of the past 11 years since 2009 in terms of equity funds raised via IPOs. This included 2019, when IPOs raised over \$310 billion. There were 183 new listings during the year, including 20 listing transfers from the Growth Enterprise Market (GEM) to the Main Board. In addition to new share issues, about \$140 billion was raised on the secondary market, bringing the total equity funds raised to over \$450 billion, fourth in the world and third in Asia. The securities market's total turnover amounted to \$21.4 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, 25 per cent of the 658 SEHK trading participants and 53 per cent of the 195 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, for over-the-counter transactions, OTC Clearing Hong Kong Limited. These provide integrated clearing, settlement, depository and nominee services.

Exchange-traded products, which include exchange-traded funds (ETFs) and leveraged and inverse products, offer investors exposure to world, regional and Mainland indices and commodities. Leveraged and inverse products provide new trading and hedging tools, while ETFs with multiple trading counters in the HKD, USD and RMB increase flexibility in settlement and trading. During the year, 13 new ETFs were listed, bringing the total number of SEHK-listed ETFs to 111. Turnover of ETFs was \$1.077 trillion.

Statistics on Securities Market (Main Board and GEM)

	2017	2018	2019
Number of listed companies (year end)	2,118	2,315	2,449
Total market capitalisation (year end) (\$ billion)	33,999	29,909	38,165
Total equity funds raised (\$10 billion)	58	54	45
Total securities market turnover (\$ billion)	21,709	26,423	21,440
Total number of shares traded (billion)	44,283	55,647	60,197
Number of derivatives warrants (DWs) listed (year end)	6,094	6,763	4,571

Turnover of DWs (\$ billion)	3,008	3,866	2,418
Number of callable bull/bear contracts (CBBCs) listed (year end)	3,374	2,847	3,298
Turnover of CBBCs (\$ billion)	1,189	1,837	1,995
Number of ETFs listed (year end)	106	115	111
Turnover of ETFs (\$ billion)	1,065	987	1,077

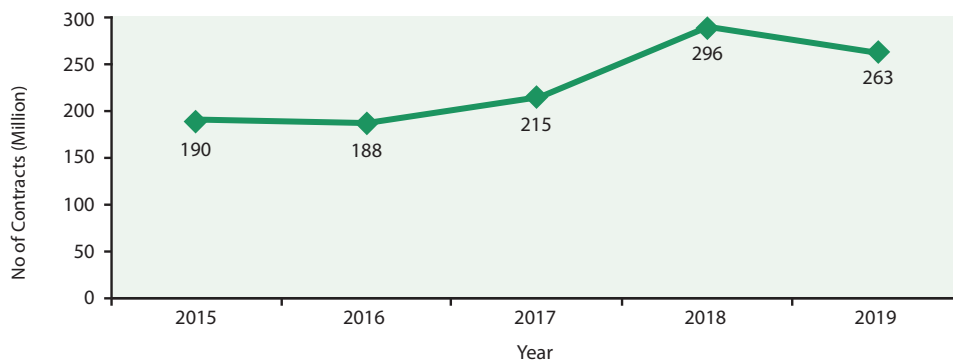
Total turnover of derivatives contracts in 2019 was 262.89 million. Open interest at the year end was about 9.7 million contracts. Trading of major derivatives products included Hang Seng Index (HSI) Futures, with a total turnover of 51.32 million contracts; Hang Seng China Enterprises Index Futures with a turnover of 34.15 million contracts; HSI Options with a turnover of 12.47 million contracts; Hang Seng China Enterprises Index Options with a turnover of 21.56 million contracts; and Stock Options with a turnover of 108.81 million contracts.

Statistics on Derivatives Market Turnover (million contracts)

	2017	2018	2019
All options and futures contracts	215	296	263
Of which:			
HSI Futures	31	58	51
Hang Seng China Enterprises Index Futures	29	37	34
HSI Options	10	13	12
Hang Seng China Enterprises Index Options	20	24	22
Stock Options	106	127	109

Chart 3

HKFE Turnover of Derivatives



At the end of 2019, there were 47,323 licensed corporations and individuals, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 114 registered institutions, such as banks, engaging in regulated activities such as dealing in and advising on securities and futures.

There were also 51 SFC-authorized automated trading service providers. Most were overseas exchanges and clearing houses that provided electronic services to process transactions in securities and futures contracts and to clear OTC derivatives.

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

	2017	2018	2019
Licensed entities	44,050	46,254	47,323
Of which:			
Licensed corporations	2,660	2,905	3,084
Licensed individuals	41,390	43,349	44,239
Registered institutions	119	117	114

Recent Developments

During the year, the SFC implemented new guidelines on risk management standards for brokers engaged in securities margin financing activities.

Enhancements to the investor compensation regime, which include raising the compensation limit from \$150,000 to \$500,000 per investor per default and covering northbound trading under Stock Connect, will take effect in January 2020.

The SFC announced in November 2019 a new voluntary regulatory framework for virtual asset trading platforms. Platforms which operate in Hong Kong and offer trading of at least one security token⁷ may apply for SFC licensing. The SFC will grant licences to only platform operators that are able to meet robust regulatory standards. These standards are comparable to those which apply to licensed securities brokers and automated trading venues, but also incorporate additional requirements to address risks specific to virtual assets. The SFC also issued a statement warning investors about risks associated with virtual asset futures contracts, which are largely unregulated, highly leveraged and subject to extreme price volatility.

On the enforcement front, the SFC takes disciplinary action to maintain market integrity. Of the SFC licensees disciplined in the year, 20 were individuals and 26 were corporations. Fines totalled \$1,657 million.

Listing Regime for Emerging and Innovative Sectors

The SEHK's listing rules, revised in 2018, facilitates 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

⁷ Security tokens are virtual assets which fall within the definition of 'securities' under the SFO.

companies with weighted voting rights structures, and qualifying issuers seeking a secondary listing on the SEHK through a new concessionary route.

The listing regime caters for fund-raising needs in 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 the year end, 17 companies were listed successfully on the SEHK under the new regime.

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. In December, the SFC issued consultation conclusions on its proposals to impose margin requirements for non-centrally cleared OTC derivatives transactions.

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 in 2019 was 696,567 lots. The LME's in-house clearing house in London, LME Clear, supports the exchange's commodity business.

Bond Market Development

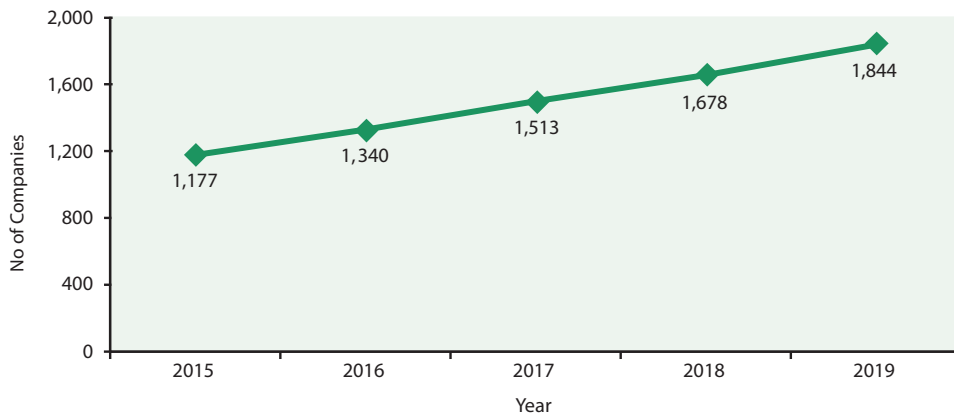
Hong Kong is a major bond market in Asia. Outstanding HKD debt securities, including EFBNs, totalled \$2,165.9 billion at the end of 2019. Hong Kong ranked third in local-currency-denominated bond issuance in Asia excluding Japan, after the Mainland of China and Korea. The government develops the bond market using three strategies:

- stimulating growth through government issuances of institutional and retail bonds, including green bonds;
- building market infrastructure, such as the CMU and Bond Connect, to ensure a safe trading and settlement environment; and
- incentivising market development through subsidy schemes such as the Pilot Bond Grant Scheme, tax incentive schemes such as the Qualifying Debt Instrument Scheme, and other measures.

Asset and Wealth Management

Hong Kong is well placed as Asia's premier asset and wealth management centre, amid rapid wealth creation in Asia and deepening financial market liberalisation in the Mainland. At the end of 2018, Hong Kong's asset and wealth management business was valued at \$23,955 billion⁸, of which 62 per cent⁹ came from non-Hong Kong investors¹⁰. At the end of 2019, 1,844 companies were licensed by or registered with the SFC to carry out asset management business locally, up 10 per cent from end-2018. There were 2,165 SFC-authorized unit trusts and mutual funds¹¹, of which 763 were domiciled in Hong Kong, up 33 per cent from five years ago.

Chart 4 Number of Asset Management Companies



Leveraging Hong Kong's world-class financial infrastructure, the government works with other agencies to develop the asset and wealth management sector. This includes providing a conducive operational, regulatory and tax environment and improved access to other markets to grow a full spectrum of asset and wealth management activities. It also includes diversifying fund structures and expanding the fund distribution network.

⁸ Comparative figures are not available due to an extension of the scope of the SFC's annual Assets and Wealth Management Activities Survey, which studies the state of affairs in the local asset and wealth management industry.

⁹ The amount excludes SFC-authorized real estate investment trusts and assets held under trusts attributable to non-licensed corporations or registered institutions.

¹⁰ Figures are quoted from the Asset and Wealth Management Activities Survey for 2018.

¹¹ These included 105 approved pooled investment funds offered both as retail unit trusts and for MPF purposes.

Open-ended Fund Company Structure

The new open-ended fund company regime introduces a new corporate fund structure in addition to the unit trust structure. This 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. The first open-ended fund company was incorporated and registered in Hong Kong during the year.

Limited Partnership Fund Bill

The government is working on a limited partnership fund regime to attract private equity funds to set up and operate in Hong Kong. In July, a proposal was put up for industry consultation, followed by legislative work to enable the establishment of the new fund structure.

Mutual Recognition of Funds

In January, the SFC and the Commission de Surveillance du Secteur Financier of Luxembourg signed a Memorandum of Understanding (MoU) on Mutual Recognition of Funds (MRF) to allow the streamlined distribution of eligible public funds in each other's market. In May, the SFC entered into an MoU on MRF with the Dutch Authority for the Financial Markets. Hong Kong also has MRF arrangements with the Mainland of China, France, Switzerland and the United Kingdom. As at the year end, 73 funds had been authorised under the Hong Kong-Mainland MRF arrangement, enabling aggregate net sales of more than RMB16 billion.

Regulation of Asset and Wealth Management

An updated Code on Unit Trusts and Mutual Funds took effect in January to strengthen requirements for key operators of SFC-authorized funds and introduce new fund types, such as active ETFs. More protective measures for the sale of complex products became effective in July, including a requirement to ensure the suitability of complex products sold on an unsolicited basis. New guidelines for the design and operation of online distribution and advisory platforms also took effect.

Green Finance

The government seeks to develop and consolidate Hong Kong's position as a leading hub for green finance in the region. The inaugural green bond under the Government Green Bond Programme, with a nominal size of US\$1 billion, was issued in May and was well received by the global investment community. Green bonds arranged and issued in Hong Kong in the year totalled US\$10 billion. Cumulative green bond issuances amounted to US\$26 billion as at end-2019.

The government will continue its role as a facilitator and provide the necessary infrastructure and catalysts to jump-start market developments, so as to encourage more entities to arrange financing for their green projects through Hong Kong's capital markets and expand the local green investor base.

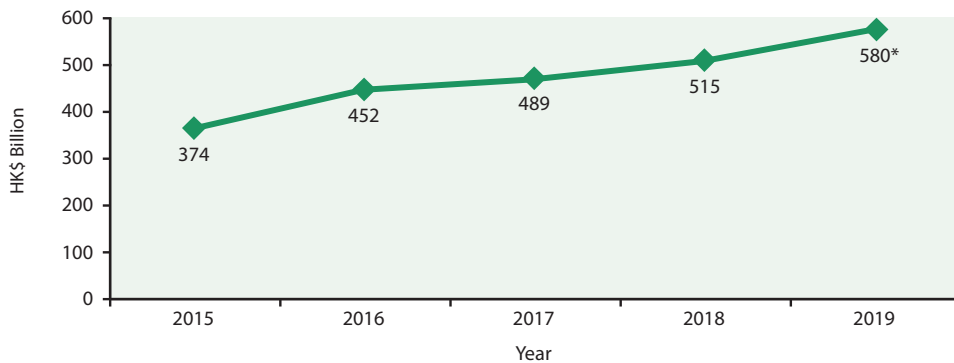
Further to the announcement of its Strategic Framework of Green Finance in 2018, the SFC issued a circular in April 2019 to provide guidance to management companies of SFC-

authorised unit trusts and mutual funds on enhanced disclosures for SFC-authorized green or environmental, social and governance (ESG) funds.

Insurance

Hong Kong is among the world's most open insurance centres, with one of the highest insurance densities in Asia. Of the 163 authorised insurers operating in the city at the end of 2019, 71 were from other jurisdictions. Fifteen of the world's top 20 insurers were authorised to conduct insurance business in Hong Kong. The city had 18 professional reinsurers, including most of the world's top reinsurers.

Chart 5 Annual Gross Premiums of Insurance Market



* Provisional statistics

During the past five years, Hong Kong's insurance industry grew 11.3 per cent on average annually. In 2019, gross premiums amounted to \$580.2 billion*, a 12.8 per cent increase over 2018. The total revenue premiums of in-force long-term business rose 13.7 per cent to \$524.6 billion*. Individual life and annuity insurance remained the leading business, accounting for \$484.8 billion*, or 92.4 per cent* of total revenue premiums, with 14.2 million* corresponding policies.

General insurance business rose to \$55.7 billion* from \$53.1 billion in 2018, a 4.8 per cent increase in gross premiums. The growth was driven mainly by increased 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 rose from \$583 million to \$1.1 billion*.

Statistics on Insurance Business

	2017	2018	2019
Number of authorised insurers	159	161	163
Of which:			
Incorporated in Hong Kong	88	89	92
Incorporated in the Mainland or overseas	71	72	71
Premium income (\$ billion)	489.2	514.5	580.2*
Total gross premiums			
Of which:			
Long-term in-force business (Office/Revenue premiums)	440.9 [^]	461.4 [^]	524.6* [#]
General insurance (Gross premiums)	48.3	53.1	55.7*

[^] Office premiums

[#] Revenue premiums

* Provisional statistics

At the end of 2019, there were 122,383 licensed insurance intermediaries, comprising 82,665 licensed individual insurance agents, 26,641 licensed technical representatives who were agents, 9,840 licensed technical representatives who were brokers, 2,413 licensed insurance agencies and 824 licensed insurance broker companies.

Risk-based Capital Regime

The IA engages stakeholders in developing a risk-based capital regime for Hong Kong's insurance industry. In July 2019, it issued the Guideline on Enterprise Risk Management, to take effect on 1 January 2020. During the year, the IA also conducted the third quantitative impact study, after which it would develop draft rules for industry consultation in 2020-21.

Direct Regulation of Insurance Intermediaries

The new statutory regulatory regime for insurance intermediaries took effect in September to replace the previous self-regulatory regime, representing a milestone in modernising Hong Kong's regulatory infrastructure. During the year, the IA issued 13 sets of rules, codes and guidelines to raise professional standards among insurance intermediaries and protect policyholders better.

Supervision of Insurance Groups

The IA is the group-wide supervisor of the AIA Group, FWD Group and Prudential plc Group. It works with regulators from other jurisdictions to perform group-wide supervision of these insurance groups effectively and efficiently.

Market Developments

The government and the IA seek to facilitate the sustainable development of Hong Kong's insurance industry. In December, the government introduced a bill into LegCo to reduce the profits tax rate of marine and specialty insurance businesses by 50 per cent, to 8.25 per cent.

International Collaboration

As a member of the International Association of Insurance Supervisors, Hong Kong observes international principles and standards in its insurance supervisory regime. The IA's Chief Executive Officer was elected to the association's Executive Committee in February.

Tax Deductions for Voluntary Retirement Savings

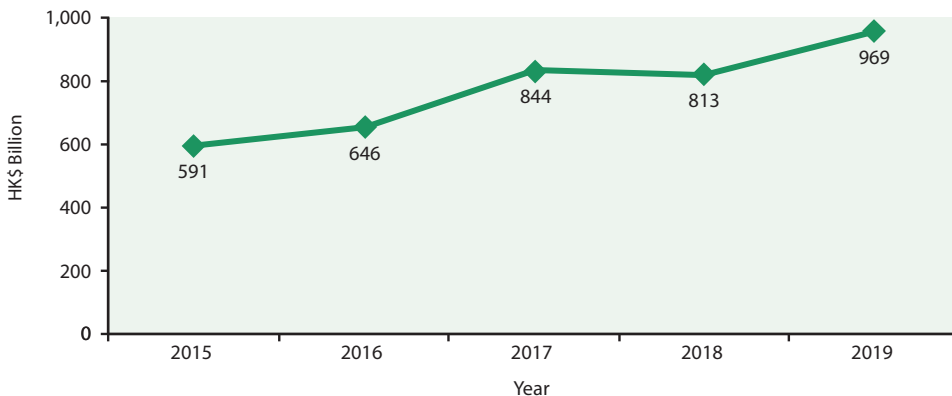
In April, the government rolled out tax deductions for qualifying deferred annuity policy premiums and voluntary MPF contributions to encourage people to save for retirement. From the 2019-20 year of assessment, taxpayers can claim deductions under salaries tax and personal assessment for premiums paid to qualifying deferred annuities and contributions made to tax-deductible voluntary MPF contribution accounts, subject to a tax-deductible cap of \$60,000 each year per taxpayer.

Mandatory Provident Fund System

MPF schemes had a net asset value (NAV) of around \$969 billion at the end of 2019 and an annualised rate of return of 4.1 per cent between December 2000, when the MPF System was launched, and December 2019.

Chart 6

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 2019, 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 must provide 5 per cent of an employee's relevant income (RI) as mandatory contributions for the employee, subject to a maximum RI level. Employees have 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 an early withdrawal of benefits.

Statistics on MPF Schemes and MPF-exempted Occupational Retirement Schemes Ordinance (Orso) Registered Schemes (year end)

	2017	2018	2019
Number of MPF-enrolled participants (Estimated rate)			
Employers	280,200 (100%)	290,500 (100%)	290,400 (100%)
Relevant employees	2,581,100 (100%)	2,633,300 (100%)	2,631,400 (100%)
SEPs	205,000 (70%)	207,800 (70%)	215,500 (73%)
<i>MPF schemes</i>			
Number of registered schemes	32	32	30
Number of approved constituent funds	469	467	441
Aggregate NAV (\$ billion)	844	813	969
<i>MPF-exempted Orso registered schemes¹²</i>			
Number of schemes	3,195	3,048	2,923
Number of participating employees	329,021	317,308	309,021
Aggregate NAV (\$ billion)	301	336	312

MPF schemes are managed privately and regulated. At the year end, there were 14 active approved MPF trustees providing MPF schemes and funds and 34,540 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes.

¹² 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.

Recent Developments

From April, scheme members were allowed to start making additional, tax-deductible voluntary contributions to help themselves save up more for retirement. By December, almost 24,000 such accounts had been set up and the contributions totalled \$761 million.

An MPF Fund Platform was launched on the MPFA website in April, followed by a mobile application version in July, to provide information on the management fees and investment performance of MPF funds. The MPFA is working on producing a user-centric eMPF platform by 2022 to standardise, streamline and automate MPF scheme administration processes so as to create room for fee reduction and offer a predominantly paperless MPF experience.

Anti-money Laundering and Counter-terrorist Financing

Money laundering and terrorist financing (ML/TF) is a global problem that can undermine the integrity and stability of international financial markets. Hong Kong's position as an international financial centre and an externally oriented economy potentially exposes it 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 to combat ML/TF, effectively safeguarding the integrity of its business environment and reputation as an international financial centre.

The task force completed its fourth round of mutual evaluation on Hong Kong, which assessed the technical compliance and effectiveness of Hong Kong's system in combating ML/TF, and published its mutual evaluation report in September. It commended Hong Kong for having a strong legal foundation and effective system that was particularly effective in risk identification, law enforcement, asset recovery, counter-terrorist financing and international cooperation. Hong Kong's regime was assessed to be compliant and effective overall, making the city the first jurisdiction in the Asia-Pacific region to achieve an overall compliant result in the said round of evaluation.

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-boundary 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-boundary portfolio flow channels, Hong Kong is 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, handling more than 70 per cent of global offshore RMB payments in recent years¹³. In 2019, Hong Kong maintained

¹³ Figures are quoted from the Society for Worldwide Interbank Financial Telecommunication.

its lead as the largest offshore RMB forex market. Its RMB RTGS system recorded RMB1,134 billion of transactions on average daily. According to the Bank for International Settlements Triennial Survey of Foreign Exchange and Derivatives Market Turnover, average daily turnover of RMB forex transactions in Hong Kong increased 39.6 per cent from US\$77.1 billion in April 2016 to US\$107.6 billion in April 2019.

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 constituent stocks in the equity market. Mainland enterprises also raise capital in Hong Kong through bond issuance, 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. At the year end, the offshore RMB deposit pool, including customer deposits and outstanding certificates of deposit, amounted to RMB658 billion, while RMB bank lending and outstanding RMB bonds stood at RMB153.7 billion and RMB168.6 billion respectively. RMB trade settlement handled by banks in Hong Kong totalled RMB5.4 trillion in 2019.

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, Bond Connect and China Interbank Bond Market. At the end of 2019, there were 33 fund management companies managing 42 SFC-authorized RMB-denominated unlisted funds investing primarily onshore via these channels with an aggregate NAV of RMB7.7 billion, and 25 SFC-authorized RMB-denominated ETFs investing primarily onshore via these channels with an aggregate NAV of RMB57.3 billion.

The Ministry of Finance has issued RMB sovereign bonds in Hong Kong for 11 consecutive years since 2009, including RMB15 billion of bonds issued in 2019. The People's Bank of China (PBoC) issued RMB bills for the first time in Hong Kong in 2018 and has since established a regular mechanism of central bank bill issuances in Hong Kong to enrich the city's spectrum of RMB financial products, thereby promoting RMB internationalisation. In 2019, RMB150 billion of bills were issued.

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 700 shares listed on the Shanghai and Shenzhen stock exchanges respectively. Mainland investors also get to choose from over 470 Hong Kong-listed stocks.

From 28 October, companies with a weighted voting rights structure as listed in Hong Kong under the new listing regime can be included as eligible securities under the southbound

trading of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect upon fulfilment of certain criteria.

Bond Connect

Northbound trading under Bond Connect has been growing healthily since its launch in July 2017. In 2019, an additional electronic trading platform was launched, the settlement cycle was expanded to support T+3 settlement and a subscription service was rolled out for Chinese Negotiable Certificates of Deposit in the primary market.

Guangdong-Hong Kong-Macao Greater Bay Area

The Hong Kong Special Administrative Region (HKSAR) Government and financial regulators work closely with Mainland authorities to deepen financial cooperation and implement policy initiatives along broad directions set out in the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, including those announced following the third meeting of the Leading Group for the Development of the Greater Bay Area in November.

A number of financial facilitation measures relating to people's daily lives are in place. First, Hong Kong e-wallets can now be used in the Mainland, including the Greater Bay Area, as more merchants signed up. Second, a Hong Kong bank was approved to launch a pilot scheme for Hong Kong permanent residents to open Mainland personal bank accounts in the Greater Bay Area remotely by attestation. The Central People's Government (CPG) has given its support to explore the establishment of a cross-boundary wealth management connect scheme that will meet the demands of residents in both places. The HKSAR Government is discussing the details with Mainland authorities.

For the insurance sector, the CPG extended preferential treatment under the China Risk Oriented Solvency System, which reduces the capital requirement on Mainland insurers when they cede business to qualified Hong Kong professional reinsurers, for one year until 30 June 2020. The CPG also removed the eligibility requirement on years of operating experience for Hong Kong service suppliers to establish insurance loss-adjusting companies in the Mainland, and supported Mainland insurers to issue catastrophe bonds in Hong Kong and Macao by relaxing the requirements.

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 and Road Initiative and International Cooperation

Asian Infrastructure Investment Bank

Hong Kong is a member of the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank (MDB) that aims to foster sustainable social and economic development in Asia by supporting infrastructural development and regional connectivity. Hong Kong

participates in the AIIB on its own using the name ‘Hong Kong, China’, showcasing the principle of ‘one country, two systems’.

Hong Kong’s capital markets and professional and financial services are well-positioned to support the AIIB’s operation. The AIIB has awarded US\$4.8 million of corporate procurement contracts to professional service providers in Hong Kong since 2017.

Asian Development Bank

Hong Kong is a member of the Asian Development Bank (ADB), 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. Hong Kong participates in the ADB on its own using the name ‘Hong Kong, China’, showcasing 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 2019, the city’s capital markets raised the equivalent of some US\$366 million under the ADB’s Global Medium-term Note Programme.

HKMA Infrastructure Financing Facilitation Office

The Infrastructure Financing Facilitation Office facilitates investments and financing of sustainable infrastructure and green development by working with key stakeholders, thereby raising Hong Kong’s international profile as an infrastructure and green 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-2019.

Belt and Road Insurance Exchange Facilitation

The IA’s Belt and Road Insurance Exchange Facilitation, launched in 2018, aims to help B&R project owners and investors map out their risk management and insurance needs and identify insurance solutions, to promote intelligence exchange on risk management and insurance, and to forge alliances. Forty-one insurers, reinsurers, captive insurers, insurance brokers and law firms had joined as members by end-2019.

Financial Technologies

With the joint effort of the government, financial regulators and industry players, the local financial technology (fintech) ecology is increasingly vibrant. Some 600 fintech companies and start-ups are operating in Hong Kong, including renowned innovation laboratories and accelerator programmes such as Accenture Fintech Innovation Lab and Deloitte Asia Pacific Blockchain Lab.

In November, Invest Hong Kong organised the fourth Hong Kong Fintech Week, which included a Shenzhen Day, attracting some 12,000 attendees from over 60 economies.

HKMA Fintech Initiatives

The HKMA facilitates the banking sector’s development and adoption of the Open Application Programming Interface (Open API) according to the four-phase approach of the Open API Framework. Twenty retail banks opened up some 500 Open API endpoints in January under

phase 1, covering information of over 1,000 products and services. Under phase 2, the banks opened up over 300 APIs in October to support applications for banking products and services.

On trade finance, a proof-of-concept study on connecting eTradeConnect¹⁴ and we.trade¹⁵ was completed in the first quarter of the year. In November, an MoU was signed between the subsidiaries of Hong Kong Interbank Clearing Limited and the Institute of Digital Currency of the PBoC to conduct a proof-of-concept study about connecting eTradeConnect and the PBoC Trade Finance Platform to provide firms in both places with more convenient trade finance services.

The HKMA and the Bank of Thailand embarked on a joint research project named Project Inthanon-LionRock to study the application of central bank digital currency to cross-border payments, with a view to facilitating HKD-THB payment-versus-payment among banks in Hong Kong and Thailand.

On artificial intelligence, the HKMA published a report in December on applying such technology in the banking industry.

The HKMA runs Fintech Career Accelerator Scheme 2.0 in collaboration with strategic partners to nurture young talent at various stages of their career development. Over 220 students benefited from the programmes in 2019.

In terms of cross-boundary collaboration, the HKMA seeks to strengthen fintech collaboration with Shenzhen. It sponsored for the second time the Shenzhen Summer Internship Programme, which enabled 50 Hong Kong students to work in renowned firms in Shenzhen for six weeks to experience the fintech ecosystem there. The HKMA also co-organised with the Shenzhen Municipal Financial Regulatory Bureau the Shenzhen-Hong Kong Fintech Award for the third consecutive year.

In January, the HKMA and an international group of 28 financial regulators and related organisations established the Global Financial Innovation Network¹⁶, which seeks to create a framework for collaboration among financial services regulators on innovation-related topics.

In November, under the HKMA's facilitation, the first Innovation Hub Centre of the Bank for International Settlements began operation in Hong Kong. The HKMA will contribute to the centre's research by sharing local and regional experience in fintech development and facilitating its connections with the private sector, academia, other regulators, and government organisations.

On the supervisory front, the Fintech Supervisory Sandbox was hosting the pilot trials of 103 fintech initiatives by end-2019, compared with 42 at end-2018. The HKMA received 406

¹⁴ eTradeConnect is a blockchain-based trade finance platform launched under the HKMA's facilitation and fully funded by a consortium of 12 major banks in Hong Kong.

¹⁵ we.trade is a European blockchain-based trade finance platform.

¹⁶ By the end of 2019, the network consisted of 50 organisations.

requests to access the Fintech Supervisory Chatroom for regulatory feedback at the early stage of fintech projects. Around 70 per cent of the requests were made by technology firms.

Between March and May, the HKMA granted eight virtual banking licences. Virtual banks have no physical branches and rely on the internet to receive customers and deliver banking services. The introduction of virtual banks is a major milestone in reinforcing Hong Kong's position as a premier international financial centre.

SFC Fintech Initiatives

The SFC, through its Fintech Contact Point and Regulatory Sandbox, handles enquiries about operating fintech businesses, such as robo-advising, equity crowdfunding platforms and the application of blockchain in delivering financial services and products.

The SFC maintains close contact with overseas regulators to keep up with fintech trends and market intelligence. Fintech cooperation agreements are in place with counterparts in Abu Dhabi, Australia, Dubai, Malaysia, Switzerland and the UK. The SFC also participates in fintech-related policy discussions as a member of the International Organisation of Securities Commissions. It is a Coordination Group member of the Global Financial Innovation Network of financial regulators, which is committed to supporting financial innovation in the interests of consumers.

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, which authorises applicants owning and operating solely digital distribution channels, and under which licences for the first life virtual insurer and non-life virtual insurer were granted in December 2018 and October 2019 respectively; and
- the Insurtech Facilitation Team, which communicates with businesses that develop and apply insurtech in Hong Kong.

In June, the IA became a member of the Global Financial Innovation Network.

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 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. The council published four reports and consultation responses in 2019 on the MPF System, disclosure of interests regime, uncertificated securities market and ESG reporting. It organised local and overseas market promotion and human capital activities to strengthen Hong Kong's status as an international financial centre.

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 promote prudent borrowing.

Talent Training

A three-year pilot programme, launched in 2016 to train talent for the insurance and asset and wealth management sectors, helps the community, particularly students, understand the relevant career prospects so as to attract new blood and enhance the professional competency of the sectors. Educational and promotional activities, summer internships for undergraduates and financial incentives for practitioners to undergo training were provided. In view of the positive response, the government extended this pilot programme until 2022-23.

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. A new module on credit risk management was launched in March, adding to five existing modules covering private wealth management, anti-money laundering and counter-terrorist financing, cybersecurity, treasury management and retail wealth management.

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 2019, the signature event was held with the theme 'Creating a Sustainable and Inclusive Future', attracting over 3,300 participants from about 45 jurisdictions.

Company Registration

The Companies Registry administers and enforces the Companies Ordinance. It registers local and non-Hong Kong companies and statutory returns, deregisters defunct solvent companies and provides the public with services and facilities for inspecting and obtaining company information kept by the registry. The registry is also 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 an hour after receipt of the applications for company incorporation via the e-Registry portal.

Companies Registry Statistics

	2017	2018	2019
New local companies	160,229	151,739	124,741
Local companies on the register	1,383,946	1,400,950	1,380,185
New non-Hong Kong companies	1,028	1,193	2,000
Non-Hong Kong companies on the register	10,434	11,061	12,494

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

	2017	2018	2019
Bankruptcy orders	7,627	7,146	7,762
Interim orders in IVAs	529	555	587
Winding-up orders	296	255	244

Resolution Regime for Financial Institutions

The Financial Institutions (Resolution) Ordinance establishes a cross-sectoral resolution regime for financial institutions in Hong Kong. Following its enactment in 2017, the FSB noted in its Peer Review Report of Hong Kong that the city was 'one of the few FSB jurisdictions with a fully cross-sectoral resolution regime'.

The resolution authorities are operationalising the cross-sectoral resolution regime for financial institutions in Hong Kong. The HKMA published a code of practice chapter on loss-absorbing capacity requirements in March and standard disclosure templates in October to facilitate banks' compliance with the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules. In addition, a new resolution facility was introduced in August as part of the HKMA's updated Liquidity Facilities Framework for Banks, which could facilitate resolution.

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.

Professional Accountancy

The HKICPA, 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

	2017	2018	2019
Total number of CPAs	42,237	43,585	44,794
Number of practising CPAs	4,735	4,869	4,991
Number of practising CPA firms	1,292	1,288	1,270
Number of corporate practices	555	591	611

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.

Websites

Companies Registry: www.cr.gov.hk

Financial Reporting Council: www.frc.org.hk

Financial Services and the Treasury Bureau: www.fstb.gov.hk

Financial Services Development Council: www.fsd.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

Investor Compensation Company Limited: www.hkicc.org.hk

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

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

Securities and Futures Commission: www.sfc.hk