

Chapter 4

Financial and Monetary Affairs

As one of the world's leading international financial centres, Hong Kong is the ideal gateway between the Mainland market and the rest of the world for capital and business. The city's vibrant financial sector has a workforce of over 270,000, contributing to 21.2 per cent of the local economy.

Hong Kong as an International Financial Centre

Situated at the heart of Asia, Hong Kong is within a five-hour flight to key markets in the region and half the world's population. The city's trading system plugs fully into the round-the-clock global financial trading cycle and provides stable and seamless connectivity with other major financial hubs. Moreover, as part of China, Hong Kong has close geographical, cultural and linguistic links with the Mainland, while retaining its distinctive international elements.

Hong Kong's unique advantages under 'one country, two systems' include the rule of law, an independent judiciary, open market, free flow of capital and a low and simple tax regime. Hong Kong's financial market is also characterised by deep liquidity, strong emphasis on investor protection, a well-educated and highly efficient workforce and ease of entry for non-local professionals. Financial regulations are effective, transparent and aligned with international standards. All these contribute to Hong Kong's unique position as the bridge between the Mainland of China and the rest of the world for financing and business. As Mainland China has put forward a new economic development pattern of domestic and international dual circulation, Hong Kong will contribute to and grasp new opportunities from this new development blueprint.

To strengthen its competitiveness in financial services, Hong Kong improves the regulatory framework, promotes market development and the application of financial technology to increase productivity, enhances financial inclusion and drives green and sustainable development. The city will continue to make good use of its connectivity with the Mainland and international markets and capitalise on the opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area development and the Belt and Road Initiative.

Financial Services

The financial services industry is an important pillar of the Hong Kong economy, contributing to over a fifth of Gross Domestic Product (GDP) and providing over 270,000 jobs, which account for over 7 per cent of total employment.

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 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 principal areas: intermediaries, investment products, listings and takeovers, markets, 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.

Markets – The SFC supervises and monitors exchanges, clearing houses, authorised providers of automated trading services and approved share registrars. It also formulates policies to facilitate the continued development and competitiveness of the Hong Kong markets, including through enhancements to key market infrastructure and links with Mainland and international markets.

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 is an independent insurance regulator established under the Insurance Ordinance to regulate and supervise the insurance industry to promote sustainable industry development and protect 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 authority has assumed direct regulation of insurance intermediaries since September 2019.

Mandatory Provident Fund Schemes Authority

The Mandatory Provident Fund Schemes Authority, established under the Mandatory Provident Fund Schemes Ordinance, regulates the Mandatory Provident Fund (MPF) System and ensures compliance with the law to protect the interests of scheme members. It supervises MPF trustees and intermediaries, investigates cases of non-compliance and takes enforcement action. It arranges programmes to strengthen understanding of MPF investments and new developments in the MPF System. The authority is also the Registrar of Occupational Retirement Schemes.

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.

Financial Reporting Council

The Financial Reporting Council is an independent regulator established under the Financial Reporting Council Ordinance. Since the commencement of the new auditor regulatory regime on 1 October 2019, the council has been discharging its expanded functions 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 specified functions of the Hong Kong Institute of Certified Public Accountants. In 2020, the council completed its first cycle of inspections, seven investigations and its first oversight report on the institute's specified functions.

Cross-regulator Coordination

The government maintains regular dialogue with financial regulators through cross-sectoral platforms, including 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, to 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 financial 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 (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.

² Aggregate balance is the sum of the balances of the clearing accounts kept with the HKMA.

The Exchange Fund Advisory Committee's (EFAC) Currency Board Sub-Committee monitors and reports on the currency board arrangements that underpin Hong Kong's Linked Exchange Rate System. Its responsibilities include ensuring that currency board operations are in accordance with established policy, recommending improvements to the currency board system, and ensuring a high degree of transparency in the system's operation.

Monetary Situation

The HKD monetary situation was stable in 2020. The forex market operated in a smooth and orderly manner, and the HKD exchange rate traded mostly between HK\$7.75 and HK\$7.80 to US\$1. The strong-side Convertibility Undertaking was triggered 85 times between April and October, with the HKMA selling HK\$383.5 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\$2.1 trillion at the year end.

The HKD money market also operated in a smooth and orderly manner in 2020. HKD interbank interest rates declined broadly, reflecting an accommodative monetary environment. Overnight and one-month interbank interest rates averaged 0.48 per cent and 0.85 per cent respectively. Average daily turnover of HKD interbank transactions was around \$469 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 Hong Kong Exchanges and Clearing Limited (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 2020, the fund had total assets of \$4,500.8 billion and an accumulated surplus of \$852.4 billion³.

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.

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.

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 2020 was \$573 billion.

The following sections set out the development of various sectors of financial services in 2020.

Banking and Payment System

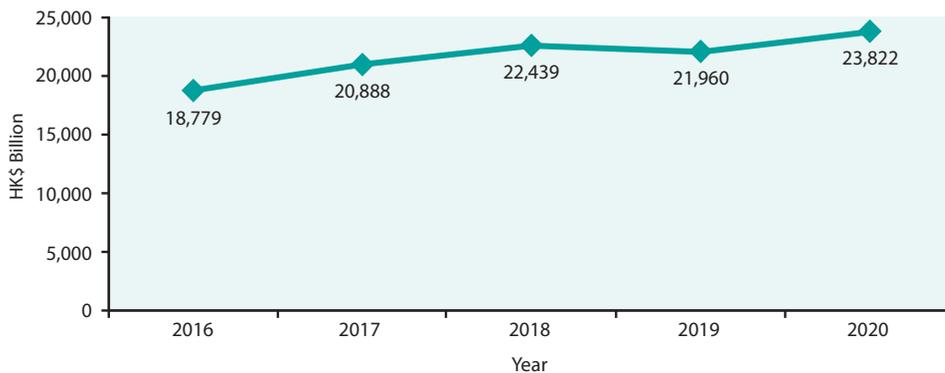
Banking System

Hong Kong has a robust 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 2020.

International financial institutions maintain a strong presence in Hong Kong. At the year end, 152 of the 161 licensed banks in Hong Kong were beneficially owned by parties outside Hong Kong, and 77 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.

Chart 1 External Positions of AIs



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.

The city has one of the world's highest concentrations of banking institutions. As at end-2020, there were 161 LBs, 17 RLBs and 12 DTCs. These 190 AIs maintained a network of 1,210 local branches. There were also 43 representative offices of banks incorporated outside Hong Kong.

Total deposits and total loans and advances of AIs amounted to \$14,513.6 billion and \$10,498.6 billion respectively, representing increases of 5.4 per cent and 1.2 per cent from a year earlier. Total assets rose 5.7 per cent to \$25,865.3 billion.

Statistics on AIs

	2018	2019	2020
AIs	186	194	190
Of which:			
LBs	152	164	161
RLBs	18	17	17
DTCs	16	13	12
Local branches of AIs	1,285	1,262	1,210
Total deposits (\$ billion)	13,386.4	13,771.6	14,513.6
Total loans and advances (\$ billion)	9,722.6	10,376.7	10,498.6
Total assets (\$ billion)	24,042.7	24,462.1	25,865.3

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 underpinning depositors' confidence in the banking system.

The various rounds of countercyclical macroprudential measures introduced by the HKMA since 2009 have strengthened the risk management of AIs and the resilience of the banking sector to cope with a possible abrupt downturn in the property market. In August, after taking into account factors such as price trends and transaction volumes, economic fundamentals, and the external environment, the HKMA adjusted upward by 10 percentage points (from 40 per cent to 50 per cent for typical cases) the applicable loan-to-value ratio caps for mortgage loans on non-residential properties.

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. The Banking (Capital) Rules were amended in 2020 to implement the latest Basel capital standard on counterparty credit risk.

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 Renminbi (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, has experienced increasing usage since 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). As at end-2020, the HKMA had issued 15 SVF licences, in addition to which three banks had rolled out SVFs. The HKMA oversees six RPSs designated in accordance with the ordinance.

Faster Payment System

There are 35 banks and 12 SVFs participating in the Faster Payment System (FPS). As of 31 December, the FPS had recorded 6.88 million registrations and processed 170 million real-time transactions since its launch in 2018, involving transaction amounts of around HK\$2,100 billion and RMB36 billion. In December, the HKMA launched a new feature to allow users to link their Hong Kong identity card (HKID) number to their bank account for receiving funds via the FPS from institutions which already possess the recipients' HKID number, making the transfer of funds more expeditious and flexible.

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

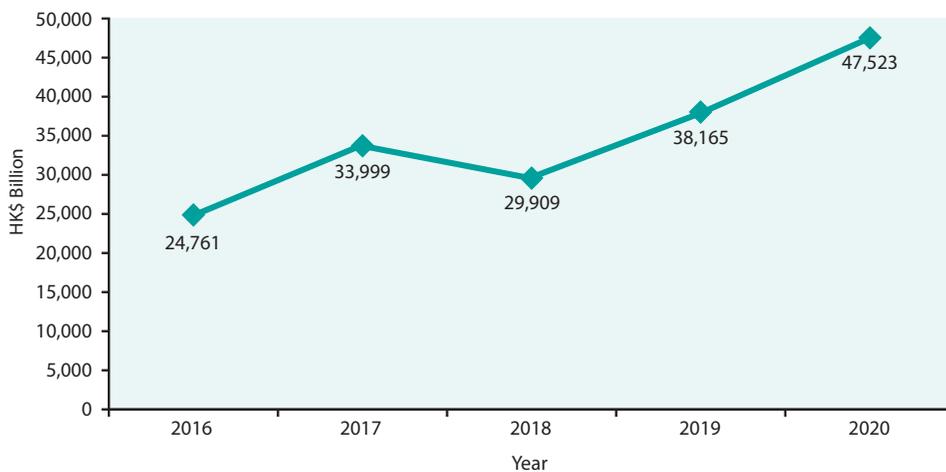
Government departments continued to extend FPS payment functions to their bills. In December, FPS QR code devices were made available for use at designated counters and self-help kiosks of the Companies Registry, the Immigration Department, the Official Receiver's Office and the Transport Department, bringing the total number of government departments accepting payments through the FPS to seven.

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 \$47.5 trillion as at end-2020, fifth in the world and third in Asia, and equivalent to over 17 times Hong Kong's GDP. At the end of the year, 2,538 companies were listed on the SEHK, representing a wide range of industries from finance and property to consumer goods, information technology, biotechnology 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 2020, 1,319 Mainland enterprises were listed on the SEHK, raising \$7.3 trillion from the Hong Kong market since 1993. Funds raised by Mainland companies represented 99 per cent of initial public offering (IPO) equity funds raised in 2020. Apart from Hong Kong and Mainland companies, 15 non-local companies from Macao, Malaysia and Singapore were newly listed on the SEHK in 2020. 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 12 years since 2009 in terms of equity funds raised via IPOs. IPOs in 2020 raised about \$400 billion. There were 154 new listings during the year, including eight listing transfers from the Growth Enterprise Market (GEM) to the Main Board. In addition to new share issues, about \$346 billion was raised on the secondary market,

bringing the total equity funds raised to about \$750 billion, third in the world and second in Asia. The securities market's total turnover amounted to \$32.1 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 635 SEHK trading participants and 52 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, 18 new ETFs were listed, bringing the total number of SEHK-listed ETFs to 118. Turnover of ETFs was \$1.215 trillion.

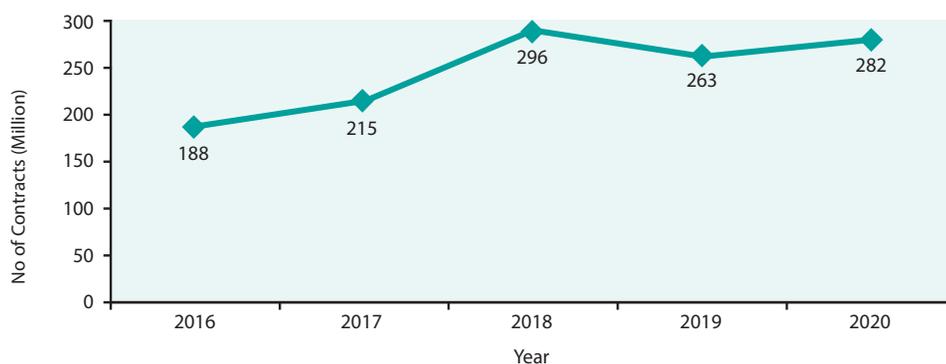
Statistics on Securities Market (Main Board and GEM)

	2018	2019	2020
Number of listed companies (year end)	2,315	2,449	2,538
Total market capitalisation (year end)(\$ billion)	29,909	38,165	47,523
Total equity funds raised (\$10 billion)	54	45	75
Total securities market turnover (\$ billion)	26,423	21,440	32,110
Total number of shares traded (billion)	55,647	60,197	54,716
Number of derivatives warrants (DWs) listed (year end)	6,763	4,571	7,507
Turnover of DWs (\$ billion)	3,866	2,418	2,261
Number of callable bull/bear contracts (CBBCs) listed (year end)	2,847	3,298	4,739
Turnover of CBBCs (\$ billion)	1,837	1,995	2,335
Number of ETFs listed (year end)	115	111	118
Turnover of ETFs (\$ billion)	987	1,077	1,215

Total turnover of derivatives contracts in 2020 was 282.23 million. Open interest at the year end was about 11.3 million contracts. The Hang Seng TECH Index Futures were launched in November, following the launch of the Hang Seng TECH index in July.

Statistics on Derivatives Market Turnover (million contracts)

	2018	2019	2020
All options and futures contracts	296	263	282
Of which:			
HSI Futures	58	51	42
Hang Seng China Enterprises Index Futures	37	34	36
HSI Options	13	12	10
Hang Seng China Enterprises Index Options	24	22	21
Stock Options	127	109	131

Chart 3**HKFE Turnover of Derivatives**

At the end of 2020, there were 47,105 licensed corporations and individuals, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 112 registered institutions, such as banks, engaging in regulated activities such as dealing in and advising on securities and futures.

There were also 52 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 over-the-counter (OTC) derivatives.

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

	2018	2019	2020
Licensed entities	46,254	47,323	47,105
Of which:			
Licensed corporations	2,905	3,084	3,122
Licensed individuals	43,349	44,239	43,983
Registered institutions	117	114	112

Recent Developments

During the year, the SFC issued guidance to clarify the regulatory obligations of private equity firms and family offices which conduct business in Hong Kong.

Enhancements to the investor compensation regime took effect in January. These included raising the compensation limit from \$150,000 to \$500,000 per investor per default and extending coverage to include northbound trading under Stock Connect.

Under a scheme which facilitates the cross-listing of ETFs between Hong Kong and the Mainland, the SFC authorised two ETFs for listing on the SEHK and the China Securities Regulatory Commission approved two ETFs for listing on the Shenzhen Stock Exchange. The SFC oversees a robust regulatory framework for virtual asset trading platforms that offer trading of at least one security token. In December, it granted the first licence under the regime. The licensed platform serves professional investors only and is subject to tailor-made requirements similar to those applicable to securities brokers and automated trading venues.

In April, the SFC concluded a joint consultation with HKEX and the Federation of Share Registrars Limited on a proposed operational model for implementing an uncertificated, or paperless, securities market in Hong Kong.

On the enforcement front, the SFC takes disciplinary action to maintain market integrity. Of the SFC licensees disciplined in the year, 19 were individuals and 16 were corporations. Fines totalled \$2,804 million.

Listing Regime for Emerging and Innovative Sectors

The SEHK's listing rules, revised in 2018, 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 (WVR) structures, and qualifying issuers seeking a secondary listing on the SEHK through a new concessionary route. Further enhancements during 2020 included the extension of the current WVR regime to accommodate secondary listings by issuers with corporate WVR structures that meet certain requirements.

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, 39 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 by phases.

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. The majority of global non-ferrous business is conducted on the LME and its prices are used as global benchmarks. In 2020, 155 million lots were traded at the LME, equating to US\$11.6 trillion and 3.5 billion tonnes notional with a market open interest high of 2 million lots.

Bond Market Development

Hong Kong is a major bond market in Asia. Outstanding HKD debt securities, including EFBNs, totalled \$2,278 billion at the end of 2020. According to the International Capital Market Association, Hong Kong is the largest centre for arranging bonds issued internationally by Asia-based entities, capturing 34 per cent (or US\$196 billion) of the market in 2020. The government pursues bond market development through three strategies:

- building market infrastructure, such as the CMU and Bond Connect, to ensure a safe and secure environment for trading and settlement;
- stimulating growth through government issuance of institutional and retail bonds, including green bonds; 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

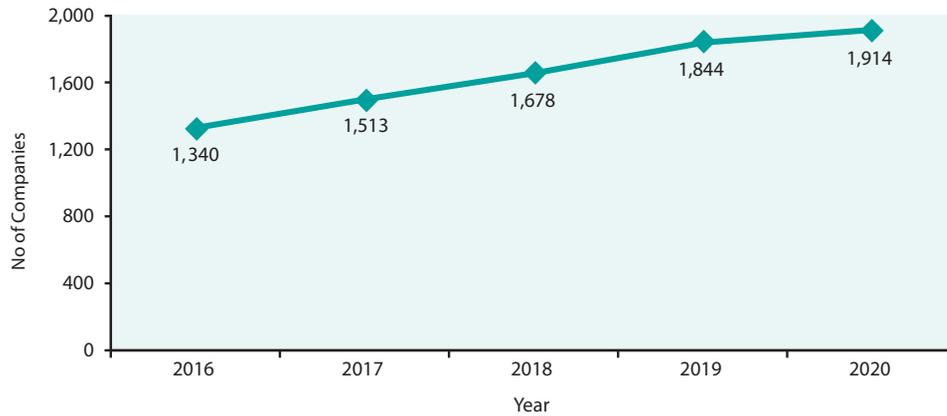
Hong Kong is well placed as Asia's premier asset and wealth management centre, amid rapid wealth creation in Asia and deepening financial market liberalisation in the Mainland. At the end of 2019, Hong Kong's asset and wealth management business was valued at \$28,769 billion, of which 64 per cent⁷ came from non-Hong Kong investors⁸. At the end of 2020, 1,914 companies were licensed by or registered with the SFC to carry out asset management business locally, up 3.8 per cent from end-2019. There were 2,194 SFC-authorized unit trusts and mutual funds⁹, of which 810 were domiciled in Hong Kong, up 27 per cent from five years ago.

⁷ The amount excludes SFC-authorized real estate investment trusts and assets held under trusts that were not managed by licensed corporations or registered institutions.

⁸ Figures are quoted from the Asset and Wealth Management Activities Survey for 2019.

⁹ These included 107 approved pooled investment funds offered both as retail unit trusts and for MPF purposes.

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.

ETF Market Structure

As part of enhancements to the structure of the ETF market, a new spread table and continuous quoting market making obligations for ETFs were implemented in June. A waiver of stamp duty on Hong Kong stock transfers payable by ETF market makers when creating and redeeming ETF units took effect in August. In October, price limits of plus or minus 15 per cent on ETFs during the pre-opening session on their first trading day were implemented.

Open-ended Fund Company Structure

Enhancements to the open-ended fund company (OFC) regime took effect in September. Among other changes, private OFCs are no longer subject to investment restrictions and the eligibility requirements for the custodians of private OFCs have been expanded to include licensed or registered securities brokers. The first SFC-authorized ETF structured as a public OFC was listed in January.

New Limited Partnership Fund Regime

The new limited partnership fund regime, which enables funds to be registered in the form of limited partnerships in Hong Kong, commenced operation in August.

Mutual Recognition of Funds

The SFC has established Mutual Recognition of Funds (MRF) arrangements with regulators in the Mainland, Australia, France, Luxembourg, Malaysia, the Netherlands, Switzerland, Taiwan and the United Kingdom. The SFC is also in discussion with other overseas regulators to establish MRF arrangements. As at the year end, 79 funds had been authorised under the Hong Kong-Mainland MRF arrangement, enabling cumulative net sales of more than RMB14.7 billion.

REIT Regime

In December, an updated Code on Real Estate Investment Trusts (REITs) took effect to provide Hong Kong REITs with more flexibility in making investments.

Green and Sustainable Finance

The government plans to issue green bonds totalling HK\$175.5 billion in the five years from 2021-22 under the Government Green Bond Programme, having regard to the market situation, to promote the development of green and sustainable finance in Hong Kong. In 2020, US\$12 billion of green debt (including bonds and loans) was arranged and issued in Hong Kong, with cumulative green debt issuance amounting to over US\$38 billion by the end of 2020.

In May, the HKMA and the SFC established the Green and Sustainable Finance Cross-Agency Steering Group to coordinate the management of climate and environmental risks to the Hong Kong financial sector. In December, the group promulgated a strategic plan.

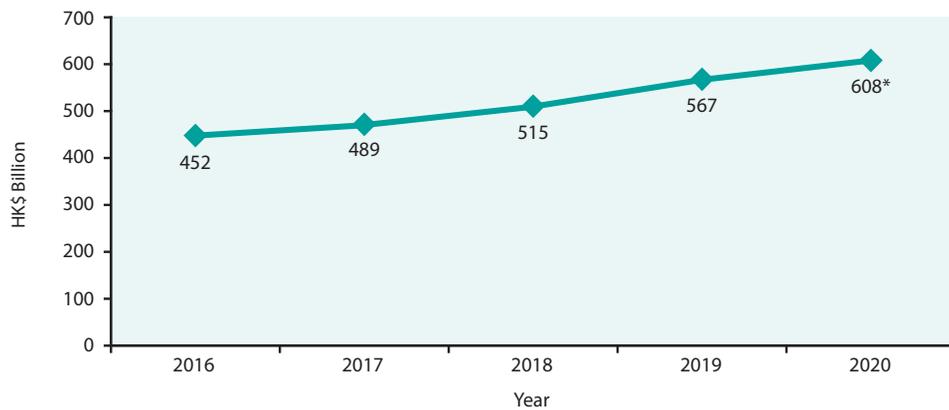
In October, the SFC launched a public consultation on the proposed requirements for fund managers to incorporate climate-related risks into their investment and risk management processes and provide investors with appropriate disclosures.

In order to promote green and sustainable finance in the region, the HKMA co-launched the Alliance for Green Commercial Banks with the International Finance Corporation in November.

Insurance

Hong Kong is among the world's most open insurance centres, with one of the highest insurance densities in Asia. At the end of 2020, 69 of the 164 authorised insurers operating in the city were from other jurisdictions, and 13 of the world's top 20 insurers were authorised to conduct insurance business in Hong Kong. The city had 17 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 10.2 per cent on average annually. In 2020, gross premiums amounted to \$608.4 billion*. The total revenue premiums of in-force long-term business amounted to \$548.1 billion*. Individual life and annuity insurance remained the leading business, accounting for \$491.6 billion*, or 89.9 per cent* of total revenue premiums, with 14.7 million* corresponding policies.

General insurance business rose to \$60.3 billion*. The overall underwriting performance of general insurance business improved to \$2.2 billion*, fuelled by direct business.

Statistics on Insurance Business

	2018	2019	2020
Number of authorised insurers	161	163	164
Of which:			
Incorporated in Hong Kong	89	92	95
Incorporated in the Mainland or overseas	72	71	69
Premium income (\$ billion)	514.5	566.9	608.4*
Total gross premiums			
Of which:			
Long-term in-force business (Office/Revenue premiums)	461.4^	511.5^	548.1*#
General insurance (Gross premiums)	53.1	55.4	60.3*

^ Office premiums

Revenue premiums

* Provisional statistics

At the end of 2020, there were 129,313 licensed insurance intermediaries, comprising 88,508 licensed individual insurance agents, 26,644 licensed technical representatives who were agents, 10,998 licensed technical representatives who were brokers, 2,336 licensed insurance agencies and 827 licensed insurance broker companies.

Regulatory and market development initiatives

Supervision of Insurance Groups

As the group supervisor of the AIA Group, FWD Group and Prudential Group, the Insurance Authority (IA) works with regulators from other jurisdictions to promote the effective and coordinated supervision of these groups. In July, legislation was enacted enabling the IA to exercise direct regulatory powers over Hong Kong-incorporated holding companies of these groups.

Tax Deductions for Specified Insurance Businesses

In July, legislation was enacted to halve the profits tax rate of marine and specialty insurance businesses.

Insurance-linked Securities (ILS) and Captive Insurance

In July, legislation put in place a new regulatory regime for the issuance of ILS and expanded the scope of insurable risks for captive insurers set up in Hong Kong.

Direct Regulation of Insurance Intermediaries

By the end of 2020, the IA had received some 17,900 new licence applications since it assumed direct regulation of insurance intermediaries in September 2019, of which 93 per cent had been approved.

Risk-based Capital Regime

In 2020, the IA continued to engage stakeholders in developing a risk-based capital regime for Hong Kong's insurance industry in line with international standards.

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 reappointed to the association's Executive Committee for another two years in December.

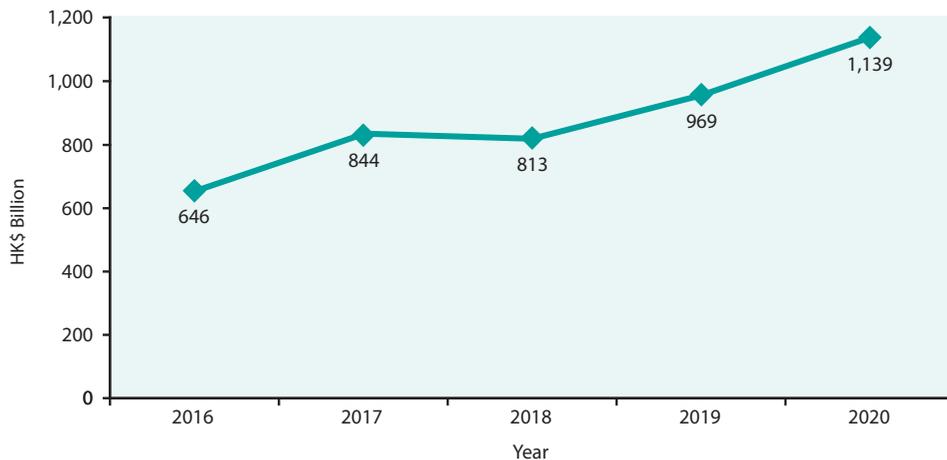
Tax Deductions for Voluntary Retirement Savings

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. From April 2019 to December 2020, members of the public bought around 160,000 deferred annuity policies (involving around \$11.4 billion of annualised premium) and opened around 44,000 tax deductible accounts (accumulating around \$2.7 billion contributions), reflecting the positive response to the tax deductions arrangements.

Mandatory Provident Fund System

MPF schemes had a net asset value (NAV) of around \$1,139 billion at the end of 2020 and an annualised rate of return of 4.8 per cent between December 2000, when the MPF System was launched, and December 2020.

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 2020, 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 early withdrawal of benefits.

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

	2018	2019	2020
Number of MPF-enrolled participants (Estimated rate)			
Employers	290,500 (100%)	290,400 (100%)	306,400 (100%)
Relevant employees	2,633,300 (100%)	2,631,400 (100%)	2,705,100 (100%)
SEPs	207,800 (70%)	215,500 (73%)	229,900 (78%)
MPF schemes			
Number of registered schemes	32	30	27
Number of approved constituent funds	467	441	408
Aggregate NAV (\$ billion)	813	969	1,139
MPF-exempted ORSO registered schemes ¹⁰			
Number of schemes	3,048	2,923	2,840
Number of participating employees	317,308	309,021	301,014
Aggregate NAV (\$ billion)	336	312	317

¹⁰ 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.

MPF schemes are managed privately and regulated by the Mandatory Provident Fund Schemes Authority (MPFA). At the year end, there were 14 active approved MPF trustees providing MPF schemes and funds and 37,015 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes.

Recent Developments

The eMPF Platform is a common electronic platform that will standardise, streamline and automate MPF scheme administration processes, so as to enhance operational efficiency, create room for fee reduction, and offer a predominantly paperless MPF experience. Development work on the platform is ongoing for completion at the end of 2022 at the earliest to enable on-boarding by trustees in batches. The platform is expected to be fully functional around 2025.

On 26 June, the Occupational Retirement Schemes (Amendment) Ordinance 2020 came into operation, improving the governance of ORSO schemes and providing the MPFA with enhanced powers to ensure such retirement schemes are genuinely employment-based.

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. 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.

In 2019, Hong Kong became the first jurisdiction in the Asia-Pacific region to be assessed overall compliant in the Financial Action Task Force's (FATF) fourth round of mutual evaluation. The government continues to enhance Hong Kong's anti-money laundering and counter-terrorist financing regime. A public consultation was launched in November on proposals to regulate virtual asset service providers and dealers in precious metals and stones in keeping with the FATF requirements.

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.

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.

As the global leader in RMB financial intermediation activities, Hong Kong handles more than 70 per cent of global offshore RMB payments in recent years¹¹. In 2020, Hong Kong maintained its lead as the largest offshore RMB forex market. Its RMB RTGS system recorded RMB1,192 billion of transactions on average daily.

Offshore RMB Business

At the year end, the offshore RMB deposit pool, including customer deposits and outstanding certificates of deposit, amounted to RMB757 billion, while RMB bank lending and outstanding RMB bonds stood at RMB152.1 billion and RMB182 billion respectively. RMB trade settlement handled by banks in Hong Kong totalled RMB6.3 trillion in 2020.

Qualified institutions develop a wide range of products investing in Mainland onshore markets via platforms such as the RMB Qualified Foreign Institutional Investor scheme, Stock Connect, Bond Connect and China Interbank Bond Market.

The Ministry of Finance has issued RMB sovereign bonds in Hong Kong for 12 consecutive years since 2009, including RMB15 billion of bonds issued in 2020. 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 2020, RMB155 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 570 shares and over 880 shares listed on the Shanghai and Shenzhen stock exchanges respectively. Mainland investors also get to choose from over 490 Hong Kong-listed stocks.

From 28 December, pre-revenue/pre-profit biotechnology companies listed in Hong Kong 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. The SFC worked with the China Securities Regulatory Commission to implement an investor identification regime for southbound trading under Stock Connect on 13 January.

Bond Connect

Northbound trading under Bond Connect has been growing steadily since its launch in July 2017. In 2020, average daily turnover reached RMB19.3 billion, up 82 per cent from 2019.

Guangdong-Hong Kong-Macao Greater Bay Area (GBA)

The Outline Development Plan for the GBA confirms and supports Hong Kong's status as an international financial centre, a global offshore RMB business hub, and an international asset and risk management centre. It also supports the development of Hong Kong into a green finance centre and a platform for investment and financing serving the Belt and Road Initiative.

¹¹ Figures are quoted from the Society for Worldwide Interbank Financial Telecommunication.

In May, the Central Government promulgated the Opinion on Providing Financial Support for the Development of the GBA, setting out concrete measures to promote financial development in the GBA. The Hong Kong Special Administrative Region 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 and the opinion for opening up a broader market for the financial sector. In June, the HKMA, PBoC, and the Monetary Authority of Macao jointly announced the decision to implement Wealth Management Connect in the GBA. The scheme will enable GBA residents to carry out cross-boundary investment in wealth management products in the GBA through the banking systems.

For the insurance sector, the Central Government further extended for one year until 30 June 2021 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. The Central Government 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.

Belt and Road Initiative and International Cooperation

Asian Infrastructure Investment Bank and Asian Development Bank

Hong Kong continues to participate as a member of the Asian Infrastructure Investment Bank (AIIB) and of the Asian Development Bank (ADB) with 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, and as an international financial centre, Hong Kong contributes to the ADB's efforts in bridging the financing gap in the region. In 2020, the city's capital markets raised the equivalent of some US\$1.22 billion under the ADB's Global Medium-term Note Programme.

HKMA Infrastructure Financing Facilitation Office

The HKMA Infrastructure Financing Facilitation Office (IFFO) has continued to serve as an important financing platform to infrastructure investors, thereby raising Hong Kong's international profile as an infrastructure and green finance centre. The IFFO has around 100 international partners, including multilateral financial agencies and development banks, project developers and operators, public sector entities and professional service firms.

Centre for Green Finance

In December, the IFFO's Centre for Green Finance and the International Finance Corporation co-hosted a webinar showcasing the best practices in sustainable business and climate finance. The two-day webinar attracted around 1,500 participants from around the world.

Belt and Road Insurance Exchange Facilitation

The IA's Belt and Road Insurance Exchange Facilitation, launched in 2018, aims to help Belt and Road project owners and investors map out their risk management needs and identify solutions, to promote intelligence exchange on risk management, and to forge alliances. Forty-one insurers, reinsurers, captive insurers, insurance brokers, industry associations and law firms had joined as members by 31 December 2020.

Financial Technology

With the joint efforts 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 globally renowned innovation laboratories and accelerator programmes.

In November, Invest Hong Kong organised the fifth Hong Kong Fintech Week as a virtual event, attracting over 1.2 million viewers from over 130 economies, and resulting in over 18,000 business contacts.

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. Banks have launched the first two phases (product information and customer acquisition) of Open APIs, providing various innovative services to improve customer experience. The HKMA is studying implementation of the next two phases (account information and transactions).

On trade finance, the first phase of a proof-of-concept study, and a pilot run, of connecting eTradeConnect¹² with the PBoC Trade Finance Platform was completed in 2020. The initiative would help provide importers and exporters with more convenient trade finance services.

The HKMA and the Bank of Thailand continued their joint research project, Project Inthanon-LionRock, to study the application of central bank digital currency to cross-border payments.

The HKMA initiated a proof-of-concept study in collaboration with banks to study the technical feasibility of building the Commercial Data Interchange, a consent-based financial infrastructure that would enable more secure and efficient data flow between banks and sources of commercial data.

In November, the HKMA and the Hong Kong Applied Science and Technology Research Institute published a white paper on the findings of a study of the use of artificial intelligence in small and medium enterprises loan applications.

¹² 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.

The HKMA runs the Fintech Career Accelerator Scheme 2.0 in collaboration with strategic partners to nurture young talent at various stages of their career development. In 2020, 250 students benefited from the programmes.

In terms of cross-boundary collaboration, the HKMA, together with other members of the Global Financial Innovation Network¹³, opened applications for the Cross-Border Testing pilot for firms to trial and scale new technologies, products or business models in multiple jurisdictions.

On the supervisory front, pilot trials of 90 fintech initiatives were allowed in the Fintech Supervisory Sandbox in 2020, bringing the cumulative total number of these pilot trials to 193. As at 31 December, the HKMA had also received 533 requests to access the Fintech Supervisory Chatroom since its launch in 2017.

In 2020, all eight virtual banks licensed in 2019 officially launched their services to the public.

SFC Fintech Initiatives

The SFC, through its Fintech Contact Point, 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 Regulatory Sandbox provides a confined environment for qualified firms to use fintech for regulated activities under the SFO before using it on a wider scale.

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, Israel, Malaysia, Switzerland and the UK. The SFC also participates in fintech-related policy discussions as a member of the International Organisation of Securities Commissions.

IA Fintech Initiatives

The IA facilitates development in insurance technology (insurtech) through initiatives including: the Insurtech Sandbox, which allows authorised insurers to conduct a pilot run of innovative insurtech applications to be applied in their business operations; the Insurtech Facilitation Team, which communicates with businesses that develop and apply insurtech in Hong Kong; and the Fast-Track application scheme, which authorises applicants owning and operating solely digital distribution channels. Four virtual insurers were licensed under the Fast Track between December 2018 and May 2020, two offering life insurance and the other two offering non-life insurance.

Other Measures to Enhance Hong Kong's Competitiveness as an 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.

¹³ By the end of 2020, the network consisted of over 60 organisations, including the SFC and the IA.

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 nine reports and consultation responses in 2020, and 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 pilot programme to train talent for the insurance and asset and wealth management sectors has been extended until 2022-23. It is intended to help the community, particularly students, understand career prospects in these sectors, attract new blood and enhance the professional competency. Educational and promotional activities, summer internships for undergraduates and financial incentives for practitioners to undergo training were provided.

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. In December, a new module on operational risk management was launched, in addition to the six existing modules covering private wealth management, anti-money laundering and counter-terrorist financing, cybersecurity, treasury management, retail wealth management and credit risk 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 2020, the event attracted over 3,500 participants from 48 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

	2018	2019	2020
New local companies	151,739	124,741	99,405
Local companies on the register	1,400,950	1,380,185	1,387,919
New non-Hong Kong companies	1,193	2,000	1,757
Non-Hong Kong companies on the register	11,061	12,494	13,752

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

	2018	2019	2020
Bankruptcy orders	7,146	7,762	6,685
Interim orders in IVAs	555	587	500
Winding-up orders	255	244	234

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 proposed to make rules under the ordinance on contractual stays for authorised institutions, which seek to address the risk to cross-border effectiveness of resolution arising from the early termination of financial contracts that are governed by non-Hong Kong law. The HKMA consulted the public on the policy proposals in January. In December, it released the consultation's conclusions and consulted the industry on the text of the draft rules.

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 professional accountancy sector is mainly registered and regulated under the Professional Accountants Ordinance.

Statistics on Certified Public Accountants (CPAs), CPA Firms and Corporate Practices

	2018	2019	2020
Total number of CPAs	43,585	44,794	46,562
Number of practising CPAs	4,869	4,991	5,093
Number of practising CPA firms	1,288	1,270	1,282
Number of corporate practices	591	611	647

The issuance of the Hong Kong Financial Reporting Standards by the Hong Kong Institute of Certified Public Accountants, which apply the International Financial Reporting Standards, is beneficial to Hong Kong because international investors and financial analysts are well acquainted with these standards.

Support Measures to Alleviate Impact of COVID-19

The government introduced various measures to mitigate the impact of COVID-19, including:

- The Fintech Anti-epidemic Scheme for Talent Development was launched in July to provide eligible companies a 12-month salary subsidy of \$10,000 per month for up to 1,000 full-time positions. By 31 December, some 720 applications had been received, and more than 550 applications had been approved.
- The Financial Industry Recruitment Scheme for Tomorrow aims to create 1,500 full-time jobs for the financial services sector by providing a salary subsidy of up to \$10,000 per month for each eligible new full-time position for 12 months. The scheme was launched in September, and all 1,500 positions had been successfully applied for by eligible employers by December.
- Subsidies amounting to \$95.12 million under the Anti-epidemic Fund were granted to 763 institutes and 30,166 practitioners in the securities industry and precious metals trading industry.
- In February, temporary measures were introduced so that transactions of certain protective insurance products could take place without face-to-face interactions. As at 31 December, some 26,500 policies attracting total annualised premiums of about \$360 million had been sold in this way through the use of technology.

- The MPFA launched the Employment Support Programme to help create 49 temporary positions for a period of nine or 12 months.
- The Companies Registry waived registration fees for annual returns from 1 October 2020 to 30 September 2022 in accordance with the Companies (Fees) Amendment Regulation 2020, benefiting about 1.4 million companies.

Websites

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Insurance Authority: www.ia.org.hk

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

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

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

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