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 23.4 per cent of the local economy and over 7 per cent of total employment.

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.

The development of Hong Kong's financial services industry has been supported by the Central People's Government. The National 14th Five-Year Plan, promulgated in March, acknowledges the significant functions and positioning of Hong Kong in the overall development of the country. It supports Hong Kong to enhance its status as an international financial centre as well as deepen the mutual access between the financial markets of Hong Kong and the Mainland. Leveraging on its unique advantage of 'one country, two systems', Hong Kong will continue to be a bridge between the Mainland and the world.

Hong Kong's status as an international financial centre is also underpinned by institutional strengths, which 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 characterised by deep liquidity, strong emphasis on investor protection, a well-educated and highly efficient workforce and ease of entry for non-local professionals.

An assessment report published by the International Monetary Fund in June reaffirmed that Hong Kong is a major international financial centre with sound macroeconomic and prudential policies, robust regulatory and supervisory frameworks, and important buffers to cope with economic slowdown and future shocks. It recognised efforts by the authorities to strengthen and upgrade the financial infrastructure, including addressing the risks of climate change and promoting Hong Kong as a financial technology (fintech) hub in Asia.

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

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). The SFC works with local and Mainland authorities to support Hong Kong's long-term strategic development amid the opening up of Mainland financial markets and participates in global standard-setting bodies to ensure Hong Kong's regulatory framework aligns with international standards. 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 and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK). It also ensures the fair treatment of investors in corporate activities such as mergers, takeovers, privatisations and share buy-backs.

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 Tribunal[1] 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 a statutory regulator that regulates and supervises the insurance industry to promote sustainable market development and protect policyholders. The authority also assumes direct regulation of insurance intermediaries and works with regulators in other jurisdictions to perform group-wide supervision of three multinational insurance groups.

Mandatory Provident Fund Schemes Authority

The Mandatory Provident Fund Schemes Authority regulates the Mandatory Provident Fund (MPF) System, supervises MPF trustees and intermediaries and promotes understanding of MPF investments and industry development, thereby protecting the interests of MPF scheme members. The authority is also the Registrar of Occupational Retirement Schemes.

The eMPF Platform Company Limited, established in March, is a wholly owned subsidiary of the authority. It is responsible for the design, development and operation of the eMPF Platform,

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.

which provides common administration services to 4.5 million MPF scheme members and 300,000 employers.

Financial Reporting Council

The Financial Reporting Council is an independent regulator. Since the commencement of the auditor regulatory regime in 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 2021, the council issued its first annual inspection report and investigation and compliance report under the regime, and completed the second assessment under its oversight power 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 promoting efficiency and effectiveness in the regulation and supervision of financial institutions, and maintaining financial stability in Hong Kong. The Financial Services and the Treasury Bureau also holds meetings with financial regulators to discuss regulatory and supervisory issues and coordinate legislative and other initiatives to enhance financial stability and financial market development.

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 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 balance[2] 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

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

to fall or rise respectively, creating the monetary conditions that automatically counteract the original capital movements and ensuring exchange rate stability.

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.

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.

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.

Monetary Situation and Exchange Fund Position

The Hong Kong dollar exchange and money markets traded in a smooth and orderly manner in 2021. The Linked Exchange Rate System remained strong and resilient to external shocks. Throughout the year, the Hong Kong dollar stayed mostly at the strong side (HK$7.75-7.80 to US$1) of the Convertibility Zone. The total of the aggregate balance and outstanding EFBNs remained virtually unchanged throughout 2021. The monetary base as a whole remained fully backed by foreign exchange reserves.

Hong Kong's money markets continued to function normally. The Hong Kong dollar interbank interest rates remained largely stable at low levels throughout 2021, except for some mild pick-ups towards the end of the year. Banks kept their Best Lending Rates unchanged during the year.

At the end of 2021, the Exchange Fund had total assets of $4,577.8 billion and an accumulated surplus of $788.9 billion[3].

Banking and Payment System

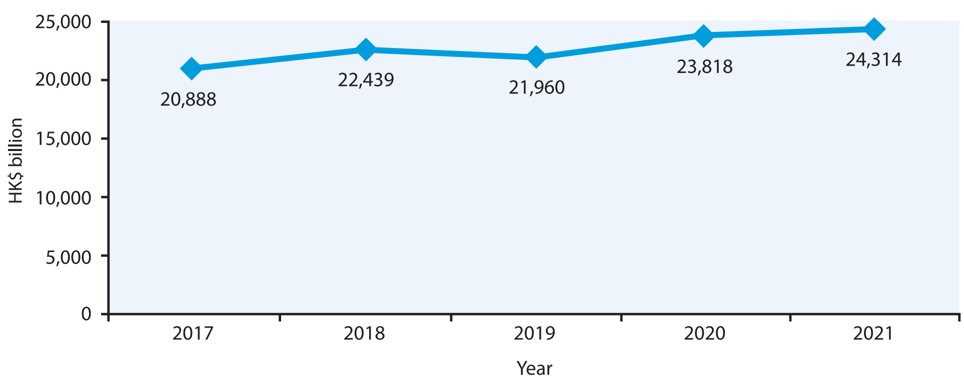
Banking System

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 position[4], according to the *Bank for International Settlements Quarterly Review* for December 2021.

International financial institutions maintain a strong presence in Hong Kong. At the year end, 151 of the 160 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.

Chart 1 **External Positions of AIs**



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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.

The city has one of the world's highest concentrations of banking institutions. As at end-2021, there were 188 AIs (160 LBs, 16 RLBs and 12 DTCs). There were also 39 representative offices of banks incorporated outside Hong Kong.

Total deposits and total loans and advances of AIs amounted to $15,186.2 billion and $10,896.7 billion respectively, representing increases of 4.6 per cent and 3.8 per cent from a year earlier. Total assets rose 1.9 per cent to $26,367 billion.

Statistics on AIs

		2019	2020	2021
AIs		194	190	188
Of which:	LBs	164	161	160
	RLBs	17	17	16
	DTCs	13	12	12
Total deposits ($ billion)		13,771.6	14,513.6	15,186.2
Total loans and advances ($ billion)		10,376.7	10,498.6	10,896.7
Total assets ($ billion)		24,462.1	25,864.9	26,367

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 successive 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 local 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. Hong Kong implements the international standards through amending the Banking Ordinance and issuing rules supplemented by regulatory guidance. Amendments to the Banking (Capital) Rules were being prepared to implement the latest capital standards on banks' equity investments in funds and those set out in the Basel III final post-crisis reform package published by the committee in recent years.

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 system[6]. 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 can settle securities transactions on a delivery-versus-payment basis. It is linked to 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 2017. The CMU supports the settlement and custody of CMU securities conducted in the southbound trading of Bond Connect when the service was rolled out in September 2021. To capitalise on the further opening up of the Mainland financial market and to support new business initiatives, the HKMA started in 2021 to upgrade the CMU system by phases.

The CMU also 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). The HKMA supervises the SVF licensees under a risk-based approach and oversees the six RPSs designated in accordance with the ordinance.

Faster Payment System

The adoption and turnover of the Faster Payment System (FPS) has been growing since its launch in 2018, recording 9.6 million registrations by end-2021. The average daily turnover increased by 90 per cent year on year to 673,000 real-time transactions in 2021. The increased use of FPS for settling government bills, making merchant payments and topping up SVF e-wallets or bank accounts were the key drivers for the continued rise in turnover. In addition, the government has expanded the use of FPS QR code payments to designated counters, self-help kiosks and parking meters.

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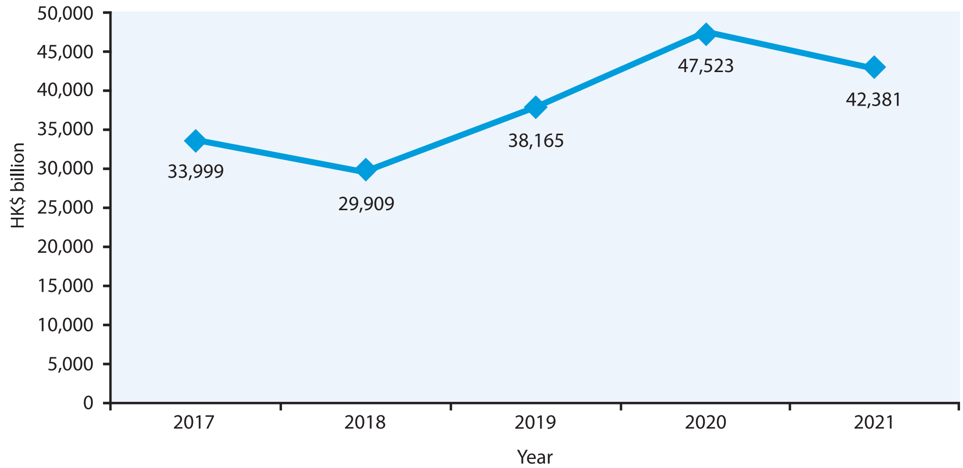
6 Banks may obtain intra-day and overnight liquidity through repurchase agreements with the HKMA using EFBNs as collateral.

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 $42.4 trillion as at end-2021, seventh in the world and fourth in Asia, and equivalent to around 15 times Hong Kong's Gross Domestic Product. At the year end, 2,572 companies were listed on the SEHK, representing 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 end-2021, 1,368 Mainland enterprises were listed on the SEHK, raising $7.9 trillion from the Hong Kong market since 1993. Funds raised by Mainland companies represented 98 per cent of initial public offering (IPO) equity funds raised in 2021. Apart from Hong Kong and Mainland companies, two companies from Singapore and the US were newly listed on the SEHK in 2021.

The SEHK has ranked first for seven out of the past 13 years in terms of equity funds raised via IPOs. IPOs in 2021 raised about $331 billion, fourth in the world and second in Asia. There were 98 new listings during the year, including two listing transfers to the Main Board from GEM, a market with lower listing eligibility criteria serving small and mid-sized issuers. In addition to new share issues, about $442 billion was raised on the secondary market, bringing the total equity funds raised to about $773 billion. The securities market's total turnover amounted to $41.2 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 638 SEHK trading participants and 53 per cent of the 194 HKFE trading participants were from the Mainland or overseas markets.

The HKEX operates four clearing houses: Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited, SEHK Options Clearing House Limited and, for over-the-counter (OTC) 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 HKD, USD and RMB increase flexibility in settlement and trading. During the year, 27 new ETFs were listed, bringing the total number of SEHK-listed ETFs to 127. Turnover of ETFs was $1.63 trillion.

Statistics on Securities Market (Main Board and GEM)

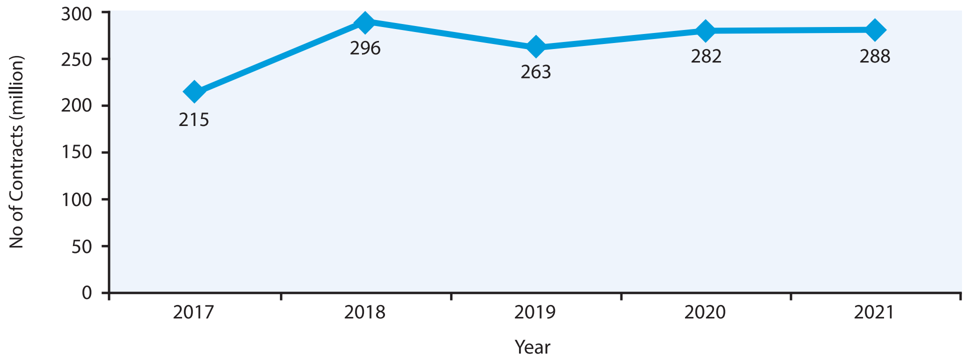
	2019	2020	2021
Number of listed companies (year end)	2,449	2,538	2,572
Total market capitalisation (year end)($ billion)	38,165	47,523	42,381
Total equity funds raised ($10 billion)	45	75	77
Total securities market turnover ($ billion)	21,440	32,110	41,182
Total number of shares traded (billion)	60,197	54,716	62,259
Number of derivatives warrants (DWs) listed (year end)	4,571	7,507	9,464
Turnover of DWs ($ billion)	2,418	2,261	2,763
Number of callable bull/bear contracts (CBBCs) listed (year end)	3,298	4,739	4,817
Turnover of CBBCs ($ billion)	1,995	2,335	2,192
Number of ETFs listed (year end)	111	118	127
Turnover of ETFs ($ billion)	1,077	1,215	1,630

Total turnover of derivatives contracts in 2021 was 288.14 million. Open interest at the year end was about 9.9 million contracts. The MSCI China A 50 Connect (USD) Index Futures, Hong Kong's first A Share Index Futures product, was launched in October.

Statistics on Derivatives Market Turnover (million contracts)

		2019	2020	2021
All options and futures contracts		263	282	288
Of which:	Hang Seng Index Futures	51	42	34
	Hang Seng China Enterprises Index Futures	34	36	32
	Hang Seng Index Options	12	10	7
	Hang Seng China Enterprises Index Options	22	21	11
	Stock Options	109	131	158

Chart 3 **HKFE Turnover of Derivatives**



At end-2021, there were 48,546 licensed corporations and individuals, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 111 registered institutions, such as banks, engaging in regulated activities such as dealing in and advising on securities and futures.

There were also 53 SFC-authorised 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)

		2019	2020	2021
Licensed entities		47,323	47,105	48,546
Of which:	Licensed corporations	3,084	3,122	3,210
	Licensed individuals	44,239	43,983	45,336
Registered institutions		114	112	111

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 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. As at the year end, 70 companies were listed successfully on the SEHK under the regime.

Regulation of OTC Derivatives

In line with G20 commitments to reform OTC derivatives markets, the HKMA and the SFC have implemented an OTC derivatives regulatory regime in Hong Kong by phases. The regulators will continue to monitor global developments and fine-tune the regime as appropriate.

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 2021, 145 million lots were traded at the LME, equating to US$15.6 trillion and 3.2 billion tonnes notional with a market open interest high of 2.5 million lots.

Other Developments

During the year, the SFC issued new guidance for management companies of SFC-authorised unit trusts and mutual funds to enhance the disclosures for funds that have environmental, social and governance factors as a key investment focus (ESG funds). At end-2021, there were 95 SFC-authorised ESG funds.

To strengthen cross-listings of ETFs between Hong Kong and the Mainland, the SFC authorised an ETF for listing on the SEHK and the China Securities Regulatory Commission approved an ETF for listing on the Shanghai Stock Exchange.

The SFC takes disciplinary action to maintain market integrity. Of the SFC licensees disciplined in the year, 18 were individuals and 16 were corporations. Fines totalled $63.8 million.

During the year, the SFC stepped up its cooperation with local and overseas law enforcement agencies including the Hong Kong Police Force, the Monetary Authority of Singapore and the Singapore Police Force to conduct, among others, a joint operation against sophisticated syndicates suspected of operating ramp-and-dump manipulation schemes.

Bond Market

Hong Kong is a major bond market in Asia. Outstanding HKD debt securities, including EFBNs, totalled $2,356.8 billion at the end of 2021. 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$207 billion) of the market in 2021. The government pursues bond market development through three strategies:

- building market infrastructure, such as the CMU and Bond Connect, to ensure a safe and efficient 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 Green and Sustainable Finance Grant Scheme, tax incentive schemes such as the Qualifying Debt Instrument Scheme, and other measures.

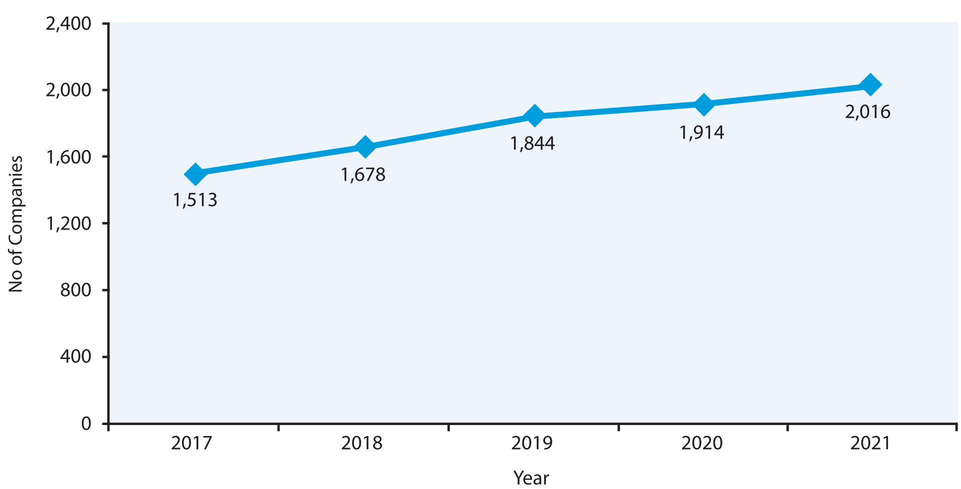
Steering Committee on Bond Market Development in Hong Kong

The government set up the Steering Committee on Bond Market Development in Hong Kong in August. The committee is chaired by the Financial Secretary and comprises members from the Financial Services and the Treasury Bureau, HKMA, SFC, IA, HKEX and private sector players. It is tasked to formulate a roadmap for promoting the diversified development of Hong Kong's bond market and reinforcing its functions.

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 2020, Hong Kong's asset and wealth management business was valued at $34,931 billion, of which 64 per cent[7] came from non-Hong Kong investors[8]. At end-2021, 2,016 companies were licensed by or registered with the SFC to carry out asset management business locally, up 5.3 per cent from end-2020. There were 2,240 SFC-authorised unit trusts and mutual funds[9], of which 865 were domiciled in Hong Kong, up 23 per cent from five years ago.

Chart 4 **Number of Asset Management Companies**



7 The amount excludes SFC-authorised 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 2020.

9 These included 110 approved pooled investment funds offered both as retail unit trusts and for MPF purposes.

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; improving access to other markets to grow a full spectrum of asset and wealth management activities; and expanding the fund distribution network.

Exchange-traded Fund Market Structure

As part of the enhancements to the ETF market, trading tariff and settlement fee waivers were implemented for fixed income and money market ETFs in May.

Open-ended Fund Companies

As at end-2021, the SFC registered 48 open-ended fund companies (OFCs).

Starting on 10 May, the SFC administers a grant scheme funded by the government to subsidise setting up OFCs in Hong Kong. The scheme covers eligible expenses incurred in relation to the incorporation or redomiciliation of an OFC and paid to Hong Kong-based service providers. Since the scheme's launch, the number of registered OFCs has more than tripled while the number of OFC new fund applications has more than doubled.

In November, legislation which allows overseas corporate funds to redomicile to Hong Kong as OFCs came into effect.

Limited Partnership Fund Regime

The limited partnership fund (LPF) regime enables funds to be registered in the form of limited partnerships in Hong Kong. In 2021, 342 LPFs were registered, bringing the total at the end of the year to 409.

Tax Concession for Carried Interest

To attract more private equity funds to domicile and operate in Hong Kong, a tax concession is provided for carried interest issued by private equity funds operating in Hong Kong with effect from the 2020-21 year of assessment.

Measures to Facilitate Foreign Funds to Redomicile to Hong Kong

Following the commencement of new fund redomiciliation mechanisms under the OFC and LPF regimes on 1 November, existing funds set up in the form of a company or limited partnership outside Hong Kong may apply for registration as an OFC or LPF in Hong Kong respectively.

Mutual Recognition of Funds

The SFC has established mutual recognition of funds (MRF) arrangements with a number of regulators. As at end-2021, 85 funds had been authorised under the Hong Kong-Mainland MRF arrangement, enabling cumulative net sales of more than RMB15.3 billion. In June, Hong Kong's MRF arrangement with Thailand became effective, allowing eligible public funds to be distributed in the other market through a streamlined process.

Green and Sustainable Finance

The government has been working with the financial regulators, the SEHK and the industry to promote the development of green and sustainable finance, aiming to contribute to achieve carbon neutrality before 2050 in Hong Kong and consolidate the city's position as a regional green and sustainable finance hub.

Government Green Bond Programme

The world's first government Global Medium Term Note Programme dedicated to green bond issuances was established in early 2021 and close to US$6.5 billion equivalent institutional green bonds were issued within the year, including the government's inaugural euro- and RMB-denominated bonds. The borrowing ceiling of the Government Green Bond Programme was doubled to HK$200 billion in July. The Green Bond Report 2021 was published in August with details on proceed allocation and the expected environmental benefits of the underlying projects.

Green and Sustainable Finance Cross-Agency Steering Group

The Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the HKMA and the SFC, announced in December the progress made and how to advance Hong Kong's green and sustainable finance development, focusing on climate-related disclosures and sustainability reporting, taxonomy, carbon market opportunities and the work of the Centre for Green and Sustainable Finance, which was launched in July to coordinate cross-sector efforts in capacity building and policy development.

Green and Sustainable Finance Grant Scheme

The Green and Sustainable Finance Grant Scheme was launched in May to attract more green and sustainable financing activities to Hong Kong by covering part of the expenses on bond issuances and external review services. By end-2021, grants had been approved to about 50 green and sustainable debt instruments issued in Hong Kong.

Other Developments

In August, the SFC concluded a consultation on the requirements for fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures. The requirements will be implemented in phases from 2022.

The Sustainability Task Force of the International Organisation of Securities Commissions (IOSCO), of which the SFC is the vice-chair, published three reports during 2021 setting out the regulatory expectations on issuers' sustainability-related disclosures; investment funds and asset managers; and environmental, social and governance (ESG) rating and data providers. In March, the Sustainable Finance Working Group of IOSCO's Asia-Pacific Regional Committee, led by the SFC, completed a study on how regulators in the region addressed ESG and climate-related risks.

The HKMA co-launched the Alliance for Green Commercial Banks with the International Finance Corporation in 2020. The alliance has been hosting training and roundtable sessions since March, reaching over 4,400 participants from 37 jurisdictions all over the world.

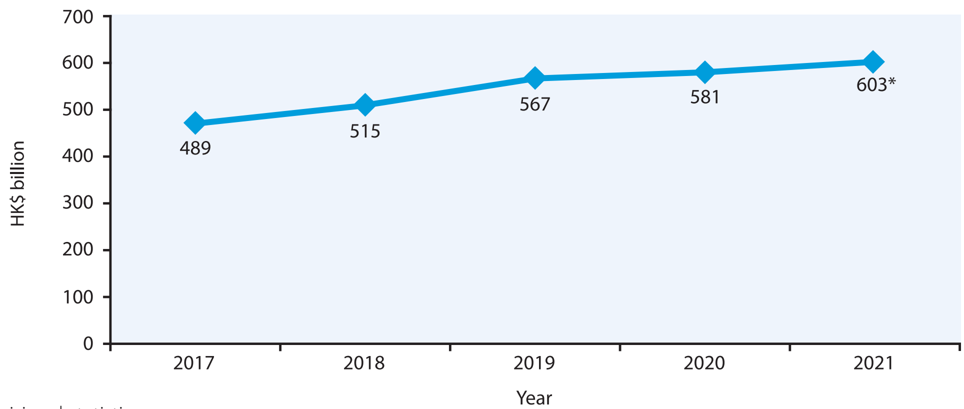
Insurance

Hong Kong is among the world's most open insurance centres, with one of the highest insurance densities in the world. At end-2021, 67 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 business in Hong Kong. The city had 17 professional reinsurers, including most of the world's top reinsurers.

During the past five years, Hong Kong's insurance industry grew 5.9 per cent on average annually. In 2021, gross premiums amounted to $602.7 billion*. The total revenue premiums of in-force long-term business amounted to $540.8 billion*. Individual life and annuity insurance remained the leading business, accounting for $491.2 billion*, or 90.8 per cent* of total revenue premiums, with 15 million* corresponding policies.

General insurance business rose to $61.8 billion*. The overall underwriting performance of general insurance business dropped from $2.2 billion* to $2 billion*.

Chart 5 **Annual Gross Premiums of Insurance Market**



* Provisional statistics

Statistics on Insurance Business

		2019	2020	2021
Number of authorised insurers		163	164	164
Of which:	Incorporated in Hong Kong	92	95	97
	Incorporated in the Mainland or overseas	71	69	67
Premium income ($ billion)		566.9	581.3	602.7*
Total gross premiums				
Of which:	Long-term in-force business (office/revenue premiums)	511.5^	521.5^	540.8*#
	General insurance (gross premiums)	55.4	59.9	61.8*

^ Office premiums   # Revenue premiums   * Provisional statistics

At end-2021, there were 128,053 licensed insurance intermediaries, comprising 87,765 licensed individual insurance agents, 25,785 licensed technical representatives who were agents, 11,552 licensed technical representatives who were brokers, 2,133 licensed insurance agencies and 818 licensed insurance broker companies.

Market Development Initiatives

Insurance-linked Securities

A new bespoke regulatory regime for insurance-linked securities (ILS) and the Pilot ILS Grant Scheme to subsidise the issuance of ILS in Hong Kong were launched in March and May respectively. These measures injected new impetus to market development. The inaugural ILS was issued in Hong Kong on 1 October in the form of catastrophe bond offering protection against losses inflicted by typhoons in the Mainland.

Tax Deductions for Specified Insurance Businesses

Since 19 March, half-rate profits tax concessions were offered for selected insurance businesses, including those related to marine and specialty insurance.

Specialty Risks Consortium and Captive Insurance

The Hong Kong Specialty Risks Consortium, which pools together state-owned enterprises with service providers to identify tailored risk solutions for their overseas projects, attracted 10 new insurers, reinsurers and broker companies in 2021.

On 29 March, legislative amendments to expand the scope of insurable risks for captive insurers set up in Hong Kong came into effect.

Revamping Investment-linked Assurance Schemes

In 2021, the IA worked with the SFC to enhance product design and streamline the approval process for investment-linked assurance scheme (ILAS) products. Taking into account outcome of industry engagement, the regulators promulgated new regulatory guidance in the fourth quarter of 2021, ushering in Protection Linked Plans, a new category of ILAS with higher mortality protection element as well as simple and transparent fee structure.

Regulatory Initiatives

Supervision and Designation of Insurance Groups

An enhanced legal framework for the regulation and supervision of multinational insurance groups took effect on 29 March. In May, the IA issued relevant guidelines and designated three Hong Kong incorporated insurance holding companies, namely AIA Group Limited, FWD Management Holdings Limited, and Prudential Corporation Asia Limited, to be subject to the IA's group-wide supervision.

International Collaboration

As a member of the International Association of Insurance Supervisors (IAIS), the IA observes the standards of the Insurance Core Principles and Common Framework as part of its insurance supervisory regime. The IA's chief executive officer is a member of the IAIS' Executive Committee and chair of the Audit and Risk Committee.

Mandatory Provident Fund System

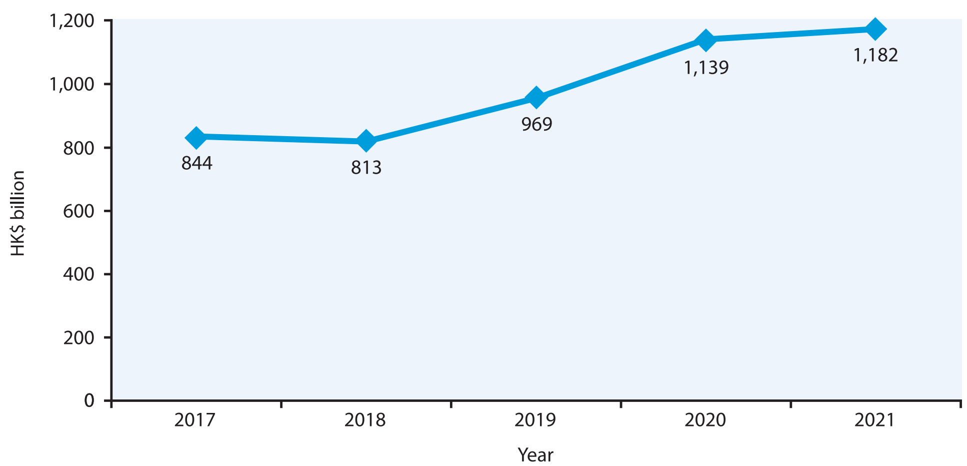
As one of the pillars of retirement protection, the MPF System helps the workforce set aside savings for retirement. Unless exempted, employees and self-employed persons aged 18 to 64 are required to join an MPF scheme. At end-2021, about 85 per cent of the employed population were covered by the MPF System or other retirement schemes.

The MPF System is employment-based. An employer must provide 5 per cent of an employee's relevant income as mandatory contributions for the employee, subject to a maximum relevant income level. Employees have to make the same amount of contributions for themselves unless their relevant income is below the minimum level. Self-employed persons must also contribute 5 per cent of their relevant income, 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.

MPF schemes had a net asset value (NAV) of around $1,182 billion at end-2021 and an annualised rate of return of 4.3 per cent between December 2000, when the MPF System was launched, and December 2021.

Chart 6 **Total NAV of MPF Schemes**



MPF schemes are managed privately and regulated by the Mandatory Provident Fund Schemes Authority (MPFA). At the year end, there were 13 active approved MPF trustees providing MPF schemes and funds and 41,694 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes.

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

	2019	2020	2021
Number of MPF-enrolled participants (estimated rate)			
Employers	290,400 (100%)	306,400 (100%)	323,500 (100%)
Relevant employees	2,631,400 (100%)	2,705,100 (100%)	2,681,100 (100%)
Self-employed persons	215,500 (73%)	229,900 (78%)	231,400 (80%)
MPF schemes			
Number of registered schemes	30	27	27
Number of approved constituent funds	441	408	411
Aggregate NAV ($ billion)	969	1,139	1,182
MPF-exempted ORSO registered schemes[10]			
Number of schemes	2,923	2,840	2,874
Number of participating employees	309,021	301,014	261,825
Aggregate NAV ($ billion)	312	317	346

eMPF Platform Development

The eMPF Platform 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. On 22 October, an amendment bill was passed to provide for the operating framework and mandatory use of the platform, and a mechanism to ensure cost savings are fully passed to MPF scheme members.

The MPFA and the eMPF Platform Company Limited are building the platform for phased on-boarding by MPF trustees starting from 2023, ahead of full implementation in 2025.

Anti-money Laundering and Counter-financing of Terrorism

Money laundering and terrorist financing 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 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 money laundering and terrorist financing, effectively safeguarding the integrity of its business environment and reputation.

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.

The government will continue to enhance Hong Kong's anti-money laundering and counter-financing of terrorism regime by amending legislation to maintain alignment with the Financial Action Task Force's (FATF) requirements.

A public consultation concluded in May showed general support for the legislative proposals, which include the proposed regulation of virtual asset service providers and dealers in precious metals and stones.

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 has handled more than 70 per cent of global offshore RMB payments in recent years[11]. In 2021, Hong Kong's RMB real-time gross settlement system recorded RMB1,522.6 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 RMB945 billion, while RMB bank lending and outstanding RMB bonds stood at RMB163.6 billion and RMB311.4 billion respectively. RMB trade settlement handled by banks in Hong Kong totalled RMB7.1 trillion in 2021.

With a multitude of cross-boundary investment channels, including the Stock Connect and Bond Connect schemes, Hong Kong offers an efficient and investor-friendly RMB financial platform for global investors to conduct investment in the bond and equity markets in the Mainland. These schemes also enable Mainland investors to conduct financial investments in Hong Kong and overseas markets.

The Ministry of Finance has issued RMB sovereign bonds in Hong Kong since 2009, including RMB20 billion of bonds in 2021. The People's Bank of China first issued RMB bills in Hong Kong in 2018 and has since enriched the city's spectrum of RMB financial products, thereby promoting RMB internationalisation. In 2021, RMB120 billion of bills were issued. The Shenzhen Municipal People's Government issued offshore RMB municipal government bonds in Hong Kong totalling RMB5 billion in October, the first time a Mainland municipal government had issued bonds outside the Mainland.

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

Stock Connect

Under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, international investors can trade in over 590 shares and over 890 shares listed on the Shanghai and Shenzhen stock exchanges respectively. Mainland investors also get to choose from over 520 Hong Kong-listed stocks.

From 1 February, the Shanghai Stock Exchange's (SSE) Sci-Tech Innovation Board listed shares that are constituent stocks of the SSE 180 Index and SSE 380 Index or have corresponding H-shares listing in Hong Kong for A+H companies became eligible for northbound trading under Shanghai-Hong Kong Stock Connect.

Bond Connect

In 2021, average daily turnover of northbound Bond Connect reached RMB26.6 billion, up 34.2 per cent from 2020. Multiple enhancements were made to the channel, including a third trading platform, a system to support investor's foreign exchange risk management needs, a dealer-pay model, and a web-based portal for investor onboarding and third-party foreign exchange information registration.

Southbound Bond Connect was launched in September to provide a convenient, efficient and secure channel for Mainland institutional investors to invest in offshore bonds through the Hong Kong bond market.

Guangdong-Hong Kong-Macao Greater Bay Area

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.

In September, the Cross-boundary Wealth Management Connect in the Guangdong-Hong Kong-Macao Greater Bay Area was launched. As the first connect scheme solely designed for retail investors, it enables eligible Mainland, Hong Kong and Macao residents in the GBA to invest in wealth management products distributed by banks in each other's market. Since October, eligible banks in Hong Kong have started providing these services together with their Mainland partner banks. As of end-December, over 22,000 investors had opened accounts, and over 5,000 cross-boundary remittances amounting to over RMB400 million had been completed.

Belt and Road Initiative and International Cooperation

Asian Infrastructure Investment Bank and Asian Development Bank

Hong Kong participates 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 the city contributes to the ADB's efforts in bridging the financing gap in the region. In 2021, the city's capital markets raised the equivalent of some US$0.93 billion under the ADB's Global Medium Term Note Programme.

HKMA Infrastructure Financing Facilitation Office

The HKMA Infrastructure Financing Facilitation Office (IFFO) serves as an important financing platform to infrastructure investors, thereby raising Hong Kong's international profile as an infrastructure and green finance centre. The IFFO now has 95 stakeholders from the Mainland, Hong Kong and overseas joining as partners. They include project developers or operators, commercial and investment banks, multilateral development financial institutions, asset owners and managers and professional service firms.

Belt and Road Insurance Exchange Facilitation

The IA's Belt and Road Insurance Exchange Facilitation 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. By end-2021, 43 insurers, reinsurers, captive insurers, insurance brokers, industry associations, loss adjustors and law firms had joined as members.

Financial Technology

With the joint efforts of the government, financial regulators and industry players, the local 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, the Financial Services and Treasury Bureau, together with Invest Hong Kong, organised the sixth Hong Kong Fintech Week, held in a hybrid format of physical events and virtual programmes for the first time. It attracted over 20,000 attendees and 4 million views from around the world, resulting in thousands of business contacts.

HKMA Fintech Initiatives

The HKMA unveiled its Fintech 2025 strategy in June, aiming to encourage the financial sector to adopt technology comprehensively by 2025, as well as to promote the provision of fair and efficient financial services for the benefit of Hong Kong citizens and economy.

On wholesale central bank digital currency (CBDC), the HKMA and the Bank of Thailand expanded in February the scope of their joint research project, named Multiple Central Bank Digital Currency Bridge, with the joining of two additional jurisdictions, the Central Bank of the United Arab Emirates and the Digital Currency Institute of the People's Bank of China. The project further explores the capabilities of distributed ledger technology to facilitate real-time cross-boundary payments across jurisdictions and on a 24/7 basis. The potential use cases and future roadmap were published in November.

On retail CBDC, the HKMA has embarked on Project Aurum with the Bank for International Settlements Innovation Hub Centre in Hong Kong to explore the technical aspect of issuing retail CBDC. Internally, the HKMA has set up a cross-departmental task force to study e-HKD from both the technical and policy perspectives. A technical whitepaper was released in October.

The HKMA has completed two phases of a proof-of-concept study exploring the technical feasibility of the Commercial Data Interchange (CDI). More than 550 small and medium enterprise loans amounting to over $900 million were approved by participating banks during the study. The CDI entered the pilot launch stage in November.

The HKMA continues to facilitate the banking sector's development and adoption of open application programming interface (open API) according to the four-phase approach of the Open API Framework. Banks provide innovative services using open APIs of Phases I and II (product information and customer acquisition) and started implementing the initial batch of Phases III and IV API functions (account information and transactions) from December.

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 2021, 184 students benefited from the scheme.

The Industry Project Masters Network scheme was piloted in September to provide opportunities to master's degree students majoring in fintech to work on real-life fintech projects.

On the supervisory front, pilot trials of 41 fintech initiatives were allowed in the Fintech Supervisory Sandbox (FSS) in 2021, bringing the cumulative total number of these pilot trials to 234 since its launch in 2016. The HKMA also received 133 requests to access the Fintech Supervisory Chatroom in 2021, bringing the cumulative total number of these requests to 666 since its launch in 2017. The HKMA enhanced its FSS in November to provide funding support for eligible projects.

In 2021, eight virtual banks offered services to the public.

SFC Fintech Initiatives

The SFC, through its Fintech Contact Point, enhances communication with businesses involved in the development and application of fintech, which intend to conduct regulated activities in Hong Kong. This includes handling enquiries about operating fintech businesses, such as robo-advising, virtual asset trading platforms and the application of blockchain in delivering financial services and products.

In July, the SFC issued a statement on unregulated virtual asset platforms warning investors of the risks of trading on these platforms.

The SFC maintains close contact with overseas regulators to keep up with fintech trends and market intelligence. In June, the SFC entered into an agreement with eight members of the Canadian Securities Administrators to establish a fintech cooperation framework. Fintech cooperation agreements are also in place with counterparts in Abu Dhabi, Australia, Dubai, Israel, Malaysia, Switzerland and the UK. The SFC participates in fintech-related policy discussions as members of the International Organisation of Securities Commissions and the Global Financial Innovation Network.

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 Fast Track, a scheme which authorises applicants to own and operate solely digital distribution channels.

The IA has entered into fintech cooperation agreements with regulatory bodies in Dubai, Gibraltar, Macao, the Mainland and the UK. It is also in regular dialogue with regulators in the Global Financial Innovation Network and IAIS for fintech matters.

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.

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 six reports and consultation responses in 2021, 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 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, 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 fintech was launched, in addition to the seven existing modules covering private wealth management, anti-money laundering and counter-terrorist financing, cybersecurity, treasury management, retail wealth management, credit risk management and operational 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. The event in 2021 was held in a virtual format for the first time and attracted over 7,000 participants from more than 70 jurisdictions.

Company Registration

The Companies Registry 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

	2019	2020	2021
New local companies	124,741	99,405	110,840
Local companies on the register	1,380,185	1,387,919	1,375,172
New non-Hong Kong companies	2,000	1,757	1,316
Non-Hong Kong companies on the register	12,494	13,752	14,348

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, 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

	2019	2020	2021
Bankruptcy orders	7,762	6,685	7,105
Interim orders in IVAs	587	500	230
Winding-up orders	244	234	299

Resolution Regime for Financial Institutions

The Financial Institutions (Resolution) Ordinance establishes a cross-sectoral resolution regime for financial institutions in Hong Kong. The International Monetary Fund noted in its most recent Financial System Stability Assessment with Hong Kong SAR in June that crisis management arrangements had been significantly strengthened by the introduction of a comprehensive resolution regime under the ordinance in 2017.

The resolution authorities are operationalising the cross-sectoral resolution regime for financial institutions in Hong Kong. On 27 August, rules came into effect to reduce the risk of disorderly termination of contracts in resolution on a mass scale, thereby strengthening the resilience and stability of the financial system.

The resolution authorities conduct resolution planning and develop standards for financial institutions to ensure orderly and efficient resolution in the case of an institution being non-viable.

Professional Accountancy

Regulatory Regime for the Accounting Profession

The professional accountancy sector is mainly registered and regulated by the Hong Kong Institute of Certified Public Accountants (HKICPA) except for the regulation of Public Interest Entities auditors which is under the remit of the Financial Reporting Council. An amendment bill passed on 22 October will transfer major regulatory functions in relation to certified public accountants (CPAs) and practices to the council, developing it into an independent regulatory body for the accounting profession.

Statistics on CPAs, CPA Firms and Corporate Practices

	2019	2020	2021
Total number of CPAs	44,794	46,562	47,331
Number of practising CPAs	4,991	5,093	5,172
Number of practising CPA firms	1,270	1,282	1,264
Number of corporate practices	611	647	668

The HKICPA's issuance of the Hong Kong Financial Reporting Standards, which apply the International Financial Reporting Standards, 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.fsdc.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.mpfa.org.hk
Official Receiver's Office: www.oro.gov.hk
Securities and Futures Commission: www.sfc.hk