

## Chapter 11

# Financial Services and the Treasury

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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 Central People's Government has been providing strong support to the development of Hong Kong's financial services industry. Mutual access between the Hong Kong and Mainland financial markets has been expanding with more schemes and products. From July 2022, the trading of exchange-traded funds was included under Stock Connect, further broadening the asset class covered by the mutual access programme. In September, the 18 Measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai were promulgated, providing preferential policies for the Hong Kong venture capital and private equity sectors to facilitate their cross-boundary business development.

The Hong Kong Exchanges and Clearing Limited introduced reforms in January to enhance the listing regime for overseas issuers and launched a new regime for special purpose acquisition companies, broadening the channels for enterprises to raise funds in Hong Kong and enhancing the competitiveness of the listing platform.

On green and sustainable finance, the government issued its inaugural retail green bond, totalling \$20 billion, in May. It was the largest retail green bond issuance across the globe at that time.

The government also attaches great importance to the development of virtual assets. It issued in October the Policy Statement on Development of Virtual Assets in Hong Kong, setting out its policy stance and approach towards developing a vibrant ecosystem for virtual assets. In a related development, legislative amendments were passed in December to establish a comprehensive regulatory framework for virtual asset exchange activities, which requires anyone engaging in such activities to obtain a licence. It aims to implement international requirements on anti-money laundering and counter-terrorist financing while ensuring the protection of investors.

The Development Roadmap for the Insurance Sector was published in December, outlining targeted policy measures aiming to consolidate Hong Kong's status as a global risk management centre and sophisticated insurance hub.

The government hosted several international financial events that demonstrated the global financial sector's commitment to Hong Kong. The Asian Financial Forum, co-organised by the Financial Services and the Treasury Bureau and the Hong Kong Trade Development Council in January, attracted participants from more than 80 countries and regions. The Hong Kong Monetary Authority organised the Global Financial Leaders' Investment Summit in November, the largest gathering of international financial leaders in Hong Kong since the COVID-19 outbreak.

On international tax cooperation, the government put in place in December a new foreign-sourced income exemption regime, to take effect in January 2023, under which multinational enterprises need to have adequate economic substance in Hong Kong for claiming tax exemption for foreign-sourced passive income received in the city.

## 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 enjoys support from the country and benefits from participating in the development of the Mainland market. The National 14th Five-Year Plan affirms the significant functions and positioning of Hong Kong in the overall development of the country, and supports Hong Kong to enhance its status as an international financial centre and 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 the bridge between the Mainland and the world.

Hong Kong's status as an international financial centre is also underpinned by its 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, diverse financial products and services, strong emphasis on investor protection, a well-educated and highly efficient workforce, ease of entry for non-local professionals, and effective and transparent financial regulations aligned with international standards.

Despite the challenging global financial environment, an assessment report published by the International Monetary Fund (IMF) in March reaffirmed Hong Kong's position as a major global financial centre with a resilient financial system, sound macroprudential policies, and robust regulatory and supervisory frameworks. The IMF also noted that Hong Kong's financial system has continued expanding even during the pandemic.

To strengthen its competitiveness in financial services, Hong Kong improves the regulatory framework, promotes market development and the application of financial technology (fintech) to increase productivity, enhances financial inclusion and drives green and sustainable development. The city will continue to make 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 (GBA) development and the Belt and Road Initiative.

## Hong Kong as China's Global Financial Centre

With the continued internationalisation of the Renminbi (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 about 75 per cent of global offshore RMB payments in recent years<sup>1</sup>. In 2022, Hong Kong's RMB real-time gross settlement system recorded RMB1,654 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 RMB981.7 billion, while RMB bank lending and outstanding RMB bonds stood at RMB191.7 billion and RMB392.3 billion respectively. RMB trade settlement handled by banks in Hong Kong totalled RMB9.3 trillion in 2022.

Hong Kong continued to be the largest offshore RMB foreign exchange market, with the average daily turnover of RMB foreign exchange transactions growing by 77.7 per cent to US\$191.2 billion in April 2022 from US\$107.6 billion in April 2019.

With the growing suite of mutual market access schemes between Hong Kong and the Mainland, including the Stock Connect, Bond Connect, Cross-boundary Wealth Management Connect and Swap Connect, Hong Kong offers an efficient and investor-friendly RMB financial platform for global and Mainland investors.

The Ministry of Finance has issued RMB sovereign bonds in Hong Kong since 2009, including RMB23 billion of bonds in 2022. 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 2022, RMB120 billion of bills were issued. During the year, the People's Government of Hainan Province and the Shenzhen Municipal People's Government issued offshore RMB local government bonds in Hong Kong, each amounting to RMB5 billion.

To facilitate bond issuance in Hong Kong by Mainland local people's governments, the government commenced legislative work in 2022 to extend profits tax exemption to cover debt instruments issued in Hong Kong by local people's governments at all levels in the Mainland.

### **Currency Swap Agreement**

In 2022, the People's Bank of China and the Hong Kong Monetary Authority (HKMA) enhanced the currency swap agreement, established in 2009 by the two parties to provide short-term liquidity support to the Mainland operations of Hong Kong banks and the Hong Kong operations of Mainland banks in case of need, to become a long-standing arrangement with no need for renewal. Its size was also expanded to RMB800 billion/HK\$940 billion, making it the largest bilateral RMB swap agreement of any jurisdiction. Leveraging this, the HKMA streamlined the operation and increased the size of the RMB Liquidity Facility, which addresses potential short-term liquidity tightness in the offshore RMB market to support the continued development of Hong Kong's offshore RMB market.

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<sup>1</sup> Figures are quoted from the Society for Worldwide Interbank Financial Telecommunication.

### **Stock Connect**

As of end-2022, under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, international investors can trade in over 590 and about 900 shares listed on the Shanghai and Shenzhen stock exchanges respectively. Mainland investors can also choose from about 550 Hong Kong-listed securities.

The trading of exchange-traded funds (ETFs) under Stock Connect began on 4 July. As of the year end, five Hong Kong ETFs were eligible for southbound trading and 83 Mainland ETFs were eligible for northbound trading, and the southbound and northbound trading had accumulated turnovers of HK\$108.9 billion and RMB8.1 billion respectively.

### **Bond Connect**

Bond Connect is an initiative for mutual access between the Hong Kong and Mainland bond markets through a cross-boundary platform, with northbound trading and southbound trading launched in 2017 and 2021 respectively. In 2022, the average daily turnover of northbound Bond Connect reached RMB32.2 billion, up 21 per cent from 2021.

Southbound Bond Connect operations have been smooth since its launch, with transactions covering major bond products tradeable in the Hong Kong market and denominated in multiple currencies.

Technical enhancements were introduced in July, including the digitalisation of investors' participation in onshore primary issuance and reduction in service fees, improving operational efficiency and lowering trading costs for investors.

### **Swap Connect**

In July, the Securities and Futures Commission (SFC), HKMA and People's Bank of China jointly announced the development of Swap Connect to extend mutual access arrangements to the realm of financial derivatives products, providing a more comprehensive product suite for investors.

### **Further Mutual Access Between Financial Markets**

During the year, the China Securities Regulatory Commission (CSRC) announced that it will take forward three initiatives that carry significance for Hong Kong's financial markets. The commission will expand the scope of eligible securities under Stock Connect by including securities of overseas enterprises that are primary listed in Hong Kong and more companies listed on the Shanghai and Shenzhen stock exchanges; study the proposal of setting up an RMB securities trading counter under southbound Stock Connect; and support the issuance of Mainland government bond futures in Hong Kong.

The SFC and the CSRC also announced their in-principle approval for the expansion scope of eligible stocks for both northbound and southbound trading under Stock Connect, as well as enhancements to the Stock Connect trading calendar.

## **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.

The Cross-boundary Wealth Management Connect, launched in 2021, enables Mainland, Hong Kong and Macao residents in the GBA to invest in wealth management products distributed by banks in each other's markets. As of end-2022, more than 40,000 investors had participated in the scheme and more than 16,000 cross-boundary remittances amounting to over RMB2.2 billion had been completed.

## **Financial Regulators**

### ***Hong Kong Monetary Authority***

The HKMA maintains currency stability within the framework of the Linked Exchange Rate System; promotes stability and integrity of the financial system, including the banking system; helps maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure; and manages the Exchange Fund.

The HKMA is an integral part of the government, but operates with a high degree of autonomy complemented by a high degree of accountability and transparency. It is accountable to the Financial Secretary, who is advised by the Exchange Fund Advisory Committee (EFAC) in exercising control of the Exchange Fund.

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

### ***Securities and Futures Commission***

The SFC is the statutory regulator of Hong Kong's securities and futures markets. It works with local and Mainland authorities to support Hong Kong's long-term strategic development 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.

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

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

### **Insurance Authority**

The Insurance Authority (IA) is an independent statutory regulator of 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 2021, is a wholly owned subsidiary of the authority. It is responsible for the design, development and operation of the eMPF Platform, which provides common and one-stop electronic MPF scheme administration services to about 4.7 million scheme members and over 340,000 employers.

### **Accounting and Financial Reporting Council**

The Accounting and Financial Reporting Council is a fully fledged independent regulator of the accounting profession. Since the commencement of the accounting profession's new regulatory regime on 1 October 2022, the council has been vested with the full range of regulatory functions to issue practising certificates to certified public accountants; register practice units; register and recognise listed entities auditors; and deal with inspection, investigation and discipline of the accounting profession. It is also tasked to promote the development of the accounting profession and oversee the performance of statutory functions of the Hong Kong Institute of Certified Public Accountants.

### **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 foreign exchange 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<sup>2</sup> 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.

The EFAC's 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 2022. Amid US monetary policy tightening, the HKD softened and stayed close to the weak-side Convertibility Undertaking between May and November, with the weak-side Convertibility Undertaking triggered 41 times. The HKD regained momentum from mid-November, owing to stronger local equity market activities and seasonal year-end funding demand. The monetary base as a whole remained fully backed by foreign exchange reserves.

The HKD money market also remained stable and traded in a smooth and orderly manner. Following the increases in the target range for the US federal funds rate, the base rate was adjusted upwards seven times by a total of 4.25 percentage points (425 basis points) from 0.5 per cent to 4.75 per cent. On the retail front, many banks raised their best lending rates three times, or by 62.5 basis points in total, in late 2022.

## 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

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<sup>2</sup> Aggregate balance is the sum of the balances of the clearing accounts kept with the HKMA.



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.

At the end of 2022, the Exchange Fund had total assets of \$4,008 billion and an accumulated surplus of \$556.4 billion<sup>3</sup>.

## 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<sup>4</sup>, according to the *Bank for International Settlements Locational Banking Statistics*.

International financial institutions maintain a strong presence in Hong Kong. At the year end, 146 of the 155 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)<sup>5</sup>. They are known collectively as authorised institutions (AIs) under the Banking Ordinance and are supervised by the HKMA.

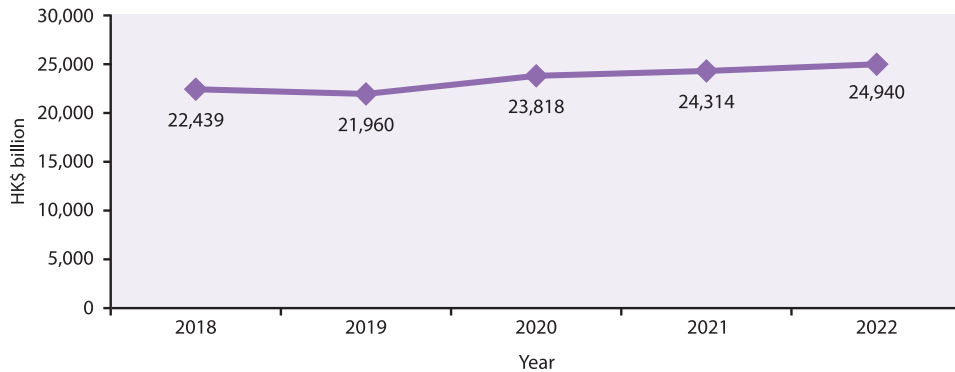
<sup>3</sup> Foreign currency asset figures have been published monthly since January 1997 to demonstrate the government's continued commitment to greater openness and transparency. An abridged balance sheet of the Exchange Fund and a set of currency board accounts are also published monthly.

<sup>4</sup> 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.

<sup>5</sup> Only LBs may conduct full banking services, including the provision of current and savings accounts and acceptance of deposits of any size and maturity. RLBs may take deposits of any maturity of \$500,000 or above. DTCs may take deposits of \$100,000 or above with an original maturity of at least three months.

Chart 1

## External Positions of AIs



The city has one of the world's highest concentrations of banking institutions. As at end-2022, there were 182 AIs (155 LBs, 15 RLBs and 12 DTCs). There were also 37 representative offices of banks incorporated outside Hong Kong.

Total deposits and total loans and advances of AIs amounted to \$15,439.1 billion and \$10,570.6 billion respectively, representing an increase of 1.7 per cent and a decrease of 3 per cent respectively from a year earlier. Total assets rose 2.5 per cent to \$27,029 billion.

## Statistics on AIs

	2020	2021	2022
AIs	190	188	182
Of which:			
LBs	161	160	155
RLBs	17	16	15
DTCs	12	12	12
Total deposits (\$ billion)	14,513.6	15,186.2	15,439.1
Total loans and advances (\$ billion)	10,498.6	10,896.7	10,570.6
Total assets (\$ billion)	25,864.9	26,366.9	27,029

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. In September, the HKMA lowered the stress testing requirement for property mortgage lending taking into account factors including the prevailing interest rate environment, and the trend and long-term historical average of mortgage rates.

### *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 operation 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 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<sup>6</sup>. The USD, euro and RMB RTGS systems enable transactions in these currencies to be settled in real time among banks. All four RTGS systems are linked to enable foreign exchange 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 has supported the settlement and custody of CMU securities conducted in the southbound trading of Bond Connect since the service was rolled out in 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

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

licensees under a risk-based approach and oversees the six RPSs designated in accordance with the ordinance.

### Faster Payment System

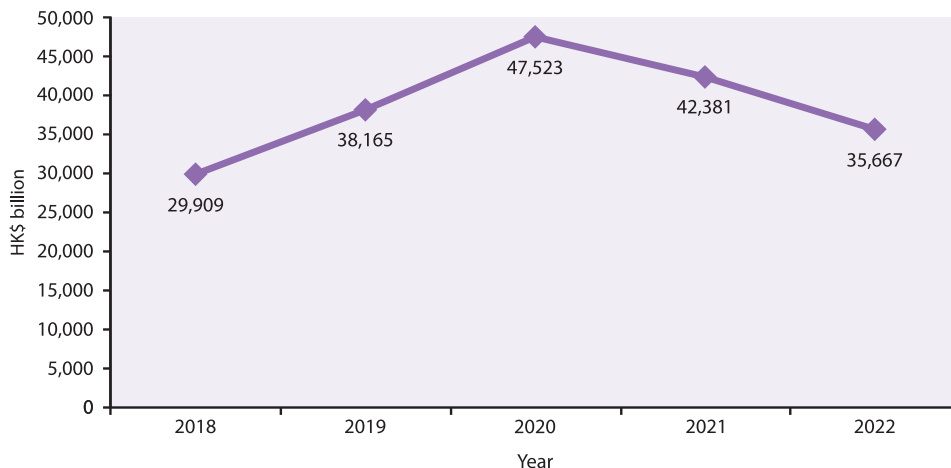
The adoption and turnover of the Faster Payment System (FPS) has been growing since its launch in 2018, recording 11.48 million registrations by end-2022. The average daily turnover in 2022 increased by 40 per cent from 2021 to 941,000 real-time transactions. The increased use of FPS for settling government 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 from bill payments to designated counters, self-help kiosks, parking meters and other online payments.

## Fund-raising Centre

### Securities and Futures Markets

Hong Kong's securities market is operated by the Stock Exchange of Hong Kong Limited (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 \$35.7 trillion as at end-2022, seventh in the world and fourth in Asia, and equivalent to around 13 times Hong Kong's Gross Domestic Product. At the year end, 2,597 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. As of end-2022, 1,409 Mainland enterprises were listed on the SEHK, raising \$8.2 trillion from the Hong Kong market since 1993. Funds raised by Mainland companies represented 92 per cent of initial public offering (IPO) equity funds raised in 2022. Apart from Hong Kong and Mainland companies, four companies from Italy, Macao, Malaysia and Singapore were newly listed on the SEHK in 2022.

Hong Kong is a major global listing platform for companies from different jurisdictions. Hong Kong's IPOs in 2022 raised about \$104.6 billion, fourth in the world and third in Asia. There were 90 new listings during the year, including one listing transfer 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 \$149.5 billion was raised on the secondary market, bringing the total equity funds raised to about \$254.1 billion. The securities market's total turnover amounted to \$30.7 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, 25.3 per cent of the 598 SEHK trading participants and 54.9 per cent of the 175 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 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, RMB and USD increase flexibility in settlement and trading. During the year, 25 new ETFs were listed, bringing the total number of SEHK-listed ETFs to 145. Turnover of ETFs was \$2.42 trillion.

#### *Statistics on Securities Market (Main Board and GEM)*

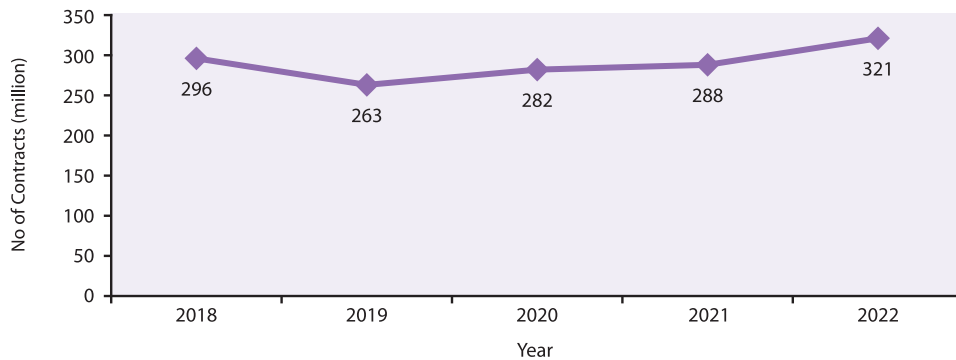
	2020	2021	2022
Number of listed companies (year end)	2,538	2,572	2,597
Total market capitalisation (year end)(\$ billion)	47,523	42,381	35,667
Total equity funds raised (\$10 billion)	75	77	25
Total securities market turnover (\$ billion)	32,110	41,182	30,727
Total number of shares traded (billion)	54,716	62,259	57,299
Number of derivatives warrants (DWs) listed (year end)	7,507	9,464	6,731
Turnover of DWs (\$ billion)	2,261	2,763	1,973
Number of callable bull/bear contracts (CBBCs) listed (year end)	4,739	4,817	3,979
Turnover of CBBCs (\$ billion)	2,335	2,192	1,943
Number of ETFs listed (year end)	118	127	145
Turnover of ETFs (\$ billion)	1,215	1,630	2,415

Total turnover of derivatives contracts in 2022 was 320.59 million. Open interest at the year end was about 10.9 million contracts. The Hang Seng Tech Index Futures Options was launched in November.

*Statistics on Derivatives Market Turnover (million contracts)*

	2020	2021	2022
All options and futures contracts	282	288	321
Of which:			
Hang Seng Index Futures	42	34	37
Hang Seng China Enterprises Index Futures	36	32	45
Hang Seng Index Options	10	7	6
Hang Seng China Enterprises Index Options	21	11	11
Stock Options	131	158	145

**Chart 3** HKFE Turnover of Derivatives



As of end-2022, there were 48,567 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 51 SFC-authorized automated trading service providers. Most were overseas exchanges and clearing houses that provided electronic services to process transactions in securities and futures contracts and to clear OTC derivatives.

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

	2020	2021	2022
Licensed entities	47,105	48,546	48,567
Of which:			
Licensed corporations	3,122	3,210	3,253
Licensed individuals	43,983	45,336	45,314
Registered institutions	112	111	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, 86 companies were listed successfully on the SEHK under the regime.

### *Listing Regime for Overseas Issuers*

The HKEX reforms to enhance the listing regime for overseas issuers to list in Hong Kong took effect in January. Measures include allowing overseas-listed Greater China companies from traditional sectors without weighted voting rights structures to seek listing, and providing greater flexibility for issuers seeking dual-primary listings while retaining their existing weighted voting rights structures and variable interest entity structures. These measures are conducive to attracting quality China Concepts Stock to return while balancing the risks involved and investor protection.

### *Special Purpose Acquisition Companies Listing Regime*

In January, the HKEX launched a listing regime for Special Purpose Acquisition Companies (SPACs), which raise funds through an IPO for the purpose of acquiring a business within a pre-defined time period after listing. As of end-2022, five SPACs were listed on the SEHK.

### *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. During the year, reporting templates for OTC derivatives were enhanced to keep the OTC derivatives reporting regime relevant and 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 2022, 134.2 million lots were traded at the LME, equating to US\$15.2 trillion and 3.1 billion tonnes notional with a market open interest high of 1.8 million lots.

### *Other Developments*

During the year, the SFC concluded a consultation on the framework of a new regulated activity for depositaries of SFC-authorized collective investment schemes and conducted a further consultation on proposed legislative and code amendments to implement such schemes.

To help maintain the market's financial stability, the SFC also concluded a consultation on changes to the position limit regime and conducted another on additional amendments related to the application of position limits and reporting requirements to funds.

The SFC takes disciplinary action to maintain market integrity. Of the SFC licensees disciplined in the year, 14 were individuals and 15 were corporations. Fines totalled \$404.5 million.

During the year, the SFC stepped up its cooperation with local and overseas law enforcement agencies, including the Hong Kong Police Force and the Independent Commission Against Corruption, and conducted joint operations against suspected ramp-and-dump schemes involving the stocks of Hong Kong-listed companies.

The SFC and the Securities Commission Malaysia jointly hosted the Asia Pacific Takeovers Regulators Conference 2022, bringing together over 50 securities regulators to discuss recent developments in the regulation of takeovers activities.

### *Bond Market*

Hong Kong is a major bond market in Asia. Outstanding HKD debt securities, including EFBNs, totalled \$2,531.9 billion at the end of 2022. According to the International Capital Market Association, Hong Kong is the largest centre for arranging bonds issued internationally by Asia-based entities, capturing 30 per cent (or US\$103.6 billion) of the market in 2022. The government pursues bond market development through three strategies:

- building market infrastructure, such as the CMU, 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*

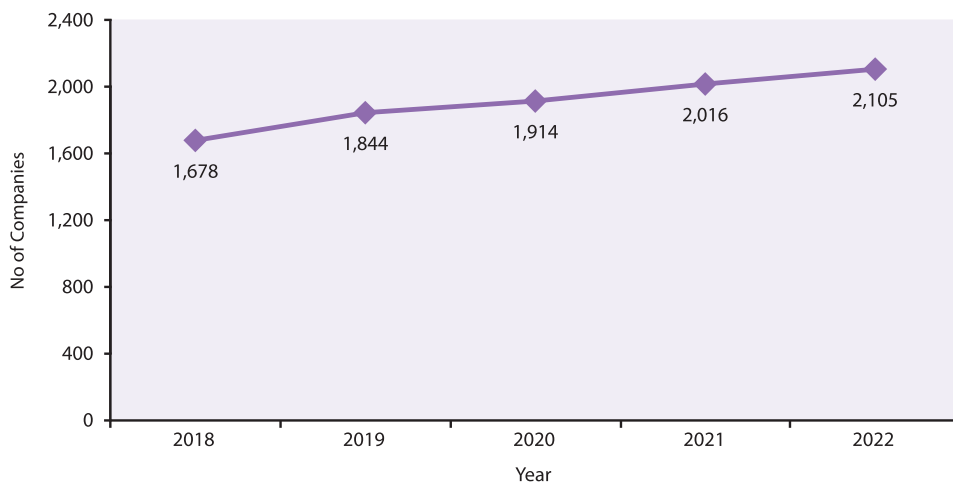
The Steering Committee on Bond Market Development in Hong Kong chaired by the Financial Secretary released its report in August, putting forward strategic directions and recommendations to further promote bond market development in the city.



## 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 2022, Hong Kong's asset and wealth management business was valued at \$30,541 billion, of which 64 per cent<sup>7</sup> came from non-Hong Kong investors<sup>8</sup>. At end-2022, 2,105 companies were licensed by or registered with the SFC to carry out asset management business locally, up 4.4 per cent from end-2021. There were 2,878 SFC-authorized unit trusts and mutual funds<sup>9</sup>, of which 911 were domiciled in Hong Kong, up 21 per cent from five years ago.

**Chart 4** Number of Asset Management Companies



The government has made various efforts to enhance Hong Kong's competitiveness in this area, including diversifying fund structures, providing a more facilitating tax environment, expanding the fund distribution network, promoting the real estate investment trust market, and fostering the development of Hong Kong's family office business.

### Linked Development of Shenzhen and Hong Kong Venture Capital Investments

In September, the bureau and the Shenzhen Qianhai Authority jointly promulgated '18 Measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai' to provide facilitation and preferential policies for the Hong Kong private equity industry. The measures will promote cooperation on innovation and technology between the two cities and leverage finance to foster the development of an international innovation and technology hub in the GBA.

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

<sup>8</sup> Figures are quoted from the Asset and Wealth Management Activities Survey for 2022.

<sup>9</sup> These included 111 approved pooled investment funds offered both as retail unit trusts and for MPF purposes.

### **Exchange-traded Products**

As of end-2022, 172 SFC-authorised exchange-traded products were listed on the SEHK, with a total market capitalisation of \$384 billion<sup>10</sup> and an average daily turnover of \$11.9 billion in the year. In October, the SFC set out requirements for authorising ETFs which obtain exposure to virtual assets through futures. It subsequently authorised the first two virtual assets futures ETFs in Hong Kong, which were listed on the SEHK in December.

### **Family Office**

The government promotes the development of family office business in Hong Kong. It has set up a dedicated team under Invest Hong Kong to offer one-stop support services to family offices interested in establishing a presence in the city. In December, legislative amendments were introduced to provide tax concessions for eligible family-owned investment holding vehicles managed by single family offices.

### **Open-ended Fund Companies**

As of end-2022, the SFC registered 112 open-ended fund companies (OFCs), representing a year-on-year increase of 133 per cent and a sevenfold growth since the launch of a grant scheme in May 2021 to subsidise OFCs setting up in Hong Kong.

### **Limited Partnership Fund Regime**

The limited partnership fund (LPF) regime enables funds to be registered in the form of limited partnerships in Hong Kong. As of end-2022, a total of 577 LPFs have been registered.

### **Tax Concession for Carried Interest**

To attract more private equity funds to domicile and operate in Hong Kong, 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' Redomiciliation to Hong Kong**

Fund redomiciliation mechanisms under the OFC and LPF regimes began operation in November 2021, under which foreign funds can redomicile to Hong Kong as an OFC or LPF.

### **Mutual Recognition of Funds**

The SFC has established mutual recognition of funds (MRF) arrangements with a number of regulators. As at end-2022, 84 funds had been authorised under the Mainland-Hong Kong MRF arrangement, enabling cumulative net sales of more than RMB 12.6 billion.

### **Green and Sustainable Finance**

The government has been working with the financial regulators, the HKEX and the industry to promote the development of green and sustainable finance, aiming to contribute to achieving

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<sup>10</sup> Market capitalisation statistics exclude SPDR Gold Trust.

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**

In May, the government issued an inaugural retail green bond of \$20 billion, which was the world's largest retail green bond at issuance, broadening the city's variety of green and sustainable financial products. The Green Bond Report 2022 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, works to advance Hong Kong's green and sustainable finance development, focusing on climate-related disclosures and sustainability reporting, taxonomy, carbon market opportunities and capacity building.

During the year, the group launched three repositories to facilitate public access to capacity building information and climate and sustainability data. It also introduced the Sustainable Finance Internship Initiative to encourage more internship opportunities for students.

The group announced in December that it would work with the environmental organisation CDP to enhance data availability and sustainability reporting in Hong Kong. A climate and environmental risk questionnaire for non-listed companies and small and medium enterprises (SMEs) was released as part of the collaboration.

In March, the group published the *Preliminary Feasibility Assessment of Carbon Market Opportunities for Hong Kong* to support the city's development into a regional carbon trading centre. Subsequently, the HKEX launched an international carbon marketplace, Core Climate, in October, offering HKD and RMB settlement for the trading of international voluntary carbon credits.

### **Pilot Green and Sustainable Finance Capacity Building Support Scheme**

The government launched the three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme in December for market practitioners and related professionals, as well as students and graduates of relevant disciplines. After completing eligible programmes or accomplishing relevant qualifications, applicants can apply for a subsidy of up to \$10,000.

### **Green and Sustainable Finance Grant Scheme**

The Green and Sustainable Finance Grant Scheme was launched in 2021 to attract more green and sustainable financing activities to Hong Kong by covering part of the expenses on bond issuances and external review services. Since March 2022, the government has lowered the minimum loan size threshold from \$200 million to \$100 million in respect of applications for subsidies for covering external review costs under the scheme, with a view to supporting more enterprises in obtaining green financing. As of end-2022, grants had been approved to over 180 green and sustainable debt instruments issued in Hong Kong.

## Other Developments

The SFC published its *Agenda for Green and Sustainable Finance* in August, focusing on corporate disclosures, asset management, carbon markets and environmental, social and governance (ESG) funds to consolidate Hong Kong's role as a regional and international sustainable finance centre.

New requirements took full effect in November for fund managers managing collective investment schemes to take climate-related risks into consideration in their governance, investment and risk management processes and make related disclosures. As of end-2022, there were 177 SFC-authorized ESG funds, including nine ETFs, with total management assets of US\$142 billion, representing a year-on-year increase of 86 per cent and 8 per cent respectively.

In March, the Sustainable Finance Task Force of the International Organisation of Securities Commissions, of which the SFC is the vice-chair, announced its 2022 work plan, with a major focus on promoting globally aligned sustainability disclosures.

Since June, five of the world's leading financial institutions, namely Bank of China (Hong Kong), Citi, Crédit Agricole CIB, HSBC and Standard Chartered, have become cornerstone members of the Alliance for Green Commercial Banks, co-launched by the HKMA and the International Finance Corporation in 2020. The alliance has been hosting training and roundtable sessions since March 2021, reaching over 6,000 participants globally.

## Insurance

Hong Kong is among the world's most open insurance centres, with one of the highest insurance densities in the world. At end-2022, 66 of the 164 authorized insurers operating in the city were from other jurisdictions, and 12 of the world's top 20 insurers were authorized to conduct business in Hong Kong. The city had 17 professional reinsurers, including most of the world's top reinsurers.

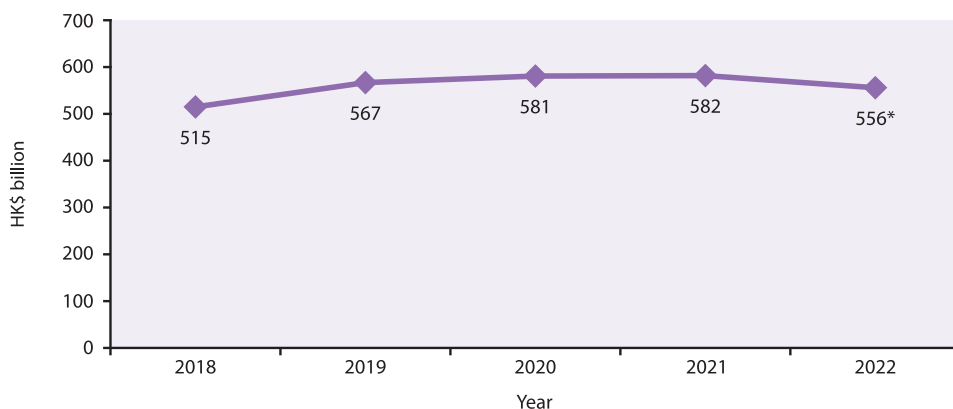
During the past five years, Hong Kong's insurance industry grew 2.6 per cent on average annually. In 2022, gross premiums amounted to \$556 billion\*. The total revenue premiums of in-force long-term business amounted to \$491.4 billion\*. Individual life and annuity insurance remained the leading business, accounting for \$440.9 billion\*, or 89.7 per cent\* of total revenue premiums, with 15.1 million\* corresponding policies.

General insurance business rose to \$64.6 billion\*. The overall underwriting performance of general insurance business increased from \$2 billion\* to \$4.2 billion\*.

At end-2022, there were 118,610 licensed insurance intermediaries, comprising 80,873 licensed individual insurance agents, 24,279 licensed technical representatives who were agents, 10,903 licensed technical representatives who were brokers, 1,736 licensed insurance agencies and 819 licensed insurance broker companies.

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\* Provisional statistics

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

\* Provisional statistics

#### Statistics on Insurance Business

	2020	2021	2022
Number of authorised insurers	164	164	164
Of which:			
Incorporated in Hong Kong	95	97	98
Incorporated in the Mainland or overseas	69	67	66
Premium income (\$ billion)	581.3	581.7	556*
Total gross premiums			
Of which:			
Long-term in-force business (office/revenue premiums)	521.5 <sup>^</sup>	520.1 <sup>^</sup>	491.4 <sup>*#</sup>
General insurance (gross premiums)	59.9	61.6	64.6*

\* Provisional statistics

<sup>^</sup> Office premiums

<sup>#</sup> Revenue premiums

#### Development Roadmap for the Insurance Sector

The government issued the Development Roadmap for the Insurance Sector in Hong Kong in December, outlining visions and missions to facilitate the industry's growth and integration into national development riding on the dual circulation strategy. The roadmap also highlights targeted policy measures to consolidate Hong Kong's status as a global risk management centre and sophisticated insurance hub, while bridging protection gaps and promoting financial inclusion in society.

#### Market Development Initiatives

##### Insurance-linked Securities

The bespoke regulatory regime for insurance-linked securities (ILS) and the Pilot ILS Grant Scheme inject impetus to the ILS market. The second and third ILS were issued in June and

December in the form of catastrophe bonds, respectively offering protection against losses inflicted by typhoons and earthquakes.

### *Protection Linked Plan*

The IA ushered in the Protection Linked Plan in 2021, a new category of investment-linked assurance scheme products, providing a higher mortality protection element, simple and transparent fee structure and confined fund choices, with a view to narrowing the protection gap while taking investment opportunities at different life stages.

### *Regulatory Initiatives*

#### *Risk-based Capital Regime*

To enhance the financial soundness of insurance companies and align with international standards, a legislative proposal is being formulated with an aim to implement a risk-based capital regime for the Hong Kong insurance industry in 2024. The IA published in March its observations on the first Own Risk and Solvency Assessment reports submitted by insurance companies to facilitate transition to the risk-based capital regime.

#### *Policy Holders' Protection Scheme*

The government launched a public consultation in December on the proposal to establish a policy holders' protection scheme. The proposed scheme will provide compensation to policy holders or secure continuity of insurance contracts in case an insurer becomes insolvent, providing an additional safety net for policy holders and strengthening the regulatory regime for insurers.

#### *Supervision of Insurance Groups*

The IA has implemented the enhanced group-wide supervision framework for the regulation and supervision of multinational insurance groups headquartered in Hong Kong. The framework is aligned with international standards and best practices, positioning Hong Kong as an ideal base for large insurance groups and a coordinator of other involved supervisors in Asia Pacific. The IA is the group supervisor for three international insurance groups, namely AIA Group Limited, FWD Management Holdings Limited and Prudential Corporation Asia Limited.

#### *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.

#### *Asian Insurance Forum*

The IA's annual flagship event, the Asian Insurance Forum 2022, was held on 5 December with the theme 'Reflect, Reset, Revive for a Resilient Future'. Around 1,500 participants joined the discussions among global leaders and experts in the insurance and financial markets, as well as top authorities in Hong Kong and the Asia-Pacific region.

## 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-2022, over 85 per cent of the employed population were covered by the MPF System or other retirement schemes.

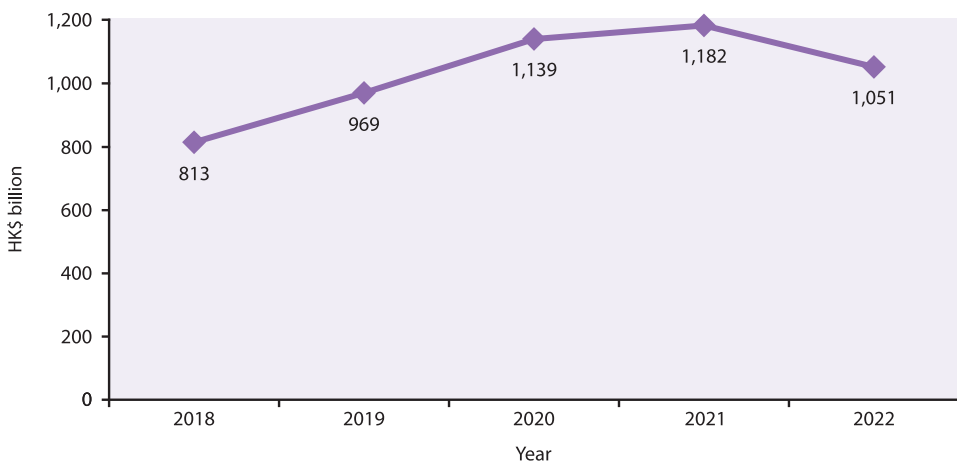
The MPF System is employment-based. An employer must provide 5 per cent of an employee's relevant income as mandatory contributions for the employee, subject to a maximum relevant income level. Employees have to make the same amount of contributions for themselves unless their relevant income is below 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 are managed privately by approved MPF trustees 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 41,747 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes.

MPF schemes had a net asset value (NAV) of around \$1,051 billion at end-2022 and an annualised rate of return of 2.4 per cent between December 2000, when the MPF System was launched, and December 2022.

**Chart 6** Total NAV of MPF Schemes



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

	2020	2021	2022
Number of MPF-enrolled participants (estimated rate)			
Employers	306,000 (100%)	323,000 (100%)	344,000 (100%)
Relevant employees	2,705,000 (100%)	2,681,000 (100%)	2,722,000 (100%)
Self-employed persons	230,000 (78%)	231,000 (80%)	238,000 (87%)
MPF schemes			
Number of registered schemes	27	27	27
Number of approved constituent funds	408	411	413
Aggregate NAV (\$ billion)	1,139	1,182	1,051
MPF-exempted ORSO registered schemes <sup>11</sup>			
Number of schemes	2,840	2,693	2,558
Number of participating employees	301,014	261,825	241,759
Aggregate NAV (\$ billion)	317	346	332

### **eMPF Platform**

The eMPF Platform will standardise, streamline and automate MPF scheme administration processes, so as to enhance operational efficiency, lower costs and fees, and offer a predominantly paperless MPF experience. The MPFA and eMPF Platform Company Limited are developing the eMPF Platform, with system operation and phased migration by MPF schemes planned to start from 2024, and full implementation in 2025.

### **MPF Investment in Mainland Government Debt Securities**

On 1 June, the Legislative Council approved the Mandatory Provident Fund Schemes (General) (Amendment) Regulation 2022, by adding the Central People's Government, the People's Bank of China and the three Mainland policy banks (the Agricultural Development Bank of China, the China Development Bank and The Export-Import Bank of China) to the list of exempt authorities under the regulation to facilitate investment by MPF funds in debt securities issued or unconditionally guaranteed by these entities.

<sup>11</sup> 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.



## Financial Technology

Hong Kong has over 800 fintech companies, including eight virtual banks, four virtual insurers and two licensed virtual asset trading platforms, offering different kinds of innovative and convenient financial services, such as mobile payment, cross-boundary transfer and wealth management.

The government promotes fintech development through enhancing financial infrastructure, building a more active ecosystem, strengthening connections with the Mainland and overseas, as well as nurturing talent.

The government launched a new round of the Fintech Proof-of-Concept Subsidy Scheme in September to encourage financial institutions to partner with fintech companies and research institutes to test innovative financial service products. On nurturing talent, a new round of the Financial Practitioners Fintech Training Programme was launched in February, attracting over 2,600 financial practitioners. The first batch of fintech professional qualifications recognised under the Qualifications Framework for banking practitioners was rolled out in September. Practitioners who have attained fintech professional qualifications are eligible to claim a reimbursement of the tuition fee.

In November, the bureau, together with Invest Hong Kong, organised the seventh Hong Kong Fintech Week, held again in a hybrid format of physical events and virtual programmes. It attracted over 30,000 visitors and 5 million views from around the world, resulting in thousands of business contacts.

### *HKMA Fintech Initiatives*

The HKMA's Fintech 2025 strategy promotes wide adoption of fintech to strengthen Hong Kong's position as a fintech hub in Asia.

On wholesale central bank digital currency (CBDC), the Bank of Thailand, the Digital Currency Institute of the People's Bank of China, the Central Bank of the United Arab Emirates and the Bank for International Settlements Innovation Hub Centre in Hong Kong led the Multiple Central Bank Digital Currency Bridge project into the pilot phase in the third quarter. The project was among the first multi-CBDC projects to settle real-value, cross-border transactions on behalf of corporates. The results and lessons learnt from the pilot were published in October.

On retail CBDC, the HKMA is studying the prospect of issuing e-HKD, from technical and policy perspectives. After two rounds of market consultation, the authority published a position paper in September to set out its policy stance on e-HKD.

The Commercial Data Interchange (CDI) officially launched in October, with the participation of 23 banks with material SME business and 10 data providers, of which six key data providers with substantial SME data have started to provide consented data access for banks. As at end-December, more than 1,000 SME loans amounting to over \$1.9 billion were approved by the participating banks under the facilitation of the CDI.

The HKMA facilitates the banking sector's development and adoption of open application programming interface (open API). It has implemented all four phases of the Open API Framework, with 28 participating retail banks offering various open API functions. The number of registered third-party service providers has grown steadily, with more than 1,300 registrations recorded in December. More than 600,000 banking product applications and payment transactions were completed monthly through the banks' open API.

The Fintech Career Accelerator Scheme 2.0, run by the HKMA in collaboration with strategic partners, nurtures young talent at various stages of their career development. In 2022, 125 students benefited from the scheme. It was enhanced to 3.0 and extended to the insurance sector in October.

The Industry Project Masters Network scheme was officially launched in September to provide opportunities to master's degree students majoring in fintech to work on real-life fintech projects. More than 110 students participated in the scheme in 2022.

On the supervisory front, pilot trials of 40 fintech initiatives were allowed in the Fintech Supervisory Sandbox (FSS) in 2022, bringing the cumulative total number of pilot trials to 274 since its launch in 2016. The HKMA launched the FSS 3.1 Pilot with Cyberport in October to provide development-stage funding support for eligible projects. The HKMA also received 89 requests to access the Fintech Supervisory Chatroom in 2022, bringing the cumulative total number of requests to 755 since its launch in 2017.

### ***SFC Fintech Initiatives***

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

The SFC has introduced a comprehensive regulatory framework for virtual asset-related activities since 2018. As of end-2022, it had granted approval to two virtual asset trading platform operators.

The SFC maintains close contact with overseas regulators to keep up with fintech trends and market intelligence. Cooperation agreements are in place with counterparts in Abu Dhabi, Australia, Canada, Dubai, Israel, Malaysia, Switzerland and the United Kingdom. The SFC also participates in fintech-related policy discussions as a member of the International Organisation of Securities Commissions and the Global Financial Innovation Network.

### ***IA Fintech Initiatives***

The IA runs Fast Track and Insurtech Sandbox to foster insurance technology (insurtech) development. Four virtual insurers owning and operating through digital distribution channels have been authorised under Fast Track. The Insurtech Sandbox, which allows authorised insurers to pilot run insurtech applications, has been extended to cover licensed insurance broker companies.

The IA is also developing an open API framework which aims to enhance data exchange through APIs, and foster competition, openness and innovation in the insurance sector.

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.

### ***Development of Virtual Assets***

In October, the government issued the Policy Statement on Development of Virtual Assets in Hong Kong, setting out its vision and policy direction. The government and financial regulators work to establish a facilitating environment, with timely and necessary guardrails to mitigate actual and potential risks put in place in accordance with international standards, so as to promote the sustainable and responsible development of the virtual assets sector.

The Anti-Money Laundering and Counter-Terrorist Financing Ordinance was amended in December to establish a licensing regime for virtual asset exchanges in line with the international standards set by the Financial Action Task Force. The regime will commence operation in June 2023.

### **Anti-money Laundering and Counter-financing of Terrorism**

Money laundering and terrorist financing is an increasingly complex global problem as criminals exploit greater integration between markets. Hong Kong has a robust and mature anti-money laundering ecosystem which uses a risk-based approach to reduce loss and harm to individuals and businesses. To remain agile in responding to new and emerging threats, the government published in July the Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report 2022, providing an updated review of the money laundering and terrorist financing landscape and the changes in risks since the first assessment in 2018.

### **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', manifesting 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 2022, the city's capital markets raised the equivalent of some US\$0.68 billion under the ADB's Global Medium Term Note Programme.

#### ***HKMA Infrastructure Financing Facilitation Office***

The HKMA Infrastructure Financing Facilitation Office serves as an important financing platform to infrastructure investors, thereby raising Hong Kong's international profile as an infrastructure and green finance centre. The office 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-2022, 43 insurers, reinsurers, captive insurers, insurance brokers, industry associations, loss adjustors and law firms had joined as members.

### **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.

#### ***Global Financial Leaders' Investment Summit***

The HKMA hosted the inaugural Global Financial Leaders' Investment Summit in November. The three-day event featured 26 prominent financial leaders sharing their views on navigating economic, financial, technological and geopolitical uncertainties in search for opportunities. It was attended by over 200 participants from around 120 international financial institutions, including some of the world's largest banks, securities firms, asset owners and managers, private equity and venture capital firms, hedge funds and insurers. More than 40 of these institutions were represented by their group chairmen or chief executive officers.

#### ***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 seven policy research papers and reports in 2022, 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. The statutory interest rate cap for lending and threshold of extortionate rate have been lowered to 48 and 36 per cent per annum respectively with effect from 30 December.

#### ***Talent Training***

A pilot programme to train talent for the insurance and asset and wealth management sectors implemented since 2016 has helped promote career opportunities in the community and enhance professional competency. Educational and promotional activities, summer internships for undergraduates and financial incentives for practitioners to undergo training were provided.

The HKMA aims to nurture the younger generation to build a sustainable pipeline of future talent and to train existing practitioners to ensure they keep pace with the fast-evolving

industry developments. It works with the banking industry and professional bodies to develop modules under the Enhanced Competency Framework for capacity building and talent development. In September, a new module on compliance was launched, in addition to the eight existing modules covering private wealth management, anti-money laundering and counter-financing of terrorism, cybersecurity, treasury management, retail wealth management, credit risk management, operational risk management and fintech.

### **Asian Financial Forum**

The bureau co-organises the annual Asian Financial Forum with the Hong Kong Trade Development Council to provide a platform for exchanges on global finance and the economy. The event in 2022 was held online and attracted over 7,000 participants from more than 80 countries and regions.

### **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*

	2020	2021	2022
New local companies	99,405	110,840	104,120
Local companies on the register	1,387,919	1,375,172	1,391,678
New non-Hong Kong companies	1,757	1,316	874
Non-Hong Kong companies on the register	13,752	14,348	14,533

In December, the government introduced amendments to the Companies Ordinance to allow flexibility for local companies to hold general meetings virtually or in hybrid mode.

### **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*

	2020	2021	2022
Bankruptcy orders	6,685	7,105	5,312
Interim orders in IVAs	500	230	214
Winding-up orders	234	299	303

## 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 2021 that crisis management arrangements had been significantly strengthened by the introduction of a comprehensive resolution regime under the ordinance.

Work to operationalise the Hong Kong resolution regime has seen progress in establishing resolution policy standards, conducting resolution planning, enhancing resolution execution capabilities as well as contributing to international and cross-border resolution cooperation.

In July, the HKMA issued a new code of practice chapter on liquidity and funding in resolution under the ordinance, which sets out the expectations for banks on their capabilities and arrangements to meet liquidity and funding needs in resolution.

All domestic systemically important banks have added an extra layer of financial resources to cope with recapitalisation in resolution, enhancing their resilience and resolvability.

## Professional Accountancy

### *New Regulatory Regime for the Accounting Profession*

The accountancy sector's new regulatory regime took effect in October. The Accounting and Financial Reporting Council is the independent regulatory body of the accounting profession while the Hong Kong Institute of Certified Public Accountants confers the professional qualification of certified public accountants (CPAs), sets professional development requirements and issues professional standards under the council's oversight. The institute also issues the Hong Kong Financial Reporting Standards, which align with the International Financial Reporting Standards.

*Statistics on CPAs, CPA Firms and Corporate Practices*

	2020	2021	2022
Total number of CPAs	46,562	47,331	47,927
Number of practising CPAs	5,093	5,172	5,243
Number of CPA firms	1,282	1,264	1,260
Number of corporate practices	647	668	706

## Public Finance

### *Management of Public Finance*

The principles underlying the government's management of public finances are enshrined in the Basic Law, which stipulates that:

- The Hong Kong Special Administrative Region (HKSAR) shall have independent finances, and shall use its revenues exclusively for its own purposes.
- The HKSAR shall practise an independent taxation system, taking the low tax policy previously pursued in Hong Kong as reference.
- The HKSAR shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its GDP.
- The Legislative Council of the HKSAR shall exercise the power to approve taxation and public expenditure.

The government implements these constitutional provisions in its management of public finances by maintaining a low and simple tax regime and exercising fiscal prudence. Hong Kong's Public Finance Ordinance stipulates a system for the control and management of Hong Kong's public finances and defines the respective powers and functions of the legislature and the executive. Pursuant to the ordinance, the Financial Secretary submits to the Legislative Council an annual set of estimates of revenue and expenditure. The estimates are drawn up in the context of a medium-range forecast, which is a fiscal planning tool to ensure appropriate regard is given to the longer-term trends in the economy.

A government department can incur expenditure only up to the amounts stated in the expenditure estimates and for the purposes approved by the Legislative Council. During the financial year, which runs from 1 April to 31 March, if a department needs to change the expenditure estimates and spend more money, it must obtain the council's authorisation.

The government controls its finances through the General Revenue Account (GRA) and various funds established under the ordinance. The GRA is the main account for day-to-day departmental expenditure and revenue collection. Funds established under the ordinance are the Bond Fund, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. The total revenue and expenditure of the GRA and all these funds except the Bond Fund represent government revenue and government expenditure respectively, and the total balance of the GRA and the funds except the Bond Fund constitutes government fiscal reserves.

### **Financial Results**

For 2021-22, government revenue was \$693.6 billion and expenditure was \$693.4 billion, resulting in a surplus of \$29.3 billion after receipt of net proceeds of \$29.1 billion from bonds issued under the Government Green Bond Programme. Fiscal reserves at 31 March 2022 stood at \$957.1 billion, equivalent to 17 months of government expenditure.

Public expenditure comprises government expenditure and expenditure by the Housing Authority and trading funds. In 2021-22, public expenditure decreased 14.4 per cent against the previous year to \$731.1 billion, of which \$514.6 billion, or 70.4 per cent, was of a recurrent nature.

### **Future Fund**

The Future Fund, with an endowment of \$224.5 billion, seeks to secure higher returns for Hong Kong's fiscal reserves through placement in longer-term investments to cope with foreseeable long-term fiscal challenges arising from an ageing population and slower economic growth.

The fund has been placed with the Exchange Fund. Investment returns arising from the Future Fund are retained by the Exchange Fund for reinvestment and shall be paid to the government upon completion of the placement period or on a date as directed by the Financial Secretary. Starting from the 2021-22 financial year, the cumulative investment returns will be brought back to and reflected in the Operating Account of the Government on a progressive basis, with \$25 billion brought back in the first year.

Some \$27.3 billion was allocated from the Future Fund for investment in Cathay Pacific Airways Limited in 2020. The investment will remain part of the Future Fund.

The government also deployed 10 per cent of the Future Fund to set up the Hong Kong Growth Portfolio to invest in projects with a Hong Kong nexus, aiming to reinforce the city's status as a financial, commercial and innovation centre and to raise productivity and competitiveness in the long run, while seeking reasonable risk-adjusted returns. In 2022, the allocation was further increased by \$10 billion, of which \$5 billion was used to set up the Strategic Tech Fund and \$5 billion to set up the GBA Investment Fund.

The government has set up the Hong Kong Investment Corporation Limited to further optimise the use of fiscal reserves for promoting the development of industries and the economy. The corporation consolidates the Hong Kong Growth Portfolio, GBA Investment Fund and Strategic Tech Fund, as well as the Co-Investment Fund to be established by allocating \$30 billion from the Future Fund, to pool resources to invest in strategic industries, aiming to attract and support more enterprises to develop their business in Hong Kong.

### **Revenue Sources**

Hong Kong's tax system is simple. Tax rates and the cost of administration are low. To protect tax revenue, the government takes vigorous measures to combat tax evasion and prevent tax avoidance. The major sources of revenue include profits tax (24.1 per cent), land premium (20.6 per cent), stamp duties (14.4 per cent) and salaries tax (10.9 per cent).



The Inland Revenue Department collects 54.6 per cent of total government revenue including profits tax, salaries tax, property tax, stamp duties and betting and sweeps tax. Profits, salaries and property taxes are levied under the Inland Revenue Ordinance and together accounted for 36.5 per cent of total government revenue in 2021-22.

Profits tax is charged only on profits arising in, or derived from, Hong Kong from a trade, profession or business carried on within the territory. The two-tiered profits tax rates regime has been implemented since the 2018-19 year of assessment, lowering the profits tax rates for the first \$2 million of assessable profits from 16.5 per cent to 8.25 per cent for corporations and from 15 per cent to 7.5 per cent for unincorporated businesses. Assessable profits exceeding \$2 million are taxed at 16.5 per cent and 15 per cent respectively. Profits tax is charged provisionally on the basis of profits made in the year preceding the year of assessment and is later adjusted according to the actual profits made in the assessment year. Generally, all expenses incurred in the production of assessable profits are deductible. There is no withholding tax on dividends paid by corporations. Interest income from deposits placed with banks or deposit-taking companies, other than that received by financial institutions, and dividends received from corporations are exempt from profits tax. In 2021-22, the profits tax collected was \$167.3 billion, making up 24.1 per cent of total government revenue.

Salaries tax is charged on emoluments arising in or derived from Hong Kong. As with profits tax, a provisional tax mechanism is in place. Salaries tax is calculated at progressive rates on the net chargeable income, which is income less deductions and allowances. In 2021-22, the first, second, third and fourth segments of net chargeable income of \$50,000 each were taxed at 2 per cent, 6 per cent, 10 per cent and 14 per cent respectively, and the remainder at 17 per cent. No one, however, need to pay more than the standard rate of 15 per cent of their total income after deductions.

The earnings of husbands and wives are reported and assessed separately. However, where the deductions and allowances of either spouse exceed that spouse's income, or when separate assessments would result in an increase in their total salaries tax payable, the couple may elect to be assessed jointly. Salaries tax contributed \$75.6 billion, or 10.9 per cent, of total government revenue in 2021-22. Because of generous personal allowances under the tax law, only 1.82 million people, or 50 per cent of the workforce, were liable to salaries tax for the 2020-21 year of assessment.

Owners of land and buildings are charged property tax at the standard rate, of 15 per cent in 2021-22, on the actual rent received after an allowance of 20 per cent for repairs and maintenance. There is a system of provisional payment of tax similar to that for profits tax and salaries tax. Properties owned by a corporation carrying on a business locally are exempt from property tax, but the profits it derives from the properties are chargeable to profits tax. Property tax contributed \$4 billion, or 0.6 per cent, of total government revenue in 2021-22.

Stamp duty is imposed on different classes of documents relating to transfers of immovable property, leases and transfers of shares under the Stamp Duty Ordinance. In 2021-22, the revenue from stamp duties was \$99.7 billion, or 14.4 per cent of total government revenue.

Betting duty is charged on the net stake receipts from betting on horse races and football matches and on the proceeds of Mark Six lotteries, all administrated by the Hong Kong Jockey Club. The yield from betting duty in 2021-22 totalled about \$25.4 billion, or 3.7 per cent of total government revenue.

The Rating and Valuation Department is responsible for the billing and collection of rates, which are levied on landed properties at a specified percentage of their rateable values (5 per cent in 2022-23). The rateable value of a property is an estimate of its annual open market rent at a designated date. Rateable values are reviewed each year to better reflect prevailing market rents. The current Valuation List, containing about 2.6 million assessments, took effect on 1 April 2022, with rateable values reflecting rental values on 1 October 2021. The revenue from rates in 2021-22 was \$19.3 billion, or 2.8 per cent of total government revenue.

The Rating and Valuation Department is also responsible for the billing and collection of government rent for properties held under land leases granted on or after 27 May 1985, or on the extension of non-renewable land leases. Government rent is levied at 3 per cent of the rateable value of the property and is adjusted in step with any subsequent changes in the rateable value. There were about 2.1 million assessments in the Government Rent Roll on 1 April 2022. Total government rent collected in 2021-22 was around \$12.5 billion, or 1.8 per cent of total government revenue.

Excise duties are levied on four commodities to be consumed locally, namely hydrocarbon oil (motor spirit, aircraft spirit and light diesel oil), liquor with an alcoholic strength of more than 30 per cent by volume, methyl alcohol and tobacco as defined under the Dutiable Commodities Ordinance, irrespective of whether they are manufactured locally or imported. The Customs and Excise Department collects these duties, which totalled \$12.5 billion in 2021-22, or 1.8 per cent of total government revenue, of which 63.4 per cent was from tobacco, 30.8 per cent from hydrocarbon oil, 5.7 per cent from liquor, and 0.1 per cent from methyl alcohol and other alcohol products.

All motor vehicles imported for use on roads are subject to first registration tax under the Motor Vehicles (First Registration Tax) Ordinance. The Customs and Excise Department assesses the taxable value of vehicles to facilitate the Transport Department's collection of this tax, which totalled \$6.2 billion in 2021-22, or 0.9 per cent of total government revenue.

It is government policy that fees charged by the government should in general be set at levels adequate to recover the full cost of providing the goods or services. Certain essential services are subsidised by the government or provided free of charge. Fees and charges for goods and services provided by the government generated \$11.6 billion, or 1.7 per cent of total revenue, in 2021-22. Government-operated public utilities generated about \$3.2 billion, or 0.5 per cent of total revenue, the most important of which, in revenue terms, is the provision of water supplies.

Land transactions generated some \$143 billion, or 20.6 per cent of total government revenue, in 2021-22. All revenue from land transactions is credited to the Capital Works Reserve Fund to finance the Public Works Programme.

### ***Tax Treaties and International Tax Cooperation***

Hong Kong strives to expand its network of comprehensive avoidance of double taxation agreements (CDTAs) to improve the business environment and facilitate the flow of trade, investment and talent with the rest of the world. The 46 CDTAs signed by the city as at end-2022 help reduce tax burdens on taxpayers and eliminate uncertainties over tax liabilities.

Hong Kong supports international efforts to enhance tax transparency and combat tax evasion, and is committed to implementing the base erosion and profit shifting 2.0 package promulgated by the Organisation for Economic Cooperation and Development.

### ***Government Procurement***

The government seeks to procure goods and services at the best value for money in a publicly accountable manner, adopting the principles of open and fair competition, transparency, innovation and integrity in its procurement practices. The Government Logistics Department is the government's procurement agent for goods and related services required by departments. In 2022, the department procured goods and related services amounting to \$12.05 billion from 26 countries and territories, including Hong Kong.

Open tendering is normally adopted. The department maintains supplier lists of different categories of goods and services for sourcing. It publishes tender notices online and notifies relevant listed suppliers about open tenders. As Hong Kong, China is a signatory to the World Trade Organisation's Agreement on Government Procurement, tender notices covered by the agreement are also published in the Government Gazette and issued to consulates and overseas trade commissions where appropriate. Bidders may download tender documents and submit their offers online.

### ***Websites***

Accounting and Financial Reporting Council: [www.afrc.org.hk](http://www.afrc.org.hk)

Companies Registry: [www.cr.gov.hk](http://www.cr.gov.hk)

Financial Services and the Treasury Bureau: [www.fstb.gov.hk](http://www.fstb.gov.hk)

Financial Services Development Council: [www.fsd.c.org.hk](http://www.fsd.c.org.hk)

Government Logistics Department: [www.gld.gov.hk](http://www.gld.gov.hk)

Hong Kong Deposit Protection Board: [www.dps.org.hk](http://www.dps.org.hk)

Hong Kong Exchanges and Clearing Limited: [www.hkex.com.hk](http://www.hkex.com.hk)

Hong Kong Monetary Authority: [www.hkma.gov.hk](http://www.hkma.gov.hk)

Insurance Authority: [www.ia.org.hk](http://www.ia.org.hk)

Investor and Financial Education Council: [www.ifec.org.hk](http://www.ifec.org.hk)

Investor Compensation Company Limited: [www.hkicc.org.hk](http://www.hkicc.org.hk)

Mandatory Provident Fund Schemes Authority: [www.mpf.a.org.hk](http://www.mpf.a.org.hk)

Official Receiver's Office: [www.oro.gov.hk](http://www.oro.gov.hk)

Securities and Futures Commission: [www.sfc.hk](http://www.sfc.hk)