

For Information

Legislative Council Panel on Financial Affairs

Financial Policies for the Qianhai Shenzhen-Hong Kong

Modern Service Industry Co-operation Zone

Purpose

At the special meeting on 28 January 2013, the Legislative Council Panel on Financial Affairs requested the Administration to provide relevant information on the latest development of Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone of Shenzhen (Qianhai) and the impact of its development on Hong Kong's financial services industry. This paper briefs Members on the Qianhai financial policies and their impact on our financial services industry.

Background

2. In August 2010, the State Council approved the Overall Development Plan on Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone (the Overall Development Plan). According to the Overall Development Plan, Qianhai was designated as an exemplary zone for promoting the innovation of and co-operation between Guangdong and Hong Kong's modern service industries, with focus on innovative financial services, modern logistics, information services, technology services and other professional services. In the National 12th Five-Year Plan announced in March 2011, the dedicated chapter on Hong Kong and Macao spelt out that the joint development of modern service industries in Qianhai by Guangdong and Hong Kong is part of our country's overall development strategy.

3. According to the consensus reached between the governments of Hong Kong and Shenzhen, the Shenzhen Municipal Government (SZMG) takes a leading role and is responsible for the development and management of Qianhai, while the Hong Kong Special Administrative Region Government (SAR Government) plays an advisory role by providing comments on development planning as well as the study and formulation of related policies. The SAR Government has been maintaining liaison with the SZMG and relevant authorities. Both sides have held meetings to discuss issues related to the development of Qianhai.

4. On 29 June 2012, the National Development and Reform Commission (NDRC) promulgated in Hong Kong a series of policies as approved by the State Council for Qianhai on an early and pilot basis (early and pilot policies for Qianhai). The policy framework of these early and pilot policies covers six major areas, namely financial services, taxation, legal services, human resources and professional services, medical services and education, and telecommunication services.

Financial Policies for Qianhai

5. The financial policies for Qianhai (see [Annex](#) for details) broadly aim to support the early and pilot implementation of financial reform and innovation in Qianhai, and showcase this testing ground for opening up our country's financial services industry. The policies in support of cross-border Renminbi (RMB) lending, the development of equity investment funds and issuance of RMB bonds in Hong Kong by Qianhai enterprises will further enhance the cross-border use and circulation of RMB funds between the Mainland and Hong Kong and open up new opportunities for banks in Hong Kong to expand their RMB cross-border lending business.

6. Moreover, promoting the development of modern service industries in Qianhai and relaxing the access thresholds for our financial institutions will facilitate the future development of Hong Kong and the Mainland for mutual benefits. While Hong Kong will be able to sustain long-term economic development by strengthening the competitiveness of its service industries and gaining access to the Mainland market, the Mainland will speed up the establishment of a modern industry system by drawing on Hong Kong's experience.

7. We and our financial services industry have been following the progress of development in Qianhai. Hong Kong's financial services industry would like to contribute to our country by helping it to optimise its industrial structure and gain access to the Mainland market through Qianhai.

8. The role of the SAR Government in the development of Qianhai is to achieve mutual benefits by facilitating Hong Kong's financial services industry to gain access to the Mainland market through Qianhai, seek to lower the entry requirements for Hong Kong enterprises to enter the Mainland market and increase the shareholding limit of Hong Kong enterprises in joint-venture companies. We will also assist the industry to capture the opportunities brought by the early and pilot policies for Qianhai on financial innovation and reform by striving for an environment which can facilitate our banks, equity investment funds and financial institutions to conduct business in Qianhai. We have been liaising with relevant authorities of the Central Government and the top officials of Shenzhen and Guangdong Province. We have also been communicating with our financial services industry and would continue to convey their views to the Mainland through various channels in the hope that the development of Qianhai will cater for our development needs. Most importantly, we should adopt policies with the following targets: seizing the opportunities brought by the

development of Qianhai; facilitating the access of Hong Kong financial institutions to the Mainland market; and increasing the scale and strengths of our financial services industry.

9. Among the early and pilot policies for Qianhai, some of those related to financial services have been launched recently. Details are set out in paragraphs 10 to 15 below.

Equity Investment Funds

10. In November 2012, the SZMG promulgated the Provisional Measures for Implementing a Pilot Scheme on Foreign Investment in Equity Investment Enterprises of Shenzhen, allowing foreign enterprises to raise funds from investors inside and outside the Mainland, including RMB funds raised outside the Mainland, through private means for investment in non-listed equity enterprises. The Pilot Scheme, which is being implemented in Qianhai, not only deepens the financial co-operation between Hong Kong and Shenzhen, but also presents new opportunities for equity investment funds in Hong Kong, thereby promoting the innovation and development of equity investment fund business in Qianhai. The financial services industry welcomes this scheme. We will continue to liaise with the relevant Mainland authorities in order to pursue new arrangement regarding capital settlement, investment and fund management for equity investment, master funds and equity investment funds.

Cross-border RMB Lending

11. The Shenzhen Central Sub-branch of the People's Bank of China (PBoC Shenzhen) announced the Provisional Administrative Measures for Cross-border RMB

Lending in Qianhai in December 2012. Companies which are incorporated and have operations or investments in Qianhai are allowed to borrow RMB loans from banks conducting RMB business in Hong Kong. In January 2013, the PBoC Shenzhen released the details of the provisional administrative measures to banks, specifying the uses, application procedures and regulation of cross-border RMB lending in Qianhai.

12. The agreements on the first batch of cross-border RMB lending in respect of Qianhai were signed in late January 2013 in Shenzhen, allowing fifteen banks in Hong Kong to extend loans of RMB 2 billion to enterprises in Qianhai for funding development projects in the area. The launch of the RMB cross-border lending will further encourage the growth of RMB lending business, effectively expand the use of RMB outside the Mainland, enhance the two-way flow and circulation of RMB funds between the Mainland and Hong Kong, and strengthen Shenzhen-Hong Kong co-operation.

Hong Kong Professionals to provide services in Qianhai

13. The early and pilot policies for Qianhai will also help Hong Kong professionals to gain access to the Mainland market. In September 2012, the Ministry of Finance gave approval to Shenzhen for implementing the Provisional Measures on Processing Applications for Hong Kong Accounting Professionals to become Partners of Accounting Firms in Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone. These Provisional Measures allow Hong Kong professionals who have obtained the Chinese Certified Public Accountants qualification to become partners of partnership firms in Qianhai.

14. The Shenzhen Municipal Office of the State Administration of Taxation and the Shenzhen Local Taxation Bureau recently published a notice on the

Provisional Administrative Measures for Hong Kong Certified Tax Agents to Provide Service in Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone. Implemented on a trial basis since 1 January 2013, the Provisional Measures entitle Hong Kong permanent residents certified as Registered Tax Agent (PRC) to apply for practising in Qianhai, or setting up tax agent firms there or becoming partners of such firms.

15. The two initiatives above are an important breakthrough of the early and pilot policies for the tax and accounting industries. We will assist the industry to communicate with the SZMG with a view to clarifying the professional requirements and following up on the implementation progress.

Other Financial Policies for Qianhai

16. At the second meeting of the Inter-ministries Joint Conference on the Development of Qianhai (the Joint Conference) convened by the NDRC in Beijing on 21 February 2013, the Chief Secretary for Administration put forward a number of liberalisation proposals, including opening up more channels for the cross-border circulation of RMB funds, suitably lowering Hong Kong enterprises' entry requirements for setting up financial business in Qianhai, and relaxing the shareholding limit of Hong Kong enterprises in joint-venture companies. These would support the development of financial industry in Qianhai and reinforce Hong Kong's status as a major offshore RMB business centre.

Opportunities for Our Financial Services Industry Brought by the Development of Qianhai

17. The Qianhai new development zone presents new opportunities for Hong Kong's financial services industry. Qianhai's liberalisation measures on financial services not only enhance the cross-border use and circulation of RMB funds between the Mainland and Hong Kong, thereby strengthening the development of offshore RMB business in Hong Kong, but also promote the growth of our financial services industry, thereby enhancing the interaction between the financial institutions and markets in Hong Kong and the Mainland and enabling both places to complement each other's strengths. We have been liaising with the financial authorities and regulators in the Mainland to keep abreast of their financial services policies and make corresponding moves. This helps to advance the development of financial services industry in Qianhai for achieving mutual benefits and meeting the overall development needs of our country.

18. Qianhai has been designated by the Central Government as a Hong Kong/Guangdong modern service industry innovation and co-operation exemplary zone, highlighting the importance of Hong Kong/Shenzhen co-operation to achieve mutual benefits and avoid destructive competition. Therefore, we have participated in the development of Qianhai based on these principles. Hong Kong is the freest economy in the world and has strong competitive edge. A highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law, and the free flow of information and capital are the many advantages that Hong Kong has as an international financial centre.

Way Forward

19. The SAR Government will continue to make the best use of the existing mechanisms and channels to assist Shenzhen in taking forward the early and pilot policies for Qianhai on the principle of “One Country, Two Systems”, with a view to encouraging Hong Kong enterprises and service providers to tap the Mainland market by capitalising on the business opportunities presented by the development of Qianhai. We will also continue to solicit views from the financial services industry through various channels and actively participate in the Joint Conference on Qianhai to promote the development of Qianhai with our Mainland counterparts.

Financial Services and the Treasury Bureau

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Qianhai Early and Pilot Policies on Financial Services

1. To support the establishment of an innovative testing zone on cross-border RMB business in Qianhai;
2. To explore implementation of cross-border lending on a pilot basis;
3. To support Qianhai enterprises to issue RMB bonds in Hong Kong for supporting the development of Qianhai;
4. To support the setting up of Qianhai master equity investment funds;
5. To support the innovative development of foreign equity investment funds in Qianhai;
6. To support the lowering of access thresholds for Hong Kong financial institutions to set up institutions and expand business in Qianhai under CEPA;
7. To support the establishment of innovative financial institutions and trading platforms in Qianhai on a pilot basis; and
8. To support domestic and foreign financial institutions to set up international or national management headquarters or operation headquarters in Qianhai.