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6 October 2014

Ms Sharon Chan  
Legislative Assistant (1)4  
Legislative Council Complex  
1 Legislative Council Road  
Central

Dear Ms Chan,

**Briefing on the Work of the Financial Services Development Council  
("FSDC")**

The Panel on Financial Affairs at its 6 January 2014 meeting asked the Administration to update the Panel on the Government's response to the recommendations put forward in the FSDC's six reports released in November 2013.

The FSDC in its Annual Report 2013/14, released on 14 July 2014, has set out a list of developments up to end-March 2014 on subjects covered by its six reports. A relevant extract from the FSDC Annual Report is at **Annex**.

Since end-March 2014, the Government and regulators have implemented further measures in relation to the proposals in those six reports, including the following:

- (a) following extensive consultation with the industry and the public, a revised Code on Real Estate Investment Trusts (REIT Code) took effect in August to give Real Estate Investment Trusts ("REITs") the flexibility to, among other things, invest in property development activities (up to 10% of the REITs' gross asset value);
- (b) in September 2014, the Government has successfully issued sukuk

(Islamic bond), with an issuance size of US\$1 billion and a tenor of 5 years, under the Government Bond Programme – the inaugural sukuk offering has marked the first US-dollar sukuk originated by an AAA-rated government in the global Islamic financial market, and signified an important milestone in the development of the Islamic capital market;

- (c) two additional measures announced by the Hong Kong Monetary Authority (“HKMA”) in September as backstop facility to assist banks in Hong Kong to manage their Renminbi (“RMB”) liquidity, namely (i) HKMA will provide an intraday repo facility of up to RMB10 billion to banks in Hong Kong to promote more efficient RMB payment flows between banks; and (ii) HKMA will designate a number of banks active in the offshore RMB (“CNH”) market as Primary Liquidity Providers (“PLPs”) – banks designated as PLPs are committed to using and developing Hong Kong as the global platform for supporting their offshore RMB businesses and expanding their market-making activities in the CNH market, and HKMA in return will offer a repo line to each of the PLPs so as to facilitate more efficient liquidity management when they carry out market-making and other business activities in the CNH market; and
- (d) with effect from 1 October 2014, the operating hours of HKMA’s RMB Real Time Gross Settlement system has been further extended from 15 hours to 20.5 hours daily (i.e. until 5am of the next day) to cover both the European and American time zones for same-day value payment.

The Government and regulators will study FSDC’s reports in future and feasibility of their recommendations, and follow up accordingly.

Yours sincerely,



(Kent Yau)  
for Secretary for Financial Services  
and the Treasury

The Government and the regulators have been following up on some of the recommendations made by the FSDC. The FSDC will continue to provide concrete recommendations to assist the Government to further develop the financial services industry and enhance Hong Kong's competitiveness. The FSDC welcomes the encouraging developments on a number of subjects covered by the reports –

## Reports

## Relevant developments since November 2013

### "Strengthening Hong Kong as a Leading Global International Financial Centre"

**Talent:** The Financial Services and the Treasury Bureau (FSTB) will consult the industry and conduct an in-depth study on issues related to financial talents and submit recommendations to the Financial Secretary. The FSTB intends to first carry out studies concerning the insurance and asset/wealth management sectors.

**Air Quality:** The Government has implemented a number of measures such as rolling out a new Air Quality Health Index and controlling vehicle emissions (through incentives for owners to replace pre-Euro IV diesel commercial vehicles and limiting the service life of newly registered diesel commercial vehicles).

### "Proposals to Advance the Development of Hong Kong as an Offshore Renminbi (RMB) Centre"

The China Securities Regulatory Commission and the Securities and Futures Commission (SFC) have approved the development of "Shanghai-Hong Kong Stock Connect", a pilot programme for stock market trading links between Shanghai and Hong Kong. The programme is expected to roll out in October 2014.

SFC and relevant Mainland authorities are close to agreement on the mutual recognition of funds.



### "Development and Reform of Mainland China's Financial Sector and the Strengthening and Enhancement of Hong Kong's Pivotal Role as a Financial Centre"

The Government and the regulators are following up closely with the relevant Mainland authorities on other proposals to further develop Hong Kong's offshore RMB business, such as relaxation of RMB conversions by Hong Kong residents in the offshore market, broadening Hong Kong banks' access to Mainland markets (such as cross-border loans and onshore repo market), and expanding the coverage of pilot schemes such as the RQFII scheme.

### "Developing Hong Kong as a Capital Formation Centre for Real Estate Investment Trusts" (REITs)

The SFC conducted a one-month consultation during January-February 2014 on proposals to amend the "Code on Real Estate Investment Trusts" to introduce flexibility in the investment scope of REITs, including investing in properties under development or engaging in property development activities. The SFC is reviewing responses from the consultations to draw up the next steps.

### "Proposals on Legal and Regulatory Framework for Open-ended Investment Companies in Hong Kong"

Following the Financial Secretary's announcement in his "2013-14 Budget" of the initiative to introduce open-ended fund company (OFC) in Hong Kong, FSTB launched a three-month public consultation in March 2014 on introducing a new OFC structure for investment fund vehicles. The Government will formulate details of the OFC regime with the SFC and relevant departments after the public consultation.

### "Synopsis Paper Proposing Tax Exemptions and Anti-avoidance Measures on Private Equity Funds in the 2013-14 Budget"

As another initiative announced in the Financial Secretary's "2013-14 Budget", the Government is preparing the relevant legislative work on extending profits tax exemption regime for offshore funds to private equity funds.