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財經事務及庫務局
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FINANCIAL SERVICES BRANCH
FINANCIAL SERVICES AND
THE TREASURY BUREAU
GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION

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22 February 2016

Clerk to the Establishment Subcommittee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Miss Sharon LO)

Dear Miss LO,

**Establishment Subcommittee
Follow-up to the meeting on 3 February 2016
EC(2015-16)12**

I refer to your letter dated 4 February 2016, which sets out two follow-up actions arising from the discussion at the Establishment Subcommittee (ESC) meeting held on 3 February 2016. Our responses are set out below.

The situation in the directorate establishment in Financial Services Branch (FSB) in the past years (e.g. the highest and lowest numbers of directorate posts), and how the establishment relates to initiatives pursued by and changes in the workload of FSB

2. Please find at Annex a table showing the directorate establishment in FSB from 2006 to 2015.

3. The gradual increase in the number of directorate posts (four on a net basis) over the past decade was attributed to a range of new and evolving initiatives to enhance the regulatory regime in order to meet local needs and international requirements and to facilitate market development in Hong Kong. These include the enhancement of the anti-money laundering regime in Hong Kong, the modernization of the Companies Ordinance, preparatory work for establishing the Independent Insurance Authority and strengthening of financial

cooperation with the Mainland, etc. As explained at the ESC meeting held on 3 February 2016, FSB has completed a review of the directorate establishment, taking into account the work at hand and the priority tasks to be completed in the next few years. Of the four supernumerary posts, it is proposed that one will be converted into a permanent post (i.e. the proposal supported by ESC at its meeting on 3 February 2016); extension will be sought for two supernumerary posts separately; and one post will lapse by end 2017.

Hong Kong's strengths and weaknesses in developing offshore Renminbi (RMB) business in comparison with other offshore RMB centres, such as Singapore and London

4. In recent years, the offshore RMB business in Hong Kong has been growing rapidly. From a centre offering traditional RMB banking services, Hong Kong has evolved into the world's pioneering offshore RMB business hub. The strengths of Hong Kong's offshore RMB business are summarized in three-fold below:

(i) *Gateway for trade and investment between Mainland China and the rest of the world*

5. Hong Kong has been a gateway for trade and investment between Mainland China and the rest of the world. Currently, Hong Kong is the largest source of foreign direct investment to the Mainland, accounting for some 60% of the total amount. At the same time, Hong Kong is also the largest recipient of outward direct investment from the Mainland, being the beneficiary or intermediary of about 60% of such investment. Our close business and economic links with the Mainland is one of our unique strengths.

(ii) *Well-developed capital market and financial infrastructure*

6. Hong Kong enjoys a highly efficient RMB clearing and settlement platform which supports overseas corporates and financial institutions in RMB payments and settlement. The average daily turnover of Hong Kong's RMB Real Time Gross Settlement (RTGS) system reached RMB947 billion in 2015, and of these, about 90% were offshore transactions. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), Hong Kong processes some 70% of global RMB SWIFT payments.

7. Apart from the RTGS, the CNH Hong Kong Interbank Offered Rate fixing (CNH HIBOR fixing) was launched in June 2013. This initiative further supports the growth of the RMB market by providing a benchmark for loan facilities. The fixing also facilitates diversification of RMB denominated products, allowing market participants to better manage their investment.

(iii) *Rule-based system with readiness to pioneer new products and initiatives*

8. As the Mainland's economic reforms deepen, Hong Kong has been serving effectively as the testing ground of a series of initiatives relating to the internationalization of RMB. Hong Kong now hosts the largest pool of RMB liquidity outside Mainland China, with the size of total RMB deposits in Hong Kong standing at RMB1 trillion at end-2015. With such liquidity pool, Hong Kong is able to accommodate a range of constantly expanding RMB financial and wealth management products. Among other things, Hong Kong is the first offshore market to introduce the RMB bond issuance in July 2007 and the RMB Qualified Foreign Institutional Investor (RQFII) Scheme in December 2011.

9. More recently, the Shanghai-Hong Kong Stock Connect, launched in November 2014, has been operating smoothly, allowing international investors access to the A-shares listed in Shanghai through the stock exchange in Hong Kong, and vice versa. The Mainland-Hong Kong Mutual Recognition of Funds arrangement was implemented in July last year, allowing qualified Mainland and Hong Kong funds to be offered directly to the public in each other's market after obtaining authorisation or approval under streamlined procedures. These cross-border investment channels are valuable to Hong Kong and have enlarged local and overseas investors' access to investment products in the Mainland, as well as further diversified the RMB financial products offered locally.

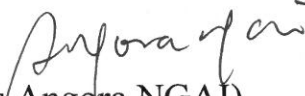
10. Although it is difficult to directly compare the quality of offshore RMB business in Hong Kong, Singapore and London, we append below some figures for reference –

- (a) As at end-2014, the RMB fund pool in Hong Kong, Singapore and the UK are RMB1.158 trillion, 230 billion and 20 billion respectively.
- (b) RQFII investment quota for Hong Kong had reached RMB270 billion, while those for Singapore and UK were RMB100 billion and 80 billion respectively. While the investment quota for Hong Kong had been fully allocated in September 2014, only 32% and 35% of those for Singapore and UK was used as at end of January 2016.
- (c) According to the SWIFT statistics, Singapore and London account for approximately 5% of global RMB SWIFT payments each, while Hong Kong processes about 70% of global RMB SWIFT payments.

11. Looking forward, it is envisaged that Hong Kong's vibrant financial markets and experience as the pioneer in the offshore RMB business will continue to underpin Hong Kong as the ideal platform to conduct offshore RMB business. That said, we are cognizant of the need to manage well our foundation and advantages, and the importance of keeping up the quality and efficiency of

our market infrastructure, with a view to overcoming the uncertainties and challenges in the international financial market.

Yours sincerely,



(Miss Angora NGAI)

for Secretary for Financial Services and the Treasury

c.c

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Situation in the directorate establishment in the FSB from 2006 to 2015

Rank	Establishment as at																			
	1.4.2006		1.4.2007		1.4.2008		1.4.2009		1.4.2010		1.4.2011		1.4.2012		1.4.2013		1.4.2014 ⁷		1.4.2015	
	P	S	P	S	P	S	P	S	P	S	P	S	P	S	P	S	P	S	P	S
Administrative Officer Staff Grade A1	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-
Administrative Officer Staff Grade B1	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-
Administrative Officer Staff Grade B	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Administrative Officer Staff Grade C	5	-	5	1	5	1	5	2	5	2	5	2	5	3	5	3	5	3	5	3
Commissioner of Insurance	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-	1	-
Assistant Commissioner of Insurance	3	-	3	-	3	-	3	-	3	-	3	-	3	-	3	1	3	1	3	1
Total:	12	1	12	2	12	2	12	3	12	3	12	3	12	4	12	5	12	5	12	5

Legend

P – Permanent post

S – Supernumerary post approved by FC