

## **For Information**

### **Legislative Council Panel on Financial Affairs**

#### **Follow-up work in the area of financial services under the National 13th Five-Year Plan – Dedicated Chapter on Hong Kong and Macao**

### **Purpose**

This paper briefs Members on our follow-up work in the area of financial services to tie in with the policy initiatives put forward in the Dedicated Chapter on Hong Kong and Macao in the National 13th Five-Year Plan.

### **Background**

2. The “Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People’s Republic of China” was promulgated on 17 March 2016. A chapter is again dedicated to Hong Kong and Macao (see [Annex](#) for the Dedicated Chapter). The Dedicated Chapter not only acknowledges the significant functions and positioning of Hong Kong under the National 13th Five-Year Plan, but also highlights the scope and opportunities for development in a number of key areas, especially financial services and trade, innovation and technology, high-end maritime and legal services.

3. The Dedicated Chapter expresses clear support for Hong Kong in reinforcing and enhancing its position as an international financial centre, strengthening its status as the global offshore Renminbi (RMB) business hub and an international asset management centre, and promoting fund-raising services, etc and moves towards high-end and high value-added development. The Dedicated Chapter also supports Hong Kong and Macao in participating in the country’s two-way opening up and in the Belt and Road Initiative, encouraging enterprises from the Mainland, Hong Kong and Macao to leverage their respective advantages and adopt various collaborative approaches to “going global”, and emphasises the importance of deepening financial co-operation with the Mainland to enhance mutual market access. The support for Hong Kong in respect of the financial sector in the Dedicated Chapter serves to provide a broad direction for the development of our financial services industry, and lays a solid foundation and platform for further co-operation between Hong Kong and the Mainland.

## **Our Work in Taking Forward the Policy Initiatives in the Dedicated Chapter**

### Strengthening Hong Kong's status as the global offshore RMB business hub

4. The National 13th Five-Year Plan recognizes that Hong Kong has grown from an offshore RMB business centre into a global offshore RMB business hub. Hong Kong has been developing its RMB business since 2004, and has become the global hub for offshore RMB trade settlement, financing, asset and risk management. We have the largest offshore RMB liquidity pool. As at end May 2016, total RMB deposit (including customer deposits and certificates of deposit) amounted to RMB 824.0 billion, representing around half of the global offshore RMB liquidity and adequate to support huge amounts of RMB financial intermediary activities and payments. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), Hong Kong takes up about 70% of the offshore RMB payments. In the first half of 2016, the average daily turnover of Hong Kong's RMB Real Time Gross Settlement system amounted to RMB 869.0 billion. There is a wide range of RMB products (including investment funds, insurance products, currency futures and securities) available in the market to meet investors' needs for asset and risk management.

5. To enhance Hong Kong's status as the global offshore RMB business hub, the Government will continue to closely engage the industry and relevant Mainland authorities to seek more policy headroom with a view to expanding the channels for two-way cross-border RMB fund flows and strengthening financial co-operation with the Mainland. For example, the Government will explore with the Mainland authorities ways to further enhance and expand cross-border investment mechanism, including the possibility of increasing the investment quota for Hong Kong under the RMB Qualified Foreign Institutional Investors (RQFII) Scheme, in order to strengthen Hong Kong's role as a testing ground for various cross-border investment schemes. In addition, the Agreement on Trade in Services signed in November 2015 under the Mainland and Hong Kong Closer Economic Partnership Arrangement encourages Mainland insurers to cede their business to Hong Kong reinsurers in RMB. We will continue to facilitate the development of relevant businesses.

6. To support a large volume of increasingly complex offshore RMB financial transactions, the HKSAR Government will keep up its efforts to enhance financial infrastructure to provide a world-class platform and strengthen

RMB business links with overseas markets to facilitate RMB business activities between Hong Kong banks, overseas financial institutions and enterprises.

#### Enhancing Hong Kong's role as an international asset management centre

7. A Bill was passed by the Legislative Council in June 2016 to provide a legal framework for the introduction of open-ended fund companies. The framework will allow funds to be set up in the form of a company, but with the flexibility to create and cancel shares for investors' subscription and redemption in the funds, which is currently not enjoyed by conventional companies. The new option will help diversify our fund domiciliation platform through attracting more funds to domicile in Hong Kong.

#### Deepening financial co-operation between the Mainland and Hong Kong and expediting mutual access to markets of both places

8. On deepening the mutual access to the financial markets of both places, the mutual recognition of funds arrangement between the Mainland and Hong Kong was implemented in July 2015. There has been positive response from the market, with quite a number of recognized funds that have already been sold to the public in the Mainland and Hong Kong markets respectively. This has brought about new opportunities for the fund industry in both places, and deepened the mutual access between the Hong Kong and Mainland financial markets. As at end June 2016, 37 Mainland funds and six Hong Kong funds have been authorised/approved for public offerings in Hong Kong and the Mainland markets respectively under the arrangement.

9. Shanghai-Hong Kong Stock Connect has been operating smoothly since its commencement in November 2014. We have discussed with relevant authorities of the Central Government the launch of the Shenzhen-Hong Kong Stock Connect, so as to further strengthen the ties between the Hong Kong and Mainland securities markets, and continue to leverage the significant role played by Hong Kong in the two-way opening-up of the Mainland's capital markets to the rest of the world. Subject to the announcement of the Central Government, we shall implement the programme as soon as possible.

#### Promoting fund-raising services

10. Hong Kong's capital markets and asset management professionals and various financial products can support the operation of the Asian Infrastructure

Investment Bank (AIIB) in areas such as project financing, bond issuance, investment, financial management and foreign exchange management. In particular, as Hong Kong has a sophisticated and mature bond market, we will work closely with the AIIB as it contemplates bond issuance for the AIIB to build up its market presence in the international bond market. The HKSAR Government will continue to discuss with the Central Government and the AIIB the specific arrangements for Hong Kong to join the AIIB as a non-sovereign territory.

Participating in the country's two-way opening up and in the Belt and Road Initiative and encouraging Mainland enterprises to "go global"

11. The Dedicated Chapter supports Hong Kong in participating in the Belt and Road Initiative. As there are a number of Islamic countries in the Belt and Road region, Islamic finance will play an important role in financing. The success of the two sukuk issuances by Government in the past two years has demonstrated the ability of our financial market to support the launch of Islamic financial products and meet their financing needs. We shall seize the opportunity to issue the third sukuk in a timely manner.

12. To provide a conducive environment for attracting multinational and Mainland corporations to centralise their treasury functions in Hong Kong, the Government has amended the Inland Revenue Ordinance (Cap. 112) to enable, under specified conditions, the deduction of interest payable on money borrowed by a corporation carrying on in Hong Kong an intra-group financing business, and provide for a concessionary profits tax rate at 8.25% for qualifying corporate treasury centres. This enhances the competitiveness of our financial markets and supports Mainland enterprises to "going global".

13. In addition, an appropriate risk management system will help Mainland enterprises to manage their offshore risks effectively when they are expanding investments overseas. With a mature reinsurance market and comprehensive financial services, Hong Kong serves as an ideal domicile for Mainland enterprises' captive insurers and provides them with high quality reinsurance services. To encourage the development of captive insurance, the profits tax in respect of a captive insurer's insurance business of offshore risks has been cut by half (i.e. from 16.5% to 8.25%). We have also lowered minimum capital and solvency margin requirements, and exempted the requirement on maintaining assets in Hong Kong. We will continue to promote Hong Kong as a captive insurance centre.

14. Under the Belt and Road Initiative, financial services in emerging markets will be in growing demand. Hong Kong is well-equipped to serve as a platform for financing and fund management for these markets. The Hong Kong Monetary Authority has established early this month the Infrastructure Financing Facilitation Office, which seeks to facilitate infrastructure investments and their financing through building and working with a cluster of key stakeholders who are invited to become business partners. To date, around 40 organisations from Mainland China, Hong Kong and overseas have joined as partners, including development banks and agencies, public investors, project developers and sponsors, commercial banks, asset managers and professional service firms.

### **The Way Forward**

15. Following the policy of “what the country needs, what Hong Kong is good at”, the HKSAR Government will take forward Hong Kong-related policy initiatives under the National 13th Five-Year Plan, thus enabling the city to consolidate and enhance its position as an international financial centre and to strengthen financial co-operation with the Mainland. With a mature and stable financial market and the unique advantage of “One country, two systems”, Hong Kong can serve as a “firewall” and the testing ground for our country. By supporting the implementation of further financial reforms in the Mainland and the internationalisation of the RMB in a risk-controllable manner, Hong Kong can make greater contribution to our country’s continuous reform. Riding the momentum created by the National 13th Five-Year Plan and the Belt and Road Initiative, Hong Kong can also seek new opportunities for development.

16. Members are invited to note the content of this paper.

**Financial Services and the Treasury Bureau**  
**July 2016**

**Dedicated Chapter on Hong Kong and Macao in the National 13th Five-Year Plan<sup>1</sup>  
(Translation)**

**Chapter 54 Supporting the long-term prosperity, stability and development of Hong Kong and Macao**

Implementing fully and accurately the principles of “one country, two systems”, “Hong Kong people administering Hong Kong”, “Macao people administering Macao” and high degree of autonomy, adhering strictly to the Constitution and the Basic Law, leveraging the unique advantages of Hong Kong and Macao to enhance their roles and functions in the country’s economic development and opening up to other countries, supporting Hong Kong and Macao in developing their economies, improving people’s livelihood, furthering democracy and fostering harmony.

**Section 1 Supporting Hong Kong and Macao in enhancing their economic competitiveness**

Supporting Hong Kong in consolidating and enhancing its status as international financial, transportation and trade centres, strengthening its status as the global offshore Renminbi business hub and its role as an international asset management centre, promoting financing services, business and commerce, logistics and professional services, etc. towards high-end and high value-added development. Supporting Hong Kong in developing the innovation and technology industry and nurturing emerging industries. Supporting Hong Kong in establishing itself as a centre for international legal and dispute resolution services in the Asia Pacific region. Supporting Macao in becoming a world tourism and leisure centre as well as building a business co-operation service platform between the Mainland and Portuguese-speaking countries, proactively developing convention and exhibition, commerce and trade and other relevant industries, and promoting an appropriate degree of diversification and sustainable development of its economy.

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<sup>1</sup> This English version of the Dedicated Chapter on Hong Kong and Macao in the 13<sup>th</sup> Five-Year Plan is prepared by the HKSAR Government and is not the official English translation. For full text please refer to: [http://news.xinhuanet.com/politics/2016lh/2016-03/17/c\\_1118366322.htm](http://news.xinhuanet.com/politics/2016lh/2016-03/17/c_1118366322.htm) (in Chinese only).

## Section 2 Deepening co-operation between the Mainland and Hong Kong/Macao

Supporting Hong Kong and Macao in participating in the country's two-way opening up and in the Belt and Road Initiative, encouraging enterprises from the Mainland, Hong Kong and Macao to leverage their respective advantages and adopt various collaborative approaches to "go global". Stepping up efforts to further open up the Mainland market to Hong Kong and Macao, and promoting the upgrading of the Mainland and Hong Kong/Macao Closer Economic Partnership Arrangement. Deepening financial co-operation between the Mainland and Hong Kong, and expediting mutual access to markets of both places. Deepening exchanges and co-operation between the Mainland and Hong Kong/Macao in the areas of social and livelihood issues, culture, education, environmental protection, etc., supporting the Mainland and Hong Kong/Macao to commence co-operation in innovation and technology, supporting micro, small and medium enterprises as well as the young people of Hong Kong and Macao to develop start-up businesses in the Mainland. Supporting concerted efforts in building a quality living area in the Greater Pearl River Delta Region, and expediting development of Guangdong-Hong Kong-Macao co-operation platforms, such as Qianhai, Nansha and Hengqin. Supporting Hong Kong and Macao to play an important role in the Pan-Pearl River Delta Region co-operation to promote the development of Guangdong-Hong Kong-Macao Big Bay Area and major inter-provincial/regional co-operation platforms.