

**Motion on
“Maintaining and enhancing Hong Kong's position as an
international financial centre”
at the Legislative Council meeting on 19 June 2013**

Progress Report

Purpose

At the Legislative Council meeting on 19 June 2013, the motion “Maintaining and enhancing Hong Kong's position as an international financial centre” moved by Hon NG Leung-sing, as amended by Hon Christopher CHEUNG, was passed. The full text of the motion is at **Annex**.

2. The measures to maintain and enhance Hong Kong's position as an international financial centre are ongoing, including facilitating diversified market development, reviewing regulatory regime and financial infrastructure, as well as conducting promotion and regional cooperation. The latest developments of these measures are set out in the paragraphs below.

Facilitating market development

Offshore Renminbi (RMB) Business

3. Regarding offshore RMB business, relevant Mainland authorities announced the new revised pilot rules on the RMB Qualified Foreign Institutional Investor (“RQFII”) in March this year, enlarging the types of institutions eligible for applying for RQFII to cover Hong Kong subsidiaries of Mainland commercial banks and insurance companies, and financial institutions which are registered and have major operations in Hong Kong. The investment restriction of RQFII funds has also been relaxed to allow institutions to design the types of products in accordance with market conditions. This brings new opportunities to financial services industries and investors in Hong Kong. As at end July this year, a total of 44 Hong Kong financial institutions had been granted the RQFII qualification, with a combined approved RQFII investment quota of

RMB121.9 billion. The Securities and Futures Commission of Hong Kong (“SFC”) is discussing with Mainland regulators on mutual recognition of funds. The Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”), which was signed on 29 August this year, reinforced this initiative by stating that the Mainland authorities agreed to actively study the mutual recognition of fund products between the Mainland and Hong Kong. This will not only help enrich the variety of fund products in the two places, bringing new opportunities to both the industries and investors in the two places, but will also further enhance Hong Kong’s position as an international asset management center.

4. In addition, under the Supplement X to CEPA, qualified Hong Kong-funded financial institutions are allowed to set up full-licensed joint venture securities companies in designated areas and provinces, and the shareholding percentage of Hong Kong securities and fund management companies in the joint venture set up in the Mainland is further increased to over 50%. These measures will further expand the scope of business of Hong Kong securities and futures industry in the Mainland. We will continue to make use of the CEPA and other channels to enhance and expand the financial cooperation between the two places.

5. On our part, the Hong Kong Treasury Markets Association launched the CNH Hong Kong Interbank Offered Rate fixing (CNH HIBOR fixing) on 24 June this year. Its launch will support the growth of the RMB market by providing a benchmark for loan facilities. The fixing will also facilitate the development of a variety of RMB interest rate products, increasing the ability with which market participants can manage the interest rate risk of their RMB businesses. In addition, the Hong Kong Monetary Authority launched two enhancements on the provision of RMB liquidity on 26 July this year, including providing one-day funds which will be available on the next day (T+1) and overnight funds which will be available on the same day (T+0) to help banks meet their liquidity needs. The enhancements will strengthen liquidity management of banks participating in the RMB business and support further development of Hong Kong as the hub for offshore RMB business.

Asset Management

6. We are also making efforts to strengthen our role as an international asset management centre. The Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 which came into operation on 19 July this year provides a comparable taxation framework for some common types of Islamic bonds (sukuk) vis-à-vis conventional bonds, with a view to promoting the development of a sukuk market in Hong Kong, thus diversifying the types of products and services available to our financial markets.

7. The Trust Law (Amendment) Bill 2013 was also passed by the Legislative Council (LegCo) on 17 July this year. The Amendment Ordinance, which will come into effect on 1 December, seeks to bolster the competitiveness of Hong Kong's trust services industry and attract settlors to set up trusts in Hong Kong, in turn enhancing Hong Kong's status as an international asset management centre. In particular, it will give Hong Kong a competitive edge over the other major common law jurisdictions by enabling settlors to establish perpetual trusts in Hong Kong. We will work with the trust industry to enhance awareness of the Amendment Ordinance both locally and overseas.

8. With economic gravity shifting to the East, more and more quality and competitive investment projects originate from Asia. Hong Kong is located at the centre of Asia and possesses advantages such as free flow of information, an independent judicial system as well as having the Mainland as our hinterland. With Hong Kong's competitive edges, funds based in Hong Kong are being placed to explore investment opportunities in Asia and attract Asian capital more easily.

9. We are working on extending the profits tax exemption for offshore funds to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong. This will allow private equity funds to enjoy the same tax exemption as offshore funds and create a clear and certain tax environment for the private equity funds. In turn, it will attract more private equity funds to base their businesses in Hong Kong. At the same time, we are working with the

Securities and Futures Commission to formulate proposals to permit the market to establish open-ended investment companies (OEICs), and provide for a regulatory framework governing them, so as to offer an additional choice for the market, and attract more funds to base in Hong Kong and serve Asia. These proposals will broaden the variety and scope of our fund business and open up new business opportunities for professional services such as fund management, investment advice, and also legal and accounting services. We aim to launch the consultation on the relevant proposals within this year.

10. When the Administration formulates policies related to the securities sector, we aim to promote an open, fair and orderly market, and strike a reasonable balance between private investors and facilitating market innovation. We believe that the best way to support securities companies is to continue providing a fair business environment, and upgrading our market quality and overall competitiveness. As regards the proposal for SFC to offer financial support for curriculum development of training courses in asset management, we understand that SFC is now working with the Hong Kong Securities and Investment Institute (“HKSI”) on the details, including providing financial support to training initiatives which will focus on small and medium-sized broker; and developing courses on asset management and private wealth management. We hope these initiatives will better equip industry practitioners, especially employees of small and medium sized securities companies, to cope with new market development.

Captive Insurance

11. To attract more enterprises to domicile their captive insurance companies in Hong Kong, the Financial Secretary has included in the 2013-14 Budget a proposal to reduce the profits tax on the offshore insurance business of captive insurers by 50% (i.e. from the current standard rate of 16.5% to 8.25%). We are preparing amendments to the Inland Revenue Ordinance for introduction into the Legislative Council in early 2014. The Amendment Bill will seek to give effect to the proposed tax concession starting from the 2013/14 assessment year, i.e. it will cover assessable profits gained from 1 April 2013 onwards.

Refining regulatory system and financial infrastructure

12. We introduced the Securities and Futures (Amendment) Bill 2013 into the Legislative Council in July this year. The Bill seeks to provide for a regulatory framework for the over-the-counter (“OTC”) derivative market in Hong Kong. It would introduce mandatory reporting, clearing and trading obligations in line with the commitments of the Group of Twenty (“G20”) and provide for the regulation of players in the OTC derivative market. It would enable Hong Kong to put in place an appropriate and effective regime which meets the G20 requirements and is in line with developments in other international financial centres.

13. On the proposed legal framework for regulating Stored Value Facilities and Retail Payment Systems, we launched a 3-month public consultation in May this year. The legal framework seeks to enhance the safety and soundness of retail payment products and services, and strengthen protection for users of these products and services. We will introduce an amendment bill into Legco after taking into account comments received from this public consultation.

14. To strengthen the resilience of our banking sector in absorbing shocks arising from financial and economic stress, and to align with international standards, we have implemented the first phase of Basel III standards with effect from 1 January this year. The Banking (Disclosure) (Amendment) Rules 2013 and the Banking (Capital) (Amendment) Rules 2013 also took effect on 30 June this year. We will keep in view the international timeline for Basel III implementation for other capital and liquidity standards.

Promotion and regional cooperation

15. In exploring financial cooperation with the Mainland, we will continue to make use of various opportunities and platforms to promote Hong Kong as China’ global financial centre, and the premier asset management hub of the region. Amongst others, the fifth meeting of the Expert Group on Hong Kong-Guangdong Financial Co-operation was held on 17 July this year. At the meeting, we exchanged views with

representatives of the relevant government departments and regulatory bodies in Guangdong Province and discussed ways to enhance and deepen financial co-operation between the two places, covering areas such as cross-border RMB business, banking, securities and insurance. The representatives from the securities sector in Hong Kong and Guangdong also attended a forum on financial exchange on the same day, taking the opportunity to exchange ideas, promote mutual understanding and explore opportunities for future co-operation.

Continuing our endeavours

16. In a fast changing international landscape, Hong Kong naturally faces keen competition in the region and globally. In order to maintain the international competitiveness of Hong Kong, we shall continue our endeavors to consolidate and enhance Hong Kong's position as an international financial centre. As recently announced, Hong Kong continued to rank first in the Financial Market Development of the World Economic Forum's The Global Competitiveness Report 2013-2014. We will keep up our efforts and maintain close communication and cooperation with the industry and through the consultation platform of the Financial Services Development Council to take on board industry insights for enhancing the competitiveness of Hong Kong's financial market.

**Financial Services and the Treasury Bureau
September 2013**

**Motion on
“Maintaining and enhancing Hong Kong’s position as
an international financial centre”
moved by Hon NG Leung-sing
at the Council meeting of 19 June 2013**

Motion as amended by Hon Christopher CHEUNG

That, given the ever-growing competition between Hong Kong’s financial industry and those in its neighbouring regions, this Council urges the Government to make further efforts to maintain and enhance the Hong Kong SAR’s position as an international financial centre, including:

- (1) to introduce more proactive financial policies and measures to facilitate the balanced development of various large, medium and small financial enterprises;
- (2) to appropriately refine the existing regulatory system and financial infrastructure; and
- (3) to open up financial business co-operation with relevant regions.