

Bills Committee on Loans (Amendment) Bill 2014

**Follow-up actions arising from the discussion
at the meeting on 25 February 2014**

This paper sets out the Administration's –

- (a) plans and measures to enhance the further development of Islamic finance in Hong Kong, including training for manpower and liaison with relevant financial institutions and Islamic communities; and
- (b) plans and measures to promote Hong Kong's established platform for sukuk issuance to local and international investors.

Enhancing the development of Islamic finance in Hong Kong

2. To enhance the further development of Islamic finance in Hong Kong, the Administration, together with the regulators, has been focusing on four key areas, namely, providing an enabling environment, promoting market awareness and knowledge, forging closer ties with key Islamic financial centres, and encouraging product development.

Providing an enabling environment

3. The Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013, enacted by the Legislative Council on 10 July 2013, has enhanced the competitiveness of Hong Kong in the development of a sukuk market, as the legislation levels the playing field by providing a comparable taxation framework for sukuk vis-à-vis conventional bonds. Coupled with the core strengths of our financial markets including the strong presence of international financial intermediaries and our well-established financial market infrastructure, Hong Kong is now better placed to promote Islamic finance.

Promoting market awareness and knowledge

4. The Administration has been working closely with relevant parties to promote market awareness and knowledge of Islamic finance. To this end, the Hong Kong Monetary Authority (“HKMA”) has been in close collaboration with overseas central banks (such as Bank Negara Malaysia (“BNM”)), international organisations (such as the Islamic Financial Services Board (“IFSB”) and the International Centre for Education in Islamic Finance) and local industry bodies (such as the Treasury Markets Association) to offer training for market practitioners. Over the past few years, the HKMA has organised a series of Islamic finance seminars and workshops covering a wide range of topics such as Islamic capital markets, Islamic money markets, Islamic equity funds and indices, Islamic banking, etc. For examples, an Islamic capital and money markets workshop was held in March 2013, with participation of the Securities and Futures Commission (“SFC”), the Hong Kong Exchanges and Clearing Limited (“HKEx”), Malaysian financial regulators and market participants. The IFSB, in collaboration with the HKMA, held a seminar on strategies for the development of Islamic capital markets in Hong Kong in June 2013. Market response has been enthusiastic.

5. To continue our efforts, the HKMA is planning to organise an Islamic finance conference jointly with BNM in April this year in Hong Kong. This will provide a good opportunity for Hong Kong market practitioners to interact with their Malaysian counterparts to exchange views on issues concerning structuring sukuk and for Hong Kong corporates to understand more about the potential of sukuk issuance as a viable funding option.

Forging closer ties with key Islamic financial markets

6. The HKMA has been maintaining a close partnership with key Islamic financial markets such as Malaysia and Dubai.¹ For instance, the HKMA and BNM set up a private sector-led Joint Forum on Islamic Finance (the “Joint Forum”) last year. The aim of the Joint Forum is to promote closer collaboration between the private sector in Hong Kong and Malaysia by offering a platform for market players in both places to discuss practical and pertinent issues in the area of Islamic finance.

¹ The HKMA has signed Memoranda of Understanding (“MoUs”) with the Dubai International Financial Centre Authority and BNM in 2008 and 2009 respectively to strengthen co-operation in developing Islamic finance.

7. The first meeting of the Joint Forum was held in Hong Kong in December 2013, and has invited senior representatives of eight commercial banks and three fund management companies from the two jurisdictions. The Financial Services and the Treasury Bureau, SFC and HKEx also participated in the meeting. During the meeting, participants discussed measures to further the development of Hong Kong's Islamic financial market, and agreed to identify potential sukuk issuers and actively consider launching Islamic funds in Hong Kong. There will be a further discussion at the second meeting of the Joint Forum, which is scheduled to be held in Kuala Lumpur, Malaysia, in the second half of this year.

8. The SFC has also been working closely with its counterparts from major Islamic markets. For example, in April 2008, the SFC signed a Memorandum of Understanding with the Dubai Financial Services Authority for mutual co-operation on capacity building and human capital development in Islamic finance, as well as the promotion and development of the Islamic capital market. In November 2009, the SFC signed a Declaration of Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investment Schemes with the Securities Commission Malaysia ("MSC"). The declaration provides the framework for the SFC's and the MSC's mutual recognition of Islamic collective investment schemes offered to the public. The SFC has authorised one Malaysia-based Islamic equity fund under the mutual recognition framework. The SFC and the MSC will continue to maintain a continuous dialogue on the regulation of Islamic funds.

Encouraging product development

9. In Hong Kong, there are a number of Islamic financial products and services available in the market. Since October 2006, there have been seven issues of sukuk listed on the Stock Exchange of Hong Kong, with the issuance size amounted to US\$5.8 billion.

10. Subject to the passage of the Loans (Amendment) Bill 2014, the Administration is contemplating an inaugural sukuk issuance under the Government Bond Programme ("GBP") in light of the prevailing market conditions and needs. We envisage that the issuance of sukuk under the GBP will signal to the markets that our regulatory and taxation frameworks are well-established to accommodate sukuk issuances, thereby giving further impetus to other potential sukuk issuers to raise funds in Hong Kong. We have also been keeping a close contact with

the regulators and the industry to encourage potential issuers to issue sukuk in Hong Kong.

11. We believe that the above initiatives will be useful in building interest and momentum in Islamic finance activities in Hong Kong. We will continue to collaborate with the market and interested parties to this end.

Promoting Hong Kong's sukuk platform

12. In the past few years, the Administration and regulators have reached out to the international investment community to promote the opportunities and advantages presented by Hong Kong as an international financial centre. The strengths of Hong Kong's bond market, including the sukuk market and our listing platform, have been one of the key features in our promotional work targeting international investors. We will take every possible opportunity to promote Hong Kong's bond market, including our sukuk market, when meeting with institutional investors, issuers and asset managers.

13. The ongoing outreach aside, we believe that the inaugural sukuk issuance under the GBP after the passage of the Loans (Amendment) Bill 2014 would provide an ideal opportunity for the Administration to showcase Hong Kong's Islamic finance platform to the international market. Given the strong credit rating of the Government, we envisage that a global roadshow for the inaugural Government sukuk issuance would draw attention from international and local investors, maximising Hong Kong's visibility in the international market, and boosting Hong Kong's profile as a rising Islamic finance platform.

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

Financial Services and the Treasury Bureau
Hong Kong Monetary Authority
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