

**Motion on
“New challenges faced by Hong Kong
as an international financial centre”
at the Legislative Council meeting of 10 June 2015**

Progress Report

Purpose

At the Legislative Council (“LegCo”) meeting of 10 June 2015, the motion “New challenges faced by Hong Kong as an international financial centre” moved by Hon NG Leung-sing, as amended by Hon Martin LIAO, Hon Charles Peter MOK, Hon SIN Chung-kai and Hon Paul TSE, was passed. The full text of the motion is at [Annex](#).

2. The HKSAR Government implements various ongoing measures, including actively promoting market development, refining financial regulation and enhancing financial co-operation with other regions, so as to reinforce Hong Kong’s status as an international financial centre and offshore Renminbi (“RMB”) business hub and meet challenges. The latest developments of these measures are set out in the paragraphs below.

Promoting Market Development

Asset Management

3. Regarding asset management, Hong Kong enjoys a leading position in Asia with assets under management exceeding \$17 trillion. We have great competitive edge and potential to attract more funds of various types to set up base in the city, and develop into a full-fledged fund service centre. With effect from 1 July this year, the Securities and Futures Commission of Hong Kong (“SFC”) and the China Securities Regulatory Commission (“CSRC”) accept applications for registration and authorization of funds under the mutual recognition of funds (“MRF”) arrangement, the first of its kind between the Mainland and a market outside the Mainland. The arrangement will help the Mainland and Hong Kong build a mutual fund recognition platform and broaden cross-border investment channels.

4. To attract more funds to domicile in Hong Kong and thus establish a diversified fund platform, we are formulating detailed

legislative proposals to introduce a new open-ended fund company structure, in addition to the one currently applicable to trust funds. This will broaden the legal framework for setting up investment funds in Hong Kong.

5. Moreover, to attract more private equity funds to expand their business in Hong Kong, we commenced the relevant legislation which seeks to extend the profits tax exemption for offshore funds to private equity funds on 17 July this year.

Corporate Treasury

6. To attract multinational enterprises to establish corporate treasury centres in Hong Kong, we will introduce a bill to amend the Inland Revenue Ordinance in the coming legislative session to offer greater clarity in relation to profits tax computation of corporate treasury centres.

Talent Training

7. As projected by the latest Manpower Projection to 2022 prepared by the Labour and Welfare Bureau, the financial services industry is the fastest growing economic sector in terms of manpower requirements during the period from 2012 to 2022, with a projected average annual growth rate of 2.2%, much higher than that of 0.9% for overall Hong Kong. Shortage of manpower and quality personnel will hamper the development of the financial services industry. We need to ensure that our talent pool has the capacity and right skill set to meet the growing needs of the financial services industry. Enhancing talent training is therefore a crucial area of concern.

8. We have consulted the financial services industry on the issue of talent training. There is broad consensus that manpower shortage is particularly acute in the insurance and the asset and wealth management sectors. The industry has suggested that the Government could help promote the two sectors, enhance the professional competence of practitioners and, in particular, train up more talent for middle and back offices. Taking into account the views of the industry, we propose to launch a three-year pilot programme, and allocate \$100 million to implement various initiatives in support of the three themes of the programme: (a) to enable the public, particularly students to better understand the wide spectrum of work and career prospect within the industry; (b) to provide internship opportunities; and (c) to enhance

training courses for continuous learning and to sponsor practitioners in the industry to participate in the training courses. We consulted the LegCo Panel on Financial Affairs on the pilot programme on 1 June this year, and will seek funding approval from the LegCo Finance Committee for implementing the proposed programme. We aim to roll out the various initiatives starting early 2016.

Financial Technologies

9. Established in April this year, the Steering Group on Financial Technologies (“Fintech”) has already held three meetings to study how to promote Hong Kong as a Fintech hub. Development of Fintech involves government policy, regulatory infrastructure and talent training, and also requires the behavioural and cultural change of traditional financial services providers, startups and consumers. We will continue to work closely with all stakeholders to look into the potential of the Fintech sector and possible measures to promote its development, and aim to submit a report to the Financial Secretary by the end of this financial year.

Asian Infrastructure Investment Bank (“AIIB”)

10. As an international financial centre, Hong Kong’s financing and asset management professionals and other advantages can support the operation of the AIIB in areas such as project financing, bond issuance, investment, financial management and foreign exchange management. As we have experts in project negotiation, preparation of works and management contracts and international law, as well as professional arbitration services, Hong Kong can take part in the planning, implementation and operation of the relevant projects. Therefore, we hope that Hong Kong can actively participate in our country’s “One Belt One Road” Initiative and seize the opportunities arising from it through joining the AIIB. Our professional services and financial services industries will stand to benefit. This will also help reinforce our position as an international financial centre.

11. The HKSAR Government has been actively participating in the preparation for the establishment of the AIIB. Representatives of different countries signed the Articles of Agreement of the AIIB in late June this year in Beijing. The Financial Secretary also attended the signing ceremony as a member of the Chinese delegation. We will continue to discuss with the Central Government the appropriate procedures for Hong Kong to join the AIIB as a non-sovereign territory.

“One Belt One Road”

12. The Government attaches great importance to the opportunities arising from the “One Belt One Road” Initiative. Connectivity among regional infrastructural facilities is a priority area and financial integration is an important pillar of the Initiative. The Initiative is expected to help expedite investments in infrastructural projects along the Belt and the Road, particularly in Asia. With further economic integration and more economic and trade activities in the region, there will be an increased demand for financial services. Therefore, we believe that Hong Kong’s financial services industry can provide support in the following four aspects -

- (a) As the main international investment and fundraising platform, Hong Kong can encourage enterprises involved in relevant projects along the Belt and the Road to raise capital here through initial public offerings or post-listing fundraising and various channels such as bond issuances and bank loans.
- (b) Hong Kong can offer a wide range of RMB services to infrastructural constructions along the Belt and the Road. Hong Kong’s role and services as the largest hub for offshore RMB business can be further leveraged and enhanced.
- (c) As one of the global centres of asset management, risk management and multinational corporate treasury, Hong Kong has extensive experience and advantages to meet the demand for financial services from enterprises and financial institutions participating in “One Belt One Road” projects. Hong Kong’s world-class insurance services can also help Mainland enterprises manage risks arising from expansion of their overseas business.
- (d) As there are many Islamic countries along the Belt and the Road, it is expected that Islamic finance will play an increasingly important role in investment and fundraising. We continue to work on setting up a platform conducive to the development of Islamic finance in Hong Kong. We successfully issued another sukuk in May this year, so as to encourage more issuers and investors to participate in Hong Kong’s Islamic finance platform.

13. In short, the “One Belt One Road” Initiative is a long-term development strategy. Hong Kong will adopt a two-pronged approach by further enhancing our financial infrastructure and providing diversified financial and other professional services, while strengthening our economic and trade ties with countries along the Belt and the Road, so as to contribute to the “One Belt One Road” Initiative.

Refining Financial Regulation

14. Regarding the securities markets, we are implementing the regulatory regime for the over-the-counter derivatives market in phases. The first phase commenced operation on 10 July this year to implement the mandatory reporting and related record-keeping obligations.

15. On the regulation of banks, we are drafting amendments to the Banking (Capital) Rules to set out the technical details for the implementation of the second phase of Basel III. We plan to table the relevant subsidiary legislation before LegCo within this year.

16. Moreover, the Government and the financial regulators have jointly conducted two rounds of public consultation on the establishment of an effective resolution regime for financial institutions in Hong Kong. We will publish the consultation conclusions later this year. Our target is to introduce legislative proposals into LegCo by the end of 2015.

17. On the regulation of the insurance industry, the Insurance Companies (Amendment) Ordinance 2015 was enacted by LegCo on 10 July this year for the establishment of the independent Insurance Authority (“IA”). The establishment of the IA aims to modernise the insurance industry regulatory infrastructure to facilitate the stable development of the insurance industry, provide better protection for policyholders, and comply with the requirement of the International Association of Insurance Supervisors that insurance regulators should be financially and operationally independent of the government and industry.

18. As for the proposals to reform the regulatory regime for listed entity auditors, the consultation conclusions reflecting majority support from the respondents for the objective and direction of the reform were issued on 26 June this year. The Government will prepare the draft amendment bill based on the consultation conclusions, and will continue to engage relevant stakeholders as we work out the details of the new

regime. The Government's target is to introduce the amendment bill into LegCo in the 2016-17 legislative session.

19. Further, we are committed to combatting market misconduct, so as to protect investors and uphold Hong Kong's reputation as an international financial centre. For example, during the year 2014-15, the SFC laid 71 criminal charges against 12 individuals and three corporations and secured convictions against 14 persons and three corporations, including convictions on 26 counts of market manipulation. The SFC sought disqualification and restoration orders against 11 persons and three corporations. Civil actions seeking financial redress and other remedial orders against 93 persons or corporations were pending before the court. The SFC also initiated four cases alleging insider dealing or market manipulation before the Market Misconduct Tribunal against 17 corporations and persons and took disciplinary action against 47 intermediaries.

20. The SFC is a signatory to the Multilateral Memorandum of Understanding of the International Organization of Securities Commissions ("IOSCO MMoU"), and has established enforcement cooperation with over 100 signatories to the IOSCO MMoU, including the CSRC. Under the Securities and Futures Ordinance, the SFC may provide investigatory assistance to and share information with signatories to the IOSCO MMoU subject to certain conditions such as whether it is in the interest of the investing public to do so. The investigatory cooperation mechanism among international securities regulators has been in operation for over a decade, and has contributed to the satisfactory outcomes of many SFC cases involving cross-border elements. Apart from enforcement cooperation, with a view to allowing the SFC to engage regulators around the world to enter into more reciprocal supervisory cooperation arrangements in order to enhance its monitoring of financial stability, we introduced a bill into LegCo in June this year to enable the SFC to provide supervisory assistance to regulators outside Hong Kong. The bill is being scrutinised by a Bills Committee.

21. The Memorandum of Understanding ("MoU") on enforcement cooperation under Shanghai-Hong Kong Stock Connect has further strengthened the cooperation between the SFC and the CSRC. The MoU provides for cooperation between the SFC and the CSRC on information sharing, joint investigations and complementary enforcement action, and makes sure that enforcement actions in both jurisdictions operate to protect the investing public of both the Mainland and Hong Kong.

Enhancing Financial Co-operation

22. We have been promoting the internationalization of RMB and reinforcing Hong Kong's position as a premier offshore RMB centre. With the support of the Central Government, Hong Kong has developed into the world's largest offshore RMB business hub, with the world's largest offshore pool of RMB funds. As at the end of May 2015, RMB deposits and RMB certificates of deposit in Hong Kong totalled RMB1,093.4 billion. In the second quarter of 2015, the average daily turnover on Hong Kong's RMB Real Time Gross Settlement system amounted to about RMB 890 billion. According to the Society for Worldwide Interbank Financial Telecommunication, banks in Hong Kong handle about 70% of total RMB payments worldwide. Through the development of RMB bonds, loans and equity products, Hong Kong has also become the largest offshore RMB financing and asset management centre.

23. Shanghai-Hong Kong Stock Connect has been operating smoothly since its commencement in November last year. It catalyzes the two-way fund flows between the two markets, and represents a historic milestone in the opening up of the Mainland's capital account. The connectivity with the Mainland stock market offered by the scheme provides investors with more investment choices, and brings many opportunities to the financial intermediaries businesses in Hong Kong, while reinforcing Hong Kong's status as the premier offshore RMB business hub. The mutual access to the securities markets is designed to be scalable. We have discussed with the relevant Central Authorities Shenzhen-Hong Kong Stock Connect and enhancement of Shanghai-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. When a decision has been made on Shenzhen-Hong Kong Stock Connect and the enhancement of Shanghai-Hong Kong Stock Connect, we will make an announcement at an appropriate time.

24. The MRF arrangement mentioned above is another major breakthrough for the local financial markets after the launch of Shanghai-Hong Kong Stock Connect. For Hong Kong, the arrangement will help promote the internationalization of RMB and reinforce our position as the premier offshore RMB centre. At the same time, the arrangement would diversify the types of fund products offered and

further enrich our fund platform. More funds will be attracted to domicile in Hong Kong, thereby facilitating the development of Hong Kong into a full-fledged fund service centre.

Continuing Our Endeavours

25. The HKSAR Government will continue to implement various measures and strive to promote market development, refine financial regulation and strengthen financial cooperation with other regions, so as to reinforce Hong Kong's status as an international financial centre and offshore RMB business hub and meet various challenges.

**Financial Services Branch
Financial Services and the Treasury Bureau
6 August 2015**

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That, in a relatively weak global economic environment, this Council urges the Government to formulate and implement as early as possible comprehensive strategies targeting at the rapidly evolving global macro economic and financial development, the Mainland’s requirements for financial reform and the rise of emerging financial centres to meet challenges; at the same time, the Government should grasp the new opportunities brought about by the major national policy of ‘One Belt One Road’ in consolidating and enhancing the competitiveness of Hong Kong as an international financial centre and expediting the promotion of Hong Kong’s development into a financial technology hub; this Council also urges the Government to provide appropriate investment environment, tax regime, regulatory system, infrastructure and manpower training, so as to encourage market competition and attract talents; at the same time, this Council also urges the Government to review the existing relevant regulatory legislation and strengthen co-operation with the Mainland regulatory authorities to combat any cross-boundary illegal activities and market misconduct carried out through the flow of funds between the two places and in the international financial market, especially in respect of the regulation of insider dealings and disclosure of information, thereby protecting the legitimate rights and interests of investors and upholding Hong Kong’s reputation as an international financial centre; in addition, specific strategies include:

- (1) to discuss with the Central Government to set up the headquarters of the Asian Infrastructure Investment Bank (‘AIIB’) in Hong Kong;
- (2) to prompt AIIB to issue Renminbi bonds in Hong Kong; and
- (3) to study with the Central Government the extension of policies for promoting mutual access between the financial markets in the Mainland and Hong Kong, such as the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, etc., from the stock market to the Renminbi-denominated bond, foreign exchange and commodity markets in the Mainland, so as to establish multi-dimensional linkage with the Hong Kong Exchanges and

Clearing Limited, broaden the 'financial spectrum' of Hong Kong as a financial centre, promote the internationalization of Renminbi and consolidate Hong Kong's position as an offshore centre for Renminbi, thereby achieving a win-win situation for Hong Kong and the Mainland.