Supplementary information in relation to the meeting of the Legislative Council Panel on Financial Affairs held on 15 November 2016

Agenda Item V – Briefing on the work of Hong Kong Monetary Authority

The Hong Kong Monetary Authority (HKMA) sets out below supplementary information as requested by the Legislative Council Panel on Financial Affairs —

(a) Exchange Fund's investment, if any, in (i) bonds issued by the Central Government and Mainland corporations, and (ii) precious metals; and the relevant details

i) On investment in renminbi (RMB) bonds

The Exchange Fund has been pursuing investment diversification and has begun investing in RMB assets in recent years. For RMB bonds, the investments are primarily made through Mainland's interbank bond market and the Qualified Foreign Institutional Investor scheme. The HKMA cannot disclose the details of investments.

ii) On investment in precious metals

The market value of gold in the official reserve assets was about US$89 million as at 30 September 2016, which accounted for a very small part of the total reserve assets.

(b) The annual return rate of Exchange Fund for the period from 2001 to 2016

The long-standing principle of the Exchange Fund is "Capital Preservation First, Long-term Growth Next". Through allocating funds across different asset classes, markets and currencies, the Exchange Fund seeks to achieve a relatively stable overall investment return in the medium and long term. In particular, the heightened financial market volatilities and a highly uncertain investment environment in recent years underscore the importance of focusing on the Exchange Fund's medium- and long-term investment performance, rather than its short-term performance on a yearly basis. **Table 1** and **Table 2** below show the annual rate of return of the Exchange Fund from 2001 to 2015 and its long-term return rate respectively. As shown in **Table 2**, the Exchange Fund registered an average return rate of 3.8% over the past 15 years and 5% from 1994 to 2015, beating the inflation rates (1.9% and 2.2% respectively) during the same period.

Table 1: Investment return rate of the Exchange Fund (2001 - 2015)*

2001	0.7%
2002	5.1%
2003	10.2%
2004	5.7%
2005	3.1%
2006	9.5%
2007	11.8%
2008	-5.6%
2009	5.9%
2010	3.6%
2011	1.1%
2012	4.4%
2013	2.7%
2014	1.4%
2015	-0.6%

Table 2: Long-term return rate**

	Exchange Fund	Hong Kong Composite Consumer Price Index
15-year average (2001 to 2015)	3.8%	1.9%
Average since 1994 (1994 to 2015)	5.0%	2.2%

* Investment return calculation excludes holdings of the shares in Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio. Investment return rate for 2016 will be announced in early 2017.

** Averages over different time horizons are calculated on an annually compounded basis.

(c) Measures to manage risks arising from recent volatilities in the currency markets on Exchange Fund's investment on foreign currencies

The HKMA has been closely monitoring market developments, and adjusts its investment strategies and asset allocation judiciously to enhance the Exchange Fund's resilience against market fluctuations. In fact, we have already started reducing non-US dollar assets in the past two years to reduce the negative currency translation effect amid a strong US dollar cycle. Holdings of non-US/HK dollar assets in the Exchange Fund were reduced from 17.5% at the end of 2014 to 12.6% at the end of 2015.

(d) The involvement of money lenders in the primary and secondary mortgage market (such as the amount of loans they offer and the risk exposure of banks to such money lenders), and HKMA's assessment of the potential risks of such activities to Hong Kong's financial stability

Money lenders are not institutions authorized under the Banking Ordinance and are not regulated by the HKMA. Therefore, the HKMA does not collect information on the overall mortgage loan size of money lenders and the breakdowns of their mortgage business in the primary and secondary markets.

However, the HKMA has collected information from banks regarding property-related lending by finance companies which have obtained financing from banks (many of these finance companies are money lenders). These included some of the relatively active finance companies in the market. According to the information collected from banks, the amount of loans with property pledged as collateral provided by these finance companies was equivalent to less than 1% of the total outstanding residential mortgage loans of the banking sector in Hong Kong. Besides, the total amount of loans provided by banks in Hong Kong to finance companies accounted for less than 1% of total loans in the banking sector. Therefore, the financial soundness of money lenders should not have significant implications on the stability of the banking system.

(e) HKMA's guidelines to banks on the provision of banking services for the socially disadvantaged and less privileged groups

The HKMA attaches great importance to the accessibility of banking services to the general public, particularly customers in need. The Treat Customers Fairly (TCF) Charter, which was initiated by the HKMA and signed up by all retail banks in Hong Kong in 2013, stipulates in Principle 5 that banks that engage in mass retail market in Hong Kong should provide reasonable access to basic banking services to members of the public paying special attention to the needs of vulnerable groups.

The HKMA has been encouraging the banking industry to put the spirits of "customer-centrism" and "financial inclusion" into practice when developing their banking networks, and in particular, to take special care of customers in need. The banking industry has responded positively. Simplified ATM cards have been introduced since 2007 to help the elderly and other customers who are not familiar with computer operation to operate ATMs more easily. In recent years, two major retail banks in Hong Kong have in turn launched their mobile branches to serve customers in the public housing estates on a rotating basis. In addition, several banks have in turn introduced video teller machines[1] which are useful to senior citizens and other people in need of assistance from bank staff.

The Code of Banking Practice as endorsed by the HKMA and jointly issued by banking industry associations also stipulates, inter alia, that banks should adopt a helpful approach to making available to customers with a disability appropriate means to access banking services. Banks are encouraged to install specialised machines or software and to provide physical access to facilitate the provision of banking services to persons with a disability. Banks should also provide suitable training to front-line staff to raise awareness of the principles and guidelines relating to equal opportunity and the provision of assistance to customers with a disability.

[1] Through the video camera at the video teller machines (VTMs), bank staff at customer service centres can have real-time conversation with customers, assist them to use VTMs, provide interactive banking services and answer their enquiries on banking services.

We understand that about 75% of the bank branches and all the ATMs in Hong Kong provide and support appropriate means to help customers with a disability to access banking services. Measures to facilitate access to basic banking services for persons with disabilities include ramps for wheelchairs at branches, ATMs with adjusted height-of-reach for persons on wheelchairs, displaying protruding symbols on ATMs to facilitate the use of ATMs by the visually impaired, etc. Two major retail banks in Hong Kong have also introduced voice navigation ATMs to further facilitate customers with visual impairment to access ATM services more easily and independently[2]. Where certain barrier-free measures could not be accommodated in bank branches for the time being due to, for example, structural or spatial constraints of the properties and other relevant constraints, staff of bank branches will endeavour to provide assistance to customers in need.

The HKMA will continue to work closely with the banking industry in enhancing accessibility of basic banking services to the general public, particularly customers with special needs.

2 We understand that the banks concerned have consulted and agreed with organisations providing services to people with visual impairment about the functionalities and locations of the voice navigation ATMs before launching the services.

(f) Comparison of Hong Kong and Singapore on the performance as asset management centre in Asia, including their respective positions in the management of private equity funds, the number of private banks opened, and the total capital under management in private equity funds

According to published information by the HKMA, Securities and Futures Commission (SFC), Monetary Authority of Singapore (MAS) and other studies, below are the relevant statistics on Hong Kong and Singapore as asset management centres in Asia:

2015 figures, unless otherwise stated:	**Hong Kong**	**Singapore**
Assets under management[1]	US$2.2 trillion[*]	US$1.8 trillion[#]
Number of licensed asset management companies	1,135[*]	628[#]
Presence of world's largest 100 global money managers[2]	68	60
Capital under management of private equity funds (first half of 2016)[3]	US$120 billion	US$30 billion

Notes:

1 *MAS's survey has a broader coverage, including institutions other than traditional asset managers*

2 *Based on Pensions and Investments' list of top global money managers by assets in 2015*

3 *Asian Venture Capital Journal's data*

* *SFC's data*

\# *MAS's data*

According to HKMA's statistics, there were a total of 47 banks offering private wealth management services in Hong Kong as of October 2016. The comparable statistics for Singapore are not publicly available.