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LEGISLATIVE COUNCIL PANEL ON FINANCIAL AFFAIRS
2021 Policy Address
Policy Initiatives of the Financial Services and the Treasury Bureau

INTRODUCTION

The 2021 Policy Address and Supplement set out the Government initiatives in the coming year. This paper outlines various key policy initiatives relating to the Financial Services and the Treasury Bureau ("FSTB").

2. We will focus on two major policy initiatives in the coming year, including financial stability and promoting market development.

FINANCIAL STABILITY

3. The financial services industry is an important pillar of the Hong Kong economy, contributing to about one-fifth of our Gross Domestic Product and providing more than 270 000 jobs, which account for above 7% of the working population. Hong Kong's position as a leading international financial centre and its sophisticated financial system are widely recognised.

4. Amid uncertainties such as the COVID-19 pandemic, financial markets around the world continued to be volatile in the past year or so. Nevertheless, thanks to our sound regulatory regime and robust risk management, Hong Kong's financial market has continued to operate smoothly. Moreover, the Linked Exchange Rate System, underpinned by strong foreign currency reserve assets of over US$490 billion, which is about two times our monetary base, remains the bedrock of the stability of our currency and maintains the confidence of society and markets. Moreover, initial public offering ("IPO") funds raised in Hong Kong reached HK$400 billion last year, registering an increase of 27% from 2019. As at September this year, the total amount of funds raised through IPO was over HK$280 billion. The banking system also remained resilient, with total deposits increasing by 2.7% in the first eight months of this year, following an increase of 5.4% in 2020 from the year before. The International Monetary Fund also commended that Hong Kong's macroeconomic and prudential policies had provided it with important buffers to cope with future shocks, and reaffirmed Hong Kong's position as an international financial centre with a resilient financial system, sound macroeconomic and prudential policies, and robust regulatory and supervisory frameworks.[1]

[1] International Monetary Fund (2021), People's Republic of China — Hong Kong Special Administrative Region Financial System Stability Assessment. Available at: https://www.imf.org/en/Publications/CR/Issues/2021/06/04/Peoples-Republic-of-China-Hong-Kong-Special-Administrative-Region-Financial-System-Stability-50197.

PROMOTING MARKET DEVELOPMENT

5. The development of Hong Kong's financial services industry has always been strongly supported by the Central Government. The country's 14th Five-Year Plan acknowledges the significant functions and positioning of Hong Kong in the overall development of the country. It also supports Hong Kong to enhance its status as an international financial centre, strengthen its function as a global offshore Renminbi ("RMB") business hub, an international asset management centre and a risk management centre, as well as deepen and widen the mutual access between the financial markets of Hong Kong and the Mainland to develop a high quality Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area"). The Government will continue to capitalise on the opportunities presented by the 14th Five-Year Plan to better integrate Hong Kong into the overall development of the country via the best entry point of the Greater Bay Area. We will make good use of our institutional strengths in different aspects to contribute to the country's "dual circulation" development and, at the same time, open up new prospects for the economic and social development of Hong Kong. We will also communicate with the Mainland closely to implement various planned targets following the guiding principles of the 14th Five-Year Plan, thereby contributing to the nation's economic development and opening up, while addressing investors' needs.

6. The ensuing paragraphs elaborate on the various initiatives relating to FSTB to promote the development of the financial services sector of Hong Kong as categorised into six areas.

(I) Consolidating our Advantages to Bolster Development

(a) Promoting the development of our listing platform

7. We have been taking forward initiatives to enhance the competitiveness of Hong Kong's listing platform having regard to the latest development in the global financial market. We support the Hong Kong Exchanges and Clearing Limited ("HKEX") to further enhance the listing regime to continue to meet the needs of issuers and investors locally and around the globe, taking into account changes in the global market landscape and development of emerging technologies, and to further attract Mainland enterprises that are interested in listing offshore by providing China Concept Stocks with a fund-raising option that faces international investors.

8. HKEX is conducting a consultation on the proposal of establishing a listing regime for special purpose acquisition companies in Hong Kong. We support HKEX to establish the relevant listing regime after the market consultation, so as to enhance the competitiveness of Hong Kong as an international financial centre while safeguarding the interests of the investing public. HKEX is also actively considering to implement detailed measures to simplify the listing of issuers with centre of gravity in the Greater China area, in order to further promote the development of Hong Kong as a premier listing platform for enterprises.

(b) Developing Hong Kong into a premier international asset and wealth management centre in Asia

9. The fund management business of Hong Kong amounted to around $34.9 trillion (around USD4.5 trillion) as at end-2020, registering a year-on-year 21% growth, among which 64% of the fund (excluding the business of real estate investment trusts) were sourced from non-Hong Kong investors. We have executed a three-step strategy to sharpen our competitive edge as an asset and wealth management centre, which includes –

(i) introducing the limited partnership fund ("LPF") regime to allow funds to be set up in the form of limited partnership. More than 300 LPFs have been set up in Hong Kong in just one year;

(ii) providing tax concessions for carried interest issued by private equity funds operating in Hong Kong with effect from 2020-21; and

(iii) establishing a legal framework for foreign funds to re-domicile to Hong Kong as open-ended fund companies ("OFCs") or LPFs, and providing subsidies for OFCs set up in or relocated to Hong Kong.

10. Moreover, to propel the development of the real estate investment trust ("REIT") market of Hong Kong, the Securities and Futures Commission ("SFC") has suitably relaxed certain investment restrictions imposed on REITs, and provided subsidies for qualifying REITs authorised by SFC and listed in Hong Kong.

11. On expanding the fund distribution network, Hong Kong has reached mutual recognition of funds arrangement with the Mainland, Switzerland, France, the United Kingdom, Luxembourg, the Netherlands and Thailand.

12. Concerning the development of family office business in Hong Kong, Invest Hong Kong's dedicated team has commenced operation in June 2021 to offer one-stop support services to family offices which are interested in establishing a presence here. We are also reviewing the relevant tax arrangements with a view to enhancing Hong Kong's attractiveness as a family office hub.

(c) Promoting the development of the bond market

13. Since 2009, we have been committed to promoting the development of Hong Kong's bond market through a multi-pronged approach. This includes the regular issuance of government bonds and implementation of various support measures such as tax incentive, subsidy schemes, etc. Hong Kong is now the largest centre for arranging Asian international bond issuances by volume and is particularly strong in arranging first-time Asian international bond issuance, capturing 75% of the market and surpassing other major international financial centres. To promote a deeper and wider bond market, the Steering Committee on Bond Market Development in Hong Kong led by the Financial Secretary has started its work since August this year. We will consolidate the suggestions gathered from participating financial regulators and market experts and formulate an overall strategy to promote the sustainable development of the bond market in Hong Kong.

(d) Enhancing Hong Kong's function as an international risk management centre

14. To enhance Hong Kong's function as an international risk management centre, we established a dedicated regulatory regime for insurance-linked securities ("ILS") such as catastrophe bonds, and launched the Pilot ILS Grant Scheme[2] in the first half of this year. These measures have injected new impetus to the sustainable development of the insurance industry and facilitated the issuance of the first ILS in Hong Kong on 1 October 2021. In addition, since March 2021, we have offered half-rate profits tax concessions for selected insurance businesses, including those related to marine and specialty insurance, and expanded the scope of insurable risks of captive insurers set up in Hong Kong, with a view to enhancing the competitiveness of Hong Kong's insurance industry.

2 Under the Pilot ILS Grant Scheme, the Government would provide subsidies to insurance enterprises or organisations to cover their upfront costs of issuing ILS in Hong Kong (e.g. fees to legal advisors, risk modellers, auditors, etc.), subject to a cap of $12 million or $6 million per eligible issuance depending on the maturity of the ILS.

15. Meanwhile, to promote mutual access of the insurance market in the Greater Bay Area, we are working with the Insurance Authority ("IA") to actively discuss implementation details with the relevant Mainland authorities for early establishment of after-sales service centres by Hong Kong insurance industry in the Mainland cities of the Greater Bay Area, with a view to providing Hong Kong, Macao and Mainland residents who are holders of Hong Kong policies with comprehensive support in different areas including enquiries, claims and renewal of policies. We are also striving for early implementation of the "unilateral recognition" policy for motor insurance policies of relevant Hong Kong vehicles entering Guangdong through the Hong Kong-Zhuhai-Macao Bridge which extends the coverage of third-party insurance policies issued by Hong Kong insurers to cover third-party liability in the Mainland, thereby deeming such policies as equivalent to the mandatory traffic accident liability insurance in the Mainland.

16. Furthermore, to encourage members of the public to prepare for their retirement, since the tax assessment year of 2019-20, we have provided taxpayers with tax deductions at a maximum limit of $60,000 each assessment year for their premiums paid to qualifying deferred annuities and contributions made to tax deductible MPF voluntary contributions accounts. Since the inception of the tax deductions in April 2019 to August 2021, members of the public bought around 197 000 deferred annuity policies (involving around $14.1 billion of annualised premium) and opened around 56 000 tax deductible accounts (accumulating around $4.7 billion contributions), reflecting the positive reception of the public to the tax deductions.

(II) Playing to our Strength to Contribute to the Nation

(a) Strengthening Offshore RMB business

17. The 14th Five-Year Plan supports Hong Kong to strengthen its status as a global offshore RMB business hub. With the support of the Central People's Government, Hong Kong continues to be the world's largest offshore RMB business hub and offshore RMB clearance, product and fund centre, with a leading position in RMB settlement, financing and asset management. We will continue to spare no effort in exploring with the industry and the Mainland authorities on promoting two-way flow of cross-boundary RMB funds and developing offshore RMB products and tools.

18. In view of the overall development trend of RMB, we will conduct feasibility study on specific proposals to increase the demand for the issuance and trading of RMB securities, such as allowing securities eligible for southbound trading under Stock Connect to be denominated in RMB. Meanwhile, we will

continue to facilitate the issuance of offshore RMB bonds, including working with the Shenzhen Municipal People's Government on its issuance of RMB bonds in Hong Kong.

(b) *Developing Hong Kong into a broader and deeper fundraising platform and promoting mutual market access with the Mainland financial market*

19. The new listing regime implemented in 2018 for facilitating the listing of companies from emerging and innovative sectors in Hong Kong has gradually delivered outcome. Since its implementation, around 60 companies have listed under the regime and the total fund raised through IPO accounted for over 40% of the fund raised through IPOs during the same period (up to end-September 2021). Hong Kong has also become the world's second-largest listing venue for biotechnology companies.

20. We also continue to deepen the mutual market access between Hong Kong and the Mainland with a view to further reinforcing Hong Kong's role in connecting the financial markets in the Mainland and the rest of the world. We expanded the scope of eligible securities under the southbound trading of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect in end-December last year to cover pre-revenue / pre-profit biotechnology companies listed under the new listing regime, and have included the companies listed on the Mainland STAR Market in the scope of eligible securities under the mutual market access schemes since February this year. As at end-August 2021, 17 pre-revenue / pre-profit biotechnology companies and 24 Mainland STAR Market companies have been included in the scope of eligible securities under the mutual market access schemes according to the above arrangements.

21. Furthermore, HKEX will launch MSCI China A-share index futures contract in Hong Kong on 18 October 2021. The contract is an offshore A-share index futures product formally approved by the Mainland authorities. It could serve as a useful risk management tool for offshore investors participating in the A-share market, while broadening the offering of financial products in Hong Kong at the same time.

(c) *Opportunities arising from development of the Greater Bay Area and the Belt and Road Initiative*

22. With a view to capitalising on the opportunities arising from the development of the Greater Bay Area and the Belt and Road Initiative, we will continue to offer diversified and one-stop financial services, including offshore

RMB business, project financing, risk management and asset and capital management, for enterprises in the region.

23. In September this year, the cross-boundary wealth management connect ("Wealth Management Connect") was formally launched, allowing residents in Hong Kong, Macao and nine cities in Guangdong Province to carry out cross-boundary investment in wealth management products distributed by banks in the area. It is a milestone in the financial development of the Greater Bay Area and the first mutual market access mechanism for individual investors, which is conducive to the facilitation of cross-boundary investment by individual residents of the Greater Bay Area. Wealth Management Connect not only opens up a broader market for the financial and relevant professional sectors, but also reinforces Hong Kong's role as an important gateway for capital flowing into and out of the Mainland, as well as its position as the global offshore RMB business hub and an international asset management centre.

24. We will continue to proactively cooperate with the relevant Mainland authorities to gradually implement various measures along the directions set out in the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area and the Opinion on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area in a risk-controlled manner to facilitate the movement of factors of production within the Greater Bay Area, open up new markets and business opportunities for the financial and professional services sectors, and enhance measures on cross-boundary financial infrastructure. In addition, we will seize the opportunities presented by the Plan for Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and strengthen mutual access between the financial markets of Hong Kong and Shenzhen.

(III) Benefitting the Public through Financial Measures

(a) Facilitating Mandatory Provident Fund ("MPF") investments in China bonds

25. As at the end of August 2021, the total MPF assets amounted to around $1,200.9 billion, of which some $436.2 billion was investment return net of fees and charges. The annualised net internal rate of return since inception of the MPF System stood at 4.8%. To better grasp the opportunities brought by the gradual opening up of the Mainland financial market, the Mandatory Provident Fund Schemes Authority ("MPFA") approved Shanghai Stock Exchange and Shenzhen Stock Exchange as approved stock exchanges for MPF purposes last year. This has helped broaden investment opportunities and diversify risks of

MPF funds. As a result, the exposure of MPF funds to China A-shares increased by 104% from $11.4 billion as at end-September 2020 to $23.2 billion as at end of June 2021.

26. To tap into the opportunities in the China bond market and make MPF investment more diversified, we are examining with MPFA measures to facilitate MPF investment in government and policy bank bonds issued in the Mainland. MPFA is studying the possibility and mapping out implementation details of the facilitation measures. The review is expected to be completed by the fourth quarter of 2021.

(b) Enhancing the MPF system

27. The eMPF Platform, being the most important reform initiative since the inception of the MPF System in 2000, aims to standardise, streamline and automate scheme administration processes. With the benefit of economies of scale and digitalisation, the eMPF Platform will increase operational efficiency and cost effectiveness, thereby creating room for fee reduction. The cumulative cost savings brought about by the eMPF Platform is estimated to range between HK$30 billion and $40 billion over a 10-year period. Scheme members are also expected to enjoy an average 30% cut in the scheme administration fee, with corresponding reduction to the Fund Expense Ratio, as soon as the MPF schemes begin to operate on the eMPF Platform.

28. We and MPFA are working in full steam to take forward the eMPF Platform Project, including platform building and completing the second-stage legislative work by the end of the current legislative term. Our target is to complete the development work of the eMPF Platform by around the end of 2022 for phased migration of trustees starting from 2023, and full implementation in around 2025 at the earliest. We are also making preparatory work for the measure of the Government paying 5% MPF contributions for the low-income persons when the eMPF Platform is fully functional.

29. MPFA will continue to explore feasible measures to increase the choices and investment return of MPF funds, with a view to enhancing the value of retirement benefits of scheme members.

(c) Facilitating financing by small and medium enterprises ("SMEs") with "Commercial Data Interchange"

30. The Hong Kong Monetary Authority ("HKMA") is establishing the "Commercial Data Interchange", which is expected to commence operation next year. Through this centralised platform, enterprises can authorise service

providers such as payment systems, public bodies or utility companies to furnish the banks with data. The banks can then make a more accurate and objective credit risk assessment to enhance trade finance efficiency, thereby reducing the need for enterprises to provide collateral and facilitating SMEs in obtaining trade finance.

(IV) Actively Seeking Innovations

(a) Enhancing the position of Hong Kong as a green and sustainable finance hub

31. The Government has been working in concert with the financial regulators and the industry and taking a multi-pronged strategy to promote the development of green and sustainable finance in Hong Kong, with a view to contributing to the goal of achieving carbon neutrality before 2060 in the Mainland and before 2050 in Hong Kong, and elevating Hong Kong's position as a green and sustainable finance hub in the region.

32. Since the establishment of the Government Green Bond Programme ("GGBP") in 2018, a total of US$3.5 billion of green bonds, targeting global institutional investors, has been successfully issued and was well received by the global investment community. The borrowing ceiling of the GGBP has been raised to HK$200 billion pursuant to a resolution passed by the Legislative Council ("LegCo") in July 2021, and the scope expanded to funding a wider variety of green projects not limited to public works projects. We are planning to issue retail green bonds in 2021-22 for the participation of the general public.

33. To help attract more green and sustainable bond issuers and borrowers to use Hong Kong's fundraising platform and professional services, the Government launched a three-year Green and Sustainable Finance Grant Scheme ("GSFGS") in May 2021 to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. GSFGS also encourages more financial and professional service providers and external reviewers to set foot in Hong Kong.

34. To consolidate and elevate efforts across the financial sector to the next higher level, the Green and Sustainable Finance Cross-Agency Steering Group ("Steering Group"), formed by relevant bureaux and financial regulators, promulgated its Strategic Plan in December 2020 with six key focus areas and five near-term action points following engagement with key stakeholders and industry practitioners. The Steering Group will focus on, as priorities areas of action, climate-related disclosures and sustainability reporting, carbon market

opportunities and the initiatives of the Centre for Green and Sustainable Finance such as capacity building and data repository development. A Carbon Market Work Stream has also been set up under the Steering Group to assess the feasibility of developing Hong Kong as a regional carbon trading centre while strengthening collaboration in the Greater Bay Area and exploring other opportunities presented by both the compliance carbon market and the voluntary carbon market in China and overseas. Meanwhile, we will promote cooperation between the HKEX and the Guangzhou Futures Exchange in areas such as clearing, technology, product development and marketing to drive the development of a green and low-carbon market in the region.

(b) Promoting financial technology ("Fintech") development

35. The Government attaches great importance to the development of Fintech, and has been working closely with financial regulators, the industry and stakeholders to promote the advancement and innovation of the sector through enhancing financial infrastructure; nurturing talents; strengthening collaboration with the Mainland and overseas jurisdictions on adoption and cross-boundary application of Fintech, etc. At present, there are over 600 Fintech companies established in Hong Kong, including eight virtual banks, four virtual insurers and one virtual asset trading platform, providing a variety of financial services to the public.

36. The usage of the Faster Payment System ("FPS") has continued to grow[3], with its instant payment and transfer functionalities expanded to promote adoption of electronic payment. FPS not only supports person-to-person payment, but also merchant payment, account top-up and payment of Government bills and fees using QR code, etc.

37. To encourage Fintech companies partnering with financial institutions to more actively develop new financial services and products, we have launched the Fintech Proof-of-Concept Subsidy Scheme in the first half of this year, with a total of 93 applications approved, involving a subsidy amount of $10 million. The approved applications cover an array of subjects, including wealth management technology, regulation technology, payment technology, and also cross-sector and cross-boundary applications in the Greater Bay Area and the Association of Southeast Asian Nations. On the other hand, HKMA continues to promote the Open Application Programming Interface ("Open API") for the

3 As at August this year, there were over 8.8 million registrations recorded for FPS. From January to August this year, there were nearly 160 million transactions in Hong Kong Dollar, which increased by 105% from the same period last year of about 78 million transactions.

banking sector[4], and enhance its regulatory sandbox, etc., to incubate more innovative financial services and provide new user experiences.

38. To promote cross-boundary Fintech, we are actively exploring with the Mainland the formation of a one-stop sandbox network, enabling eligible institutions to test their cross-border projects before launch in the market and obtain feedback from regulators, thereby facilitating financial institutions and information and technology companies from Guangdong, Hong Kong and Macao to test cross-boundary Fintech applications. HKMA's study with the Bank of Thailand, the Central Bank of the United Arab Emirates and the People's Bank of China ("PBoC") on the application of central bank digital currency ("CBDC") in cross-border payment is also on-going. In particular, the pilot testing between HKMA and the Digital Currency Institute of the PBoC on using e-CNY for making cross-boundary payments went smoothly, and the next phase of testing is in discussion.

39. Separately, HKMA has started a study on the prospect of issuing retail CBDC in Hong Kong, i.e. e-HKD, covering both technical and policy considerations, and aims to come up with an initial view by the middle of next year. In this regard, HKMA released a technical whitepaper on retail CBDC on 4 October 2021, exploring potential technical design options for issuing and distributing retail CBDCs. The whitepaper has identified a number of issues for further exploration, on which HKMA would reach out to the academia and industry for further views and comments. HKMA will also continue to work with the PBoC on the second phase of proof-of-concept testing on the connection of its eTradeConnect with the PBoC's Trade Finance Platform, which will cover more types of trade activities and financing products, thereby providing more comprehensive and convenient trade finance services for importers and exporters of both places.

40. Furthermore, to modernise Hong Kong's settlement process for IPOs, HKEX will launch a new platform called "FINI" to allow market participants and regulatory authorities to process IPO applications simultaneously on an electronic platform. It will shorten the settlement process from "T+5" at present to "T+2", thereby expediting the IPO process and reducing market risks of investors. The FINI platform is expected to be launched by the fourth quarter of 2022.

41. We continue to strive to promote market digitalisation. SFC, HKEX and the Federation of Share Registrars Limited are taking forward the implementation of a comprehensive uncertificated securities market in Hong Kong

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4 Open API for the banking sector allows third party service providers to gain programmatic access to data of various bank products and services, and aggregate them under the same website / application for comparison and financial planning by users with ease. As at end July 2021, over 1 000 registrations from third-party service providers to access banks' Phase I and Phase II Open APIs were recorded. The participating banks are expected to implement Phase III and IV Open API functions progressively from December 2021.

in accordance with the legal framework prescribed in the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 as enacted by LegCo in June 2021. It is expected that the market will be consulted on the draft subsidiary legislation by the end of this year.

(c) Hong Kong Growth Portfolio

42. Having deployed 10% of the Future Fund to establish the Hong Kong Growth Portfolio in 2020, we have appointed three private equity firms as the first batch of general partners to make strategic investments in projects with a "Hong Kong nexus", with a view to reinforcing Hong Kong's status as a financial, commercial and innovation centre and raising Hong Kong's productivity and competitiveness in the long run, while seeking reasonable risk-adjusted returns.

(V) Nurturing Talents to Prepare for the Future

(a) Developing Qualifications Framework for the Fintech sector and including more courses under the Continuing Education Fund

43. We attach great importance to consolidating the strengths of Hong Kong as an international financial centre, and will continue to adapt and innovate, and proactively grasp the opportunities brought about by two emerging fields, namely Fintech and Environmental, Social and Governance ("ESG"), thereby promoting technology adoption, protecting the environment and precious resources, as well as enhancing quality of business entities.

44. Talent plays a vital role in the development of these two areas. In this connection, we will collaborate with the Education Bureau and the Labour and Welfare Bureau to explore the development of professional qualification standards for the Fintech sector under the Qualifications Framework so as to provide a clearer and recognised professional development pathway for employers and practitioners in the industry. Meanwhile, more courses related to finance will be included in the list of reimbursable courses under the Continuing Education Fund to attract more talents to join the industry.

(b) Strengthening support for the development of financial talents

45. Further to the launch of the Financial Industry Recruitment Scheme for Tomorrow ("FIRST") in September 2020 by the Financial Services Development Council ("FSDC"), as commissioned by FSTB, to create 1 500 full-time jobs in eligible financial services sectors, the FSDC has launched the Financial Industry Recruitment Scheme for Young Graduates ("YOUTH") in July 2021 to subsidise 200 full-time jobs in the financial services sector for university

graduates having obtained a bachelor's degree or above in 2019 to 2021. The scheme would help graduates to join the financial services sectors concerned and gain valuable job experience in banking, securities, insurance, trustees of Mandatory Provident Fund Schemes, certified public accountant firms and trust companies, etc.

46. In addition to the measures mentioned above, we have launched the Fintech Anti-epidemic Scheme for Talent Development with a total funding of $120 million to provide local Fintech companies subsidy for creation of up to 1 000 full-time positions[5] to enrich our Fintech talent pool. We will continue to follow-up on the implementation of the relevant schemes to promote the development of the sector.

(c) Adding financial professions to the Talent List of Hong Kong

47. Having completed a review, the Government has decided to add the professions of "experienced professionals in compliance in asset management" and "professionals in ESG" to the Talent List of Hong Kong, with a view to attracting more talents from around the globe to support Hong Kong's development.

(VI) Enhancing Regulatory System to Ensure Financial Safety and Stability

(a) Enhancing financial security

48. Having regard to the risks of virtual asset activities and protection of investor interest, subsequent to the completion of public consultation earlier this year, the Government will introduce a statutory licensing regime for virtual asset services providers ("VASPs") under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) in the next legislative year. The licensing regime will be applicable to trading platforms that carry out securities-type and non-securities-type virtual asset activities. We believe that the introduction of a licensing regime for VASPs and appropriate supervision can help ensure the prudent and orderly development of the market and protection of investor interest.

(b) Regulatory regime of the accounting profession

49. Since the regulatory regime for auditors started to be reformed in 2019, the Financial Reporting Council ("FRC") has been discharging its expanded regulatory functions effectively and delivered achievements on multiple fronts.

5 As at end-August 2021, over 520 Fintech talents have reported for duty.

We are furthering the reform to enhance the independence of the regulatory regime of the accounting profession in line with the international developments with increased coherence and efficiency, hence reinforcing our status as an international financial centre and business hub. The Financial Reporting Council (Amendment) Bill 2021 is being scrutinised by LegCo. We will then work on the subsidiary legislation to provide for the transitional arrangements and other technical details. The FRC will also develop relevant guidelines for its new functions to prepare for the implementation of the reformed regime.

(c) Implementing the latest international standards on banking regulation

50. Maintaining financial stability is of vital importance to the development of Hong Kong as an international financial centre. Amendments to the Banking (Capital) Rules are being prepared, which incorporate the capital standard promulgated by the Basel Committee on Banking Supervision ("Basel Committee") for the treatment of banks' equity investments in funds. We expect to submit the relevant amendments to LegCo for scrutiny in early 2022. We will also continue to implement other regulatory standards promulgated by international organisations including the Basel Committee and the Financial Stability Board with a view to ensuring the robust development of the financial system. In this regard, preparatory work for rule-making is in progress for the implementation of the revised capital standards contained in the Basel III final reform package.

(d) Protection of personal information on the Companies Register

51. To enhance protection of sensitive personal information while upkeeping the transparency, openness and effectiveness of the Companies Register ("Register"), we completed a legislative amendment exercise in August this year to implement in three phases from August 2021 to December 2023 provisions concerning the new inspection regime under the Companies Ordinance (Cap. 622) which were passed by LegCo in 2012.

52. Under the new inspection regime, the usual residential addresses ("URAs") of directors on the Register will be replaced by their correspondence addresses, while full personal identification numbers ("IDNs") of directors, company secretaries and other individuals will be replaced by partial IDNs for the purpose of public inspection. Administrative measures will be put in place to ensure that the information on the Register is clear and easy to use, so that searchers will be able to effectively inspect the directorship information of companies.

53. “Specified persons” under the new inspection regime will be allowed to raise to the Companies Registry inspection of URAs and full IDNs of directors without the need of obtaining directors’ authorisation for them to execute duties conferred on them by law, or their professional duties. “Specified persons” include members of a company, public and law enforcement officers, persons/organisations who need to use the protected information for execution of statutory functions, practising lawyers and accountants, banks, and “financial institutions” and “designated non-financial businesses and professions” regulated under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

(e) Strengthening the regulatory framework of the insurance industry

54. We have all along worked jointly with IA to pursue sustainable development of the insurance industry. Since 23 September 2019, IA has assumed the responsibility for direct regulation of nearly 130 000 licensed insurance intermediaries in Hong Kong. Under the new regulatory regime, IA has effected monitoring measures in such areas as basic academic qualifications, annual Continuing Professional Development training, codes of conduct, and minimum capital and net asset requirements for broker companies to cater for present day circumstances. Moreover, subsequent to our implementation of the enhanced group-wide supervision framework in March 2021, IA designated the holding companies of international insurance groups under supervision and issued relevant guidelines in May 2021, thereby strengthening Hong Kong as a preferred base for large insurance groups in Asia Pacific.

55. Going forward, we target to introduce legislative amendments into LegCo in the next legislative session to implement a risk-based capital regime to replace the existing rule-based capital adequacy regime. The new regime will render the capital requirements imposed on insurers more sensitive to their asset and liability matching, risk appetite and mix of products, aligning our regulatory regime with international standards. We also plan to conduct public consultation on the specific content of a Policy Holders’ Protection Scheme and prepare the necessary draft Bill to better protect policy holders in case an insurance company becomes insolvent.

OTHER ONGOING INITIATIVES

(a) Comprehensive Avoidance of Double Taxation Agreements

56. We are committed to expanding Hong Kong’s network of Comprehensive Avoidance of Double Taxation Agreements (“CDTAs”), with a

view to fostering economic and trade links between Hong Kong and other places as well as enhancing Hong Kong's status as international financial, transportation and trade centres and an international aviation hub. We have so far signed CDTAs with 45 jurisdictions. Most of them are Hong Kong's major trading partners, collectively accounting for 78% of our total trade value in 2020. We will continue our efforts in negotiating and concluding CDTAs with more trading partners, especially those who participate in the Belt and Road Initiative.

(b) Improving service efficiency and enhancing digitalisation of public services

57. The Government will conduct a new round of public sector reform in three aspects, i.e. improving service efficiency, enhancing digitalisation of public services, and consolidating government services. In this regard, we will make use of digitalisation to manage certain services to keep abreast of the social development and the rising expectations from the public. The Census and Statistics Department is considering to re-engineer the workflow of population censuses, including making more refined use of administrative data and extending the data collection period, so as to adopt a new approach of conducting a sample survey on par with the scale of a population by-census every five years in lieu of the existing one of conducting a census covering the entire population every ten years and a by-census during the intercensal period. The new approach will reduce the public's burden in reporting data as well as improve the accuracy of population figures. It is also expected to save around half of the cost for conducting population censuses. The Official Receiver's Office will implement the electronic submission system and streamline requirements, for providing a one-stop portal to receive and handle voluminous documents and forms submitted to the Office with a view to enhancing service efficiency and quality. Also, The Government Property Agency is exploring the development of a digital portal to expedite the processing of government departments' requests for allocation of accommodation and leasing of accommodation from the market, and to facilitate easier retrieval of information regarding government accommodation available for leasing by the public.

Financial Services and the Treasury Bureau
October 2021