Chapter 11

Financial Services and the Treasury

As one of the world's leading international financial centres, Hong Kong is the ideal gateway between the Mainland market and the rest of the world for capital and business. The city's vibrant financial sector has a workforce of over 269,700, contributing to 22.4 per cent of the local economy and over 7.5 per cent of total employment.

Hong Kong as an International Financial Centre

Situated at the heart of Asia, Hong Kong is within a five-hour flight to key markets in the region and half the world's population. The city's trading system plugs fully into the round-the-clock global financial trading cycle and provides stable and seamless connectivity with other major financial hubs. Moreover, under 'one country, two systems', Hong Kong, as part of China, has close geographical, cultural and linguistic links with the Mainland, while retaining its distinctive international elements.

Hong Kong enjoys support from the country and benefits from participating in the development of the Mainland market. The National 14th Five-Year Plan affirms the significant functions and positioning of Hong Kong in the overall development of the country, and supports Hong Kong to enhance its status as an international financial centre and deepen the mutual access between the financial markets of Hong Kong and the Mainland.

Hong Kong's status as a leading international financial centre is also underpinned by its institutional strengths, which include the rule of law, an independent judiciary, open market, free flow of capital and a low and simple tax regime. Hong Kong's well-established, efficient and mature financial market has won trust from global investors. It is characterised by deep liquidity, diverse financial products and services, strong emphasis on investor protection, a well-educated and highly efficient workforce, ease of entry for non-local professionals, and effective and transparent financial regulations aligned with international standards.

An assessment report published by the International Monetary Fund (IMF) in May reaffirmed Hong Kong's position as a major international financial centre with robust institutional frameworks, high-quality financial sector regulation, substantial capital and liquidity buffers, and a well-functioning Linked Exchange Rate System.

To strengthen its competitiveness in financial services, Hong Kong improves the regulatory framework, promotes market development and the application of financial technology (fintech) to increase productivity, enhances financial inclusion and drives green and sustainable development.

Leveraging on the unique advantage of 'one country, two systems', Hong Kong will continue to make use of its connectivity with the Mainland and international markets and capitalise on the opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) development and the Belt and Road Initiative.

Hong Kong as China's Global Financial Centre

With the continued internationalisation of the Renminbi (RMB) and the opening up of Mainland financial markets, the currency is increasingly used in global transactions, ranging from cross-boundary trade and direct investment transactions to financial investment and asset management activities.

Hong Kong is the largest and most important global offshore RMB business hub, offering a wide range of RMB-denominated investment products, including listed and unlisted investment funds, insurance products, currency futures, real estate investment trusts, shares, derivatives products and bonds.

As the global leader in RMB financial intermediation activities, Hong Kong has handled about 75 per cent of global offshore RMB payments in recent years[1]. In 2023, Hong Kong's RMB real-time gross settlement system recorded RMB2,064 billion of transactions on average daily.

Offshore RMB Business

At the year end, the offshore RMB deposit pool, including customer deposits and outstanding certificates of deposit, amounted to RMB1,045.3 billion, while RMB bank lending and outstanding RMB bonds stood at RMB441.2 billion and RMB686.2 billion respectively. RMB trade settlement handled by banks in Hong Kong totalled RMB11.7 trillion in 2023.

The growing suite of mutual market access schemes between Hong Kong and the Mainland, including the Stock Connect, Bond Connect, Cross-boundary Wealth Management Connect and Swap Connect, offers an efficient and investor-friendly RMB financial platform for global and Mainland investors.

The Ministry of Finance has issued RMB sovereign bonds in Hong Kong since 2009, including RMB50 billion of bonds in 2023. The People's Bank of China first issued RMB bills in Hong Kong in 2018 and has since enriched the city's spectrum of RMB financial products, thereby promoting RMB internationalisation. In 2023, RMB160 billion of bills were issued. During the year, the People's Government of Hainan Province and the Shenzhen Municipal People's Government issued offshore RMB local government bonds in Hong Kong, each amounting to RMB5 billion.

To support and facilitate more Mainland local governments to issue bonds in Hong Kong, the Hong Kong Special Administrative Region (HKSAR) Government extended the coverage of the profits tax exemption to the debt instruments issued in Hong Kong by all Mainland local people's governments at any level, effective from 31 March.

Stock Connect

Stock Connect showed strength and resiliency in 2023. During the year, daily northbound trading averaged RMB108.3 billion (6.2 per cent of Mainland market turnover), up 8 per cent from RMB100.4 billion in 2022 (5.4 per cent of market turnover). Daily southbound trading averaged HK$31.1 billion in 2023 (14.8 per cent of Hong Kong market turnover), on a par with HK$31.7 billion in 2022 (12.7 per cent of market turnover). Both northbound and southbound trading recorded net buys in 2023, with RMB43.7 billion for northbound and HK$318.8 billion for southbound.

The scope of eligible stocks for both southbound and northbound trading was expanded in March, including the addition of eligible foreign companies primary-listed in Hong Kong for southbound trading and over 1,000 stocks for northbound trading. As of end-2023,

1 Figures quoted from the Society for Worldwide Interbank Financial Telecommunication.

international investors could trade in over 1,300 and about 1,500 stocks listed on the Shanghai and Shenzhen stock exchanges under Stock Connect respectively. Mainland investors could also choose from about 550 Hong Kong-listed securities.

The Stock Connect trading calendar was enhanced in April to enable investors to trade eligible stocks on all trading days when both the Hong Kong and Mainland markets are open. In addition, the Securities and Futures Commission (SFC) and the China Securities Regulatory Commission issued a joint announcement in August on a consensus to introduce block trading (manual trades) under Stock Connect. The initiative will support the continued growth of Stock Connect by providing execution certainty for large-sized transactions and further enhancing trading efficiency.

As of end-2023, eight Hong Kong exchange-traded funds (ETFs) were eligible for southbound trading and over 130 Mainland ETFs were eligible for northbound trading, providing investors with more investment options and facilitating more cross-boundary investment activities. Southbound and northbound trading had cumulative turnovers of HK$731 billion and RMB123.8 billion respectively. During the year, southbound ETF trading had an average daily turnover of HK$2.7 billion and contributed 11.3 per cent of the eligible Hong Kong ETFs' turnover.

In October, Hong Kong Exchanges and Clearing Limited (HKEX) Synapse, a smart contract-powered platform that accelerates the settlement process for Stock Connect northbound trading, was launched. It enhances operational effectiveness, increases transparency and reduces settlement risk relating to northbound trades.

Bond Connect

In 2023, the average daily turnover of Northbound Bond Connect reached over RMB40 billion, up 24 per cent from 2022. Technical enhancements were introduced, including the launch of the online one-stop settlement failure reporting service and basket trading function.

Southbound Bond Connect operations have been smooth since its launch, with transactions covering major bond products tradeable in the Hong Kong market and denominated in multiple currencies.

Swap Connect

Swap Connect, the first connect programme for financial derivatives products, launched for northbound access in May. It allows overseas investors from Hong Kong and other jurisdictions to participate in the Mainland interbank interest rate swap market, which deepens the connectivity between the Mainland and overseas capital markets and bolsters Hong Kong's position as a premier risk management centre. The number of offshore participants and the average daily turnover have increased steadily since its commencement.

RMB Counters

The HKD-RMB Dual Counter Model was launched on 19 June, offering investors the choice of trading securities of a Hong Kong-listed company in either Hong Kong dollars (HKD) or RMB. Twenty-four listed companies stocks have been designated as dual-counter securities by HKEX.

The dual counter market making programme was launched on the same day to bring in market makers who offer buy and sell quotes on RMB-denominated securities, providing consistent liquidity in the RMB counter and minimising price discrepancies between the HKD and RMB counters.

Guangdong-Hong Kong-Macao Greater Bay Area

The Outline Development Plan for the GBA confirms and supports Hong Kong's status as an international financial centre, a global offshore RMB business hub, and an international asset and risk management centre. It also supports the development of Hong Kong into a green finance centre and a platform for investment and financing serving the Belt and Road Initiative.

The Cross-boundary Wealth Management Connect enables Mainland, Hong Kong and Macao residents in the GBA to invest in wealth management products distributed by financial institutions in each other's markets. Enhancements to the scheme, including refining the eligibility criteria of investors, expanding the scope of participating institutions and eligible products, increasing the individual investor quota and further enhancing the promotion and sales arrangements, were announced in September and will come into effect in 2024. As of end-2023, more than 69,000 investors had participated in the scheme and more than 43,000 cross-boundary remittances amounting to over RMB12.8 billion had been completed.

Financial Regulators

Hong Kong Monetary Authority

The Hong Kong Monetary Authority (HKMA) maintains currency stability within the framework of the Linked Exchange Rate System; promotes stability and integrity of the financial system, including the banking system; helps maintain Hong Kong's status as an international financial centre, including the maintenance and development of its financial infrastructure; and manages the Exchange Fund.

The HKMA is an integral part of the government, but operates with a high degree of autonomy complemented by a high degree of accountability and transparency. It is accountable to the Financial Secretary, who is advised by the Exchange Fund Advisory Committee (EFAC) in exercising control of the Exchange Fund.

The Banking Advisory Committee and Deposit-taking Companies Advisory Committee advise on matters relating to the banking industry. Both committees are chaired by the Financial Secretary and comprise members from the banking and other professions.

Securities and Futures Commission

The SFC is the statutory regulator of Hong Kong's securities and futures markets. It works with local and Mainland authorities to support Hong Kong's long-term strategic development and participates in global standard-setting bodies to ensure Hong Kong's regulatory framework aligns with international standards. Its regulatory work is categorised into five principal areas: intermediaries, investment products, listings and takeovers, markets, and enforcement.

The Investor Compensation Fund, under the SFC, compensates investors who have suffered losses in certain listed securities or futures contracts as a result of a default by an intermediary licensed by or registered with the SFC or an authorised financial institution.

The Investor and Financial Education Council is a wholly-owned subsidiary of the SFC. It provides financial education resources and programmes through its consumer education platform, the Chin Family, and leads the Hong Kong Financial Literacy Strategy to promote a conducive environment for stakeholders to deliver quality financial education.

Insurance Authority

The Insurance Authority (IA) is an independent statutory regulator of the insurance industry to promote sustainable market development and protect policyholders. The authority also assumes direct regulation of insurance intermediaries and works with regulators in other jurisdictions to perform group-wide supervision of three multinational insurance groups.

Mandatory Provident Fund Schemes Authority

The Mandatory Provident Fund Schemes Authority regulates the Mandatory Provident Fund (MPF) System, supervises MPF trustees and intermediaries and promotes understanding of MPF investments and industry development, thereby protecting the interests of MPF scheme members. The authority is also the Registrar of Occupational Retirement Schemes.

The eMPF Platform Company Limited is a wholly owned subsidiary of the authority. It is responsible for the design, development and operation of the eMPF Platform, which provides common and one-stop electronic MPF scheme administration services to about 4.7 million scheme members and about 359,000 employers.

Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) is an independent regulator of the accounting profession. It issues practising certificates to certified public accountants; registers practice units; registers and recognises listed entities auditors; and deals with inspection, investigation and discipline of the accounting profession. It is also tasked to promote and support the development of the accounting profession and oversee the performance of statutory functions of the Hong Kong Institute of Certified Public Accountants, including the registration of certified public accountants, setting of continuing professional development requirements and issuance of professional standards.

Cross-regulator Coordination

The government maintains regular dialogue with financial regulators through cross-sectoral platforms, including the Council of Financial Regulators, chaired by the Financial Secretary, and the Financial Stability Committee, chaired by the Secretary for Financial Services and the Treasury. It works towards promoting efficiency and effectiveness in the regulation and supervision of financial institutions, and maintaining financial stability in Hong Kong. The Financial Services and the Treasury Bureau also holds meetings with financial regulators to discuss regulatory and supervisory issues and coordinate legislative and other initiatives to enhance financial stability and financial market development.

Monetary Policy

The objective of Hong Kong's monetary policy is currency stability, defined as a stable external exchange value of the HKD, in terms of its exchange rate in the foreign exchange market against the US dollar (USD), at around HK$7.80 to US$1. This is achieved through the Linked Exchange Rate System, introduced in 1983. The government is fully committed to maintaining this system, which is a cornerstone of Hong Kong's monetary and financial stability, and observing the strict discipline of the system's currency board arrangements.

The system is characterised by currency board arrangements requiring the HKD monetary base to be at least 100 per cent backed by, and changes in it to be 100 per cent matched by corresponding changes in, USD reserves held in the Exchange Fund at the fixed exchange rate of HK$7.80 to US$1. In Hong Kong, the monetary base includes the amount of currency notes and coins issued, the aggregate balance[2] and the outstanding amount of Exchange Fund Bills and Notes (EFBNs). Under the currency board system, HKD exchange rate stability is maintained through an interest rate adjustment mechanism and the HKMA's commitment to honour Convertibility Undertakings. In particular, the HKMA undertakes to buy USD from licensed banks at HK$7.75 to US$1 (strong-side Convertibility Undertaking) and sell USD at HK$7.85 to US$1 (weak-side Convertibility Undertaking). The expansion or contraction in the monetary base arising from these currency board operations will cause interest rates for the domestic currency to fall or rise respectively, creating the monetary conditions that automatically counteract the original capital movements and ensuring exchange rate stability.

The EFAC's Currency Board Sub-Committee monitors and reports on the currency board arrangements that underpin Hong Kong's Linked Exchange Rate System. Its responsibilities include ensuring that currency board operations are in accordance with established policy, recommending improvements to the currency board system and ensuring a high degree of transparency in the system's operation.

Monetary Situation

The HKD monetary situation was stable and traded in a smooth and orderly manner in 2023. Amid market expectation of a 'high for longer' US policy rate, the HKD mostly traded on the weak-side of the Convertibility Zone, with the weak-side Convertibility Undertaking being triggered eight times from mid-February to early-May. The HKD regained some momentum from May and traded around the central parity rate of 7.8 at the year-end, partly driven by dividend payment-related demand from listed companies and seasonal funding demands. The monetary base as a whole remained fully backed by foreign exchange reserves.

The HKD money market also remained stable and traded smoothly. Following the increases in the target range for the US federal funds rate, the base rate was adjusted upwards four times by a total of 1 percentage point (100 basis points) from 4.75 per cent to 5.75 per cent. On the retail front, many banks raised their Best Lending Rates by 12.5 basis points in early-May and another 12.5 basis points in late-July. Some banks also increased the cap on Hong Kong Interbank Offered Rate (HIBOR)-based mortgage rates of newly approved mortgage loans during the year,

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2 Aggregate balance is the sum of the balances of the clearing accounts kept with the HKMA.

and the average interest rate of new mortgage loans rose from 3.35 per cent in 2022 to 4.13 per cent in 2023.

Exchange Fund

The fund's statutory role under the Exchange Fund Ordinance is primarily to affect the exchange value of the HKD. It can also be used to maintain the stability and integrity of the monetary and financial systems, with a view to maintaining Hong Kong as an international financial centre.

The HKMA is responsible to the Financial Secretary for the use and investment management of the Exchange Fund. The fund is managed as distinct portfolios to meet the objectives of preserving capital, fully backing the entire monetary base, providing liquidity to maintain financial and monetary stability and preserving the fund's long-term purchasing power. The Backing Portfolio holds highly liquid USD-denominated assets to fully back the monetary base. The Investment Portfolio aims to preserve the fund's long-term purchasing power.

The fund's asset allocation strategy is guided by an investment benchmark determined by the Financial Secretary in consultation with the EFAC. The Strategic Portfolio holds all HKEX shares acquired for strategic purposes by the Financial Secretary using the fund. To better manage risks and enhance returns in the medium and long term, the HKMA diversifies part of the fund's investment in a prudent and incremental manner into a wider variety of asset classes, including emerging market and Mainland bonds and equities, private equity and real estate investments.

Another function related to the fund is currency issuance. Bank notes in denominations of $20, $50, $100, $500 and $1,000 are issued by three note-issuing banks: Bank of China (Hong Kong) Limited, the Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited. These banks may issue currency notes only by surrendering non-interest-bearing USD backing at a fixed exchange rate of HK$7.80 to US$1.

Through the HKMA, the government issues $10 currency notes and coins in denominations of $10, $5, $2, $1, 50 cents, 20 cents and 10 cents.

At the end of 2023, the Exchange Fund had total assets of $4,016.5 billion and an accumulated surplus of $646.1 billion[3].

3 Foreign currency asset figures have been published monthly since January 1997 to demonstrate the government's continued commitment to greater openness and transparency. An abridged balance sheet of the Exchange Fund and a set of currency board accounts are also published monthly.

Banking and Payment Systems

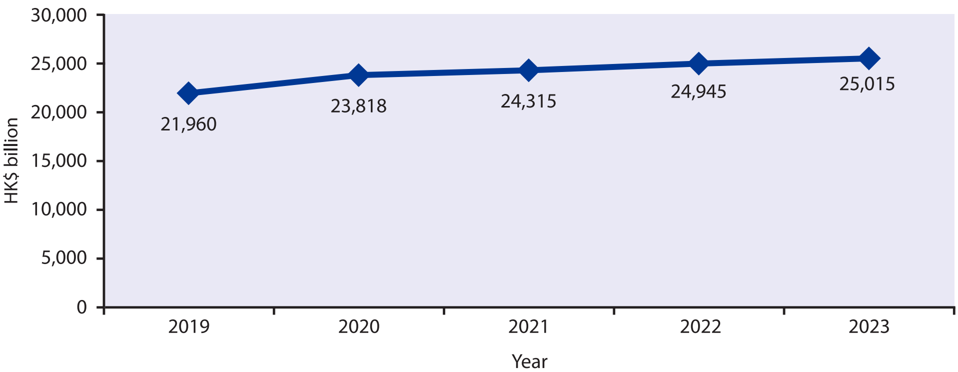
Banking System

Hong Kong has a robust banking sector, with healthy asset quality and strong liquidity and capital positions. The city was the world's sixth and Asia's second-largest banking centre in terms of external position[4], according to the *Bank for International Settlements Locational Banking Statistics.*

International financial institutions maintain a strong presence in Hong Kong. At the year end, 142 of the 151 licensed banks in Hong Kong were beneficially owned by parties outside Hong Kong, and 73 of the world's top 100 banks operated in the city.

Hong Kong maintains three tiers of deposit-taking institutions: licensed banks (LBs), restricted licence banks (RLBs) and deposit-taking companies (DTCs)[5]. They are known collectively as authorised institutions (AIs) under the Banking Ordinance and are supervised by the HKMA.

Chart 1 **External Positions of AIs**



The city has one of the world's highest concentrations of banking institutions. As at end-2023, there were 179 AIs (151 LBs, 16 RLBs and 12 DTCs). There were also 31 representative offices of banks incorporated outside Hong Kong.

Total deposits and total loans and advances of AIs amounted to $16,222.1 billion and $10,192.5 billion respectively, representing an increase of 5.1 per cent and a decrease of 3.6 per cent respectively from a year earlier. Total assets rose 0.9 per cent to $27,285.7 billion.

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4 Sum of liabilities to banks and non-bank customers outside Hong Kong and claims on banks and non-bank customers outside Hong Kong, such as equities, securities and capital instruments.

5 Only LBs may conduct full banking services, including the provision of current and savings accounts and acceptance of deposits of any size and maturity. RLBs may take deposits of any maturity of $500,000 or above. DTCs may take deposits of $100,000 or above with an original maturity of at least three months.

Statistics on AIs

		2021	2022	2023
AIs		188	182	179
Of which:	LBs	160	155	151
	RLBs	16	15	16
	DTCs	12	12	12
Total deposits ($ billion)		15,186.2	15,439.1	16,222.1
Total loans and advances ($ billion)		10,893.1	10,571.3	10,192.5
Total assets ($ billion)		26,367.2	27,031.4	27,285.7

Hong Kong maintains a robust deposit protection regime which underpins the stability of the banking system. The Deposit Protection Scheme protects eligible deposits held with banks in Hong Kong by guaranteeing compensation up to $500,000, thereby underpinning depositors' confidence in the banking system. A public consultation was held between July and October on proposed enhancements to the scheme, which include raising the protection limit by 60 per cent to $800,000, and enhancing the deposit protection arrangements in the event of a bank merger.

The successive rounds of countercyclical macroprudential measures introduced by the HKMA since 2009 have strengthened the risk management of AIs and the resilience of the banking sector to cope with a possible abrupt downturn in the local property market. In July, the HKMA adjusted the countercyclical macroprudential measures after taking into account factors such as property prices and transaction volumes, and the local and external economic environment. Key adjustments included increasing the maximum loan-to-value ratios to 70 per cent for self-occupied residential properties valued at $15 million or below; 60 per cent for self-occupied residential properties with a value of more than $15 million and up to $30 million; and 60 per cent for non-residential properties.

International Banking Standards

The HKMA seeks to maintain a regulatory framework fully in line with international standards. The aim is to maintain a prudential supervisory system to preserve the stability and effective operation of the banking system, while providing flexibility for AIs to make commercial decisions.

As a member of the Basel Committee on Banking Supervision and the Financial Stability Board, Hong Kong is committed to implementing international standards on banking regulation. The implementation is generally effected through amending the Banking Ordinance and issuing rules supplemented by regulatory guidance. The Banking (Capital) (Amendment) Rules 2023 and the Banking (Disclosure) (Amendment) Rules 2023 were made to implement the latest capital and disclosure standards set out in the Basel III final post-crisis reform package published by the committee in recent years.

Financial Infrastructure

Real-time Gross Settlement Systems

Hong Kong has robust real-time gross settlement (RTGS) interbank payment systems. All banks in the city maintain settlement accounts with the HKMA in the HKD RTGS system[6]. The USD, euro and RMB RTGS systems enable transactions in these currencies to be settled in real time among banks. All four RTGS systems are linked to enable foreign exchange transactions to be settled on a payment-versus-payment basis.

Central Moneymarkets Unit

The Central Moneymarkets Unit (CMU) of the HKMA supports the issuance, clearing and settlement of EFBNs and government bonds, and provides multi-currency settlement, clearing and custodian services to debt securities that are denominated in HKD or other currencies.

Through the CMU's links with international and regional central securities depositories, overseas investors can hold and settle securities lodged with the CMU, while local investors can hold and settle international securities via the nominee account structure. By end-2023, the outstanding amount of debt securities lodged with the CMU was around HK$3 trillion equivalent.

To help Hong Kong capitalise on the further opening up of the Mainland debt market and support new business initiatives, the HKMA launched the first phase of the CMU New Platform in July, with the implementation of a modernised user interface (open API) supporting various electronic services, including e-lodgement and securities account management. An open application programming interface service was made available to CMU members to facilitate straight-through processing, enabling higher automation and operational efficiency.

Stored Value Facilities and Retail Payment Systems

The Payment Systems and Stored Value Facilities Ordinance provides the regulatory regimes for stored value facilities (SVFs) and retail payment systems (RPSs). The HKMA supervises the SVF licensees under a risk-based approach and oversees the six RPSs designated in accordance with the ordinance.

Fund-raising Centre

Securities and Futures Markets

Hong Kong's securities market is operated by the Stock Exchange of Hong Kong Limited (SEHK) and its futures market by the Hong Kong Futures Exchange (HKFE), both wholly owned subsidiaries of HKEX. The city's stock market capitalisation totalled about $31.04 trillion as at end-2023, eighth in the world and fifth in Asia, and equivalent to around 11 times Hong Kong's Gross Domestic Product. At the year end, 2,609 companies were listed on the SEHK, representing industries from finance and property to consumer goods, information technology, biotechnology and telecommunications.

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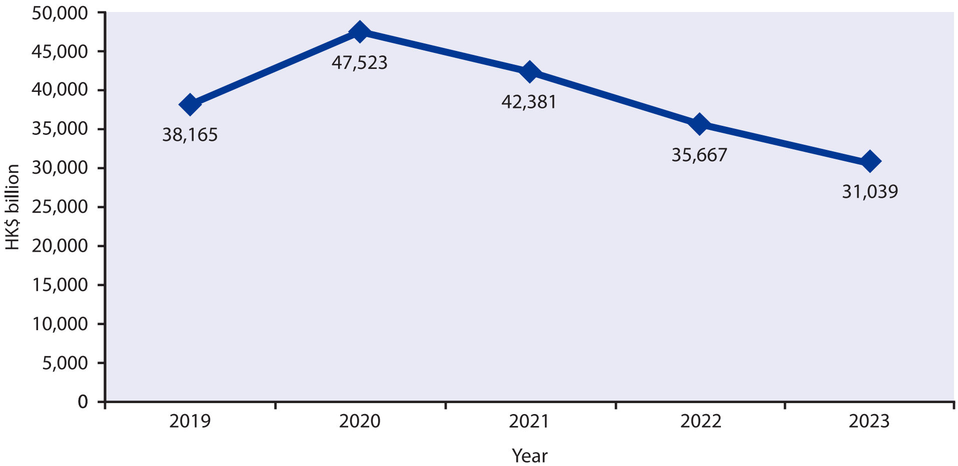
6 Banks may obtain intra-day and overnight liquidity through repurchase agreements with the HKMA using EFBNs as collateral.

Chart 2 **Stock Market Capitalisation**



The Hong Kong market's liquidity and access to international investors are attractive to companies seeking to raise capital. As of end-2023, 1,447 Mainland enterprises were listed on the SEHK, raising $8.3 trillion from the Hong Kong market since 1993. Funds raised by Mainland companies represented 90 per cent of initial public offering (IPO) equity funds raised in 2023. Apart from Hong Kong and Mainland companies, two companies from Indonesia and the US were newly listed in 2023.

Hong Kong is a major global listing platform for companies from different jurisdictions. Hong Kong's IPOs in 2023 raised about $46.3 billion, sixth in the world and fourth in Asia. There were 73 new listings during the year, including three listings transfer to the Main Board from GEM, a market with lower listing eligibility criteria serving small and mid-sized issuers. In addition to new share issues, about $109.7 billion was raised on the secondary market, bringing the total equity funds raised to about $156 billion. The securities market's total turnover amounted to $25.52 trillion. At HKEX, the turnover of securitised derivatives has ranked first in the world since 2007.

As an international and open market, Hong Kong attracts many intermediaries from other markets to set up companies locally and most international brokerages have branches in the city. At the year end, 26.5 per cent of the 574 SEHK trading participants and 54.9 per cent of the 162 HKFE trading participants were from the Mainland or overseas markets.

HKEX operates four clearing houses: Hong Kong Securities Clearing Company Limited, HKFE Clearing Corporation Limited, SEHK Options Clearing House Limited and, for over-the-counter (OTC) transactions, OTC Clearing Hong Kong Limited. These provide integrated clearing, settlement, depository and nominee services.

Exchange-traded Products

Exchange-traded products, which include ETFs and leveraged and inverse products, offer investors exposure to world, regional and Mainland indices and commodities. Leveraged and inverse products provide new trading and hedging tools, while ETFs with multiple trading counters in HKD, RMB and USD increase flexibility in settlement and trading. During the year, 16 new ETFs were listed, bringing the total number of SEHK-listed ETFs to 149. Turnover of ETFs was $2.86 trillion.

As of end-2023, 174 SFC-authorised exchange-traded products were listed on the SEHK, with a total market capitalisation of $383.6 billion[7] and an average daily turnover of $14 billion in the year. In December, the SFC set out requirements for authorising investment funds with exposure to virtual assets of more than 10 per cent of their net asset value for public offering in Hong Kong, including spot virtual asset ETFs. It also authorised Asia's first and the world's largest ETF investing in Saudi Arabia in November and the first two ETFs adopting covered call writing strategy in December.

Statistics on Securities Market (Main Board and GEM)

	2021	2022	2023
Number of listed companies (year end)	2,572	2,597	2,609
Total market capitalisation (year end) ($ billion)	42,381	35,667	31,039
Total equity funds raised ($10 billion)	77	25	16
Total securities market turnover ($ billion)	41,182	30,727	25,518
Total number of shares traded (billion)	62,259	57,299	48,564
Number of derivatives warrants (DWs) listed (year end)	9,464	6,731	4,801
Turnover of DWs ($ billion)	2,763	1,973	1,379
Number of callable bull/bear contracts (CBBCs) listed (year end)	4,817	3,979	3,578
Turnover of CBBCs ($ billion)	2,192	1,943	1,485
Number of ETFs listed (year end)	127	145	149
Turnover of ETFs ($ billion)	1,630	2,415	2,862

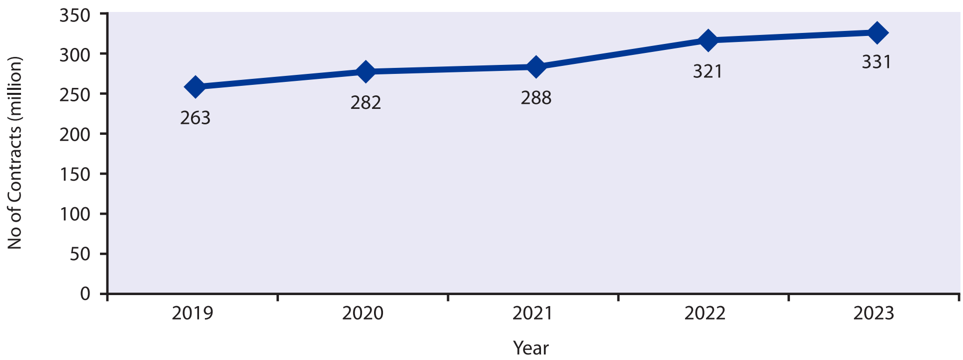
Total turnover of derivatives contracts in 2023 was 331.47 million. Open interest at the year end was about 11.8 million contracts.

7 Market capitalisation statistics exclude SPDR Gold Trust.

Statistics on Derivatives Market Turnover (million contracts)

		2021	2022	2023
All options and futures contracts		288	321	331
Of which:	Hang Seng Index Futures	34	37	34
	Hang Seng China Enterprises Index Futures	32	45	46
	Hang Seng Index Options	7	6	6
	Hang Seng China Enterprises Index Options	11	11	10
	Stock Options	158	145	149

Chart 3 **HKFE Turnover of Derivatives**



As of end-2023, there were 47,979 licensed corporations and individuals, including securities brokers, futures dealers, investment and corporate finance advisers and fund managers as well as their representatives, and 112 registered institutions, such as banks, engaging in regulated activities such as dealing in and advising on securities and futures.

There were also 51 SFC-authorised automated trading service providers. Most were overseas exchanges and clearing houses that provided electronic services to process transactions in securities and futures contracts and to clear OTC derivatives.

Statistics on Licensing for SFC-regulated Activities (year end)

		2021	2022	2023
Licensed entities		48,546	48,567	47,979
Of which:	Licensed corporations	3,210	3,253	3,257
	Licensed individuals	45,336	45,314	44,722
	Registered institutions	111	111	112

Task Force on Enhancing Stock Market Liquidity

The government established the Task Force on Enhancing Stock Market Liquidity in August to review factors affecting market liquidity and make recommendations on strengthening the competitiveness and sustainable development of the stock market. The task force was made up of members from the financial services sector, relevant government officials, and representatives from financial regulators and HKEX.

It recommended 12 short-term measures, comprising reforming the GEM, facilitating listing of overseas issuers, allowing issuers to hold repurchased shares in treasury and re-sell them, relaxing restrictions on share buy-back by issuers, reducing the rate of stamp duty on stock transfers, reducing market data fees, reviewing stock trading spread, maintaining trading under severe weather, enhancing the position limit regime for the derivatives market, enhancing self-match prevention service, attracting overseas capital proactively and deepening mutual access with the Mainland.

The majority of the measures have been implemented, while those remaining are expected to be taken forward or set out for public consultation within the first half of 2024.

The SFC and HKEX are also studying further measures along the medium to long-term directions recommended by the task force, including enhancing the listing regime, improving the trading mechanism, boosting market data services and stepping up market promotion.

Further Listing Reforms

HKEX conducted various reforms in 2023 to enhance the quality and strength of Hong Kong's listing framework. These included the expansion of the paperless listing regime to improve the efficiency of the regulatory processes; the implementation of the 'double dipping' reforms to enhance the IPO price discovery process; and the proposed introduction of a treasury share regime for listed issuers.

In March, HKEX allowed specialist technology companies to seek listing in the city and two such listing applications were received during the year.

HKEX also signed agreements with the Saudi Tadawul Group and the Indonesia Stock Exchange and added both exchanges as recognised stock exchanges for secondary listings.

Fast Interface for New Issuance

HKEX launched the Fast Interface for New Issuance, or FINI, in November, a new digital platform that significantly shortens Hong Kong's IPO settlement process. The platform also reduces pre-funding requirements and the operational risk for all market participants in an IPO.

Other Market Structure Development

On 30 November, HKEX published a consultation paper on a proposed model and arrangements for operating the securities and derivatives markets under severe weather, with a view to facilitating investors to continue trading Hong Kong stocks and derivatives, as well as Mainland A-shares, through northbound trading of Stock Connect without being affected by adverse local weather conditions.

Regulation of OTC Derivatives

The OTC securities transactions reporting regime for shares listed on the SEHK was launched in September. The legislative process for proposed amendments to the clearing rules for the OTC derivative transactions was completed during the year and the amendments will take effect in 2024. They are in line with the global interest rate benchmark reform. In March, the SFC and the HKMA jointly consulted the market on the implementation of a unique product identifier and critical data elements, and will further consult on a unique transaction identifier for the OTC derivatives reporting regime.

Commodity Trading

Hong Kong operates one of the world's most active physical gold markets and is among Asia's largest OTC gold trading centres. Spot gold can be traded through two closely related yet independent markets: the Chinese Gold and Silver Exchange Society and the Loco London gold market. Prices track closely those in the major gold markets in London, Zurich and New York.

In addition to operating Hong Kong's securities and derivatives markets, HKEX owns the London Metal Exchange (LME), the world centre for industrial metals trading and price-risk management. The majority of global non-ferrous business is conducted on the LME and its prices are used as global benchmarks. Last year, 149 million lots were traded, equating to US$15 trillion and 3.5 billion tonnes notional with a market open interest high of 1.9 million lots.

Other Developments

To help maintain the market's financial stability, the enhanced position limit regime took effect in December. The amendments include clarifying regulatory requirements related to funds and raising the statutory position limits for stock futures, stock options and contracts featuring USD and RMB traded in the offshore market.

The SFC takes disciplinary action to maintain market integrity. Of the SFC licensees disciplined in the year, 17 were individuals and 15 were corporations. Fines totalled $54.1 million.

During the year, the SFC stepped up its cooperation with local and overseas law enforcement agencies, including the Hong Kong Police Force and the Independent Commission Against Corruption (ICAC), and conducted joint operations against suspected ramp-and-dump schemes involving the stocks of Hong Kong-listed companies.

In addition, the SFC issued the first joint statement with the AFRC on combatting misconduct of listed issuers. Together with the ICAC and AFRC, the SFC conducted the first tripartite operation involving two Hong Kong-listed companies' suspected fictitious corporate transactions totalling $193 million.

Bond Market

Hong Kong is a major bond market in Asia. Outstanding HKD debt securities, including EFBNs, totalled $2,742.9 billion at the end of 2023. According to the International Capital Market Association, close to US$87.1 billion of international bond issuances by Asia-based entities were arranged in Hong Kong in 2023, equivalent to 23 per cent of the market. The government pursues bond market development through three strategies:

- building market infrastructure, such as the CMU, to ensure a safe and efficient environment for trading and settlement;
- stimulating growth through government issuance of institutional and retail bonds, including green bonds; and
- incentivising market development through subsidy schemes such as the Green and Sustainable Finance Grant Scheme, tax incentive schemes such as the Qualifying Debt Instrument Scheme, and other measures.

Steering Committee on Bond Market Development in Hong Kong

The Steering Committee on Bond Market Development in Hong Kong released a report in 2022, putting forward strategic directions and recommendations to further promote bond market development in the city. The government has progressively implemented the recommendations, including expanding the issuance of green bonds, RMB bonds and HKD bonds with longer tenor under government bond programmes, so as to foster the development of local RMB and green bond markets and the formation of local yield curve, consolidate Hong Kong's strengths in promoting offshore RMB business and encourage the participation of Mainland enterprises and entities in Hong Kong's bond market; and step up efforts to promote Hong Kong's position as a bond centre among investors and bond issuers.

Cross-boundary Bond Market Development

In October, the National Development and Reform Commission and the HKMA signed a memorandum of understanding to support cross-boundary financing by Chinese enterprises and promote the development of the Hong Kong bond market. Major areas of cooperation include supporting bond issuance by Chinese enterprises in Hong Kong through policy facilitation and support, organising joint promotional activities, and promoting diversified development of the Hong Kong bond market, particularly the green and sustainable finance and dim sum bond markets.

Promoting Innovation Technology Adoption in Bond Market

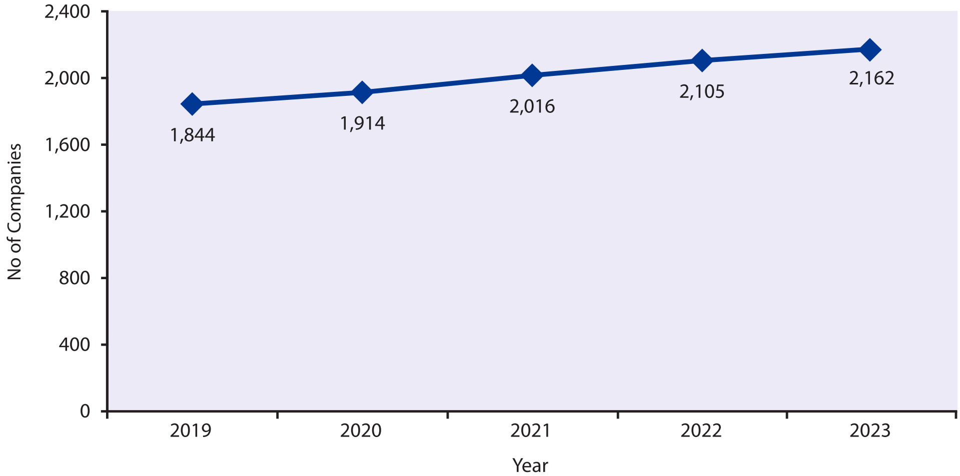
In February, the government issued an inaugural tokenised green bond of $800 million, representing the world's first tokenised government green bond issued. Processes of the bond lifecycle, including coupon payment, settlement of secondary trading and maturity redemption, were all digitalised and performed on a private blockchain network.

Asset and Wealth Management

Hong Kong is well placed as Asia's premier asset and wealth management centre. At end-2023, 2,162 companies were licensed by or registered with the SFC to carry out asset management business locally, up 2.7 per cent from end-2022. There were 2,337 SFC-authorised unit trusts and mutual funds[8], of which 914 were domiciled in Hong Kong, up 18 per cent from five years ago.

8 These included 113 approved pooled investment funds offered both as retail unit trusts and for MPF purposes.

Chart 4 **Number of Asset Management Companies**



The government has made various efforts to enhance Hong Kong's competitiveness in this area, including attracting family offices to set up and operate in Hong Kong, diversifying fund structures, expanding the fund distribution network, providing a more facilitating tax environment, and promoting the real estate investment trust market.

Family Office

To develop family office businesses in Hong Kong, legislative amendments were passed in May to provide profits tax exemption for family-owned investment holding vehicles managed by single family offices in Hong Kong. In November, the Hong Kong Academy for Wealth Legacy was established to foster collaboration, networking, knowledge sharing and talent development for the family office sector.

Streamlined Approach for Sophisticated Professional Investors

In July, the HKMA and the SFC published a circular on streamlining the suitability assessment for sophisticated professional investors with a view to enhancing customer experience. Intermediaries may provide information on product characteristics, nature and extent of risks to these investors upfront instead of before each transaction.

Open-ended Fund Companies

As of end-2023, the SFC registered 244 open-ended fund companies, representing a year-on-year increase of 118 per cent and more than sixteenfold growth since the 2021 launch of a grant scheme providing subsidies to such companies setting up in Hong Kong.

Limited Partnership Fund Regime

The limited partnership fund regime enables funds to be registered in the form of limited partnerships in Hong Kong. As of end-2023, a total of 765 such funds have been registered.

Green and Sustainable Finance

The government has been working with the financial regulators, HKEX and the industry to promote the development of green and sustainable finance, aiming to contribute to achieving carbon neutrality before 2050 in Hong Kong and consolidate the city's position as a regional green and sustainable finance hub.

Government Green Bond Programme

In 2023, the government issued green bonds totalling approximately HK$113 billion in institutional, retail and tokenised formats. These included the inaugural issuance of an HK$800 million tokenised green bond in February; institutional green bonds issued in January and June totalling around US$12 billion, the largest environmental, social and governance (ESG) bond issuances in Asia; and the second batch of retail green bonds of HK$20 billion, issued in October.

Green and Sustainable Finance Cross-agency Steering Group

The Green and Sustainable Finance Cross-agency Steering Group, co-chaired by the HKMA and the SFC, works to advance Hong Kong's green and sustainable finance development.

During 2023, the steering group explored the appropriate adoption of the International Financial Reporting Standards Sustainability Disclosure Standards, as well as ways to support financial institutions and corporates in their transition planning and reporting.

Pilot Green and Sustainable Finance Capacity Building Support

The three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme, launched in 2022, provides subsidies to support talent development in green and sustainable finance. As of end-2023, it approved 46 eligible programmes covering international and local courses and qualifications, and more than 560 applications for reimbursement, amounting to over $3.5 million, from applicants who have completed eligible programmes or obtained relevant qualifications.

Green and Sustainable Finance Grant Scheme

The Green and Sustainable Finance Grant Scheme, launched in 2021, attracts more green and sustainable financing activities to Hong Kong by covering part of the expenses on bond issuances and external review services. As of end-2023, grants had been approved to over 340 green and sustainable debt instruments issued in Hong Kong, with a total underlying issuance volume of around US$100 billion.

Other Developments

As of end-2023, there were 219 SFC-authorised ESG funds, including 11 ETFs, with total managed assets of about US$170 billion, representing a year-on-year increase of 24 per cent and 20 per cent respectively.

To promote the International Organisation of Securities Commissions' recommended best practices for ESG ratings and data product providers, the SFC supported and sponsored the development of a voluntary code of conduct for these providers via an industry-led working group. The SFC sits as one of the observers to the working group.

Insurance

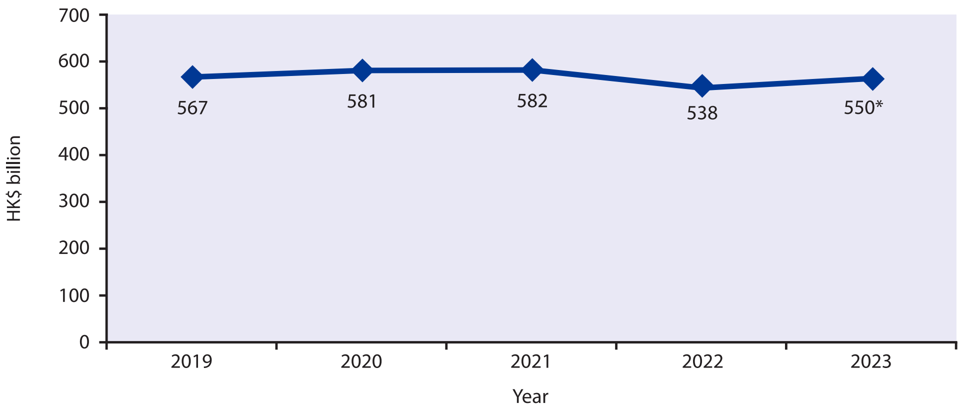
Hong Kong is among the world's most open insurance centres, with one of the highest insurance densities in the world. At end-2023, 65 of the 161 authorised insurers operating in the city were from other jurisdictions, and 11 of the world's top 20 insurers were authorised to conduct business in Hong Kong. The city had 16 professional reinsurers, including most of the world's top reinsurers.

During the past five years, Hong Kong's insurance industry grew 1.3 per cent on average annually. In 2023, gross premiums amounted to $549.7 billion*. The total revenue premiums of in-force long-term business amounted to $482.4 billion*. Individual life and annuity insurance remained the leading business, accounting for $447 billion*, or 92.7 per cent* of total revenue premiums, with 15.3 million* corresponding policies.

General insurance business rose to $67.3 billion*. The overall underwriting performance of general insurance business decreased from $4.2 billion* to $0.8 billion*.

At end-2023, there were 115,266 licensed insurance intermediaries, comprising 78,571 licensed individual insurance agents, 23,662 licensed technical representatives who were agents, 10,532 licensed technical representatives who were brokers, 1,691 licensed insurance agencies and 810 licensed insurance broker companies.

Chart 5 **Annual Gross Premiums of Insurance Market**



* Provisional statistics

Statistics on Insurance Business

	2021	2022	2023
Number of authorised insurers	164	164	161
Of which: Incorporated in Hong Kong	97	98	96
Incorporated in the Mainland or overseas	67	66	65
Premium income ($ billion)	581.7	538.0	549.7*
Total gross premiums			
Long-term in-force business (office/revenue premiums)	520.1^	473.6^	482.4*#
General insurance (gross premiums)	61.6	64.4	67.3*

* Provisional statistics
^ Office premiums
# Revenue premiums

Market Development Initiatives

Insurance-linked Securities

The regulatory regime for insurance-linked securities (ILS) and the Pilot ILS Grant Scheme inject impetus to the ILS market, facilitating four ILS issuances in Hong Kong, securing protection from losses inflicted by typhoons and earthquakes in the Mainland and overseas. Among them, a catastrophe bond was issued in March by the World Bank to provide coverage for earthquake risks in Chile. It was also the first ILS listed on the SEHK.

Protection Linked Plan

Protection Linked Plans provide a higher mortality protection element, simple and transparent fee structure and confined fund choices, with a view to narrowing the protection gap while taking investment opportunities at different life stages. By end-2023, six plans had been authorised for onward product launch.

Connectivity in GBA

The government implemented the unilateral recognition policy for cross-boundary motor insurance to tie in with 'Northbound Travel for Hong Kong Vehicles' scheme, which commenced operation on 1 July, providing a more convenient way to obtain insurance coverage for vehicles travelling to the Mainland via the Hong Kong-Zhuhai-Macao Bridge.

Regulatory Initiatives

Risk-based Capital Regime

To enhance the financial soundness of insurance companies and align with international standards, the Insurance (Amendment) Bill 2023 was passed in July, providing the legislative framework for the implementation of a risk-based capital regime for the insurance industry. A public consultation on the subsidiary legislation began in December and will run until February 2024, with the implementation of the regime targeted for later in the year.

Policy Holders' Protection Scheme

The conclusions of a public consultation regarding a policy holders' protection scheme were published in December, and the government will begin the legislative preparatory work. The scheme will provide an additional safety for policy holders in the event of insurer insolvency.

Supervision of Insurance Groups

The IA is the group supervisor for three internationally active insurance groups, namely AIA Group Limited, FWD Management Holdings Limited and Prudential Corporation Asia Limited. Meetings and supervisory colleges with the involved supervisors of the three groups are hosted by the IA on an annual basis.

International Collaboration

As a member of the International Association of Insurance Supervisors (IAIS), the IA observes the standards of the Insurance Core Principles and Common Framework as part of its insurance supervisory regime. The IA's chief executive officer is a member of the IAIS' Executive Committee and chair of the Audit and Risk Committee.

Asian Insurance Forum

The IA's annual flagship event, the Asian Insurance Forum, was held on 8 December with the theme 'Striving for Enhanced Global Financial Stability and Resilience'. Around 1,700 participants joined the discussions among global leaders and experts in the insurance and financial markets, as well as top authorities in Hong Kong and around the world.

Mandatory Provident Fund System

As one of the pillars of retirement protection, the MPF System helps the workforce set aside savings for retirement. Unless exempted, employees and self-employed persons aged 18 to 64 are required to join an MPF scheme.

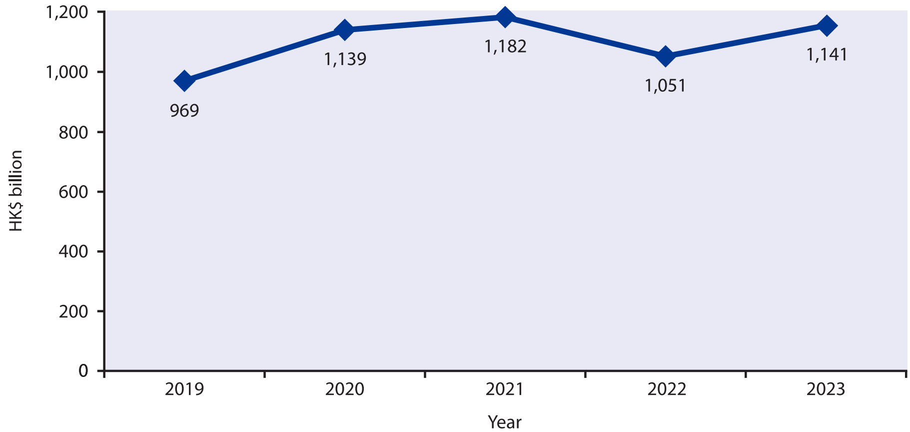
The MPF System is employment-based. An employer must provide 5 per cent of an employee's relevant income as mandatory contributions for the employee, subject to a maximum relevant income level. Employees have to make the same amount of contributions for themselves unless their relevant income is below the minimum level. Self-employed persons must also contribute 5 per cent of their relevant income, subject to the minimum and maximum levels.

MPF benefits, comprising accumulated mandatory contributions and investment returns, must be preserved until a scheme member reaches the age of 65 or meets a statutory condition for early withdrawal of benefits.

MPF schemes are managed privately by MPF trustees approved and regulated by the Mandatory Provident Fund Schemes Authority (MPFA). At the year end, there were 12 active approved MPF trustees providing MPF schemes and funds and 39,803 registered MPF intermediaries engaging in regulated activities such as selling and advising on MPF schemes and funds.

MPF schemes had a net asset value (NAV) of around $1,141 billion at end-2023 and an annualised rate of return of 2.5 per cent between December 2000, when the MPF System was launched, and December 2023.

Chart 6 **Total NAV of MPF Schmes**



Statistics on MPF Schemes and MPF-exempted Occupational Retirement Schemes Ordinance (ORSO) Registered Schemes (year end)

	2021	2022	2023
Number of MPF-enrolled participants *(estimated rate)*			
Employers	323,000 *(100%)*	344,000 *(100%)*	359,000 *(100%)*
Relevant employees	2,681,000 *(100%)*	2,722,000 *(100%)*	2,662,000 *(100%)*
Self-employed persons	231,000 *(80%)*	238,000 *(87%)*	237,000 *(89%)*
MPF schemes			
Number of registered schemes	27	27	24
Number of approved constituent funds	411	413	379
Aggregate NAV ($ billion)	1,182	1,051	1,141
MPF-exempted ORSO registered schemes			
Number of schemes[9]	2,693	2,558	2,437
Number of participating employees	261,825	241,759	230,160
Aggregate NAV ($ billion)	346	332	275

9 MPF-exempted ORSO registered schemes are occupational retirement schemes set up voluntarily by employers and registered under the ordinance before the launch of the MPF System, and subsequently granted exemption from MPF requirements.

eMPF Platform

The eMPF Platform will standardise, streamline and automate MPF scheme administration processes, so as to enhance operational efficiency, lower costs and fees, and offer a predominantly paperless MPF experience. The MPFA and eMPF Platform Company Limited are developing the eMPF Platform, with system operation and phased onboarding of MPF schemes planned to start from June 2024, and full implementation in 2025.

Priority Investment by MPF Funds in Government Green Bonds

Together with the HKMA, the MPFA developed a mechanism for the allocation of a certain proportion of government green bonds for priority investment by MPF funds. The mechanism was first implemented when government institutional green bonds were issued on 1 June. This arrangement provides MPF fund managers with more investment instruments with stable returns in their portfolio management for the benefit of scheme members.

Financial Technology

Hong Kong has around 1,000 fintech companies, including eight virtual banks, four virtual insurers and two licensed virtual asset trading platforms, offering innovative and convenient financial services, such as mobile payment, cross-boundary transfer and wealth management.

The government promotes fintech development, by enhancing financial infrastructure, building a more active fintech ecosystem, nurturing fintech talent, as well as strengthening connections with the Mainland and overseas.

Enhancing Financial Infrastructure

The government promotes the development of electronic payment (e-payment) and provides the public with safe, efficient, convenient and diversified e-payment options by enhancing financial infrastructure and implementing a robust regulatory regime.

By end-2023, the number of registrations and average daily turnover of the Faster Payment System (FPS) had increased by 19 per cent and 33 per cent year on year, to 13.6 million and 1.2 million real-time transactions respectively. In December, the HKMA and the Bank of Thailand launched the FPS x PromptPay link for cross-border QR payment, providing visitors with another safe, efficient and convenient retail payment means.

In October, the HKMA completed Phase 1 of the e-HKD Pilot Programme and studied domestic retail use cases in areas such as programmable payments, offline payments and tokenised deposits.

As of December, Commercial Data Interchange (CDI) had attracted the participation of 26 banks and 13 data providers, facilitating over 13,000 loan applications and reviews, with an estimated credit approval amount of $11.7 billion. At the end of the year, CDI was connected to the government's Consented Data Exchange Gateway and the Companies Registry became the first government data source of CDI via the gateway.

Developing Fintech Ecosystem

In September, a total of 56 projects were approved under the second round of the Fintech Proof-of-Concept Subsidy Scheme. Over 80 per cent of these projects have been commercialised after completion of the product testing.

Nurturing Fintech Talent

In October, the government launched the GBA Fintech Two-way Internship Scheme for Post-secondary Students to subsidise students from Hong Kong and the Mainland to participate in short-term internships at fintech companies, with a view to enhancing talent exchange and enlarging the fintech talent pool.

Strengthening Connection with Mainland and Overseas

In November, the People's Bank of China (PBoC), the HKMA and the Monetary Authority of Macao signed an memorandum of understanding, with a view to further deepening fintech innovation supervisory cooperation in the GBA and providing a one-stop platform to facilitate pilot testing of cross-boundary fintech initiatives among the three regions.

During the year, the PBoC and the HKMA also worked closely on the e-CNY pilot for cross-boundary payments, including topping up e-CNY wallets via the FPS.

Also in 2023, the HKMA, together with three other central banking institutions – the PBoC, the Bank of Thailand, and the Central Bank of the United Arab Emirates – as well as the Bank for International Settlements Innovation Hub Hong Kong Centre, continued to take forward the Multiple Central Bank Digital Currency Bridge project to study how central bank digital currencies (CBDC) and innovative solutions can be applied to solve the key pain points in cross-border payments and experiment with a multi-CBDC common platform for wholesale cross-border payments focusing on the use case of international trade.

During the year, Invest Hong Kong assisted more than 100 Mainland and overseas fintech companies interested in establishing or expanding their business in Hong Kong, of which 53 companies had established or planned to further expand in the city. These companies involved a total investment of over $1.5 billion and created more than 640 new jobs.

Hong Kong Fintech Week 2023 attracted a record high of more than 35,000 attendees and over 5.5 million views online from more than 100 economies, featured over 800 distinguished speakers and over 700 exhibitors, as well as more than 30 Mainland and international delegations.

Development of Virtual Assets

In 2022, the government issued the Policy Statement on Development of Virtual Assets in Hong Kong, setting out its vision and policy direction in promoting the sustainable development of the virtual assets sector with the necessary guardrails to mitigate risks in accordance with international standards.

The Anti-money Laundering and Counter-terrorist Financing Ordinance was amended in 2022 to establish a licensing regime for virtual asset exchanges in line with the international standards set by the Financial Action Task Force. The regime commenced operation in June.

To facilitate the responsible and sustainable development of Hong Kong's virtual asset ecosystem, the Financial Services and the Treasury Bureau and the HKMA jointly issued a public consultation paper in December on the legislative proposal to implement a regulatory regime for stablecoin issuers.

Anti-money Laundering and Counter-financing of Terrorism

Hong Kong has a robust and mature anti-money laundering ecosystem which adopts a risk-based approach to protect individuals and businesses from harm, while reducing losses. The government collaborates closely with financial regulators, and plays a proactive role in standard-setting bodies such as the Financial Action Task Force to ensure that Hong Kong's anti-money laundering and counter-financing of terrorism regime remains agile to new and emerging threats while meeting international standards.

Belt and Road Initiative and International Cooperation

Asian Infrastructure Investment Bank and Asian Development Bank

Hong Kong participates as a member of the Asian Infrastructure Investment Bank (AIIB) and of the Asian Development Bank (ADB) with the name 'Hong Kong, China', manifesting the principle of 'one country, two systems'. Hong Kong's capital markets and professional and financial services are well-positioned to support the AIIB's operation, and the city contributes to the ADB's efforts in bridging the financing gap in the region. In 2023, the city's capital markets raised the equivalent of over US$1.46 billion under the ADB's Global Medium-Term Note Programme.

HKMA Infrastructure Financing Facilitation Office

The HKMA Infrastructure Financing Facilitation Office serves as an important financing platform to infrastructure investors, thereby raising Hong Kong's international profile as an infrastructure and green finance centre. The office has 95 stakeholders from the Mainland, Hong Kong and overseas joining as partners. They include project developers or operators, commercial and investment banks, multilateral development financial institutions, asset owners and managers and professional service firms.

Belt and Road Insurance Exchange Facilitation

The IA's Belt and Road Insurance Exchange Facilitation aims to help Belt and Road project owners and investors map out their risk management needs and identify solutions, to promote intelligence exchange on risk management and to forge alliances. By end-2023, 43 insurers, reinsurers, captive insurers, insurance brokers, industry associations, loss adjustors and law firms had joined as members.

Other Measures to Enhance Hong Kong's Competitiveness as an International Financial Centre

The government drives, facilitates and coordinates initiatives to ensure the overarching regulatory framework will protect investors and promote market development in the face of global needs and local circumstances.

New Capital Investment Entrant Scheme

The government announced the details of the New Capital Investment Entrant Scheme in December, which aims to enrich the talent pool and attract new capital to Hong Kong. Under the scheme, eligible applicants making investments of HK$30 million in permissible assets may apply to reside and pursue development in Hong Kong.

Company Re-domiciliation

The government, in March, launched a public consultation on the proposal to introduce a company re-domiciliation regime to facilitate non-Hong Kong companies to re-domicile to Hong Kong. Under the proposal, companies re-domiciling to Hong Kong can maintain their legal identities as body corporates, thereby ensuring their business continuity and reducing the need to go through complicated judicial procedures.

Global Financial Leaders' Investment Summit

The Global Financial Leaders' Investment Summit, held in November, brought together over 350 international and regional leaders from 160 global financial institutions, including banks, securities firms, asset owners, asset managers, private equity and venture capital firms, hedge funds and insurers, with more than 90 institutions represented by their group chairmen or chief executive officers.

Financial Services Development Council

The Financial Services Development Council is a high-level, cross-sectoral advisory body that collects industry views to formulate strategic proposals for the development of the industry. The council published five policy research papers and reports in 2023, and organised local and overseas market promotion and human capital activities to strengthen Hong Kong's status as an international financial centre.

Money Lenders

The government closely monitors money lenders' compliance with the Money Lenders Ordinance and the conditions imposed by the licensing court. In 2023, public education activities were conducted to promote prudent borrowing and dedicated publicity efforts were made targeting certain vulnerable groups such as young people and foreign domestic helpers.

Talent Training

A pilot programme to nurture talent for the insurance and asset and wealth management sectors has been extended for three years until 2025-26. It promotes career opportunities in the industries, enhances professional competency and provides internships for tertiary students and financial incentives for practitioners to undergo training.

Promotional and educational activities, such as the Future Banking Bridging Programme and career talks at local universities, helped attract and nurture more young talent in the banking sector, while internships and placement programmes targeting different fields, including fintech, sustainable finance, insurance, asset and wealth management, were made available to provide university students with future work skills and real-world experience.

The Enhanced Competency Framework for Banking Practitioners provides a set of common and transparent competency standards to facilitate more effective training for new entrants and professional development for existing banking practitioners. In July, a new module on green and sustainable finance was launched, in addition to the nine existing modules covering private wealth management, anti-money laundering and counter-financing of terrorism, cybersecurity, treasury management, retail wealth management, credit risk management, operational risk management, fintech and compliance.

Asian Financial Forum

The Financial Services and the Treasury Bureau co-organises the annual Asian Financial Forum with the Hong Kong Trade Development Council to provide a platform for exchanges on global finance and the economy. The event in 2023, held both physically and virtually, attracted over 7,000 participants from more than 70 countries and regions.

Wealth for Good in Hong Kong Summit

The Financial Services and the Treasury Bureau and Invest Hong Kong co-organised the inaugural Wealth for Good in Hong Kong Summit in March to showcase Hong Kong's appeal as a world-leading international asset and wealth management hub and its long-term future development. The event brought together more than 100 key decision-makers from global family offices and their professional teams.

Company Registration

The Companies Registry registers local and non-Hong Kong companies and statutory returns, deregisters defunct solvent companies and provides the public with services and facilities for inspecting and obtaining company information kept by the registry. The registry is also the licensing authority for trust and company service providers.

On 28 April, the Companies (Amendment) Ordinance 2023 came into operation, providing flexibility for local companies to hold general meetings virtually or in hybrid mode.

On 27 December, the registry launched the revamped Integrated Companies Registry Information System to provide round-the-clock electronic search and document submission services through a single integrated online platform, the e-Services Portal. The Unique Business Identifier was implemented on the same day to enable identification of legal entities distinctly via a single identification number.

Electronic Certificates of Incorporation and Business Registration Certificates are normally issued together in less than an hour after receipt of the applications for company incorporation via the e-Services Portal.

Companies Registry Statistics

	2021	2022	2023
New local companies	110,840	104,120	132,246
Local companies on the register	1,375,172	1,391,678	1,430,758
New non-Hong Kong companies	1,316	874	960
Non-Hong Kong companies on the register	14,348	14,533	14,826

Individual and Corporate Insolvencies

The Official Receiver's Office ensures service in personal and corporate insolvencies is of high quality on a par with international standards.

The office began implementing the Electronic Submission System in phases from 29 December, which enables stakeholders to submit documents through a convenient electronic means.

When acting as the trustee-in-bankruptcy or liquidator, the Official Receiver or a private-sector insolvency practitioner investigates the affairs of the bankrupt or wound-up company, realises assets and distributes dividends to creditors. The Official Receiver also prosecutes insolvency-related offences, applies for disqualification orders against unfit company directors of wound-up companies, and monitors the conduct of outside liquidators and trustees and the liquidation monies.

Statistics on Bankruptcy Orders, Interim Orders in Individual Voluntary Arrangements (IVAs) and Winding-up Orders

	2021	2022	2023
Bankruptcy orders	7,105	5,312	7,348
Interim orders in IVAs	230	214	378
Winding-up orders	299	303	354

Resolution Regime for Financial Institutions

The Financial Institutions (Resolution) Ordinance establishes a cross-sectoral resolution regime for financial institutions in Hong Kong. The IMF noted in its most recent Financial System Stability Assessment with the HKSAR in 2021 that crisis management arrangements had been significantly strengthened by the introduction of a comprehensive resolution regime under the ordinance.

The bank failures in the United States and Europe in March constituted the first larger-scale real test of the international resolution framework. Prompt responses were delivered by the HKMA to manage the ripple effects via effective cross-sectoral and cross-border coordination. These were followed by comprehensive international and local reviews with a view to drawing lessons learned and further enhancing resolution preparedness.

At the same time, work to operationalise the Hong Kong resolution regime has seen progress in establishing resolution policy standards, conducting resolution planning, enhancing resolution execution capabilities as well as contributing to international policy and cross-border resolution cooperation.

In August, the HKMA issued a draft code of practice chapter for consultation on continuity of access to Financial Market Infrastructure services under the ordinance, which sets out the expectations for banks on their capabilities and arrangements for maintaining, in a resolution scenario, continuity of access to critical Financial Market Infrastructure services.

In December, the IA, the HKMA and the SFC entered into a memorandum of understanding, which establishes a framework to strengthen and support effective cooperation and coordination between the Hong Kong resolution authorities.

Public Finance

Management of Public Finance

The principles underlying the government's management of public finances are enshrined in the Basic Law, which stipulates that:

- the HKSAR shall have independent finances, and shall use its revenues exclusively for its own purposes;
- the HKSAR shall practise an independent taxation system, taking the low tax policy previously pursued in Hong Kong as reference;
- the HKSAR shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its GDP; and
- the Legislative Council of the HKSAR shall exercise the power to approve taxation and public expenditure.

The government implements these constitutional provisions in its management of public finances by maintaining a low and simple tax regime and exercising fiscal prudence. Hong Kong's Public Finance Ordinance stipulates a system for the control and management of public finances and defines the respective powers and functions of the legislature and the executive. Pursuant to the ordinance, the Financial Secretary submits to the Legislative Council an annual set of estimates of revenue and expenditure. The estimates are drawn up in the context of a medium-range forecast, which is a fiscal planning tool to ensure appropriate regard is given to the longer-term trends in the economy.

A government department can incur expenditure only up to the amounts stated in the expenditure estimates and for the purposes approved by the Legislative Council. During the financial year, which runs from 1 April to 31 March, if a department needs to change the expenditure estimates and spend more money, it must obtain the council's authorisation.

The government controls its finances through the General Revenue Account (GRA) and various funds established under the ordinance. The GRA is the main account for day-to-day departmental expenditure and revenue collection. Funds established under the ordinance are the Bond Fund, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. The total revenue and expenditure of the GRA and all these funds except the Bond Fund represent government revenue and government expenditure respectively, and the total balance of the GRA and the funds except the Bond Fund constitutes government fiscal reserves.

Financial Results

For 2022-23, government revenue was $622.2 billion and expenditure was $810.5 billion, resulting in a deficit of $122.3 billion after receipt of net proceeds of $66 billion from bonds issued under the Government Green Bond Programme. Fiscal reserves as at 31 March stood at $834.8 billion, equivalent to 12 months of government expenditure.

Public expenditure comprises government expenditure and expenditure by the Housing Authority and trading funds. In 2022-23, public expenditure increased 16 per cent against the previous year to $847.6 billion, of which $562.8 billion, or 66.4 per cent, was of a recurrent nature.

Future Fund

The Future Fund, with an endowment of $224.5 billion, seeks to secure higher returns for Hong Kong's fiscal reserves through placement in longer-term investments to cope with foreseeable long-term fiscal challenges arising from an ageing population and slower economic growth.

The fund has been placed with the Exchange Fund. Investment returns arising from the Future Fund are retained by the Exchange Fund for reinvestment and shall be paid to the government upon completion of the placement period or on a date as directed by the Financial Secretary. Starting from the 2021-22 financial year, the cumulative investment return was brought back and reflected in the Operating Account of the Government on a progressive basis, with an aggregate of $60 billion brought back in the first two years.

In 2020, $19.5 billion was allocated from the Future Fund for investment in Cathay Pacific Airways Limited. The investment will remain as a part of the Future Fund. In December, $9.75 billion of the investment was redeemed by Cathay Pacific Airways Limited.

The government also deployed 10 per cent of the Future Fund to set up the Hong Kong Growth Portfolio to invest in projects with a Hong Kong nexus, aiming to reinforce the city's status as a financial, commercial and innovation centre and to raise its productivity and competitiveness in the long run, while seeking reasonable risk-adjusted returns. The allocation was further increased by $10 billion in 2022, of which $5 billion was used to set up the Strategic Tech Fund and $5 billion to set up the GBA Investment Fund.

The government has set up the Hong Kong Investment Corporation Limited to further optimise the use of fiscal reserves for promoting the development of industries and the economy. The corporation consolidates the Hong Kong Growth Portfolio, GBA Investment Fund and Strategic Tech Fund, as well as the Co-Investment Fund established by allocating $30 billion from the Future Fund, to pool resources to invest in strategic industries for attracting and supporting more enterprises to develop their business in Hong Kong.

Revenue Sources

Hong Kong's tax system is simple. Tax rates and the cost of administration are low. To protect tax revenue, the government takes vigorous measures to combat tax evasion and prevent tax avoidance. The major sources of revenue include profits tax (28 per cent), land premium (11.2 per cent), stamp duties (11.2 per cent), and salaries tax (12.8 per cent).

The Inland Revenue Department collects 57.9 per cent of total government revenue including profits tax, salaries tax, property tax, stamp duties and bets and sweeps tax. Profits, salaries and property taxes, including tax under personal assessment, are levied under the Inland Revenue Ordinance and together accounted for 42.5 per cent of total government revenue in 2022-23.

Generally speaking, profits tax is charged only on profits arising in, or derived from, Hong Kong from a trade, profession or business carried on within the territory. The two-tiered profits tax rates regime has been implemented since the 2018-19 year of assessment, lowering the profits tax rates for the first HK$2 million of assessable profits from 16.5 per cent to 8.25 per cent for corporations and from 15 per cent to 7.5 per cent for unincorporated businesses. Assessable profits exceeding HK$2 million are taxed at 16.5 per cent and 15 per cent respectively. Profits tax is charged provisionally on the basis of profits made in the year preceding the year of assessment and is later adjusted according to the actual profits made in the assessment year. Generally, all expenses incurred in the production of assessable profits are deductible. There is no withholding tax on dividends paid by corporations. Interest income from deposits placed with banks or deposit-taking companies, other than that received by financial institutions, and dividends received from corporations are exempt from profits tax. In 2022-23, the profits tax collected was $174.2 billion, making up 28 per cent of total government revenue.

Salaries tax is charged on emoluments arising in or derived from Hong Kong. As with profits tax, a provisional tax mechanism is in place. Salaries tax is calculated at progressive rates on the net chargeable income, which is income less deductions and allowances. In 2022-23, the first, second, third and fourth segments of net chargeable income of $50,000 each were taxed at 2 per cent, 6 per cent, 10 per cent and 14 per cent respectively, and the remainder at 17 per cent. No one, however, need to pay more than the standard rate of 15 per cent of their total income after deductions.

The earnings of husbands and wives are reported and assessed separately. However, where the deductions and allowances of either spouse exceed that spouse's income, or when separate assessments would result in an increase in their total salaries tax payable, the couple may elect to be assessed jointly. Salaries tax contributed $79.5 billion, or 12.8 per cent, of total government revenue in 2022-23. Because of generous personal allowances under the tax law, only 1.81 million people, or 49.2 per cent of the workforce, were liable to salaries tax for the 2021-22 year of assessment.

Owners of land and buildings are charged property tax at the standard rate, of 15 per cent in 2022-23, on the actual rent received after an allowance of 20 per cent for repairs and maintenance. There is a system of provisional payment of tax similar to that for profits tax and salaries tax. Properties owned by a corporation carrying on a business locally are exempt from property tax, but the profits it derives from the properties are chargeable to profits tax. Property tax contributed $3.8 billion, or 0.6 per cent, of total government revenue in 2022-23.

Stamp duty is imposed on different classes of documents relating to transfers of immovable property, leases and transfers of shares under the Stamp Duty Ordinance. In 2022-23, the revenue from stamp duties was $70 billion, or 11.2 per cent of total government revenue.

Bets and sweeps tax is charged on the net stake receipts from betting on horse races and football matches and on the proceeds of Mark Six lotteries, all administrated by the Hong Kong Jockey Club. The yield from bets and sweep tax in 2022-23 totalled about $25.8 billion, or 4.2 per cent of total government revenue.

The Rating and Valuation Department is responsible for the billing and collection of rates, which are levied on landed properties at a specified percentage of their rateable values (5 per cent in 2023-24). The rateable value of a property is an estimate of its annual open market rent at a designated valuation reference date. Rateable values are reviewed each year to better reflect prevailing market rents. The current Valuation List, containing about 2.7 million assessments, took effect on 1 April 2023, with rateable values reflecting rental values on 1 October 2022. The revenue from rates in 2022-23 was about $19.1 billion, or 3.1 per cent of total government revenue.

The Rating and Valuation Department is also responsible for the billing and collection of government rent for properties held under land leases granted on or after 27 May 1985, or on the extension of non-renewable land leases. Government rent is levied at 3 per cent of the rateable value of the property and is adjusted in step with any subsequent changes in the rateable value. There were about 2.1 million assessments in the Government Rent Roll on 1 April 2023. Total government rent collected in 2022-23 was around $12.4 billion, or 2 per cent of total government revenue.

Excise duties are levied on four commodities to be consumed locally, namely hydrocarbon oil (motor spirit, aircraft spirit and light diesel oil), liquor with an alcoholic strength of more than 30 per cent by volume, methyl alcohol and tobacco (except smokeless tobacco and alternative smoking products) as defined under the Dutiable Commodities Ordinance, irrespective of whether they are manufactured locally or imported. The Customs and Excise Department collects these duties, which totalled $12 billion in 2022-23, or 1.9 per cent of total government revenue, of which 66.2 per cent was from tobacco, 27.8 per cent from hydrocarbon oil, 5.9 per cent from liquor, and 0.1 per cent from methyl alcohol and other alcohol products.

All motor vehicles imported for use on roads are subject to first registration tax under the Motor Vehicles (First Registration Tax) Ordinance. The Customs and Excise Department assesses the taxable value of vehicles to facilitate the Transport Department's collection of this tax, which totalled $5 billion in 2022-23, or 0.8 per cent of total government revenue.

It is government policy that fees charged by the government should in general be set at levels adequate to recover the full cost of providing the goods or services. Certain essential services are subsidised by the government or provided free of charge. Fees and charges for goods and services provided by the government generated $12.6 billion, or 2 per cent of total revenue, in 2022-23. Government-operated public utilities generated about $3.2 billion, or 0.5 per cent of total revenue, the most important of which, in revenue terms, is the provision of water supplies.

Land transactions generated some $69.9 billion, or 11.2 per cent of total government revenue, in 2022-23. All revenue from land transactions is credited to the Capital Works Reserve Fund to finance the Public Works Programme.

Tax Treaties and International Tax Cooperation

Hong Kong strives to expand its network of comprehensive avoidance of double taxation agreements (CDTAs) to improve the business environment and facilitate the flow of trade, investment and talent with the rest of the world. The 47 CDTAs signed by the city as at end-2023 help reduce tax burdens on taxpayers and eliminate uncertainties over tax liabilities.

Hong Kong supports international efforts to enhance tax transparency and combat tax evasion, and is committed to implementing the base erosion and profit shifting 2.0 package promulgated by the Organisation for Economic Cooperation and Development. The government announced in February that Hong Kong would implement the global minimum tax and Hong Kong minimum top-up tax starting from 2025.

Government Procurement

The government seeks to procure goods and services at the best value for money in a publicly accountable manner, adopting the principles of open and fair competition, transparency, innovation and integrity in its procurement practices. The Government Logistics Department is the government's procurement agent for goods and related services required by departments. In 2023, the department procured goods and related services amounting to $5.21 billion from 17 countries and territories, including Hong Kong.

Open tendering is normally adopted. The department maintains supplier lists of different categories of goods and services for sourcing. It publishes tender notices online and notifies relevant listed suppliers about open tenders. As Hong Kong, China is a signatory to the World Trade Organisation's Agreement on Government Procurement, tender notices covered by the agreement are also published in the Government Gazette and issued to consulates and overseas trade commissions where appropriate. Bidders may download tender documents and submit their offers online.

Websites

Accounting and Financial Reporting Council: www.afrc.org.hk
Companies Registry: www.cr.gov.hk

Financial Services and the Treasury Bureau: www.fstb.gov.hk
Financial Services Development Council: www.fsdc.org.hk
Government Logistics Department: www.gld.gov.hk
Hong Kong Deposit Protection Board: www.dps.org.hk
Hong Kong Exchanges and Clearing Limited: www.hkex.com.hk
Hong Kong Monetary Authority: www.hkma.gov.hk
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Investor and Financial Education Council: www.ifec.org.hk
Investor Compensation Company Limited: www.hkicc.org.hk
Mandatory Provident Fund Schemes Authority: www.mpfa.org.hk
Official Receiver's Office: www.oro.gov.hk
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