



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

3 February 2020



DISCUSSION TOPICS

Updates on

- Financial and Economic Environment
- Currency Stability
- Banking Stability
- Financial Infrastructure
- Hong Kong as an International Financial Centre
- Investment Environment and Performance of the Exchange Fund
- Hong Kong Mortgage Corporation



FINANCIAL AND ECONOMIC ENVIRONMENT



GLOBAL ECONOMIC GROWTH FORECASTS

Real GDP Growth

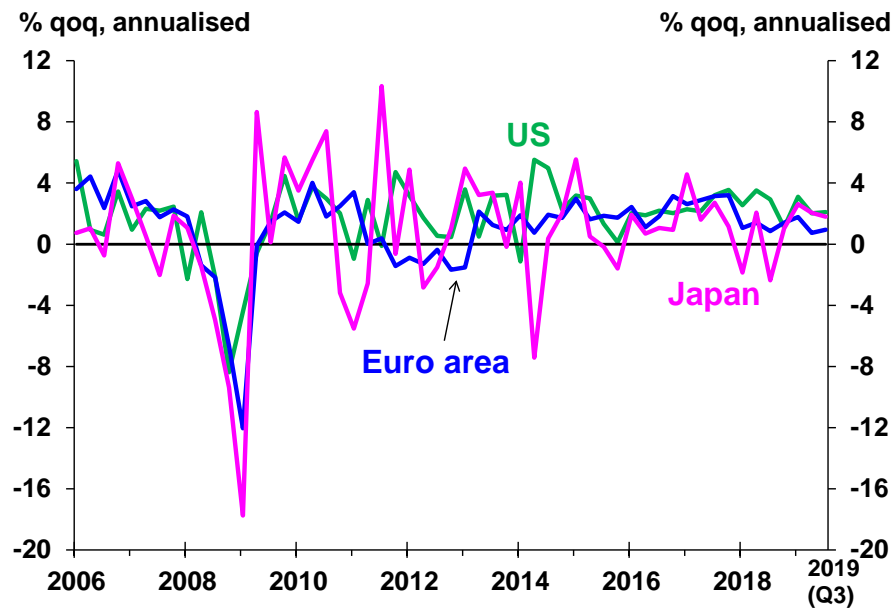
(% year-on-year)

	2018	2019 Forecasts	2020 Forecasts
US	2.9	2.3	1.9
Euro area	1.9	1.2	1.0
Japan	0.3	1.0	0.4
Asia (ex-Japan)	5.7	5.0	5.0
Mainland China	6.7	6.1	5.9
Hong Kong	3.0	-1.4	0.0

Sources: January 2020 Consensus Forecasts



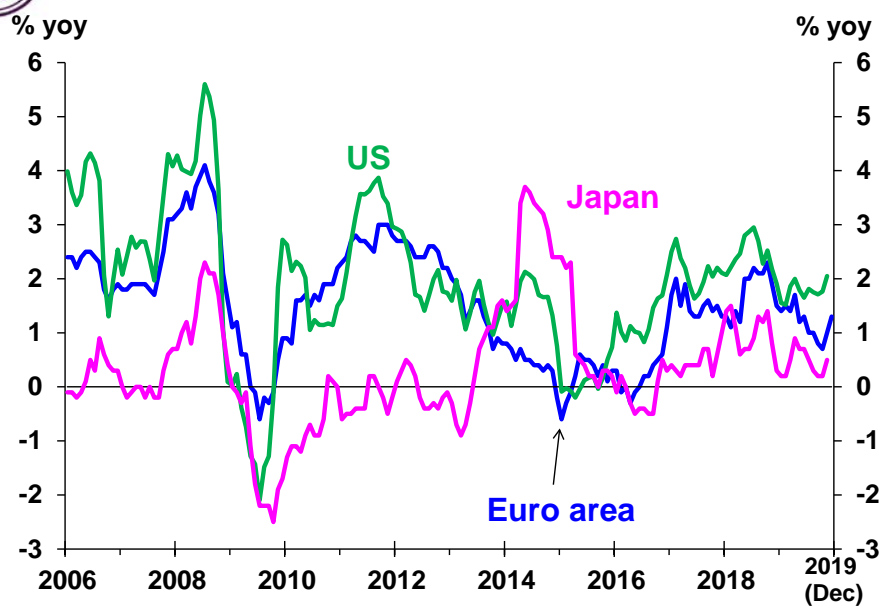
REAL GDP GROWTH IN MAJOR ECONOMIES



Source: CEIC



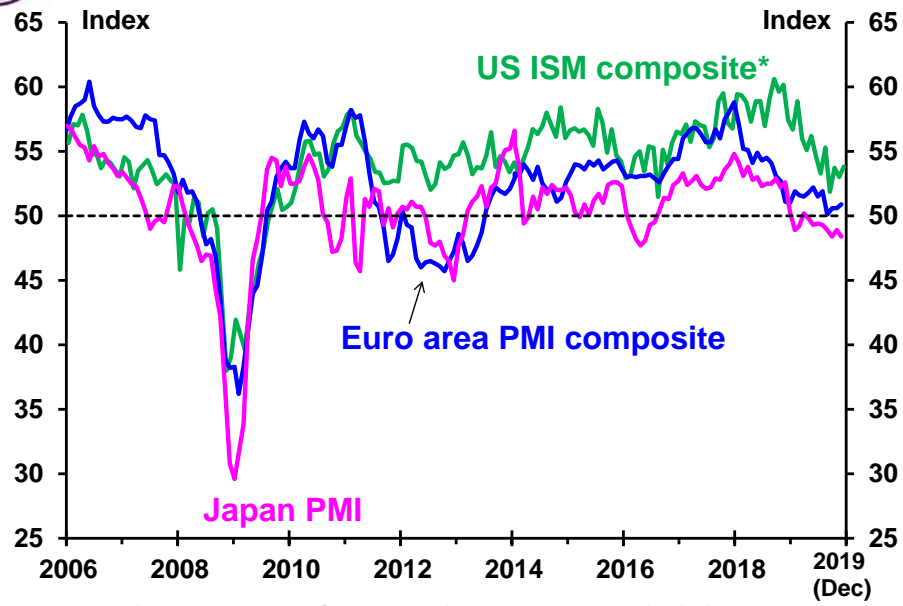
HEADLINE INFLATION IN MAJOR ECONOMIES



Source: CEIC



PURCHASING MANAGERS' INDEX IN MAJOR ECONOMIES

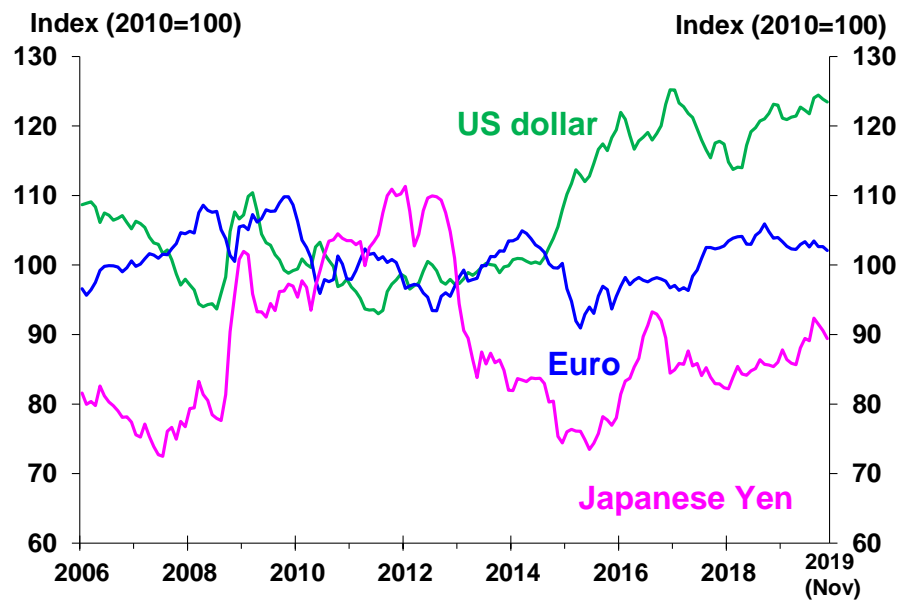


*Weighted average of the ISM manufacturing and non-manufacturing indices

Source: CEIC



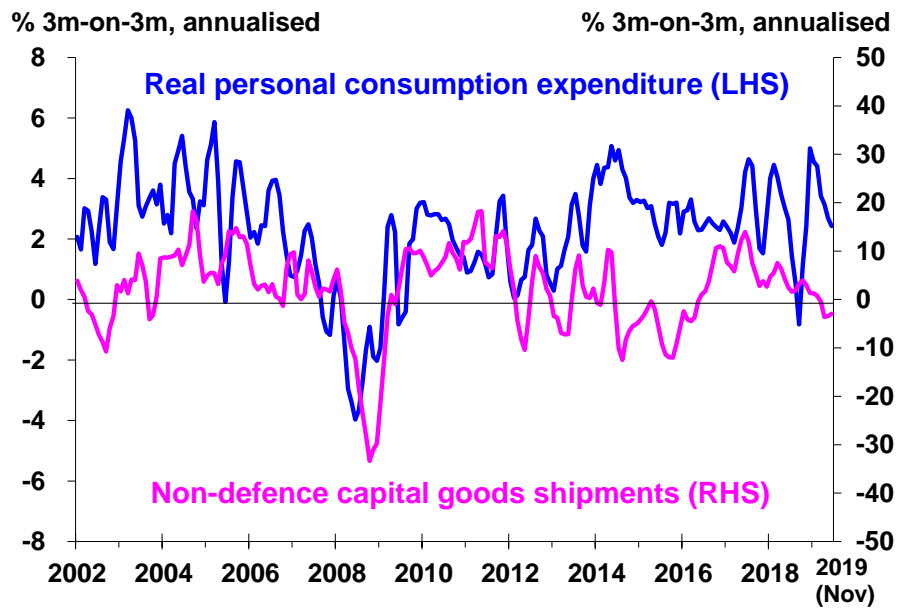
NOMINAL EFFECTIVE EXCHANGE RATE INDEX OF MAJOR CURRENCIES



Source: CEIC



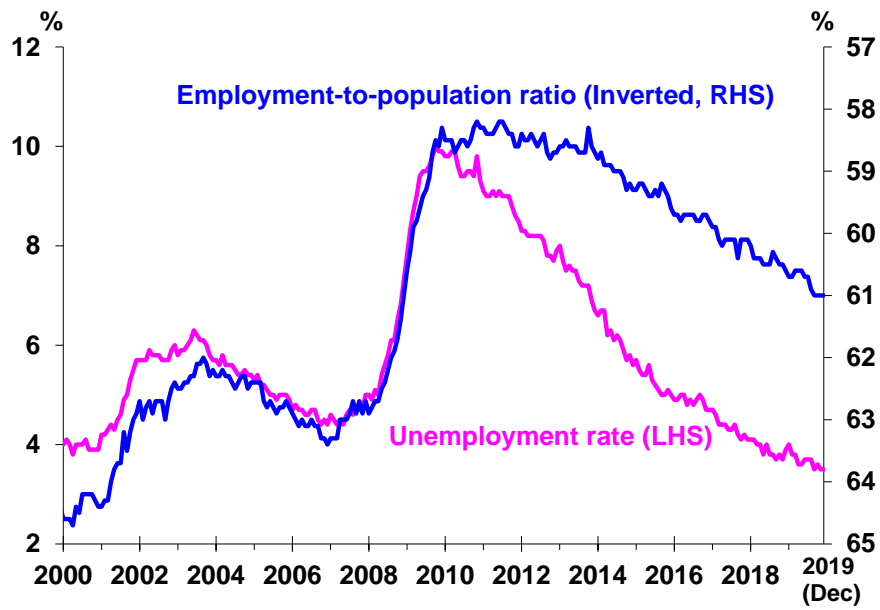
US: CONSUMPTION GROWTH & BUSINESS INVESTMENT ACTIVITY



Source: CEIC



US: LABOUR MARKET SITUATION



Source: CEIC



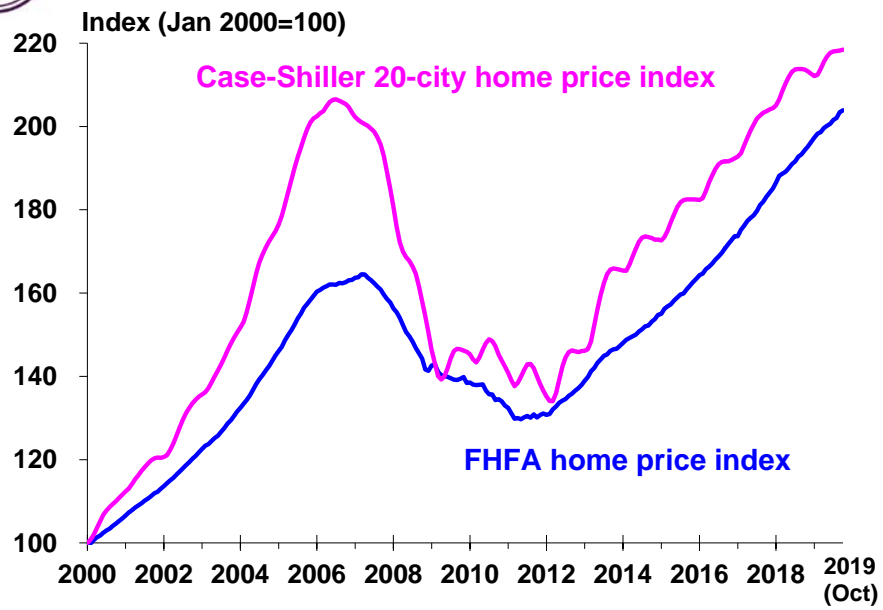
US: LABOUR FORCE PARTICIPATION



Source: CEIC



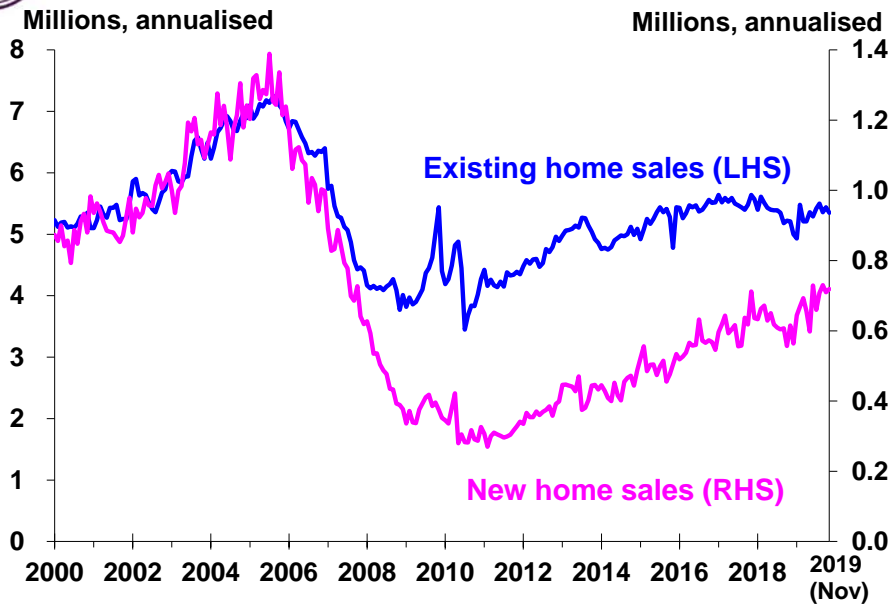
US: HOME PRICES



Sources: CEIC and Datastream



US: HOME SALES

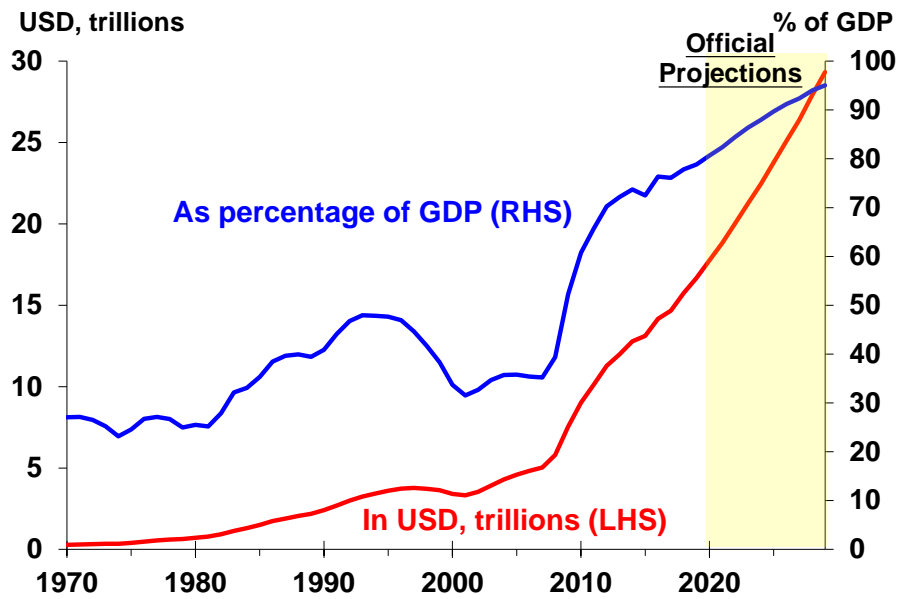


Sources: CEIC and Datastream



US: FEDERAL GOVERNMENT DEBT

US federal debt held by the public

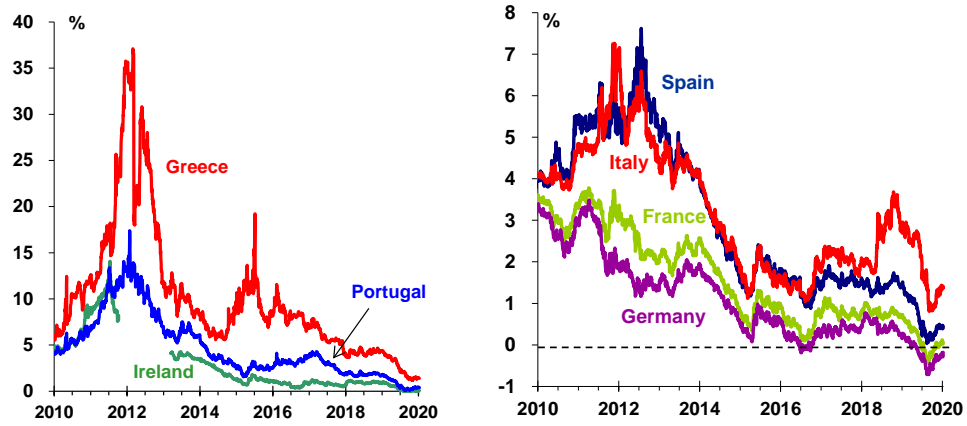


Sources: CEIC and Congressional Budget Office



EURO AREA: SOVEREIGN BOND YIELDS

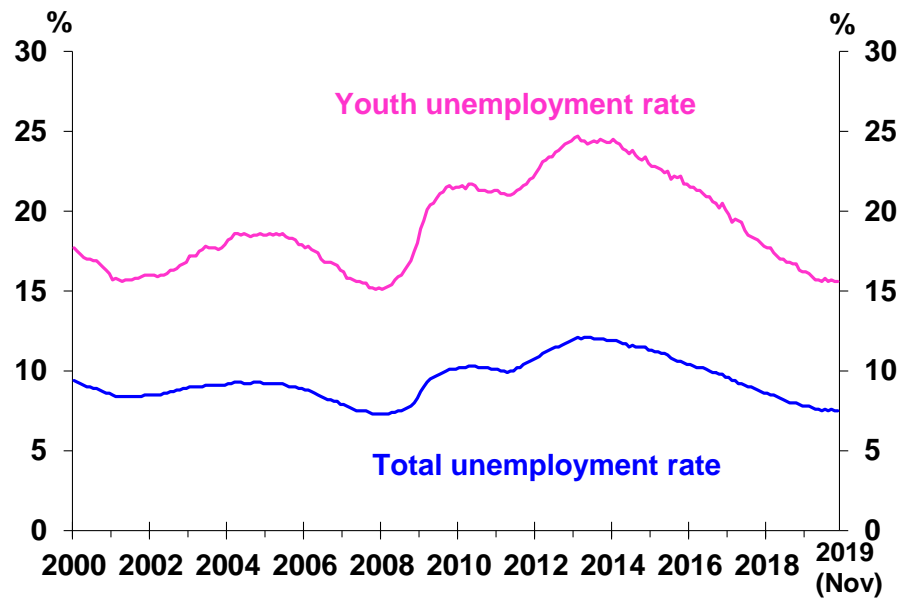
10-year sovereign bond yield



Note: 10-year Irish sovereign bond yield data is not available between 12 Oct 2011 and 14 Mar 2013
Source: Bloomberg



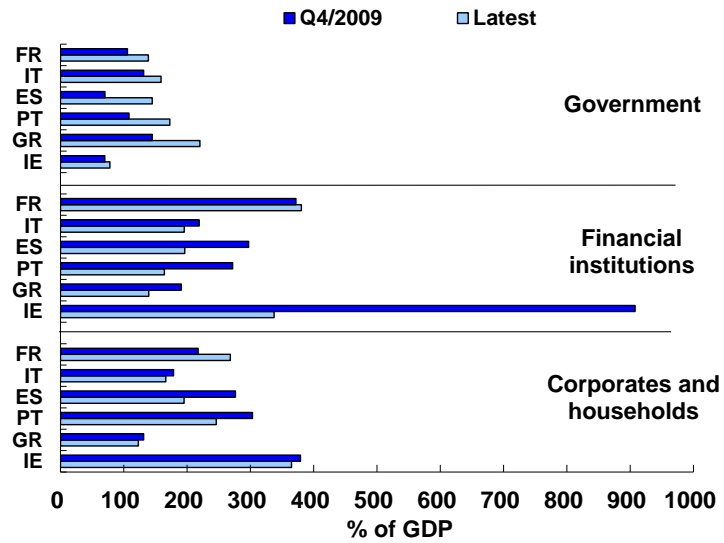
EURO AREA: UNEMPLOYMENT RATE



Source: Bloomberg



EURO AREA: OVERALL INDEBTEDNESS



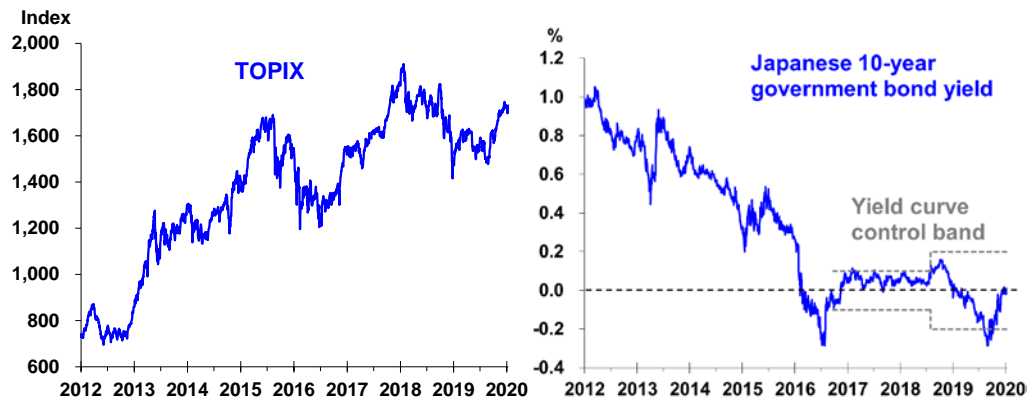
Source: European Central Bank

Note: FR – France, IT – Italy, ES – Spain, PT – Portugal, GR – Greece, IE – Ireland

The latest figures are up to Q3/2019 for financial institutions, and Q2/2019 for governments and corporates and households



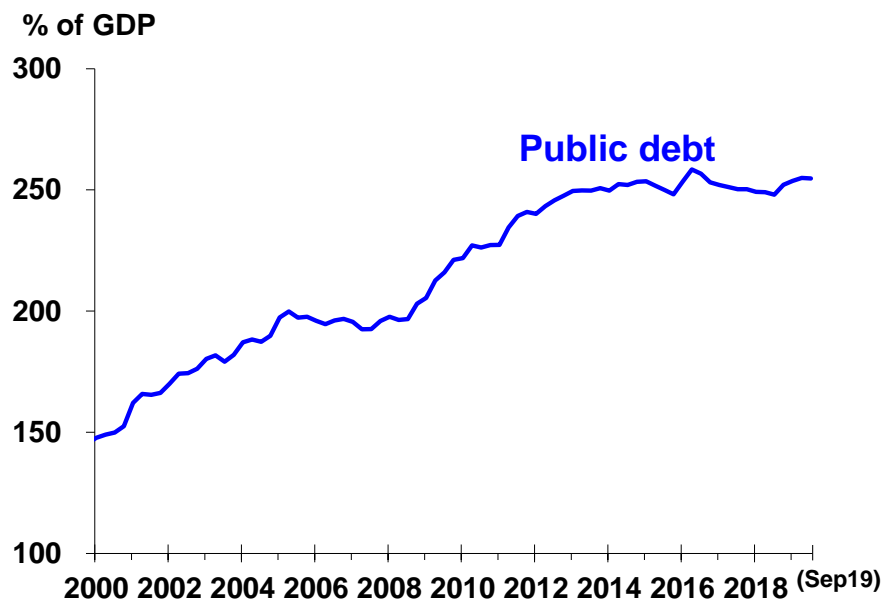
JAPAN: FINANCIAL MARKETS



Source: Bloomberg



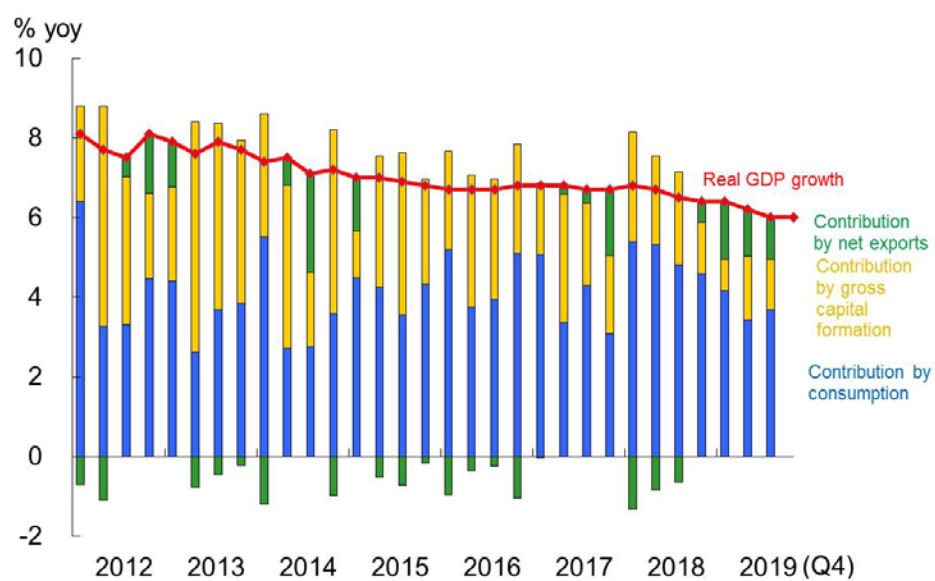
JAPAN: PUBLIC DEBT



Sources: Bank of Japan and CEIC



MAINLAND CHINA: REAL GDP GROWTH



Source: CEIC



MAINLAND CHINA: RETAIL SALES



Note: January and February figures are the average annual growth rate for the first two months of the year
Sources: WIND and HKMA staff estimates



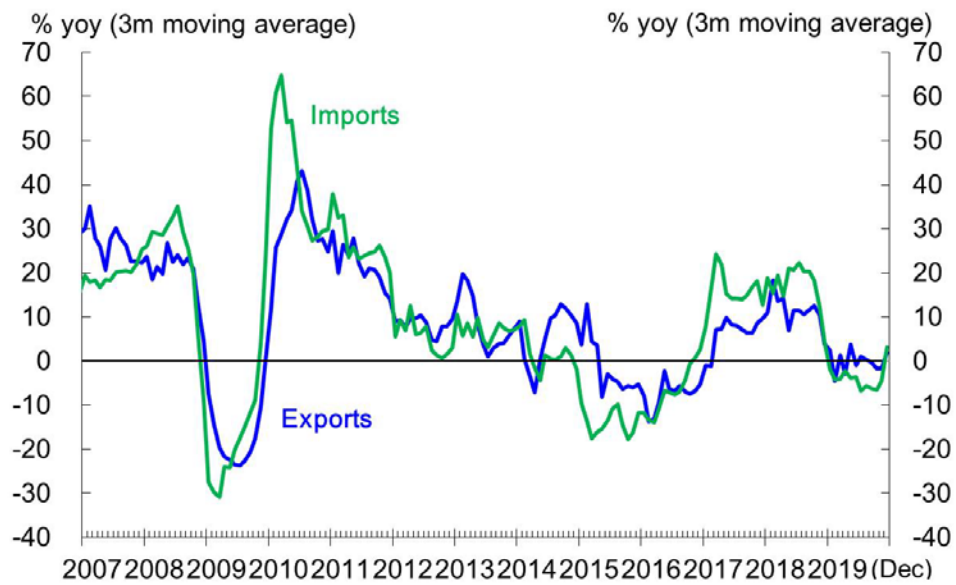
MAINLAND CHINA: FIXED ASSET INVESTMENT



Sources: CEIC and HKMA staff estimates



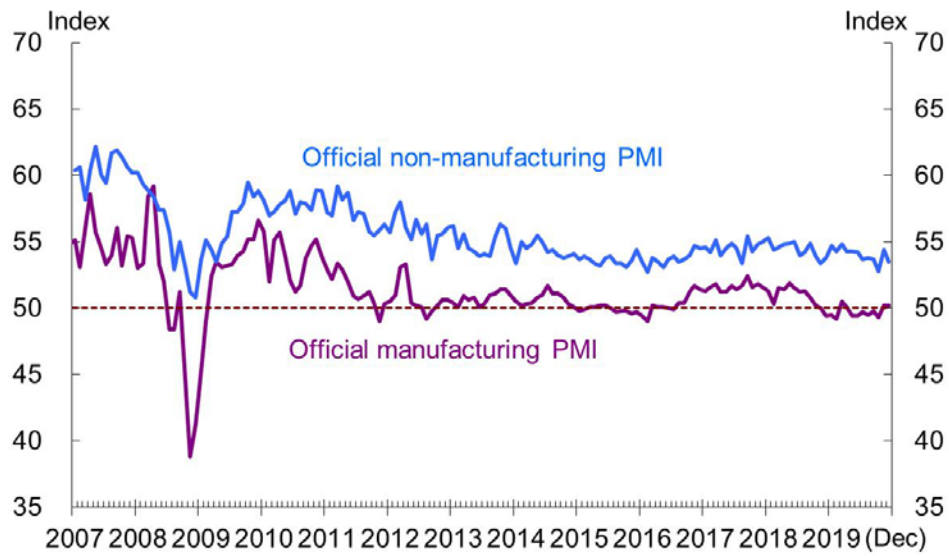
MAINLAND CHINA: IMPORT AND EXPORT GROWTH



Sources: CEIC and HKMA staff estimates



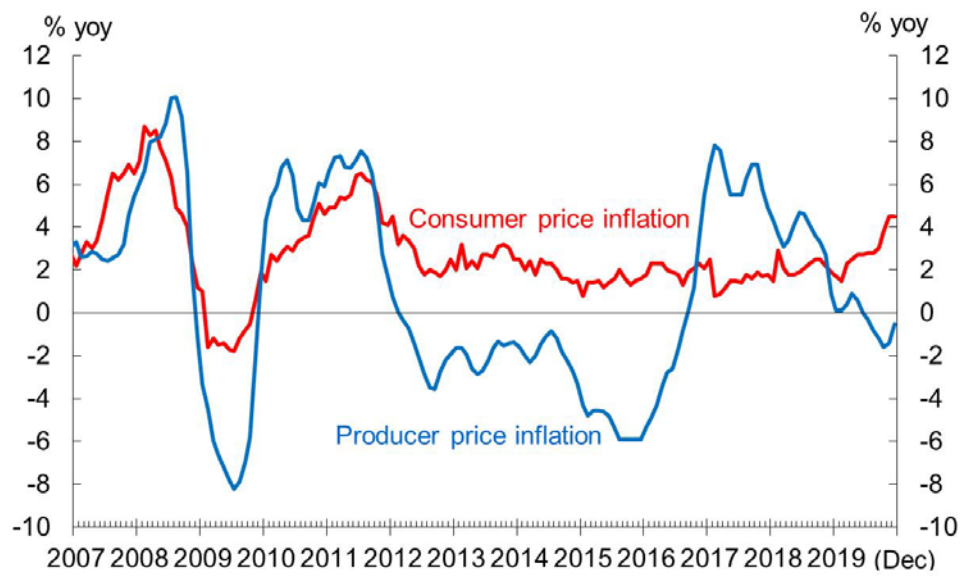
MAINLAND CHINA: PURCHASING MANAGERS' INDEX



Source: CEIC



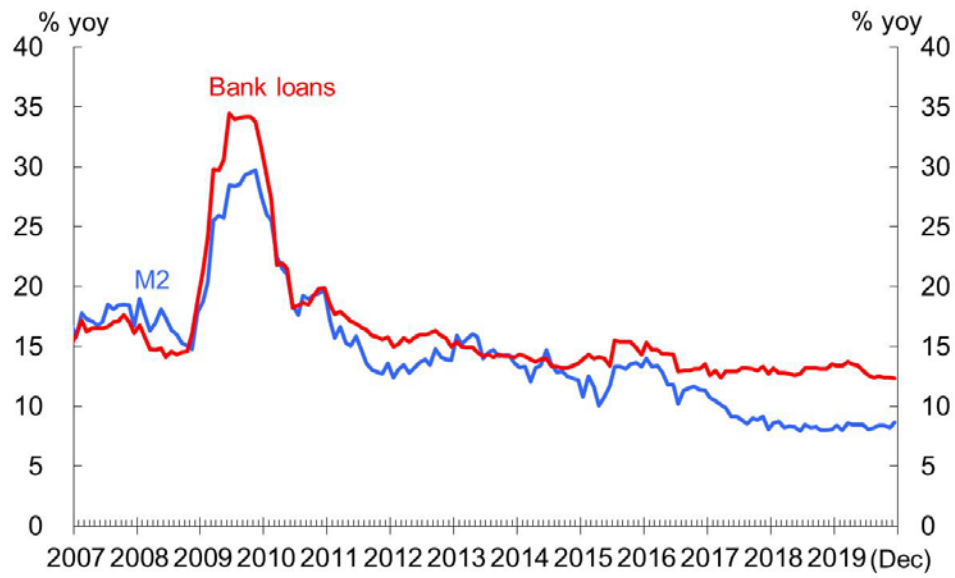
MAINLAND CHINA: INFLATION



Source: CEIC



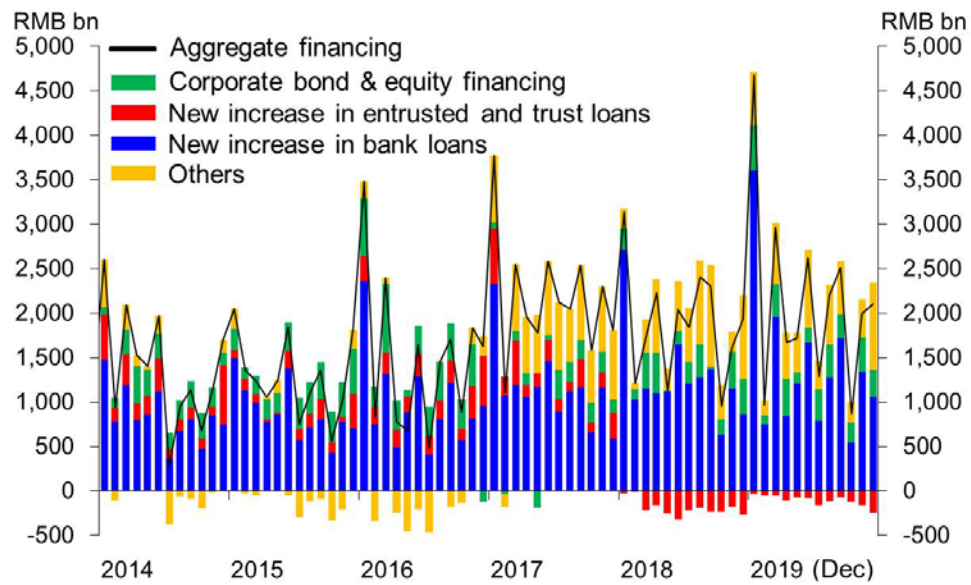
MAINLAND CHINA: MONEY AND LOAN GROWTH



Source: CEIC



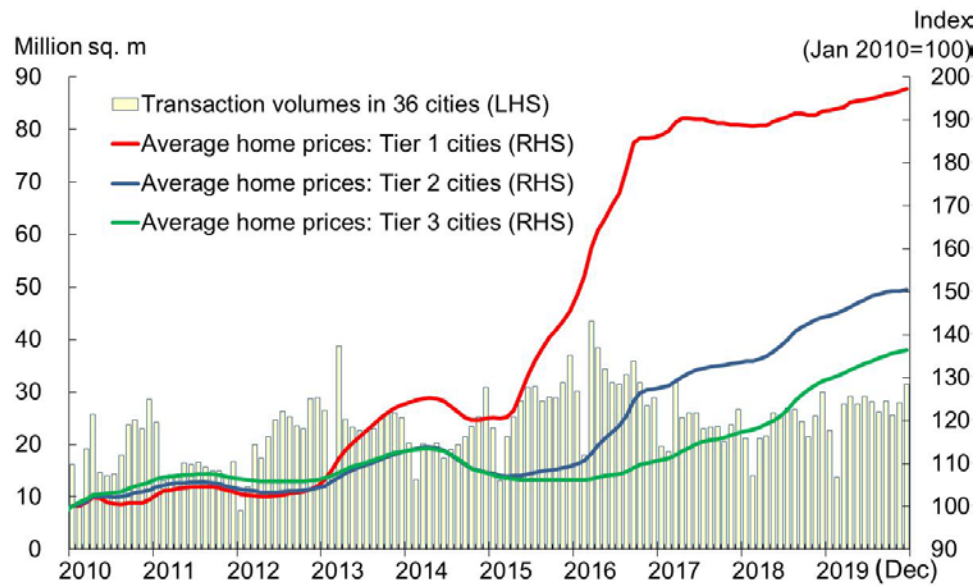
MAINLAND CHINA: AGGREGATE FINANCING FLOW



Source: CEIC



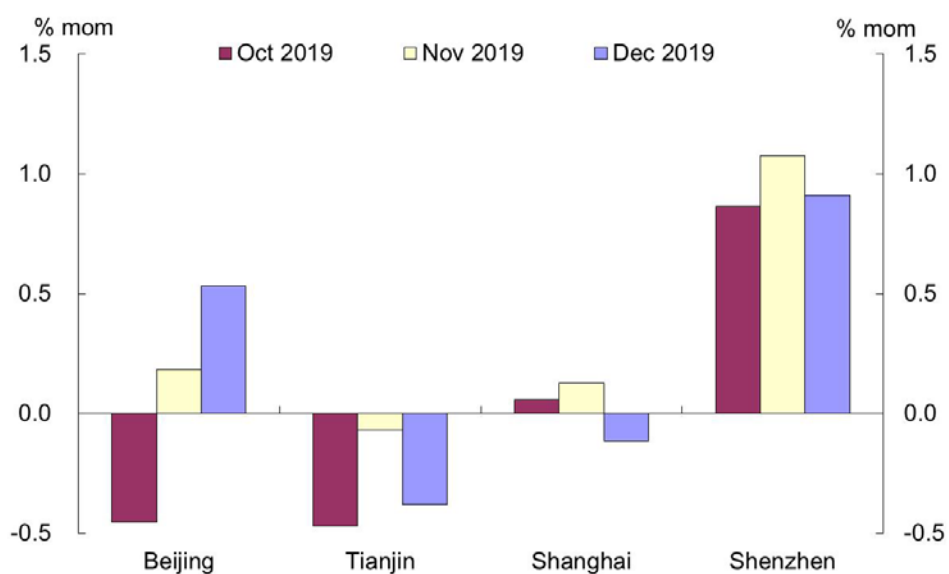
MAINLAND CHINA: PROPERTY PRICE AND TRANSACTION VOLUME



Sources: CEIC, WIND and HKMA staff estimates



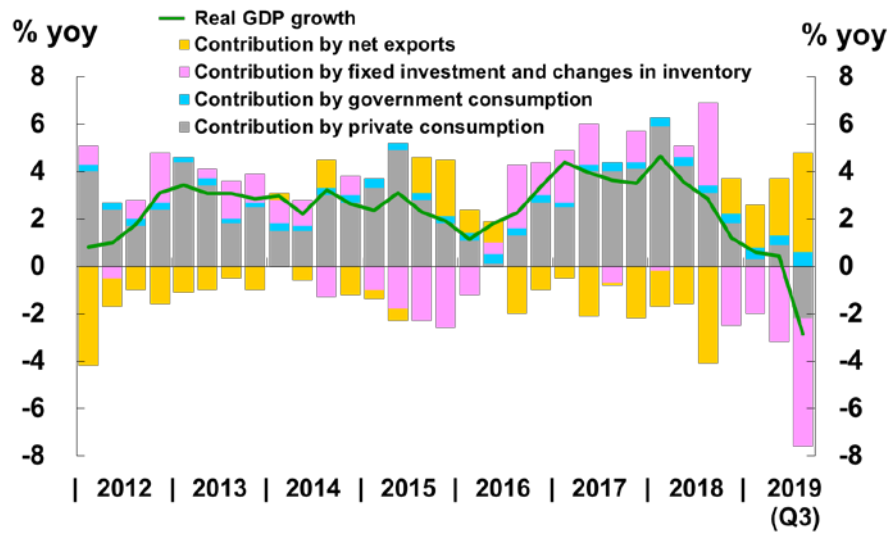
MAINLAND CHINA: HOUSING PRICE CHANGES IN MAJOR CITIES



Sources: CEIC, WIND and HKMA staff estimates



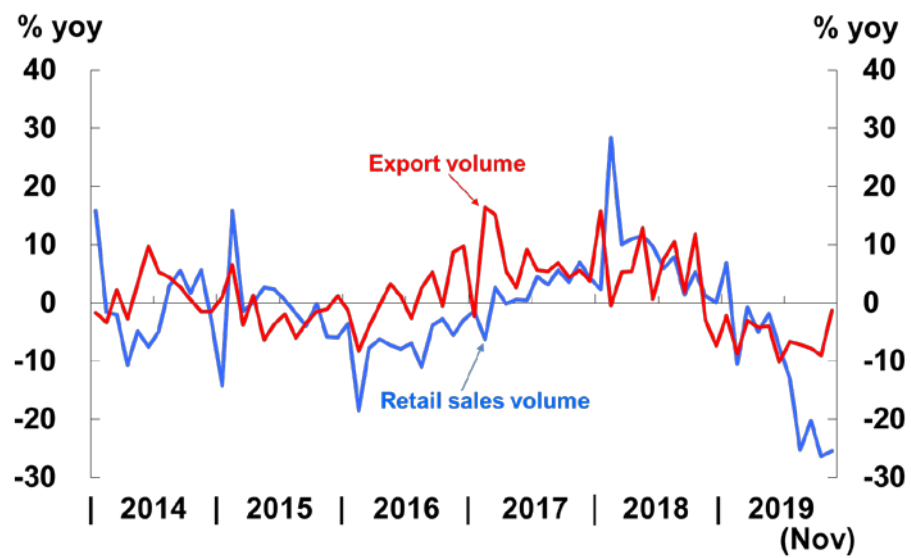
HONG KONG: REAL GDP GROWTH



Source: C&SD



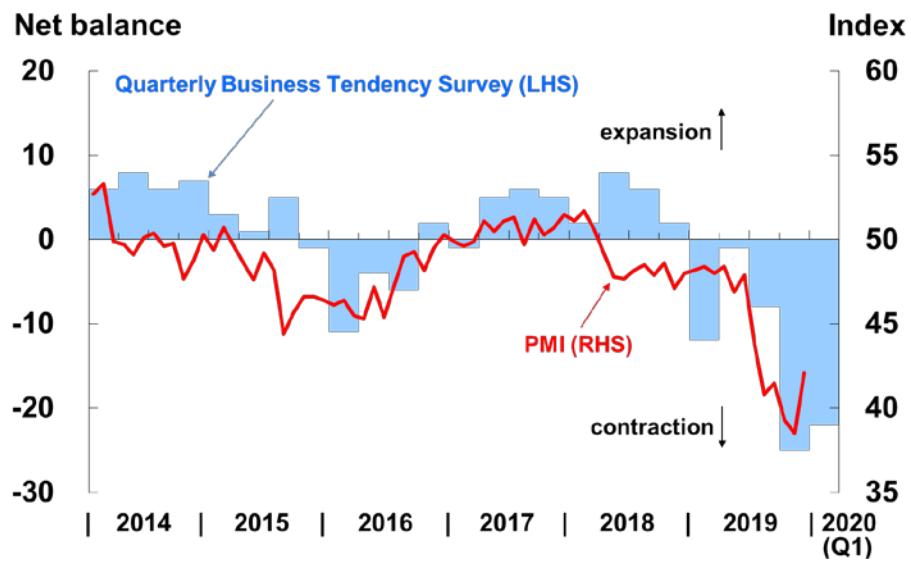
HONG KONG: ECONOMIC ACTIVITY



Source: C&SD



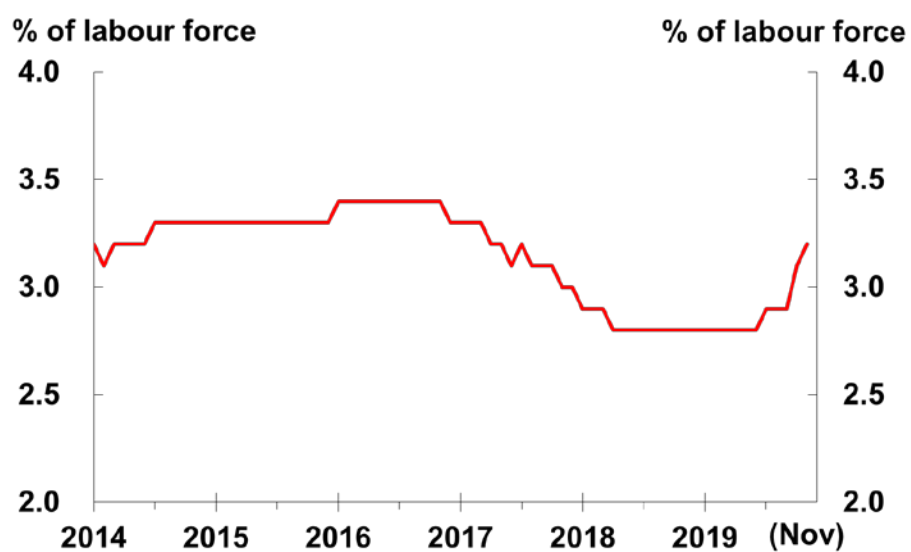
HONG KONG: BUSINESS OUTLOOK



Sources: C&SD and Markit



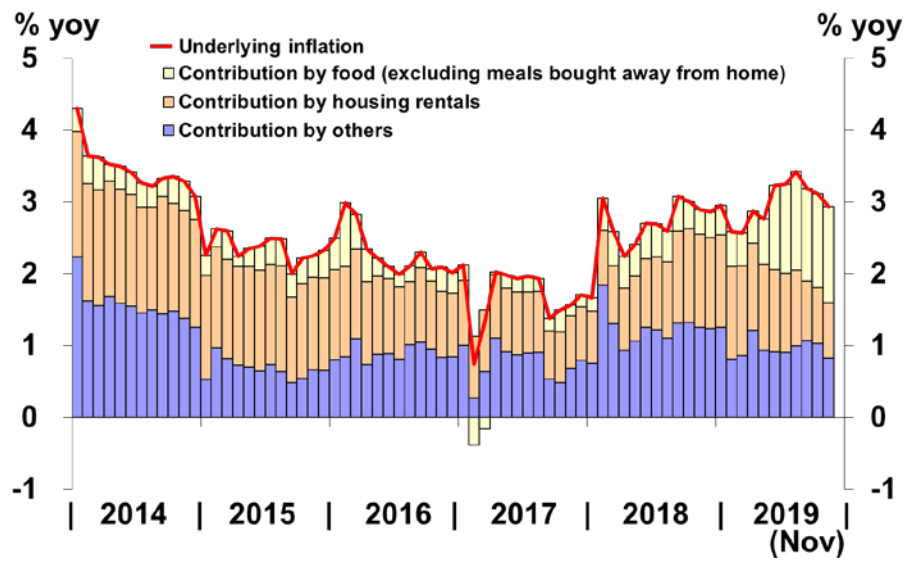
HONG KONG: UNEMPLOYMENT RATE



Source: C&SD



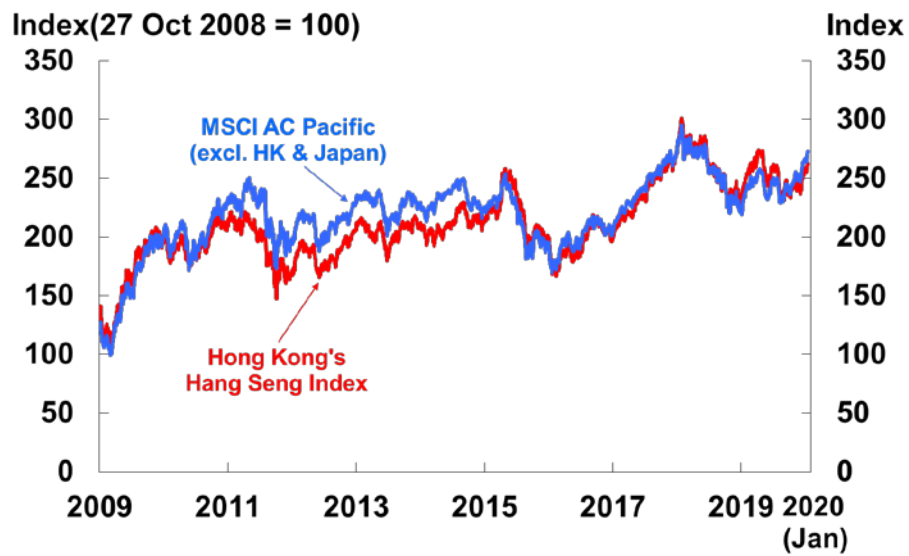
HONG KONG: INFLATION



Sources: C&SD and HKMA staff estimates



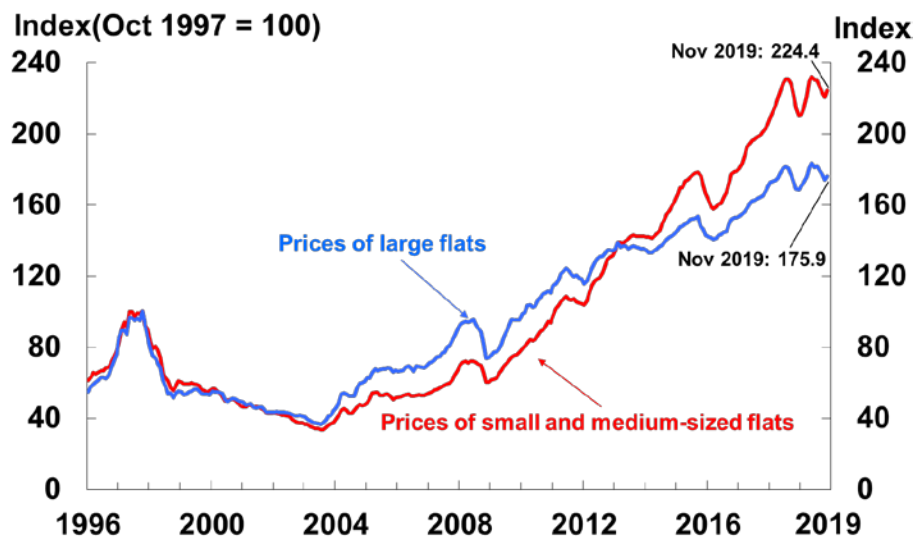
HONG KONG: EQUITY MARKET



Source: Bloomberg



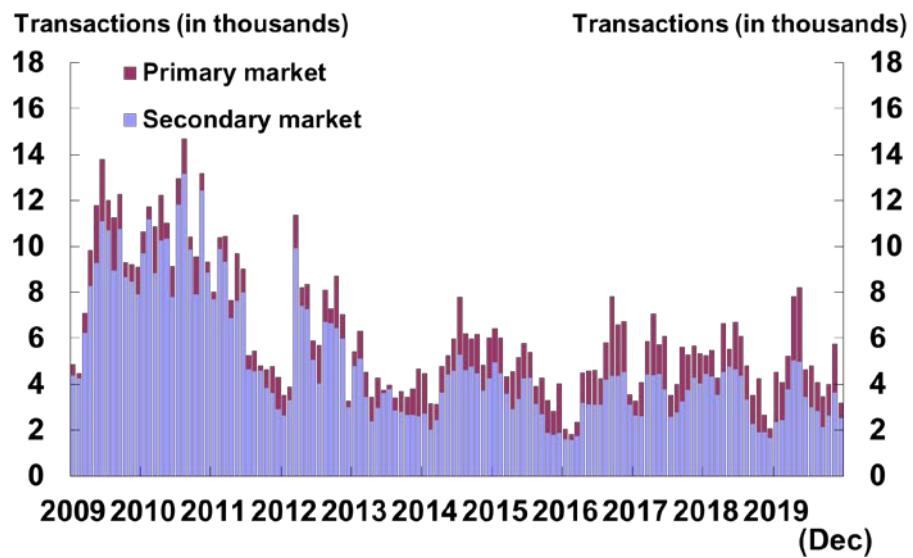
HONG KONG: RESIDENTIAL PROPERTY PRICES



Source: Rating and Valuation Department



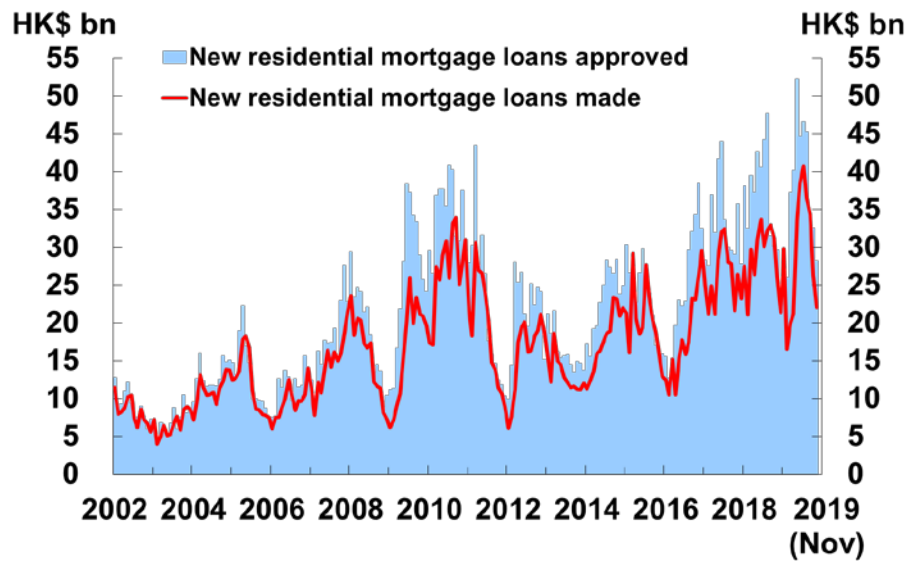
HONG KONG: TRANSACTION VOLUME IN THE PRIMARY AND SECONDARY MARKETS



Source: The Land Registry



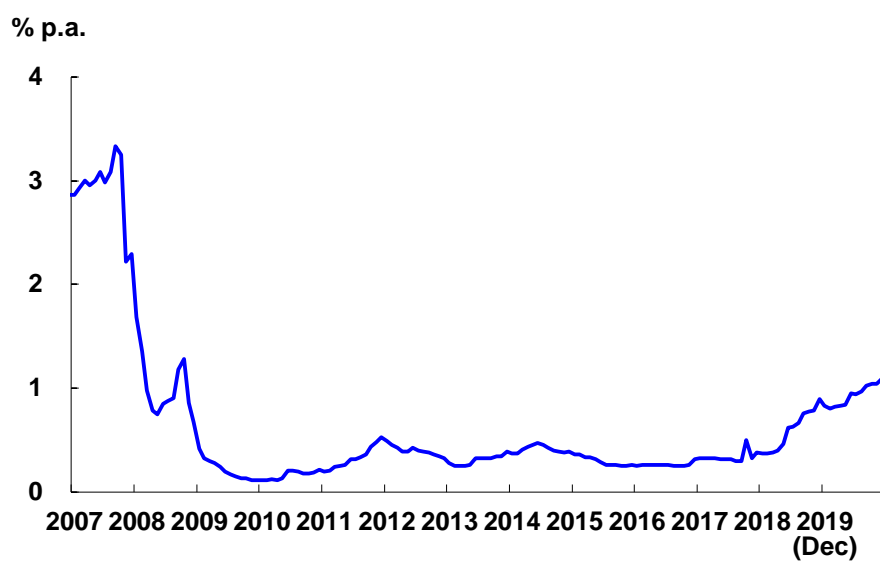
HONG KONG: NEW RESIDENTIAL MORTGAGE LOANS



Source: HKMA



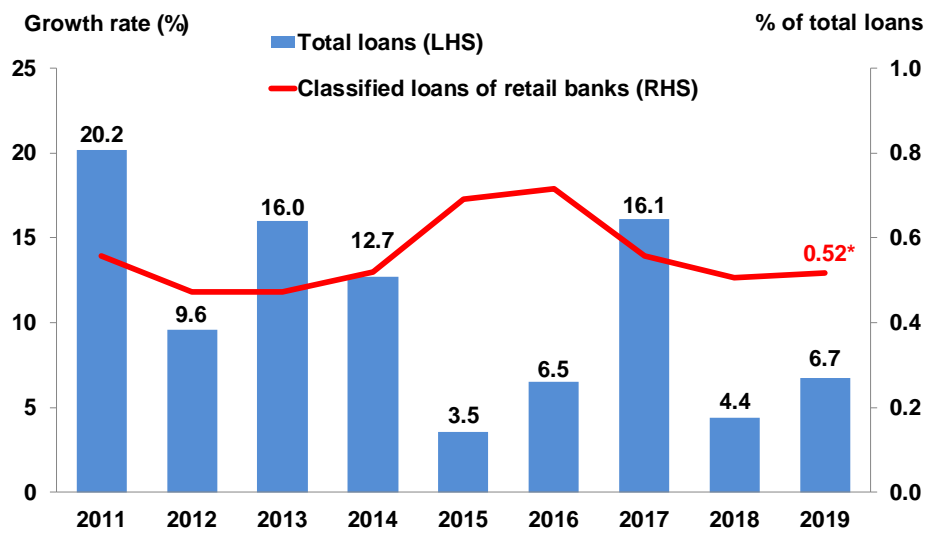
HONG KONG: COMPOSITE INTEREST RATE



Source: HKMA



HONG KONG: LOAN GROWTH AND ASSET QUALITY

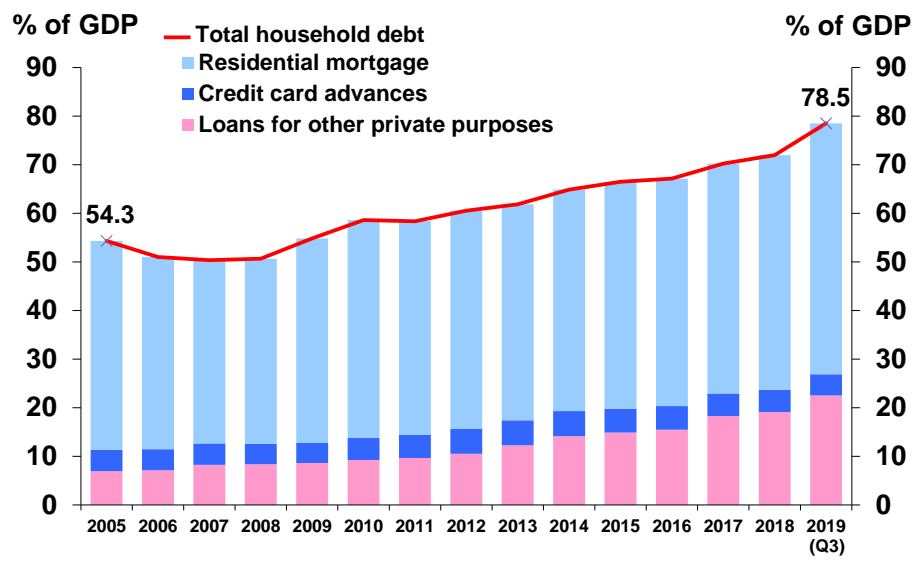


Note: * The figure is for 2019Q3.

Source: HKMA



HONG KONG: HOUSEHOLD DEBT



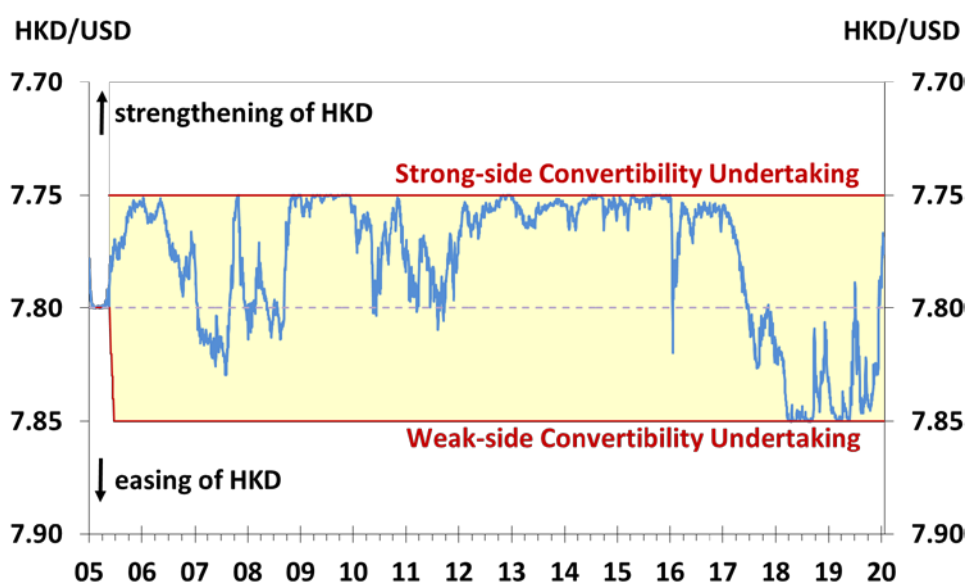
Source: HKMA



CURRENCY STABILITY

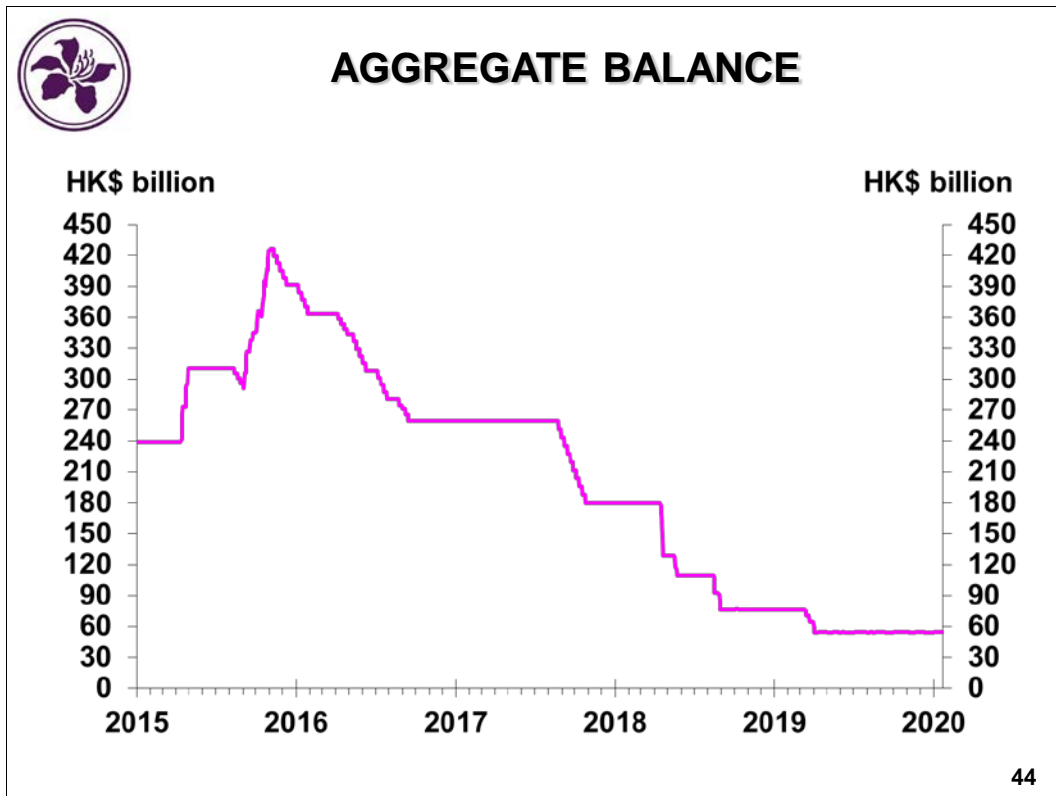


HONG KONG DOLLAR SPOT EXCHANGE RATE



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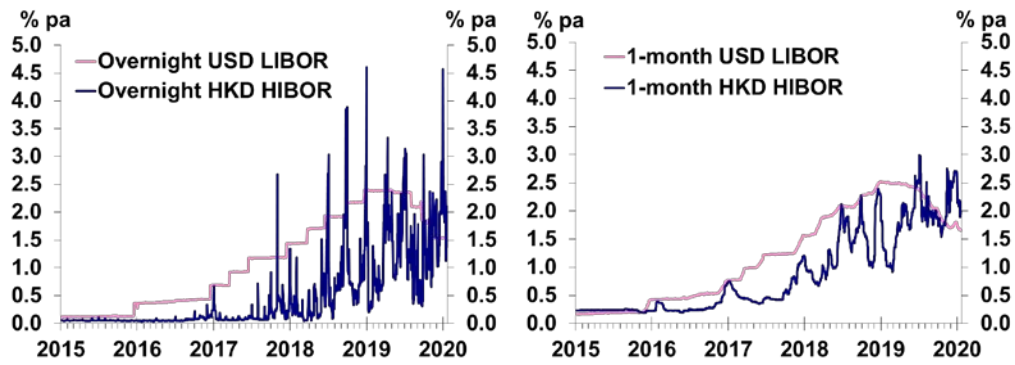
- The weak-side Convertibility Undertaking has not been triggered since April 2019.



- The Aggregate Balance stood at HK\$54.4 billion.

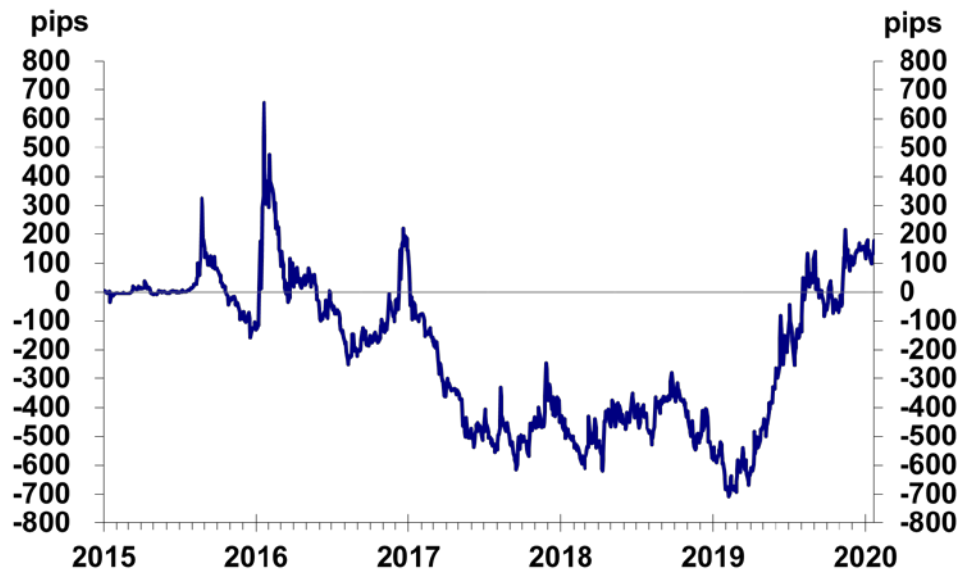


DOMESTIC INTEREST RATES





12-MONTH HONG KONG DOLLAR FORWARD POINTS



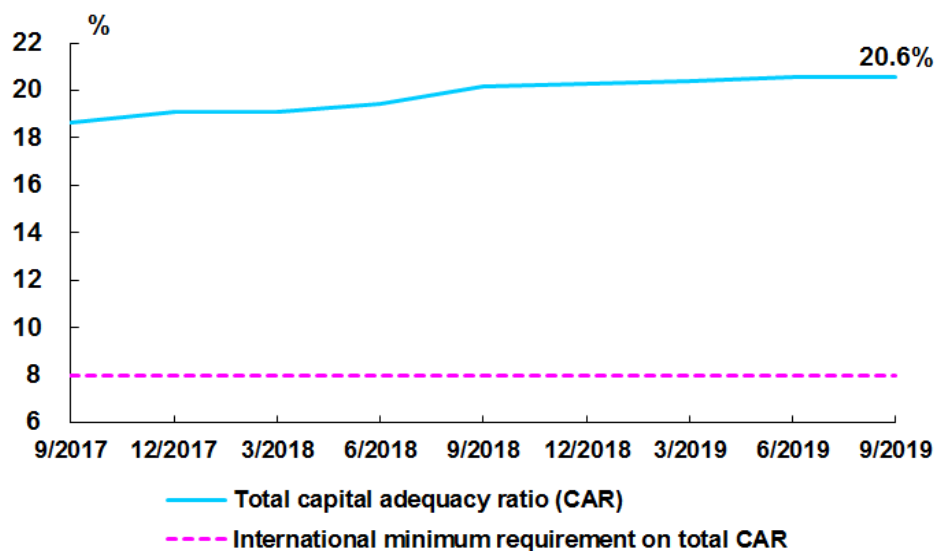


BANKING STABILITY



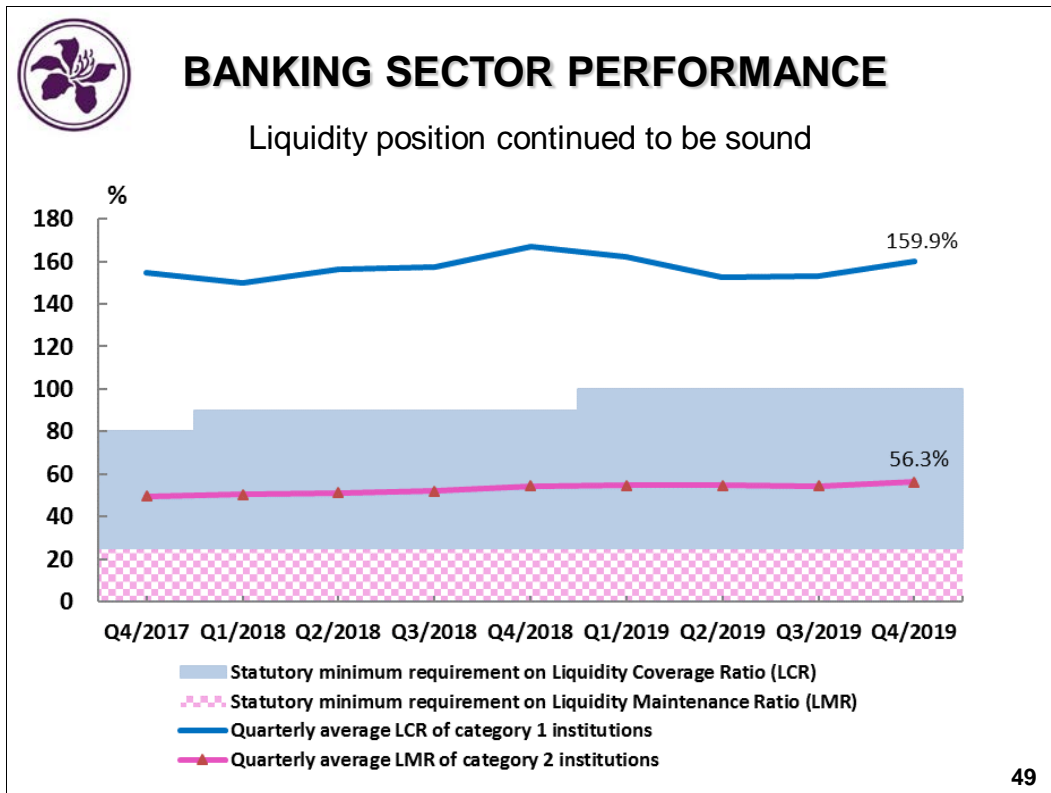
BANKING SECTOR PERFORMANCE

Locally incorporated authorized institutions (AIs)
remained well capitalised



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- The banking sector continued to be well capitalised. The consolidated capital adequacy ratio of locally incorporated AIs stood at 20.6% at end-September 2019, well above the international minimum requirement of 8%.

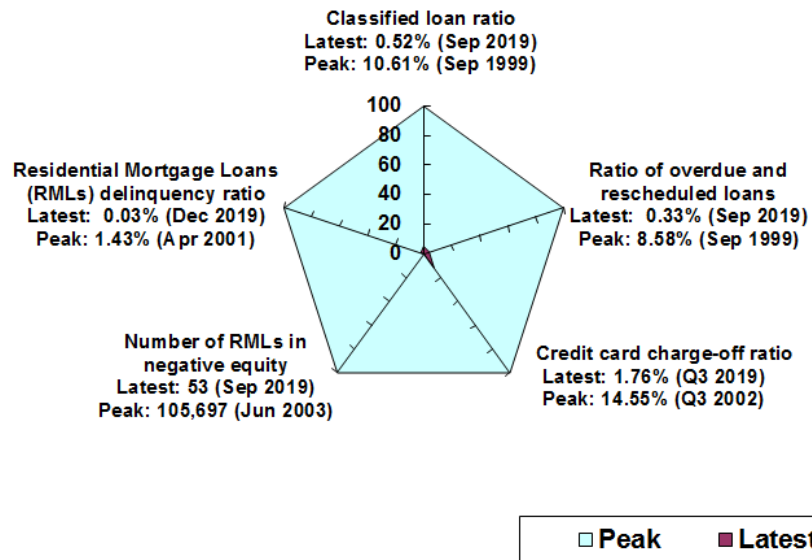


- In the fourth quarter of 2019, the quarterly average LCR of category 1 institutions was 159.9%, well above the 100% statutory minimum requirement applicable for 2019. For category 2 institutions, their quarterly average LMR was 56.3%, also well above the 25% statutory minimum requirement.



BANKING SECTOR PERFORMANCE

Asset quality continued to hold up well



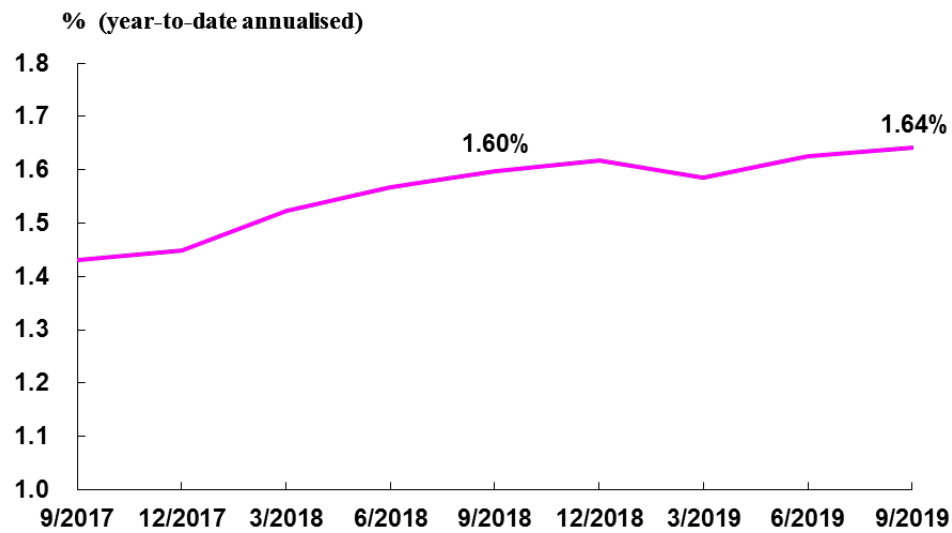
50

- The asset quality of retail banks continued to hold up well. Their classified loan ratio decreased to 0.52% at end-September 2019 from 0.54% a quarter earlier. For the banking sector as a whole, the classified loan ratio edged down to 0.56% from 0.57% during the same period.



BANKING SECTOR PERFORMANCE

Net interest margin widened



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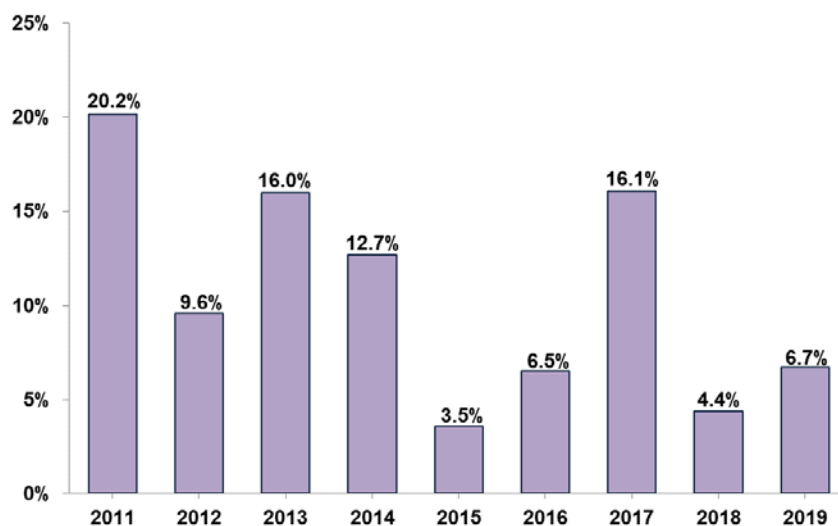
- The net interest margin of retail banks' Hong Kong offices widened to 1.64% in the first three quarters of 2019 from 1.60% in the same period last year.



BANKING SECTOR PERFORMANCE

Credit grew at a moderate pace

Credit growth rate



Source: HKMA

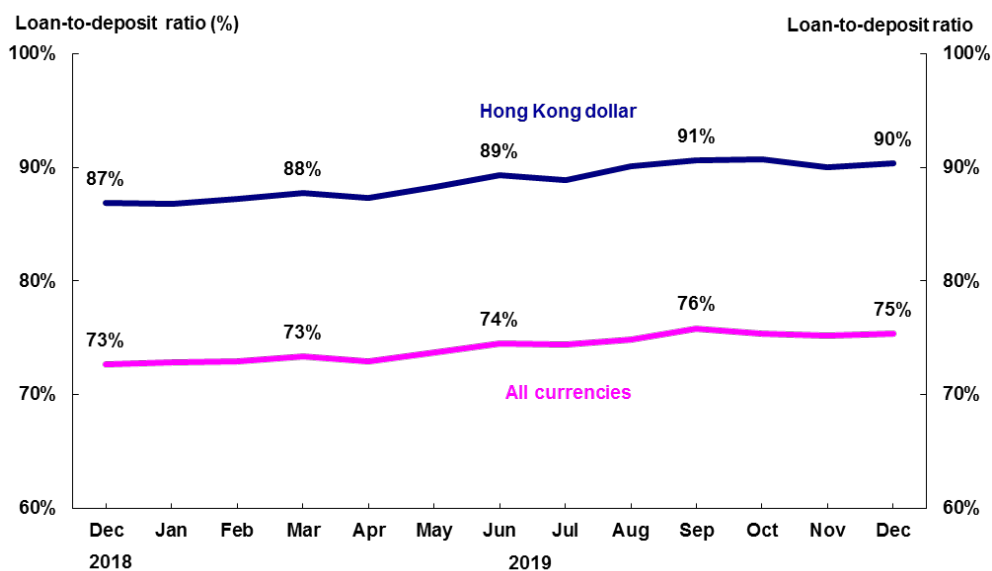
52

- Bank credit grew at a moderate pace of 6.7% in 2019, compared with a growth of 4.4% in 2018.



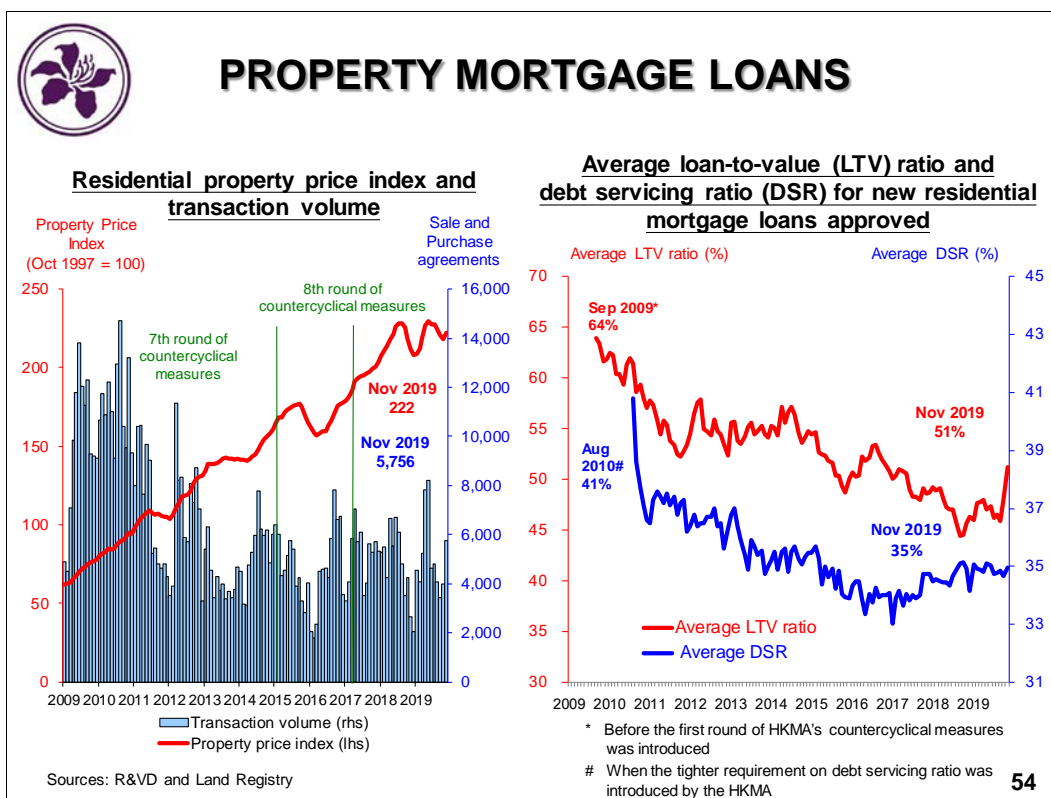
BANKING SECTOR PERFORMANCE

Loan-to-deposit ratios remained broadly stable



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- Hong Kong-dollar loan-to-deposit ratio edged down to 90% at end-December 2019 from 91% at end-September 2019.
- Similarly, all currencies loan-to-deposit ratio decreased slightly to 75% from 76% during the same period.



Latest statistics on residential mortgage loans (RMLs)

	Monthly average in 2017	Monthly average in 2018	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019	Nov 2019
Number of sale and purchase agreements	5,133	4,771	4,627	4,805	4,084	3,447	4,001	5,756
Number of new RML applications	11,947	12,567	12,732	15,140	11,133	9,655	9,299	9,412
Number of new RMLs approved	8,699	9,010	10,566	11,102	10,951	8,181	7,614	6,505

Latest statistics on residential property prices

Property price index		Period	Property price index
Rating and Valuation Department (10/1997=100)	Latest position	11/2019	222.2
	Recent peak	5/2019	229.6
	Peak in 1997	10/1997	100.0
Centaline (6/7/1997=100)	Latest position	12/1/2020	175.9
	Recent peak	30/6/2019	190.5
	Peak in 1997	19/10/1997	102.9



INTERNATIONAL STANDARDS IMPLEMENTATION

- Banking (Capital) (Amendment) Rules 2020
- Banking (Exposure Limits) (Amendment) Rules 2020

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The following legislative proposals are being made or prepared for the purpose of implementing the Basel regulatory standards:

Capital standards

- We are in the process of finalising a set of Banking (Capital) (Amendment) Rules to implement the Basel revised counterparty credit risk framework, which consists of:
 - the standardised approach for measuring counterparty credit risk of derivative contracts (SA-CCR); and
 - the final standard on banks' exposures to central counterparties (in centrally-cleared transactions), replacing the interim standard that has been in effect in Hong Kong since 2013.
- Our plan is to submit the amendment rules to the LegCo during the first half of 2020, with the effective date targeted at around end-2020. [Note: These standards were originally scheduled to be effective on 1 January 2017 according to the Basel timeline. Local implementation has been deferred to track more closely the implementation schedules in other major jurisdictions.]

Exposure limits standards

- Amendments will be proposed to enhance clarity and better reflect the policy intent of certain provisions of the current rules.



AML AND NEW TECHNOLOGIES

- First AML/CFT RegTech Forum in November 2019
 - Promotion of responsible RegTech adoption by the banking industry
- Guidance on managing ML/TF risks associated with virtual assets updated in December 2019 to align with latest international standards

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- The HKMA hosted the first AML/CFT RegTech Forum on 22 and 25 November 2019, attended by around 400 participants from banks, tech firms and various stakeholders. Participants shared insights in grasping opportunities for the use of innovative technology in the AML/CFT space.
- Three break-out groups formed by the Forum will keep up the momentum collectively in the next six to twelve months, through applying an appropriate assessment framework to review AML/CFT processes end-to-end for RegTech adoption; experimenting in “Lab sessions” for more advanced technologies; and working on data, analytics, information delivery, collaboration as well as skills and expertise to further enhance effectiveness of the AML/CFT ecosystem.
- The HKMA updated guidance to the banking industry in December 2019, making reference to the updated Recommendation by the FATF, on managing ML/TF risks associated with virtual assets and their service providers.



RESOLUTION REGIME

- Standard disclosure templates under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules published on 31 October 2019
- Developing subsidiary legislation under the Financial Institutions (Resolution) Ordinance on contractual stays, requiring the adoption of contractual provisions in certain financial contracts to give effect to a suspension of termination rights imposed under the Ordinance. The relevant consultation paper was published on 22 January 2020

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- On 31 October 2019, the finalised standard disclosure templates specified by the Monetary Authority under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules for resolution entities and material subsidiaries to make disclosures under the Rules (LAC Disclosure Templates) were published. Feedback received from the industry consultation had been reflected in these finalised templates as appropriate.
- Certain AIs and Hong Kong incorporated holding companies of these institutions which had been classified as resolution entities or material subsidiaries have been making public disclosures using the LAC Disclosure Templates starting from the reporting period ended 30 September 2019.
- The HKMA published a consultation paper on policy proposals for making rules on contractual stays on 22 January 2020. The proposed rules will require the inclusion of contractual provisions in certain financial contracts to the effect that the parties to the contracts agree to be bound by a suspension of termination right (i.e. “stay”) that may be imposed by the Monetary Authority under the Hong Kong resolution regime. The policy proposals are intended to implement the relevant Financial Stability Board principles for enhancing cross-border effectiveness of resolution actions.



FINANCIAL INCLUSION

Bank account opening and maintenance

- Simple Bank Accounts with less extensive customer due diligence measures to facilitate services to SMEs
- On-going communication with the banking industry, business community and relevant stakeholders

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- The HKMA has been encouraging banks to flexibly and pragmatically deploy new technologies and devise new solutions to further enhance the coverage of banking networks in remote areas and public housing estates. At the end of last year, a retail bank set up a new mobile branch in three public housing estates respectively in Yuen Long, Tai Po and Tung Chung. This further enhances the access to basic banking services in remote areas and public housing estates.
- The HKMA encourages more banks to support and launch Simple Bank Accounts to provide basic banking services with less extensive customer due diligence measures, hence offer corporate customers more choices.
- The HKMA has been maintaining close dialogues with banks and fintech companies on their initiatives through the Fintech Supervisory Sandbox and Chatroom. The HKMA articulated to the industry the principles of identity authentication and identity matching when opening accounts remotely for individual customers, and reminded banks to adopt a risk-based approach during the processes of account opening and maintenance. Some banks have already launched remote account opening services, while some other banks are considering or testing similar initiatives.



BANKING CONSUMER PROTECTION

- Issued a circular in October 2019 to remind banks to adopt adequate consumer protection measures in Open Application Programming Interface (API) initiatives
- Issued a circular in November 2019 to provide banks with a set of guiding principles on consumer protection aspects on the use of big data analytics and artificial intelligence
- Working closely with the Hong Kong Association of Banks (HKAB) to follow up with TransUnion in respect of security enhancement of its online consumer credit report service and proposed implementation of more than one credit referencing agency for personal credit data

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- **Consumer Protection Measures in respect of Open API Framework:** The HKMA keeps on reviewing and strengthening consumer protection policy in respect of digital financial services. In view of the development of innovative technology in the banking industry under the “Open API Framework for the Hong Kong Banking Sector”, the HKMA issued a circular in October last year to remind banks to adopt adequate consumer protection measures in Open API initiatives.
- **Consumer Protection in respect of Big Data Analytics and Artificial Intelligence (BDAI):** The HKMA issued a circular in November last year to provide banks with a set of guiding principles on consumer protection aspects of banks’ use of BDAI. These guiding principles focus on four major areas, namely (i) governance and accountability, (ii) fairness, (iii) transparency and disclosure, and (iv) data privacy and protection. These principles are developed taking into account views from the banking industry and good practices recommended by international organisations (e.g. Organisation for Economic Co-operation and Development).
- **TransUnion incident:** The HKMA continues to work closely with HKAB in following up with TransUnion on its full investigation and enhancement to security controls. The HKMA will make reference to the investigation report published by the Privacy Commissioner for Personal Data in December last year in relation to the incident in the follow-up process. Meanwhile, the HKMA is working with the banking industry on further enhancing the oversight of credit referencing agencies (CRAs) and introducing multiple CRAs in Hong Kong, with a view to enhancing quality of service and addressing the operational risk of having only one CRA in the market.



BANKING INVESTOR PROTECTION

- Continued working with Insurance Authority (IA) to implement the new statutory regime for regulating insurance intermediaries
- Issued guidance to banking industry on sale of medical insurance products
- Issued guidance to banking industry on key observations and good practices in respect of selling of investment funds

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- The HKMA continued to work with the IA to implement the new regulatory regime for insurance intermediaries under the new Insurance Ordinance (IO), which commenced operation on 23 September 2019. In October 2019, the HKMA issued a circular to AIs to draw their attention to the IA's "Explanatory Note on Licensing Requirements for Banking Sector under Regulatory Regime for Insurance Intermediaries", which provides guidance on the extent to which certain insurance-related banking activities would be regarded as regulated activities under the IO. The circular also reminds AIs and their staff to refrain from carrying on any regulated activity under the IO if they are not licensed insurance intermediaries.
- In November 2019, the HKMA issued guidance to the banking industry on sale of medical insurance products to remind AIs that engage in selling medical insurance to ensure compliance with the new "Guideline on Medical Insurance Business" issued by the IA.
- The HKMA has recently conducted thematic reviews and examinations of controls and practices of registered institutions in respect of selling of investment funds. Some control deficiencies, malpractices and good practices have been noted. The HKMA issued guidance in November 2019 to share with the banking industry some key observations and good practices identified in the reviews.



PUBLIC EDUCATION

- Further promoted the importance of protecting “Personal Digital Key”
- Reminded the public of the issues to note when assessing personal loan products for tax payment
- Introduced the common use cases of artificial intelligence by banks
- Advocated the use of “good-as-new notes” for CNY lai-see
- Used various social media platforms, on top of the traditional media, to make timely clarifications in cases of misinformation and rumours
- Added new social media channels

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- The HKMA further promoted the public education messages on the protection of “Personal Digital Key”, enhanced the public’s sense of cybersecurity, and reminded them of the importance of safeguarding their account and personal information when using internet banking, e-wallets, and other digital financial services.
- The HKMA has launched a publicity campaign to remind the public of the issues to note when assessing personal loan products for tax payment.
- The HKMA also encouraged the public to use “good-as-new notes” for preparing lai-see for the Chinese New Year.
- Used various social media platforms, on top of the traditional media, to make clarifications in cases of misinformation and rumours.
- The HKMA’s social media channels were expanded to cover Twitter in addition to the existing Facebook, Instagram and LinkedIn, achieving a more extensive network for message dissemination.



DEPOSIT PROTECTION SCHEME (DPS)

- Completed a payout rehearsal to ensure the overall payout readiness
- Developing the systems for adopting electronic payment channels for DPS compensation
- Promote public understanding of DPS through a multi-media publicity campaign



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- A payout rehearsal was conducted in November 2019. The results once again illustrated that the Hong Kong Deposit Protection Board (the Board) has the capability to disperse DPS compensation to depositors within the seven-day target.
- The Board commenced system development to adopt electronic payment channels for dispersing DPS compensation, including the use of Faster Payment System. The project is planned to be completed in early 2021, which will further improve payout efficiency.
- Two initiatives were launched to promote awareness and understanding of the DPS:
 - Advertised on television during September to November 2019; and
 - Launched “E-stamp Collection” campaign on Facebook during September to December 2019 to engage digital media users to learn more about DPS’s key features via quiz games.



FINANCIAL INFRASTRUCTURE



FINANCIAL INFRASTRUCTURE

- Financial infrastructure remains safe and efficient
- Operation of Bond Connect has been smooth; actively promote Bond Connect to overseas investors
- Further refine the Hong Kong Trade Repository (HKTR) for over-the-counter (OTC) derivatives according to the relevant local and international standards

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Bond Connect

- Since the launch of Bond Connect on 3 July 2017, the related settlement operations performed by the Central Moneymarkets Unit have been smooth.
- With the Delivery-versus-Payment settlement fully implemented in August 2018, and the inclusion of RMB-denominated Mainland government and policy bank securities into the Bloomberg Barclays Global Aggregate Index in April 2019, more overseas investors have started to invest in the Mainland interbank bond market via Bond Connect. The HKMA has been maintaining close communications with the People's Bank of China and other relevant Mainland institutions to explore enhancements to Northbound Trading.

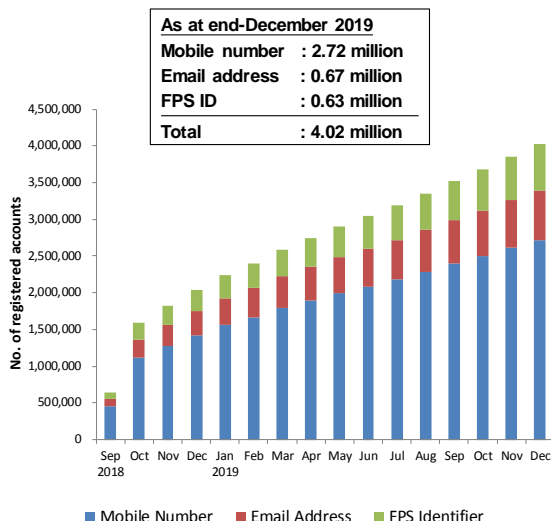
Over-the-counter derivatives trade repository

- Since the reporting function of the HKTR was launched in July 2013, reporting by banks to the HKTR has been smooth.

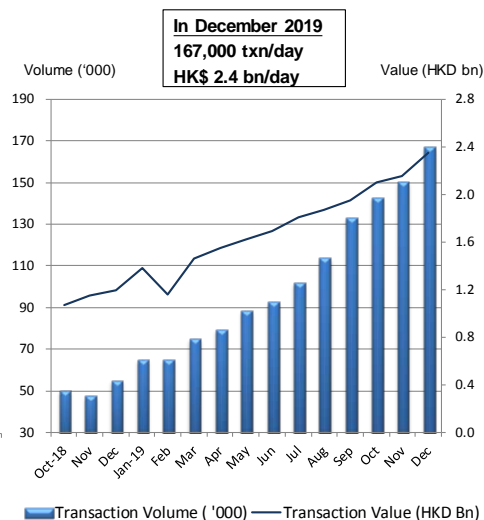


FASTER PAYMENT SYSTEM (FPS)

Number of registered accounts



Average daily turnover of HKD real-time payments



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- At the end of 2019, a total of 30 banks* and 11 stored value facilities in Hong Kong have participated in the system to provide real-time payment services for their customers. This represents an increase by nine banks and one SVF since its launch in September 2018.
- As at 31 December 2019, FPS has a total of 4.02 million registrations, including 2.72 million in mobile numbers, 0.67 million in email addresses and 0.63 million in FPS ID.
- FPS has processed 44 million transactions with transaction amount totalling HK\$749 billion and RMB17 billion as of 31 December 2019. The daily transaction volume and value have been growing steadily.
- The Government has adopted FPS to provide the public with greater convenience in paying taxes, rates and water charges from 1 November 2019. In addition, several departments are examining the feasibility of accepting payments through the FPS at their shroff counters on a pilot basis.

* Including virtual banks that are testing their systems but yet to publicly launch the business.



LATEST FINTECH INITIATIVES

- Co-organised with InvestHK “**Hong Kong Fintech Week 2019**”, which attracted over 12,000 attendees from over 60 economies
- Published in December 2019 a report on the application of **Artificial Intelligence (AI)** in the banking industry
- Started an industry-wide consultation on the proposed enhancements to the **Cybersecurity Fortification Initiative (CFI)**
- Working with Bank of Thailand on a joint research project on the application of **Central Bank Digital Currency (CBDC)** to cross-border payments
- **Bank for International Settlements Innovation Hub Hong Kong Centre** commenced operation

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Hong Kong Fintech Week 2019

- The event was held from 4 to 8 November 2019, attracting more than 12,000 attendees. The HKMA organised and led six of the panel discussions and presentations at the event.

Study on Artificial Intelligence

- The HKMA embarked on a study on the application of AI in the banking industry in Hong Kong. It conducted an industry-wide survey in Q3 2019 and published a report titled “Reshaping Banking with Artificial Intelligence” in December 2019 to highlight the key facts, opportunities, and challenges of applying AI in the banking industry. The report showed that almost 90% of the surveyed retail banks have adopted or plan to adopt AI applications.

Review of Cybersecurity Fortification Initiative

- The CFI was first launched in 2016. Due to changes in the global cybersecurity landscape, the HKMA considers that there is a need to enhance the existing CFI framework.
- In January 2020, the HKMA began a consultation to seek the industry’s feedback on the proposed enhancements. The consultation is expected to end by March 2020.

Research on Central Bank Digital Currency

- The HKMA and the Bank of Thailand have been working on a joint research project called “LionRock-Inthanon” to study the application of CBDC to cross-border payments, with a view to facilitating HKD-THB payment-versus-payment among banks in Hong Kong and Thailand.
- A joint report was published in January.

Regtech

- The HKMA issued its first Regtech Watch newsletter in November 2019 to share with the industry noteworthy use cases on prudential risk management and compliance.



STORED VALUE FACILITIES (SVFs) AND RETAIL PAYMENT SYSTEMS (RPSs)

- SVF usage continued to grow in Q3 2019:
 - Accounts in use: 62.5 million
(+15.6% year-on-year (yoy))
 - Average daily transaction number: 17.3 million
(+4.6% yoy)
 - Average daily transaction value: HK\$556 million
(+14.4% yoy)
- SVF licensees continue to extend their business reach, e.g. cross-border retail payments, public transport and small merchants
- Continue to oversee six designated RPSs



REGULATORY DEVELOPMENT OF THE OVER-THE-COUNTER (OTC) DERIVATIVES MARKET

- A joint consultation paper with the Securities and Futures Commission (SFC) was published in April 2019 to consult the market on (i) mandating the use of unique transaction identifier (UTI), (ii) revising the designated jurisdiction list for masking relief for reporting obligations and (iii) updating the financial services providers (FSP) list for clearing obligations
- The joint conclusion on the FSP list was published in June 2019, and the updated FSP list was gazetted for implementation on 1 January 2020. The HKMA and SFC will conduct further discussions with the industry on UTI and masking relief arrangements
- As of end-December 2019, the Hong Kong Trade Repository logged 2.46 million total outstanding OTC derivatives trades, covering five asset classes under mandatory reporting requirements, i.e. foreign exchange, interest rate, equity, credit, and commodity derivatives

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- The FSP list intends to capture overseas entities that are active in the Hong Kong's OTC derivatives market. According to the Hong Kong's OTC Derivatives Clearing Rules, transactions between an AI/an approved money broker/a licensed corporation and an FSP are required to be cleared via designated central counterparties (CCPs). The Clearing Rules designate an entity as an FSP if the entity belongs to a firm on the FSB's GSIB List or on the OTC Derivatives Supervisors Group (ODSG) major dealer List, and the entity is a clearing member of major CCPs. The list this year will include 14 new entities as FSPs. The consultation conclusion of the revised FSP list and a gazette notice were published for commencement in January 2020.
- For UTI, the US and the EU will delay their implementation timetable. We therefore will work with other APAC regulators and the industry to adjust our implementation plan. For masking trades, there are certain issues that we will need to discuss further with the industry before implementation.



INTEREST RATE BENCHMARKS

- Treasury Markets Association (TMA) adopted Hong Kong Dollar Overnight Index Average (HONIA) as the alternative rate for HIBOR. In May 2019, TMA completed an industry consultation on some technical refinements to HONIA. The consultation outcome was published in December 2019. The HKMA will continue to work with TMA in implementing the refinements
- TMA will also engage the industry on promoting the use of HONIA in their day-to-day transactions
- Continue to closely monitor benchmark reforms in other major jurisdictions, in particular the possible discontinuation of LIBOR after end of 2021



CURRENCY

- 2018 New Series Banknotes — The three note-issuing banks' new \$50 and \$20 notes were issued into circulation in mid-January 2020. All the five denominations of the 2018 Series are now in circulation.
- Two “Coin Carts” will continue to collect coins from members of the public in 18 districts

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2018 New Series Banknotes

- The three note-issuing banks' new \$50 and \$20 notes were issued into circulation in mid-January to meet demand for lai-see. With the issuance of these new banknotes, all five denominations of the 2018 Series are now in circulation.

Coin Collection Programme

- Two Coin Carts collect coins from members of the public in 18 districts on a rotational basis.
- 685,000 people have been served and 554 million coins with a total face value of HK\$802 million have been collected since inception in October 2014.

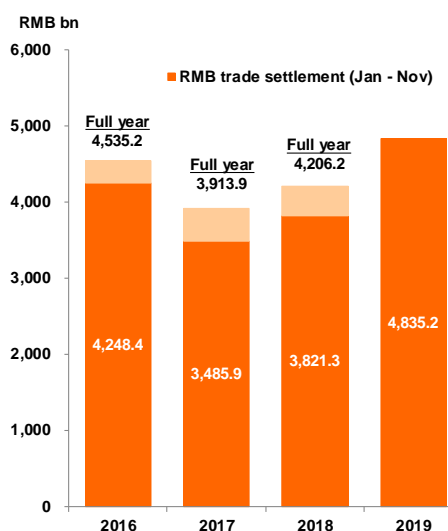


HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

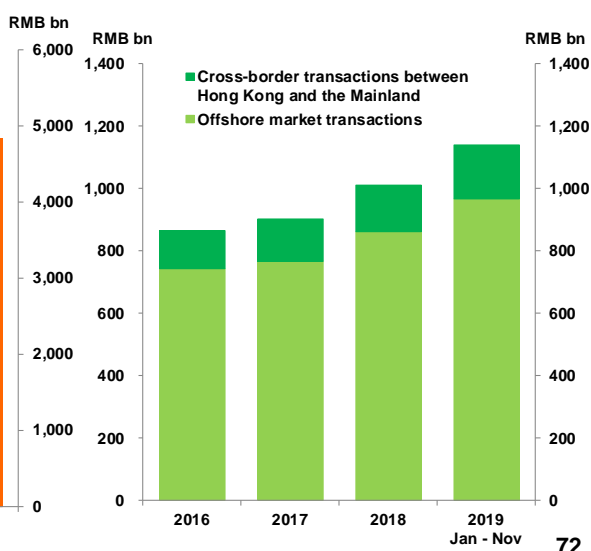


RMB TRADE SETTLEMENT AND PAYMENT

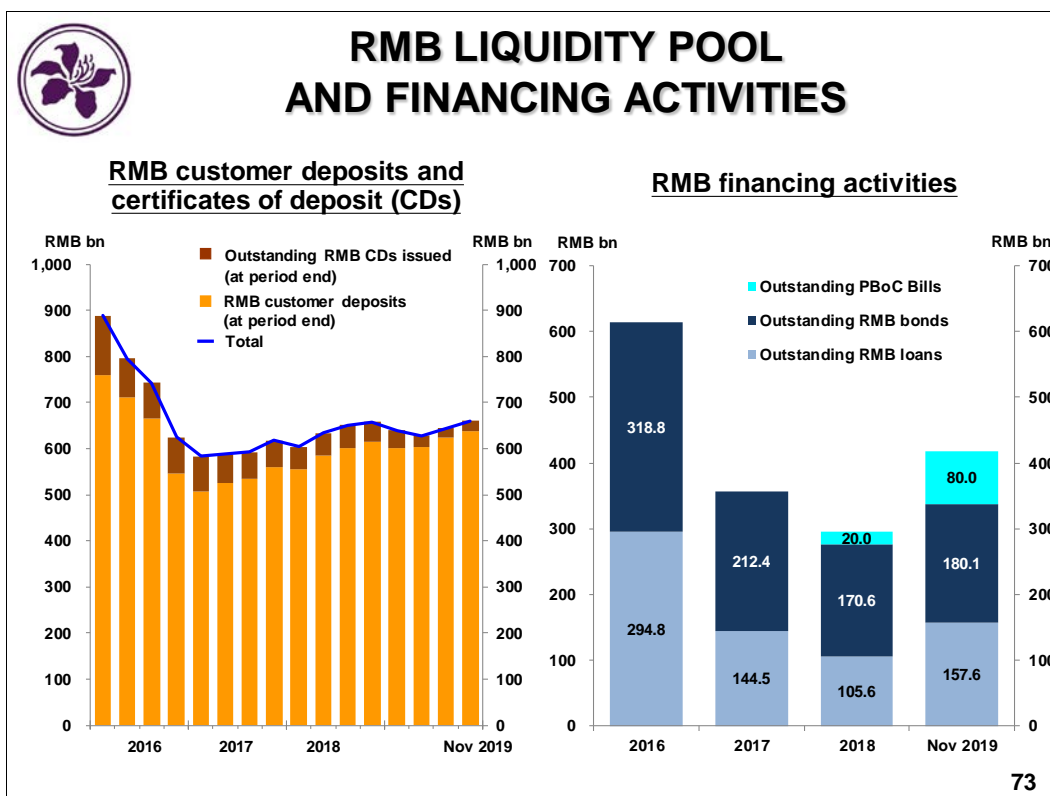
**RMB trade settlement
handled by banks in Hong Kong**



**Average daily turnover of Hong Kong
RMB RTGS System**

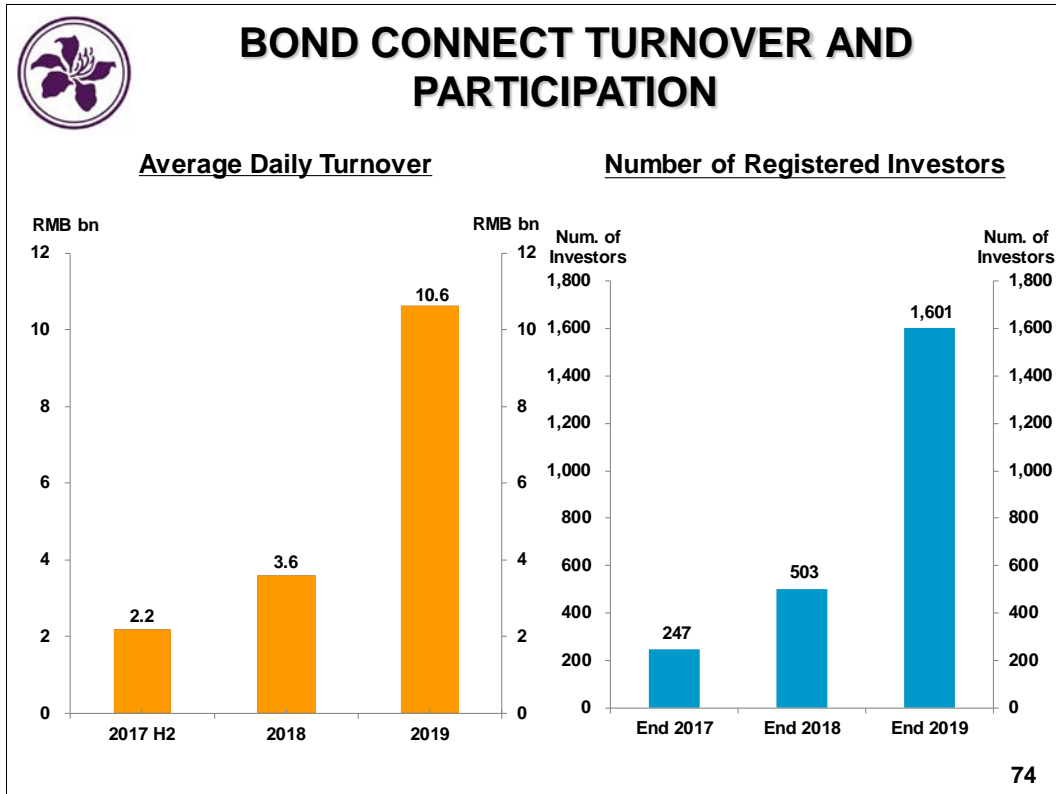


- In the first eleven months of 2019, renminbi trade settlement handled by banks in Hong Kong totalled RMB4,835.2 billion.
- In the first eleven months of 2019, the average daily turnover of Hong Kong RMB Real Time Gross Settlement (RTGS) system stood at RMB1,139.7 billion.



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- At end-November 2019, renminbi customer deposits and outstanding renminbi CDs amounted to RMB637.8 billion and RMB22.5 billion respectively, totalling RMB660.3 billion.
- At end-November 2019, outstanding renminbi loans amounted to RMB157.6 billion. Outstanding dim sum bonds amounted to RMB180.1 billion. The dim sum bond issuance totalled RMB49.2 billion for the first eleven months of 2019. In November 2018, PBoC started to issue bills in Hong Kong, which aims to enrich the spectrum of high quality renminbi financial products in Hong Kong and to help build the benchmark yield curve of renminbi bonds in Hong Kong. At end-November 2019, outstanding PBoC bills amounted to RMB80 billion.



- In 2019, Bond Connect recorded 109 trades daily on average. The daily turnover averaged RMB10.6 billion in 2019, almost tripling the 2018 records.



MAINTAINING RMB BUSINESS LINKS WITH OTHER JURISDICTIONS

	Nov 2019	2018	2017
1 No. of participating banks of Hong Kong's RMB clearing platform	201	200	203
Of which:			
Branches and subsidiaries of overseas banks and overseas presence of Mainland banks	172	173	178
2 Amount due to overseas banks (RMB billion)	80.1	80.4	95.4
3 Amount due from overseas banks (RMB billion)	101.8	132.8	131.3

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- The HKMA continued to expand and deepen its ongoing collaboration with other overseas economies in offshore renminbi business and other areas of financial services. We also continued our marketing efforts through participation in industry events to promote Hong Kong's unique role as the gateway to Mainland China.
- The HKMA co-organised the third Hong Kong-Switzerland Financial Dialogue with the State Secretariat for International Financial Matters (SIF) under the Swiss Federal Department of Finance on 12 November 2019 in Bern, Switzerland. Representatives from governments and regulators from Switzerland and Hong Kong attended the Dialogue and discussed the latest development of green finance and fintech, opportunities arising from Mainland's financial open-up including the development of the Greater Bay Area (GBA), as well as some international financial policy issues. On the same day, the HKMA participated in the third Hong Kong-Swiss Financial Seminar, co-organised by the Private Wealth Management Association of Hong Kong and the Swiss Bankers Association, to promote the use of Hong Kong's financial platform to tap the vast opportunities arising from the GBA.



DEVELOPING A LIMITED PARTNERSHIP PLATFORM FOR PRIVATE EQUITY (PE) FUNDS

- PE fund activities in Hong Kong are robust. The total capital under management by PE funds in Hong Kong reached US\$159 billion at end-2018¹
- To facilitate development of the PE fund business, HKMA is working with an interdepartmental Taskforce led by the Financial Services and the Treasury Bureau to establish a limited partnership regime for PE funds. The Administration consulted LegCo's Financial Affairs Panel on 2 December 2019 and received general support. The plan is to introduce the bill into LegCo within the current legislative session

1. Source: Asian Venture Capital Journal



PROMOTING GREEN FINANCE

- HKMA unveiled three major measures on 7 May 2019, viz (i) a three-phased approach to promote Green and Sustainable Banking, (ii) responsible investment by the Exchange Fund, and (iii) setting up a Centre for Green Finance under HKMA Infrastructure Financing Facilitation Office
- The CGF is working in collaboration with strategic partners to co-organise a Green Week during the week of 17 February, comprising a series of events to discuss and spur ideas and solutions to tackle climate change risk and mobilise finance to support the transition towards a sustainable economy.
- The Green Week will be anchored by the Climate Business Forum organised by the International Finance Corporation (a member of the World Bank Group). This is a two-day event which focuses on trends and business opportunities relating to climate change and sustainability



INVESTMENT ENVIRONMENT AND PERFORMANCE OF THE EXCHANGE FUND

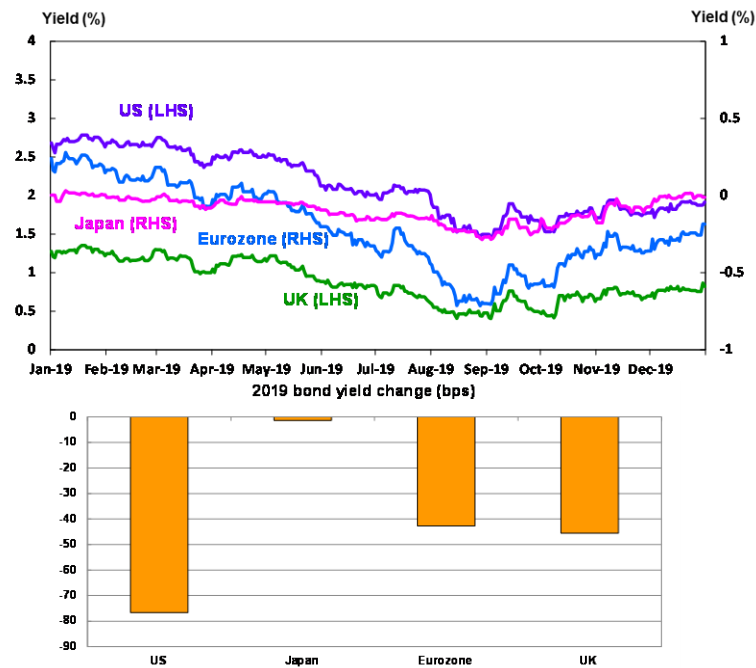


INVESTMENT ENVIRONMENT IN 2019

- **Interest rates:** Major developed market sovereign bond yields fell markedly and bond prices rose in the first three quarters of 2019 as a result of monetary easing. Notwithstanding a small rebound in Q4, the fall in yields was significant for the year as a whole
- **Equity markets:** Following a significant correction in Q4 2018, global equity markets raised in 2019, supported mainly by major central banks' monetary easing
- **Exchange rates:** Major currencies showed mixed performance against the US dollar. During the year, Pound sterling and Japanese yen appreciated by 4% and 1% respectively against the dollar, while the euro and renminbi depreciated by 1.8% and 1.4% against the dollar



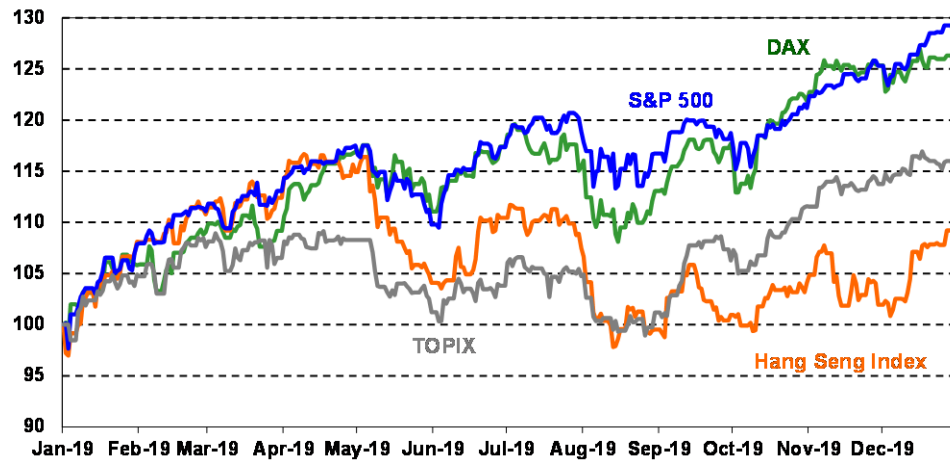
CHANGES IN 10-YEAR GOVERNMENT BOND YIELDS IN 2019





EQUITY MARKETS IN 2019

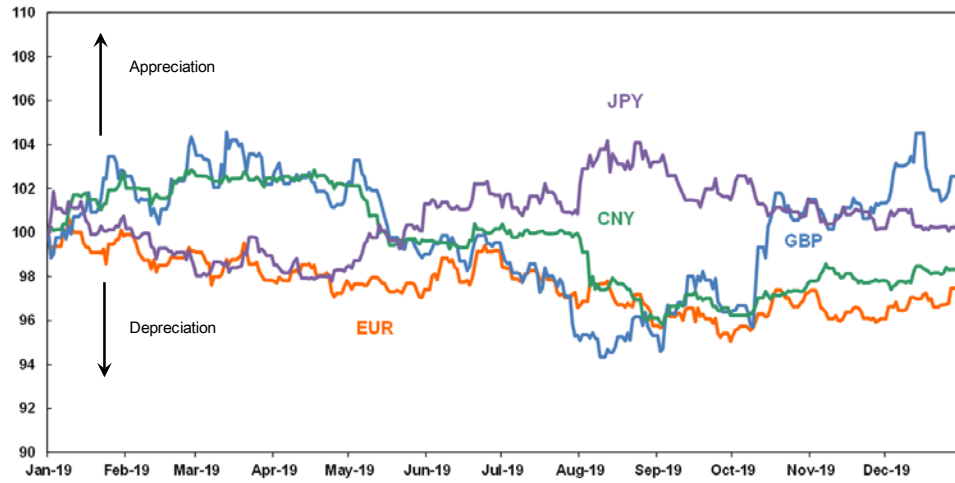
Normalised Index Level (2018 year-end = 100)





FX MARKETS IN 2019

Normalized FX Level Against USD (2018 year-end = 100)





INVESTMENT INCOME

	I ← 2019 → I (unaudited)			2018	2017
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Bonds	114.4	38.0	76.4	57.4	34.4
Hong Kong equities*	22.1	1.8	20.3	(20.7)	58.3
Other equities	100.3	35.2	65.1	(38.7)	80.4
Foreign exchange[#]	(13.0)	(9.5)	(3.5)	(9.0)	53.5
Other investments[@]	23.4	3.3	20.1	21.9	37.4
Investment income/(loss)	247.2	68.8	178.4	10.9	264.0

* Excluding valuation changes of the Strategic Portfolio.

This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. This figure represents valuation changes up to the end of September 2019. Valuations of these investments from October to December are not yet available.



INCOME AND EXPENDITURE

	I ← 2019 → I (unaudited)			2018	2017
(HK\$ billion)	Full year	2H	1H	Full year	Full year
Investment income/(loss)	247.2	68.8	178.4	10.9	264.0
Other income	0.2	0.1	0.1	0.2	0.2
Interest and other expenses	(24.8)	(13.4)	(11.4)	(17.9)	(9.9)
Net income/(loss)	222.6	55.5	167.1	(6.8)	254.3
Fee payment to Fiscal Reserves**	(29.4)	(14.1)	(15.3)	(60.2)	(46.2)
Fee payment to HKSAR government funds and statutory bodies*	(9.0)	(4.5)	(4.5)	(13.8)	(8.6)

* The rate of fee payment is 2.9% for 2019, 4.6% for 2018 and 2.8% for 2017.

This does not include the 2019 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2019 is available.

(The composite rate was 6.1% for 2018 and 9.6% for 2017. Fee payable to the Future Fund was HK\$16.4 billion for 2018 and HK\$22.7 billion for 2017).



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 31 Dec 2019	At 31 Dec 2018	Change
ASSETS	(unaudited)		
Deposits	306.3	325.7	(19.4)
Debt securities	2,857.9	2,825.2	32.7
Hong Kong equities*	194.8	175.5	19.3
Other equities	542.5	452.3	90.2
Other assets [#]	<u>357.6</u>	<u>276.2</u>	<u>81.4</u>
Total assets	<u>4,259.1</u>	<u>4,054.9</u>	<u>204.2</u>
LIABILITIES AND EQUITY			
Certificates of Indebtedness	516.1	485.7	30.4
Government-issued currency notes & coins in circulation	13.0	12.6	0.4
Balance of the banking system	67.7	78.6	(10.9)
Exchange Fund Bills and Notes issued	1,152.3	1,129.6	22.7
Placements by banks and other financial institutions	35.0	56.3	(21.3)
Placements by Fiscal Reserves [@]	1,137.5	1,173.5	(36.0)
Placements by HKSAR government funds and statutory bodies	328.4	320.6	7.8
Placements by subsidiaries	12.6	7.7	4.9
Other liabilities	<u>237.5</u>	<u>180.0</u>	<u>57.5</u>
Total liabilities	<u>3,500.1</u>	<u>3,444.6</u>	<u>55.5</u>
Accumulated Surplus	758.3	609.7	148.6
Revaluation reserve	<u>0.7</u>	<u>0.6</u>	<u>0.1</u>
Total equity	<u>759.0</u>	<u>610.3</u>	<u>148.7</u>
Total liabilities and equity	<u>4,259.1</u>	<u>4,054.9</u>	<u>204.2</u>

* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

[#] Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$177.3 billion at 31 Dec 2019 (HK\$162.4 billion at 31 Dec 2018).

[@] Including placements by the Future Fund of HK\$224.5 billion.



HISTORICAL INVESTMENT INCOME

(HK\$ billion)

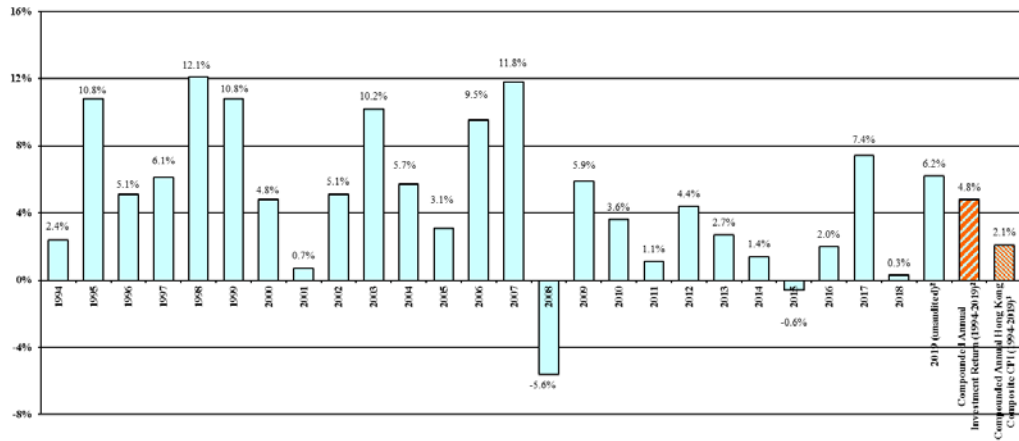
Year	Full Year	Q4	Q3	Q2	Q1
2001	7.4	13.6	10.4	(2.0)	(14.6)
2002	47.0	26.3	(2.1)	26.5	(3.7)
2003	89.7	33.5	8.4	41.1	6.7
2004	56.7	33.0	14.1	(7.2)	16.8
2005	37.8	7.3	19.0	13.6	(2.1)
2006	103.8	36.0	37.1	12.5	18.2
2007*	142.2	33.4	61.8	26.3	20.7
2008*	(75.0)	8.3	(48.3)	(20.4)	(14.6)
2009**	107.7	10.6	71.9	58.7	(33.5)
2010**	79.4	5.9	74.5	(12.1)	11.1
2011**	27.1	22.1	(41.4)	21.6	24.8
2012**	111.6	30.3	42.4	(5.6)	44.5
2013**	81.2	30.7	54.7	(23.3)	19.1
2014**	44.7	6.1	(17.8)	43.3	13.1
2015**	(15.8)	21.0	(63.8)	18.7	8.3
2016**	68.1	(23.3)	47.1	18.9	25.4
2017**	264.0	66.0	61.8	71.3	64.9
2018**	10.9	(33.6)	9.5	0.0	35.0
2019** (unaudited)	247.2	45.3	23.5	45.0	133.4

* Excluding valuation changes of the Strategic Portfolio

Including valuation changes of private equity and real estate investments held under the LTGP



INVESTMENT RETURN OF THE EXCHANGE FUND (1994-2019)¹



1. Investment return calculation excludes the holdings in the Strategic Portfolio.
2. The return includes the performance of LTGP up to the end of September 2019. The audited full year return will be disclosed in the annual report of 2019 to be released later this year.
3. Composite CPI is calculated based on the 2014/2015-based series.



HONG KONG MORTGAGE CORPORATION



MORTGAGE INSURANCE PROGRAMME (MIP)

- Since its launch in March 1999, the MIP has helped over 149,000 families attain home ownership
- In 2019, the total number of loans drawdown and aggregate loan amount under the MIP were 8,278 cases and HK\$33.3 billion respectively, as compared to 8,355 cases and HK\$32.5 billion in the corresponding period last year



MORTGAGE INSURANCE PROGRAMME (MIP)

- The following revisions were made to the MIP with effect from 16 October 2019:
 - The cap on the value of a property eligible for a mortgage loan of maximum cover of 80% loan-to-value (LTV) ratio will be raised from the HK\$6 million to HK\$10 million
 - For a property eligible for a mortgage loan of maximum cover of 90% LTV ratio, the cap on its value will be raised from HK\$4 million to HK\$8 million
 - Mortgage loans under the revised criteria shall apply to completed residential properties only, and additional 15% insurance premium will be charged
 - Generally speaking, the maximum debt-to-income (DTI) ratio for all MIP loans is set at 50%, and borrowers have to meet the stressed DTI ratio. A first-time homebuyer is still eligible to apply even if he or she cannot meet the stressed DTI ratio, subject to an additional adjustment to the premium based on relevant risk factors
 - As of end-December 2019, 3,633 applications had been approved under the new coverage, with over 90% being first-time homebuyers



REVERSE MORTGAGE PROGRAMME (RMP)

- As at end-December 2019, 3,784 RMP applications had been received:
 - Average age of borrowers: 68 years old
 - Average monthly payout: HK\$15,700
 - Payment terms: 10-year (24.4%); 15-year (15.3%); 20-year (12.4%); life (47.9%)
 - Average property value: HK\$5.4 million
 - Average property age: 30 years



LIFE ANNUITY SCHEME

- Business update:

	As of 31 Dec 2019
Total premium amount	HK\$4.4 billion
No. of policies issued	7,610
Average premium amount	HK\$570,000

- Key promotional initiatives this year:
 - To unveil the HKMC Annuity's Facebook page
 - To co-organise retirement seminars with non-governmental organisations and professional bodies
 - To launch a new television commercial



SME FINANCING GUARANTEE SCHEME (SFGS)

- Extension of application period of 80% guarantee product and continuation of enhancement measures until end-June 2022. Enhancement measures include (1) reducing guarantee fee rates by half; (2) increasing maximum loan amount from HK\$12 million to HK\$15 million; and (3) lengthening maximum loan guarantee period from five years to seven years
- The number and amount of applications approved in 2019 increased by 60% and 89% respectively as compared to 2018
- The Finance Committee of the LegCo approved the funding for the introduction of a new 90% guarantee product under the SFGS on 6 December 2019. HKMC has started receiving applications on 16 December 2019

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- As at 15 January 2020, 17,399 of 80% guarantee product and 42 applications of 90% guarantee product had been approved, involving a total loan amount of around HK\$72.7 billion and HK\$82 million respectively.
- The Finance Committee of the LegCo approved the funding for the introduction of a new 90% guarantee product under the SFGS on 6 December 2019. The 90% Guarantee Product aims to provide additional support to smaller-sized enterprises and businesses with relatively less operating experience to obtain financing. Each eligible enterprise can obtain guarantee for loans up to HK\$6 million, with a maximum guarantee period of five years. The HKMC has started receiving applications on 16 December 2019.