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Hong Kong remained the global hub for offshore renminbi business. The tax changes last year helped create a conducive environment to attract multinational companies to establish their corporate treasury centres in Hong Kong. The Infrastructure Financing Facilitation Office and the Fintech Facilitation Office were established last year as part of our efforts to develop Hong Kong as an infrastructure financing centre and a fintech hub respectively. During the year, the HKMA granted 13 licences to stored value facility issuers. Hong Kong's robust fiscal performance and strong external positions continued to be recognised by credit rating agencies, with Standard & Poor's maintaining its AAA rating for Hong Kong.

OVERVIEW

Offshore renminbi business moderated globally in 2016 due to volatilities in global financial markets and uncertainties surrounding the renminbi exchange rate outlook. Despite this, Hong Kong remained the global hub for offshore renminbi business, processing about 70% of renminbi payment activities worldwide. The Shenzhen-Hong Kong Stock Connect was launched in December, representing another milestone in Mainland's capital account liberalisation and a key step in enhancing Hong Kong's position as an international financial centre. The HKMA also strengthened financial infrastructure by expanding renminbi liquidity support to the market and introducing measures to enhance the transparency of renminbi market liquidity.

The HKMA set up the Infrastructure Financing Facilitation Office (IFFO) in July to build and work with a cluster of key stakeholders to promote infrastructure development and develop Hong Kong as an infrastructure financing centre. As at the end of January 2017, more than 60 organisations have joined IFFO as partners. During the year, the HKMA also secured the passage of legislative changes to remove tax asymmetry and provide tax incentives to encourage multinational and Mainland companies to establish their corporate treasury centres in Hong Kong, thereby bringing more business opportunities to the financial and professional service sectors. There are also a growing number of asset owners setting up footprints in Hong Kong. In particular, Abu Dhabi Investment Authority, the third largest sovereign wealth fund in the world, announced that it had set up an overseas office in Hong Kong in October, its only office outside Abu Dhabi.

In the Article IV Consultation last year, the International Monetary Fund (IMF) spoke positively on our efforts to develop Hong Kong as an international financial centre. During the year, the HKMA actively contributed to international efforts to advance global and regional financial stability. It also maintained close dialogue with international credit rating agencies. Its efforts contributed to the affirmation of Hong Kong's credit rating by major credit rating agencies in 2016.

The safe and efficient operation of Hong Kong's financial infrastructure and its continued development play a significant role in reinforcing the competitive edge of Hong Kong as an international financial centre and the global offshore renminbi business hub. The four interbank Real Time Gross Settlement (RTGS) systems and the Central Moneymarkets Unit (CMU) achieved 100% system availability in 2016, as compared to the target of 99.95%.

Hong Kong's retail payment financial infrastructure was further enhanced by the HKMA in 2016. A total of 13 stored value facility (SVF) licences were granted under the Payment Systems and Stored Value Facilities Ordinance (PSSVFO), which commenced full operation in November 2016. The coverage of e-Cheque was also expanded to include cross-boundary payments between Hong Kong and Guangdong province (including Shenzhen).

To facilitate the development of fintech in Hong Kong, the HKMA set up the Fintech Facilitation Office (FFO) in March. A number of important initiatives were implemented with encouraging progress.

The HKMA implemented several initiatives to strengthen the soft power of the banking industry, which included (i) the launch of the Director Empowerment Programme, (ii) the development of an industry-wide Enhanced Competency Framework (ECF) for banking practitioners, and (iii) the implementation of a Consumer Education Programme.

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REVIEW OF 2016

Offshore renminbi business

Financial market volatilities and uncertain outlook for the renminbi exchange rate weighed on offshore renminbi business globally in 2016. At the end of the year, renminbi customer deposits and outstanding certificates of deposit in Hong Kong stood at RMB625.1 billion, representing a year-on-year reduction of 38% (Chart 1). Offshore renminbi bond issuance moderated to RMB52.8 billion in the year, while renminbi trade settlement handled by Hong Kong banks dropped to RMB4,542.1 billion. On the other hand, renminbi lending by banks in Hong Kong amounted to RMB294.8 billion at the end of the year, similar to the level a year before (Chart 2). Turnover in the renminbi RTGS system remained at high levels, averaging RMB863.6 billion daily in 2016. This demonstrates that Hong Kong continued to support a large amount of renminbi financial intermediation activities despite the shrinkage of the renminbi liquidity pool. According to SWIFT statistics, Hong Kong processed some 70% of renminbi payment activities in 2016, a testament to Hong Kong's position as the global hub for offshore renminbi business.

Chart 1 Renminbi customer deposits and certificates of deposit

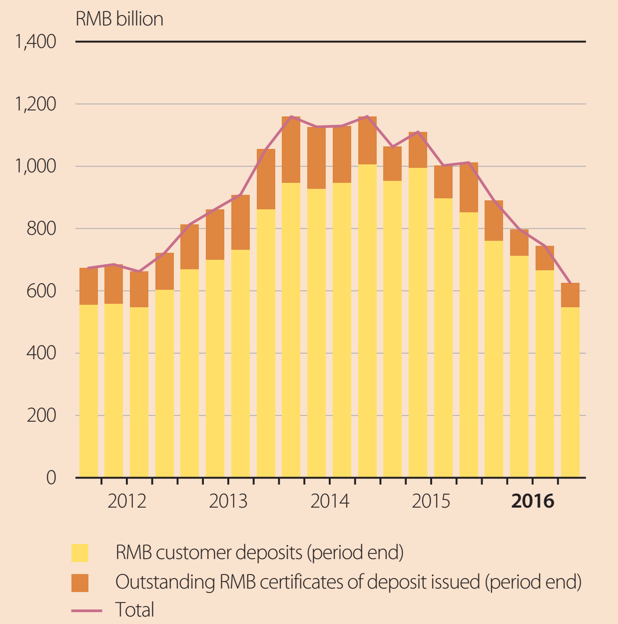
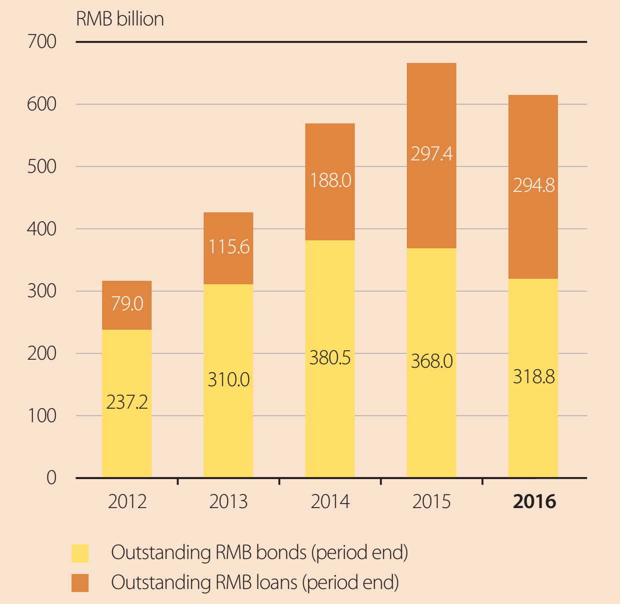


Chart 2 Renminbi financing activities



During the year the HKMA worked closely with the relevant Mainland authorities to gain more policy headroom for renminbi business in Hong Kong. New policy measures were rolled out, including further opening of Mainland's onshore interbank bond and foreign exchange markets to foreign participants, and the launch of Shenzhen-Hong Kong Stock Connect in December. To cater for the increasing cross-border investment channels and liquidity management needs, the HKMA expanded the renminbi liquidity facilities. In October, it increased the number of Primary Liquidity Providers (PLPs) from seven to nine and the overall amount available under the PLP scheme from RMB14 billion to RMB18 billion. Transparency in the use of the HKMA's renminbi liquidity facilities was also enhanced, thereby facilitating more effective liquidity management by the participating banks.

In the national 13th Five-Year Plan promulgated in March, Hong Kong's status as the global offshore renminbi business hub is reaffirmed, demonstrating support of the Central Government for Hong Kong to further develop its offshore renminbi business.

International Financial Centre

At the same time, the HKMA continued to strengthen collaboration with other economies in the development of offshore renminbi business. It also actively participated in events to promote Hong Kong as the global hub for offshore renminbi business, as well as the key springboard in Mainland's "go global" strategy, including through local events organised by industry associations and the private sector, and events outside Hong Kong, such as in Mainland China, Germany, Kazakhstan and the UK.

Closer Economic Partnership Arrangement (CEPA)

The agreement to achieve basic liberalisation of trade in services between Mainland China and Hong Kong was signed in 2015 under the framework of the CEPA. The HKMA continued to monitor implementation of the existing CEPA measures and worked with the Administration to explore room for further liberalisation and facilitation measures for Hong Kong's financial industry to enter the Mainland market.

Infrastructure Financing Facilitation Office (IFFO)

Mission of IFFO

The mission of IFFO is to facilitate infrastructure investments and their financing by working with a cluster of key stakeholders. The functions of IFFO are to:

- provide a platform for information exchange and experience sharing;
- build capacity and knowledge on infrastructure investments and financing;
- promote market and product development; and
- facilitate infrastructure investment and financing flows.

HKMA Chief Executive, Mr Norman Chan (seventh from left), joins other guests in proposing a toast at the launch of IFFO.

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In July, the HKMA set up IFFO with a mission to facilitate infrastructure investments and their financing by building and working with a cluster of key stakeholders. As at the end of January 2017, more than 60 organisations from Mainland China, Hong Kong and overseas have joined IFFO as partners. They include multilateral financial agencies and development banks, public sector investors, private sector investors, asset managers, banks, insurance companies, project developers and operators, professional service firms and an international business council (Table 1).

Table 1 **IFFO Partners** *(in alphabetical order)*

Actis
Agricultural Bank of China Limited Hong Kong Branch
AIA Group Limited
AIG Insurance Hong Kong Limited
Airport Authority Hong Kong
Allen & Overy
Aon Hong Kong Limited
APG Asset Management
Asian Academy of International Law
Asian Development Bank
Astana International Financial Centre
Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
Bank of Tokyo-Mitsubishi UFJ, Ltd. (The)
BlackRock
Blackstone Group
Brookfield Asset Management
Canada Pension Plan Investment Board
China Construction Bank Corporation
China Construction Bank (Asia) Corporation Limited
China Development Bank Corporation
China Export and Credit Insurance Corporation
China Hua Neng Group Hong Kong Limited
China Investment Corporation
China National Petroleum Corporation
China Three Gorges Corporation
China-Africa Development Fund
China-Britain Business Council
CITIC Capital
Citigroup
Clifford Chance
CLP Group
CNIC Corporation Limited
Eastspring Investments
Export-Import Bank of China (The)
General Electric
Global Infrastructure Hub
Hong Kong Trade Development Council
HSBC Holdings Plc
Hongkong and Shanghai Banking Corporation Limited (The)
Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited
International Finance Corporation, a member of the World Bank Group
King & Wood Mallesons
KPMG
Macquarie Group
Marsh (Hong Kong) Limited
Mayer Brown JSM
Mitsubishi Corporation (Hong Kong) Ltd.
Mizuho Bank, Ltd.
MTR Corporation Limited
Multilateral Investment Guarantee Agency, a member of the World Bank Group
Ontario Teachers' Pension Plan
Pinsent Masons
PwC
Silk Road Fund
Standard Chartered Bank
Standard Chartered Bank (Hong Kong) Limited
State Grid Corporation of China
Sumitomo Mitsui Banking Corporation
TPG Capital
Zurich Insurance Company Ltd.

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IFFO has made good progress since its launch. As part of capacity building, it hosted an executive workshop co-organised with International Finance Corporation (IFC) under the World Bank Group and Eastspring Investments in October with the theme "Private Participation in Infrastructure Project Finance in Emerging Markets". The workshop received very positive feedback from participants in terms of helping to build knowledge and networking. A business seminar was held in November featuring Jin Liqun, President of the Asian Infrastructure Investment Bank, to share experience in project planning, operation and management to build capacity for the business sector. In July, IFFO entered into Memorandums of Understanding (MOUs) with IFC and Global Infrastructure Hub (GIH) to establish frameworks of co-operation. Two more MOUs were signed in December with China Development Bank (CDB) and Export-Import Bank of China to facilitate the financing of infrastructure projects by these banks via the IFFO platform. These activities served to strengthen Hong Kong's role and international profile as an infrastructure financing centre.

HKMA Chief Executive, Mr Norman Chan (front left), and Executive Vice President and CEO of IFC, Mr Philippe Le Houérou (front right), sign an MOU under which IFC and the HKMA will co-operate in using the IFFO platform to promote a more efficient and conducive market environment for infrastructure investment and financing in the region.

HKMA Chief Executive, Mr Norman Chan (front left), and Chief Executive Officer of GIH, Mr Chris Heathcote (front right), sign an MOU with respect to establishing a strategic framework of co-operation to facilitate the financing of infrastructure projects.

HKMA Chief Executive, Mr Norman Chan (left), and Chairman of CDB, Mr Hu Huaibang, sign an MOU to foster collaboration between CDB and HKMA.

International Financial Centre

Corporate treasury centres (CTCs)

To further attract multinational companies to establish their CTCs in Hong Kong, the HKMA worked with the Administration to create a conducive tax environment for CTCs. Specifically, the Inland Revenue (Amendment) (No. 2) Ordinance 2016 (Revised Tax Regime), enacted in June, allows, under specified conditions, the deduction of interest expenses in calculating profits tax for the intra-group financing business of corporations, and reduces profits tax rate for specified treasury activities by 50% (i.e. to 8.25%) for qualifying CTCs. Table 2 summarises some key features of the Revised Tax Regime.

Table 2	Key features of Revised Tax Regime
Applicable date	Relevant sums accrued/ interest payable on or after 1 April 2016
Application procedure	No separate application and approval process required CTCs may claim the interest deductions and/or half rate concession in their annual profits tax returns
Any headcount or spending requirement?	No specific requirement. CTCs should, however, exercise their central management and control and carry out their profit-generating activities in Hong Kong

In addition to the legislative work, the HKMA has been actively promoting Hong Kong as the preferred location for CTCs to multinational and Mainland corporates. By the end of the year, the HKMA had reached out to nearly 400 corporations, financial institutions and industry associations. In November, the HKMA signed an MOU with the Hong Kong Chinese Enterprises Association to help Chinese enterprises in Hong Kong to better understand and make more use of our CTC platform.

Promotion of asset management business

The HKMA continued its efforts to promote Hong Kong as an asset management hub. According to the Securities and Futures Commission (SFC), the number of licensed corporations in asset management increased nearly 15% year-on-year to 1,300 as of the end of 2016. According to the Asian Venture Capital Journal, the number of private equity firms in Hong Kong (including SFC licensed and non-SFC licensed corporations) also increased by 4.6% to 431 in 2016. To date, close to 70 out of the top 100 global asset managers and the majority of Mainland's top 20 mutual fund companies have presence or associated companies in Hong Kong. There are also a growing number of asset owners setting up footprints in Hong Kong. In particular, Abu Dhabi Investment Authority, the third largest sovereign wealth fund in the world, announced that it had set up an overseas office in Hong Kong in October, its only office outside Abu Dhabi.

Introduction of an open-ended fund company structure

The HKMA continued to work with the Administration and industry to provide a more favourable tax and regulatory environment for fund domiciliation. In June, the Securities and Futures (Amendment) Bill 2016 was passed to introduce an open-ended fund company structure to diversify the fund domiciliation platform of Hong Kong and create a more flexible business environment for fund managers with a view to enhancing Hong Kong's competitiveness as an international asset management centre.

Islamic finance

The HKMA continued to raise market awareness and knowledge of Islamic finance by organising and participating in Islamic finance conferences and seminars in collaboration with industry associations, and sharing its sukuk issuance experience with market players to encourage them to use the local platform. Following the success of the past two sukuk issuances, the HKMA has been working with the Administration to look for opportunities to launch the third sukuk when market conditions are conducive.

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Government Bond Programme

During the year, the HKMA arranged eight tenders of institutional government bonds amounting to HK$16.4 billion. By the end of 2016, the total amount of outstanding institutional bonds was HK$68.3 billion.

Following the announcement of the Government's 2016–17 Budget, the HKMA arranged in June the issuance of HK$10 billion 3-year inflation-linked retail bonds (iBonds) to Hong Kong residents. It was the sixth consecutive series of iBonds. The latest issue attracted more than 507,000 applications with investment monies exceeding HK$22 billion. The HKMA arranged in August the inaugural issuance of HK$3 billion 3-year Silver Bond to Hong Kong senior residents aged 65 or above. It attracted more than 76,000 applications with investment monies exceeding HK$8.9 billion. The amount of retail bonds outstanding at the end of the year was HK$33 billion.

IMF's Article IV Consultation

The HKMA rendered full support to the IMF Mission's work in the annual Article IV Consultation exercise, which was concluded in November. The IMF praised the Administration's strong policy frameworks, including prudent fiscal policy and vigorous regulation and supervision of the financial system, and also reiterated its long-standing support for the Linked Exchange Rate System. In particular, it also commended our efforts in maintaining Hong Kong's role as an international financial centre and the global offshore renminbi business hub. The Staff Report, released by the IMF, says that "*As well as maintaining its position as the leading RMB offshore centre, the authorities have a strategy of developing the asset management industry, encouraging corporate treasury centres to domicile in Hong Kong SAR…The HKMA's Infrastructure Financing Facilitation Office should help facilitate Hong Kong SAR's role as a financing centre for regional infrastructure investment, and mainland China's 'One Belt One Road initiative' will help expand activity.*"

International and regional co-operation

The increased interconnectedness of the global financial system and the transmission of risk it entailed called for deeper international co-operation to promote sustainable economic growth and financial system stability. During the year, the HKMA continued to play an active part in international and regional forums, including the Financial Stability Board (FSB)[1], the Bank for International Settlements (BIS) and the Asia-Pacific Economic Cooperation (APEC). The HKMA is also committed to implement global financial regulatory reforms, including the recommendations of the Group of Twenty (G20), to help strengthen the resilience of the global financial system.

As the co-chair of the FSB Regional Consultative Group for Asia (RCG(A)), the HKMA hosted a workshop on Fintech and Cybersecurity in May and the RCG(A)'s 11th meeting in December in Hong Kong. RCG(A) aims to promote interaction between FSB members and non-members on policy initiatives, encourage implementation of financial reforms and facilitate the exchange of views on financial stability issues. Senior representatives from finance ministries, central banks and financial regulators of 16 Asian jurisdictions attended the RCG(A) meeting to discuss risks facing the region, macroprudential policy framework, impact of fintech on retail payment systems (RPSs), management of non-performing loans and de-risking by financial institutions.

In October, the HKMA co-hosted the second joint conference with the Bank of England and the IMF in Hong Kong. The conference covered the challenges that central banks and other policymakers face in choosing the optimal mix of monetary, macroprudential and microprudential policies in the post-crisis world. The conference was attended by more than a hundred participants, including representatives from academia, central banks and international financial institutions.

The HKMA took an active part in the donor negotiations on the 11th replenishment of the Asian Development Fund, which serves as a concessional financing window and will become a grant-only facility of the Asian Development Bank for the region's poorest economies from 2017 onward. Funding approval will be sought from the Legislative Council for Hong Kong's contribution to the replenishment in the first half of 2017.

[1] The FSB was established in April 2009 as the successor to the Financial Stability Forum to address vulnerabilities in the global financial systems, and to develop and promote implementation of effective regulatory, supervisory and other policies in the interest of financial stability. Its membership comprises senior representatives of national financial authorities (central banks, regulatory and supervisory authorities and ministries of finance), international financial institutions, standard-setting bodies, and committees of central bank experts.

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Promoting monetary and financial stability in Asia

The HKMA worked closely with the ASEAN+3[2] authorities to strengthen the operations of the ASEAN+3 Macroeconomic Research Office (AMRO), which is now an international organisation[3], to monitor and analyse regional economies and support decision-making of the Chiang Mai Initiative Multilateralisation (CMIM)[4].

The HKMA was the Chair of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)[5] Working Group on Payment and Settlement Systems for a 2-year term up to July 2016. During the period, the HKMA worked closely with the Deputy Chair to co-ordinate the Working Group's effort in sharing experiences and exchanging information on risk management, oversight, standards and best practices, and developments in domestic and cross-border payment and settlement systems. The HKMA also led the Working Group's sub-group on cross-border co-operation and development.

The HKMA remained a committed member in regional co-operative efforts to promote financial stability and to harness the region's collective voice in international financial affairs. It also took a leading role in some of the work of EMEAP. Apart from chairing the EMEAP Working Group on Payment and Settlement Systems, the HKMA continued to provide analyses to support the macro-monitoring work of the EMEAP Monetary and Financial Stability Committee (MFSC)[6]. It hosted the 51st EMEAP Deputies' Meeting, the 20th EMEAP MFSC Meeting, the 27th EMEAP Asian Bond Fund (ABF) Oversight Committee Meeting, and the 23rd ABF Pan Asia Bond Index Fund Supervisory Committee Meeting in Hong Kong in November. The meetings were attended by Deputy Governors and representatives from 11 central banks and monetary authorities from the region.

Hong Kong's credit ratings

The HKMA maintained close dialogue with international credit rating agencies to present a balanced and objective picture of Hong Kong's credit strength. These efforts contributed to the affirmation of Hong Kong's credit ratings by major credit rating agencies in 2016. Standard & Poor's affirmed its highest AAA rating for Hong Kong, reflecting the agency's recognition of Hong Kong's above-average growth prospects, sizeable fiscal reserves, healthy fiscal performance and strong net external asset position. Moody's and Fitch also maintained Hong Kong's ratings at Aa1 and AA+ respectively, just one notch below triple-A.

Training

To foster knowledge and experience sharing, the HKMA continued to provide training for staff from the People's Bank of China, the State Administration of Foreign Exchange and the China Banking Regulatory Commission. In addition to programmes on central banking and general risk management, the topics were expanded to cover management of special assets, risk management practices in retail and small and medium-sized enterprise banking, control measures in wealth management and selling of investment products, and sharing of onsite examination issues and practices. The HKMA also collaborated with international organisations to provide training, including co-hosting a training course on Risk-Focused Supervision and Risk Assessment with the Asian Development Bank under the APEC Financial Regulators Training Initiative, and a training course on Advanced Capital Planning and Stress Testing with the South East Asian Central Banks Research and Training Centre.

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2 ASEAN+3 comprises 10 ASEAN member countries (Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), together with Mainland China, Japan and South Korea.

3 AMRO was upgraded to an international organisation effective from February 2016.

4 Effective March 2010, the CMIM has become a regional mechanism that provides short-term US dollar support to participants facing liquidity shortages. In May 2012, the facility was enhanced by doubling the access fund to US$240 billion and introducing a crisis prevention facility.

5 EMEAP is a co-operative forum of 11 central banks and monetary authorities in the East Asia and Pacific region, comprising the Reserve Bank of Australia, the People's Bank of China, the Hong Kong Monetary Authority, Bank Indonesia, the Bank of Japan, the Bank of Korea, Bank Negara Malaysia, the Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, the Monetary Authority of Singapore and the Bank of Thailand.

6 The EMEAP MFSC reviews economic and financial developments in the Asia-Pacific region, discusses issues of common interest and reflects common views.

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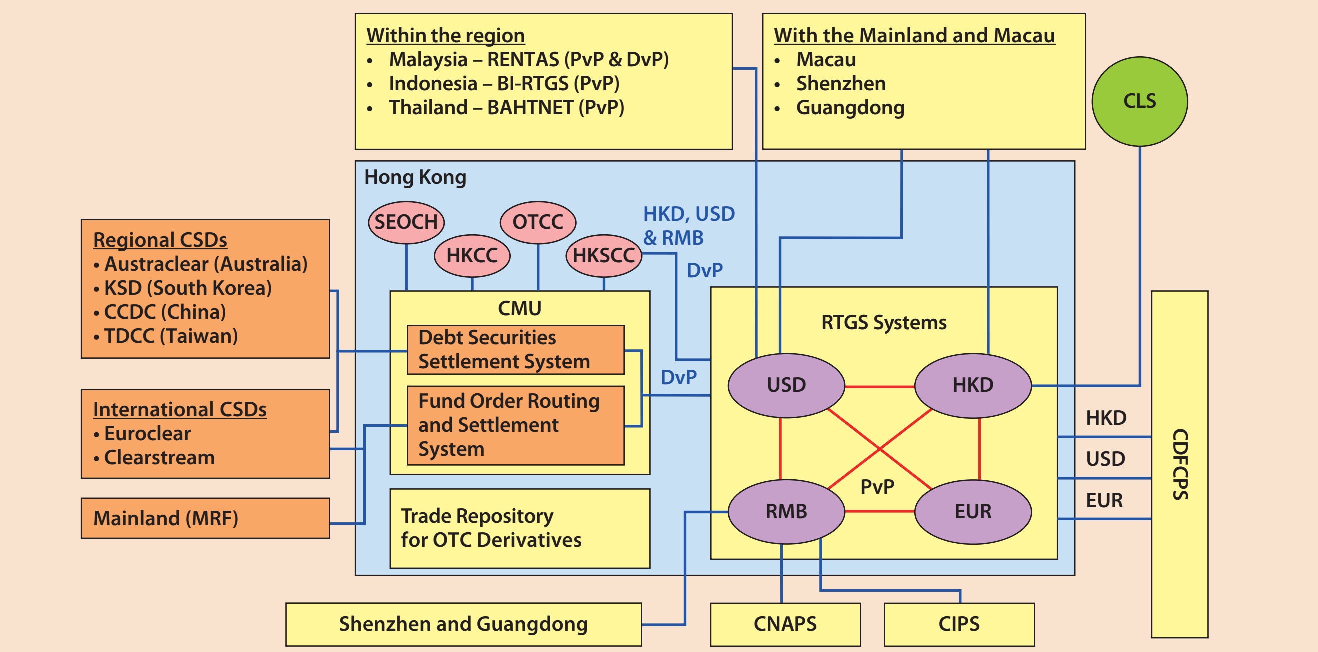
Hong Kong's financial infrastructure

The HKMA continued to develop a robust and efficient multi-currency, multi-dimensional payment and settlement platform, with extensive domestic and overseas system linkages, to maintain Hong Kong as a regional hub for payment and settlement of funds and securities (Chart 3).

Chart 3 Hong Kong's multi-currency payment and settlement infrastructure



BAHTNET – Bank of Thailand Real Time Gross Settlement (Thailand's baht RTGS system)
BI-RTGS – Bank Indonesia Real Time Gross Settlement (Indonesia's rupiah RTGS system)
CCDC – China Central Depository & Clearing Co., Ltd. (settlement system for fixed income securities in China)
CDFCPS – China's Domestic Foreign Currency Payment System (RTGS system for foreign currency payment in China)
CIPS – Cross-Border Inter-Bank Payment System in China
CLS – Continuous Linked Settlement (global multicurrency cash settlement system)
CMU – Central Moneymarkets Unit (settlement system for debt securities)
CNAPS – China National Advanced Payment System (RMB RTGS system in China)
HKCC – HKFE Clearing Corp Ltd (central counterparty providing clearing and settlement for futures)
HKSCC – HK Securities Clearing and Co Ltd (operator of the clearing and settlement system for shares)
KSD – Korean Securities Depository (Korea's central securities depository)
MRF – Mutual Recognition of Funds
OTCC – OTC Clearing Hong Kong Limited (central counterparty providing clearing and settlement for OTC derivatives)
RENTAS – Real Time Electronic Transfer of Funds and Securities (Malaysia's ringgit RTGS system)
SEOCH –SEHK Options Clearing House Ltd (central counterparty providing clearing and settlement for options)
TDCC –Taiwan Depository and Clearing Corporation (Taiwan's securities settlement system)

DvP – Delivery-versus-Payment
PvP – Payment-versus-Payment

International Financial Centre

Development highlights over the years include the establishment of RTGS systems for the Hong Kong dollar, the US dollar, the euro and the renminbi. Other highlights include the development of bilateral links between the local RTGS systems and overseas RTGS systems, and between the CMU and regional and international Central Securities Depositories (CSDs), such as Euroclear, Clearstream, and the depositories in Australia, South Korea, Mainland China and Taiwan.

In response to industry demands and international developments, new components have been added to broaden the scope and increase the depth of Hong Kong's financial infrastructure. For example, the CMU's order routing and settlement service for investment funds was expanded in 2015 to support the Mainland-Hong Kong Mutual Recognition of Funds (MRF) between Mainland China and Hong Kong. Also, a trade repository (HKTR) for over-the-counter (OTC) derivatives was introduced in 2012.

The infrastructure has been implemented in line with relevant international standards and best practices. Disclosure reports for Hong Kong's RTGS systems, the CMU and the HKTR were published in July 2014, October 2014 and September 2015 respectively, and updated as appropriate, in accordance with the disclosure framework under the international principles on financial market infrastructures jointly issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions.

Hong Kong dollar RTGS system

The Hong Kong dollar Clearing House Automated Transfer System (CHATS), which operates on an RTGS basis, is responsible for clearing all Hong Kong dollar interbank payments. It continued to run smoothly and efficiently in 2016. It has a direct link with the CMU to provide delivery-versus-payment settlement services. Hong Kong Interbank Clearing Limited (HKICL), the operator of the RTGS systems, was established in 1995 and is owned jointly by the HKMA and the Hong Kong Association of Banks (HKAB). In 2016, the HKICL processed a daily average of HK$598.4 billion in CHATS transactions (28,615 items), compared with HK$626.8 billion (28,125 items) in 2015.

In addition to settling large-value payments, CHATS also handles daily bulk clearings of stock market transactions, Mandatory Provident Fund schemes' switching transactions, credit card transactions, cheques, small-value bulk electronic payment items (EPS, auto-credit and auto-debit transactions) and automatic teller machine transfers (Chart 4).

Besides, banks can use their Exchange Fund Bills and Notes (EFBNs) to obtain interest-free intraday liquidity through intraday repo transactions with the HKMA to settle their interbank payments through its platform.

Foreign currency RTGS systems in Hong Kong

The US dollar, euro and renminbi RTGS systems all operated smoothly. The cut-off time of the renminbi RTGS system has been extended in phases since June 2012 from 6:30 p.m. to 5:00 a.m. the next day (Hong Kong time), providing a total of 20.5 hours for same-day value payments. The extension allows financial institutions in other parts of the world a much longer operating window to settle offshore and cross-border renminbi payments through Hong Kong's infrastructure. The average daily value of Mainland-Hong Kong cross-border renminbi payments amounted to around RMB119 billion in 2016, which accounted for 14% of the total turnover.

The average daily turnover and other details of the foreign currency RTGS systems are set out in Charts 5–7 and Table 3.

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Chart 4 Hong Kong dollar RTGS system average daily turnover

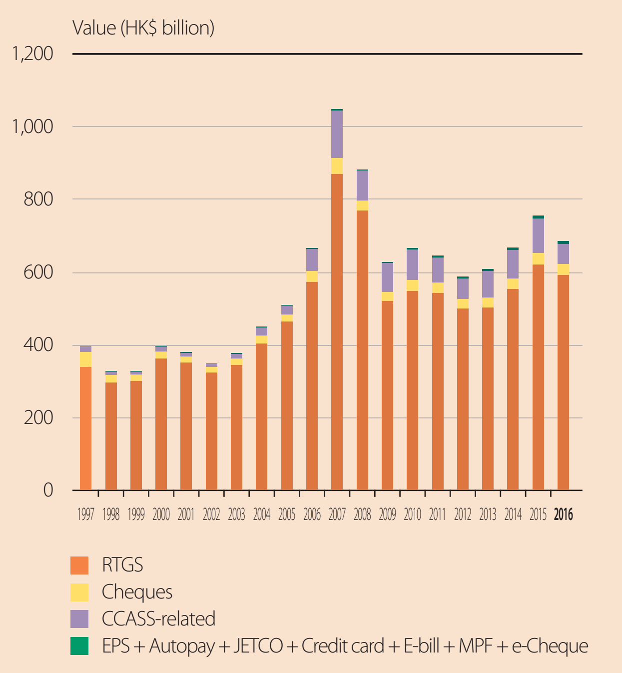

Chart 5 US dollar RTGS system average daily turnover

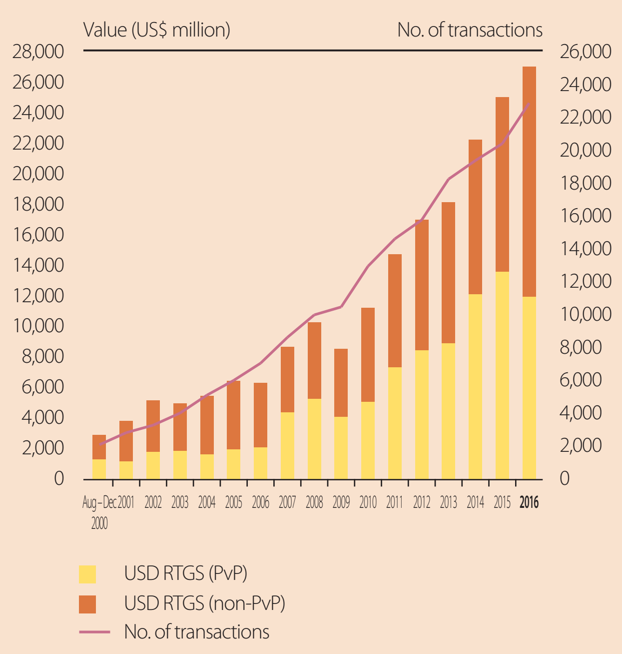

Chart 6 Euro RTGS system average daily turnover

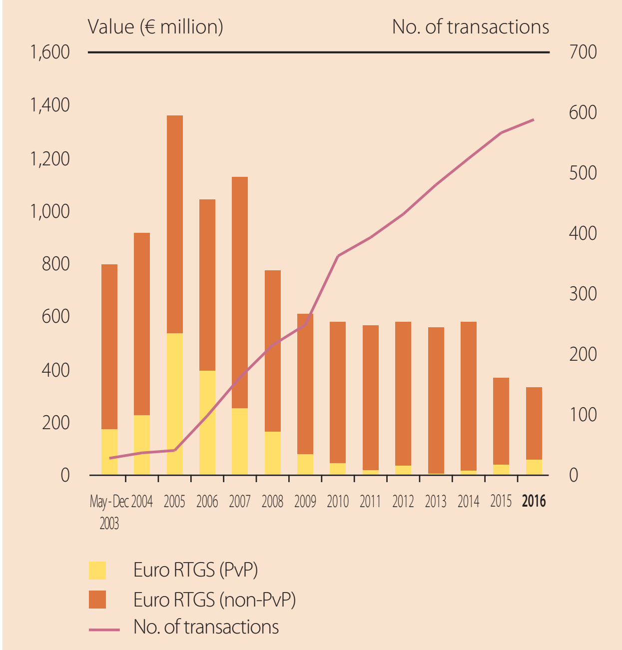

Chart 7 Renminbi RTGS system average daily turnover

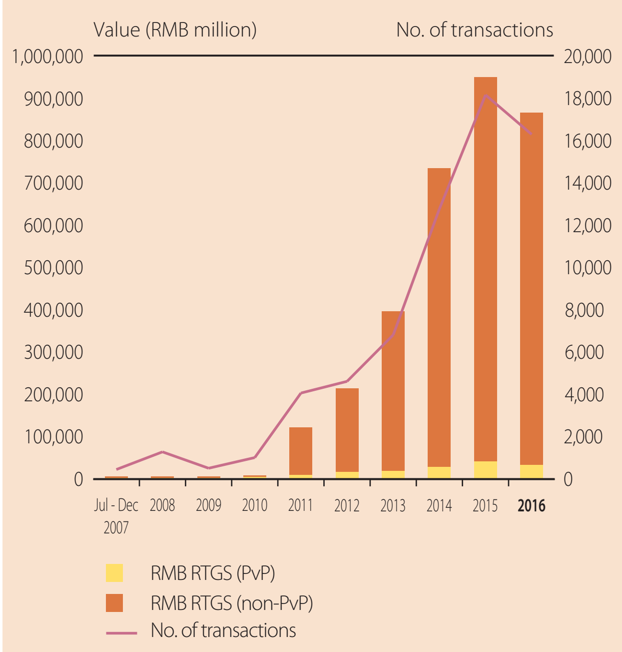

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Table 3 Foreign currency RTGS systems

RTGS systems	Launch date	Settlement institution or Clearing Bank	Number of participants at the end of 2016	Average daily turnover in 2016	Average daily transactions in 2016
US dollar RTGS system	August 2000	The Hongkong and Shanghai Banking Corporation Limited	Direct: 105 Indirect: 112	US$27.2 billion	22,833
Euro RTGS system	April 2003	Standard Chartered Bank (Hong Kong) Limited	Direct: 38 Indirect: 17	€334 million	594
Renminbi RTGS system	June 2007	Bank of China (Hong Kong) Limited	Direct: 212	RMB863.6 billion	16,232

Payment-versus-payment (PvP)

PvP is a mechanism for settling a foreign exchange transaction to ensure that payments in two currencies involved are settled simultaneously. Within Hong Kong, six cross-currency PvP links have been established among the Hong Kong dollar, US dollar, euro and renminbi RTGS systems. Hong Kong's US dollar RTGS system has also established three cross-border PvP links with Malaysia's ringgit RTGS system (2006), Indonesia's rupiah RTGS system (2010) and Thailand's baht RTGS system (2014). PvP greatly improves settlement efficiency and eliminates settlement risk arising from time lags in settlements and time-zone differences (known as Herstatt risk). In 2016, the transaction value of Hong Kong dollar, US dollar, euro and renminbi-related PvP transactions amounted to about HK$5,415 billion, US$2,829 billion, €14 billion and RMB7,857 billion respectively.

Payment links with Mainland China

The HKMA continued to work closely with Mainland authorities to provide efficient cross-border payment links (Chart 8) to meet growing demand. In 2016, the average daily turnover handled by the various system links, including the RTGS cross-border links with the Mainland's Domestic Foreign Currency Payment Systems launched in 2009, exceeded a total value equivalent to HK$2 billion. The Hong Kong dollar and US dollar RTGS system links with Shenzhen and Guangdong handled more than 14,000 transactions during the year, with a total value equivalent to HK$504.4 billion.

The two-way joint cheque-clearing facilities provided a clearing service for cheques drawn on banks in Hong Kong and presented in Shenzhen and Guangdong. In 2016, such facilities processed about 119,000 Hong Kong dollar and US dollar cheques, with a value equivalent to HK$10 billion, and renminbi cheques with a total value equivalent to around HK$2 million.

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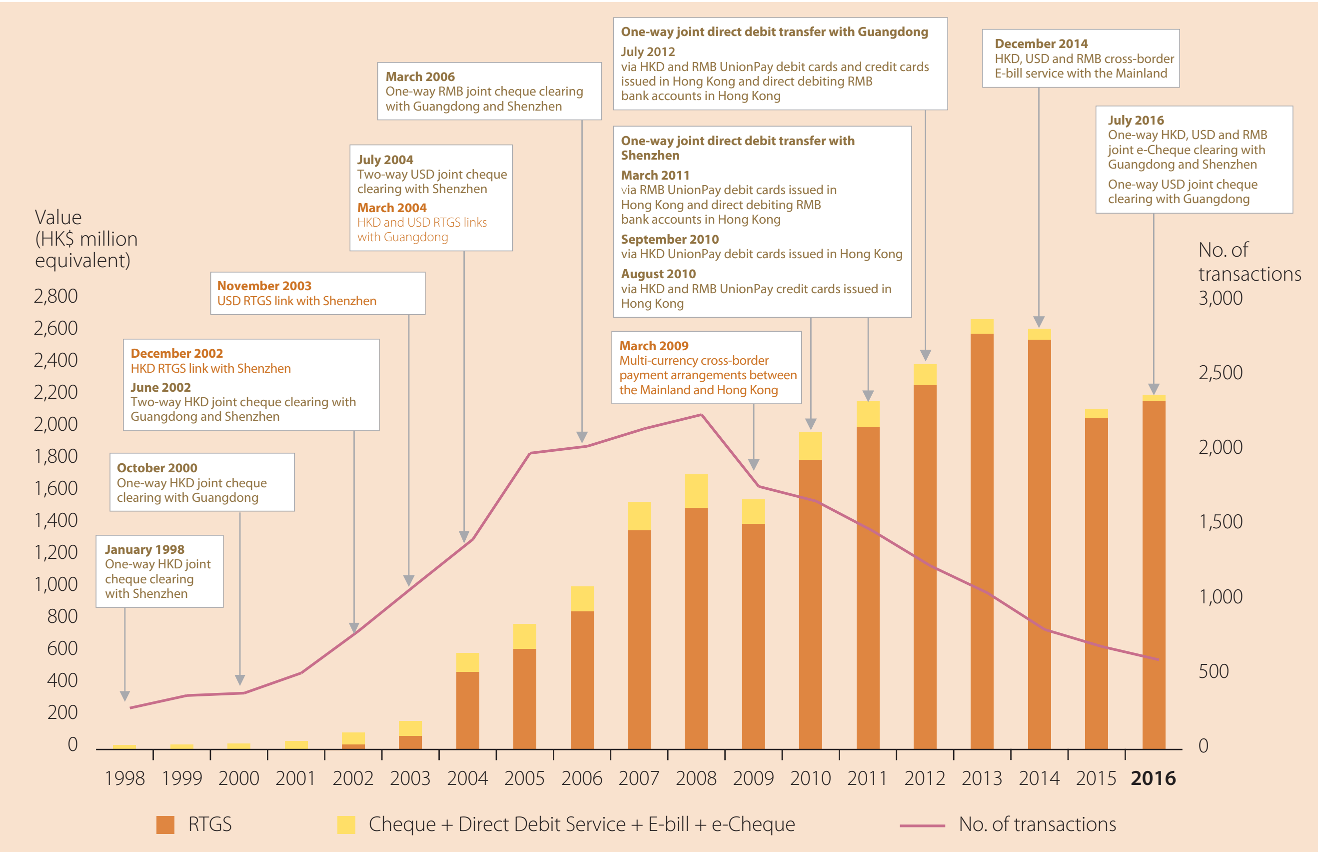
Chart 8 Average daily turnover in cross-border arrangements with Mainland China



Payment links with Macau

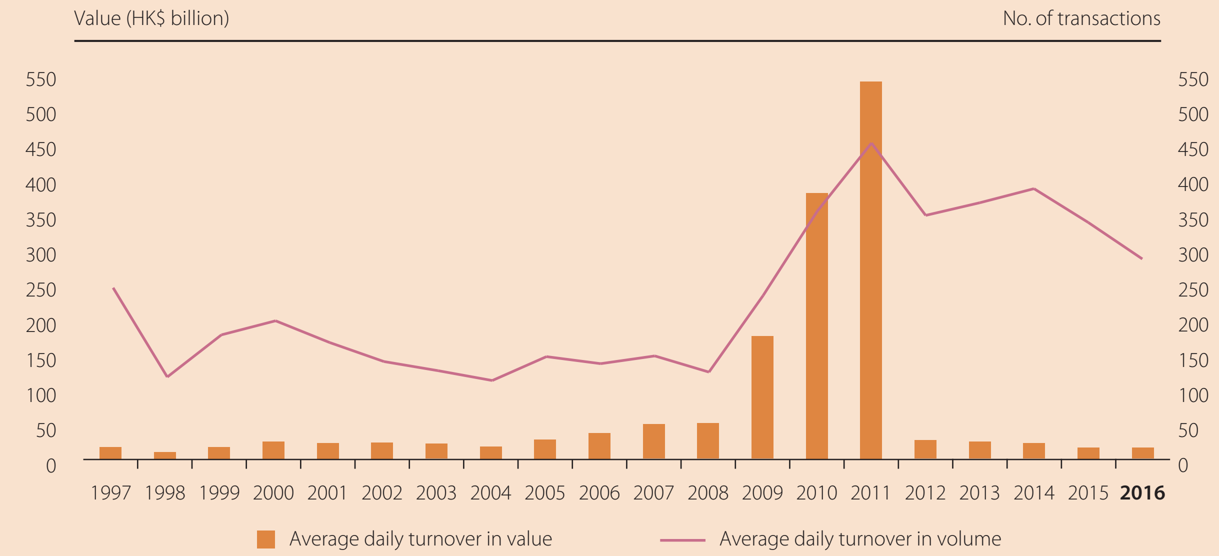
The one-way joint clearing facility for Hong Kong dollar and US dollar cheques between Hong Kong and Macau was launched in 2007 and 2008 respectively. In 2016, Hong Kong dollar cheques with a total value of about HK$17 billion and US dollar cheques with a total value of about US$65 million were cleared.

Debt settlement systems

The CMU provides an efficient, one-stop clearing, settlement and depository service for Hong Kong dollar and foreign currency-denominated debt securities issued in Hong Kong. Through the linkages between the CMU and international/regional CSDs, investors outside Hong Kong can hold and settle securities lodged with the CMU, while Hong Kong investors can hold and settle foreign securities held with CSDs outside Hong Kong. In 2016, the CMU processed an average daily value of HK$15.2 billion (297 transactions) in secondary market transactions (Chart 9). Among the debt securities lodged with the CMU at the end of the year, the outstanding amount of EFBNs was HK$963.1 billion and the total amount of other debt securities was equivalent to HK$1,011.9 billion, of which renminbi debt securities amounted to RMB279.6 billion.

International Financial Centre

Chart 9 CMU secondary market turnover



Financial infrastructure development

The HKMA completed a number of projects in 2016 to improve the safety and efficiency of Hong Kong's financial infrastructure, and to capture new business opportunities.

Interbank intraday liquidity facility for Hong Kong's RTGS systems

The RTGS systems were enhanced to support lending and borrowing among direct participants starting from 18 January. The facility allows participants to obtain intraday loans from registered liquidity providers more efficiently.

New renminbi Central Clearing and Settlement System night settlement run

To streamline the northbound settlement arrangement between participating custodians and brokers for the northbound trade of Shanghai-Hong Kong Stock Connect, a renminbi bulk settlement run at night (Hong Kong time) was launched on 18 April amid the collaboration of the HKMA and the Hong Kong Exchanges and Clearing Limited.

Centralised corporate action platform

The HKMA launched, on schedule, a centralised corporate action platform in the CMU in August. It enables CMU to support corporate action events, such as corporate action announcements (e.g. offer of call options) and the execution of custody instructions (such as voting), for debt securities lodged with the CMU. This helps both issuers and investors process corporate action events of CMU securities in a more effective and efficient manner.

CMU tendering platform and central bank placement co-ordinating window

The Chinese Ministry of Finance continued to leverage on CMU's bond tendering platform to issue two batches of offshore renminbi sovereign bonds to institutional investors on 29 June and 8 December, worth RMB14 billion and RMB10 billion respectively. It also used the CMU central bank placement co-ordinating window to offer its offshore renminbi sovereign bonds to overseas central banks and monetary authorities, with a placement size of RMB2 billion. The HKMA's assistance in promoting the acceptance of renminbi sovereign bonds among a diverse group of investors for the offshore renminbi bond market further supported the role of Hong Kong as the global hub for offshore renminbi business.

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Trade repository for OTC derivatives

The HKTR launched a new phase in June. The new phase aims to complete the reporting product coverage by adding OTC derivative products relating to credit and commodities, to support the reporting of valuation information of transactions, and to meet the requirements of local and international regulatory authorities on sharing and aggregation of trade repository data. The HKMA has also enhanced the HKTR to support the reporting of all five asset classes of derivative transactions by reporting entities. The Phase 2 mandatory reporting requirements would commence in July 2017. Separately, the HKMA participated in a number of international discussions and working groups on reporting standards for trade repositories to keep abreast of relevant developments and ensure the local trade repository continued to meet international standards and best practices.

Retail payment initiatives

Throughout the year, the HKMA continued its efforts to improve Hong Kong's retail payment infrastructure. The initiatives and their progress are summarised below.

New regulatory regime for stored value facilities and retail payment systems

Following the enactment of the PSSVFO in November 2015, the HKMA commenced the implementation of the regulatory regime for SVFs and RPSs. Under the PSSVFO, the HKMA is empowered to implement the SVF licensing and supervisory regime and designate important RPSs to ensure their safe and efficient operation under prudential regulation.

Two batches of SVF licences were granted on 25 August and 4 November respectively to a total of 13 SVF issuers providing services ranging from mobile and internet payments to prepaid card payments to the public (Table 4). There were a few SVF issuers that failed to fulfil the minimum criteria for obtaining a licence or decided to leave the market due to commercial considerations. The HKMA has facilitated these SVF issuers to implement their exit plans in an orderly manner.

In implementing supervision on SVF licensees, the HKMA developed a principle-and-risk-based supervisory approach focusing on areas of significant risk to the SVF industry and individual SVF licensees with a view to enabling the HKMA to preempt any serious threat to the safety and efficiency of the industry and licensees. Supervisory guidelines and practice notes were issued in September to facilitate SVF licensees' compliance with the regulatory requirements, including those on anti-money laundering and counter-terrorist financing. Meanwhile, the HKMA continued to process SVF licence applications in the pipeline.

Table 4	**Register of SVF Licensees** *(in alphabetical order)* *(as at 31 December 2016)*
SVF Licensees	
	33 Financial Services Limited
	Alipay Financial Services (HK) Limited
	Autotoll Limited
	ePaylinks Technology Co., Limited
	HKT Payment Limited
	K & R International Limited
	Money Data Limited
	Octopus Cards Limited
	Optal Asia Limited
	PayPal Hong Kong Limited
	TNG (Asia) Limited
	Transforex (Hong Kong) Investment Consulting Co., Limited
	UniCard Solution Limited
Licensed Banks *(currently issuing SVFs)*[1]	
	Bank of Communications Co., Ltd
	Dah Sing Bank, Limited

1. Pursuant to Section 8G of the PSSVFO, a licensed bank is regarded as being granted a licence.

To promote public awareness of the SVF regulatory regime, the HKMA conducted a series of educational programmes during the year. Three rounds of media briefings were held in April, August and November respectively to arouse interest from the press. In addition to publishing articles on the subject in various HKMA publications, the HKMA launched an advertising campaign through various media channels, including TV, radio, social media, popular websites and apps, to enhance public awareness of the SVF regulatory regime and issues associated with the use of SVFs.

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HKMA Senior Executive Director, Mr Howard Lee (left), and Executive Director, Mr Henry Cheng, speak on the licensing of SVFs at a media briefing on 4 November 2016.

HKMA Senior Executive Director, Mr Howard Lee (third from left), Governor of Guangzhou Branch of People's Bank of China, Mr Wang Jingwu (third from right), and senior officials of other Mainland authorities officiate the launching ceremony for joint e-Cheque clearing between Hong Kong and Guangdong Province in Guangzhou.

In respect of implementation of the RPS regulatory regime, during the year the HKMA maintained close dialogues with the operators of important RPSs in Hong Kong, in particular credit card schemes, on various policy and implementation issues of the regulatory regime. In December 2016, the HKMA formally started the designation process under the PSSVFO to determine which RPSs were to be designated. The HKMA also started developing an oversight approach to regulate designated RPSs.

Implementation of e-Cheque

The acceptance and coverage of e-Cheque has steadily increased since its launch in December 2015. On 20 July 2016, the service was expanded to cover cross-boundary payments following the implementation of joint e-Cheque clearing between Hong Kong and Guangdong province (including Shenzhen). A number of organisations, including various Government departments, Mandatory Provident Fund Schemes Authority and public utilities, have accepted payment by e-Cheque. Enhancement was also made to the e-Cheque Drop Box to facilitate corporates to deposit e-Cheques in bulk. To help the public better understand the service, the HKMA and HKAB carried out a wide range of consumer education campaigns. These included roving exhibitions at major shopping malls, advertisements on TV, bus bodies, bus shelters, TV network along the MTR trackside and a mobile application.

HKMA collaborates with HKAB to hold a series of e-Cheque roving exhibitions in November 2016 to enhance the public awareness of e-Cheques.

International Financial Centre

Fintech Facilitation Office (FFO)

Mission of the FFO

The HKMA established the FFO in March to facilitate the healthy development of the fintech ecosystem in Hong Kong. The new office acts as:

- an initiator of industry research in fintech applications;
- a platform for industry liaison and outreach;
- a regulatory interface between the HKMA and the industry; and
- a platform for fintech talent development.

Since its establishment, the FFO has been actively engaging the industry to promote and develop Hong Kong as a fintech hub in Asia.

Research and applications

The Cybersecurity Fortification Initiative (CFI) was launched on 18 May with a view to enhancing the cyber resilience of the banking system in Hong Kong. The three pillars of CFI, namely (i) a risk-based cybersecurity assessment framework; (ii) a professional training and certification programme for cybersecurity professionals; and (iii) a cyber intelligence sharing platform, were implemented in December after the completion of industry consultation in August. In parallel with the CFI, a module on cybersecurity under the ECF for banking practitioners was launched in December to ensure that banking practitioners engaging in cybersecurity duties would acquire adequate knowledge and qualifications to discharge their responsibilities.

HKMA Chief Executive, Mr Norman Chan, announces the launch of CFI at the Cyber Security Summit 2016.

The HKMA commissioned the Hong Kong Applied Science and Technology Research Institute (ASTRI) to conduct a research project on distributed ledger technology (DLT). The research consisted of three proof-of-concept exercises, including mortgage loan application, trade finance and digital identity management. In this connection, a white paper was released on 11 November as the first deliverable. The white paper provided the fintech industry in Hong Kong with a reasonably comprehensive study of the key features, benefits, issues and risks associated with DLT. The white paper attracted significant attention from the international community, IT consultancy firms and vendors, and other central banks.

Industry liaison and outreach

Together with the three strategic partners: ASTRI, Cyberport and the Hong Kong Science and Technology Parks, and other industry players such as InvestHK and industry associations, the HKMA organised activities to bring together banks and fintech solution providers to build an ecosystem to promote the adoption of fintech. Eight fintech events were organised, including conferences, training, workshops and seminars, which attracted more than 2,000 participants from around the world. In particular, the HKMA Fintech Day, which formed part of the Hong Kong Fintech Week, attracted more than 500 participants from the fintech community in Hong Kong and overseas on 11 November.

International Financial Centre

The HKMA signs an MOU with ASTRI, Cyberport and Hong Kong Science and Technology Parks to form a strategic partnership on fintech development during the HKMA Fintech Day.

Regulatory interface with the industry

The HKMA launched the Fintech Supervisory Sandbox (FSS) on 6 September in order to create a regulatory environment conducive to fintech development. The FSS enables banks to conduct pilot trials of fintech initiatives with customers in a controlled environment without the need to achieve full compliance with the HKMA's usual supervisory requirements. From its launch to the end of 2016, the FSS has been used by banks in six cases of pilot trials of their new fintech initiatives.

The HKMA-ASTRI Fintech Innovation Hub (the Hub) is a facility to support research and adoption of fintech by the industry and was launched on 11 November. The Hub is intended to be a neutral ground for the fintech industry where various stakeholders can collaborate to brainstorm innovative ideas and try out and evaluate new fintech solutions in order to gain an early understanding of creative solutions for banking and payment services.

The HKMA and the UK Financial Conduct Authority entered into a Co-operation Agreement on 7 December to explore and foster collaboration between the two regulatory authorities in promoting financial innovation, including referrals of fintech firms, joint innovation projects, information exchange, experience sharing and secondment to facilitate financial innovation in the two jurisdictions.

Fintech talent development

On 16 December, the HKMA collaborated with ASTRI to launch the Fintech Career Accelerator Scheme to nurture local talent to ensure the development of the fintech ecosystem is sustainable. The scheme, supported by 12 banks, provides about 100 internships of six-month or one-year duration in the summer of 2017 to students in ten tertiary education institutes.

HKMA Chief Executive, Mr Norman Chan, gives welcoming remarks at the launching ceremony of the Fintech Career Accelerator Scheme.

HKMA Chief Executive, Mr Norman Chan, Chairman of ASTRI, Mr Wong Ming-yam (sixth and fifth from right of the first row), senior executives of banks and presidents/senior staff members of universities officiate at the launch of the Fintech Career Accelerator Scheme.

International Financial Centre

Soft power

Director Empowerment Programme

Following the global financial crisis, there has been greater emphasis globally on the role of the board of financial institutions in setting cultural expectations and risk management. The HKMA sees the role of independent non-executive directors (INEDs) as being especially important in providing independent and objective advice, and acting as a check and balance on management proposals.

Given the success of the inaugural seminar in Beijing in October 2015 for INEDs of banks, we organised a second seminar in Xi'an with the China Banking Regulatory Commission in June for another group of INEDs. Concurrently we also organised a Senior Bankers' Seminar with the Shaanxi Provincial Government and the China Banking Regulatory Commission in Xi'an for INEDs and bank Chief Executives, covering the opportunities and challenges arising from the Belt and Road Initiative in addition to other topics relevant to banks.

The HKMA also launched a newly structured development programme for INEDs, which was designed to better equip and empower them in performing their functions. Under the programme, experience and insight sharing conference and thematic seminars were organised for INEDs to share knowledge and experience, and to prepare for the challenges ahead. To make the seminars more engaging and effective, industry experts and senior staff from the HKMA also led case-sharing and discussion with the INEDs. Topics of mutual interests covered in the seminars included financial inclusion, account opening, automatic exchange of financial account information, cybersecurity and International Financial Reporting Standard 9 implementation.

Publicity on different platforms disseminates smart tips on using SVFs.

Talent development

In 2016, the HKMA continued to work closely with the banking industry to develop the ECF covering major operations central to the safety and soundness of authorized institutions (AIs). The objectives of the ECF are to help develop a talent pool across the industry, build capacity in banking skills and knowledge, and meet the increasing demand of qualified and experienced banking professionals.

During the year, the industry consultations on the ECF on anti-money laundering and counter-terrorist financing (AML/CFT) and the ECF on cybersecurity were completed. The core level of ECF on AML/CFT (targeting entry-level staff) and the ECF on cybersecurity were launched at the end of 2016 to set out the competency standards of different roles in these two areas for ensuring AML/CFT compliance and cyber resilience of AIs.

Consumer education

Under the HKMA's Consumer Education Programme, various thematic campaigns were launched in 2016 with the aim of encouraging the public to be smart and responsible financial consumers. These campaigns, in the form of video and radio clips, comics, animations, print and online advertisements, etc. cover the following topics:

- A thematic campaign on the new regulatory regime for SVFs was launched to give the public useful tips, in particular the need to understand the terms and conditions (including fees, privacy policy, user rights and obligations) and to properly manage the float stored in their SVFs.

International Financial Centre

- The HKMA launched a campaign to promote responsible borrowing. Members of the public were reminded to assess their financial needs and repayment ability, and to consider the terms and conditions carefully before taking on a loan.

A thematic campaign on responsible borrowing.

- There were also initiatives to further promote the public awareness of security in using Internet banking services. Smart tips on using credit cards and ATM cards during the festive season, and personal loans for tax payment, and reminders on staying vigilant when receiving fraudulent calls purportedly from banks were also publicised during the year.

To promote financial literacy among senior secondary school students, the HKMA co-organised with various stakeholders the "Hong Kong Liberal Studies Financial Literacy Championship". This initiative included an online quiz that attracted more than 12,000 submissions, and six school tours featuring an interactive game.

An online quiz co-organised with various stakeholders.

Comics and animations conveying security tips on making peer-to-peer small-value funds transfer via bank smartphone apps.

International Financial Centre

Treasury Markets Association (TMA)

The HKMA collaborated with and provided necessary strategic support to the TMA in promoting the professionalism and competitiveness of the Hong Kong treasury markets. At the end of 2016, the TMA had 75 Institutional Members and 1,438 Individual Members from banks, investment houses, asset managers, money brokers, information services providers, exchanges and large corporations. Some major tasks undertaken by the TMA during the year are set out below.

Strengthening the robustness and transparency of Hong Kong's major financial benchmarks

The TMA took up the administration of the Hong Kong Dollar Overnight Index Average, the underlying benchmark for Hong Kong Dollar Overnight Index Swap, in April. Subsequently, the TMA refined the governance and surveillance arrangements of the benchmark having regard to prevailing international recommendations and practices. Further, with broad support from the industry, the TMA successfully implemented a more transaction-based determination mechanism for its foreign exchange benchmarks, with effect from 1 August. This enables the benchmarks to better follow the prevailing international recommendations on benchmark determination.

Enhancing the conduct and professionalism of market participants

The TMA contributed to a new global initiative in establishing a single set of principles and good practices for the wholesale foreign exchange market, i.e. the Foreign Exchange Global Code. The work has strong support from the BIS, and is planned for completion and release in 2017. During the year, the TMA also promoted broad market awareness of the work through workshops and other market engagements.

Raising the profile of the Hong Kong treasury markets

The TMA co-organised its annual landmark event, the Treasury Markets Summit, with the HKMA in September in Hong Kong. The discussions focused on Hong Kong's unique edges under the Belt and Road strategy, the new normal of treasury markets, and the impact of fintech on treasury operations. The TMA also co-organised with other partners another summit in Shenzhen in November to promote the profile of the Hong Kong treasury markets and the TMA among market practitioners in Southern China.

OTC derivatives market regulation

The HKMA continued to work closely with the SFC to develop detailed rules for implementing the regulatory regime for the OTC derivatives market in Hong Kong. This regime aims to reduce systemic risk and enhance transparency in the OTC derivatives market. The rules for introducing mandatory clearing and expanding the product scope of mandatory reporting were passed at the Legislative Council in February. The first phase of mandatory clearing took effect in September.

In addition, the HKMA participated in several international forums, including the OTC Derivatives Working Group established under the FSB, and the OTC Derivatives Regulators' Forum, contributing to the relevant international initiatives and monitoring closely the international regulatory developments. Close dialogue was also maintained with overseas regulators, through both bilateral and multilateral channels, to discuss cross-border issues arising from the implementation of the OTC derivatives reforms.

PLANS FOR 2017 AND BEYOND

The HKMA will continue to work closely with other central banks, government agencies and the private sector, both locally and internationally, to implement initiatives that enhance Hong Kong's status as an international financial centre.

Development of Hong Kong as a global offshore renminbi business hub

The Central Government's commitment to take forward renminbi internationalisation and capital account liberalisation will continue to be important drivers for Hong Kong's offshore renminbi business. The inclusion of renminbi in the IMF's Special Drawing Right currency basket in October will generate increasing offshore demand for renminbi assets over the medium to long term. The implementation of the Belt and Road Initiative will further spur the international use of renminbi and demand for renminbi products and services. As the global offshore renminbi business hub with the deepest pool of offshore renminbi deposits, highly efficient and reliable renminbi payment infrastructure and a financial industry well-versed in renminbi business, Hong Kong is well placed to capture the business opportunities. In the coming year, the HKMA will closely engage Mainland authorities with a view to further enhancing mutual access to the financial markets of the two places and broadening policy headroom for the further development of renminbi business in Hong Kong.

At the same time, the HKMA will work closely with the industry to promote Hong Kong's renminbi financial platform and to step up collaboration with other overseas markets on renminbi business, especially targeting opportunities brought forth by the Belt and Road Initiative and Chinese enterprises "going global".

Financial market development

The HKMA will seek to promote a more conducive infrastructure financing environment in Hong Kong. In particular, IFFO will organise Debt Financing and Investors' Roundtables in March 2017.

The HKMA will also explore ways to further enhance the competitiveness of Hong Kong's financial sector, particularly in the development of Hong Kong as an international asset management hub and regional destination for CTCs, and fund investment activities.

The HKMA will continue its effort in developing the local debt market, and in implementing the Government Bond Programme to broaden its investor base and enhance its liquidity. Further steps will be taken to expand Islamic finance in Hong Kong by encouraging product development, raising market awareness and knowledge of Islamic finance, and forging closer ties with key Islamic financial centres and international Islamic financial organisations.

International and regional co-operation

Policy uncertainties in some advanced economies and the normalisation of US interest rates continue to pose challenges to the global financial system. Cross-border capital flows could become volatile as monetary policy tightens in the US and the US dollar strengthens. Despite relatively strong fundamentals in Asia, its resilience may be tested in situations of disorderly capital outflows or sharp repricing of assets. Against this backdrop, there is a need to strengthen cross-border co-operation in market surveillance and enhance the resilience of financial systems. The HKMA will continue to play its part in driving international and regional initiatives to promote financial stability.

Financial infrastructure

Introduction of CMU Optimiser runs

In accordance with IMF's recommendations in the Financial Sector Assessment Programme, the CMU system is being enhanced for the introduction of CMU Optimiser runs around mid-2017 to raise the proportion of real time Delivery-versus-Payment settlement for securities transactions.

International Financial Centre

Trade repository for OTC derivatives

The HKMA will continue to enhance the trade repository system to meet the evolving international reporting standards and requirements from regulators.

Faster Payment System (FPS)

To address the increasing market needs for more efficient retail payment services, the HKMA planned to implement a FPS in Hong Kong in late 2018. The FPS will be a multi-currency system that enables the public to make round-the-clock retail payments in a real-time manner. There are a number of benefits for Hong Kong to implement the FPS. It will enhance payment convenience and efficiency for individuals and corporations, promote healthy competition between banks and non-bank payment service providers, enhance the resilience of the RTGS system by providing a non-similar facility for backing up the RTGS system, and reinforce Hong Kong's status as an international financial centre.

Retail payment initiatives

Further steps will be taken to improve Hong Kong's retail payment infrastructure. On the regulatory regime for SVFs and RPSs, the HKMA will determine whether any of the existing RPSs in Hong Kong should be designated pursuant to the PSSVFO and implement designation and oversight work as appropriate. Where necessary, guidelines on RPS designation and regulatory requirements applicable to designated RPSs will be issued. The HKMA will continue its supervision of SVF licensees and update or issue supervisory guidelines where necessary to facilitate SVF licensees' compliance with the regulatory requirements. It will also conduct educational programmes to further enhance public awareness of the SVF and RPS regulatory regime.

On the e-Cheque service, both the HKMA and HKAB will continue to support educational campaign to enhance public awareness of the service. We will also participate in seminars and trade fairs to promote e-Cheque service to corporations.

Fintech development

The HKMA will maintain close collaboration with the banking and SVF industry and the fintech community to explore the application of new technologies to financial services and to facilitate the healthy development of the fintech industry.

The HKMA will monitor the implementation of the CFI. The first phase of implementation is scheduled for completion in September 2017 for risk and maturity assessments and in June 2018 for simulation testing.

The second white paper on the DLT is scheduled for publication in the second half of 2017, covering the lessons learned from the proof-of-concept exercise of mortgage loan application, trade finance and digital identity management, and addressing the regulatory implications and control principles of the DLT for the banking and payment industry.

The HKMA will continue to organise and oversee the Fintech Career Accelerator Scheme, including delivering regulatory briefings, to ensure students get the most out of the 2017 internship. The HKMA will also review its effectiveness and lessons learned with a view to enhancing the scheme.

The HKMA will explore ways to collaborate with overseas counterparts in fintech development, including possible secondment, joint projects and information sharing.

Soft power

Director Empowerment Programme

The HKMA will continue its efforts on director empowerment, such as organising thematic seminars, to keep INEDs abreast of the banking sector development. An experience and insight sharing conference dedicated for INEDs has been scheduled for March 2017. This event is an important platform for INEDs to keep abreast of the banking sector developments and the regulatory policy landscape. It also provides an excellent opportunity for a constructive exchange of views among INEDs and with the senior executives of the HKMA on issues of mutual interest.

Talent development

The HKMA will maintain close collaboration with the banking industry to develop the professional level of ECF on AML/CFT for more experienced practitioners. In addition, the HKMA will consult the banking industry and professional bodies to prepare for the launch of similar competency frameworks in other banking functions in the coming years, including credit risk management, retail wealth management, treasury management, and risk and compliance.

Consumer education

Further publicity initiatives will be launched under the HKMA's Consumer Education Programme, including videos and other publicity materials, to promote smart and responsible use of banking and other financial services under the HKMA's supervision. In addition, the HKMA will further collaborate with other stakeholders to promote financial literacy and maximise the impact of consumer education.

Treasury Markets Association

The HKMA will maintain close relations with the private sector and industry associations to enhance the professionalism and competitiveness of Hong Kong treasury markets, particularly in relation to financial benchmarks and the adoption of the Foreign Exchange Global Code.

OTC derivatives market regulation

The HKMA will continue to work with the SFC to develop detailed rules for implementing other aspects of the regulatory regime for the OTC derivatives market. The second phase of mandatory reporting will commence in July 2017. The HKMA will also continue its participation in various international forums, including the OTC Derivatives Working Group of the FSB and the OTC Derivatives Regulators' Forum, to keep abreast of, and contribute to, regulatory developments in the international arena.