

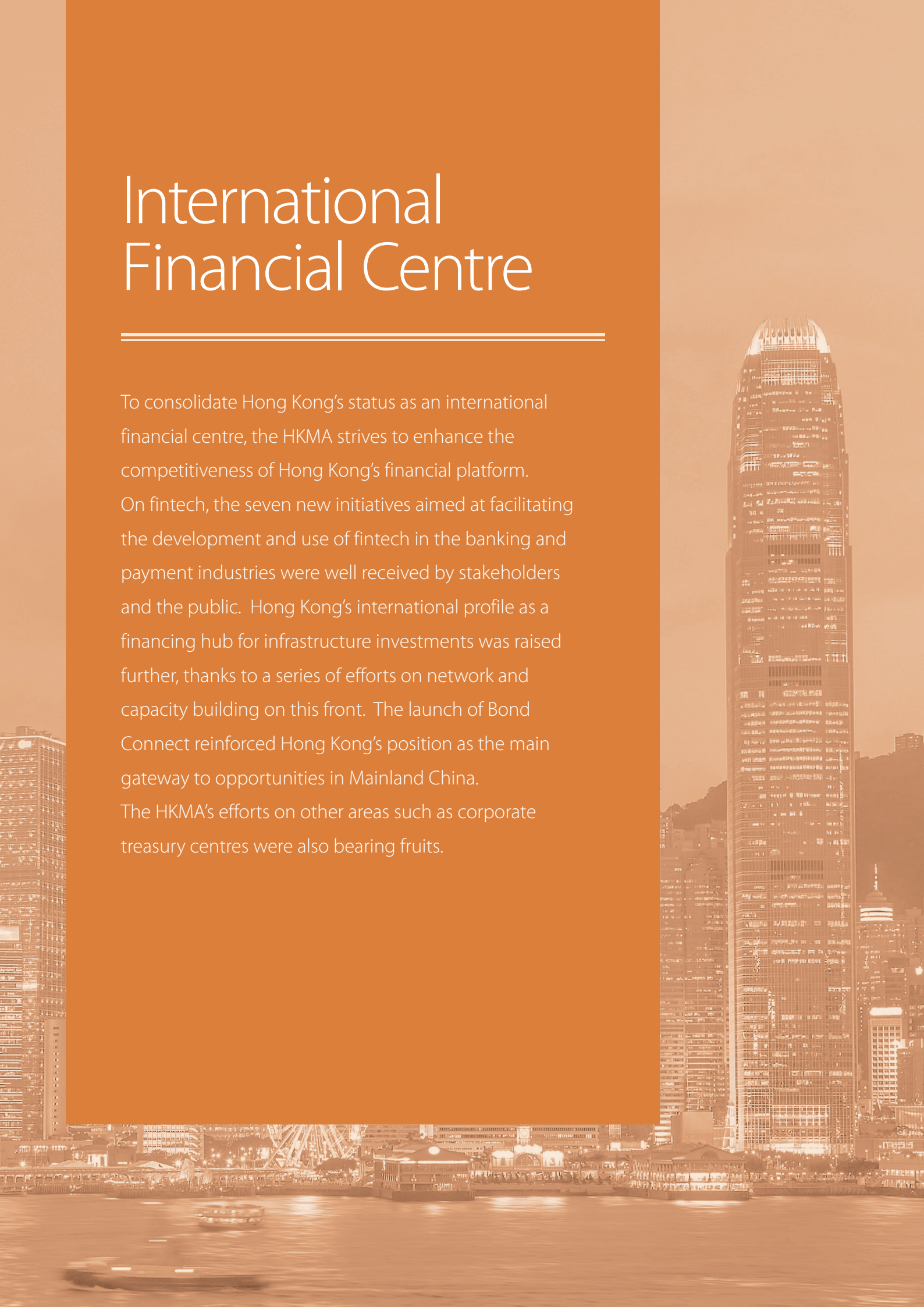
# International Financial Centre

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To consolidate Hong Kong's status as an international financial centre, the HKMA strives to enhance the competitiveness of Hong Kong's financial platform.

On fintech, the seven new initiatives aimed at facilitating the development and use of fintech in the banking and payment industries were well received by stakeholders and the public. Hong Kong's international profile as a financing hub for infrastructure investments was raised further, thanks to a series of efforts on network and capacity building on this front. The launch of Bond Connect reinforced Hong Kong's position as the main gateway to opportunities in Mainland China.

The HKMA's efforts on other areas such as corporate treasury centres were also bearing fruits.



## OVERVIEW

In view of the rapid technological advancements, the HKMA in September announced the launch of seven initiatives to prepare Hong Kong to move into a new era of Smart Banking. These initiatives included:

- developing the Faster Payment System (FPS) to achieve full connectivity of digital retail payments;
- introducing an Open Application Programming Interface (Open API) framework;
- enhancing fintech research and talent development;
- stepping up cross-border collaboration in fintech;
- upgrading our existing Fintech Supervisory Sandbox (FSS) 1.0 to Version 2.0;
- facilitating the introduction of virtual banking; and
- promoting a new Banking Made Easy initiative to minimise regulatory frictions in customers' digital experience.

The HKMA Fintech Facilitation Office (FFO), together with the banking departments of the HKMA, played a pivotal role in driving the implementation of these initiatives to strengthen Hong Kong's position as a fintech hub in Asia.

Hong Kong's international profile as a financing hub for infrastructure investments was raised further, as the number of partners of the HKMA Infrastructure Financing Facilitation Office (IFFO) grew to 87 as at 31 January 2018 from about 40 at inception. During the year, IFFO organised and participated in more than 10 seminars and workshops to facilitate experience sharing and collaborative networking among key stakeholders. In particular, IFFO steered the development of an infrastructure equity investment reference term sheet in its inaugural Debt Financing and Investors' Roundtables with a view to enhancing infrastructure projects' bankability and investability.

Bond Connect was launched in July, marking another major milestone in mutual access between the Hong Kong and Mainland capital markets, and further solidifying our gateway position for international investors seeking to enter the Mainland market. During the year, Hong Kong's Renminbi Qualified Foreign Institutional Investor (RQFII) quota was increased to RMB500 billion from RMB270 billion. Hong Kong maintained the world's largest offshore renminbi liquidity pool, with vibrant renminbi financial intermediation activities as evidenced by a high turnover of our renminbi Real Time Gross Settlement (RTGS) system and the lion's share of Hong Kong's renminbi payment activities in the world.

Following the introduction of the tax regime for corporate treasury centres (CTCs) in 2016, the HKMA stepped up its outreach efforts with a view to attracting more multinational corporates to set up treasury centres in Hong Kong. By the end of 2017, more than 40 corporates reflected to the HKMA that they were actively planning to set up, or had set up, treasury centre operations in Hong Kong.

The HKMA actively contributed to international discussions on issues of significance to global and regional financial stability. The Chief Executive of the HKMA became the Chair of the Standing Committee on Supervisory and Regulatory Co-operation (SRC) of the Financial Stability Board (FSB)<sup>1</sup> in April to lead discussions on key financial stability issues.

The safe and efficient operation of Hong Kong's financial infrastructure lays a solid foundation for Hong Kong's role as an international financial centre and global offshore renminbi business hub. The four interbank RTGS systems and the Central Moneymarkets Unit (CMU) achieved 100% system availability in 2017, as compared to the target of 99.95%. To support Northbound Trading of Bond Connect, CMU has set up accounts with the two Mainland central securities depositories (CSDs) to facilitate the settlement of Bond Connect transactions and holding of Mainland debt securities on behalf of relevant CMU members.

To promote the general safety and efficiency of the local retail payment industry, the HKMA designated four retail payment systems (RPSs) under the Payment Systems and Stored Value Facilities Ordinance (PSSVFO) in August to bring their operations under the HKMA's oversight. The HKMA also conducted supervision of 16 stored value facility (SVF) licensees which actively launched new products and services that sought to offer customers more choices and better user experience. Separately, the coverage of e-Cheque and Electronic Bill Presentment and Payment (EBPP) service was further expanded to include cross-boundary payments between Hong Kong and the entire Guangdong Province.

<sup>1</sup> 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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## REVIEW OF 2017

## Hong Kong as a fintech hub in Asia

## Smart Banking Initiatives

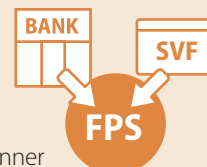
In light of the rapid technological advancements, the HKMA in September announced seven initiatives that would prepare Hong Kong to move into a new era of Smart Banking. The initiatives aimed to help the banking sector to rise to a higher level and embrace the enormous opportunities brought about by the convergence of banking and technology.

**“Smart Banking would offer full interconnectivity amongst retail and corporate customers and allow financial services and transactions to be undertaken with great mobility, speed, ease and safety.”**

The HKMA has been working closely with the banking industry and the fintech community, and made good progress in implementing the seven initiatives.

## Faster Payment System

The FPS is a multi-currency platform that would enable the public to make round-the-clock funds transfers in a real-time manner with ease, through using mobile phone numbers or email addresses. It can support payments in Hong Kong dollars and renminbi. Banks and non-bank payment service providers can participate in the FPS, enabling full connectivity among all payment participants. With system development work close to completion, the FPS is scheduled to launch in September 2018.



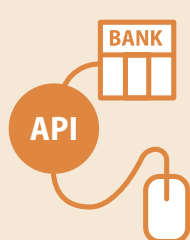
Furthermore, the HKMA led a working group, comprising major credit card scheme operators, banks, licensed SVF operators and merchant acquirers, to establish a common QR code standard for retail



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payments in Hong Kong. A common QR code standard would facilitate merchants in using a single QR code to accept QR code payment solutions from multiple payment service providers, providing greater convenience to customers and merchants. The working group has finalised the relevant technical specification, and would work out the implementation arrangements.

### ● Open Application Programming Interface



Open API allows banks' data to be accessed by third parties to facilitate better and easier integration of services offered by banks and other industries. Users can therefore conveniently stay on one system to enjoy integrated services in a secure environment. To facilitate the development and adoption of Open API by the banking sector, the HKMA has come up with a draft Open API framework, comprising a selection of Open API functions and deployment time frame, technical standards, third-party service provider governance, facilitation measures and maintenance models, for a two-month industry consultation.

### ● Research and talent development



One of the major research projects was on Distributed Ledger Technology (DLT). Following the first DLT whitepaper in 2016, the second whitepaper on DLT was published in October 2017. The second whitepaper further explores the three Proof-of-Concept works, namely trade finance, digital identity management and mortgage application. It also offers advice on the implementation issues relating to governance, legal and compliance, and general control principles on deploying DLT for the banking and payment industries.



*HKMA Chief Executive, Mr Norman Chan, announces the release of the second whitepaper on DLT at the HKMA Fintech Day.*

Riding on the success of the Proof-of-Concept work on trade finance led by the HKMA, seven banks in Hong Kong decided to commercialise the prototype into a production system named Hong Kong Trade Finance Platform (HKTFP) to digitise and share trade documents and automate processes with a view to improving the overall trade process and reducing risks and fraud in the trade finance business.

In an effort to enlarge the talent pool in the fintech industry, the HKMA launched the Fintech Career Accelerator Scheme in collaboration with the Hong Kong Applied Science and Technology Research Institute in December 2016. Response from students was positive. More than 3,000 applications from 421 applicants were received. Finally, 74 students accepted internship offers from the HKMA and 12 banks to work on fintech-related projects for six months or one year starting from July.



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### ● Cross-border collaboration

As the first step of strengthening our collaboration within the Guangdong-Hong Kong-Macao Bay Area, we are partnering with Shenzhen to promote fintech and talent developments. Specifically, the HKMA and the Office of Financial Development Service, the People's Government of Shenzhen Municipality (OFDS) entered into an agreement in June to (i) provide reciprocal soft-landing support for fintech firms, (ii) co-organise the Shenzhen-Hong Kong Fintech Award in October to recognise and reward outstanding fintech products and solutions in the two cities; and (iii) arrange summer internships at Shenzhen fintech and techfin firms for Hong Kong students.



HKMA Chief Executive, Mr Norman Chan (middle), signs and exchanges Memoranda of Understanding on soft-landing arrangements with OFDS Director-General, Mr He Xiaojun (left), and Cyberport Chairman, Dr Lee George Lam, at the HKMA Fintech Day.



E-leaflet for the Shenzhen-Hong Kong Fintech Award.

The HKMA also signed fintech co-operation agreements with the Monetary Authority of Singapore (MAS) and the Dubai Financial Services Authority on innovation projects, referrals of innovative businesses, information sharing and exchange of expertise.

In November, the HKMA further signed a Memorandum of Understanding with MAS to jointly build the Global Trade Connectivity Network (GTCN), which would connect Singapore's National Trade Platform to the HKTFP to form a cross-border DLT infrastructure in order to digitalise cross-border trade and trade finance processes, making them safer, more efficient and cost-effective. It will be an open platform that allows other interested jurisdictions to participate in the future. The GTCN is expected to be launched in the first quarter of 2019.



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### ● *Fintech Supervisory Sandbox*



The FSS launched by the HKMA in September 2016 was upgraded to FSS 2.0 to expedite communication with banks and tech firms to facilitate new ideas and initiatives. Specifically, FSS 2.0 has the following new features:

- A Fintech Supervisory Chatroom is set up to provide feedback to banks and tech firms at an early stage of their fintech projects.
- Tech firms can access the FSS by seeking feedback from the Chatroom without going through a bank.
- The sandboxes of the HKMA, the Securities and Futures Commission (SFC) and the Insurance Authority are linked up so that there is a single point of entry for pilot trials of cross-sector fintech products.

As of end-2017, **28** new technology products have been tested in the FSS. Out of these cases, **14** pilot trials have been completed, and the relevant products have been rolled out to the market subsequently.

### ● *Banking Made Easy initiative*

A Banking Made Easy initiative was launched to minimise regulatory frictions hindering technological innovations. A taskforce has been set up with current focus on the following areas:



- Remote onboarding and account maintenance
- Online finance
- Online wealth management

### ● *Virtual Banking*

Virtual banks, which operate without physical branches, are expected to provide additional impetus to the application of fintech in Hong Kong and offer a new kind of customer experience in mobile and digital banking. They may also help promote financial inclusion as they normally target the retail segment, be they individuals or small and medium-sized enterprises (SMEs). The HKMA has commenced the review of the existing Guideline on Authorization of Virtual Banks with a view to facilitating the introduction of virtual banking in Hong Kong.



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## A New Era of Smart Banking

### Supervision and Innovation

The seven initiatives unveiled by the HKMA last year to prepare Hong Kong for a new era of Smart Banking are a large-scale project involving cooperation among various departments within the HKMA. With fintech becoming an unstoppable force, Mr Raymond Chan, Executive Director (Banking Supervision) of the HKMA, indicated that the HKMA, as a regulator, must embrace this new trend by keeping abreast of the latest technological developments and adjusting its supervisory mindset and approach as appropriate, in order to take bank services and customer experience to a new level.

The Banking Supervision Department (BSD) is responsible for overseeing the risk management of banks. With the gradual implementation of three Smart Banking initiatives, namely the FSS 2.0, Banking Made Easy initiative, and introduction of virtual banking, Mr Chan realised that there is a need to recalibrate the mindset in order to apply the risk-based and technology-neutral supervisory principle

more precisely and strike an appropriate balance between technological innovation and risk management. He acknowledged, "Whilst having worked on the supervisory front for many years, I have learnt a lot in the process of promoting the adoption of fintech in the banking sector, including looking at things more from the perspectives of banks and customer experience, which is useful for the supervisory work in future."

FSS 2.0 aims to provide supervisory feedback to banks and tech firms when new initiatives are being contemplated or developed, in order to clarify regulatory issues at an early stage and reduce abortive work. Industry response so far has been much more enthusiastic than what Mr Chan anticipated. What impresses him most is the case of remote onboarding mobile application (app) where bank customers can scan their personal ID cards and selfie portraits as part of their personal particulars for submission to a bank. However, in order for the artificial intelligence to learn to authenticate the submitted documents, both true and fake ID card images were required when developing this app. BSD colleagues therefore assisted in approaching the Police for advice. The response from the Police was positive and they provided the specimens of some seized fake ID cards to the bank for testing. This has further enhanced the app's authentication capabilities and expedited its roll-out to the market. In some other cases, when handling tech firms' enquiries about the regulatory requirements for soft tokens, BSD colleagues also shared their concerns on the relevant security issues with a view to enhancing the safety of their products. These cases clearly demonstrate that supervision and technological innovation can go hand in hand.



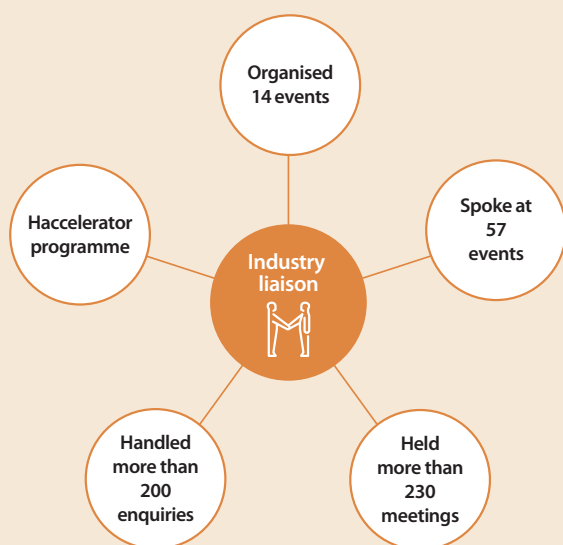
Mr Howard Lee, HKMA Deputy Chief Executive (middle), Mr Raymond Chan, HKMA Executive Director (Banking Supervision) (left) and Mr Nelson Chow, HKMA Chief Fintech Officer brief the media on the latest progress of the seven initiatives on the New Era of Smart Banking which involve inter-departmental cooperation within the HKMA.

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### Industry liaison and outreach

Since its establishment in March 2016, the FFO has been playing a crucial role in reaching out to and liaising with fintech market players to facilitate exchange of ideas among stakeholders. During the year, the FFO organised 14 seminars and workshops, attracting nearly 3,000 participants. In particular, the HKMA Fintech Day held on 25 October attracted more than 1,100 local and overseas participants. It also spoke at 57 fintech-related events and held more than 230 meetings with other regulators, technology firms and industry organisations, and handled more than 200 enquiries.

The HKMA launched the Haccelerator programme in collaboration with Cyberport in March, offering a platform to run fintech-related competitions, explore innovative solutions and identify talents. In 2017, two banks organised hackathon and accelerator competitions using the platform.



HKMA Deputy Chief Executive, Mr Howard Lee, gives opening remarks at the Open API Workshop organised by the HKMA.



A hackathon competition under the Haccelerator programme of the HKMA.



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### HKMA Fintech Facilitation Office (FFO)

#### Fintech Facilitator

The FFO, frequently in contact with entrepreneurial start-ups, is itself a “start-up” within the HKMA. When the FFO was set up in March 2016, due to a tight schedule, it only had a few colleagues redeployed from other departments of the HKMA. At the initial stage, it had no website of its own and only relied on an email address to communicate with external parties.

Since its inception, the FFO has been actively reaching out to stakeholders in the fintech industry. It staged a number of successful events in its first year, including the inaugural HKMA Fintech Day. It also rolled out the Cybersecurity Fortification Initiative for the banking industry, issued the first whitepaper on DLT, and launched the Fintech Career Accelerator Scheme, to name a few. All these enabled the FFO to gain recognition quickly from stakeholders in different sectors.

Looking back at the hectic schedule when the FFO was first set up, Mr Li Shu-pui, Executive Director (Financial Infrastructure) of the HKMA, indicated, “I still find it hard to believe that so much progress has been made within such a short period of time — thanks to the clear vision and strategy, and the dedication and concerted effort of the FFO team.” What’s more, the valuable feedback obtained through interaction with the industry has enabled the FFO to understand the needs of the industry and launch various initiatives which are well received by the fintech community, the banking industry as well as the academia.

One of the FFO’s roles is to promote the industry’s research and application of innovative fintech solutions. One representative project is the HKTFP, which is currently being developed. In 2017, the HKMA, in collaboration with several local banks, successfully completed the Proof-of-Concept work on trade finance using DLT, a big step forward in achieving paperless trade finance. The HKMA’s involvement could have ended there. However, upon subsequent request by banks, the HKMA has

taken a more active role in facilitating the building of the local trade finance platform, which is open for participation by all banks.

Mr Nelson Chow, Chief Fintech Officer of the HKMA, explained, “Should the platform be run by individual banks, other banks may be less willing to join and this will in turn limit the scale of its application. In order to address banks’ concerns on potential commercial conflicts of interests, the HKMA has taken the facilitator’s role in encouraging more banks to get involved in the platform.” Moreover, to maximise the effectiveness of the HKTFP, cross-border use is the key. When the HKMA and MAS learned that both sides were planning to build similar platforms, the two parties immediately embarked on discussions about cooperation to jointly build a cross-border infrastructure that links up the platforms of the two places. This cross-border infrastructure will be open for participation by other jurisdictions to achieve greater economies of scale.

Looking ahead to 2018, the HKMA will implement more fintech initiatives, including launching the FPS, introducing the Open API framework and broadening the scope of talent development programmes.



Mr Li Shu-pui, HKMA Executive Director (Financial Infrastructure) (right), and Mr Bernard Wee, Executive Director, Financial Markets Development Department of MAS, exchange a Memorandum of Understanding on the cross-border trade finance infrastructure.

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## Hong Kong as a financing hub for infrastructure investments

## Network building



## IFFO Partners

Since its launch in July 2016, IFFO has built an extensive network with key stakeholders from Mainland China, Hong Kong and overseas. The number of IFFO partners grew to **87** as at 31 January 2018 from around 40 at inception (Table 1). IFFO is uniquely positioned to offer “East and West” and public and private sector perspectives in facilitating infrastructure financing.

**Table 1 List of IFFO Partners** (in alphabetical order) (as at 31 January 2018)

Actis	China Export & Credit Insurance Corporation	Jardine Lloyd Thompson Limited
Agricultural Bank of China Limited Hong Kong Branch	China Hua Neng Group Hong Kong Limited	King & Wood Mallesons
AIA Group Limited	China Huadian Hongkong Company Limited	KPMG
AIIG Insurance Hong Kong Limited	China Investment Corporation	Legg Mason Global Asset Management
Airport Authority Hong Kong	China National Petroleum Corporation	Macquarie Group
Allen & Overy	China Three Gorges Corporation	Malayan Banking Berhad
Aon Hong Kong Limited	China-Africa Development Fund	Marsh (Hong Kong) Limited
APG Asset Management	China-Britain Business Council	Mayer Brown JSM
Asian Academy of International law	CITIC Capital	Mitsubishi Corporation (Hong Kong) Ltd.
Asian Development Bank	Citigroup	Mitsui & Co. (Hong Kong) Ltd.
Astana International Financial Centre	City of London Corporation	Mizuho Bank, Ltd.
AustralianSuper	Clifford Chance	Morgan Stanley
Bank of China (Hong Kong) Limited	CLP Group	MTR Corporation Limited
Bank of China Limited	CNIC Corporation Limited	Multilateral Investment Guarantee Agency, a member of the World Bank Group
Bank of Communications Co. Ltd.	Crédit Agricole Corporate and Investment Bank	National Pension Service
Bank of Tokyo-Mitsubishi UFJ, Ltd. (The)	Currie & Brown	Ontario Teachers' Pension Plan
Beijing Jingneng Clean Energy Corporation Limited	Deloitte China	Pinsent Masons
BlackRock	Eastspring Investments	PwC
Blackstone Group	Ernst & Young	Silk Road Fund
Brookfield Asset Management	Export-Import Bank of China (The)	Standard Chartered Bank
Canada Pension Plan Investment Board	General Electric	Standard Chartered Bank (Hong Kong) Limited
CGCOC Group (Hong Kong) Co., Limited	Global Infrastructure Hub	State Grid Corporation of China
China Communications Construction Company Limited	Hong Kong Trade Development Council	Sumitomo Mitsui Banking Corporation
China Construction Bank (Asia) Corporation Limited	Hongkong and Shanghai Banking Corporation Limited (The)	Taikang Asset Management Company Limited
China Construction Bank Corporation	HSBC Holdings plc	Teachers Insurance and Annuity Association of America
China Datang Corporation Ltd.	Industrial and Commercial Bank of China (Asia) Limited	TPG Capital
China Development Bank Corporation	Industrial and Commercial Bank of China Limited	Willis Towers Watson
China Energy Conservation and Environmental Protection Group	International Finance Corporation, a member of the World Bank Group	Xinjiang Goldwind Science & Technology Co., Ltd.
China Energy Engineering Corporation Limited	Japan Bank for International Cooperation	Zurich Insurance Company Limited

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### Capacity building



IFFO organised and participated in **14** local and international events on infrastructure financing during the year. These included the Debt Financing and Investors' Roundtables in March, the Belt and Road Forum for International Cooperation in Beijing in May, as well as the Senior Executive Training Program on Public-Private Partnerships and Project Finance in collaboration with International Finance Corporation (IFC) and Harvard Kennedy School in July. During the Debt Financing and Investors' Roundtables, IFFO steered the development of a reference term sheet for infrastructure equity investment which aimed to narrow the gap between the expectations of investors and project owners, thereby enhancing infrastructure projects' bankability and investability.



The participants of the Debt Financing Roundtable on 23 March share experience and opportunities in co-financing initiatives and programmes by the public and private sector institutions, and discuss how infrastructure projects can be made more bankable through different risk mitigation measures.



The Investors' Roundtable on 24 March brings together like-minded investors, including international sovereign wealth funds and pension investors with total assets under management exceeding US\$4 trillion. The discussion focuses on various themes ranging from global infrastructure investment outlook to parameters for investing in emerging markets and risk mitigations required to make projects more investable.



HKMA Chief Executive, Mr Norman Chan (second from left), speaks at a thematic session on Financial Connectivity at the Belt and Road Forum for International Cooperation held in Beijing on 14 May to share IFFO's experience in facilitating investment and financing for Belt and Road infrastructure projects.



The IFC-Harvard Senior Executive Training Program from 31 July to 4 August provides participants with a rich and professional learning experience on various emerging issues on Public-Private Partnerships and Project Finance.

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### Facilitating infrastructure financing and investments



IFFO played a catalytic role in pooling in investors interested in infrastructure investments with a view to promoting Hong Kong as a financing hub for infrastructure investments.

#### June

IFFO hosted an agreement signing between IFC and Eastspring Investments, both IFFO partners, to raise money for an innovative IFC program, known as Managed Co-lending Portfolio Program (MCPPI) Infrastructure, which mobilises funds from institutional investors for infrastructure projects in emerging markets.

#### September

The HKMA committed US\$1 billion to MCPPI to support IFC in financing projects, including infrastructure, telecom, manufacturing, agri-business and services, across more than 100 countries, to further create demonstration effect to the market.

#### December

China Development Bank leveraged on IFFO's platform to issue its first Belt and Road bond in Hong Kong.



HKMA Chief Executive, Mr Norman Chan (right), and IFC Vice-President, New Business, Mr Dimitris Tsitsiragos sign an agreement on 19 September on HKMA committing US\$1 billion to IFC's MCPPI for investing across sectors in emerging markets. The HKMA's new partnership with IFC provides a useful platform for the HKMA to broaden its investment opportunities in the credit market.



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### HKMA Infrastructure Financing Facilitation Office (IFFO)

#### A Rising Profile for Hong Kong as a Financing Hub for Infrastructure Investments

Since its inception in July 2016, IFFO has seen close to 90 heavyweight organisations from around the world joining as partners. These include multilateral agencies, institutional investors, banks and other financial intermediaries, infrastructure project developers and operators, as well as various professional service providers. IFFO has successfully brought together the key stakeholders in global infrastructure financing in one network. Mr Vincent Lee, Executive Director (External) of the HKMA, indicated that, with more and more partners coming on board, IFFO has gradually established its own profile in this sector and helped promote Hong Kong as a platform for infrastructure investment and financing.

One of the major challenges for infrastructure investment and financing is the considerable gap between the expectations of investors/financiers and operators. In view of this, the IFFO platform last year spearheaded the development of a reference term sheet for infrastructure equity investment which sought to devise a set of commonly accepted criteria to better manage the risks associated with infrastructure investment and financing, thereby increasing the chances of success of marrying up funds with projects. It is a pioneering move in the realm of public-private partnerships in infrastructure investment and financing.

IFFO has also made use of various opportunities to promote the role played by Hong Kong in infrastructure investment and financing. For example, IFFO, alongside international multilateral agencies, attended the Belt and Road Forum for International Cooperation held in Beijing last May. During the Forum, IFFO promoted Hong Kong's advantages in capturing infrastructure investment and financing opportunities under the Belt and Road Initiative. "A lot of people have come to Hong Kong looking to meet with IFFO and



*Mr Vincent Lee, HKMA Executive Director (External) (front row, middle) says that, through the various workshops conducted, IFFO seeks to promote and enhance the industry's capacity building in infrastructure investment and financing, thereby facilitating matching between funds and projects.*

listen to our latest developments," said Mr Lee. Over the past year, among those visitors were diplomatic envoys, consuls, government officials, etc. Roughly speaking, the IFFO team has promoted Hong Kong's strengths to the outside world on at least 100 different occasions. These unrelenting efforts serve to sow the seeds for fruition in the future.

Action speaks louder than words. Mr Lee indicated that last year IFFO facilitated the Exchange Fund's participation in the IFC's MCPP, with a commitment of US\$1 billion for infrastructure financing. IFFO also played a facilitation role in the China Development Bank's first-ever Belt and Road bond issuance in Hong Kong, underscoring the city's pivotal role in facilitating infrastructure financing.

Looking ahead, challenges still abound. Despite the huge capital demand for infrastructure investment and financing, the funding gap cannot be filled overnight. One of the work priorities of IFFO in the future is to increase the commercial elements of infrastructure projects and create opportunities for long-term and stable returns for them, thereby encouraging more investors — from the public and private sectors alike — to participate in this area more actively and with greater ease. Mr Lee is very pleased with the high level of dedication and enthusiasm of the IFFO team. The team will continue to use its best endeavours to promote and pursue IFFO's missions.

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### Hong Kong as the global hub for offshore renminbi business

The HKMA and the People's Bank of China (PBoC) jointly launched Bond Connect in July. Northbound Trading came into operation in the first phase, enabling overseas institutional investors to invest in the interbank bond market in Mainland China through cross-border financial infrastructure linkages between the CMU of the HKMA and other institutions of Mainland China and Hong Kong. Operation of Northbound Trading has been smooth, with daily turnover averaging RMB2 billion and more than 240 investors participating in Bond Connect up to the end of 2017.



**“Bond Connect provides an additional and more convenient channel for overseas investors to access the Mainland bond markets, using common practices in the international financial markets.”**

#### Bond Connect

Over **240** investors, with average **RMB2 billion** daily turnover.

In July, Hong Kong's RQFII quota was increased to **RMB500 billion**, further augmenting its portfolio investment channels with Mainland China.

Offshore renminbi activities showed signs of stabilisation in 2017 on the back of improved economic fundamentals in Mainland China and outlook for renminbi's exchange rate. Hong Kong's offshore renminbi liquidity pool remained the largest in the world. Renminbi customer deposits and outstanding certificates of deposit stabilised at RMB618.4 billion at the end of 2017. Hong Kong's dim sum bond market remained the largest in the world, although the amount of outstanding renminbi bonds eased to RMB212.4 billion at the end of 2017. Turnover of the renminbi RTGS system stayed at a high level, averaging at RMB903.6 billion daily. Hong Kong's share in global renminbi payments stood firm at more than 70% during the year, according to SWIFT statistics. All these demonstrated Hong Kong's leading position in offshore renminbi business, with its financial infrastructure providing pivotal support to global offshore renminbi financial activities.

- **RMB618.4 billion** RMB customer deposits and outstanding certificates of deposit
- **RMB212.4 billion** dim sum bonds outstanding
- **RMB903.6 billion** daily turnover in RMB RTGS system
- **More than 70%** of global RMB payments processed by Hong Kong

During the year, the HKMA continued to expand and deepen its collaboration with other economies in offshore renminbi business development. In September, HKMA established a new financial dialogue with Switzerland to promote co-operation on renminbi business development and other financial market issues of common interests. In April, it facilitated the fourth Hong Kong-Australian RMB Trade and Investment Dialogue in Sydney, Australia, together with the Reserve Bank of Australia. It also hosted a financial collaboration forum with Hesse, Germany, in November, and the seventh private sector-led Hong Kong-London Financial Services Forum in December.

The Economic and Technical Cooperation Agreement and the Investment Agreement were signed in 2017 under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement. The agreements reaffirm existing opening measures for Hong Kong banks in Mainland China and enable the two sides to enhance co-operation in cross-border renminbi business and mutual access of financial markets. The agreements also contain provisions to ensure appropriate treatment for investment from either side and measures to facilitate bilateral investment activities.

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### Hong Kong as a hub for corporate treasury centres

Following the introduction of the tax regime for CTCs in 2016, the HKMA stepped up its outreach efforts to promote Hong Kong's strengths as a hub for CTCs. Partnering with local and Mainland government bodies and agencies, industry organisations and media, accounting firms and financial institutions, the HKMA reached out to more than 100 corporations through industry events, seminars, as well as one-on-one and group meetings in 2017. Corporate interest in setting up CTCs in Hong Kong is growing.

By the end of 2017, more than **40** corporates reflected to the HKMA that they were actively planning to set up, or had set up, their CTC operations in Hong Kong.

To further attract corporates to set up their CTCs in Hong Kong, the Government will further amend the Inland Revenue Ordinance to extend the coverage of profits tax concession to specified treasury activities provided by qualifying CTCs to all their onshore associated corporations. The HKMA assisted the Government in explaining the proposed amendments and gathering feedback from the industry through a consultation exercise.

### Hong Kong as an asset management centre

According to the SFC's statistics, the number of licensed corporations in asset management increased by nearly 14% year-on-year to 1,477 as at the end of 2017. 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 5.5% to 459 in 2017. There is also a growing community of prominent international asset owners setting up footprints in Hong Kong to explore Asian investment opportunities, in both traditional and alternative asset classes, through Hong Kong's premier financial platform.

To date, about **70** out of the **top 100** global asset managers and **most** of Mainland's **top 20** mutual fund companies have a presence or associated companies in Hong Kong.

The HKMA worked closely with the Government and industry to provide a more favourable tax and regulatory environment for fund domiciliation. In particular, an inter-departmental taskforce was formed to review the onshore platform for private equity (PE) funds, including legal and taxation issues, with a view to making it commercially viable for PE fund domiciliation and attracting more of such business to Hong Kong.

### Hong Kong's bond market development

#### *Green finance*

Following the announcement by the Chief Executive of the Hong Kong Special Administrative Region in her 2017 Policy Address that the Government will take the lead in arranging the issuance of a green bond in the 2018–19 financial year, the HKMA has been working with the Government to study the issuance of a benchmark government green bond.

#### *Government Bond Programme*

During the year, the HKMA arranged eight tenders of institutional government bonds amounting to HK\$16.6 billion. By the end of 2017, the total amount of outstanding institutional bonds was HK\$78.9 billion.

Following the announcement of the Government's 2017–18 Budget, the HKMA arranged in June the second issuance of a HK\$3 billion three-year Silver Bond to Hong Kong senior residents aged 65 or above. It attracted more than 44,000 applications with investment monies close to HK\$4.2 billion. The amount of retail bonds outstanding at the end of the year was HK\$25.9 billion.

#### *Islamic finance*

The HKMA assisted the Government in launching the third sukuk in February, with an issuance size of US\$1 billion and a tenor of 10 years. The third sukuk extended the yield curve, setting an important benchmark for potential issuers in Hong Kong and globally. Despite the uncertain global environment and the longer tenor, the sukuk attracted strong demand, with a US\$1.7 billion order book. The 10-year sukuk also attracted new investors. More than half of the investors had not participated in the previous two sukuk issuances.

## International Financial Centre

### *Ministry of Finance's offshore renminbi sovereign bonds*

The Ministry of Finance issued two batches of offshore renminbi sovereign bonds to institutional investors on 22 June and 30 November, worth RMB7 billion and RMB6.5 billion respectively, through the HKMA CMU's bond tendering platform. The Ministry of Finance also used the CMU central bank placement co-ordinating window to offer its offshore renminbi sovereign bonds to overseas central banks and monetary authorities.

### International and regional co-operation

#### *IMF's Article IV Consultation*

The HKMA continued to provide full support to the International Monetary Fund (IMF) Mission's work in the annual Article IV Consultation exercise, which was concluded in November. The IMF commended that Hong Kong is well placed to navigate through challenges given its strong buffers and robust policy frameworks, including ample fiscal reserves, strong financial regulatory and supervisory frameworks, and the Linked Exchange Rate System, which serves as an anchor of stability. In particular, it supported Hong Kong's continued efforts to tap new opportunities as a global financial centre, noting that Hong Kong is well positioned to contribute to, and benefit from, the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development. The Mission also welcomed the establishment of IFFO and FFO, which will help enhance Hong Kong's role as a key global financial centre.

#### *Participation in international financial community*

As a reflection of our contribution to global financial stability, the Chief Executive of the HKMA was appointed as the Chair of the FSB SRC for a two-year term from 1 April 2017. The SRC is charged with developing supervisory and regulatory policies to address financial stability issues; facilitating co-ordination among supervisors and regulators on issues that have cross-sector implications; and promoting consistent adherence of international regulatory standards. The HKMA hosted the SRC meeting on 26 September in Hong Kong. Key issues discussed included fintech, cybersecurity, liquidity risk in asset management activities, global systemically important financial institutions and governance framework of financial institutions.

The HKMA is highly committed to implementing international standards. During the year, a peer review of Hong Kong was conducted by the FSB focusing on the implementation of over-the-counter (OTC) derivatives market reforms and resolution framework. The review team complimented Hong Kong on a well-defined framework for implementing OTC derivatives market reforms and a fully cross-sectoral resolution regime that is consistent with the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions. The peer-review report on Hong Kong was published in February 2018.

#### *Regional co-operation*

The HKMA maintained its commitment to regional co-operative initiatives to promote financial stability in Asia and to harness the region's collective voice in international financial affairs. For instance, the HKMA co-chaired the 12th meeting of the FSB Regional Consultative Group for Asia (RCG(A)) in June in Bangkok. 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, cybersecurity regulatory approaches and information sharing, the use of governance framework in addressing misconduct risks, as well as resolution regimes.

The HKMA worked closely with the ASEAN+3<sup>2</sup> authorities to strengthen the operations of the ASEAN+3 Macroeconomic Research Office, to monitor and analyse regional economies and support decision-making of the Chiang Mai Initiative Multilateralisation (CMIM)<sup>3</sup>.

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

<sup>3</sup> 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.



## International Financial Centre

Co-ordinating the macro-surveillance work of the Monetary and Financial Stability Committee established under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)<sup>4</sup>, the HKMA continued to prepare the committee's half-yearly Macro-Monitoring Report to assess the region's risks and vulnerabilities and the policy implications. Under the EMEAP Working Group on Payment and Settlement Systems, the HKMA led the sub-group on cross-border co-operation and development, and participated in the sub-groups on risk management and oversight respectively.

The HKMA worked closely with the Government to engage the Asian Infrastructure Investment Bank (AIIB) in exploring ways for AIIB to leverage on Hong Kong's well-developed financial markets and business platforms. With Hong Kong becoming an AIIB member in June, the HKMA hosted a sharing session with AIIB President Jin Lique and senior executives from Hong Kong's capital markets in July to discuss how Hong Kong could support the financing needs of AIIB.



HKMA Chief Executive, Mr Norman Chan (second from right), speaks at a sharing session with AIIB.

As a member of the Asian Development Bank (ADB), Hong Kong contributed to the 11th replenishment of the Asian Development Fund, which serves as a grant-only facility of ADB for the region's poorest economies. The HKMA worked with the Financial Services and the Treasury Bureau to obtain funding approval from the Legislative Council for Hong Kong's contribution in the context of the Appropriation Bill 2017.

### Training

The HKMA continued to provide training for staff from Mainland authorities including the PBoC, the State Administration of Foreign Exchange and the China Banking Regulatory Commission to foster knowledge and experience sharing. During the year, the HKMA also conducted training seminars for senior representatives from member banks of the China Banking Association. Topics covered in these training sessions included central banking, risks analysis and management, management of special assets and onsite examination practices, as well as emerging financial developments such as fintech ecosystem, SVFs and RPSs, and financial inclusion. The HKMA also worked with international organisations to provide training, which included a training course on Liquidity Risk Management jointly with the ADB under the Asia-Pacific Economic Cooperation Financial Regulators Training Initiative in March.

### Hong Kong's credit ratings

The HKMA continued to maintain a close dialogue with international credit rating agencies and discuss their concerns over the rating outlook to facilitate a balanced and objective assessment of Hong Kong's credit strength. During the year, Fitch affirmed Hong Kong's rating at AA+. S&P lowered the long-term credit rating of Hong Kong by one notch to AA+ from its highest AAA and Moody's also lowered Hong Kong's rating by one notch to Aa2, following similar actions in respect of Mainland's ratings.

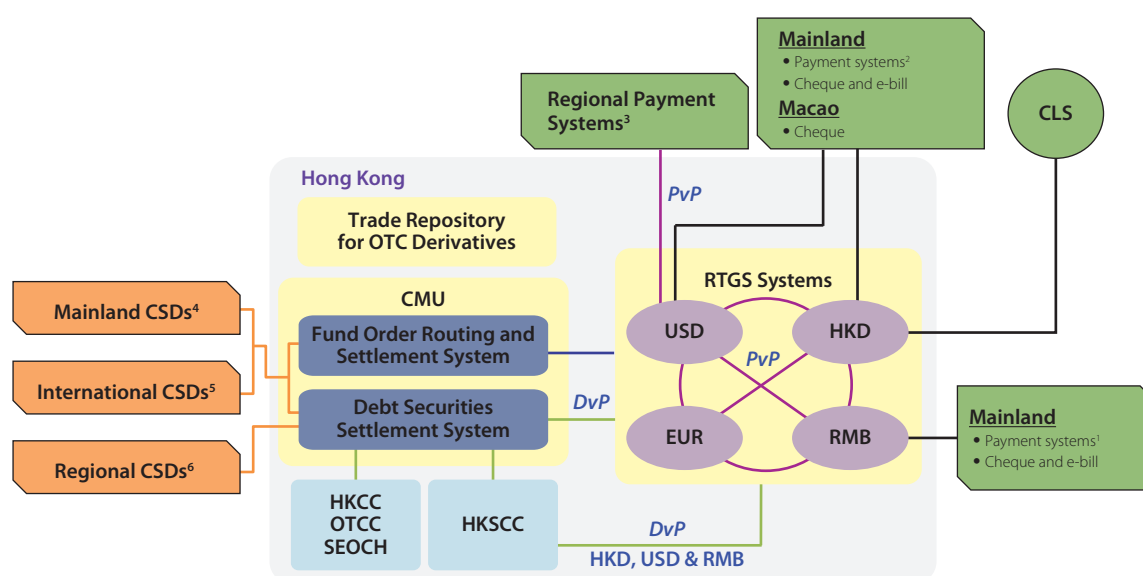
<sup>4</sup> EMEAP is a co-operative forum of 11 central banks and monetary authorities in the East Asia and Pacific region, comprising the Reserve Bank of Australia, the People's Bank of China, the Hong Kong Monetary Authority, Bank Indonesia, the Bank of Japan, the Bank of Korea, Bank Negara Malaysia, the Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, the Monetary Authority of Singapore and the Bank of Thailand. The Monetary and Financial Stability Committee reviews economic and financial developments in the Asia-Pacific region, discusses issues of common interest and reflects common views.

## International Financial Centre

### Hong Kong's financial infrastructure

The HKMA continued to enhance its multi-currency, multi-dimensional financial infrastructure, with extensive domestic and overseas system linkages, to maintain Hong Kong as a regional hub for payment and settlement of funds and securities (Chart 1).

**Chart 1 Hong Kong's multi-currency financial infrastructure**



1. CNAPS, CIPS and SZFSS

2. CDFCPS, RTGS links with Shenzhen and Guangdong

3. PvP links with Malaysia, Thailand and Indonesia

4. Cross-border links with CCDC and SHCH (Bond Connect) and CSDC (Mutual Recognition of Funds)

5. Cross-border links with Clearstream and Euroclear

6. Cross-border links with Austraclear (Australia), KSD (South Korea) and TDCC (Taiwan)

CCDC – China Central Depository & Clearing Co., Ltd. (settlement system for fixed income securities in China)

CSDC – China Securities Depository and Clearing Corporation Limited

CDFCPS – China's Domestic Foreign Currency Payment System (RTGS system for foreign currency payment in China)

CIPS – Cross-Border Inter-Bank Payments System in China

CLS – Continuous Linked Settlement (global multicurrency cash settlement system)

CMU – Central Money Markets 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 Co Ltd (operator of the clearing and settlement system for shares)

KSD – Korean Securities Depository (Korea's central securities depository)

OTCC – OTC Clearing Hong Kong Limited (central counterparty providing clearing and settlement for OTC derivatives)

SEOCH – SEHK Options Clearing House Ltd (central counterparty providing clearing and settlement for options)

SHCH – Shanghai Clearing House (settlement system for fixed income securities in China)

SZFSS – Shenzhen Financial Settlement System

TDCC – Taiwan Depository and Clearing Corporation (Taiwan's securities settlement system)

DvP – Delivery-versus-Payment

PvP – Payment-versus-Payment

### 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 Hong Kong dollar interbank payments. It continued to run smoothly and efficiently in 2017, with a daily average transaction value of HK\$731.7 billion (31,868 items), compared with HK\$598.4 billion (28,615 items) in 2016.

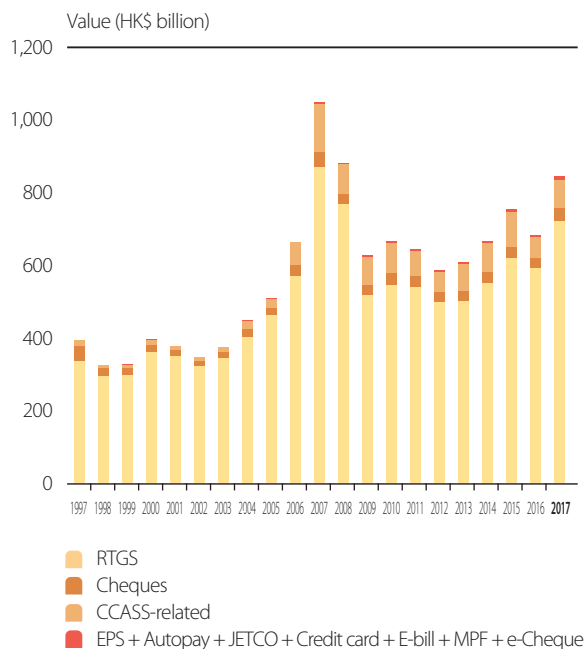
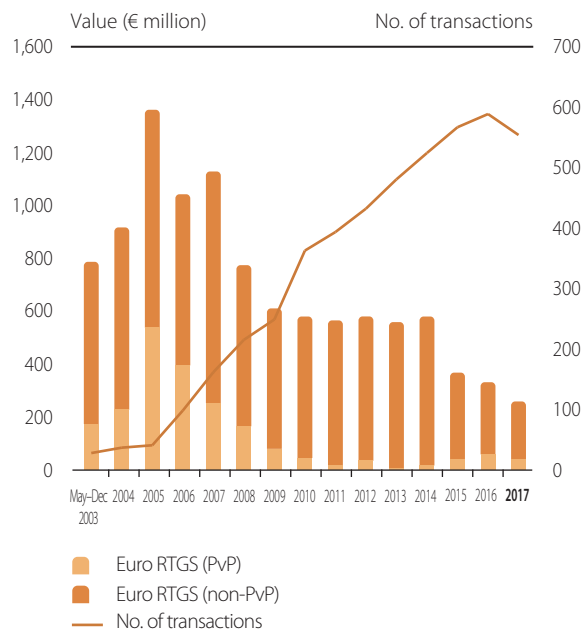
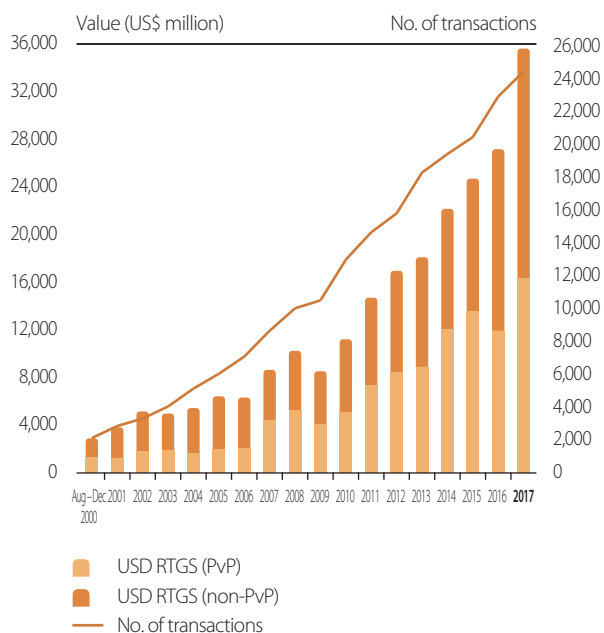
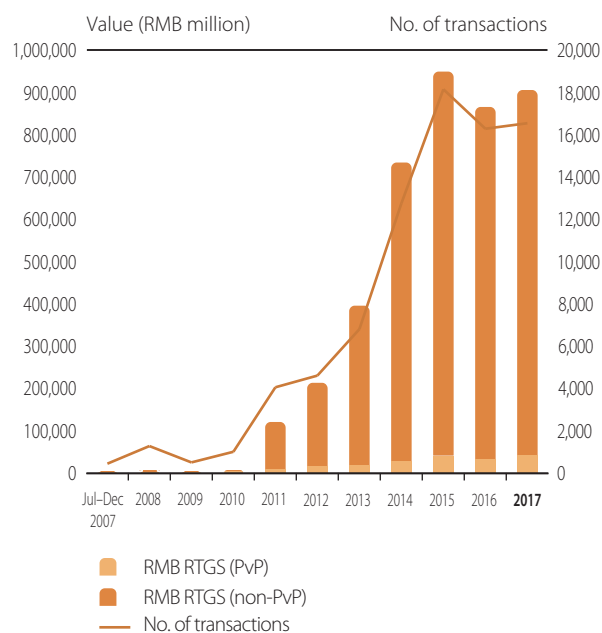
In addition to settling large-value payments, CHATS also handles daily bulk clearings of money settlement of stock market transactions, Mandatory Provident Fund schemes' switching transactions, credit card transactions, cheques, small-value bulk electronic payment items (EPS, auto-credit and auto-debit transactions) and automatic teller machine transfers (Chart 2).

### Foreign currency RTGS systems in Hong Kong

The US dollar, euro and renminbi RTGS systems all operated smoothly during the period. 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 around 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 RMB140 billion in 2017, accounting for 15% of the total turnover.

The average daily turnover and other details of the foreign currency RTGS systems are set out in Charts 3–5 and Table 2.

## International Financial Centre

**Chart 2 Hong Kong dollar RTGS system average daily turnover****Chart 4 Euro RTGS system average daily turnover****Chart 3 US dollar RTGS system average daily turnover****Chart 5 Renminbi RTGS system average daily turnover**

## International Financial Centre

**Table 2 Foreign currency RTGS systems**

RTGS systems	Launch date	Settlement institution or Clearing Bank	Number of participants at the end of 2017	Average daily turnover in 2017	Average daily transactions in 2017
US dollar RTGS system	August 2000	The Hongkong and Shanghai Banking Corporation Limited	Direct: 103 Indirect: 107	US\$35.6 billion	24,360
Euro RTGS system	April 2003	Standard Chartered Bank (Hong Kong) Limited	Direct: 36 Indirect: 17	€261 million	559
Renminbi RTGS system	June 2007	Bank of China (Hong Kong) Limited	Direct: 205	RMB903.6 billion	16,492

*Payment-versus-payment*

PvP is a mechanism for settling a foreign exchange transaction to ensure payments involving two currencies are settled simultaneously. In 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 2017, the transaction value of Hong Kong dollar, US dollar, euro and renminbi-related PvP transactions amounted to approximately HK\$9,890 billion, US\$3,874 billion, €9 billion and RMB10,034 billion respectively.

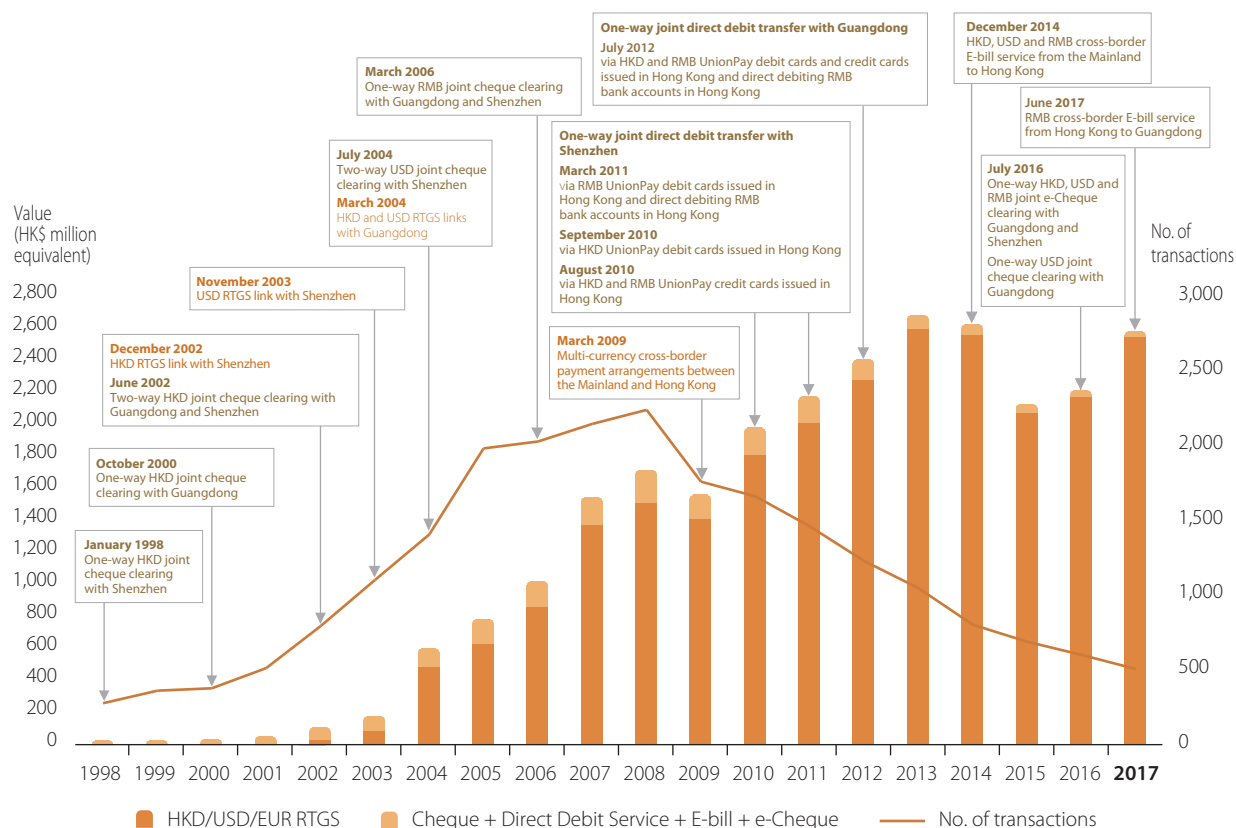
*Payment links with Mainland China*

The HKMA continued to work closely with Mainland authorities to provide efficient cross-border payment links (Chart 6) to meet growing demand. In 2017, the average daily turnover of various system links, including RTGS cross-border links with Mainland's Domestic Foreign Currency Payment Systems 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 13,000 transactions during the year, with a total value equivalent to HK\$592.1 billion.

The joint cheque-clearing facilities provided a clearing service for cheques drawn on banks in Hong Kong and presented in Shenzhen and Guangdong. In 2017, such facilities processed about 98,000 Hong Kong dollar, US dollar and renminbi cheques, with a value equivalent to around HK\$9 billion.



## International Financial Centre

**Chart 6 Average daily turnover in cross-border arrangements with Mainland China***Payment links with Macao*

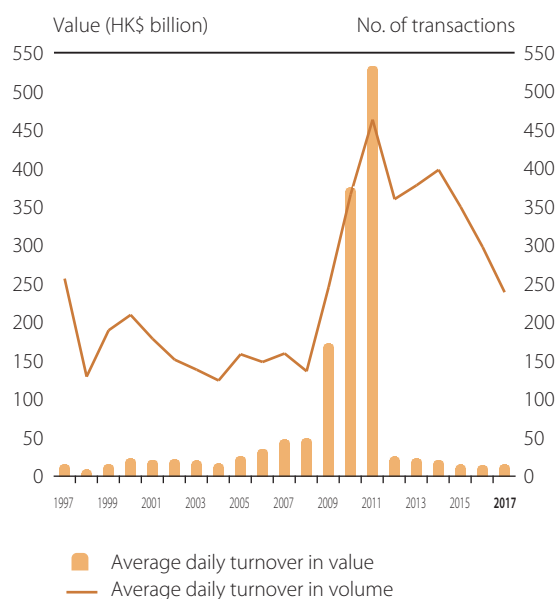
The one-way joint clearing facility for Hong Kong dollar and US dollar cheques between Hong Kong and Macao was launched in 2007 and 2008 respectively. In 2017, Hong Kong dollar cheques with a total value of about HK\$17 billion and US dollar cheques with a total value of about US\$66 million were cleared.

*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 2017, the CMU processed an average daily value of HK\$16.3 billion (238 transactions) in secondary market transactions (Chart 7). Among the debt securities lodged with the CMU at the end of the year, the outstanding amount of Exchange Fund Bills and Notes was HK\$1,048.5 billion and the total amount of other debt securities was equivalent to HK\$957.4 billion, of which renminbi debt securities amounted to RMB196.1 billion.

## International Financial Centre

**Chart 7 CMU secondary market turnover**



### Introduction of CMU Optimiser runs

In line with IMF's recommendations in the Financial Sector Assessment Programme, the CMU system was enhanced and CMU Optimiser runs were introduced in July as planned. It has raised the proportion of real-time DvP settlement for securities transactions significantly.

### Trade repository for OTC derivatives

The Hong Kong Trade Repository (HKTR) introduced new launches in the reporting system to support the second phase of mandatory reporting, which started in July covering reporting of all five asset classes of derivative transactions, and reporting of valuation information of transactions. The new phase sought to meet the requirements of local and international regulatory authorities on sharing and aggregation of trade repository data.

## Hong Kong's retail payment industry

### Stored value facilities

The HKMA continued to promote the safety and efficiency of the retail payment industry through the implementation of the regulatory regime for SVFs and RPSs in accordance with the PSSVFO.

Under the PSSVFO, the HKMA is empowered to license SVF issuers, designate important RPSs and conduct relevant supervisory and enforcement functions.

Since the commencement of the licensing regime, there was a total of 16 SVF licensees in Hong Kong by the end of 2017 (Table 3). The licensees provided services ranging from mobile and internet payments to prepaid card payments to the public. They actively rolled out new services and expanded business networks over the past year to enhance user experience. Meanwhile, the HKMA continued to consider SVF licence applications in the pipeline.



|| The use of SVF in daily life.

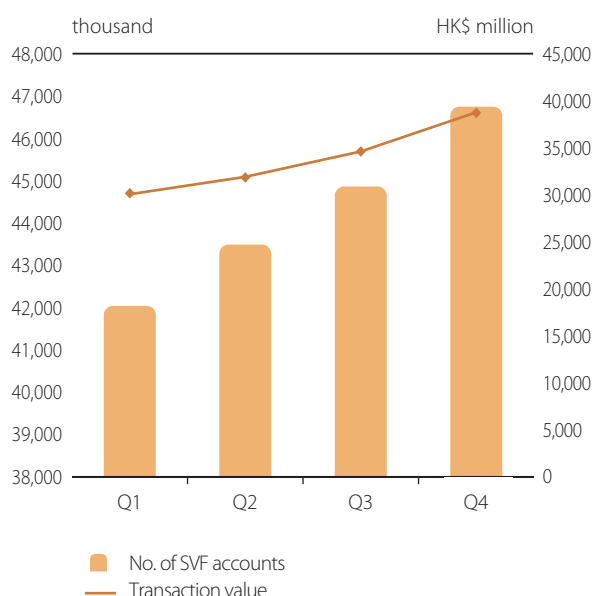
## International Financial Centre

In implementing supervision on SVF licensees, the HKMA adopted a principle-and-risk-based supervisory approach focusing on areas of significant risk to the SVF industry and individual SVF operators with a view to enabling the HKMA to pre-empt any serious threat to the safety and efficiency of the industry and licensees. The supervision has been conducted through on-going supervisory surveillance and on-site examinations.

Since March 2017, the HKMA has published statistics on the overall situation of the SVF industry in Hong Kong. During the year, the SVF industry recorded continued growth in terms of number of users, as well as transaction number and value.

As at the end of 2017, the total number of SVF accounts stood at 46.73 million, and the transaction number and value for the fourth quarter of 2017 were 1,493 million and HK\$38,655 million respectively (Chart 8).

**Chart 8 Growth trend of the SVF industry in 2017**



**Table 3 Register of SVF Licensees**  
(in alphabetical order) (as at 31 December 2017)

### SVF Licensees

33 Financial Services Limited
Alipay Financial Services (HK) Limited
Autotoll Limited
ePaylinks Technology Co., Limited
HKT Payment Limited
K & R International Limited
Octopus Cards Limited
Optal Asia Limited
PayPal Hong Kong limited
TNG (Asia) Limited
Transforex (Hong Kong) Investment Consulting Co., Limited
UniCard Solution Limited
WeChat Pay Hong Kong Limited

### Licensed Banks (currently issuing SVFs)<sup>1</sup>

Bank of Communications (Hong Kong) Limited
Dah Sing Bank, Limited
Hongkong and Shanghai Banking Corporation Limited (The)

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

During the year, the HKMA also continued to promote public awareness of the SVF regulatory regime and issues associated with the use of SVFs through a series of public education programmes.

### Retail payment systems

In August, the Monetary Authority designated the RPSs operated by Visa, Mastercard, UnionPay International and American Express for the processing of payment transactions involving participants in Hong Kong under the PSSVFO, on the grounds that proper functioning of the systems were of significant public interest. The HKMA adopted a risk-based approach in the oversight of the designated RPSs, which are required under the PSSVFO to operate in a safe and efficient manner.



## International Financial Centre

### *Implementation of e-Cheque*

The acceptance and coverage of e-Cheque has continued to increase steadily since its launch in December 2015. Following the pilot launch of joint e-Cheque clearing between Hong Kong and Guangdong Province in July 2016, the service was expanded from the Guangdong Free Trade Zone to the entire Guangdong Province in March 2017. Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau started accepting e-Cheques for tax payment from June. To help the public better understand the service, the HKMA and the Hong Kong Association of Banks organised a series of exhibitions at major shopping malls to educate the public how to use e-Cheques. Exhibition booths were also set up at trade fairs held at the Hong Kong Convention and Exhibition Centre to introduce the service to SMEs.

### *Electronic Bill Presentment and Payment*

Subsequent to the launch of EBPP service in December 2013, the HKMA, in collaboration with the Guangzhou Branch of the PBoC, jointly launched the cross-boundary EBPP between Hong Kong and Guangdong Province in June. The service aims to provide an efficient channel for customers in Hong Kong to make bill payments in renminbi to merchants in Guangdong Province through the internet or mobile banking platforms.

### **Hong Kong's treasury markets**

The HKMA organised its annual landmark event, the Treasury Markets Summit, jointly with the Treasury Markets Association in September. The discussions focused on the latest trends of global economic developments and regulatory changes, the opportunities arising from the opening-up of the Mainland financial markets, and the changes brought about by fintech to treasury operations.

To enhance the professionalism of Hong Kong treasury market participants, the HKMA contributed to the global initiative in establishing a set of principles and good practices for the wholesale foreign exchange market, i.e. the Foreign Exchange Global Code which was published in May. Efforts were also made to promote adherence to the Code among banks and other market participants.

### **Hong Kong's OTC derivatives market**

The HKMA worked closely with the SFC to develop detailed rules for implementing the regulatory regime for the OTC derivatives market in Hong Kong, which aimed to reduce systemic risk and enhance transparency in the OTC derivatives market. Following the passage of the relevant rules by the Legislative Council in February 2016, the first phase of mandatory clearing and the second phase of mandatory reporting took effect in September 2016 and July 2017 respectively.

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.



## International Financial Centre

### PLANS FOR 2018 AND BEYOND



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

#### Hong Kong as a fintech hub in Asia

The HKMA will continue to implement the Smart Banking initiatives to promote the development and use of fintech in the banking and payment industries. In particular, we will closely monitor the progress on the development of the FPS to ensure a smooth roll-out of the system in September 2018. At the same time, we will maintain close collaboration with our strategic partners and key stakeholders to explore the application of new technologies to financial services and facilitate financial innovation.

#### Hong Kong as a financing hub for infrastructure investments

Dedicated efforts will be made to promote a more conducive infrastructure financing environment in Hong Kong. In particular, IFFO will work closely with key stakeholders to facilitate the participation of private sector capital in infrastructure investment and financing to create demonstration effect.

#### Hong Kong as the global hub for offshore renminbi business

To capitalise on the growing demand for allocating renminbi assets, the HKMA will work closely with Mainland authorities to facilitate cross-border portfolio investment flows, including improving the implementation of Bond Connect and exploring suitable enhancements to it. The HKMA will also study with Mainland authorities financial measures to support the development of the Guangdong-Hong Kong-Macao Bay Area.

#### Hong Kong as a hub for corporate treasury centres, asset management and green finance

The HKMA will 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. We will also promote the development of the green finance market in Hong Kong, including issuing a benchmark Government green bond and organising events and seminars to raise market awareness of and Hong Kong's profile in green finance.

#### International and regional co-operation

Cross-border capital flows could become volatile as the US tightens its monetary policy. 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, the HKMA will continue to actively participate in international and regional forums to strengthen cross-border co-operation in market surveillance and enhance the resilience of financial systems. In particular, through the HKMA Chief Executive's FSB SRC chairmanship, the HKMA will play a central role in facilitating cross-border collaboration on fintech, cybersecurity, governance and corporate culture.

#### Hong Kong's financial infrastructure

The HKMA will continuously enhance the financial infrastructure, including the HKTR for OTC derivatives, to meet the international standards.

## International Financial Centre

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### Hong Kong's retail payment industry

While maintaining ongoing supervision of SVF licensees and designated RPSs in accordance with the PSSVFO, the HKMA will work with the industry to promote the use of e-payment in a prudent and regulated manner with a view to better addressing the day-to-day payment needs of the public.

### Hong Kong's treasury markets

Continued support will be provided to enhance the professionalism and competitiveness of the Hong Kong's treasury markets, particularly in relation to financial benchmarks and the promotion of the Foreign Exchange Global Code.

### Hong Kong's OTC derivatives market

The HKMA will work closely with the SFC to develop detailed rules for implementing other aspects of the regulatory regime for the OTC derivatives market.