

International Financial Centre

Hong Kong continues to be a globally competitive international financial centre. During the year, various initiatives were taken forward to facilitate the development and use of fintech in the banking and payment industries. The Faster Payment System has seen a surge in turnover during the year amid the COVID-19 pandemic.

Hong Kong is also a centre of action for capitalising on opportunities from the opening up of the Mainland financial markets. Thanks to world-class market infrastructure and the Connect schemes, Hong Kong is both the favoured platform of Mainland corporates raising funds and the window for international investors seeking exposure to the fast-growing Mainland markets. Headway was made during the year to promote financial collaboration in the Guangdong-Hong Kong-Macao Greater Bay Area, especially in helping Hong Kong residents access financial and banking services in the Area more easily.

At the same time, great effort went into opening up new opportunities for enhancing the competitiveness of Hong Kong's financial platform, in areas including asset and wealth management, corporate treasury centres and sustainable finance. The HKMA also stepped up market outreach to promote Hong Kong's financial services to overseas and Mainland stakeholders. At a global level, the HKMA is playing a leadership role in a number of regional and international committees, which is a clear recognition of Hong Kong's expertise and commitment to international work.



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OVERVIEW

To strengthen Hong Kong's position as a fintech hub in Asia, the HKMA continued to put great effort into implementing various initiatives to facilitate the development and use of technology in the banking and payment industries. The key progress during the year included:

- ◆ expanding the adoption of the Faster Payment System (FPS);
- ◆ facilitating the implementation of Open Application Programming Interface (Open API) in the banking sector;
- ◆ facilitating the digitalisation of trade finance by connecting eTradeConnect and the People's Bank of China (PBoC) Trade Finance Platform;
- ◆ researching the application of Central Bank Digital Currency (CBDC) to cross-border payments;
- ◆ facilitating small and medium-sized enterprise (SME) financing by studying the technical feasibility of the Commercial Data Interchange (CDI) and researching into alternative credit scoring;
- ◆ further promoting Regtech adoption by publishing a two-year roadmap to foster a larger and more diverse Regtech ecosystem;
- ◆ enhancing talent development; and
- ◆ stepping up cross-border collaboration in fintech.

The HKMA Fintech Facilitation Office (FFO), together with the banking departments of the HKMA, plays a pivotal role in driving the implementation of these initiatives.

Inflow into renminbi assets continued to gather pace as major financial market indices started to include or increase weightings in onshore securities. Hong Kong plays an indispensable role in facilitating international investors' increased allocation in renminbi assets, with its unparalleled access under the Mainland-Hong Kong Connect schemes to the onshore capital markets. In 2020, daily turnover under Bond Connect increased 82% to around RMB19.3 billion. New initiatives were launched to improve Bond Connect operations, including a new special settlement cycle service, extended trading hours, and new arrangements designed to give investors more flexibility in choosing the banks to conduct currency conversion and foreign exchange hedging. Following the success of Northbound Bond Connect, the HKMA has formed a working group with the PBoC to study the framework of Southbound Bond Connect.

Continued efforts were also devoted to enhancing financial facilitation between Hong Kong and Mainland cities in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). The Mainland authorities promulgated a series of initiatives to support financial development in the region. In June, the PBoC, the HKMA and the Monetary Authority of Macao (AMCM) jointly announced the decision to implement the cross-boundary Wealth Management Connect (WMC) scheme. The HKMA has been working closely with the Mainland and local authorities as well as the industry to formulate the implementation details. The HKMA also engaged with the Mainland authorities on other initiatives, so as to expand room for banks in Hong Kong to broaden their scope of cross-boundary businesses. During the year, Hong Kong continued to maintain its role as the global offshore renminbi business hub. Average daily turnover of Hong Kong's renminbi Real Time Gross Settlement (RTGS) system reached a record high of RMB1.2 trillion.

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Great effort went into creating new opportunities to enhance the competitiveness of Hong Kong's financial platform. To promote the development of the fund business in Hong Kong, the HKMA worked closely with the Government and industry to provide a more favourable tax and regulatory environment for fund formation. Significant effort was also made to continue elevating Hong Kong's position as a regional green and sustainable finance hub. At the same time, the HKMA stepped up market outreach to promote Hong Kong's financial services to overseas and Mainland stakeholders.

In the central banking community, the HKMA plays a leadership role in a number of regional and international committees. For example, the HKMA chairs the Policy and Standards Group (PSG) of the Basel Committee on Banking Supervision (Basel Committee)¹, and the Working Group on Financial Markets (WGFM) established under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)². The HKMA also co-chairs the Non-Bank Monitoring Experts Group (NMEG) and the Financial Innovation Network (FIN) of the Financial Stability Board (FSB)³, and leads a team that looks into supervisory issues associated with benchmark transition.

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. The four interbank RTGS systems, the Central Moneymarkets Unit (CMU) and the Hong Kong Trade Repository (HKTR) achieved 100%⁴ system availability in 2020, outperforming the target of 99.95%. Through its accounts set up with the two Mainland central securities depositories (CSDs), the CMU continued to facilitate the settlement of Bond Connect transactions conducted under Bond Connect Northbound Trading and holding of Mainland debt securities on behalf of relevant CMU members.

Adoption of the FPS continued to increase in 2020. The number of registrations reached 6.9 million at the end of 2020 and the transaction volume for the year rose by two times from 2019. The Government's acceptance of FPS payment and greater merchant adoption were the key drivers for the marked increase in transaction volume on top of the steady growth in person-to-person payments.

To ensure the general safety and efficiency of the local retail payment industry, the HKMA has designated and oversees six retail payment systems (RPSs) under the Payment Systems and Stored Value Facilities Ordinance (PSSVFO). The HKMA also continues to supervise 18 stored value facility (SVF) licensees.

¹ The Basel Committee is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions.

² The EMEAP is a cooperative forum of 11 central banks and monetary authorities in the East Asian 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.

³ The FSB was established in April 2009 as the successor to the Financial Stability Forum to address vulnerabilities in global financial systems, and to develop and promote the 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.

⁴ About 99.98% if including downtime caused by external factors.

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REVIEW OF 2020

Hong Kong as a Fintech Hub in Asia

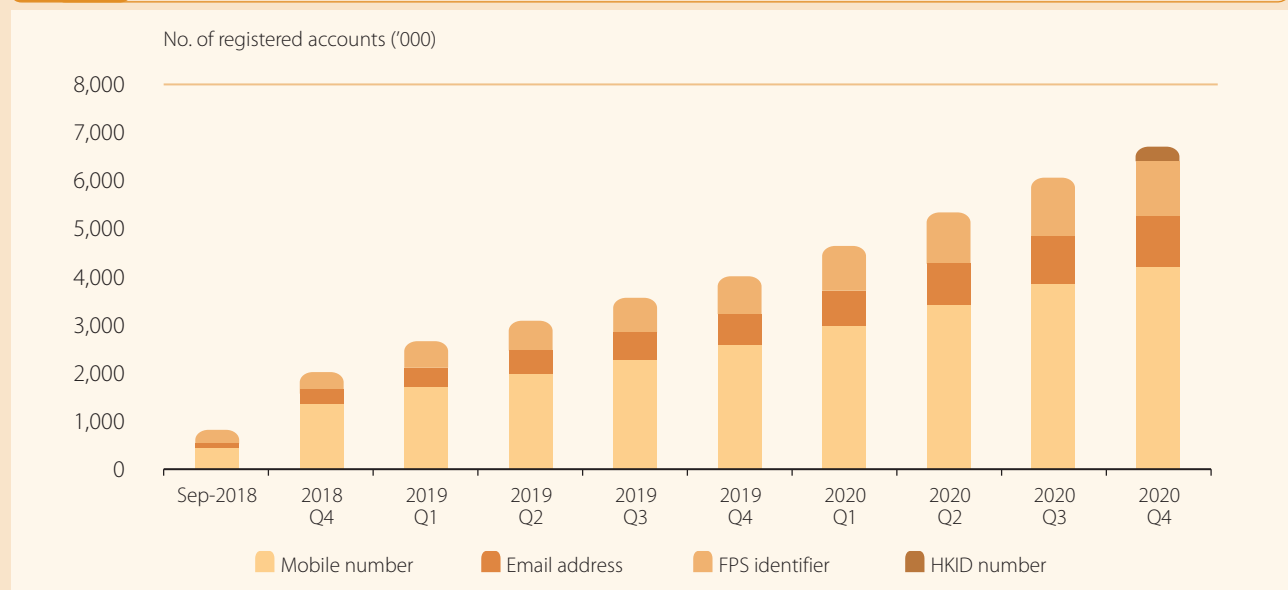
Faster Payment System



Since the launch of the FPS in September 2018, the number of participants has grown to 35 banks and 12 SVFs with the addition of five banks and one SVF in 2020. The usage of the FPS has also grown steadily. As of 31 December, the FPS had recorded 6.9 million registrations (Chart 1). To facilitate institutions' payments to the general public, the system was enhanced to introduce the Hong Kong Identity Card (HKID) number as an account proxy starting from 6 December. More than

110,000 registrations were recorded in less than a month after the introduction of this enhancement. This new function is not intended for making person-to-person payments and will only be used by institutions which already possess the HKID number of the recipients in making payments (for example, disbursing salaries). As the HKID number is a unique identifier for each Hong Kong citizen, such an account proxy can ensure correct payment is made to a recipient without requiring the recipient to disclose the bank account number.

Chart 1 Registration of FPS proxy identifiers

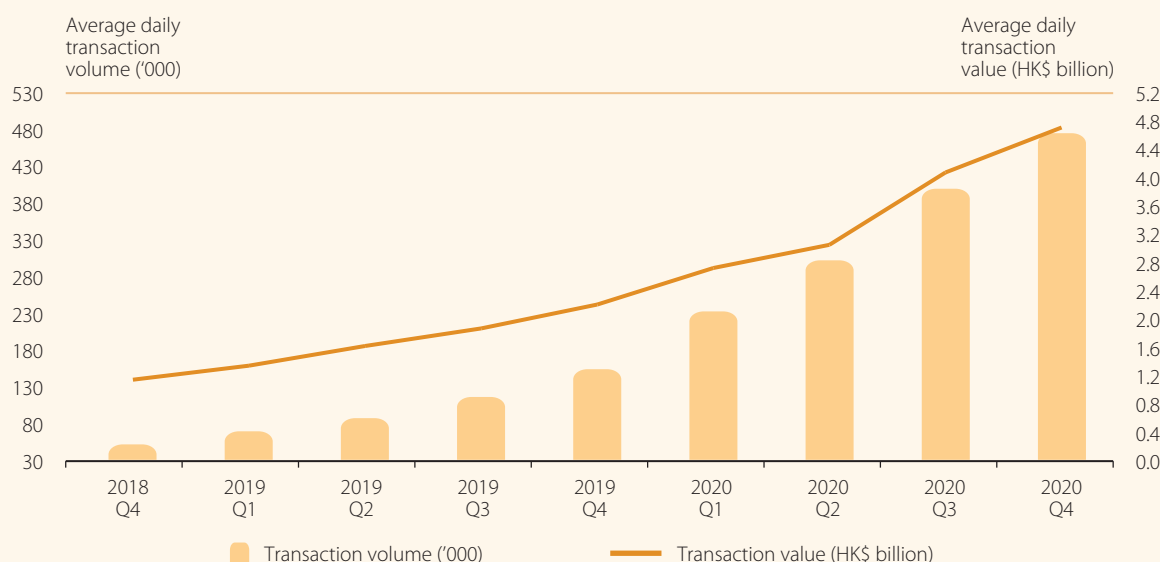


The COVID-19 pandemic and social distancing measures have given new impetus to the use of electronic payment service. The turnover of the FPS rose particularly fast during the year (Chart 2). The average daily turnover reached 505,000 real-time transactions (worth HK\$5.2 billion and RMB95 million) in December 2020, three times of the 168,000 transactions in December 2019 and

tenfold of that in October 2018, the first full month of operation after the launch of the FPS. The increased use of the FPS has also been spurred by steady growth of adoption and a gradual extension in the scope of usage, from primarily person-to-person payments at the initial stage to bill, retail and business payments, including Government bill payments.

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Chart 2 Average daily turnover of Hong Kong dollar real-time payments



The HKMA has been working with various government departments and the banking industry to extend the usage of the FPS from person-to-person payments to bill payments and other merchant payments. The Government has adopted the FPS for bill payments since November 2019, with a view to promoting the FPS and facilitating the public. The public can easily scan the QR code printed on the bills with supporting mobile banking or SVF e-wallet apps to pay taxes, rates and government rent, water charges and General Demand Notes issued by the Government. As of December 2020, 1.8 million government bill payment transactions involving HK\$2.2 billion had been made through the FPS. Riding on the successful launch of the government bill payments, four additional government departments have started accepting FPS QR code payments at designated counters and self-help kiosks starting 21 December 2020. Online payment via the FPS is also being explored.

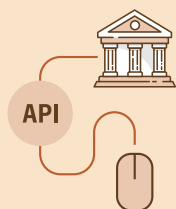
In another positive development, an increasing number of both large and small merchants have adopted FPS to support their business operations. Merchant payments surged to average 100,000 transactions a day in December 2020, 38 times more than in December 2019. The FPS is commonly used to pay bills, make in-app direct debits and

complete other online purchases. The increasing popularity of SVF e-wallets also contributed to a surge in account top-up transactions via the FPS. Average daily top-up transactions in December 2020 was sevenfold of that in December 2019.

To continue raising public awareness of the FPS, the HKMA has developed a selection of education and publicity materials, such as Announcements in the Public Interest on television and a series of smart tips on social media platforms. The HKMA also organised a Whatsapp stickers design competition for secondary school students to raise their awareness of e-payments. Outreach efforts were also made to various charity organisations and operators of wet markets to promote the adoption of FPS for making and receiving payments. Some FPS participating banks and SVFs also launched promotional campaigns, including offers of incentives, to encourage customer registration with the FPS and the use of FPS for fund transfer and bill payment. Building on the progress made in 2020, the HKMA worked with banks and SVFs to promote giving e-laisee via FPS in early 2021. The HKMA launched a publicity campaign on e-laisee while banks and SVFs offered incentives to encourage their customers to give e-laisee so as to go green and support the anti-pandemic efforts.

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Open Application Programming Interface



The HKMA continued to facilitate the development and adoption of Open API by the banking sector in line with the four-phase approach of the Open API Framework. Banks have launched Phases I and II Open APIs and are using them to collaborate with third-party service providers on various innovative services that improve customer experience. Separately, the HKMA has been conducting a study on the implementation of Phases III and IV Open APIs. A leaflet was published in November to present the findings of the survey in the study.



Leaflet published by the HKMA to highlight the key facts and figures of an industry survey on Open API Phases III and IV.

eTradeConnect



With the goal of providing importers and exporters with more convenient trade finance services, a proof-of-concept study was initiated to explore connecting eTradeConnect⁵ and the PBoC Trade Finance Platform. The first phase of the proof-of-concept study was completed in the fourth quarter of the year. A pilot run was subsequently launched. Banks in Hong Kong and Mainland China have used the connection to execute cross-border trade finance transactions.

Cross-border payments



On CBDC, the HKMA and the Bank of Thailand continued their joint research project to study the application of CBDC to cross-border payments, with a view to facilitating HKD-THB payment-versus-payment (PvP) among banks in Hong Kong and Thailand. The first phase of the project was completed, with a joint report published in January to present the key findings, and a blockchain-based cross-border corridor network prototype developed to raise the efficiency and lower the cost of cross-border payments. The second phase of the project has begun, with a focus on exploring business use cases in cross-border trade settlement and capital market transactions. The project also attracted the interest of other members of the central banking community. The Bank for International Settlements (BIS), the Central Bank of the United Arab Emirates, and the Digital Currency Institute of the PBoC announced their participation in the project in early 2021.

Furthermore, the HKMA is supporting the Digital Currency Institute of the PBoC on technical pilot testing of using e-CNY for making cross-boundary payments in Hong Kong. The e-CNY will further improve the efficiency and user experience of cross-boundary payment services, and also help promote interconnection within the GBA.

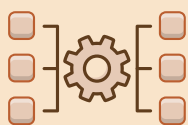


HKMA Deputy Chief Executive, Mr Edmond Lau (right), and Deputy Governor of the Bank of Thailand, Mr Mathee Supapongse, announce the publication of the joint research report on the application of CBDC to cross-border payments.

⁵ eTradeConnect is a blockchain-based trade finance platform officially launched in October 2018 under the facilitation of the HKMA. It is fully funded by a consortium of 12 major banks in Hong Kong.

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Commercial Data Interchange



To facilitate SME financing, the HKMA initiated a proof-of-concept study in collaboration with banks to examine the technical feasibility of building the CDI, a consent-based financial infrastructure

that would enable more secure and efficient data flow between banks and commercial data owners. With the CDI, SMEs can use their own data to enhance their access to financial services. To develop the related technology for alternative credit scoring, the HKMA also commissioned the Hong Kong Applied Science and Technology Research Institute to study the use of artificial intelligence (AI) in SME loan applications, and a white paper titled “Alternative Credit Scoring of Micro-, Small and Medium-sized Enterprises” was published in November to report on the findings.



White paper titled “Alternative Credit Scoring of Micro-, Small and Medium-sized Enterprises”.

Talent development

To expand the fintech talent pool, the HKMA continued to run the Fintech Career Accelerator Scheme 2.0 in collaboration with its strategic partners to nurture young talent at various stages of their career development. A total of 250 students benefitted from the programme in 2020.

Cross-border collaboration

Considerable efforts were made to further strengthen cross-border fintech collaboration. For example, the HKMA regularly attended summits and conferences held by other jurisdictions.



HKMA Deputy Chief Executive, Mr Edmond Lau, delivers opening remarks at the 2020 China (Shenzhen) Fintech Global Summit.

Together with other members of the Global Financial Innovation Network⁶, the HKMA opened applications for the Cross-Border Testing (CBT) in October, providing an environment for firms to trial and scale new technologies, products or business models in multiple jurisdictions. The CBT allowed participating firms to gain insight into how a product or service might operate in the market.

⁶ By the end of December, the network consisted of over 60 organisations.

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The HKMA and the BIS Innovation Hub Centre in Hong Kong co-organised a competition called “TechChallenge — Digitising Trade Finance” in August to highlight the potential for new technologies to enhance trade finance mechanisms. A total of 103 solution proposals from 19 cities were received. The top proposals were announced and showcased during the Hong Kong FinTech Week 2020.



Example of promotional materials of TechChallenge.

Fintech Supervisory Sandbox (FSS)

Use of the FSS increased steadily during the year. As of end-2020, a total of 193 pilot trials of fintech initiatives had been allowed in the FSS since its launch in 2016, compared with 103 as of end-2019. As of end-2020, the HKMA had also received in total 533 requests to access the FSS Chatroom for supervisory feedback at the early stage of fintech projects since the introduction of Chatroom in 2017. Around 70% of the requests were made by technology firms.

Virtual banking

As at the end of 2020, all the eight virtual banks officially launched businesses to the public. A total of 420,000 accounts were opened with the virtual banks, which attracted customer deposits amounting to HK\$15 billion in aggregate.

Banking Made Easy initiative

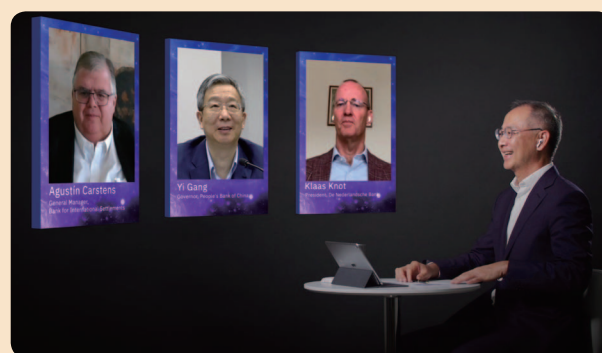
As part of the Banking Made Easy initiative, the HKMA continued its work to foster a larger and more diverse Regtech ecosystem in Hong Kong. To raise industry awareness of Regtech applications, a total of four issues of the Regtech Watch newsletter series were issued to share Regtech use cases with the industry. The HKMA also published a white paper entitled “Transforming Risk Management and Compliance: Harnessing the Power of Regtech” in November, which included a two-year roadmap to accelerate the adoption of Regtech in the banking sector.

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 the exchange of ideas among stakeholders. During the year, the FFO organised 14 events, including six panel discussions and presentations during the Hong Kong FinTech Week 2020. The events and the FinTech Week attracted over 1.2 million participants and viewers. The FFO also spoke at 47 fintech-related events and held 911 meetings with other regulatory authorities, industry organisations, financial institutions, technology firms and startups, and handled 150 enquiries from market participants.



HKMA Chief Executive, Mr Eddie Yue, gives a keynote speech at the Hong Kong FinTech Week 2020.



HKMA Chief Executive, Mr Eddie Yue, moderates a panel discussion at the Hong Kong FinTech Week 2020.

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Hong Kong as the dominant gateway to Mainland China and the global offshore renminbi business hub



Hong Kong is the global offshore renminbi hub, underpinned by its deep pool of offshore renminbi liquidity, efficient financial infrastructure and multitude of cross-border portfolio flow

channels. During the year, offshore renminbi businesses recorded steady growth, including bank deposits, trade settlement and RTGS payments. Hong Kong also maintained its lead in processing global renminbi payments. The HKMA designated nine authorized institutions in October as Primary Liquidity Providers for the offshore renminbi market. In November, the PBoC and the HKMA renewed the currency swap agreement for a term of five years and expanded its size from RMB400 billion (HK\$470 billion) to RMB500 billion (HK\$590 billion), which facilitated the HKMA's provision of liquidity to the market when necessary.

- ◆ **RMB1.2 trillion** daily turnover of RMB RTGS system, reaching a historical high
- ◆ **RMB6.3 trillion** RMB trade settlement handled by banks in Hong Kong
- ◆ **RMB757.2 billion** RMB customer deposits and outstanding certificates of deposit
- ◆ **RMB58.6 billion** offshore RMB bond issuance
- ◆ **70%+** of global RMB SWIFT payment

Bond Connect serves as a major channel for international investors to trade in the Mainland bond market using market infrastructures and financial services in Hong Kong. Driven by the inclusion of renminbi bonds into multiple major fixed income indices, 2,352 investors had registered under Bond Connect by end-2020, up 47% from end-2019. Daily turnover under Bond Connect averaged RMB19.3 billion in 2020, increasing 82% from 2019 and accounting for over 52% of overall trading turnover by foreign investors.

During the year, Bond Connect was enhanced with the introduction of a special settlement cycle service to cater for different holiday schedules between the Mainland and other markets, and with the extension of trading hours. A new measure was proposed to enhance flexibility for investors to engage additional banks to conduct onshore currency conversion and foreign exchange hedging. These enhancements offered more convenience and flexibility for investors under Bond Connect, and drove further inclusion of onshore assets in major financial indices. In view of the success of Northbound Bond Connect, the HKMA began studying a framework for Southbound Bond Connect with the PBoC.

In May, the Mainland authorities promulgated a high-level policy document⁷ setting out a blueprint for financial market development in the GBA. The document contained a series of cooperation initiatives to support financial development in the region, presenting new opportunities to Hong Kong's financial sector. Building on the announced initiatives, the HKMA is working closely with the Mainland counterparts to formulate details to facilitate residents' living and working in the GBA and support corporates and financial institutions to develop their businesses across the boundary. In June, the PBoC, the HKMA and the AMCM jointly announced the decision to implement the WMC. Since then, the HKMA has been in close dialogue with regulatory counterparts in the three jurisdictions and engaging industry stakeholders to formulate detailed implementation arrangements.

⁷

The "Opinion on Providing Financial Support for the Development of the GBA" was jointly promulgated in May by the PBoC, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange.

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Hong Kong as an asset and wealth management centre

The HKMA seeks to reinforce Hong Kong's status as an asset and wealth management hub through platform building and outreach.

Hong Kong is Asia's largest private equity (PE) hub outside the Mainland, with around US\$170 billion in capital under management and around 580 PE firms as of end-2020. The HKMA works with stakeholders to enhance Hong Kong's PE platform. A legal vehicle for privately offered investment funds, the Limited Partnership Fund (LPF) regime, came into effect on 31 August. By end of March 2021, 171 LPFs had been registered. The HKMA is also working with the Government to introduce a tax concession regime for carried interest, which, coupled with the fund-level tax exemption regime rolled out last year, shall provide a competitive tax environment to facilitate the development of PE funds.

With its unique advantage as the dominant gateway to Mainland China, and unparalleled access to investment opportunities, Hong Kong is also well positioned as a family office (FO) hub. The HKMA is constantly working to meet the needs of FOs, for example, by launching WMC in the GBA, and by undertaking initiatives with various Government agencies and the industry to provide a facilitating environment for FOs to set up and operate in Hong Kong.

Hong Kong as an international bond hub

Supported by various initiatives introduced by the Government and the HKMA, Hong Kong has grown into the international bond hub in Asia. According to International Capital Market Association, in 2020, Hong Kong was the largest centre for arranging Asian international bond issuance, capturing 34% (or US\$196 billion) of the market. Hong Kong's lead was even more pronounced in terms of arranging first-time bond issuance, capturing 75% (or US\$18 billion) of the Asian market. In terms of bond listing, a common albeit less relevant metric given that bonds tend to be traded off-exchange, Hong Kong came a close second, capturing 28% of Asian international bond issuance.

Hong Kong as a green and sustainable finance hub

One of the HKMA's priorities in recent years is to continue elevating Hong Kong's position as a regional green and sustainable finance hub by facilitating and providing the necessary infrastructure and catalyst for market development, while supporting international initiatives and alignment. In May, the HKMA collaborated with the Climate Bonds Initiative to release the second edition of the Hong Kong Green Bond Market Briefing Report, which showed that green bonds arranged and issued in Hong Kong totalled US\$10 billion in 2019, resulting in a cumulative US\$26 billion by end-2019. In November 2020, the International Finance Corporation (IFC) and the HKMA launched the Alliance for Green Commercial Banks to address climate change challenges. In December, the IFC and the HKMA's Centre for Green Finance co-hosted a two-day IFC Climate Business Webinar, which showcased best practices in sustainable business and climate finance. Around 1,500 participants worldwide joined the event.

In May, the HKMA co-initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group (CASG) with the Securities and Futures Commission (SFC) to coordinate the financial sector's management of climate and environmental risks, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies. Under the HKMA-SFC co-chairmanship and following extensive industry engagement, the CASG launched a green and sustainable finance strategy for Hong Kong in December. Together with the launch of the strategy, the CASG announced five key action points to enhance transparency on the way forward for Hong Kong and address some of the most pressing issues that were hindering development of the sector, including to be the first in Asia to mandate climate-related disclosures aligned with the FSB's Task Force on Climate-related Financial Disclosures (TCFD) recommendations across relevant sectors no later than 2025.

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The HKMA has been working with like-minded peers globally to promote best practices in green and sustainable finance by supporting and participating in international bodies such as the Network of Central Banks and Supervisors for Greening the Financial System, the TCFD and the United Nations-supported Principles for Responsible Investment. The HKMA also became a member of the International Platform on Sustainable Finance in 2020.

Hong Kong as a hub for corporate treasury centres (CTCs)

Hong Kong's role as gateway to Mainland China and wide-ranging strengths as an international financial centre provide corporates with unparalleled access to talent as well as financial and professional services. Since the introduction of the CTC tax regime in June 2016, the HKMA has been actively promoting and engaging with the industry to raise the awareness of Hong Kong's value proposition as a CTC hub. The effort has resulted in a growing number of multinational and Mainland corporates setting up CTCs in Hong Kong.

Hong Kong as a financing hub for infrastructure investments

The HKMA Infrastructure Financing Facilitation Office (IFFO) serves as an important financing platform to facilitate infrastructure investments by leveraging Hong Kong's status as an international financial centre. The IFFO has around 100 international partners. They include key industry shareholders such as the multilateral financial agencies and development banks, project developers and operators, public-sector entities and professional service firms.

Full list of IFFO partners:



The IFFO hosted "The Future of Green: Sustainable Infrastructure Financing" panel in the 5th Belt and Road Summit in December. The panel discussed the importance of environmental and resilience considerations in green financing and shared best practices and experience.



The panel on "The Future of Green: Sustainable Infrastructure Financing".

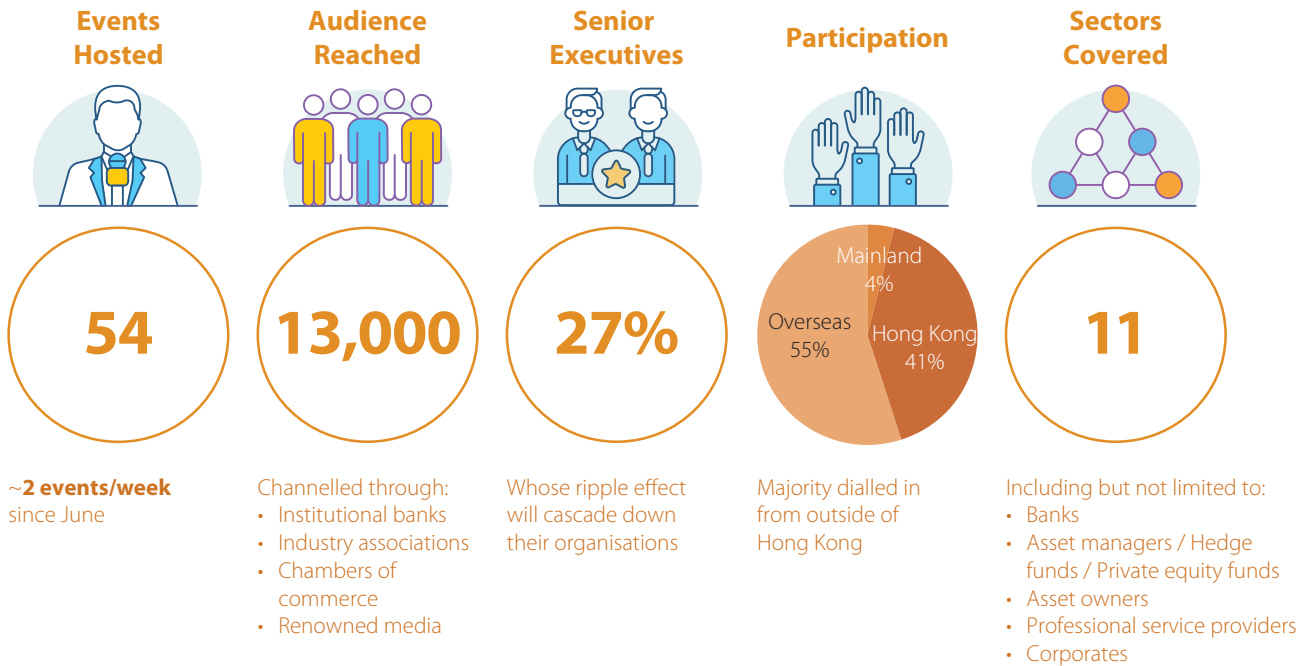
Outreach initiatives

The HKMA proactively engages with industry stakeholders to reach out to the broader financial community locally and overseas, so that decision makers can be better informed about the resilience of Hong Kong's financial system and the growth opportunities it presents.

Between June and December, the HKMA conducted some 50 webinars and speaking engagements, reaching local and international audiences that included over 13,000 senior executives and professionals from central banks, institutional investors, pension funds, insurance companies, corporates, ultra-high-net-worth individuals and FOs.

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Market Outreach Event Participant Analysis



Hong Kong's bond market development

Government Green Bond Programme

The first annual Green Bond Report was published in August following the issuance of the inaugural green bond under the Government Green Bond Programme in 2019. The report contains details on the allocation of the proceeds from the inaugural issuance and expected environmental benefits.

Riding on the success of the inaugural issuance and to consolidate and develop Hong Kong's position as a premier green finance hub, the Financial Secretary announced in the 2020–21 Budget a plan to issue green bonds totalling HK\$66 billion in the five years from 2020–21. The HKMA has been tasked to assist in the execution of the programme. Following extensive preparatory work done throughout the year, the HKMA successfully helped the Government establish

the world's first government Global Medium Term Note Programme dedicated to green bond issuances in early 2021 to facilitate and streamline the Government's regular issuance of green bonds, and issued US\$2.5 billion green bonds in February 2021. The issuance comprised three tranches of US\$1 billion 5-year, US\$1 billion 10-year and US\$500 million 30-year green bonds, and saw strong demand from global investors, with the 5-year and the 10-year tranches each attracting orders more than five times their respective issuance sizes, and the 30-year tranche attracting orders more than seven times its issuance size. The three tenors have helped to build a comprehensive benchmark curve for potential issuers in Hong Kong and the region. Apart from being the largest ever US dollar-denominated government green bond deal globally, the 30-year tranche was also the longest tenor issued by the Government and the longest-tenor US dollar-denominated green bond from an Asian government.

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Government Bond Programme

During the year, the HKMA arranged eight tenders of institutional government bonds amounting to HK\$18.2 billion. By the end of 2020, the total amount of outstanding institutional bonds was HK\$80.6 billion.

The HKMA arranged in November the issuance of HK\$15 billion three-year inflation-linked retail bonds (iBonds) to Hong Kong residents. The issuance attracted more than 456,000 applications with investment monies of over HK\$38.3 billion. In December, the HKMA arranged the fifth issuance of a HK\$15 billion three-year Silver Bond to Hong Kong senior residents aged 65 or above. It attracted more than 135,000 applications with investment monies of over HK\$43.2 billion. The amount of retail bonds outstanding at the end of the year was HK\$35.9 billion.

Hong Kong Academy of Finance (AoF)

The AoF was set up in June 2019 to serve as a centre of excellence for developing financial leadership and a repository of knowledge in monetary and financial research, including applied research. On leadership development, while some scheduled events were cancelled or postponed due to the COVID-19 pandemic, the AoF has been utilising virtual platforms to conduct the Leadership Development Programme (LDP). These included live webinars and panel discussions, as well as pre-recorded interviews with distinguished leaders from Hong Kong. Some of these events were also open to non-AoF members and available for public consumption on the AoF's website.



Dean of Medicine, The University of Hong Kong, Professor Gabriel Leung, shares his insights on leadership in the "Navigating through Uncertainties and Chaos" interview series.



Ralph and Claire Landau Professor of Economics, The Chinese University of Hong Kong, Professor Lawrence Lau, delivers a lecture on China-US economic relations.



Group Chief Executive, HSBC Holdings PLC, Mr Noel Quinn, shares his insights on global financial issues in a conversation session with the AoF.

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On the research front, the Hong Kong Institute for Monetary and Financial Research (HKIMR), the research arm of the AoF, expanded its scope of work to applied research. The new series of applied research reports aims to provide in-depth studies related to the long-term development strategy of Hong Kong's financial services industry, with useful insights for market participants and policymakers. During the year, the HKIMR published three applied research reports that took a deeper look into fintech adoption by banks in Hong Kong, the use of AI in banking and its implications for banking compliance and supervision, and the development of green bond market in Hong Kong. The research findings were disseminated to market participants, regulators and academics, through channels including press briefings and releases, webinars and social media networks. The response from the financial community has been positive and encouraging.



Press briefing on the release of the first Applied Research report titled "Fintech Adoption and Innovation in the Hong Kong Banking Industry" in May.

International and regional cooperation

Participation in international financial community

The HKMA participates actively in central banking and regulatory forums to contribute to global financial stability.

The HKMA is a member of the FSB Plenary Meeting, the FSB Standing Committee on Assessment of Vulnerabilities and the FSB Standing Committee on Supervisory and Regulatory Cooperation (SRC). Under the FSB, the HKMA actively contributes to the work on non-bank financial intermediation (NBFI), financial technology and benchmark transition among other topics. It is a member of the FSB Steering Committee group on NBFI, which is charged with organising and providing strategic direction on NBFI-related initiatives within the FSB, as well as ensuring effective coordination with the standard-setting bodies in this area. The HKMA also co-chairs the NMEG, which publishes the annual Global Monitoring Report on NBFI. The annual report assesses global trends and risks from NBFI and is part of the FSB's policy work to enhance resilience of the NBFI sector. In other areas, the HKMA co-chairs the FIN, which monitors and assesses financial innovations from a financial stability perspective; and leads a drafting team under the FSB SRC to study supervisory issues associated with benchmark transition.

Under the advocacy of the G20, the FSB coordinated with the relevant stakeholders, including the Committee on Payments and Market Infrastructures (CPMI) under the BIS, to begin a comprehensive study on enhancing cross-border payments. The HKMA, as a member of the Task Force on Cross-border Payments set up by the CPMI, contributed to the development of building blocks and roadmap to address the challenges of the existing arrangement of cross-border payments.

Separately, the HKMA assumed the chairmanship of the PSG of the Basel Committee in January 2021. The PSG will lead the work on developing and implementing prudential standards. For details about the HKMA's participation in the Basel Committee, see the *Banking Stability* chapter.

International Financial Centre

Regional cooperation

The HKMA is committed to regional cooperative initiatives to promote financial stability in Asia and harness the region's collective voice in international financial affairs.

The HKMA hosted the 25th EMEAP Governors' Meeting via video conference in August and November, which provided an important forum for regional central bank governors to discuss the coordination of policy responses to the pandemic, longer-term issues arising from the pandemic, and thematic issues such as central banks' digitalisation journey. The HKMA also convened ad hoc conference calls among EMEAP Governors to exchange views on pressing issues and policy challenges facing the region. In August, the HKMA was reappointed chair of the EMEAP WGFM for a two-year term from 2020 to 2022. The WGFM makes policy recommendations on central bank services as well as developments in the foreign exchange, money and bond markets, and has been promoting regional bond market development through the Asian Bond Fund initiative. As part of the WGFM chairmanship, the HKMA steered studies on implications of financial benchmark reforms, and US dollar liquidity and funding dynamics in the EMEAP region, incorporating pertinent market observations after the COVID-19 outbreak. The HKMA was also appointed chair of the Study Group on Resolution, which supports knowledge sharing among regional authorities in relation to resolution in a cross-border context. In addition, the HKMA continued to prepare the Monetary and Financial Stability Committee's half-yearly Macro-Monitoring Report to assess the region's risks and vulnerabilities and the policy implications.

Supporting the Global Financial Safety Net (GFSN)

The pandemic has highlighted the importance of the GFSN in safeguarding financial stability. As a member of the global financial community, Hong Kong maintains its commitment to strengthening the GFSN through participation in the International Monetary Fund (IMF) New Arrangements to Borrow (NAB)⁸ and ASEAN+3⁹ Chiang Mai Initiative Multilateralisation (CMIM)¹⁰. During the year, the IMF Executive Board approved doubling the NAB credit arrangement, effective 1 January 2021. Meanwhile, further enhancements were made to optimise the operation of the CMIM.

Hong Kong's credit ratings

The HKMA maintains close dialogue with international credit rating agencies to facilitate a balanced and objective assessment of Hong Kong's credit strength and discuss their concerns about the rating outlook. Hong Kong's rating assigned by S&P was maintained at AA+ during the year. The ratings given by Moody's and Fitch were Aa3 and AA- respectively.

⁸ The NAB is a stand-by loan facility set up in 1998 to provide supplementary resources to the IMF for lending purposes. Under the NAB, Hong Kong is prepared to extend loans to the IMF when additional resources are needed to deal with exceptional situations that pose a threat to the stability of international financial systems.

⁹ ASEAN+3 comprises the 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.

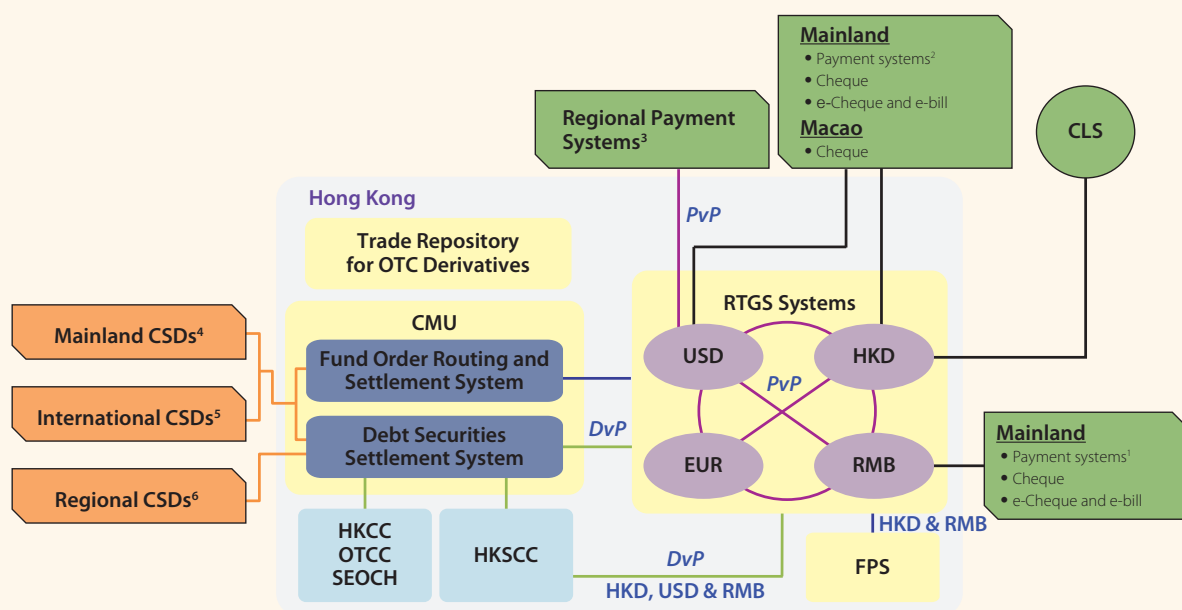
¹⁰ Effective March 2010, the CMIM became a regional financing mechanism that provides short-term US dollar support to member economies facing liquidity shortages. It has 27 participating parties, including the ministries of finance and central banks of the 13 ASEAN+3 countries plus the HKMA. The total access fund now stands at US\$240 billion.

International Financial Centre

Hong Kong's financial infrastructure

The multi-currency, multi-dimensional payment and settlement platform of the HKMA, with extensive domestic and overseas system linkages, continued to operate smoothly and efficiently, and has helped maintain Hong Kong as a regional hub for payment and settlement of funds and securities (Chart 3).

Chart 3 Hong Kong's multi-currency financial infrastructure



1: CNAPS, CIPS and SZFSS

2: CDFPCS, RTGS links with Shenzhen and Guangdong

3: PvP links with Malaysia, Thailand and Indonesia

4: Cross-boundary 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

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

CIPS – Cross-Border Interbank Payment 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)

FPS – Faster Payment System

HKCC – HKFE Clearing Corp Ltd (central counterparty providing clearing and settlement for futures)

HKSCC – HK Securities Clearing Co Ltd (central counterparty providing clearing and settlement for securities)

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

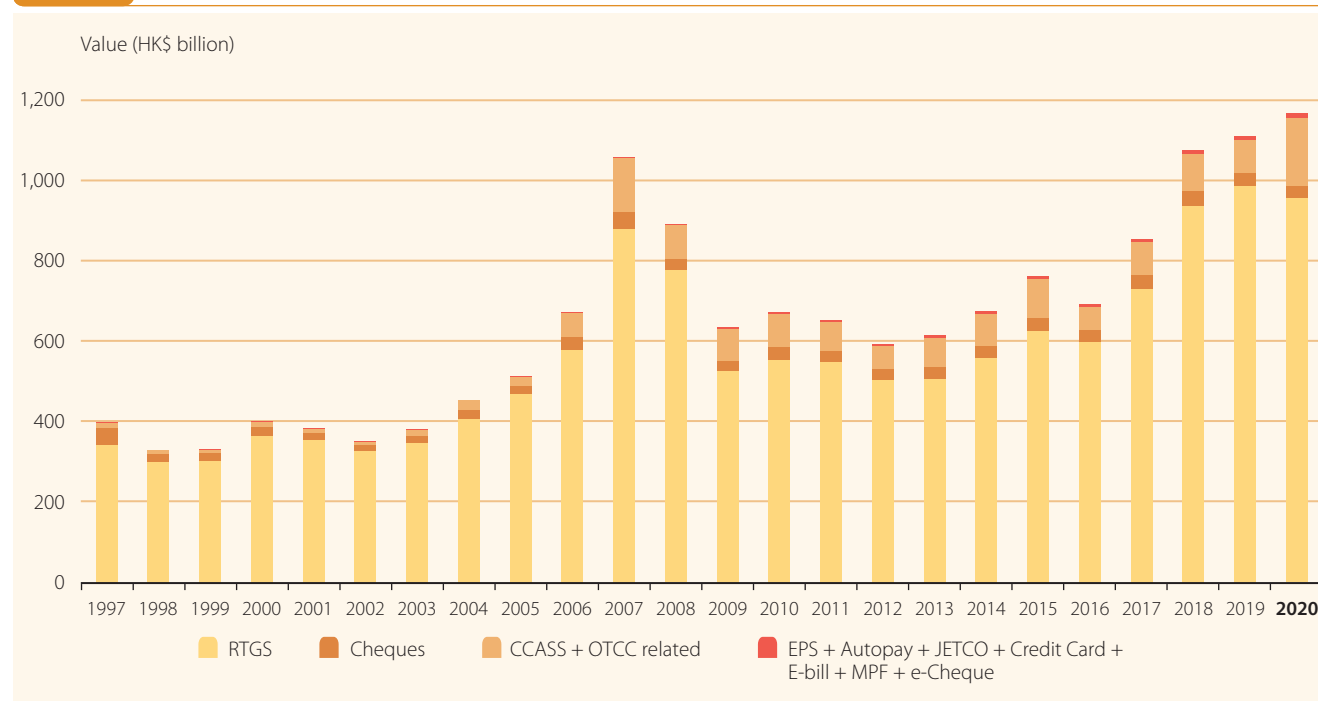
International Financial Centre

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 2020, with a daily average transaction value of HK\$956.1 billion (29,491 items), compared with HK\$987.0 billion (30,643 items) in 2019.

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

Chart 4 Hong Kong dollar RTGS system average daily turnover



International Financial Centre

Hong Kong Securities Clearing Company Limited (HKSCC), a central counterparty (CCP) established by Hong Kong Exchanges and Clearing Limited (HKEX) for the purpose of providing clearing services to securities transactions via the Central Clearing and Settlement System (CCASS), has opened a Hong Kong dollar CHATS account with the HKMA from late November, which enables it to settle CCP-related securities transactions through central bank money, thus strengthening its credit risk management as recommended by the IMF Financial Sector Assessment Program for this key CCP infrastructure in Hong Kong.

Furthermore, in collaboration with the HKMA, OTC Clearing Hong Kong Limited (OTCC), another CCP established by HKEX for the purpose of providing clearing and settlement services for OTC derivatives transactions, launched an enhancement on Hong Kong dollar CHATS as well as foreign currency CHATS in late November to help streamline the settlement process of OTCC's Clearing Members and their settlement banks for time-sensitive payment obligations to OTCC, mainly margin-related payments.

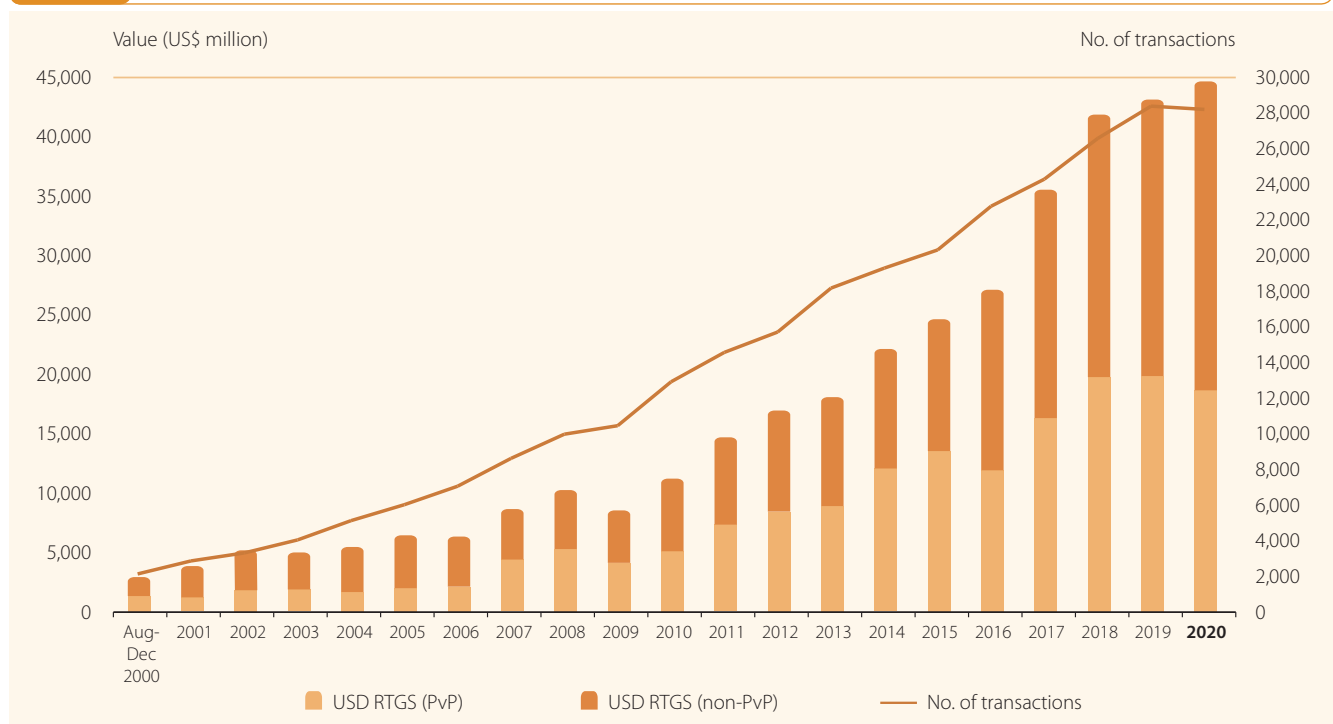
The FPS serves as an extension of Hong Kong dollar CHATS to enable the public to make instant retail fund transfers and payments across different banks and SVFs on a round-the-clock basis. It has been operating smoothly since its inception in September 2018, with a daily average real-time payment transaction value of HK\$3.7 billion (354,230 items) in 2020.

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-boundary renminbi payments through Hong Kong's infrastructure. The average daily value of Mainland-Hong Kong cross-boundary renminbi payments amounted to around RMB211 billion in 2020, accounting for 18% 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 1.

Chart 5 US dollar RTGS system average daily turnover



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Chart 6 Euro RTGS system average daily turnover

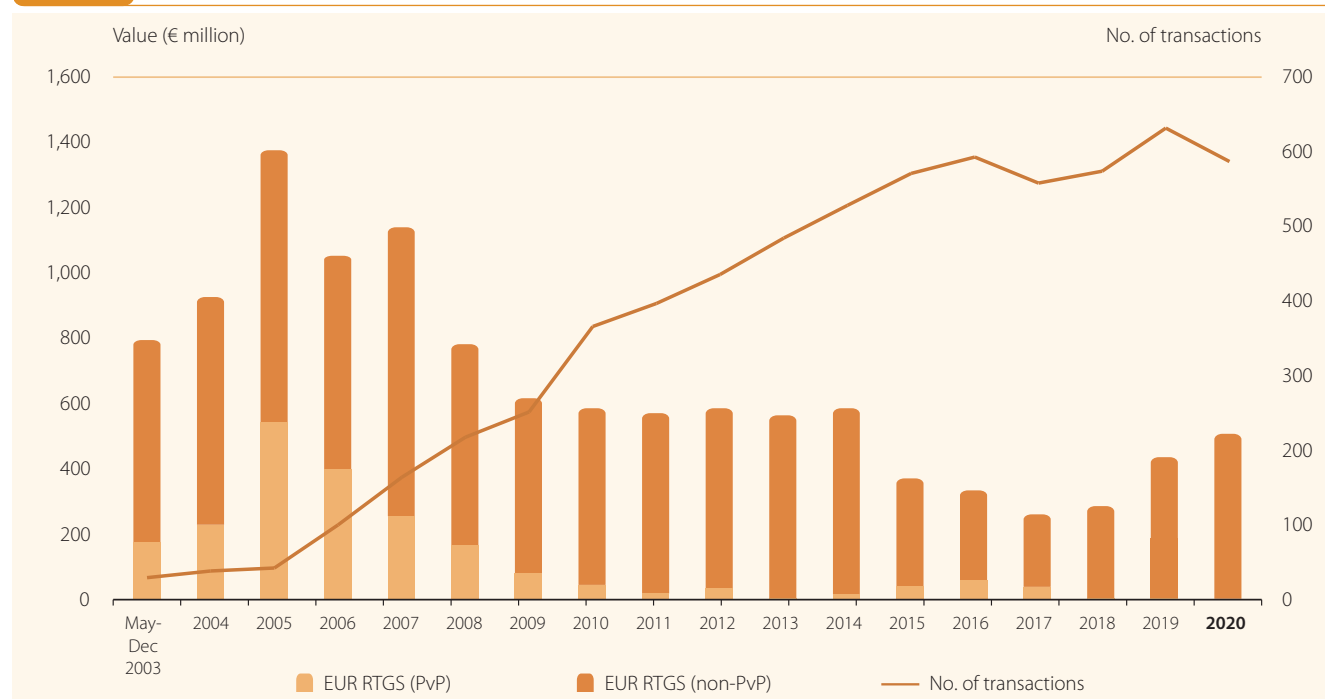
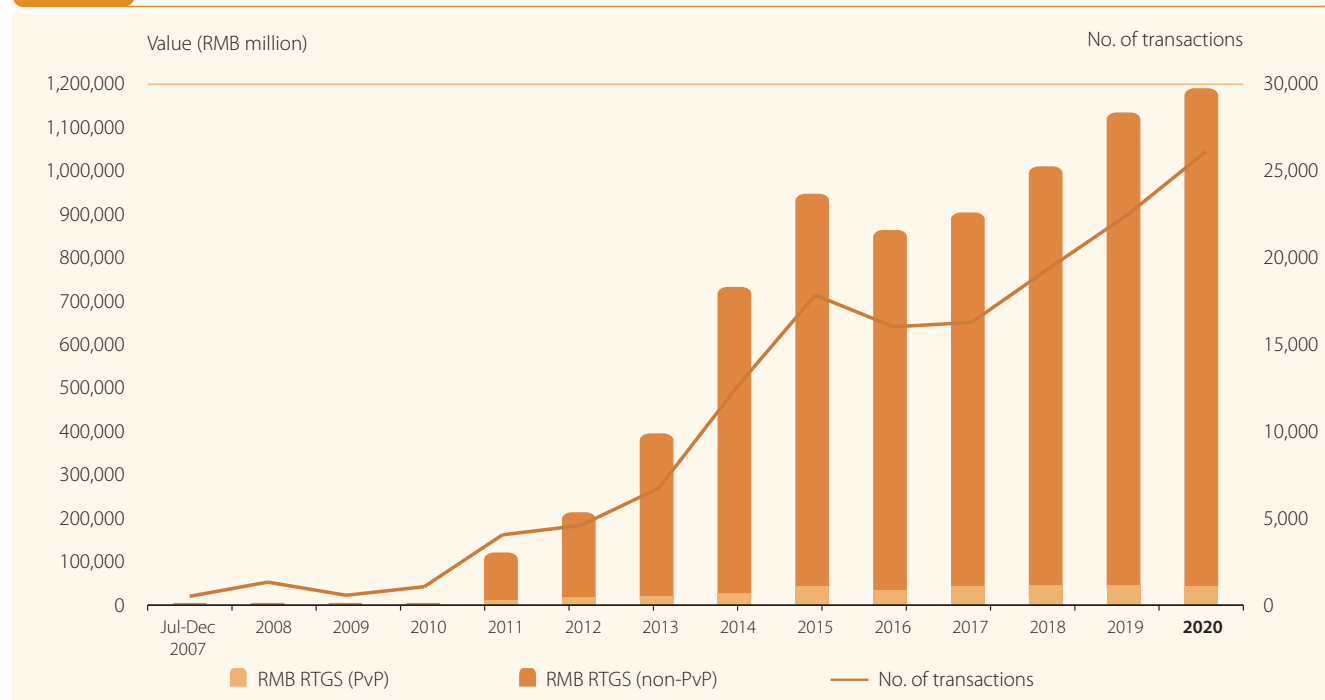


Chart 7 Renminbi RTGS system average daily turnover



International Financial Centre

Table 1 Foreign currency RTGS systems

RTGS systems	Launch date	Settlement institution or Clearing Bank	Number of participants at the end of 2020	Average daily turnover in 2020	Average daily transactions in 2020
US dollar RTGS system	August 2000	The Hongkong and Shanghai Banking Corporation Limited	Direct: 112 Indirect: 105	US\$44.8 billion	28,290
Euro RTGS system	April 2003	Standard Chartered Bank (Hong Kong) Limited	Direct: 38 Indirect: 18	€500 million	588
Renminbi RTGS system	June 2007	Bank of China (Hong Kong) Limited	Direct: 207	RMB1,191.5 billion	26,516

Like the Hong Kong dollar FPS, renminbi FPS as an extension of renminbi CHATS has been operating smoothly since inception in September 2018, with a daily average real-time payment transaction value of RMB52.5 million (564 items) in 2020.

Payment-versus-payment

PvP is a settlement mechanism for foreign exchange transactions, ensuring 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 in 2006, Indonesia's rupiah RTGS system in 2010 and Thailand's baht RTGS system in 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 2020, the transaction values of Hong Kong dollar, US dollar and renminbi-related PvP transactions amounted to approximately HK\$13,262 billion, US\$4,468 billion and RMB9,719 billion respectively while nil for euro-related one.

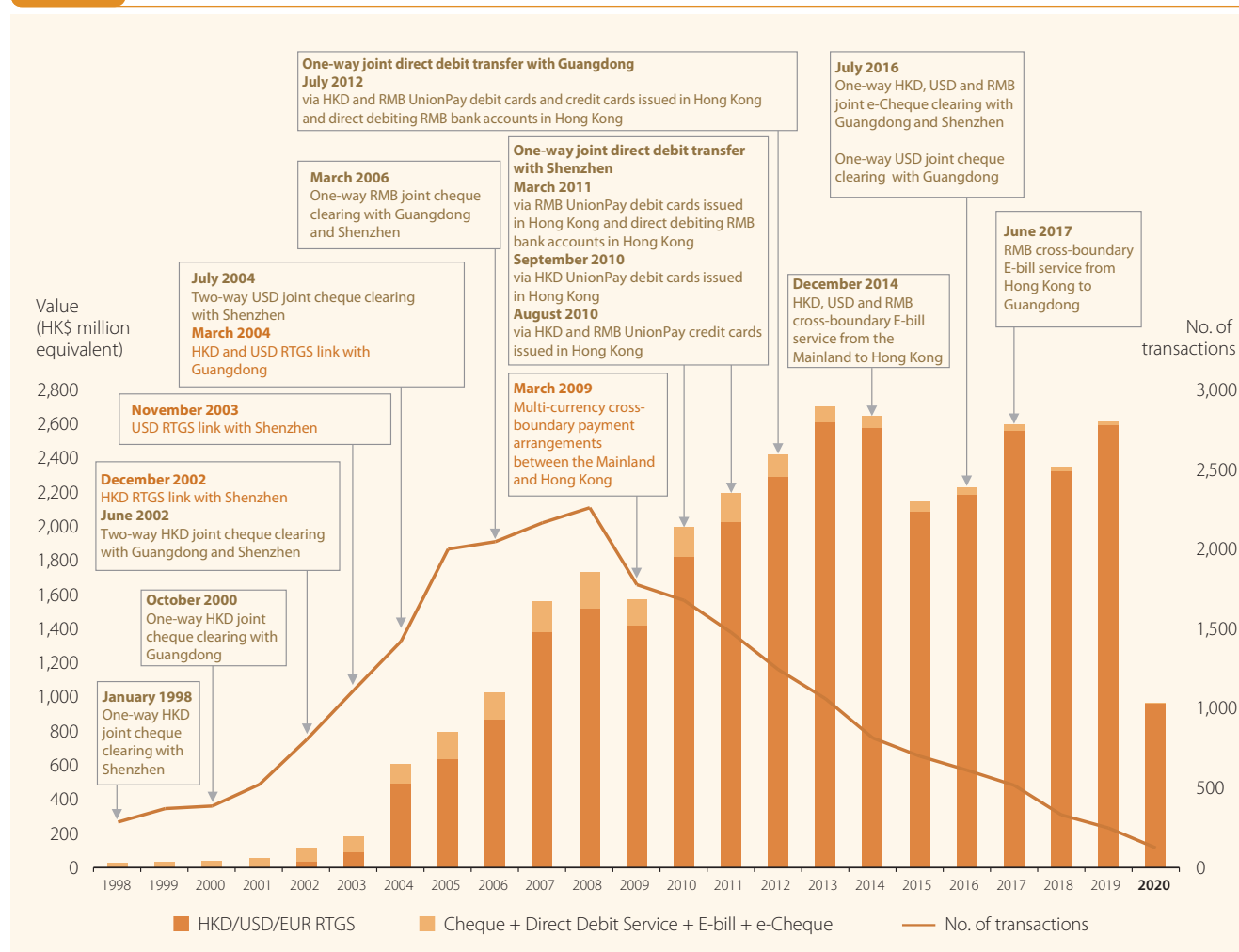
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Payment links with Mainland China

The HKMA works closely with Mainland authorities to provide efficient cross-boundary payment links (Chart 8) to meet growing demand. In 2020, the average daily turnover of various system links, including RTGS cross-boundary links with Mainland's Domestic Foreign Currency Payment Systems, recorded a total value equivalent to around HK\$1 billion. The Hong Kong dollar and US dollar RTGS system links with Shenzhen and Guangdong handled more than 10,000 transactions, with a total value equivalent to HK\$116.4 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 2020, such facilities processed about 8,000 Hong Kong dollar, US dollar and renminbi cheques, with a total value equivalent to around HK\$0.8 billion.

Chart 8 Average daily turnover in cross-boundary arrangements with the Mainland



International Financial Centre

Payment links with Macao

The one-way joint clearing facility between Hong Kong and Macao was launched in 2007 for Hong Kong dollar cheques, and in 2008 for US dollar cheques. In 2020, Hong Kong dollar cheques and US dollar cheques amounting to about HK\$16 billion and about US\$16 million respectively were cleared.

Debt securities settlement system

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 CMU's linkages with international and 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 2020, the CMU processed an average daily value of HK\$16.0 billion in 126 secondary market transactions (Chart 9). 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\$1,068.1 billion, the outstanding

amount of debt securities issued by public and private sectors was equivalent to HK\$891.7 billion and the outstanding amount of Government Bonds was HK\$116.5 billion (Chart 10). To capitalise on the further opening up of the Mainland financial market, the HKMA reviewed the strategic position of the CMU and prepared to upgrade the CMU system by phases to support the business growth.

Trade repository for over-the-counter derivatives

The HKTR completed the enhancement of the reporting system to continuously support the second phase of mandatory reporting, covering reporting of all five asset classes of OTC derivative transactions, and reporting of valuation information of transactions. By the end of 2020, the HKTR system recorded 2,821,191 outstanding transactions, compared with 2,463,724 in 2019. 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.

Chart 9 CMU average daily turnover

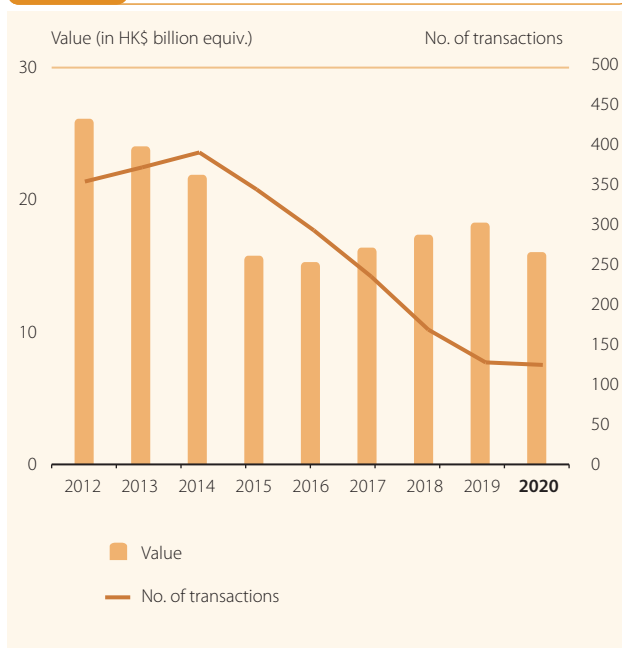
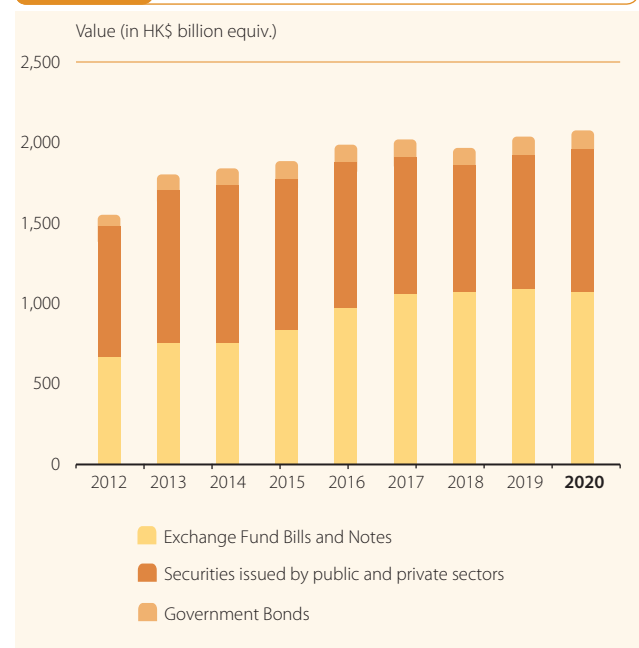


Chart 10 Outstanding amount of CMU issues



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Hong Kong's retail payment industry

Stored value facilities (including e-wallets, prepaid cards)

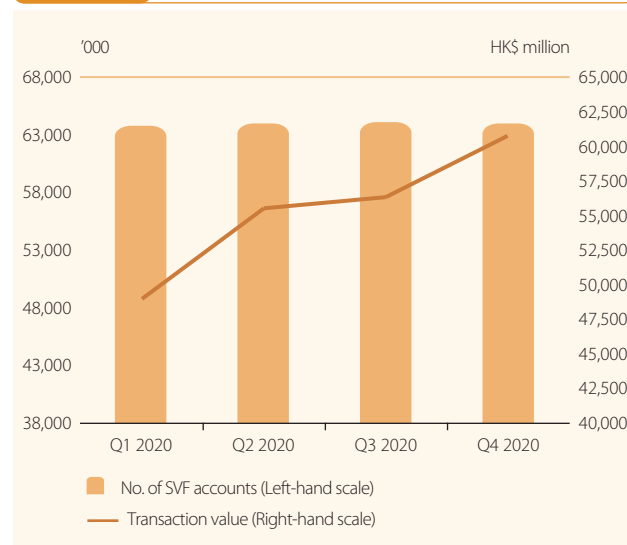


The HKMA promotes the safety and efficiency of the retail payment industry by implementing the regulatory regime for SVFs and RPSs in accordance with the PSSVFO. Under the PSSVFO, the HKMA is empowered to license SVF issuers, designate important RPSs and conduct relevant supervisory and enforcement functions.

Based on the supervisory experience accumulated since the implementation of the SVF licensing regime and the ongoing supervision of the 18 SVF licensees (Table 2), and having regard to relevant international and local developments, the HKMA continues to refine the risk-based supervisory approach. For instance, the HKMA has announced further enhancement to the account structure and opening requirements as appropriate, commensurate with the risk profile of different types and services offered under the SVF accounts. This includes amending the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Stored Value Facility Licensees) in September, which comprises, among other things, a tiered approach to customer due diligence featuring account limits and different functions for SVF products, subject to customer's choice. The amendment has taken into account the assessment made by the Financial Action Task Force in its mutual evaluation of Hong Kong in 2019, international developments in the regulatory regime for SVF, our risk assessment for the SVF sector, as well as industry feedback. To allow sufficient transitional period, these revisions will take effect on 2 July 2021. The HKMA also continues to provide the SVF industry with necessary supervisory guidance to, among other things, facilitate licensees in rolling out new functions to enhance user experience.

The number of SVF accounts stood at 63.9 million as at the end of 2020. In the fourth quarter, 1.5 billion transactions totalling HK\$60.7 billion were recorded (Chart 11). During the year, the HKMA continued to promote public awareness of the SVF regulatory regime and issues associated with the use of SVFs through public education efforts.

Chart 11 Growth trend of the SVF industry in 2020



International Financial Centre

Table 2 **Register of SVF licensees**
(in alphabetical order) (as at 31 December 2020)

SVF Licensees

33 Financial Services Limited
 Alipay Financial Services (HK) Limited
 Autotoll Limited
 ePaylinks Technology Co., Limited
 Geoswift Cards Services 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
 Yintran Group Holdings Limited

Licensed Banks (currently issuing SVFs)¹

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.

Retail payment systems



The Monetary Authority has designated six RPSs which process payment transactions involving participants in Hong Kong under the PSSVFO, on the grounds that proper functioning of these systems is of significant public

interest (Table 3). The HKMA adopts 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.

Table 3 **System operators of designated RPSs**
(in alphabetical order) (as at 31 December 2020)

American Express
 EPS Company (Hong Kong) Limited
 Joint Electronic Teller Services Limited
 Mastercard
 UnionPay International
 Visa

Hong Kong's treasury markets

The HKMA participates actively in international discussions and works closely with the Treasury Markets Association (TMA) to enhance the professionalism of Hong Kong's treasury market participants and prepare industry stakeholders for relevant international developments including the reforms of interest rate benchmarks. In particular, ongoing efforts were made during the year to engage with local market participants, including banks and corporates, to raise awareness and prepare for the possible discontinuation of the London Interbank Offered Rate (LIBOR) beyond 2021. The HKMA has also continued to work closely with the TMA in further enhancing the local interest rate benchmarks.

Over-the-counter derivatives market

The HKMA works closely with the SFC to develop detailed rules for implementing the regulatory regime for the OTC derivatives market in Hong Kong, which aims to reduce systemic risk and enhance transparency in the OTC derivatives market. Different aspects of the regulatory regime are introduced in phases. The first phase of mandatory clearing and the second phase of mandatory reporting took effect in September 2016 and July 2017, respectively. Following public consultation on further enhancements to the OTC derivatives regime in June, an updated list of financial service providers under the mandatory clearing regime came into effect in January 2021.

In addition, the HKMA participated in several international forums and the OTC Derivatives working groups established under the FSB, contributing to the relevant international initiatives and monitoring international regulatory developments closely.

International Financial Centre

PLANS FOR 2021 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 position as an international financial centre.

Hong Kong as a fintech hub in Asia

To promote the development and use of technology in the banking and payment industries, the HKMA will continue to implement the Smart Banking initiatives. At the same time, the HKMA will continue to facilitate the digitalisation of trade finance, explore using data to support SME financing, and enhance the fintech talent pool. To explore the application of new technologies in financial services and facilitate financial innovation, the HKMA will continue to carry out research on new technologies such as AI and CBDC and maintain close collaboration with its strategic partners and key stakeholders both locally and abroad.

Hong Kong as the dominant gateway to Mainland China and the global offshore renminbi business hub

We expect that international investors' allocation to renminbi assets will continue to gather pace and a large part of the inflows will continue to take place through the various Mainland-Hong Kong Connect schemes. In order to capitalise on this trend, the HKMA will work closely with Mainland authorities to enhance and expand the existing channels. Top priorities include early implementation of the two-way WMC and developing a framework to enable the launch of Southbound Bond Connect. The HKMA will also continue to engage with Mainland authorities to develop detailed measures to facilitate cross-boundary access of financial and banking services in the GBA. With renminbi internationalisation expected to pick up momentum, we will seize the opportunity to explore more policy measures on a pilot basis to facilitate the cross-boundary use of renminbi, further strengthening Hong Kong's position as the global offshore renminbi business hub.

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

The HKMA will explore ways to enhance the competitiveness of Hong Kong's financial sector, particularly in developing Hong Kong as an international asset management hub and regional destination for CTCs and fund investment activities. Following the enactment of the LPF Ordinance, the HKMA will continue to reach out to the industry to promote the setting up of PE funds in Hong Kong, and refine the LPF regime to meet market requirements. To promote Hong Kong's green and sustainable finance market, the HKMA will continue to assist the Government in future green bond issuances, and actively collaborate with other agencies under the CASG to coordinate on cross-sectoral issues, as well as to take forward the five nearer-term action points and other relevant initiatives. The HKMA and IFC will jointly launch targeted initiatives in the region to undertake green finance research, provide unique market insight, tailor capacity building/training support, and provide practical guidance for banks in order to help the banks develop their own roadmap to mainstream green finance as their core business.

International and regional cooperation

Looking ahead, trade tensions are likely to persist against a backdrop of still weak global growth. While financial conditions have eased further, lending support to the global growth outlook, the low interest rate environment is likely to fuel further incentives for global search for yield, contributing to stretched valuations and a build-up of debt vulnerabilities. Reflecting these developments, underlying medium-term risks to global financial stability have not dissipated, and risks of adverse changes in external financial conditions and a re-emergence of volatile capital flows remain. Against this backdrop, there is a need to strengthen cross-border cooperation in market surveillance and enhance the resilience of financial systems. To this end, the HKMA will maintain its active participation in international and regional forums to promote financial stability.

International Financial Centre

Hong Kong Academy of Finance

In 2021, the AoF will continue to develop its LDP with a view to fostering leadership and broadening the global and inter-disciplinary perspectives of AoF Members and industry participants. In particular, top financial leaders and industry experts will be invited to speak under the Distinguished Speakers Series, the Thematic Programme and the Interview Series of the LDP. On the research front, the HKIMR plans to release a stream of new applied research reports to explore relevant topics for the Hong Kong financial industry, including an investigation of COVID-19's impact on the financial services industry in Hong Kong and the implications of demographic changes in Hong Kong for the development of long-term asset markets. The HKIMR will continue to solicit and encourage views from the financial community and major stakeholders to identify relevant topics for future applied research.

Hong Kong's financial infrastructure

The HKMA will continue to maintain smooth and reliable operation of the various financial infrastructures to strengthen overall resilience and meet international standards. Riding on the success of the FPS in the past two years, the HKMA will continue to explore more potential applications of the technology, in collaboration with the industry, with a view to further promoting e-payment in Hong Kong. In particular, further work will be done to promote the use of the FPS in merchant and business payments. The HKMA is also working with the industry to establish a consumer presented QR code standard that will enhance customer experience in making payments to merchants.

While continuing to promote the use of the FPS locally, the HKMA will consider leveraging the FPS' advantages of 24/7 operations and instantaneous payment to enhance cross-border bank remittance services so that corporate and personal account holders in Hong Kong can receive overseas remittances or remit money to destinations abroad more speedily. The HKMA will also explore and conduct feasibility study on linkages with similar faster payment systems in other jurisdictions to allow visitors from Hong Kong to make payments directly through the FPS at overseas tourist hot spots.

Subject to market needs, the HKMA will consider further enhancements of the functionalities of the FPS to facilitate its use in making payments. The HKMA will continue working with various government departments, industry organisations and public/private institutions to assist them in adopting the FPS in making and/or receiving payments.

Hong Kong's retail payment industry

The HKMA will continue to implement the supervisory regime for SVF licensees and oversight regime for designated RPSs in accordance with the PSSVFO, with a view to promoting the safety and efficiency of the retail payment industry. The HKMA will also continue to monitor international developments regarding the regulation, supervision and oversight of retail payment arrangements entailing the use of new technologies, with a view to refining the relevant local frameworks as appropriate.

Hong Kong's treasury markets

The HKMA will continue to support the enhancement of professionalism and competitiveness of Hong Kong's treasury markets, particularly in relation to financial benchmarks and the promotion of the Foreign Exchange Global Code. In addition, the HKMA will work closely with TMA and engage market participants to prepare for the possible discontinuation of LIBOR beyond 2021.

Over-the-counter derivatives market

The HKMA will continue to work closely with the SFC to further develop and refine the rules to implement the regulatory regime for the OTC derivatives market.