

Priorities for 2022 and Beyond

Global and local conditions deteriorated notably entering 2022. On the one hand, the escalation of the Ukraine situation and expectations of rate hikes by the US Federal Reserve triggered market volatility. On the other hand, the local economy took a hit from the new wave of COVID-19 pandemic. That said, Hong Kong's financial system remains well-positioned to withstand adverse shocks given its resilience and buffers built up over the years. Looking ahead, the HKMA will continue to attach high importance to safeguarding monetary and financial stability. In doing so, we will endeavour to stay ahead of the curve by identifying emerging risks and responding to them in an agile manner. At the same time, the HKMA will seek opportunities that would help bolster Hong Kong's status as a leading international financial centre. In managing the Exchange Fund in this complicated investment environment, the HKMA will continue to invest prudently, while remaining flexible, implementing defensive measures as appropriate, and maintaining a high degree of liquidity.



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STABILITY AND INTEGRITY OF THE FINANCIAL SYSTEM

The global economic outlook remains subject to significant uncertainties. The HKMA will keep abreast of latest developments and stay vigilant against potential risks, with the aim of upholding the resilience and stability of the financial system, which are essential for the ongoing provision of critical financial services that support the functioning of the Hong Kong economy.

Staying vigilant against potential risks

Looking ahead, markets may be subject to heightened volatilities amid increased uncertainties on various fronts. On the one hand, the US Federal Reserve's monetary policy normalisation, if continuing at a fast pace, may tighten global financial conditions visibly ahead and increase the global debt-servicing burden. On the other hand, following the escalation of the Ukraine situation in early 2022, geopolitical uncertainties including the China–US tension may continue to stay high and trigger bouts of financial market volatility again. Last but not least, with the evolving pandemic developments, there might be a potential downside scenario where lockdowns were to be re-imposed at a large scale, leading to persistent global supply bottlenecks and adversely affecting global growth and inflation. Having said that, Hong Kong's financial system is well-positioned to withstand adverse shocks given the resilience and buffers built up over the years. The HKMA also has the capability, resources and commitment to safeguard Hong Kong's monetary and financial stability.

The HKMA will continue to closely monitor risks and vulnerabilities in the domestic and external environments and stand ready to deploy appropriate measures where necessary to maintain Hong Kong's monetary and financial stability. Research programmes in 2022 will study issues affecting the Hong Kong economy and assess their potential risks. Meanwhile, the HKMA's ongoing Digitalisation Programme will help enhance its surveillance capabilities to support more holistic surveillance and comprehensive analysis of the financial system.

Maintaining banking stability

As developed markets tighten monetary policies and the impact of the pandemic lingers, the credit landscape facing the banking sector is expected to remain challenging. At the same time, rapid technological advancement and digitalisation present both opportunities and challenges to the banking sector. Facing an ever-changing financial landscape, the HKMA strives to ensure banks' ability to withstand shocks through its ongoing supervisory efforts. At the same time, the HKMA will also continue to enhance and refine its banking supervisory and regulatory frameworks and policies, taking into account international standards and best practices.

A risk-based supervisory focus

Credit risk

In 2022, the HKMA will step up the surveillance of banks' credit risk exposures and take proactive steps to ensure that overall risk levels remain well contained.

The HKMA will also continue to monitor the development of the pandemic and its effect on the operating conditions of corporates, as well as maintain close dialogue with the banking and commercial sectors while keeping the various relief measures under review.

Operational and technology risks

With the issuance of the new Supervisory Policy Manual (SPM) module on "*Operational Resilience*" in May 2022, the HKMA will continue to engage the industry and understand authorized institutions' (AIs) progress in developing their operational resilience frameworks. In parallel, the HKMA will seek to raise the banking sector's cyber resilience by following up with AIs on issues revealed by the assessments under the Cyber Resilience Assessment Framework 2.0 and monitoring AIs' implementation of secure tertiary data backup. Another key supervisory focus will be evaluating and addressing the risks from AIs' growing dependency on technology service providers.

With enhanced digital capabilities and extensive remote working experience accumulated during the pandemic, some AIs are planning to transition to a hybrid working model on a business-as-usual basis. The HKMA will keep track of this development and assess whether the associated risks are adequately addressed by the industry.

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Liquidity and market risks

The HKMA will focus on the supervision of Als' liquidity and market risk management in 2022. In particular, the HKMA will continue to monitor Als' progress in transitioning away from the remaining London Interbank Offered Rate (LIBOR) settings before these settings cease to be published by 30 June 2023.

Combating money laundering and terrorist financing

In 2022, the HKMA's work on anti-money laundering and counter-financing of terrorism (AML/CFT) will continue to focus on strengthening response to fraud and financial crime through collaboration and information sharing, pursuing closer co-operation with various stakeholders in the AML/CFT ecosystem. Other priorities are to implement a wider range of risk-sensitive supervisory techniques, by leveraging enhanced data and supervisory technology (Suptech) capabilities, and promote the use of Regtech by banks, including transaction monitoring systems.

The HKMA will also keep working closely with the Government, the banking and stored value facility (SVF) sectors to publish an updated Hong Kong money laundering and terrorist financing risk assessment, and assist the industry in combatting new and emerging risks. Work will also continue on understanding evolving money laundering and terrorist financing risks, implementing changes to AML law and related guidance to align with international standards, and maintaining proactive engagement with other regulators and international standard setters.

Wealth management and mandatory provident fund-related businesses

In 2022, the HKMA will carry out on-site examinations and off-site surveillance of Als' conduct in relation to wealth management and the selling of securities, mandatory provident fund (MPF) and other investment and insurance products, with a focus on the Cross-boundary Wealth Management Connect (Cross-boundary WMC) Scheme in the Guangdong–Hong Kong–Macao Greater Bay Area, digital advisory platforms, complex products, virtual assets and non-investment-linked long term insurance products.

While maintaining close communication with other regulators and the banking industry, the HKMA will provide further guidance on regulatory standards in relation to the sale of investment, insurance and MPF products. This will cover, among other things, investment services related to virtual assets and the selling of Protection Linked Plans, a new subset of investment-linked assurance scheme products with high level of insurance protection. The HKMA, the Insurance Authority and the Mandatory Provident Fund Schemes Authority will jointly launch a mystery shopping programme on the selling practices of intermediaries in respect of Qualifying Deferred Annuity Policies and Tax-deductible Voluntary Contributions.

Following the smooth launch of the Cross-boundary WMC, the HKMA will continue engaging the industry and relevant regulatory authorities to enhance the scheme.

Moreover, the HKMA will embark on preparation work for supervising Als' trust business under a new SPM module and a new Code of Practice.

Oversight of financial market infrastructures

The HKMA will continue to promote the safety and efficiency of the financial market infrastructures (FMIs) under its oversight, in accordance with the Payment Systems and Stored Value Facilities Ordinance (PSSVFO), the *Principles for Financial Market Infrastructures* (PFMI)¹, and the various guidances issued by the Committee on Payments and Market Infrastructures (CPMI). It will fine-tune the FMI oversight framework taking into account the latest technological and market developments.

The HKMA will work with the FMIs on their observance of the PFMI, conducting and updating assessments as appropriate. In addition, the HKMA will continue to participate in the CPMI-IOSCO PFMI implementation monitoring and assessment exercise. The HKMA will also participate in the work of international standard setting bodies and strengthen its oversight requirements in response to market and technology developments and in line with international practices. The HKMA will work with relevant authorities to further strengthen co-operative oversight arrangements where appropriate.

¹ The PFMI are promulgated by the Committee on Payments and Market Infrastructures (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO), and constitute the latest international standards for the oversight of FMIs, including systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.

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Policy development

The HKMA will continue to enhance and refine its banking supervisory and regulatory frameworks and policies, taking into account international standards and best practices.

Implementation of Basel standards in Hong Kong *Capital standards*

The HKMA will continue to enhance the capital framework with the implementation of the standards published by the Basel Committee on Banking Supervision (Basel Committee) in recent years, which include the following:

- ◆ The *Capital Requirements for Banks' Equity Investments in Funds* of December 2013 (EIF standard), which will come into effect on 1 July 2022 with the Banking (Capital) (Amendment) Rules 2022 commencing operation after negative vetting by the Legislative Council.
- ◆ The revised capital standards set out in the *Basel III Finalising Post-crisis Reforms* of December 2017, the *Minimum Capital Requirements for Market Risk* of January 2019 (revised in February 2019), and the *Targeted Revisions to the Credit Valuation Adjustment Risk Framework* of July 2020, which are collectively referred to as the "Basel III final reform package". These revised capital standards set out the revised capital treatment of credit risk, market risk, credit valuation adjustment (CVA) risk and operational risk, introduce an output floor requirement, and enhance the leverage ratio framework. Amendments to the Banking (Capital) Rules (BCR) are being prepared in consultation with the industry with a view to them taking effect from 1 July 2023 as minimum requirements (except for those on market risk and CVA risk²).

Given that the capital treatment for sovereign concentration risk under the BCR was designed to complement the Basel Committee's large exposure framework as implemented by the Banking (Exposure Limits) Rules, the HKMA will propose amendments to the capital rules in parallel with relevant changes to the Banking (Exposure Limits) Rules.

Exposure limits

The HKMA will continue its work on the proposed amendments to the Banking (Exposure Limits) Rules in consultation with the industry and the Department of Justice with a target implementation date aligned with the one for the Basel III final reform package, i.e. 1 July 2023.

Disclosure standards

New or revised disclosure requirements associated with the revised capital standards in the Basel III final reform package are mainly set out in the *Pillar 3³ Disclosure Requirements – Updated Framework* and the *Revisions to Market Risk Disclosure Requirements*, published by the Basel Committee in December 2018 and November 2021 respectively. The Basel Committee also published the *Revisions to Leverage Ratio Disclosure Requirements* in June 2019 amending the disclosure requirements for leverage ratio to address concerns regarding potential "window-dressing" (i.e. banks reducing the volumes of certain transactions around reporting dates to artificially inflate their leverage ratios for reporting and public disclosure). Corresponding amendments to the Banking (Disclosure) Rules to implement these new or revised disclosure requirements are also being prepared, with a view to having them take effect in Hong Kong along the same timelines as their associated revised capital standards.

² These will initially take effect as a reporting requirement on that date pending their implementation as a minimum requirement on a date no earlier than 1 January 2024, having regard also to implementation timelines adopted in other major financial centres.

³ Pillar 3 refers to a set of disclosure requirements prescribed by the Basel Committee to promote consistency and comparability of regulatory disclosures through more standardised formats among banks and across jurisdictions.

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Other supervisory policies and risk management guidelines

To reflect developments in regulatory requirements and international standards, the HKMA plans to update certain SPM modules, including those relevant to the implementation of the revised capital and disclosure standards in the Basel III final reform package, *"Countercyclical Capital Buffer – Approach to its Implementation"*, *"Interest Rate Risk in the Banking Book"*, *"New Share Subscription and Share Margin Financing"* and *"Stress Testing"*. The HKMA will also continue to work on the revised SPM modules on *"Code of Conduct"* and *"Reporting Requirements Relating to Authorized Institutions' External Auditors under the Banking Ordinance"*, with an aim to finalising the revisions within 2022. Consequential to the proposed amendments to the Banking (Exposure Limits) Rules, the related Code of Practice and SPM modules, e.g. CR-G-8 on *"Large Exposures and Risk Concentrations"* and CR-G-9 on *"Exposures to Connected Parties"*, will be updated accordingly.

Balanced and responsive supervision

The HKMA will maintain close dialogue with the banking industry to explore areas for further refinement and streamlining of supervisory policies and practices to support sustainable development of the banking sector amid an ever-changing banking environment and evolving risk landscape. In particular, in view of the growing importance of private banks, the HKMA will extend this initiative to cover private banks in 2022.

Accounting standards

The International Accounting Standards Board (IASB) is carrying out a post-implementation review of the classification and measurement requirements in International Financial Reporting Standard 9 (IFRS 9). The HKMA will keep in view the outcome of the IASB's assessment, as well as the implementation of IFRS 9 by AIs in Hong Kong amid the evolving environment. The HKMA will maintain regular dialogue with AIs' external auditors and assess the implications of other impending accounting standards for the existing prudential requirements on AIs.

Enforcement

Pursuant to the objectives of market integrity and bank customer protection, the HKMA will follow up on and investigate cases which come to its attention through complaints or intelligence on possible breaches of requirements under various statutory regimes relevant to AIs and SVF licensees. The full range of supervisory and enforcement measures will be considered and deployed as appropriate. The HKMA will collaborate closely with other local financial regulators to achieve effective and co-ordinated enforcement outcomes. It will also maintain close communication with the banking industry and share the latest complaint trends and good practices in further promoting proper standards of conduct and prudent business practices among AIs.

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Resolution

The HKMA will continue its multi-year programme to build an operational resolution regime for AIs. For 2022, the HKMA will prioritise the following topics within its three core objectives (see Table 1 for details).

Table 1 Forward priorities on resolution in 2022

 Resolution standards	 Resolution planning	 International policy, regional co-operation and execution capability
<ul style="list-style-type: none"> ◆ Consult on and finalise a Financial Institutions (Resolution) Ordinance (FIRO) Code of Practice chapter on liquidity reporting and estimation capabilities ◆ Advance development of a FIRO Code of Practice chapter on continuity of access to FMs in resolution 	<ul style="list-style-type: none"> ◆ Lead regional resolution planning and co-ordinate with relevant authorities via Crisis Management Groups (CMGs), Resolution Colleges, and bilateral or multilateral engagement on home-host efforts to enhance the resolvability of global systemically important banks and crisis preparedness of authorities ◆ Continue to advance bilateral resolution planning programmes with domestic systemically important banks (D-SIBs), assessing resolvability and working with these banks to address impediments to an orderly resolution ◆ Foster build-up of loss-absorbing capacity resources at AIs for which preferred resolution strategies have been determined and implement expectations on operational continuity in resolution ◆ Advance development of preferred resolution strategies for locally incorporated AIs other than D-SIBs with total consolidated assets above HK\$300 billion 	<ul style="list-style-type: none"> ◆ Contribute to international policy developments and implementation monitoring at the Financial Stability Board (FSB) on its resolution-related priorities, including the implementation of total loss-absorbing capacity standard, bail-in execution and good practices of CMGs ◆ Chair and provide the secretariat function for the resolution-specific forum of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)⁴, the Study Group on Resolution ◆ Advance development of local mechanics to execute stabilization options ◆ Advance development of a crisis management framework to support co-ordination between Hong Kong resolution authorities

⁴ The EMEAP is a co-operative organisation of central banks and monetary authorities in the East Asia and Pacific region.

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BANKING SECTOR DEVELOPMENT

In 2022, the HKMA will further promote the sound business conduct of banks, as well as foster healthy growth of the banking sector. These efforts contribute importantly to public confidence in the banking sector as well as Hong Kong's overall competitiveness as an international financial centre.

Building a safe and inclusive banking sector

Consumer protection

The HKMA will continue to participate in, and provide advice to, the Code of Banking Practice Committee of the Hong Kong Association of Banks (HKAB) in 2022 to further review the Code of Banking Practice with the aim of offering enhanced protection to customers with respect to various banking services. The HKMA will monitor AIs' implementation of the revised provisions and also their compliance with the Code in general.

To strengthen consumer protection, the HKMA will keep abreast of developments in innovative banking services and give guidance to the banking industry as appropriate. In particular, the HKMA plans to issue guidance in respect of new service models, such as "buy now, pay later" which has become popular in some jurisdictions.

Following the completion of the Focused Review on Incentive Systems of Front Offices in Retail Banks as part of its ongoing initiative to promote sound culture in the banking sector, the HKMA will continue to work closely with the banking industry regarding their culture efforts in tandem with their initiatives on incentive systems in reinforcing good customer and conduct outcomes. The HKMA will also continue to carry on culture dialogues with AIs, taking into account emerging themes. In parallel, the HKMA will maintain close communication with overseas regulators on the development of bank culture. The HKMA will monitor the implementation of the *Guidelines on the Mandatory Reference Checking Scheme* issued by the banking industry associations to address the "rolling bad apples"⁵ phenomenon in the local banking sector.

The HKMA has been working closely with the Industry Associations⁶ to introduce more than one consumer credit reference agency (CRA) in Hong Kong to enhance service quality of consumer CRAs and address the risk of single point of failure of having only one CRA. The Industry Associations are assessing the three shortlisted CRA tenderers.

Meanwhile, the participating credit providers, the three shortlisted CRA tenderers and the platform operator will undergo system testing after completion of system development. The new platform is expected to be in operation by the end of 2022.

Working closely with the banking industry, the HKMA will fine-tune the proposal for payment arrangements for property transactions (PAPT) to improve the safety, certainty and speed of sizeable payments in property transactions, taking into account comments from the banking industry and other stakeholders. The HKMA will provide strong support to the implementation of the initiative in respect of the development of relevant documentation, conducting pilot transactions, as well as stakeholder engagement and public education.

Financial inclusion

The HKMA will further promote financial inclusion in Hong Kong through engaging the banking industry, business community and relevant stakeholders, taking into account market developments and opportunities in the digital age.

In addition, the HKMA will monitor the industry's implementation of measures recommended in guidelines issued by HKAB, namely the *Practical Guideline on Barrier-free Banking Services*, *Guideline on Banking Services for Persons with Intellectual Disabilities* and *Guideline on Banking Services for Persons with Dementia*.

⁵ "Rolling bad apples" are people with a record of misconduct who manage to obtain subsequent employment elsewhere without disclosing their earlier misconduct to the new employer, allowing them to potentially repeat their misbehaviour at another firm.

⁶ Namely HKAB, the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies and the Hong Kong S.A.R. Licensed Money Lenders Association Ltd.

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Deposit protection

The Hong Kong Deposit Protection Board periodically conducts a holistic review of the Deposit Protection Scheme (DPS) to ensure that it remains efficient and effective in serving its public policy objectives. In 2022, the Deposit Protection Board will complete a review of the modalities of the DPS. Annual self-assessments and on-site examinations will continue to ensure that DPS member banks make appropriate representations to depositors in respect of the protection status of deposits. To deepen public understanding of the DPS, the Deposit Protection Board will roll out a multimedia publicity campaign with a new television commercial theme to assure the public of the protection and peace-of-mind provided by the DPS, in addition to social media campaigns focusing on young people.

Future proofing the banking sector

Technology adoption

Technology is increasingly reshaping the way that banking business is carried out. The “All banks go fintech” initiative of the HKMA’s “Fintech 2025” strategy⁷ aims to promote the all-round adoption of fintech by banks in Hong Kong. In support of this initiative, the HKMA rolled out the Tech Baseline Assessment in June 2021 to develop a better understanding of the current fintech landscape in the banking sector, and identify which fintech areas may warrant the HKMA’s support. To this end, all licensed banks with significant operations in Hong Kong were requested to develop a three-year plan for fintech adoption by the end of 2021.

The HKMA is reviewing the banks’ submissions and conducting benchmarking with overseas markets to identify those fintech areas that may not be receiving sufficient attention. The HKMA will consider what policies or measures may be appropriate to support the industry in more actively embracing fintech.

As part of its two-year roadmap to promote Regtech adoption, the HKMA has rolled out a Regtech Knowledge Hub and will promote information and experience sharing within the Regtech ecosystem using this new platform. On the adoption of Suptech, the HKMA will continue its work on building an end-to-end digital supervisory platform. A series of proof-of-concept studies to explore the use of advanced analytics will be undertaken, with a view to improving the forward looking capability of the HKMA’s supervisory processes.

Capacity building in the banking sector

In line with the HKMA’s holistic talent development strategy, “Connecting Talent to the Future”, and building on positive feedback on initiatives launched in 2021, the HKMA will rerun the Future Banking Bridging Programme and university career talks in 2022 to enhance university students’ awareness of the skills and knowledge required by the banking industry, and to showcase career prospects and opportunities in the banking sector, particularly in fintech and green finance. As a further step to connect the younger generation to the banking industry, the HKMA will extend its outreach campaigns to cover secondary schools, and set up a virtual resource centre to provide a one-stop directory for various job types, career paths and training pathways in the banking industry.



The Future Banking Bridging Programme 2021 will be rerun in 2022

⁷ The “Fintech 2025” strategy was unveiled in June 2021 as the HKMA’s new strategy for driving fintech development of Hong Kong.

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In addition, the HKMA and the banking industry are joining hands to upskill the existing workforce to ensure they can keep pace with the rapid development of the banking industry. In 2022, the HKMA will roll out a new module on Compliance under the Enhanced Competency Framework (ECF). At the same time, training programmes for the newly launched Fintech ECF module will be rolled out progressively. To drive the upskilling efforts of banks, the HKMA will conduct a new survey on talent development and share key observations and good practices with the industry.

The development of a large and deep talent pool to deliver professional and quality financial services contributes importantly to Hong Kong's competitiveness as an international financial centre.



Enhanced Competency Framework

2016	<input checked="" type="checkbox"/> Anti-Money Laundering and Counter-Financing of Terrorism (core level)
	<input checked="" type="checkbox"/> Cybersecurity
2017	<input checked="" type="checkbox"/> Treasury Management
	<input checked="" type="checkbox"/> Retail Wealth Management
2018	<input checked="" type="checkbox"/> Anti-Money Laundering and Counter-Financing of Terrorism (professional level)
2019	<input checked="" type="checkbox"/> Credit Risk Management
2020	<input checked="" type="checkbox"/> Operational Risk Management
2021	<input checked="" type="checkbox"/> Fintech
Upcoming	<input type="checkbox"/> Compliance
	<input type="checkbox"/> Green and Sustainable Finance

INTERNATIONAL FINANCIAL CENTRE

Building on Hong Kong's strong foundation and ample opportunities, the HKMA will strive to further strengthen Hong Kong's position as an international financial centre in 2022 and beyond.

Staying ahead of technological advancements

Hong Kong as a fintech hub in Asia

To promote the development and use of technology in the financial sector as a whole, the HKMA will take forward all the initiatives under the multi-faceted "Fintech 2025" strategy. At the same time, the HKMA will continue to facilitate the digitalisation of banks' operations and adoption of Regtech, strengthen its research efforts on wholesale and retail Central Bank Digital Currencies, explore next-generation data infrastructure to enable more efficient financial intermediation, and enhance the fintech talent pool. To explore the application of new technologies in financial services and facilitate financial innovation, the HKMA will carry on its research into emerging technologies such as federated learning and blockchain, and maintain close collaboration with its strategic partners and key stakeholders both locally and abroad.

Crypto-assets particularly payment-related stablecoins

The HKMA will actively participate in the relevant international discussions, monitor the developments of major markets, and draw up an appropriate regulatory regime in Hong Kong for crypto-assets particularly payment-related stablecoins. In doing so, the HKMA will take into account applicable factors including the feedback received on its *Discussion Paper on Crypto-assets and Stablecoins* released in January 2022.

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Dominant gateway to the Mainland and the global offshore renminbi business centre

The National 14th Five-Year Plan (2021–2025)⁸, affirms support for Hong Kong to strengthen its status as a global offshore renminbi business hub. To further bolster this status, the HKMA will also continue to engage with Mainland authorities and the financial industry to deepen the liquidity of the offshore renminbi market, promote greater diversity of renminbi products and improve Hong Kong's infrastructure.

To capitalise on the growing preference for renminbi-denominated assets among international investors and the sustainable fund flow that takes place through the various Mainland–Hong Kong Connect schemes, the HKMA will work closely with Mainland authorities to enhance and expand the existing channels. Top priorities include the provision of diversified risk management tools under Northbound Bond Connect, including derivatives such as interest rate swaps, as well as enhancements of the various features of the Cross-boundary WMC.

A hub for asset and wealth management

The HKMA will proactively reach out to the asset and wealth management industry to promote Hong Kong as an international financial centre, with a view to attracting more capital, financing and investment activities to Hong Kong. Meanwhile, the HKMA will maintain its efforts to engage with stakeholders to keep abreast of latest market trends and learn about any concerns or suggestions they may have for Hong Kong's financial platforms.

In addition, the HKMA will explore ways to enhance the competitiveness of Hong Kong's financial sector, particularly in developing Hong Kong as an international asset and wealth management hub and a regional destination for corporate treasury centres and fund investment activities. The HKMA will reach out to the industry to promote the setting up of private equity funds in Hong Kong, and improve

the ecosystem to meet market requirements. To boost Hong Kong's attractiveness as a hub for family offices, the HKMA will also continue to collaborate with the Government and industry to take forward the Budget initiative to introduce relevant tax concessions.

Enhancing 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. The continued enhancement of financial infrastructure is essential for supporting further market development and bolstering Hong Kong's status as an international financial centre more broadly.

Central Moneymarkets Unit

To help Hong Kong grasp the emerging opportunities from the further opening up of the Mainland financial markets, the Central Moneymarkets Unit (CMU) has reviewed its strategic position and has commenced enhancements on both system and business fronts. Some of the enhancements and services have been launched, like those for Southbound Bond Connect, and the rest would be rolled out by phases over the next few years. The long-term objective is to establish the CMU as a major international central securities depository in Asia.

Faster Payment System

Building on the successful experience of the Faster Payment System (FPS) in the past three years, the HKMA, in collaboration with the industry, will continue to explore more potential use cases to further promote e-payment in Hong Kong. In particular, more work will be done to promote the use of the FPS in merchant payments and business payments. The industry is implementing App-to-App and Web-to-App features to enhance customer experience in making online payments to merchant apps or websites on mobile phones. The HKMA also assists various Government departments, industry organisations, as well as public and private institutions in adopting the FPS for making and receiving payments.

⁸ The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035, commonly referred to as the National 14th Five-Year Plan.

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Based on the successful experience in 2021 and 2022, the HKMA will continue engaging banks and SVFs to encourage the public to give electronic lai sees (e-laisees) via the FPS during Chinese New Year⁹. To continue raising public awareness, the HKMA will launch an online video via different electronic channels to promote the use of the FPS.



Promotion of using the FPS to give out e-laisees during Chinese New Year

Apart from promoting the use of the FPS locally, the HKMA will explore leveraging the FPS' advantages of 24/7 operations and instantaneous payment to enhance efficiency in cross-boundary payments. For example, the FPS may support 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. Consideration will also be given to linkages with similar faster payment systems in other jurisdictions, thereby allowing Hong Kong people to make payments directly through the FPS at overseas tourist hot spots. Furthermore, in supporting the People's Bank of China on the technical testing of e-CNY for cross-boundary payments in Hong Kong, the possibility of using the FPS to top up e-CNY wallets will be explored.

Subject to market needs, the HKMA may pursue further enhancements of the FPS to facilitate its use for making payments.

Hong Kong's retail payment industry

In supervising SVF licensees and overseeing the designated retail payment systems in accordance with the PSSVFO, the HKMA will continue to refine its risk-based approach having regard to relevant international and local developments with a view to promoting a safe and efficient retail payment industry.

Other market development initiatives

Hong Kong's treasury markets

The HKMA works closely with the Treasury Markets Association and engages market participants to support the enhancement of the professionalism and competitiveness of Hong Kong's treasury markets, particularly in relation to financial benchmarks and the promotion of the Foreign Exchange Global Code.

Over-the-counter derivatives market

An over-the-counter (OTC) derivatives regime is being introduced in phases in Hong Kong. In close collaboration with the Securities and Futures Commission, the HKMA will further develop and refine the implementation rules to implement an effective regulatory regime for the OTC derivatives market.

⁹ More information about the electronic lai sees can be found in the *Sustainability* chapter on page 198.

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Fostering financial thought leadership in Hong Kong

In 2022, the Hong Kong Academy of Finance (AoF)¹⁰ will further develop its Leadership Development Programme with a view to fostering leadership and broadening the global and inter-disciplinary perspectives of members and industry participants. In particular, the AoF's new flagship Financial Leaders Programme is designed to nurture senior financial leaders to sustain and propel the long-term development of Hong Kong's financial industry. Programme activities for the first cohort will run from April to December 2022.



Financial regulators come together to promote the AoF Financial Leaders Programme

The Hong Kong Institute for Monetary and Financial Research (HKIMR), which carries out AoF's research activity, will continue pursuing applied research and investigating topics relevant for Hong Kong's financial industry and regulators. Notable topics include a study of the impact of climate risk on Hong Kong's financial services industry, and an investigation of the implications of digitalisation of financial services for inclusiveness, sustainability and consumer protection. The HKIMR is also working in partnership with the Alliance for Green Commercial Banks, an initiative co-launched by the HKMA and the International Finance Corporation, to release a thought leadership paper on climate risk measurement, best practices in the financial services industry and regulatory oversight. The HKIMR will keep soliciting and exchanging views with the financial community and key stakeholders to identify relevant topics for future applied research.

International and regional co-operation

With the global environment still subject to notable uncertainties, there is a need to strengthen cross-border co-operation 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.

As a member of the FSB, the FSB Standing Committee on Assessment of Vulnerabilities and the FSB Standing Committee on Supervisory and Regulatory Cooperation, the HKMA will continue to take leadership roles in a number of FSB work priorities, including non-bank financial intermediation, financial innovations and benchmark transition. The HKMA will also actively contribute to other financial stability topics including cybersecurity, cross-border payments and climate-related financial risk.

¹⁰ The AoF is set up with full collaboration amongst the HKMA, the Securities and Futures Commission, the Insurance Authority and the Mandatory Provident Fund Schemes Authority. It brings together the strengths of the academia, the industry, professional training institutes and the regulatory community to develop financial leadership and promote research collaboration.

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SUSTAINABILITY

Combatting climate change and promoting sustainability require consistent effort. The HKMA will continue to work with like-minded peers and international organisations on this global agenda. In 2022, the HKMA will step up its efforts in promoting a more sustainable financial sector in Hong Kong while carrying out its duties as a responsible investor and sustainable organisation. Through participation in international and regional forums, the HKMA will also contribute to promoting the developments and best practices in green and sustainable finance more broadly.

Green and sustainable banking

The HKMA will step up its efforts to promote green and sustainable banking, including working with banks to understand their progress in implementing the supervisory requirements on climate risk management. The HKMA aims to review and revamp the common assessment framework on “greenness baseline” of banks within 2022¹¹. The HKMA is also working with other financial regulators to explore developing a local green classification framework.

The HKMA will develop a new module on Green and Sustainable Finance under the ECF to cater for the strong demand for green and sustainable finance knowledge and skill sets in the banking industry.

Hong Kong as a hub for green and sustainable finance

To promote Hong Kong’s green and sustainable finance market, the HKMA will continue to assist the Government in future green bond issuances under the Government Green Bond Programme (GGBP), and attract more green financing activities to Hong Kong through the Green and Sustainable Finance Grant Scheme. The HKMA will also continue to encourage more Mainland participants to raise their green funding through Hong Kong, explore the synergy between green finance and technology, and actively collaborate with other agencies under the Green and Sustainable Finance Cross-Agency Steering Group¹² to co-ordinate on cross-sectoral issues including capacity building, green and sustainable finance data, taxonomies, climate-related disclosures and sustainability reporting, as well as carbon market opportunities.

The Alliance for Green Commercial Banks

Through the Alliance for Green Commercial Banks¹³, the HKMA and International Finance Corporation will jointly launch targeted initiatives in the Asia region to undertake green finance research, provide unique market insights, tailor capacity building and 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.

Looking ahead, the Alliance will work closely with its Cornerstone Members, as well as the Global and Knowledge Partners to (i) develop the membership programme¹⁴ first in Hong Kong and then in Asia; (ii) step up its efforts in promoting capacity building efforts and knowledge sharing; and (iii) spearhead thought leadership initiatives. The Alliance will serve as a platform to incubate and promote green investment and business.

¹¹ More information about the common assessment framework on “greenness baseline” of banks can be found in the *Sustainability* chapter on page 177.

¹² More information on the Green and Sustainable Finance Cross-Agency Steering Group can be found in the *Sustainability* chapter on page 180.

¹³ More information on the Alliance for Green Commercial Banks can be found in the *Sustainability* chapter on pages 181 to 182.

¹⁴ More details about the Alliance’s membership structure are available on its website www.allianceforgreencommercialbanks.org.

Priorities for 2022 and Beyond



The Alliance for Green Commercial Banks hosts knowledge sharing events

Responsible investment

As the manager of the Exchange Fund, the HKMA will further advance on its responsible investment journey through incorporating environmental, social and governance factors into investment processes and continuously contributing to international efforts that facilitate green and sustainable finance development. Further to making the inaugural disclosures on climate scenario analysis and carbon footprint metrics of the Exchange Fund's portfolios, the HKMA will progress towards aligning its disclosures with recommendations of the Taskforce on Climate-related Financial Disclosures no later than 2025.

Sustainable HKMA

In fulfilling its role as a sustainable organisation, the HKMA plans to draw up a sustainability roadmap, covering its strategic directions, key initiatives and performance targets where appropriate. Efforts will be underpinned by the three pillars of environment, people and social responsibility. First, the HKMA will step up its own green office initiatives including implementation of energy-saving and waste management plans. Secondly, the HKMA will continue to safeguard health and safety of its staff while ensuring the continued delivery of its public services. Thirdly, the HKMA will maintain emphasis on corporate social responsibility through continual participation in community services, as well as embedding sustainability considerations in its procurement of goods and services, including by adopting the Government green procurement initiatives. Meanwhile, efforts in promoting financial inclusion and financial literacy will continue, including working with the banking industry to make banking services more accessible to different segments of the community.