

Priorities for 2023 and Beyond

While Hong Kong's economy has shown signs of recovery entering 2023, the external environment remains full of challenges and uncertainties. The recent emergence of banking stress in the US and Europe with a failure of a few domestic US banks in March 2023 have sent ripples through global markets, while monetary policy tightening by major central banks is likely to translate into slower global growth or even recession in 2023. Meanwhile, geopolitical tensions and ongoing threats of de-globalisation are likely to continue to weigh on global trade and spark volatility in global financial markets from time to time. That said, Hong Kong's financial system remains well-positioned to weather adverse shocks given its sound resilience and ample buffers built up over the years.

The HKMA attaches great importance to safeguarding Hong Kong's monetary and financial stability. Looking ahead, we will stay vigilant in the face of the uncertain macroeconomic environment, seeking to promptly identify emerging risks and respond to them in an agile manner. At the same time, we will seek opportunities and create policy headroom to help further enhance Hong Kong's status as a leading international financial centre. In managing the Exchange Fund in this challenging investment environment, the HKMA will continue to invest prudently, while remaining flexible, taking 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

In 2023, uncertainties on the interest rate path in the US and the emergence of banking stress in advanced economies may pose potential downside risks to the growth outlook for major advanced economies. Moreover, lingering geopolitical risks are likely to continue to weigh on global trade and spark volatility in global financial markets from time to time. Nevertheless, 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 deploy appropriate measures where necessary to maintain Hong Kong's monetary and financial stability. We will also conduct research into issues affecting the Hong Kong economy and assess the potential risks associated with these issues.

Maintaining banking stability

Given escalating geopolitical tensions and aggressive interest rate hikes by major central banks globally to tame rising inflation, the business environment facing the banking sector is expected to remain challenging in 2023. At the same time, rapid technological advances and digitalisation are presenting 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, liquidity and market risks

In 2023, the HKMA will continue to closely monitor the asset quality of authorized institutions (AIs), focusing on their classification and provisioning practices and their management of vulnerable borrowers. The HKMA will also enhance its surveillance system and take proactive steps to ensure that the overall credit risk level of the banking sector remains manageable.

Meanwhile, the HKMA will also keep track of the operating environment of corporates and maintain close dialogue with the banking and commercial sectors to prepare for an eventual exit of the Pre-approved Principal Payment Holiday Scheme, while ensuring customers facing temporary difficulty will continue to get appropriate credit support.

The HKMA will also step up its supervision of AIs' liquidity and market risk management in 2023 against the backdrop of an uncertain macroeconomic environment.

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Operational and technology risk

The HKMA will seek to enhance the operational and cyber resilience of the banking sector as banks increasingly adopt technologies in their operations. Following the issuance of the new Supervisory Policy Manual (SPM) module on “Operational Resilience” in May, the HKMA will maintain a close dialogue with the industry and review the progress being made by Als in building their operational resilience frameworks. In parallel, the HKMA will look to raise the banking sector’s cyber resilience by following up with Als on issues revealed by the assessments made under the Cyber Resilience Assessment Framework 2.0, and by monitoring Als’ implementation of the secure tertiary data backup arrangement.

With accelerating digitalisation, other supervisory focuses of the HKMA include stepping up supervision of banks’ third-party risk management and strengthening the banking sector’s data governance capabilities.

Combating money laundering and terrorist financing

In 2023, the HKMA will prioritise regulatory updates, strengthen the collaborative eco-system response to money laundering and terrorist financing (ML/TF) risks, and further efforts in anti-money laundering (AML) supervisory technology (Suptech) and regulatory technology (Regtech). Amendments will be made to the HKMA’s Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT), complemented by specific guidance on a proportionate approach to the Politically Exposed Person (PEP) requirements, with the aim of supporting effective, risk-based industry implementation of key legislative changes. Meanwhile, information-sharing will be scaled up by broadening the scope of existing public-private partnerships and supporting the launch of bank-to-bank information sharing. These will enable faster detection of

suspicious accounts and deter abuses, as well as increasing protection for victims of fraud and facilitating recovery of their losses. The HKMA will also focus further on Regtech adoption (including data analytics) through AML Regtech Labs and other AML/CFT Regtech initiatives, and work towards developing a macro analytics capability to complement its data-driven AML/CFT supervision. Collectively, these initiatives will enable the HKMA to take quicker action in response to systemic ML/TF risks such as mule account networks, and stay agile in responding to evolving threats.

Wealth management businesses

In 2023, the HKMA will step up both 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. Our focus in 2023 will be on the Cross-boundary Wealth Management Connect (Cross-boundary WMC) Scheme, digital distribution and advisory platforms, virtual assets, environmental, social and governance (ESG) investment products and long term insurance products, taking into account the latest market developments and evolving international standards.

The HKMA will communicate closely with other regulators and with the banking industry, and provide Als with guidance on regulatory standards in relation to the sale of investment, insurance and MPF products as appropriate. Such guidance will also cover the provision of investment services related to virtual assets. In relation to this, in support of the sustainable and responsible development of the virtual asset sector, the HKMA will participate actively in international fora and work with the Government and with other financial regulators on developing a comprehensive regulatory framework for virtual assets.

Following the smooth launch of the Cross-boundary WMC, the HKMA will engage with the industry and relevant regulatory authorities to enhance the scheme. It will also work with the Securities and Futures Commission (SFC) and the industry to streamline the selling process of investment products including for sophisticated investors, and commence the supervision of Als’ trust business under the new SPM module and Code of Practice.

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Oversight of financial market infrastructures

The HKMA aims 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), and the various guidance issued by the Committee on Payments and Market Infrastructures (CPMI), by conducting assessments of the systems against the latest international standards as appropriate. The HKMA will participate in the CPMI-IOSCO¹ PFMI implementation monitoring and assessment exercise. It will also take part in the work of international standard-setting bodies, and review and strengthen its oversight requirements to reflect international practices or in response to market and technology developments. At the same time, the HKMA will work with relevant authorities to further strengthen co-operative oversight arrangements where appropriate.

Policy development

The HKMA will continue to strengthen 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 further enhance the capital framework through implementing the standards published by the Basel Committee on Banking Supervision (Basel Committee) in recent years, which include the following:

- 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, collectively referred to as the “Basel III final reform package”. These revised capital standards set out the new regulatory treatment of credit risk, market risk, credit valuation adjustment risk and operational risk, introduce an output floor requirement, and enhance the leverage ratio framework. Following several rounds of industry consultation in 2022, the HKMA plans to conduct a statutory consultation on proposed amendments to the Banking (Capital) Rules (BCR) in 2023 that will implement the above requirements and the Positive Neutral Countercyclical Capital Buffer. The amendments are expected to be introduced into the Legislative Council for negative vetting within the same year, and become effective as minimum requirements no earlier than 1 January 2024.
- The *Prudential treatment of cryptoasset exposures* of December 2022: the local implementation of the standard is planned for 1 January 2025 in accordance with the timeline set by the Basel Committee, and the HKMA plans to consult the industry on its related proposals in 2023.

¹ IOSCO stands for the International Organization of Securities Commissions.

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Exposure limits

In March 2023, the HKMA issued the proposed amendments to the Banking (Exposure Limits) Rules for industry consultation. The amendment proposals were largely consequential to the HKMA's implementation of revised capital standards under the Basel III final reform package mentioned above. The consultation package also includes further consequential amendments to the treatment of sovereign concentration risk under the BCR. The target implementation date of the amended rules will be aligned with that for the credit risk parts of the amended BCR for implementing the Basel III final reform package, i.e. no earlier than 1 January 2024.

Liquidity standards

The HKMA intends to consult the industry in 2023 on proposed amendments to the Banking (Liquidity) Rules by way of the Banking (Liquidity) (Amendment) Rules 2023 (BLAR 2023). Since the amendments are consequential changes arising from the concurrent proposed amendments to the BCR, the target implementation date of the BLAR 2023 will be aligned with that of the credit risk parts of the amended BCR for implementing the Basel III final reform package, i.e. no earlier than 1 January 2024.

Disclosure standards

New and revised disclosure requirements associated with the revised capital standards in the Basel III final reform package are mainly set out in the *Pillar 3² 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, which amended the leverage ratio disclosure requirements 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). To implement these new and revised disclosure requirements in Hong Kong, the HKMA is in the process of preparing the corresponding amendments to the Banking (Disclosure) Rules (BDR), as well as a revised package of standard disclosure templates and tables in consultation with the industry. The amendments to the BDR are expected to be tabled at the Legislative Council for negative vetting along with the amendments to the BCR in 2023.

The HKMA also plans, in consultation with the industry, to update the SPM module on CA-D-1 “*Guideline on the Application of the Banking (Disclosure) Rules*” to reflect the new and revised disclosure requirements once the amendments to the BDR are finalised.

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 and other modules such as “*Countercyclical Capital Buffer — Geographic Allocation of Private Sector Credit Exposures*”, “*Interest Rate Risk in the Banking Book*”, “*New Share Subscription and Share Margin Financing*”, “*Stress-testing*”. The HKMA will also work further on the revised SPM modules on “*Reporting Requirements Relating to Authorized Institutions’ External Auditors under the Banking Ordinance*” and “*Countercyclical Capital Buffer — Approach to its Implementation*”, and aims to finalise the revisions in 2023. 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 also be updated.

² 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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Balanced and responsive supervision

The HKMA will maintain close dialogue with the banking sector in order to explore areas for further refining and streamlining its supervisory policies and practices with a view to promoting the sustainable development of the banking sector amid the fast-changing banking environment and risk landscape.

Accounting standards

The International Accounting Standards Board (IASB) is expected to carry out a post-implementation review of the impairment requirements of International Financial Reporting Standard 9 (IFRS 9) in 2023. The HKMA will keep in view the issues identified from the IASB's review and their relevance to the implementation of IFRS 9 by AIs in Hong Kong. It will also maintain regular dialogue with external auditors of AIs, and assess the implications of other impending accounting standards for the existing prudential requirements on AIs.

Enforcement

The HKMA will monitor AIs' adherence to the updated statutory guideline on Complaints Handling and Redress, and that they are treating customers fairly and responsibly with regard to the purchase and use of banking products and services. This will include ensuring that AIs are making good use of alternative dispute resolution channels to resolve consumer complaints at an early stage.

To better support its enhanced and optimised workflows, the HKMA will develop a new management information system in 2023. This will enable the HKMA to more efficiently and effectively carry out assessments, investigations and other follow-up actions relating to issues arising from on-site examinations and offsite reviews, banking complaints, whistle-blowing, and banks' self-reporting under various statutory regimes relevant to AIs and stored value facility (SVF) licensees. In addition, the HKMA will publish *Complaints Watch* on a half-yearly basis to highlight the latest complaint trends, emerging topical issues, and areas that AIs and members of the public should be alert to, with the aim of educating consumers and promoting good standards of conduct and prudent business practices among AIs.

Meanwhile, collaboration with other local financial regulators will remain a key priority in order to achieve effective and well co-ordinated enforcement outcomes. The HKMA will also work closely with the industry and with law enforcement agencies on an ecosystem response to fraud and other financial crimes in support of financial stability and market integrity.

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Resolution

The HKMA is running a multi-year programme to build an operational resolution regime for AIs. In 2023, the HKMA will prioritise the following topics in four key areas (Table 1):

Table 1 Forward priorities on resolution in 2023



Resolution standards

- Consult on and finalise a Financial Institutions (Resolution) Ordinance Code of Practice chapter on continuity of access in resolution to FMs
- Conduct a review of the implementation of loss-absorbing capacity (LAC) policy standards



Resolution execution capability

- Develop a crisis management framework to support co-ordination between resolution authorities in Hong Kong
- Advance development of bail-in mechanics and operationalisation of transfer stabilization options, including engagement of consultants under the Resolution Advisory Framework



Resolution planning

- Advance bilateral resolution planning programmes with domestic systemically important banks (D-SIBs) and other relevant AIs, including fostering the build-up of LAC resources, implementing policy standards on operational continuity, liquidity and funding, and contractual recognition of suspension of termination rights in resolution
- Advance development of preferred resolution strategies for locally incorporated AIs other than D-SIBs with total consolidated assets above HK\$300 billion
- Lead a regional resolution planning programme, oversee the build-up and testing of resolution capabilities, and strengthen home-host co-ordination arrangements



International & cross-border co-operation

- Contribute to international policy developments and implementation monitoring at the Financial Stability Board (FSB) on its resolution-related priorities, including the total loss-absorbing capacity standard, bail-in execution, cross-border funding in resolution, implications of digital innovation for resolution, and alternative financial resources for the resolution of central counterparties
- Chair the Study Group on Resolution of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)^a and co-ordinate cross-border resolution initiatives
- Co-ordinate with other authorities via 14 Crisis Management Groups and Resolution Colleges to enhance the resolvability of global systemically important banks

a. 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 2023, the HKMA will work on further promoting sound business conduct among banks and fostering the healthy growth of the banking sector. These are important efforts as they contribute 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 participate in, and provide advice to, the Code of Banking Practice Committee of the Hong Kong Association of Banks in 2023 to finalise the review of the Code, with the aim of offering enhanced protection to customers with respect to various banking services. The HKMA will monitor Als' implementation of the revised provisions, and their compliance with the Code in general.

To strengthen consumer protection, the HKMA will stay abreast of developments in innovative banking services and popular banking products (such as personal credit products), and provide guidance to the banking industry as appropriate. We will participate actively in international efforts on financial consumer protection, focusing on innovative products and the surge in scams and frauds on the back of increasing use of digitalised banking channels. The HKMA will also keep monitoring the rollout of the payment arrangement for property transactions by mortgage banks, and follow up with the banking industry and other stakeholders on necessary enhancements.

Meanwhile, as part of its ongoing initiative to promote a sound culture in the banking sector, the HKMA will hold further culture dialogues with leadership of Als to discuss the effectiveness of Als' culture enhancement efforts and provide supervisory feedback. The HKMA will also maintain dialogue with regulators outside Hong Kong on the development of bank culture. In addition, the HKMA will co-ordinate with the banking associations and monitor Als' implementation of the Mandatory Reference Checking Scheme to address the "rolling bad apples" phenomenon in the banking sector, and make improvements to the Scheme as appropriate.

The HKMA is also working closely with the industry associations and relevant stakeholders to implement the Multiple Credit Reference Agencies (MCRAs) model for consumer credit data. The industry associations will complete the loading of consumer credit data onto the Credit Reference Platform (CRP) for selected CRAs to download and prepare for their provision of consumer credit reference services. The industry associations will also work on various enhancements of the CRP to encourage more credit providers to join, and improve the overall resilience of the MCRAs model.

Financial inclusion

The HKMA will closely engage the banking industry, the business community and relevant stakeholders with a view to further promote financial inclusion in Hong Kong, taking into account market developments and opportunities offered by technology.

Deposit protection

It is important to ensure the Deposit Protection Scheme (DPS) remains efficient and effective in protecting depositors and contributing to banking stability in Hong Kong. The Hong Kong Deposit Protection Board (the Board) plans to conduct a public consultation in 2023 on a package of proposed enhancements to the DPS. Subject to the comments received during the consultation, the Board aims to introduce legislative amendments into the Legislative Council as soon as practicable. Meanwhile, the Board will conduct a payout rehearsal together with payout agents to test the payout operations, as part of its efforts to ensure payout readiness of the DPS.

Promoting the public awareness and understanding of the DPS is key to maintaining the effectiveness of the Scheme. The Board will sustain efforts in reinforcing awareness of and building trust in the protection brought by the DPS through advertising and public relations campaigns. In particular, social media campaigns and educational outreach activities will be carried out to engage the key target groups, including the younger generation and the elderly. Meanwhile, the Board will ensure that appropriate representations are made by DPS member banks to assist depositors to readily ascertain the DPS membership status of a bank and distinguish between DPS protected and non-DPS protected financial products.

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Future-proofing the banking sector

Technology adoption

As part of the “All banks go fintech” initiative of its “Fintech 2025” strategy, the HKMA completed the Tech Baseline Assessment in 2022 which took stock of Hong Kong banks’ current and planned adoption of financial technology (fintech) and assessed whether there might be fintech business areas and technology types that would benefit from the HKMA’s support. The results indicated that banks were prepared to dedicate healthy amounts of financial and talent resources to fintech over the next three years. To take this forward, the HKMA is developing a roadmap of initiatives to further promote the adoption of fintech in the banking sector, particularly in the business areas of Wealthtech, Insurtech and Greentech, as well as the technology types of Artificial Intelligence and Distributed Ledger Technology.

On the adoption of Suptech, the HKMA will kick-start the implementation of an end-to-end digital supervisory platform and further strengthen the HKMA’s data analytic capabilities. The HKMA is also exploring the use of advanced analytics to maximise the potential of unstructured and qualitative information for conducting more in-depth, agile and focused analyses, thereby enhancing the forward-looking capability of the HKMA’s supervisory processes.



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
2022	<input checked="" type="checkbox"/> Compliance
Upcoming	<input type="checkbox"/> Green and Sustainable Finance

Capacity building in the banking sector

The HKMA attaches great importance to building a sustainable pipeline of young talents to support the future development of the banking industry. Building on the good response from university students in 2022 on the Future Banking Bridging Programme and the university career talks, the HKMA will implement various initiatives to attract more young talents to the banking sector and better equip them with professional training and hands-on work experience. The HKMA will also push ahead with its promotional efforts to enhance the younger generation’s understanding of modern banking and the career opportunities available so that they can have better career planning at an early stage. These include fostering closer ties with relevant stakeholders including the Education Bureau to reach out to secondary school students.

At the same time, it is equally important to drive the upskilling and reskilling of existing practitioners to ensure that they can keep pace with the market developments. To this end, the HKMA will launch in 2023 a new module on Green and Sustainable Finance under the Enhanced Competency Framework for Banking Practitioners to meet the rapidly growing demand for such talents in the banking industry. It will also assist in administering the Pilot Scheme on Training Subsidy for Fintech Practitioners and the Pilot Green and Sustainable Finance Capacity Building Support Scheme, which are designed to encourage more practitioners to take part in training and acquire relevant professional qualifications.

Talent development cannot be achieved without the support of the industry. Therefore, as part of the Skills Transformation and Empowerment Programme launched in 2022, the HKMA aims to share good talent development practices with the industry and update the relevant module of the SPM to provide banks with further guidance on talent development, especially in terms of supportive arrangements and incentives to encourage and facilitate their staff to upskill themselves.

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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 2023 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, the HKMA will continue to take forward the initiatives under the "Fintech 2025" strategy. It will focus on facilitating banks' digitalisation and adoption of Regtech, strengthening its work on both wholesale and retail Central Bank Digital Currencies, further developing next-generation data infrastructure for more efficient financial intermediation, and deepening the fintech talent pool. To facilitate innovation in the financial services industry, the HKMA will step up its research efforts in emerging technologies, such as federated learning and blockchain, and maintain close collaboration with strategic partners and key stakeholders both locally and abroad.

Crypto-assets particularly stablecoins

The HKMA will continue its work on developing an agile and risk-based regulatory regime for stablecoins to address the monetary and financial stability risks they may pose, while at the same time supporting financial innovation and market development. The HKMA will proceed to formulate the more detailed regulatory requirements, taking into account factors such as the latest market developments, international regulatory recommendations and good practices, as well as feedback on the discussion paper on crypto-assets and stablecoins. The HKMA will also continue to participate actively in international discussions about stablecoins, and monitor developments in crypto-assets in major markets.

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

The HKMA will continue to collaborate with Mainland authorities and the financial industry to further develop Hong Kong's offshore renminbi market. This will involve deepening market liquidity, promoting a greater diversity of renminbi products, and improving Hong Kong's financial infrastructure, with a view to reinforcing Hong Kong's position as a global offshore renminbi business hub.

In light of growing demand for renminbi-denominated assets by international investors, the HKMA will look to promote a greater diversity of offshore renminbi products in Hong Kong by working closely with Mainland authorities to enhance and expand the existing cross-boundary fund flow channels. Top priorities include launching Swap Connect and the Dual Counter Market Making regime to facilitate the trading of Hong Kong-listed stocks in renminbi, as well as enhancing various Mainland-Hong Kong Connect schemes including the Cross-boundary WMC, Stock Connect, and Bond Connect. In parallel, the HKMA will look to provide more diversified risk management tools to address global investors' hedging needs for their Mainland investments, thereby strengthening Hong Kong's status as a leading offshore renminbi business hub and risk management centre.

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, talent, and financing and investment activities to Hong Kong. It will also continue its work with the Government and the industry in enhancing the competitiveness of Hong Kong as an international asset and wealth management hub and a regional destination for corporate treasury centres and fund investment activities. Meanwhile, the HKMA will maintain its engagement with different stakeholders in order to stay abreast of the latest market trends and further develop Hong Kong's financial platforms.

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Innovation and technology adoption in bond markets

Whilst adoption in the bond market is at a nascent stage, tokenisation holds the potential to bring about cost and efficiency gains, enhance liquidity, and broaden investor participation in the bond market. With the experience gained from the pilot issuance of the tokenised Government green bond in February 2023, the HKMA and the Government will review the potential and prospects of tokenised bond issuance in Hong Kong and explore the need for policy initiatives to foster the wider adoption of distributed ledger technology in Hong Kong's capital markets.

Hong Kong's financial infrastructures

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 rapid adoption of the Faster Payment System (FPS) by the public in the past four years, we will continue to explore more potential use cases in collaboration with the industry and various Government departments, with a view to further promoting e-payment in Hong Kong. In particular, more work would be done on promoting the use of the FPS for merchant payments and business payments. App-to-App and Web-to-App features are also being implemented by the industry to enhance customer experience in making online payments to merchant apps or websites on mobile phones.

Leveraging on the successful experience in the past two years, the HKMA will continue engaging with banks and SVFs to encourage the public to give electronic lai sees via the FPS during the Chinese New Year. Apart from promoting the use of the FPS locally, the HKMA will also explore leveraging the FPS' advantages of 24/7 operations and instantaneous payment to enhance the efficiency of cross-border payments. For example, the FPS could support bank

remittance services so that corporate and personal account holders in Hong Kong could receive overseas remittances or remit money to destinations abroad more speedily.

Consideration will also be given to linking up the FPS with similar faster payment systems in other jurisdictions, which would allow Hong Kong people to make payments directly through the FPS at overseas tourist hot spots. Furthermore, in supporting the People's Bank of China in its technical testing of digital renminbi (e-CNY) for cross-boundary payments in Hong Kong, we will expand the scope of the test to cover more Mainland operating institutions, Hong Kong banks and merchants.

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 SFC, the HKMA will further develop and refine the implementation rules to implement an effective regulatory regime for the OTC derivatives market.

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Developing financial leadership in Hong Kong

In 2023, the Hong Kong Academy of Finance (AoF)³ 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. Following the success of its new flagship Financial Leaders Programme in 2022, the AoF will continue to run the Programme to nurture senior financial leaders to sustain and propel the long-term development of Hong Kong's financial industry. Programme activities for the second cohort will run from April to December 2023.



The inaugural cohort of the Financial Leaders Programme with Mr Paul Chan Mo-po (front row, fifth from left), Financial Secretary and Honorary President of the AoF, and Mr KC Kwok (front row, fifth from right), CEO of the AoF

The Hong Kong Institute for Monetary and Financial Research (HKIMR), the research arm of the AoF, will continue to pursue applied and thought leadership research into topics that are highly relevant to Hong Kong's financial services industry and regulators, and explore new developments in financial markets with the aim of providing Hong Kong's financial services industry with ideas and insights beneficial for its long-term strategic development. Notable topics being studied in 2023 include emerging global trends in the markets for talent in financial services and recent

technological innovations in the financial services industry. Through exchanging views with the financial community and key stakeholders, the HKIMR will identify relevant topics for applied research in the future. With the lifting of COVID-related social distancing and travel restrictions, more effort will be put into promoting knowledge exchange among researchers and collaboration with research institutions in other areas.

International and regional co-operation

With the global environment still subject to significant 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 on leadership roles in a number of priority work areas of the FSB, including those of non-bank financial intermediation, financial innovation and cross-border payments. It will also actively contribute to other financial stability topics including financial leverage, cyber and operational resilience and addressing financial risks from climate change.

Sustainability

Combatting climate change and promoting sustainability require consistent and robust effort. The HKMA will continue to work with like-minded peers and international organisations on this global agenda. In 2023, 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. Details on our work and priorities can be found in the *Sustainability Report 2022*.

³ The AoF is set up with full collaboration amongst the HKMA, the SFC, the Insurance Authority and the Mandatory Provident Fund Schemes Authority. It brings together the strengths of academia, the industry, professionals and the regulatory community to develop financial leadership and promote research collaboration.