

Press release

LCQ6: Central Government's measures to implement the RQFII scheme and support Hong Kong's insurance companies to enter the Mainland market

Wednesday, October 26, 2011

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (October 26):

Question:

Mr Li Keqiang, Vice-Premier of the State Council, announced during his visit to Hong Kong in August this year 36 measures of the Central Government to support Hong Kong's social and economic development, which covered various areas including finance, the economy and trade, as well as people's livelihood, etc and among such measures, two are of particular concern to the insurance sector, namely allowing investments in the Mainland equity market by means of the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme and supporting Hong Kong's insurance companies to enter the mainland market by means of setting up offices or taking up stakes. In this connection, will the Government inform this Council:

(a) whether the relevant government departments and various regulatory bodies in Hong Kong (including the Hong Kong Monetary Authority, the Securities and Futures Commission and the Office of the Commissioner of Insurance) have proceeded with the corresponding preparatory work (including putting in place regulations, procedures and human resources arrangements, etc) for the two aforesaid measures; if they have, of the details; if not, the reasons for that; of the current progress of discussions between the relevant government departments/regulatory bodies and mainland authorities (including the items of co-operation on which discussions with mainland authorities have already been held so far, the outcome of such discussions, as well as the outstanding discussion items and the expected timeframe for discussions, etc);

(b) whether it knows the specific timetable for implementing RQFII by the Central Government (e.g. whether it will be implemented within this year), and when approval of the preset "quota" for RQFII with an initial size of RMB20 billion will be given respectively for Hong Kong's qualified institutional investors (QIIs); whether the Government has discussed with mainland regulatory bodies the criteria (such as the companies' net asset size, licences, duration of operation in Hong Kong, and profit position, etc) for vetting and approving the eligibility of QIIs; if it has, of the details; if not, whether at present it has any plan to commence communication in this regard in the future;

(c) given that it has been reported that while some China-affiliated securities companies and fund houses in Hong Kong have embarked on a lot of studies on RQFII products, they are worried that complex and lengthy vetting and approving procedures will result in their products no longer being able to meet market needs when they are launched in the market, whether it knows the criteria to be adopted by Hong Kong's regulatory bodies in vetting and approving RQFII products, and based on the existing policies and manpower positions of such bodies, the procedures and expected time required for vetting and approving RQFII products by such bodies after the announcement of the policy details and approval of the quota by the Central Government; whether the authorities will allocate additional resources to expedite the vetting and approving procedures; if they will, of the specific arrangements;

(d) whether it knows if, apart from retail funds, the first batch of RQFII products will include insurance products; if they will, of the details; if not, whether it will consider introducing more products (including insurance products) under RQFII in the future to provide investors with more choices; and

(e) regarding the Central Government's measure to support Hong Kong's insurance companies to enter the mainland market by means of setting up offices or taking up stakes, of the difficulties and barriers expected to be encountered in implementing the measure; of the specific plan and work schedule for implementing this measure?

Reply:

President,

My reply to parts (a) to (e) of the question is as follows:

At the Forum on the 12th Five-Year Plan and Mainland-Hong Kong Economic, Trade and Financial Co-operation held in August 2011, Mr Li Keqiang, Vice-Premier of the State Council, announced a package of measures to support the financial development in Hong Kong. The Financial Secretary, the Chief Executive of the Hong Kong Monetary Authority and I visited Beijing last week to meet with a number of mainland authorities to follow up on issues mentioned in the question and received positive response.

(a) We have met with the China Securities Regulatory Commission (CSRC) and the People's Bank of China (PBoC) and were given to understand that the CSRC was in discussion with the PBoC and the State Administration of Foreign Exchange about the technical details of the RQFII scheme. We understand that the scheme will be implemented shortly.

Regarding the preparation for the implementation of the RQFII scheme, the existing regulatory system administered by the Securities and Futures Commission (SFC) is capable of handling a wide range of investment products to be offered for sale to the public under the RQFII scheme. The SFC will liaise with the CSRC closely and will use the same set of approval criteria under the existing regulatory system for assessing applications for authorisation of retail investment products offered under the RQFII scheme.

On gaining access to the mainland market by Hong Kong insurance companies, the Office of the Commissioner of Insurance (OCI) has been reflecting views on establishing business in the mainland to the China Insurance Regulatory Commission (CIRC) through various channels. In response to the measures in support of the development of our insurance sector announced by Vice-Premier of the State Council Mr Li Keqiang during his visit to Hong Kong in August, the OCI has also liaised with the CIRC to follow up on the details of the measures to be implemented by the Central Government. During our meeting with the CIRC last week, we suggested the lowering of entry thresholds of Hong Kong insurance companies to the mainland market to enhance co-operation between the insurance sectors of the mainland and Hong Kong. This would facilitate innovation in mainland's insurance market, and enable the insurance sector of the mainland to better fulfill its social functions in preventing risks and providing protection.

(b) We understand that relevant mainland authorities are discussing the technical details of the RQFII scheme. We have expressed our view to the CSRC for the early announcement of the technical arrangements. This would promote the further development of the onshore and offshore markets through the two-way flows of funds between the two markets with risks properly controlled. We will maintain close communication with the mainland regulators and keep in view the implementation progress so as to achieve the early implementation of the relevant programmes with proper support and risk control.

(c) The authorisation of RQFII products requires collaboration in various respects. First of all, a number of mainland authorities have to introduce relevant rules and specific implementation details. Subsequently, institutions which intend to launch RQFII products will need to apply to relevant mainland authorities for approval of their eligibility and investment quota in accordance with the corresponding requirements. Finally, institutions which meet the relevant conditions must obtain authorisation from the SFC before offering RQFII investment products for sale to the public in Hong Kong.

As mentioned in my reply to (a) above, the existing regulatory system administered by the SFC is capable of handling a wide range of investment products to be offered for sale to the public under the RQFII scheme. The SFC will apply the same set of approval criteria for other investment products to applications for authorisation of retail investment products offered under the RQFII scheme.

On resources, it is expected that the RQFII scheme and the Notice on Issues Related to RMB Cross-border Direct Investment recently announced will facilitate the development of RMB products in Hong Kong. The SFC has re-deployed its internal staff and resources to process applications in respect of RQFII products. In parallel, the SFC will take into account the demand for authorisation of RQFII products in its future manpower and resources planning.

(d) We are actively pursuing with the relevant mainland authorities for an early announcement of the technical arrangements. The introduction of further products will depend on market conditions and demands after the implementation of the RQFII scheme. If it is considered necessary, we will discuss with the relevant mainland authorities to introduce more products under RQFII scheme.

(e) As mentioned in my reply to (a) above, the OCI has been reflecting views on establishing business in the mainland to the CIRC through various channels. The OCI will pursue measures which include the lowering of entry thresholds of Hong Kong insurance companies to the Guangdong market and further opening-up of the insurance intermediary market through platforms like CEPA and the Guangdong-Hong Kong Framework Agreement.

Ends