

Press Release

**LCQ10: Enhancing the role of Hong Kong's finance industry
in respect of Renminbi businesses**

Wednesday, December 14, 2016

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 14):

Question:

Some members of the finance industry have pointed out that following the International Monetary Fund's inclusion of Renminbi (RMB) in its Special Drawing Rights (SDR) currency basket in October this year, the Government should introduce measures to promote Hong Kong's role as an RMB asset management centre, and assist the industry in capitalising on the opportunities arising from our country's implementation of the strategy of the Silk Road Economic Belt and 21st Century Maritime Silk Road (the Belt and Road Initiative), so as to promote the development of Hong Kong's RMB settlement services. In this connection, will the Government inform this Council:

(1) whether it has conducted studies on ways to enhance the role of Hong Kong's finance industry as a guide for foreign investors when they engage in RMB asset investments, and ways to encourage such investors to increase their acquisition of RMB-denominated bonds, equities and other assets by making reference to the weighting of currencies in the SDR currency basket, so as to strengthen the role of Hong Kong as an RMB asset management centre which connects Mainland and overseas investors; if it has conducted such studies, of the details; if not, the reasons for that;

(2) regarding the countries and places along the Belt and Road which do not use the US dollar as their major settlement currency for international transactions, whether the Government will conduct a study on the feasibility of Hong Kong providing RMB transaction settlement services to the central banks of or large enterprises in such countries; if it will, of the details; if not, the reasons for that; and

(3) apart from the Shanghai-Hong Kong Stock Connect and the

Shenzhen-Hong Kong Stock Connect which have already been implemented, whether the Government will discuss with the Mainland authorities the establishment of mutual access mechanisms between Hong Kong and the Mainland for the trading of other types of financial investment products (including funds and bonds), so as to consolidate Hong Kong's role as a springboard for bilateral investments between Hong Kong and other places; if it will, of the details; if not, the reasons for that?

Reply:

President,

My reply to the three parts of the question is as follows:

(1) Hong Kong has been playing a pioneering role in the process of Renminbi (RMB) internationalisation and capital account liberalisation in the Mainland. In the past few years, we have implemented a number of important measures to support the financial sector in establishing diversified channels for cross-border investment, as well as promoting the mutual access between the Hong Kong and Mainland markets. These include the Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect, the Mutual Recognition of Funds (MRF) arrangement between the Mainland and Hong Kong, the RMB Qualified Foreign Institutional Investors (RQFII) Scheme and the Qualified Foreign Institutional Investors (QFII) Scheme. Furthermore, with the world's largest offshore RMB liquidity pool, a highly efficient financial infrastructure and a wide range of RMB products and services, Hong Kong has become a leading offshore RMB asset management centre.

The Hong Kong Monetary Authority (HKMA) has been actively reaching out to Mainland asset management companies to encourage them to establish a presence in Hong Kong, thereby enhancing the depth and scale of our asset management market, promoting the development and trading of RMB and other investment products as well as reinforcing Hong Kong's function as an asset management centre. This will not only facilitate the local industry to tap into the Mainland market, but will also bring in more Mainland capital and demand for related financial services to Hong Kong, which are conducive to enhancing the ties between the asset management markets in Hong Kong and the Mainland. In fact, many Mainland asset management companies have

already set up a presence in Hong Kong to provide RMB investment and asset management services. In 2015, 283 Securities and Futures Commission-authorized funds were managed by Mainland-related fund groups, up by 11.9 per cent as compared with 2014.

The Government has been working with relevant Mainland authorities to facilitate overseas investors to access the Mainland market through Hong Kong. In addition, we have engaged the industry closely and have provided them with a favourable tax and regulatory environment. For example, the Inland Revenue (Amendment) (No. 2) Ordinance 2016, passed in June this year, allows under specified conditions, interest deduction in calculating profits tax for intra-group financing business of corporations operating in Hong Kong, and profits tax rate reduction by 50 per cent for qualifying corporate treasury centres (CTCs). This will help attract multinational and Mainland corporations to set up CTCs in Hong Kong, draw in more asset management and other related financial activities, and consolidate Hong Kong's role as an international asset management centre.

The HKMA also set up the Infrastructure Financing Facilitation Office (IFFO) in July 2016 to bring together key stakeholders at home and abroad to facilitate infrastructure investments and financing using Hong Kong's platform. Since then, more than 50 partners have joined the IFFO. The partners include multilateral development banks, public and private sector investors, project developers and operators and professional service providers. One of the IFFO's tasks is to build capacity and knowledge on infrastructure investments and financing in the industry. For example, a workshop on "Private Participation in Infrastructure Project Finance in Emerging Markets" was held in October 2016. The IFFO will continue to strengthen co-operation with various stakeholders, promote the development of Hong Kong as an infrastructure investment and financing centre, and explore development opportunities for the industry along the Belt and Road and other regions.

Looking ahead, we will continue to liaise with the Mainland authorities to explore further policy headroom for establishing more cross-border investment channels. This will attract more Mainland and international asset management companies to establish or expand their presence in Hong Kong with a view to drawing in more capital and strengthening the network among the markets of Hong Kong, the Mainland and other places, and thus enhance

the functions of Hong Kong as an asset management centre linking up the Mainland and the rest of the world.

(2) As an international financial centre and the global offshore RMB business hub, Hong Kong has been playing an important role in promoting RMB internationalisation and supporting the development of other overseas markets. Insofar as RMB settlement service is concerned, Hong Kong's RMB Real Time Gross Settlement (RTGS) system, established in 2007, has been providing efficient and reliable RMB settlement services for banks in various parts of the world and supporting real-time cross-border RMB payment through its connection with the payment system in the Mainland. Eligible banks from different places can access the RMB RTGS system in Hong Kong by becoming a participating bank of Hong Kong's RMB clearing platform. Currently, more than 200 banks around the world have become participating banks, providing related RMB services to corporates and institutions in different places through Hong Kong's RMB clearing platform. Furthermore, in collaboration with the industry, we have been actively stepping up co-operation with other offshore RMB business centres and overseas markets as well as promoting Hong Kong's RMB platform and our unique advantages in capitalising on the opportunities arising from the Belt and Road Initiative. We will continue our work on this front.

(3) Shanghai-Hong Kong Stock Connect launched in 2014, the Mainland-Hong Kong MRF arrangement launched last year and Shenzhen-Hong Kong Stock Connect launched this year are major milestones in the promotion of the mutual access between the capital markets in Hong Kong and the Mainland. We note that there are suggestions in the market that more traded products (including exchange-traded funds and bonds) be included as eligible securities under the mutual market access scheme. The Government and regulators will continue to discuss with relevant Mainland authorities the deepening of mutual market access and to study the feasibility of expanding the scope of eligible securities for trading under the mutual market access scheme, with a view to reinforcing Hong Kong's role in connecting the financial markets in the Mainland and the rest of the world. The China Securities Regulatory Commission and the Securities and Futures Commission mentioned in their joint announcement regarding Shenzhen-Hong Kong Stock Connect issued on August 16, 2016 that they have reached a consensus to include exchange-traded funds as eligible securities under the mutual market access scheme after Shenzhen-Hong Kong

Stock Connect has been in operation for a period of time and upon the satisfaction of relevant conditions. This will further enrich the variety of traded products and provide more investment opportunities and convenience for domestic and overseas investors.

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