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Replies to supplementary questions raised by Legislative Council Members in examining the Estimates of Expenditure 2023-24

Director of Bureau : Secretary for Financial Services and the Treasury

Session No. : 4

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CONTROLLING OFFICER'S REPLY

S-FSTB(FS)001

(Question Serial No. S004)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (-) Not Specified

Controlling Officer: Permanent Secretary for Financial Services & the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Financial Secretary and Secretary for Financial Services & the Treasury

Question:

Regarding the interactions among high-technology industries in the Guangdong-Hong Kong-Macao Greater Bay Area, has the Government prepared a specific annual estimate as its fiscal policy for the \$5 billion GBA Investment Fund under the Future Fund to support investments in that field for achieving co-ordinated development? Specifically, which policy bureau will be responsible for the follow-up and co-ordination work?

Asked by: Hon YIM Kong

Reply:

The 2022 Policy Address announced the establishment of the Hong Kong Investment Corporation Limited (the Corporation) to further optimise the use of fiscal reserves for promoting the development of industries and the economy. The Corporation will manage the Hong Kong Growth Portfolio (HKGP), the Greater Bay Area Investment Fund and the Strategic Tech Fund established under the Future Fund, as well as the newly established Co-Investment Fund (CIF). The initial allocation to the Corporation for management amounts to \$62 billion. The Corporation will, based on the direction of enhancing Hong Kong's competitiveness as well as leading and supporting the prosperous growth of strategic industries, identify investment opportunities to strengthen Hong Kong's ability to attract investments and enterprises, enhance the structure of industries and the impetus of economic growth, with a view to creating more quality career development opportunities for people and promoting the cooperation of industries between Hong Kong and cities in the Guangdong-Hong Kong-Macao Greater Bay Area, and fostering mutual development.

On 15 February 2023, the Government announced the membership of the Corporation's Board of Directors (Board). The Board will formulate the Corporation's investment strategies and mandate with reference to the above policy objectives, including devising

appropriate investment strategies as well as procedures and criteria in sourcing investment partners or targets according to the different focuses of funds under its management. At the initial stage of the Corporation's operation, the Hong Kong Monetary Authority (HKMA) will render support on investment, logistics and operational matters.

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CONTROLLING OFFICER'S REPLY

S-FSTB(FS)002

(Question Serial No. S013)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)148:

As this year marks the 10th anniversary of the Belt and Road (B&R) Initiative, would the Government formulate financial support policies to attract strategic enterprises or key projects of the B&R regions to list and raise funds in Hong Kong, with a view to supporting more Hong Kong enterprises to tap into the B&R Initiative?

Asked by: Hon YIM Kong

Reply:

President Xi stated in his important speech delivered on 1 July 2022 that the Central People's Government fully supports Hong Kong in its effort to seize the historic opportunities offered by national development and actively dovetail itself with the 14th Five-Year Plan and other national strategies such as the high-quality development of the Belt and Road. We attach great importance to the opportunities brought by the Belt and Road Initiative, and will continue to make good use of Hong Kong's mature and efficient financial market as well as professional prowess to contribute to the Belt and Road development.

As regards infrastructure investment and financing, the Hong Kong Monetary Authority set up the Infrastructure Financing Facilitation Office (IFFO) in 2016 to connect key stakeholders for promoting infrastructure investment and financing. The IFFO now has nearly 100 partner institutions from the Mainland, Hong Kong and the overseas. Since its launch, the IFFO has organised more than 30 large-scale conferences, seminars and workshops on infrastructure investment and financing to share relevant information, experiences and best practices.

Since the establishment of the Infrastructure Financing and Securitisation Department in 2019, the Hong Kong Mortgage Corporation (HKMC) has invested in infrastructure loan

assets totalling over USD 1.1 billion as of end 2022, covering different sectors in 14 markets in the Belt and Road related countries and regions. The HKMC is taking forward a Pilot Infrastructure Loan-Backed Securitisation (PILBS) scheme with expected issuance in the second quarter of 2023 at a size of USD 400-450 million for the institutional investor market, subject to market conditions. The PILBS will facilitate the inflow of market capital to infrastructure projects and further solidify Hong Kong's status as a global project financing hub.

Concerning the listing regime, we are committed to enhancing Hong Kong's securities market and attracting enterprises as well as investors from different places (including those from the Belt and Road related countries and regions) to participate in investment and fundraising activities in Hong Kong. After consulting the market, the Hong Kong Exchanges and Clearing Limited (HKEX) launched the listing regime for specialist technology companies in March 2023. The regime has expanded the listing channel for issuers, facilitating specialist technology enterprises that have yet to meet the existing profit or revenue requirements of the Main Board to list and raise funds. We are also actively proceeding with the enhancement of the trading mechanism of dual-counter stocks with a view to promoting the issuance and trading of Renminbi (RMB) stocks in Hong Kong. Specifically, we have made legislative amendments to exempt the stamp duty payable for transactions relating to dual-counter stocks conducted by market makers, in support of HKEX's upcoming launch of the dual-counter market maker regime. We welcome Belt and Road enterprises to seek listing and issue RMB securities in Hong Kong.

On financial support, we welcome enterprises to leverage Hong Kong's capital market as well as financial and professional services for green and sustainable investment, financing and certification in relation to the Belt and Road Initiative. We launched in May 2021 the three-year Green and Sustainable Finance Grant Scheme with a total provision of \$255 million to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. As of end-March 2023, we have granted close to \$170 million to over 220 green and sustainable debt instruments issued in Hong Kong, involving a total underlying debt issuance of over \$560 billion.

We will continue to make good use of Hong Kong's strengths in financial and professional services and further Hong Kong's participation in the Belt and Road Initiative.

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CONTROLLING OFFICER'S REPLY

SV-FSTB(FS)001

(Question Serial No. SV016)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)021:

Regarding the implementation of qualifying deferred annuity plans, please provide information on the guidelines issued by the Insurance Authority for regulating the early termination of such policies by the insured and the reasons for the significant decrease in the number of new policies from 133 000 in 2019-20 to 36 000 in 2021-22.

Asked by: Hon CHAN Pui-leung

Reply:

Qualifying deferred annuity policies (QDAP) allow policy holders to turn accumulated savings into a stable stream of income over a period of time. Generally speaking, policy holders pay premiums regularly over a specified period of time, allowing the paid up sum to grow through investment by the insurers. According to the relevant guidelines issued by the Insurance Authority (i.e. GL19 – Guideline on Qualifying Deferred Annuity Policy (GL19)), the minimum premium payment period is 5 years. After a period of time, policy holders will receive regular payments during a specified period.

Regarding early termination of policies by policy holders, as the QDAP are long-term insurance products, early termination of policies may incur financial losses. In particular, if policies are terminated at initial stages, the surrender value may be far less than the premiums paid. To protect the interests of policy holders, the GL19 requires insurers to set the surrender value at a level at which insurers do not profit from early termination. Policy holders can find the surrender value, including the guaranteed and non-guaranteed parts, in the benefit illustration, or refer to the product brochure for the percentage of the surrender value over the paid premiums of the first year of the policy. Furthermore, the insurers and licensed insurance intermediaries should ensure policy holders or potential policy holders are fully apprised of the policy features and risks associated with the QDAP, and that relevant

risks (e.g., the risk of significant financial loss upon early surrender by policy holders) are clearly and prominently disclosed in the product brochures.

Regarding the sales of policies, with the launch of the QDAP in April 2019, for the years of assessment 2019-20 to 2021-22, over 220 000 QDAP were sold, involving around \$16 billion annualized premiums, reflecting that the product has been well received by the insurance sector and the public. The number of new policies decreased from 133 000 in 2019-20 to 53 000 in 2020-21 and to 36 000 in 2021-22, which we believe was mainly caused by the fact that people who have already purchased the annuities are unlikely to purchase another QDAP in the near future as they have to continue to pay the premiums (which are eligible for tax deduction under salaries tax and personal assessment).

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CONTROLLING OFFICER'S REPLY

SV-FSTB(FS)002

(Question Serial No. SV017)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)004:

Regarding the delayed delivery of the eMPF Platform, will the Government provide the timetable and details of the request for the Contractor to work out a clear recovery plan and catch up on the progress?

Asked by: Hon CHOW Ho-ding, Holden

Reply:

Over the past 2 years, the Mandatory Provident Fund Schemes Authority (MPFA) and the eMPF Platform Company Limited (the Company) have been overseeing the work progress of its contractor (the Contractor) with regard to the eMPF Platform Project (the Project) proactively and closely through a multi-pronged monitoring and reporting mechanism. In light of the Contractor's assessment on system development timeline in end-2022, the MPFA and the Company have taken prompt follow-up actions on the Contractor's work progress, quality and bottleneck issues. These included demanding the Contractor to work out promptly a recovery plan to catch up on the progress and exhaust all possible means to minimize the expected delay.

Based on the recovery plan submitted by the Contractor, it is expected that there is a high possibility of delay in the Contractor's delivery of the system to end-2023, representing an eight-month delay as compared to the requirement stipulated in the contract. Nonetheless, the ultimate target of completing the onboarding of all Mandatory Provident Fund (MPF) schemes and making the eMPF Platform fully functional in 2025 remains unchanged.

To ensure that the recovery plan could be fully executed, the MPFA has requested the Contractor to commission a third-party professional consultant to conduct an independent assessment on the recovery plan. Results from the initial assessment show that the recovery

plan is feasible to achieve the target of delivering the eMPF Platform by end-2023, subject to the conditions that the Contractor would ensure sufficient experienced staff for the development of the eMPF Platform and system testing, and implement a series of quality control and project management measures. To this end, the Contractor has increased its headcounts, strengthened progress monitoring, and enhanced resources management of the Project, as well as established direct liaison between the Project's senior executives and MPF trustees, so as to prevent further Project slippage and ensure the quality of the system could meet public expectation.

Implementing the above-mentioned recovery plan will have no bearing on the Company's rights and possible legal actions under the contract, including the right to claim liquidated damages from the Contractor for its delay in system delivery.

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CONTROLLING OFFICER'S REPLY

SV-FSTB(FS)003

(Question Serial No. SV021)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Financial Secretary and Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)066:

Regarding the operation of the Hong Kong Investment Corporation Limited, please provide details about the investment strategies and mandate in respect of the Co-Investment Fund, as well as the criteria for submitting investment proposals to become co-investment partners and those for participating in co-investments under the fund.

Asked by: Hon KAN Wai-mun, Carmen

Reply:

In his 2022 Policy Address, the Chief Executive announced that \$30 billion would be set aside from the Future Fund to establish the Co-Investment Fund (CIF) for attracting enterprises to set up operations in Hong Kong and investing in their business. The CIF is managed by the Hong Kong Investment Corporation Limited (the Corporation), with an overall policy objective to optimise the use of fiscal reserves for promoting the development of the economy and industries as well as enhancing our ability to attract enterprises and investment.

On 15 February 2023, the Government announced the membership of the Corporation's Board of Directors (the Board). The Board will formulate the Corporation's investment strategies and mandate with reference to relevant policy objectives, including devising appropriate investment strategies as well as procedures and criteria in sourcing investment partners or targets according to the different focuses of funds under its management. At the initial stage of the Corporation's operation, the Hong Kong Monetary Authority (HKMA) will render support on investment, logistics and operational matters, including to discuss collaboration with interested institutions.

As for the CIF, the Corporation will consider making co-investments through the CIF taking into account the potential of enterprises or individual projects to drive industry development and employment in Hong Kong. The HKMA along with the Office for Attracting Strategic Enterprises under the Financial Secretary's Office are already engaging with some interested institutions preliminarily and will consider making co-investments in future based on the investment policies to be laid down by the Board. Interested companies or institutions may approach the HKMA direct to understand further details and discuss the cooperation proposal.

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CONTROLLING OFFICER'S REPLY

SV-FSTB(FS)004

(Question Serial No. SV022)

Head: (148) Government Secretariat: Financial Services and the Treasury
Bureau (Financial Services Branch)

Subhead (No. & title): (000) Operational expenses

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury
(Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)002:

Regarding the support for the development of financial technology in Hong Kong, the Government said that the Hong Kong Monetary Authority was working with the Bank of Thailand to explore the use of Hong Kong's FPS and Thailand's PromptPay by visitors from the 2 places for local payment, and that implementation details and timetable would be subject to the ongoing discussion between the 2 sides. Please explain the factors that the Government will consider in the implementation of the above plan.

Asked by: Hon KAN Wai-mun, Carmen

Reply:

The application of the Faster Pay System (FPS) in Hong Kong has become increasingly mature. Making use of the round-the-clock and instant settlement nature of the FPS, its application on cross-border payment can overcome geographical constraints and generate greater benefits. The Hong Kong Monetary Authority (HKMA) is working with the Bank of Thailand to explore the use of Hong Kong's FPS and Thailand's PromptPay for local payment by visitors from the two places, providing them with another safe, fast and effective payment option. The implementation details under discussion include operation model for the cross-border payment, technical requirements for system enhancement and connection, and cooperation arrangements among participating banks and system operators of the two places, etc. The HKMA will announce specific details and implementation timetable in due course.

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CONTROLLING OFFICER'S REPLY

SV-FSTB(FS)005

(Question Serial No. SV018)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)088:

Regarding the financing needs of small and medium enterprises (SMEs) and start-ups, what measures does the Government have in place to enhance the vetting process for listing SMEs and start-ups, with a view to shortening the time for such enterprises to obtain approval for listing?

Asked by: Hon LEE Wai-wang, Robert

Reply:

The Government notes the concerns of the industry over the financing of small and medium enterprises and start-ups as well as the prospect of GEM. As mentioned by the Financial Secretary in the 2023-24 Budget, the Hong Kong Exchanges and Clearing Limited (HKEX) will put forward specific reform proposals on GEM within 2023 for formal consultation. At present, the vetting of corporate listing aims to ensure the credibility of information disclosed by the applicants in compliance with the listing requirements and on their business prospects. It is an important step in examining the compliance of listing applicants and maintaining market quality, hence safeguarding the interest of the subscribing investors. The regulators vet individual listing applications in accordance with the existing laws and Listing Rules, and will not allow differential treatment between enterprises of different sizes. The time taken in vetting listing applications depends on various factors, mainly including the adequacy of information disclosed by the applicants in meeting the listing requirements, the quality of their disclosed materials, their responses to regulatory inquiries, etc. The Securities and Futures Commission and HKEX will consider all aspects comprehensively when taking forward the review of GEM, including enhancing the existing vetting procedures and mechanism of listing, and balancing between the financing needs of small and medium enterprises and start-ups as well as investor protection. HKEX will consider the views raised

by different stakeholders, and conduct a detailed analysis of the pros and cons of relevant measures and consider related risks.

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CONTROLLING OFFICER'S REPLY

SV-FSTB(FS)006

(Question Serial No. SV019)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (-) Not Specified

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)002:

As regards promoting the development of family office business in Hong Kong, will the Government provide a breakdown by the number of family offices with newly established/expanded operations for the 24 family offices which have established or expanded their operations in Hong Kong with assistance from the dedicated team of Invest Hong Kong?

Asked by: Hon MA Fung-kwok

Reply:

Invest Hong Kong set up a dedicated FamilyOfficeHK team (the dedicated team) in June 2021 to provide one-stop support services to family offices and ultra-high-net-worth individuals interested in developing their foothold in Hong Kong. The dedicated team has successfully assisted 24 family offices to establish or expand their operations in Hong Kong, including 6 newly set up family offices and 18 family offices expanding their operations.

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CONTROLLING OFFICER'S REPLY

(Question Serial No. SV020)

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Salina YAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply of Serial No. FSTB(FS)130:

Regarding the development of Hong Kong as a Renminbi (RMB) offshore centre, please inform this Committee of the details of the specific initiatives and estimated expenditure for promoting the issuance of offshore RMB bonds and bulk commodity trading and clearing in RMB.

Asked by: Hon TAN Yueheng

Reply:

The Report to the 20th National Congress has stated that our country will promote the internationalisation of RMB in an orderly way. According to the “Renminbi Internationalisation Report 2022” published by the People’s Bank of China, cross-border Renminbi (RMB) settlement has continued to grow, and cross-border two-way investment activities have remained dynamic. The fundamental policy framework of cross-border RMB investment, financing and settlement has continued to improve. Hong Kong, as the world’s largest offshore RMB hub, has a solid foundation for further developing RMB business and contributing to RMB internationalisation.

Offshore RMB Bonds

The offshore RMB bond market in Hong Kong has been developing steadily since the issuance of the first batch of offshore RMB bonds by the China Development Bank in Hong Kong in 2007. In recent years, the offshore RMB bond market in Hong Kong has been active, with the issuance volume reaching RMB143.4 billion in 2022, representing a year-on-year increase of over 30% and marking a record high in the past 8 years. Issuers have also become more diversified. Apart from the Ministry of Finance’s regular annual issuance of sovereign bonds in Hong Kong since 2009, the Shenzhen Municipal People’s Government

(Shenzhen Government) and the People's Government of Hainan Province issued offshore RMB government bonds in Hong Kong in 2021 and 2022. The bond types issued included green bonds, blue bonds and sustainable bonds.

We will continue to facilitate more entities to issue offshore bonds in Hong Kong through a multi-pronged approach. Specific measures are set out below.

(a) Enhancing policy support measures

In accordance with the Exemption from Profits Tax (Shenzhen Municipal People's Government Debt Instrument) Order (Cap. 112DP) effective since March 2022, the interest paid or profit received arising from the debt instruments issued in Hong Kong by the Shenzhen Government is exempted from the payment of profits tax. To support and facilitate more Mainland local governments to issue bonds in Hong Kong, we have made the Exemption from Profits Tax (Debt Instrument Issued by Mainland Local People's Government at Any Level) Order to extend the coverage of the profits tax exemption to the debt instruments issued in Hong Kong by all Mainland local people's governments at any level. This Order has come into operation from 31 March 2023.

Also, the Hong Kong Monetary Authority has since 2021 expanded the list of eligible collateral for the RMB Liquidity Facility to include RMB, USD and Euro denominated debt securities issued in offshore markets by the Mainland local people's governments at any level.

(b) Expanding mutual market access

We amended the legislation in June 2022 to facilitate investment by Mandatory Provident Fund funds in debt securities issued or unconditionally guaranteed by the Central People's Government, the People's Bank of China, and the 3 Mainland policy banks.

We will continue to leverage Southbound Trading under Bond Connect launched since September 2021 to facilitate Mainland institutional investors to deploy foreign bond assets through Hong Kong, hence enhancing the attractiveness of Hong Kong's bond platform.

(c) Green bonds and financial support

As of February 2023, we have successfully issued green bonds totalling close to US\$16 billion equivalent, including offshore RMB green bonds totalling RMB15 billion, under the Government Green Bond Programme (GGBP). The GGBP helps raise Hong Kong's profile and establish market benchmark, enrich the green and sustainable finance ecosystem, provide funding for green public works projects, and showcase to potential green bond issuers that Hong Kong is a premier platform offering one-stop service for issuing green products.

We launched in May 2021 the three-year Green and Sustainable Finance Grant Scheme with a total provision of \$255 million to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. As of end-March 2023, we have granted close to \$170 million to over 220 green and sustainable debt instruments issued in Hong Kong, involving a total underlying debt issuance (including RMB-denominated debt instruments) of over \$560 billion.

(d) Stepping up promotion

We have been actively promoting Hong Kong's bond platform. An example is the collaboration with the Development and Reform Commission of Guangdong Province to jointly organise a seminar in September 2022 on examining the expansion of the offshore RMB bond market and leveraging bond financing to support the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), as well as exploring the future development direction of the offshore RMB bond market in Hong Kong. The seminar provided a good platform for around 100 representatives of government authorities, financial institutions, industry organisations, trades and relevant enterprises of the 2 places to share experiences of bond issuance in Hong Kong, and exchange views on the internationalisation of RMB and the development prospect of the GBA.

RMB Commodity Trading and Settlement

The Plan for Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone supports the Qianhai Mercantile Exchange (QME) of the Hong Kong Exchanges and Clearing Limited (HKEX) to carry out spot commodity trading in accordance with the relevant laws and regulations. In February 2023, the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, the State Administration of Foreign Exchange and the People's Government of Guangdong Province jointly promulgated the Opinion on Providing Financial Support for the Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, setting out 30 measures on financial reform and innovation, which include supporting the QME to launch RMB-denominated settlement business for cross-boundary spot commodity trading, enrich the types of products traded in an orderly manner, and strengthen its commodity pricing capabilities. Based on relevant policies and taking account of the latest market circumstances, HKEX will further develop the QME as a spot commodity trading platform serving Mainland and offshore clients. Notably, the QME has already implemented cross-boundary RMB settlement for soybean trading under the Cross-boundary Interbank Payment System. HKEX will also explore further collaboration between the QME and its exchanges in Hong Kong and London to synergise market development.

Policy coordination work concerned undertaken by the Financial Services Branch is absorbed by existing resources. There is no itemised breakdown of expenditure.

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