Mapping the future

19th September 2018

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Hong Kong's competitive edges as **corporate treasury hub**

Increasing regional connectivity and **new market trends**

Latest policy initiatives sharpening Hong Kong's edge for future growth

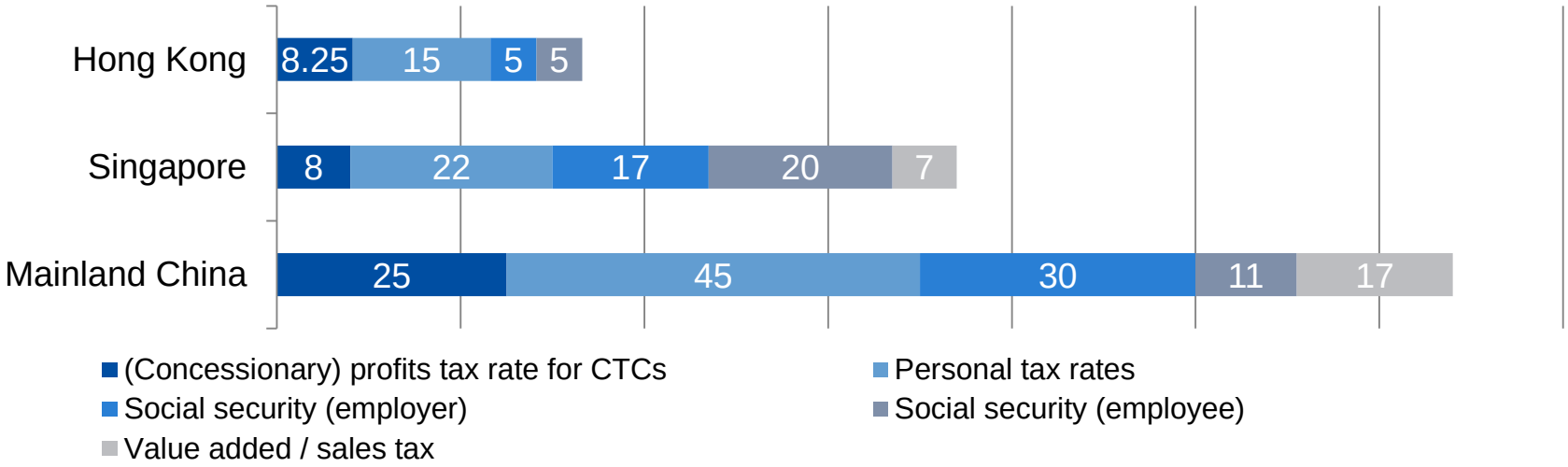
A holistic view on Hong Kong's status as an international financial centre

	2017	Notes
Banking		
Assets *(USD bn)*	2,910	• **200+ authorised institutions, including the world's largest, and 70+ of the world top 100** • +3.4 times from 2000
Stock market		
Market Capitalisation *(USD bn)*	4,351	• **Global #1 in IPO fundraising in 5 out of last 10 years** • +7 times from 2000
Bond market		
G3 and local currency bond issuance *(USD bn)*	467	• **#3 in Asia ex-Japan, after Mainland China and Korea** • +7 times from 2000
Asset management		
Asset under management *(USD bn)*	3,112	• **Asia's #1 international fund management hub** • +16 times from 2000
of which: private wealth management *(USD bn)*	1,002	• **Largest international private wealth management centre in Asia** • +16 times from 2002 *

** Data before 2002 is not available*
Source: HKMA, HKEX, World Federation of Exchanges, PwC, ADB, SFC

Low and competitive tax regime for corporate treasury centres (CTCs)

- In 2016, the Hong Kong Government amended the Inland Revenue Ordinance to :
  - **Allow**, under specified conditions, **the deduction of interest expenses in calculating profits tax for the intra-group financing business of corporations**; and,
  - **Reduce profits tax for specified treasury activities by 50 per cent (i.e. to 8.25%) for qualifying CTCs**.



Hong Kong does not impose

- ✘ Tax on dividends
- ✘ Withholding tax
- ✘ Capital gain tax
- ✘ Sales tax or VAT
- ✘ Estate tax
- ✘ Worldwide taxation

New development with the CTC regime

140+ corporates

Benefitted from the CTC tax regime in its first year

Extension of the half rate concession to **domestic transactions**

Legislation gazetted in July 2018

Enhancing connectivity to the world and the region

Hong Kong International Airport

Over **1,100** flights daily

Over **220** destinations worldwide by **100+** airlines

72.9 million passengers handled in 2017

5 hours from **half** the world's population

Hong Kong–Zhuhai–Macao Bridge

Guangzhou–Shenzhen–Hong Kong Express Rail Link

Source: InvestHK; Google

The Belt & Road Initiative as a new engine for growth

Growth:

- Chinese firms' overseas operations
- Regional investment and trade flows

Demand for:

- Capital
- Treasury management
- Professional services
- Risk management
- RMB services

Belt and Road economies' ***share of world total:***

62% Population	31% GDP	33% Trade

Source: State Information Centre of China

Synergies from further integration with the Greater Bay Area (GBA)

	GBA	Greater Tokyo Area	San Francisco Bay Area	New York City
GDP (USD trn)	**1.5**	1.8	0.8	1.7
Area (sq.km)	**56,000**	36,800	17,900	783
Population (mn)	**70.0**	43.8	7.6	8.6

- Population, trade and capital flows require support and create opportunities for payment, banking and wealth management services
- Testing ground for and benefit from China's opening-up measures
- One of the foci is on measures to facilitate residents living across the border such as mobile payment, account opening and wealth management.

Source: Fung Business Intelligence, China Council for the Promotion of International Trade

Forefront in Mainland China's financial liberalization

2002 — QFII
Invest in onshore equity & bond markets after opening onshore accounts

2003 — Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA)
Preferential trade & investment policies

2011 — RQFII
Extension of QFII to allow RMB

2014 — Shanghai-HK Stock Connect
International investors can trade Shanghai stocks through HKEX and Chinese investors can trade HK stocks through SSE

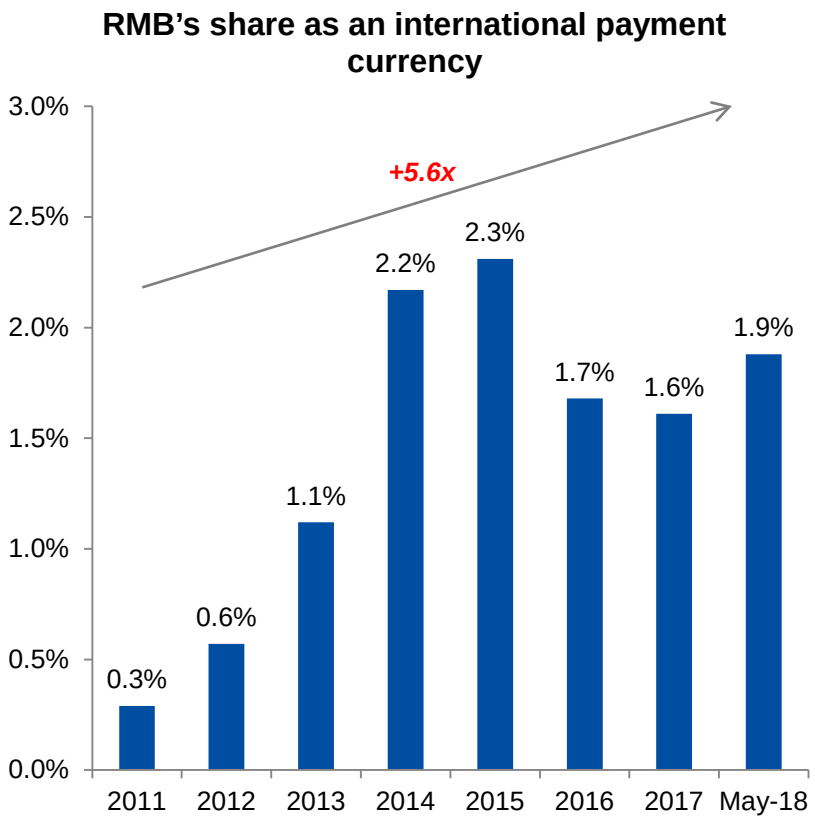
2015 — Mutual Recognition of Funds
Chinese and HK investment funds can be distributed to each other's public after streamlined approval

2016 — Shenzhen-HK Stock Connect
Extension of Stock Connect to cover SZSE

2017 — Bond Connect
International investors can trade and clear China bonds using HK

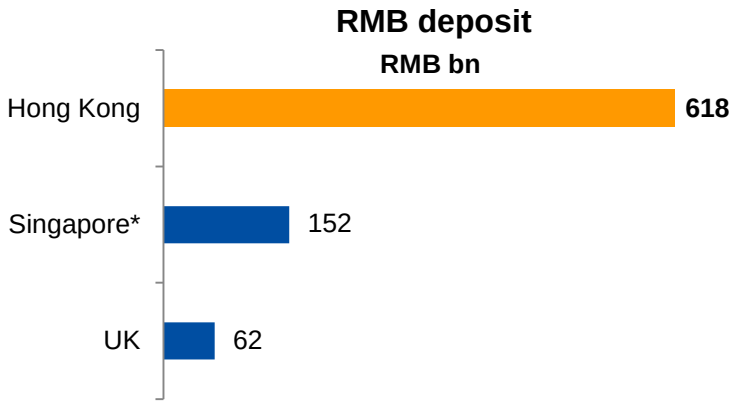
By far the largest offshore centre for the increasingly popular RMB

International use of RMB has been growing rapidly



Source: SWIFT

Hong Kong offers full RMB services, supported by ample liquidity



- Outstanding RMB loans and bonds: RMB357bn at the end of 2017
- Hong Kong provides **over 500** RMB-denominated investment products: Bonds, certificates of deposit, insurance, fixed income funds, currency futures, exchange-traded funds, real estate investment trusts, stock and derivative products, etc.

As of year end 2017.
** Figures include certificates of deposit except for that of Singapore which is not available publicly*
Source: HKMA, IMF, MAS, BOE, FSTB

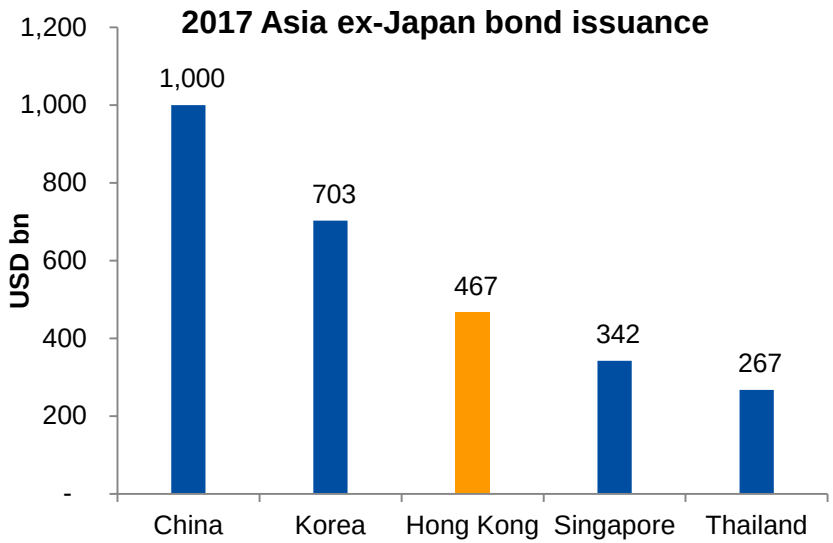
Leading regional hub for infrastructure financing and investments

IFFO 金管局基建融資促進辦公室
HKMA Infrastructure Financing Facilitation Office

- Infrastructure funding needs in Asia: US$1.7 trillion a year from 2016 to 2030
- IFFO facilitates infrastructure investments and their financing by working with a cluster of key stakeholders, including: multilateral development banks, financiers, investors, project owners, and professional service providers

Hub for bond issuance and green financing

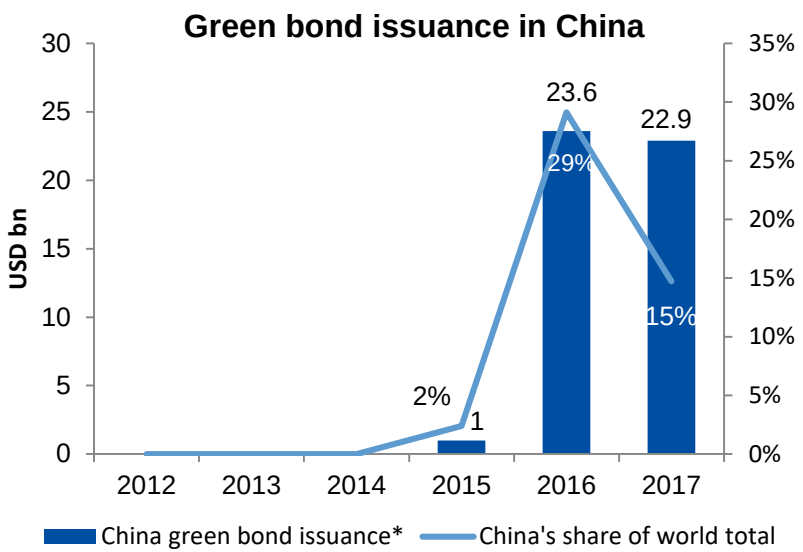
3rd largest bond centre in Asia ex-Japan



Source: ADB

- **New initiatives to promote bond market:**
  - Pilot Bond Grant Scheme to subsidise issuance
  - Enhance Qualifying Debt Instrument Scheme to broaden tax concession for bond investment

Matching China's need for green finance with international green funding



** Only include green bonds that meet international standard*

Source: Asian Development Bank, Climate Bonds Initiative, China Central Depository & Clearing Company

Supportive government initiatives:

- Green Bond Grant Scheme to subsidise external review costs
- HKD100 bn (USD13 bn) government green bond programme to create demonstrative effect

A banking centre for today and the future

HKMA set up the **Fintech Facilitation Office** to enhance ecosystem in Hong Kong, to build infrastructure, and to promote international cooperation

Faster Payment System	**Cross-border Trade Finance Platform**	**Promotion of Virtual Banking**
Enhanced Fintech Supervisory Sandbox 2.0	**Open Application Programming Interface (API)**	**Banking Made Easy**

Summary

- Steady growth in CTC activities in Hong Kong, building on our strengths as IFC
- Enormous opportunities for corporates:
  - Regional developments - *BRI, GBA*
  - New market trends - *China's financial liberation, fintech*
- Latest policy initiatives continue to sharpen our competitive edge for future growth
  - CTC tax regime, promoting green finance, new bond market schemes, HKMA fintech initiatives
- Corporate treasurers are encouraged to ride on the exciting opportunities, and build/expand their CTCs in Hong Kong

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