



HONG KONG MONETARY AUTHORITY

Briefing to the Legislative Council Panel on Financial Affairs

18 October 2021



DISCUSSION TOPICS

Updates on

- Financial and Economic Environment
- Currency Stability
- Banking Stability
- Financial Infrastructure
- Hong Kong as an International Financial Centre
- Investment Environment and Performance of the Exchange Fund
- Hong Kong Mortgage Corporation



FINANCIAL AND ECONOMIC ENVIRONMENT

3



GLOBAL ECONOMIC GROWTH FORECASTS

Real GDP Growth

(% year-on-year)

	2020	2021 Forecasts	2022 Forecasts
US	-3.4	5.9	4.3
Euro area	-6.5	5.0	4.4
Japan	-4.7	2.3	3.0
Asia (ex-Japan)	0.0	7.4	5.4
Mainland China	2.3	8.4	5.6
Hong Kong	-6.1	6.4	3.3

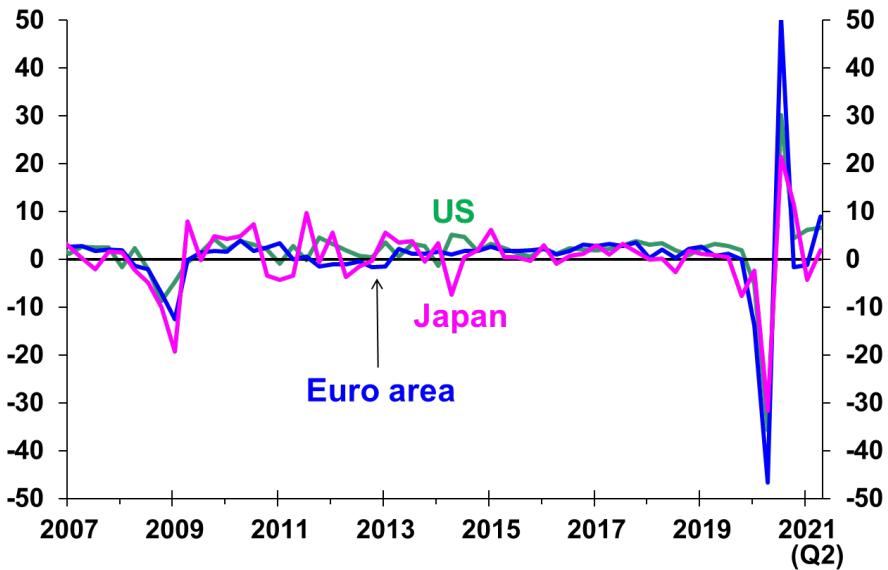
Source: September 2021 Consensus Forecasts

4



REAL GDP GROWTH IN MAJOR ECONOMIES

% qoq, annualised



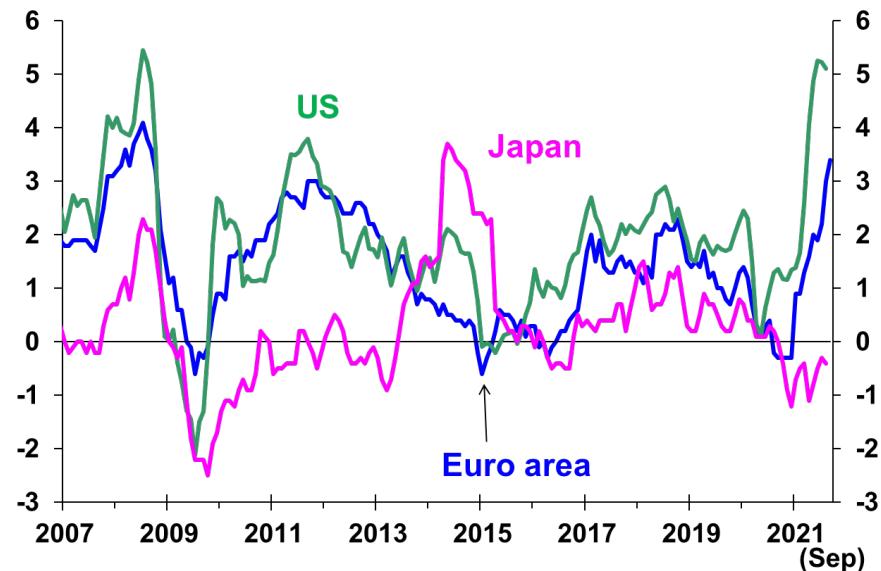
Source: CEIC

5



HEADLINE INFLATION IN MAJOR ECONOMIES

% yoy

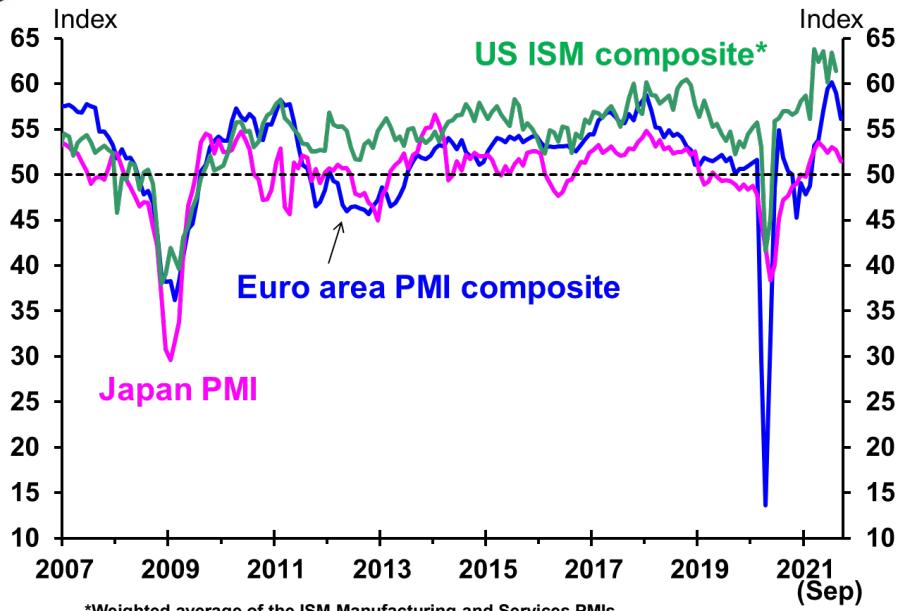


Source: CEIC

6



PURCHASING MANAGERS' INDEX IN MAJOR ECONOMIES

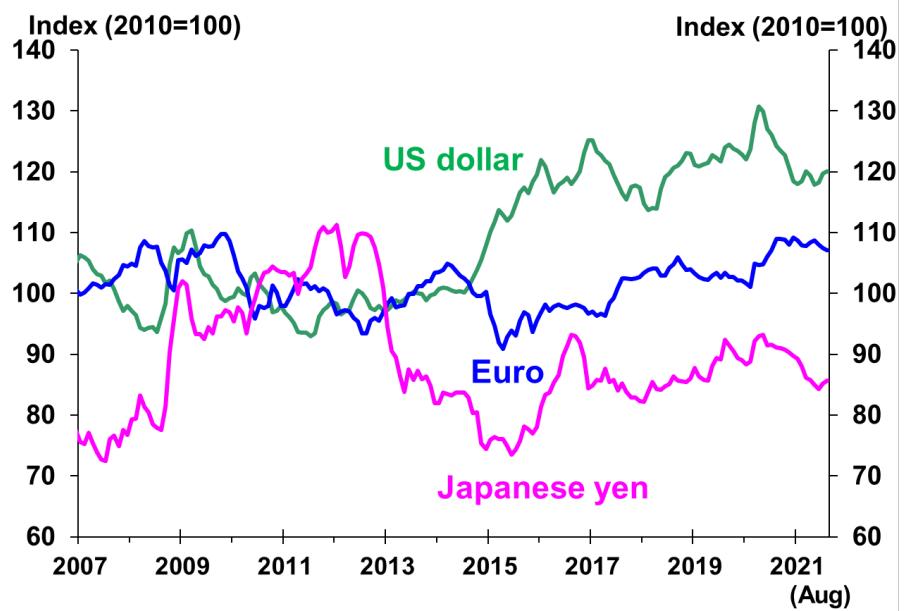


Source: CEIC

7



NOMINAL EFFECTIVE EXCHANGE RATE INDEX OF MAJOR CURRENCIES

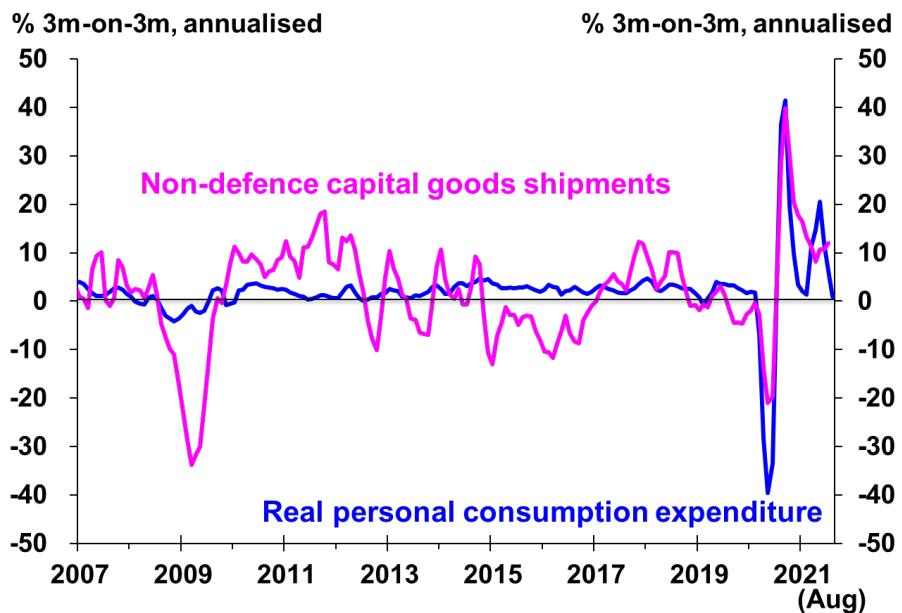


Source: CEIC

8



US: CONSUMPTION GROWTH & BUSINESS INVESTMENT ACTIVITY

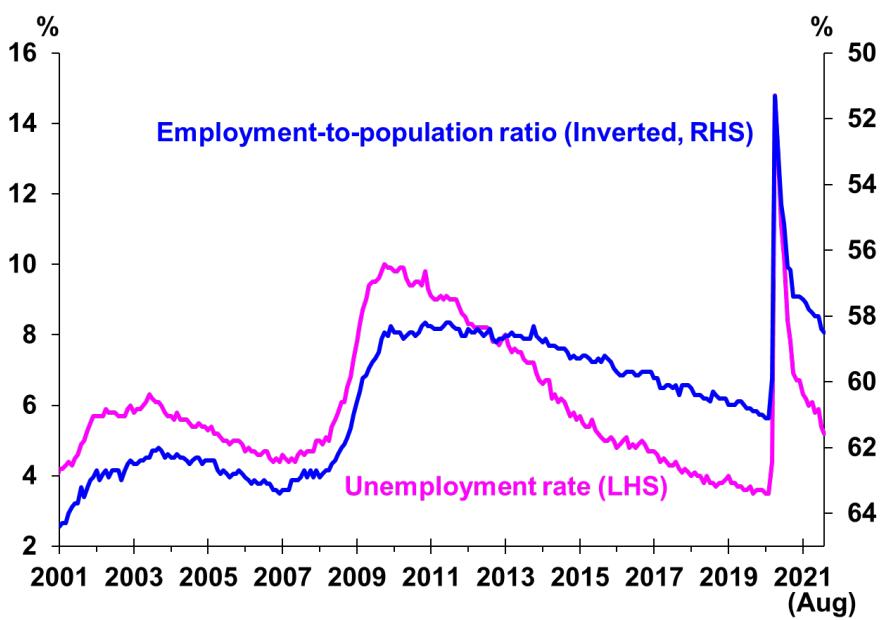


Source: CEIC

9



US: LABOUR MARKET SITUATION



Source: CEIC

10



US: LABOUR FORCE PARTICIPATION

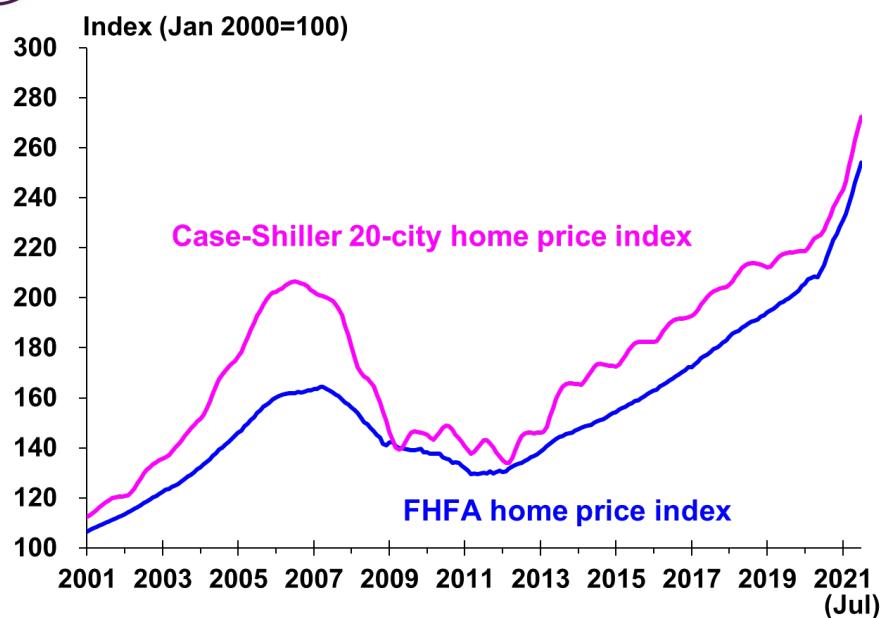


Source: CEIC

11



US: HOME PRICES

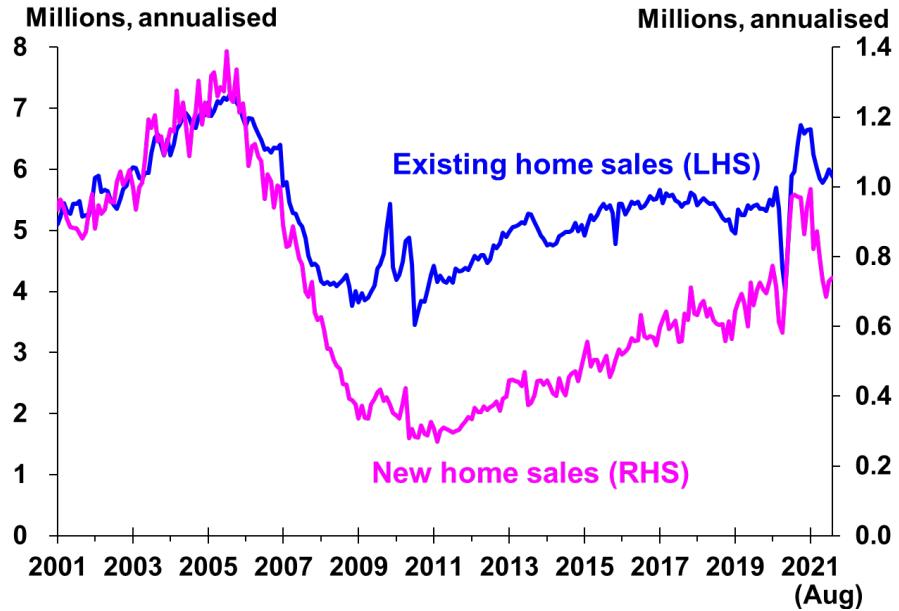


Sources: CEIC and Datastream

12



US: HOME SALES

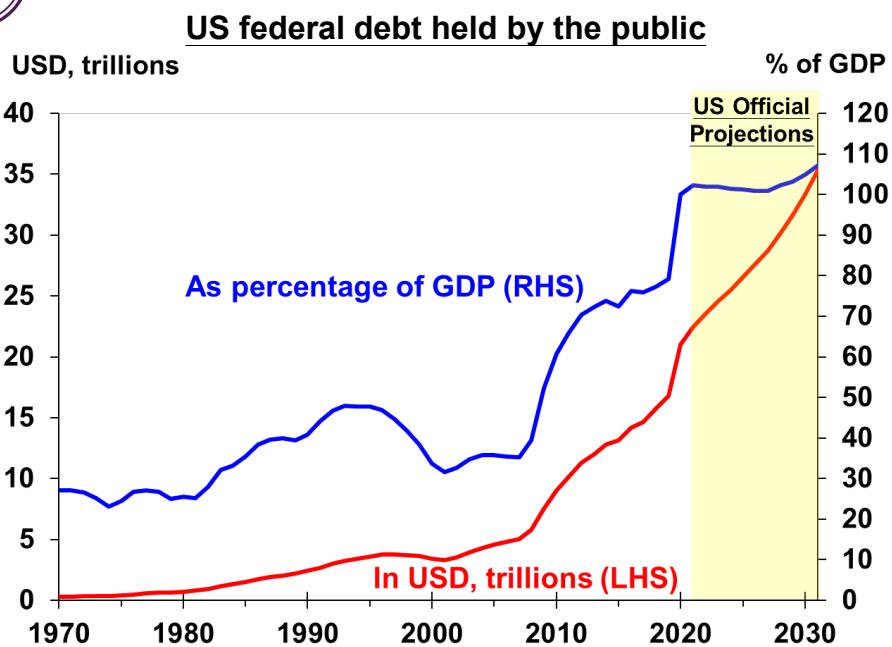


Sources: CEIC and Datastream

13



US: FEDERAL GOVERNMENT DEBT



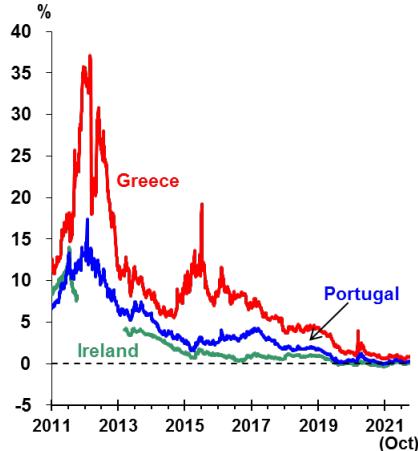
Sources: CEIC and Congressional Budget Office

14



EURO AREA: SOVEREIGN BOND YIELDS

10-year sovereign bond yield

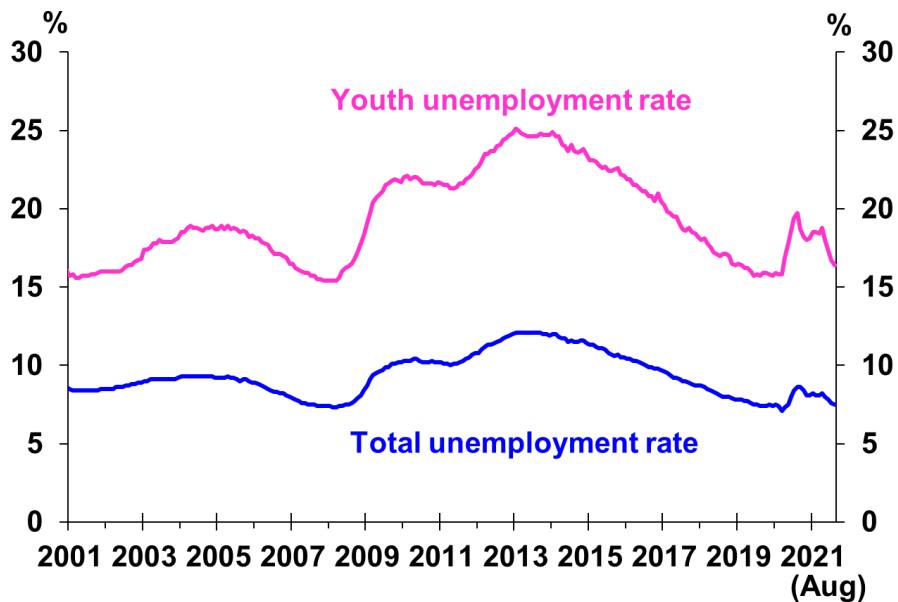


Note: 10-year Irish sovereign bond yield data is not available between 12 Oct 2011 and 14 Mar 2013
Source: Bloomberg

15



EURO AREA: UNEMPLOYMENT RATE



Source: Bloomberg

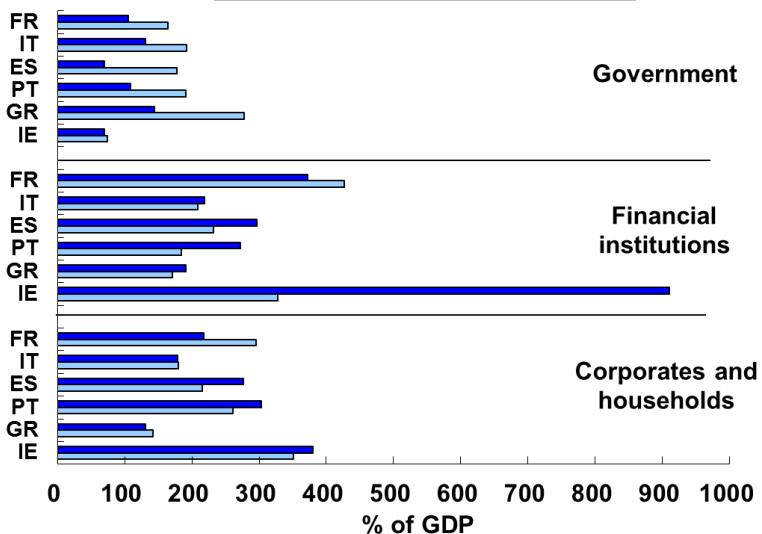
16



EURO AREA: OVERALL INDEBTEDNESS

■ Q4/2009

□ Latest



Source: European Central Bank

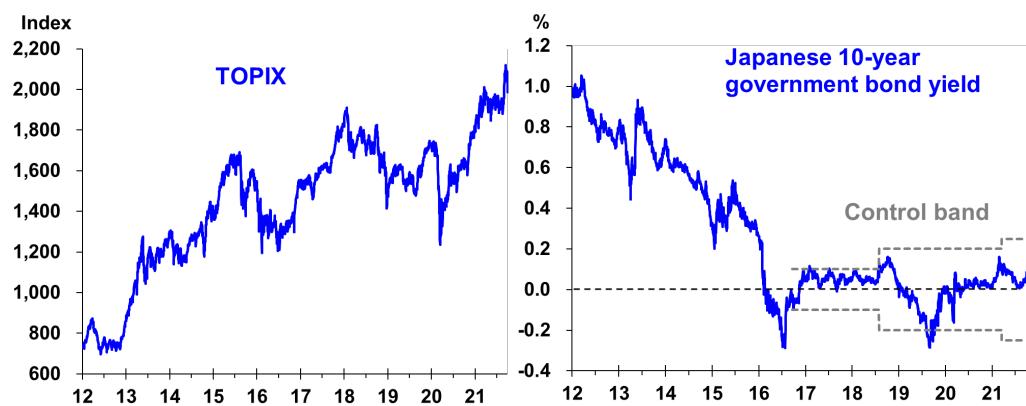
Note: FR – France, IT – Italy, ES – Spain, PT – Portugal, GR – Greece, IE – Ireland

The latest figures are up to Q2/2021 for financial institutions, whilst the rest are up to Q1/2021

17



JAPAN: FINANCIAL MARKETS

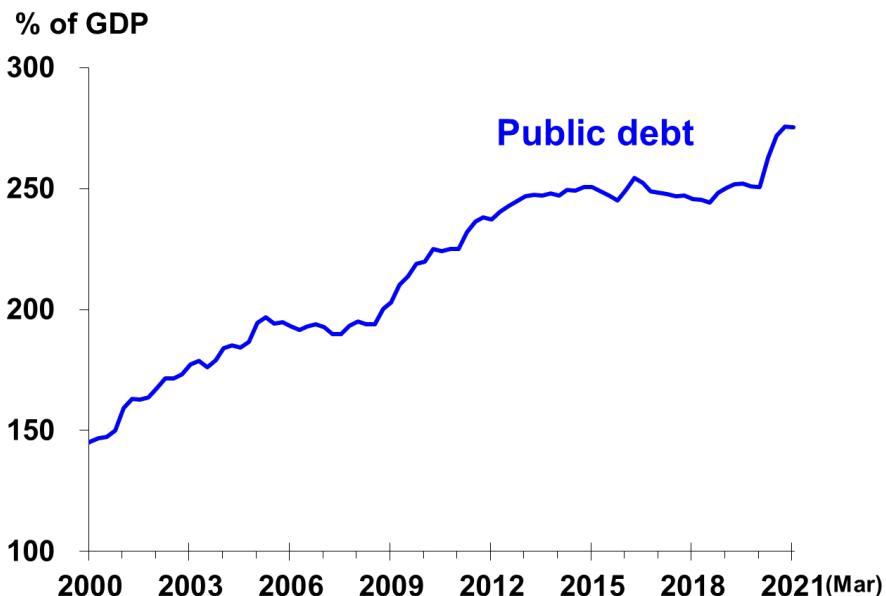


Source: Bloomberg

18



JAPAN: PUBLIC DEBT

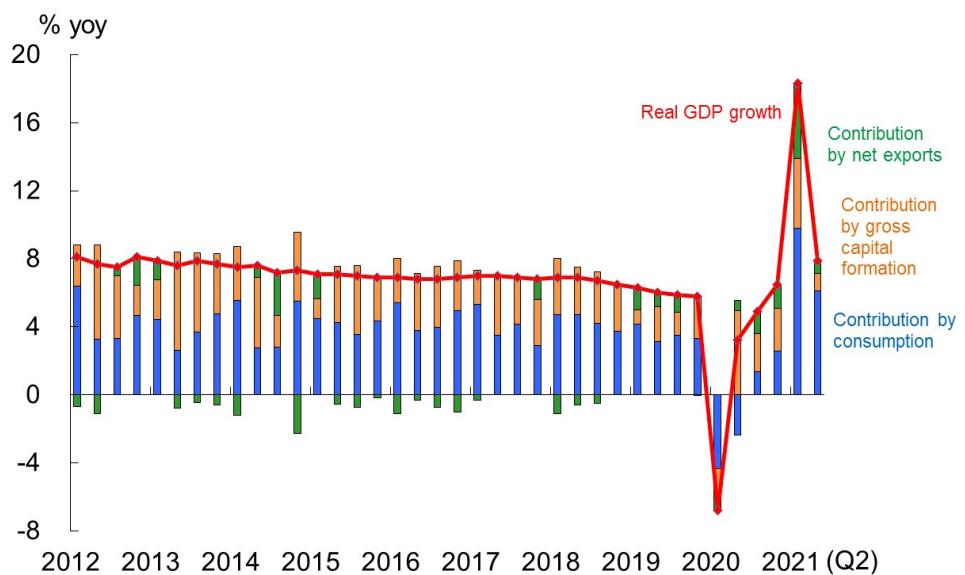


Sources: Bank of Japan and CEIC

19



MAINLAND CHINA: REAL GDP GROWTH

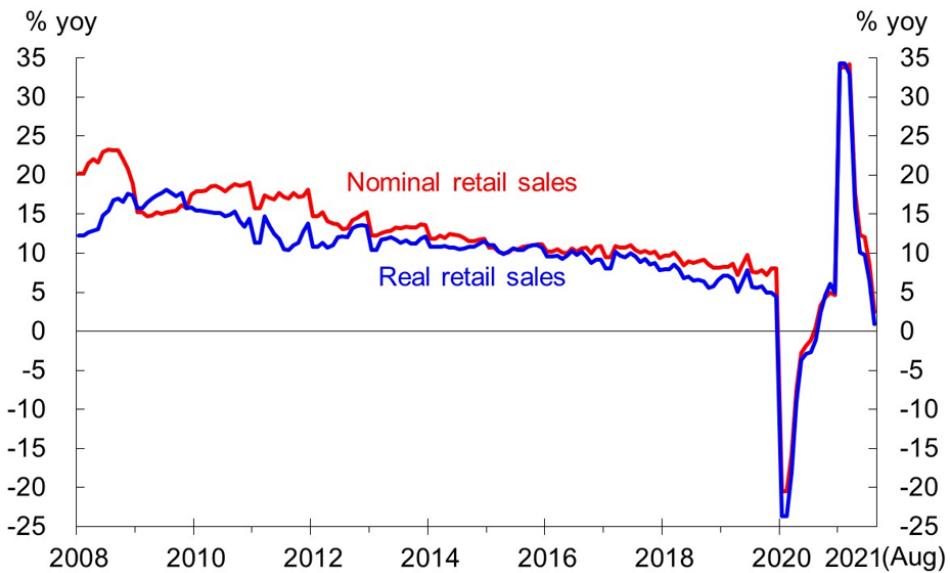


Source: CEIC

20



MAINLAND CHINA: RETAIL SALES

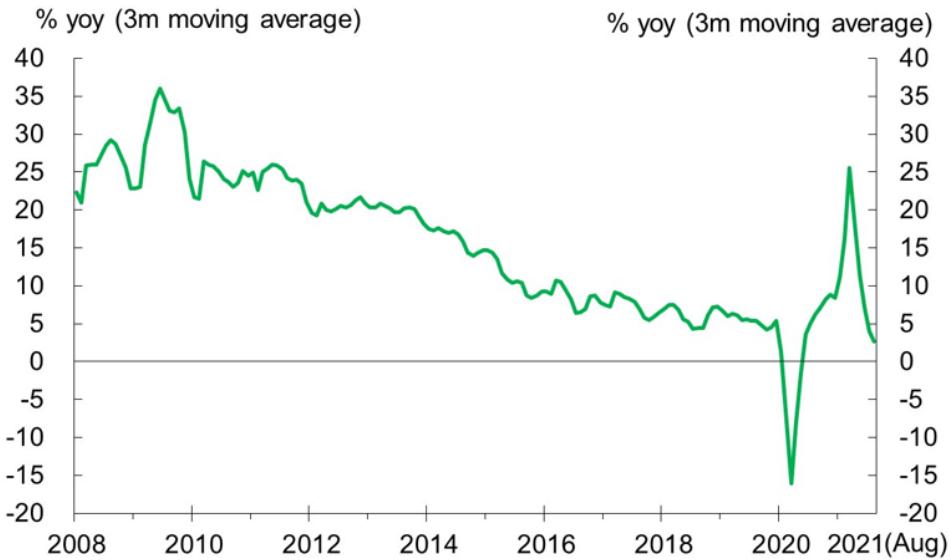


Note: January and February figures are the average annual growth rate for the first two months of the year
Sources: WIND and HKMA staff estimates

21



MAINLAND CHINA: FIXED ASSET INVESTMENT

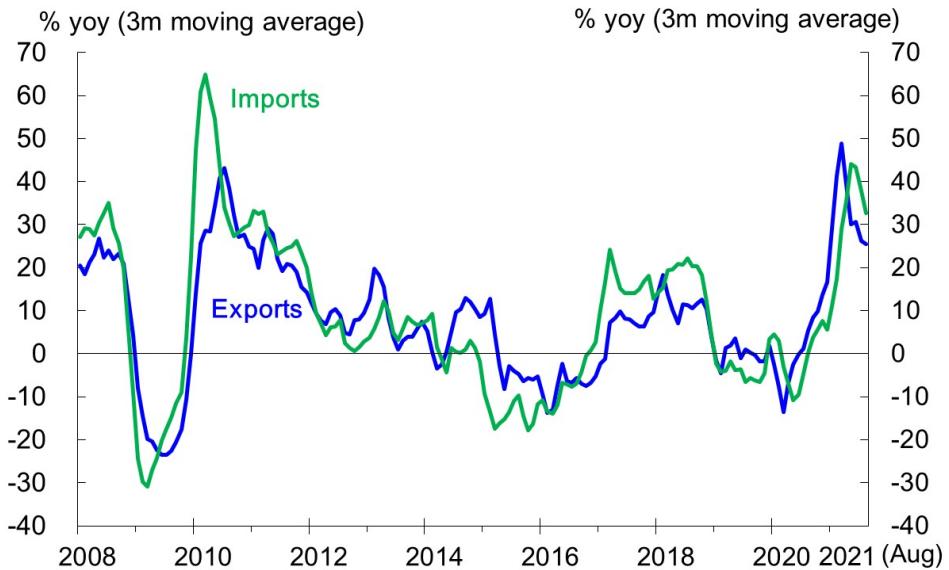


Sources: CEIC and HKMA staff estimates

22



MAINLAND CHINA: IMPORT AND EXPORT GROWTH

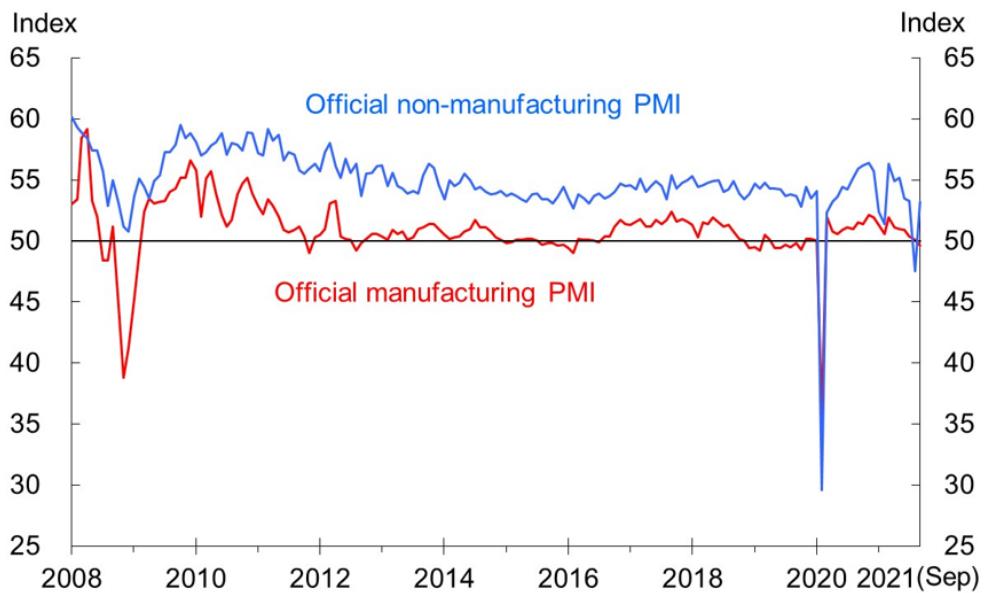


Sources: CEIC and HKMA staff estimates

23



MAINLAND CHINA: PURCHASING MANAGERS' INDEX

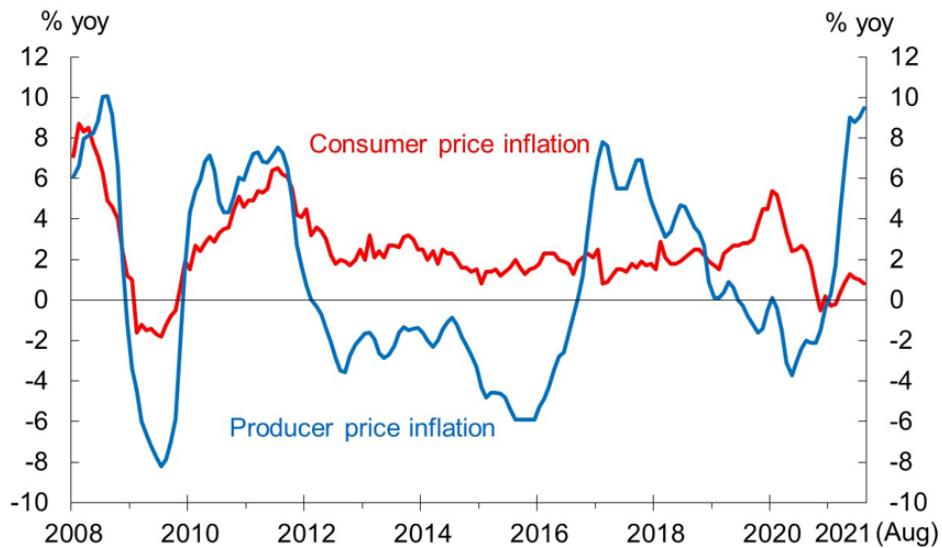


Source: CEIC

24



MAINLAND CHINA: INFLATION

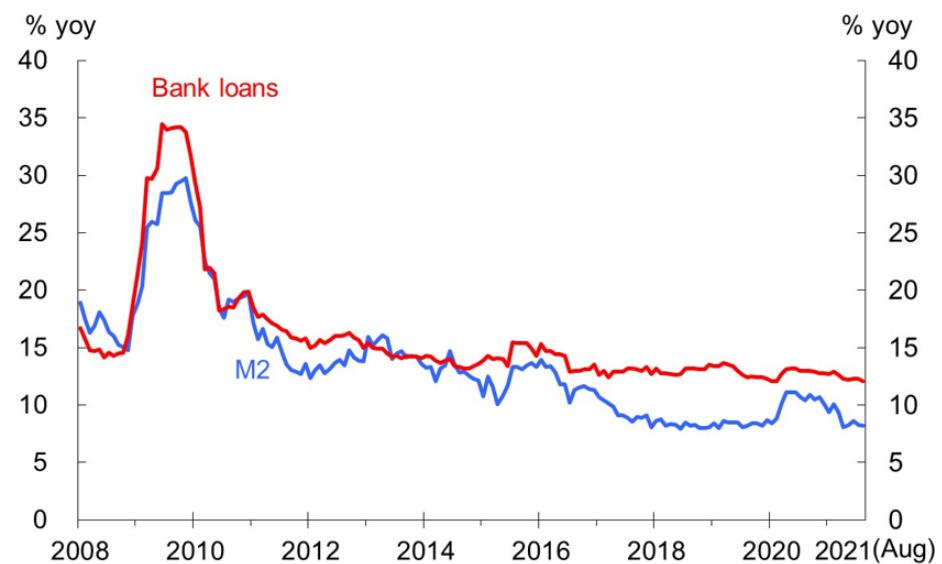


Source: CEIC

25



MAINLAND CHINA: MONEY AND LOAN GROWTH

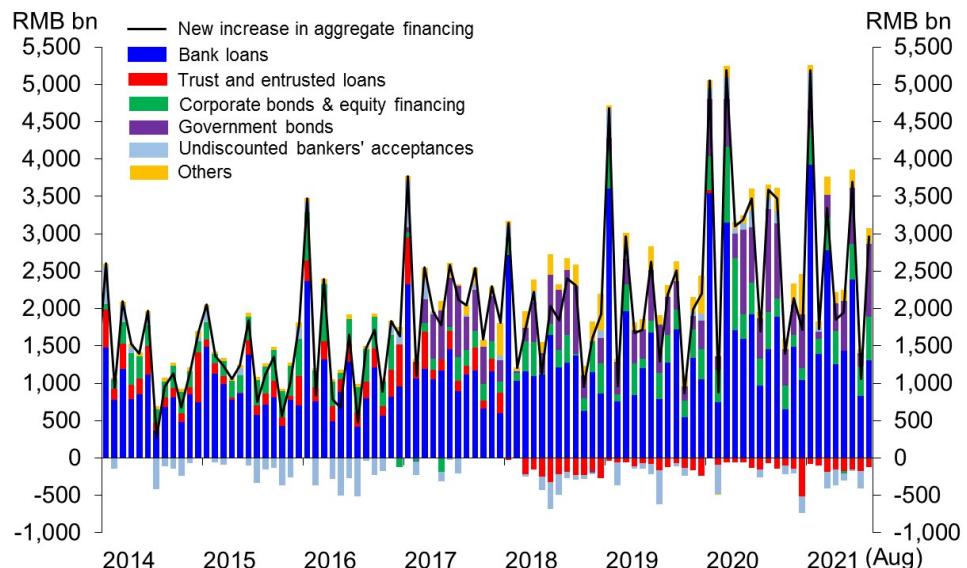


Source: CEIC

26



MAINLAND CHINA: AGGREGATE FINANCING FLOW

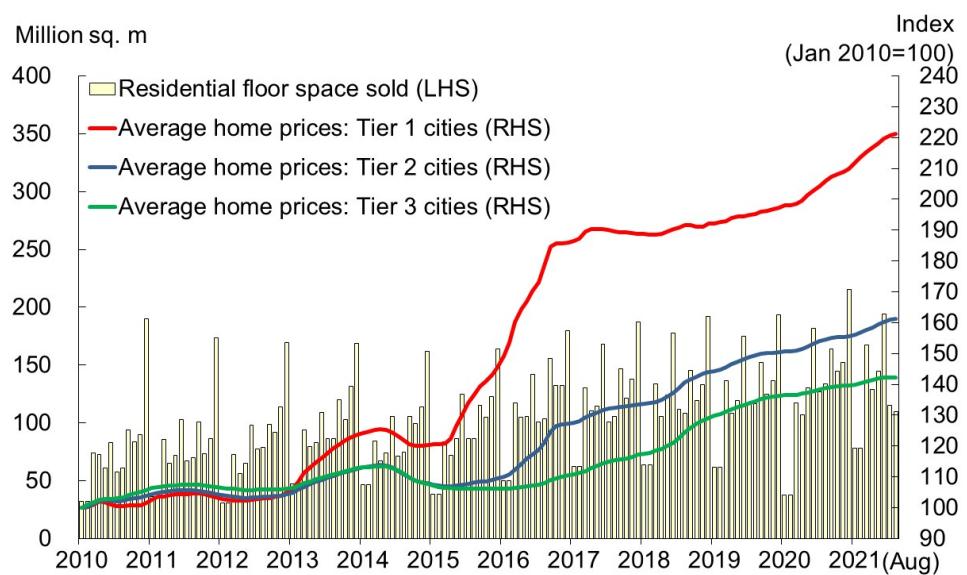


Note: Others primarily include loans written off and asset-backed securities of depository financial institutions.
Sources: CEIC and HKMA staff estimates

27



MAINLAND CHINA: PROPERTY PRICE AND TRANSACTION VOLUME

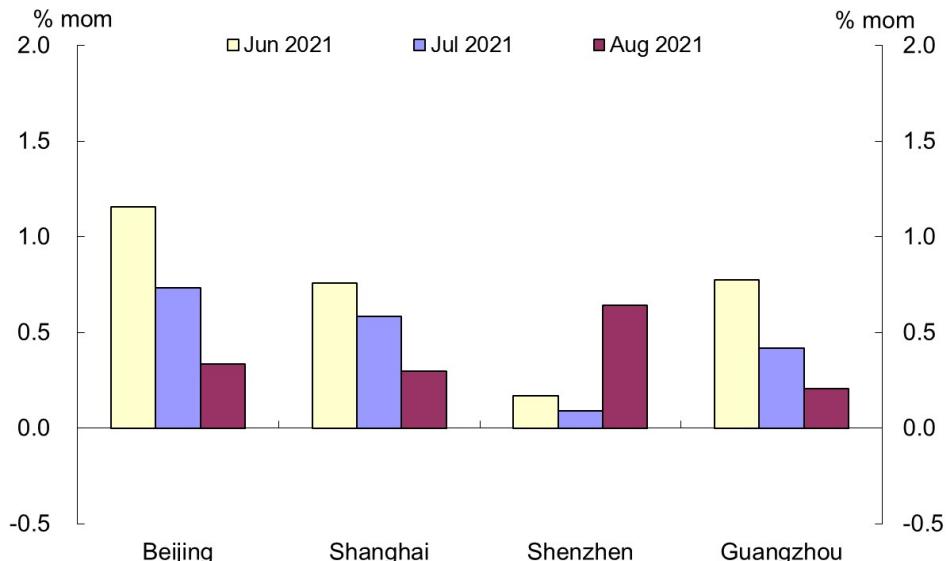


Sources: CEIC and HKMA staff estimates

28



MAINLAND CHINA: HOUSING PRICE CHANGES IN MAJOR CITIES

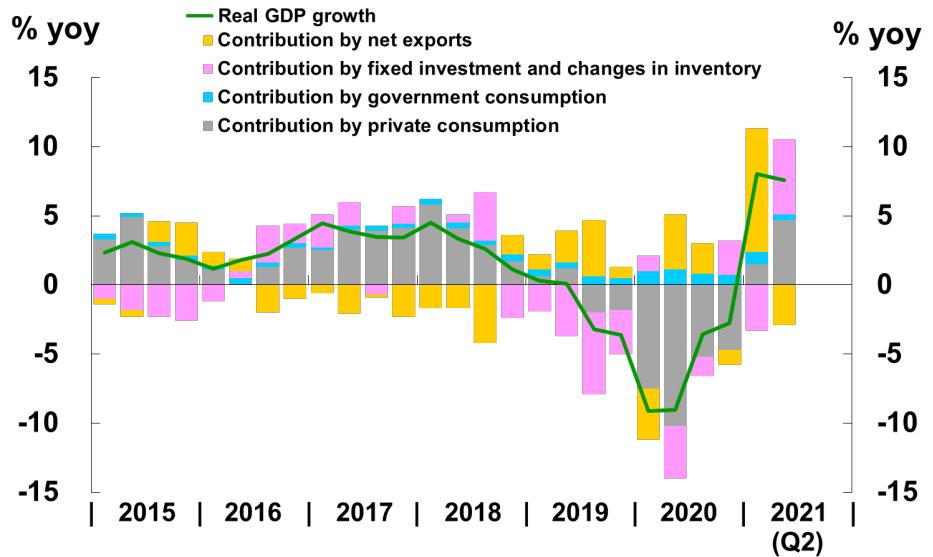


Sources: CEIC, WIND and HKMA staff estimates

29



HONG KONG: REAL GDP GROWTH

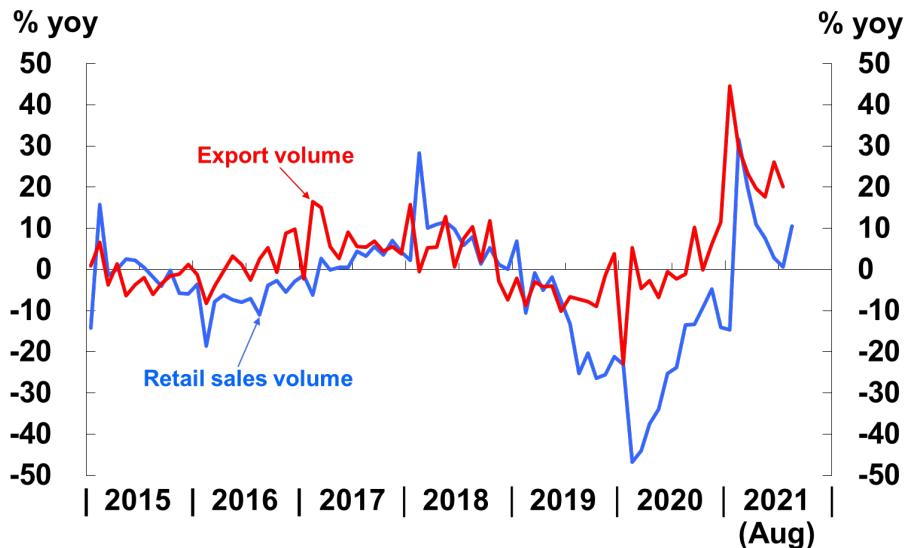


Source: C&SD

30



HONG KONG: ECONOMIC ACTIVITY

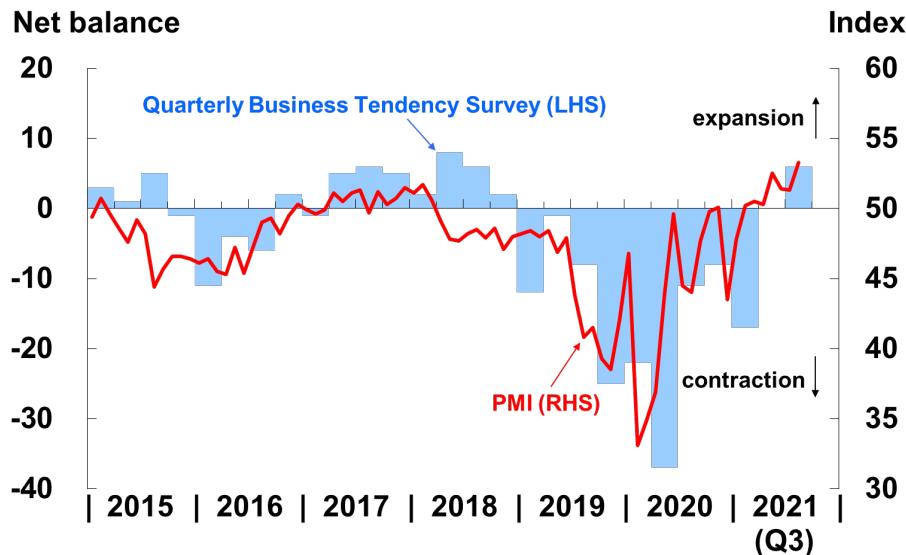


Source: C&SD

31



HONG KONG: BUSINESS OUTLOOK

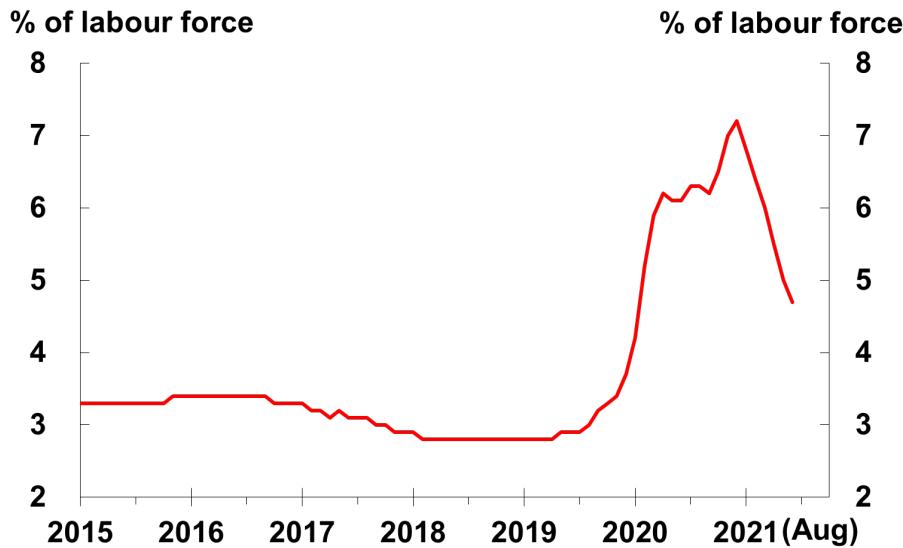


Sources: C&SD and IHS Markit

32



HONG KONG: UNEMPLOYMENT RATE

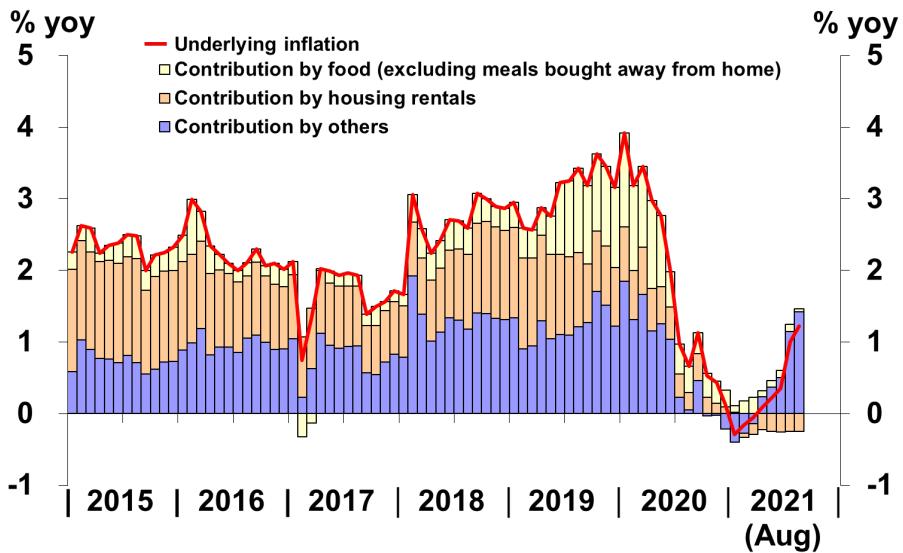


Source: C&SD

33



HONG KONG: INFLATION

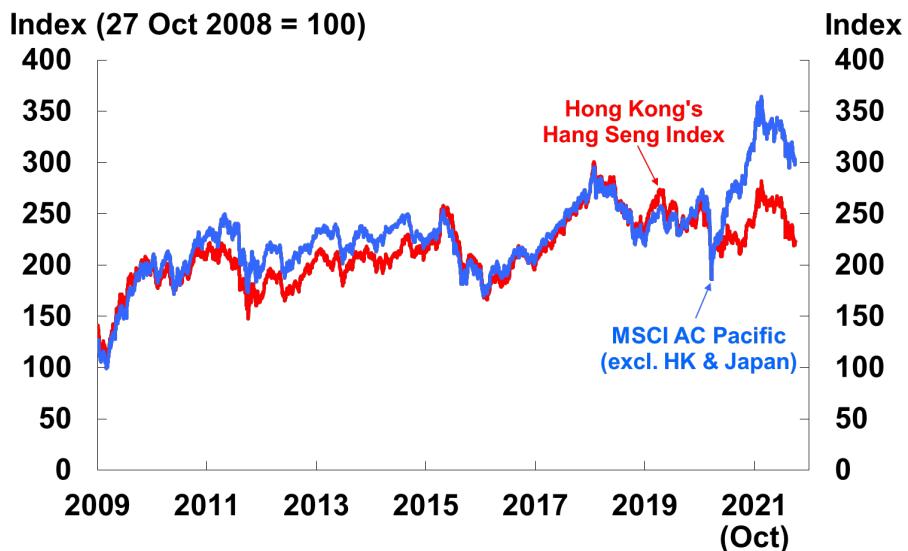


Sources: C&SD and HKMA staff estimates

34



HONG KONG: EQUITY MARKET

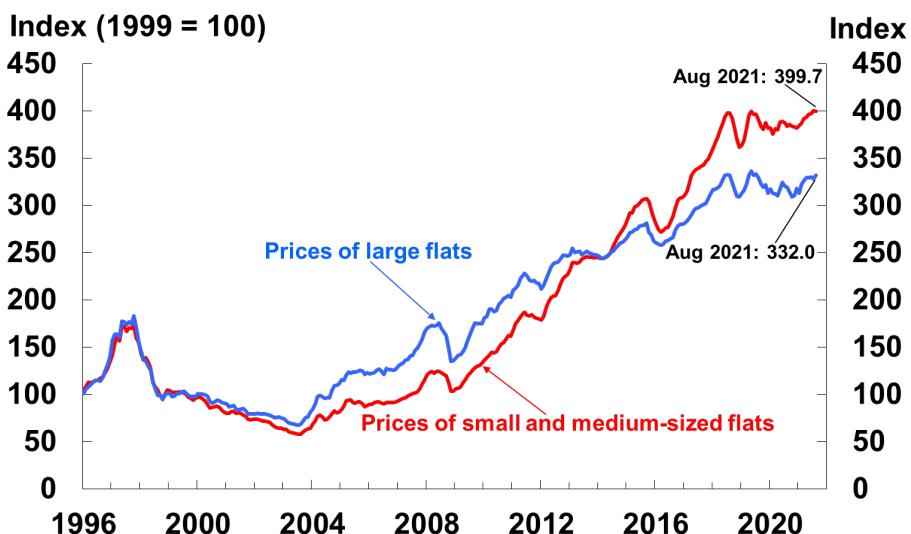


Source: Bloomberg

35



HONG KONG: RESIDENTIAL PROPERTY PRICES



Source: Rating and Valuation Department

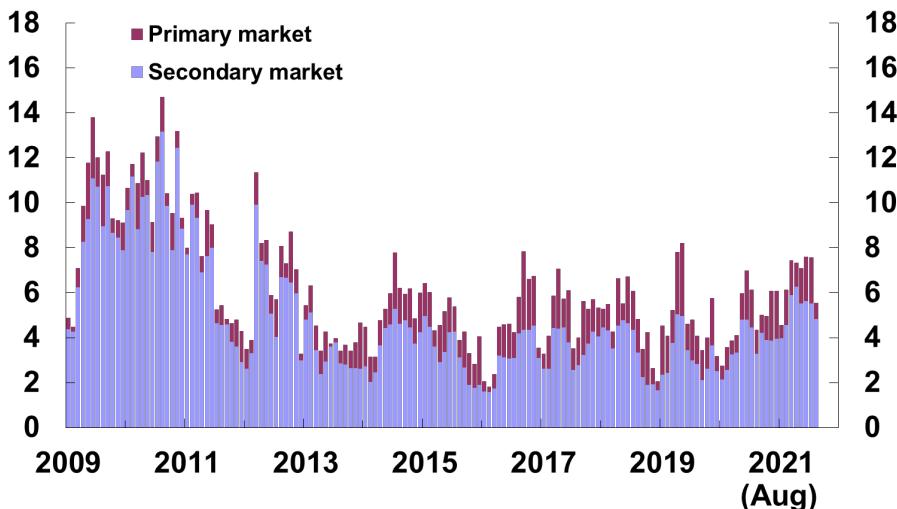
36



HONG KONG: TRANSACTION VOLUME IN THE PRIMARY AND SECONDARY MARKETS

Transactions (in thousands)

Primary market
Secondary market



Source: The Land Registry

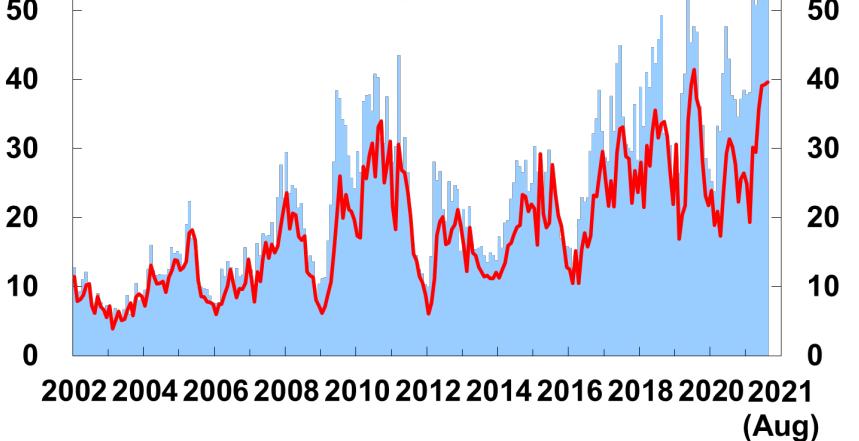
37



HONG KONG: NEW RESIDENTIAL MORTGAGE LOANS

HK\$ bn

New residential mortgage loans approved
New residential mortgage loans made



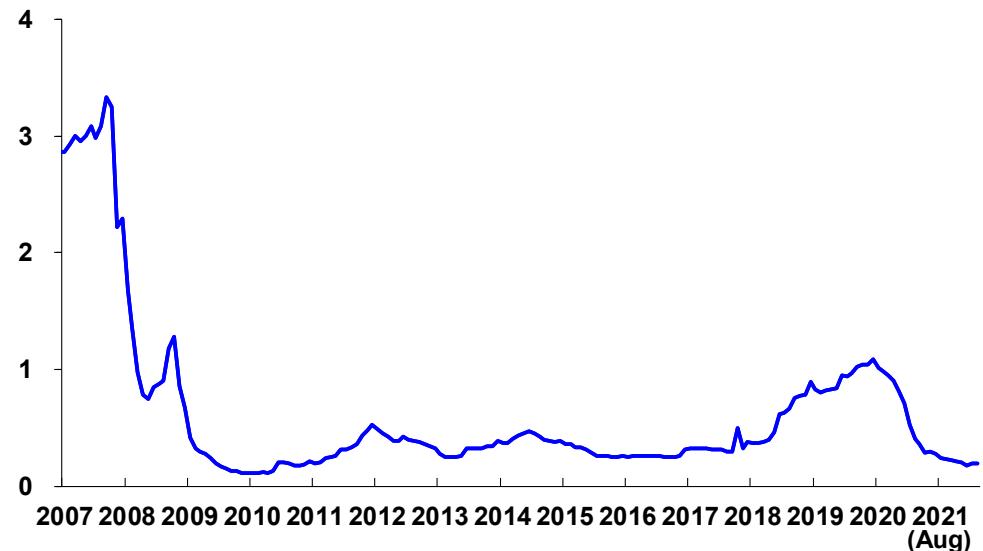
Source: HKMA

38



HONG KONG: COMPOSITE INTEREST RATE

% p.a.



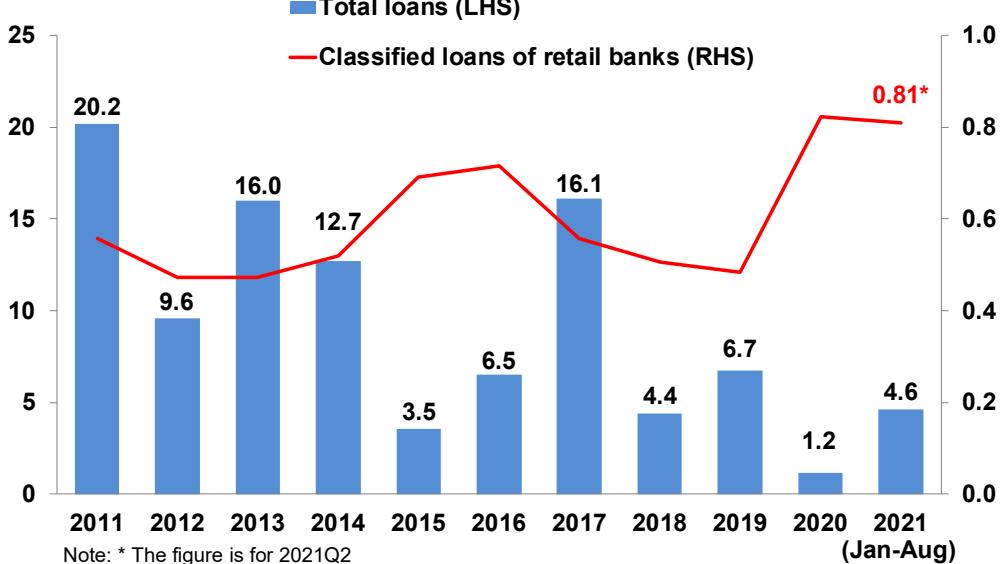
Source: HKMA

39



HONG KONG: LOAN GROWTH AND ASSET QUALITY

Growth rate (%)



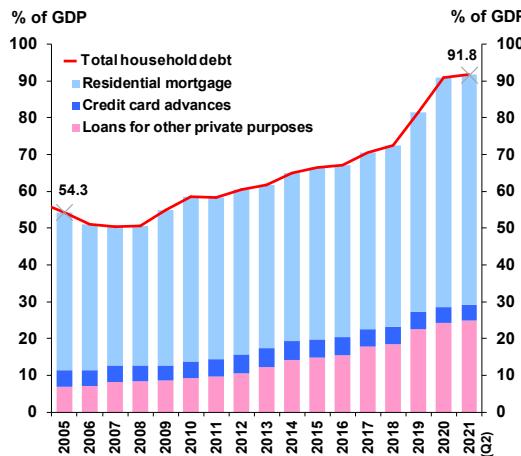
Source: HKMA

40

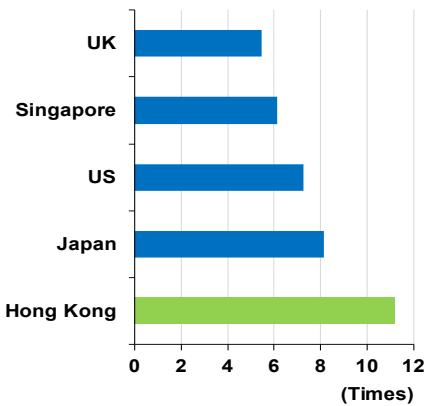


HONG KONG: HOUSEHOLD DEBT

Gross household debt



Household net worth-to-liabilities ratio



Notes: (1) Household net worth (or net household assets) is the difference between gross household assets and gross household liabilities. (2)The Japan figure is from end-2018, while the figures for the other economies are from end-2019.

Sources: HKMA staff estimates, and statistical agencies or central banks of selected economies.

41

Source: HKMA

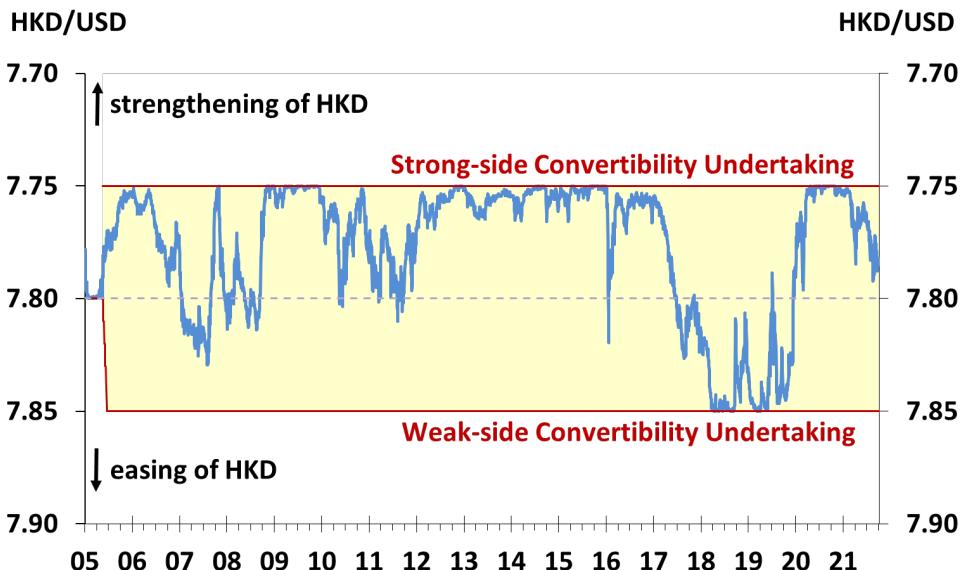


CURRENCY STABILITY

42

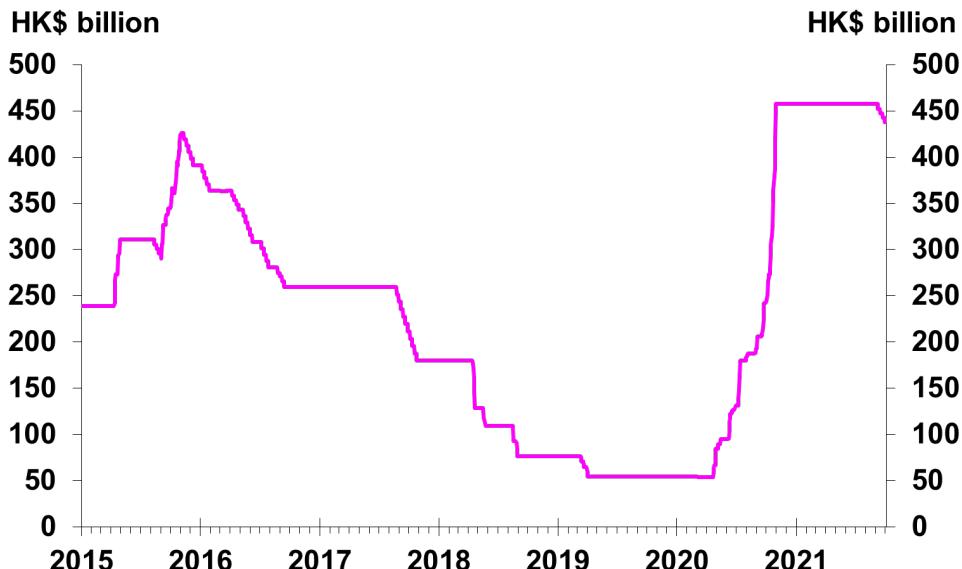


HONG KONG DOLLAR SPOT EXCHANGE RATE





AGGREGATE BALANCE

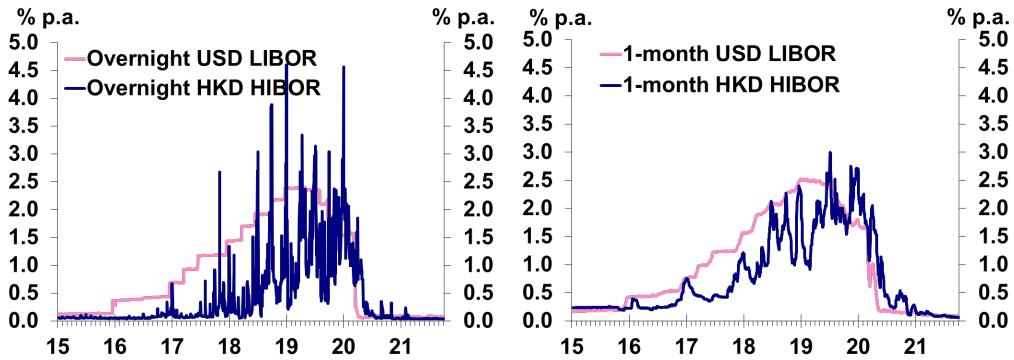


44

- The HKMA announced on 25 August 2021 a plan to increase the issuance size of 91-day Exchange Fund Bills by a total of HK\$40 billion in September and October to meet the ongoing demand for Exchange Fund paper by banks. The Aggregate Balance will decrease by the same amount as the increase in Exchange Fund Bills.

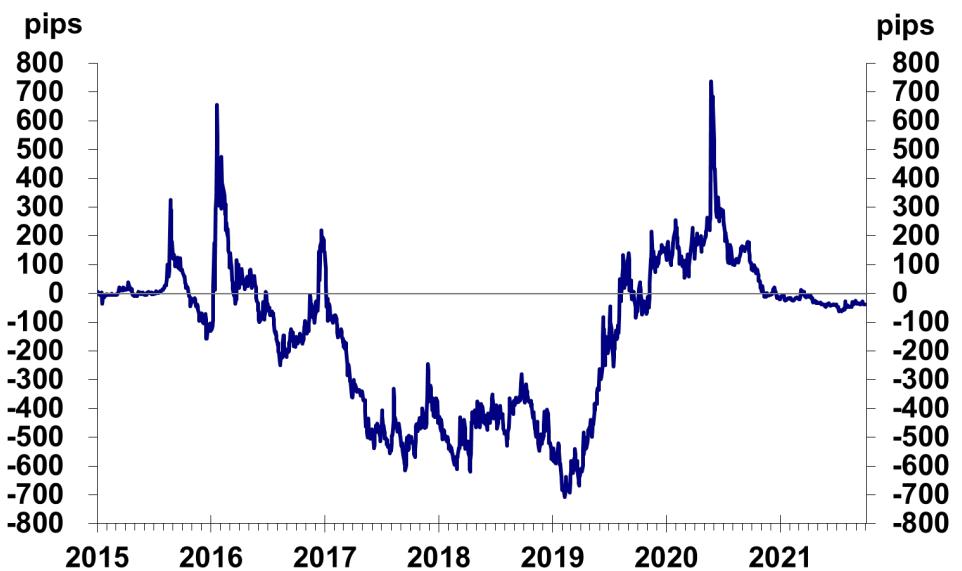


DOMESTIC INTEREST RATES





12-MONTH HONG KONG DOLLAR FORWARD POINTS



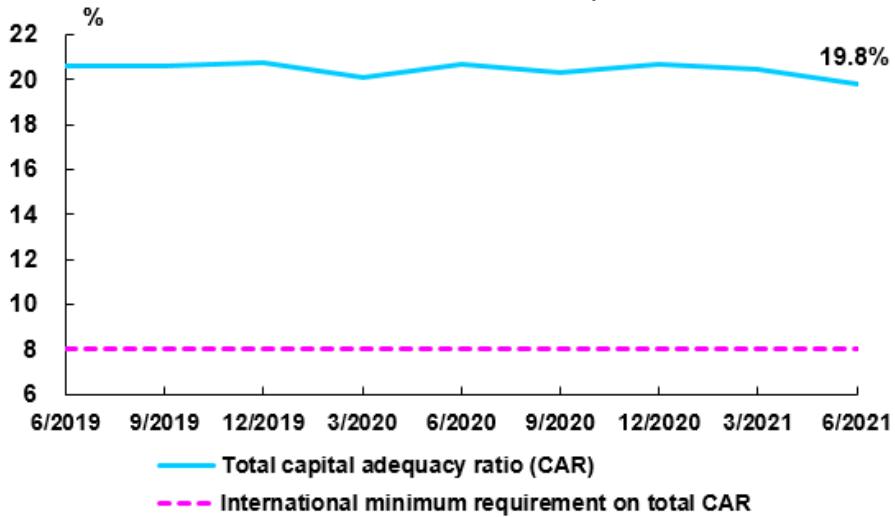


BANKING STABILITY



BANKING SECTOR PERFORMANCE

Locally incorporated authorized institutions (AIs)
continued to be well capitalised



Source: HKMA

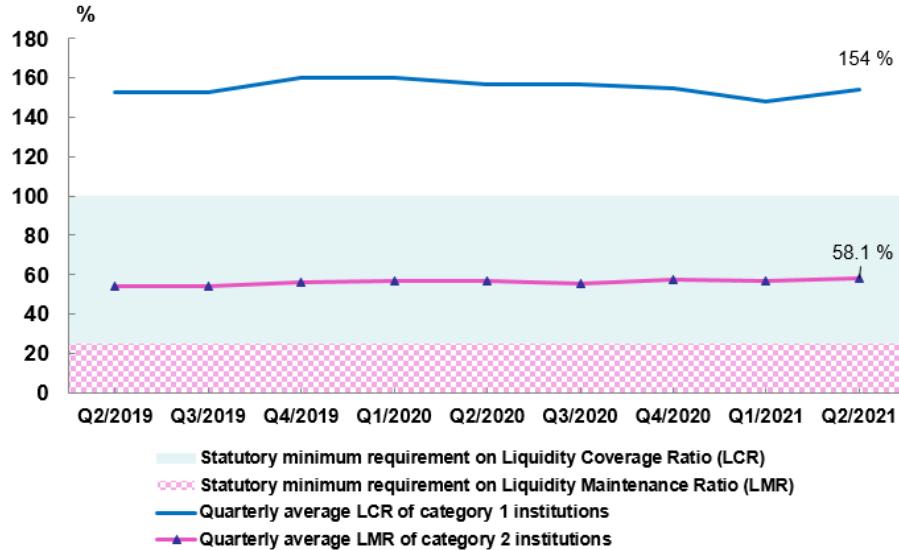
48

- The banking sector continued to be well capitalised. The total CAR of locally incorporated AIs stood at 19.8% at end-June 2021, well above the international minimum requirement of 8%.



BANKING SECTOR PERFORMANCE

Liquidity position remained strong



Source: HKMA

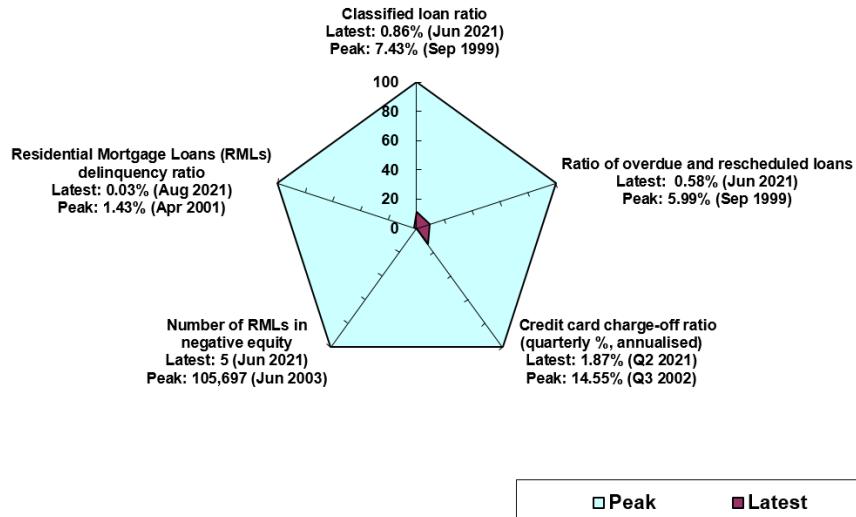
49

- In the second quarter of 2021, the quarterly average LCR of category 1 institutions was 154%, well above the statutory minimum requirement of 100%. For category 2 institutions, their quarterly average LMR was 58.1%, also well above the statutory minimum requirement of 25%.



BANKING SECTOR PERFORMANCE

Asset quality stayed healthy



Source: HKMA

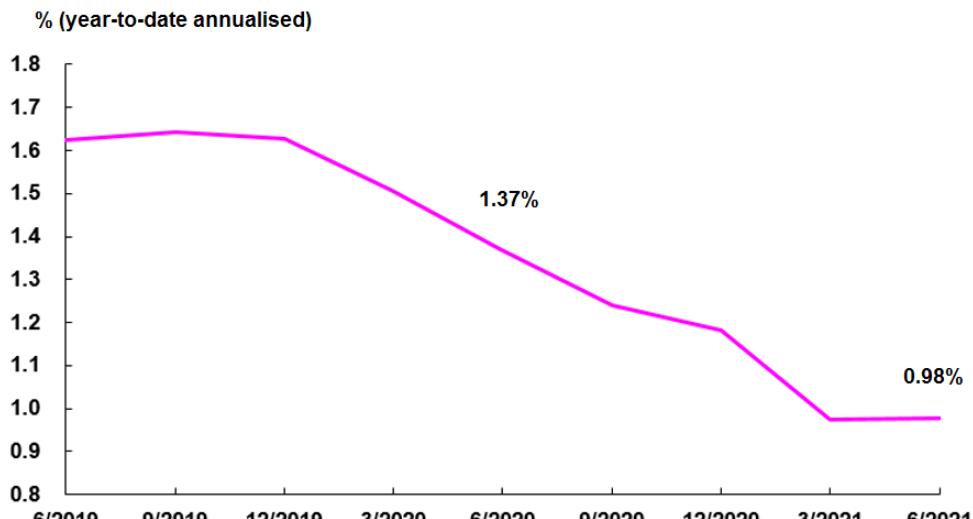
50

- The classified loan ratio of the banking sector decreased to 0.86% at end-June 2021 from 0.89% at end-March 2021, a healthy level by historical and international standards.



BANKING SECTOR PERFORMANCE

Net interest margin (NIM) further narrowed



Source: HKMA

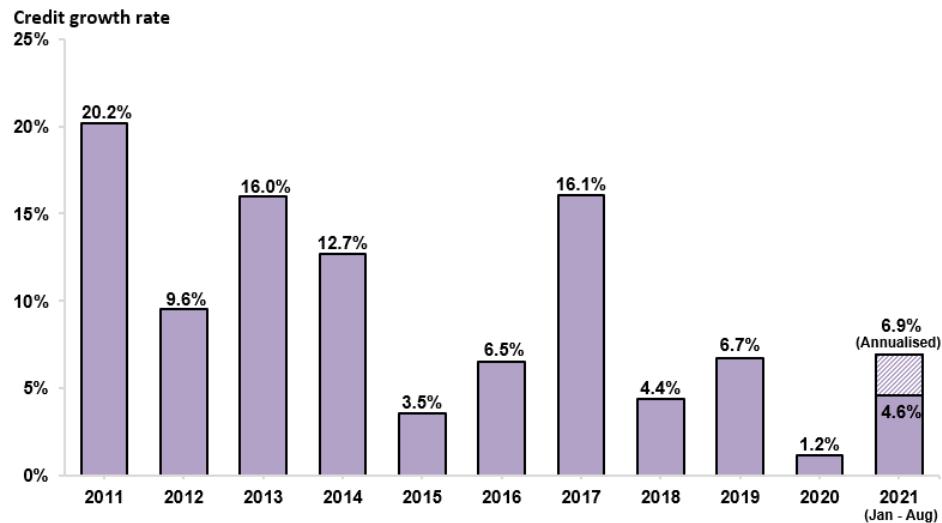
51

- The NIM of retail banks' Hong Kong offices narrowed to 0.98% in the first half of 2021 from 1.37% in the same period last year. This was caused by a mild reduction in HIBORs in the first half of 2021, resulting in pressure on the yields of banks' HIBOR-based assets.



BANKING SECTOR PERFORMANCE

Credit grew at a moderate pace



Source: HKMA

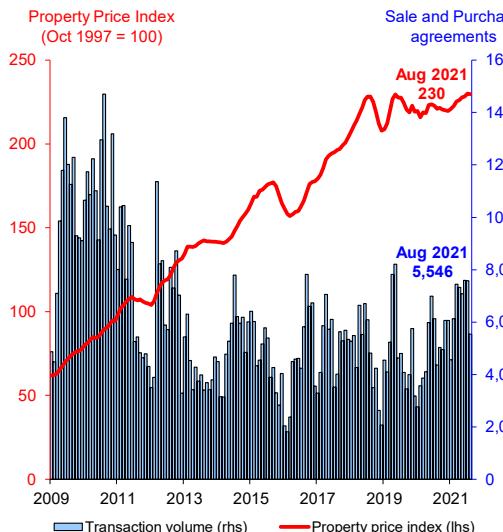
52

- Total loans increased by 4.6% in the first eight months of 2021, or 6.9% on an annualised basis.



PROPERTY MORTGAGE LOANS (RMLs)

Residential property price index and transaction volume



Average loan-to-value (LTV) ratio and debt servicing ratio (DSR) for newly approved residential mortgage loans



Sources: R&VD and Land Registry

53

- The average LTV ratio of newly approved RMLs slightly decreased to 54% in August 2021, from the recent peak of 58% in February 2021. The average DSR for newly approved RMLs hovered at around 36% recently.

Latest statistics on RMLs

	Monthly average in 2019	Monthly average in 2020	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021
Number of sale and purchase agreements	4,983	4,990	7,444	7,325	7,084	7,591	7,579	5,546
Number of new RML applications	12,245	11,709	17,946	16,568	15,904	15,326	15,176	13,927
Number of new RMLs approved	8,981	7,763	11,074	10,374	11,584	11,477	10,952	10,895

Latest statistics on residential property prices

Property price index		Period	Property price index
Rating and Valuation Department (10/1997=100)	Latest position	8/2021	229.7
	Recent peak	7/2021	230
	Peak in 1997	10/1997	100.0
Centaline (6/7/1997=100)	Latest position	19/9/2021	190.6
	Recent peak	8/8/2021	191.3
	Peak in 1997	19/10/1997	102.9



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

Extended Pre-approved Principal Payment Holiday Scheme

- As announced in September, principal payments of eligible small and medium-sized enterprises to be deferred by another six months till April 2022

Enhanced SME Financing Guarantee Scheme

- Principal moratorium for 80%, 90% and Special 100% Guarantee Products deferred up to 24 months, with application period extended till end-June 2022

Extended 100% Personal Loan Guarantee Scheme

- Application period extended till April 2022

- Aggregate number of cases involving credit relief (up to August 2021):
 - Corporate customers: 76,000 cases (HK\$870 billion)
 - Individual customers: 43,000 cases (HK\$51 billion)

54

- Some economic sectors are still hard-pressed by the lingering pandemic and may not have fully benefited from the recent economic recovery yet. They may still face cash-flow pressure. The spread of different variants of Covid-19 also pose uncertainties for the economic recovery. The HKMA and the Banking Sector SME Lending Coordination Mechanism have therefore decided to extend the Pre-approved Principal Payment Holiday Scheme for another six months to end-April 2022.
- Corporates requiring loan extension under the Scheme have dropped to 2.7% of all eligible corporates, from 16% when the Scheme was first introduced. On the other hand, with the cumulative principal repayment holiday for borrowers under the Scheme reaching two years, the challenge for banks' risk management is increasing. Many overseas jurisdictions have started to unwind the relief measures introduced during the pandemic. The HKMA and the Mechanism consider it necessary to start exploring plans for the discontinuation of the Scheme. In the coming months, the HKMA will engage the banking industry to discuss the appropriate exit arrangements, with a view to ensuring that corporate customers in need will continue to receive appropriate credit support.



INTERNATIONAL STANDARDS IMPLEMENTATION

Basel revised capital treatment on banks' equity investments in funds

- Q1 2022: Amendments to Banking (Capital) Rules

Basel III final reforms

- Q4 2022 & Q1 2023: Amendments to Banking (Capital) Rules
- Q1 2023: Amendments to Banking (Disclosure) Rules

Consequential and other technical updates

- Q1 2023: Amendments to Banking (Exposure Limits) Rules

55

Preparatory work for legislative amendments to implement the Basel regulatory standards is progressing:

Year 2022

Targeted to be submitted to LegCo sometime in early 2022 are amendments to the Banking (Capital) Rules to reflect the revised Basel capital requirement on banks' exposures to equity investments in funds.

Year 2022/23

The above will be followed sometime in late 2022 and early 2023 with the submission of amendments to the Banking (Capital) Rules and the Banking (Disclosure) Rules to implement the Basel III final reforms based on the latest local implementation schedule:

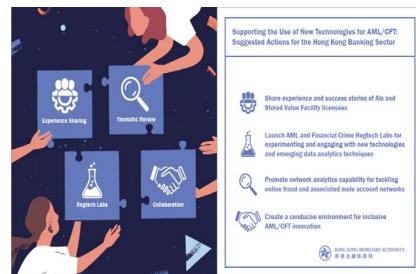
- revisions to the credit risk, operational risk, and leverage ratio frameworks, as well as a capital floor for the use of internal models (which are scheduled to take effect from 1 July 2023 as minimum standards for locally incorporated AIs);
- revised market and credit valuation adjustment risk frameworks which are scheduled to take effect from 1 July 2023 initially for reporting purposes only by locally incorporated AIs (and no earlier than 1 January 2024 for the actual capital requirements); and
- revisions to the disclosure requirements to reflect the above revised capital frameworks.

Following the amendments to the Banking (Capital) Rules, some consequential amendments to the Banking (Exposure Limits) Rules will also be submitted in early 2023 along with certain technical refinements to enhance clarity and better reflect the policy intent of some existing provisions.



ANTI-MONEY LAUNDERING AND COUNTER-FINANCING OF TERRORISM (AML/CFT)

- Provided guidance to encourage wider adoption of iAM Smart in banks' remote on-boarding initiatives
- Issued circular on "Supporting the Use of New Technologies for AML/CFT: Suggested Actions for the Hong Kong Banking Sector"
 - Industry experience sharing
 - AML and financial crime Regtech Labs
 - Promoting network analytics
 - Conducive environment for AML/CFT innovation



56

Remote on-boarding and iAM Smart

- The HKMA continued to encourage banks' remote on-boarding initiatives and issued a circular on "Remote on-boarding and iAM Smart" in May. The circular provides further elaboration to encourage the wider adoption of iAM Smart in remote on-boarding arrangements and draws banks' attention to the Frequently Asked Questions updated by the Hong Kong Association of Banks, with input from the HKMA, to help banks understand how iAM Smart can be used in complying with the relevant AML/CFT requirements.

Supporting the use of new technologies for AML/CFT

- The HKMA issued in August a circular "Supporting the Use of New Technologies for AML/CFT: Suggested Actions for the Hong Kong Banking Sector", which sets out the HKMA's next steps, as part of its broader "Fintech 2025" strategy.
- The next steps include: (i) experience sharing with industry; (ii) AML and financial crime Regtech Labs for the banking industry to experiment new technologies and techniques; (iii) promoting the use of network analytics; and (iv) creation of a conducive environment for AML/CFT innovation. These initiatives are part of the HKMA's ongoing responses to the work of the Financial Action Task Force and in particular, its recent report "Opportunities and Challenges of New Technologies for AML/CFT", on promoting the use of innovative tools which are compatible with international standards.



RESOLUTION REGIME

- The Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules, which require a provision in certain financial contracts to recognise any suspension of termination rights imposed by the Monetary Authority under the Financial Institutions (Resolution) Ordinance (FIRO), came into operation on 27 August 2021

57

- The Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights—Banking Sector) Rules came into operation on 27 August 2021.
- The Rules are made by the Monetary Authority as a resolution authority under the FIRO. The Rules require Hong Kong incorporated AIs and some of their group companies to include a provision in certain financial contracts that are not governed by Hong Kong law so that the parties to the contracts (other than an excluded counterparty) will be bound by a suspension of termination rights that may be imposed by the Monetary Authority under the Hong Kong resolution regime. The Rules are intended to implement the relevant Financial Stability Board principles for enhancing the effectiveness of cross-border resolution actions.



ENHANCED COMPETENCY FRAMEWORK (ECF)

- Launched formal industry consultation on the new ECF module on Fintech on 25 August 2021
- Aim to launch the Fintech module by the end of 2021 after incorporating industry feedback where appropriate
- To continue developing the new ECF module on Compliance and explore other potential areas of talent development for the industry

58

- The ECF is a collaborative effort of the HKMA with relevant professional bodies and the banking industry in establishing a set of common and transparent competency standards for different professional areas that are crucial to the safety and soundness of banks and where talent shortages are more apparent. To date, the HKMA has launched seven ECF modules, namely private wealth management, anti-money laundering and counter-financing of terrorism, cybersecurity, treasury management, retail wealth management, credit risk management and operational risk management.
- In recent years, banks in Hong Kong have been proactively adopting Fintech in their operations and services to enhance cost efficiency and customers' experience. Moreover, with the HKMA's "Fintech 2025" strategy to encourage the financial sector to adopt technology comprehensively by 2025, it would be crucial to have a Fintech-savvy workforce to support the banking industry in achieving this target. Against this background, the HKMA has now developed the new ECF module on Fintech in consultation with the banking industry and relevant professional bodies.
- The HKMA launched formal industry consultation on the ECF on Fintech on 25 August 2021. We aim to launch it by the end of 2021 after incorporating industry feedback where appropriate.
- The HKMA will also continue to develop the new ECF module on Compliance and explore other potential areas of talent development to meet the evolving needs of the banking industry.



FINANCIAL INCLUSION

- Promoted industry awareness in banking services for persons with mental incapacity
- Discussing with the banking industry on key considerations in providing banking services for persons with dementia
- Ongoing communication with relevant stakeholders on banking services for customers in need

59

- As parts of our efforts in promoting financial inclusion in Hong Kong, the HKMA hosted a roundtable discussion in July with legal practitioners, psychiatrist and banks to share the legal and practical experiences in managing banking matters for persons with mental incapacity with a view to promoting understanding among the banking industry on this front.
- The HKMA is discussing with the banking industry on key considerations in providing banking services for persons with dementia. To support this, the HKMA together with the Hong Kong Association of Banks organised a sharing session in mid-September to allow stakeholders to exchange views on the matter.
- At the invitation of the Labour and Welfare Bureau, the HKMA attended the meeting of the Rehabilitation Advisory Committee in June to introduce the “Guideline on Banking Services for Persons with Intellectual Disabilities” issued in December 2020 and provided updates on the industry’s progress in implementing the “Practical Guideline on Barrier-free Banking Services” issued in March 2018. Moreover, the HKMA monitors the implementation by banks on the two published industry guidelines. Banks are making good progress in the implementation of these guidelines so far.



BANKING CONSUMER PROTECTION

- Introduced customer protection measures for innovative banking products recently launched by virtual banks
- Enhanced the Code of Banking Practice to strengthen customer protection in digitalised banking services
- Working with Industry Associations to introduce more than one consumer Credit Reference Agency (CRA)

60

- Riding on fintech development, various new and innovative banking products have been launched since the commencement of operation by virtual banks. The HKMA published an inSight article in July to highlight the consumer protection issues of these products besides the new customer experience they brought about, as well as the supervisory measures taken to ensure adequate consumer protection, including enhanced transparency and disclosure of product features on digital platform. The article also reminded customers to pay attention to the applicable fees and charges, possible implications on their financial positions and potential consequences of over-borrowing.
- The HKMA is committed to strengthening and enhancing consumer protection with respect to digital banking services. The industry has came up with 15 enhancement measures upon a comprehensive review of the Code of Banking Practice and has concluded the industry consultation. These measures will (1) enhance customer experience and consumer protection in digital banking services; (2) strengthen protection and transparency of general banking services; and (3) ensure the spirit of financial inclusion is put into practice amidst digitalisation of banking services.
- The HKMA has been working closely with the Hong Kong Association of Banks, the Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies and the Hong Kong S.A.R. Licensed Money Lenders Association Ltd. (collectively referred to as “Industry Associations”) to introduce more than one consumer CRA in Hong Kong. The HKMA seeks to implement the relevant arrangement soon with a view to enhancing the service quality of consumer CRAs and reducing the operational risk of having only one commercially-run consumer credit information service provider in the market, particularly the risk of single point of failure. The Industry Associations issued tenders for selection of CRAs in January 2021 and shortlisted three CRA tenderers to proceed to the next phase of the tender in May 2021 to further assess their capabilities. The new system is expected to be in operation by the end of 2022.



BANKING INVESTOR PROTECTION

- Promulgated the Implementation Arrangements for the Cross-Boundary Wealth Management Connect (WMC) Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area
- Issued guidance to AIs on provision of investment and insurance services through non-face-to-face (non-F2F) channels
- Issued a module of Supervisory Policy Manual (SPM) on supervision of insurance intermediary business of AIs
- Published observations from reviews on sale of Qualifying Deferred Annuity Policy (QDAP) and Voluntary Health Insurance Scheme (VHIS), and referral arrangements of tax deductible voluntary contributions (TVC) by banks
- Conducted joint inspection with Insurance Authority (IA) on premium financing activities
- Worked with IA to further extend the effective period of the temporary facilitative measures for non-F2F sale of certain insurance products

61

- Following rounds of discussion and consultation with relevant regulators and industry, the HKMA promulgated the Implementation Arrangements for the Cross-Boundary WMC Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area on 10 September 2021. Eligible banks in Hong Kong which intend to embark on Cross-boundary WMC activities should put in place systems, internal control measures and operating procedures in accordance with the regulatory requirements. The HKMA will conduct supervisory work on the activities of Hong Kong banks under the Cross-boundary WMC.
- There is an increasing use of non-F2F channels (e.g. online platforms) by AIs in the provision of investment and insurance services to customers. To ensure appropriate protection and customer friendly online journey to customers, the HKMA issued on 24 September 2021 guidance to AIs on non-F2F provision of investment and insurance services. Guidance is provided in respect of the appropriateness of non-F2F service mode for certain customers; handling of transactions with vulnerable customers; and controls and monitoring.
- The HKMA issued an SPM module on supervision of insurance intermediary business of AIs on 25 June 2021. The SPM module outlines the supervisory approach and requirements on insurance regulated activities of AIs.
- The HKMA issued a circular on 14 September 2021 to share with the industry some observations noted in the HKMA's desktop reviews on AIs' sale of QDAP and VHIS products and referral arrangement of TVC, clarify the relevant expected standards, and remind AIs of the need to comply with the relevant regulatory requirements to protect customers.

- In light of the increasing trend of premium financing being marketed to customers by industry participants during the sale of long term insurance products, the IA and HKMA conducted joint inspection to examine the premium financing activities engaged by insurers and intermediaries. A joint circular on the subject to share with the industry the observations was issued on 30 September 2021.
- Amid the uncertainties brought about by COVID-19, the HKMA and the IA worked closely to further extend on 13 September 2021 the effective period of the phase 2 temporary facilitative measures for non-F2F sale of certain insurance products to until 31 March 2022.



PUBLIC EDUCATION

- Launched a video series introducing four growing areas of the financial industry to attract young talents to join, thus enhancing HK's competitiveness in the long-run
- Rolled out publicity initiatives to raise public awareness of phishing attacks
- A parenting workshop on simple money management concepts was held around Mid-Autumn Festival
- Through the HKMA's digital media channels
 - Promoted the HKMA's new initiatives in cross-boundary finance and green finance
 - Shared the key takeaways of HKMA and industry seminars



- Launched a video series "Four Faces of Talents in Central" to introduce four growing areas of the financial industry, i.e. data science, fintech, green and sustainable finance, and wealth management. It aims at enhancing public understanding of these areas and arousing young generation's interest in entering the industry, thus enhancing Hong Kong's competitiveness as an international financial centre in the long-run.
- To guard against phishing attacks, initiatives themed on "Protect your Personal Digital Keys; Beware of Fraudulent Links!" were rolled out to remind the public that banks would not send SMS messages or emails with hyperlinks to direct customers to carry out transactions or provide sensitive personal information via bank websites or mobile apps. Initiatives included social media posts, feature story in TV programme, radio clip, and advertisements on newspapers, bus bodies and in MTR stations.
- Riding on the festive mood of Mid-Autumn Festival, a parenting programme with parents talk, DIY lantern workshop and visit to the HKMA Information Centre was organised to educate parents and kids about simple money management concepts. Participants gave positive feedback.
- Through the HKMA's digital media channels:
 - Promoted the HKMA's initiatives on cross-boundary finance and green finance, such as Wealth Management Connect, Southbound Trading under Bond Connect and Government Green Bond Programme; and
 - Shared the key takeaways of the HKMA and industry seminars, keeping the public abreast of the latest development in different issues including fintech, Regtech, and green bank transformation.



DEPOSIT PROTECTION SCHEME (DPS)

- Launched electronic payment channels for DPS compensation in mid-2021
- Participated in consumer shows “Hong Kong Book Fair 2021” and “Golden Age Expo and Summit 2021” to engage with the public in promoting DPS knowledge
- Organised the 15th DPS anniversary media event and launched online campaigns to enhance the public understanding of the DPS



63

- In mid-2021, electronic payment channels, including bank transfer and Faster Payment System, were launched to supplement traditional paper cheque to make DPS compensation to depositors.
- At Hong Kong Book Fair 2021 and Golden Age Expo and Summit 2021, information panels, interactive educational games, DPS board game and on stage DPS talk cum drama were utilised to engage visitors and promote the knowledge of DPS key features.
- Leveraging the 15th DPS anniversary to execute a series of publicity initiatives in reinforcing the Board’s role as the “Guardian of Bank Deposits”:
 - Organised a media briefing and produced an animated video to recount the evolution of the Scheme and to promote the importance of the DPS to help maintain the stability of Hong Kong’s banking system; and
 - Partnered with a media to implement an online campaign featuring four KOLs who shared their views on money saving and the importance of deposit protection; the public was invited to share their smart saving tips for a chance to win a commemorative gold coin as prizes.
- Rolled out two social media campaigns on the DPS Facebook page, “E-stamps Collection” campaign and “Street Interviews” video campaign, to enhance the public understanding of DPS.



FINANCIAL INFRASTRUCTURE



FINANCIAL INFRASTRUCTURE

- Financial infrastructure remains safe and efficient
- Operation of Bond Connect has been smooth; following the launch of Northbound Trading in 2017, Southbound Trading was also launched on 24 September 2021
- Further refine the Hong Kong Trade Repository (HKTR) for over-the-counter derivatives according to the relevant local and international standards

65

Bond Connect

- Since the launch of Bond Connect on 3 July 2017, the related settlement operations performed by the Central Moneymarkets Unit have been smooth.
- With the Delivery-versus-Payment settlement fully implemented in August 2018, as well as the inclusion of renminbi-denominated Mainland government and policy bank securities into the Bloomberg Barclays Global Aggregate Index in April 2019 and J.P. Morgan Government Bond Index-Emerging Markets in February 2020, more overseas investors have started to invest in the Mainland interbank bond market via the Bond Connect. The HKMA has been maintaining close communications with the People's Bank of China (PBoC) and other relevant Mainland institutions to explore enhancements to Northbound Trading.
- The HKMA and PBoC jointly announced on 15 September 2021 the implementation of Southbound Trading under Bond Connect which was launched on 24 September. Southbound Trading aims to provide Mainland institutional investors with a convenient, efficient and secure channel to allocate to offshore bond assets through the Hong Kong bond market with flexibility.

Over-the-counter derivatives trade repository

- Since the reporting function of the HKTR was launched in July 2013, reporting by banks to the HKTR has been smooth.

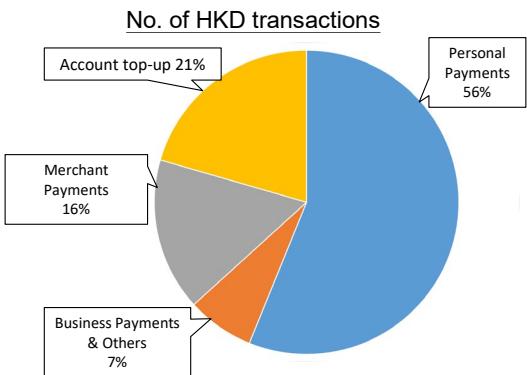


FASTER PAYMENT SYSTEM (FPS)

September 2021


9.07 million
No. of Registrations

 **5.57mn**
 **1.41mn**
 **1.63mn**
 **0.46mn**




741K
Average daily volume of
HKD transactions
 **74% (yoY)**


HK\$

 **HK\$5.2 bn**
Average daily value of
HKD transactions
 **16% (yoY)**

66

- The number of registrations and turnover of the FPS have been growing steadily. Since the launch of the system till end-September 2021, the FPS recorded 9.07 million registrations (including 5.57 million in mobile number, 1.41 million in email address, 1.63 million in FPS ID and 0.46 million in HKID number), up by 47% or 2.9 million registrations year-on-year (yoY).
- The usage of FPS has expanded gradually to merchant payments and top-up transactions from primarily P2P transactions previously.
- The turnover of the FPS continues to grow. The average daily HK dollar real-time transactions reached 741,000 (rose by 74% yoY), worth HK\$5.2 billion (rose by 16% yoY) in September 2021.



LATEST FINTECH INITIATIVES

- Unveiled “Fintech 2025” Strategy to encourage the financial sector to adopt technology comprehensively by 2025. The five focus areas of the strategy are:
 1. All banks go fintech
 2. Future-proofing Hong Kong for Central Bank Digital Currencies (CBDC) at both wholesale and retail levels
 3. Creating the next-generation data infrastructure
 4. Expanding the fintech-savvy workforce
 5. Nurturing the ecosystem with funding and policies

67

- **All banks go fintech**

- The HKMA will continue to promote the all-round adoption of fintech by Hong Kong banks and encourage them to fully digitise their operations, from front-end to back-end.
- The HKMA is currently conducting a Tech Baseline Assessment to take stock of banks' current and planned adoption of fintech in the coming years such that we can identify areas where support from the HKMA may be warranted. For this purpose, we issued a circular on 18 June, requesting banks with significant operations in Hong Kong to submit a Three Year Plan for fintech adoption to us by 31 December 2021.

- **Wholesale CBDC research**

- In February 2021, the wholesale CBDC research project initiated by the HKMA and the Bank of Thailand was joined by the Digital Currency Institute of the People's Bank of China and the Central Bank of the United Arab Emirates. It is strongly supported by the Bank for International Settlements Innovation Hub Centre (BISIHC) in Hong Kong. The project has been renamed as “Multiple Central Bank digital Currency Bridge” (“mBridge”).
- A report was published in September to highlight the interim results of the wholesale CBDC research project, covering topics such as the architectural design, key implementation considerations and governance.

- **Retail CBDC research: Project Aurum**

- The HKMA and the BISIHC in Hong Kong are exploring the two-tier issuance and distribution model of retail CBDC.

- Making reference to the technical model under Project Aurum, published a technical whitepaper in October.
- **Creating the next-generation data infrastructure**
 - The HKMA will take the lead in enhancing the city's existing data infrastructure and building new ones, including the Commercial Data Interchange (CDI) and Distributed Ledger Technology-based credit data sharing platform, to facilitate consent-based data sharing.
 - The CDI Symposium was held in July to assist financial institutions and potential data providers to better understand the CDI initiative and how they could contribute to and benefit from its development.
- **Expanding the fintech-savvy workforce**
 - To increase the supply of fintech talent, the HKMA will collaborate with various strategic partners to groom all-round fintech talent, both students and practitioners, through various initiatives.
 - In collaboration with the University of Hong Kong and the Applied Science and Technology Research Institute, the HKMA piloted the Industry Project Masters Network scheme in September to provide postgraduate students with the opportunities to work on banks' fintech projects.
- **Nurturing the ecosystem with funding and policies**
 - A new Fintech Cross-Agency Co-ordination Group has been established by the HKMA and various industry key players to formulate supportive policies for the Hong Kong fintech ecosystem.
 - The HKMA is exploring with the Innovation and Technology Commission the possibility of providing funding support to qualified fintech projects by enhancing its Fintech Supervisory Sandbox.



STORED VALUE FACILITIES (SVFs) AND RETAIL PAYMENT SYSTEMS (RPSs)

- SVF usage continued to grow in Q2 2021:
 - Accounts in use: 64.34 million (+0.6% year-on-year (oy))
 - Average daily transaction value: HK\$689 million (+13.0% oy)
 - Licensees continue to extend their business reach
- SVF Security 2.0:
 - Gradual implementation since 2 July 2021
- Continue to supervise licensees in a risk-based manner, taking targeted supervisory actions where necessary
- Continue to oversee six designated RPSs



REGULATORY DEVELOPMENT OF THE OVER-THE-COUNTER (OTC) DERIVATIVES MARKET

- In June 2021, the HKMA and the SFC jointly published the consultation conclusion paper on the annual update of the Financial Services Providers (FSP) list. The revised FSP list will be gazetted and effective on 1 January 2022
- As of August 2021, the Hong Kong Trade Repository logged a total of 3.26 million outstanding OTC derivatives trades, covering five asset classes under mandatory reporting requirements, i.e. foreign exchange, interest rate, equity, credit, and commodity derivatives

69

- Under the Hong Kong OTC Derivatives Clearing Rules (Clearing Rules), AIs and licensed corporations (LCs) are subject to the clearing obligation of specified OTC derivative transactions. In order to capture transactions between AIs/LCs and major dealers outside Hong Kong that are not AIs or LCs, the concept of FSP was introduced. Under the Clearing Rules, an entity will be designated as a FSP if the entity belongs to a firm on the Financial Stability Board's list of global systemically important banks or on the OTC Derivatives Supervisors Group's list of major dealers, and the entity is a clearing member of major central counterparties. Specific transactions between a FSP and AIs/LCs are subject to the clearing obligations. The HKMA and SFC perform annual review and public consultation of the FSP list to ensure the list remains relevant and appropriate.



INTEREST RATE BENCHMARK REFORMS

- The HKMA has been:
 - actively participating in discussion in international fora and closely monitoring relevant developments;
 - working with the Treasury Markets Association to encourage the use of HONIA, gauging industry views and promoting market awareness; and
 - continuing to facilitate AIs in preparing for the discontinuation of LIBOR

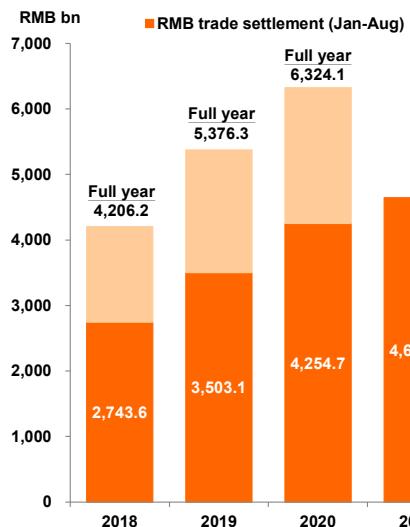


HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

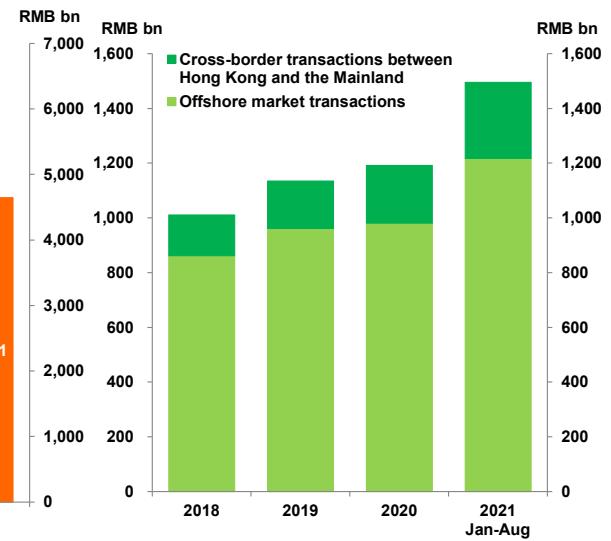


RMB TRADE SETTLEMENT AND PAYMENT

RMB trade settlement handled by banks in Hong Kong



Average daily turnover of Hong Kong RMB RTGS System

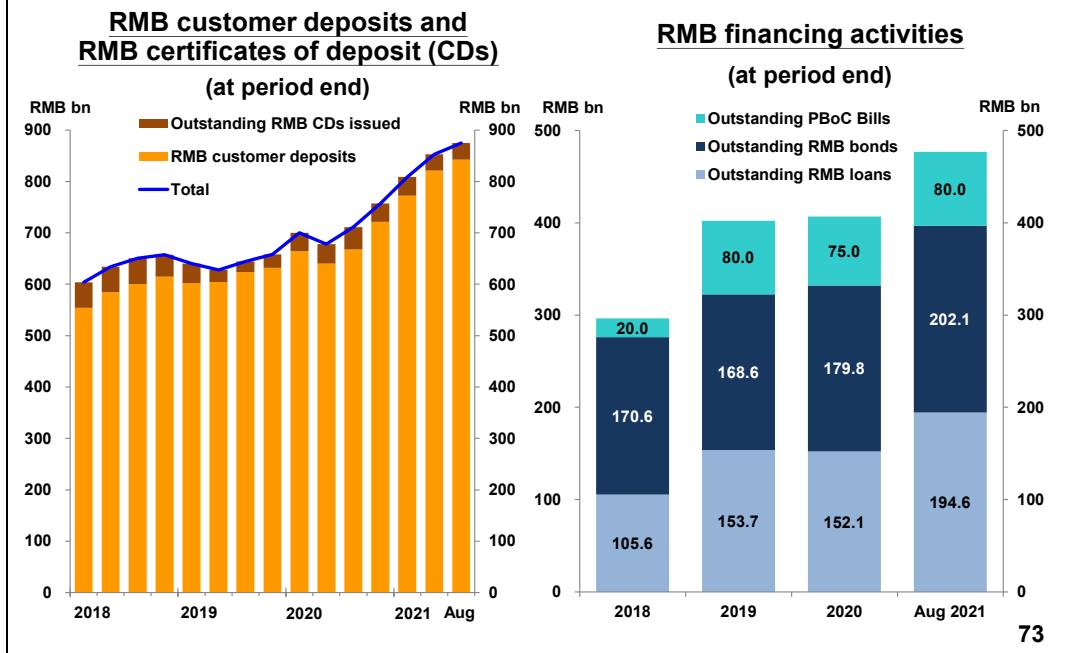


72

- In the first eight months of 2021, renminbi trade settlement handled by banks in Hong Kong totalled RMB4,646.1 billion.
- In the first eight months of 2021, the average daily turnover of Hong Kong RMB Real Time Gross Settlement (RTGS) system stood at RMB1,495.7 billion.



RMB LIQUIDITY POOL AND FINANCING ACTIVITIES

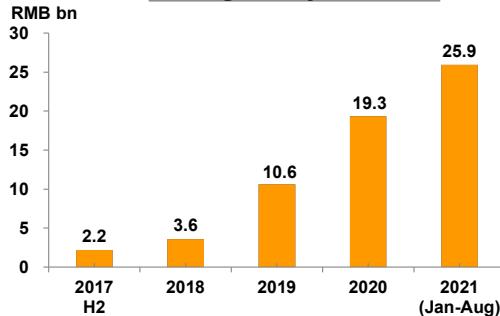


- As at end-August 2021, renminbi customer deposits and outstanding renminbi CDs amounted to RMB842.7 billion and RMB32.1 billion respectively, totalling RMB874.8 billion.
- As at end-August 2021, outstanding renminbi loans amounted to RMB194.6 billion. Outstanding dim sum bonds amounted to RMB202.1 billion. The dim sum bond issuance totalled RMB61.2 billion for the first eight months of 2021. As at end-August 2021, outstanding PBoC bills amounted to RMB80 billion.

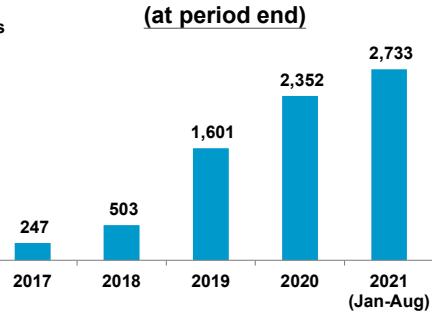


BOND CONNECT TURNOVER AND PARTICIPATING INSTITUTIONS

Northbound Bond Connect Average Daily Turnover



Number of Registered Institutional Investors (at period end)



- Southbound Trading under Bond Connect was officially launched on 24 September 2021. The scheme has been well received by the market and operations have been smooth so far
- The HKMA announced the implementation details for the Cross-boundary Wealth Management Connect on 10 September 2021. Banks may start offering relevant services upon completion of the necessary preparatory work

74

- In the first eight months of 2021, Northbound Trading under Bond Connect recorded 286 trades daily on average. The daily turnover averaged RMB25.9 billion, up around 34% from the 2020 average of RMB19.3 billion. As of end of August 2021, Bond Connect onboarded 2,733 registered institutional investors.



MAINTAINING RMB BUSINESS LINKS WITH OTHER JURISDICTIONS

	Aug 2021	2020	2019
1 No. of participating banks of Hong Kong's RMB clearing platform Of which: Branches and subsidiaries of overseas banks and overseas presence of Mainland banks	209	206	204
2 Amount due to overseas banks (RMB billion)	112.7	99.4	76.3
3 Amount due from overseas banks (RMB billion)	94.3	97.3	95.4



DEVELOPING HONG KONG'S PRIVATE EQUITY (PE) PLATFORM

- Hong Kong has a robust PE industry: the total capital under management by PE funds in Hong Kong exceeded US\$170 billion at first half of 2021*
- A new limited partnership regime for PE funds came into operation on 31 August 2020. As at 6 September 2021, 333 funds had been registered under the new regime. The bill for re-domiciliation mechanism for funds was passed by the Legislative Council on 30 September 2021 and the ordinance will come into effect on 1 November 2021
- The Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021 came into effect on 7 May 2021. The related certification mechanism administered by the HKMA began operation on 16 July 2021

* Source: Asian Venture Capital Journal



PROMOTING GREEN FINANCE

- In July 2021, the Green and Sustainable Finance Cross-Agency Steering Group (CASG) co-chaired by the HKMA and the SFC announced its next steps to advance Hong Kong's green and sustainable finance strategy with focus on climate-related disclosures and sustainability reporting, carbon market opportunities, and the Centre for Green and Sustainable Finance which was launched to coordinate cross-sector efforts in capacity building, thought leadership and policy development
- The borrowing ceiling of the Government Green Bond Programme was doubled to HK\$200 billion in July 2021 to allow the Government to further issue green bonds (including retail green bonds) totalling HK\$175.5 billion in the next five years, having regard to the market situation. The HKMA will continue to assist the Government in further green bond issuances. The Green Bond Report 2021 was also published in August, reporting on the allocation of the green bond proceeds and the details and expected environmental benefits of the projects financed so far
- The HKMA continued to administer and promote the Green and Sustainable Finance Grant Scheme, which was launched in May 2021 to attract more green and sustainable financing activities to Hong Kong by covering part of the expenses on bond issuances and external review services 77

- The CASG aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies. Other members include the Environment Bureau, the Financial Services and the Treasury Bureau, the Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.
- To attract more green and sustainable financing activities to Hong Kong, the Government launched a three-year Green and Sustainable Finance Grant Scheme in May 2021 to cover part of the expenses on bond issuance and external review services. The scheme also encourages more financial and professional service providers and external reviewers to set foot in Hong Kong as a regional hub.



GOVERNMENT BOND PROGRAMME

- Issued the eighth batch of iBond and the sixth batch of Silver Bond in June and August 2021 respectively. They were well received
- To promote sustainable development of the bond market in Hong Kong, the Legislative Council approved a resolution in July 2021 to raise the size of the Government Bond Programme from HK\$200 billion to HK\$300 billion

78

Retail part – outstanding as at end-September 2021:

- Two iBonds, totalling HK\$35 billion.
- Four Silver Bonds, totalling HK\$50.7 billion.

Institutional part – outstanding as at end-September 2021:

- 12 institutional government bonds, totalling HK\$78 billion.
- One Islamic bonds, totalling US\$1 billion.



HONG KONG ACADEMY OF FINANCE (AoF)

- **Financial Leadership Development** – organised five Dialogue Sessions with financial leaders, one expert speakers session on renminbi and one dialogue event with the Bank for International Settlements (BIS) since May 2021
- **Research Activities** – the Hong Kong Institute for Monetary and Financial Research (HKIMR) released its fourth Applied Research Report in June 2021 and hosted seven webinars with overseas scholars speaking on macro and financial economics topics between May and September 2021

79

Financial Leadership Development

- The five Dialogue Sessions featured Mr John Dugan, Chair of Citigroup Inc. on 13 May; Mr David M. Rubenstein, Co-Founder and Co-Chairman of The Carlyle Group on 1 June; Sir Howard Davies, Chairman of NatWest Group plc on 28 June; Mr Mark Tucker, Group Chairman of HSBC Holdings plc on 12 August; and Professor Masaaki Shirakawa, former Governor of the Bank of Japan on 27 August.
- The Expert Speakers event on renminbi featuring Dr Guan Tao and Prof Huang Yiping was held on 17 August.
- The Dialogue between Mr Agustín Carstens and Mr Eddie Yue on economic recovery post-COVID was co-organised with the BIS on 6 July.

Research Activities

- The fourth Applied Research Report “Algorithmic and High-frequency Trading in Hong Kong’s Equity Market” was released by HKIMR in June 2021.



INVESTMENT ENVIRONMENT AND PERFORMANCE OF THE EXCHANGE FUND

80



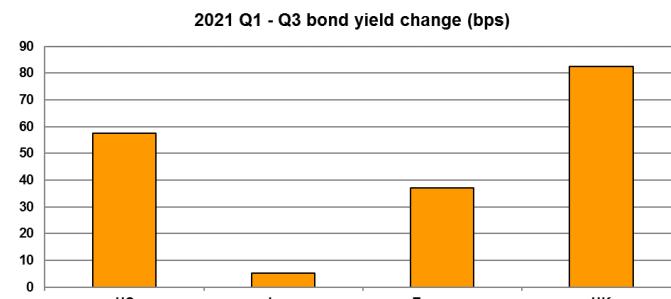
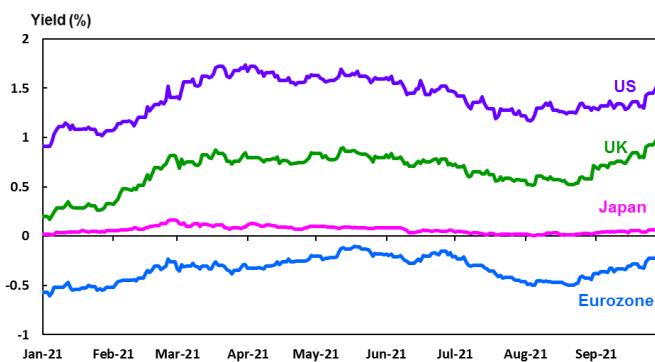
INVESTMENT ENVIRONMENT IN Q3 2021

- **Interest rates:** Major sovereign bond yields traded in tight range as investors await signals on the timeline of Fed's tapering of asset purchases. US 10-year Treasury yield trended downwards despite ongoing economic recovery and rising inflation pressure
- **Equity markets:** Major equity markets performed well amid economy reopening, strong corporate earnings and ample market liquidity. S&P 500 and TOPIX reached historical high and 30-year high respectively. On the contrary, Hong Kong and Chinese A-shares markets dipped in the midst of tighter policy regulations
- **Exchange rates:** Major currencies depreciated against the US dollar during the quarter, while Renminbi remained largely stable

81



MAJOR SOVEREIGN BOND YIELDS STEADY

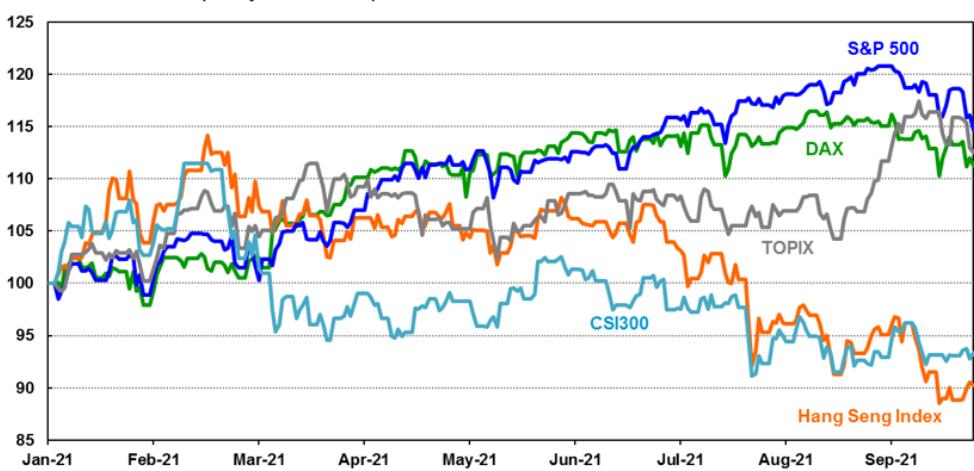


82



MAJOR EQUITY MARKETS EXTENDED RALLY WHILE HONG KONG AND CHINESE MARKETS DIPPED

Normalised Index Level (2020 year-end = 100)

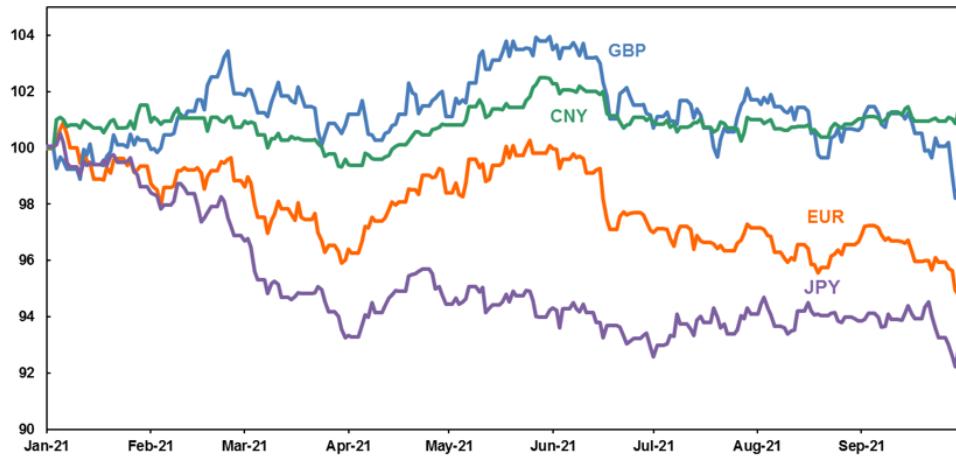


83



MAJOR CURRENCIES PERFORMED MIXED AGAINST USD

Normalised FX Level Against USD (2020 year-end = 100)



84



INVESTMENT INCOME

← 2021 → | 2020 2019

(HK\$ billion)	Jan - Sep	Q3	Full Year	Full Year
Hong Kong equities*	(13.8)	(26.3)	4.0	22.1
Other equities	45.7	(0.7)	69.9	100.7
Bonds	9.5	8.2	92.7	114.5
Foreign exchange#	8.4	5.6	9.6	(13.0)
Other investments@	76.7	-	59.6	37.9
Investment income/(loss)	126.5	(13.2)	235.8	262.2

* Excluding valuation changes of the Strategic Portfolio.

This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. This figure represents valuation changes up to the end of June 2021. Valuations of these investments from July to September are not yet available.

85



INCOME AND EXPENDITURE

(HK\$ billion)	2021		2020	2019
	Jan - Sep	Q3	Full year	Full year
Investment income/(loss)	126.5	(13.2)	235.8	262.2
Other income	0.2	0.1	0.2	0.2
Interest and other expenses	(4.7)	(1.4)	(14.6)	(24.8)
Net income/(loss)	122.0	(14.5)	221.4	237.6
Fee payment to Fiscal Reserves*#	(26.3)	(8.3)	(69.8)	(53.8)
Fee payment to HKSAR government funds and statutory bodies*	(12.4)	(4.5)	(11.5)	(9.0)

* The rate of fee payment is 4.7% for 2021, 3.7% for 2020 and 2.9% for 2019.

This does not include the 2021 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2021 is available.

(The composite rate was 12.3% for 2020 and 8.7% for 2019. Fee payable to the Future Fund was HK\$37.2 billion for 2020 and HK\$24.4 billion for 2019.)

86



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)	At 30 Sep 2021 (unaudited)	At 31 Dec 2020	At 31 Dec 2019
	=====	=====	=====
ASSETS			
Deposits	319.7	267.0	305.9
Debt securities	3,235.2	3,238.0	2,856.6
Hong Kong equities*	192.5	206.9	194.8
Other equities	537.5	536.3	534.9
Other assets#	247.8	251.0	314.5
Total assets	4,532.7	4,499.2	4,206.7
LIABILITIES AND EQUITY			
Certificates of Indebtedness	577.8	556.2	516.1
Government-issued currency notes and coins in circulation	12.9	12.8	13.0
Balance of the banking system	437.5	457.5	67.7
Exchange Fund Bills and Notes issued	1,088.9	1,068.9	1,152.3
Placements by banks and other financial institutions	92.5	87.6	35.0
Placements by Fiscal Reserves@	810.9	881.8	1,137.5
Placements by HKSAR government funds and statutory bodies	385.4	342.5	328.4
Placements by subsidiaries	20.2	15.5	12.6
Other liabilities	321.1	233.1	194.7
Total liabilities	3,747.2	3,655.9	3,457.3
Accumulated Surplus	784.6	842.4	748.7
Revaluation Reserve	0.9	0.9	0.7
Total equity	785.5	843.3	749.4
Total liabilities and equity	4,532.7	4,499.2	4,206.7

* Including shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

Including fund injection to Exchange Fund's investment holding subsidiaries at a carrying amount of HK\$190.3 billion at 30 September 2021 (HK\$193.2 billion at 31 December 2020 and HK\$177.3 billion at 31 December 2019).

@ Including placements by the Future Fund of HK\$205.0 billion at 30 September 2021 (HK\$205.0 billion at 31 December 2020 and HK\$224.5 billion at 31 December 2019).

87



HISTORICAL INVESTMENT INCOME

(HK\$ billion)

Year	Full Year	Q4	Q3	Q2	Q1
2002	47.0	26.3	(2.1)	26.5	(3.7)
2003	89.7	33.5	8.4	41.1	6.7
2004	56.7	33.0	14.1	(7.2)	16.8
2005	37.8	7.3	19.0	13.6	(2.1)
2006	103.8	36.0	37.1	12.5	18.2
2007*	142.2	33.4	61.8	26.3	20.7
2008*	(75.0)	8.3	(48.3)	(20.4)	(14.6)
2009*#	107.7	10.6	71.9	58.7	(33.5)
2010*#	79.4	5.9	74.5	(12.1)	11.1
2011*#	27.1	22.1	(41.4)	21.6	24.8
2012*#	111.6	30.3	42.4	(5.6)	44.5
2013*#	81.2	30.7	54.7	(23.3)	19.1
2014*#	44.7	6.1	(17.8)	43.3	13.1
2015*#	(15.8)	21.0	(63.8)	18.7	8.3
2016*#	68.1	(23.3)	47.1	18.9	25.4
2017*#	264.0	66.0	61.8	71.3	64.9
2018*#	10.9	(33.6)	9.5	-	35.0
2019*#	262.2	60.3	23.5	45.0	133.4
2020*#	235.8	145.0	81.2	121.6	(112.0)
2021*# (unaudited)	N/A	N/A	(13.2)	88.4	51.3

* Excluding valuation changes of the Strategic Portfolio.

Including valuation changes of private equity and real estate investments held under the LTGP.

88



HONG KONG MORTGAGE CORPORATION

89



SME FINANCING GUARANTEE SCHEME (SFGS)

- Special 100% Loan Guarantee:
 - As of 31 August 2021, over 42,200 applications were approved, amounting to about HK\$70.0 billion. Around 27,700 applications have chosen the principal moratorium option
 - Application period will be extended by six months to 30 June 2022
- 80% and 90% Guarantee Products:
 - As of 31 August 2021, over 25,100 applications were approved, amounting to about HK\$97.8 billion. Around 1,800 applications have chosen the principal moratorium option
- The Government announced on 21 September 2021 that the maximum duration of principal moratorium under the SFGS will be extended from 18 months to 24 months, and the application period for principal moratorium will be extended to end-June 2022 90



PERSONAL LOAN GUARANTEE SCHEME

- As of 31 August 2021, over 29,100 applications were approved, amounting to about HK\$2.0 billion. Average loan size was about HK\$69,000
- The Government announced on 21 September 2021 that the application period of the scheme will be extended to end-April 2022



MORTGAGE INSURANCE PROGRAMME (MIP)

- In 2021, as of 31 August, around 42,000 applications have been approved year-to-date, of which over 32,800 are under the new coverage after the MIP revisions in October 2019. Over 90% of approved applications are from first-time homebuyers
- Principal moratorium or extension of repayment schedules is available to borrowers to help reduce their repayment burden

92



REVERSE MORTGAGE PROGRAMME

- As of 31 August 2021, 4,898 applications had been received:
 - Average age of borrowers: 68 years old
 - Average monthly payout: HK\$16,600
 - Payment terms: 10-year (23.3%); 15-year (14.9%); 20-year (12.4%); life (49.4%)
 - Average property value: HK\$5.7 million
 - Average property age: 30 years

93



HKMC ANNUITY PLAN

- Premium receipts of around HK\$2 billion were recorded in the first eight months of 2021, an increase of 66% over the same period in 2020
- Detailed business results:

	2020 FY	2020 (1 st 8 months)	2021 (1 st 8 months)
No. of policies issued	2,606	1,289	2,237
Total premium amount (HK\$ billion)	2.5	1.2	2.0
Average premium amount (HK\$)	970,000	930,000	890,000