



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

2 November 2020



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



GLOBAL ECONOMIC GROWTH FORECASTS

Real GDP Growth

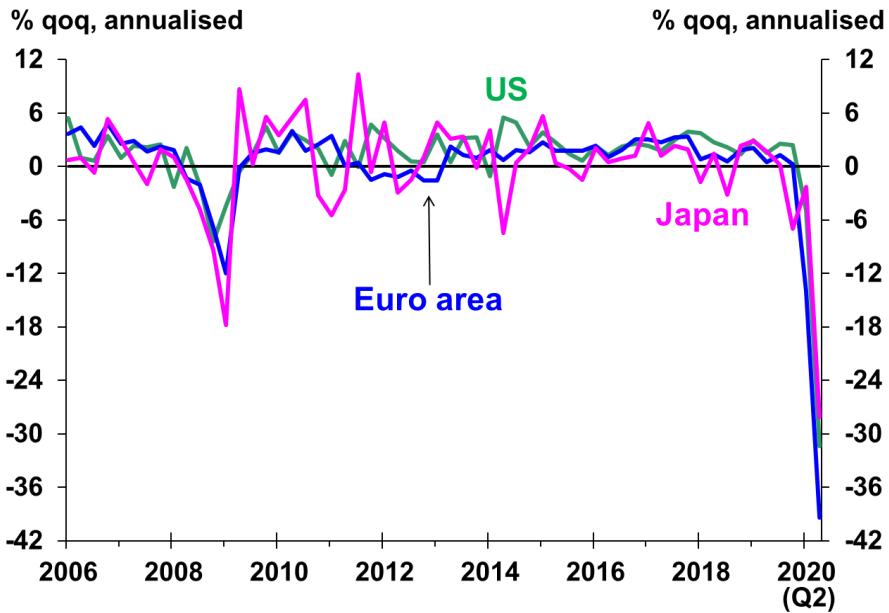
(% year-on-year)

	2019	2020 Forecasts	2021 Forecasts
US	2.2	-4.0	3.7
Euro area	1.3	-7.5	5.3
Japan	0.7	-5.7	2.5
Asia (ex-Japan)	5.0	-0.5	7.3
Mainland China	6.1	2.3	7.9
Hong Kong	-1.2	-6.8	4.4

Sources: October 2020 Consensus Forecasts



REAL GDP GROWTH IN MAJOR ECONOMIES

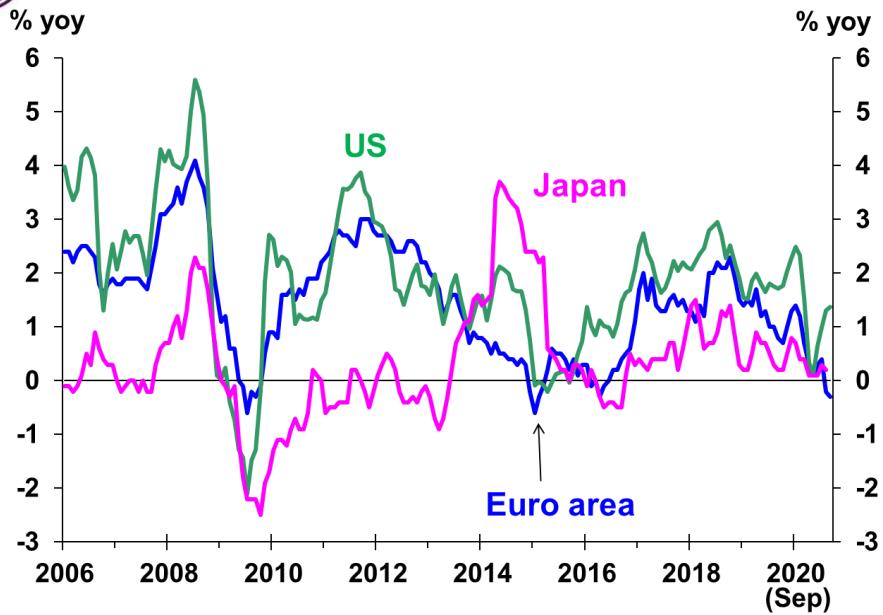


Source: CEIC

5



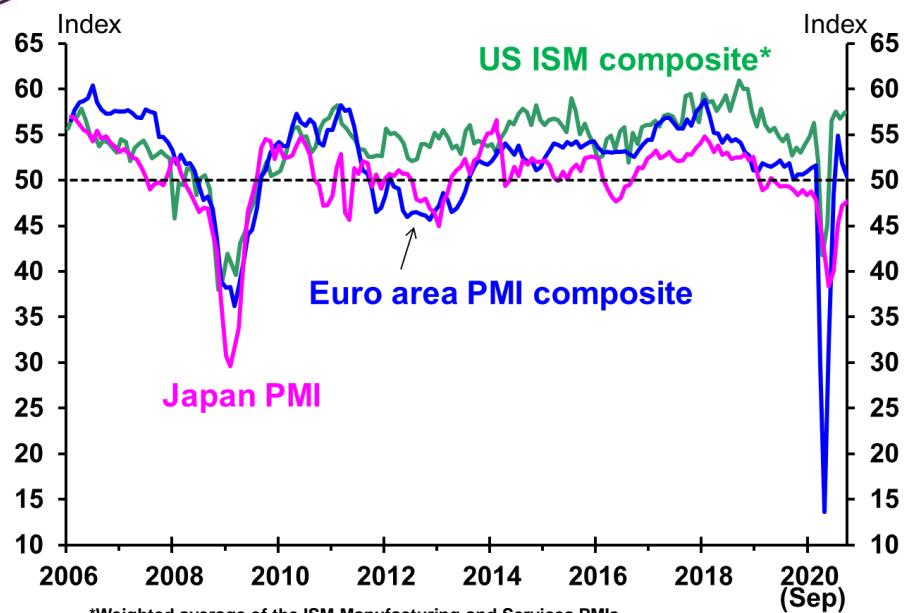
HEADLINE INFLATION IN MAJOR ECONOMIES



Source: CEIC



PURCHASING MANAGERS' INDEX IN MAJOR ECONOMIES

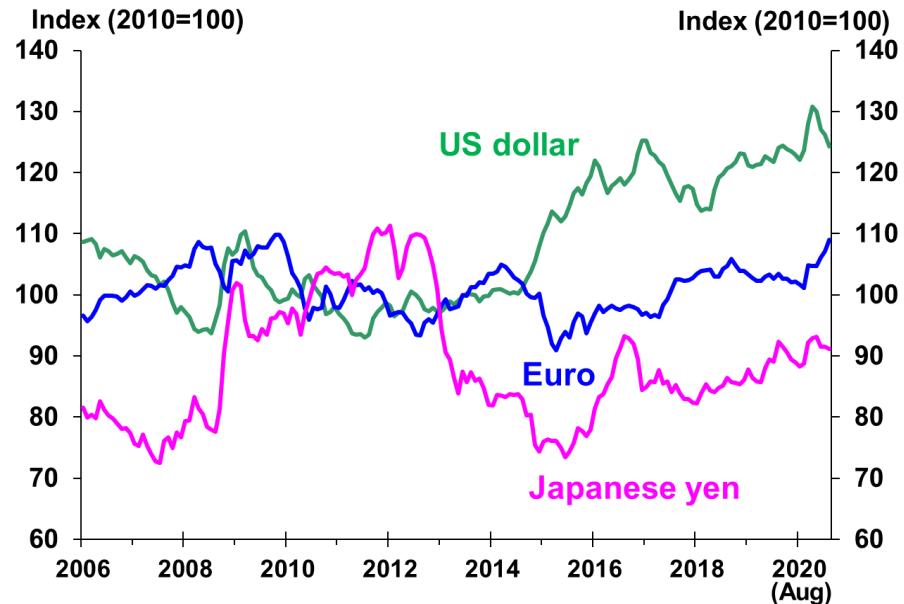


Source: CEIC

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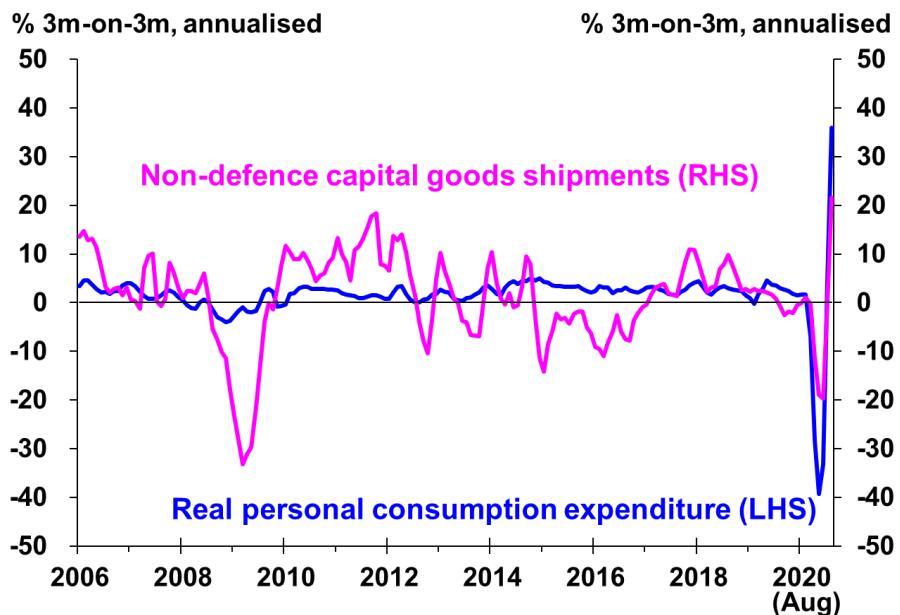
NOMINAL EFFECTIVE EXCHANGE RATE INDEX OF MAJOR CURRENCIES



Source: CEIC



US: CONSUMPTION GROWTH & BUSINESS INVESTMENT ACTIVITY

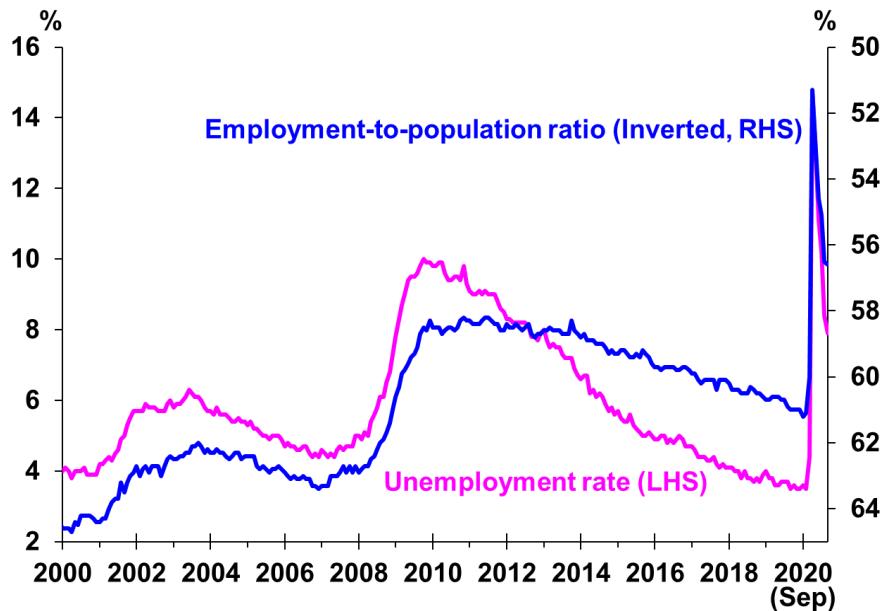


Source: CEIC

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US: LABOUR MARKET SITUATION



Source: CEIC

10



US: LABOUR FORCE PARTICIPATION

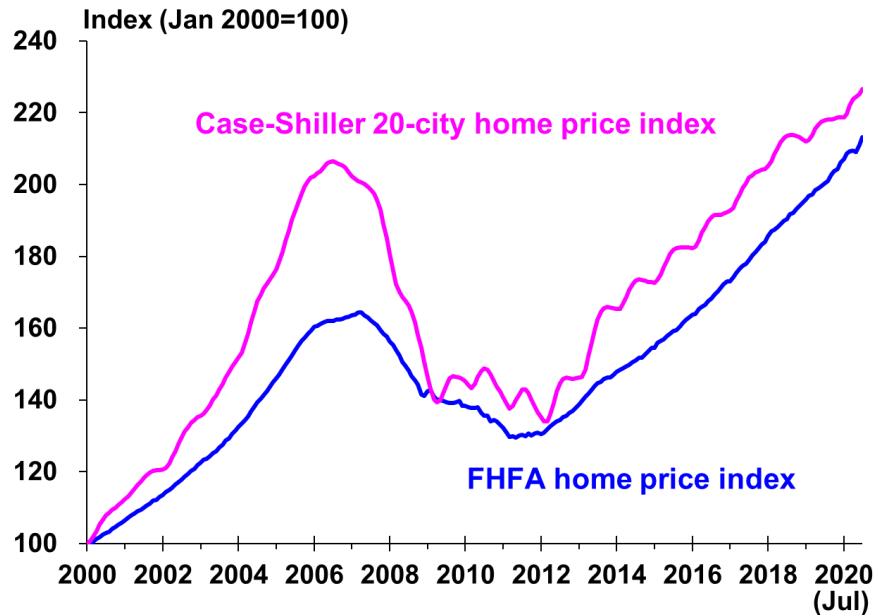


Source: CEIC

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US: HOME PRICES

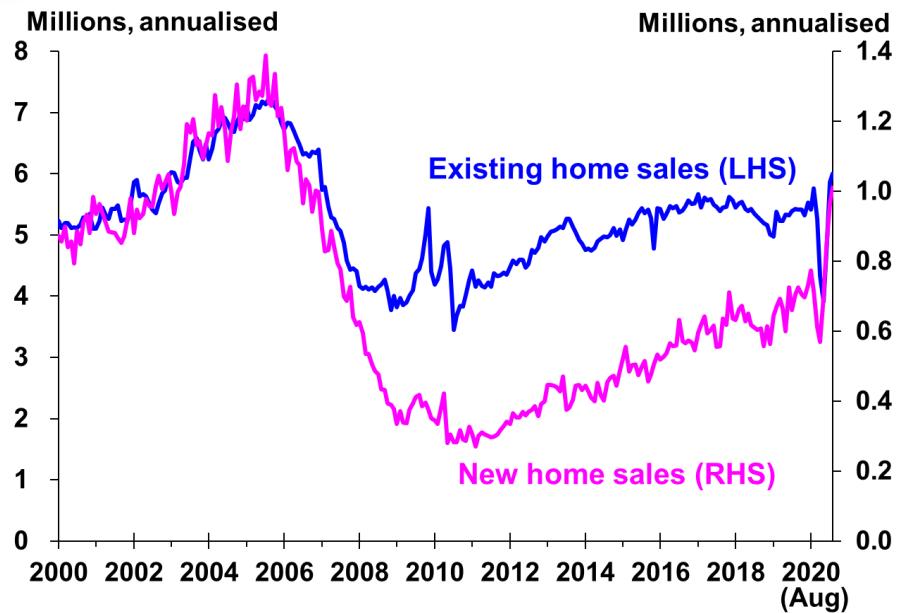


Sources: CEIC and Datastream

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US: HOME SALES



Sources: CEIC and Datastream

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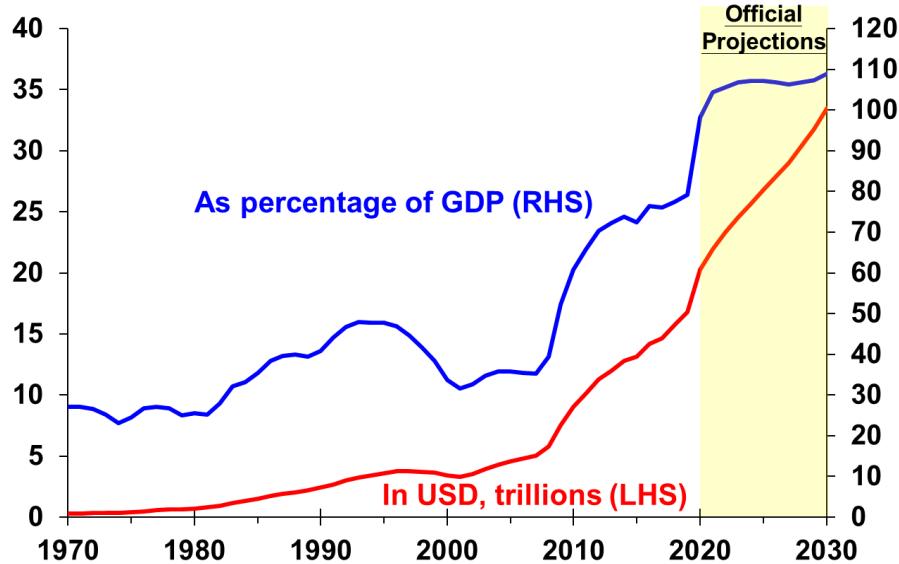


US: FEDERAL GOVERNMENT DEBT

US federal debt held by the public

USD, trillions

% of GDP



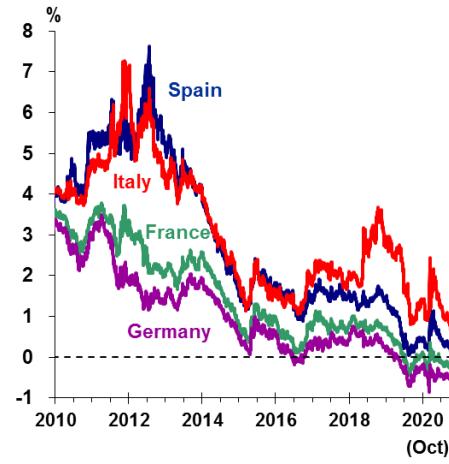
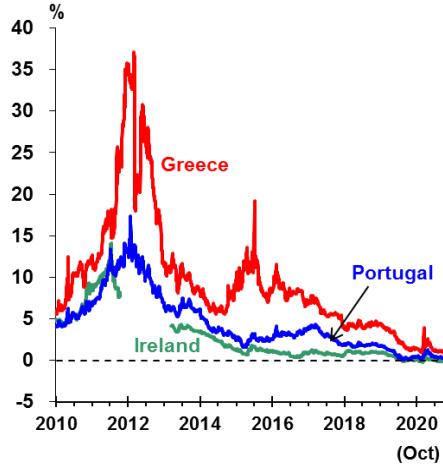
Sources: CEIC and Congressional Budget Office

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EURO AREA: SOVEREIGN BOND YIELDS

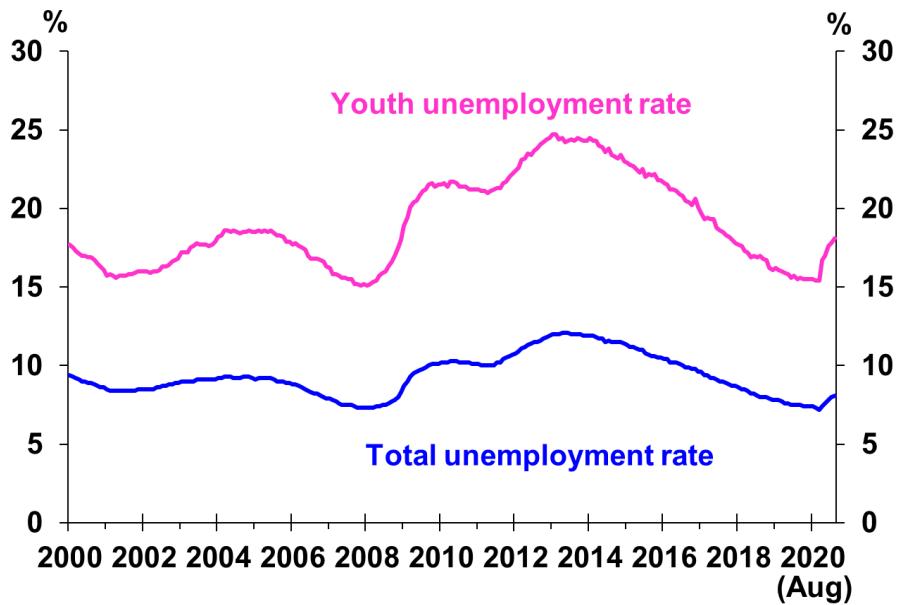
10-year sovereign bond yield



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



EURO AREA: UNEMPLOYMENT RATE

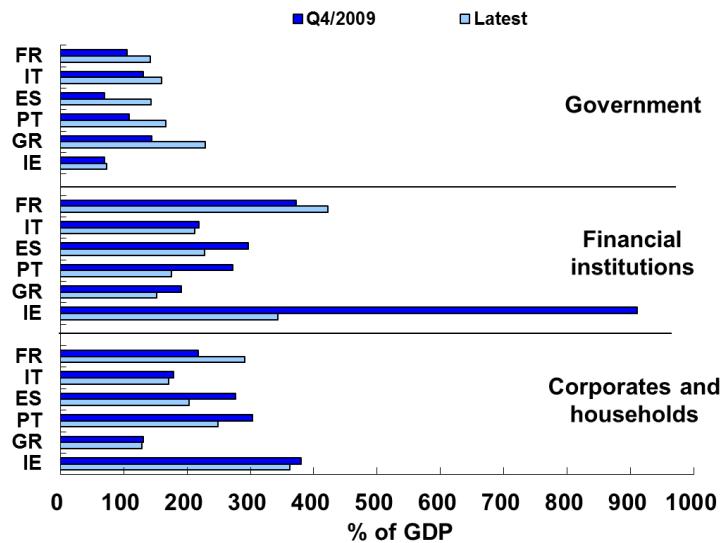


Source: Bloomberg

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EURO AREA: OVERALL INDEBTEDNESS



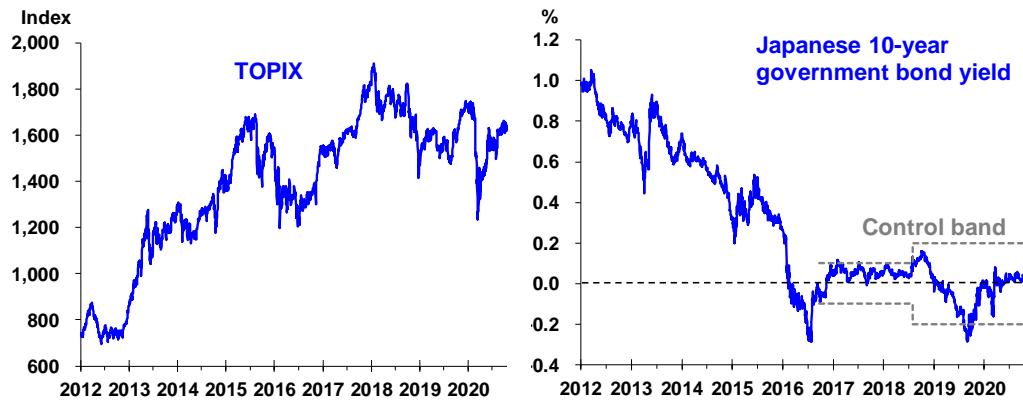
Source: European Central Bank

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

The latest figures are up to Q1/2020 for governments, whilst the rest are up to Q2/2020



JAPAN: FINANCIAL MARKETS



Source: Bloomberg

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JAPAN: PUBLIC DEBT

% of GDP

300

Public debt

200

100

150

200

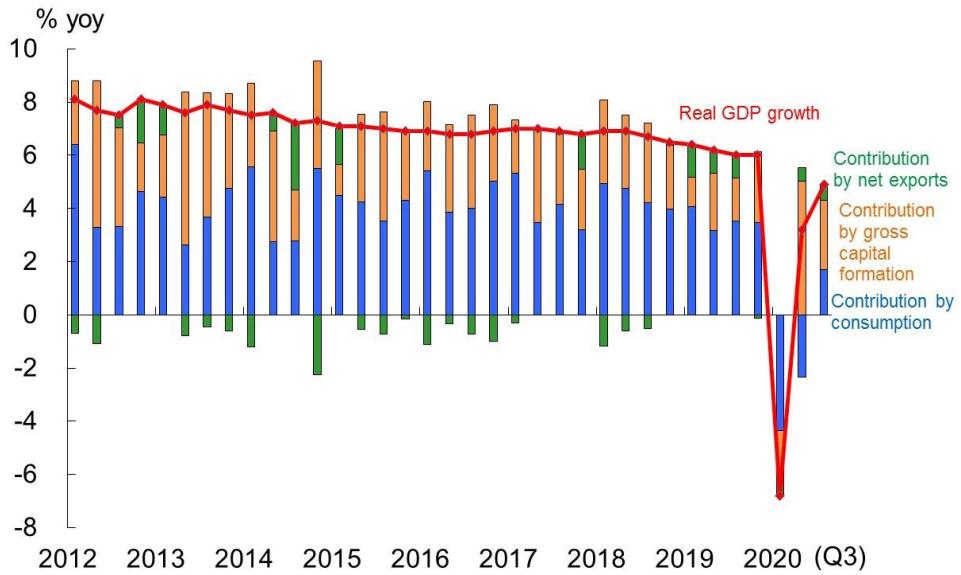
2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020 (Jun)

Sources: Bank of Japan and CEIC

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MAINLAND CHINA: REAL GDP GROWTH

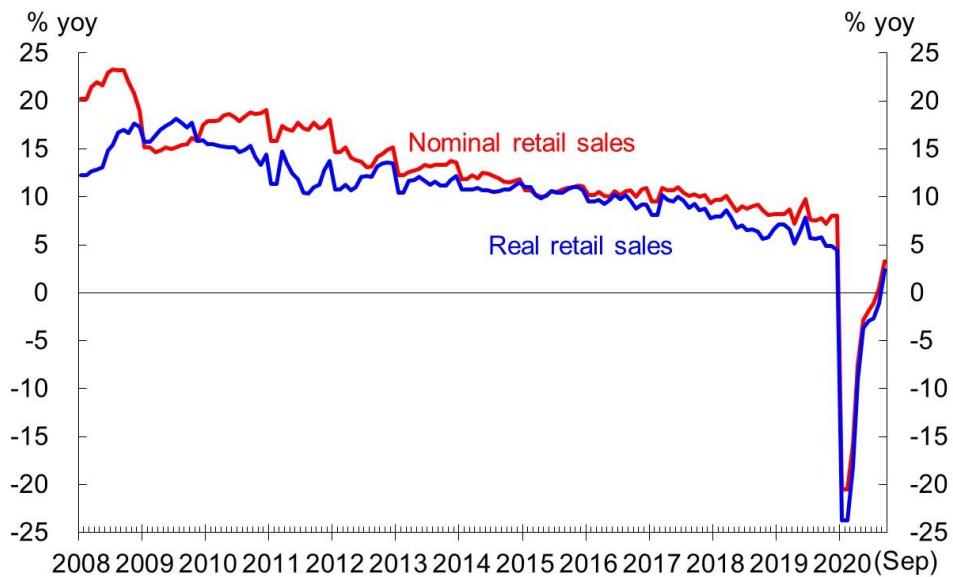


Source: CEIC

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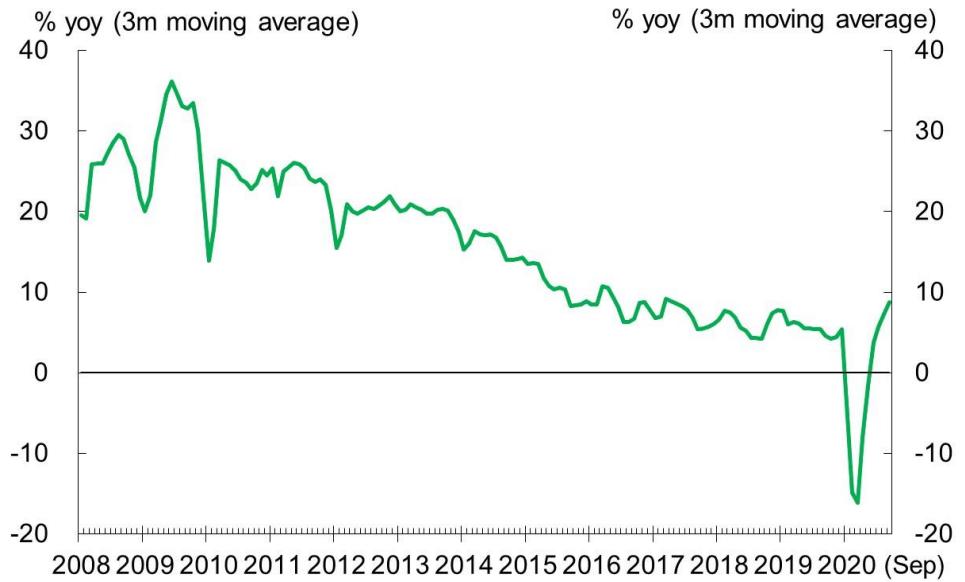
MAINLAND CHINA: RETAIL SALES



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



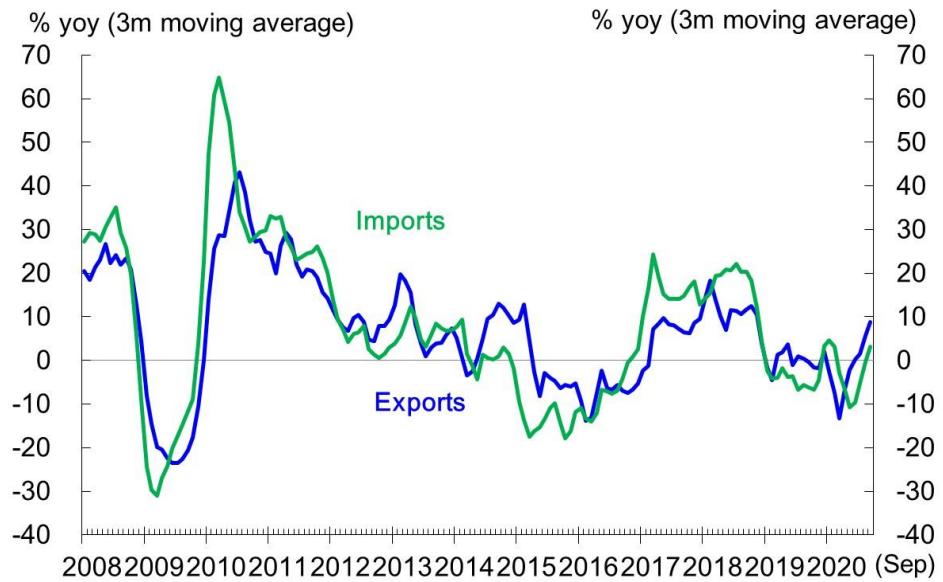
MAINLAND CHINA: FIXED ASSET INVESTMENT



Sources: CEIC and HKMA staff estimates



MAINLAND CHINA: IMPORT AND EXPORT GROWTH

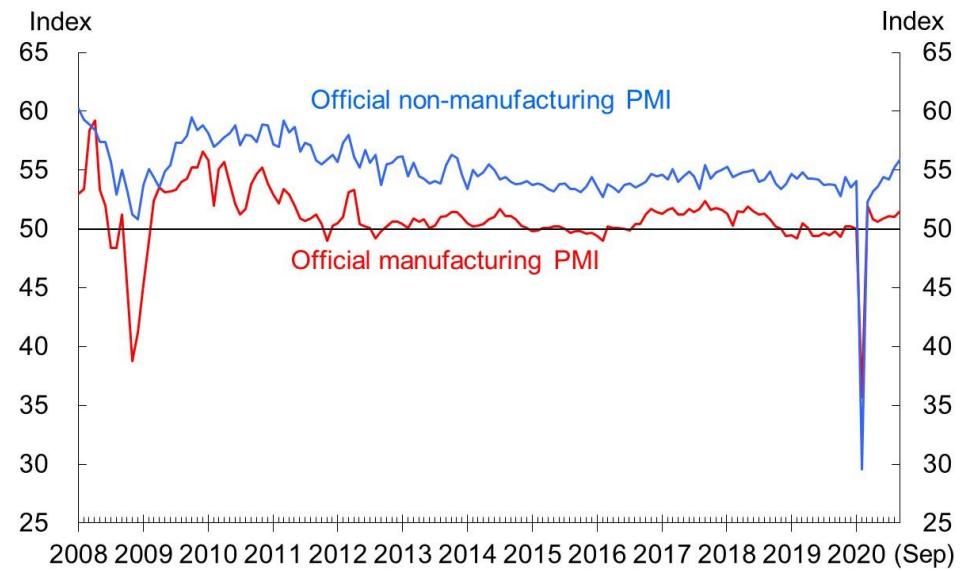


Sources: CEIC and HKMA staff estimates

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MAINLAND CHINA: PURCHASING MANAGERS' INDEX

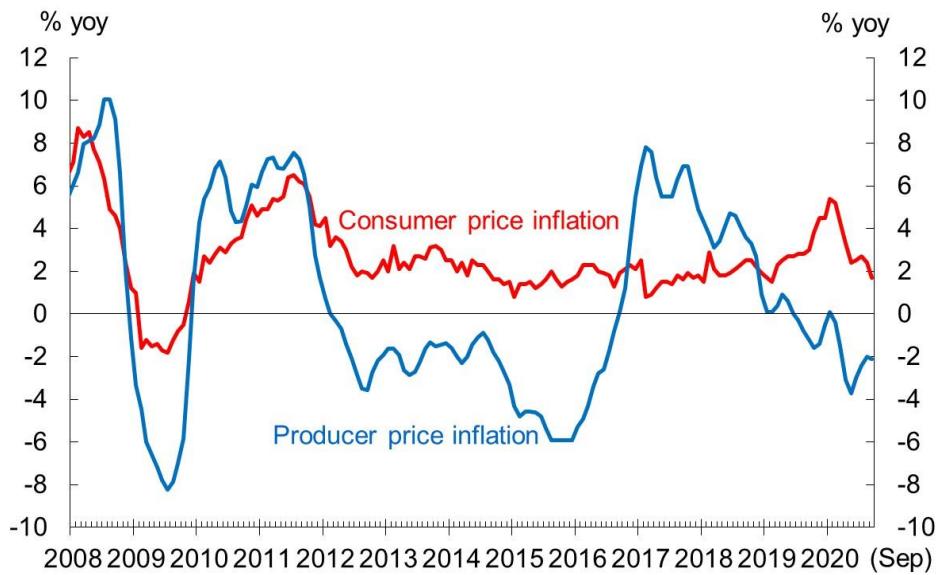


Source: CEIC

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MAINLAND CHINA: INFLATION

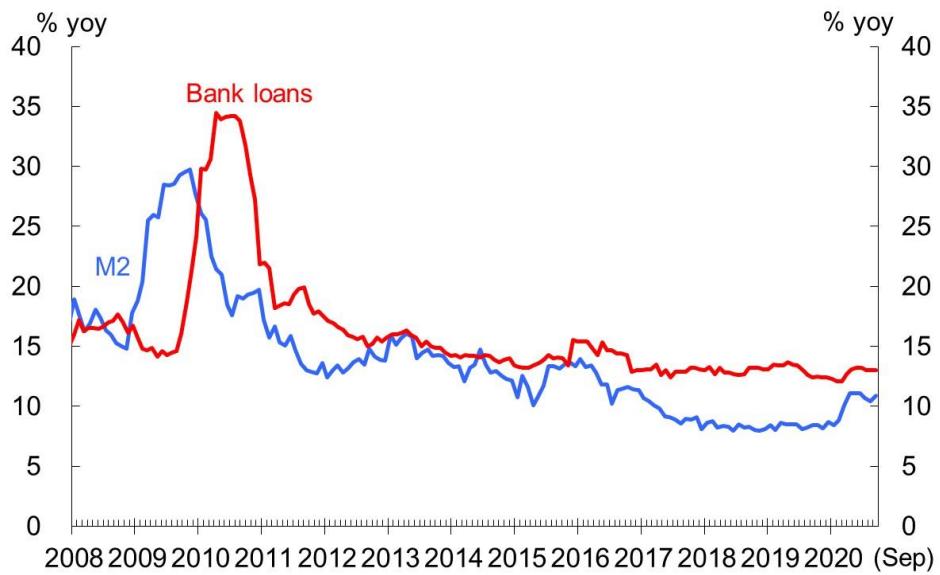


Source: CEIC

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MAINLAND CHINA: MONEY AND LOAN GROWTH

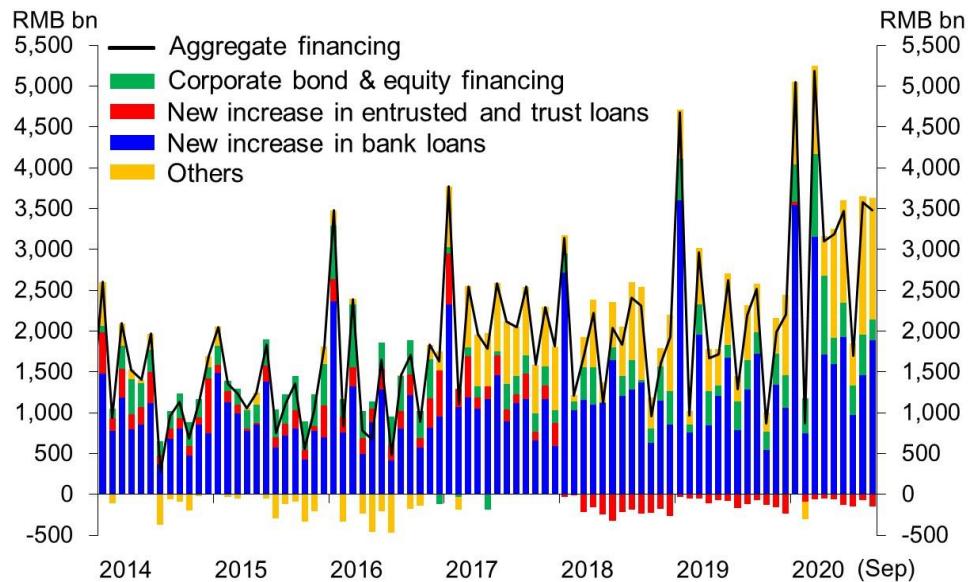


Source: CEIC

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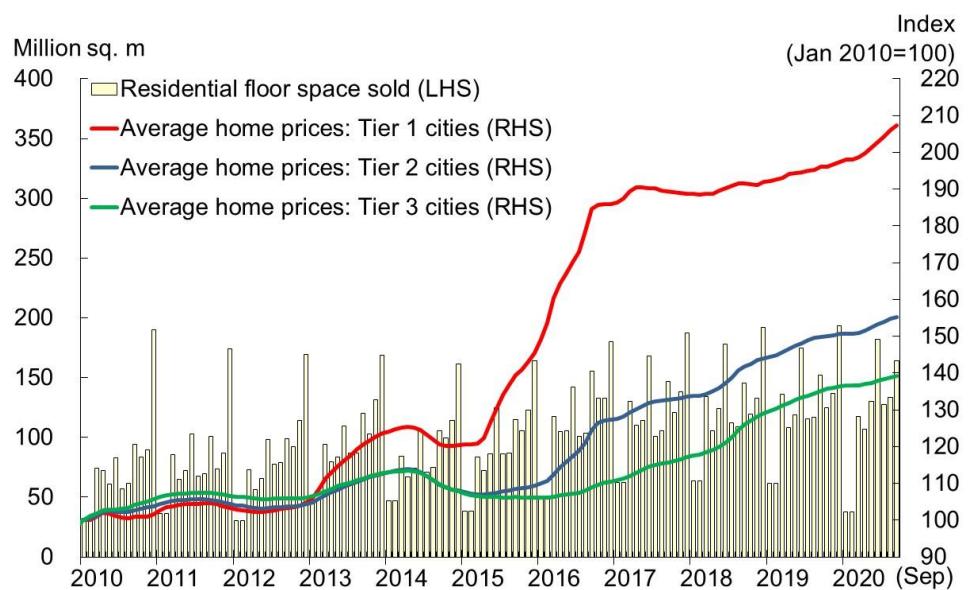
MAINLAND CHINA: AGGREGATE FINANCING FLOW



Source: CEIC



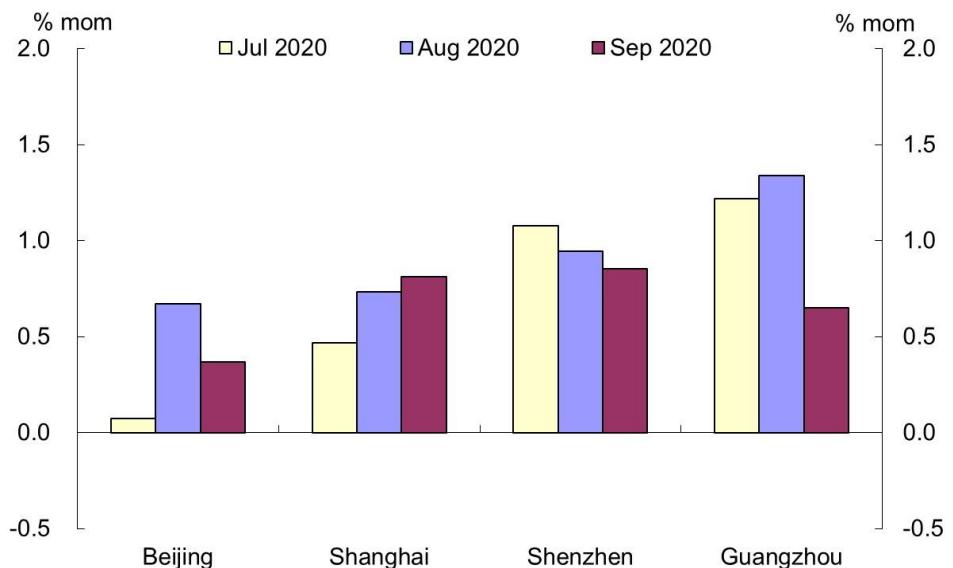
MAINLAND CHINA: PROPERTY PRICE AND TRANSACTION VOLUME



Sources: CEIC, WIND and HKMA staff estimates



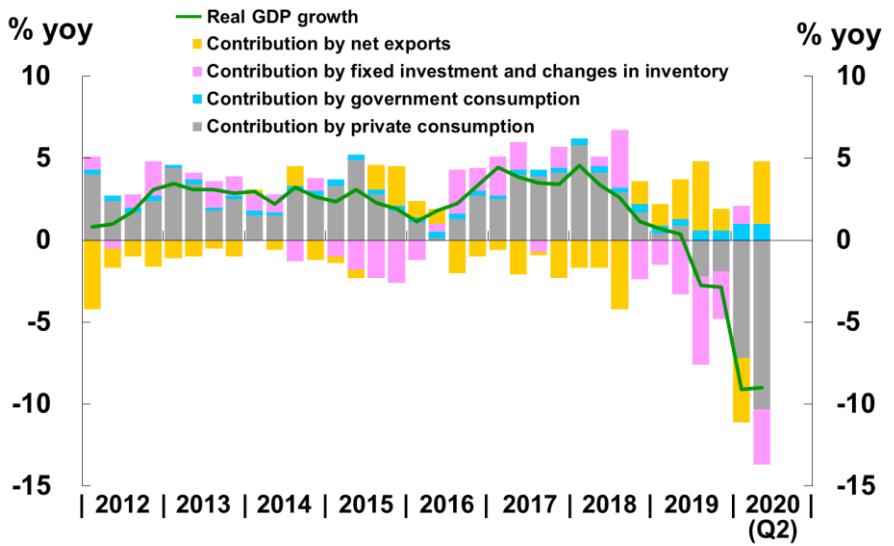
MAINLAND CHINA: HOUSING PRICE CHANGES IN MAJOR CITIES



Sources: CEIC, WIND and HKMA staff estimates



HONG KONG: REAL GDP GROWTH

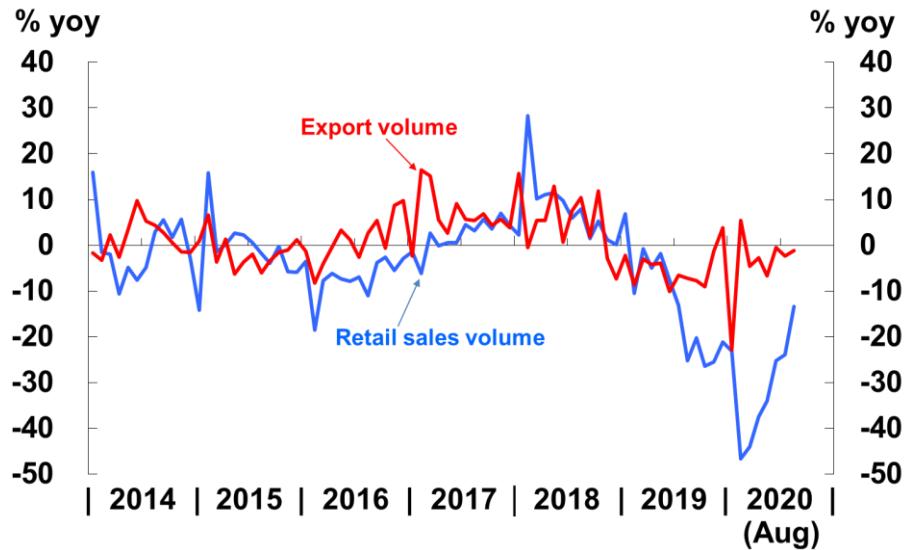


Source: C&SD

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HONG KONG: ECONOMIC ACTIVITY

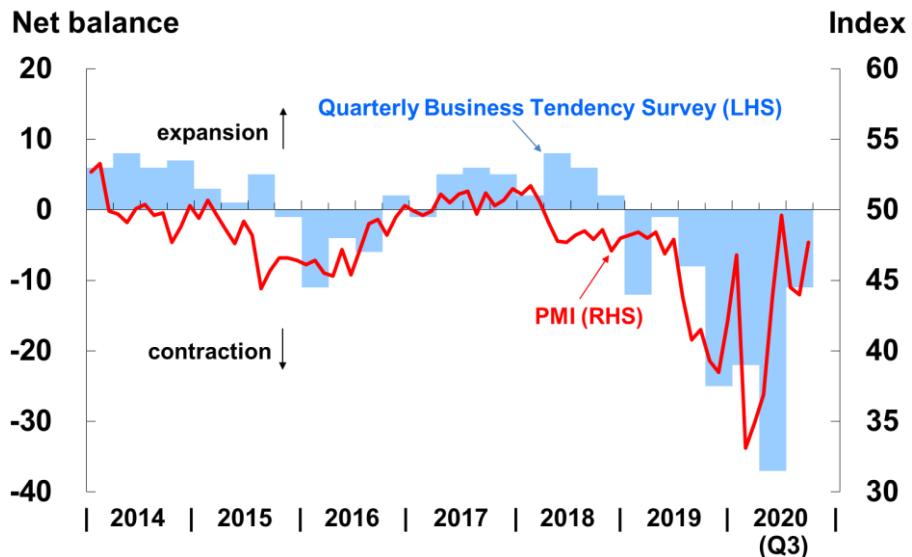


Source: C&SD

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HONG KONG: BUSINESS OUTLOOK

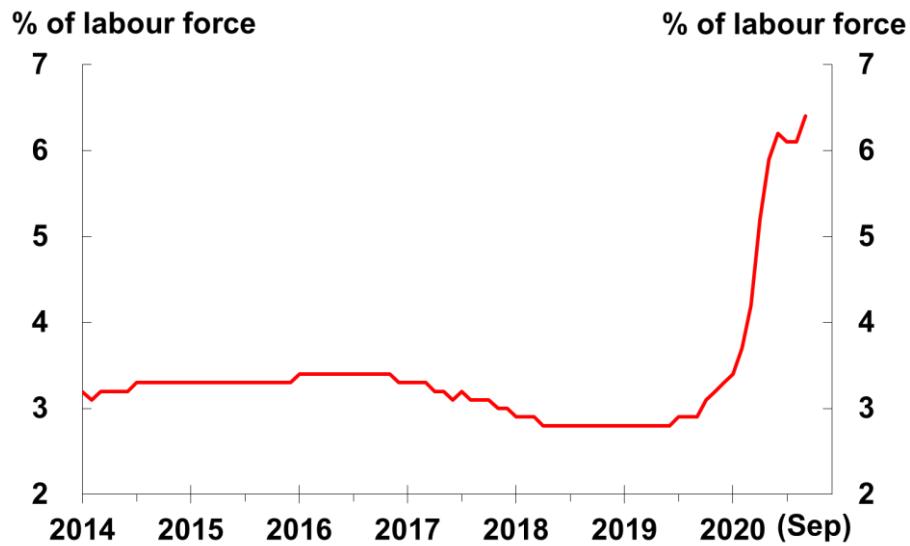


Sources: C&SD and IHS Markit

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HONG KONG: UNEMPLOYMENT RATE

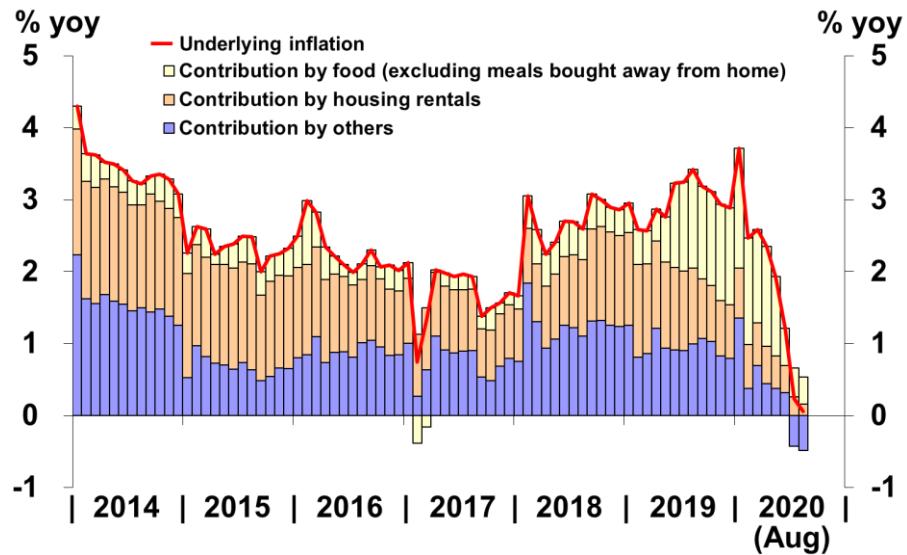


Source: C&SD

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HONG KONG: INFLATION

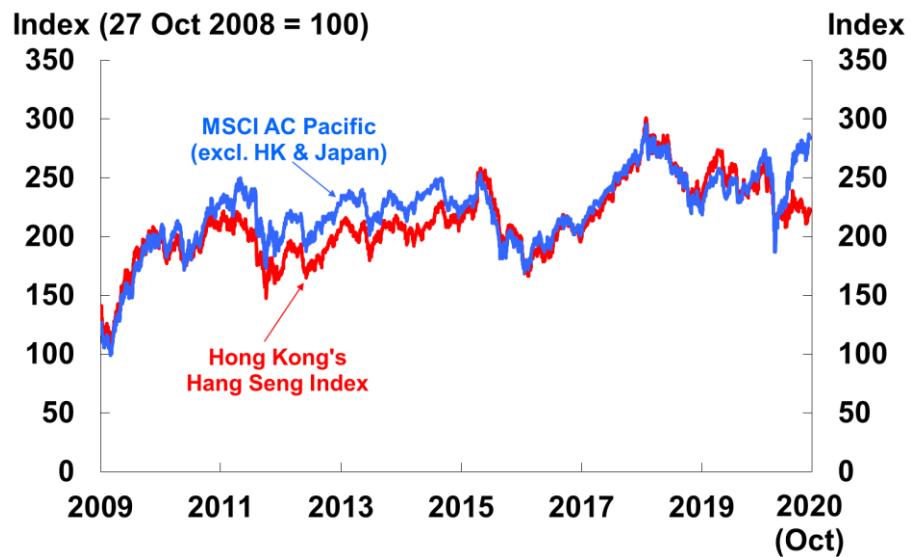


Sources: C&SD and HKMA staff estimates

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HONG KONG: EQUITY MARKET

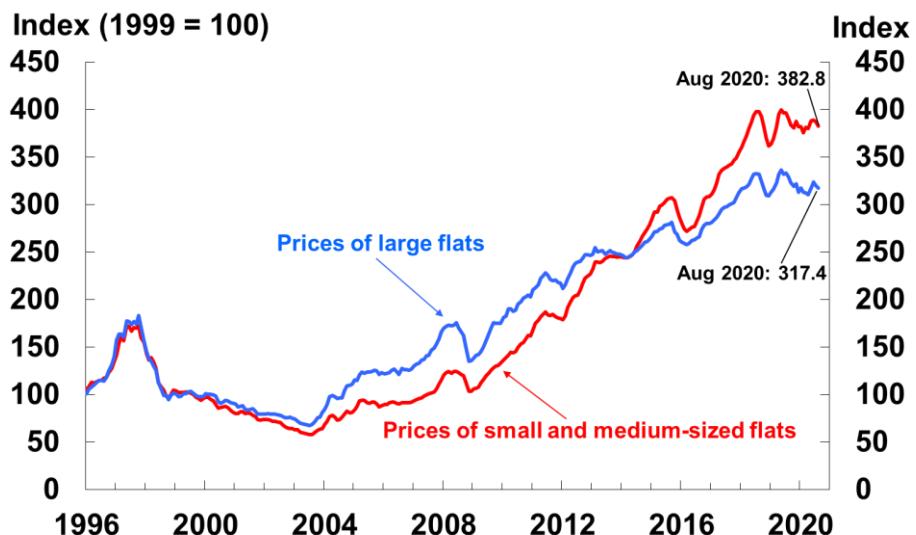


Source: Bloomberg

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HONG KONG: RESIDENTIAL PROPERTY PRICES



Source: Rating and Valuation Department



HONG KONG: TRANSACTION VOLUME IN THE PRIMARY AND SECONDARY MARKETS

Transactions (in thousands)

18
16
14
12
10
8
6
4
2
0

- Primary market
- Secondary market

2009 2011 2013 2015 2017 2019 2020
(Sep)

Transactions (in thousands)

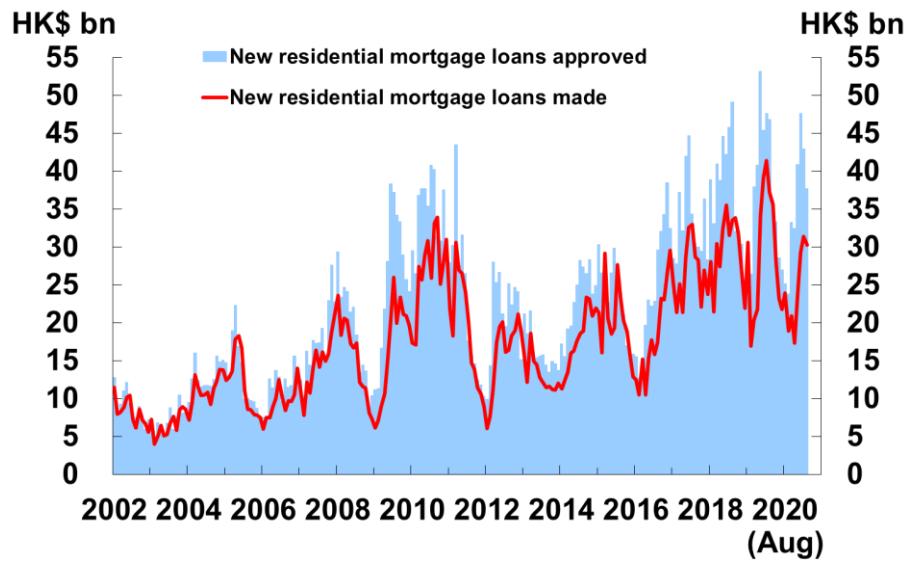
18
16
14
12
10
8
6
4
2
0

Source: The Land Registry

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HONG KONG: NEW RESIDENTIAL MORTGAGE LOANS



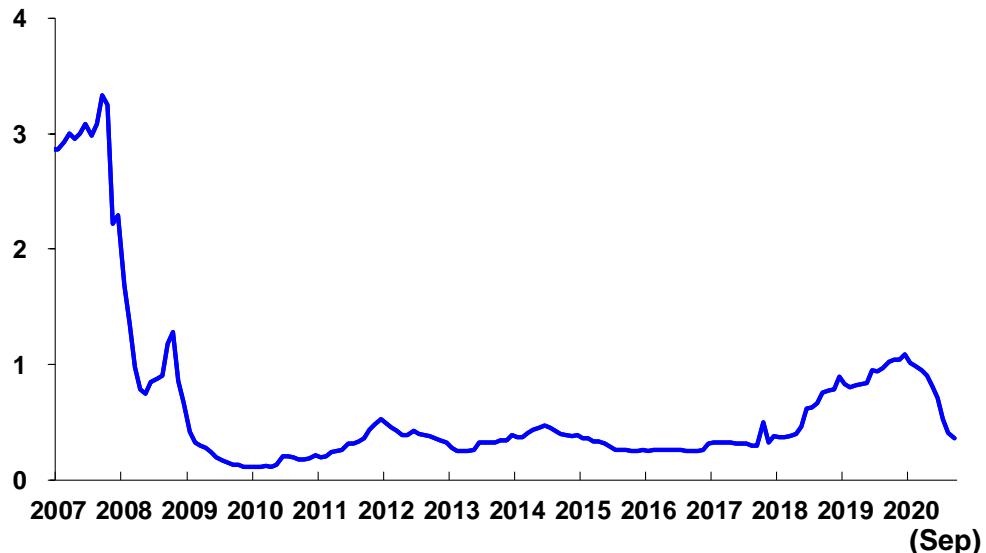
Source: HKMA

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HONG KONG: COMPOSITE INTEREST RATE

% p.a.

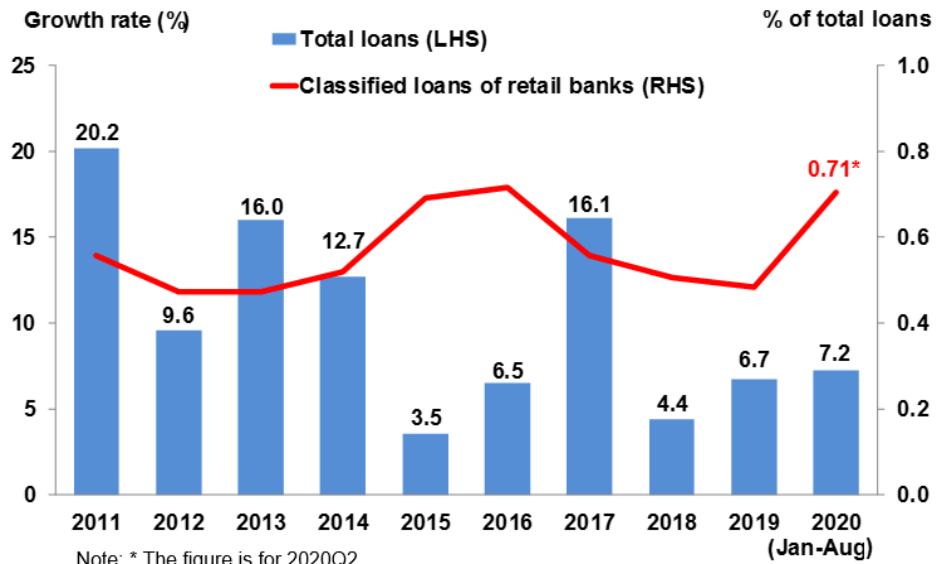


Source: HKMA

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HONG KONG: LOAN GROWTH AND ASSET QUALITY

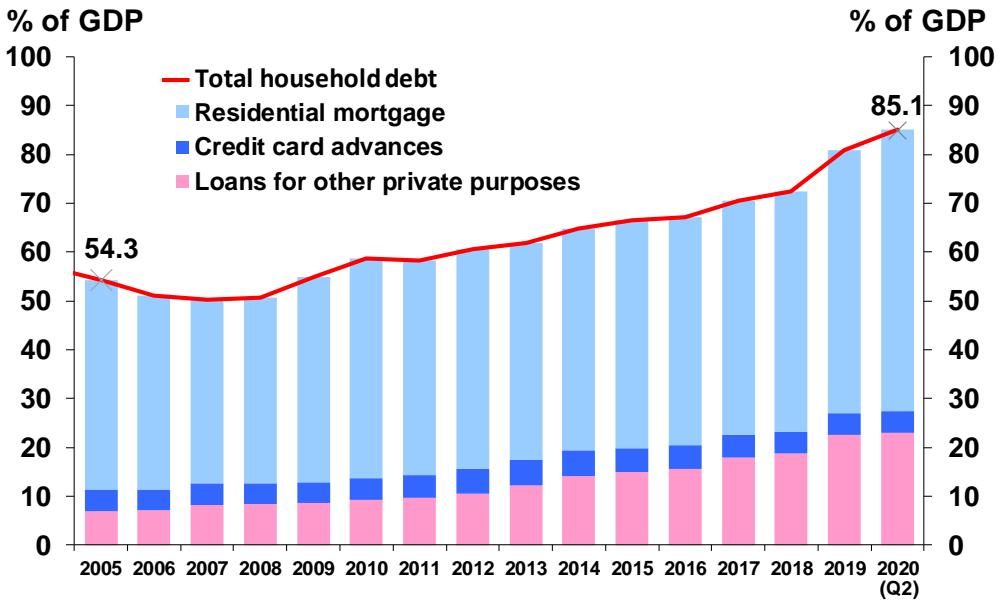


Source: HKMA

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HONG KONG: HOUSEHOLD DEBT



Source: HKMA

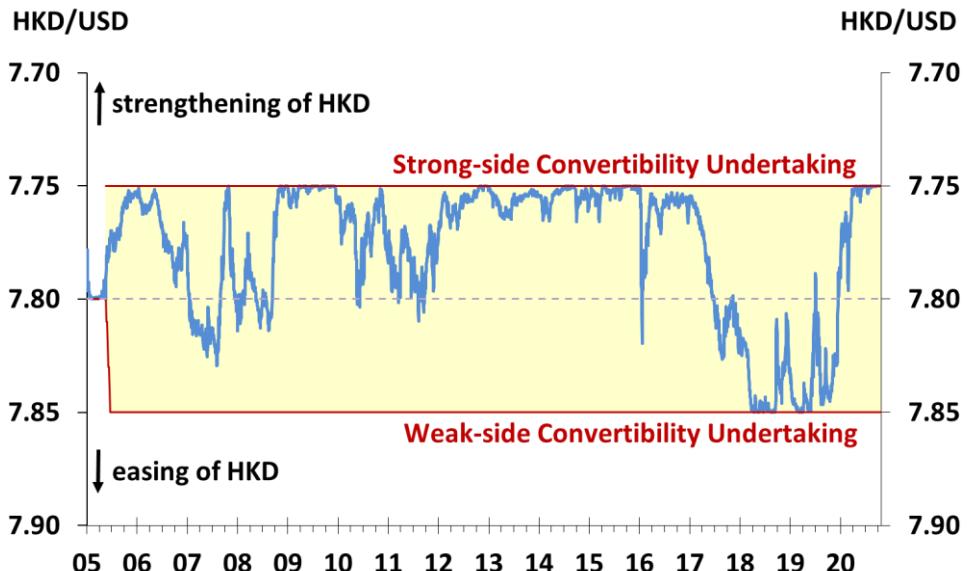
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CURRENCY STABILITY



HONG KONG DOLLAR SPOT EXCHANGE RATE

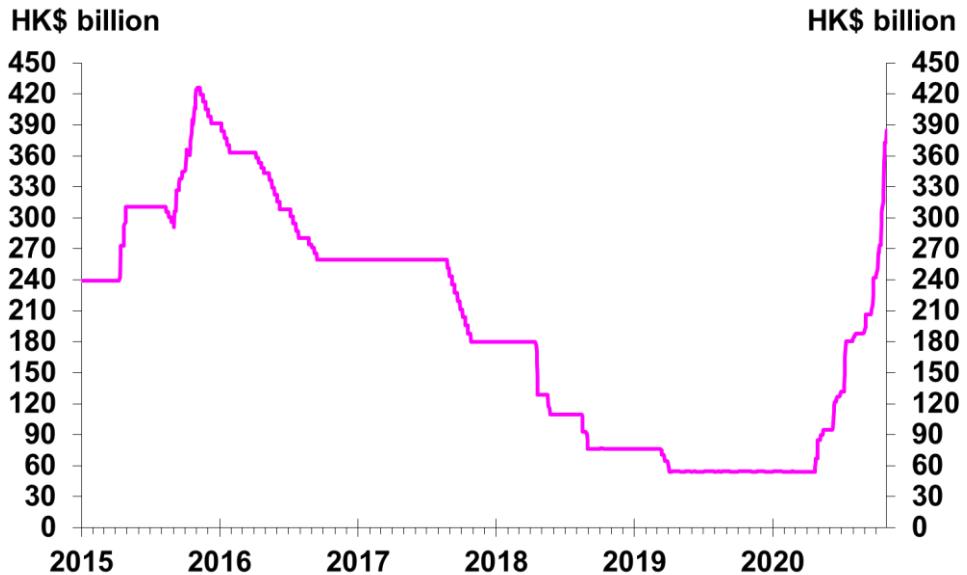


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- The strong-side Convertibility Undertaking has been triggered repeatedly since 21 April 2020.



AGGREGATE BALANCE

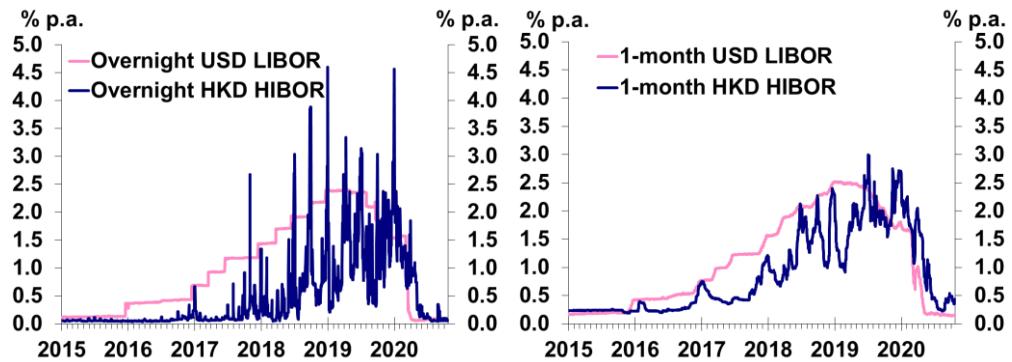


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- The Aggregate Balance has continued to expand upon repeated triggering of the strong-side Convertibility Undertaking since 21 April 2020.



DOMESTIC INTEREST RATES





12-MONTH HONG KONG DOLLAR FORWARD POINTS



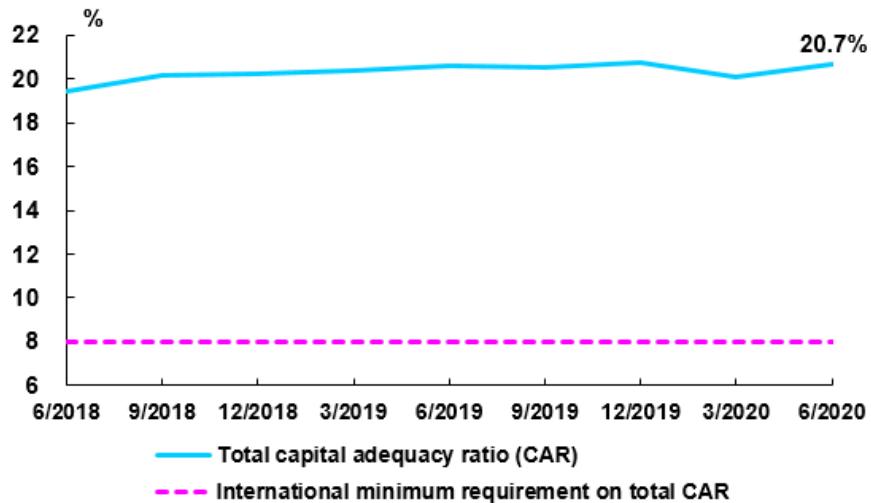


BANKING STABILITY



BANKING SECTOR PERFORMANCE

Locally incorporated authorized institutions (AIs) stayed well capitalised



Source: HKMA

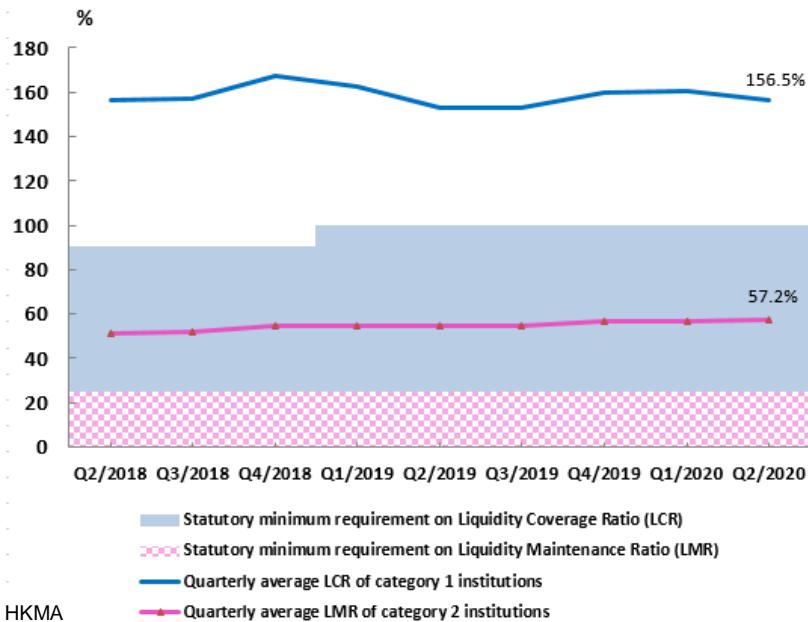
48

- The banking sector continued to be well capitalised. The CAR ratio of locally incorporated AIs stood at 20.7% at end-June 2020, well above the international minimum requirement of 8%.



BANKING SECTOR PERFORMANCE

Liquidity position remained sound



Source: HKMA

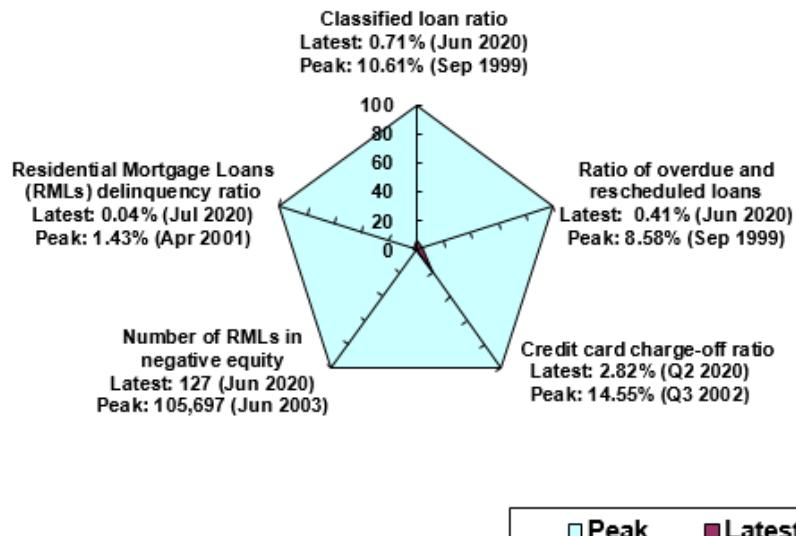
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- In the second quarter of 2020, the quarterly average LCR of category 1 institutions was 156.5%, well above the 100% statutory minimum requirement. For category 2 institutions, their quarterly average LMR was 57.2%, also well above the 25% statutory minimum requirement.



BANKING SECTOR PERFORMANCE

Asset quality remained healthy



Source: HKMA

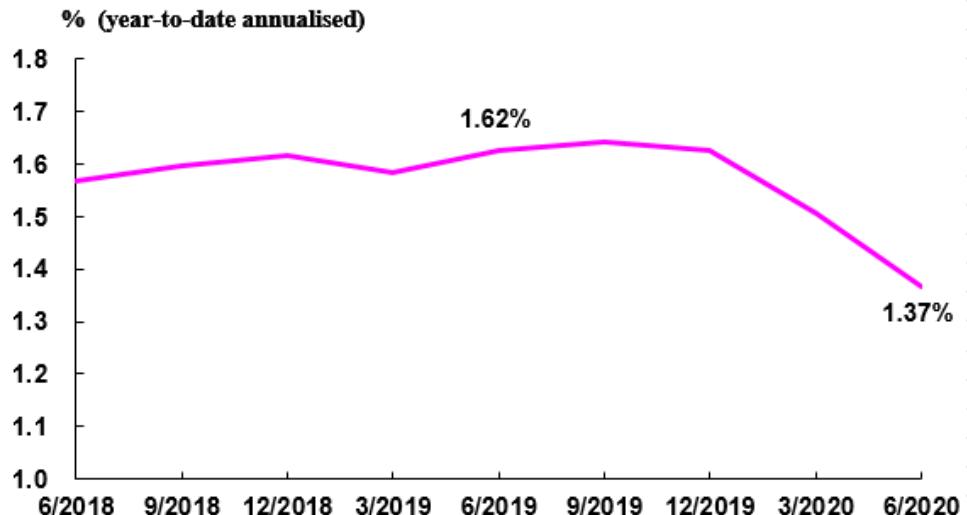
50

- The asset quality of retail banks remained healthy. Given the outbreak of the COVID-19, the classified loan ratio of retail banks increased to 0.71% at end-June 2020 from 0.55% a quarter earlier. For the banking sector as a whole, the classified loan ratio increased to 0.79% from 0.62% during the same period. Both were significantly below the long-term average of 2% since year 2000.



BANKING SECTOR PERFORMANCE

Net interest margin (NIM) narrowed



Source: HKMA

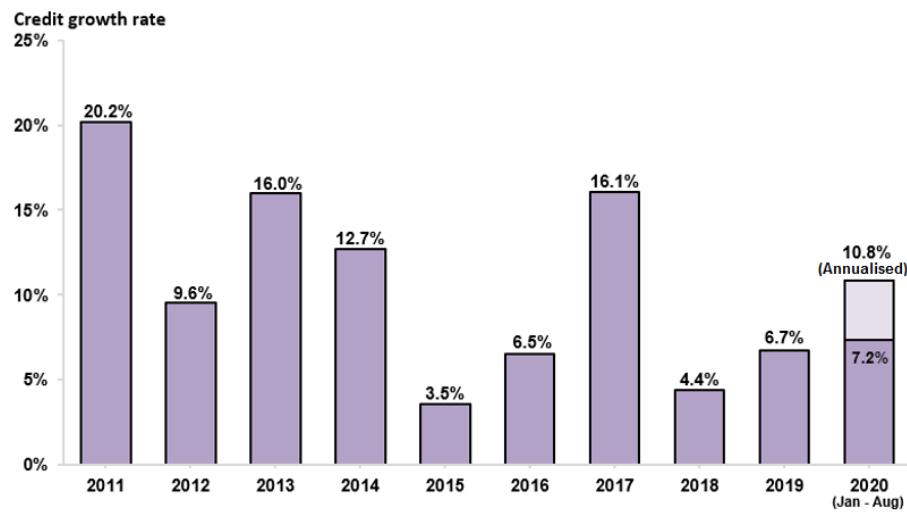
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- The NIM of retail banks' Hong Kong offices narrowed to 1.37% in the first half of 2020 from 1.62% in the same period last year. The narrowed NIM was mainly due to a notable decline in Hong Kong Interbank Offered Rates (HIBORs) in the second quarter, which compressed banks' margin on HIBOR-based assets.



BANKING SECTOR PERFORMANCE

Credit grew moderately



Source: HKMA

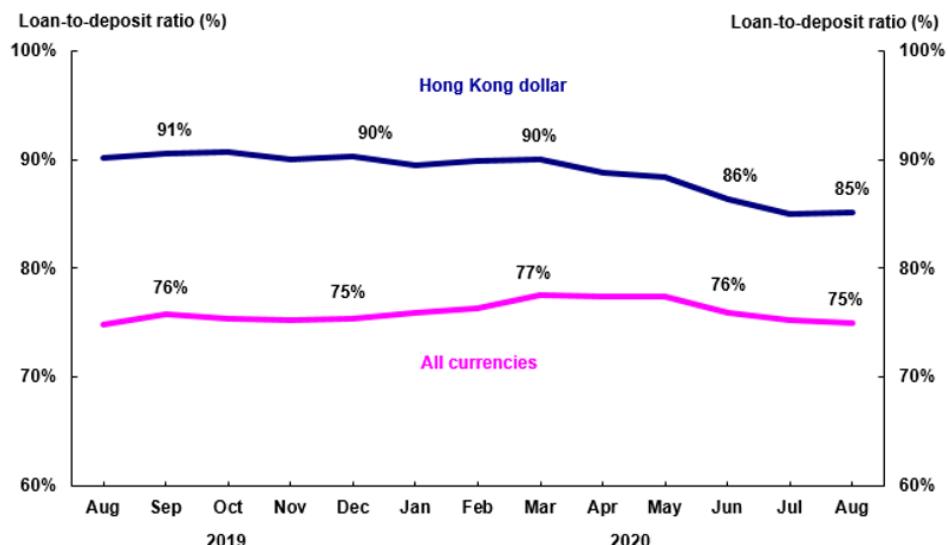
52

- Total loans increased by 7.2% in the first eight months of 2020, partly driven by initial public offering (IPO) loans of about HK\$428 billion straddling end-August. Excluding the IPO loans, total loans would have grown at a modest pace of 3.1% in the first eight months, or 4.6% on an annualised basis.



BANKING SECTOR PERFORMANCE

Loan-to-deposit ratios decreased



Source: HKMA

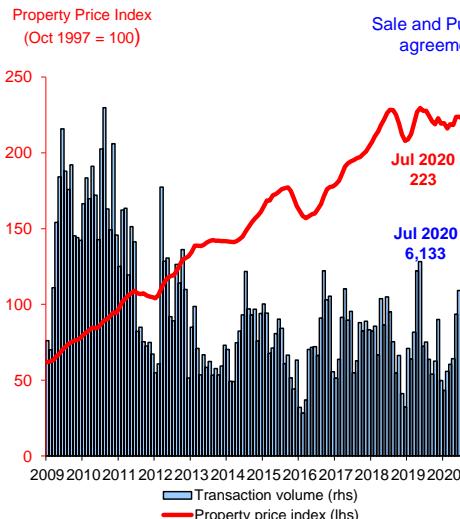
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- Hong Kong-dollar loan-to-deposit ratio edged down to 85% at end-August 2020 from 86% at end-June 2020.
- Similarly, all currencies loan-to-deposit ratio decreased slightly to 75% from 76% during the same period.

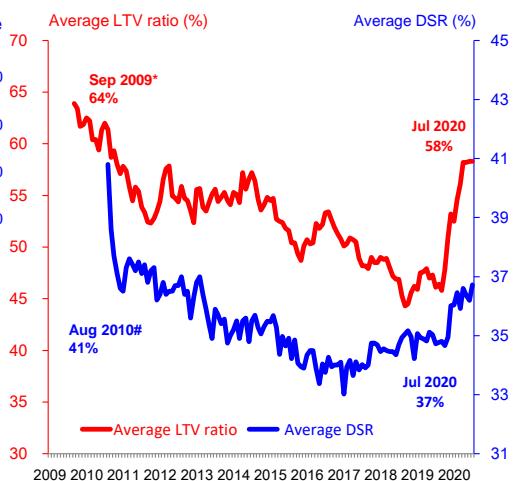


PROPERTY MORTGAGE LOANS (RMLs)

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

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* Before the first round of HKMA's countercyclical measures was introduced

When the tighter requirement on debt servicing ratio was introduced by the HKMA

- The average LTV of newly approved RMLs increased recently, primarily because of a larger proportion of RMLs with mortgage insurance, which generally have a higher LTV. The HKMA considers the risk manageable as the portion of loans above the HKMA's permissible LTV cap is covered by mortgage insurance.

Latest statistics on RMLs

	Monthly average in 2018	Monthly average in 2019	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020
Number of sale and purchase agreements	4,771	4,983	3,572	3,870	4,102	5,984	6,978	6,133
Number of new RML applications	12,826	12,244	8,542	13,053	10,848	15,019	13,829	13,246
Number of new RMLs approved	9,296	8,981	5,632	7,571	7,367	8,749	10,032	9,019

Latest statistics on residential property prices

Property price index		Period	Property price index
Rating and Valuation Department (10/1997=100)	Latest position	7/2020	222.6
	Recent peak	5/2019	229.6
	Peak in 1997	10/1997	100.0
Centraline (6/7/1997=100)	Latest position	30/8/2020	177.4
	Recent peak	30/6/2019	190.5
	Peak in 1997	19/10/1997	102.9



INTERNATIONAL STANDARDS IMPLEMENTATION

2021

- Amendments to Banking (Capital) Rules – revised capital treatment on banks' equity investments in funds
- Amendments to Banking (Exposure Limits) Rules – technical refinements

2022

- Amendments to Banking (Capital) Rules – Basel III final reform package

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Preparatory work is in progress for the making of legislative proposals for the implementation of certain Basel regulatory standards:

Year 2021

Targeted to be submitted to LegCo sometime in 2021 (potentially sometime in second half of the year) are:

- amendments to the Banking (Capital) Rules to reflect the revised Basel capital requirement on banks' exposures to equity investments in funds; and
- amendments to the Banking (Exposure Limits) Rules to incorporate certain technical refinements to enhance clarity and better reflect the policy intent of certain existing provisions.

Year 2022

The above will be followed sometime in 2022 with the submission of amendments to the Banking (Capital) Rules to implement two sets of capital standards under the Basel III reforms. These consist respectively of:

- revisions to the credit risk, operational risk, and leverage ratio frameworks, as well as requirements for the prudent use of internal models (which are scheduled to take effect from 2023 as minimum standards for banks); and
- a revised market risk framework which is scheduled to take effect from 2023 for reporting purposes by locally incorporated AIs (and no earlier than that for the actual capital requirements).



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

Extended Pre-approved Principal Payment Holiday Scheme

- Extended the Pre-approved Principal Payment Holiday Scheme by six months to April 2021
- Extended the principal payment holiday for trade loans by another 90 days
- As of end-September 2020, applications for principal payment holidays, extensions of repayment schedules, contingency loans and other relief measures approved by banks:
 - Corporate customers: around 49,000 applications (HK\$590 billion)
 - Individual customers: over 21,000 applications (HK\$37 billion)

Enhanced SME Financing Guarantee Scheme

- Extended principal moratorium for 80% and 90% Guarantee Products by six months to March 2021
- Enhanced the Special 100% Loan Guarantee

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- Pre-approved Principal Payment Holiday Scheme: Extended the principal payment holiday for trade loans by another 90 days on 5 August, and extended the Scheme by six months on 2 September. Loans could receive principal payment holiday of up to one full year. The Scheme was effective since May 2020, covering corporate borrowers with annual turnover below HK\$800 million, representing around 80% of the total corporate borrowers.
- As of end-September 2020, around 49,000 applications from corporate customers for principal payment holidays, extensions of repayment schedules, contingency loans and other relief measures have been approved by banks, amounting to around HK\$590 billion.
- For individual customers, banks have approved more than 21,000 applications for principal payment holiday for residential mortgages and emergency personal loans, involving an aggregate amount of over HK\$37 billion.



ANTI-MONEY LAUNDERING EFFORTS

- Sharing industry practices to assist banks in developing sustainable AML/CFT measures to cope with COVID-19 related challenges
- Continued to encourage banks' remote on-boarding initiatives: shared good practices; provided guidance on remote on-boarding of corporate customers
- Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) Surveillance Capability Enhancement Project
 - Proactive and targeted supervisory responses
 - Data driven, collaborative and people focused

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COVID-19

- Issued circulars in July 2020 to share industry practices in developing sustainable AML/CFT measures which are consistent with the risk-based approach to cope with the evolving COVID-19 situation.
- Will continue to work closely with the industry to support ongoing efforts in tackling the challenges under the COVID-19 circumstances in a pragmatic manner.

Continued to encourage banks' remote on-boarding initiatives

- Issued circular in June 2020 to share key observations and good practices in AML/CFT control measures identified in the thematic reviews of remote customer on-boarding initiatives.
- Issued circular in September 2020 to articulate key principles for remote on-boarding of corporate customers.
- 85% of retail banks have launched/planned to launch remote on-boarding for individuals since the publication of guidance for remote on-boarding of individual customers in February 2019.

AML/CFT Surveillance Capability Enhancement Project (AMLS Project)

- Issued circular in September 2020 to inform industry of the AMLS Project, which strengthens the HKMA's use of data and Supitech to enhance its risk-based AML/CFT supervision. The AMLS Project, under the HKMA's Digitalisation Programme, has delivered recommendations by the consultant which will implement changes to make our AML/CFT supervision more proactive, targeted and collaborative in the future.
- We will use various Supitech tools to help improve and streamline work processes, increase accuracy and enhance interface with the industry.



RESOLUTION REGIME

- Current legislative priority is the development of rules under the Financial Institutions (Resolution) Ordinance (FIRO) on contractual stays (Stay Rules), which would require the adoption of contractual provisions in certain financial contracts to empower suspension of termination rights imposed under the FIRO
- Public consultation on Stay Rules closed on 22 March 2020. Our current intention is to introduce Stay Rules into LegCo in the first half of 2021

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- The current legislative priority on resolution is the development of rules to be made by the Monetary Authority as a resolution authority under the FIRO on Stay Rules for AIs and certain group companies of AIs. The Stay Rules will require the inclusion of contractual provisions in certain financial contracts that are not governed by Hong Kong law to the effect that the parties to the contracts agree to be bound by a suspension of termination rights (i.e. “stay”) that may be imposed by the Monetary Authority under the Hong Kong resolution regime. The Stay Rules are intended to implement the relevant Financial Stability Board principles for enhancing effectiveness of cross-border resolution actions.
- A public consultation on the policy proposals for formulating the Stay Rules closed on 22 March 2020. Our current intention is to issue the consultation conclusion in the fourth quarter of 2020 and to introduce Stay Rules into LegCo for negative vetting in the first half of 2021.



FINANCIAL INCLUSION

- Four banks currently provide Simple Bank Accounts (SBAs) service – basic banking services with less extensive customer due diligence measures to facilitate services to small and medium-sized enterprises
- Enhanced coverage of banking networks, with 30 public housing estates (PHEs) served by mobile branches

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- The HKMA encourages more banks to support and launch SBAs to provide basic banking services with less extensive customer due diligence measures, hence offering more choices to corporate customers. During the year, one more bank launched SBAs, bringing the number of banks offering the service to four. Since the launch of the service, around 5,000 applications have successfully opened SBAs.
- The HKMA has been encouraging banks to flexibly and pragmatically deploy new technologies and devise new solutions to further enhance the coverage of banking networks in remote areas and PHEs. There are a total of six mobile bank branches servicing 30 PHEs, thereby further enhancing the access to basic banking services in remote areas and PHEs.



BANKING CONSUMER PROTECTION

- Issued a report in May 2020 on Self-assessments on Bank Culture to provide a range of practices as well as common themes for reference by the industry
- Issued a circular in September 2020 to enhance disclosure in digital platforms for unsecured loan and credit card products, requiring banks to give customers a “double reminder” to consider their borrowing decisions

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- Having completed the review of self-assessment submissions covering 30 AIs, the HKMA issued a circular on 22 May 2020 on the Report on Review of Self-assessments on Bank Culture to provide a range of practices for reference by the industry. The HKMA has also identified seven common themes to which banks are encouraged to pay attention as they continue to promote sound bank culture.
- The HKMA issued a circular on 4 September 2020 to enhance disclosure in respect of digital platforms for the application of unsecured loan and credit card products. It requires banks to give customers a “double reminder” to consider their borrowing decisions during the application process of the aforementioned products. The first reminder/disclosure involves the key product features as well as terms and conditions of that credit product in general, while the second reminder/disclosure provides key details on the specific credit product that will be applicable to the borrower as well as the educational messages on responsible borrowing.



INTRODUCING MULTIPLE CREDIT REFERENCE AGENCIES (CRAs) (1)

- Objectives:
 - To reduce operational risk
 - To enhance service quality of CRAs
- New model:
 - Introduction of a platform to interface between credit providers (including banks) and CRAs
- Benefits and features:
 - Address the risk of single point of failure
 - Provide a level playing field for competition among CRAs
 - Introduce an industry code of practice to further enhance consumer protection

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- The HKMA has been working closely with industry associations (including the Hong Kong Association of Banks, the DTC Association and the Hong Kong S.A.R. Licensed Money Lenders Association Ltd.) on the implementation of more than one CRA for consumer credit data in Hong Kong.
- Objectives: To reduce the operational risk of having only one consumer CRA in the market and enhance the service quality of CRAs.
- New model: To avoid the challenges of a multi-to-multi connection in a multiple CRAs environment, a platform will be built to interface between credit providers (including banks) and multiple CRAs.
- Benefits and features of the new model include: (1) data backup by the platform, effectively addressing the risk of single point of failure; (2) providing a level playing field for competition among the CRAs; (3) introducing an industry code of practice to further enhance consumer protection.



INTRODUCING MULTIPLE CREDIT REFERENCE AGENCIES (CRAs) (2)

- Preparatory work:
 - The industry is working with the HKMA to sort out the details, and is consulting the Office of the Privacy Commissioner for Personal Data (PCPD), Consumer Council and relevant stakeholders
 - Industry associations will issue tenders for selection of CRAs
 - The platform and the appointed CRAs will carry out system development and security testing
 - The new system will be in operation by end-2022

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- Preparatory work: The industry and its appointed third-party consulting company are working with the HKMA to sort out the details, and implement the arrangements. They are consulting the PCPD to ensure that the arrangements will be in compliance with the Personal Data (Privacy) Ordinance and the Code of Practice on Consumer Credit Data issued by the PCPD. The industry is also engaging the Consumer Council and relevant stakeholders.
- Industry associations will issue tenders for provision of consumer credit reference services under the new model and appoint CRAs.
- The platform for interface between credit providers and CRAs is to be developed. The appointed CRAs will develop their own information management and application system, establish data standards, connect to the platform, conduct security testing and comply with the relevant requirements. The new system is expected to be in operation by the end of 2022.



BANKING INVESTOR PROTECTION

- Worked closely with the Insurance Authority (IA) on:
 - providing guidance on requirements for using video conference in sale of long term insurance products
 - extending the temporary facilitative measures for non-face-to-face sale of certain insurance products amid COVID-19
- Consulted the industry on proposal for enhancing the regulation and supervision of trust business
- Reminded banks of investor protection measures amid market volatility

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- The HKMA and the IA worked closely to:
 - Provide guidance on 5 August 2020 in respect of the requirements for using video conferencing tools in the sale of long term insurance products and the information required for the relevant InsurTech sandbox applications;
 - Amid the uncertainty of COVID-19 situation, extend on 15 June 2020 the effective period of the phase 2 temporary facilitative measures for non-face-to-face sale of certain insurance products to until 30 September 2020, and further extend it on 4 September 2020 to until 31 December 2020. The scope of products covered (i.e. Qualifying Deferred Annuity Policy, Voluntary Health Insurance Scheme products, term insurance policies and certain refundable or renewable insurance policies that provide insurance protection) and the implementation details of the measures remain unchanged.
- For further development of wealth management industry in Hong Kong and promoting customer-centric culture in trust business, the HKMA has consulted the industry on a proposal for enhancing the regulation and supervision of trust business in Hong Kong, including a proposed Code of Practice for Trust Business. The consultation ended on 9 October 2020 and the HKMA is considering the responses received.
- Amid the market volatility arising from COVID-19, the HKMA issued guidance on 27 March, 20 April and 7 August 2020 to remind AIs of investor protection measures. In particular, the circular issued on 7 August 2020 reminds AIs of their obligations in handling leveraged transactions.



PUBLIC EDUCATION

- Launched a new phase of public education campaign on Protection of Personal Digital Keys
- Co-organised the Hong Kong Liberal Studies Financial Literacy Championship 2020 to enhance students' financial knowledge
- Through the HKMA's digital media channels
 - Reminded the public to beware of bogus calls and messages, with a focus on those related to COVID-19
 - Publicised the issues to note about the Government Cash Payout Scheme and alerted the public of possible scams
 - Introduced ESG (Environmental, Social and Governance) - related concepts
 - Clarified rumours about LERS and related issues

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- Launched a new phase of the flagship campaign on Protection of Personal Digital Keys, reiterating the importance of proper safeguard of account and personal information when using online banking services, e-wallets and other digital financial services.
- Co-organised the Hong Kong Liberal Studies Financial Literacy Championship 2020 with various stakeholders to enhance secondary school students' financial knowledge.
- Through the HKMA's digital media channels
 - Reminded the public to beware of bogus calls, emails and SMSs purportedly from banks, the HKMA and other government departments asking for personal information, with a focus on the scams related to COVID-19.
 - Publicised the issues to note about the registration and payment of the Government Cash Payout Scheme and alerted the public of possible scams.
 - Introduced concepts like green certification and responsible investment to enhance public understanding of ESG.
 - Published a set of FAQs on financial stability to clarify rumours about the Linked Exchange Rate System and related issues.



DEPOSIT PROTECTION SCHEME (DPS)

- Completed system development and comprehensive drill tests are underway to implement electronic payment channels for DPS compensation
- Launched the new series of TV commercial “Ah Chuen & Ah Po Together” to promote DPS awareness
- Continued reaching out to target audience groups amid COVID-19 via various different channels



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- The Hong Kong Deposit Protection Board completed system development to adopt electronic payment channels for dispersing DPS compensation, including the use of Faster Payment System (FPS). Comprehensive drill tests involving FPS participant banks are in progress. The use of electronic payment channels is expected to be ready in 2021.
- Launched the new series of TV commercial “Ah Chuen & Ah Po Together” (“Bank Deposits Always Come with Protection”) to reinforce the public awareness of the DPS.
- Continued reaching out to target audience groups by employing more digital channels to promote DPS-related knowledge while community outreach activities were suspended due to the pandemic outbreak:
 - Conducted DPS online talks for the elderly members of various non-governmental organisations (NGOs); and
 - Collaborated with NGOs to distribute DPS Information Packs to the elderly and low-income families living in different districts, as well as further engaged the new migrants to Hong Kong with an online quiz game to learn about the DPS key features.



HONG KONG ACADEMY OF FINANCE (AoF)

- Financial Leadership Development – introduced virtual events to the Leadership Development Programme
- Research Activities – released two Applied Research reports by the Hong Kong Institute for Monetary and Financial Research on:
 - “Fintech Adoption and Innovation in the Hong Kong Banking Industry” (May 2020)
 - “Artificial Intelligence in Banking: The Changing Landscape in Compliance and Supervision” (August 2020)

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Financial Leadership Development

- Virtual events are introduced under the Leadership Development Programme to minimise social gatherings. These include:
 - Pre-recorded interviews conducted with Mrs Laura Cha, Chairman of the Hong Kong Exchanges and Clearing Limited and Fellow of the AoF, Professor Gabriel Leung, Dean of Medicine at The University of Hong Kong, and Mr Joseph Yam, Non-Official Member of the Executive Council and Fellow of the AoF. The interviews were released to the public on 24 June, 9 July and 27 July 2020 respectively;
 - A webinar by Professor Lawrence Lau, Ralph and Claire Landau Professor of Economics, The Chinese University of Hong Kong and Fellow of the AoF, on 9 September 2020 on US-China economic relations; and
 - A webinar on 24 September 2020 co-hosted by the AoF and the HKMA under the Banking Talent Programme, featuring Ms Diana Cesar, Group General Manager, Chief Executive, Hong Kong of The Hongkong and Shanghai Banking Corporation Limited, Ms Mary Huen, Executive Director and Chief Executive Officer, Hong Kong of Standard Chartered Bank (Hong Kong) Limited and Mrs Ann Kung, Deputy Chief Executive of Bank of China (Hong Kong) Limited in a panel discussion.

Research Activities

- Two applied research reports were released by the Hong Kong Institute for Monetary and Financial Research:
 - “Fintech Adoption and Innovation in the Hong Kong Banking Industry” (May 2020) - The report is based on an industry-wide survey carried out by the HKMA, which aims to assess the current status of Fintech adoption in the Hong Kong banking industry and understand banks’ views on the prospects of Fintech developments in the next ten years.
 - “Artificial Intelligence in Banking: The Changing Landscape in Compliance and Supervision” (August 2020) - The report is part of a research project on the adoption of artificial intelligence (AI) in banking, carried out in collaboration with the HKMA and external collaborators. It aims to assess the current status of AI adoption in the Hong Kong banking industry and its implications for banking compliance and supervision.



FINANCIAL INFRASTRUCTURE



FINANCIAL INFRASTRUCTURE

- Financial infrastructure remains safe and efficient
- Operation of Bond Connect has been smooth; actively promote Bond Connect to overseas investors
- Further refine the Hong Kong Trade Repository (HKTR) for over-the-counter derivatives according to the relevant local and international standards

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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 and other relevant Mainland institutions to explore enhancements to Northbound Trading.

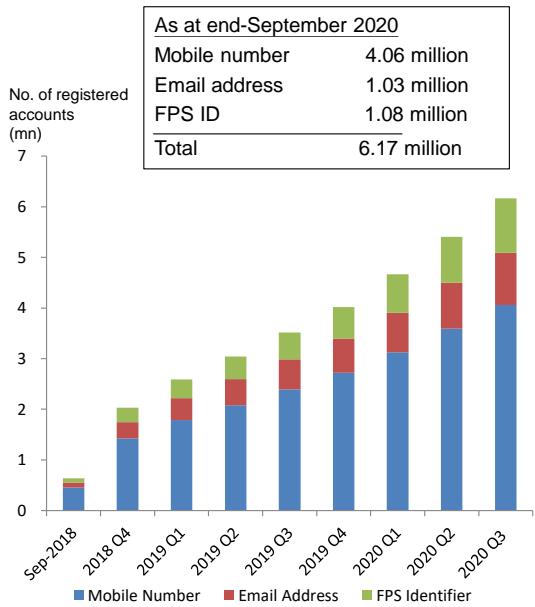
Over-the-counter derivatives trade repository

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

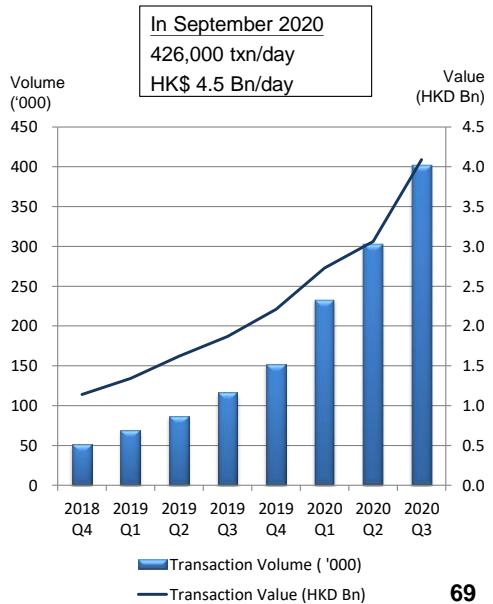


FASTER PAYMENT SYSTEM (FPS)

Number of registered accounts



Average daily turnover of HKD real-time payments



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- The registrations and turnover of the FPS have been growing steadily. Since the launch of the system till 30 September 2020, the FPS recorded 6.17 million registrations (including 4.06 million in mobile numbers, 1.03 million in email addresses and 1.08 million in FPS ID), up by 53% or 2.15 million registrations from end-December 2019. It has processed 130 million real-time transactions involving over HK\$1.6 trillion in value.
- The turnover of the FPS rose particularly fast in the first three quarters amid the epidemic this year, as compared to end-December 2019. The average daily turnover of real-time transactions reached 426,000 (worth HK\$4.5 billion and RMB68 million) in September 2020, more than double the transactions in December 2019 and a more than seven-fold increase from that in October 2018, the first full month after the launch.



LATEST FINTECH INITIATIVES

Cross-border fintech collaboration

- Co-organised “TechChallenge” competition with Bank for International Settlements (BIS) Innovation Hub Hong Kong Centre
- Conducting a Proof-of-Concept project on connecting eTradeConnect and the People’s Bank of China (PBoC) Trade Finance Platform
- Conducting Central Bank Digital Currency (CBDC) research on cross-border remittances with other central banks

Cybersecurity Fortification Initiative (CFI)

- Completed industry-wide consultation and preparing a revised framework

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Cross-border fintech collaboration

- **“TechChallenge” competition**
 - In August 2020, the HKMA co-organised “TechChallenge” competition with BIS to invite proposals of technology solutions from the private sector to address issues in trade finance.
 - Winners will receive financial sponsorship to further develop their solution proposals.
 - The top proposals will be announced and showcased at the Hong Kong Fintech Week in November 2020.
- **Connection of eTradeConnect and the PBoC Trade Finance Platform**
 - eTradeConnect is a trade finance platform launched and funded by a consortium of banks in Hong Kong under the facilitation of the HKMA.
 - A Proof-of-Concept trial is being conducted to connect eTradeConnect and the PBoC Trade Finance Platform to provide firms in Mainland China and Hong Kong with more convenient trade finance services.
 - A joint task force with representatives from the PBoC, the HKMA, and the platform operators has been established to drive the initiative forward.
- **Central Bank Digital Currency research**
 - Conducting a joint research project on the application of CBDC to cross-border remittances in collaboration with Bank of Thailand.

Cybersecurity Fortification Initiative

- The CFI was first launched in 2016. Due to changes in the global cybersecurity landscape, the HKMA considers that there is a need to enhance the existing CFI framework.
- The industry consultation on the proposed enhancements was completed in June 2020.
- The CFI framework is currently being revised.



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

- SVF usage continued to grow in Q2 2020:
 - Accounts in use: 63.93 million (+4.4% year-on-year (yoY))
 - Average daily transaction value: HK\$610 million (+11.3% yoY)
- SVF licensees continue to extend their business reach
- 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

- The HKMA and SFC jointly published the consultation conclusion paper on the Financial Services Providers (FSP) list for clearing obligation in June 2020. The revised FSP list will be gazetted and become effective on 1 January 2021
- As of end-August 2020, the Hong Kong Trade Repository logged 2.72 million total outstanding OTC derivatives trades, covering five asset classes under mandatory reporting requirements, i.e. foreign exchange, interest rate, equity, credit, and commodity derivatives

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- 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 of 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 (ODSG) 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 BENCHMARKS

- The Treasury Markets Association (TMA) has adopted Hong Kong Dollar Overnight Index Average (HONIA) as the alternative reference rate for HIBOR. The HKMA and TMA will continue to engage the industry on promoting the use of HONIA
- The HKMA continues to engage the AIs and market participants to prepare for the possible cessation of LIBOR after end-2021. In particular, the HKMA has, in consultation with the TMA, developed the following transition milestones which AIs are expected to achieve:
 - AIs should be in a position to offer products referencing the alternative reference rates to LIBOR from 1 January 2021;
 - Adequate fall-back provisions should be included in all newly issued LIBOR-linked contracts that will mature after 2021 from 1 January 2021; and
 - AIs should cease to issue new LIBOR-linked products that will mature after 2021 by 30 June 2021



GOVERNMENT BOND PROGRAMME

- Issue a new batch of iBond for subscription by Hong Kong residents aged 18 or above
- To issue the fifth batch of Silver Bond

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Institutional part – outstanding as at September 2020:

- 11 Government bonds totalling HK\$83.6 billion.
- One Islamic bond totalling US\$1 billion.

Retail part – outstanding as at September 2020:

- Two Silver Bonds totalling HK\$5.9 billion.

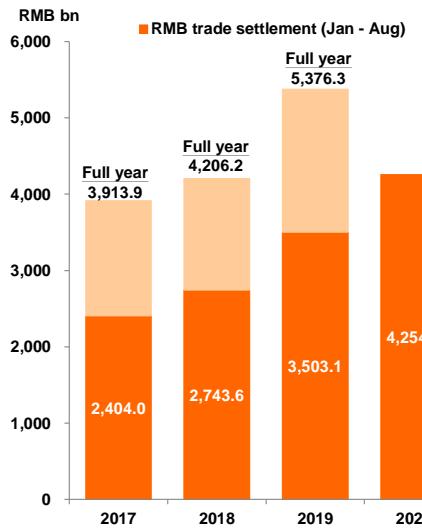


HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE

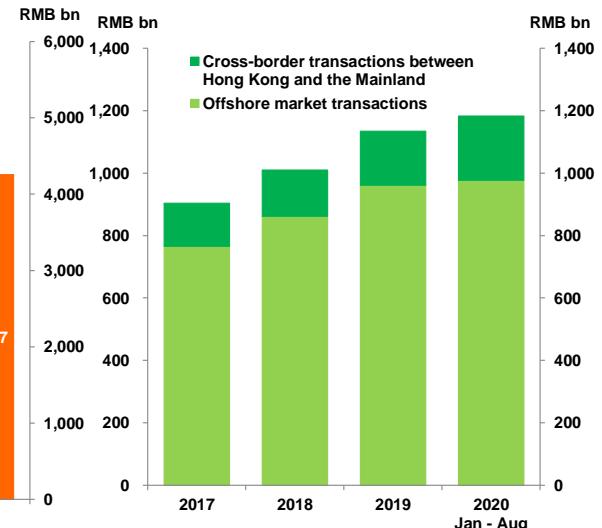


RMB TRADE SETTLEMENT AND PAYMENT

RMB trade settlement handled by banks in Hong Kong



Average daily turnover of Hong Kong RMB RTGS System



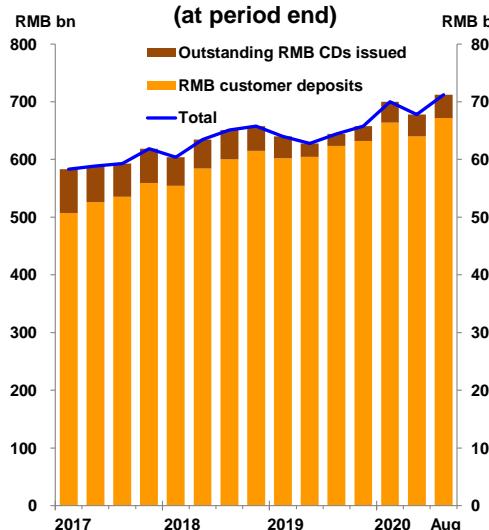
76

- In the first eight months of 2020, renminbi trade settlement handled by banks in Hong Kong totalled RMB4,254.7 billion.
- In the first eight months of 2020, the average daily turnover of Hong Kong RMB Real Time Gross Settlement (RTGS) system stood at RMB1,183.3 billion.



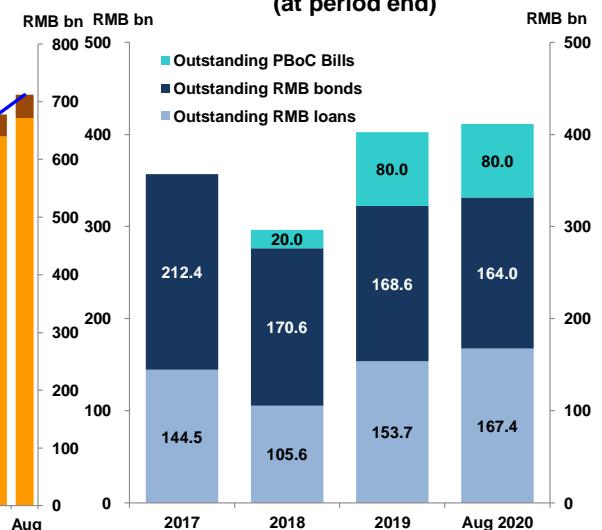
RMB LIQUIDITY POOL AND FINANCING ACTIVITIES

RMB customer deposits and certificates of deposit (CDs)



RMB financing activities

(at period end)



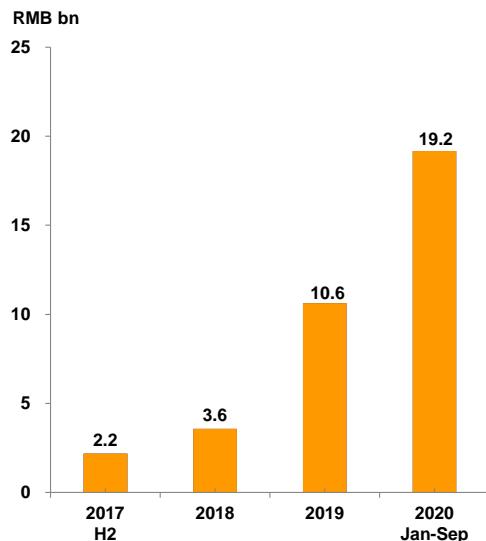
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- As at end-August 2020, renminbi customer deposits and outstanding renminbi CDs amounted to RMB671.7 billion and RMB40.5 billion respectively, totalling RMB712.2 billion.
- As at end-August 2020, outstanding renminbi loans amounted to RMB167.4 billion. Outstanding dim sum bonds amounted to RMB164.0 billion. The dim sum bond issuance totalled RMB29.8 billion for the first eight months of 2020. In November 2018, the People's Bank of China (PBoC) started to issue bills in Hong Kong, which aims to enrich the spectrum of high quality renminbi financial products in Hong Kong and to help build the benchmark yield curve of renminbi bonds in Hong Kong. As at end-August 2020, outstanding PBoC bills amounted to RMB80 billion.

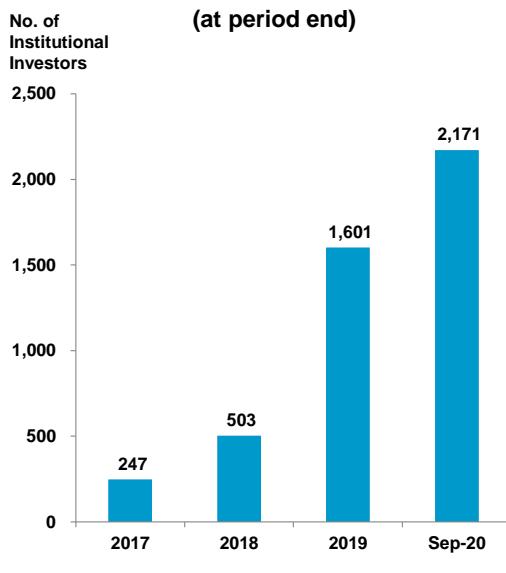


BOND CONNECT TURNOVER AND PARTICIPATING INSTITUTIONS

Average Daily Turnover



Number of Registered
Institutional Investors
(at period end)



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- In the first nine months of 2020, Bond Connect recorded 230 trades daily on average. The daily turnover averaged RMB19.2 billion, up around 81% from the 2019 average of RMB10.6 billion. As of end-September 2020, Bond Connect had onboarded 2,171 registered institutional investors.



MAINTAINING RMB BUSINESS LINKS WITH OTHER JURISDICTIONS

	Aug 2020	2019	2018
1 No. of participating banks of Hong Kong's RMB clearing platform	206	204	200
Of which:	173	173	173
Branches and subsidiaries of overseas banks and overseas presence of Mainland banks			
2 Amount due to overseas banks (RMB billion)	102.6	76.3	80.4
3 Amount due from overseas banks (RMB billion)	107.2	95.4	132.8



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 reached US\$160 billion at end-2019*
- To further promote the development of Hong Kong's PE fund business and the related support services, the HKMA has worked with the Government to develop a new limited partnership regime for PE funds. The Limited Partnership Fund Ordinance (Cap. 637) was enacted by the LegCo in July 2020, and has come into operation since 31 August. A total of 30 funds had been registered under the new regime as of 21 October
- The Government conducted a four-week industry consultation on the proposed tax concession for PE carried interest. The consultation ended in September. The HKMA is working with the Government to develop the proposal in light of industry feedback

* Source: Asian Venture Capital Journal



PROMOTING GREEN FINANCE

- The HKMA co-initiated with the Securities and Futures Commission the establishment of the Cross-Agency Steering Group on Green and Sustainable Finance in May 2020
- Riding on the success of the first green bond issuance in May 2019, the HKMA will assist the Government in issuing green bonds equivalent to HK\$66 billion in the coming five years under the Government Green Bond Programme, having regard to market conditions, to promote the development of green finance in Hong Kong

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- The Cross-Agency Steering Group 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. Two work streams have been set up by the Steering Group to look into cross-sectoral regulatory issues and coordinate cross-agency market development efforts.
- The first annual green bond report, which contains details on the allocation of the inaugural green bond proceeds and expected environmental benefits, was released in August 2020.



INVESTMENT ENVIRONMENT AND PERFORMANCE OF THE EXCHANGE FUND

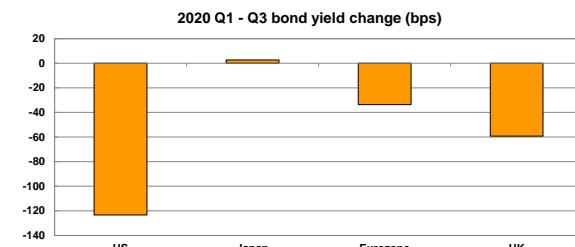
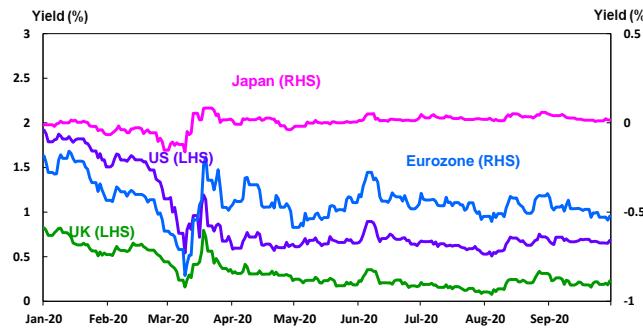


INVESTMENT ENVIRONMENT IN Q3 2020

- **Interest rates:** US Treasury yields remained suppressed as the Federal Reserve committed to holding policy rate at near zero for a lengthened period. Long-dated sovereign bond yields dipped to record lows
- **Equity markets:** Major equity markets rebounded sharply after significant sell-offs in Q1, supported by ultra-loose monetary policies by the major central banks. US equity market recouped all the losses earlier this year and rose to a record high, and corrected slightly in late September amid uncertainties around the COVID-19 pandemic and rising US-China tensions
- **Exchange rates:** Major currencies generally appreciated against the US dollar during the quarter due to concerns over possible de-basing of the dollar driven by massive increase in US debt in the long run



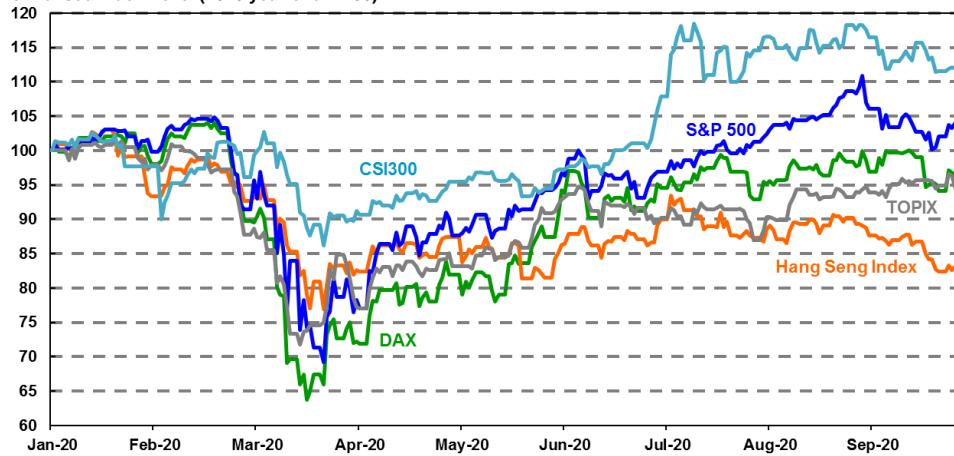
MAJOR DEVELOPED MARKETS 10-YEAR GOVERNMENT BOND YIELDS REMAINED LOW





GLOBAL EQUITY MARKETS REBOUNDED SHARPLY

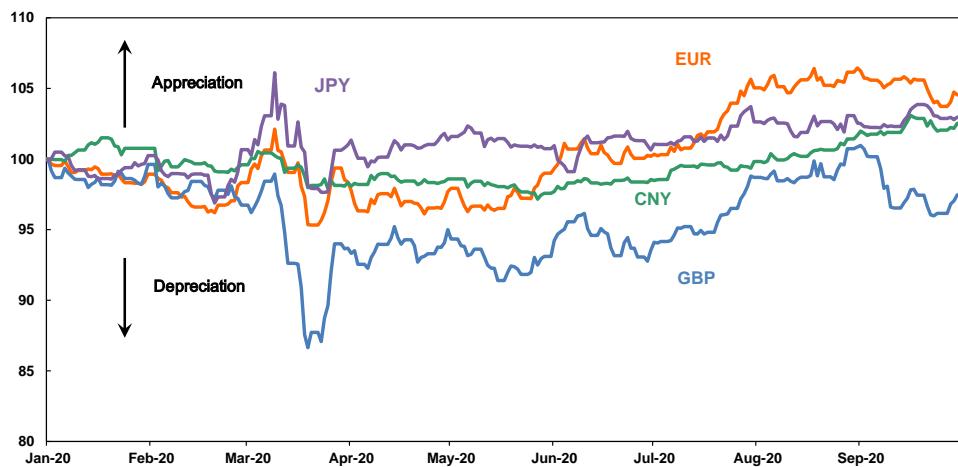
Normalised Index Level (2019 year-end = 100)





MAJOR CURRENCIES GENERALLY APPRECIATED AGAINST USD

Normalised FX Level Against USD (2019 year-end = 100)





INVESTMENT INCOME

← 2020 → 2019 2018

(HK\$ billion)	(unaudited)			
	Jan - Sep	Q3	Full Year	Full Year
Bonds	83.2	8.5	114.5	57.4
Hong Kong equities*	(19.9)	(0.3)	22.1	(20.7)
Other equities	14.5	29.9	100.7	(38.7)
Foreign exchange#	(9.7)	14.7	(13.0)	(9.0)
Other investments@	(5.7)	-	37.9	21.9
Investment income	62.4	52.8	262.2	10.9

* 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 2020. Valuations of these investments from July to September are not yet available.



INCOME AND EXPENDITURE

(HK\$ billion)	2020		2019	2018
	Jan - Sep	Q3	Full year	Full year
Investment income	62.4	52.8	262.2	10.9
Other income	0.1	-	0.2	0.2
Interest and other expenses	(12.0)	(1.8)	(24.8)	(17.9)
Net income/(loss)	50.5	51.0	237.6	(6.8)
Fee payment to Fiscal Reserves*#	(26.0)	(7.4)	(53.8)	(60.2)
Fee payment to HKSAR government funds and statutory bodies*	(8.6)	(2.8)	(9.0)	(13.8)

* The rate of fee payment is 3.7% for 2020, 2.9% for 2019 and 4.6% for 2018.

This does not include the 2020 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2020 is available.

(The composite rate was 8.7% for 2019 and 6.1% for 2018. Fee payable to the Future Fund was HK\$24.4 billion for 2019 and HK\$16.4 billion for 2018.)



EXCHANGE FUND ABRIDGED BALANCE SHEET

(HK\$ billion)

At 30 Sep 2020
(Unaudited) At 31 Dec 2019 At 31 Dec 2018

ASSETS

Deposits	288.7	305.9	325.7
Debt securities	2,990.0	2,856.6	2,825.2
Hong Kong equities*	178.4	194.8	175.5
Other equities	491.0	534.9	452.3
Other assets [#]	238.6	314.5	276.2
Total assets	4,186.7	4,206.7	4,054.9
	=====	=====	=====

LIABILITIES AND EQUITY

Certificates of Indebtedness	567.9	516.1	485.7
Government-issued currency notes and coins in circulation	12.8	13.0	12.6
Balance of the banking system	243.5	67.7	78.6
Exchange Fund Bills and Notes issued	1,069.0	1,152.3	1,129.6
Placements by banks and other financial institutions	98.2	35.0	56.3
Placements by Fiscal Reserves [@]	879.1	1,137.5	1,173.5
Placements by HKSAR government funds and statutory bodies	309.6	328.4	320.6
Placements by subsidiaries	13.9	12.6	7.7
Other liabilities	221.6	194.7	180.0
Total liabilities	3,415.6	3,457.3	3,444.6
Accumulated Surplus	770.4	748.7	609.7
Revaluation Reserve	0.7	0.7	0.6
Total equity	771.1	749.4	610.3
Total liabilities and equity	4,186.7	4,206.7	4,054.9
	=====	=====	=====

* 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\$192.2 billion at 30 September 2020 (HK\$177.3 billion at 31 December 2019 and HK\$162.4 billion at 31 December 2018).

[@] Including placements by the Future Fund of HK\$205.0 billion (HK\$224.5 billion at 31 December 2019 and 31 December 2018).



HISTORICAL INVESTMENT INCOME

(HK\$ billion)

Year

Year	Full Year	Q4	Q3	Q2	Q1
2001	7.4	13.6	10.4	(2.0)	(14.6)
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*# (unaudited)	N/A	N/A	52.8	121.6	(112.0)

* Excluding valuation changes of the Strategic Portfolio.

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



HONG KONG MORTGAGE CORPORATION



SME FINANCING GUARANTEE SCHEME

- Special 100% Loan Guarantee:
 - Maximum loan amount per enterprise increased to the total amount of employee wages and rents for 12 months, or HK\$5 million, whichever is lower
 - Maximum repayment period extended to five years
 - As of end-September 2020, around 17,000 applications were approved, amounting to over HK\$27 billion
- 80% and 90% Guarantee Products:
 - Maximum loan amount per enterprise increased to HK\$18 million and HK\$8 million respectively
 - Interest subsidy, subject to a cap of 3%
 - Application period of principal moratorium extended for six months to 31 March 2021, with a maximum duration of principal moratorium of 18 months
 - In the first nine months of 2020, over 3,700 applications were approved, with total loan amount of about HK\$11 billion



MORTGAGE INSURANCE PROGRAMME (MIP)

- Revisions to MIP made with effect from 16 October 2019:
 - The cap on the value of a property eligible for the MIP has been raised (applicable to completed residential properties only)
 - A first-time homebuyer is still eligible to apply even if he or she cannot meet the stress test
 - The maximum debt-to-income ratio for all MIP loans is set at 50%
- As of end-September 2020, around 28,100 applications under the new coverage were approved, with over 90% being first-time homebuyers
- Principal moratorium or extension of repayment schedules available to borrowers to help reduce their repayment burden



FIXED-RATE MORTGAGE PILOT SCHEME

- Fixed mortgage rates for 10, 15 and 20 years at 2.55%, 2.65% and 2.75% per annum respectively
- Maximum loan amount of each private residential mortgage at HK\$10 million, with an aggregate loan amount of HK\$1 billion
- As the borrowers will be insulated from interest rate movement under the fixed-rate period which is 10 years or longer, stress testing against interest rate rise is not required, but the current debt-to-income ratio is still applicable
- By end-September 2020, a total of 17 applications were received



REVERSE MORTGAGE PROGRAMME (RMP)

- As of end-August 2020, 4,146 RMP applications had been received:
 - Average age of borrowers: 68 years old
 - Average monthly payout: HK\$15,900
 - Payment terms: 10-year (24.0%);
15-year (15.4%); 20-year (12.4%); life (48.2%)
 - Average property value: HK\$5.5 million
 - Average property age: 30 years



HKMC ANNUITY PLAN

- Launched a new “Video-Conferencing Application Service” in mid-September 2020 for customers to apply for the scheme remotely
- Received a total premium amount of around HK\$1.2 billion in the first eight months of 2020, an increase of 9% year-on-year. The average premium amount also rose by 21% to HK\$930,000
- Detailed business results:

	2019 FY	2019 (1 st 8 months)	2020 (1 st 8 months)
Total no. of policy issued	2,188	1,433	1,289
Total premium amount	HK\$1.6 billion	HK\$1.1 billion	HK\$1.2 billion
Average premium amount	HK\$750,000	HK\$770,000	HK\$930,000



PREVENTION OF BRIBERY ORDINANCE (POBO): AMENDMENT TO SCHEDULE 1 FOR SPECIFICATION OF THE HKMCA AND THE HKMCI AS PUBLIC BODIES

- **Background:** The POBO imposes stringent anti-corruption control on public bodies as defined in the Ordinance to safeguard public interest. Due to the important public purposes it serves, since 1998 the HKMC has been specified as a public body for the purposes of the POBO, hence subject to the anti-corruption control therein
- In 2017, the HKMC underwent a business reorganisation, and the HKMCA and the HKMCI were established as wholly-owned subsidiaries under it to carry on annuity business and mortgage insurance and loan guarantee business respectively. As the HKMCA and the HKMCI both provide important support to the HKMC's public functions, there is a need to subject them to the relevant control under the POBO as well
- **Recommendation:** to introduce a piece of subsidiary legislation (i.e. Prevention of Bribery Ordinance (Amendment of Schedule 1) Order 2021) to specify the HKMCA and HKMCI as public bodies under Schedule 1 to the POBO, so as to subject them to the relevant control