

# Strengthening Hong Kong as a Leading Global International Financial Centre



November  
2013



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## FOREWORD

1. Since its establishment in January 2013, the Financial Services Development Council (“FSDC”) has been working towards its mission of facilitating the long-term development of Hong Kong’s financial services industry and enhancing Hong Kong’s position as an international financial centre, as stated in the Policy Address of the Chief Executive in January 2013.

2. In preparing this paper, we examined the current position and the main opportunities and challenges facing Hong Kong’s financial services sector, and attempted to lay out a potential vision and strategy for Hong Kong. We conducted extensive research, including many internal research materials and publications contributed by FSDC members. We also engaged closely with the academia, industry practitioners and regulators, and consulted market experts from Hong Kong, Mainland and the overseas. More than 60 in-depth consultative sessions were conducted in the past six months which provided insightful suggestions and innovative ideas on how to further Hong Kong’s position as an international financial centre.

3. The ideas and advice gathered are condensed into this paper that recommends to the Government a vision and a strategy for Hong Kong’s financial services sector to move forward amid a highly competitive environment. The five committees under the FSDC have already started to work on issues identified in the strategy, with a view to producing specific recommendations to the Government. Some of the work has been completed, while others will carry on to 2014 and beyond.

4. We would like to express our appreciation to all the individuals and institutions that have helped us with their guidance and advice in preparing this paper.

Financial Services Development Council

November 2013

## EXECUTIVE SUMMARY

5. Financial services directly contributed over HKD 300 billion or 16% in value to the gross domestic product (“GDP”) of Hong Kong in 2011, making it the second largest sector in the economy. Over the past decade, financial services has been a major growth driver of the Hong Kong economy, growing at a compound annual growth rate of 7%, which is nearly double that of the overall economy. The financial services sector is also a major source of Government revenue, with a contribution of no less than HKD 40 billion in profits taxes and stamp duty in 2011-12. The sector provides quality jobs for Hong Kong, employing over 228,000 people directly, as well as a significant number of indirect jobs across the economy in related industries such as legal, accounting, transportation, and real estate. The knock-on effects, in the form of demand in other sectors such as property and professional services, as well as transportation, travel and communication, have been estimated to be more than HKD 110 billion in 2011 in monetary terms.

6. Hong Kong is known around the world as a leading financial centre, as well as for having a highly competitive economy and business environment. In many areas of financial services, Hong Kong has the track record, reputation, and scale to be considered among the world’s best, including having the largest asset management market in Asia, the largest offshore liquidity pool for Renminbi (“RMB”) in the world, and a stock exchange which ranked number one globally in 2009 to 2011 for funds raised from initial public offering (“IPO”). Hong Kong owes much of these successes to our world-class business infrastructure, sound regulatory environment, and unique access to market opportunities.

7. Going forward, Hong Kong faces new challenges arising from evolving global macroeconomic forces and emerging local threats. Externally, the liberalisation of the Mainland economy brings opportunities as well as competition, whereas rising Asian financial centres are catching up and may even overtake Hong Kong if we remain complacent. Internally, an increasingly politicised and divided society, lack of diversity in the financial services sector, and issues with living environment, are

all impediments to Hong Kong's further development as an international financial centre.

8. Therefore, while Hong Kong's current position and strengths are widely recognised, its position as a leading first-tier international financial centre in the future is not entirely secured. Many of the key financial centres of the world, including London, New York, Singapore, and Shanghai, have conducted strategic reviews to come up with initiatives aimed at remaining competitive and ahead of the game. We believe a similar effort to define a holistic strategy is critical for Hong Kong to maintain and preserve its status as one of the most important international financial centres in the world. This strategy should leverage on Hong Kong's current strengths, take advantage of the natural opportunities facing Hong Kong and upgrade the foundation that has served Hong Kong well to-date.

9. We believe the overall strategy for Hong Kong's financial services comprises four components: vision, market opportunities, enablers, and foundation. These are the building blocks from which to further our development.

### ***Vision***

(a) Hong Kong should aim to become the preeminent international financial centre based in Asia.

### ***Market opportunities***

(b) Hong Kong should continue to capture and dominate a larger share of Mainland-related trade, investment, financing and other businesses. As the Mainland continues its market reform, there are unprecedented opportunities for Hong Kong's financial services sector. While Hong Kong has done well in this area in the past, we should aim to leverage our unique position and capture much of the future opportunities as well.

(c) Besides Mainland opportunities, Hong Kong should strengthen its current position in the asset management and private banking sectors, and develop

more depth in areas such as fixed income, foreign exchange (“FX”), commodities, corporate treasury, real estate investment trust (“REIT”) and risk management. Developing a broader and deeper array of asset classes will lessen our dependence on equities and build more resilience for our sector overall.

- (d) At the same time, Hong Kong should expand our reach beyond the Mainland China and attract companies from different jurisdictions to list on our stock exchange and/or set up regional head offices in Hong Kong.

### ***Enablers***

- (e) To enable us to capture and develop the opportunities mentioned above, Hong Kong should ensure that it has a sustainable talent pool to provide the needed services. We should foster closer ties between the industry and the tertiary education sector, so that graduates of our universities as well as practitioners already in the industry would be equipped to meet the continuous demand of the market.
- (f) To maintain Hong Kong’s attractiveness as a home for Mainland, overseas and local talent, Government bureaux should further enhance their collaborated efforts to address the longstanding concerns on insufficient international school places, rental and property prices, and air quality.
- (g) The regulatory framework and approach of Hong Kong have been effective in protecting investors, upholding market integrity, and ensuring financial stability. Nevertheless, as the financial services sector develops in its sophistication and diversity, certain areas of our regulatory regime would deserve periodic reviews to ensure that it would catch up with the development of the market.
- (h) While considerable efforts have been made by different entities in promoting Hong Kong both internationally and in the Mainland to brand Hong Kong’s role and position, more coordination among these entities

would ensure that the impact of these efforts are optimised under the banner of “Hong Kong Inc.”.

***Foundation***

- (i) To realise the vision and benefit from the market opportunities described above, it is crucial for the Government, the industry, the regulators, and the community to work together for the long-term interests of Hong Kong. It is also important to enhance efforts at the government-to-government level.

## SECTION 1 - THE IMPORTANCE AND COMPETITIVE POSITION OF HONG KONG'S FINANCIAL SERVICES SECTOR

10. In this section, we examine the importance of the financial services sector to Hong Kong in terms of economic production, employment, Government revenue, and other indirect effects. We also evaluate the current performance and strengths of Hong Kong as an international financial centre. Lastly, we discuss the need for a holistic strategy for the sector in face of a changing global and local environment.

### Contribution of the financial services sector to Hong Kong

11. Financial services is one of the four pillar industries which together make up over half of the economic output of Hong Kong. The following highlights the importance of Hong Kong's financial services sector, which extends far beyond its contribution to GDP.

#### EXHIBIT 1

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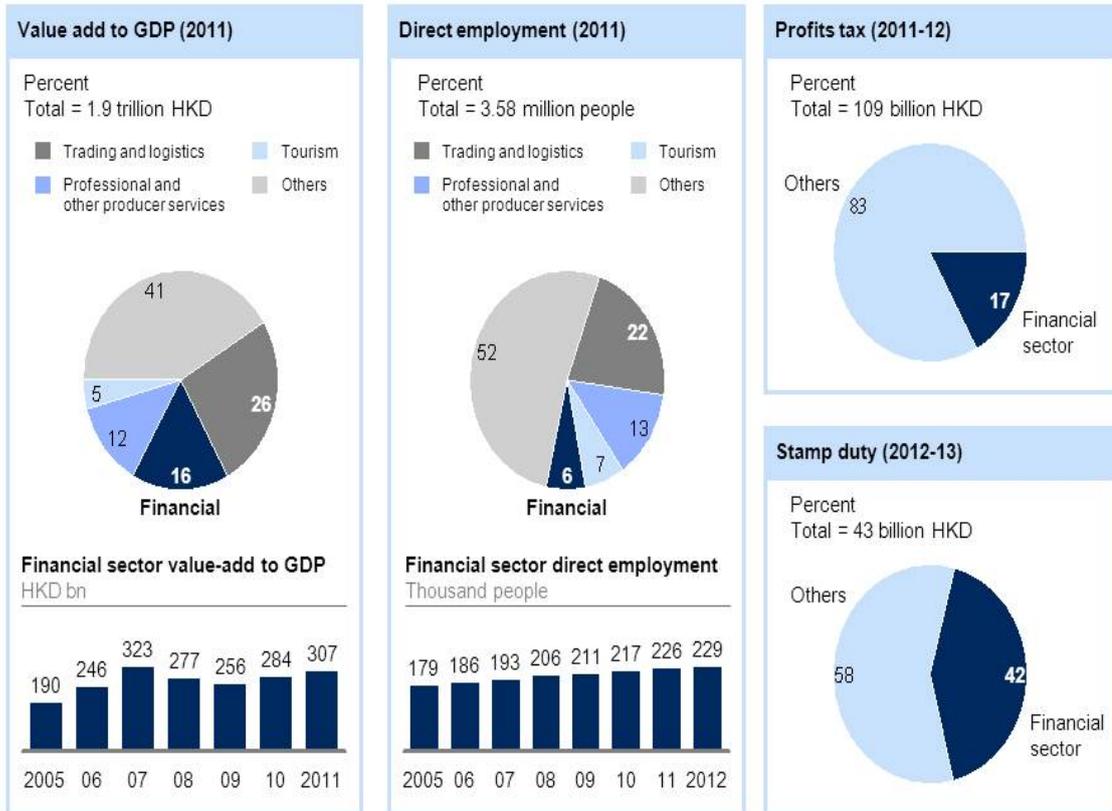
#### Hong Kong's financial sector in numbers

- Direct value-added contributes to **16%** of GDP
- Indirect value-added contributes to **6%** of GDP
- More than **220,000** direct jobs
- More than **100,000** indirect jobs<sup>1</sup>
- No less than **HKD 40 bn** in tax and other government revenue
- Workforce has **2.6x** higher value-added to GDP per worker than that of the overall economy

<sup>1</sup> Estimated based on value-added of the goods and services provided to the financial sector and worker productivity

SOURCE: Census and Statistics Department, Inland Revenue Department, estimates

## The financial services sector is an important contributor to Hong Kong



SOURCE: Census and Statistics Department and Inland Revenue Department

**Key economic pillar** - Financial services directly contributed HKD 307 billion or 16.1% in value added to GDP to Hong Kong in 2011, making it the second largest sector in the economy after trading and logistics. Within financial services, banking was the largest subsector with 9.4% of GDP, followed by insurance (2.9%), fund management and investment advisory services (1.6%), and securities services (1.5%). However, when taking into account indirect effects, the contribution of the sector is even larger. The economic activities of the financial services sector create knock-on effects in the form of demand in other sectors and industries. According to data from the Census and Statistics Department (“C&SD”), in 2011, this demand amounted to an additional HKD 110 billion, with the procurement and spending on the following industries being the major components:

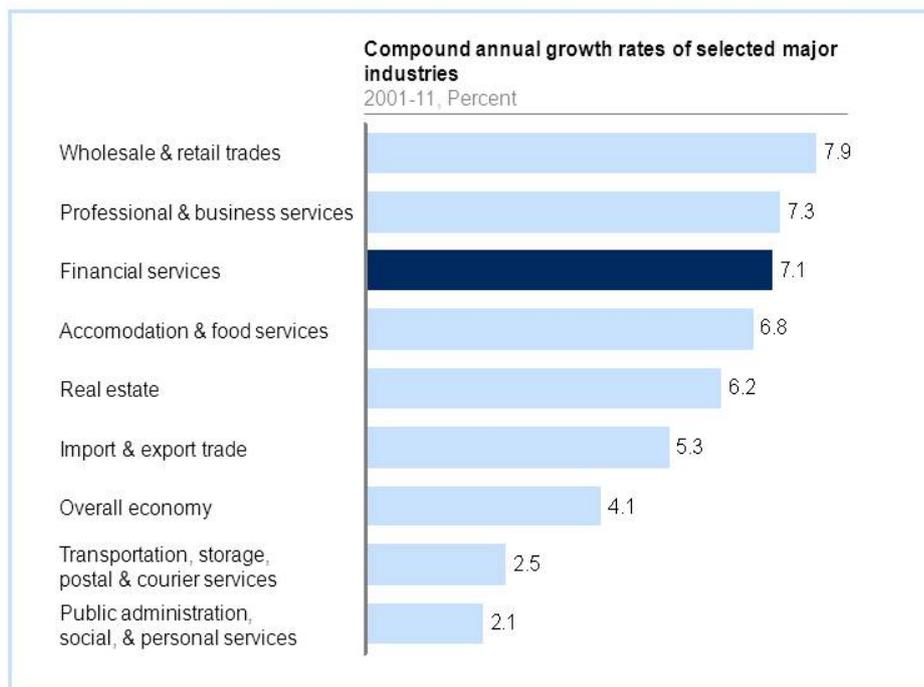
- Property such as rent, rates, and Government rent: HKD 20 billion.

- Professional and business services such as advertising, accounting, and legal: HKD 18 billion.
- Other support services such as transportation, travel, and communications: HKD 12 billion.

**Major growth driver of the economy over economic cycles** - From 2001 to 2011, the financial services sector was a major catalyst and driver to the growth of the Hong Kong economy, growing at a compound annual rate of 7.1% in nominal terms, while the overall economy only grew at a rate of 4.1% in comparison. In particular, after the recent recovery of the global financial crisis of 2008 to 2009, the financial services sector showed its resilience and bounced back quickly, recording a compound annual growth rate of 9.5% from 2009 to 2011.

EXHIBIT 3

**In the past 10 years, financial services has been one of the main drivers of growth of the economy**



SOURCE: Census and Statistics Department

**Significant generator of Government revenue** - Naturally, financial services is also a significant generator of Government revenue. In the fiscal year of 2011-12, companies from the sector, including banks, insurance companies, and unincorporated finance and securities firms, paid over HKD 19 billion in profits tax, or 17.4% of all profits tax collected by the Government in that year<sup>1</sup>. For stamp duty, out of HKD 43 billion duty collected in 2012-13, HKD 18 billion (following HKD 21 billion in 2011-12), or 42.3% of the total could be attributed to the sector.

**Provider of quality jobs** - The financial services sector is a major source of jobs for Hong Kong, directly employing 228,800 people in 2012, accounting for 6.3% of the total labor force. Through the past decade, jobs created by the sector have increased steadily, with employment growing by a compound annual rate of 3.5% from 2005 to 2012. This workforce, other than being sizeable, is characterised by high levels of productivity and skills.

- Workers are highly productive. Compared to the economy-wide average of around HKD 532,000, the value added per person in financial services is around 2.6 times more at HKD 1.4 million. This in turn translates to higher earnings for workers in the industry, with the C&SD data indicating that, in 2012, median earnings were higher in financial services compared to the overall level by roughly 30% depending on the skill level of workers.
- Workers are highly skilled and qualified. In terms of skilled labour, managers and professionals make up a large part of the employment in financial services, with 38.2% share in 2012, more than double the figure of 18.4% for the economy as a whole. In terms of educational attainment, workers with post-secondary education made up 66.5% of the industry compared to 34.3% for the overall economy, highlighting the role the

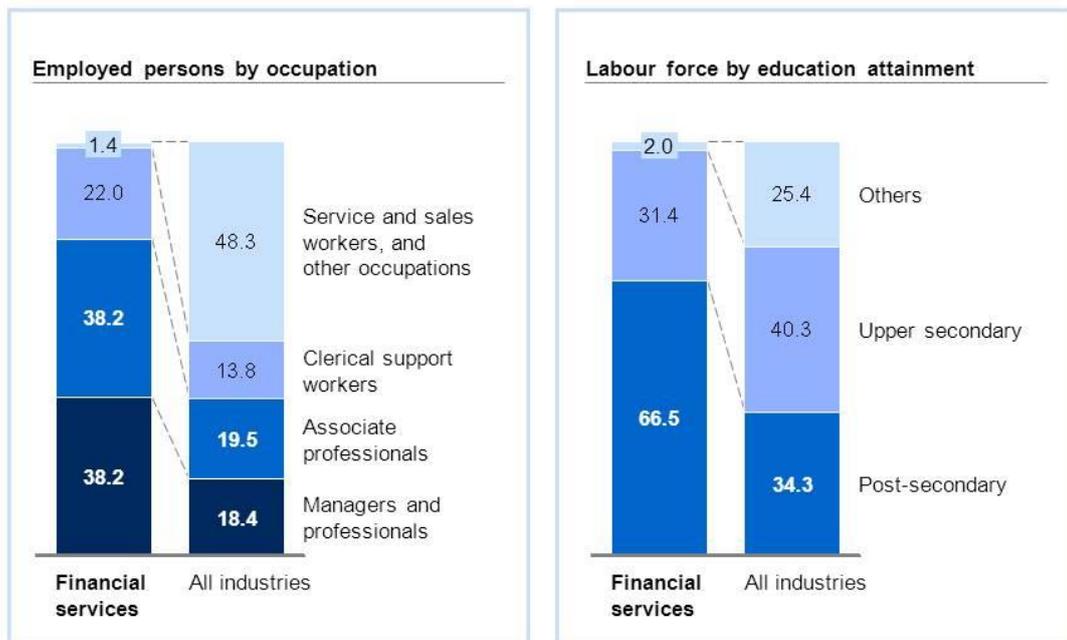
<sup>1</sup> Another sum of profits tax of HK\$27 billion was contributed by property, investment and finance sectors (other than banking), but further breakdown into financial services corporations specifically was not available.

financial services sector plays in leading Hong Kong's evolution into a knowledge-based economy.

EXHIBIT 4

**The financial services labour force is highly skilled and educated**

Profile of workers in financial services industry, 2012  
Percent



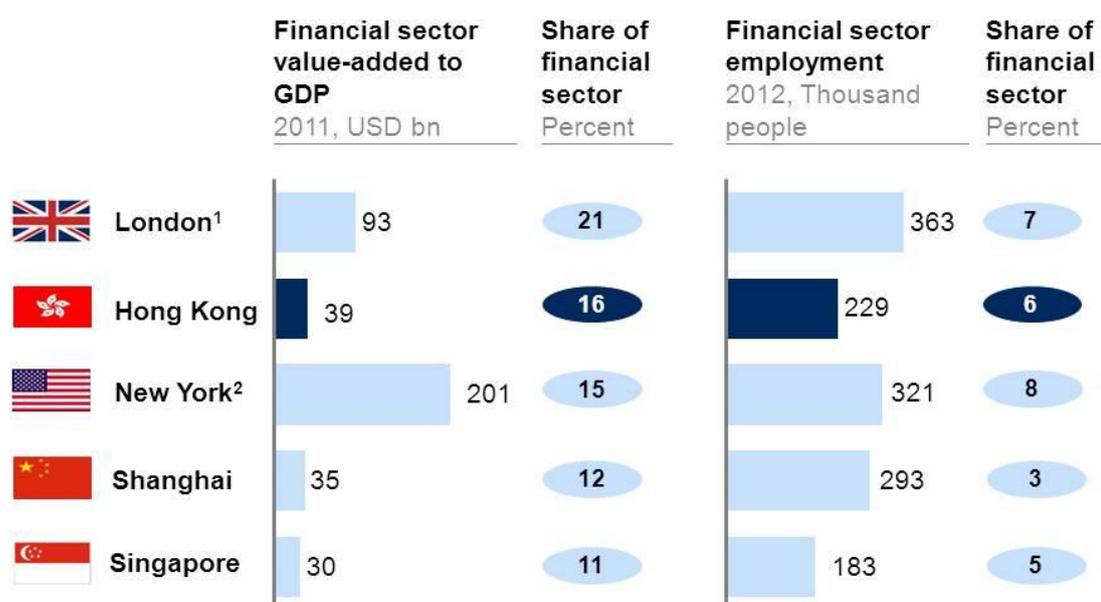
SOURCE: Census and Statistics Department

12. In addition to the high quality jobs described above, the financial services sector also creates indirect employment from its knock-on effects. First, indirect jobs are created because of the derived demand for financial services, which includes industries such as accounting, legal, consulting, IT, advertising, transportation, and commercial real estate. Based on value added of the goods and services provided and worker productivity, a conservative estimate of this type of indirect employment created would be at least 100,000 jobs. Furthermore, job opportunities in retail, catering, transportation, and residential real estate sectors, to name a few, are also created because of the daily needs of the workers in the financial services sector, although currently there is no accurate estimate for these types of job creation.

13. A review of other top financial centres around the world including Hong Kong shows that the financial services sector holds a similarly important role in London, New York, Singapore, and Shanghai. Of these cities, London’s financial services sector makes up the largest share of the local economy in terms of value added to GDP at 20.8%, followed by Hong Kong (16.1%), New York (15.2%), Shanghai (11.9%), and Singapore (11.1%). In terms of employment, New York’s financial services sector contributes the largest percentage of jobs in the city with 8.3%, followed by London (7.2%), Hong Kong (6.3%), Singapore (5.5%), and Shanghai (3.1%).

EXHIBIT 5

**The scale of Hong Kong’s financial sector is comparable with other recognised international finance centres**



<sup>1</sup> Refers to Greater London, value-add figures are 2010

<sup>2</sup> Value-added refers to New York City, Northern New Jersey and Long Island Metropolitan Area; Employment refers to the "New York City Region", which includes Bronx, Kings, New York, Queens and Richmond Counties

SOURCE: Census and statistics departments of various cities

**Current competitive position of Hong Kong’s financial services sector**

14. Hong Kong is known around the world as a leading financial centre, as well as having a highly competitive economy and business environment. Among various international research reports on the topic, Hong Kong was ranked number one in

the world in at least four of them, including in the Financial Development Index 2012 published by the World Economic Forum (“WEF”), in which Hong Kong topped the table for the second consecutive year, and is the first Asian financial centre to hold the top spot.

EXHIBIT 6

**On the whole, Hong Kong’s financial sector and overall competitiveness are highly rated**

Global rankings of Hong Kong

Rank	Global Financial Centres Index 14 Jan – Jun 2013	Financial Development Index 2012	World Competitive-ness Yearbook 2013	World Bank Doing Business 2014	2013 Index of Economic Freedom 2013	Economic Freedom of the World Index 2013 2013	Bloomberg Best Countries for Business 2013 2013	Forbes Best Countries for Business 2012	World Economic Forum Global Competitiveness Index 2013 - 2014
1	London	Hong Kong	US	Singapore	Hong Kong	Hong Kong	Hong Kong	New Zealand	Switzerland
2	New York	US	Switzerland	Hong Kong	Singapore	Singapore	United States	Denmark	Singapore
3	Hong Kong	UK	Hong Kong	New Zealand	Australia	New Zealand	Japan	Hong Kong	Finland
4	Singapore	Singapore	Sweden	US	New Zealand	Switzerland	Netherlands	Singapore	Germany
5	Tokyo	Australia	Singapore	Denmark	Switzerland	UAE	Germany	Canada	US
6	Zurich	Canada	Norway	Malaysia	Canada	Mauritius	Australia; Canada	Ireland	Sweden
7	Boston	Japan	Canada	Korea, Rep.	Chile	Finland		Sweden	Hong Kong
8	Geneva	Switzerland	UAE	Georgia	Mauritius	Bahrain; Canada	Singapore	Norway	Netherlands
9	Frankfurt	Netherlands	Germany	Norway	Denmark		Denmark	Finland	Japan
10	Seoul	Sweden	Qatar	UK	US	Australia	UK	UK	UK

SOURCE: (1) Global Financial Centres Index 14; (2) Financial Development Index 2012; (3) World Competitiveness Yearbook 2013; (4) World Bank Doing Business 2014 Report; (5) 2013 Index of Economic Freedom; (6) Economic Freedom of the World 2013 Dataset; (7) Bloomberg Best Countries for Business 2013; (8) Forbes Best Countries for Business 2012; and (9) World Economic Forum Global Competitiveness Report 2013-2014

15. However, it is important to note that there have been recent reports which highlighted Hong Kong’s decreasing competitiveness in some areas which may affect the further development of the financial services sector. Notably, in the latest Global Competitiveness Index published by the WEF, although Hong Kong is ranked 7<sup>th</sup> in the world overall, our higher education and innovation were only ranked 22<sup>nd</sup> and 23<sup>rd</sup> respectively. Therefore, as we celebrate Hong Kong’s standing among the most competitive economies in the world, we should also be vigilant on the slippage in some areas in recent years.

16. In many aspects of the financial services sector, Hong Kong has built up the reputation, track record, and scale to be considered among the world's best. The following are some notable examples.

- (a) Asset management: Hong Kong is the largest asset management centre in Asia. In 2012, assets management business of licensed corporations, registered institutions and insurance companies amounted to USD 1,064 billion and the assets under management under private banking amounted to an additional USD 346 billion. As the largest user of the Mainland's Qualified Foreign Institutional Investors ("QFII") scheme and the largest destination of the Mainland's Qualified Domestic Institutional Investors ("QDII") scheme, Hong Kong has attracted arguably the largest concentration of managers of hedge funds and private equity funds in Asia to manage the assets of investors around the world.
- (b) Equity capital raising: Between 2009 and 2011, the Hong Kong Exchanges and Clearing Limited ("HKEx") led the world in IPO proceeds raised. In 2011 alone, USD 33 billion was raised through IPOs. In particular, Hong Kong is the preferred fund raising centre for Mainland Chinese corporations seeking overseas capital. From 2003 to 2012, Mainland Chinese enterprises raised a total of USD 346 billion on the HKEx, including numerous mega deals such as the USD 22 billion IPO of the Agricultural Bank of China in 2010, the largest IPO ever recorded globally.
- (c) Offshore RMB business: Hong Kong was the first market to conduct offshore RMB business in 2004 and since then has steadily expanded the range of products and services to cater to the needs of individuals and enterprises. In 2007, Hong Kong became the first place outside the Mainland to develop a RMB bond market. Outstanding RMB deposits in Hong Kong totaled RMB 873 billion as of August 2013 and it is estimated that Hong Kong handles about 80% of the RMB payments in trade globally.

## **Strengths of Hong Kong as an international financial centre**

17. Hong Kong's overall success as an international financial centre owes much to our world-class business infrastructure, sound regulatory structure, and unique access to market opportunities.

### ***World-class business environment***

- (a) *Trusted rule of law, transparent regulatory structure, and free flow of funds* - Under "One country, Two systems", Hong Kong is able to continue its common law system which is upheld by an independent judiciary. This provides the foundation on which our financial services sector is built. We also have a sound regulatory regime where the rules are clear, fair, transparent, and consistent. Together with the free flow of capital, the rule of law and our respectable regulatory regime provide investors with the confidence to invest capital and conduct business in Hong Kong.
- (b) *Ability to attract top talent from around the world* - Hong Kong's offering of dynamic career opportunities, vibrant lifestyle, diverse society, as well as simple and relatively low income tax (capped at 15%) make the city one of most desirable working destinations for professionals around the world. This creates a deep pool of high-calibre talent which is the bedrock of a successful international financial centre.
- (c) *Efficient transport and professional services infrastructure* - Hong Kong's favourable time zone and geographical advantage as a transport hub, as well as its world-class international airport and local transport infrastructure, make the city a convenient location to be a financial centre. In addition, nearly all top international accountancy, legal, and other professional services firms have presence in Hong Kong, forming a strong support network for the entire financial services sector.

### ***Unique access to market opportunities***

- (d) *Gateway to Mainland China and strong grasp of the pulse of the Mainland Chinese market* - Hong Kong has a unique geographic position and a long history of understanding the Mainland economy due to our proximity and having been the gateway to Mainland China over the last four decades. As the second largest economy in the world and one of the fastest growing, the Mainland offers an abundance of market opportunities, from which Hong Kong is well-placed to benefit. Similarly, companies from the Mainland have also taken advantage of the similar language and culture in Hong Kong and chosen Hong Kong as the preferred destination for raising international capital and as the first step of “going out”.
- (e) *High compatibility with the rest of the international markets* - Hong Kong’s past has made us a true confluence of “East meets West”. The English language capability of a large segment of our population working in the financial services sector has made it easy for international firms to operate in Hong Kong. Hong Kong’s internationally-compatible social and business environment makes Hong Kong an ideal hub to conduct international business.

### **The need of a holistic strategy for the financial services sector**

18. By all accounts, Hong Kong’s financial services sector has been performing well in many aspects, and possesses the prerequisites to develop further as an important international financial centre as Asia, with the growth of Mainland China and India, increases its significance in the global financial world. However, this promising future is not without uncertainties.

### ***Evolving macroeconomic forces***

- (a) *Liberalisation of the Mainland economy and financial services sector* - Whilst the liberalisation of the Mainland economy, in particular the

internationalisation of the RMB through relaxing exchange and capital controls, generates numerous opportunities for Hong Kong, it also creates challenges and uncertainties for Hong Kong. With improved market infrastructure and governance in the Mainland market, the gap between Hong Kong and Mainland financial centres will inevitably narrow. In particular, Shanghai has been earmarked to become an international financial centre by 2020 and the recently established Free Trade Zone indicates that some of the market liberalisation measures may first be tested there. In the longer-term when the RMB become a fully convertible currency, Hong Kong's function as an offshore RMB centre will inevitably need to be redefined.

- (b) *Rise of competitors in Asia* - Hong Kong is not the only Asian financial centre looking to capture the market opportunities and capital flows arising from the increased importance of Asia. While Hong Kong is superior in equities, Singapore already has an edge in many other areas including FX, fixed income, commodities and alternative investment. In private banking, Singapore has aimed to become the "Switzerland of Asia". Similarly, Shanghai is making every effort to bring its financial infrastructure up to the international standard. The Free Trade Zone in Pudong where capital accounts restrictions may be further eased demonstrates the speed of reform might be faster than anticipated.
- (c) *Changing global regulatory landscape* - Since the global financial crisis in 2008-2009, policymakers and regulators around the world have tightened their rules on financial institutions. The Group of Twenty ("G20") and the Financial Stability Board, as well as regulators in the United Kingdom and the United States, among others, have all taken measures to strengthen rules on banks' capital adequacy and liquidity management, over-the-counter derivatives, anti-money laundering and tax information exchange. Hong Kong has always been an active participant in the global regulatory

circle and has followed new requirements closely. However, the adjustment of our regulatory regime and approach to comply with the evolving international standards should not be at the expense of our attractiveness as an international financial centre.

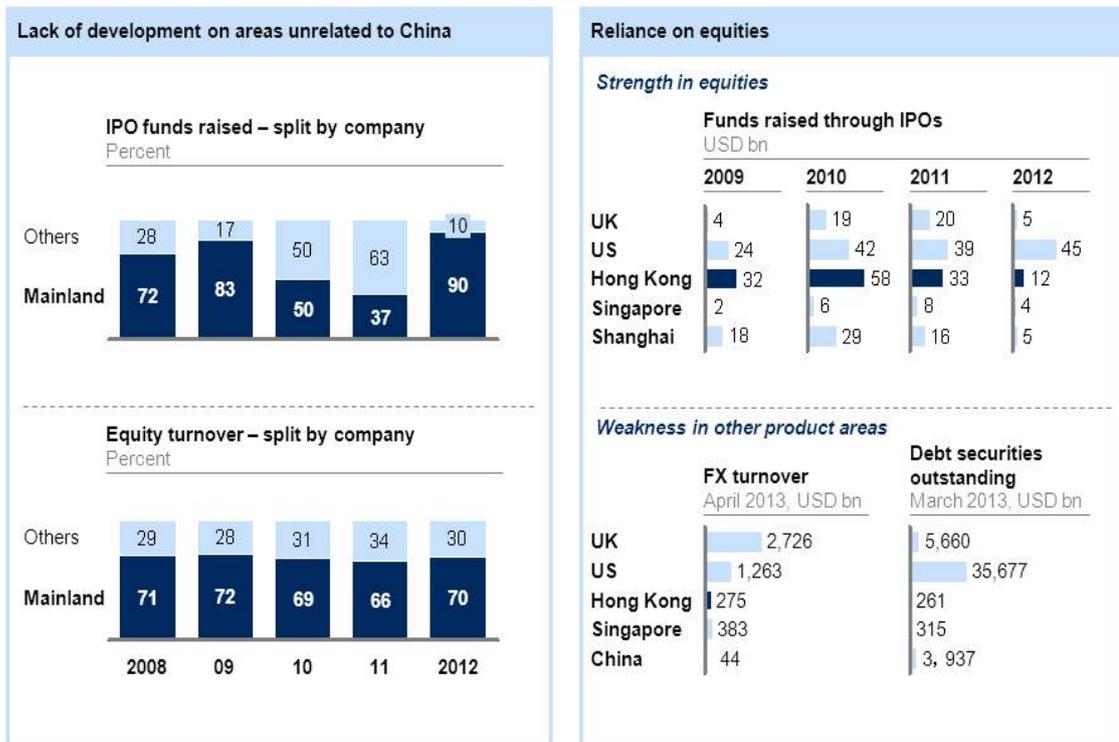
***Emerging local threats***

- (d) *An increasingly politicised and divided society* - It is the general view of the business community that many issues in Hong Kong are being increasingly politicised to the extent where effective decision-making and implementation are being seriously hindered. One example was the filibustering action by the Legislative Council in May 2013 which delayed the passing of the annual budget bill and could have caused large-scale shortage of funds for the Government and disrupted normal operation of local various agencies, something that previously would have never been imagined to occur in Hong Kong. For the international financial community, the business environment and positive image of Hong Kong where peaceful protests have been a routine nature has now been tarnished as protestors take on more violent and abusive actions. At the same time, the tension between certain sectors of local Hong Kong citizens and Mainland residents caused often by shortage of certain commodities or services is adding to a polarised society. The hostile attitude towards Mainland compatriots in general is not helpful to the future collaboration between the Mainland and Hong Kong.
- (e) *Need for more diversity in the financial services sector* - The strength of Hong Kong's equity market is well documented, with HKEx being the number one exchange in IPO funds raised in the world between 2009 and 2011 for three consecutive years and ranked in top five every year in the past decade. However, the heavy focus on equities has resulted in the relative underdevelopment in fixed income, FX, and commodities. A high reliance on one market sector means that the whole sector is less resilient

especially when equities are underperforming. Similarly, the Mainland has been a major driver of the growth of the financial services sector in Hong Kong in the past decade, especially in the equity market where Mainland companies contributed to 59% of IPO funds raised and 70% of daily stock market turnover over the past five years. This dominance of the Mainland market has led to less attention and resources towards other high-potential markets in Asia, where Hong Kong has not captured its share of business as its competitors. While Hong Kong celebrates its success in equities and in helping Mainland Chinese enterprises to raise funds, Hong Kong needs to create a more diversified and resilient sector in order to solidify its position as a truly diversified and internationally-significant financial centre.

Exhibit 7

### Weaknesses – under-development in areas



SOURCE: Hong Kong Exchanges and Clearing Limited, Bank for International Settlements and World Federation of Exchanges

- (f) *Challenges in the living environment* - An important aspect of being an international financial centre is the supply of qualified professionals and support personnel. It is equally important for an international financial centre to have trained local professionals as well as overseas talent. The ability to attract global talent to live and work in the city is therefore one of the hallmarks of an international financial centre. This is the case for New York, London and Singapore. Whilst Mainland and overseas professionals have found Hong Kong a desirable place to work, there are increasing challenges which make Hong Kong less attractive today. These include the lack of sufficient international school places, high housing costs, high office rental costs, and air pollution, among others. There are increasingly more cases where these have become “deal breakers” when companies try to bring talent in from abroad.

### **Take pride in our achievement but never complacent**

19. In the past, the Government has always taken a non-interventionist stance towards the financial services sector development. Traditionally, the Government mainly played the role of facilitator and only intervened directly in the case of emergencies. This laissez-faire approach coupled with the strong intrinsic of Hong Kong (the sound legal system, the deep talent pool, the unique access to the Mainland Chinese market etc.) proved to be the winning formula as Hong Kong established itself as one of the premier international financial centres in the world.

20. However, in the face of the uncertainties and challenges in an evolving globalised world discussed above, we believe the position of Hong Kong as a first-tier international financial centre is far from secure. Faced with their own unique challenges, many of the top financial centres of the world have recognised the need for a systemic plan for their financial services sector. In the past decade, London, New York, Singapore, and Shanghai, among others, have conducted strategic reviews to come up with initiatives aimed at remaining competitive and

moving ahead of other financial centres in the long-term. Our competitors are moving quickly, and we believe a similar effort is critical for Hong Kong to keep up and preserve its status as one of the most important international financial centres in the world. The FSDC hopes to assist the Government to achieve this by putting forward a holistic strategy for the financial services sector.

21. In the course of our research, we observed that most market participants are immensely proud of Hong Kong's achievements and success as a financial centre, yet at the same time worry about the challenges ahead. Many believe that there is much more to celebrate than to criticise about Hong Kong's current position, but that if we do not improve in time, we are likely to fall behind our competitors. We fully share the view that Hong Kong's financial centre position today is still strong, that the future opportunities for Hong Kong are enormous, and that to capture such opportunities, Hong Kong needs to formulate a strategic plan. Therefore the spirit of this paper is about improving and accelerating Hong Kong's development, in order to strengthen our position as a leading global international financial centre.

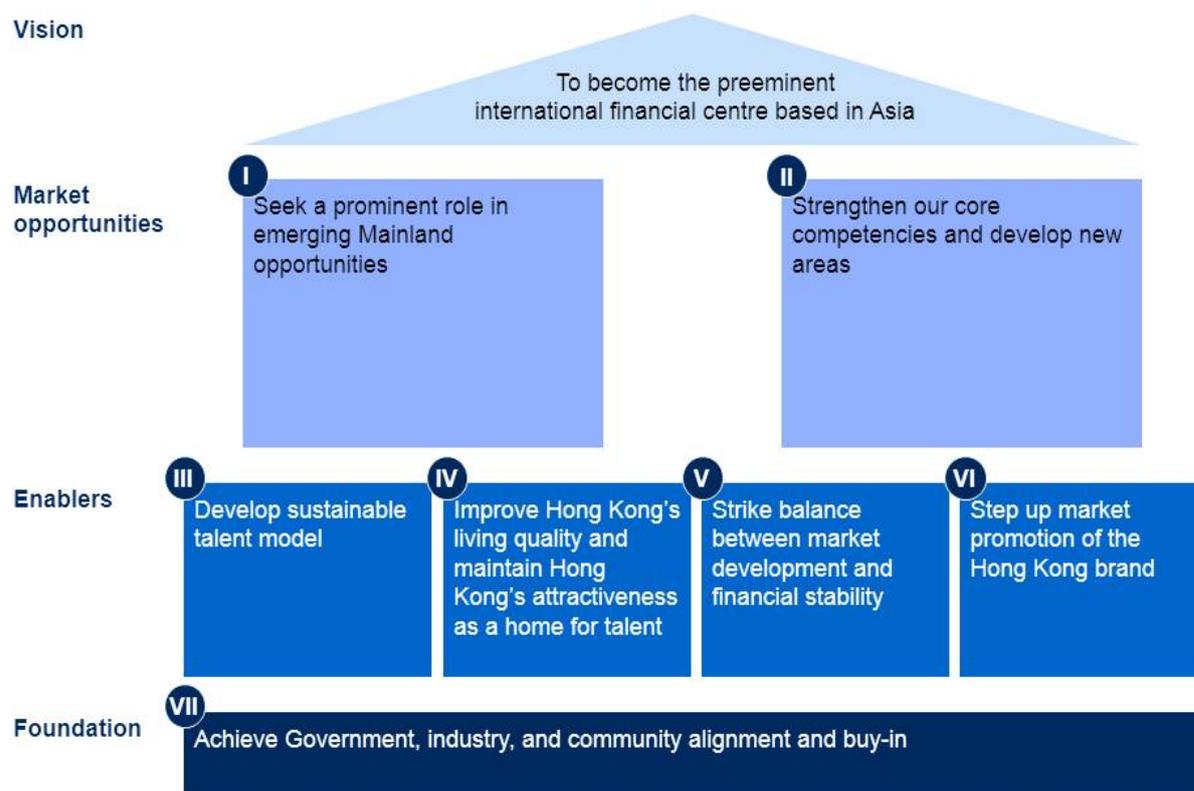
## SECTION 2 – FRAMEWORK FOR HONG KONG’S FINANCIAL CENTRE STRATEGY

22. In section 1, we highlighted the need for Hong Kong to have a holistic strategy for the financial services sector. In this section, we lay out our proposed long-term strategy for Hong Kong to become a significant international financial centre, comprising four layers of building blocks:

- (a) The **vision** for Hong Kong as an international financial centre.
- (b) The **market opportunities** which Hong Kong should strive to capture.
- (c) The **enablers** required to capture the opportunities and grow sustainably in the long-term.
- (d) The **foundation** upon which all the above is built.

EXHIBIT 8

### Strategy for Hong Kong’s financial services centre



## Vision

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*To become the preeminent  
international financial centre based in Asia*

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23. Hong Kong is already widely recognised as an international financial centre together with New York, London, Tokyo, Singapore, Frankfurt, Zurich, and Shanghai, among others. With our geographical advantage, world-class business infrastructure, deep talent pool, and plentiful market opportunities, Hong Kong has the prerequisites to do much more, and should aim to become one of the globally-significant financial centres in the world, as well as THE preeminent international financial centre based in Asia, providing first-class financial services and products across different business and investment needs in a comprehensive manner to investors and corporations around the world.

### Market opportunities

24. To realise the vision, Hong Kong should aim to capture market opportunities from both Mainland China and the rest of the world, and expand from traditional strengths into new areas.

**(I) *Seek a prominent role in emerging Mainland opportunities*** by being the preferred centre of investment flows coming out and going into the Mainland Chinese market, including helping Mainland Chinese companies raise capital internationally, assisting Mainland Chinese enterprises as they globalise, becoming the preferred place for Mainland Chinese enterprises to set up their overseas head offices, becoming the default offshore RMB centre and serving the financial needs of the 100 million+ people in the Pearl River Delta. In order to achieve an increasing share of these activities, Hong Kong should seek to play a role in the development roadmap of

Mainland China's financial services sector, especially in major areas such as opening up of the capital account, internationalisation of the RMB, and the increasing of funding channels for enterprises.

- (II) ***Strengthen our core competencies and develop new areas.*** Hong Kong should strengthen its current position in the asset management and private banking sectors, and develop more depth in areas such as fixed income, FX, commodities, corporate treasury, REITs and risk management. Developing a broader and deeper array of asset classes will reduce our dependence on equities and build more resilience for our sector overall.



## **Enablers**

25. In order to capture the emerging opportunities in the face of competition, Hong Kong must strengthen the financial services sector to improve its long-term competitiveness. The four key enabling components include: a sustainable talent

model, an attractive home for talent, a regulatory framework commensurate with international competitiveness and market promotion of the Hong Kong brand.

**(III) *Develop sustainable talent model*** by establishing closer connection between the industry and the tertiary education sector in terms of curriculum development, so that graduates of our universities as well as practitioners already in the industry would be equipped to meet the continuous demand as our market develops.

**(IV) *Improve Hong Kong's living quality and maintain Hong Kong's attractiveness as a home for talent*** by strengthening the collaborated efforts of different Government bureaux to address the longstanding concerns on insufficient international school places, rental and property prices, and air quality.

**(V) *Strike balance between market development and financial stability*** by reviewing our regulatory framework and approach to ensure that our regime is commensurate with the development of the global financial markets, and remove obstacles in order to maintain Hong Kong's international competitiveness, without compromising the regulatory standard.

**(VI) *Step up market promotion of the Hong Kong brand*** both internationally and in the Mainland. Better coordination among different entities currently engaging in promoting Hong Kong would ensure that the impact of these efforts are optimised under the banner of the "Hong Kong Inc.".

## **Foundation**

26. In order to realise the vision and benefit from the market opportunities outlined above, it is crucial for the Government, the industry, the regulators, and the community to work together for the long-term benefit of Hong Kong.

**(VII) *Achieve Government, industry, and community alignment and buy-in.*** The array of figures set out in section 1 vividly demonstrated how the robust growth in the financial services sector would provide opportunities not only for people working in the sector but would also bring knock-on benefits to the wider economy and society. Sustainable development of the sector therefore would enhance the competitiveness of Hong Kong's economy and the general welfare of the society. Hence, the Government's vision and action plan should be aligned internally across all bureaux and departments, including non-financial services related bureaux such as education, environment and housing. At the same time, gaining buy-in from the public and the media is also critical to the smooth approval and implementation of any initiatives.

## SECTION 3 – INITIATIVES FOR HONG KONG’S FINANCIAL CENTRE STRATEGY

27. In section 2, we laid out the framework for Hong Kong’s financial centre strategy along the four layers of building blocks. In this section, we lay out the themes, rationale and objectives of potential initiatives. Many of these are not new - we recognise that some of these initiatives are already underway in some form. EXHIBIT 9 below provides a high-level summary of how these themes and initiatives would fit into the building blocks while further elaboration is set out in the section.

### **(I) Seek a prominent role in emerging Mainland opportunities**

#### ***Maintaining our dominance as the most important offshore RMB centre***

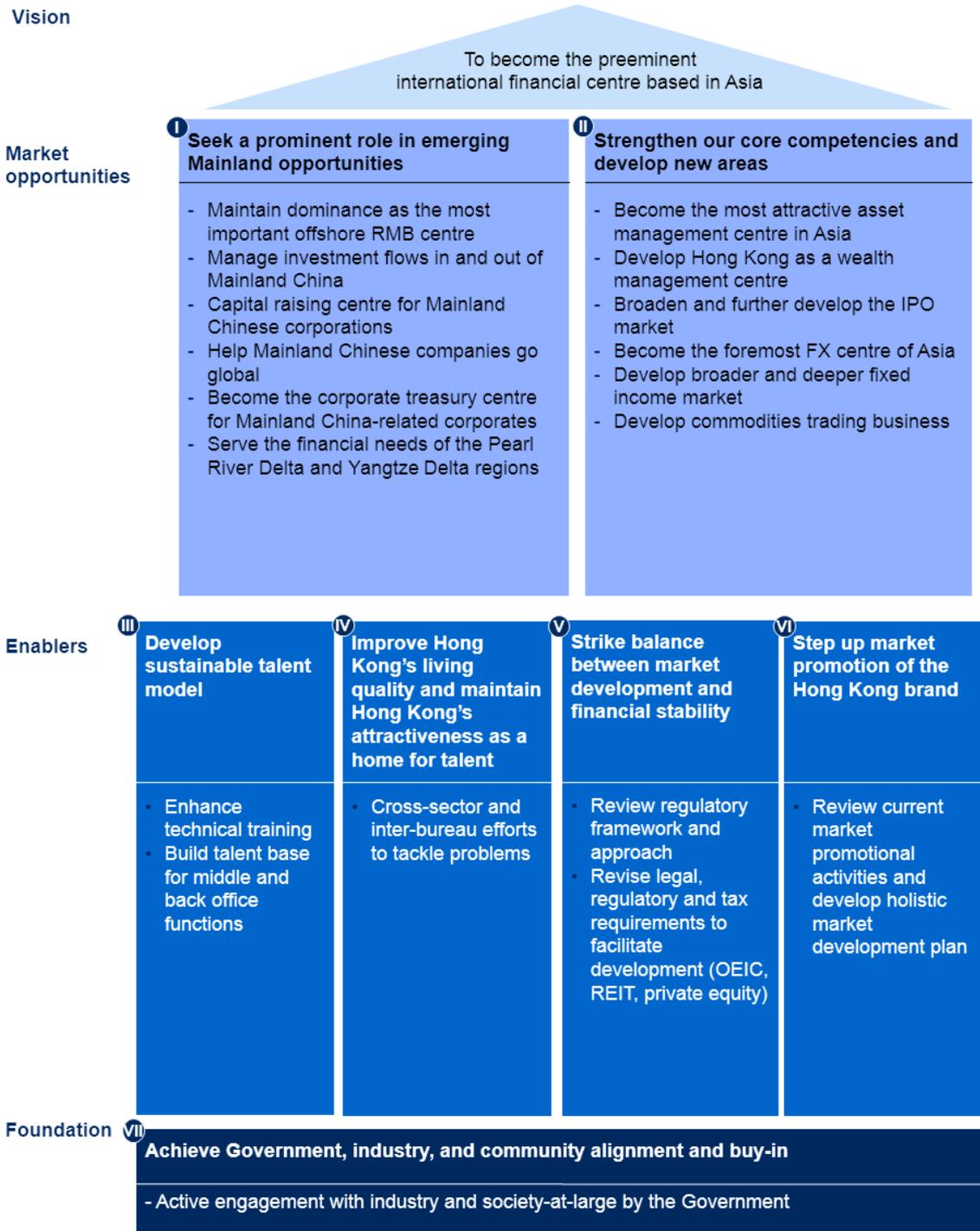
28. In the 12<sup>th</sup> Five-Year Plan announced in 2011, the Central Government expressed its intent and support for Hong Kong’s role as an offshore RMB centre. Since then Hong Kong has developed into the premier RMB offshore centre in the world, with banks in Hong Kong handling about 80% of RMB settlement that are conducted with the Mainland and among the offshore market globally. Hong Kong should continue to work with Mainland authorities to expand and deepen the opportunities for Hong Kong in RMB trade (e.g., encouraging more companies to use RMB trade settlement services in Hong Kong), financing (e.g., fixing of CNH Hong Kong Inter-bank Offered Rate (“HIBOR”) to provide a benchmark for loan facilities of tenors beyond one year), and investing (e.g., broadening the product types which could be invested through the RMB Qualified Foreign Institutional Investors (“RQFII”) scheme).

29. Only by continuously increasing the market depth and product range, especially for non-trade related financial products, can Hong Kong maintain our leading position in the rapidly expanding offshore RMB market. At the same time, financial institutions should make good use of our “first mover advantage” and develop more RMB products to meet diversified market demands, to build up a

critical mass of liquidity, and to establish Hong Kong firmly as the dominant primary and secondary market for RMB investments.

EXHIBIT 9

**Strategy for Hong Kong's financial services centre - initiatives**



### ***Managing investment flows in and out of Mainland China***

30. With our natural advantage as the predominant gateway between Mainland China and the world, Hong Kong should aim to capture a lion's share of both the money flows going out of Mainland China (e.g., Mainland Chinese enterprises investing abroad, as well as individuals investing abroad through potential Qualified Domestic Individual Investors ("QDII2") scheme), and the money flows going into the country (e.g., foreign investors investing into Mainland through the RQFII scheme or listed A-share exchange traded funds in Hong Kong). In this regard, Hong Kong should continue to work with Mainland authorities to increase investment quotas, relax investment restrictions as the conditions allow, and enlarge the range of participating entities to expand the pool of investment flows going through Hong Kong.



### ***Capital raising centre for Mainland Chinese corporations***

31. Since the first H-share listing of Tsingtao Brewery in 1993, Hong Kong has been one of the most preferred destinations for large Mainland Chinese enterprises looking to access foreign capital via IPO. Hong Kong should consolidate

our position as the premier international capital raising centre for Mainland Chinese companies, both state-owned and private, by ensuring that our listing regulations are competitive, while maintaining our quality standard.

### ***Helping Mainland Chinese companies go global***

32. In recent years, Mainland Chinese companies are increasingly looking to conduct acquisitions overseas to expand their business and attain global recognition. A number of prominent Mainland Chinese companies such as Haier and Sany have been successful in cross border transactions which enhanced their businesses. However, not all acquisitions have gone smoothly, mainly due to unsatisfactory execution or sensitive political and cultural issues involved in cross-border transactions. In this regard, Hong Kong professionals have a wealth of experience in international mergers and acquisitions (“M&A”) and are familiar with Western culture and business practices. Hong Kong is well-positioned to play a role to assist Mainland Chinese corporations in their “going out” efforts.

33. Many multinational companies have regional head offices in different geographical areas for their international operations. Due to the availability of global and local talent, expertise, and support infrastructure, Hong Kong is an attractive place for establishing regional head offices. According to the Census and Statistics Department, as of 2012, over 1,300 multinational companies have set up their regional head offices in Hong Kong. Similarly large Mainland Chinese enterprises may find a need to do the same as their business expands overseas, and Hong Kong would be the natural place for them to set up their overseas head offices.

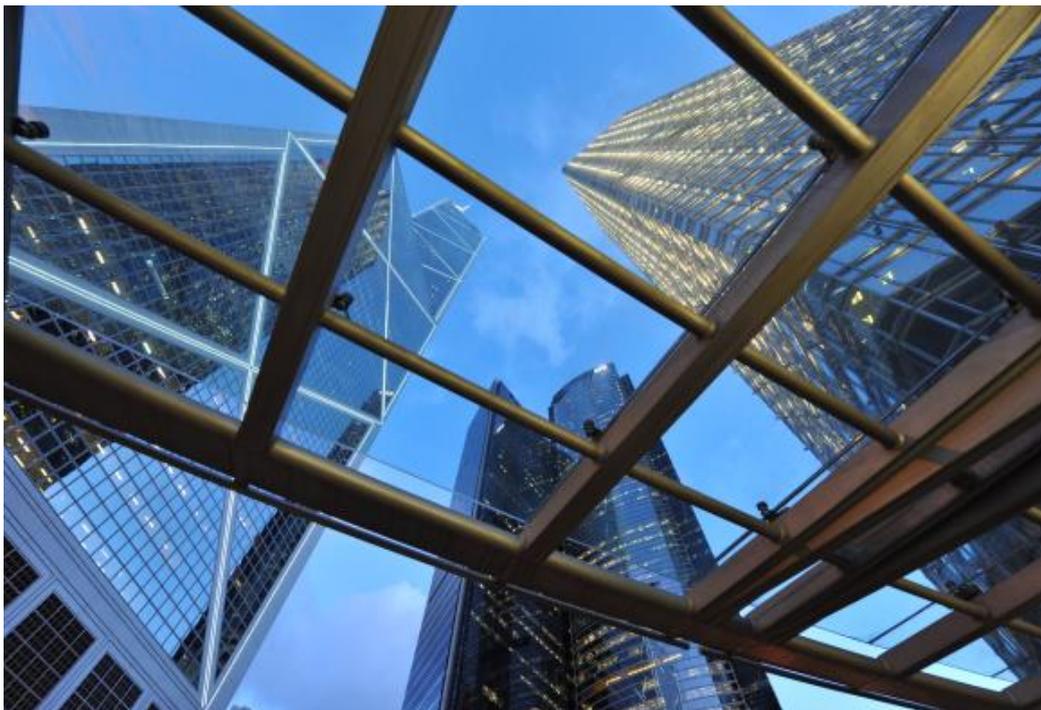
### ***Becoming the corporate treasury centre for Mainland China-related corporates***

34. Over the last two decades, the corporate treasury market business for multinational companies in Asia has been captured by other regional centres such as Singapore. Today, as the leading offshore RMB centre, Hong Kong has a window to re-establish ourselves as the Asian corporate treasury hub. Hong Kong should

reach out and attract companies looking to conduct business in the Mainland or gain exposure to Mainland-related RMB growth, which include companies from the Mainland and around the world. The Government should consider favourable policy measures to support such move.

***Serving the financial needs of the Pearl River Delta and Yangtze Delta regions***

35. In the last two decades, the economies of Hong Kong and Pearl River Delta have become increasingly connected. The Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”) has born fruits of closer cooperation over the past 10 years. Serving the financial needs of the 100 million+ people in the Pearl River Delta region would be a huge opportunity for Hong Kong. Likewise, there is tremendous development potential for the Yangtze Delta Region evolving around Shanghai and its newly established Free Trade Zone. The potential for retail and commercial banking as well as private equity and venture capital are enormous. Hong Kong is currently “under-serving” this opportunity and should establish closer ties with both Delta regions across businesses in the financial services sector, expand CEPA, and explore the different partnership possibilities in Qianhai and the Shanghai Free Trade Zone.



## **(II) Strengthen our core competencies and develop new areas**

### ***Becoming the most attractive asset management centre in Asia***

36. Hong Kong is recognised as a premier asset management centre by investors around the world. However, even as the largest asset management centre in Asia, Hong Kong still has much room for growth. Currently Hong Kong is mainly a sales and distribution centre for funds. Of the more than 1,800 funds authorised in Hong Kong, only around 300 are domiciled in Hong Kong while most are domiciled in Europe or the Cayman Islands. There are a few reasons for this.

- Stringent rules in the Companies Ordinance mean that all open-ended funds domiciled in Hong Kong take the form of unit trusts. However, many fund managers prefer the open-ended investment company (“OEIC”) structure for its flexibility and convenience.
- For private equity funds, there exists tax uncertainty which is a major issue for fund managers.
- The approval process for new funds or even prospectus updates is substantially longer and more tedious in Hong Kong compared to some jurisdictions.

37. To address the challenges and develop Hong Kong as a centre for fund domicile, we believe it is critical that the Government establish a framework for OEIC and create a clear and favourable tax environment for funds (please refer to paragraph 60 for more details of these two initiatives). We also believe if the Government could agree on the mutual recognition of funds with the Mainland regulators and allow for collective investment funds from Hong Kong and the Mainland to be sold to investors in both markets, it would be a game changer which could greatly increase the number of funds domiciled in Hong Kong, as well as help improve the asset management industry in the Mainland.



38. Strengthening the asset management industry and attracting more funds to domicile in Hong Kong would have a large employment impact – it has been estimated that around five additional jobs in middle and back offices could be created from every front office fund manager job. These types of jobs, including fund administration, fund accounting, trade support, custodian, settlement, and compliance etc., would offer young graduates from local universities the opportunity as a first step to start their careers in the financial services industry.

***Developing Hong Kong as a wealth management centre***

39. By 2015, Asia is expected to become the world’s second largest wealth management market, with Mainland China expected to drive about 50% of Asia’s growth. According to the Chinese Luxury Consumer White Paper 2012 published jointly by the Industrial Bank and the Hurun Report, there are 2.7 million high-net-worth individuals (“HNWI”) in the Mainland with personal assets of more than RMB 6 million and 63,500 ultra-high-net-worth individuals with assets of more than RMB 100 million. As a strategically important location preferred by many Mainland Chinese HNWI, Hong Kong has the ability to capture this huge wealth management

opportunity with wide product range and services. However, competitors are also moving fast in this area. There is a need for Hong Kong to improve our regulatory framework and talent supply in this area if we are to maintain our lead in the long-term.

40. We suggest the Government to leverage the expertise of the recently established Private Wealth Management Association (“PWMA”) and accelerate the efforts to resolve two important issues in the industry. Firstly, a unified definition for the private wealth management client should be agreed upon by regulators and market participants, coupled with the introduction of a set of principle-based guidelines tailored to the industry to supplement current rules and regulations. This would enable private banks to operate under business practices more suitable for HNWI than for retail customers, such as a more relationship-based advisory model with different compliance requirements. Secondly, a set of private wealth management competency standards in terms of product knowledge and advisory approach should be introduced for private wealth management professionals to ensure the professionalism of our practitioners. These initiatives would enhance Hong Kong’s attractiveness as a wealth management centre.



### ***Broadening and further developing Hong Kong's IPO market***

41. In the past decade, Hong Kong has consolidated its position as one of the top IPO markets in the world, having consistently been ranked in the top five globally for IPO fundraising. However, much of the success of the Hong Kong's equity market is attributed to Mainland business. Over the past five years, 59% of IPO funds raised and 70% of the daily turnover on the HKEx were attributed to Mainland companies. There had only been a few major listings from companies outside of the Mainland. To increase the international nature of our listed companies, the HKEx has increased its efforts to attract and facilitate more overseas listings by simplifying the current regime. Meanwhile, the HKEx should also strengthen its efforts on promotion of IPOs in both the overseas and Mainland markets.

42. To complement the efforts of the HKEx and the Securities and Futures Commission, the FSDC will also conduct an in-depth study into issues hampering the Hong Kong IPO market, including an overly retail-oriented regulatory mindset, the difficulty of cross-border enforcement, distortive and less than desirable IPO practices, the absence of scripless trading, etc. We aim to come up with concrete measures to enhance the listing framework and infrastructure in order to develop Hong Kong into a truly international IPO centre.

### ***Becoming the foremost foreign exchange centre of Asia***

43. As of April 2013, Hong Kong is ranked 3<sup>rd</sup> in Asia, behind Singapore and Japan, and 5<sup>th</sup> in the world in total FX turnover with USD 275 billion average daily net turnover according to data from the Bank for International Settlement. While the United Kingdom (USD 2,726 billion) and the United States (USD 1,263 billion) are undisputedly the largest FX centres in the world and significantly larger than Hong Kong, Singapore (USD 383 billion) and Japan (USD 374 billion) are each about 40% larger than Hong Kong. As in other areas, Hong Kong's potential lies in acting as a vital link between the Mainland Chinese and global markets. With the

internationalisation of RMB, the breadth and depth of the offshore RMB market will continue to grow, RMB denominated assets will become more plentiful in the future, and the demand for CNH is expected to increase rapidly. Investors will look to source the currency for investment, risk management, and trading purposes. A multitude of RMB-related FX products such as forwards, FX options, interest rate swaps, cross currency swaps, and structured notes have emerged in recent years to facilitate those needs. Hong Kong, as the predominant offshore RMB centre and natural gateway into the Mainland Chinese market, is in a unique position to capture those FX opportunities.

### ***Developing a broader and deeper fixed income market***

44. Hong Kong's fixed income market has always been relatively weak, especially when compared to the equities market. Our bond market is still in a developing stage and liquidity, with outstanding amount of debt securities of USD 261 billion, is far lower than the major bond markets such as the United States (USD 35,155 billion outstanding) and Japan (USD 14,592 billion outstanding). There are several reasons why many of our companies prefer to raise capital in ways other than debt. Firstly, for companies wanting to raise HKD, there is no reliable yield curve for HKD debt as a reference for issuers due to limited Government issuance, and high swapping costs to HKD deters issuance of USD debt for this purpose. Secondly, a lack of credit rating presence and expertise has also discouraged investment in regional and local company debt.

45. Despite these hurdles, however, the bond market has a strong catalyst going forward in the budding dim sum bond market. RMB bond issuance in Hong Kong has grown rapidly from only RMB 10 billion in 2007 to RMB 112 billion in 2012, an increase of more than tenfold in five years, and is expected to continue to increase. Hong Kong should ride on this growth and attract a critical mass of fixed income traders, buyers, and issuers. Together with the ongoing Government Bond Programme, this would form a solid base for Hong Kong to develop into an internationally recognised fixed income market.



### ***Developing commodities trading business***

46. Fueled by rapid urbanisation and economic growth in the past decades, Mainland China has been one of the largest commodities consumers in the world. According to the International Monetary Fund, as a percentage of global production, Mainland China's consumption in 2010 accounted for about 40% of base metals, 23% of major agricultural crops, and 20% of nonrenewable energy resources. Hong Kong, while historically not a commodities trading centre, has the opportunity to develop in this strategically important area for Mainland China. The acquisition of the London Metal Exchange ("LME") by the HKEx in 2012 has placed Hong Kong strategically in this business. The LME has more than 80% market share in the global trading of non-ferrous metals. By making the market more accessible and attuned to the needs of Mainland Chinese and local Hong Kong investors, including introducing Asian time zone price discovery and clearing, LME would help Hong Kong's effort to develop as a commodities trading centre.

47. To further enhance the commodities business and capture opportunities in the Mainland, the HKEx may wish to leverage the LME platform to collaborate and partner with Mainland commodities exchanges to increase trading volumes, as well as to develop the essential logistics and warehousing infrastructure to facilitate the

physical trading of commodities. The HKEx may also wish to expand the current LME offering from metal products to include other commodities in order to create a comprehensive commodities platform.

### ***Other potential opportunities***

48. Other areas which Hong Kong could explore include marine financing, reinsurance, venture capital, securitisation etc. Thorough study and analysis would be needed in order to determine the feasibility of these potential new businesses, which would further reduce our reliance on equities.

## **(III) Develop sustainable talent model**

### ***Enhance technical training***

49. In the past few decades, Hong Kong has been successful in luring the best talent from around the world. Hong Kong should continue our open stance towards talent attraction. While attracting foreign talent should remain a key part of our proposition, we believe there is also a need to develop talent locally in Hong Kong in a sustainable manner in order to create talent capacity for the opportunities ahead.



50. Other neighbouring jurisdictions have been able to groom and train young talent through collaboration among the governments, regulators and financial institutions. There are government sponsored programmes for individuals, as well as for companies to send employees, to undertake further study or training in specific areas of expertise and targeted fields such as quantitative finance, risk management, actuarial science and applied finance. Market participants often work closely with, and in some cases sponsor courses at universities and institutions. Such efforts have been successful in providing a pipeline of local professionals and strengthen the core of the financial services sector.

51. Hong Kong's local talent challenge is two-fold, with obstacles facing both fresh graduates and mid to senior level executives. On the one hand, there is a mismatch between demand and supply for local graduates in the financial industry, notably in the middle and back office segments. There is a rapidly rising need for talent in functions such as fund administration and compliance to support business growth and changing regulations, however there is a lack of qualified graduates to fill these roles. On the other hand, there is an under-representation of homegrown talent at the top level of financial institutions in Hong Kong. Compared to many expatriates, homegrown mid to senior level managers often lack broad management experience which limits their career progression.

52. The talent gap in the middle to back office and the limited employment opportunities for university graduates are challenges that can be easily addressed. The solution lies in much closer collaboration between the industry and the tertiary education sector in curriculum design. At the same time financial firms could partner with universities by providing experienced personnel to conduct practical training in middle and back office functions such as fund administration, fund accounting, trade support, custodian, settlement, and compliance. To demonstrate its commitment in developing local talent, the Government may consider providing funding support for some of these initiatives.

53. By building closer ties between the industry and the tertiary education sector, we could help equip graduates with the appropriate practical skills to pursue a career in financial services and at the same time ensuring Hong Kong has a steady supply of qualified personnel in the sector.

54. To ensure that our education system would equip our graduates with relevant basic knowledge, the ability to work in a globalised world and the quality to step up to top positions at financial institutions, we suggest our tertiary education curriculum to include courses that would broaden students' perspectives beyond Hong Kong. An understanding of Hong Kong and Mainland China's position in the global context would give graduates the right mindset, especially if they wish to consider a career in the financial services sector. Furthermore, emphasis on leadership, problem-solving, and soft management skills are also important to prepare graduates with career advancement abilities. Another aspect worth considering is providing grants and scholarships to promote underdeveloped areas such as financial journalism, which plays a role in improving investor education in the community.



### ***Build talent base for middle and back office functions***

55. With a pipeline of qualified middle and back office personnel, Hong Kong could consider developing areas of expertise in certain higher-value middle and back office functions, such as fund services and risk management, where Hong Kong would have a concentration of professionals and set the standard for the region. In addition to creating job opportunities for aspiring local talent, this would also strengthen the financial ecosystem of Hong Kong and increase our attractiveness as an international financial centre.

### **(IV) Improve Hong Kong's living quality and maintain Hong Kong's attractiveness as a home for talent**

56. As discussed previously, Hong Kong's ability to attract talent from around the world is one of our core strengths as a world-class financial centre. A low personal tax rate together with efficient infrastructure and a vibrant lifestyle has made Hong Kong one of the most preferred destinations in Asia for Mainland and overseas professionals. However, in recent years well-documented challenges have arisen in areas such as schooling, housing cost, air quality, and cultural offerings, which have made Hong Kong less attractive as a home. These are important problems which the Government needs to have a cross-sector and inter-bureau efforts to tackle in order to improve the living environment for our citizens and at the same time maintain Hong Kong's attractiveness as a desirable place for global professionals.

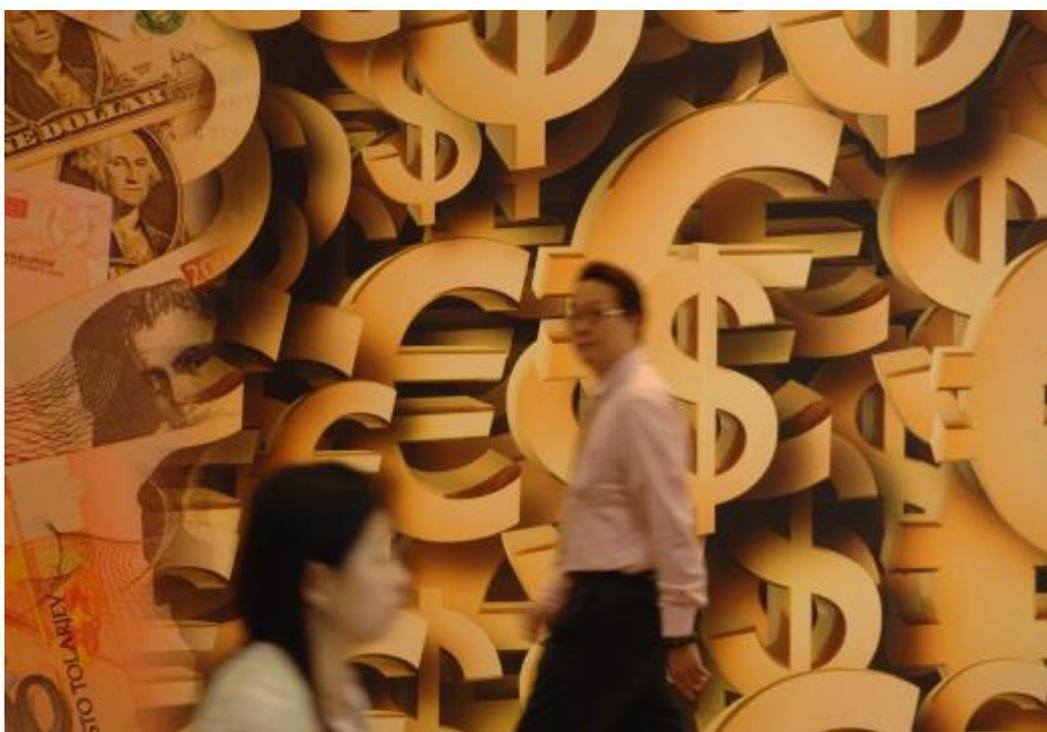
### **(V) Strike balance between market development and financial stability**

#### ***Review regulatory framework and approach***

57. Hong Kong has always had a sound and effective financial regulatory regime, which has served the sector well in terms of protecting investors, upholding market integrity, and ensuring financial stability. Hong Kong has also been a good global

regulatory citizen and our regulators have been responsive to international requirements. However, many market participants believe that there is room for the current regulatory approach to be refined and improved.

58. Market participants have expressed the view that based on their experience, compared with counterparts in major financial centres, the attitude of Hong Kong regulators is less responsive to new product innovation and market development. For example, participants in the fund management industry have expressed that the time needed to obtain a new fund prospectus approval is usually much longer in Hong Kong compared to Luxemburg and other places. While efforts are being directed to streamlining the process and procedures, regulators have also expressed concerns for the quality of fund documentation. We believe that an open dialogue between regulators and market participants on this point would be helpful in addressing the concerns on both sides and reaching a more efficient solution.



59. Market participants are also of the view that regulators in Hong Kong are less flexible, encouraging and facilitating than some of our competitors. Such attitude and market perception often influences companies' decision on where to

conduct business. While keeping Hong Kong's high standard of market integrity is critical to our status as a respected international financial centre, the Government and regulators should also be willing to listen to changing market needs. In this regard, we believe there needs to be a continuing discussion between the Government, the regulators, and market participants to identify areas for market facilitation and development without compromising our standard.

***Revise legal, regulatory and tax requirements to facilitate development***

60. Apart from the regulatory framework and approach, market participants have also identified legal, regulatory and tax requirements in several areas to look into with a view to coming up with policy recommendations on removing impediments and fostering new business in some key markets of our financial services sector.

- Fund management: Currently, all open-ended funds domiciled in Hong Kong are only allowed in the form of unit trusts, which are less flexible and more complex than OEICs, the preferred investment vehicle for many fund managers. As a direct result, many funds choose to domicile in other jurisdictions where OEICs can be set up instead of Hong Kong. To establish Hong Kong as a centre for fund domicile, in addition to being a sales and distribution centre, we believe the Government should review the existing legal, tax, and regulatory framework to create attractive conditions for setting up OEICs in Hong Kong compared to other global investment fund centres while at the same time ensuring an equally high level of investor protection and governance.
- REIT: Being an international financial hub and home to many world-class property developers, Hong Kong has the prerequisites to become a thriving REIT market. However, with only ten REITs currently being listed, the growth of our REIT market has substantially lagged behind those in the region. While the lack of demand may be due to poor post-IPO price

performance of some REITs, the restrictiveness in the current regulatory requirements have dampened the incentive of potential issuers. To develop our REIT market and enhance Hong Kong's competitiveness, we suggest making amendments to the current REIT regulations in the areas of investment, tax, development, and takeover.

- Private equity: In the Government's 2013-14 Budget it was announced that the current offshore funds tax exemption (the Safe Harbour rule) would be extended to private equity funds. We believe that this change would have a significant positive impact on further developing Hong Kong as a private equity hub, as fund managers would no longer have to face tax uncertainty and follow arduous operational protocols to minimise that risk, hence should be implemented as soon as possible.

#### ***(VI) Step up market promotion of the Hong Kong brand***

61. Market promotion is an integral part of the advancement of Hong Kong as an international financial centre. Current market development efforts are carried out by many stakeholders, including the Hong Kong Monetary Authority, the Hong Kong Association of Banks, the Hong Kong Trade Development Council, InvestHK, the HKEx, together with senior Government officials. These activities have generally been well received overseas. However, many market participants believe that we are "punching below our weight" and that Hong Kong should step up our promotion efforts significantly. It is believed that promotional efforts could be aligned more strategically and coordinated in terms of the types, timing, and coverage as well as a consistent core message from the "Hong Kong Inc."

62. The FSDC has been working closely with the Financial Services and the Treasury Bureau in reviewing current market promotional activities and assisting in the process of developing a holistic market development plan for the "Hong Kong Inc.", as well as participating actively in these promotional activities. In particular, consideration will be given to broaden our promotion coverage to include Asian

and other developing markets which have growing opportunities (e.g. Middle East and Latin America). Also important is for our promotional message to articulate Hong Kong's role and position in the global financial world and reflect our overall strategy of the financial services sector under the banner of the "Hong Kong Inc.".



***(VII) Achieve Government, industry, and community alignment and buy-in***

63. For any initiatives to be successfully implemented and achieve the desired impact, buy-in and commitment from all stakeholders is critical. At the same time, it is important to enhance efforts at the government-to-government level. The Government would also need to engage with the broader society-at-large, including all the players in the industry, the general public, and the media, to ensure that the important role and contribution of Hong Kong's financial services sector to the Hong Kong economy is understood and appreciated. It is especially critical that Hong Kong's role as an international financial centre is seen as relevant for our next generation in order to gain public support for the resources needed in the future development of the sector.

## CONCLUSION

64. This paper aims to provide a framework for the Government's consideration in positioning Hong Kong as a preeminent international financial centre and to assist the Government in developing proposals to achieve that goal. We are encouraged by the enthusiastic participation of industry participants, regulators, and academics in the formulation of this framework. We intend this paper to be candid in reflecting the collective views of our market participants and the deliberation of FSDC members. We recognise that some of the ideas in the paper are in their primitive stage, and would require further analysis and validation. We also recognise that the Government may have other policy objectives and priorities in considering our proposals.

65. Should the Government find them acceptable, a few of the proposals outlined in this paper may be ready to be implemented within the next several months, whereas others will take a longer timeframe. The five committees established under the FSDC are developing detailed initiatives for some of the proposals. We will submit them to the Government as they become ready.

66. The FSDC will continue to play its role as a high-level and cross-sector platform for exchanging ideas on solidifying Hong Kong's strength and fully leveraging opportunities in the financial services sector. We will continue to address essential issues in the sector and deliberate on ways to respond to the challenges in developing the sector to the benefit of the wider Hong Kong economy. We welcome feedback from industry and the public on any topics mentioned in this paper, and we look forward to opportunities to collaborate with stakeholders in formulating proposals to promote the further development of our sector and map out its strategic direction.







## **About the Financial Services Development Council**

The Hong Kong SAR Government announced in January 2013 the establishment of the Financial Services Development Council (FSDC) as a high-level and cross-sector platform to engage the industry and formulate proposals to promote the further development of Hong Kong's financial services industry and map out the strategic direction for development. The FSDC advises the Government on areas related to diversifying the financial services industry, enhancing Hong Kong's position and functions as an international financial centre of our country and in the region, and further consolidating our competitiveness through leveraging the Mainland to become more global.

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