

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the first quarter of 2013 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar exchange rate moved within a narrow range against the US dollar during the quarter. Meanwhile, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose along with the strengthening of the US dollar against most major currencies.*
- *Total loans and advances continued to expand at a modest pace in the first quarter, mainly led by the growth in foreign currency loans. On the other hand, total deposits grew at a decelerated pace.*
- *The local stock market had a volatile performance in the first quarter. After a strong start on entering the year, the stock market experienced a correction since February, triggered by renewed concerns over the eurozone debt crisis and looming monetary tightening in the Mainland. The Hang Seng Index edged down by 1.6% from end-2012 to 22 300 at end-March. Trading activities picked up further in the first quarter while fund raising activities remained subdued.*

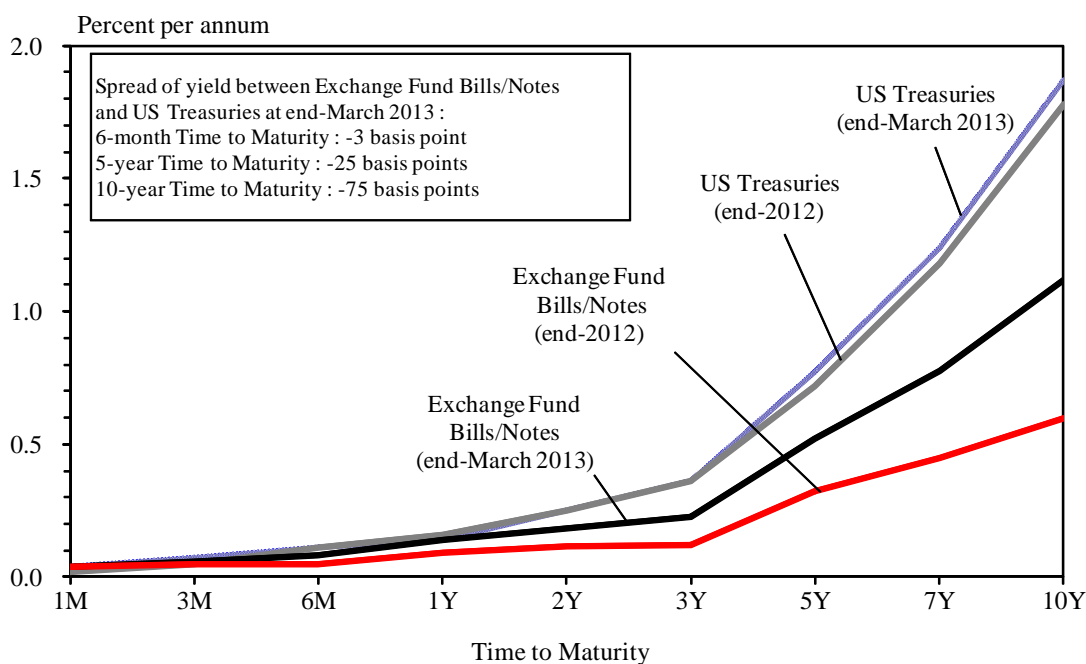
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first quarter of 2013 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate unchanged at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5% through the quarter⁽¹⁾. The *Hong Kong dollar interbank interest rates* also hovered at low levels. The overnight and three-month HIBOR edged down from 0.10% and 0.40% at end-2012 to 0.08% and 0.38% respectively at end-March 2013.

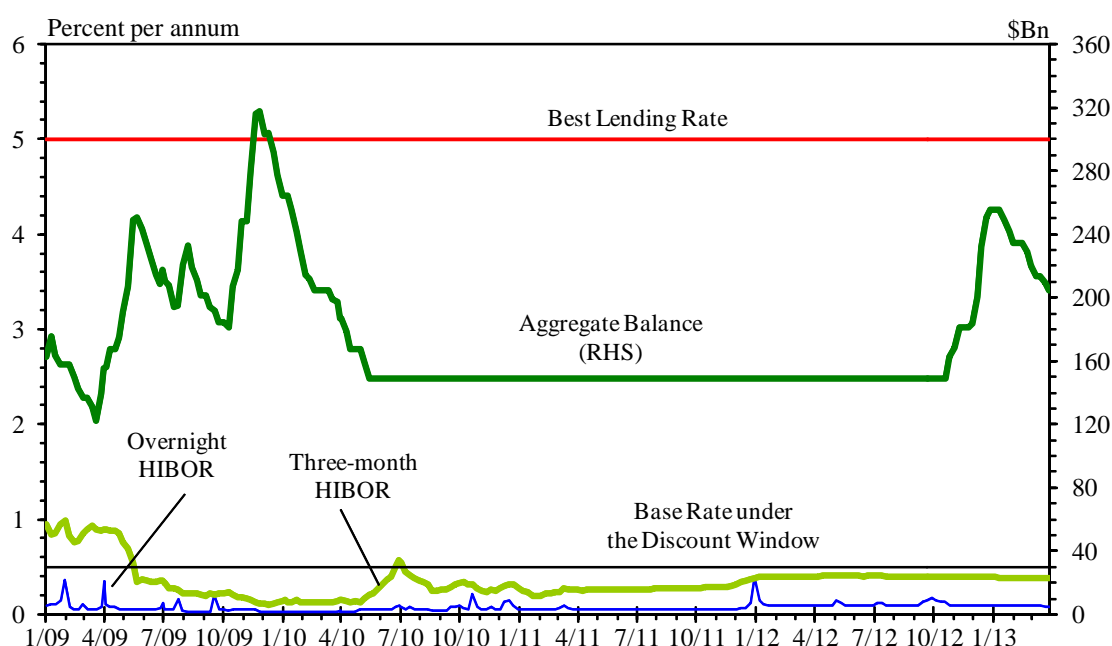
4.2 The *Hong Kong dollar yields* at the longer tenor showed a rebound during the first quarter, while those at the short tenor remained generally stable. Meanwhile, the *US dollar yields* only edged up slightly. Reflecting these movements, the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes narrowed noticeably from 118 basis points at end-2012 to 75 basis points at end-March 2013, while that between 6-month Exchange Fund Notes and 6-month US Treasury Bills declined marginally from six basis points to three basis points.

Diagram 4.1 : The Hong Kong dollar yields showed a rebound at the longer tenor while the US dollar yields edged up



4.3 Interest rates on the retail front remained steady at low levels. The *Best Lending Rates* were held unchanged at 5.00% or 5.25% in the first quarter. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 stayed at 0.01% and 0.15% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for banks, declined further from 0.32% at end-2012 to 0.25% at end-March 2013.

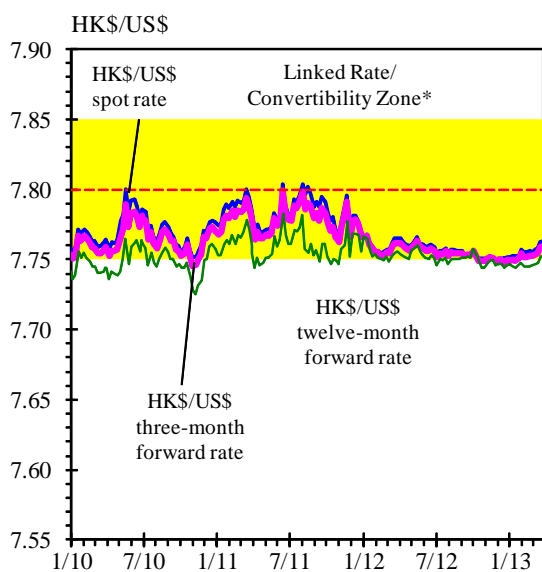
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.751 to 7.763 against the US dollar in the first quarter. It closed at 7.762 at end-March 2013, slightly softer than the 7.751 at end-2012. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* to the spot rate widened markedly from 20 and 47 pips (each pip equivalent to HK\$0.0001) to 35 and 110 pips respectively.

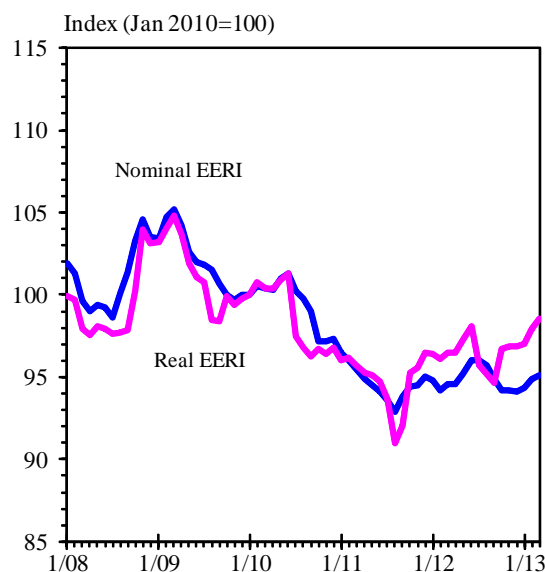
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most major currencies, especially the Japanese yen and pound sterling, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ rose by 1.1% and 1.8% respectively during the first quarter.

Diagram 4.3 : Hong Kong dollar moved within a narrow range against the US dollar (end for the week)



Note : (*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

Diagram 4.4 : Trade-weighted EERIs rose in the first quarter of 2013 (average for the month)



Money supply and banking sector

4.6 The monetary aggregates expanded at a decelerated pace in the first quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by a modest 3.8% over end-2012 to \$944 billion at end-March 2013, and the broad money supply (HK\$M3) edged up by 0.1% to \$4,549 billion⁽⁴⁾. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ rose by 0.7% to \$8,353 billion, within which foreign currency deposits grew modestly by 1.6% while Hong Kong dollar deposits declined by 0.3%.

Diagram 4.5 : The monetary aggregates expanded at a decelerated pace in the first quarter

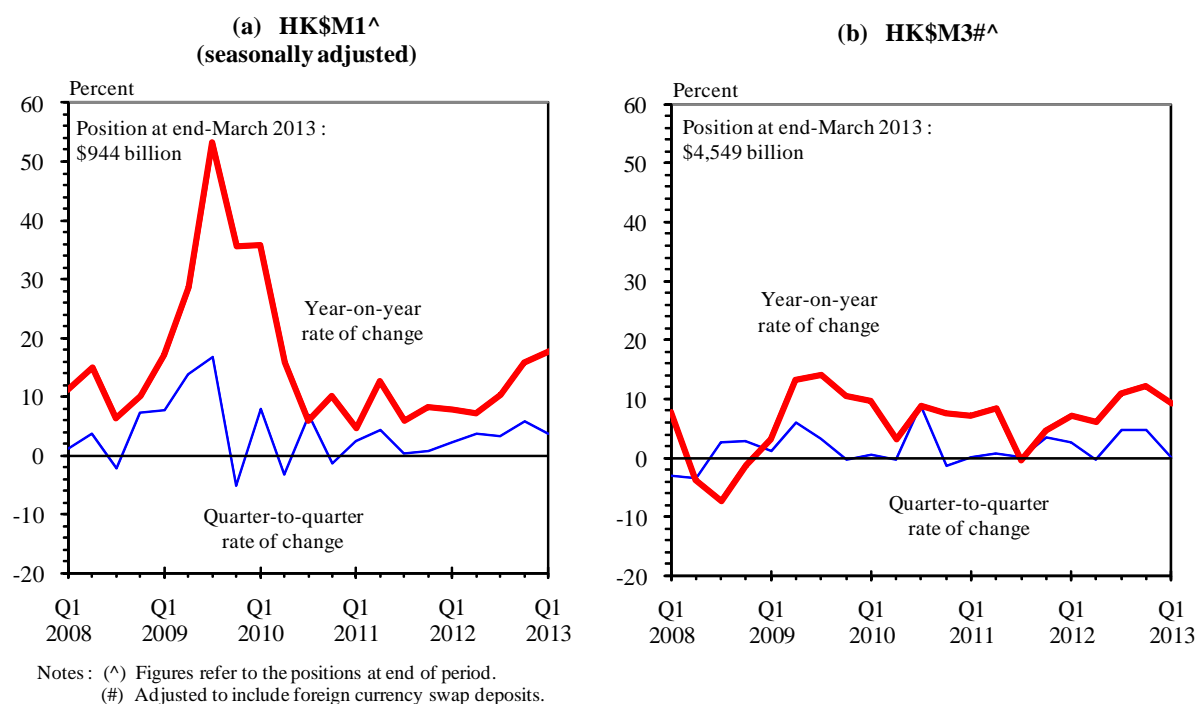


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2012	Q1	2.1	4.6	2.8	2.5	2.7	2.4
	Q2	3.6	3.2	-0.3	0.7	-0.3	0.7
	Q3	3.4	6.4	4.6	3.2	4.6	3.2
	Q4	5.8	6.4	4.6	4.3	4.7	4.3
2013	Q1	3.8	1.0	0.1	1.1	0.1	1.1
Total amount at end-March 2013 (\$Bn)		944	1,391	4,541	9,047	4,549	9,070
% change over a year earlier		17.7	17.9	9.2	9.5	9.2	9.6

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Total loans and advances continued to expand at a modest pace, by 3.1% over end-2012 to \$5,741 billion at end-March 2013. This was mainly led by a solid growth of 6.6% in foreign currency loans, with Hong Kong dollar loans only edging up by 0.8%. Reflecting the respective movements in deposits and loans, the loan-to-deposit ratio for foreign currency rose from 54.2% at end-2012 to 56.9% at end-March 2013, and that for Hong Kong dollar from 79.8% to 80.6%.

4.9 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II", or "Basel 2.5" following the enhancements issued by the Committee in 2009⁽⁶⁾), the capital adequacy ratio (CAR) of these institutions remained high at an average of 15.7% at end-2012. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.10 The HKMA has been implementing the Basel III framework⁽⁷⁾ since 1 January 2013 in accordance with the transitional timetable set by the Basel Committee, and the standards set out in the framework are expected to be fully phased in on 1 January 2019. The first phase of Basel III standards, which covers revised minimum capital requirements based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong on 1 January 2013 with the Banking (Capital) (Amendment) Rules 2013 coming into operation.

4.11 As regards disclosure requirements associated with the first phase of Basel III standards, in April the HKMA submitted the draft set of Banking (Disclosure) (Amendment) Rules 2013 to the Legislative Council for negative vetting, for taking effect on 30 June 2013 in accordance with the timetable set by the Basel Committee.

4.12 Based on the results of the local Implementation Monitoring Process on the Basel III consultative proposals conducted by the HKMA, AIs in Hong Kong are not expected to have much difficulty in meeting the higher capital requirements, given their track records of maintaining capital levels above the regulatory minimum, and that they are well-capitalised with common equity to meet regulatory capital requirements. Regarding the new liquidity standards, AIs in general are not expected to encounter major difficulties over the transition period, though some AIs may need to adjust their liquidity profiles or liquid asset composition to comply with the new requirements.

4.13 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans decreased from 0.50% at end-September 2012 to a record-low of 0.47% at end-2012. The delinquency ratio for credit card lending also edged down from 0.21% to 0.20%. Meanwhile, the delinquency ratio for residential mortgage loans retreated to 0.01% at end-March 2013.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans (gross)</u>
2011 Q1	98.17	1.17	0.66
Q2	98.20	1.19	0.61
Q3	98.21	1.19	0.60
Q4	98.28	1.13	0.59
2012 Q1	98.17	1.27	0.57
Q2	98.19	1.28	0.52
Q3	98.19	1.31	0.50
Q4	98.16	1.36	0.47

Notes : Due to rounding, figures may not add up to 100.

(*) Period-end figures relate to Hong Kong offices and overseas branches. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

4.14 Offshore renminbi (RMB) business in Hong Kong recorded further growth in the first quarter. *RMB trade settlement handled by banks in Hong Kong* surged by 45% over a year earlier to RMB831 billion in the first quarter. The total outstanding amount of *RMB deposits* and certificates of deposit issued rose by 13% over end-2012 to RMB812 billion at end-March 2013. Meanwhile, RMB financing activities remained solid. *RMB bond issuance* rose from RMB18 billion in the preceding quarter to RMB24 billion in the first quarter. The outstanding amount of *RMB loans* increased by 12% over end-2012 to RMB89 billion at end-March 2013.

4.15 In March the China Securities Regulatory Commission expanded the arrangement relating to RMB Qualified Foreign Institutional Investors (RQFII). This includes, amongst others, enlarging the types of institutions eligible for applying for RQFII and relaxing the investment restrictions of RQFII funds. The expansion would help broaden the circulation of RMB funds between Hong Kong and the Mainland and is conducive to the development of RMB business by Hong Kong banks and financial institutions.

Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

<u>As at end of period</u>		Demand and savings <u>deposits</u> (RMB Mn)	Time <u>deposits</u> (RMB Mn)	Total <u>deposits</u> (RMB Mn)	<u>Interest rates on</u> ^(a)		Number of authorized institutions engaged in RMB <u>business</u>	Amount of cross-border RMB <u>trade settlement</u> ^(c) (RMB Mn)
					Savings <u>deposits</u> ^(b) (%)	Three-month <u>time deposits</u> ^(b) (%)		
2012	Q1	156,788	397,528	554,317	0.25	0.52	135	571,176
	Q2	136,616	421,094	557,710	0.25	0.52	133	641,907
	Q3	118,997	426,703	545,701	0.25	0.52	136	716,946
	Q4	123,542	479,453	602,996	0.25	0.52	139	702,474
2013	Q1	144,314	523,744	668,058	0.25	0.52	140	830,955
% change in 2013 Q1 over 2012 Q1		-8.0	31.8	20.5	N.A.	N.A.	N.A.	45.5
% change in 2013 Q1 over 2012 Q4		16.8	9.2	10.8	N.A.	N.A.	N.A.	18.3

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.16 The Hong Kong dollar debt market continued to expand in the first quarter of 2013⁽⁸⁾. Total gross issuance of Hong Kong dollar debt securities rose by 4.2% over a year earlier to \$569.7 billion. Within the total, public sector debt issuance increased noticeably by 11.9%, mainly driven by the increase in the issuance of Exchange Fund paper. By contrast, private sector debt issuance plunged by 38.9%, with new debt issued by AIs registering a marked decline. At end-March 2013, the total outstanding balance of Hong Kong dollar debt securities rose by 5.8% over a year earlier to \$1,355.1 billion, equivalent to 29.8% of HK\$M3 or 24.7% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁹⁾.

4.17 As to the Government Bond (“GB”) Programme, the Financial Secretary announced in the 2013-14 Budget Speech the proposal to double its size from \$100 billion to \$200 billion, and to issue a third tranche of inflation-linked retail GB (i.e. iBond) of up to \$10.0 billion. Meanwhile, a total of \$7.0 billion institutional GBs were issued in the first quarter under three tenders, including \$1.5 billion of 10-year bonds in January, \$2.0 billion of

5-year bonds in February and \$3.5 billion of 2-year bonds in March. As at end-March 2013, the outstanding size of bonds issued under the GB Programme amounted to \$70.5 billion, including ten institutional issues for a total of \$50.5 billion, and two retail issues (iBonds) for a total of \$20.0 billion.

Table 4.5 : New issuance and outstanding value of Hong Kong dollar debt securities (\$Bn)

	Exchange Fund and paper	Statutory bodies/govern ment-owned c orporations	Government	Public sector total	Als	Local corpor ations	Non-MDBs overseas bor rowers ^(^)	Private sector total	MDBs ^(^)	Total
New Issuance										
2012 Annual	1,851.6	12.0	26.0	1,889.6	190.1	27.7	22.2	240.0	0.8	2,130.4
Q1	455.6	3.4	5.0	464.0	66.9	10.0	5.4	82.2	0.4	546.6
Q2	462.3	2.9	14.5	479.7	40.8	4.1	8.3	53.1	0.4	533.2
Q3	464.6	3.7	3.5	471.9	48.4	8.8	2.7	59.9	-	531.7
Q4	469.0	2.0	3.0	474.0	34.0	4.8	5.9	44.7	-	518.8
2013 Q1	508.9	3.5	7.0	519.4	32.5	11.6	6.1	50.3	-	569.7
% change in 2013 Q1 over 2012 Q1	11.7	2.1	40.0	11.9	-51.4	15.6	14.4	-38.9	-	4.2
% change in 2013 Q1 over 2012 Q4	8.5	70.8	133.3	9.6	-4.5	142.2	3.6	12.3	-	9.8
Outstanding (as at end of period)										
2012 Q1	655.9	50.6	51.0	757.5	250.7	102.3	157.8	510.8	12.4	1,280.7
Q2	656.4	46.8	65.5	768.8	245.4	104.8	151.4	501.5	10.6	1,280.9
Q3	656.8	45.8	65.5	768.1	258.4	112.1	150.7	521.2	10.6	1,299.8
Q4	657.4	45.2	68.5	771.0	263.4	116.2	147.7	527.3	10.3	1,308.6
2013 Q1	708.6	45.7	72.0	826.4	249.7	123.0	145.8	518.5	10.2	1,355.1
% change in 2013 Q1 over 2012 Q1	8.0	-9.7	41.2	9.1	-0.4	20.2	-7.6	1.5	-17.8	5.8
% change in 2013 Q1 over 2012 Q4	7.8	1.3	5.1	7.2	-5.2	5.9	-1.3	-1.7	-1.0	3.6

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

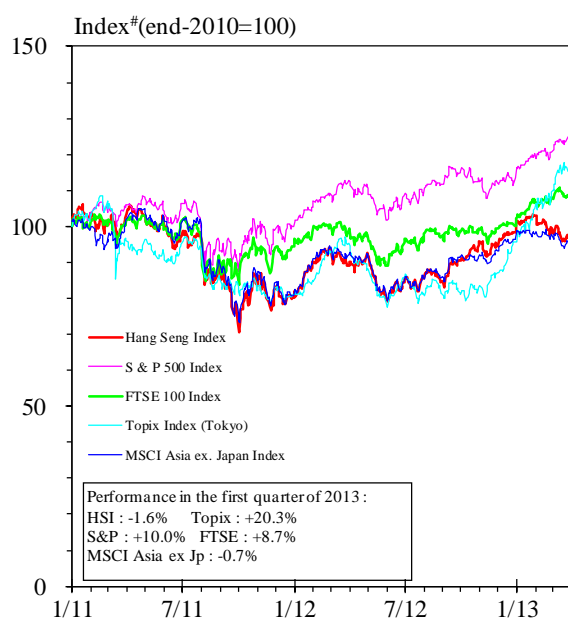
(^) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.18 The *local stock market* showed a volatile performance in the first quarter of 2013. The Hang Seng Index (HSI) had a strong start in January, and reached a high of 23 822 on 30 January. Yet it experienced a correction in mid-February, triggered by renewed concerns over the eurozone debt crisis and looming monetary tightening in the Mainland. The HSI edged down by 1.6% from end-2012 to 22 300 at end-March. Meanwhile, *market capitalisation* of the Hong Kong stock market, at \$22.0 trillion at end-March, was little changed from end-2012. According to the World Federation of Exchanges, it was the sixth largest stock exchange in the world and second largest in Asia⁽¹⁰⁾.

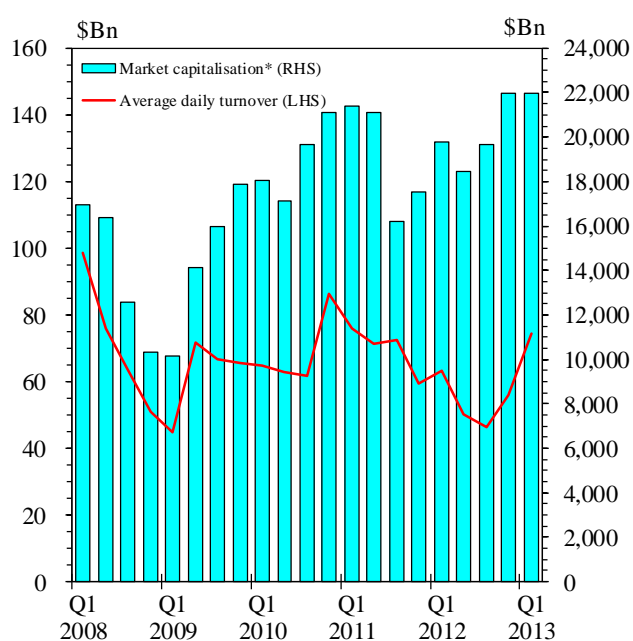
4.19 Trading activities picked up further in the first quarter. *Average daily turnover* in the securities market surged by 32.8% over the preceding quarter or 17.6% over a year earlier to \$74.4 billion. As to *derivatives products*⁽¹¹⁾, the average daily trading volume of futures and options rose by 9.7% over the preceding quarter. Analysed by products, trading of stock options, HSI options, H-shares Index futures and HSI futures all recorded gains, of 16.2%, 9.1%, 8.2% and 1.5% respectively. The average daily trading value of securitised derivatives products jumped by 42.5%, within which trading of derivative warrants and callable bull/bear contracts surged by 63.9% and 16.6% respectively.

Diagram 4.6 : The Hang Seng Index showed a volatile performance in the first quarter



Notes : (#) Position at end of month.

Diagram 4.7 : Market capitalisation was little changed while trading activities picked up further



Note : (*) Position at end of quarter.

Table 4.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options <u>traded</u> d*	Derivative warrants (\$Mn)	Callable bull/bear contracts (<u>\$Mn</u>)	Total securitised derivatives traded (<u>\$Mn</u>) [^]
2012	Annual	82 905	37 597	64 863	228 438	487 994	6,666	6,207	12,873
	Q1	84 278	35 475	63 286	238 445	493 555	8,621	7,612	16,234
	Q2	88 614	43 634	65 131	225 266	501 374	6,274	6,317	12,590
	Q3	77 549	36 050	60 055	211 479	454 782	5,558	5,748	11,307
	Q4	81 372	35 255	71 281	239 438	503 888	6,264	5,174	11,438
2013	Q1	82 570	38 464	77 111	278 115	552 686	10,268	6,032	16,301
% change in 2013 Q1 over 2012 Q1		-2.0	8.4	21.8	16.6	12.0	19.1	-20.8	0.4
% change in 2013 Q1 over 2012 Q4		1.5	9.1	8.2	16.2	9.7	63.9	16.6	42.5

Notes : (*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

(^) Comprising derivative warrants and callable bull/bear contracts.

4.20 Fund raising activities remained subdued. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, plunged by 48.7% from the preceding quarter or 9.3% from a year earlier to \$56.2 billion in the first quarter. Within the total, the amount of funds raised through initial public offerings plummeted by 82.1% from the preceding quarter to \$8.1 billion.

4.21 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March 2013, a total of 737 Mainland enterprises (including 175 H-share companies, 120 “Red Chips” companies and 442 private enterprises) were listed on the Main Board and GEM, accounting for 47% of the total number of listed companies and 56% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 72% of equity turnover and 83% of total equity fund raised in the Hong Kong stock exchange.

4.22 Following the earlier consultation, in March the Securities and Futures Commission (SFC) announced the consultation conclusions regarding the proposals to enhance the regulatory regime for non-corporate entities, such as business trusts and partnerships, which are listed on the Hong Kong stock exchange. Currently, some provisions under the Securities and Futures Ordinance regarding market misconduct and disclosure of interest only apply to listed entities that are in corporate form. The proposals would promote consistency of regulation and enhance market transparency for all listed entities. The SFC will proceed with the proposals and make appropriate recommendations on the legislative amendments in due course.

4.23 The Hong Kong Exchanges and Clearing Limited (HKEx) launched the After-Hours Futures Trading (AHFT) on 8 April 2013. Specifically, trading for HSI and H-shares Index futures are available from 5 pm to 11 pm in addition to the regular trading sessions, and gold futures would be considered for inclusion in AHFT at a later stage. AHFT would enable market participants to hedge or adjust their market positions in response to latest news and events during the European and US business days, and enable HKEx to cater for international interest in RMB products in the future. HKEx would monitor the development of AHFT and review the trading and clearing operations and risk management arrangements for AHFT six months after the implementation.

Fund management and investment funds

4.24 The fund management business continued to grow in general. Gross retail sales of *mutual funds* surged by 84.5% over a year earlier to US\$13.8 billion in the first two months of 2013⁽¹³⁾. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹⁴⁾ also rose by 3.5% over end-2012 to \$455 billion at end-March 2013. Meanwhile, the amount of net assets managed by *retail hedge funds* showed some declines⁽¹⁵⁾.

Insurance sector

4.25 The *insurance sector*⁽¹⁶⁾ expanded further in 2012. The gross and net premium for general business rose by 13.2% and 13.5% respectively to record-high levels, but the underwriting profit declined by 26.1% due to a sharp increase in net claims in the fourth quarter. Gross premium income from long-term business also increased by 10.4%. Within the total, premium income from non-investment linked plans soared by 22.1% while that from investment-linked plans plunged by 17.7%.

Table 4.7 : Insurance business in Hong Kong* (\$Mn)

	General business			Premium for long-term business [^]					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2011 Annual	34,717	23,798	2,996	49,409	20,794	53	250	70,506	105,223
Q1	10,263	7,003	482	11,231	5,619	14	69	16,933	27,196
Q2	8,456	5,919	970	15,320	6,281	17	53	21,671	30,127
Q3	8,700	6,051	642	12,846	4,998	16	103	17,963	26,663
Q4	7,298	4,825	902	10,012	3,896	6	25	13,939	21,237
2012 Annual	39,312	27,008	2,215	60,339	17,122	104	279	77,844	117,156
Q1	10,924	7,608	853	15,056	3,961	16	79	19,112	30,036
Q2	9,328	6,593	735	14,697	3,924	28	50	18,699	28,027
Q3	10,264	6,930	464	15,351	3,998	26	115	19,490	29,754
Q4	8,796	5,877	163	15,235	5,239	34	35	20,543	29,339
% change in 2012Q4 over 2011Q4	20.5	21.8	-81.9	52.2	34.5	466.7	40.0	47.4	38.2
% change in 2012 over 2011	13.2	13.5	-26.1	22.1	-17.7	96.2	11.6	10.4	11.3

Notes : (*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher.

Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.

- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2009 and 2010.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2013, there were 155 licensed banks, 21 restricted licence banks and 24 deposit-taking companies in Hong Kong. Altogether, 200 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) Basel 2.5 was introduced by the Basel Committee in July 2009 to strengthen the risk coverage of Basel II in the light of lessons drawn from the global financial crisis. The main improvements include raising banks' capital requirements for exposures booked in banks' trading books and for securitization exposures, providing supplemental guidance on risk management principles and strengthening disclosure in corresponding areas. Hong Kong implemented Basel 2.5 on 1 January 2012 in line with the Basel Committee's timetable.

- (7) Basel III tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6%; requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% at times of excessive credit growth, both to be met by common equity. It introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and enhances the transparency of the capital base. In addition, Basel III introduces two liquidity standards i.e. the Liquidity Coverage Ratio of at least 100% to promote short term liquidity resilience and the Net Stable Funding Ratio of above 100% to encourage more stable funding structures.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 57 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-March 2013, there were 65 classes of stock options contracts and 38 classes of stock futures contracts.
- (12) At end-March 2013, there were 1 378 and 179 companies listed on the Main Board and GEM respectively.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-February 2013, the survey covered a total of 1 269 active authorised funds.
- (14) At end-March 2013, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 469 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 259 000 employers, 2.38 million employees and 219 000 self-employed persons have participated in MPF schemes.
- (15) At end-March 2013, there were five SFC-authorised retail hedge funds with combined net asset size of US\$488 million. The amount of net assets under management represented a 22.6% decrease from the end-2012 level, yet still an increase of more than three times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-March 2013, there were 154 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 91 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).