

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the second quarter of 2016 amid the accommodative monetary policy in the United States. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range against the US dollar during the second quarter. Meanwhile, the trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index edged up while the Real Effective Exchange Rate Index declined.*
- *After three consecutive quarters of decline, total loans and advances rebounded by 2.4% during the second quarter. Within the total, loans for use in Hong Kong increased by an accelerated 3.1% while loans for use outside Hong Kong rebounded by 0.7%.*
- *The local stock market remained rather volatile in the second quarter, as sentiment swung along the various developments in the global economy and financial markets. The Hang Seng Index moved within a range of 19 694 to 21 622, and closed the quarter at 20 794, only 0.1% above end-March. The range of fluctuation was nevertheless narrower than in the first quarter. Trading activities quietened down, and fund raising activities were subdued.*

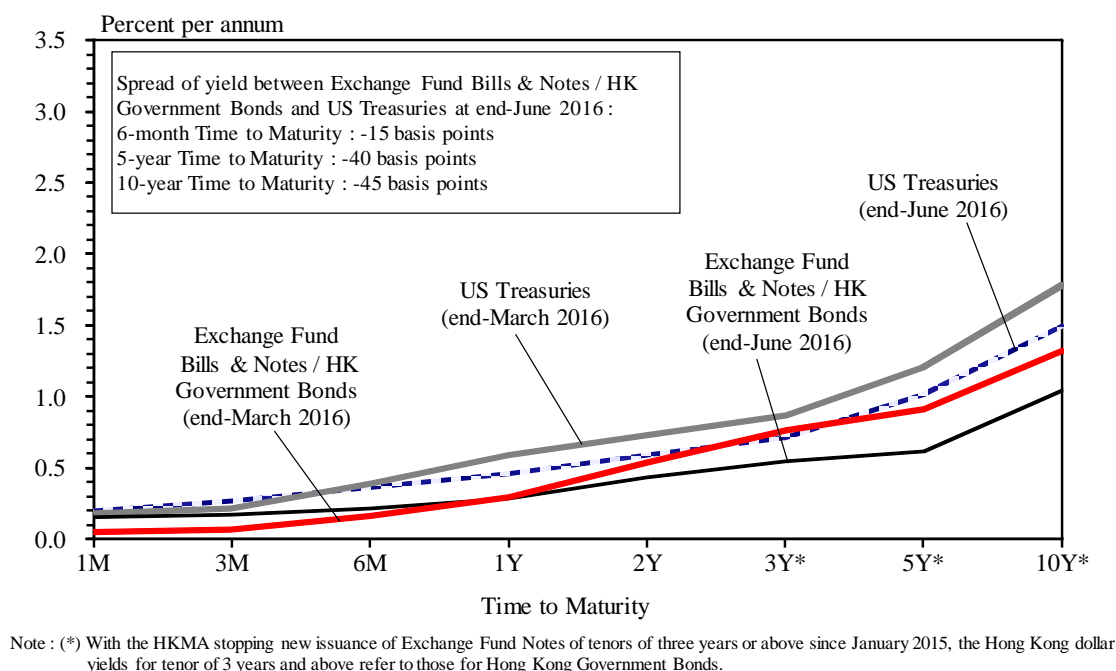
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the second quarter of 2016 amid the ongoing accommodative monetary policy in the United States. With the target range for the Federal Funds Rate staying at 0.25-0.50%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.75% during the quarter⁽¹⁾. As for the *Hong Kong dollar interbank interest rates* (HIBORs), the overnight HIBOR edged up from 0.09% at end-March to 0.12% at end-June, and the three-month HIBOR from 0.56% to 0.57%, but these were still low levels by historical standards.

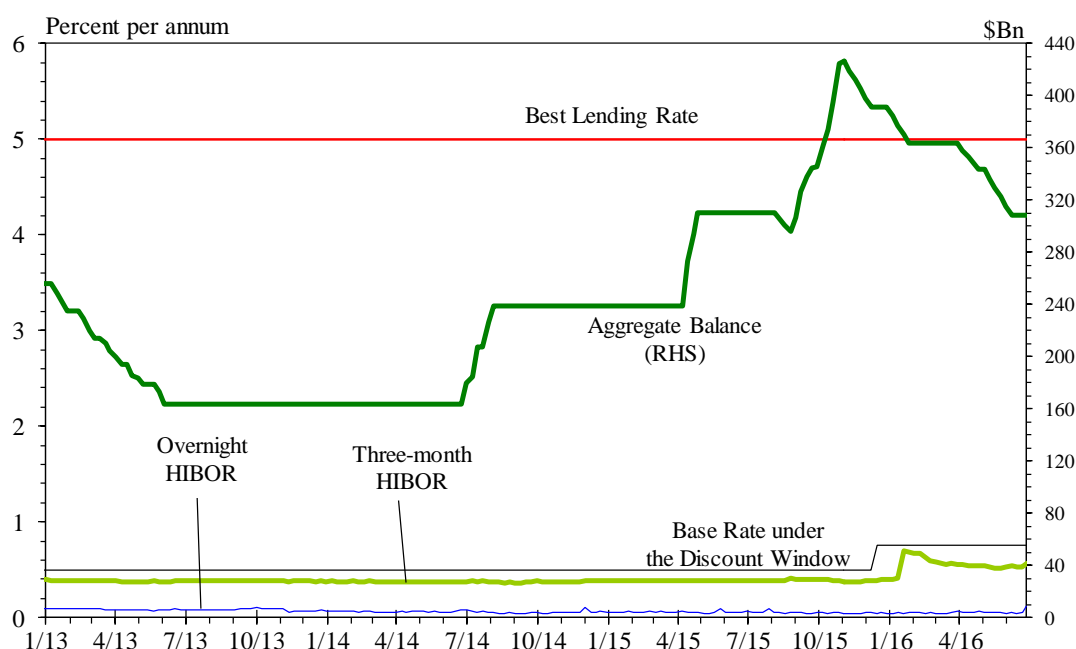
4.2 *Hong Kong dollar yields* declined at the long tenure but edged up at the short tenure in the second quarter, while the *US dollar yield curve* generally flattened. Reflecting these movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 23 basis points at end-March to 15 basis points at end-June. That between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes also edged down from 46 basis points to 45 basis points.

Diagram 4.1 : Hong Kong dollar yields declined at the long tenure but edged up at the short tenure, while the US dollar yield curve flattened



4.3 Interest rates on the retail front stayed low. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% during the second quarter. The *average savings deposit rate* quoted by the major banks and the one-year *time deposit rate* (for deposits of less than \$100,000) remained unchanged at 0.01% and 0.15% respectively at end-June. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, also stayed unchanged at 0.26% at end-June.

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

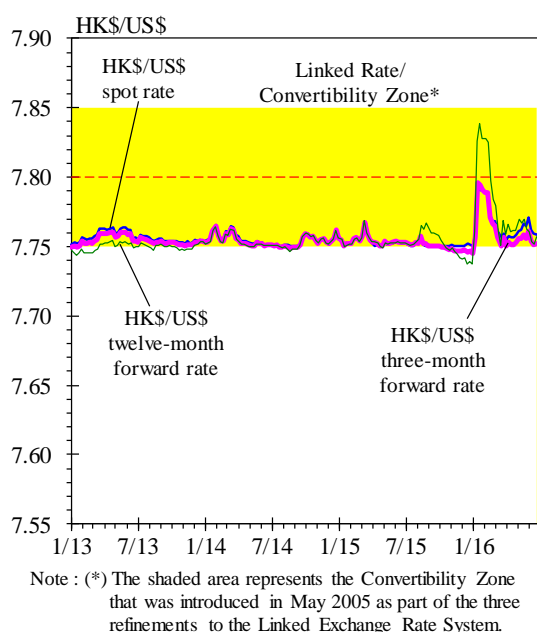


4.4 During the second quarter, the *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.755-7.771 against the US dollar. After softening in April and May along with the weakness of most Asian currencies, the Hong Kong dollar strengthened against the US dollar in June on the back of dividend-related Hong Kong dollar demand. The Hong Kong dollar spot exchange rate closed at 7.759 at end-June, compared with 7.754 at end-March. As regards the *Hong Kong dollar forward rates*, the 12-month forward rate turned from a premium of 20 pips (each pip equivalent to HK\$0.0001) at end-March to a discount of 50 pips at end-June while the discount for 3-month Hong Kong dollar forward rate widened from 43 pips to 85 pips.

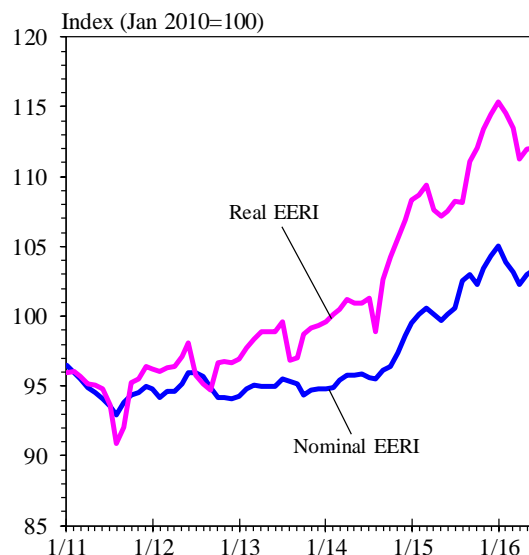
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. During the second quarter, the US dollar strengthened against most major currencies including pound sterling, Australian dollar and renminbi but weakened against the Japanese yen. As a result, the *trade-weighted Hong*

Kong dollar Nominal Effective Exchange Rate Index⁽³⁾ edged up by 0.1% during the second quarter. Meanwhile, the *Real Effective Exchange Rate Index* declined by 1.2%.

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



**Diagram 4.4 : The trade-weighted nominal EERI edged up while real EERIs declined
(average for the month)**



Money supply and banking sector

4.6 The monetary aggregates continued to expand in the second quarter of 2016. The Hong Kong dollar broad *money supply* (HK\$M3) increased by 1.7% over end-March to \$5,911 billion⁽⁴⁾ at end-June, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 3.2% to \$1,334 billion. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁵⁾ grew by 0.7% to \$11,048 billion, within which Hong Kong dollar deposits rose by 1.8% while foreign currency deposits edged down by 0.4%.

Diagram 4.5 : The monetary aggregates continued to expand in the second quarter of 2016

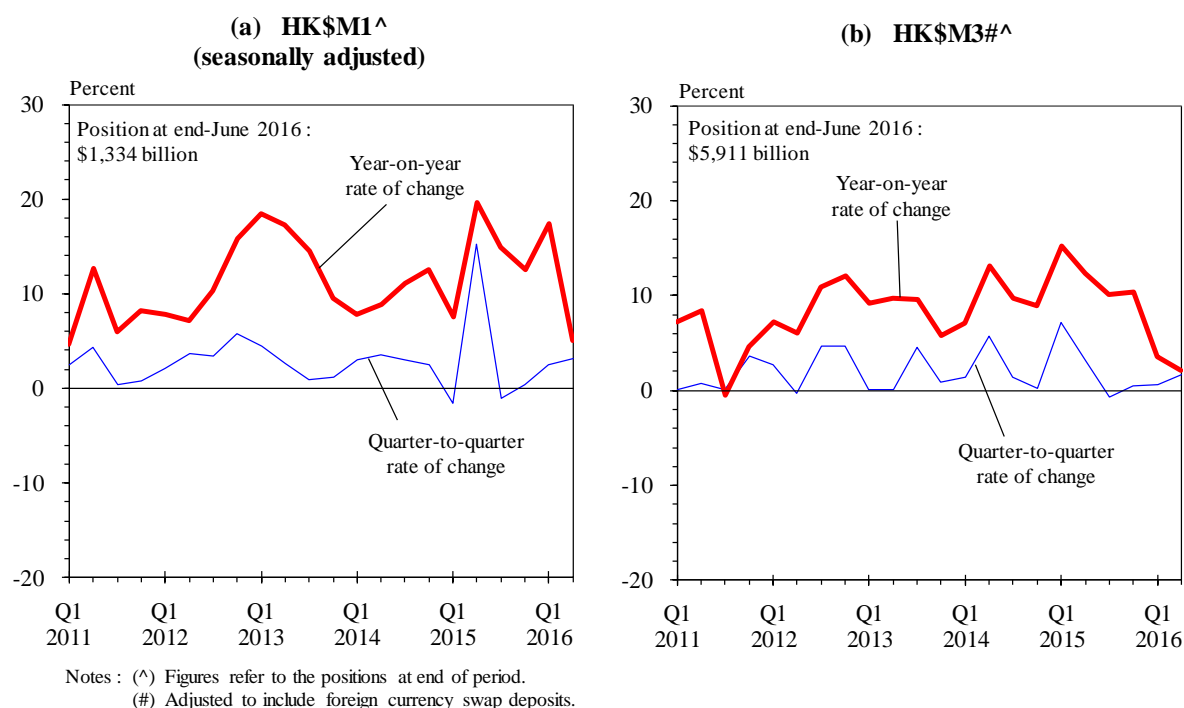


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2015	Q1	-1.6	13.6	7.2	3.0	7.2	3.0
	Q2	15.2	-1.3	3.1	0.8	3.1	0.8
	Q3	-1.1	5.3	-0.6	0.1	-0.7	0.1
	Q4	0.4	-2.4	0.5	1.5	0.5	1.5
2016	Q1	2.5	5.4	0.6	1.1	0.6	1.1
	Q2	3.2	0.6	1.7	0.4	1.7	0.4
Total amount at end-June 2016 (\$Bn)		1,334	2,090	5,899	11,791	5,911	11,828
% change over a year earlier		5.1	9.0	2.2	3.1	2.1	3.1

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 After three consecutive quarters of decline, *total loans and advances* rebounded by 2.4% over end-March to \$7,700 billion at end-June. Both Hong Kong dollar loans and foreign currency loans picked up, by 1.8% and 3.0% respectively. Reflecting the relative movements in deposits and loans, the loan-to-deposit ratio for Hong Kong dollar stayed unchanged at 78.2% at end-June, while that for foreign currencies rose from 59.4% at end-March to 61.4% at end-June.

4.8 Loans for use in Hong Kong (including trade finance) recorded an accelerated increase of 3.1% over end-March to \$5,421 billion at end-June. Over the period loans for use outside Hong Kong rebounded by 0.7% to \$2,279 billion. Within the loans for use in Hong Kong, loans to manufacturing, trade finance, and loans to wholesale and retail trade rose by 8.8%, 5.7% and 0.7% respectively after noticeable declines in the previous quarters. Loans to financial concerns and stockbrokers rose by 13.7% and 6.8% respectively. As for property-related lending, loans for purchase of residential properties rose by a modest 0.5% notwithstanding the rebound in property market transactions, while loans to building, construction, property development and investment expanded by 1.5%.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
% change during the quarter											
2015	Q1	4.2	-3.8	1.0	1.3	2.7	-0.5	338.7	5.6	3.2	4.8
	Q2	0.7	-0.2	-1.5	4.1	1.7	4.8	-55.2	-0.5	3.4	0.6
	Q3	-11.6	0.0	-2.1	2.5	3.0	0.3	-53.3	-1.3	-2.0	-1.5
	Q4	-9.8	-4.3	-3.6	-0.6	1.0	11.5	17.8	0.2	-1.6	-0.3
2016	Q1	-1.5	-2.9	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.8	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
Total amount at end-June 2016 (\$Bn)		473	258	419	1,187	1,130	496	64	5,421	2,279	7,700
% change over a year earlier		-17.0	1.0	-11.0	6.2	5.0	22.6	-36.7	2.1	-3.7	0.3

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 18.2% at end-March 2016. Asset quality of the local banking sector remained sound despite some marginal deterioration. The ratio of classified loans to total loans increased from 0.70% at end-2015 to 0.78% at

end-March 2016, and the delinquency ratio for credit card lending edged up from 0.25% to 0.27%. Yet these ratios were still low by historical standards. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.04% at end-June 2016.

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</u> (gross)
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 [^]	97.86	1.44	0.70
2016	Q1	97.77	1.45	0.78

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”.

([^]) Figures prior to December 2015 cover retail banks’ Hong Kong offices and overseas branches. Starting from December 2015, the coverage was expanded to include the banks’ major overseas subsidiaries.

4.10 *Offshore renminbi (RMB) business remained generally lacklustre in the second quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) declined by 10.4% from end-March to RMB796.2 billion at end-June. RMB trade settlement transactions handled by banks in Hong Kong plunged by 21.3% from a year earlier to RMB1,234.6 billion in the second quarter. As to RMB-related financing, RMB bank lending increased by 2.0% over end-March to RMB287.3 billion at end-June. Meanwhile, RMB bond issuance (not including RMB14 billion issuance by the Ministry of Finance) expanded from RMB4.3 billion in the first quarter to RMB6.7 billion in the second quarter.*

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

<u>As at end of period</u>		<u>Interest rates on^(a)</u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement^(c)</u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)		
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
	Q3	165,849	729,516	895,365	0.25	0.53	145	2,050,107
	Q4	160,908	690,198	851,106	0.25	0.53	145	1,587,184
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
% change in 2016 Q2 over 2015 Q2		13.2%	-37.6%	-28.3%	N.A.	N.A.	N.A.	-21.3%
% change in 2016 Q2 over 2016 Q1		9.2%	-11.4%	-6.3%	N.A.	N.A.	N.A.	9.2%

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

4.11 The Hong Kong dollar *debt market* expanded further in the second quarter of 2016 on the back of a notable increase in issuance by both the public and private sectors. Total gross issuance of Hong Kong dollar debt securities jumped by 13.0% over the preceding quarter to \$800.9 billion in the second quarter, of which 84.6% was Exchange Fund papers issuance. Within the total, debt issuance by the public and private sectors surged by 12.6% and 12.9% respectively, with the latter mainly driven by a significant growth in issuance by non-Multilateral Development Banks overseas borrowers⁽⁶⁾. Against this backdrop, the total outstanding balance of Hong Kong dollar debt securities went up by 6.3% over end-March to \$1,654.4 billion at end-June, equivalent to 28.0% of HK\$M3 or 22.8% of Hong Kong dollar-denominated assets of the banking sector⁽⁷⁾.

4.12 As to the Government Bond (“GB”) Programme, a total of \$6.5 billion institutional GBs and a batch of iBonds with a size of \$10 billion were issued in the second quarter. At end-June, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$100.5 billion. This comprised 13 institutional issues totaling \$70.5 billion and three retail issues (iBonds)

totalling \$30 billion. In addition, there were two outstanding US dollar sukuks, each with an issuance size of US\$1 billion.

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

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New Issuance											
2015	Annual	2,242.2	12.0	30.4	2,284.6	136.4	14.2	58.9	209.4	0.0	2,494.0
	Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	0.0	573.5
	Q2	541.2	4.0	4.7	550.0	23.2	2.1	15.5	40.8	0.0	590.7
	Q3	599.9	0.8	10.6	611.3	14.8	2.8	12.0	29.6	0.0	641.0
	Q4	609.1	2.9	7.2	619.2	44.0	4.9	20.7	69.6	0.0	688.8
2016	Q1	622.4	4.4	1.6	628.4	53.8	4.7	21.4	79.9	0.8	709.1
	Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
% change in 2016 Q2 over 2015 Q2		25.1	249.1	251.1	28.7	141.7	58.2	99.3	121.3	N.A.	35.6
% change in 2016 Q2 over 2016 Q1		8.8	219.7	931.3	12.6	4.4	-29.9	43.9	12.9	259.4	13.0
Outstanding (as at end of period)											
2015	Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
	Q2	753.0	43.2	94.1	890.3	245.9	140.1	148.5	534.5	5.3	1,430.1
	Q3	773.2	43.2	104.7	921.1	230.7	141.1	152.2	524.1	5.3	1,450.5
	Q4	828.4	44.1	100.4	972.9	242.6	141.7	162.1	546.4	5.3	1,524.6
2016	Q1	856.9	47.3	102.0	1,006.2	232.5	142.1	169.7	544.4	6.0	1,556.5
	Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
% change in 2016 Q2 over 2015 Q2		21.2	30.2	8.4	20.2	4.4	2.2	17.8	7.6	66.1	15.7
% change in 2016 Q2 over 2016 Q1		6.5	18.9	0.0	6.4	10.4	0.8	3.1	5.6	47.7	6.3

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

N.A. Not available.

(a) AIs : Authorised institutions.

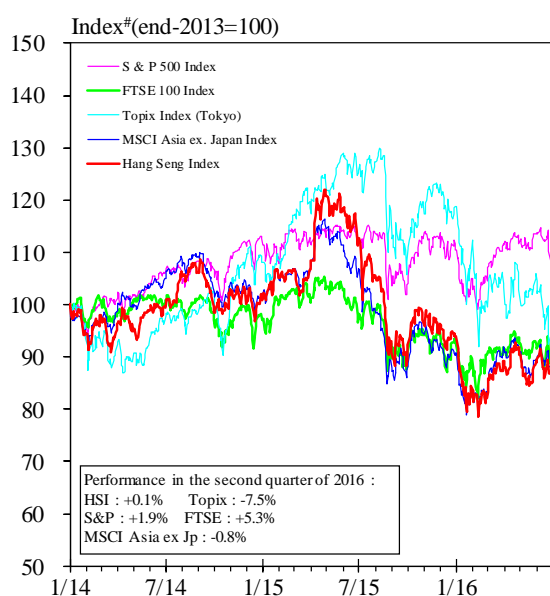
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.13 The *local stock market* was still rather volatile in the second quarter of 2016. As sentiment swung along the various developments in the global economy and financial markets, including easing concerns over further rate hike in the US, weak performance of the Mainland stock market and more recently the referendum result of the UK to leave the European Union, the Hang Seng Index (HSI) fluctuated between 19 694 and 21 622 in the quarter. Yet the range of fluctuation was narrower than in the first quarter. It closed at 20 794 at end-June, only 0.1% above end-March. The *market capitalisation* of the Hong Kong stock market declined by 1.6% to \$23.1 trillion over the period. The local stock market was the eighth largest in the world and fourth largest in Asia⁽⁸⁾.

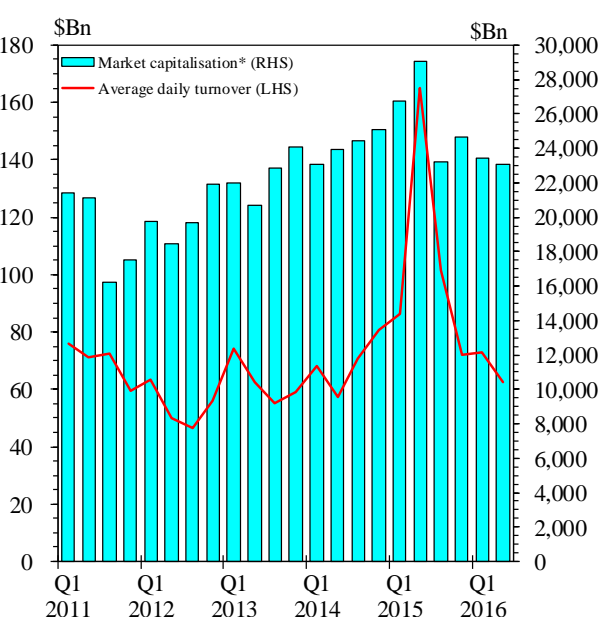
4.14 Trading activities quietened down in face of the highly uncertain outlook. *Average daily turnover* in the securities market contracted by 13.9% from the preceding quarter or 62.0% from a year earlier to \$62.6 billion in the second quarter. The average daily trading value of derivative warrants, unit trusts (including Exchange-Traded Funds), callable bull/bear contracts and equities⁽⁹⁾ all fell, by 29.5%, 25.5%, 13.1% and 7.3% respectively. As to futures and options⁽¹⁰⁾, the average daily trading volume shrank by 5.8% from the preceding quarter. Within the total, trading of H-shares Index futures, HSI futures and stock options went down by 10.3%, 4.1% and 0.1% respectively, while that of HSI options recorded a modest increase of 1.5%.

Diagram 4.6 : The local stock market was still rather volatile in the second quarter of 2016



Note : (#) Position at end of month.

Diagram 4.7 : Market capitalisation declined, while trading activities quietened down



Note : (*) Position at end of quarter.

**Table 4.6 : Average daily turnover of futures and options
of the Hong Kong market**

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*
2015	Annual	85 991	30 427	135 139	374 346	768 520
	Q1	64 351	27 727	108 774	363 322	672 678
	Q2	81 541	35 129	154 553	523 860	946 336
	Q3	82 744	33 238	152 006	375 780	819 085
	Q4	114 430	25 752	125 310	241 192	641 404
2016	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
% change in 2016 Q2 over 2015 Q2		66.3	10.5	-10.6	-44.1	-19.8
% change in 2016 Q2 over 2016 Q1		-4.1	1.5	-10.3	-0.1	-5.8

Note : (*) 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.

4.15 Fund raising activities turned very quiet in the first half of 2016 amid the volatile stock market. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹¹⁾, tumbled by 80.2% from a year earlier to \$140.7 billion in the first half. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) shrank by 66.4% to \$43.6 billion. Nonetheless, Hong Kong still ranked the first globally in terms of the amount of funds raised through IPOs in the first half.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-June 2016, a total of 966 Mainland enterprises (including 231 H-share companies, 152 “Red Chips” companies and 583 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 63% of total market capitalisation. In the second quarter, Mainland-related stocks accounted for 70% of equity turnover and 62% of total equity fund raised in the Hong Kong stock exchange.

Fund management and investment funds

4.17 Different segments of the fund management business showed a mixed

performance in the second quarter of 2016. The monthly average gross retail sales of *mutual funds* expanded by 23.6% over the preceding quarter to US\$5.4 billion in April – May⁽¹²⁾, yet this represented a plunge of 42.1% from a year earlier. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹³⁾ rose by 2.5% over end-March to \$607.3 billion at end-June. Meanwhile, the amount of net assets managed by *retail hedge funds* recorded a sharp fall⁽¹⁴⁾.

4.18 In June, the Government gazetted the MPF Schemes (Amendment) Ordinance 2016 to mandate each MPF trustee to provide a highly standardised and fee-controlled Default Investment Strategy (DIS) in each MPF scheme. Specifically, the DIS involves gradual reduction of exposure to higher risk assets after the scheme member reaches the age of 50. There is also a fee cap of 0.75% and an out-of-pocket expenses cap of 0.2% of the net asset value of the Constituent Funds. The DIS is expected to help drive down fees and improve cost efficiency in the wider MPF system and to address public concerns over high fees and difficulty of making investment choices. Upon completion of preparatory work by the MPF Authority and the industry, the Government would stipulate a specific date of DIS implementation and would review the fee cap in three years.

4.19 The Government also gazetted the Securities and Futures (Amendment) Ordinance 2016 in June to provide for a legal framework for the registration and incorporation of open-ended fund companies (OFCs) and the regulation of such companies and their businesses. Currently, an open-ended investment fund may be established under the laws of Hong Kong in the form of a unit trust, but not in corporate form. The new OFC structure would help diversify the fund domiciliation platform in Hong Kong and create a more flexible business environment for fund managers. This would attract more funds to choose to domicile in Hong Kong, thereby promoting the further development as an international asset management hub.

Insurance sector

4.20 The *insurance sector*⁽¹⁵⁾ continued to expand in the first quarter of 2016. Gross premium income from long-term business rose by 5.9% over a year earlier, yet performance of different underlying business segments varied. While premium income from non-investment linked plans leapt by 16.2%, that from investment-linked plans plummeted by 70.8%. As to general business, gross premium edged up by 1.1% while net premium declined by 2.1%.

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	
2015 Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
2016 Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
% change in 2016 Q1 over 2015 Q1	1.1	-2.1	-11.0	16.2	-70.8	-3.8	-24.0	5.9	4.6

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

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

Highlights of policy and market developments

4.21 Following two rounds of consultation, the Government gazetted the Financial Institutions (Resolution) Ordinance in June to establish a resolution regime in Hong Kong. Under the Ordinance, the Monetary Authority, the Insurance Authority and the Securities and Futures Commission are designated as resolution authorities and vested with a range of necessary powers to effect orderly resolution of a failed systematically important financial institution. This would help mitigate the risks posed by the non-viability of systemically important financial institutions to the stability and effective working of the financial system of Hong Kong.

4.22 The Inland Revenue (Amendment) (No. 2) Ordinance 2016 was gazetted in June. The Amendment Ordinance enables the deduction of interest payable on money borrowed by a corporation carrying on an intra-group financing business in Hong Kong, and provides for a concessionary profits tax rate of 8.25% for qualifying corporate treasury centres, both effective from April 1 2016. This would provide a conducive environment for attracting multinational and Mainland corporations to centralise their treasury functions in Hong Kong, thereby enhancing the competitiveness of the financial markets and contributing to the development of a headquarters economy.

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-June 2016, there were 156 licensed banks, 24 restricted licence banks and 18 deposit-taking companies in Hong Kong. Altogether, 198 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) 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.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-June 2016, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-June 2016, there were 1 666 and 236 companies listed on the Main Board and GEM respectively.
- (12) 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-May 2016, the survey covered a total of 1 149 active authorised funds.
- (13) At end-June 2016, there were 18 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 462 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 276 000 employers, 2.57 million employees and 204 000 self-employed persons have participated in MPF schemes.
- (14) At end-June 2016, there were two SFC-authorised retail hedge funds with combined net asset size of US\$49 million. The amount of net assets under management represented a 55.5% decrease from the end-March 2016 level, and a 69.4% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-June 2016, there were 161 authorised insurers in Hong Kong. Within this total, 48 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 24 countries and territories (including Hong Kong).