

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### **Summary**

- *With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the third quarter of 2017. The Hong Kong dollar interbank interest rates stayed at low levels, despite some seasonal pick-ups at the short-dated end in late September.*
- *The Hong Kong dollar spot exchange rate weakened slightly against the US dollar in July and August, but regained some strength in September. It closed the quarter at 7.810, little changed from end-June. Meanwhile, as the US dollar depreciated against most major currencies, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices declined by 2.8% and 3.2% respectively.*
- *Total loans and advances expanded at a moderated pace of 2.3% during the third quarter, within which loans for use in and outside Hong Kong recorded decelerated growth of 2.7% and 1.4% respectively.*
- *The local stock market continued to rally in the third quarter along with the favourable global economic situation and solid growth of the local economy. The Hang Seng Index rose by 6.9% over end-June to 27 554 at end-September. Trading activities were buoyant, while fund raising activities showed further pick-up.*

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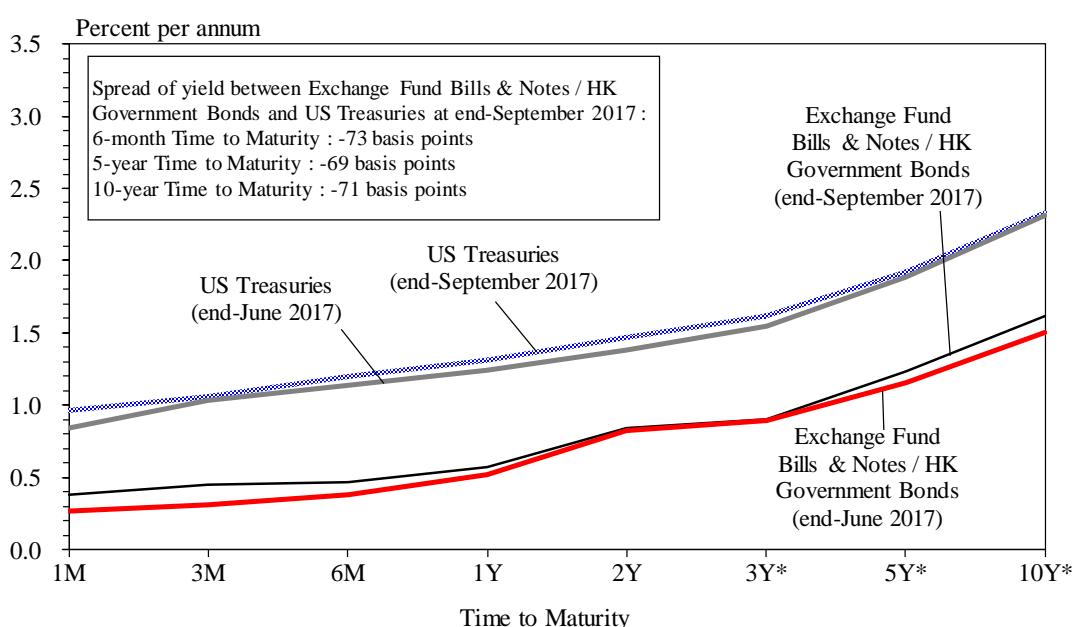
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

## Interest rates and exchange rates

4.1 With the monetary policy normalisation in the US proceeding in a gradual manner, the low interest rate environment in Hong Kong continued in the third quarter of 2017. As the Federal Funds Target Rate stayed at 1.00-1.25% during the quarter, the *Base Rate* under the Discount Window operated by the HKMA remained unchanged at 1.50%<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* also stayed at low levels, despite some pick-ups at the short-dated end in late September driven by initial public offering (IPO)-related and quarter-end funding demand. The overnight HIBOR rose from 0.34% at end-June to 0.92% at end-September, while the three-month HIBOR stayed unchanged at 0.78%.

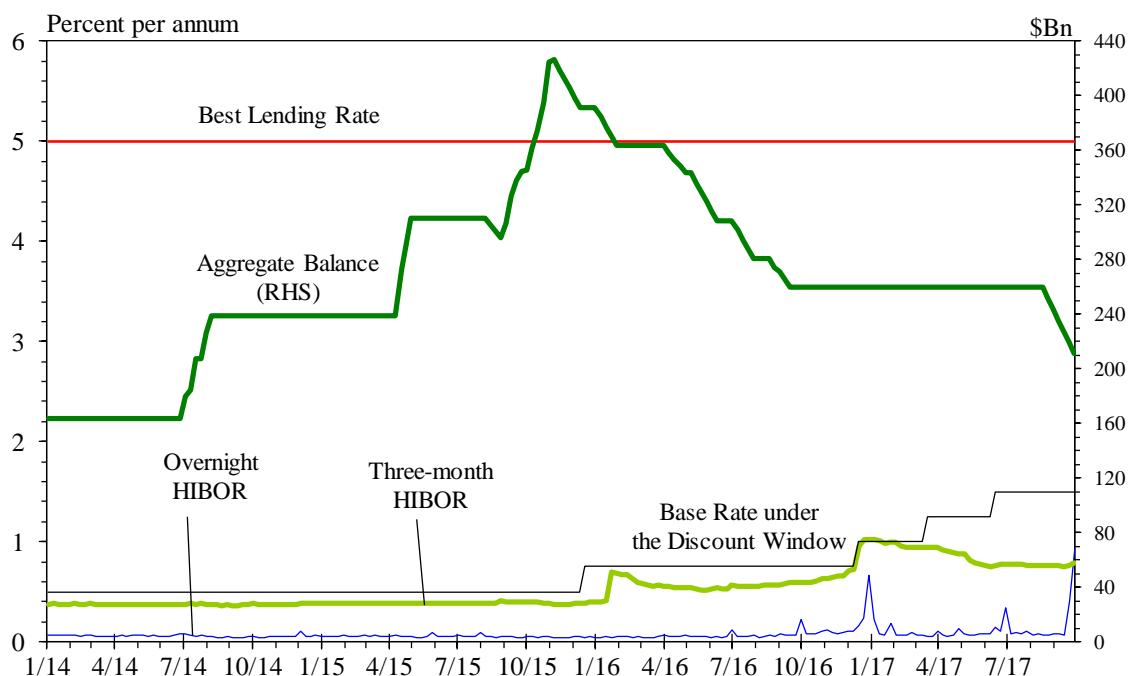
4.2 Both *Hong Kong dollar* and *US dollar yields* rose mildly during the third quarter. Reflecting the slightly larger increases in Hong Kong dollar yields, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from 76 basis points at end-June to 73 basis points at end-September, and that between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes from 81 basis points to 71 basis points.

**Diagram 4.1 : Both Hong Kong dollar and US dollar yields rose mildly during the third quarter**



4.3 Interest rates on the retail front stayed at low levels. The *Best Lending Rates* remained unchanged at 5.00% or 5.25% during the third quarter. The *average savings deposit rate* and one-year *time deposit rate* quoted by the major banks for deposits of less than \$100,000 also stayed unchanged at 0.01% and 0.15% respectively. The *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, edged down from 0.31% at end-June to 0.30% at end-September.

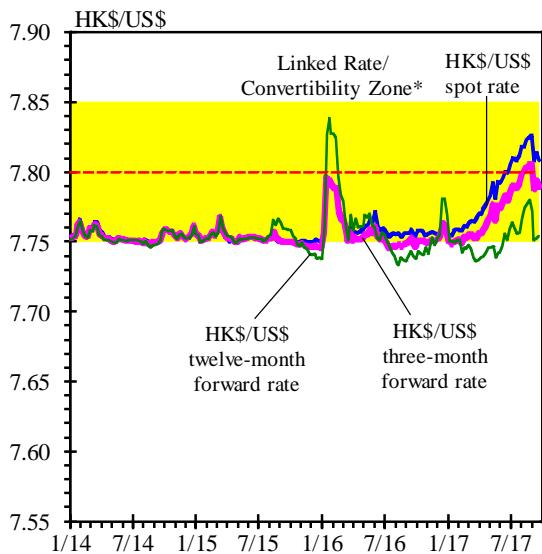
**Diagram 4.2 : Hong Kong dollar interest rates remained low  
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* weakened slightly against the US dollar in July and August due to carry trade activities amid the negative interest rate spreads between Hong Kong dollar and US dollar, before regaining some strength in September. It closed at 7.810 at end-September, not much different from the 7.807 at end-June. As to the *Hong Kong dollar forward rates*, the discount of 12-month forward rate widened from 460 pips (each pip is equivalent to HK\$0.0001) at end-June to 520 pips at end-September, while that of 3-month forward rate narrowed from 195 pips to 179 pips.

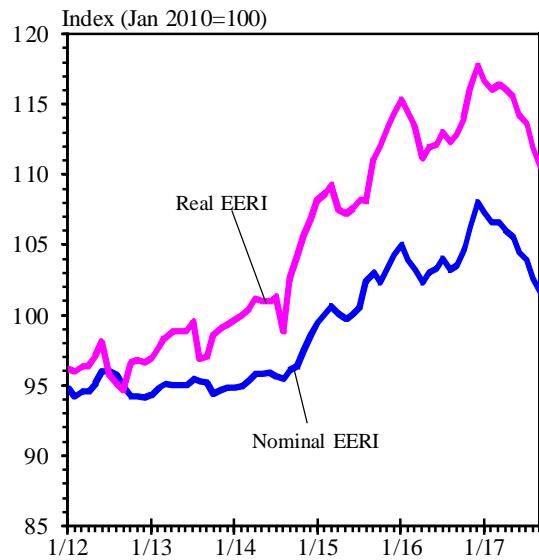
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened further against most major currencies, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*<sup>(3)</sup> continued to decline, by 2.8% and 3.2% respectively during the third quarter.

**Diagram 4.3 : Hong Kong dollar weakened against the US dollar in July and August before regaining some strength in September (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.

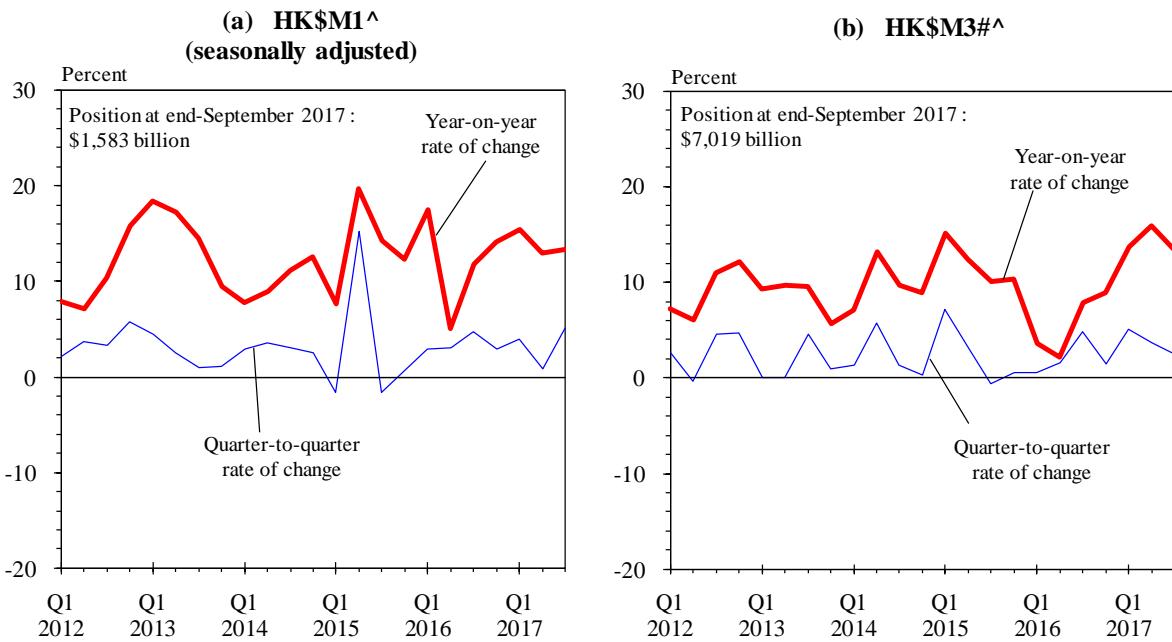
**Diagram 4.4 : The trade-weighted nominal and real EERIs continued to decline (average for the month)**



## Money supply and banking sector

4.6 The monetary aggregates continued to expand during the third quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose further by 5.1% over end-June to \$1,583 billion<sup>(4)</sup> at end-September, and the Hong Kong dollar broad money supply (HK\$M3) by 2.5% to \$7,019 billion. Meanwhile, *total deposits* with authorised institutions (AIs)<sup>(5)</sup> grew by 1.0% to \$12,502 billion, with the 2.3% rise in Hong Kong dollar deposits more than offsetting the 0.4% decline in foreign currency deposits.

**Diagram 4.5 : The monetary aggregates continued to expand during the third quarter**



Notes : (^) Figures refer to the positions at end of period.

(#) Adjusted to include foreign currency swap deposits.

**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\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2016	Q1	2.9	5.4	0.6	1.1	0.6	1.1
	Q2	3.0	0.6	1.7	0.4	1.7	0.4
	Q3	4.7	6.9	4.9	5.1	4.9	5.1
	Q4	2.9	-0.9	1.5	1.0	1.5	1.0
2017	Q1	4.0	0.7	5.1	3.4	5.1	3.4
	Q2	0.8	3.2	3.6	3.0	3.6	3.0
	Q3	5.1	4.1	2.4	1.3	2.5	1.3
Total amount at end-September 2017 (\$Bn)		1,583	2,393	7,004	13,484	7,019	13,534
% change over a year earlier		13.3	7.1	13.2	8.8	13.2	8.9

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* rose by a moderated 2.3% over end-June to \$9,049 billion at end-September. Within the total, Hong Kong dollar loans grew by 4.5%, while foreign currency loans declined by 0.4%. Reflecting the relative movements of deposits and loans, the loan-to-deposit ratio for Hong Kong dollar went up from 77.1% at end-June to 78.8% at end-September, while that for foreign currencies remained unchanged at 65.5%.

4.8 Both loans for use in and outside Hong Kong rose at a decelerated pace. Specifically, loans for use in Hong Kong (including trade finance) increased by 2.7% over end-June to \$6,335 billion at end-September, and loans for use outside Hong Kong by 1.4% to \$2,713 billion. Within the loans for use in Hong Kong, trade finance and loans to manufacturing increased sturdily by 4.1% and 4.7% respectively amid the solid growth in external trade. Yet loans to wholesale and retail trade dropped by 3.0%. On the back of buoyant trading activities in the local stock market, loans to financial concerns expanded by 5.9% and loans to stockbrokers by a sharper 13.1%. As to property-related lending, loans to building, construction, property development and investment, and loans for purchase of residential property rose by 3.4% and 2.3% respectively.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong

% change during the quarter	Loans to :				Purchase of residential property <sup>(a)</sup>			Total <sup>(b)</sup>	All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
	Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Financial concerns	Stock- brokers	Total <sup>(b)</sup>			
2016 Q1	-1.5	-3.0	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
Q2	5.7	8.7	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
Q3	-1.1	-4.4	0.9	1.4	1.0	4.6	-6.9	1.5	1.9	1.6
Q4	-2.8	0.2	-2.4	4.7	2.1	5.2	9.9	2.5	2.7	2.5
2017 Q1	2.6	4.6	1.6	4.9	1.6	12.1	9.7	4.0	6.0	4.6
Q2	4.5	5.3	2.8	4.9	2.4	11.7	-7.6	5.2	5.9	5.4
Q3	4.1	4.7	-3.0	3.4	2.3	5.9	13.1	2.7	1.4	2.3
Total amount at end-September 2017 (\$Bn)	507	285	418	1,434	1,240	723	75	6,335	2,713	9,049
% change over a year earlier	8.5	15.6	-1.1	19.2	8.6	39.4	26.0	15.2	16.8	15.7

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 18.7% at end-June. Asset quality of the local banking sector

also remained healthy. The ratio of classified loans to total loans for retail banks edged down from 0.70% at end-March to 0.68% at end-June, and the delinquency ratio for credit card lending from 0.27% to 0.25%. The delinquency ratio for residential mortgage loans edged down from 0.03% at end-June to 0.02% at end-September.

**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)
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80
	Q3	97.68	1.51	0.81
	Q4	97.75	1.53	0.72
2017	Q1	97.94	1.35	0.70
	Q2	98.23	1.09	0.68

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

(\*) Period-end figures relate to Hong Kong offices, overseas branches and major overseas subsidiaries. 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”.

4.10 *Offshore renminbi (RMB) business* remained generally lacklustre in the third quarter. RMB trade settlement transactions handled by banks in Hong Kong fell by 16.5% from a year earlier to RMB993.4 billion in the third quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) edged up by 0.8% over end-June to RMB593.2 billion at end-September. RMB financing activities slowed down further. RMB bond issuance declined from RMB2.2 billion in the preceding quarter to RMB0.4 billion in the third quarter, and outstanding RMB bank loans dropped by 21.4% from end-June to RMB162.2 billion at end-September.

4.11 Bond Connect commenced operation on 3 July, though only for northbound trading for the time being (i.e. overseas investors can make use of the scheme to invest in the Mainland interbank bond market). Operation of Bond Connect has been smooth since its launch, with over 180 investors participating in the scheme during the first three months.

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

		Interest rates on <sup>(a)</sup>						Number of AIs engaged in RMB business	Amount of cross-border RMB trade settlement <sup>(c)</sup> (RMB Mn)
<u>As at end of period</u>		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits <sup>(b)</sup> (%)	Three-month time deposits <sup>(b)</sup> (%)			
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	
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244	
	Q4	135,520	411,187	546,707	0.25	0.53	144	987,651	
% change in 2017 Q3 over 2016 Q3		-24.0%	-17.6%	-19.5%	N.A.	N.A.	N.A.	-16.5%	
% change in 2017 Q3 over 2017 Q2		7.6%	-0.4%	1.8%	N.A.	N.A.	N.A.	7.1%	
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

4.12 The Hong Kong dollar *debt market* continued to expand in the third quarter on the back of increased issuance of Exchange Fund papers. Total gross issuance of Hong Kong dollar debt securities rose by 1.7% over the preceding quarter to \$836.3 billion, with the increase of 4.3% in public sector debt issuance more than offsetting the decrease of 19.1% in private sector debt issuance<sup>(6)</sup>. As a result, the total outstanding balance of Hong Kong dollar debt securities grew further by 1.9% over end-June to \$1,785.2 billion at end-September. This was equivalent to 25.4% of HK\$M3 or 21.9% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>.

4.13 As to the Government Bond (“GB”) Programme, a total of \$0.6 billion institutional GBs were issued through tenders in the third quarter. The total outstanding amount of Hong Kong dollar bonds under the GB programme was \$101.3 billion at end-September, comprising 14 institutional issues totaling \$75.4 billion and four retail issues (two iBonds and two Silver Bond) totaling \$25.9 billion. In addition, three US dollar sukuks, each with an issue size of US\$1.0 billion, were outstanding under the Programme.

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

		Statutory bodies/government-owned corporations		Public sector total		Local corporations		Non-MDBs overseas borrowers <sup>(b)</sup>		Private sector total		MDBs <sup>(b)</sup>		Total	
		Exchange Fund paper	Govern-ment	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total						
<b>New Issuance</b>															
2016	Annual	2,689.6	20.9	29.4	2,739.9	181.2	25.2	100.7	307.1	5.5	3,052.6				
	Q1	622.4	4.4	1.6	628.4	53.8	5.2	20.9	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				
	Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8				
	Q4	712.3	2.2	6.5	720.9	42.4	7.3	27.2	76.9	0.0	797.8				
2017	Q1	709.7	9.7	1.8	721.3	54.9	4.1	17.4	76.4	1.7	799.3				
	Q2	718.1	8.6	10.7	737.4	41.6	4.5	37.0	83.1	1.6	822.0				
	Q3	766.5	2.0	0.6	769.1	43.9	9.7	13.6	67.2	0.0	836.3				
% change in 2017 Q3 over 2016 Q3		13.1	570.0	-87.5	12.6	51.5	4.5	-37.7	11.9	-100.0	12.3				
% change in 2017 Q3 over 2017 Q2		6.7	-76.6	-94.4	4.3	5.6	115.6	-63.4	-19.1	-100.0	1.7				
<b>Outstanding (as at end of period)</b>															
2016	Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2				
	Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4				
	Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6				
	Q4	963.1	50.0	102.8	1,115.9	273.1	153.4	177.6	604.1	10.5	1,730.6				
2017	Q1	964.6	54.4	104.6	1,123.7	283.7	153.2	176.5	613.4	11.8	1,748.8				
	Q2	965.6	52.0	112.3	1,129.9	269.2	154.7	186.4	610.3	11.4	1,751.6				
	Q3	1,014.6	52.8	102.9	1,170.3	262.7	158.7	182.7	604.2	10.8	1,785.2				
% change in 2017 Q3 over 2016 Q3		5.5	-0.5	-3.7	4.3	-0.7	5.4	2.8	1.9	2.3	3.5				
% change in 2017 Q3 over 2017 Q2		5.1	1.6	-8.4	3.6	-2.4	2.6	-2.0	-1.0	-5.1	1.9				

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

(a) AIs : Authorised institutions.

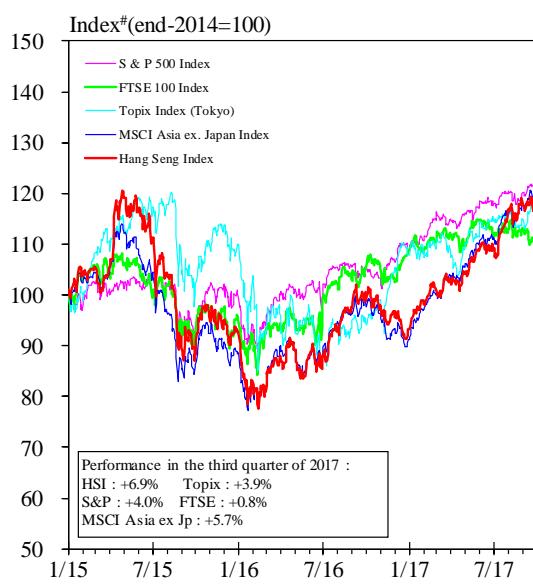
(b) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.14 The *local stock market* continued to rally in the third quarter along with the surge in most major overseas markets. The favourable global economic situation generally and in the Mainland in particular, and solid growth of the local economy have provided strong support to share prices so far this year. The Hang Seng Index (HSI) reached 28 160 on 18 September, the highest closing since May 2015, before ending the quarter at 27 554 or 6.9% above end-June. The HSI has risen by a sharp 25.2% during the first nine months of this year. In parallel, the *market capitalisation* expanded by 9.5% over end-June to a record-high of \$31.4 trillion at end-September. The local stock market ranked the sixth largest in the world and the third largest in Asia<sup>(8)</sup>.

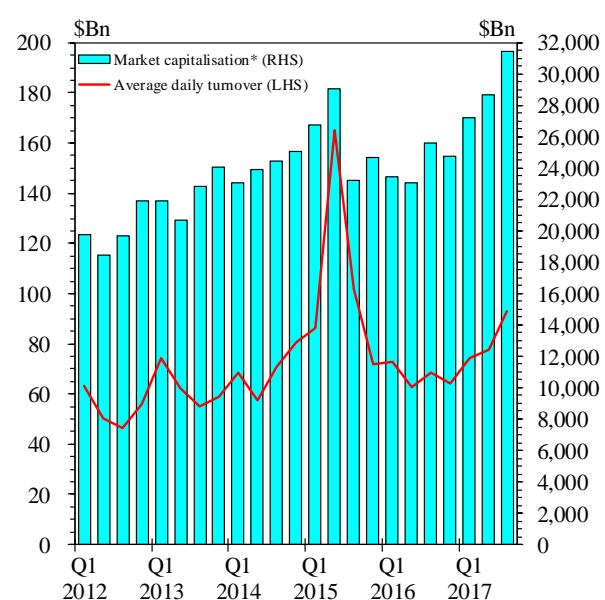
4.15 Trading activities were also buoyant. *Average daily turnover* in the securities market surged by 19.8% over the preceding quarter or 36.4% over a year earlier to \$93.2 billion in the third quarter. Within the total, the average daily trading value of equities, callable bull/bear contracts and derivative warrants<sup>(9)</sup> leapt by 20.8%, 26.1% and 37.2% respectively over the preceding quarter, while that of unit trusts (including Exchange-Traded Funds) fell by 17.9%. As to futures and options<sup>(10)</sup>, the average daily trading volume increased by 13.2% over the preceding quarter. Within the total, trading of HSI futures, HSI options and stock options went up by 3.9%, 18.5% and 27.4% respectively, while that of Hang Seng China Enterprises Index futures went down by 9.4%.

**Diagram 4.6 : The local stock market continued to rally in the third quarter of 2017**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation expanded, while trading activities were buoyant**



Note : (\*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	Hang Seng China Enterprises Index futures	Stock options	Total futures and options traded*
2016	Annual	130 826	37 869	133 729	297 903	761 744
	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
	Q4	119 016	37 295	121 896	300 596	737 238
2017	Q1	107 376	37 294	117 732	338 771	759 988
	Q2	122 209	36 565	122 975	371 991	800 034
	Q3	126 987	43 317	111 466	473 785	905 293
% change in 2017 Q3 over 2016 Q3		-0.7	16.5	-8.8	55.4	21.0
% change in 2017 Q3 over 2017 Q2		3.9	18.5	-9.4	27.4	13.2

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.

4.16 Amid the continued rally of the equity market, fund raising activities picked up further in the third quarter. However, dragged by the tepid performance in the early part of the year, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(11)</sup>, still edged down by 1.2% from a year earlier to \$311.9 billion for the first three quarters as a whole. Within the total, the amount of funds raised through IPOs plummeted by 37.0% from a year earlier to \$85.7 billion. Hong Kong ranked the third globally in terms of the amount of funds raised through IPOs in the period.

4.17 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September, a total of 1 034 Mainland enterprises (including 249 H-share companies, 158 “Red Chip” companies and 627 private enterprises) were listed on the Main Board and the GEM, accounting for 50% of the total number of listed companies and 65% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 77% of equity turnover and 37% of total equity fund raised in the Hong Kong stock exchange.

4.18 Following an earlier public consultation, in August the Hong Kong Exchanges and Clearing Limited proposed to implement enhancements to the

After-Hours Trading (AHT) in phases in 2017 and 2018, subject to regulatory approval and market readiness. Specifically, the ending time of AHT of index futures would be first extended from 11:45 pm to 1:00 am, and eventually to 3:00 am. Index option contracts and a trading halt mechanism for index options would also be added to the AHT. Through increasing coverage of trading hours of major overseas equity markets, these enhancements would help provide a more comprehensive range of risk management and trading tools for market participants.

4.19 In September, the Stock Exchange of Hong Kong Limited (the Exchange) and the Securities and Futures Commission (SFC) set the way forward for enhancing the Exchange's decision-making and governance structure for listing regulation. Specifically, the way forward has clarified the role of SFC as the statutory regulator which administers the Securities and Futures Ordinance and the Securities and Futures (Stock Market Listing) Rules, and which supervises, monitors and regulates the activities carried on by the Exchange; and the role of the Exchange as the regulator administering the Listing Rules. A series of proposals in respect of policy development, listing decisions, the review of listing decisions, disciplinary matters and oversight of the Exchange would be taken forward. These proposals would help ensure that policy development is more agile, coordinated and responsive to emerging risks and market development imperatives and that listing decisions are made in a transparent, efficient and accountable manner.

## **Fund management and investment funds**

4.20 Along with the rally of the stock market, the fund management business generally recorded a strong performance in the third quarter. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(12)</sup> rose further, by 6.3% over end-June to \$792.8 billion at end-September. For *mutual funds*, the monthly average gross retail sales surged by 23.9% over a year earlier or 21.6% over the second quarter to US\$8.9 billion in July – August<sup>(13)</sup>. Yet the amount of net assets managed by *retail hedge funds* declined further<sup>(14)</sup>.

## **Insurance sector**

4.21 The *insurance sector*<sup>(15)</sup> showed some moderation in the second quarter. Gross premium income from long-term business fell by 13.8% from a

year earlier, with the plunge of 20.1% in premium income from non-investment linked plans offsetting the increase of 281.5% in premium income from investment linked plans. As to general business, gross and net premium recorded modest growth of 5.3% and 4.9% respectively.

**Table 4.7 : Insurance business in Hong Kong<sup>\*</sup> (\$Mn)**

	General business			Premium for long-term business <sup>^</sup>					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	
2016 Annual	45,643	31,457	1,606	179,147	5,744	255	343	185,489	231,132
Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
Q3	11,727	8,094	215	49,250	1,422	70	116	50,858	62,585
Q4	9,901	6,737	316	50,583	2,230	67	57	52,937	62,838
2017 Q1	13,947	9,482	383	41,436	2,161	57	168	43,822	57,769
Q2	11,516	8,144	-14	33,584	3,254	56	207	37,101	48,617
% change in 2017 Q2 over 2016 Q2	5.3	4.9	N.A.	-20.1	281.5	-17.6	165.4	-13.8	-10.0

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

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

N.A. Not available.

## Highlights of policy and market developments

4.22 In July, the State Council approved an increase in investment quota for Hong Kong's Renminbi Qualified Foreign Institutional Investor (RQFII) scheme, from the previous RMB270 billion to RMB500 billion. The RQFII scheme, which was launched in December 2011, allows qualified Hong Kong financial institutions to use RMB funds raised in Hong Kong to invest in Mainland securities markets under an approved investment quota. The expansion in investment quota for the RQFII scheme would help enhance the cross-border use and circulation of RMB funds between the Mainland and Hong Kong, thereby deepening the connectivity between the two markets and reinforcing Hong Kong's status as the global offshore RMB business hub.

4.23 The HKMA introduced a number of smart banking initiatives for the banking sector of Hong Kong in September. These include, among others, the introduction of the Faster Payment System (i.e. a real-time settlement and transfer system for banks and Stored Value Facilities), enhanced Fintech Supervisory Sandbox 2.0 (i.e. supervisory arrangement for pilot trials of Fintech and other technology initiatives by banks and tech-related firms) and promotion of virtual banking. These initiatives would help promote financial innovations and strengthen the competitiveness and efficiency of the banking sector of Hong Kong.

### 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-September 2017, there were 155 licensed banks, 20 restricted licence banks and 17 deposit-taking companies in Hong Kong. Altogether, 192 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-September 2017, there were 86 classes of stock options contracts and 72 classes of stock futures contracts.
- (11) At end-September 2017, there were 1 765 and 304 companies listed on the Main Board and GEM respectively.
- (12) At end-September 2017, there were 18 approved trustees. On MPF products, 29 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 279 000 employers, 2.58 million employees and 204 000 self-employed persons have participated in MPF schemes.
- (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-August 2017, the survey covered a total of 1 314 active authorised funds.
- (14) At end-September 2017, there was one SFC-authorised retail hedge fund with net asset size of US\$26 million. The amount of net assets under management represented a 3.7% decrease from end-June 2017, and a 83.8% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-September 2017, there were 159 authorised insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 93 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).