

UK-Hong Kong Financial Dialogue Outcomes Statement 2019

SUMMARY

- i. Economic Secretary to the Treasury, John Glen and Secretary for Financial Services and the Treasury, James Lau concluded the inaugural UK-Hong Kong Financial Dialogue on 8 May 2019 in London. They committed to significantly enhance bilateral policy and regulatory co-operation and agreed to continue to discuss specific steps and measures to increase the breadth and depth of the partnership.
- ii. The Dialogue also saw the meeting of the 8th London-Hong Kong Financial Services Forum, co-chaired by HM Treasury's (HMT) Director-General (Financial Services) Katharine Braddick and Hong Kong Monetary Authority's (HKMA) Executive Director (External) Vincent Lee. The Forum comprised a series of roundtable discussions on issues of mutual interest, including enhancing bilateral collaboration on renminbi (RMB) internationalisation, the opening-up of capital markets of the Mainland of China, green finance, infrastructure investment and the financing of Belt and Road Initiative (BRI) projects, growth opportunities for fintech and commercial opportunities associated with the Greater Bay Area (GBA).
- iii. Both sides welcomed the progress since the 7th Forum in 2017 and, as two of the world's largest financial centres, welcomed the opportunity to enhance bilateral co-operation. They welcomed the UK's proposal to convene a UK-Hong Kong economic forum comprising senior public and private sector specialists and academic representatives ahead of the Hong Kong-UK Financial Dialogue in 2020. The Forum will explore challenges and trends affecting both jurisdictions, their implications for the global financial services sector, and the steps the UK and Hong Kong could take to address them.

OFFSHORE RENMINBI BUSINESS

- iv. Both sides recognised continued momentum in the world's leading offshore RMB markets: London and Hong Kong.
- v. Hong Kong maintains the largest pool of offshore RMB deposits (RMB649 billion as of end February 2019), processing more than 70% of RMB transactions globally. The average daily turnover recorded by Hong Kong's RMB payment system exceeded RMB1 trillion in 2018. Hong Kong is also the world's most active RMB FX and derivatives trading centre, with turnover averaging US\$91.7 billion per day in October 2018. Offshore RMB assets market in Hong Kong continued to be the largest in the world, with outstanding Dim Sum bonds standing at RMB170.6 billion and issuance amount rebounding to RMB41.9 billion in 2018. RMB trade settlement handled by Hong Kong banks increased 7.5% year on year to RMB4.2 trillion in 2018. Hong Kong has maintained and enhanced its unparalleled access with the Mainland capital markets through various channels.
- vi. The UK has the largest share of RMB payments outside of Hong Kong and the most active RMB foreign exchange (FX) transactions, accounting for 36.7% of global RMB FX trading volumes in January 2019. Total cross-border RMB settlement between China and the UK also grew 109% year-on-year to RMB377 billion in 2018. In total 113 Dim Sum bonds totalling RMB32.85 billion were listed on the London Stock Exchange as of February 2019.

CAPITAL MARKETS AND BANKING

- vii. Both sides welcomed the ongoing reforms of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, including the expansion of daily quota in May 2018. The schemes achieved a record-high daily trading of HK\$112.7 billion on 4 March 2019 following MSCI's announcement of further inclusion of A-shares into its Emerging Markets and All-Country World indices.
- viii. Both sides welcomed the ongoing enhancements to the Mainland-Hong Kong Bond Connect launched in July 2017, which has allowed international investors to access China's onshore bond market through Hong Kong. Both sides noted the doubling of foreign holdings in China's inter-bank bond market this facilitated in 2018, with total foreign holdings rising to RMB1.7 trillion as of December.
- ix. Both sides recognised that the Mainland-Hong Kong Stock Connect schemes and Bond Connect have facilitated the opening-up of China's capital markets and contributed to the inclusion of RMB products in global indices. Both sides welcomed plans for a new London-Shanghai Stock Connect.
- x. Both sides welcomed suggestions from an industry-led roundtable on access to China's capital markets and agree to explore this further with industry participants.
- xi. Both sides recognised the important role played by the banking sector in promoting UK-Hong Kong financial collaborations. The regulators in the two places agreed to maintain close dialogues to exchange supervisory information and discuss issues of mutual interest with a view to maintaining stability in and promoting the development of the banking sectors in both places.

ASSET AND WEALTH MANAGEMENT

- xii. Both sides welcomed the UK-Hong Kong Mutual Recognition of Funds (MRF) Agreement signed by the Financial Conduct Authority (FCA) and Securities and Futures Commission (SFC) in October 2018, the first such agreement signed by the FCA. The agreement streamlines the process by which eligible funds can be distributed to retail investors in the UK and Hong Kong, enhancing UK investors' ability to diversify their portfolios into Asian markets and vice versa.
- xiii. Both sides noted the announcement from the UK Investment Association and the Hong Kong Investment Funds Association that they will collaborate to foster closer relationships between the asset management industries in both markets. This will include work on shared challenges and opportunities for savers and investors, and issues such as fintech, Environmental, Social and Governance (ESG) standards, and market fragmentation.
- xiv. Both sides noted several policy and regulatory initiatives, including continued preparations for launch of a Mainland-Hong Kong ETF Connect, and permission for asset managers to issue RMB-denominated share classes for SFC-authorized UCITS funds. Both sides recognise the opportunity to further develop UK-Hong Kong asset and wealth management thought leadership, particularly in relation to third country market access and ESG disclosure.

INSURANCE

- xv. Both sides reaffirmed the need to enhance availability of appropriate disaster insurance protection, and welcomed recent launch of the regulatory and supervisory framework for insurance-linked securities (ILS) and Centre for Global Disaster Protection in the UK, as well as the positive steps taken by the UK and Hong Kong to introduce legislative changes that seek to enable issuance of ILS by special purpose vehicles. Both sides acknowledged the socioeconomic benefits associated with wider natural catastrophe insurance coverage and increased geographic diversity of ILS-related risks, encouraging market participants to strive for enhanced risk models, product mix and parameters.
- xvi. Both sides welcome the Co-operation Agreement on Fintech signed in September 2017 between the FCA and Insurance Authority to foster innovation and facilitate relevant firms seeking to enter each market, supporting the existing MOU concerning general exchange of regulatory information.

GREEN FINANCE

- xvii. Both sides welcomed the continued growth of global green capital markets, emphasised the urgency required in embedding ESG factors into financial decision-making, and recognised the systemic risks that climate change and environmental factors pose to the financial system. Both sides committed to undertake further work to mitigate these risks for the financial sector, noting the importance of multilateral initiatives such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The discussions also welcomed recent work by the Bank of England on highlighting these risks and supervisory expectations.
- xviii. The UK outlined the report by its Green Finance Taskforce in March 2018 and the UK Government's upcoming Green Finance Strategy. Participants also discussed the recent Discussion Paper on Climate Change and Green Finance by the FCA, and the aims of the EU Sustainable Finance Action Plan to address the risk of greenwashing.
- xix. Both sides welcomed Hong Kong's creation of a Green Finance Association, announcement of its HK\$100 billion Government Green Bond Programme, launch of a Green Bond Grant Scheme, and publication of the SFC's Strategic Framework for Green Finance. Both sides also welcomed HKMA's recently-announced strategic framework to promote green finance development, including the setting up of a Green Finance Centre under the HKMA Infrastructure Financing Facilitation Office, a phased regulatory approach to green and sustainable banking, and responsible investments by the Exchange Fund of Hong Kong.
- xx. Both sides committed to work jointly to promote green financial linkages and thought leadership between the UK and Hong Kong, including exploring joint work on international standard setting. HKMA has already indicated its interest in joining the Network for Greening the Financial System, of which the Bank of England is also a member.
- xxi. Both sides welcomed Hong Kong's co-hosting with IFC a Climate Business Forum in early 2020 to promote sustainable finance, which will involve public and business sector participation from around the world, including the UK.

FINTECH

- xxii. Both sides welcomed increased regulatory and commercial cooperation as a result of the Hong Kong-UK Fintech Bridge agreement signed 2017, including the InvestHK and UK Department for International Trade (DIT) Fintech Awards and UK fintech delegation to the Hong Kong Fintech Week 2018.
- xxiii. Both sides welcomed the new UK-Hong Kong Fintech Bridge Pilot Program to provide tailored programmes of support to 10 UK companies entering the Hong Kong market. Hong Kong looks forward to welcoming these UK fintech companies and the wider UK fintech delegation at the Hong Kong Fintech Week 2019.
- xxiv. Both sides announced new initiatives to deepen the Bridge agreement including:
 - a. Establishing a new Fintech Bridge Dialogue coordinated by HMT and FSTB, including as part of the Hong Kong Fintech Week, to discuss current Fintech issues of mutual interest;
 - b. The Department for International Trade pledged to deepen its collaboration with key Hong Kong partners, including the Hong Kong Science and Technology Park, and explore the possibility of further MOUs to formalise partnerships.
- xxv. Both sides also welcomed the formal establishment of the Global Financial Innovation Network (“GFIN”) in January 2019 and the launch of the cross-border pilot tests. In April 2019, as members of GFIN, both sides announced the next steps of cross-border tests.
- xxvi. Both sides discussed areas of mutual interest on international issues such as cybersecurity and cryptoassets. Both sides noted the publication of the UK’s Cryptoassets Taskforce Report in October 2018, progress of HKMA’s Cybersecurity Fortification Initiative, SFC’s announcement of the proposed framework for virtual asset trading platforms and publication of guidance for virtual asset portfolio managers and fund distributors in November 2018, and SFC’s clarification on requirements applicable to security token offerings in March 2019. They also exchanged views on relevant discussion at international forums. The UK and Hong Kong will continue to share best practices and lessons learned bilaterally, engage in multilateral fora and welcome continued international coordination amongst regulators and standard-setting bodies.

INFRASTRUCTURE

- xxvii. HKMA’s Infrastructure Financing Facilitation Office and HMT’s Infrastructure Financing Exchange will explore how to collaborate on project preparation, technical assistance and the ‘crowding in’ of private capital by:
 - a. identifying available project preparation capacities in both public and private sectors
 - b. facilitating and channelling those capacities into projects in need
 - c. building capacity for and sharing knowledge with project owners and developers on international practice and standards

GREATER BAY AREA

- xxviii. Both sides welcomed the promulgation of the Outline Development Plan of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) initiative in February 2019, and noted the opportunities for regional financial sector cooperation, liberalisation and opening-up. Both sides recognised the benefits in capitalising on Hong Kong's unique position under the One Country, Two Systems model as well as Hong Kong's business-friendly environment, good tradition of the rule of law, well-established financial system, and robust financial regulatory regime. Both sides agreed that Hong Kong can serve as a base to enable international investors and market participants to do business and invest in GBA while upholding international standards.
- xxix. Both sides welcomed plans from the British Chamber of Commerce in Hong Kong to develop recommendations to enhance pan-GBA capital flows and financial market development. The British Chamber of Commerce is working to convene a dialogue in 2019 with business and other stakeholders from the UK, Hong Kong, Macao and Mainland China to progress these issues further.