Financial Services

Industry News

ASSET MANAGEMENT

Open-ended Fund Company (OFC) Regime and Profits Tax Exemption to Onshore Privately Offered OFCs to take effect on 30 July 2018

On 18 May 2018, the Government and the Securities and Futures Commission (SFC) published three pieces of subsidiary legislation to enable the commencement of the open-ended fund company (OFC) regime with effect from 30 July 2018. Besides, the Inland Revenue (Amendment) (No. 2) Ordinance 2018, which extends profits tax exemption to onshore privately offered OFCs, will also take effect on 30 July 2018.

With the commencement of the OFC regime, fund managers will have the option of setting up a fund in the form of a company, in addition to the form of a unit trust. This additional choice should help diversify Hong Kong's fund domiciliation platform and build up the city's fund manufacturing capabilities. This will in turn help to further develop Hong Kong's asset management industry.

An OFC is a collective investment scheme with variable capital set up in the form of a company, but with the flexibility to create and cancel shares for investors' subscription and redemption in the fund. Also, an OFC will not be bound by restrictions on distribution out of capital applicable to a conventional company, and instead may distribute out of capital subject to solvency and disclosure requirements. The SFC will be the primary regulator responsible for the registration and regulation of OFCs under the Securities and Futures Ordinance (Cap. 571). The Companies Registry will oversee the incorporation and statutory corporate filings of OFCs and the Official Receiver's Office the winding-up procedure.

Source: www.ird.gov.hk

BONDS

Pilot Bond Grant Scheme

The Financial Secretary announced in the 2018-19 Budget that the Government would launch a three-year Pilot Bond Grant Scheme (PBGS) to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong. On 10 May 2018, Hong Kong Monetary Authority (HKMA) announced details of the PBGS as below:

Issues	Details
First time issuers	Eligible issuers must be first time issuers, which are issuers that have not issued bonds in Hong Kong in the five-year period between 10 May 2013 and 9 May 2018, both days inclusive.
Eligible issues	Eligible issues must satisfy the following criteria: • being issued in Hong Kong; • having an issuance size of at least HK$1.5 billion (or the equivalent in foreign currency);

	• being lodged with and cleared by the Central Moneymarkets Unit operated by the HKMA in its entirety, or being listed on The Stock Exchange of Hong Kong Limited; and • being, at issuance, issued in Hong Kong to (i) 10 or more persons or (ii) less than 10 persons none of whom is an associate of the issuer.
Grant amount	The grant amount for each bond issue is equivalent to half of the eligible issuance expenses, up to the following limits: • HK$2.5 million where the bond, its issuer or its guarantor(s) possess a credit rating by a rating agency recognised by the HKMA; or • HK$1.25 million where none of the bond, its issuer or its guarantor(s) possess a credit rating by a rating agency recognised by the HKMA. Each issuer can apply for a grant for two bond issuances at most.

The commencement date of the PBGS will be announced in due course, subject to the completion of legislative process for the 2018-19 Budget.

Source: www.hkma.gov.hk

SECURITIES

New Listing Regime Took Effect on 30 April 2018

To embrace innovation, Hong Kong has put in place the new listing regime for companies from emerging and innovative sectors. The new regime, came into effect on 30 April 2018:

- allows biotech companies with no prior record of revenue or profit to list on the main board of Hong Kong's Stock Exchange, subject to certain requirements including a minimum expected market capitalisation at the time of listing of around US$190 million (HK$1.5 billion); the company should have been primarily engaged in research and development of its core products for a minimum of 12 months; and the primary reason for listing should be to raise capital for commercialisation of its core products;

- allows high growth and innovative companies with weighted voting rights (WVR) structures to list on the main board of Hong Kong's Stock Exchange subject to certain requirements including at the time of listing, companies with WVR structures would be required to have a minimum expected market capitalisation of US$1.3 billion (HK$10 billion); the company's core business should involve new technologies, innovations, and/or a new business model which differentiates the company from existing players; research and development should be a significant contributor of expected value and constitute a major activity and expense; and the company should also demonstrate a track record of high business growth, as can be objectively measured by operational metrics; and

- establishes a new concessionary secondary listing route for Greater China and international companies that wish to secondary list in Hong Kong

Source: www.hkex.com.hk

Mainland-HK Stock Connect Daily Quotas Increased on 1 May 2018

The China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission have agreed to increase the daily quotas under both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. With effect from 1 May, 2018, the daily quota for each of the northbound trading links will be adjusted to RMB52 billion and the daily quota for each of the southbound trading links will be adjusted to RMB42 billion.

Mr Norman Chan, Chief Executive of the Hong Kong Monetary Authority, said that the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect are important mutual access arrangements between the Hong Kong and Mainland capital markets. They have been operating smoothly since launch. The expansion of daily quota will further enhance the smoothness and certainty of trading, and help ensure that the process for the inclusion of A-shares in the MSCI Emerging Markets Index this year is orderly.

Northbound Trading

	Shanghai-Hong Kong Stock Connect			Shenzhen-Hong Kong Stock Connect		
	Daily Average Trade value	Quota usage[1]		Daily Average Trade value	Quota usage[1]	
	(RMB Bn)	(RMB Bn)	(%)	(RMB Bn)	(RMB Bn)	(%)
2016[2]	3.21	0.43	3.3	1.54	0.94	7.3
2017	5.59	0.39	3.0	4.03	0.69	5.3
2018 (Jan-Apr)	10.85	0.65	5.0	8.31	0.59	4.5

Southbound Trading

	Shanghai-Hong Kong Stock Connect			Shenzhen-Hong Kong Stock Connect		
	Daily Average Trade value	Quota usage[1]		Daily Average Trade value	Quota usage[1]	
	(HKD Bn)	(RMB Bn)	(%)	(HKD Bn)	(RMB Bn)	(%)
2016[2]	3.63	1.21	11.5	0.51	0.40	3.8
2017	7.47	1.37	13.1	2.32	0.65	6.1
2018 (Jan-Apr)	12.33	1.25	11.9	6.25	1.01	9.6

Notes:
(1) The daily quota of Southbound Trading is RMB 10.5 billion each for Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.
(2) The Shenzhen-Hong Kong Stock Connect was launched on 5 December 2016. The figures for Shenzhen-Hong Kong Stock Connect cover the period 5 December – 31 December 2016

BANKING

Revised Guideline on Authorisation of Virtual Banks Published

The Hong Kong Monetary Authority (HKMA) published on 30 May 2018 a revised Guideline on Authorization of Virtual Banks (the Guideline) which defines "virtual bank" as a bank which primarily delivers retail banking services through the internet or other forms of electronic channels instead of physical branches. To be licensed by HKMA as a virtual bank, applicants shall, among others,

Requirements	Principles under Revised Guideline
General	• meet the minimum criteria for authorisation in the Seventh Schedule to the Banking Ordinance • actively promote financial inclusion • not impose on their customers minimum account balance requirement or low-balance fees
Ownership	• operate in the form of a locally-incorporated bank with shareholder holding more than 50% of the share capital being a bank or a financial institution or being held by an intermediate holding company incorporated in Hong Kong which can be a non-financial firms including technology companies • have a parent company which is capable of providing strong financial, technology and other support when necessary
Corporate Governance Standards	• have the controllers, directors and chief executives who are fit and proper • with the board of directors and senior management having the requisite knowledge and experience to enable them to discharge their functions effectively
Physical Presence	• maintain a physical presence in Hong Kong
Risks Management	• establish appropriate controls to manage technology, credit, liquidity, interest rate risks, etc • provide to HKMA an assessment report on computer hardware, systems, security, procedures and controls
Business Plan	• have a concrete and credible business plan setting out how it intends to conduct its business and how it proposes to comply with the authorisation criteria on an ongoing basis
Exit Plan	• have an exit plan in case its business model turns out to be unsuccessful
Customer Protection	• adhere to the Treat Customers Fairly Charter; observe the standards contained in the Code of Banking Practice issued by the Hong Kong Association of Banks and the DTC Association
Outsourcing	• demonstrate that the outsourcing of computer or business operations of a virtual bank to a third party service provider, if applicable, is in compliance with the principles in the SPM module on "Outsourcing"
Capital Requirement	• maintain adequate capital commensurate with the nature of their operations and the banking risks they are undertaking

Source: www.hkma.gov.hk

CONTACT US

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About InvestHK

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