



## Financial Services

161

FINANCIAL SERVICES

Financial services, including insurance, real estate and business services now account for about 13.3% of Hong Kong's workforce (478,800 jobs) as of December 2006. In terms of the GDP, net output in financing, insurance, real estate and business services increased by 13.2% in real terms in the first quarter of 2006 over a year earlier, after a 7.6% increase in the fourth quarter of 2005.

### BOND MARKET

While the bond market in Hong Kong is not as well-developed as in Europe or the States, it has grown in the past decade and the private sector bond market is one of the largest and most liquid in the region. The size of the debt market, as measured by the outstanding amount of Hong Kong dollar debt securities, was US\$96 billion at end-2006. At end-2005, private sector bonds accounted for about 81% of debt securities in Hong Kong.

Most of the private sector bond trading occurs in the over-the-counter (OTC) market, although many debt instruments are also listed on the Hong Kong Exchange. Several private sector financial institution groups have set up electronic bond trading platforms for institutional investors, and individual banks and brokerage houses have been providing on-line bond trading to their retail clients.

In 2003, in response to the Government's urging, public sector bodies: the Airport Authority, Mass Transit Railway Corporation (MTRC) and the Kowloon Canton Railway Corporation (KCRC), issued Hong Kong dollar bonds, including retail bonds, with maturities ranging from seven to 15 years.

In May 2004, government successfully launched a HK\$6 billion toll road securitized bond, the largest securitization issuance in Hong Kong, and also the first securitization in Asia publicly offered to retail investors as well as the largest cash securitization in Asia. The program has received a total of eight financial awards for excellence for being the best domestic and Asian securitization project.

The HK\$20 billion Global Bond Offering launched by the Government in July 2004 was the largest-ever dual-currency and multi-tranche offering from the region available to both institutional and retail investors; it also won a financial award as the best sovereign bond.

Hong Kong Mortgage Corp launched a number of retail and institutional bond issues in 2004, including a HK\$20 billion Retail Bond Issuance Program, and a HK\$2 billion Mortgage-backed Securities (MBS) program which was the first-ever retail MBS in the whole of Asia.

Asian economies have also stepped up their efforts in strengthening the regional bond market development. In July the ABF Pan Asia Bond Index Fund (PAIF) was listed on the Stock Exchange of Hong Kong. The listed bond fund allows easy access by both institutional and retail investors who wish to invest in eight Asian bond funds in a cost-effective and convenient manner. Moreover, PAIF is the first foreign bond fund with access to the interbank bond market of the Chinese Mainland. This is an important step in the opening up of China's bond market to foreign participants.

Financial institutions on the mainland got approval, in principle, from China's State Council on January 10, 2007 to issue renminbi-denominated financial bonds in Hong Kong. HKMA and People's Bank of China signed a supplementary memorandum of cooperation to expand relevant cooperative arrangements to cover the new category of renminbi business.

To better inform investors about bond prices, HKMA launched the Bond Price Bulletin in early 2006. The bulletin provides investors with convenient on-line access to information on bond products and bond prices provided by eight major banks in Hong Kong, which provides indicative bid/offer prices of over 200 bonds of different currencies issued by both public and private sector entities.



## ONLINE TRADING

Online Trading has been booming over the past few years as more and more Stock Exchange Participants (brokers) offer their services over the Internet. With the launch of the Third Generation Automatic Order Matching and Execution System, AMS/3, by the Hong Kong Exchanges and Clearing (HKEx) in late 2000 investors have more direct access to the stock market through the Internet and other electronic channels.

In 2001, an order routing system (ORS), an open system enabling investors to place stock market orders through the Internet, mobile phones and other electronic channels, was added. The new system makes the exchange one of the world's most sophisticated markets - likely to pave the way for introduction of 24-hour trading. A prime feature is that it allows investors direct access to the trading system. Dedicated ORS Service Center hotline: 2840 3416.

*Pls go to [http://www.amcham.org.hk/hongkong/establishing\\_office.html](http://www.amcham.org.hk/hongkong/establishing_office.html) to view web edition supplements.*

Hong Kong's Securities and Futures Commission (SFC) has published Management, Supervision and Control Guidelines, which apply to securities dealers and fund managers who are registered with the SFC. Where such people provide custody services, the guidelines include a requirement for effective procedures and controls to be established and followed when handling client assets. The registered person is expected to perform regular reconciliations, and to provide periodic statements of holdings to clients.

Indirectly, Asian custodians are often required to meet international standards in their custodial operations, because of the demands which will be placed on them by fund managers and global custodians which are seeking to appoint Asian custodians or sub-custodians.

Changes to SEC Rule 17f-5 have meant that US custodians and fund managers can use a wider range of custodians and depositories in a greater number of markets. However, the US person must exercise due diligence in selecting and monitoring the service providers to be used. This will involve scrutiny at a detailed level of the operations of the Asian custodian, and that custodian will need to demonstrate sound operating procedures and controls.

In Hong Kong, following government's intervention to support the stock market in August 1998, heavy short-selling by investors led to wide-scale settlement defaults. This, in turn, led to stricter enforcement by HKEx, which operates the Central Clearing and Settlement System (CCASS), of its T+2 settlement rules. At the time of effecting trades, particularly where the trade is a short sale covered by a borrowing, brokers will often seek written confirmation from the custodian that the stock will be available for settlement on T+2.

Investors who want to make short sales legally have to arrange a valid stock borrowing and lending arrangement with a holder of the shares before he places his order. Moreover, at the time of placing his order, he also has to state that it is a 'short sale' order. Nevertheless, not all listed shares are allowed to be short sold in the Automatic Order Matching and Execution System. Investors who want to know which securities are eligible for short selling can look up the Stock Exchange website: [www.hkex.com.hk](http://www.hkex.com.hk) or call its information service hotline 2810 8886.

## MARKED TO MARKET

To monitor and control market risk exposure, HKEx evaluates the risk of unsettled positions by reference to the difference between the market value of the stock position and the original contract value; the differences between these two values are called 'marks', which is the level of risk expressed in money terms. All broker participants' open CNS stock positions are marked-to-market daily at day end and they have to pay net unfavorable marks in cash, or use stock as collateral, to HKEx. For further protection, broker participants' open positions are marked-to-market at 11am daily. A tolerance limit of \$5million has been



established for intra-day marks payment, which means that participants only need to pay marks in excess of this amount before 2 pm.

Broker participants have established a guarantee fund to cover default risk. The fund is available to HKEx to cover the unsettled CNS positions of any CCASS participant who defaults. It also covers the defective securities risk of defaulting broker participants. Hong Kong Clearing's procedures for dealing with broker participant default are supported by legislation.

## FINANCIAL SERVICES ORGANIZATIONS

	Tel	Fax	Email
ACI - Financial Markets Assn of Hong Kong (ACIHK) Website: <a href="http://www.acihk.org.hk">www.acihk.org.hk</a>	2543 7668	2815 9931	aci@acihk.org.hk
Asia Pacific Loan Market Assn Website: <a href="http://www.aplma.com">www.aplma.com</a> cliffordchance.com	2810 0229	2810 4708	helen.karuman@
DTC Assn Website: <a href="http://www.dtca.org.hk">www.dtca.org.hk</a>	2526 4079 2526 4070	2523 0180 2523 2764	pc_lund@dtca.org.hk
Electronic Investor Resources Centre Website: <a href="http://www.hkeirc.org">www.hkeirc.org</a>			
Financial Execs Institute (HK) Financial Services and Bureau (FSB) Website: <a href="http://www.info.gov.hk/fsb/">www.info.gov.hk/fsb/</a>	2566 0580	2234 5620	enq@fstb.gov.hk
HK Assn of Banks Website: <a href="http://www.hkab.org.hk">www.hkab.org.hk</a>	2521 1169	2868 5035	hkab@pacific.net.hk
HK Capital Markets Assn	2526 4079 2526 4070	2523 0180 2523 2764	
Hong Kong Exchanges and Clearing Limited (HKEx) Website: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a>	2522 1122	2295 3160	info@hkex.com.hk
HK Institute of Bankers Website: <a href="http://www.hkib.org">www.hkib.org</a>	2815 1552 2815 2044	2544 9946	hkib@hkib.org
HK Investment Funds Assn Website: <a href="http://www.hkifa.org.hk">www.hkifa.org.hk</a>	2537 9912 2877 2368	2877 8827	hkifa@hkifa.org.hk
Hong Kong Monetary Authority (HKMA) Website: <a href="http://www.info.gov.hk/hkma">www.info.gov.hk/hkma</a>	2878 8196 2878 8203	2878 8197	hkma@hkma.gov.hk
HK Monetary Institutions Assn	2868 3886	2868 3387	
Hong Kong Securities Institute Website: <a href="http://www.hksi.org">www.hksi.org</a>	3120 6100	2899 2611	info@hksi.org
HK Stockbrokers Assn Website: <a href="http://www.hksa.com.hk">www.hksa.com.hk</a>	2541 8832 2541 0322	2541 1368	

## FINANCIAL SERVICES ORGANIZATIONS

	Tel	Fax	Email
HK Venture Capital Assn Ltd Website: <a href="http://www.hkvca.com.hk">www.hkvca.com.hk</a>	2845 6100	2526 2713	enquiry@hkvca.com.hk
HSI Services Ltd Website: <a href="http://www.hsi.com.hk">www.hsi.com.hk</a>	2877 0704	2854 8919	hsil@hsi.com.hk
Life Underwriters Assn of HK Website: <a href="http://www.luahk.com">www.luahk.com</a>	2570 2256	2570 1525	info@luahk.org
Securities and Futures Commission of Hong Kong (SFC) Website: <a href="http://www.hksfc.org.hk">www.hksfc.org.hk</a>	2840 9222 2842 7666	2521 7836	
World Gold Council Website: <a href="http://www.gold.org">www.gold.org</a>			

## OVERSEAS ORGANIZATIONS

	Tel	Fax	Email
International Organisation of Securities Commission (IOSCO) Website: <a href="http://www.iosco.org">www.iosco.org</a>	34 91 417 5549	34 91 555 9368	mail@oicv.iosco.org
Nasdaq Website: <a href="http://www.nasdaq.com">www.nasdaq.com</a>			
World Federation of Exchanges Website: <a href="http://www.fibv.com">www.fibv.com</a>	33 1 5862 5400	33 1 5862 5048	secretariat@ world-exchanges.org

## HONG KONG BANKS

### Standard Chartered Bank (HK) Ltd



2820 3333

13/F Standard Chartered Bank Bldg.

4-4A Des Vouex Rd

Central, HK, China

Website: [www.standardchartered.com](http://www.standardchartered.com)

Peter Chan, Head, Global Corporates, HK

Terry Fung, Head, Multinational Corporates

## OTHERS

### Charles Schwab, Hong Kong, Limited



3198 4200

2506 4756

[asia@schwab.com.hk](mailto:asia@schwab.com.hk)

Shop A & C, G/F Hong Kong Club Building

3A Chater Road

Central, HK, China

Website: [www.schwab.com.hk](http://www.schwab.com.hk)

James Sun, Managing Director

Jennifer Cheung, Marketing Manager

### ICS Trust (Asia) Ltd



2854 4544

2543 5555

[ics@icstrust.com](mailto:ics@icstrust.com)

8/F Henley Bldg

5 Queen's Rd Central

HK, China

Website: [www.icstrust.com](http://www.icstrust.com)

Elizabeth L Thomson, President

Daniel H Booth, Vice President

*Since 1980, ICS TRUST has assisted multinationals and SME's to establish or re-organize operations in Asia. The comprehensive range of services provided includes, company structuring and incorporations (Hong Kong, China and Offshore jurisdictions), trusts and international taxation, private banking, trade documentation and L/C services and investment advisory. We manage all facets comprising a "virtual office" in Hong Kong.*