

A Quick Guide to Hong Kong's Financial System and Services



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About The Chin Family

The Chin Family is an independent and impartial financial education platform providing free information, resources and programmes. We help people in Hong Kong plan and manage their finances by making financial learning simple and enjoyable. The Chin Family is managed by the Investor Education Centre, which is supported by the Education Bureau and all four financial regulators.

Financial Regulatory System



As an international financial centre, Hong Kong offers a sound regulatory framework and a raft of safeguards to financial consumers. Understanding how our markets and market players work is essential before you make decisions on how to plan and manage your money here.

The Financial Services and the Treasury Bureau of the Hong Kong Special Administrative Region Government works closely with market regulators and participants to strengthen Hong Kong's role as an international financial centre, asset management centre and offshore renminbi (RMB) business centre.

The four financial regulators are the Hong Kong Monetary Authority (HKMA), the Insurance Authority (IA), the Mandatory Provident Fund Schemes Authority (MPFA) and the Securities and Futures Commission (SFC). They oversee the banking, the Mandatory Provident Fund (MPF), insurance as well as securities and futures industries respectively, and help maintain the financial stability of Hong Kong.

As part of Hong Kong's overall regulatory infrastructure for the financial services industries, the Investor Education Centre's role in financial education is complementary to the work of the regulators.

Financial Regulators

Hong Kong Monetary Authority

The HKMA was established on 1 April 1993 by merging the Office of the Exchange Fund with the Office of the Commissioner of Banking. Its main functions and responsibilities are governed by the Exchange Fund Ordinance and the Banking Ordinance. The HKMA reports to the Financial Secretary and is the government authority responsible for maintaining monetary and banking stability.

Insurance Authority

On 7 December 2015, the independent IA was established under the Insurance Companies (Amendment) Ordinance 2015. The IA is a new insurance regulator independent of the Government. The IA took over the regulatory functions of the then Office of the Commissioner of Insurance, which was a Government department, on 26 June 2017. Empowered by the Insurance Ordinance, the IA protects the interests of policyholders and promotes the general stability of the insurance industry. Its work is to authorise and supervise insurers. It is expected that the IA will take over the regulation of insurance intermediaries from the three Self-Regulatory Organizations, and implement a new statutory regulatory and licensing regime within two years thereafter.

Mandatory Provident Fund Schemes Authority

The MPFA is a statutory body set up in 1998 under the Mandatory Provident Fund Schemes Ordinance to assist Hong Kong's workforce to accumulate savings for their retirement, through regulating and supervising privately managed MPF schemes and overseeing the operation of occupational retirement (ORSO) schemes.

Securities and Futures Commission

Established in 1989, the SFC is an independent statutory body set up to regulate the securities and futures markets. With its powers derived from the Securities and Futures Ordinance and a subsidiary legislation, it maintains and promotes the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry, and offers protection and education to the public investing in financial products. Its investor education mandate has been transferred to the Investor Education Centre.



Regulation of Financial Markets, Products and Intermediaries in Hong Kong

Securities and Futures Commission

- ① Regulates and authorises publicly offered investment products and their offering documents eg unlisted investment products and listed exchange-traded funds (ETFs) and real-estate investment trusts (REITs) offered to the public in Hong Kong
- ② Licenses and supervises intermediaries eg brokers, investment advisers and fund houses
- ③ Directly regulates takeovers and mergers of listed companies
- ④ Oversees market operator ie Hong Kong Exchanges and Clearing Limited which regulates listed companies and listed structured products

Hong Kong Monetary Authority

- ① Regulates and supervises banks and deposit-taking companies
- ② Regulates intermediaries ie banks and bank staff who are registered with the SFC for carrying on businesses in securities and futures

Mandatory Provident Fund Schemes Authority

- ① Regulates and supervises MPF schemes / trustees
- ② Acts as the registrar of the ORSO schemes
- ③ Registers MPF intermediaries who are regulated by the HKMA, IA and SFC for carrying on business in banking, insurance and securities respectively

Insurance Authority

- ① Authorises and supervises insurance companies
- ② Regulates intermediaries ie insurance agents and brokers through overseeing self-regulatory organisations (The IA took over the regulatory functions of the Office of the Commissioner of Insurance on 26 June 2017. It is expected that the IA will take over the regulation of insurance intermediaries from the three Self-Regulatory Organizations, and implement a new statutory regulatory and licensing regime within two years thereafter.)



Markets and Products



Hong Kong has an integrated network of institutions and markets providing wide-ranging products and services to consumers and investors. Its financial markets are characterised by

- ① a high degree of liquidity with effective and transparent regulations
- ② minimum intervention by the government
- ③ a low and simple tax policy that allows room for business initiatives
- ④ a strong emphasis on the rule of law and fair market
- ⑤ a stable currency regime with the exchange rate of the Hong Kong dollar to the US dollar kept at about HKD7.8 against USD1
- ⑥ no exchange controls and restrictions on capital inflows and outflows



Markets

Hong Kong Exchanges and Clearing Limited (HKEx) operates the securities and derivatives markets in Hong Kong and is the frontline regulator of listed companies. Its stock exchange regulates listed issuers and administers listing, trading and clearing rules.

Financial institutions such as banks, fund managers, brokerages and insurance companies offer a wide range of banking, investment and insurance products which include funds and investment-linked assurance schemes (ILAS).

Some institutions also provide trading and settlement services.

The staff of banks and brokerages, insurance agents, insurance brokers, and investment advisers act as intermediaries to sell, distribute and advise on the financial products.



Products and services

Key points to note



Banking

Consumers can apply for credit cards and borrow loans from banks. Through opening savings, current, time deposits, non-HKD, integrated and investment accounts, they can transfer money, receive interest and conduct transactions of financial products.

- ① Avoid over-borrowing.
- ② Keep loan payments to a level you can comfortably repay.
- ③ Stay on track with your credit commitments.



Insurance

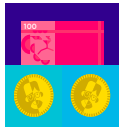
A full product range comprises life insurance policies (including ILAS), and non-life insurance policies (including medical, critical illness, accident, home, travel and motor) to cater for your needs.

ILAS is a long-term investment-cum-life insurance product, with its policy value determined by the insurer based on the performance of the "underlying or reference funds". The insurer, not the policyholder, owns ILAS's underlying assets.

- ① Ensure that you understand the risks of investing in ILAS.
- ② ILAS are generally designed for consumers who have a long-term investment horizon and a dual objective of investment and estate planning; intend and are able to pay the premiums for the whole policy term; and accept that their death benefits under the ILAS are subject to investment risks.

Products and services

Key points to note



Investment

Stocks

When you invest in Hong Kong's stock market, it is important to understand the risks and know your limits. While you might make gains, you could also lose.

- 1 Watch out market risk, interest rate risk, global and macroeconomic risk, business risk, uncertainties about corporate earnings and mis-governance, trading suspension and liquidity risk.

Bonds

A bond is a public or private debt instrument issued for fund-raising purpose. The range of product offerings, the open access for issuers and investors, and the increasing significance of offshore RMB bond issuances are conducive to developing Hong Kong into an international bond market.

- 1 Bonds carry credit risk, interest rate risk, exchange rate risk, liquidity risk, inflation risk and event risk.
- 2 High-yield bonds and bonds with special features bear additional risks.

Products and services

Key points to note

Funds

Funds must be authorised by the SFC before they can be offered to the Hong Kong public.

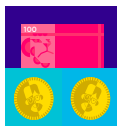
To be authorised, funds must meet the requirements in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, covering investment restrictions, fund manager / custodian / trustee eligibility, information disclosure and operational matters.

Unauthorised funds can be distributed privately to professional investors and the onus is on the fund manager to ensure that laws are not contravened.

- 1 SFC authorisation is not a recommendation or endorsement of a product nor does it guarantee the commercial merits of a product or its performance.
- 2 An unauthorised fund is not subject to the regulation of the SFC, its structures and operations may not be governed by any rules or regulations in Hong Kong and the offering document may not have been vetted by Hong Kong's authorities.

Products and services

Key points to note



Investment

ETFs

An exchange traded fund (ETF) tracks, replicates or corresponds to the performance of an underlying index or benchmark which can be on a stock market, a specific segment of a stock market, a group of stock markets or on bonds or commodities.

In some cases, an ETF tracks an index of a market where access is restricted (such as the China A-share market and the Indian market), thus giving investors indirect access to that market.

- ① Tracking errors arising from charges and index changes, counterparty risk and currency risk.

Leveraged forex

Leveraged foreign exchange (forex) contract is a “geared” investment in which you invest in one currency on margin in the expectation that its exchange rate against another currency will rise or fall. Whether you make a profit or suffer a loss depends on the difference between the exchange rates at which you open and close your position.

- ① Leveraged forex may bring substantial profits, but also equally, substantial losses, in a short period of time.
- ② It is only suitable for the disciplined investor who can afford the loss when the currency moves against the expectation.

Products and services

Key points to note

Structured products

A structured product is an investment product embedded with a derivative under which the return is typically linked to the performance of the reference underlying eg securities, index; they may be listed or unlisted.

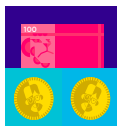
Listed structured products in Hong Kong include derivative warrants and callable bull/bear contracts (CBBC).

Unlisted structured products are traded over the counter at banks and brokerages, and include equity-linked investments (ELI), equity-linked deposits (ELD) and currency-linked investment products.

- ① Risks related to listed structured products are explained on the HKEx website.
- ② Related risks include
 - the product may not be principal-protected.
 - its maximum potential gain may be capped.
 - issuer credit risk.

Products and services

Key points to note



Investment

Derivatives

A derivative is a financial contract whose value derives from the performance of an underlying asset. Hong Kong's exchange traded derivatives include options and futures contracts¹.

- ① Issuer credit risk, absence of collaterals, gearing risk, expiry consideration, extraordinary price movements, liquidity risk and market risk.

RMB products

A renminbi (RMB) product is a generic term which may include a wide range of investment products issued, denominated or traded in RMB, or may have exposure to RMB-linked assets or investments.

There are different types of RMB investment products which may have limited or no RMB-related underlying investments and investors may be exposed to the currency risks of RMB as well as other market risks.

- ① RMB is a restricted currency and subject to exchange controls.
- ② RMB may not always appreciate.
- ③ You may not always receive RMB upon product redemption/sale.
- ④ Secondary market may not be liquid or there may not be an active secondary market for the product.
- ⑤ Onshore RMB (CNY) and offshore RMB (CNH) represent the same currency but are traded in different and separate markets which operate independently. RMB products traded in Hong Kong are typically valued at CNH, not CNY. CNH/CNY may trade at different prices.

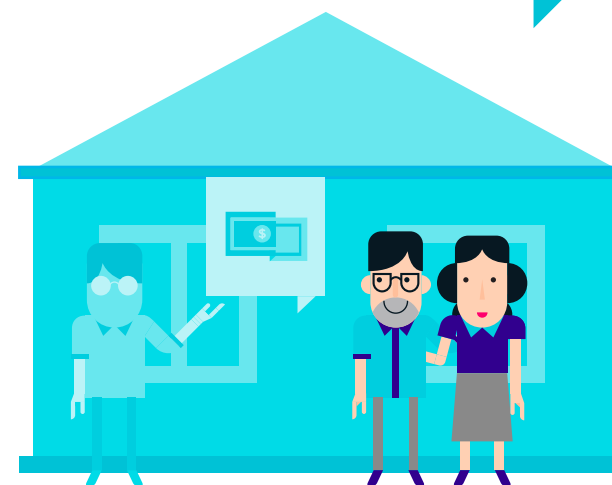
¹ For detailed product information, please visit sections Frequently Asked Questions and Understanding Risks of Structured Products of the HKEx website.

Buying property

People who consider migrating to Hong Kong through the Capital Investment Entrant Scheme (CIES) administered by the Immigration Department should note that property is no longer a permissible asset under the CIES although it is a highly popular investment avenue for consumers.

Hong Kong has no foreign-ownership restrictions on the sale of residential, office, commercial or industrial property. Starting in late 2012, non-permanent residents and companies must pay a 15% Buyer's Stamp Duty when buying properties in Hong Kong.

Qualified estate agents in Hong Kong are licensed by the Estate Agents Authority (www.eaa.org.hk).



Investing and Trading



Get prepared

Before you invest and trade, you should plan and do your homework.

First of all, you should assess your financial needs and financial situation, set the investment objectives and investment horizon, and find out your risk tolerance level taking into account your investment experience and knowledge and other personal circumstances.

Then, understand the nature and risks of the financial products, identify those that suit your personal circumstances and determine the weights of different asset classes in your investment portfolio.

Choose an intermediary

If you use an intermediary to buy investment products, procure insurance policies, trade securities or get investment advice, remember to first shop around to compare the services provided and the fees charged.

Besides, make sure the intermediary you use is properly licensed to conduct the regulated activity, and help the intermediary fully understand your circumstances and needs.

You should check the licensing status of an intermediary from the register of his or her respective financial regulator (please refer to the table on pages 30 and 31 for details).

Trading procedures

You should take the following important steps to trade or buy financial products.

Open an investment account and trade

- ① You can open a securities account with a brokerage by providing a valid identification document (eg passport), an address proof (eg water or electricity bill issued within the last three months), and other documents as required by the intermediary.
- ② A bank account may also allow you to make investments eg trading of stocks and funds. You should identify yourself to the bank with documents eg passport, and proof of address in your home country.
- ③ With the account ready, you can trade on the exchange or over-the-counter depending on the nature of your investment.
- ④ When signing a client agreement with the intermediary,
 - read the details carefully including the services provided remuneration eg commission, brokerage fees and any other charges, and the risk disclosure statements.
 - if you deal in margin trading, check the details of margin requirements, interest charges, margin calls, and under what circumstances your positions may be closed without your prior consent.
- ⑤ In Hong Kong, certain taxes such as withholding tax, capital gains tax and dividend tax do not apply.

Purchase insurance policies

- ① You can buy insurance protection from an insurance agent or broker in person in Hong Kong.
 - Produce a valid travel document and provide a postal address for future correspondence.
 - If you buy a life insurance policy, you may need to conduct a body check in Hong Kong. If your policy involves periodic premium payment, you need to be aware of the available payment channels.
- ② If you are from mainland China and are buying a life insurance policy, you should physically visit Hong Kong to procure the policy. You should also produce evidence of the date of entry.
- ③ Different insurers may have other different requirements for their clients.

Always answer all of the insurer's questions honestly and to the best of your knowledge. If you do not disclose truthful and accurate details, your policy may be terminated, or any future claim could be rejected.

Monitor continuously

Keep track of your investments. Pay attention to contract notes, monthly statements and any other reports provided by the intermediary or product issuer.

Investing overseas through a Hong Kong intermediary

You should check with the intermediary

- ① whether it has appointed any counterpart in that jurisdiction to execute the trades, and ask the intermediary for the details of the counterpart beforehand such as the regulation, if any, it is subject to;
- ② the relevant execution and settlement arrangements, as well as the obligations and responsibilities of each party involved in your transactions; and
- ③ any additional risks of conducting transactions and safekeeping your assets overseas, among other things.

Always read carefully the client agreement, risk disclosure statement and/or offering documents, etc before making investment decisions.



Safeguards



Protection

Misconduct may give rise to losses of consumers and disrupt the markets. Financial regulators strive to promote market fairness, protect investors and minimise crime through combating offences such as insider dealing, market manipulation, unlicensed activities and money laundering.

The Hong Kong Police Force and the Independent Commission Against Corruption fight commercial fraud and corruption respectively.

Issuers of authorised investment products should disclose adequate and accurate information in the offering documents including the Product Key Facts Statement, to help you make informed decisions.

Intermediaries eg staff of banks, brokerages, insurance agents and brokers, and investment advisers should explain to you clearly a product's features and risks.

Having regarded to the information collected through the "know your

client" or "financial needs and risk profile assessment" process, an intermediary is required, when making a recommendation, to ensure that the suitability of the recommendation for that client is reasonable in all circumstances.

The intermediary must tell you any benefits he or she would receive from a product issuer and his or her trading profit made from a back-to-back transaction, his or her capacity in the transaction and affiliation, if any, with the issuer, and generic terms and conditions under which you may receive a discount of fees and charges.

If you have no knowledge of derivatives but intend to invest in a derivative product even without any solicitation or recommendation from the intermediary, the intermediary must still explain to you the relevant risks or advise you if the investment is suitable for you, depending on whether the derivative product is listed.

Enquiries and complaints

If you have query about a product or service purchased, you should first of all contact the financial institution eg its complaints officer (if you want to file a complaint). If you are not satisfied with its response, approach the related regulator or self-regulatory body.

What

Where

How

Publicly offered investment products, SFC licensees, and suspected market misconduct and breaches of Takeovers Code

Securities and Futures Commission

(852) 2231 1222
complaint@sfc.hk
www.sfc.hk

Banks and their staff

Hong Kong Monetary Authority

(852) 2878 1378
bankcomplaints@hkma.gov.hk
www.hkma.gov.hk

Insurance companies, agents or brokers

Insurance Authority

(852) 3899 9983
enquiry@ia.org.hk
www.ia.org.hk

Conduct of insurance agents

Insurance Agents Registration Board set up under The Hong Kong Federation of Insurers

(852) 2520 1868
hkfi@hkfi.org.hk
www.hkfi.org.hk

What

Where

How

Conduct of insurance brokers

The Hong Kong Confederation of Insurance Brokers

Professional Insurance Brokers Association

(852) 2882 9943
info@hkcib.org
www.hkcib.org

(852) 2869 8515
info@piba.org.hk
www.piba.org.hk

MPF/ORSO schemes, MPF trustees, MPF intermediaries

Mandatory Provident Fund Schemes Authority

(852) 2918 0102
mpfa@mpfa.org.hk
www.mpfa.org.hk

Listed companies (listing-related matters except for takeovers and mergers)

Hong Kong Exchanges and Clearing Limited

(852) 2840 3895
info@hkex.com.hk
www.hkex.com.hk

Compensation

The Deposit Protection Scheme protects depositors in Hong Kong, be it personal or corporate should a bank fail. Up to HKD500,000 protection per depositor is offered for deposits, including principal and interest and denominated in HKD, RMB or any other currency, held with a bank member.

The Investor Compensation Fund compensates retail investors' losses due to default of a Hong Kong licensed or registered intermediary or an authorised financial institution in relation to products traded on the Stock Exchange of Hong Kong and Hong Kong Futures Exchange. The maximum compensation per investor as a result of a single default is HKD150,000 for trading securities or futures contracts.

The Compensation Fund compensates members of MPF schemes for losses of accrued benefits that are attributable to misfeasance or illegal conduct committed by MPF trustees and other persons concerned with the administration of the schemes.

Resolution

The Financial Dispute Resolution Centre provides financial consumers with an independent, affordable and transparent avenue for mediation and arbitration to resolve monetary disputes with financial institutions which are authorised by the HKMA or licensed by/registered with the SFC.

The Insurance Complaints Bureau (ICB) offers the insuring public free service for insurance claims complaints arising from all types of personal insurance policies of which the total claim amount does not exceed HKD1,000,000. Besides, the ICB provides mediation service to handle non-claim related disputes.

Legal redress

If you are unsatisfied with the outcome of your complaint, you may seek legal advice and decide to take the matter to court.

- ① The Small Claims Tribunal for claims of up to HKD50,000
- ② The District Court for claims above HKD50,000 and up to HKD1,000,000
- ③ The Court of First Instance of the High Court of Hong Kong that has unlimited jurisdiction



What

Where

How

Protection for deposits

Deposit Protection Scheme

(852) 1831 831
dps_enquiry@dps.org.hk
www.dps.org.hk

Losses due to default of intermediaries for exchange-traded products in Hong Kong

Investor Compensation Fund

(852) 2523 7382
icc@hkicc.org.hk
www.hkicc.org.hk

Losses due to conduct of MPF trustees and people concerned with scheme administration

Compensation Fund

(852) 2918 0102
mpfa@mpfa.org.hk
www.mpfa.org.hk

Mediation and arbitration of monetary disputes

Financial Dispute Resolution Centre

(852) 3199 5100
fdrc@fdrc.org.hk
www.fdrc.org.hk

Claims complaints about personal insurance policies

The Insurance Complaints Bureau

(852) 2520 2728
icb@icb.org.hk
www.icb.org.hk

Getting Useful Information



Product information

To find out more about a product, you should always

- 1 read all the product offering documents or principal brochures which can be obtained from the issuer and/or intermediary;
- 2 check with the issuer and/or intermediary to see whether the product is authorised by the SFC;
- 3 seek professional advice from the intermediary about the product (including the details on its fees and charges and risks); and
- 4 where necessary, request the issuer to provide additional information, which you may do via your intermediary.

Trading information

Having bought a financial product, it is critical for you to keep track of its trading information.

What	Where
Listed securities and derivatives prices, disclosure of interest and market statistics	HKEx - HKExnews
Bond prices and related information	HKMA - Central Moneymarkets Unit Bond Price Bulletin
Retail fund prices, sales and redemptions, and related information	Hong Kong Investment Funds Association and individual fund houses
Underlying fund prices of ILAS	Insurance companies
Interest and currency exchange rates	Banks

Intermediaries information

Look up public registers maintained by regulators or self-regulatory bodies to check if an intermediary is properly licensed, authorised or registered.

Regulated activities	Key information	Source
For example, securities and futures dealing and advising and leveraged forex as defined under the Securities and Futures Ordinance (SFO)	Licence details, contact details of complaints officer and any records of public disciplinary actions taken by the SFC	"Public Register of Licensed Persons & Registered Institutions" on SFC website

Regulated activities	Key information	Source
Banks' securities business and/or other regulated activities as defined under the SFO	Registration details and any records of public disciplinary actions taken by the SFC and/or HKMA	"Register of Securities Staff of Authorized Institutions" and "Register of Authorized Institutions and Local Representative Offices" on HKMA website
Sales, marketing and giving advice on MPF schemes	Registration status, contact details of intermediary and any public disciplinary actions taken by MPFA	"Register of MPF Intermediaries" on MPFA website
Business of selling/ advising on insurance policies	Registration number, appointing insurer(s) and expiry date of registration fee	"Register of Insurance Agents" of the Insurance Agents Registration Board on The Hong Kong Federation of Insurers website
	Member status, membership number, contact details and line of business	Register on The Hong Kong Confederation of Insurance Brokers website
	Member number and registration number, contact details and line of business	Register on Professional Insurance Brokers Association website



What to check from home

If you are a national of a country or region outside Hong Kong, you should check with relevant authorities in your home country or region whether any requirements are imposed on you for investing overseas such as capital gain tax, currency conversion restrictions or foreign exchange controls or any other legal restrictions.

This publication is intended to provide a general overview for information and educational purposes only and is not a comprehensive treatment of the subject matter. The information is provided generally without considering specific circumstances and should not be regarded as a substitute for professional advice. The Investor Education Centre (IEC) has not advised on, passed on the merit of, endorsed or recommended any of the products/services or types of products/services referred to in this publication. Readers should seek professional advice if they consider necessary.

Examples and case studies provided in this publication are for educational purposes only.

