



COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE GENERAL XV

Internal Market and Financial Services

General matters and coordination, free movement of persons and direct taxation

External dimension of the internal market and financial services

Brussels, 2 June 1995

Ref: JV/gg - jv\tr\hongkong

XV-A-2

HONG KONG

[REDACTED]

[REDACTED]

CEE: XIV / 4 D

Rue de la Loi 200, B-1049 Brussels, Belgium - Office: C 107 8/4327.

Telephone: direct line (+32-2)296.30.34, secretariat: 295.22.45, exchange 299.11.11. Fax: 295.66.95.

Telex: COMEU B 21877. Telegraphic address: COMEUR Brussels.

Introduction

In 1993, GDP in Hong Kong was 897 bn HKD (97.bn ECU¹), the real growth rate was 5.5%. With a population of 5.9 mn, this represented a GDP per head of 152,130 HKD (16,790 ECU) compared to 15.800 ECU in the EU.

CREDIT INSTITUTIONS

Establishment

Hong Kong has a three-tier banking system made up of licensed banks, restricted licence banks and deposit taking companies. The latter are active in underwriting securities, fund and unit-trust management, as well as in other investment banking services.

Licensed banks can perform all banking services and have the exclusive right to offer current accounts and savings accounts. At the end of 1994, Hong Kong had 180 licensed banks, of which 41 were from the EU. Total assets of licensed banks amounted to HKD 6900.5 bn in 1994.

Restricted licensed banks engage primarily in merchant banking and capital market activities. They are not permitted to conduct retail operations. At the end of 1994, Hong Kong had 63 restricted license banks, of which 6 were from the EU. Total assets of restricted licensed banks amounted to HKD 263.4 bn in 1994. Restricted licensed banks may only accept deposits of HKD 500.000 or more.

Deposit taking companies are mainly owned by or associated with banks and engage in a range of activities including consumer finance and securities business. These are only allowed to take deposits of 100,000 HRD or more with an original maturity of at least three months. At the end of 1994, Hong Kong had 137 deposit taking companies (dtps), none of which were from the EU, although several (13) were Hong Kong incorporated entities owned by EU parents. Total assets of deposit taking companies amounted to HKD 168.5 bn in 1994.

Foreign banks may establish in the form of wholly owned subsidiaries, as deposit taking companies. As licensed banks or restricted licence banks they have to establish in the form of a branch. Licensing criteria require that an applicant be predominantly beneficially owned by Hong Kong interests. Foreign banks may, however, acquire a controlling interest in a local bank.

One condition for establishing a licensed bank branch is reciprocity. Others include home supervision approaching or corresponding to Basle standards, consent of the home authorities for a branch in Hong Kong and total assets in excess of US\$ 16 bn (although this may be waived). Foreign banks are expected first to establish a representative office prior to upgrading to a licensed branch.

¹ Exchange rates :

At 1993 year end 1 ECU = 8.6191 HKD

Annual average 1 ECU = 9.0595 HKD

On 30 September 1994, the rule limiting foreign banks to maintain offices to which customers have access to only one building (incl. ATMs) was modified to permit foreign banks to establish a regional office and one back office in a building or buildings separate from its branch office in Hong Kong.

All licensed banks are required to be members of the Hong Kong Association of Banks.

	Number	Assets (HKD bn)	Deposits (HKD bn)
Licensed banks :	180	6900.5	1884.3
Domestic	32	1305.1	955.0
Foreign non-EU	107	4831.9	728.6
Foreign EU	41	763.3	200.6
Restricted licensed banks :	63	263.4	37.4
Domestic	35	176.9	24.6
Foreign non-EU	22	66.7	9.6
Foreign EU	6	19.8	3.2
Deposit taking companies :	137	168.5	19.9
Domestic	134	158.7	19.6
Foreign non-EU	3	9.7	0.2
Foreign EU	0	0	0

Source Hong Kong Monetary Authority - Monthly Statistical Bulletin.

Activity

Foreign banks are granted national treatment in conducting their activities.

INSURANCE

Establishment and activity

Foreign insurance companies may establish and operate under national treatment conditions

Table 2 - Indicators of insurance business - Year 1993			
	Life	Non-life	Total
Premiums (in mn HKD)	15,490	17,082	32,572
Premiums as % of GDP	1,8	2,0	3,8
Premiums per capita	2,582	2,847	5,429
Number of insurance companies, of which -	40	189	229
. EU insurance companies	6	43	49
. Non-EU insurance companies	34	146	180

Source : Office of the Commissioner of Insurance and the Regime from the Occupational Retirement Schemes.

SECURITIES

The Stock Exchange of Hong Kong is the second largest in Asia and ranks 7th in the world in market capitalisation. It plays a significant and growing role in raising equity capital for state-owned companies from the People's Republic of China. At the end of 1994, the number of listed firms was 529. The number of foreign companies listed on the Stock Exchange amounted to 85. The total number of members was 563.

Establishment

Hong Kong via subsidiary branches or acquisition. Prudential requirements are the same for domestic and foreign firms.

One of the requirements for individual membership is that applicants are required to have been ordinarily resident in Hong Kong for five out of seven years immediately preceding application.

The Hong Kong Futures Exchange offers stock exchange index and sub-index futures, index options and three-month Hong Kong Interbank Offered Rate futures. Since 31 March 1995 the futures exchange now offers stock futures on HSBC Holdings and HK Telecom. It also offers stock futures and gold futures. At the end of 1994, 41.5% of the members were foreign companies, 11.9% were from the EU.

Securities Market Indicators Hong Kong		
	1994	1993
Turnover in equity shares (HKD bn)	1137	1223
Turnover as % of GDP	112	136
Capitalisation equity shares (HKD bn)	2085	2975
Number of companies with shares listed	529	477

Source : Financial Services Branch. Hong Kong Government.

Activity

Foreign securities companies receive national treatment in conducting their activities.