

LCQ14: Propelling Hong Kong into an international gold trading centre

Following is a question by the Hon Robert Lee and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (November 6):

Question:

The 2024 Policy Address has proposed to propel Hong Kong into an international gold trading centre and create a commodity trading ecosystem, so as to further consolidate and enhance Hong Kong's status as an international financial centre. In this connection, will the Government inform this Council:

(1) given that the Airport Authority Hong Kong (AAHK) has recently announced the expansion plan of the Hong Kong International Airport Precious Metals Depository, under which its vaulting capacity will be expanded up to 1 000 tonnes in phases, whether the Government knows the timetable of the expansion plan, and how AAHK will make full use of the potential of the facility;

(2) how the Government will make good use of the only exchange in Hong Kong which trades physical gold and silver, i.e. the Chinese Gold and Silver Exchange Society, so that it can actively tie in with the Government's policies to propel Hong Kong into an international gold trading centre;

(3) regarding the development of Hong Kong into an international gold trading centre, of the Government's initial thinking on improving the relevant financial infrastructures and support (e.g. mode of regulation, bank account opening process, testing and certification of gold, talent training, etc.), as well as helping the industry enhance its service quality to align with international standards;

(4) given that the Dealers in Precious Metals and Stones Registration Regime (the Regime) was implemented on April 1 last year, of the implementation situation of the Regime (including the number of applications); whether the Government has reviewed the effectiveness of the Regime, as well as its burden and impact on the operation of the industry;

(5) given that some members of the industry have suggested that the Government should strive to join the Regional Comprehensive Economic Partnership (RCEP) as soon as possible, so that the industry can enjoy zero tariff for exporting gold and other precious metals from Hong Kong to RCEP member states, of the current progress of Hong Kong's application for accession to RCEP, and whether the Government has assessed the impact of RCEP accession on enhancing the global competitiveness of Hong Kong's precious metals industry; and

(6) whether the Government has studied how to strengthen the co-operation between the Hong Kong Exchanges and Clearing Limited and major commodities and futures exchanges in the Mainland, so as to contribute to enhancing our country's pricing power in the international commodities market?

Reply:

President,

In consultation with relevant bureaux including the Transport and Logistics Bureau and the Commerce and Economic Development Bureau, our consolidated reply to the six parts of the question is as follows:

(1) to (3) and (6)The Third Plenary Session of the 20th Central Committee of the Communist Party of China (CPC Central Committee) adopted the Resolution of the CPC Central Committee on Further Deepening Reform Comprehensively to Advance Chinese Modernization. The Resolution calls on Hong Kong to fully harness the institutional strengths of "one country, two systems" while consolidating and enhancing its status as an international financial, shipping and trade centre.

In the Policy Address this year, the Chief Executive has emphasised the need to explore new growth areas. Building an international gold trading centre is a new growth point for Hong Kong to consolidate and enhance its status as an international financial centre. Gold serves as a crucial anchor in the precious metals category, possessing multiple attributes as a commodity, a reserve asset, and an investment product. Under increasing global political and economic uncertainties, gold is one of the key hedging tools. With the geopolitical environment becoming more complex and some regional situations remaining unclear, it is expected that global demand for gold will remain substantial. Many investors would like to store physical gold in different geographical locations, which presents opportunities for Hong Kong to develop the gold market.

Financial trading of gold generally refers to investors on the basis of needs making use of standard or tailored contracts to buy and sell physical gold or related spot or futures financial products (e.g. funds, forwards, swaps and futures). Experiences of overseas trading show that commodity markets, including those specialising in financial trading of gold, have their own characteristics. It takes time to build up trading and the ecosystem. While Hong Kong has the potential for both on and off-exchange transactions, the relevant development requires detailed planning and a gradual and orderly progression.

As the first step, the Government will focus on the development of world-class gold storage facilities, thereby attracting more investors and users to store gold in Hong Kong. Since 2009, the Airport Authority Hong Kong (AAHK) has been operating the Precious Metals Depository at the Hong Kong International Airport to provide storage and physical settlement services for precious metals. As the depository is nearing its full capacity, AAHK is planning to expand the storage in support of the Government's initiative to

develop world-class gold storage facilities and establish Hong Kong as an international gold trading centre. The expansion will be implemented in phases. During the initial phase, the capacity will be increased from the existing 150 tonnes to 200 tonnes, which will further be increased to up to 1 000 tonnes in subsequent phases with room reserved for further development. The Government is also pleased to see the industry's other plans to establish or expand gold storage, and will provide appropriate assistance if necessary.

Based on increased storage, we expect to scale up associated support services in insurance, testing and certification, logistics, etc, while in parallel expanding related transactions including collateral, loan and hedging, hence creating a comprehensive ecosystem. This will drive all-round multi-currency trading, clearing and delivery, as well as the development of the regulatory system, thereby establishing a holistic gold trading centre with an industry chain. We will also as appropriate explore mutual access with the Mainland financial market, covering spot and futures markets.

In the proactive development of gold trading in Hong Kong, the wisdom, contributions and concerted efforts of different sectors involved are needed. The Financial Services and the Treasury Bureau will set up a working group within this year to formulate plans on enhancing the trading and regulatory mechanisms of the market. Topics to be looked into will include gold supply and demand, product development, application of standards, clearing mechanism, logistics and storage, testing and certification, talent training, promotion in the Mainland and overseas regions, cross-boundary collaboration, etc. We are considering the composition of the working group, which will encompass industry professionals and local exchanges (e.g. the Hong Kong Exchanges and Clearing Limited and Chinese Gold and Silver Exchange). We will also communicate and liaise with the Mainland exchanges concerned.

(4) In response to the fourth round of mutual evaluation report completed by the Financial Action Task Force (FATF) from 2018 to 2019, which proposed that Hong Kong should regulate precious metals and stones dealers, we amended the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) in 2022 to introduce the regulatory regime for precious metals and stones dealers. The regime implemented from April 1, 2023 is administered by the Hong Kong Customs and Excise Department (C&ED). Anyone who intends to conduct business on precious metals and stones in Hong Kong and conducts transactions (whether making or receiving payments) totaling HK\$120,000 or more in Hong Kong in the course of the business must apply to C&ED for registration. As of end-September 2024, C&ED has registered 8 000 dealers. Overall, the regime has been operating smoothly.

C&ED is proactive in conducting publicity to the industry and the public, by means of distributing promotional videos through different channels, holding public lectures, and conducting territory-wide outreach activities to communicate with dealers. Meanwhile, C&ED has provided relevant guidance to the industry, and set up an online system to receive and process applications, providing convenience for dealers to apply for registration. C&ED has also established the Dealers in Precious Metals and Stones Sector Advisory Group to liaise with different industry stakeholders periodically.

Since the implementation of the regime, the industry has responded positively, generally expressing understanding of the need for the regime and actively co-operating in fulfilling Hong Kong's responsibilities as a member of FATF.

The regime effectively regulates registered precious metals and stones dealers in implementing anti-money laundering and counter-terrorist financing requirements in compliance with international standards. The Government will continue to monitor market conditions and risks, and analyse transaction information submitted by registered dealers in formulating comprehensive strategies and prioritising regulatory actions to enhance the effectiveness of the regime.

(5) The development of financial trading of gold will also help further consolidate gold trade and related retail businesses. The Government has been actively seeking early accession to the Regional Comprehensive Economic Partnership (RCEP). Right after RCEP came into force on January 1, 2022, the Government promptly submitted Hong Kong's formal accession request. At the same time, the Government has proactively made use of different occasions to express Hong Kong's keen interest in joining RCEP to its members and explained Hong Kong's active role in promoting regional economic integration and development. The Central People's Government fully supports Hong Kong to join RCEP. During overseas visits, senior officials of the Government have also expressed to the relevant leaders of RCEP members that Hong Kong is ready to join RCEP, and have received positive responses. We welcome the adoption of the Procedures for Accession to the RCEP Agreement by the RCEP Joint Committee in September 2024. We will actively follow up with the RCEP Joint Committee, and strive to build consensus from different sectors and places to support Hong Kong to join RCEP as soon as possible. Upon Hong Kong's accession, the tariff concession and other trade facilitation measures under the Agreement will help enhance the competitiveness of Hong Kong's related industries and their products in the RCEP markets.