

Treasury Management in Hong Kong

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Hong Kong Framework

Hong Kong is an island near mainland China which is a Special Administrative Region (SAR) of the Peoples Republic of China (PRC) and a former British colony.

The unit of currency is the Hong Kong dollar (HKD). It is divided into 100 cents and commonly referred to as the Hong Kong dollar. The Hong Kong dollar is freely traded on the foreign exchange market and its value is directly linked to the US dollar at the rate of HKD 7.80 = USD 1.00.

The Hong Kong Monetary Authority (HKMA) functions as the central bank and regulates all financial institutions in the country. Bank notes are printed by the HKMA but issued by three commercial banks (Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, and the Bank of China). These banks deliver US dollars to the Exchange Fund managed by the HKMA as backing for the notes they issue at the linked rate of HKD 7.80 = USD 1.00. There are no central bank reporting requirements and the regulatory environment is open.

The Hong Kong Monetary Authority (HKMA) is the settlement authority for interbank payments. All licensed banks maintain a settlement account with the HKMA and are direct participants in the interbank clearing. The HKMA and the Hong Kong Association of Banks (HKAB) jointly own the Hong Kong Interbank Clearing Limited (HKICL) which handles all interbank clearing services in Hong Kong.

There are three clearing services that relate to cash and treasury management.

1. The high value system is the Clearing House Automated Transfer System (CHATS). All licensed banks participate in CHATS settling their obligations through accounts maintained with the HKMA. CHATS payments are final and irrevocable and may be settled for value today (RTGS) or value next day (RTNS). Daylight overdrafts are generally not permitted which ensures settlement finality. There is no minimum or maximum value for transfers through CHATS.
2. The Electronic Clearing (ECG) handles low value, high volume transactions and is functionally similar to an ACH. ECG includes POS and ATM transactions, direct debits/credits (called autopay), and funds transfers related to share transactions on the stock exchange. Settlement is across participant accounts with the HKMA and takes place on a next day basis.
3. The Paper Check Clearing (CLG) is for paper based negotiable instruments such as checks. Checks are presented to the HKICL every evening, sorted by the HKICL, and sent to the drawee banks that evening. Dishonored items are netted from each drawee's obligations and the remainder is settled through participant accounts with the HKMA on a next day basis. In addition, there is a Joint Clearing Facility (JCF) between the HKMA and the Shenzhen Branch of the People's Bank of China (PBOC) which speeds the processing

Weblinks

Background information from the [US CIA](#), the [US State Department](#), and the [US Department of Commerce](#)

Country profile information from [Ernst & Young](#) and the [Financial Times](#)

Summary tax information from [DTT World Tax](#)

News and policies of the [Hong Kong Monetary Authority](#) and the [Hong Kong SAR](#)

Websites of the [Hong Kong Trade Development Council](#), [Electronic Payment Services \(EPS\)](#), and the [HK Clearing](#)

Commercial banking websites of the [Hang Seng Bank](#) and [Citibank Hong Kong](#) (For HSBC and Standard Chartered see

of HKD checks drawn on banks in Hong Kong and deposited with banks in Shenzhen.

Corporate residence is not a major determinant of taxation in Hong Kong. The Hong Kong authorities generally use an operations test to determine the source of profits. This involves identifying the operation most important in earning the profit and the place at which the operation is performed. Income derived in Hong Kong is taxed at 16%. Income not derived in Hong Kong is not taxed. The approach is open to interpretation which makes prior consultation with the authorities a prudent step.

Treasury Management

Hong Kong's location, colonial status, and pro business environment helped it rise to prosperity in the 19th century and stay there in the 20th. Business headquarters for regional financial operations are often established in Hong Kong. Due to the high cost of doing business in Hong Kong, companies rarely establish new Shared Service Centers (SSC) and Regional Treasury Centers there. Along with regional centers like Singapore and Tokyo, the Asian treasury centers function much as their European counterparts do in Belgium, Dublin, and London.

All common treasury management techniques are permitted in Hong Kong including leading/lagging, re-invoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. Hong Kong's position as a financial center makes it an ideal location for a regional or global netting center. Pooling of Hong Kong dollars is permitted and the pooling of other currencies is not prohibited.

The Hong Kong dollar's linkage to the US dollar makes it less used in international trade than the US dollar given the reserve currency role of the US dollar. The Foreign exchange (FX) market in Hong Kong is large and vigorous and trading is a major revenue source for foreign and domestic banks.

Multiple HKD accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted. Restrictions by the HKAB limit the ability of corporations to run round trip sweep from current accounts to savings accounts and back but this is likely to change in the near future.

Accounts

The basic HKD operating account is referred to as a current account and may be held by resident or non-resident corporations. The HKAB currently prohibits the payment of interest on current accounts but this is likely to change in the near future. In the interim, corporate savings accounts are an option for earning interest. Overdrafts are permitted by arrangement with the account holding bank.

Resident and non-resident corporations may hold accounts in Hong Kong that are denominated in currencies other than the Hong Kong and US dollar.

There are a number of short term investment options for resident or non-resident corporations. Time deposits with tenor from overnight to one year, swaps to other currencies, and HKMA notes are popular choices.

Overdrafts are permitted, with the amount and rate determined by each

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Online editions of the [South China Morning Post](#) and the [Hong Kong Standard](#)

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bank. Along with money market lines - essentially revolving credit - they comprise the principal sources of short term finance. In general, bank finance continues to be the major source of funding.

Payments and Receipts

Checks, cash, and ATMS are widely used in settlements. ECG (Autopay) is also a popular way of settling utility bills and receiving salary payments. Larger settlements can also be handled by check because direct presentment and CHATS can ensure same day receipt of funds.

Lockbox type arrangements are permitted, widely used, and offered by most banks. Hong Kong's central location and efficient air service make processing a multi currency cash letter a very efficient process.

Controlled disbursement is possible because of the check clearing cycle but is virtually unheard of. Limited float and efficient alternatives for managing corporate liquidity make it unnecessary.

Technology and Marketplace

Hong Kong has a modern telecommunications system including fiber optic cable and digital switches. Electronic banking products including access systems and balance reporting, are available and commonly used. Bandwidth is reasonably priced and readily available. In addition to an excellent infrastructure, Hong Kong also has a number of value added networks (VANs) that enable efficient domestic electronic commerce.

Hong Kong is a ferociously competitive regional banking center and home to strong local, regional, and international banks many of which are themselves international banks. Traditional colonial powers such as HSBC and Standard Chartered have had their grip on the market loosened following the return of Hong Kong to China but remain very strong - in Hong Kong and the region. As with London, virtually any bank with international pretensions maintains an office in Hong Kong, often to support trade finance initiatives. The customary international players including ABN-AMRO, Bank of America, Citibank, Chase, and Deutsche Bank all have large presence in the SAR.

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