

Budget Speech by the Financial Secretary (4)

International Financial Centre

66. The development of Hong Kong as an international financial centre has dovetailed with the needs of our country and attuned to the pulse of the global investment market over the past few decades. As a result of such development, an extensive pool of capital, investors, entrepreneurs and professional services talent was created in Hong Kong. Our market size continues to grow with new services and products rolling out one after another. Following the continuous expansion and enhancement of the mutual access regime and our implementation of various policies to promote the transformation of the market structure in recent years, Hong Kong's role and function as the international financial centre of our country have been further enhanced. Hong Kong has risen to a new level of development, with a wider scope of services and a more comprehensive industrial chain. The clustering effect in respect of financial institutions has also become more prominent.

67. The 14th Five-Year Plan expressly supports Hong Kong in enhancing our status as an international financial centre, strengthening its functions as a global offshore Renminbi (RMB) business hub, an international asset management centre and a risk management centre, as well as deepening and widening mutual access between the financial markets of Hong Kong and the Mainland, so as to develop a high-quality GBA.

68. We will endeavour to achieve the goal of enhancing the capability of the financial sector in serving the real economy. While making rapid development, we need to strike a balance to maintain stability and security, enabling Hong Kong to fully realise its market potential as well as achieving rapid, long-term and steady market development. The steady development of our country provides the most solid backing for Hong Kong. Under the "dual circulation" strategy, our country's continuous reform, high-quality two-way opening up, ongoing RMB internationalisation and transformation to a green and zero-emission economy have brought us new missions and opportunities. Hong Kong has to proactively develop a more vibrant and diversified financial market in terms of type of investment products, risk management tool, appropriate corporate financing arrangement, treasury management needs, etc. By doing so, we can definitely ensure a stronger development of our financial market, through which we can deepen and widen the mutual access between Mainland and international capital markets, thereby facilitating Hong Kong's development into a more competitive and powerful international financial centre.

Securities and Bond Markets

Securities Market

69. In the past year, the securities market continued to flourish. The Hong Kong stock market recorded an average daily turnover of \$166.7 billion last year, representing an increase of 29 per cent over 2020. Funds raised through initial public offerings (IPO) in Hong Kong amounted to nearly \$330 billion during the same period, making Hong Kong the fourth largest IPO centre in the world. Hong Kong remains a main listing platform worldwide.

70. The increase in trading and market capitalisation of Hong Kong stocks was attributable mainly to the series of reform implemented in the past few years to enhance the competitiveness of the Hong Kong market, including allowing emerging and innovative enterprises with weighted voting rights structure as well as pre-revenue or pre-profit biotechnology companies to list in Hong Kong and providing facilitation for qualifying issuers to seek secondary listing in Hong Kong.

71. As at the end of last month, a total of 70 companies have listed in Hong Kong under the new regime, raising more than \$570 billion, representing nearly half of the total funds raised during the same period. Currently, the new economy enterprises account for more than 20 per cent of the total market capitalisation in Hong Kong. Among them, 48 are healthcare and biotechnology companies. They have raised over \$110 billion in total, turning Hong Kong into Asia's largest and the world's second largest fundraising hub for biotechnology and spurring the rapid and comprehensive development of the biotechnology ecosystem in Hong Kong.

72. Continuous operational enhancement, system reformation and innovative development are important means to empower and accelerate the development of the Hong Kong market. In January this year, after striking a balance amongst considerations such as the need to ensure the quality of listed companies, investor protection and market development, the Hong Kong Exchanges and Clearing Limited (HKEX) launched a listing regime for Special Purpose Acquisition Companies (SPAC), enabling experienced and reputable SPAC promoters to source new and innovative enterprises for merger and acquisition, with a view to assisting emerging enterprises with potential in listing through an unconventional initial offering and providing a new alternative listing route in Hong Kong.

73. Moreover, with the continuous development of the Mainland economy, enterprises have substantial financing needs in the international market. However, due to the increased risks and uncertainties of listing in overseas markets, many China Concept Stock companies have chosen to return. We have already made preparation for their return, including allowing Greater China companies without weighted voting rights structure and which are not from innovative sectors to seek secondary listing in Hong Kong, and offering more flexibility to issuers seeking dual-primary listings. These measures will help further attract quality China Concept Stock companies to list in Hong Kong and provide more choices for market players, thereby increasing market liquidity and enhancing the competitiveness of Hong Kong as a global financing platform.

74. On market development, considering the fact that there are some large-scale advanced technology enterprises which require substantial

capital for their R&D work but are not qualified for listing as they fail to meet the profit and trading record requirements, the Securities and Futures Commission (SFC) and the HKEX are reviewing the Main Board Listing Rules and, having due regard to the risks involved, examining the revision of the listing requirements to meet the fundraising needs of such enterprises.

Bond Market

75. Bond markets not only facilitate medium and long-term capital allocation and management, but also guide capital markets with greater depth and breadth towards the role of supporting a real economy. Developing the bond market in Hong Kong has been one of our key objectives in recent years. Apart from promoting the diversification of bond products, we strive to move towards the development direction of financial inclusion, enabling the public to participate and benefit from such inclusion.

76. The Steering Committee on Bond Market Development in Hong Kong, which was set up under my steer last year, has reviewed the current situation of the bond market in Hong Kong and put forward recommendations along three directions, i.e. enhancing market landscape, market infrastructure and market promotion to further promote the development of our bond market. We will progressively implement these recommendations, including expanding the issuance of green bonds, RMB bonds and Hong Kong Dollar bonds with longer tenor under government bond programmes to foster the development of local RMB and green bond markets and the formation of local yield curve; consolidating our strengths in promoting offshore RMB business and encouraging participation of Mainland enterprises and entities in Hong Kong's bond market; and stepping up efforts to promote Hong Kong's position as a bond centre among investors and bond issuers. Meanwhile, we will further enhance the functions of the Central Moneymarkets Unit by upgrading it to be a major central securities depository platform in Asia, while working on the development of an electronic bond trading platform to facilitate secondary transactions and expand investor base. Besides, we will also explore ways to enhance the prospectus requirements and, on the premise of ensuring due protection of investors, make it easier for retail investors to participate in and share the fruits of our bond market development.

77. We have been committed to promoting the development of retail bonds so as to benefit the public. I plan to issue no less than \$15 billion of inflation-linked retail bonds (i.e. iBond) and no less than \$35 billion of Silver Bond in the next financial year, with a view to offering members of the public, particularly the elderly, investment options with steady returns. Details of the first batch of retail green bonds for public subscription were announced last week. Members of the public can directly invest in green projects that provide environmental benefits so as to jointly create a green environment for green living in Hong Kong while gaining steady inflation-linked returns. I plan to continue to issue no less than \$10 billion of retail green bonds in the next financial year.

Offshore Renminbi Business Hub

78. Hong Kong's offshore RMB market is the largest in scale. With our

geographical and cultural edges, as well as first-mover advantage, Hong Kong has been performing the role of facilitator and innovator in proactively promoting the internationalisation of RMB in terms of offshore RMB capital flow, clearing volume, product type and risk management tool.

79. In the future, we will explore ways to further expand the channels for the two-way flow of cross-boundary RMB funds, as well as continue to promote the development of offshore RMB products, including introducing more diversified RMB wealth management products and bonds.

80. The working group formed by the SFC, the HKEX and the HKMA has completed the feasibility study on allowing stocks traded via the Southbound Trading of Stock Connect to be denominated in RMB, and put forth recommendations on detailed implementation. The working group will start making preparation in this regard, and will discuss with the regulatory authorities and relevant organisations in the Mainland. The Government will roll out supporting measures such as waiving the stamp duty on stock transfers paid by market makers in their transactions, so as to increase the liquidity of RMB-denominated stocks. We are also working with the regulatory authorities in the Mainland to explore enhancement measures for the Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao GBA, such as increasing quotas gradually, expanding the scope of eligible investment products, inviting more participating organisations and improving the distribution arrangement.

Deepen Mutual Access with the Mainland

81. Mutual access between the financial markets in the Mainland and Hong Kong has been deepening and widening. Last September saw the launch of the Southbound Trading of Bond Connect and the Cross-boundary Wealth Management Connect Scheme in the GBA. The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect have continued to expand, registering a substantial increase in trading volume. At the end of last year, a consensus was reached among the exchanges in the two places on the inclusion of exchange traded funds (ETFs) in the mutual market access programme. The mutual access of ETFs is expected to be implemented soon. As a risk management tool, the A-share index futures contract was also successfully launched last year. We will explore more risk management products.

Development of Family Office Business

82. In my last Budget, I proposed to review the relevant tax arrangements with the aim of further attracting family offices to establish a presence in Hong Kong. After discussing and examining the relevant arrangements with the asset management sector, we propose to provide tax concessions for the eligible family investment management entities managed by single-family offices. We will consult the sector on the detailed proposal as soon as possible and aim to submit legislative amendments to the LegCo within the current legislative session. It is expected that the relevant tax concessions will come into effect in the year of assessment 2022/23. I believe that the proposal will enhance our attractiveness as a hub for family offices, deepen Hong Kong's pool of liquidity and create more business

opportunities for the financial sector and other professional sectors.

Green and Sustainable Finance

83. The development of green and sustainable finance in Hong Kong offers promising prospects. By leveraging our advantages as an international financial centre, we can facilitate matching between international capital and quality green projects, contribute proactively to helping our country achieve its “3060 Target” in relation to carbon emission peak and carbon neutrality, as well as propelling Hong Kong towards our carbon neutrality target by 2050 and promoting green transformation of our economy.

84. Since the launch of the Government Green Bond Programme in 2018, a total of more than US\$7 billion equivalent of green bonds targeting global institutional investors has been successfully issued. Several important milestones have been achieved, including the issuance of a 30-year US dollar-denominated green bond and a 20-year euro-denominated green bond and, both of which are the first issuance among Asian governments, and have established an important reference benchmark for the thriving development of the bond market in Hong Kong. The successful issuance of RMB green bonds by the Shenzhen Municipal Government in Hong Kong has set a leading example for GBA cities to make good use of the Hong Kong market for green financing. It has also further strengthened Hong Kong’s functions as an offshore RMB hub and a green financial centre. This year, we will continue to issue green bonds totalling about US\$4.5 billion or equivalent.

85. The Green and Sustainable Finance Grant Scheme launched last year has been well received by the industry. Over 50 applications have been approved so far, covering various kinds of green and sustainable debt instruments. Among the applications approved, many of them involved subsidies for covering the external review costs relating to green and sustainable loans. To support enterprises in obtaining green financing, we will lower the minimum loan size from \$200 million to \$100 million in respect of applications for subsidies for covering external review costs under the scheme.

Infrastructure Financing Securitisation

86. To consolidate the vital role of Hong Kong as an infrastructure financing hub and a premier overseas financing platform under the national B&R Initiative, the Hong Kong Mortgage Corporation Limited (HKMC) will conduct a study on the implementation of a pilot scheme on infrastructure financing securitisation within this year. Under the scheme, the HKMC is expected to offer infrastructure financing securitisation products with a total value of US\$450 million to investors in the institutional market in the next financial year. This will enable the local infrastructure financing market to become more vibrant and diversified, and also facilitate the inflow of market capital to high-quality infrastructure projects.

Financial Technology

87. The HKMA and the People’s Bank of China (PBoC) signed a Memorandum of Understanding (MoU) in October last year. Under the MoU, the two authorities

agreed to develop a one-stop platform in the form of a “network link-up” to allow eligible financial institutions and technology firms to conduct pilot trials of cross-boundary financial technology (Fintech) projects concurrently in Hong Kong and the Mainland. At present, more than 10 local banks have expressed interest in using the platform. The HKMA and the PBoC are implementing the operation details of the platform.

88. The Fintech Proof-of-Concept Subsidy Scheme has received overwhelming response from the industry since its first launch last year. We will allocate a funding of \$10 million for launching a new round of the scheme this year. The aim is to promote continuous innovation by encouraging the financial industry to conduct Proof-of-Concept projects on more financial services and products. Besides, we propose to provide subsidies to research institutions under the new round of the scheme, so that they can put forward solutions as to how to remove development bottlenecks faced by the Fintech industry in Hong Kong.

Commercial Data Interchange

89. The “Commercial Data Interchange” (CDI) announced in last year’s Budget, which is targeted to be launched by the end of this year, is progressing well. A number of banks have successfully approved loans totalling over HK\$900 million to SMEs using various kinds of commercial data during the study and pilot launch stages of the project. The HKMA will enrich the data-driven financial service ecosystem by exploring the introduction of more commercial data sources in order to expand the function of the CDI. Concurrently, the Government will explore ways to enable the financial institutions, with the authorisation by the enterprises, to obtain the enterprises’ data kept in government departments from various departments in a computer-readable format. Priority will be accorded to data which facilitates the application for financial services by SMEs.

GBA Investment Fund

90. As I mentioned earlier, I will increase the funding allocated to the Hong Kong Growth Portfolio under the Future Fund by \$10 billion, of which \$5 billion will be used to set up the Strategic Tech Fund. As for the remaining \$5 billion, it will be used to set up a GBA Investment Fund, which will focus on investment opportunities in the GBA. With the country’s support, the GBA will be one of the key drivers of future regional economic development, and the prospect will be promising. As the relationship between Hong Kong and other cities in the GBA becomes closer, investing in the development of various priority industries in the region will not only inject more dynamism to the development of the region, but also bring economic and social benefits to Hong Kong.

(To be continued.)