

Budget Speech by the Financial Secretary (5)

Mutual Market Access

48. Apart from developing Hong Kong's capital markets, we have also been actively promoting mutual access with the Mainland. This will not only benefit our financial services industry, but also contribute to the two-way opening-up of the Mainland market to the world. The Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, the Bond Connect as well as the Mutual Recognition of Funds Arrangement are important milestones of mutual access between the capital markets of Hong Kong and the Mainland. We will continue our efforts to increase the quotas for and expand the scope of mutual access as well as extend the Bond Connect to cover southbound trading.

49. The weighting of China A-shares in various international indices has been increasing since its inclusion into MSCI, FTSE Russell, etc. in 2018. Rising international investment inflows into the Mainland's capital markets will help enhance Hong Kong's role as an offshore intermediary risk management centre for the Mainland's capital markets, thereby promoting the development of more financial products and services.

Wealth and Asset Management Industry

50. Hong Kong has an unparalleled edge in developing asset management business. We are one of the leading international wealth and asset management centres in Asia. In 2017, the total value of asset managed by Hong Kong's asset management industry amounted to over \$24 trillion. Over 2 200 public funds were approved for distribution in Hong Kong last year. The Greater Bay Area development will bring enormous business opportunities for Hong Kong.

51. In recent years, private equity funds are developing rapidly in the global market, drawing in the capital, talent and expertise necessary for the business development of a large number of business entities, technology companies and start-ups, while driving demand for related professional services such as management, accounting and law. The related economic activities brought by the operation of private equity funds also create business opportunities in the service industry, in particular conference and exhibition, hotel, and tourism.

52. Following the implementation of the open-ended fund company regime in July 2018, we are now studying the establishment of a limited partnership regime for private equity funds, with a view to providing the industry with more fund structure choices. We will also study the case of introducing a more competitive tax arrangement to attract private equity funds to set up and operate in Hong Kong.

53. Starting from 1 April this year, different types of onshore and offshore funds meeting certain conditions will be eligible for profits tax exemption. As regards fund distribution channels, following the agreements with the Mainland, Switzerland, France, the UK and Luxembourg, we will continue our work on mutual recognition of funds arrangements with other jurisdictions to broaden the distribution network of local fund products.

A Hub for Regional Headquarters

54. Having more enterprises outside Hong Kong to establish their regional headquarters here will help consolidate Hong Kong's status as an international financial centre and expand the size of our treasury market. Last year, the total number of companies with regional headquarters in Hong Kong increased to over 1 500, representing a year-on-year growth of over eight per cent. Besides, more and more Mainland enterprises have chosen Hong Kong as the platform for their businesses to go global.

55. Given that many multinational corporations co-locate their corporate treasury centres (CTCs) with their regional headquarters, we have been offering tax concessions to qualifying CTCs since 2016. The Government will continue to enhance the relevant tax measures to strengthen our competitiveness.

Insurance Industry

56. Hong Kong's insurance industry is well-developed and is an integral part of our diversified financial businesses. We are committed to promoting Hong Kong's role as an international risk management centre and helping the industry seize the business opportunities brought by the Greater Bay Area development and the Belt and Road Initiative.

57. In fact, businesses such as captive insurance, reinsurance and marine insurance have considerable development potentials in Hong Kong. To promote their development, we have introduced relevant taxation and regulatory measures. For example, last year we amended the legislation to extend the 50% tax concession for captive insurance companies' businesses to cover both offshore and onshore risks, with a view to drawing more enterprises to set up captive insurance companies in Hong Kong. Moreover, the Government will propose legislative amendments to provide tax concessions for marine insurance and the underwriting of specialty risks, and allow for the formation of special purpose vehicle companies specifically for issuing insurance-linked securities. We will continue to look into measures that are conducive to the development of the industry.

Financial Technologies

58. There are currently over 550 financial technologies (Fintech) companies in Hong Kong with wide business coverage. We have been keeping up our efforts to provide a conducive environment for Mainland and overseas Fintech companies and attract them to Hong Kong.

59. Last year saw significant progress in the application of Fintech. The Faster Payment System (FPS) and the Common QR Code Standard for Retail Payments launched by the Hong Kong Monetary Authority (HKMA) in September 2018 has received overwhelming response. The Government is planning for the use of the FPS to provide the public with greater convenience in paying taxes, rates and water charges. The Transport Department, the Immigration Department and the Leisure and Cultural Services Department (LCSD) will examine the feasibility of accepting payments through the FPS at their shroff counters on a pilot basis.

60. The HKMA will shortly issue virtual banking licences. Banks will also implement the Open Application Programming Interface functions in phases. These will bring more innovative banking services to the public. The Insurance Authority (IA) also approved the first authorisation of virtual insurers last December, marking a new chapter for insurance technology development in Hong Kong.

61. On the regulatory front, the Securities and Futures Commission (SFC) announced a new regulatory approach for virtual assets in November 2018 with a view to exploring ways for encouraging market innovation while protecting investors. Moreover, the HKMA and the SFC are making use of the Global Financial Innovation Network to share with other regulators the experience and knowledge in relation to the supervision of Fintech applications.

Talent Training

62. In last year's Budget, I announced the establishment of the Academy of Finance, which will serve to pool the strengths of tertiary institutions, the financial services sector, professional training bodies and regulators so as to attain two major goals, namely nurturing financial leadership and encouraging applied research in cross-sectoral areas. The HKMA is taking the plan forward in full swing, with a view to establishing the Academy in mid-2019.

63. Apart from grooming local talent, we also encourage financial talent from outside to pursue their careers in Hong Kong through various talent admission schemes.

(To be continued.)