Budget Speech by the Financial Secretary (6)

Financial Services

71. Comprehensive and superb financial services are crucial for an economy gearing for high-quality development. The value added of the financial services industry in Hong Kong accounted for 21 per cent of the GDP in 2019. Its share of the overall employment increased from 6.8 per cent in 2018 to 7.1 per cent in 2019. Hong Kong has always been an offshore financing centre for Mainland enterprises and an important conduit for international capital to enter the Mainland market. The capital markets of Hong Kong and the Mainland can complement and interact positively with each other.

72. Last year's total transaction value of the Southbound and Northbound Trading of Stock Connect programmes more than doubled that of the year before. The mutual market access programmes have been operating smoothly. Hong Kong can contribute more proactively to our country's "dual circulation" strategy. The FSTB, together with the HKMA, the Securities and Futures Commission (SFC) and the Insurance Authority (IA), has set up a joint working group to explore how Hong Kong can complement the economic and financial development of our country and meet the needs of international investors, and examine how to further enhance Hong Kong's competitiveness as an international financial centre on the basis of our existing capacities. It will set out the development blueprint and put forward concrete proposals and measures for engagement with the Central Authorities to secure their support.

Green and Sustainable Finance

73. Having regard to the goal of achieving carbon neutrality before 2050, we will continue to promote the development of green and sustainable finance, encourage institutions to conduct relevant investment, financing and certification activities and attract top-notch institutions and talent to Hong Kong to provide the relevant services. We will join hands with the financial sector and relevant stakeholders to take forward the strategic plan announced end last year by the Green and Sustainable Finance Cross-Agency Steering Group, thereby leveraging our role as an international financial centre to mobilise capital towards sustainable projects in the region and enhance Hong Kong's position as a green and sustainable finance hub in the region.

74. Last month, we successfully offered the second batch of government green bonds totalling US$2.5 billion, among which the 30-year tranche is the longest-tenor bond issued by the Government and the longest-tenor USD-denominated government bond in Asia to date. We plan to issue green bonds regularly and expand the scale of the Government Green Bond Programme. We propose to double the borrowing ceiling of the Programme to $200 billion to allow for further issuance of green bonds totalling $175.5 billion within the next five years, having regard to the market situation. This will also give

us more room for piloting the issuance of green bonds that involves more types of currencies, project types and issuance channels, thereby further enriching the green finance ecosystem in Hong Kong. We also plan to issue retail green bonds for the participation of the general public.

75. The Pilot Bond Grant Scheme and the Green Bond Grant Scheme rolled out by the Government previously will expire by mid-2021. We will consolidate the two schemes into a Green and Sustainable Finance Grant Scheme to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. The Scheme will last for three years and the HKMA will announce relevant details in due course.

Bond Market

76. Through the active promotion of the Government, Hong Kong's bond market has seen sustained growth, now ranking third in Asia (excluding Japan) in terms of total amount of bond issuances.   I will lead a steering group comprising members from the FSTB, the HKMA, the SFC, the IA and the Hong Kong Exchanges and Clearing Limited (HKEX), to formulate a roadmap for promoting the diversified development of Hong Kong's bond market and reinforcing its functions.

Consolidating Market Infrastructure

77. We will enhance the efficiency and capacity of our domestic Central Moneymarkets Unit (CMU) and introduce new functions to cope with the increasing market demand for Northbound Trading of Bond Connect and support its future commissioning of Southbound Trading, with a view to providing a risk-controlled channel for Mainland investors to participate in local and overseas bond markets. We will develop the CMU as a major central securities depository platform in Asia and in the world in the long-run.

Bond Connect Development

78. We target to expand Bond Connect to cover both Southbound and Northbound Trading. The implementation of Southbound Trading will further facilitate Mainland investors to make diversified asset allocation and present enormous opportunities for Hong Kong's financial industry. The HKMA and the People's Bank of China have set up a working group to drive the initiative of Southbound Trading of Bond Connect, with the target of launching it within this year.

Retail Bond Market

79. Given that the global low interest rate environment will persist for a considerably long time, and many people in the community, especially the elderly, prefer investment options with steady and reliable returns, we plan to continue to issue no less than $24 billion of Silver Bond and no less than $15 billion of iBond this year. We propose to raise the borrowing limit of the Government Bond Programme from $200 billion to $300 billion to allow sufficient room for bond issuances, so as to achieve the objective of promoting the sustainable development of Hong Kong's bond market. The

eligible age for subscribing Silver Bond will be lowered from 65 to 60.

Real Estate Investment Trusts

80. We are committed to developing the real estate investment trust (REIT) market in Hong Kong and reinforcing the city’s role as a premier capital raising centre, while offering investors a wide range of investment options with relatively stable returns. Subsidies will be provided for qualifying REITs authorised by the SFC and listed in Hong Kong in the coming three years to encourage the listing of more REITs in Hong Kong. The subsidy will cover 70 per cent of the expenses paid to local professional service providers for the listing of REITs, subject to a cap of $8 million per REIT. The SFC will announce relevant details in due course.

Securities Market

81. Undaunted by challenges from external factors, the Hong Kong stock market recorded an average daily turnover of $129.5 billion last year, representing an increase of 49 per cent over the year before. A total of $397.5 billion was raised through initial public offerings (IPO) during the same period, representing an increase of 27 per cent over the year before, and among which, over 90 per cent of the funds were raised by Mainland enterprises. Not only is Hong Kong a preferred international fundraising platform, it is also the world’s second largest fundraising hub for biotechnology companies. There have been 43 companies listed under the new listing regime in Hong Kong since its introduction, raising a total of over $420 billion, which accounts for about 40 per cent of total IPO funds raised in the period. These companies have a combined market capitalisation of over $11 trillion, accounting for about a quarter of the current total market capitalisation in Hong Kong. They include ten China Concept Stock companies returning to Hong Kong for secondary listing and 31 pre-revenue or pre-profit biotechnology companies. Our earlier efforts in enhancing the listing regime are gradually delivering results.

82. The HKEX will review the overall secondary listing regime, including whether Greater China companies with non-weighted voting rights structures have to be companies in the field of I&T in order to seek secondary listing in Hong Kong through the new concessionary route, as well as their corresponding market capitalisation requirements. The HKEX will consult the market in due course.

83. Stock Connect expands the depth and breadth of the capital market in Hong Kong, and is in line with our country’s financial development strategy. We will seek to expand its capacity continuously, including the progressive inclusion of ETF and other types of assets as well as expansion of the scope of eligible securities. With international investors’ increased participation in the A-share market through Stock Connect, there is a growing demand for using A-shares index futures to hedge market risk. The HKEX will accelerate the preparatory work for the launch of MSCI China A-Index Futures contract.

Insurance and International Risk Management Centre

84. We are currently undertaking a series of legislative work to provide for half-rate profits tax concessions to eligible insurance businesses including marine insurance and specialty insurance; facilitate the issuance of insurance-linked securities (ILS) in Hong Kong; expand the scope of insurable risks of captive insurance companies; and enhance the group-wide supervision framework by the end of next month. We are also preparing for the implementation of a Risk-based Capital Regime for the insurance industry to replace the rule-based capital adequacy regime.

85. I propose launching a two-year Pilot Insurance-linked Securities Grant Scheme to attract insurance enterprises or organisations to issue ILS in Hong Kong. The amount of grant for each issuance will be capped at $12 million, depending on the maturity of the ILS. The IA will announce the details in due course.

Asset and Wealth Management

86. Since the establishment of the two new fund structures, namely the Open-ended Fund Company (OFC) and the Limited Partnership Fund (LPF), the investment fund regime of Hong Kong has become more comprehensive. With 11 OFCs and over 100 LPFs already set up, Hong Kong's status as an international asset and wealth management centre has been consolidated. We plan to submit a legislative proposal in the second quarter of this year to allow foreign investment funds to re-domicile to Hong Kong for registration as OFCs or LPFs.

87. OFC suits various types of investment funds. We will provide subsidies to cover 70 per cent of the expenses paid to local professional service providers for OFCs set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of $1 million per OFC. The SFC will announce relevant details in due course.

88. We have introduced an amendment bill to provide tax concessions for carried interest issued by private equity funds operating in Hong Kong. We strive to secure the LegCo's passage of the bill within the current session for the tax concession arrangements to apply starting from 2020-21.

Family Office Business

89. To enhance our attractiveness as a hub for family offices, InvestHK and regulators will offer one-stop support services to family offices interested in establishing a presence in Hong Kong. We will also review the relevant tax arrangements.

(To be continued.)