LCQ14: Integrated development of financial industries of Shenzhen and Hong Kong

Following is a question by the Hon Robert Lee and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (January 31):

Question:

On December 21 last year, the Central Authorities promulgated the Overall Development Plan for the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone (Qianhai Overall Development Plan), which includes deepening the opening up and innovation of the financial industry and deepening the integrated development of financial services between Shenzhen and Hong Kong. In this connection, will the Government inform this Council:

(1) given that Qianhai is one of the major co-operation platforms in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), whether the authorities will discuss with the Mainland regulatory authorities on conducting a pilot trial in Qianhai to progressively implement a mutual recognition mechanism for professional qualifications in securities, futures and asset management, etc in GBA, so as to dovetail with the efficient flow of talents between the two places;

(2) given that the Qianhai Overall Development Plan supports the deepening of the pilot trial for the Qianhai Qualified Foreign Limited Partnerships (QFLP), whether the authorities can clarify the applicable tax rates (including income tax and dividend tax) for QFLP in Qianhai; whether service support centres will be established to assist Hong Kong's limited partnership funds in participating in the pilot trial; and

(3) given that the Qianhai Overall Development Plan proposes to explore mutual access between the financial markets of Hong Kong and Macao at a high level, whether the authorities and the Mainland regulatory authorities will study, on the existing basis, the introduction of more connectivity products, such as the Commodities Connect, Futures Connect and IPO Connect; if so, of the specific measures and implementation timetable?

Reply:

President,

The Overall Development Plan for the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone (Qianhai Overall Development Plan) states that the development of the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone is an important initiative for supporting Hong

Kong's social and economic development; fostering a higher level of co-operation among Guangdong, Hong Kong and Macao; and establishing a new development paradigm in pursuing opening up. On finance, the Qianhai Overall Development Plan proposes to deepen the integrated development of finance in Shenzhen and Hong Kong, enhance the capacities of financial services for serving the real economies of Shenzhen and Hong Kong, and promote innovation in the Qianhai financial regulatory mechanisms, thereby engendering new opportunities for Shenzhen-Hong Kong financial co-operation.

Besides, the Central financial authorities and the People's Government of Guangdong Province jointly promulgated the "Opinion on Providing Financial Support for the Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone" (the Opinion) in February last year, setting out 30 measures on financial reform and innovation, leveraging Qianhai's deepening reform to support Hong Kong's integration into the national development of the reform and opening up of the financial market.

There has been close financial co-operation between Shenzhen and Hong Kong. We have established a task force with the Shenzhen Municipal People's Government on promoting financial mutual access, seeking to jointly take forward various financial co-operation initiatives. Premising on this good foundation, we and the financial regulators will continue to seize the opportunities availed by the directions set out in the Qianhai Overall Development Plan and the Opinion to enhance the co-operation and communication with Shenzhen, and promote the sustainable industry development.

My reply to the question raised by Hon Lee is as follows:

(1) Under the Mainland and Hong Kong Closer Economic Partnership Arrangement, the Mainland has since 2004 simplified the relevant procedures for securities practising registrations and futures or fund qualification applications on the Mainland by Hong Kong professionals. Hong Kong professionals holding relevant licences issued by the Securities and Futures Commission (SFC) are only required to pass relevant examination on Mainland laws and regulations and are exempted from examination on professional knowledge. The SFC has offered reciprocal arrangement to the Mainland professionals.

The Qianhai Overall Development Plan mentions enhancing the employment environment for talents by allowing eligible professionals in finance (who possess occupational qualifications in Hong Kong, Macao or with international recognition) to provide services in Qianhai after filing or registration, with their offshore job experience recognised. The regulators in Hong Kong and the Mainland will continue to examine enhancement measures to explore ways of broadening Hong Kong professionals' entry into the Mainland market, thereby increasing the flexibility in the provision of human capital for the Mainland and Hong Kong markets.

(2) We, together with the Shenzhen Qianhai Authority, jointly promulgated the 18 Measures for Supporting the Linked Development of Shenzhen and Hong Kong

Venture Capital Investments in Qianhai in September 2022, which provide facilitation and preferential policies for the Hong Kong private equity industry, including supporting eligible Hong Kong limited partnership funds to set up qualified investment entities in Qianhai to commence onshore investment; enhancing the entry threshold and application procedures of the Qianhai Qualified Foreign Limited Partnerships (QFLPs) pilot scheme, expanding the investment scope and reducing the processing time.

The Qianhai Authority has implemented the QFLP enhancement measures since May 2023. Compared with other pilot areas, Hong Kong investors enjoy various advantages under Qianhai's QFLP pilot scheme (such as lower entry requirements, wider investment scope, more convenient cross-boundary investments, and simpler negotiation procedures). For entry requirements, on top of the SFC's Type 9 licence holders, the Qianhai Authority has added the SFC's Types 1 and 4 licence holders as well as banking and insurance licence holders as eligible entrants, and lowered the requirements on capital and assets under management. On widening the investment scope, non-performing assets are included on top of equity of non-listed companies, non-publicly issued or traded ordinary shares of listed companies, rights issued to existing shareholders of listed companies, etc. On simplifying the application procedures, the Qianhai Authority has reduced the application materials from 11 to eight items, changed the requirement on hardcopy submission to online digital submission, and pledged to complete negotiation with applicants within ten working days after their full submission of qualified materials. These measures have increased the application and processing efficiency of the QFLP pilot scheme.

We understand that the tax rates currently stipulated in the Law of the People's Republic of China on Enterprise Income Tax are applicable to the Qianhai QFLPs, and the tax rates applicable to individual enterprises and investors will depend on their actual circumstances. The Qianhai Authority's dedicated officers are responsible for liaising with interested Hong Kong investors and facilitating them in participating in the Qianhai QFLP pilot scheme. As of end-2023, 26 institutions from Hong Kong have set up operations in the Qianhai venture capital cluster.

(3) As an international financial centre, Hong Kong possesses unique institutional advantages and qualities under "one country, two systems", and is the testing ground and firewall at different stages of the financial reform of our country. Hong Kong contributes to the high-quality opening-up of the Mainland financial market and the consolidation of institutional, normative and operational experiences for the development of the Mainland market and its gradual alignment with international standards.

With the strong support from the Central People's Government (CPG), a number of mutual market access schemes facilitating two-way cross-boundary investment have thrived and achieved various breakthroughs over the past few years, further fostering the connectivity and concerted development of the Mainland and Hong Kong markets. Measures cover the introduction of offshore A-share index futures in Hong Kong, inclusion of Exchange-traded Funds and stocks of foreign companies under Stock Connect, and launch of mutual access between the interest rate swap markets (which introduces for the first time mutual access arrangements in the realm of financial derivatives products). On January 24 this year, the CPG and the HKSAR Government jointly announced six new measures to deepen the financial co-operation between Hong Kong and the Mainland, which include expanding the list of eligible collateral for the Hong Kong Monetary Authority's Renminbi (RMB) Liquidity Facility by covering RMB bonds issued onshore by the Ministry of Finance and the Mainland policy banks; further opening up the onshore repurchase agreement market to all foreign institutional investors (including Bond Connect investors) that already have access to the China Interbank Bond Market; and publicising the enhancements to the Implementation Arrangements for the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. The measures are conducive to the development of Hong Kong's offshore RMB market, thereby further consolidating Hong Kong's status as an international financial centre and a global offshore RMB business hub.

Looking ahead, the Government in collaboration with the financial regulators will continue to closely liaise with the relevant Mainland authorities in swiftly implementing the measures supported by the regulators in the two places. Among others, we will endeavour to take forward the inclusion of RMB counters under Southbound trading of Stock Connect, issuance of Mainland government bond futures in Hong Kong, and introduction of block trading under Stock Connect. Meanwhile, we will continue to explore with the relevant Mainland authorities various expansion and enhancement arrangements by seizing the opportunities brought by the national strategies and high-quality financial development of our country, with a view to furthering the interaction and integration of the capital markets in the two places, injecting new impetus into cross-boundary market liquidity, and promoting the development of the local financial services industry.