

Opening keynote address by Permanent Secretary for Financial Services and the Treasury (Financial Services) at AIMA APAC Annual Forum 2024 (English only) (with photos)

Following is the opening keynote address by the Permanent Secretary for Financial Services and the Treasury (Financial Services), Ms Salina Yan, at the AIMA (Alternative Investment Management Association) APAC (Asia-Pacific) Annual Forum 2024 today (October 24):

Jack (Chief Executive Officer of AIMA, Mr Jack Inglis), JiÅ™í (Deputy Chief Executive Officer and Global Head of Government Affairs, AIMA, Mr JiÅ™í Król), Murray (Chairman of AIMA Hong Kong Executive Committee, Mr Murray Steel), Michael (Managing Director and Co-Head of APAC, AIMA, Mr Michael Bugel), distinguished guests, ladies and gentlemen,

Good morning. It gives me great pleasure to address you all today at the 2024 APAC Annual Forum of the Alternative Investment Management Association (AIMA).

With more than 2 000 corporate members from over 60 locations over the world and significantly in the Asia-Pacific region, AIMA is a strong global voice of the alternative investment industry. The impressive congregation of the bright minds of alternative asset managers, financial regulators, legal and accounting professionals, fintech experts and many more here today speaks volumes about the keen interest of industry players to share views on the continued growth of the global financial markets. I can see that AIMA Hong Kong has done a fantastic job in organising the Forum and putting together a very rich agenda for us to ponder the challenges and opportunities in the evolving global environment.

For now, as a precursor to the discussions at the various panels later today, allow me to share with you how we see Hong Kong's capital market landscape through the lens of "resilience", "reform", and "responsibility".

Resilient market

The Hong Kong stock market as measured by the Hang Seng Index has registered a growth of over 20 per cent year-to-date. This puts us among the top performing international markets. Trading has been vibrant, with long-term institutional investors including fund managers and investment banks from the region and both sides of the Atlantic making up the majority of the buy side value over the recent period. And in September, the Hong Kong Exchanges and Clearing Limited (HKEX) welcomed in the second-largest initial

public offering (IPO) globally this year so far, raising over US\$4.5 billion. The derivatives market is equally active. An average of 1.5 million futures and option contracts were traded daily in the first nine months of 2024, an increase of 12 per cent year-on-year and a record high.

On the asset and wealth management front, Hong Kong managed about US\$4 trillion of assets last year, over 10 times our GDP (Gross Domestic Product). Net fund inflows jumped 3.4 times year-on-year. With over 650 private equity and venture capital firms, Hong Kong hosts a fund pool of private equity capital under management of over US\$230 billion, putting us at Asia's second place following the Mainland. It is no coincidence that we are also Asia's largest hedge fund hub and cross-boundary wealth management centre. Added to these, we are home to some 2 700 single family offices.

On fixed income, Hong Kong maintains its position as the primary location for arranging international bond issuances from Asian entities. Last year, close to US\$90 billion worth of international bond issuances from the region were arranged in Hong Kong, equivalent to around a quarter of the market.

The strong economic support measures recently announced by the Mainland central authorities has no doubt played a key role in the market's ongoing improvement. Weaving into the market resilience is the awareness and hard work to keep up the robustness of our trading and clearing systems buttressed with sound risk-management measures. Going hand-in-hand with such discipline is the focus on diversifying our financial platform so that market participants can play out their best and capture the opportunities when they arise.

In the public market, for example, we have introduced new listing avenues for pre-revenue biotech companies, innovative enterprises with weighted voting rights structures, and specialist tech companies, as well as a new concessionary route to secondary listings for overseas issuers. Overall, more than 300 new-economy companies have listed on the HKEX. They include 66 pre-revenue biotech companies, making Hong Kong one of the top fundraising hubs for healthcare companies.

To further attract listings of international and Mainland enterprises, the Securities and Futures Commission (SFC) and HKEX announced last week specific timelines in the vetting procedures of listing applications to provide greater certainty over the listing timeframe.

Turning to the private market, we introduced the limited partnership fund (LPF) structure in August 2020 to allow private funds to be registered in the form of limited partnerships. Since its introduction, the number of LPFs established in Hong Kong has seen an average 40 per cent annual growth and will soon hit the 1 000 mark.

Hong Kong has over 4 000 start-ups. In addition, as a result of the good work of the Office for Attracting Strategic Enterprises (OASES), over 100 strategic innovation and technology international enterprises will set up or

expand their businesses here, bringing in a total investment of more than HK\$52 billion so far. Next month, OASES will announce a new batch of strategic enterprises including artificial intelligence and big data analytics companies from different parts of the world to have a presence in Hong Kong. All these will offer investment possibilities for the alternative investment industry.

Continuous strategic reform

To seek continuous improvements, harness change and deliver results is the driving principle in furthering the development of our capital markets. Continuous strategic reform is indeed a key theme of the Policy Address delivered by the Chief Executive of the Hong Kong Special Administrative Region last Wednesday.

To enhance our international financial centre status and investment environment, the Policy Address has announced a number of reform proposals and I would like to highlight some of them here.

Notably, to support the development of the asset and wealth management industry, particularly privately offered funds, private equities and family offices, we will soon consult the industry on proposals to enhance the tax exemption arrangements for related entities through three main areas, first, expanding the definition of "fund" to cover pension funds and endowment funds so as to strengthen the development of "patient capital"; second, increasing the types of transactions eligible for tax concessions for funds and single family offices to cover emission derivatives or emission allowances, insurance-linked securities, loans and private credit investments, virtual assets, etc; and thirdly, removing the requirements for certification and hurdle rate for carried interest in seeking such tax exemption arrangements. We look forward to hearing your views when the details are available, which should be very soon.

On market infrastructure, we will upgrade the Central Moneymarkets Unit (CMU) to facilitate the settlement of assets denominated in different currencies by international investors. The fixed income market infrastructure will be enhanced by exploring the set-up of a central clearing system for RMB (Renminbi)-denominated bond repurchase (repo) transactions, making RMB sovereign bonds issued in Hong Kong a more popular choice of collateral in offshore markets.

We will also make good use of the currency swap agreement, and the Hong Kong Monetary Authority (HKMA) will expand the night-time, cross-boundary service capability of Hong Kong's RMB Real Time Gross Settlement System to facilitate global settlement in offshore RMB markets, and explore the provision of more diversified channels for obtaining offshore RMB financing.

We will continue to enhance our market infrastructure to enrich the offshore RMB business ecosystem in Hong Kong. As you know, Hong Kong currently processes about 80 per cent of global offshore RMB payments and has the largest offshore RMB pool, reaching RMB1.1 trillion in end-August this

year.

Looking beyond the Asia-Pacific region, we seek to establish connections with new and emerging markets, including the Middle East, to open up new capital sources and enable international investors to bolster their portfolio management through Hong Kong's capital markets. Following the listing of Asia's first ETF (exchange traded fund) tracking the Saudi Arabia market in Hong Kong in November 2023, we are glad to see the listing of two ETFs in the Middle East that track Hong Kong stock indices soon.

The Chief Executive's Policy Address also announced that we will build an international gold trading market and commodity trading ecosystem, leveraging on our advantages as one of the world's largest import and export markets for gold by volume, and foster the development of the related industry chain, ranging from investment transactions, financial trading, derivatives, insurance, storage, to trade and logistic services. We will set up a working group comprising experts and market players to work out the details.

One cannot actually leave the reform agenda without touching on the changes brought about by technology. Last year, we took the lead in introducing a virtual asset (VA) service provider regulatory regime that allow the operation of licensed VA exchanges. We will introduce a dedicated piece of legislation on the regulation of fiat-referenced stablecoins before year end. Then we will have another look at the VA over-the-counter landscape followed by public consultation, while hammering out a licensing regime for VA custodian service providers.

Renewed responsibility

This leads naturally to my third "R", "Responsibility". Introducing regulatory regimes for a digitally enabled financial medium to fulfil the twin objectives of fostering market development while protecting investor interests and managing risks is a responsible policy move.

We have, however, a heavier responsibility towards the Earth, our planet. Hong Kong takes our carbon emission net zero commitment seriously and we leverage our financial services platform to contribute to the green and sustainability global efforts. We are in a very good position to channel international capital to sustainable causes. This is best exemplified by over 230 ESG funds authorised by the SFC as of June this year, almost quadrupling the number of funds three years ago. Together, these funds manage close to US\$170 billion of assets.

For the third year in a row, Hong Kong topped the Asian market in terms of the volume of green and sustainable bonds being arranged. In 2023 alone, the total green and sustainable debt issued in Hong Kong exceeded US\$50 billion.

We will continue to incubate green and sustainable investment by fostering a conducive environment with transparent information. As the Policy

Address makes clear, we will launch a roadmap on the full adoption of the ISSB (International Sustainability Standards Board) Standards (International Financial Reporting Standards – Sustainability Disclosure Standards) within this year, leading Hong Kong to be among the first jurisdictions to align its local requirements with ISSB Standards. On this, we have been making good progress, including the introduction of new climate-related disclosures requirements for listed companies by HKEX for implementation under a phased approach from 2025; as well as the development of the Exposure Drafts for Hong Kong's sustainability reporting standards (Hong Kong Standards) in full alignment with ISSB Standards by the Hong Kong Institute of Certified Public Accountants (HKICPA). A public consultation on the Exposure Drafts is now underway. The roadmap will provide a transparent and well-defined pathway on sustainability reporting for listed companies and different sectors in the financial services industry, and support and assist businesses in making preparations for the implementation of the Hong Kong Standards.

A first edition of the Hong Kong Taxonomy for Sustainable Finance is already in the toolbox since May this year. It is now undergoing revision, and is in the next phase of development where the scope of sectors and economic activities to be covered will be expanded to include transition activities, etc.

As another piece of market infrastructure to connect capital with climate-related products and opportunities in Hong Kong, the Mainland, Asia and beyond, Core Climate, launched by HKEX, serves to facilitate effective and transparent trading of carbon credits and instruments to support the global transition to net zero. It offers quality carbon credits from internationally certified projects, covering forestry, solar, wind and biomass initiatives. It is currently the only carbon marketplace that offers Hong Kong dollar and RMB settlement for the trading of international voluntary carbon credits.

Closing

The IMF (International Monetary Fund) has just reconfirmed its forecast of world economic growth for 2024 to be 3.2 per cent. The same growth rate is forecast for 2025, slightly revised downward from its earlier forecast of 3.3 per cent but with a loud warning of instability and uncertainty in the horizon. As policy makers, we all have the responsibility to provide an enabling environment for businesses and individuals to thrive.

The Asia-Pacific region can provide a source of growth amidst the evolving global landscape despite the uncertainties. Hong Kong, with our unique combination of the China advantage and global strengths, will continue to sharpen our financial platform and capital markets through strategic reform and responsible development. On this note, I would like to exercise my privilege of being on the podium to add a fourth "R" and wish you a most rewarding day of discussions and networking at the Forum. Thank you.

