

SFST's speech at HKVCA Greater China Private Equity Summit 2024 (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the HKVCA (Hong Kong Venture Capital and Private Equity Association) Greater China Private Equity Summit 2024 today (May 20):

Conrad (Founder and Chairman, Strategic Year Holdings, Mr Conrad Tsang), Rebecca (Co-Founder and Managing Director, Asia Alternatives, Ms Rebecca Xu), Fred (Founder, Primavera Capital Group, Dr Fred Hu), distinguished guests, ladies and gentlemen,

It is a privilege to be here with you today. I would like to express my gratitude to the HKVCA for inviting me to join this flagship event, the Greater China Private Equity Summit 2024. I am delighted to have the opportunity to engage with you, the industry leaders and professionals of the PE (Private Equity) and VC (Venture Capital) sector, and to share with this global gathering the latest developments in Hong Kong's financial services sector.

We are living in extraordinary times, experiencing a fundamental shift in the global economy and unprecedented volatility in the international economic, political and social outlook. Despite the uncertain shocks and turbulence of the past few years, Hong Kong has navigated steadily as a leading international financial centre, strengthened our position at the forefront of innovations and maintained financial stability. In my remarks today I wish to share with you a number of topics covering globalisation and connectivity, the wealth management sector, green and sustainable finance, and fintech and artificial intelligence (AI). I hope these will set the scene for the many fruitful discussions curated by the organiser later for the event.

Globalisation and connectivity

First and foremost on globalisation and connectivity, despite geopolitical tensions and conflicts, I want to stress that Hong Kong will always be committed to promoting globalisation and international partnerships. It is indeed a key mission for the Hong Kong capital market to connect global investors with investment opportunities from around the world.

Through the development of various mutual capital market access schemes, Hong Kong has served as a crucial gateway for Mainland capital to access the international market, and a trusted conduit for international capital to invest in the Mainland market. This year marks the 10th anniversary of the landmark Stock Connect programme, a ground breaking initiative to foster

globalisation and promote capital market connectivity.

Since its establishment in 2014, the Southbound trading of Stock Connect has brought a net inflow of over HK\$3.1 trillion from the Mainland to Hong Kong and international markets, while the Northbound trading has channeled a net inflow of over RMB1.8 trillion from Hong Kong and international investors into the Mainland stock market as of the end of Q1 this year.

Hong Kong's distinctive advantage lies in our entrenched connection with the global market and the strong backing from our motherland. Last month, the China Securities Regulatory Commission (CSRC) announced a series of measures to further expand the mutual access between the capital markets of the Mainland and Hong Kong. These measures include the expansion of the eligible product scope of exchange-traded funds (ETFs) and the inclusion of real estate investment trusts (REITs) under Stock Connect, supporting the inclusion of Renminbi (RMB) stock trading counters under Southbound trading, enhancing the arrangements for mutual recognition of funds (MRF), and encouraging leading enterprises in the Mainland to list in Hong Kong.

On the derivatives side the mutual market access scheme has also yielded encouraging results. For Swap Connect which provides for mutual access arrangements between the Mainland and Hong Kong interest rate swap markets, the average daily turnover calculated on a monthly basis had nearly tripled from the first month of its launch to over RMB12 billion in notional amount in April this year, providing investors with a convenient and efficient risk management tool. A new round of enhancements was also announced earlier this month to enhance the efficiency of the mechanism and reduce participation costs, thereby further addressing the diverse risk management needs of domestic and foreign investors as well as promoting trading.

Another connectivity we seek to strengthen is the continual development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). As a highly international city within the GBA, Hong Kong proactively plays the role of a facilitator in international circulation under the "dual circulation" development strategy of our country. In January this year, the People's Bank of China (PBOC) announced a series of measures to deepen the financial co-operation within the GBA, further promoting Hong Kong's key role in this regard.

These measures include promulgating the implementation arrangements of the enhanced Cross-boundary Wealth Management Connect Scheme, introducing facilitative payment arrangements for Hong Kong and Macao residents purchasing properties in the Mainland cities of the GBA, and expanding the scope of Shenzhen-Hong Kong co-operation on cross-boundary credit referencing pilots. These new initiatives have served to deepen the mutual access between the financial markets and facilitate cross-boundary financing between the Mainland and Hong Kong, leveraging the GBA as a launching pad for innovations and further financial co-operation.

Wealth management

Secondly, let me come to the topic of growing our wealth management sector. Hong Kong's strategic location at the heart of Asia has allowed us to cultivate a thriving financial ecosystem and play a crucial role as a base for wealth owners to manage capital, solidifying our status as a global wealth and asset management centre. As of end of 2022, our assets under management reached HK\$30.5 trillion (around US\$4 trillion), with 64 per cent of the funding sourced from non-Hong Kong investors. A market study predicted that Hong Kong will take the lead as the largest booking centre in the coming year.

Also, Hong Kong's private equity capital under management amounted to US\$228.1 billion as of the end of 2023, ranking second in Asia just after Mainland China. With our status as both Asia's largest hedge fund hub and cross-border wealth management centre, Hong Kong is poised to maintain our position as an international asset and wealth management centre for the region, and we will continue to sharpen our competitive edge in this area, fostering long-term market development.

To attract more wealth owners and capital to come to our market, we officially launched the new Capital Investment Entrant Scheme (CIES) on March 1 this year. This scheme allows eligible investors who make HK\$30 million investment in permissible and required investment assets, including SFC (Securities and Futures Commission)-authorised funds, to pursue residency and development in Hong Kong. The new CIES will serve to strengthen the growth of asset and wealth management businesses, financial services, and related professional services, while also creating new business potential for the sector. I am glad to share with you the good response for the new scheme, with over 160 applications and thousands of enquiries received since launch.

And for the further measures we planned to support development of the industry, as announced in the 2024-25 Budget, a task force will be established to engage with the industry on measures for further developing the asset and wealth management industry. This includes enhancing the preferential tax regimes for funds, single-family offices, and carried interest, solidifying Hong Kong's position as an ideal base for wealth owners and managers. We look forward to working with all of you in this regard.

Green Finance

Let me move on to the next topic on green and sustainable finance. We are at a critical juncture in the fight against climate change, and finance is an indispensable tool for us. Our country has pledged to promote the comprehensive green transformation of economic and social development, aiming to peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060. The Hong Kong Government has also announced its target to achieve carbon neutrality before 2050 and unveiled the Hong Kong's Climate Action Plan 2050, demonstrating our unwavering commitment to addressing the pressing demand for green transition.

Hong Kong has been leading as an international green bond centre in Asia, striving to provide a high-quality green financing platform for

international issuers, including those from countries and regions along the Belt and Road Initiative. In 2023, the total green and sustainable debt (including both bonds and loans) issued in Hong Kong exceeded US\$50 billion, with the volume of green and sustainable bonds arranged in Hong Kong topping the Asian market, accounting for more than one-third of the market. This solidifies our leading position in financing green and sustainable companies and projects.

According to a recent research study, the voluntary carbon credit market is projected to hit US\$21.7 Billion within the next 10 years by 2032. Hong Kong is committed to capitalising on our strengths in developing this emerging market. In 2021, the Hong Kong Exchanges and Clearing Limited launched Core Climate, a voluntary carbon trading platform for eligible participants to trade voluntary carbon credits and neutralise or compensate for their carbon emissions. This platform connects capital with climate-related products and opportunities in Hong Kong, Mainland China, Asia, and beyond, mobilising investment flows into green projects and fostering a new financial infrastructure for climate finance and a sustainable future.

On the disclosure front, earlier this year in March my bureau announced a vision statement on developing the sustainability disclosure ecosystem in Hong Kong. Our vision is to be among the first jurisdictions to align the local sustainability disclosure requirements with the International Financial Reporting Standards – Sustainability Disclosure Standards (ISSB Standards), as we consider it essential to showcase our commitment to reinforcing Hong Kong's leading position on the international sustainable finance map and solidifying the competitiveness of businesses in Hong Kong to address the global demand for sustainability disclosure. To transform this vision into concrete actions, we will launch a roadmap within this year to provide a transparent and well-defined pathway on sustainability reporting for businesses in Hong Kong.

Fintech

Finally, on fintech and AI, technological advancement and fast-growing innovation are the keys to unlocking the next chapter of progress. A recent market finding indicates that almost 40 per cent of global employment is exposed to AI, resulting in higher efficiency and productivity. Financial services is no exception and it is anticipated that the waves of revolutionary changes will also expedite our innovation journey for fintech and AI.

The vibrant fintech ecosystem in Hong Kong accommodates around 1 000 fintech companies, including eight virtual banks, four virtual insurers, and two licensed virtual asset trading platforms. Many of these fintech companies have gained a foothold in GBA and the regional markets. Leveraging Hong Kong's strengths in financial services and sophisticated information and communication technology infrastructure, we are seeing great innovations in areas such as e-payment, RegTech, InsurTech, and WealthTech.

The development of AI has become an important global trend and it will

accelerate financial innovations. From Hong Kong's perspective, we must consider its far reaching impact on our sector. As an international financial centre, AI is already being applied in various areas of banking, securities, insurance, accounting, retirement protection, and green finance in Hong Kong. The government will strive to capitalise on the opportunities brought by AI while also managing the risks and challenges.

I have three assessments regarding the impact of AI on the economy and the financial industry. Firstly, the financial industry is data-driven, making it well-suited to embracing AI to significantly improve efficiency and competitiveness. Secondly, AI is a "double-edged sword" – despite its power and potential, improper use can bring huge risks, for example, hallucination for generative AI models. Thirdly, the enthusiasm for AI will continue to rise, and the amount of investment it attracts will continue to increase, creating new disruptive enterprises in the industry ecosystem and opportunities for investors. To address these, later this year, the Government will release a policy statement outlining our policy position and direction on the application of AI in the financial market.

Closing

Looking ahead, we will continue to build resilience and act as a bridge for international investors to seize opportunities in the global and Mainland markets, as well as in novel investment areas. I firmly believe that with enhanced financial co-operation and closer partnerships, we will create a favourable investment environment and prospects for our shared market and ecosystem.

Lastly, I would like to express my gratitude to the HKVCA for your continuous support and invaluable contribution to the Hong Kong financial services industry. Once again, I extend my sincere appreciation for the invitation to this summit, and I wish you all an engaging and fruitful discussion. Thank you.