SFST’s speech at Launch Webinar of Global Financial Centres Index 29 (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the Global Financial Centres Index 29 Launch Webinar today (March 17):

Distinguished guests, ladies and gentlemen,

I am pleased to join the Global Financial Centres Index 29 Launch Webinar today, and I am delighted to share with you the latest development of Hong Kong's financial services industry. Before I start, I must thank the Z/Yen Group and China Development Institute for surveying global market participants periodically, and compiling the widely recognised Global Financial Centres Index. Through examining the results of the Index, we are given the opportunity to understand how Hong Kong is perceived as an international financial centre, and how we could continuously improve ourselves. Given global financial markets are dynamic and fast moving, feedback from the report will be very important and also valuable as we look for new opportunities to enhance our competitiveness.

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 financial 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.

In the last report published in September 2020, Hong Kong was one of the top five leading financial centres in the world, rising by one place from the March issue of the index in 2020, and we were particularly recognised in the areas of Business Environment and Human Capital. For the latest result this time, we are glad to learn that Hong Kong is once again rising by one place, and will be ranked one of the top four leading financial centres globally. We also note that the overall ratings of financial centres ranked among the top positions in the report will be very close.

Hong Kong's financial markets have indeed performed very well over the last year. Despite challenges and uncertainties presented by the COVID-19 pandemic, our markets demonstrated resilience and robust performance in terms of IPO funds raised and trading volume. We ranked number two globally by IPO funds raised in 2020, amounting to over US$50 billion and recording a year-on-year increase of 27 per cent. In terms of average daily turnover in our securities market last year, the volume reached over US$16 billion, representing an increase of 47 per cent. Besides our traditional strengths as an international financial centre, this outstanding performance is attributed to the listing reform we introduced in 2018 allowing companies with weighted voting rights and pre-revenue or pre-profit biotech companies to list in Hong Kong. Leveraging the reform, not only is Hong Kong a preferred international fundraising platform now, it is also the world's second largest fundraising hub for biotech companies. Altogether, there have been 43 companies listed under the new listing regime in Hong Kong since its introduction, raising a total of over US$54 billion, accounting for about 40 per cent of total IPO funds raised in the period. These companies have a combined market capitalisation of over US$1.4 trillion, accounting for about a quarter of the current total market capitalisation in Hong Kong. They include 10 China concept stock companies returning to Hong Kong for secondary listing and 31 pre-revenue or pre-profit biotech companies. Our earlier efforts in enhancing the listing regime are gradually delivering results.

Building on the good foundation, the Financial Secretary has recently announced in his Budget a comprehensive plan to bring our market to a new level. That would cover the development of green and sustainable finance and our bond market, the consolidation and launch of four subsidy schemes, and setting out a blueprint for medium- to long-term development of our markets.

Having regard to Hong Kong's 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 our 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 our position as a green and sustainable finance hub in the region.

We would first raise the existing borrowing limit applicable to government bond and green bond by over US$12 billion respectively, such that there is room for the Government to issue bonds regularly having regard to market situation and demand. Bonds issued by the Hong Kong Government are indeed very much welcomed by international investors, as we successfully offered the second batch of government green bonds totalling US$2.5 billion in January, 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. Building on this good momentum, within the next five years, we will issue more than US$22 billion of green bonds, and will also pioneer the issuance of retail green bonds such that the investing public can also participate in this emerging market.

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. To further develop the market, we will enhance efficiency and capacity of the Central Moneymarkets Unit (CMU), the bond market infrastructure of Hong Kong, to support future commissioning of Bond Connect southbound trading, and to develop CMU as an international major central securities depository in the long run. The Financial Secretary will also chair a steering group comprising us as the policy bureau, our banking, securities, insurance regulators and our Exchange operator to formulate a road map for promoting diversified development of our bond market.

Given that the global low interest rate environment will persist for a considerably long period, 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 US$3 billion of Silver Bond and no less than US$1.9 billion of iBond this year. The eligible age for subscribing Silver Bond will be lowered from 65 to 60.

Next I will cover our subsidy schemes. Recognising the importance of green and sustainable finance as a global trend, the first subsidy scheme that we have is also targeted to develop this market. We will consolidate our existing Pilot Bond Grant Scheme and Green Bond Grant Scheme into a three-year Green and Sustainable Finance Grant Scheme to be launched in mid-2021, and the scheme will focus on green and sustainable financial products, covering more product types, external assessments and expenditure types. This scheme is expected to encourage more issuance of green financial products in Hong Kong, such that capital will be channelled to projects making positive environmental and social impact.

The second scheme would subsidise open-ended fund companies (OFCs), and it is the fourth step to develop our fund market further to the earlier establishment of new fund structures, provision of tax concessions for carried interest and legislative proposal to allow re-domiciliation of funds. The scheme would 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 around US$130,000 per OFC. We are confident that the scheme would encourage the setup of more OFCs in Hong Kong and consolidate our role as an international asset and wealth management centre.

The third scheme would subsidise REITs, real estate investment trusts, and cover 70 per cent of the expenses paid to local professional service providers for the listing of REITs in Hong Kong, subject to a cap of US$1 million per REIT. This would allow Hong Kong to capture the opportunities offered by listings of REITs with Mainland real estates or new infrastructures, for example logistics and IT, as underlying assets. As interest rate is expected to stay low for a more prolonged period of time, and as we face an increasingly ageing population, REITs as financial product would offer the public an additional investment option for the purpose of retirement planning.

The fourth scheme would subsidise issuance of insurance-linked securities, for example catastrophe bonds, by insurance companies or other institutions in Hong Kong, and the amount of grant for each issuance will be capped at around US$1.5 million. Also, to develop Hong Kong as an insurance and international risk management centre, 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, expand the scope of insurable risks of captive insurance companies, and enhance the group-wide supervision framework. 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.

Besides offering subsidies, we will also plan ahead to enhance the competitiveness of our market, expand our various Connect programmes with the Mainland market, and set out a blueprint for further developments of our markets. With respect to securities market development, the Stock Exchange will review the overall secondary listing regime, including whether Greater China companies with non-weighted voting rights have to be companies in the field of I&T (innovation and technology) to seek secondary listing in Hong Kong through the new concessionary route, as well as the market capitalisation requirements. Moreover, we have noted a new trend of special purpose acquisition companies (SPACs) in the global financial market. Our regulator and Stock Exchange would explore suitable listing regimes in view of this new trend, to enhance the competitiveness of Hong Kong as an international financial centre, while at the same time safeguarding the interests of the investing public.

Hong Kong is known to have launched a number of Connect schemes, allowing efficient access between the Mainland and international capital markets covering both stocks and bonds. These Connect schemes have been very successful as demonstrated by usage statistics. For Stock Connect, we noted average daily turnover increased by 119 per cent and 126 per cent year on year respectively for northbound and southbound trading in 2020. Bond Connect has also reached record volume in 2020 and it is now providing access into Mainland interbank bond market to over 2,300 market participants. Having regard to the successful experience of these Connect schemes, we have plan to expand them and to further enhance the role of Hong Kong to connect the Mainland and international capital markets. For Stock Connect, there will be progressive inclusion of exchange traded funds (ETFs) and other types of assets as well as expansion of the scope of eligible securities. Also, to cater for the increased allocation from international investors into the Mainland A-shares market, and the resulting risk management demand, our Exchange operator will accelerate the preparation for the launch of A-shares index futures contract in Hong Kong. For Bond Connect, our banking regulator and the People's Bank of China have set up a working group to drive the southbound trading initiative, with the target of launching it within this year.

Last but not least, Hong Kong can contribute more proactively to our country's "dual circulation" strategy. The FSTB (Financial Services and the Treasury Bureau), together with the HKMA (Hong Kong Monetary Authority), the SFC (Securities and Futures Commission) and the IA (Insurance Authority), 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.

To conclude, I would like to thank Z/Yen Group and China Development Institute once again for their work in compiling Global Financial Centres Index. I also note that our own Financial Services Development Council in Hong Kong is a member of the Vantage Financial Centres network supporting the work on Global Financial Centres Index. We look forward to further co-operation with all of you as we seek to continuously improve Hong Kong's status and role an as international financial centre. Thank you.