SFST's speech at virtual 20th HKVCA China Private Equity Summit (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the 20th HKVCA China Private Equity Summit held online today (August 17):

Conrad (Conference Chairman, Mr Conrad Tsang), Mr Chou (Hong Kong Venture Capital and Private Equity Association (HKVCA) Chairman, Mr Chin Chou), distinguished guests, ladies and gentlemen,

Good morning. Over the past years the China Private Equity Summit organised by HKVCA has been recognised as a flagship event for the industry, gathering venture capital (VC) and private equity (PE) practitioners, corporates and professionals to discuss the way forward for our industry. I am really honoured to take part in this significant event with all of you.

Many important topics concerning the industry will be discussed today, for example the impact of COVID-19, geopolitical situations, regulatory updates, and the latest trends of PE and VC investments across different industries. Before looking into these topics with the industry bright minds here today, I wish to share with you how our financial markets have performed, and from there we could set our sights on the future for further development. In particular, I wish to share with you my thoughts on the three major drivers for the industry, covering I&T (innovation and technology) and new economy development, carbon neutrality, and the Greater Bay Area (GBA). In my recent engagements with the industry, these three drivers are on top of everyone's minds, and I believe, as PE and VC managers, you have a unique role to play in fostering the development across these three areas.

The overall asset and wealth management market of Hong Kong has performed extremely well, despite challenges presented by the pandemic. Assets under management (AUM) grew by 21 per cent, reaching over HK$34 trillion in 2020, and we have observed net fund inflows of over HK$2 trillion into the market. As global investors continue to leverage Hong Kong in seeking investment opportunities, non-Hong Kong investors remained a major source of funding, accounting 64 per cent of our AUM. As our market continues to grow in size and diversity, we would have the capacity and scalability to innovate and achieve more. Through pro-market legislation and regulatory updates, our aim is to create a positive cycle that would allow the ecosystem of asset and wealth management to continuously grow and prosper.

Zooming into the PE segment of the market, Hong Kong has indeed demonstrated ourselves as an ideal place for operating PE funds. With close to 600 PE firms operating here, the AUM of the industry has reached US$170 billion, making Hong Kong, the city we love, the second largest PE centre in

Asia just behind the Mainland. Among the 20 largest global PE managers, 15 have established a presence here, and I very much look forward to more of them coming to Hong Kong.

Numbers and figures aside, PE and VC investments play a unique and important role in Hong Kong. In the context of our financial markets, PE and VC funds are structured and designed to take calculated risks, with a view to nurturing businesses that would eventually thrive and prosper. When businesses start to demonstrate credible profit models and prospects, our well-established IPO market would provide them with an avenue to tap into a larger pool of capital. Indeed, we pride ourselves in building one of the best markets for IPOs globally, catering for the financing needs of companies with different business profiles. In the first half of 2021, our IPO market raised over HK$210 billion of funds for newly listed companies, ranking the first in Asia and third in the world.

In order to stay competitive and continuously develop our markets, we fully recognise the importance of having a vibrant PE and VC ecosystem to provide risk-taking capital, such that we can build up a healthy pipeline of IPO candidates, and benefit the whole value chain from early stage to IPO public investments.

In the context of broader economic and social development, PE and VC funds deploy capital as a tool to empower aspiring entrepreneurs, with a view to helping them realise their goals and dreams. This brings us to the first driver I wish to share with you today, which is the development of I&T and new economy in Hong Kong. It has been well recognised globally that many of the innovations we enjoy today, be it online or offline, are initially funded by the brave capital from PE and VC funds. Under our country's 14th Five-Year Plan, for the first time Hong Kong has been given support to develop ourselves into an international innovation and technology hub. Now it is the opportune time for Hong Kong to fully leverage capital from the PE and VC sector, and promote innovation and technology that would find application scenarios in Hong Kong, the Greater Bay Area and beyond. Our capital markets have undergone some fundamental changes in recent years, and now the I&T and new economy sectors are becoming part of our financial DNA. Through concerted efforts of market participants, regulators and the Government, we reformed our regime in 2018 and allowed the listing of companies with weighted voting rights (WVR) and pre-revenue biotech companies. In 2020, the top four stocks by trading volume were all new economy stocks, whereas in 2017 there was only one. More recently in the first half of this year, we have welcomed four biotech company listings, four secondary listings and three listings with WVR structure. We also welcomed the very first dual primary listing with WVR structure in July, and it is a well-known Mainland electric vehicle manufacturer.

Recognising the benefits of having a vibrant PE and VC sector, the Government is fully committed to promoting its development. Many of you would have heard about our "three-step approach", comprising first of all, new fund structures, secondly tax concession and thirdly redomiciliation mechanism. All of the three steps are enabled by legislative changes, and I am glad to share with you that so far they have all been very well received. With respect to the first step of establishing a limited partnership fund regime, it is designed using a user-friendly registration approach with our Companies Registry, and contractual flexibility is also allowed considering the unique features and requirements of PE and VC funds. We are very encouraged to see that over 300 funds have registered under the new regime since its launch. And for the second and third steps, we have passed legislation to offer tax concession for carried interest issued by PE funds operating in Hong Kong, and a redomiciliation mechanism will also be put in place such that offshore funds may relocate to Hong Kong. We are confident that this "three-step approach" would greatly enhance the competitiveness of our market, and promote Hong Kong as one of the top global destinations for operation of PE and VC funds.

I note that in one of the discussion sessions planned for today's event, the topic of environmental technologies will be covered. That brings me to the second major driver of my sharing, which is carbon neutrality. Our country has pledged to peak carbon emissions by 2030 and achieve carbon neutrality by 2060. Indeed, Hong Kong has also made a commitment and the Chief Executive has announced that we would achieve carbon neutrality by 2050.

With a clear goal in mind, actions will then be required. Similar to the pandemic, climate change is a global problem facing everyone and our only hope is to collectively and proactively devise workable solutions, which is our only way out. Capital and investments have a crucial role to play here, facilitating our transition from polluting production and consumption to green and sustainable technologies.

Recognising the importance of green and sustainable finance, the Government has taken a proactive approach to develop the market. We issued two tranches of green bonds in 2019 and 2021 totalling US$3.5 billion. These proceeds raised are then credited to the Capital Works Reserve Fund to finance or refinance public works projects that provide environmental benefits and support the sustainable development of Hong Kong. Through the publication of Green Bond Report, we detailed the projects financed and the resulting quantifiable green benefits, offering transparency to both market participants and members of the public. Our second Green Bond Report will come out very soon and I look forward to sharing more with you when the report has been released.

Encouraged by the strong interest from global institutional investors on our offerings, the Financial Secretary has announced that the Government will further issue green bonds totalling HK$175.5 billion in the coming five years, subject to market conditions. This will allow us to continuously deploy capital on green projects, facilitating the development of low-carbon economy in Hong Kong.

Besides the efforts on issuing government green bonds, there is also a Green and Sustainable Finance Cross-Agency Steering Group to co-ordinate our development holistically. The Steering Group in July announced the next steps to develop Hong Kong as a leader in green and sustainable finance. The next steps shall focus on climate-related disclosures and sustainability reporting, carbon market opportunities and the launch of a new Centre for Green and Sustainable Finance. Among them, a Carbon Market Work Stream is established to assess the feasibility of developing Hong Kong as a regional carbon trading centre to strengthen collaboration in the GBA, and we will also focus on talent and data as the priority areas of action under the new Centre.

For the development of green and sustainable finance, you may have noticed that the Government has been deploying a supply-side approach via issuing green bonds ourselves. On another development, which is to establish a Hong Kong Growth Portfolio (HKGP) making strategic investments in projects with a Hong Kong nexus, the Government has indeed employed another approach which is demand-side driven. As announced by the Financial Secretary, part of the Government's Future Fund will be used to establish the HKGP, and by actively creating demand to invest in projects with a Hong Kong nexus, the portfolio will reinforce Hong Kong's status as a financial, commercial and innovation centre, and raise our productivity and competitiveness in the long run. Under a two-tier committee framework, including a Governance Committee and an Investment Committee, we are actively taking forward this initiative with a view to deciding on the appointment of general partners who will make investments for the HKGP.

Finally, on the third driver of Greater Bay Area, we will seek to realise opportunities for the industry, and strive for early implementation of the Wealth Management Connect programme. The strategic goal of GBA is to foster more free flow of capital, talent, data and other resources in the area, with a view to realising synergy and promoting co-ordinated development among all the cities. To realise this goal, we would require innovative business models and new technologies, and in the process immense value will be unlocked. Coupled with our country's new policy directions of "dual circulation" and a higher degree of technology self-sufficiency, PE and VC managers will be given a vast market to incubate promising projects.

Ladies and gentlemen, despite the challenges and uncertainties presented to Hong Kong from the global pandemic, we have indeed demonstrated strong resilience and agility through the outstanding performance of our markets. I am optimistic and I think things can only get better from here. As PE and VC managers, I am sure many of you also have a very positive mindset, since all you do is making somewhat risky investments with the hope that things will turn out in your favour. I like this mindset, and I look forward to working with all of you to explore more opportunities in the PE and VC markets of Hong Kong, GBA, and beyond. In particular, the three areas I've mentioned in terms of I&T, carbon neutrality and GBA, which are indeed something that all of us should look into and leverage further. Thank you, and I wish you a rewarding conference today.