

Speech by FS at Alternative Investment Management Association's APAC Annual Forum 2019 (English only)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Alternative Investment Management Association's APAC Annual Forum 2019 today (March 7):

Jack (Chief Executive Officer of the Alternative Investment Management Association, Mr Jack Inglis), Ashley (Chief Executive Officer of the Securities and Futures Commission, Mr Ashley Alder), distinguished guest, ladies and gentlemen,

Good morning.

I am pleased to join you today for the fifth Alternative Investment Management Association (AIMA)'s APAC Annual Forum.

This is also a welcome opportunity to congratulate the Association on its 20th anniversary in Hong Kong, the Association's APAC hub. The presence here of AIMA, and other industry bodies, and your active participation in our community, are central to Hong Kong's success as one of the world's great centres for financial services, conventional, alternative, or otherwise.

As I noted in my Budget Speech last Wednesday, the world we live and work in today is complicated and volatile, fraught with uncertainty.

It is a time of profound change for the financial services sector and, certainly, the alternative fund sector. That's palpably evident in technology, regulation, markets, sustainability, data science and much more. And I'm pleased to note that today's Forum will tackle these and other challenges, and the opportunities they present.

For the moment, let me share with you a little of what the Government is doing to embrace these challenges, to position Hong Kong for a rewarding future.

We are Asia's premier asset and wealth management hub, and we will, let me assure you, continue to promote the sector, taking a multi-pronged approach.

Asset and wealth managed in Hong Kong hit a new high of US\$3.1 trillion in 2017, with 66 per cent of that coming from external investors, amply demonstrating our attractiveness to international investors. To diversify our fund structure, we put in place a new legal regime last year, allowing funds to be set up in Hong Kong in the form of companies.

These open-ended fund companies, whether publicly or privately offered, can enjoy profits tax exemption. Some two weeks ago, our Legislative Council also passed a bill allowing onshore funds to enjoy profits tax exemptions – as offshore funds already do.

And, taking into account suggestions from AIMA and other industry players, we have modified the tax regime for open-ended fund companies. Specifically, we have dropped the non-closely held test that an open-ended fund company would otherwise have to pass in order to be eligible for tax exemption. The new tax treatment begins next month on April 1.

We are now devising a limited partnership regime to encourage private equity funds to set up here. This would be the second dedicated regime for a fund vehicle in our statute.

Later this year, we plan to table a proposal for industry consultation. And I look forward to AIMA's comments. Our goal is creating a regime that enables the market's healthy and orderly development.

To attract more private equity funds to set up and operate in Hong Kong, I announced in my Budget Speech last week that we would study the case of introducing a more competitive tax arrangement for private equity firms.

At the product level, we will continue to expand our distribution network through mutual recognition of funds arrangements. Alongside Mainland China, Switzerland and France, we recently added the United Kingdom and Luxembourg to our list of partner jurisdictions.

More than 70 funds can be sold through the arrangements now in place. And we will, of course, continue to develop this promising front.

Our securities sector is also developing well. Last year, we raised about US\$37 billion in funds through IPOs (Initial Public Offerings). That took Hong Kong to the top of the global IPO league for the sixth time over the past decade.

We are also committed to promoting Hong Kong as a fundraising centre for the new economy. The launch of the new listing regime last year is a key step in this direction.

The regime allows pre-revenue or pre-profit biotech companies, and high growth and innovative companies with weighted voting rights structures, to list on our Stock Exchange. Up to end last year, there are already seven such companies listed on the Main Board.

Financial technology is also flourishing, with more than 550 fintech companies here. They're doing applied research and development in a number of areas, including payment and remittance, robo-advisory in wealth management and insurance, and cybersecurity for financial services.

The Accenture Fintech Innovation Lab, Deloitte Asia Pacific Blockchain

Lab and The Floor from Israel are among the renowned innovation laboratories and accelerator programmes that have established a presence in Hong Kong.

We are promoting the diversified development of our bond market as well, through such initiatives as the Government Bond Programme and the issuance of institutional, retail and Islamic bonds.

Last May, we launched the Pilot Bond Grant Scheme and enhanced tax concessions for qualifying debt instruments. Our aim is to encourage investors like yourselves to participate in our bond market.

Let me add that we have also launched a Green Bond Grant Scheme. It subsidises eligible green bond issuers in obtaining certification under the Green Finance Certification Scheme run by the Hong Kong Quality Assurance Agency.

We are now preparing an inaugural issuance under the Government Green Bond Programme. It will align with widely accepted global standards for green bond issuance. Issuance proceeds will fund projects with environmental impacts under the Government's Public Works Programme.

In 2018, the aggregate size of green bonds arranged and issued in Hong Kong reached about US\$11 billion, three times of that in the previous year. Issuers include entities from Hong Kong, the Mainland and abroad, as well as multilateral agencies such as the Asian Development Bank, the World Bank and the European Investment Bank. And that surely attests to Hong Kong's emergence as a green finance centre.

Hong Kong also offers unparalleled opportunities for accessing the mainland market, given our strategic location, our "one country, two systems" unique arrangement and our deepening economic integration with the Mainland. Furthering mutual capital market access with the Mainland is high on our agenda.

Key milestones include the Stock Connects, the mutual recognition of funds arrangement with the Mainland, and the Northbound Trading of Bond Connect.

And we are continually working to enhance the schemes. Last year, the daily quotas of the trading links under both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect were quadrupled.

We will continue to work with the industry and Mainland authorities to boost the two-way flow of cross-border Renminbi funds. And that can only enhance Hong Kong's status as a global hub for the offshore Renminbi business.

At the regional level, the Guangdong-Hong Kong-Macao Greater Bay Area development has great potential to boost both innovation-driven development and the reform and two-way opening-up of the Mainland.

The promise of the Greater Bay Area is in realising the comparative advantages of each Greater Bay Area city to drive coordinated regional economic development, accelerate regional integration and deepen cooperation.

For Hong Kong, the good news is that the Outline Development Plan for the Greater Bay Area, promulgated less than three weeks ago, supports our status as an international financial centre and offshore Renminbi business hub. It endorses, as well, our place as a global asset- and risk-management centre and the development of high value-added financial and professional services.

And that's just looking at our financial sector. There's indeed a lot more to be excited about, including enhancing our status as a transport and trade centre, an international aviation hub as well as developing our fast-emerging innovation and technology sector.

Then there's the Belt and Road Initiative, with its central focus on connectivity. Hong Kong, thanks to its liquid capital flow and deep pool of financial talent, is the natural centre from which to raise funds for investment and infrastructural and production projects.

We are, let me add, perfectly placed to provide infrastructure financing, risk management, insurance and dispute-resolution services that these big-ticket projects need.

So while the near-term economic outlook may be fraught with risks, the rewards down the road still promise much for Hong Kong – and for the economies and companies and entrepreneurs who connect with Hong Kong. Together, ladies and gentlemen, we will excel.

I wish you all the best of business at this year's Forum and a happy, healthy and prosperous New Year of the Pig.

Thank you.