Speech by FS at APIC-Regional Pension Funds and Social Security Systems Summit (English only)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the APIC-Regional Pension Funds and Social Security Systems Summit today (November 3):

Ana (Founder and Chief Executive Officer of the Asia Pacific Investors Cooperation (APIC), Ms Ana Sharp), Doris (Chairman of the Hong Kong Retirement Schemes Association, Ms Doris Ho), Ka-shi (Vice-Chairman of the Hong Kong Trustees' Association, Ms Lau Ka-shi), distinguished guests, ladies and gentlemen,

Good morning. My thanks to the Asia Pacific Investors Cooperation for organising the APIC-Regional Pension Funds and Social Security Systems Summit under challenging circumstances. And for giving me the welcome opportunity to speak to this high-profile, international gathering of business leaders, industry players, policymakers and regulators.

I understand that some 30 speakers, from Europe, the United States and throughout the Asian region, are speaking today on a complex issue of central importance to our economies and our communities: ensuring the sustainability, and affordability, of pension and retirement funds.

APIC's inaugural Summit took place right here in Hong Kong, in December 2017. That was less than four years ago, but it was another era entirely: the pre-pandemic era.

COVID-19 has shaken Hong Kong and the world, creating unprecedented challenges to our social, economic and business environment.

And yet, despite the daunting circumstances, our financial system has remained stable. Our economic recovery and business prospects are both encouraging. Indeed, Hong Kong's GDP soared 7 per cent, year on year, in the first nine months of 2021.

And more good news: our latest unemployment rate fell to 4.5 per cent. That's down from a 17-year high of 7.2 per cent at the start of the year.

The world is taking note of Hong Kong's resilience. In September, Hong Kong reclaimed 3rd place – behind only New York and London – in the Global Financial Centres Index. The Index ranks the world's major financial centres.

There were more kudos for Hong Kong in September, when the Canadian-based Fraser Institute again ranked Hong Kong the world's freest economy in its Economic Freedom of the World Report.

And the World Investment Report, published in June by the United Nations Conference on Trade and Development, ranked Hong Kong the world's third-largest recipient of foreign direct investment (FDI) last year, behind only the United States and the Mainland – and up from fifth place in 2019.

No less important, the UN Report said Hong Kong, and I quote, "will remain an important financial hub in Asia and a gateway to invest in China, because of its favourable tax regime, easy listing process, absence of capital controls and good regulatory framework".

The Report attributed Hong Kong's strong FDI showing to, and I quote, "the resolution of conflicts arising from the implementation of the National Security Law", among other factors.

With the return of stability to our community and businesses, Hong Kong's advantages once again become clear and compelling. They include the "one country, two systems" institutional arrangement, our low-tax regime, sound regulatory framework, rule of law and independent judiciary, and a free flow of goods, talent, information and capital.

Our financial services sector is built on capital and the professionals who make it work.

When it comes to pensions, of course, the sector serves more than the asset-and-cash rich. The community at large, individuals and groups who rely on professional advice, count on pensions and the support of a multifaceted social-security system to live respectably in retirement.

That's a reasonable expectation. And it, in turn, creates expectations for the industry, for you and your performance, whether you're an investment manager, or help with the administration of a Mandatory Provident Fund (MPF) scheme or private pension fund.

Those expectations focus largely on pensions and the promise of wealth creation and sustainable growth. I know you'll hear a good deal about both today.

For the next few minutes, allow me to talk about the pension sector within the larger context of Hong Kong and the outsized opportunities there for us.

Our country's 14th Five-Year Plan supports our continuing growth as an international financial centre and better integration into the Mainland's economic blueprint. And that can open up fresh prospects for Hong Kong's economic and social development.

Certainly, our position as the world's largest offshore Renminbi business hub will grow as the two-way cross-boundary flow of funds expands.

They include the mutual-access schemes, Stock Connect and Bond Connect.

Stock Connect's average daily turnover more than doubled last year, with northbound traffic rising about 120 per cent and southbound soaring almost 130 per cent.

The numbers are equally encouraging for Bond Connect, with northbound turnover climbing 82 per cent in 2020, and growth this year, to August, up another 34 per cent, year on year.

Southbound Bond Connect began operation in September. That marks another milestone in mutual access between the capital markets of Hong Kong and the Mainland.

Our asset and wealth management sector looks promising, too. Hong Kong's fund-management business grew 21 per cent, year on year, to almost HK$35 trillion at the end of 2020. We have been taking a multi-pronged approach to enhance our competitiveness in this area. First, to modernise our fund structure regime. Some three years ago, we launched the open-ended fund company structure. Last year, the limited liability partnership fund regime was introduced. Only over the past year, we have seen more than 300 funds set up here in Hong Kong.

Second we provide tax concessions. The latest is exempting carried interest payable by private equity funds operating in Hong Kong from taxation.

Third, we provide financial incentives. Subsidies of up to HK$1 million are available to each qualifying open-ended fund company, and as much as HK$8 million for each real estate investment trust.

Fourth, we encourage foreign funds to establish in Hong Kong by introducing a regime with financial subsidy to attract foreign funds to re-domicile in Hong Kong. This new regime has just come into effect on November 1.

And then there's the Guangdong-Hong Kong-Macao Greater Bay Area Wealth Management Connect. It is a milestone development for the asset and wealth management sector in the Greater Bay Area.

Through Wealth Management Connect, Mainland investors can access global wealth products through Hong Kong, taking our asset and wealth management market to another level entirely.

Family office business is our target as well, and we're planning to offer tax concessions to attract more of the world's family offices to Hong Kong.

Financial development, of course, cannot be considered in isolation. COVID-19 is a stark reminder that the financial system, and considerations such as sustainability and inclusivity, are inextricably linked. That the greening of our economy must be a priority as well.

Rest assured, the Hong Kong SAR Government is committed to expanding Hong Kong's bond market and adopting green finance as part of our growth strategy.

In January, the Government completed its issuance of green bonds worth US$2.5 billion – the offering, in three tranches, featuring three different tenors, five-year, 10-year and 30-year.

The 30-year tranche, I'm pleased to report, is the first green bond of that tenor issued by an Asian government.

Demand from international investors was very strong, with the 30-year tranche attracting orders more than seven times its issuance size.

We will soon follow it up with a retail tranche that the public can participate in. And we will continue our Green and Sustainable Finance Grant Scheme to encourage the issuance of more green and sustainable bonds and loans in Hong Kong.

We are looking, as well, at the possibility of developing Hong Kong as a regional carbon-trading centre. That includes supporting the HKEX (Hong Kong Exchanges and Clearing Limited) in creating financial products for carbon-emission trading in concert with the Guangzhou Futures Exchange.

Allow me now to turn to our Mandatory Provident Fund, which passed the HK$1 trillion benchmark in total assets under management last year.

As of August this year, MPF assets amounted to more than HK$1.2 trillion.

And the eMPF Platform is expected to be up and running in 2025.

The electronic system will standardise, streamline and automate administration. That will help drive down costs and enhance efficiency.

The Hong Kong SAR Government has been working to expand the investment universe of MPF funds, enabling access to investment opportunities in the Mainland market. That will offer expanded choice for both value growth and steady income.

Last year, the Government and the MPF Schemes Authority relaxed MPF investment rules, allowing wider exposure of our MPF funds to China A-shares.

The much-welcomed initiative saw MPF funds invested in China A-shares more than double, to HK$2.3 billion in less than a year.

We're now looking at lifting certain restrictions regarding MPF investment in debt securities, making it easier to invest in bonds issued by the Central Government and its policybanks.

The Labour and Welfare Bureau will also encourage the public to convert their MPF assets into annuities, to help them secure a regular and steady income on retirement.

Ladies and gentlemen, the Government is determined to build a caring and inclusive society for all. Improving the lives of the people of Hong Kong is central to our policy engagement. You need only glance at the substantial recurrent expenditure on social welfare, which has increased 62 per cent in just four years – from HK$65.3 billion in 2017-18 to HK$105.7 billion in 2021-22.

There's more in the offing, but let's be clear: this is a work in progress. The road to sustainable growth, to community-wide wealth creation, and to a caring and inclusive society, is a long one. Co-operation and innovative ideas will help get us there. So, too, will international gatherings such as today's Summit.

For that, my thanks, once again, to the Asia Pacific Investors Cooperation, together with the Hong Kong Retirement Schemes Association and the Hong Kong Trustees' Association, for making today's Summit possible, and so full of promise for Hong Kong, and economies, communities and peoples all over the world.

I wish you all a rewarding Summit, and the best of health and business in the coming year. Thank you.