

Speech by FS at Asia Private Equity Forum 2020 (English only) (with photo/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Asia Private Equity Forum 2020 at the Hong Kong Convention and Exhibition Centre this morning (January 15):

Chin (Chairman of Hong Kong Venture Capital and Private Equity Association, Mr Chin Chou), Eric (Chairman of Asia Private Equity Forum 2020, Mr Eric Mason), distinguished guests, ladies and gentlemen,

Good morning.

It's a great pleasure to be here with you again for the Asia Private Equity Forum's 10th anniversary edition.

I'm pleased, and grateful to see so many of you here today, to know that the Forum features more than 80 high-profile speakers – from Hong Kong, from the Mainland, throughout Asia and around the world.

The early New Year scheduling of this annual financial highlight is a welcome opportunity to look to the past as well as the future.

I'll do a little of both over the next few minutes, though I'll try to stay clear of predictions – especially about the future.

That includes the United States-China trade conflict. While the upcoming signing of the Phase 1 trade deal is now cause for optimism, there may well yet be complications to contend with down the 2020 road to trade peace in our time.

The global trade impasse has certainly blunted Hong Kong's 2019 economic performance. So, too, has the unprecedented social unrest that has shaken the Hong Kong community over the past six months.

Final figures are not yet in, but the IMF (International Monetary Fund) and private sector analysts estimate our 2019 GDP at anywhere from -2.1 per cent to +0.7 per cent. Our own estimate is about -1.3 per cent.

Let me add that, when it comes to finance, I'm not a fan of the minus sign.

To counter our adverse economic conditions, I've unveiled four sets of relief measures since last August. Totalling some HK\$25 billion, the funds are focused on supporting businesses and lightening the burden weighing on the people of Hong Kong.

Meanwhile, we will continue to reach out to the community. Through wide-ranging dialogue communication and the pursuit of policies that address the deep-seated issues at the heart of our divide, I am hopeful that together we will find a path to peace and prosperity.

From an economic perspective, there is reason for optimism. I am heartened by the confidence private equity investors have shown in us. In the third quarter of 2019, some 560 private equity companies here managed US\$153 billion.

We have nearly 50 more private equity (PE) firms based here when compared with the previous quarter. Among the world's top 10 PE fund managers, nine have a presence here in Hong Kong. That, ladies and gentlemen, underlines Hong Kong's formidable strengths in the Asian PE market. In that we trail only Mainland.

By channelling capital into corporations and start-ups in the innovation and technology field, PE and VC (venture capital) funds may well become as important as banks and IPO markets one day.

This Government is determined to help unlock the vast potential of the asset and wealth management business, because we believe you are critical to ensuring Hong Kong's status as one of the world's leading financial centres.

That's why we have been stepping up efforts to sharpen Hong Kong's competitive edge on asset and wealth management through a multi-pronged approach including: (a) diversifying our fund structures and streamlining the licensing process to encourage fund formation; (b) adopting a more user-friendly approach to attract family offices; (c) providing a more facilitative tax environment for funds; and (d) expanding our fund distribution network through deepening our mutual access arrangements with other major financial markets.

On fund structure, the long-awaited, limited-partnership fund regime is close to reality, thanks in part to your favourable feedback. Indeed, we are now developing the necessary legislation. Because of the current filibustering at the Legislative Council, the tabling of the legislation got a little delayed, but it remains our top policy priority for the rest of this year to put this forward.

We are confident that the new regime will attract PE and VC funds, and we count on your support for that. With the new regime in place, we aim to bring in as many offshore funds as possible onshore to Hong Kong. We are well positioned to capture the opportunity arising from what happened on the international front over tax base erosion. This is mutually beneficial to Hong Kong as a fund hub and also the PE industry at large as you search for a new home for the funds you manage. My colleague, Chris Sun (Deputy Secretary for Financial Services and the Treasury (Financial Services)1), will have more to say on Hong Kong's promise as a private equity hub later this morning.

PE and VC funds, whether onshore or offshore, have enjoyed a profits tax exemption since last April. A tax-exempt fund can invest in local and overseas private companies. Hong Kong, by now, has a tax regime at fund level that is competitive and caters to the needs of the PE industry. I fully understand that resolving the tax issues at fund level is not enough in itself. It is of even greater importance to tackle head-on the tax arrangement for investment managers. This is a hard nut to crack, but one that I am determined to look into and come up with solutions that will strengthen Hong Kong's position as a leading fund hub with one of the most competitive tax arrangements for investment managers in the PE industry.

The significance of the limited partnership fund regime in completing Hong Kong's fund manufacturing infrastructure is underpinned by its precursor – the open-ended fund company regime. Since its operation in July 2018, a number of open-ended fund companies have sprouted. The SFC (Securities and Futures Commission) is also looking into how to make the regime more business-friendly to facilitate the take-up.

In short, the Government and our regulators are committed to developing Hong Kong into a full-fledged fund-service centre.

We're equally intent on expanding our fund-distribution network. We continue to expand our Mutual Recognition of Funds arrangements. Last year, Luxembourg and the Netherlands joined existing partners, the Mainland, Switzerland, France and the United Kingdom. More international partnerships will follow.

Hong Kong is also an ideal location for the establishment of family offices, and we are boosting our promotional efforts in this regard.

The Hong Kong Monetary Authority and InvestHK will provide comprehensive services to attract family offices to Hong Kong. The SFC has also recently issued licensing guidance for PE firms and family offices. This will enhance clarity and would help address the industry's concerns.

Without a steady flow of talented professionals, of course, we won't be able to cash in on all the opportunities there for us. That's why the Government's Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector has been supporting the industry since 2016.

I encourage you to offer exposure, opportunity and jobs for our youth. To give them a stake in the society through the programme.

Zooming out a bit, the Government will continue to boost Hong Kong's singular advantage as the business and financial bridge between international markets and investors and their counterparts on the Mainland.

To that end, we continue to emphasise the established channels – our Stock Connects, Bond Connect and the Mutual Recognition of Funds arrangements. We will also strengthen our position as the global offshore Renminbi business hub.

Then there's the Guangdong-Hong Kong-Macao Greater Bay Area Development, and the extraordinary opportunity that it presents to Hong Kong.

With a GDP in excess of US\$1.6 trillion and more than 70 million prosperous consumers, the Greater Bay Area presents vast potential for the asset and wealth management sector. For each and every one of you. The establishment of a Greater Bay Area wealth-management connect scheme, which was, as you know, recently announced, will go a long way towards realising that promise.

Our regulators are working out the details with their counterparts on the Mainland, and we will keep you posted and we are determined to push that forward as soon as possible.

For now, I wish you all a rewarding Forum and a healthy, harmonious and prosperous 2020. Thank you.

