[Speech by FS at Asia Private Equity Forum 2022 (English only)]

Following is the video speech by the Financial Secretary, Mr Paul Chan, at the Asia Private Equity Forum 2022 today (January 12):

Eric (Co-Chair of the Asia Private Equity Forum Mr Eric Mason), Jie (Co-Chair of the Asia Private Equity Forum Ms Jie Gong), Rebecca (Chairwoman of the Hong Kong Venture Capital and Private Equity Association, Ms Rebecca Xu), Distinguished guests, ladies and gentlemen,

Welcome to the annual Asia Private Equity Forum, the 20th edition.

My thanks to the Hong Kong Venture Capital and Private Equity Association for this welcome opportunity to speak to you once again. This is, by my count, the fifth year in a row I have addressed the Forum – the past two years online.

So, yes, the pandemic is still very much with us, still disrupting the global economy, distressing the world at large. This year's Forum theme, "Regulatory Risk and the Continuing Impact of the Virus", speaks clearly to the continuing influence it has on business – on each and every one of us.

We are now well into devising the 2022-23 Budget, which I will deliver next month. And we have, as you know, begun public consultation on the Budget.

I was pleased to receive a submission from your Association, offering well-considered suggestions to help expand Hong Kong's private equity (PE) and venture capital business and, in the process, boost the industry's long-term prospects. Rest assured, your advice will be carefully considered in the context of Hong Kong's economic future.

The good news is that this past year has been reassuring and, for many, rewarding. Hong Kong's economic growth in 2021 is expected to have reached a cheering 6.4 per cent.

Our strong showing comes despite the relentless volatility of the pandemic and its consequences.

Indeed, our financial system remains stable and remarkably resilient. In 2020, the sector contributed 23 per cent of our GDP, making the financial sector the undisputed engine of the Hong Kong economy.

In September, Hong Kong reclaimed third place in the Global Financial Centres Index, just behind New York and London.

And I'm confident that financial services and our local economy will continue to flourish. That's thanks to the National 14th Five-Year Plan, which supports our continuing growth as an international financial centre and our ambition to become an international innovation and technology hub. Thanks, also, to the implementation of the National Security Law, which has returned stability and confidence to our society and the economy, as well as the enhancements to our electoral system, under which two elections have recently been successfully concluded, putting an end to the previous chaos and political impasse in Hong Kong.

Together, these political developments not only cemented the foundation of "one country, two systems" and provided maximum safeguards for Hong Kong to harness the strengths under the arrangement, but also reshaped the landscape of good and effective governance and propelled Hong Kong into a new development phase, where we can focus on the future – on building a flourishing economy, and a more cohesive community, for our city.

Zooming in our asset and wealth management sector. At the end of 2020, Hong Kong had US$4.5 trillion in assets under management, up 21 per cent year on year. Foreign investors, I'm pleased to say, accounted for 64 per cent of that total. More specifically on the private equity industry, Hong Kong is the largest hub in Asia outside the Mainland, with capital under management of over US$170 billion and around 600 private equity firms as of September 2021, many of which are regional headquarters of global firms.

The HKSAR Government is intent on boosting Hong Kong's status as an international asset and wealth management centre. As you know, we are working to enhance Hong Kong's strengths as Asia's private equity hub in three discrete ways. Central to the overall strategy is bridging capital markets and the real economy, especially innovation and technology start-ups.

The first step was the modernisation of our fund structure regime. The latest move was the introduction of the limited partnership fund structure in August 2020. It has, I'm pleased to report, been very well received by the sector, your Association members included. In the past year or so, more than 400 funds have been established.

The second step was offering attractive tax concessions. The recent one is exempting carried interest payable by private equity funds operating in Hong Kong. This, coupled with the fund-level tax exemption regime rolled out in 2019, provides a competitive tax environment with clarity and certainty for private equity funds.

Our third step was the establishment, in November, of the fund re-domicile regime. It was designed to attract foreign funds to Hong Kong, taking good advantage of on-shoring of funds from traditional offshore hubs.

We are working to further enhance the legal and regulatory environment conducive to the development of the private equity industry in Hong Kong. For example, we introduced reforms in 2018 that allowed the listing of companies with weighted voting rights and pre-revenue biotech companies. Starting this year, special purpose acquisition companies, or SPACs, can be listed on our stock exchange, further broadening the exit channels for private equity investors in Hong Kong.

Taking a broader perspective, I would like to share with you three key trends that are affecting the entire financial sector.

First is the growing financial clout of wealthy individuals and families. Family offices in particular, are becoming another important investor segment alongside the traditional asset owners such as pension funds and foundations. They are keen to invest in alternatives including private equities.

We're working hard to develop Hong Kong into a family office hub. Hong Kong enjoys some natural advantages by being the world's second-largest city for billionaires. In 2020, our billionaire population saw the largest net increase of any city in the world.

Last year, Invest Hong Kong set up FamilyOfficeHK, a global team dedicated to helping Mainland and overseas family offices find their way to Asia's world city. In the past six months, nine family offices have done so.

Since my budget announcement last year, the Government has been working with the industry to study tax concessions for family offices. The Government is aiming to release more details shortly.

All these should help attract more family offices to Hong Kong and broaden the investor base of our PE industry. Good news, I'm sure, for our asset and wealth management sector and Association members.

The second important sector-wide development is in relation to the Mainland. The launch, in September, of the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area was an important milestone. It gives you direct access to the growing concentration of high-net-worth individuals in the Greater Bay Area. Gives you, in short, a vast and largely untapped market to pursue for the long haul.

As the newest member of our Connect schemes, the Wealth Management Connect has made a smooth start. Nineteen eligible Hong Kong banks have launched their services together with their respective Mainland partner banks. Up to end-December, over 22 000 investors have opened Wealth Management Connect accounts, and over 5 000 cross-boundary remittances amounting to over RMB400 million have been completed.

In the fullness of time, I am confident that the scheme will further grow in breadth and depth and bring mutual benefits to both Hong Kong and the Mainland. Similar to the other Connect schemes, we will be adopting a phased approach of enhancement and will review whether certain design parameters can be relaxed to expand the scope of service, including quota management, product scope and sales process. From a policy perspective, we expect that Wealth Management Connect will promote the cross-boundary use of the Renminbi and continue to reinforce Hong Kong's standing as the world's offshore Renminbi business hub.

Hong Kong's status as the largest and most important global offshore Renminbi business hub has continuously been strengthened over the years, and this is reflected by various Renminbi business indicators. Hong Kong counts the largest pool of Renminbi liquidity in the world outside the Mainland, amounting to over RMB800 billion. As the most important offshore Renminbi clearing hub, Hong Kong's banks handle about 70 per cent of offshore Renminbi payments.

Hong Kong is also an important Renminbi financing centre, hosting the largest offshore Renminbi bond market. The rising issuance of offshore Renminbi bonds in Hong Kong underlines our role as the Mainland's major capital-raising gateway. Last year, the Ministry of Finance issued Renminbi sovereign bonds totalling RMB20 billion in Hong Kong. Last October, the Shenzhen Government also issued offshore Renminbi municipal government bonds here. This further enriches the offshore Renminbi product range and showcases Hong Kong as the premier platform facilitating the Mainland to go global.

Going forward, we will undertake a number of initiatives to develop an even more vibrant offshore Renminbi ecosystem in Hong Kong, including further building up the offshore Renminbi liquidity pool, enriching the related foreign exchange and interest rate derivatives market, increasing the utilisation of Renminbi in bonds, loans, equities and other securities products, as well as strengthening our depository service by developing the Central Moneymarkets Unit into an international central securities depository in the long term.

Hong Kong provides unparalleled access to the Mainland markets through our Connect schemes. Currently, around two-thirds of holdings of Mainland stocks by international investors are held through the Stock Connect, and more than half of international investors' turnover in onshore bonds is traded through the Bond Connect. We'll continue to expand channels for the two-way flow of cross-boundary Renminbi funds. For example, we are working to promote the trading of Renminbi-denominated securities in Hong Kong, which includes exploring whether stocks denominated in Renminbi can be included in southbound trading under Stock Connect. The Mandatory Provident Fund (MPF) Schemes Authority is also looking to enable MPF investment in government and policy bank bonds issued in the Mainland.

Apart from private wealth and the Mainland, the third key trend is in relation to environmental, social and governance, or ESG. ESG is fast emerging as a central consideration among asset managers, as wealth holders increasingly look to putting their assets where their values lie. ESG and climate change will bring also many new investment opportunities as trillions of dollars are needed to support development of low-carbon, smart and resilient infrastructure. The Forum's agenda makes that clear.

Hong Kong's financial future will be built on green and sustainable finance. The Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the heads of the Securities and Futures Commission and the Hong Kong Monetary Authority, will steer our financial sector towards carbon neutrality before 2050.

As priorities, they will focus on taxonomies, climate-related disclosures and sustainability reporting, the Centre for Green and

Sustainable Finance's work on capacity building and data, as well as carbon market opportunities.

These initiatives are highly relevant to many of you here today. For example, the disclosure requirement will allow you as investors to have more clarity and visibility over your investee companies' exposure to climate-related risks and their preparedness to capture the related opportunities. The capacity building effort will nurture homegrown ESG specialists and, together with our effort to attract international talent to Hong Kong through the Quality Migrant Admission Scheme's Talent List, should help plug the ESG skill gaps.

To create a demonstration effect, the Government has so far issued over US$7 billion equivalent in green bonds, and just last November, issued a landmark triple-currency, multi-tranche offering denominated in US dollars, euros and Renminbi, with tenors ranging from three to 20 years. We will soon follow up with a retail tranche to raise the public's awareness. And we will continue our Green and Sustainable Finance Grant Scheme to subsidise and encourage the issuance of more green and sustainable bonds in Hong Kong.

The reforms and developments that I just mentioned would bring new opportunities to our private equity industry. I encourage you to make the best use of the Hong Kong platform to grow your operation.

Finally, ladies and gentlemen, I wish you all a fruitful Forum, and the best of business, investment and health in the new year.

Thank you.