

# Speech by FS at ASIFMA China Capital Markets Week (English only)

Following is the video speech by the Financial Secretary, Mr Paul Chan, at the Asia Securities Industry & Financial Markets Association (ASIFMA) China Capital Markets Week today (April 23):

Mark (Chief Executive Officer of the ASIFMA, Mr Mark Austen), distinguished guests, ladies and gentlemen,

Good afternoon from Hong Kong on the final day of ASIFMA's China Capital Markets Week.

I have the privilege – and the challenge – of ending this memorable, week-long summit on capital markets in Hong Kong, the Mainland and throughout the region.

The pandemic may have derailed our progress. But only for the moment. After all, with the continuing shift in global economic significance from West to East, China's capital markets present boundless promise.

Allow me, for the next 10 minutes or so, to talk about some of those opportunities, most important ones being the National 14th Five-Year Plan and the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area) development, as well as Hong Kong's critical role in realising these outsized prospects.

Speaking of our critical role, I should start by saying this owes much to our unique and strategic position stemming from the "one country, two systems" principle, which also gives us the singular strengths as both an international financial centre and the business bridge between the Mainland and the rest of the world.

With the enactment of the national security law and the impending improvements to our electoral system, we are gradually seeing social and political stability being restored in our city. This is essential for businesses and provides a stable environment for local and foreign investments to flourish.

Now, on Hong Kong's economic development direction, our country's 14th Five-Year Plan continues to promote Hong Kong's status as an international financial centre, global offshore Renminbi business hub, and an international asset management and risk management centre.

The Plan also outlines high-quality Greater Bay Area development, not least supporting the expansion of mutual access between the financial markets of Hong Kong and the Mainland.

This emerging cluster-city development, integrating Hong Kong, Macao and nine Mainland cities in Guangdong Province, will reward our financial

services sector in a great many ways.

First, Hong Kong's premier listing platform.

We have topped the world in funds raised through initial public offerings (IPOs) for seven of the past 12 years. And despite the disruptions caused by the pandemic, we finished second last year, raising nearly US\$52 billion, up a resounding 27 per cent year-on-year.

And we have continued to build on that unrivalled advantage over the years. Embracing the new economy, innovative companies with a weighted voting rights structure, pre-revenue or pre-profit biotech companies and qualifying Mainland companies seeking a secondary listing have all been allowed to list on our stock exchange since April 2018.

The reformed listing regime has been remarkably successful. Some 45 such companies have since listed with us. We are also now the world's second-largest fundraising venue for biotech companies.

All these companies, let me add, have raised more than US\$59 billion in IPO funds, accounting for about one-quarter of our total market capitalisation.

In search of new impetus to our capital market, our Stock Exchange and the Securities and Futures Commission have been exploring the possibility of a "Hong Kong version" listing regime for special purpose acquisition companies (SPACs). While keeping in view the need to enhance our competitiveness, we are mindful of the importance to safeguard the interests of the investing public.

Second, Hong Kong will continue to power the internationalisation of the Renminbi.

We are home to the world's largest offshore pool of Renminbi funds and the leading foreign exchange and interest rate derivatives market.

The People's Bank of China has established a regular central bank bill issuance programme in Hong Kong. That enriches our Renminbi financial products and, in doing so, promotes the Renminbi's internationalisation.

Hong Kong has indeed been serving as a two-way platform connecting the Mainland and international markets, providing a convenient channel with sufficient risk management safeguards for Mainland capital to "go global" on one hand, and on the other hand, helping overseas investors invest in Renminbi-denominated assets.

As you know, we continue to enhance mutual access between the capital markets of Hong Kong and the Mainland. We have launched a variety of mutual access programmes – Bond Connect being one of them, which enjoyed a banner year in 2020, with its Northbound trading up 85 per cent, year-on-year.

The next in line will be the much-anticipated launch of the Southbound Bond Connect, which will open up another ground-breaking conduit for Mainland

investors to access the international bond market via Hong Kong.

With an increasing proportion of Chinese bonds in global investors' portfolios and the prospect of two-way traffic, more financial institutions are expected to step up their bond arranging and trading operations in Hong Kong, thereby further consolidating our leading position in the Asian bond market.

And rest assured that we will continue to work towards expanding our mutual capital market access schemes, while strengthening the existing programmes.

Third, we have put in place a wide-ranging strategy to boost our asset and wealth management prowess.

Following the introduction of the open-ended fund company and limited partnership fund regimes in 2018 and 2020 respectively, our investment fund regime has become more comprehensive and competitive. The new limited partnership regime, for example, has attracted more than 200 funds registered in just seven months.

And to encourage more foreign funds to migrate to Hong Kong, we will offer tax concessions for the carried interest of private equity funds operating here. Direct subsidies will be granted for those setting up open-ended fund companies or real estate investment trusts in Hong Kong.

Meanwhile, we are also beavering away at the legislative amendments to provide for a re-domiciliation mechanism to attract more foreign funds to move onshore to Hong Kong as open-ended fund companies or limited partnership funds.

We also hope to launch Wealth Management Connect soon. It will provide a new avenue for cross-boundary investment by Greater Bay Area residents, giving investors greater product diversity and asset allocation options. With cross-boundary wealth management and flow of capital within the region much facilitated, the Scheme would greatly expand the sector's prospective market.

A prudent start of the Scheme on a risk-controlled basis will stand us in good stead when we go further down the road. Therefore, at the initial stage, cross-boundary remittance under the Scheme will be conducted and managed in a closed loop and products eligible for investments will mainly be those with relatively low risk.

We are confident that a smooth launch and operation, along with proper safeguards for investors, will prepare the ground for future enhancements to the Scheme.

Fourth, we will continue to champion Hong Kong as a regional green and sustainable finance hub

Against the backdrop of concerted efforts around the world to embrace a zero-carbon future, we will double ours to fulfil our pledge of achieving

carbon neutrality in 2050, leveraging on our role as an international financial centre and mobilise capital towards driving sustainable action, not just in Hong Kong, but also in the region.

We are indeed well placed to take good advantage of the enormous opportunities presented by the Greater Bay Area development and the Belt and Road Initiative, particularly in terms of raising funds for green and sustainable projects.

A new Green and Sustainable Finance Grant Scheme will be launched. It will subsidise eligible bond issuers and loan borrowers, covering their expenses on bond issuance and external review services.

We will also issue green bonds on a regular basis, by expanding the Government Green Bond Programme with a borrowing ceiling doubled to about US\$26 billion. We plan to issue green bonds worth more than US\$22 billion over the next five years, with a retail element for the participation of the general public.

Fifth, we will boost Hong Kong's competitiveness as an international risk management centre.

Over the years, we have rolled out a series of measures to help the insurance industry seize national development opportunities. They include half-rate profits tax concessions for eligible insurance businesses.

On the regulatory side, we are working to move our supervisory regime from the current formula-based solvency regime to a risk-based capital regime to keep pace with international standards. We are also making legislative amendments to vest our Insurance Authority with necessary powers to become a frontrunner of group-wide supervision, showcasing our readiness to receive other insurance groups eyeing a foray into the region.

Meanwhile, a new regulatory regime will be launched later in the year to enable the issuance of insurance-linked securities in Hong Kong. And we are expanding the insurable risks of captive insurance companies set up in Hong Kong.

In my Budget this year, I announced a two-year pilot programme to attract companies to issue insurance-linked securities in Hong Kong by subsidising their upfront costs. That's subject to a cap of about US\$1.5 million per issuance, depending on the maturity of the securities.

We are also working with Mainland authorities to establish Hong Kong after-sales insurance service centres in Greater Bay Area cities.

That would give Hong Kong, Macao and Mainland residents holding Hong Kong-issued insurance policies the comprehensive support they deserve.

With a view to mapping out a blueprint for our further development of the financial services, a joint working group led by the Financial Services and the Treasury Bureau was set up and joined also by our financial regulators.

One important mission of the working group is to work out how Hong Kong can capitalise on, yet also complement, the economic and financial development of our country. It will also look to expand Hong Kong's competitiveness as an international financial centre.

There's more, much more, in the works. The salient point here is that we're committed to our financial services sector – to ensuring that every industry and branch of it, every company and player contributing to it, gets what it needs to flourish deep into this 21st century of opportunity.

My thanks to the Asia Securities Industry & Financial Markets Association for organising China Capital Markets Week and for giving me this welcome opportunity to speak to you today.

Ladies and gentlemen, I wish you the best of business, investment and health in 2021.

Thank you.