Speech by FS at SFC Regulatory Forum 2021 (English only) (with photos/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the SFC Regulatory Forum 2021 today (November 25):

Tim (Chairman of the Securities and Futures Commission (SFC), Mr Tim Lui), Ashley (Chief Executive Officer of the SFC, Mr Ashley Alder), distinguished guests, ladies and gentlemen,

Good morning. I'm delighted to be here for today's SFC Regulatory Forum, pleased to see so many friendly and familiar faces everywhere I look. This hybrid, in-house and online forum, gets us that much closer to seeing all the promise of the post-pandemic economy.

Our business, social and personal lives have been sorely affected by the pandemic. And yet, despite the daunting circumstances that have plagued us for nearly two years now, our financial system remains stable and remarkably resilient.

Let me count the ways, starting with IPOs. IPO funds raised in Hong Kong reached HK$400 billion last year, up a cheering 27 per cent over 2019. As of September, total funds raised through IPOs exceeded HK$280 billion.

Consider, too, the role of financial services in our GDP. In 2019, the sector contributed more than 21 per cent, surpassing trading and logistics, and making it the undisputed engine of the Hong Kong economy.

The world is taking note. In September, Hong Kong reclaimed third place in the Global Financial Centres Index, only behind New York and London.

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, trailing only the United States and the Mainland – and up from fifth place in 2019. The UN report attributed Hong Kong's strong FDI to, and I quote, "the resolution of conflicts arising from the implementation of the National Security Law," among others.

That echoes the Report on Hong Kong's Business Environment, published by the Hong Kong SAR Government in September. The report offers a considered analysis of the severe challenges we have faced, and overcome, in the past two years. No less important, it serves as a guide to where we're going as an economy and a community. The answer, by the way, is more than implied in the Report's subtitle: "A Place with Unique Advantages and Unlimited Opportunities."

Today's Forum offers me a welcome opportunity to share some of my thoughts on how we can tap into those unlimited opportunities.

The promising prospect of unlimited opportunities was given to Hong Kong in the National 14th Five-Year Plan. The Plan supports our continuing growth as an international financial centre and our deepening integration in the Mainland's economic blueprint.

The SFC has a critical role to play in realising that promise.

Consider the mutual-access schemes, Stock Connect and Bond Connect. Stock Connect's average daily turnover more than doubled last year, with northbound traffic arising 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 another year-on-year growth of 34 per cent this year up to August.

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

Hong Kong's role as a bridge, allowing international investors to access the Mainland market and Mainland funds to flow out to the international market, will be all the more significant.

Looking ahead, our listing policies and regulatory procedures should keep track of market changes. That can boost the competitiveness of Hong Kong listings, reinforcing our status as a premier capital-formation centre.

Hong Kong Exchanges and Clearing Limited (HKEX) has the Government's full support in enhancing our listing regime. I'm sure some of you took part in the recent consultation by the HKEX on the establishment of a listing regime for special-purpose-acquisition companies, or SPACs. With consultation now concluded, our regulators are making concerted efforts to work out a SPAC listing regime that aims to strike that fine balance between market development and investor protection.

HKEX has also concluded its review on our secondary listing regime. Starting from 1 January next year, Greater China issuers without a weighted voting rights structure can secondary list with a lower minimum market capitalisation at listing and without the need to demonstrate that they are "innovative companies".

Hong Kong's asset- and wealth-management business will find a concerted forum spotlight later this morning. The good news is that Hong Kong's fund-management business grew 21 per cent, year on year, to almost HK$35 trillion at the end of 2020. And I'm determined to create more opportunity for the business and its players.

As you know, the SFC created the open-ended fund company structure some three years ago. Last year, the limited partnership fund regime was introduced. Since then, more than 350 funds have set up here in Hong Kong.

Tax concessions are part of the plan. The latest is exempting carried interest payable by private-equity funds operating in Hong Kong from taxation.

We're offering financial incentives, as well. 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.

We're also encouraging foreign funds to establish a presence in Hong Kong. On November 1, we introduced a set of new fund redomiciliation mechanisms designed to attract foreign funds to relocate their registration and operation to this city.

The family office business is also a priority, and InvestHK and regulators now offer one-stop support services to family offices looking to establish, or expand, in Hong Kong. Tax concessions for such offices are also under serious consideration.

Then there's the Guangdong-Hong Kong-Macao Greater Bay Area Wealth Management Connect. It is, ladies and gentlemen, nothing less than a milestone for our asset- and wealth-management sector.

Certainly, our position as the world's largest offshore Renminbi business hub will grow with the expansion of the two-way, cross-boundary fund flow. We count the largest pool of Renminbi liquidity outside the Mainland, and about 70 per cent of offshore Renminbi payments are handled by the banks right here in Hong Kong.

Rest assured, we'll continue to expand channels for the two-way flow of Renminbi funds. Among other initiatives, we are looking to allow stocks traded via Stock Connect southbound to be denominated in Renminbi.

We will also continue to enable the issuance of offshore Renminbi bonds. In September, the Ministry of Finance announced its plan to issue in Hong Kong this year Renminbi sovereign bonds totalling RMB20 billion. The Shenzhen Municipal People's Government also issued offshore Renminbi municipal government bonds here in October. These issuances showcase Hong Kong as the premier gateway for international capital to access the Mainland.

There's more on the bonds. I am leading a steering group intent on promoting the diversified development of Hong Kong's bond market. I am confident that we can boost Hong Kong's current position as Asia's third-largest bond market, outside Japan, in total bond issuances.

We value our connectivity with international markets. Beyond the Mainland, Hong Kong has formalised mutual recognition of funds' arrangements with Switzerland, France, the United Kingdom, Luxembourg, the Netherlands and Thailand. That, of course, enlarges our fund industry's distribution network. And the SFC is working to continue to expand that network.

Green and sustainable finance shows great promise as well. Earlier this month, Ashley spoke at the Green Horizon Summit @ COP26 in his role as Chair of the IOSCO (International Organization of Securities Commissions) Board. Here in Hong Kong, the Green and Sustainable Finance Crossâ€'Agency Steering Group, co-chaired by Ashley and the Hong Kong Monetary Authority, will bolster our reputation as a leader in this region in green and sustainable finance. It will also help move our financial sector in the direction of carbon neutrality before 2050.

Back in January, the HKSAR Government completed our issuance of green bonds worth US$2.5 billion. The offering, in three tranches, featured tenors up to 30 years – the first such issuance among Asian governments.

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

Just last Thursday (November 18), we have completed the successful offering of another US$3 billion worth of green bonds denominated in US dollars and euro. That is the Hong Kong SAR Government's inaugural offering of euro-denominated bonds, with a 20-year tranche being the longest issued by an Asian government to date, allowing us to reach out to a new group of investors while setting an important new benchmark for potential issuers in Hong Kong and in the region.

We will soon follow up with a retail tranche that the public can participate in as well. And we will continue with our Green and Sustainable Finance Grant Scheme to encourage more issuers to take advantage of this outstanding service platform of Hong Kong.

Green bond issuance aside, we have been promoting green finance in three other directions. First, on the regulatory front, our regulators have introduced regulatory measures on climate risk management and disclosure. We are working towards adopting the Common Ground Taxonomy developed by the Mainland and the European Union, with the aim of providing a unified standard among the financial sector.

Second, on green finance infrastructure, we have launched the Centre for Green and Sustainable Finance to support the industry in areas such as capacity building, data collection and analysis. Thirdly, on enriching public awareness on green finance, apart from creating more green business opportunities for the financial sector, we are leading by example by engaging our Exchange Fund in responsible investment and expanding its green portfolio.

Apart from market development, it is equally important that we continue to uphold, and review, our regulatory mechanisms to ensure the smooth functioning of our financial system and the overall financial stability of

Hong Kong. And in pursuit of that, I look forward to today's forum discussions, to your insight and inspiration.

Certainly, it has always been a difficult balance to strike between promoting market development and preserving market integrity. And the SFC, in its ongoing review of the regulatory regime for virtual assets service providers, will, no doubt, give that the painstaking consideration it deserves.

For that, and for today's Forum, I'm grateful to the SFC.

Ladies and gentlemen, I know you will enjoy the Forum's panel discussions and the prominent speakers and moderators who, I am sure, will leave us with a lot of food for thought.

I wish you all the best of business, health and regulation in the new year.

Thank you.