Speech by SFST at business luncheon hosted by HKETO in San Francisco (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, on "Hong Kong – Your Financial Hub in Asia", at a business luncheon hosted by the Hong Kong Economic and Trade Office (HKETO) in San Francisco on May 30 (San Francisco time):

Distinguished guests and friends, ladies and gentlemen:

Good afternoon. I am happy to be back in San Francisco after my last visit in early 2016. Thank you for coming to the business luncheon hosted today by our Hong Kong Economic and Trade Office. I like to take this opportunity to share with you the latest developments in Hong Kong's ever-exciting financial markets.

Hong Kong is ranked as the world's third leading international financial centre, after New York and London. Our crown jewel is our equity market with market capitalisation of more than US$4 trillion. Over the past nine years, in terms of funds raised through Initial Public offerings, Hong Kong came first in five years.

Our thriving fund management business has around US$2.4 trillion in assets under management, with 70 out of the top 100 money managers in the world present in Hong Kong. China's currency renminbi has seen increased usage and is the seventh highest utilised currency according to SWIFT statistics. Hong Kong is by far the largest offshore renminbi centre in the world, with a wide range of renminbi denominated financial products.

While these are our traditional strengths, as the Chinese saying goes, "A boat sailing against the current must steam ahead or be pushed back." In Hong Kong, we take pride in the fact that we are a dynamic city that continuously reinvents itself against changes, be they economic trends or technological advances.

Today, I will focus on three emerging themes that will contribute to the continued vibrancy and prosperity of Hong Kong as an international financial centre. The first is on how our financial markets are embracing innovation. The second is on our efforts in becoming a regional hub for green finance. The third is on our role in enhancing connectivity, especially along the Belt and Road economies.

First, embracing innovation. In Hong Kong, our Stock Exchange has just put in place a new listing regime for companies from emerging and innovative sectors. The changes to our Listing Rules came into effect on April 30, just a month ago, and we are already seeing sizable applications under the new regime.

One major change to our listing requirements is tailor-made for biotech companies, taking into account their long and costly journey of turning research into effective products and applications. This will help biotech companies overcome their revenue and cash-flow challenges.

Hence, biotech companies with no prior record of revenue or profit will be allowed to list on the main board of Hong Kong's Stock Exchange, subject to certain requirements. These include a minimum expected market capitalisation at the time of listing of around US$190 million (HK$1.5 billion).

The company should have been primarily engaged in R&D of its core products for a minimum of 12 months, and the primary reason for listing should be to raise capital for commercialisation of its core products. There is also specific guidance for biotech sectors such as pharmaceuticals, biologics and medical devices.

The second change is to permit high growth and innovative companies with weighted voting rights (WVR) structures to list on the main board of our Stock Exchange.

At the time of listing, companies with WVR structures would be required to have a minimum expected market capitalisation of US$1.3 billion (HK$10 billion). The company's core business should involve new technologies, innovations, or a new business model which differentiates the company from existing players.

Research and development should be a significant contributor of expected value and constitute a major activity and expense. The company should also demonstrate a track record of high business growth, as can be objectively measured by operational metrics.

Since companies with WVR structures potentially carry additional risks to investors, we have put in place certain safeguards, such as requirements for WVR beneficiaries, limits on WVR powers and enhanced corporate governance and disclosure. Our safeguards introduce a higher standard of corporate governance and investor protection, and we believe this will attract more investor interest in such WVR companies.

For example, each WVR beneficiary must have been materially responsible for the growth of the business, by way of his or her skills, knowledge or strategic direction, such that the value of the company is largely attributable or attached to intangible human capital. A beneficiary must also be a director of the company at the time of listing and remain as a director afterward.

The WVR attached to beneficiaries' shares will lapse permanently under certain conditions, for example, if a WVR beneficiary dies or ceases to be a director. The WVR attached to a beneficiary's shares must also cease upon transfer to another person.

In addition, a class of shares conferring WVR in a listed issuer must not entitle the beneficiary to more than ten times the voting power of ordinary shares.

An issuer with a WVR structure must establish a Corporate Governance Committee that is constituted by only independent non-executive directors. And as part of enhanced disclosure requirements, the listed equity securities of an issuer with a WVR structure must have a stock name that ends with the marker "W".

In short, with appropriate safeguards in place, our listing reforms represent a major step forward for Hong Kong as an international financial centre. As I said just now, we are seeing both biotech and WVR issuers filing IPO applications, and we expect more companies from emerging and innovative sectors to list in Hong Kong. This will deepen and broaden our fundraising platform and increase our overall competitiveness.

Let me turn now to the second theme, financing green. We envision an increasing role for our capital markets as a fundraising platform for green projects and the Government is committed to developing Hong Kong into a regional hub for green finance.

The United Nations Environment Programme uses the term "a quiet revolution" to describe the way in which the global financial system is becoming aligned to sustainable development.

In China, a sustainable development strategy was one of the seven key strategies highlighted by President Xi Jinping last year. Greenness was also one of the five major development concepts outlined in China's 13th Five-Year Plan covering 2016-2020, along with innovation, co-ordination, openness and inclusiveness.

In Hong Kong, we are also taking active steps to promote sustainable development and green finance in particular. The Hong Kong Quality Assurance Agency launched its Green Finance Certification Scheme in January this year, providing third-party conformity assessments for issuers on their green debt instruments.

To support this initiative, the Financial Secretary announced in the 2018-19 Budget that the Government will develop a to subsidise eligible green bond issuers using this certification scheme. The subsidy per issue is up to US$102,000 (HK$800,000) to cover certification expenses and the issuance would need to carry a minimum size of around US$64 million (HK$500 million).

Another new policy initiative this year is a three-year Pilot Bond Grant Scheme that covers eligible enterprises issuing bonds in Hong Kong for the first time. Eligible debt securities must be issued in Hong Kong, with an issuance size of at least US$191 million (HK$1.5 billion). The grant amount for each bond issue would be up to US$319,000 (HK$2.5 million). Each issuer can apply for a grant for two bond issuances at most, and these arrangements apply to green bond issuances as well.

In addition, our Government plans to launch a green bond issuance programme with a borrowing ceiling of US$13 billion (HK$100 billion) for green projects under the Government's public works programme. We hope this programme will help provide benchmark pricing for the market and stimulate market development.

Indeed, the initiatives above target issuers in the global green market, where China has emerged as an important player. Mainland China was the largest green bond issuer in the world in 2016, with the total issuance amount reaching US$23 billion, over one-quarter of the total global issuance. In 2017, China's green bond issuance also totaled around US$23 billion, similar to 2016. Already, we are seeing more and more Mainland companies issue green bonds in Hong Kong.

Multilateral development banks are also active in tapping Hong Kong's platform for green bonds. The Asian Development Bank issued green bond of US$12.7 million and US$50.9 million consecutively in Hong Kong in March this year. The World Bank followed with its first ever green bond denominated in Hong Kong dollars in April. These issuances attest to the strengths of Hong Kong's financial platform and the growing importance of Hong Kong as a centre for green finance.

Now I come to my third point on enhancing connectivity, especially among the economies along the Belt and Road. The Belt and Road Initiative refers to the Silk Road Economic Belt and 21st Century Maritime Silk Road, an initiative put forward by China. They cover over 70 economies, account for 65 per cent of the world's population, one third of world GDP and one quarter of movement in goods and services globally, representing a large market with huge potential.

The Initiative aims at increasing trade in goods, movement of capital and interaction among peoples along the Belt and Road, with the goal of building an inclusive and balanced co-operation framework that delivers benefits for all. As the leading financial hub in Asia, Hong Kong's experience, expertise and international outlook enable us to be the pre-eminent financial centre for the diverse economies in this Initiative.

To begin with, Hong Kong can be a hub that connects regional and international stakeholders in infrastructure investments. According to the Asian Development Bank, as much as US$1.7 trillion a year will need to be invested in infrastructure in Asia until 2030. The Asian Infrastructure Investment Bank puts the estimate at an even higher figure of US$2.7 trillion per year. To that end, our central bank and banking regulator, the Hong Kong Monetary Authority, has set up an Infrastructure Financing Facilitation Office, which provides a platform for collaboration.

To date, around 80 key stakeholders, including multilateral banks, financiers, pension funds, insurance companies, commercial banks, infrastructure developers and operators, as well as professional services firms, have joined us as partners. In addition, in September last year, the Hong Kong Monetary Authority signed an agreement with the International Finance Corporation (IFC), a member of the World Bank Group, committing up to

US$1 billion to the Managed Co-Lending Portfolio Program with the IFC for investment in infrastructure projects globally.

Another area where Hong Kong can play a major role is as the preferred location for corporate treasury centres. Corporations expanding into the economies along the Belt and Road will face a complex operating environment, including the challenges of multiple currencies and interest rate fluctuations. A need may arise to set up a corporate treasury centre to centralise financing, liquidity and risk management.

Hong Kong's world-class financial infrastructure, availability of professional services and deep pool of financial talents make us an ideal place for the setting up of a corporate treasury centre. What's more, our legislature passed a law providing tax concessions for corporate treasury centres, which are taxed at only 8.25 per cent of their qualifying profits.

Finally, as I mentioned earlier, Hong Kong is the largest offshore renminbi centre, managing 70 per cent of global offshore renminbi payments. The renminbi is a potential currency of choice for the financing of many Belt and Road projects, and this translates into a growth opportunity for Hong Kong.

Importers and exporters in Belt and Road countries can settle their trade in renminbi in our payment system through more than 200 participating banks from all over the world. Investors in Belt and Road projects can tap our renminbi liquidity through bank loans or "dim sum" bond issuance. They can also invest their surplus renminbi liquidity in a wide range of renminbi products available here in Hong Kong.

Hong Kong is already the leading centre for offshore renminbi asset management. The Renminbi Qualified Foreign Institutional Investors Scheme, introduced in Hong Kong in 2011, provides a channel for foreign portfolio investments in the equity and bond markets in Mainland China. More recently, the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect began in November 2014 and December 2016 respectively, opening up new channels for two-way investments in our respective stock markets.

Next month MSCI's Emerging Market Index is going to see the inclusion of over 230 A shares from China's stock markets. This is expected to generate substantial flow of international capitals into China's stock markets. And Hong Kong expects to be playing an important role in the intermediation of such flows, especially with our Shanghai and Shenzhen Stock Connect channels.

Whether it is infrastructure investment, risk management through corporate treasury centres, or increased use of the renminbi, what is certain is that Hong Kong will play a central role in enhancing connectivity among the economies along the Belt and Road.

Now, before I end, I would like to say a few words about the core strengths of Hong Kong. "One country, two systems" is the bedrock of Hong Kong's stability and prosperity following China's resumption of the exercise of sovereignty over Hong Kong in 1997. As a Special Administrative Region of

China, we have our separate legal, financial and economic system.

Indeed, Hong Kong is a city that is inclusive and cosmopolitan. Hong Kong is home to nearly 8 000 overseas and Mainland companies. Chinese and English are both official languages of the city, and some 85 international media groups have operations in Hong Kong. Hong Kong also plays host to major events such as Art Basel and Rugby Sevens, ensuring an international lifestyle for locals and expatriates alike.

Hong Kong has always taken pride in our rule of law and sound legal system based on common law. Under the principle of "one country, two systems", Hong Kong's judicial system is independent of that of China. Hong Kong maintains a robust regime for intellectual property rights. In the latest World Economic Forum Global Competitiveness Report published in September last year, Hong Kong ranked ninth in IP protection among the 137 economies covered by the report.

Our tax regime is also simple and low. At the beginning of this fiscal year, we introduced a two-tier profits tax regime which charges half of our standard tax rate of 16.5 per cent, that is, 8.25 per cent, for the first HK$2 million of profits. HK$2 million is around US$250,000. This will bring benefits to start-ups and small and medium enterprises.

Finally, Hong Kong has an unrivalled geographical location in the heart of Asia. Within five hours, you can reach half of the world's population.

Ladies and gentlemen, in conclusion, we are embracing innovation, financing green and enhancing connectivity along the Belt and Road economies. Together with our core strengths, I am confident that these emerging growth drivers will enable Hong Kong to reach new heights as one of the most vibrant financial capitals of the world. Thank you.