

Budget Speech by the Financial Secretary (5)

Strengthening Industries with Competitive Edge

72. It is imperative for Hong Kong to leverage on its strategic positioning as the "three centres and a hub" and make good use of the advantages of "one country, two systems". With the resolute support of our country, we must consolidate and strengthen industries with clear advantages whilst actively nurturing and developing new industries, injecting new impetus to Hong Kong's economy such that Hong Kong could contribute to the Chinese path to modernisation while realising faster and better development.

International Financial Centre

73. Last year, Hong Kong ranked among the top three international financial centres (IFC) and the top four initial public offering markets in the world. The Hong Kong stock market has been buoyant since the beginning of this year. Total assets under management amounted to over \$31 trillion, with over half of the funding sourced from investors outside. The offshore Renminbi (RMB) liquidity pool has expanded to approximately RMB1.1 trillion.

74. The key to consolidating and enhancing the strengths of Hong Kong as an IFC lies in institutional innovation, product innovation, a critical mass of enterprises and financial connectivity. Over the past few years, institutional reforms to the capital market, including establishing listing avenues for new economy and technology enterprises with weighted voting rights structures, facilitating fundraising by overseas issuers, etc., coupled with the Government's active efforts in attracting new capital overseas and expanding new markets, have injected impetus to the Hong Kong market and improved its liquidity. We are pressing ahead with high-quality development of Hong Kong's international financial market to create more new growth areas.

Securities and derivatives market

Facilitating financing of overseas enterprises and specific products

75. The Association of Southeast Asian Nations (ASEAN) is an important economic region that continues to grow. A number of enterprises from ASEAN are seeking to apply for listing in Hong Kong, covering businesses in areas such as biotechnology, integrated logistics, mining, etc.

76. HKEX will step up its promotion in ASEAN and the Middle East, and actively explore areas of co-operation with countries in the region, including the listing of exchange-traded funds, to enrich the investment product choices in mutual markets and promote two-way capital flows. HKEX will also strive to increase the number of overseas recognised exchanges to facilitate more overseas companies' secondary listing in Hong Kong.

77. In order to facilitate more private equity funds to list in Hong Kong, SFC has clarified the relevant regulatory requirements to encourage sizeable alternative asset funds with regular income streams to raise funds. In addition, HKEX will put forward recommendations to enhance the issuance mechanism of structured products with a view to providing greater flexibility for product listing and trading.

Improving trading and risk management efficiency

78. We will continue to advance reforms to the trading mechanism. HKEX will gradually introduce new functions to its post-trade system from the middle of this year and conduct system upgrades to ensure technical compatibility with the T+1 settlement cycle by the end of this year, and complete advance preparations for shortening the settlement cycle.

79. Riding on the reduction in minimum price spreads to be implemented in the middle of this year, HKEX is reviewing with the SFC the trading unit system, or the so-called "board lot" system, and will put forward proposed enhancements this year, so that trading arrangements can better meet liquidity characteristics of shares of different sizes and investment needs, as well as facilitate trading and improve efficiency.

80. We have submitted the subsidiary legislation with regard to the implementation of the uncertificated securities market regime to LegCo. The SFC and HKEX are working closely with the industry to carry out system upgrades and technical preparations, with a view to implementing the regime early next year.

81. To meet the risk management needs of investors, the SFC will consult the market on the proposal to increase the position limits for key index derivatives, so as to enhance flexibility for investors to use the relevant derivatives while safeguarding financial safety.

Taking forward reforms to the listing regime

82. To dovetail with the latest economic trends and corporate needs, we will review listing requirements and post-listing ongoing obligations, evaluate listing-related regulations and arrangements to improve the vetting process, optimise the thresholds for dual primary listing and secondary listing, and review the market structure, including exploring the establishment of a post-delisting over-the-counter trading mechanism.

Fixed Income and Currency Hub

83. The SFC and the HKMA have set up a task force to formulate a roadmap, covering the development of primary and secondary bond markets and foreign exchange markets, as well as infrastructural enhancement. We will also organise a flagship forum in the second half of this year to promote Hong Kong's strengths in this regard.

84. The Government will conduct research into the current legal and regulatory regime related to the issuance and transactions of digital bonds and explore enhancement measures to promote the wider adoption of

tokenisation in Hong Kong's bond market.

85. The Government will regularise the issuance of tokenised bonds. The HKMA is preparing for issuing the third tranche of tokenised bonds, and will continue to encourage digital bonds issuances through the Digital Bond Grant Scheme, while actively exploring tokenising traditional bonds issued.

Asset and Wealth Management Centre

86. We have been striving to foster the development of the asset and wealth management industries. Measures implemented include enhancements to the Cross-boundary Wealth Management Connect in the GBA, Exchange-traded Fund (ETF) Connect, and the Mainland-Hong Kong Mutual Recognition of Funds arrangement.

87. We will formulate proposals on the preferential tax regimes for funds, single family offices and carried interest this year, including expanding the scope of "fund" under the tax exemption regime, increasing the types of qualifying transactions eligible for tax concessions for funds and single family offices, enhancing the tax concession arrangement on the distribution of carried interest by private equity funds, etc.

88. We will continue to attract global capital to Hong Kong and develop a vibrant ecosystem for family offices. InvestHK has assisted over 160 family offices in setting up operations or expanding their businesses in Hong Kong. We will be hosting the third edition of the Wealth for Good in Hong Kong Summit shortly under the theme "Hong Kong of the world, for the world", showcasing Hong Kong's strengths as a global hub for family offices.

Offshore RMB Business Centre

89. With the prudent and steady progress of RMB internationalisation, Hong Kong, as an offshore RMB business hub, will continue to enhance offshore RMB liquidity, improve the relevant infrastructure, and provide more investment products and risk-management tools.

90. The Government promotes the formation of the offshore RMB yield curve by regularly issuing RMB bonds of different tenors. The Hong Kong RMB Clearing Bank has been offering 24-hour cross-border clearing service since last year, bringing convenience to banks and customers in different time zones.

91. The current size of the Currency Swap Agreement between the HKMA and the People's Bank of China (PBoC) is RMB800 billion. The HKMA will launch an RMB Trade Financing Liquidity Facility for banks as a stable source of relatively lower-cost funds, so as to support banks in providing RMB trade finance services to their corporate customers. The new facility has a total size of RMB100 billion.

92. To promote trading of more stocks in RMB and improve market liquidity, both places are conducting technical preparations at full speed to implement the inclusion of RMB trading counter under Southbound trading of Stock Connect. In addition, HKEX is taking forward the single tranche multiple counter arrangement, including adopting the same International Securities

Identification Number for dual-counter stocks, so as to enhance settlement efficiency. The Government has also been conducting preparatory work to allow the stamp duty payable on the transfer of stocks at RMB counters to be paid in RMB, with a view to putting forward a legislative proposal next year.

Mutual market access and co-development with the Mainland

93. We will enhance the mutual market access mechanism with the Mainland, including the issuance of offshore Mainland government bond futures in Hong Kong, and implementing block trading of stocks and inclusion of real estate investment trusts under the mutual access as soon as possible. We will also actively explore opportunities to introduce further expansion initiatives, extend the Cross-boundary Wealth Management Connect Scheme in the GBA, improve market liquidity, and enrich the risk management toolbox.

94. The Financial Services and the Treasury Bureau, together with OASES and the HKTDC, will host the inaugural Hong Kong Global Financial and Industry Summit this year, which will pool together global enterprises, funds and technologies through financial empowerment, thereby elevating the level of international co-operation of industries. It will also attract more leading companies in advanced industries, domestic as well as overseas enterprises and investors to establish a foothold in Hong Kong.

95. To promote the connection of e-payment between the Mainland and Hong Kong, the PBoC and the HKMA are working closely to implement the linkage of faster payment systems of both places, with a view to providing round-the-clock real-time, small-value cross-boundary remittance service for residents in both places. The service is expected to be launched in the middle of this year at the soonest.

96. According to the "Second Agreement Concerning Amendment to the Mainland and Hong Kong Closer Economic Partnership Arrangement Agreement on Trade in Services", the restriction for the Mainland branches of Hong Kong banks to conduct bank card business will be lifted starting from next month. This will facilitate them in expanding their businesses in the Mainland.

Fintech and Financial Innovation

Virtual Asset Development

97. We have been actively developing the virtual asset ecosystem in Hong Kong in recent years, and have been at the forefront by establishing a framework that balances regulation and market development.

98. "Consensus", an annual flagship event of the sector, was successfully held in Hong Kong recently, bringing together a few thousands of industry elites and companies from across the world in virtual assets, blockchain, Web3 and fintech, etc. This is a manifestation of global confidence in Hong Kong's vibrant development in this area. During the event, the SFC also announced a roadmap on the virtual asset market.

99. We will soon promulgate a second policy statement on the development of virtual assets to explore how to leverage the advantages of traditional

financial services and innovative technologies in the area of virtual assets, enhance security and flexibility of real economy activities, and encourage local and international companies to explore the innovation and application of virtual asset technologies. The Government will conduct consultation on the licensing regimes of virtual asset over-the-counter trading services and custodian services this year.

100. We have introduced into LegCo a bill to put in place a regulatory regime for issuers of fiat-referenced stablecoins. Upon the passage of the Bill, the HKMA will expedite the vetting of licence applications.

Gold and Commodities

101. The Working Group on Promoting Gold Market Development will formulate a plan this year, covering measures to enhance storage facilities, optimise trading and regulatory mechanisms, expand exchange products, and conduct market promotion. The measures will be implemented gradually.

102. London Metal Exchange, a subsidiary of HKEX, has included Hong Kong as its approved delivery point in January this year. Local warehouse operators have expressed interest in becoming its accredited warehouses. Relevant discussion is actively underway.

Non-traditional risk transfer

103. As an international risk management centre, Hong Kong has been providing diversified risk management tools. We are proactively promoting the development of insurance-linked securities by establishing a dedicated regulatory regime and launching a pilot grant scheme. To date, we have facilitated the issuance of six catastrophe bonds in Hong Kong, with issuance amount totalling over \$5.8 billion. The industry responded favourably to the pilot scheme, and we will extend it for three years.

MPF "Full Portability"

104. The Mandatory Provident Fund Schemes Authority will consult the public on specific proposals of MPF "Full Portability" this year and submit recommendations to the Government thereafter, such that MPF "Full Portability" can be launched soon after full implementation of the eMPF Platform.