

SFST's speech at Hong Kong Venture Capital and Private Equity Association China Private Equity Summit 2023 (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the Hong Kong Venture Capital and Private Equity Association (HKVCA) China Private Equity Summit 2023 today (May 30):

Rebecca (Chairwoman of the HKVCA, Ms Rebecca Xu), Conrad (President and Director of the HKVCA Mr Conrad Tsang), Jacob (Director of the HKVCA Mr Jacob Chiu), distinguished guests, ladies and gentlemen,

Good morning to you all. Thank you for having me again at the China Private Equity Summit, a flagship event gathering great minds in the venture capital and private equity (PE) industry from across the globe to spark new ideas to bring the industry forward. This is the second year I am joining the Summit in a physical format, but this year in the context of the post-COVID recovery, I am speaking to you in a more forward-looking manner, as we have entered a new stage, one in which we concentrate our efforts on driving economic growth.

Let us first review our industry's brilliant performance before we kick-start the rich programme today. With approximately US\$212 billion in capital under management as of end-March this year, our PE sector is a crucial component of Hong Kong's asset and wealth management business, ranking second in Asia only to Mainland China. Additionally, the largest cross-border financial centre in Asia is Hong Kong, which was also listed as the top hedge fund centre in Asia as of March this year.

As I have just mentioned, Hong Kong is in a new stage of our journey towards vigorously pursuing economic growth and development. We've made it our top priority to help advance Hong Kong by fostering growth and enhancing people's quality of life, and we count on industry experts like you to join hands with us to make it a reality. To ensure that development momentum is maintained and even accelerated, we will continue to strengthen and leverage Hong Kong's advantages to enhance our competitiveness. For the next few minutes, I would like to share with you some of our endeavours, focusing on establishing Hong Kong into a diversified fund management platform, developing family office businesses in Hong Kong, enhancing connectivity with the Mainland, and promoting green finance.

Let's begin with the asset and wealth management industry in Hong Kong. As at end 2021, our asset and wealth management business amounted to US\$4.6 trillion, with 65 per cent of funds sourced from non-Hong Kong investors, demonstrating our attractiveness to international capital. In recent years, we have been strengthening the competitiveness of our asset and wealth

management industry through various measures, including the introduction of a diversified fund structure, providing a more favourable tax environment for the fund industry, expanding the fund distribution network, promoting the REIT (real estate investment trust) market, and at the same time providing subsidy schemes.

Speaking of diversifying our fund structure, since we have introduced the open-ended fund company (OFC) regime in 2018, and a limited partnership regime for funds in 2020, the response has been very positive. As of March this year, over 130 OFCs have been established and over 610 limited partnership funds have been registered.

We have enhanced the attractiveness of OFCs and REITs by providing subsidies for OFCs set up or re-domiciled to Hong Kong as well as REITs authorised by the Securities and Futures Commission (SFC) and listed in Hong Kong for three years since May 2021.

In addition, as announced in this year's Budget, the Government will review the existing tax concessions applicable to funds and carried interests. We will continue to listen to the views of the industry on the tax concession regimes and assess the need for further enhancements.

What's more, the SFC has also entered into fund mutual recognition arrangements with the Mainland and a number of countries to broaden the fund distribution network, so as to simplify the arrangements for eligible funds to be sold directly to retail investors in the markets. This widens the distribution channels for our industry and sharpens our competitive edge for the asset and wealth management sector.

In recent years, family office businesses have been growing rapidly around the world and Hong Kong's well-developed financial services platform, free flows of capital and information, as well as connectivity with the Mainland market naturally make us a beneficiary of this global trend. Indeed, Hong Kong is the world's top city for ultra-high-net-worth individuals to manage their investment portfolios. We can also foresee the next two to three decades will be an important period for wealth succession of family offices, and Hong Kong can provide the full range of professional services required by owners of wealth. Here, let me go deeper into this area which has great potential for growth – developing family office businesses in Hong Kong.

The Government has been adopting a multi-pronged approach to create a business-friendly environment for family offices. As an important part of the Government's promotion strategy, the Wealth for Good in Hong Kong Summit held in March this year was attended by over 100 key decision makers from global family offices. It was a top-tier exclusive international event tailored for global family offices and asset owners to showcase our unique advantages as an international asset and wealth management centre. I'm so proud to announce that the feedback has been very encouraging. Many family office participants have indicated interest and plan to set up in Hong Kong.

To achieve the target of attracting at least 200 family offices by 2025 to establish or expand in our market, as stated in our Policy Statement on

Developing Family Office Businesses in Hong Kong, we have set out eight new measures tailored to the holistic and unique needs of family offices and asset owners. Some of the measures include launching a new Capital Investment Entrant Scheme, setting up a new Academy for Wealth Legacy, promoting art storage facilities, and providing facilitating measures for charity activities.

The Policy Statement is also committed to creating a more facilitative tax environment in Hong Kong. We have delivered on this target, as recently the Legislative Council has passed the legislative proposal to provide profits tax exemption for family-owned investment holding vehicles managed by single family offices in Hong Kong. The exemption will apply to any year of assessment commencing on or after April 1, 2022.

Talent is the cornerstone of family office business development in Hong Kong. In this regard, the Financial Services Development Council is now working at full speed on the set up of the Hong Kong Academy for Wealth Legacy, which is expected to be launched by the end of this year. It will offer talent development services to industry practitioners and next-generation wealth owners, cultivating a deep talent pool for the family office sector in Hong Kong.

I have been talking a lot on the progress we have made so far, but let's also bear in mind that the strength and competitiveness of Hong Kong lies fundamentally in our distinctive advantages of enjoying strong support from our country under the "one country, two systems" principle. Hong Kong's distinctive status as a bridge which allows international investors to access the Mainland market, and Mainland funds to gain international exposure, is fundamental to our core competitiveness.

To provide facilitation and preferential policies for the Hong Kong PE industry, last year, the Shenzhen Qianhai Authority and the Financial Services and the Treasury Bureau jointly promulgated the 18 Measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai. It supports eligible Hong Kong LPFs (limited partnership funds) to set up qualified investment entities, under the Qualified Foreign Limited Partnership scheme in Qianhai, to commence onshore investments.

In February this year, the Mainland promulgated the "Opinion on Providing Financial Support for the Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone", setting out 30 measures on financial reform and innovation, including measures to further support Hong Kong PE funds' development in Qianhai. Earlier this month, I led a Hong Kong financial sector delegation to attend an event on promoting 30 Financial Support Measures for Qianhai, held in Shenzhen, to explore ways to implement the relevant policy measures and to strengthen Shenzhen-Hong Kong financial co-operation. We will continue to co-ordinate and co-operate with the relevant Mainland authorities, with a view to promoting further development in Shenzhen-Hong Kong financial co-operation and creating more opportunities for the industry.

Over the past years, a number of mutual capital market access schemes were launched. These schemes are the historical milestones of the mutual access between the Hong Kong and Mainland capital markets. Continuous efforts are also being made to enhance these schemes.

The exchanges in Shanghai, Shenzhen and Hong Kong implemented the expansion of the scope of eligible stocks under Stock Connect in March 2023, including the addition of eligible stocks of foreign companies that are primary listed in Hong Kong and more companies listed on the Shanghai and Shenzhen stock exchanges. The inclusions, I must say, are a significant enhancement of the scheme. Not only will the expansion facilitate Mainland and international investors to enrich their investment choices via Stock Connect, but also attract more quality international enterprises to list in Hong Kong, enhancing the competitiveness of our fundraising platform.

Earlier this month, the mutual access between the interest rate swap markets (Swap Connect), Northbound trading has been launched, extending the mutual access arrangements to the realm of financial derivatives products. The initiative provides a convenient and secure channel for offshore investors to trade interest rate swap products in the Mainland via a connection between the financial infrastructures between the two markets. Its implementation will further support Hong Kong in strengthening our functions as a global offshore Renminbi business hub and a risk management centre.

With the strong support of our country and by leveraging our financial strengths to serve the real economy, there will be many exciting opportunities in the years to come. This has also laid down a solid foundation for Hong Kong to accelerate our development into an international centre for green finance, and assist our country in reaching the "3060 Dual Carbon Targets".

Hong Kong is a leading player in green finance and we will continue to promote the green transformation of our economy along five directions, namely, building a green technology ecosystem, facilitating green finance application and innovation, promoting green certification and alignment with international standards, training for talent, and enhancing exchanges and co-operation with the Guangdong-Hong Kong-Macao Greater Bay Area and international markets.

Over the years, the amount of green debt arranged and issued in Hong Kong has been increasing steadily, with local, Mainland and overseas issuers actively using Hong Kong's green finance platform. The total green and sustainable debt (including both bonds and loans) issued in Hong Kong increased by over 40 per cent from 2021 to reach over US\$80 billion in 2022, among which the volume of green and sustainable bonds arranged in Hong Kong accounted for one-third of the Asian market.

Since 2019, we have successfully issued government green bonds under the Government Green Bond Programme totalling close to a US\$16 billion equivalent. This includes the largest ESG bond issuance in Asia totaling a US\$5.75 billion equivalent we issued in January, and the world's first government tokenised green bond totaling HK\$800 million in February this

year.

Our mission cannot be achieved without the strong support of relevant stakeholders. We are going to set up a Green Technology and Finance Development Committee, led by the Financial Secretary, inviting industry representatives to join us in the formulation of an action agenda. I would also like to draw your attention to the International GreenTech Week which we will host at the end of this year.

As the top-class professionals in the PE industry, you are at the forefront of unlocking value in businesses and fostering innovation in the financial sector. As you navigate this ever-evolving landscape, I encourage you to seize the opportunities presented by our thriving financial sector. They include leveraging the city's strengths as a gateway to China, capitalising on its growing wealth management and family office ecosystem, and taking advantage of the new investment opportunities brought by green development. Together, we can grasp the opportunities arising from Hong Kong's renewed development, and create a prosperous future for our market.

Before closing, I would like to wish you all a fruitful and engaging summit today. I also wish the discussions and connections made here will propel your businesses to new heights in the days to come. Thank you.