SFST’s speech on financial services at LegCo Finance Committee special meeting

Following is the English translation of the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at the special meeting of the Legislative Council (LegCo) Finance Committee today (April 6), on the estimates of expenditure for financial services and the key areas of work:

Chairman and Honourable Members,

I will briefly introduce the estimates of expenditure for financial services and our key areas of work in the coming year.

Estimates of expenditure

The allocation to the Financial Services Branch and departments under its purview for 2020-21 is about $2.3 billion. The amount represents an increase of about $400 million over last year.

Key areas of work

In the coming year, we will focus our work on safeguarding Hong Kong's financial stability on the one hand and promoting market development and enhancing financial co-operation with the Mainland on the other, in order to reinforce our status as an international financial centre.

(I) Safeguarding financial stability

We are committed to safeguarding financial stability. With coronavirus disease 2019 (COVID-19) spreading across the globe, the number of confirmed cases has increased globally and locally. The situation has become very serious and put the worldwide economy under great pressure. Many international organisations and economists are pessimistic over the economic outlook and have warned about the risk of global recession this year. Under the influence of COVID-19 and many other uncertainties in the global and local environments, the global and Hong Kong financial markets have become more volatile, and our economy has worsened abruptly. Nevertheless, our financial system remains resilient and different facets, including the Linked Exchange Rate System, continue to function effectively. Stress tests conducted by financial regulators indicate that even in extremely adverse situations, banks, intermediaries in the securities sector and insurers will still be able to meet the relevant regulatory requirements. Our financial system has withstood crises one after another and we believe that with our resilient regulatory regime, Hong Kong can cope with market volatility. In the coming year, the Government and financial regulators will continue to closely monitor the financial market situation, with a view to ensuring financial stability.

(II) Promoting market development

On promoting market development, I would like to give a brief account of our priorities.

(i) Asset and wealth management

Following the introduction of a new open-ended fund company structure in July 2018, we are currently conducting the legislative exercise relating to the establishment of a limited partnership regime for private equity funds, so as to provide more options for funds to be set up in Hong Kong. The relevant bill was gazetted in March 2020, pending passage by the Legislative Council (LegCo). In addition, to attract more private equity funds to domicile and operate in Hong Kong, we also plan to provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions. We will consult the industry on the proposal, and the relevant arrangement will be applicable starting from 2020-21 upon completion of the legislative exercise.

(ii) Securities market

The rapid development of the exchange-traded fund (ETF) market in recent years has brought new opportunities to the securities market in Hong Kong. In order to further strengthen the competitiveness of Hong Kong as an ETF listing platform, the Government will expand the existing scope of the stamp duty on stock transfers waiver for ETF-related transactions to cover also those paid by market makers in the course of creating and redeeming ETF units listed in Hong Kong. This initiative will reduce the overall cost of trading ETFs and hence attract ETF issuers to launch ETFs that track Hong Kong stocks. We plan to table the relevant subsidiary legislation before LegCo this quarter (i.e. the second quarter of this year) to give effect to the proposal.

Moreover, we are further enhancing the mutual capital market access between Hong Kong and the Mainland. With effect from October 28, 2019, companies with a weighted voting rights structure as listed in Hong Kong under the new listing regime of the Hong Kong Exchanges and Clearing Limited are included as eligible securities under southbound trading of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect upon fulfilment of certain criteria. The Government and regulators will continue to discuss with the relevant Mainland authorities to cover more investment products in the mutual market access schemes, with a view to promoting the collaboration and interaction between the two financial markets.

(iii) Facilitating the development of the insurance industry

To enhance Hong Kong's competitiveness as an international insurance hub and help the industry seize new opportunities, including those arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area and the

Belt and Road Initiative, we introduced an amendment bill into the LegCo for scrutiny in this legislative session and gazetted two other amendment bills in March 2020. The amendment bills aim to serve the following purposes. First, to reduce by 50 per cent the profits tax rate for all general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business, so as to help promote the development of marine insurance, underwriting of specialty risks and high value-added maritime services. Second, to establish a new regulatory regime which facilitates the issuance of insurance-linked securities in Hong Kong and to expand the scope of insurable risks by captive insurers set up in Hong Kong, thereby enriching the risk management tools available in the Hong Kong market and catering for the risk management needs of multinational companies respectively. Third, to enhance the structure for the supervision of insurance groups where the holding company for the group is incorporated in Hong Kong, with a view to meeting international standards and establishing Hong Kong as a preferred base for large insurance groups in Asia Pacific.

(iv) Development of financial technologies (Fintech)

We will continue to promote the development of fintech in Hong Kong on various fronts, including expanding the applications of the Faster Payment System and creating conditions conducive to the development of the fintech ecosystem in Hong Kong. While striving to facilitate financial innovation, the Government will also continue to work closely with financial regulators to protect the interests of the investing public.

(v) Green Finance

Last year, we saw the successful offering of our inaugural green bond under the Government Green Bond Programme. We plan to issue a total of around $66 billion in green bonds in the five years commencing from this year, having regard to the market situation. This will further consolidate and develop Hong Kong's position as a premier green finance hub in the region and attract more institutions to make use of our capital market for green financing and investing.

(vi) eMPF platform

To create room for fee reduction and a predominantly paperless Mandatory Provident Fund (MPF) experience, the Government is working with the Mandatory Provident Fund Schemes Authority (MPFA) to set up an eMPF Platform to facilitate standardisation, streamlining and automation of MPF scheme administration processes to maximise operational efficiency. The MPFA issued the Request for Proposal documents for the eMPF Platform last December, with a view to awarding the tender in the second half of 2020. Subject to the result of the tendering exercise, it remains our target to have the eMPF Platform ready by 2022 at the earliest and the onboarding to the eMPF Platform by all trustees in phases in the subsequent two to three years.

(vii) Retail bond market

Further development of the retail bond market will encourage the financial sector to continue tapping the silver market. We plan to issue the inflation-linked retail bond (iBond) and Silver Bond again this year. Depending on the market conditions, the total issuance size of the two retail bonds will be no less than $13 billion. The Hong Kong Monetary Authority (HKMA) will announce the details in due course.

(III) Enhancing financial co-operation with the Mainland

Following the third meeting of the Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area, six finance-related measures were announced, covering areas such as personal banking services and insurance. Among these measures, the HKMA has maintained close communication with the Mainland authorities on the design of the wealth management connect scheme, with a view to launching the scheme as early as possible. On the premise of ensuring proper management of risks and protection of investors, the scheme aims to enable residents of Hong Kong and Mainland cities in the Greater Bay Area to invest in wealth management products in each other's market. This will create more business opportunities for the financial industries of the two places and provide more choices of wealth management products for residents therein, thereby further facilitating the cross-boundary flow and use of Renminbi (RMB), and reinforcing Hong Kong's position as the hub for offshore RMB business as well as the intermediary for capital flowing into and out of the Mainland. The HKMA will draw on the successful experience of existing mutual market access schemes in devising the relevant management arrangements.

Last but not least, to ease the pressure on enterprises brought about by the economic downturn, the Financial Secretary has announced in the Budget that the registration fees for all annual returns (except for late delivery) charged by the Companies Registry will be waived for two years. This will benefit about 1.4 million companies and reduce related revenue by about $212 million in total. We will introduce the proposed amendments to the relevant subsidiary legislation into LegCo this quarter.

Chairman, my colleagues and I will be happy to answer any questions from Members.