

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 9), 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 2019-20 is about \$1.8 billion. The amount represents an increase of about \$114 million over last year.

Key Areas of Work

In the coming year, we will focus our work on reinforcing Hong Kong's status as an international financial centre, promoting market development, enhancing protection for investors and the general public, and taking forward international regulatory requirements.

(I) Developing Offshore Renminbi Business and Enhancing Financial Co-operation with the Mainland

We will capitalise on the opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development. The promulgation of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area further recognises and supports Hong Kong's status as an international financial centre, a global offshore Renminbi business hub, an international asset management centre and a risk management centre. It also supports the development of an investment and financing platform for the Belt and Road Initiative. We will actively work with Mainland authorities to take forward the relevant policy initiatives in accordance with the framework set out in the Outline Development Plan.

The Outline Development Plan proposes to promote mutual financial markets access in the Greater Bay Area. To this end, we are gradually promoting connections between electronic payment systems in the Greater Bay Area and have attained initial results. Since last year, certain Hong Kong e-wallet operators have launched cross-boundary payment services on a pilot basis such that Hong Kong residents could use their smartphones to make

payments with designated merchants in the Mainland. The operators are also planning to expand the scope of the merchants accepting such payments. Moreover, progress has been made in assisting Hong Kong residents to open Mainland personal bank accounts. A Hong Kong bank launched a pilot scheme in March 2019 under which Hong Kong residents may complete the Mainland account opening procedure by attestation in Hong Kong without having to go to the Mainland in person. As a next step, we will continue to explore measures to simplify bank account opening procedures in the Mainland for Hong Kong residents and satisfy the demand for cross-boundary wealth management and insurance services.

(II) Promoting Market Development

There are eight areas on promoting market development.

(i) Green Finance

The Government is making vigorous efforts to promote Hong Kong as a regional green finance hub. Apart from introducing the Green Bond Grant Scheme last year to subsidise eligible green bond issuers in obtaining certification under the Green Finance Certification Scheme, we are also gearing up for the inaugural issuance of green bonds under the Government Green Bond Programme to encourage more issuers to finance their green projects through our capital markets. Our aim is to set a good example for other green issuers and develop a local green investor base. Last year, green bonds arranged and issued in Hong Kong amounted to US\$11 billion, more than triple that of 2017. We are glad to see that many local, Mainland and even international organisations, such as the World Bank, the Asian Development Bank and the European Investment Bank, have chosen to issue green bonds in Hong Kong. This attests to the strengths of our competitive capital markets and is conducive to the further development of green finance.

(ii) Mutual Market Access

Mutual market access schemes including Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Northbound Trading of Bond Connect have been operating smoothly since their launch, and some enhancement measures were implemented in 2018. The Government and regulatory authorities will continue to discuss with the relevant Mainland authorities to enhance the existing schemes and include more investment products in the mutual market access schemes, with a view to deepening the access scheme and promoting the collaboration and interaction between the two financial markets.

(iii) Asset and Wealth Management

The Government will continue to enhance Hong Kong's competitiveness as an asset and wealth management centre through various measures. Following the introduction of a new open-ended fund company structure in July 2018 to allow funds to be set up in corporate form in addition to the form of a unit trust, we are now studying the establishment of a limited partnership regime for private equity funds. This would provide more options for funds to be set up

in Hong Kong. We plan to consult the industry on the detailed proposals for the limited partnership regime later this year.

On tax arrangements, all publicly offered funds can enjoy profits tax exemption. As for privately offered funds, both onshore and offshore funds can enjoy profits tax exemption with effect from April 1, 2019, for qualifying transactions subject to meeting certain conditions. Such transactions include investments in both local and overseas private companies. We expect that the new arrangement will make Hong Kong a more attractive domicile for funds, drive demand for related professional services in Hong Kong and help start-ups secure sources of funding.

(iv) Tax Concessions for the Insurance Industry

To enhance Hong Kong's status as an international insurance hub, we plan to provide tax concessions at 50 per cent of the profits tax rate for marine insurance and the underwriting of specialty risks in Hong Kong, so as to promote the development of relevant business. Our current target is to introduce the relevant amendment bill into the Legislative Council (LegCo) in the 2019-20 legislative year.

(v) Insurance-linked Securities

We will amend the relevant legislation to allow for the formation of special purpose vehicles in Hong Kong specifically for issuing insurance-linked securities (ILS), in order to assist the insurance industry to issue ILS in Hong Kong with a view to enriching the risk management tools available in the Hong Kong market. ILS is a tool to securitise insurance risks, so as to transfer the risks underwritten to capital markets. On the other hand, institutional investors may invest in instruments uncorrelated with the economic cycle in order to diversify risks. Our target is to introduce the relevant bill into LegCo for scrutiny in the 2019-20 legislative year.

(vi) Captive Insurers

We will amend the relevant legislation to reduce restrictions on insurable risks that can be carried by captive insurers set up in Hong Kong to meet the risk management need of multinationals. Our current target is to introduce the relevant amendment bill into LegCo in the 2019-20 legislative year.

(vii) Development of Financial Technologies (Fintech)

We will continue to promote the development of Fintech in Hong Kong on various fronts. On Fintech infrastructure, the Faster Payment System (FPS) is well received with more than 2.5 million registrations over the few months since its launch. The Government has engaged a contractor to provide a service for the public to pay government bills with the FPS. The service is expected to launch by the end of this year. The Hong Kong Monetary Authority granted three virtual banking licences last month, and their services are expected to be launched within six to nine months. This would provide the

public with more innovative banking experiences and enhance financial inclusion. In promoting Fintech, the Government strives to facilitate financial innovation on the one hand and protect the interests of the investing public on the other. We welcome the Securities and Futures Commission's announcement of a new regulatory approach for virtual assets. We will also make use of the Global Financial Innovation Network to track the latest regulatory trends.

(viii) eMPF Centralised 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 to set up a centralised platform to facilitate standardisation, streamlining and automation of MPF scheme administration processes to maximise operational efficiency. The LegCo Panel on Financial Affairs was consulted on and supported the funding proposal last December. Our target is to conduct the tendering exercise for the centralised platform in 2019 with a view to completing building the centralised platform by 2022 for phased commencement thereafter.

(III) Protecting Investors and the General Public and Taking Forward International Regulatory Requirements

On enhancing protection for investors and the general public and taking forward international regulatory requirements, I would like to highlight a few initiatives.

(i) Policy Holders' Protection Scheme

The Policy Holders' Protection Scheme aims to provide a safety net for policy holders and maintain market stability by compensating policy holders or securing the continuity of insurance contracts in case an insurer becomes insolvent. Our target is to introduce the relevant bill into LegCo for scrutiny in the 2019-20 legislative year.

(ii) Implementation of the New Auditor Regulatory Regime

With the passage of the Financial Reporting Council (Amendment) Bill 2018 by LegCo on January 30, 2019, we are now working closely with the relevant stakeholders on the preparation for implementing the new regulatory regime as soon as practicable. The Financial Secretary has also announced in the Budget that the Government will increase the amount of seed capital for the Financial Reporting Council (FRC) to \$400 million to help it migrate to the new regime, and exempt the levies payable to the FRC under the new statutory requirements for the first two years.

(iii) Group-wide Supervision

We are improving the legislative framework for the supervision of insurance groups where the holding company for the group is incorporated in Hong Kong. We will ensure that the requirements on capital, risk management,

corporate governance and more are in line with international standards and can help maintain Hong Kong's global competitiveness. Our target is to introduce the relevant bill into LegCo for scrutiny in the 2019-20 legislative year.

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