

Speech
Speech by SFST at Hong Kong Venture Capital and Private Equity
Association China Private Equity Summit 2014
(English only)

Friday, June 13, 2014

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Venture Capital and Private Equity Association China Private Equity Summit 2014 today (June 13):

Conrad (Tsang), distinguished guests, ladies and gentlemen,

Good morning. I am very pleased to join you all today at the China Private Equity Summit 2014. I congratulate the Hong Kong Venture Capital and Private Equity Association on organising this event which brings leading practitioners together to share ideas and learn more about the latest trends in the industry. A warm welcome to you all, and especially to our friends from Mainland China and overseas.

Although Hong Kong is a relatively small city, our stock market is the sixth largest in the world and the second largest in Asia with a market cap of over US\$3 trillion at end-May. Last year, Hong Kong ranked second in the world in terms of funds raised through initial public offering (IPO). We have been in the top five on the IPO league table for each of the past 12 years. Today, Hong Kong is one of the largest and most active equity markets in the world. The current scale of our market has roots dating back to the first listing of a Mainland China company, or H-share, more than 20 years ago. Tsingtao Brewery was the first Mainland firm to list on the Hong Kong stock market back in July 1993, and the company is still going strong. Today, 822 Mainland enterprises are listed in Hong Kong, accounting for more than 56 per cent of total market cap. The reform and opening of Mainland China has supported the growth of our financial market. At the same time, Mainland enterprises are able to tap into international sources of capital while also adopting our global corporate governance standards.

The development of the offshore Renminbi (RMB) market in the past decade has also highlighted Hong Kong's value to our country as an international financial centre with a robust regulatory environment and free flows of capital, information and talent. These qualities have made our city the ideal testing ground for the country's financial reforms and currency liberalisation. The offshore RMB market was born here in Hong Kong 10 years ago when traditional banking services were offered, for the first time, to local residents. In 2007, the first ever offshore RMB

bonds, dubbed "dim sum" bonds, were issued here. This was followed by the cross-border RMB trade settlement scheme introduced in 2009 and the RMB Qualified Foreign Institutional Investor (RQFII) scheme in 2011. In the process, Hong Kong has served as a testing laboratory for new financial initiatives, allowing the Central Government in Beijing to gradually open up markets in a risk-controlled manner and at low regulatory costs.

At the end of April 2014 the aggregate amount of deposits and certificates of deposit in Hong Kong reached RMB1.17 trillion, forming the largest pool of offshore RMB liquidity in the world. A total of 414 offshore "dim sum" bonds have been issued so far, with an accumulative amount raised reaching RMB530 billion between 2007 and April this year. Even more impressive has been the growth of RMB-denominated trades settled by banks in Hong Kong. Increasing by 46 per cent year-on-year, the total value of such trades reached RMB3.8 trillion last year. According to SWIFT (the Society for Worldwide Interbank Financial Telecommunication), the RMB overtook the Swiss Franc as the world's seventh payment currency early this year, with Hong Kong handling 72 per cent of the activity in April 2014.

Many of the initiatives that were first launched in Hong Kong have since been expanded and exported to other financial centres around the world. For example, RMB clearing banks were appointed in Taipei and Singapore last year. This was followed by the expansion of the RQFII scheme to London and Singapore last October, after the scheme had been running smoothly in Hong Kong for about two years.

The Shanghai-Hong Kong Stock Connect pilot programme, announced in April, is the latest example of Hong Kong's role as a facilitator for our country's financial reforms in a risk-controlled manner. The pilot programme will, for the first time, enable investors in Hong Kong and Shanghai to trade eligible shares listed on each other's stock market. It will strengthen the strategic co-operation and interaction between the Hong Kong and the Mainland markets, catalyse the two-way RMB fund flows between the onshore and offshore markets, and further increase the liquidity of the offshore RMB market in Hong Kong. It is also expected to diversify the Shanghai stock market investor portfolio which is currently dominated by individual investors. More Mainland investors will also be attracted to Hong Kong's stock market, where they will have easy access to investment opportunities in companies from around the world. This, in turn, will attract more foreign companies to list in Hong Kong. We look forward to the launch of the Shanghai-Hong Kong Stock

Connect pilot programme within this year.

The same principle of using Hong Kong as a highly efficient and low-risk financial gateway to Mainland China also applies to the asset management industry. After more than three decades of reform and development, Mainland China is no longer just the world's factory and an investment destination for foreign capital: it has also become an important source of capital. As more wealth is generated in Mainland China, Chinese investors are keen to invest their funds overseas. With a strong record in policy innovation and market development, Hong Kong is ideally positioned to facilitate the flow of capital from the Mainland in a controlled manner, acting as the asset management centre for outbound capital from the Mainland.

Hong Kong's asset management industry is rising to meet the challenge. The combined fund management business in Hong Kong reached a record high of HK\$12.6 trillion (about US\$1.6 trillion) in 2012. That is according to the annual Fund Management Activities Survey 2012 published by the Securities and Futures Commission. This represents year-on-year growth of almost 40 per cent. Hong Kong is already home to the largest concentration of Chinese securities and fund management houses outside Mainland China, serving as a base for them to "go global".

As a key component of our asset management industry, the private equity industry is also growing rapidly. As at September 2013, the total capital under management in our private equity funds reached US\$94 billion, representing one-fifth of Asia's total. A total of US\$9 billion of private equity funds was raised during the first three quarters of 2013, accounting for almost 30 per cent of the regional total. Hong Kong also accommodates most of Asia's top venture capital firms, which are experienced in supporting every funding stage ranging from start-up to IPOs. We also serve as a platform for regional headquarters to a number of private equity firms that invest heavily in Mainland China as well as Japan and Korea.

Hong Kong is the major source of foreign direct investment in Mainland China, accounting for 59 per cent of total inflow of realised foreign direct investment during 2012. The liberalisation of the use of RMB for direct investment has paved the way for Hong Kong to become the largest offshore RMB funding centre for companies to raise capital to finance their Mainland China operations.

To facilitate further growth of the asset management industry, the Hong Kong Government will continue to provide a clear and competitive tax environment and a

competitive legal and regulatory framework. A three-month public consultation was launched in March on our plan to introduce a new open-ended fund company (OFC) structure as an alternative to the existing unit trust structure. The open-ended investment company is popular in the international fund management industry as a vehicle for setting up investment funds. The OFC legislation will help Hong Kong develop into a comprehensive asset management centre, offering services covering the registration, manufacturing, investment and the sales and marketing of investment funds. I appeal to all of you to submit your views to us before the public consultation period ends next Thursday.

We are also working on the legislative proposal to extend the profits tax exemption for offshore funds to also cover private equity funds. The proposed exemption will cover transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong. The new measure will provide an incentive for private equity funds to further expand their business in Hong Kong.

The exchange traded funds (ETFs) market is another focus of our efforts. We extended the stamp duty concession in 2010 to cover ETFs that track indices comprising not more than 40 per cent of Hong Kong stocks. The number of ETFs listed in Hong Kong has since risen from 69 at end-2010 to 116 at the end of last year. To further promote the growth of the market, we are planning to waive the stamp duty for the trading of all ETFs as a means to lower the transaction costs. Our goal is to introduce the legislative amendments into the Legislative Council in the next legislative session.

Finally, we are working closely with the Mainland authorities on the mutual recognition and cross-border offering of funds arrangement between Hong Kong and Mainland China. Consensus has been reached between our Securities and Futures Commission and relevant Mainland authorities on the arrangement, pending formal approval from the State Council. Once implemented, this arrangement will further promote the diversification of fund products available to investors in both the Mainland of China and Hong Kong.

I am confident that opportunities for the asset management industry in Hong Kong will continue to emerge, especially those opportunities related to our financial connectivity with markets in the Mainland of China.

I congratulate the Hong Kong Venture Capital and Private Equity Association

on its work in supporting the growth of the industry and wish this 13th China Private Equity Summit a great success.

Thank you and have a great day.

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