

Speech

Speech by SFST at Hong Kong Venture Capital and Private Equity Association China Private Equity Summit 2015 (English only)

Monday, June 1, 2015

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 2015 today (June 1):

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

How times have changed since I last spoke to you at about the same time last year. Back then, the Shanghai-Hong Kong Stock Connect was just announced. Most of us were still trying to figure out what it meant to the markets. The fund mutual recognition arrangement was on the horizon, as it has been for quite a while.

And more importantly, the Hang Seng Index closed around 23,000 points on that day. It is now trading closer to 28,000. We are talking about an annual return of no less than 20 per cent. I am sure everyone here is enjoying a very good year.

The point is, the same point I made in previous occasions when I spoke to you, with the Mainland on course to further open and reform its capital markets, much of what we are used to is going to change. As such, it is not wrong for people to talk about a "new normal", although in the Hong Kong market, the "new normal" refers very specifically to narrow areas such as trading activities or price valuation of the stock market. I think a "new normal" can stand for the more aggressive or persistent policy change on the Mainland. As if to allow us time to understand, the Mainland authorities have adopted a step-by-step approach in pursuing reforms.

The latest brush is of course the implementation of mutual recognition of funds arrangement, or MRF, between the Mainland and Hong Kong. Under the MRF, qualified Mainland and Hong Kong funds may offer directly to retail investors in each other's market after obtaining approval under streamlined procedures. Starting on the 1st of July, regulators of both sides will begin to accept applications. We may see the first recognised fund in the market very

soon.

The MRF is a milestone in the opening up of the Mainland's capital market. It will also promote mutual capital market access between the Mainland and Hong Kong. Under the MRF, capital flows will be directed by professional asset managers. This is expected to further raise participation of institutional investors on the Mainland.

The MRF will also expand the types of fund products available in both places. This will bring about new opportunities for the fund industry in both markets. For Hong Kong, the MRF will surely expand the industry's distribution network. It will also attract more funds to domicile here. This will help us develop into a full-fledged fund management centre with expanded fund manufacturing capabilities.

The MRF will also lay the foundation for the CSRC (China Securities Regulatory Commission) and SFC (Securities and Futures Commission) to jointly develop a regulatory standard. This will help promote the integration of the Asian asset management industry and the transfer of Asian savings into cross-border investments.

The arrangement does not cover private equity funds at the initial stage, however, as is the MRF concerned basically with the publicly offered funds. But don't worry and you know that we have been working on something for the industry. We have not forgotten about you. In fact, our asset management industry is taking on a new significance as the Mainland embarks on its going out strategy. The private equity world is an integral part of it.

After years of rapid economic development, many Mainland individuals and companies are seeking to invest the capital they accumulated. Hong Kong is often their first stop. We see big growth potential for our asset management industry, and we make it a priority in our market development work.

We are working on the legislative proposals to introduce the open-ended fund company as a fund vehicle. This will give the industry more operating flexibility.

We will also extend the profits tax exemption for offshore funds to the

private equity sector. Our goal is to give private equity funds the certainty that profits from transactions in securities of private companies outside Hong Kong will not be liable to tax here. This will attract more private equity funds to expand in Hong Kong. We expect the bill to be passed by our legislature by summer this year.

In light of the growing financial integration in Asia, we also see the potential for Hong Kong to grow into a regional hub for exchange traded funds (ETF). To that end, we waived the stamp duty on trading of ETFs comprising not more than 40 per cent in Hong Kong stocks in 2010. To further promote the industry, we have waived the stamp duty on the transfer of ETFs altogether this year.

Our efforts have not been in vain. Combined fund management business expanded by 60 per cent, from about HK\$10 trillion in 2010 to HK\$16 trillion at the end of 2013. The momentum remains strong. We will continue to work with you all to grow the industry. As I said earlier, we believe the asset management industry is one of the major drivers for our financial market, and the industry encompasses all the publicly offered funds as well as private equity funds. We are trying to use the financial advantage in Hong Kong, including the goal of economic opening in China, to expand the business. For the proposals that the Government received from the industry over the last three or four years, I think we have basically completed almost all of them. So it stands a very good chance for the industry to grow on the back of this very positive policy development.

I would also want to partner with you in another project. I am currently looking into financial technologies, or Fintech, in Hong Kong. Broadly defined, Fintech covers everything that uses technology to deliver financial services, such as payments, big data, financial software and crowdfunding, etc.

In fact, technology is not new to finance. We have been transacting with our phones and the Internet for some time now. However, recent advances in mobile and data technologies are empowering more changes. E-commerce businesses have started to offer financial products in many countries. Social media is changing the way young people access financial services. Technology has given rise to new channels to distribute funds and other financial products as well.

I have enlisted the help of a steering group in this effort. Members are drawn from academia, regulatory bodies and the industry, including the technology side and the funding side. We also have a couple of members from the investment community.

As an international financial centre with deep mobile penetration, Hong Kong is a natural base for Fintech activities. We have customers who embrace new technology. More importantly, we have finance professionals who know how the finance industry works, and they have insights about how to improve on the existing system. When these finance professionals team up with technology experts, they can invent new business models for delivering financial services.

Fintech is also developing rapidly in the Mainland market. Our proximity to the Mainland allows Fintech firms based here to expand into the Mainland market.

Many innovations in Fintech come from start-ups, and thus it is also our goal to develop a healthy ecosystem to support these start-ups. In this regard, the recent explosion in start-up activities in Hong Kong is encouraging. The number of start-up co-work spaces and accelerators has grown from three in 2010 to 35 last year. According to surveys by InvestHK, our investment promotion agency, the number of local start-ups has reached 1,065, growing by 30 per cent over the past year. Of these, 74 are involved in Fintech. Out of the top 100 Fintech companies in the world, 41 already have a presence in Hong Kong. These statistics point to a very initial development of the Fintech sector but they suggest that the ecosystem that supports start-ups is taking shape in Hong Kong.

Our Fintech steering group will work with me and hopefully we will deliver a report by the end of the year on recommendations of how to support Fintech development in Hong Kong. The convergence of finance and technology is no doubt one of the most important and exciting spaces to watch today. I hope I will have your comments and participation and I hope I will have some good news for you next time I see you. And meanwhile, of course you know these start-ups need something from you, so get your wallets ready.

Thank you.

Ends