Speech

Speech by SFST at HKVCA China Private Equity Summit 2016

(English only)

Monday, May 30, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the HKVCA China Private Equity Summit 2016 today (May 30):

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

Good morning. It is my great pleasure to join you all today at the HKVCA China Private Equity Summit 2016. I have attended this summit a few times and indeed this is a highlight on the industry's calendar in the region. I have come to notice that the summit has been held in late May for a few years now and I started to wonder if this has to do with the saying "sell in May and go away". With a weak listed equity market in May, private equity managers are perhaps less busy looking for exits for their investments. As such, May is a good time for some recollections, perhaps over a conference.

We have, no doubt, quite a lot to recollect over the past year. Oil prices once slumped to below US$28 a barrel in February, a low not seen since 2003. The Hang Seng Index closed in the 18,300s, a four-year low, this past February. The roller coaster that was set in motion last summer has only recently showed some sign of slowing.

Despite such volatility, the Asian private equity industry is able to keep up the very good work it has been doing. According to the Asian Venture Capital Journal, a total of US$67 billion of private equity funds was raised in Asia last year, of which almost 18 per cent was raised in Hong Kong. The total number of private equity firms with headquarters in Hong Kong reached 354 at the end of last year.

Hong Kong is known for our ability to capitalise on opportunities that come our way. And given our prime location in the heart of Asia and our proximity to the Mainland, we are well-positioned - both in terms of geography and capability - to take advantage of the wealth creation and continued market liberalisation in the region. In the past year, the Government has implemented numerous initiatives to boost the development of our private equity and asset management industries.

A major breakthrough is, of course, the mutual recognition of funds (MRF) arrangement implemented in July last year. As you may recall, I already talked about MRF at last year's summit, so I will not bore you with more details today. What I do want to update you on, is that the arrangement has been operating smoothly, and the two regulators have received a number of applications. As at mid-May 2016, the Securities and Futures Commission has authorised 36 Mainland funds for public offerings in Hong Kong, whilst the China Securities Regulatory Commission has approved six Hong Kong funds for public offerings on the Mainland. We are delighted to see a good start in the arrangement, and hope that active market participation will come.

You may be interested in knowing about another initiative of ours, that is, the introduction of the open-ended fund company (OFC) structure. The OFC structure is our response to the industry's call for a more flexible choice of investment vehicle, and is introduced as an alternative to the unit trust. Not only would the proposal allow more flexibility for fund managers and investors to trade funds, but it would also appeal to overseas jurisdictions that are not familiar with the unit trust form. We are hopeful that this will attract more funds to domicile in Hong Kong, hence building up our whole spectrum of fund management capabilities, from product design to marketing and distribution. We hope that the Bill, which provides for the framework of the OFC structure, could be passed before summer.

You are no doubt aware that we have extended the profits tax exemption for offshore funds to the private equity sector since July last year to encourage more fund managers to expand their business in Hong Kong. We have also waived the stamp duty for all exchange traded funds since February last year. I am sure that these will provide a clearer tax environment for the fund industry to grow.

We understand that talent is the most important asset for the financial industry. We will allocate HK$100 million for a three-year pilot programme to enhance talent training for the asset and wealth management sector and the insurance sector. We will implement the pilot programme in phases in a few months' time.

Fintech is perhaps one of the hottest topics in the world of finance today, and we are working hard to make sure that we do not miss out on this one. Hong Kong, as an international financial centre with a strong information and communication technology sector, is an ideal place for Fintech to develop.

According to Accenture, global investment in Fintech ventures grew 75 per cent in 2015 and exceeded US$22 billion. The enormous opportunities for Fintech in Asia can be seen in the value of Fintech investment in Asia-Pacific, which more than quadrupled in 2015 to US$4.3 billion (19 per cent of global total) from US$880 million in 2014, making the region the second largest Fintech investment market after North America (US$14.8 billion) and ahead of Europe (US$4 billion). During the first quarter of 2016, Fintech investments in Asia-Pacific gained further ground, rising to US$2.7 billion and making up 51 per cent of the US$5.3 billion invested in Fintech companies globally.

A vibrant Fintech ecology has started to take shape in Hong Kong. Many established financial institutions are actively applying Fintech in enhancing their services. Meanwhile, breakthroughs in IT and communications development lowered the threshold for start-ups to enter the financial services arena to offer consumers novel experiences in managing their finances and help financial institutions improve their operational efficiency.

Various local and multinational financial and professional services firms have set up accelerator programmes and innovation laboratories in Hong Kong to nurture Fintech start-ups and talents as well. According to the Startup Profiling Survey of Invest Hong Kong, our government trade promotion agency, there were 1,558 start-ups located at 40 co-working spaces and incubator or accelerator programmes in Hong Kong in August 2015. Out of these start-ups 86 were Fintech-related.

The Government is committed to fostering a conducive ecology for Fintech development, and initiatives were announced in the 2016-17 Budget to promote the Fintech sector, support start-ups and nurture talents. First of all, and perhaps most relevant to the private equity sector, is our plan to set aside HK$2 billion to set up an Innovation and Technology Venture Fund for co-investing with private venture capital funds in technology start-ups on a matching basis. The Hong Kong Science and Technology Parks Corporation will also launch the Corporate Venture Fund to co-invest with private funds, on a matching basis, in start-ups which are located in the Science Park or have participated in its incubation programmes. We also launched the Enterprise Support Scheme in April 2015, which provides funding for companies of all sizes to conduct R&D projects, with a matching fund ceiling of HK$10 million per project.

Besides financial support, Invest Hong Kong is setting up a dedicated Fintech team to organise international events and to assist start-ups, investors and R&D institutions to establish their presence in Hong Kong. The Cyberport will also set aside a dedicated space of 3,000 square metres in its Smart-Space for Fintech activities and will roll out a designated incubation programme for 150 Fintech start-ups over the next five years. Meanwhile, dedicated liaison platforms have been established at the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission and the Office of the Commissioner of Insurance to enhance communication between the Fintech community and the regulators.

We are also encouraging the industry and relevant organisations to explore the application of blockchain technology in the financial services industry, with the potential to reduce suspicious transactions and bring down transaction costs. In addition, the HKMA announced less than two weeks ago (note: May 18) the launch of the Cybersecurity Fortification Initiative, and will roll out training courses for cybersecurity practitioners and establish a Cyber Intelligence Sharing Platform by the end of 2016.

Ladies and gentlemen, back to what I have said at the beginning about the global environment. I do not have a crystal ball and cannot tell you what will happen between now and next May. However, I believe I have given you an outline of our initiatives to support both asset management and the Fintech industry, and also the innovation industry in general. I am also confident that experts and professionals speaking in today's programme will give you a timely update on the most important trend affecting the industry. I wish you a very great programme today. Thank you.

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