Speech

Speech by SFST at HKVCA China Private Equity Summit 2017

(English only)

Friday, May 26, 2017

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the HKVCA China Private Equity Summit 2017 today (May 26):

Eric (Chairman of Hong Kong Venture Capital and Private Equity Association, Mr Eric Mason), Conrad (Chairman of PRC Committee of Hong Kong Venture Capital and Private Equity Association, Mr Conrad Tsang), ladies and gentlemen,

Good morning. It is a great pleasure to join you today at the HKVCA China Private Equity Summit 2017. I understand this is the 16th edition of the Summit, a perfect platform indeed for industry players to meet and discuss the most important issues facing the industry.

I must congratulate the organiser, as when I read through the programme booklet I was very impressed by the speakers and the topics that you are running, and I wish you all a wonderful day at the Summit. Thank you also Conrad for supporting the government initiatives over the years, and your organisation has been our strong partner.

Back to some statistics, the Hong Kong private equity sector has done very well. At the end of March 2017, the total capital under management stood at USD124 billion, accounting for 16 per cent of the Asian total. In the first quarter of 2017, the industry raised total private equity funds of USD5.9 billion, ranking second in Asia by volume just after the Mainland.

During the last couple of years or perhaps during my tenure in my office, we have been doing quite a lot of things to strengthen Hong Kong's position as an asset management centre. Our purpose is to attract fund management companies to domicile and operate in Hong Kong. The most recent piece of legislation that is a proving one is about the legislative framework for open-ended fund companies (OFCs), which was passed last year. We also announced in this year's Budget that we propose to extend profits tax exemption to onshore privately-offered OFCs.

With this, all OFCs - onshore or offshore, publicly or privately offered - would be tax exempted. Expected to be up and running next year, the new fund vehicle should enhance Hong Kong's attractiveness as a location for fund domiciliation and operation, expanding industry offerings while helping build Hong Kong's fund-creation capabilities. Of course the Government is studying suggestions from the industry to make our regime more attractive to cater for more companies of different types.

Fund domiciliation aside, we have been working on expanding mutual recognition of funds with various places. No less than 55 funds have been authorised under the mutual recognition of funds arrangement with the Mainland, launched some two years ago. A similar arrangement was signed between Hong Kong and Switzerland last December. We want to do more on that so that more home-grown Hong Kong public funds can gain direct access to other parts of the world.

Mutual market access has also moved beyond the funds part and we have the mutual connect in terms of the Shanghai-HK Stock Connect and Shenzhen-HK Stock Connect. The launch of the Bond Connect arrangement between Hong Kong and the Mainland was also announced two weeks ago. Northbound Trading will commence first, under which eligible investors from Hong Kong and other countries and areas will be able to invest in the China Interbank Bond Market through mutual access between the Hong Kong and Mainland Financial Infrastructure Institutions.

With an outstanding amount of roughly RMB65 trillion, the Mainland is home to the third largest bond market in the world. According to the central bank data, foreign holdings of Chinese onshore bonds reached RMB830 billion in March, which is less than 2 per cent of total holdings. There is much room for foreign holdings to grow and Hong Kong will facilitate this flow through the Bond Connect.

I noticed that the Summit will also touch on Chinese outbound investment. Hong Kong is well positioned to play an instrumental role in China's continued integration with regional and world economies. The Belt and Road initiative is well underway. Joining 29 heads of governments, the Hong

Kong delegation at the inaugural Belt and Road Forum in Beijing in mid-May shared our experience in infrastructure management and Hong Kong's potential as a financial hub to the audiences.

Closer to home, and I have been speaking about this, I think the Guangdong-Hong Kong-Macao Bay Area really warrants our attention. The area covers 11 prosperous cities in Guangdong and a total population of 66 million. A development plan for the Bay Area is being jointly prepared now and financial services will be one of Hong Kong's key strengths and focus.

We know the Bay Area very well and when we look at the economic potential of this area, we can see that with Hong Kong's openness and strength in research and international connections, together with the strong manufacturing base in the rest of the area, we can really create a very dynamic economy with strong potential in innovation and technology. I see this will be the most exciting thing that can happen to transform our economy and to give Hong Kong's start-ups and pioneering technology companies a good head start.

Going forward, it is important for Hong Kong to consider how we can actually take advantage of this economic integration and what are the initiatives to propose so that we can create an ecology for companies to thrive. Private equity of course will play a strong role and I am interested to see how we can ease the access of international capitals into this area, how we can help nurture young companies and so eventually many of them will exit onto Charles Li's Exchange, to help these Bay Area companies to get on our listing platform.

Speaking of the Exchange, it is one of the key infrastructures in Hong Kong. I know the Exchange has been working very hard on various initiatives and one particular thing that I am interested in is the Exchange's interest in creating a platform to attract new economy companies to operate, and I will let Charles talk more about it if he wants to.

Besides, it is very important for Hong Kong to be a home to start-ups, to new young companies especially in the area of innovation and technology. We have been devoting quite a lot of effort on this. Hong Kong is the financial hub of the Bay Area, and we are also home to a cluster of world class universities and research institutes. A lot of people come to Hong Kong because of our strengths as a world city. Indeed, according to InvestHK, our investment promotion agency, the number of start-ups and staff involved grew by 24 per cent and 41 per cent respectively between August 2015 and 2016. We are hearing more and more success stories from start-ups based in Hong Kong.

Fintech has been one of the fastest growing sector in the past couple years. To help facilitate innovation, the Hong Kong Monetary Authority (HKMA) has put in place a Fintech Supervisory Sandbox and the Securities and Futures Commission and the insurance regulator have also set up their own offices on Fintech. As of the end of April, 15 pilot products from six banks had taken advantage of the arrangement at the HKMA. Eight out of the 15 cases involved collaboration between banks and Fintech firms. The HK$2 billion Innovation and Technology Venture Fund set up by the Government to co-invest with private venture capital funds on a matching basis in local technology start-ups will also begin operation by the middle of this year.

Ladies and gentlemen, here is my very quick update on our initiatives to support the asset management industry and in particular the private equity industry. As innovation is becoming an increasingly important engine for growth, I am confident that the private equity industry will continue to play a central role in the economic development of Hong Kong and the Mainland. Thank you.

Ends