

FINANCIAL SERVICES INDUSTRY NEWS

■ ASSET MANAGEMENT

Tax Concessions to Spur the Development of Hong Kong's Asset Management Business

The HKSAR Government Financial Secretary, Mr. Paul Chan, proposed in his 2020/21 budget two tax concessions to spur the development of Hong Kong's asset management business.

The first is to waive the stamp duty on stock transfers paid by Exchange Traded Fund (ETF) market makers when creating and redeeming ETF units listed in Hong Kong, expanding the scope of the current stamp duty exemption which covers only the ETF transactions done by non-market makers. The measure will reduce the operating cost of ETF market makers, thereby lowering the overall cost of ETF trading. Besides, it will provide incentives for ETF issuers to issue ETFs that track stocks in Hong Kong, strengthening the depth and liquidity of the Hong Kong securities market.

The second tax concession is to provide tax concession for carried interest issued by private equity funds operating in Hong Kong, subject to the fulfillment of certain conditions. In general, carried interest refers to the share of profits obtained by the general partner of a private equity fund arising from the fund's investment return. This tax concession together with the plan to establish a limited partnership regime as a new fund structure will attract more private equity funds to domicile and operate in Hong Kong as well as create high value-added employment opportunities for related professional services such as financial advisory services.

Source: www.fstb.gov.hk



The Financial Secretary, Mr Paul Chan, elaborating on the 2020/21 Budget at the press conference on 26 February.

BOND MARKET



Budget Measures to Spur the Development of Hong Kong's Bond Market

In the 2020/21 budget, three measures are proposed to further the development of Hong Kong's bond market which ranks third in bond issuance volume in Asia (excluding Japan).

Building on the momentum of the successful offering of the inaugural green bond of US\$1 billion under the Government Green Bond Programme in 2019, the Government plans to issue a total of about HK\$66 billion of green bonds within the next five years, subject to market conditions. This plan will consolidate Hong Kong's position as the region's premier hub for green finance.

Besides, the Government plans to issue inflation-linked retail bonds (iBonds) and silver bonds again in 2020. The total estimated issuance amount will be no less than HK\$13 billion, of which about HK\$10 billion may be for iBonds and HK\$3 billion may be for silver bonds. The iBonds will target local residents and provide a hedge against inflation. And silver bonds will provide the elderly with investment products with stable returns. These two measures will promote the further development of Hong Kong's retail bond market.

Source: www.fstb.gov.hk

INSURANCE

Bill to Strengthen Hong Kong's Position as a Global Risk Management Centre and Regional Insurance Hub

The Insurance (Amendment) Bill 2020 (the Bill), gazetted on 20 March 2020, proposes legislative amendments to strengthen Hong Kong's position as an insurance-linked securities (ILS) hub and an ideal location for setting up captive insurers to facilitate the insurance industry and multinational companies to capture the business opportunities arising from the Belt and Road Initiative.

The Bill provides for a bespoke and streamlined regulatory framework for the issuance of ILS through the formation of special purpose insurers (SPIs). ILS are risk management tools that allow insurers or reinsurers to offload insured risks to the capital markets through securitisation. This can be described as another form of reinsurance. It is worth noting that a common type of ILS is catastrophe bonds. Among the measures announced by the Central Government after the Guangdong-Hong Kong-Macao Greater Bay Area Leading Group meeting in November 2019, one measure was to support Mainland insurers to issue catastrophe bonds in Hong Kong's capital markets. The proposed legislative amendments will pave way for Hong Kong to become the preferred domicile for ILS, in particular catastrophe bonds. This will facilitate insurers to better capture business opportunities, and more importantly, extend the capacity of the insurance industry; thus enhancing its sustainable development.



The Bill also seeks to expand the scope of insurable risks of captive insurers set up in Hong Kong, helping enterprises in different industries to capitalise on business opportunities arising from the Belt and Road Initiative. Captive insurers are set up by their parent companies with the primary purpose of insuring and reinsuring the risks of the companies in the group to which the captive insurer belongs. Captive insurance provides multinational companies with the ability to deploy a more holistic risk management strategy across their international business, while saving the insurance premium spent on an external insurance provider.

The proposed legislative amendments will facilitate a more effective global risk management strategy for multinational companies that are further expanding their global operations and thus attract them to set up their captive insurers in Hong Kong. For example, captive insurers set up in Hong Kong can insure or re-insure the risks of the group's body corporate that is incorporated outside Hong Kong and does not have a place of business in Hong Kong, and the risks of a body corporate which the group controls less than 20 percent of voting rights, subject to certain conditions.

Sources: www.ia.org.hk & www.fstb.gov.hk

SECURITIES AND FUTURES



Key Developments and Figures of Hong Kong Securities and Futures Industry in the 4th Quarter of 2019

On 21 February 2020, the Securities and Futures Commission (SFC) published its Quarterly Report summarising key developments of Hong Kong's securities and futures industry in the 4th quarter of 2019. Highlights of SFC's major actions and industry figures are summarised below:

- launched a consultation on proposed changes to the open-ended fund companies regime to encourage more private funds to set up in Hong Kong
- released a position paper setting out a new licensing framework for virtual asset trading platforms
- published consultation conclusions on enhancements to the investor compensation regime which raised the compensation limit to HK\$500,000 per investor per default and on proposals to impose margin requirements for non-centrally cleared over-the-counter derivatives to help reduce systemic market risks
- issued a statement to remind listed companies not to disclose false, incomplete or misleading information about their counterparties in a transaction, together with a circular reminding asset managers to properly assess potentially dubious arrangements and transactions involving private funds or discretionary accounts which are proposed or directed by investors
- published a report sharing the findings of the survey on integrating environmental, social and governance factors and climate risks in asset management
- the number of licensees and registrants rose 2.3 percent from last year to 47,437, including the number of licensed corporations, which grew 6.2 percent to 3,084
- the SFC conducted 76 on-site inspections of licensed corporations to review their compliance with regulatory requirements

- the SFC authorised 50 unit trusts and mutual funds and 18 unlisted structured investment products for public offering
- 51 new listing applications were vetted
- reviewing corporate disclosure, the SFC issued section 179 directions to gather additional information in 14 cases and wrote to detail its concerns in six transactions
- SFC made 2,345 requests to intermediaries for trading and account records triggered by untoward price and turnover movements
- five licensed corporations and five individuals were disciplined, resulting in total fines of \$413.3 million.

The full report can be accessed [here](#) or downloaded by scanning the following QR code:



Source: www.sfc.hk

BANKING

Reshaping Banking with Artificial Intelligence

The Hong Kong Monetary Authority (HKMA) published a report on the study of the opportunities and challenges of applying Artificial Intelligence (AI) technology in the banking industry, hoping to offer Hong Kong's banking sector some useful reference points when considering the adoption of AI.

The report summarises insights from academics and industry experts on AI. One key finding was that almost 90 percent of the surveyed retail banks had adopted or planned to adopt AI applications. 95 percent of banks which had adopted AI expressed their intention to use AI to shape their corporate strategy, mainly prompted by the need to improve customer experience, stay cost effective and better manage risk.

To help the banking industry understand the risk and potential of AI, the report covered the latest development trends, potential use cases, status of AI development in banking, challenges and considerations in designing and deploying the technology, as well as the market outlook.

This report is part of a series of AI-related publications produced by the HKMA. The full report can be accessed [here](#) or downloaded by scanning the following QR code:



Source: www.hkma.gov.hk



Downward Adjustment of the Base Rate

On 4 March 2020, the HKMA announced that the base rate was adjusted downward by 50 basis points to 1.50 percent with immediate effect according to a pre-set formula. The decrease in the base rate follows the 50-basis point downward shift in the target range for the US federal funds rate on 3 March 2020 (US time).

The base rate is the interest rate forming the foundation upon which the discount rates for repurchase transactions through the discount window are computed. The base rate is currently set at either 50 basis points above the lower end of the prevailing target range for the US federal funds rate or the average of the five-day moving averages of the overnight and one-month Hong Kong Interbank Offered Rates (HIBORs), whichever is the higher.

Source: www.hkma.gov.hk

CONTACT US

If you would like to know more about how InvestHK's Financial Services team can help you to set up or expand your business in Hong Kong, please get in touch.
Our services are free, confidential and tailored to your needs.

Dixon Wong

Head of Financial Services

T: (852) 3107 1085

dixonhtwong@investhk.gov.hk

Willy Lam

Senior Manager of
Financial Services

willylam@investhk.gov.hk

King Lin

Senior Manager of
Financial Services

kinglin@investhk.gov.hk

Simon Wu

Senior Manager of
Financial Services

simonwu@investhk.gov.hk

Helen Tsui

Senior Manager of
Financial Services

htsui@investhk.gov.hk

David Yu

Senior Manager of
Financial Services

davidyu@investhk.gov.hk

Andrew Chan

Senior Manager of
Financial Services

andrewchan@investhk.gov.hk

www.investhk.gov.hk

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