



Hong Kong

February 2021

HONG KONG 2021/2022 BUDGET – MARKET HIGHLIGHTS

On 24 February 2021, Financial Secretary, Mr Paul Chan Mo-po, GBM, GBS, MH, JP, delivered the Hong Kong Government's 2021/2022 Budget Plan¹ to the Legislative Council.

The Financial Secretary emphasised the value of the financial services industry to Hong Kong's economy, with financial services accounting for 21 percent of GDP in 2019 and its overall share of employment increasing from 6.8 percent in 2018 to 7.1 percent in 2019. Accordingly, the Financial Secretary announced a number of measures to continue to support Hong Kong as an international financial centre and enhance its competitiveness.

1. Green and Sustainable Finance²

In view of the goal to achieve carbon neutrality by 2050, as announced by Hong Kong Chief Executive Carrie Lam in a November 2020 policy address,³ and in a bid to enhance Hong Kong's position as a green and sustainable finance hub, the Financial Secretary announced that the strategic plan published by the Green and Sustainable Finance Cross-Agency Steering Group in December 2020 would be taken forward.

Additionally, the Financial Secretary stated that there are plans to issue green bonds regularly and the Government Green Bond Programme will be expanded, with the borrowing ceiling raised to HK\$200 billion in order to allow further issuances of green

bonds totalling HK\$175.5 billion within the next five years. The Hong Kong Government also outlined plans to issue retail green bonds for the participation of the general public. Further, the Pilot Bond Grant Scheme and the Green Bond Grant Scheme will be consolidated into a Green and Sustainable Finance Grant Scheme to provide subsidies to eligible bond issuers and loan borrowers to cover their expenses on bond issues and external review services. This scheme will last for three years and the details will shortly be announced by the Hong Kong Monetary Authority (HKMA).

2. Bond Market⁴

The Financial Secretary emphasised the growth of Hong Kong's bond market, which now ranks third in Asia (ex Japan) in terms of total amount of bond issues. The Financial Secretary announced that he would be leading a steering group to formulate a roadmap for promoting the diversified development of Hong Kong's bond market and reinforcing its functions. This will involve:

- enhancing the efficiency and capacity of Hong Kong's Central Moneymarkets Unit (CMU) and introducing new functions to cope with increasing market demand;
- expanding Bond Connect to cover both Southbound and Northbound Trading, with the target of launching Southbound Trading in 2021;
- the continued issue of no less than HK\$24 billion of Silver Bonds (for which the eligible age for subscribing will be

1 https://www.budget.gov.hk/2021/eng/pdf/e_budget_speech_2021-22.pdf

2 <https://www.budget.gov.hk/2021/eng/budget21.html>

3 <https://www.policyaddress.gov.hk/2020/eng/p125.html>

4 <https://www.budget.gov.hk/2021/eng/budget22.html>

lowered from 65 to 60) and no less than HK\$15 billion of iBond in 2021 and a proposed increase of the borrowing limit of the Government Bond Programme from HK\$200 billion to HK\$300 billion.

3. Real Estate Investments Trusts (REITs)⁵

The Financial Secretary emphasised Hong Kong's commitment to developing its REIT market and role as a capital raising hub. Accordingly, it was announced that subsidies will be provided for qualifying REITs authorised by the SFC and listed in Hong Kong in the coming three years. The subsidy will cover 70 percent of the expenses paid to local professional service providers for the listing of REITs, subject to a cap of HK\$8 million per REIT. The Securities and Futures Commission (SFC) will announce details in due course.

4. Securities Market⁶

The Financial Secretary outlined that the earlier efforts to enhance Hong Kong's listing regime are delivering results. Hong Kong's stock market recorded an average daily turnover of HK\$129.5 billion in 2020 (a 49 percent increase from 2019) and a total of HK\$397.5 billion was raised through IPOs in 2020 (a 27 percent increase from 2019), with 90 percent of funds raised by Mainland enterprises. Hong Kong is also the world's second largest fundraising hub for biotech companies, with 43 companies listed raising a total of HK\$420 billion, 31 of which are pre-revenue or pre-profit biotech companies.

With a view to the continued development of the Hong Kong securities market, it was announced that the HKEx will review the secondary listing regime (and consult the market in due course), including whether Greater China companies with non-weighted voting rights (WVR) structures have to be companies in the field of I&T in order to seek secondary listings in Hong Kong through the new concessionary route and their corresponding market capitalisation requirements. Additionally, plans were outlined to expand the capacity of the Stock Connect scheme, including the progressive inclusion of ETF and other types of assets and the expansion of the scope of eligible securities. The HKEx will also accelerate the preparatory work for the launch of the MSCI China A-Index Futures contract in response to growing demand for using A-shares index futures to hedge market risk.

5. Insurance and International Risk Management Centre⁷

The Financial Secretary stated that legislative work is currently being undertaken to:

- provide for half-rate profits tax concessions to eligible insurance businesses;
- expand the scope of insurable risks of captive insurance companies; and
- enhance the group-wide supervision framework.

It was also announced that there are preparations underway for the implementation of a Risk-based Capital Regime for the insurance industry to replace the rule-based capital adequacy regime. The Financial Secretary has also proposed launching a two-year Pilot Insurance-linked Securities Grant Scheme to attract insurance enterprises or organisations to issue insurance-linked securities in Hong Kong, with the amount of grant for each issue to be capped at HK\$12 million, depending on the maturity of the ILS. The Insurance Authority will announce details in due course.

6. Asset and Wealth Management⁸

The Financial Secretary outlined that since the establishment of the two new fund structures (the Open-ended Fund Company (OFC) and Limited Partnership Fund (LPF)), there have been 11 and 100 set up respectively. Further, there are plans to submit a legislative proposal in the second quarter of 2021 in order to allow foreign investment funds to re-domicile to Hong Kong for registration as OFCs or LPFs.

Additionally, the Financial Secretary stated that subsidies will be provided to cover 70 percent of the expenses paid to local professional service providers for OFC's set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of HK\$1 million per OFC. The SFC will announce details in due course.

An amendment bill has also been introduced to provide tax concessions for carried interest issued by private equity funds operating in Hong Kong and the Financial Secretary aims to see the bill's passage within the current session for the tax concession arrangements to apply starting from 2020-21.

5 <https://www.budget.gov.hk/2021/eng/budget23.html>

6 <https://www.budget.gov.hk/2021/eng/budget24.html>

7 <https://www.budget.gov.hk/2021/eng/budget25.html>

8 <https://www.budget.gov.hk/2021/eng/budget26.html>

To enhance Hong Kong's attractiveness as a hub for family offices, the Financial Secretary also announced that InvestHK and regulators will offer a one-stop support service to family offices interested in establishing a presence in Hong Kong and the relevant tax arrangements will be reviewed.

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