Identifying new options for growth

PwC's recommendations for the Chief Executive's 2025 Policy Address

Executive Summary

In this executive summary we present recommendations for the Government of the Hong Kong Special Administrative Region (HKSAR)'s considerationn as it prepares the forthcoming Policy Address. These are classified under four main headings, as follows:

Strengthening Hong Kong's role as a global and regional connector

A key requirement of this role is to host and support businesses seeking a regional or global headquarter. To help achieve this, we recommend:

- Enhancing the existing talent admission schemes in Hong Kong to ensure they remain relevant and attractive.
- Establishing a one-stop services platform to help incoming businesses and executives by ensuring that the move to Hong Kong is as frictionless as possible. The platform should include job matching and offer financial support for childcare and elderly care.
- Introducing a regional headquarters tax incentive to attract more businesses.
- Allied with this, Hong Kong should leverage its unique role in China and its world-leading financial services sector to further develop high value-added supply chain services and promote the development of intellectual property (IP) trading.
- Accelerating enhancements to existing tax concessions for the maritime sector and the introduction of a new tax concession for commodity trading.
- Expediting its review of tax deductions relating to IP rights in order to encourage investment. This should include allowing deductions for upfront license fees and the acquisition of IP rights from group companies for tax purposes.
- Directing more resources to expediting the expansion of the tax treaty network and strengthening international collaboration, particularly with jurisdictions in ASEAN and along the Belt and Road.

Infrastructure to promote regional connectivity is increasingly important as the Northern Metropolis takes shape. Making optimum use of different Public-Private Partnership (PPP) models will help ensure project viability, along with flexible concession terms that cushion investors against real estate valuation risks, the government should also look at risk-sharing on Northern Metropolis sites. Further recommendations include:

- Establishing a government-led body to advise different departments on the PPP projects allocated to them.
- In order to incentivise regeneration of brownfield and other sites, there should be greater flexibility in usage changes, funded by the private sector.
- Tourism-focused development largely centres around development of Victoria Harbour. We recommend the establishment of a Harbourfront Development Authority as a new ecosystem of partnership and governance.

Driving new growth engines in Innovation & Technology

Accelerating artificial intelligence (AI) adoption across both public and private sectors is key to Hong Kong's development. In this section we look at new funding channels and the streamlining of existing schemes to promote AI and other areas of innovation and technology (I&T).

- We recommend establishing the Northern Metropolis as a hub for the headquarters of tech companies by leveraging its proximity to Shenzhen and to Hong Kong's distinct legal system.
- Establish Hong Kong as a leader in pharmaceutical research and development (R&D), complementing regional strengths in traditional Chinese medicine (TCM) development.
- Mandate AI pilot projects in government departments to address challenges such as mobility and healthcare.
- Establish a Hong Kong AI Research and Development Institute (Hong Kong AI R&D Institute) which collaborates with existing R&D infrastructure and prioritises commercialisation of projects.
- Host a premier AI Summit to position Hong Kong as the "AI Davos of Asia".
- Establish a Moonshot AI fund to support breakthrough projects that could lead to the development of AI patents or potential unicorns within 2–3 years.

In light of the HKSAR Government's recent Policy Statement 2.0 on the Development of Digital Assets in Hong Kong (Policy Statement 2.0), we recommend accelerating digital asset strategies. We also see the potential to position Hong Kong as a digital-first asset and wealth management (AWM) hub.

- Establish blockchain-native asset registries to facilitate tokenisation of assets.
- Establish mechanisms for registering the issuance and transfer of digital assets representing land, IP, equity shareholding and other assets.
- Explore the creation of blockchain-native fund vehicles using company digital member registers in an initial pilot project.

Optimising financial markets for sustainable growth

In addition to the extension of trading hours of the Hong Kong Stock Exchange in our 2024 recommendations, we make a number of recommendations focusing on enhancing the overall growth, accessibility and competitiveness of Hong Kong's capital markets.

- Extend the over-the-counter (OTC) market to serve as a platform providing early-stage funding to innovative companies and startups, which may eventually list through Main Board Chapter 18A or 18C of the Hong Kong Listing Rules.
- Expand the scope of confidential filing to include dual primary listing applicants, large-cap and high-growth companies, enabling them to safeguard sensitive information longer and maintain competitive advantage.
- Implement Primary Equity Connect, so that Chinese Mainland investors can subscribe to Hong Kong initial public offerings (IPOs) and vice versa. A phased roll out starting from Greater Bay Area (GBA)-based businesses would help implementation.
- Expand guidance on shareholder protection standards for overseas issuers to facilitate smoother preparation of listings.
- Expand Hong Kong's RMB-denominated financial product offerings, supported by tax incentives, as well as subsidies for issuance costs, to attract RMB flows.
- As a long-term objective, a phased withdrawal of stamp duty on stock trading would eventually bring Hong Kong's trading costs in line with other major equity markets.

Hong Kong's AWM industry is substantial, managing USD4.5tr of assets as of 2024 year-end. To build on its current strengths and enhance its role as a regional and global hub, the following strategic measures are recommended:

- Wealth Management Connect: Expand product scope and increase quotas. Consider extending the initiative beyond the GBA to a national level to broaden investor access.
- Mutual Recognition of Funds (MRF): Expand eligibility to Open-ended Fund Companies (OFCs).
- Exchange traded fund (ETF) in Stock Connect: Consider relaxing eligibility criteria for Southbound Trading.
- Explore possible visionary models to inspire discussion on the future of the Mandatory Provident Fund (MPF) system.

We note that the government will enhance preferential tax regimes for family-owned investment holding vehicles (FIHVs). We recommend further measures to encourage family offices to choose Hong Kong.

- Include artworks and other collectibles under the list of qualifying assets.
- Include residential and non-residential properties in Hong Kong in the list of qualifying assets under the FIHV tax concession for the purpose of calculating the minimum asset threshold.
- Accelerate the granting of Hong Kong residency status to principals and immediate family members of eligible family offices.

Advancing Hong Kong's appeal as a destination of choice

To sustain Hong Kong's leading role as a premier international financial centre amid expanding global wealth and shifting expectations, enhancing the city's regulatory environment is crucial. Additionally, refining the legal and tax framework is essential to bolster its status further.

- Implement specific tax rules to ensure that securitisation transactions do not result in additional or accelerated tax liabilities for Special Purpose Vehicles (SPVs).
- Regulatory support should extend to cross-border securitisation transactions, including recognition of Hong Kong SPVs in other jurisdictions and alignment with international standards.
- Promote Hong Kong-domiciled fund vehicles, aligning talent acquisition, tax policies, and regulatory innovation with enhanced cross-border access to the Chinese Mainland, thus reinforcing Hong Kong's status as a premier fund domicile.
- As real-world asset tokenisation develops, effective coordination among government regulators and departments is crucial to explore and implement blockchain-based asset tokenisation.
- Enhancing the "exit" strategies currently available to funds and private credit – a robust debt capital market, including secondary debt trading market, will add to Hong Kong's attractiveness to private fund investment and private credit.
- Expanding Bond Connect to permit the securitisation and repackaging of onshore assets and investments would also support the growth of a robust primary debt trading market in Hong Kong.

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Strengthening Hong Kong's role as a global and regional connector

Hong Kong's role as a connector – facilitating two-way interactions between the Chinese Mainland and the rest of the world – is both unique and undisputed. In this section we look at how the SAR can further leverage its status and capabilities to strengthen this unique role.

One outstanding opportunity for Hong Kong is to strengthen its attractiveness to multinational corporations (MNCs) as the natural location for regional or global headquarters. The city's deep pools of talent and its international lifestyle have already had a notable effect – with the number of regional headquarters increasing more than 5% last year. But further tax incentives for incoming businesses, establishing a broad tax treaty network and enhancing talent-attraction schemes would help accelerate this trend.

Hong Kong has a long-established reputation as a maritime and trading hub. Ensuring tax incentives remain competitive relative to other regional players will enable traders and other businesses to move into high value-added supply chain services and sourcing activities.

The Northern Metropolis is a critical part of Hong Kong's long-term expansion. As we outline in this section, leveraging successful examples of infrastructure financing including PPPs in Hong Kong and elsewhere will be key to unlocking the private capital that will fuel development. Enhancing our expertise in PPP can also help address challenges in regeneration of brownfield sites.

Finally, we make the case for an enhanced framework for Hong Kong's iconic harbour. The SAR's comprehensive governance structure leads to coordination complexity, which means that there are opportunities for enhanced integration.

1.1 Developing a headquarters economy

Regional headquarters offer numerous benefits to a city, including increased investment and employment opportunities, as well as the attraction of high-calibre talent. Based on the government's statistics, the number of regional headquarters in Hong Kong has increased by more than 5% to 1,410 in 2024 compared to 2023. To build on this momentum, initiatives focused on talent attraction and retention, tax incentives, international collaboration, as well as regulatory reform are proposed.

Reviewing and enhancing talent schemes

The government has implemented talent admission schemes to attract individuals to Hong Kong and enrich the local talent pool. It is necessary to regularly review these schemes to ensure they remain relevant and attractive to prospective applicants. For instance, under the Top Talent Pass Scheme, unless the applicant has an annual income of at least HKD2.5mil in the year preceding application, the applicant must possess a bachelor's degree from the list of eligible universities. A master's or doctoral degree from the list is not accepted as a substitute.

Recommendation:

Regularly review and enhance the existing talent admission schemes in Hong Kong to ensure they remain relevant and attractive. The application process should be streamlined, making it more convenient and appealing for talented individuals to apply and ultimately choose Hong Kong as their destination.

Comprehensive support for business and their executives

It is important to create a welcoming environment for international talent and their families, so that they remain committed to working here long term, further enhancing the appeal of Hong Kong's headquarters economy initiative.

Recommendation:

Providing a **one-stop facilitation service** allows businesses and their international executives to have a single point of contact for assistance with visas, job opportunities, housing, education and healthcare, which can help international executives settle down in Hong Kong more quickly. Additionally, a more conducive environment for talent retention can be created by providing financial support for childcare services and extending tax deductions for elderly care expenses.

Regional headquarters tax incentive

As Hong Kong seeks to solidify its status as an international business hub, strategic tax reforms and regulatory adjustments are recommended to boost its global competitiveness and strengthen its role as a key connector between the Chinese Mainland and international markets.

Recommendation:

Introduce tax concessions, such as a half-rate concession, to strengthen Hong Kong's role as a super-connector between the Chinese Mainland and global markets. This incentive will bolster Hong Kong's competitiveness by reducing the tax burden on businesses, thereby encouraging further investment and growth.

Intra-group transfer relief on stamp duty

The transfer of Hong Kong private company shares, listed shares and immovable properties is subject to stamp duty. Subject to conditions, intra-group transfer relief is available, but a recent court ruling held that this relief is not available if modern foreign entities that are not traditional companies are involved in the ownership chain. As a result, multinational enterprise (MNE) groups with Hong Kong-incorporated companies or those investing in Hong Kong listed shares, may need to incur additional business costs when undertaking internal restructuring.

Recommendation:

To create a more business-friendly environment and align with global trends, the **intra-group transfer relief should be modernised** to include various business entities such as limited liability partnerships and limited liability companies that have emerged over the years and are commonly adopted by multinational enterprise groups.

Additionally, the 90% association threshold should be reduced to 75%, aligning it with the thresholds in the UK and Singapore. These enhancements would boost Hong Kong's international competitiveness and provide greater flexibility to businesses contemplating restructuring.

Expansion of Hong Kong's tax treaty network in ASEAN and along the Belt and Road routes

Tax treaties facilitate cross-border trade and investment, as they minimise double taxation by allocating taxing rights between two jurisdictions and providing relief on tax rates on different types of income. A tax treaty also helps investors better assess their potential tax liabilities on economic activities and provides an added incentive for overseas companies to do business in Hong Kong, and vice versa. While Hong Kong has so far concluded 52 tax treaties, the current network is not broad enough when compared to other major business hubs in the region.

Recommendation:

To enhance Hong Kong's role as a gateway connecting the Chinese Mainland with the rest of the world, the government should direct more resources to expediting the expansion of the tax treaty network and strengthening international collaboration, particularly with jurisdictions in **ASEAN** (such as Laos, Myanmar and the Philippines), as well as jurisdictions along the **Belt and Road** routes (such as Ecuador, Uruguay and Uzbekistan), noting Singapore's advantage in treaties with such nations.

1.2 High value-added supply chain service centre and regional IP trading centre

China, as one of the world's largest commodities consumers and suppliers, faces a growing demand for a stable and efficient trading platform. Leveraging the advantages of "One Country, Two Systems" and Hong Kong's leading financial services, the city is well-positioned to establish a robust commodity trading ecosystem and mitigate the risks of supply disruptions from the West. This makes Hong Kong an ideal location to develop a regional commodity market and the premier location for businesses seeking to expand their global footprint.

Tax concessions for maritime and commodity trading

To bolster Hong Kong's maritime industry, we have maintained close communication with the industry stakeholders to understand their needs and actively liaised with the government. We are pleased that many of our recommendations, such as amending the existing maritime tax concession regime to address the implications of the implementation of the global minimum tax, have been incorporated into the government's latest proposal outlined in an administration paper submitted to the Legislative Council.

Commodities account for more than half of the global shipping trade volume, and commodities traders are primary users of maritime services and an important element of the maritime service ecosystem. The proposed tax concession for commodity trading businesses can attract relevant businesses to establish a presence in Hong Kong, thereby further solidifying Hong Kong's position as an international financial, maritime and trading centre.

Recommendation:

Accelerate the implementation of the proposed enhancements to the existing **tax concessions** for the **maritime** sector, such as introducing an additional tier of concessionary tax rates and relaxing the definitions for ship leasing, as well as the new half-rate tax concession for **commodity trading** businesses.

Tax incentives for sourcing activities

Hong Kong is an ideal location for establishing a regional trading hub, due to its position at the heart of Asia, its world-class financial infrastructure and its robust legal system. The importation of most goods into Hong Kong is generally free from customs duties, greatly facilitating international trade. However, Hong Kong faces growing competition from regional centres such as Singapore and Malaysia, both of which offer attractive tax incentives to global trading companies.

Recommendation:

To maintain its competitive edge, Hong Kong should introduce targeted tax incentives such as half-rate tax concessions for global traders, which would further strengthen its position as a leading regional trading hub and ensure it remains a top choice for international businesses.

Relaxation of the IP tax deduction rules

The relaxation of the IP deduction rules can complement the recently introduced patent box regime and encourage investments in the relevant business sectors. We are pleased that the Financial Secretary has indicated in this year's budget that the government will review the deduction rules relating to intellectual property rights (IPRs), and we urge the government to expedite this review process.

Recommendation:

Allow tax deduction for upfront licence fees incurred for the use of IPRs

- Obtaining licence to use IPRs is essential for many businesses and upfront licence fees are a common business practice, yet such fees are currently not tax deductible.

Remove the deduction restrictions for the eight types of IPRs acquired from associates

- It is common for Hong Kong companies with R&D function to acquire existing IPRs from group companies for further development, but such acquisition costs are currently not tax deductible

Remove the current restrictions that deny deductions for IPRs where a Hong Kong taxpayer licenses its IPRs to another party for use outside Hong Kong

- For example, it is common for Hong Kong taxpayers to have production bases located outside Hong Kong, particularly in the GBA. Additionally, there are situations where Hong Kong taxpayers acquire film or programme rights and then license them for broadcasting outside Hong Kong. Relaxing this provision would enable Hong Kong enterprises to claim deductions for such licensing activities, thereby supporting their business operations and competitiveness in overseas markets.

1.3 Building infrastructure for regional integration and connectivity

Private sector engagement and participation

Northern Metropolis

Given lower valuations, the reliance on real estate to enhance the viability of PPPs presents a challenge for the implementation of the Northern Metropolis. Government should therefore make close reference to wider PPP models that are capable of managing real estate risk while successfully unlocking private capital.

Recommendation:

A review of the detailed feasibility studies of Northen Metropolis projects	Conduct thorough Northern Metropolis feasibility studies before engaging with the market to ensure PPP's are properly structured, will attract investors and address real estate and valuation challenges. This is essential because the structure of the proposed PPPs can dampen investor appetite.
Consideration of alternative leading PPP models to facilitate private investment	Consider models such as availability payments, blended finance and equity investment to manage risk and attract private capital. These could include availability payment-based mechanisms, equity, land premium discounts (similar to those granted to MTRC for the Northern Link), first loss guarantees, and flexible concession terms that cushion investors against risks.
Adopt risk-sharing and mitigation strategies	Align Northen Metropolis site packaging with market trends using guarantees, equity and blended finance solutions for effective risk management. Flexible concession terms and protection mechanisms (such as limitations on multi-modal competition for rail concessions) all have a greater role to play. The majority of the ten-year supply of developable land will come from the Northern Metropolis – underlining the importance of packaging development sites in a way that reflects risks and trends in the real estate market. Government should look to effective ways of risk-sharing and risk mitigation in these sites through the PPP procurement terms that are offered to the market, rather than simply extending the amount of housing land provided to developers to compensate for uncertainty. This approach simply consolidates the universe of bidders to real estate developers.

Major transport infrastructure development

Transport infrastructure development is key to unlocking economic growth and enabling the core strategic developments in the Northern Metropolis. The Northern Link and cross border spur line show how partnerships between government and the private sector can use government funding to balance risk and to structure viable projects with private partners, using private capital.

These lessons should be applied to other transport projects. Unlike those procured in the past, most transport PPPs planned now are being put to market by government departments that have previously relied on, and only have experience in, the traditional government-funded 'design & build' model of procurement and yet are charged to deliver PPP's for the first time This exacerbates the challenge and results in projects being planned that are often sub-optimal to the market.

These challenges are not unique to Hong Kong and have been successfully overcome elsewhere. In Hong Kong itself, pockets of **PPP excellence exist and should be leveraged across government**, including the skills and experience of the West Kowloon Cultural District Authority and Airport Authority.

Recommendation:

Empower a **government-led body**, such as the Chief Executives' Policy Unit (CEPU), supported by industry experts to **advise on effective PPP implementation, standardise key terms and procurement approaches** in ways that are acceptable to the market and optimise value for money for government. This body would leverage the PPP procurement expertise in Hong Kong to bring best practice into the PPP projects that we offer to bidders.

Such a government-led body could assist government departments, bureaus and agencies to successfully implement the PPP projects that have been allocated to them. In this way PPP's will generate more value to government and society, while supporting Hong Kong's growth as a regional centre of infrastructure finance by attracting a wider source of infrastructure investors beyond real estate developers.

Incentivise private sector participation in regeneration

We have substantial aged building stock, including fragmented ownership of brownfield sites and buildings, which require **targeted incentives for redevelopment**. Flexibility could be granted in certain circumstances where changes of use would benefit the regeneration or renewal of districts, funded by the private sector, without the need for government funds.

Recommendation:

Allow flexibility in usage changes to aid district regeneration, encouraging private sector funding without relying on government funds. The Urban Renewal Authority (URA) should expand its role and activities to facilitate in this initiative.

Enhancing Hong Kong's tourism through harbourfront development

The government's latest commitment focuses on stimulating the economy and boosting consumer sentiment by revitalising Hong Kong's tourism. A critical aspect of this plan is the ongoing enhancement of Victoria Harbour with a HKD6.5bn investment allocated in a previous budget, transforming it into dynamic spaces with projects like the Hung Hom waterfront and new facilities at Wan Chai and Cha Kwo Ling. This transformation is supported by the Protection of the Harbour (Amendment) Ordinance 2025, which streamlines project approvals while maintaining robust protection standard.

The primary challenge currently limiting the harbourfront's potential is fragmentation across multiple stakeholders and departments – a natural result of Hong Kong's comprehensive governance structure, but one that creates opportunities for enhanced integration. While the government is making commendable progress on physical infrastructure through its incremental approach to enhance harbourfront connectivity, this fragmented reality highlights the significant potential to strengthen strategic coordination and destination planning across the harbour's development.

To revitalise Hong Kong's tourism sector and fully harness the potential of the harbourfront, we recommend establishing a comprehensive framework based on three interdependent pillars as illustrated in the following table.

Integrated Framework for Victoria Harbour Enhancement

1. New ecosystem of partnerships and governance

Creating world-class infrastructure through coordinated governance and partnerships

Establish a Harbourfront Development Authority (HDA)	Create a statutory body modelled on Singapore's Urban Redevelopment Authority, with balanced board composition including public sector representatives, private sector partners, and community stakeholders.
Facilitate diverse partnerships with risk-sharing mechanisms	Actively facilitate partnerships with leading international and local retail, dining, hospitality, and entertainment brands, implementing revenue-share ceilings and government step-in rights to address Treasury concerns about fiscal exposure while encouraging private sector innovation.
Integrated tendering	Structure future land tenders to reward consortiums presenting holistic, integrated visions for commerce, culture, and community, building on the PPP frameworks already being explored by the government.
Delegate execution through expert teams	Delegate implementation to specialised multidisciplinary teams, including private operators, environmental groups, tourism experts, and community representatives. This approach leverages specific expertise while retaining government oversight and coordination through the HDA framework.
Cross–departmental feasibility study	Initiate a comprehensive study to define optimal structure, mandate, and funding model for integrated harbourfront coordination, addressing the complexity of implementation across multiple government departments.

2. Integrated harbor experience Delivering an integrated harbour experience featuring seamless transit, promenades, and event hosting	**Integrated water transit**	Expand Hong Kong’s water taxi service – currently operating between key districts – with a comprehensive “hop-on, hop-off” electric ferry system. This initiative supports carbon neutrality goals and aligns with the Hong Kong Roadmap for Electric Vehicles, aiming for zero vehicular emissions by 2050.
	Seamless walkways	Fast-track the completion of a landscaped, well-lit promenade around the harbour, integrating retail, dining, and entertainment to improve visitor experiences and boost revenue. following successful models like the proposed Hung Hom waterfront, these promenades blend public enjoyment with sustainable commercial operations, enhancing existing government initiatives.
	Harbour–wide event hosting	Establish a central body to coordinate world-class events along the harbourfront, enhancing Hong Kong’s “Events Capital of Asia” strategy supported by HKD100mil for mega-event promotions. Leveraging successes like Kai Tak Stadium's significant tourist draw and economic impacts similar to Barcelona's America's Cup, this model aims to boost tourism and economic returns through integrated harbour venue coordination, akin to Marina Bay and Darling Harbour precincts in leveraging multiple facilities for large-scale events.
3. An inclusive and community-focused harbour Fostering an inclusive, community-focused environment emphasising public access, job creation, and local entrepreneurship	**Guaranteed public access and amenities**	Reserve significant portions of all new developments for genuine public use, including parks, performance spaces, and family-friendly recreational facilities accessible to all, building on the Protection of the Harbour (Amendment) Ordinance 2025's provisions for harbour enhancement reclamations up to 0.8 hectares that benefit the community.
	Job creation through harbourfront development	Prioritise initiatives that generate diverse employment opportunities, particularly for local residents and young people, by integrating harbour enhancements with tourism, cultural events, and infrastructure projects. This includes construction roles, maintenance jobs, and service-sector positions in hospitality and recreation, aiming to create over 13,000 high-value jobs from strategic investments while fostering long-term community empowerment.
	Supporting small and medium-sized enterprises (SMEs) and local entrepreneurship	Allocate dedicated spaces in harbourfront developments for SMEs, such as pop-up markets, artisan workshops, and street food vendors, to preserve Hong Kong’s unique character. Provide low-rent incubation programs and streamlined licensing for local startups, enhancing SME visibility through tourism promotion and nurturing a dynamic entrepreneurial ecosystem.

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Driving new growth engines in Innovation & Technology

While the previous section considered how to ensure sustained financing for the Northern Metropolis, we now look at how the Northern Metropolis can be an enabler of Hong Kong's I&T strategy.

Given its ease of access to the rest of the GBA and its international legal standards, the Northern Metropolis should seek to attract Chinese Mainland tech companies to headquarter there. Establishing secure and compliant protocols for the exchange of commercially-sensitive data would help in this regard.

The AI sector is not only a significant driver for key areas such as healthcare, biotechnology, logistics, and smart cities but also represents a rapidly expanding industry in its own right. New research published by PwC reveals that AI has the potential to boost global economic output by up to 15 percentage points over the next decade (read here for full article). Recognising the need to accelerate AI adoption, in this section we make a number of recommendations for how the public sector and different government departments can encourage Hong Kong's AI ecosystem to thrive. Turning to the private sector, we consider new, targeted funding channels and the streamlining of existing funding schemes. These, combined with tax incentives and R&D deductions, can attract talent and catalyse research.

Tokenisation and other innovations have put digital assets centre stage – as highlighted by the government's recent Policy Statement 2.0. We make a number of recommendations on the development of blockchain-native asset registries to facilitate tokenisation and the safe transfer of assets in digital form.

2.1 Northern Metropolis innovation

Recognising the Northern Metropolis as an economic engine for Hong Kong's future growth, the Hong Kong Government can sharpen its focus on enhancing the new development area into as a dynamic ecosystem that integrates pharmaceutical R&D leadership, technological advances and sustainable living. Aligned with the resolution of China's high-quality development and sci-tech self-reliance, and by adopting an "industry-driven and infrastructure-led" approach, this strategic vision positions Hong Kong as a major hub, integrating and advancing the nation's overall development.

Recommendation:

Pharmaceutical R&D hub development	Attract technology headquarters
Establish Hong Kong as a leader in pharmaceutical R&D for western medicine, complementing regional TCM development. • Partnership with leading international universities for medical school development. • Establish specialised pharmaceutical testing and approval facilities • Create innovation districts connecting R&D with commercial production. • Develop talent attraction programs offering Hong Kong ID card pathways. • Integrate with existing GBA initiatives, such as the Guangdong-Macao Traditional Chinese Medicine Technology Industrial Park, to enhance sci-tech self-reliance.	Attract and relocate tech companies' international or regional headquarters to the Northern Metropolis, leveraging proximity to Shenzhen's tech hubs and Hong Kong's legal advantages for global business operations. • Target Chinese Mainland tech companies to establish overseas business headquarters in the Northern Metropolis, leveraging synergies with Shenzhen's tech zones. • Utilise a "Secure Data Exchange Zone" for compliant data transfer. • Align with Hong Kong's legal framework to handle foreign investments. • Ensure an integrated technology ecosystem with Hong Kong leading global deals and Chinese Mainland operations supporting internal markets.

Sustainable living ecosystem with seamless GBA integration	Implementation strategy and sustainability measures
Design a sustainable living ecosystem modelled after Silicon Valley for seamless integration with the GBA. • Implement smart city infrastructure with modern facilities and amenitites. • Develop integrated communities for professionals. • Include housing quotas. • Provide international schools and healthcare facilities.	Ensure environmental and social safeguards while developing comprehensive sustainability strategies across residential and industrial development. Maintain certain percentage of green space allocation throughout development phases • Implement carbon-neutral building standards and renewable energy systems. • Create job training and education programs for existing local residents.

2.2 Developing the local AI ecosystem

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Mandating AI pilots in all government bureaus will cultivate innovation, uncover practical applications tailored to each B/Ds, and build internal digital capability.

AI adoption in public sector

To further accelerate AI adoption in Hong Kong's public sector, the government could proactively foster **smart region** with other GBA cities and consider mandating AI pilot projects in every Bureaux and Departments (B/Ds). For example, the Transport Department's Smart Motorway Pilot Scheme launched in 2024 at Ting Kau Bridge uses AI to efficiently detect and respond to traffic incidents, enhancing response capabilities and demonstrating successful AI integration in public infrastructure.

Recommendation:

Foster smart region with other GBA cities and mandate AI pilot projects in government departments to address common urban challenges such as **mobility, healthcare, and public safety**.

AI Davos of Asia

Recommendation:

Host a premier AI summit to position Hong Kong as the **"AI Davos of Asia"**. Such a flagship event would attract world-class talent, cutting-edge startups, and influential investors to Hong Kong, driving collaboration, showcasing innovation, and stimulating investment in the local AI ecosystem. By convening industry leaders, researchers, policymakers, and entrepreneurs, the summit would foster knowledge exchange and inspire cross-regional partnerships.

Channel funding or establish a Moonshot AI fund

Recommendation:

To propel Hong Kong to the forefront of global AI innovation, the government can consider channel funding or establish a dedicated **"Moonshot AI Fund"** targeting high-potential, breakthrough projects.

By providing sizable, milestone-based grants and venture-style investments, this initiative would attract top-tier talent, empower risk-taking, and catalyse world-class research with commercial promise. Fast-tracked funding decisions, mentorship, and international collaboration will accelerate the journey from concept to patent or unicorn within 2–3 years.

Hong Kong AI Research and Development Institute

The formation of the Hong Kong AI R&D Institute is envisaged as a central hub, fostering connections among stakeholders within the AI domain and coordinating their efforts effectively. Given the substantial public investments already made in research and development, as well as AI applications, the institute will serve as a strategic catalyst for innovation, ensuring collaboration with existing R&D entities, such as universities for foundational research.

Recommendation:

Establish the Hong Kong AI R&D Institute as a strategic driver for innovation by ensuring **collaboration with existing R&D infrastructure** and **prioritising commercialisation** to maximise return on investment, social and economic value.

Innovation and Technology Fund

Recommendation:

Implement the following improvements to the Enterprise Support Scheme (ESS):

i. Lift the restriction that ESS funds only cover expenditures that are incurred after the ESS application is approved; and

ii. Shorten the application vetting process, as delays risk making projects outdated or misaligned with industry needs by the time funding is approved. Streamlining the process will ensure timely funding decisions, enabling applicants to implement innovative R&D projects while they remain relevant, thus maximising the ESS's effectiveness in supporting innovation and maintaining the competitiveness of successful applicants.

> "Streamlining the vetting and disbursement process of the Innovation and Technology Fund to boost Hong Kong's innovation ecosystem, with existing tax incentives such as enhanced R&D deductions and a patent box regime already in place.

Make AI education a mandatory course at schools

Recommendation:

Hong Kong can consider making AI education a **mandatory part of the curriculum in secondary and even primary schools** to cultivate early understanding of AI technologies and promote responsible use among young learners. Integrating AI courses from a young age equips students with critical knowledge about AI basics, ethical considerations, and societal impacts, preparing them for an AI-driven future job market. This early exposure also fosters creativity, digital literacy, and ethical awareness essential for navigating complex AI developments.

The Education Bureau already enriches curricula with AI ethics and practical training starting from upper primary and junior secondary levels. By scaling and mandating such education across all secondary and primary schools, Hong Kong can develop a workforce ready for AI challenges and nurture responsible innovators who understand the nuances of AI technology and ethics from an early age. This also aligns with ongoing government initiatives to collaborate with tech firms and universities for AI literacy enhancement.

2.3 Advancing digital assets through tokenisation and blockchain innovation

In light of the Hong Kong Government's introduction of the "Policy Statement 2.0", we recommend accelerating its digital asset strategies – by establishing robust regulations and licensing systems, expediting tokenisation efforts, facilitating cross-sector collaboration, and investing in talent development and global partnerships to position Hong Kong as a global hub for digital asset innovation.

Establishing blockchain native asset registries

In order to facilitate the tokenisation of assets, Hong Kong should conduct a review of how property rights can be registered and transferred safely and efficiently in digital form.

Recommendation:

Digital forms of interests in land	Currently, the Conveyancing and Property Ordinance (Cap. 219) requires landowners to produce physical title deeds to prove good title to their property. Certain transactions and conveyances affecting land must also be registered with the Hong Kong Land Registry. There needs to be a mechanism for registering the issuance and transfer of digital assets representing interests in land. We recommend to establish a mechanism for registering the issuance and transfer of digital assets representing interests in land.
Digital forms of interests in a company	At present, the Hong Kong Companies Registry only recognises physical registers of members and share certificates. Tokenising investor registers and having blockchain as the master source of record is still an open issue. The Companies Ordinance does not currently allow for the fractionalisation of shares in a company. We recommend to recognise digital member registers and share certificates, addressing tokenisation, blockchain, and share fractionalisation.

Digital IP registration –	Consider if existing government initiatives to create a regional IP Trading centre could be enhanced by the administration of IP rights digitally (e.g. blockchain-based IP register) and whether efficiencies in the administration of IP rights could be gained via tokenisation. We recommend to explore the potential of digital IP registration to strengthen existing government initiatives for establishing a regional IP Trading centre.
Blockchain-native fund vehicle	Explore the creation of blockchain-native fund vehicles using company digital member registers in an initial pilot project. This initiative has the potential to transform fund administration and asset servicing industries, positioning Hong Kong as a digital-first AWM hub. We recommend that research should be conducted into optimal legal and operational structures (e.g. digital HK OFC, Digital Limited Partnership Fund or other variants). Research should include consideration of the impact on the wider AWM ecosystem, including Securities and Futures Commission (SFC)-regulated Virtual Asset Trading Platforms.

03

Optimising financial markets for sustainable growth

In addition to the extension of trading hours of the Hong Kong Stock Exchange in our 2024 recommendations, we make a number of recommendations regarding the development of Hong Kong's capital markets. These range from extending the OTC market to serve as a platform for innovative companies and startups to expanding the scope of confidential filing.

Building on the success of the various Connect schemes between Hong Kong and the Chinese Mainland, we also propose to implement Primary Equity Connect, which would enable Chinese Mainland investors to participate in Hong Kong IPOs and vice versa. A phased roll-out starting from the GBA would help implementation.

Hong Kong's AWM sector now manages USD4.5tr of assets. The sector would benefit from measures to further develop the inbound and outbound Connect Schemes and initiatives. We make a series of recommendations to expand these schemes by broadening product scope, increasing quotas and revisiting eligibility criteria.

Earlier this year, we issued a report to mark the forthcoming 25th anniversary of the MPF System. We explore several possible visionary models to inspire constructive discussion on the MPF System.

Finally, we look at measures to attract more family offices to choose Hong Kong as their destination. These include expanding the scope of tax concession to include artwork, as well as changes to the New Capital Investment Entrant Scheme (New CIES).

3.1 Capital markets

OTC market for innovative companies and startups

The Hong Kong Stock Exchange has sought market feedback on the establishment of an OTC market in Hong Kong. Consequently, the Hong Kong Stock Exchange will continue to work with various stakeholders to assess the market's viability.

Recommendation:

The OTC market can be extended to serve as a platform for innovative companies and startups, providing seed funding with certain minimum due diligence requirements to be performed on these companies. These startups may include **biotech and specialist technology** companies with the potential to eventually list through Main Board Chapter 18A and 18C of the Hong Kong Listing Rules.

Expand confidential filing scope

The Hong Kong Stock Exchange and the SFC have recently allowed companies seeking a listing under Main Board Chapter 18A (Biotech Companies) and Chapter 18C (Specialist Technology Companies) to submit their application proofs confidentially. Similar arrangements are available for companies seeking a listing in the US and UK.

Recommendation:

Expand the scope of confidential filing to a broader range of companies, including **dual primary listing applicants** and those with **large market capitalisation or with proprietary information in high-growth industries**. This would allow companies to keep their financials, strategic plans, and other sensitive information from competitors for a longer period, which can be crucial for those in highly competitive industries.

Primary Equity Connect

Enabling investors in the Chinese Mainland to subscribe to IPOs in Hong Kong and vice versa can widen the investor base and improve market liquidity, benefiting both A-share and Hong Kong markets.

Recommendation:

Enhance cross-border connectivity by promoting companies to IPO in Hong Kong by raising RMB, and allowing Chinese Mainland investors to directly subscribe to Hong Kong IPOs using RMB. Similarly, Hong Kong investors, both retail and institutional investors, could be allowed to directly subscribe to IPOs in the Chinese Mainland. This would require **expanding the Stock Connect programme from secondary market trading to include IPO participation**, necessitating close collaboration and agreement with Chinese Mainland regulators.

To deepen GBA collaborations, we recommend **implementing Primary Equity Connect in stages**, initially focusing on companies with headquarters in the **GBA** or with principal business in the region.

Facilitate overseas listings with shareholder protection standards guidance

Currently, an overseas issuer seeking a listing in Hong Kong is required to comply with the core shareholder protection standards under Appendix A1 of the Hong Kong Listing Rules. The issuer must demonstrate how its domestic laws, rules and regulations and its constitutional documents together meet the Core Shareholder Protection Standards (the Standards). The Hong Kong Stock Exchange has explanatory notes on how certain overseas incorporated companies have complied with the Standards, including Malaysia, Pakistan, Switzerland, Thailand and the US State of Maryland.

Recommendation:

Expand the guidance on gaps between domestic and Hong Kong standards to cover overseas issuers, including those in the **Middle East and Southeast Asia**. Guidance on mitigation could be made publicly available to increase clarity for overseas issuers and help them in the early identification of potential gaps, which can streamline preparation for a listing in Hong Kong.

Tax incentives for RMB-denominated financial products

As the RMB gains prominence in international trade, particularly within Belt and Road jurisdictions, ASEAN, the Middle East and the Regional Comprehensive Economic Partnership (RCEP) regions, Hong Kong is uniquely positioned to serve as a leading **offshore RMB hub**.

Recommendation:

Hong Kong should expand the variety of RMB-denominated financial products to accommodate demand for RMB investment and for liquidity management purposes. **Tax and fiscal incentives**, such as:

i. Providing tax exemptions or a 50% reduction in the tax rate on interest income or gains from the disposal of RMB debt securities, and
ii. Offering subsidies for the issuance costs of RMB-denominated financial products,

would support this expansion. They could attract additional RMB flows from other markets, further boosting liquidity and reinforcing Hong Kong's status as a premier offshore RMB centre.

Waive buy-side stamp duty on stock trading

Currently, both buyers and sellers in Hong Kong are subject to a stamp duty of 0.1% on the transaction value (a combined rate of 0.2%). This is significantly higher than in other key international markets. For example, the US imposes no stamp duty and the Chinese Mainland charges only 0.05% on the seller[1].

Jurisdictions	**Stamp duty rates**
Chinese Mainland	0.05% on the seller only
Hong Kong	0.1% on both seller and buyer
United States	No stamp duty in the US

Source: Ministry of Finance of the People's Republic of China (MoF), U.S. Securities and Exchange Commission (SEC), Hong Kong Exchanges and Clearing Limited (HKEX)

Recommendation:

As a **long-term objective**, abolishing Hong Kong's stamp duty on stock trading would bring the city's trading costs in line with those of other major global equity markets, thereby enhancing market efficiency and reinforcing Hong Kong's position as an international financial centre. While immediate abolition may not be feasible at present due to fiscal conditions, a phased approach could be explored. Interim measures, such **as waiving the buy-side stamp duty** or adopting a **net-basis calculation** (i.e. netting off the intra-day buy and sell transactions on the same stock for the same investor) could provide temporary relief and support the ongoing development of the market.

1 https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Fees/Securities-(Stock-Connect)/Trading/Transactions?sc_lang=en

3.2 Asset and wealth management

Chinese Mainland and Hong Kong Inbound and Outbound Connect Schemes and initiatives

Recent enhancements to mutual market access schemes have gained significant traction, strengthening cross-border capital flows and reinforcing Hong Kong's role as a global financial gateway. To build on this momentum, targeted and progressive measures could further develop these platforms and broaden their reach.

The following table outlines the current state of play and recommendations for three specific initiatives:

Recommendation:

Scheme	Current State of Play	Recommendations
Wealth Management Connect (WMC)	• Aggregate quota: RMB150bn for each direction (Southbound and Northbound). • Individual investor quota: RMB3mil (USD420k) per investor. • Over 161,000 investment accounts opened since launch. • RMB118,004mil (USD16bn) in cumulative remittance, with fund products making up around 40%. • Over 40 participating banks, with remittances operating in a closed-loop between dedicated investment and remittance accounts. **Latest development** • WMC 2.0 was launched last year, featuring a higher individual investor quota, a wider choice of products, relaxed investor eligibility criteria, broadened participating institutions, and refined sales and promotion arrangements. • Building on this momentum, the Hong Kong Monetary Authority (HKMA) has commenced preparations for WMC 3.0, signaling a continued commitment to advancing the scheme.	• **Increase both individual and aggregate quotas** to provide investors with greater diversification opportunities. Consider implementing the quota changes in stages. • Extend the scheme to a **national level beyond the GBA,** enabling more investors to benefit - particularly by gaining greater opportunities to diversify their assets. • **The 5th anniversary of the WMC** in September 2026 presents a timely and symbolic milestone to enhance the scheme further.

Scheme	Current State of Play	Recommendations
Mutual Recognition of Funds	• 40 Hong Kong funds approved by China Securities Regulatory Commission (CSRC); 43 Chinese Mainland funds authorised by SFC under MRF as at March 2025. • Cumulative net subscriptions total RMB152.0bn (USD21.3bn). **<u>Latest development</u>** • The relaxation of a sales cap for Hong Kong domiciled funds sold in the Chinese Mainland from 50% to 80% (effectively an additional 300%) and vice versa. • Asset managers can now delegate the investment management function of the funds to overseas affiliates within the same group, leveraging global expertise to offer more offshore products for Chinese Mainland investors.	• **Expand eligibility to OFCs** to attract asset managers who have established the vehicle with the intention of leveraging the MRF scheme.
ETFs in Stock Connect	• As of 31 March 2025, 248 Chinese Mainland ETFs and 17 Hong Kong ETFs were eligible under the scheme. • 17 out of 200+ Hong Kong ETFs are currently eligible for the Southbound Channel. **<u>Latest development</u>** • Full-year net inflows to ETFs and L&I products amounted to $12.3bn (USD1.6bn), with $7.3bn (USD0.9 bn) in net inflows during January to March 2025. Their average daily turnover increased 34.2% from the previous quarter to $39.4 bn (USD5.1bn), and rose 84.8% to $25.3bn (USD3.3bn) year-on-year, equivalent to 15.2% of the turnover of Hong Kong's stock market. • Total assets under management (AUM) of Hong Kong listed exchange traded products (ETPs) reached almost HKD510bn (USD65bn) by May-end, 30%+ increase since 2020. Drivers of growth include Hong Kong equity rebound, innovative products (e.g. single-stock leveraged/inverse ETFs, spot digital assets ETF), and HKEX's push for thematic ETF listings.	• **Consider relaxing the eligibility criteria** for Southbound Trading, as the current requirements allow only a limited number of HK-listed ETFs to qualify, thereby restricting investor choice. ○ **Reducing the current 60% Stock Exchange of Hong Kong (SEHK) -listed composition benchmark requirement could broaden ETF eligibility under the scheme**. This would align with Chinese Mainland investor demand for greater exposure to international markets over locally concentrated ETFs. • **Promote investor education and public awareness** campaigns informing the benefits and risks of new products.

Enhancements to the Mandatory Provident Fund

Hong Kong's MPF system is celebrating its 25th anniversary this year, having achieved significant milestones that have supported scheme members in preparing for retirement. The system has seen progressive enhancements over the years – including the recent launch of the eMPF platform. Building on many existing developments, the journey toward an ever-improving pension system continues to be shaped by the interplay of system design, demographic trends, economic conditions, regulatory frameworks, and ultimately, the evolving needs of retirees.

We explore several possible visionary models to inspire constructive discussions on the future of Hong Kong's pension landscape to enhance operational efficiency, reduce costs, improve decision-making for members and broaden the investment universe including (read here for full report):

- **A funds-based approach:** The current MPF System is a scheme-based structure, where schemes provide a layer above constituent funds that invest in underlying funds. Simplifying this to a fund-based system can streamline the experience for scheme members to directly invest from a universe of approximately 400 constituent funds.

- **A distinct unified portfolio:** Establishing a distinct unified investment portfolio, could provide scheme members with the option to allocate their retirement savings to this portfolio or continue with the existing scheme-based system. This would allow scheme members who do not wish to make investment decisions to rely on investment professionals to decide on their strategic asset allocation needs for retirement purposes. This unified portfolio could also unlock opportunities for private market investments, leveraging its potential scale.

- **Attached-but-detached model:** Currently there are 24 MPF schemes in the market, each offering two constituent funds under Default Investment Strategies (DIS). Centralising the DIS schemes into a single unified DIS could enhance economies of scale, operational efficiency and with a larger fund size, explore new broader asset classes which includes private markets.

- **A holistic distribution platform for Hong Kong:** Integrate the eMPF Platform with other AWM platforms, such as the HKEX's Integrated Fund Platform (IFP), to unlock synergies and foster a more cohesive financial ecosystem that benefits investors and stakeholders in the value chain.

3.3 Family offices

Enhance existing tax concession regime

To attract more family offices to choose Hong Kong as a destination for wealth management, we are pleased that the government will enhance the preferential tax regime for FIHVs, including increasing the types of qualifying transactions eligible for tax concession, such as virtual assets.

Recommendation:

To address the unique needs of family offices, we suggest including artwork and collectibles, which are gaining traction among family offices.

Additional measures should be introduced to complement the FIHV tax concession. These include:

- Accelerating the granting of Hong Kong residency status to principals and immediate family members of eligible family offices.
- Streamlining applications for employment visas for foreign investment professionals.

Granting tax concessions to eligible family offices, such as Singapore's 10% concessionary rate, would increase the appeal of the FIHV tax regime and reinforce Hong Kong's position as a preferred location for family office operations.

New Capital Investment Entrant Scheme (New CIES)

Since its introduction in 2023, the New CIES has been refined in response to feedback from industry stakeholders. Following the implementation of enhancement measures on 1 March 2025, there was a notable surge in applications that month – rising by over 440% compared to February[2] .

Recommendation:

To further improve the New CIES, we suggest:

- Bringing the lists of **permissible/qualifying assets** under the New CIES and the FIHV tax concession into closer alignment.
- Including both **residential and non-residential immovable properties** in Hong Kong in the list of qualifying assets under the FIHV tax concession for the purpose of calculating the HKD240mil asset threshold, subject to similar restrictions to those under the New CIES.

The primary distinction between the permissible asset lists under the CIES and the FIHV tax concession lies in the inclusion of real estate properties in Hong Kong. With CIES now allowing investment in Hong Kong residential properties—albeit with certain restrictions—aligning both lists would simplify investment decisions for family offices and individuals planning to settle in Hong Kong. Nonetheless, immovable properties should count only towards the asset threshold and not be considered qualifying assets for tax concession purposes.

2 https://www.info.gov.hk/gia/general/202505/25/P2025052400034.htm

04

Advancing Hong Kong's appeal as a destination of choice

Hong Kong's position as a leading destination for business and investment is unrivaled. However, to further elevate its standing as a premier international financial centre, targeted enhancements are necessary. Against the backdrop of expanding global wealth pools and evolving expectations of wealth owners, Hong Kong must ensure it maintains a responsive regulatory environment, supported by a fit-for-purpose legal and tax framework.

To support the establishment and operation of Hong Kong-incorporated SPVs, we recommend enhancing regulatory certainty and ensuring tax neutrality. Legislative amendments should be introduced to streamline the setup and operational processes of SPVs. It is also important to ensure that Hong Kong-incorporated SPVs are recognised internationally and aligned with global standards. Additionally, developing a robust securitisation market will further strengthen Hong Kong's competitiveness in this space.

To secure Hong Kong's position as a leading international financial centre, it is essential to preserve and reinforce its foundational strengths. This includes maintaining a deep and diverse talent pool, effectively implementing enhanced tax concession regimes, and continuing to promote Hong Kong-based fund vehicles. Furthermore, a forward-looking and adaptive regulatory environment must be sustained to keep pace with global developments.

The global democratisation of private markets and the accelerating retailisation of alternatives are irreversible forces reshaping the investment landscape. In response, we recommend establishing a structured framework that supports the growth and responsible distribution of alternative assets to retail investors – while prioritising investor protection and effective liquidity management.

Hong Kong boasts a thriving primary bond market. To further differentiate the city from its global peers, we propose a series of recommendations aimed at fostering the development of a more vibrant and liquid secondary bond market. Central to these recommendations is the creation of an enhanced legal, tax, and regulatory ecosystem that supports the securitisation and repackaging of assets and receivables. This framework should enable private funds and financial institutions to efficiently exit investment positions through the international debt trading markets.

4.1 Regulatory innovation in SPVs and securitisation

Global wealth creation remains robust, with wealth owners actively seeking opportunities to grow and preserve their assets. Hong Kong is on course to become the largest cross-border wealth management hub globally, but it must not become complacent. To maintain momentum, we need to continuously explore innovative ways to attract wealth and meet the evolving expectations of wealth owners. By proactively addressing emerging trends and investor demands, and by ensuring a responsive regulatory environment along with a fit-for-purpose legal and tax framework, Hong Kong can reinforce its leadership as a global financial hub.

Enhancing the regulatory framework for SPVs and securitisation

Hong Kong's ambition to reinforce its status as a leading international financial centre and to attract private credit hinges on the development of a robust debt capital market in Hong Kong. Private funds often utilise structured finance techniques (such as securitisation or repackaging) to exit their investments by selling down their positions through the debt capital markets. While the city's regulatory and tax environment for structured finance is competitive, it requires further enhancement to support the establishment and operation of **Hong Kong-incorporated SPVs**. These include:

Recommendation:

Regulatory certainty and tax neutrality – Implement tax rules to ensure no additional liabilities for securitisation SPVs, making Hong Kong more attractive for structuring deals.

- Drawing from international best practice, such as the Luxembourg model, Hong Kong should implement specific tax rules to ensure that securitisation transactions do not result in additional or accelerated tax liabilities for SPVs. This would provide tax neutrality at the issuer level, making Hong Kong a more attractive jurisdiction for structuring securitisation deals.
- Providing tax certainty and neutrality would significantly boost the development of Hong Kong's securitisation market, attracting both investors and asset managers.

Legal and regulatory support for SPVs – Amend legislation to streamline SPV establishment and operations, and guide asset treatment, supporting digital assets and tokenisation.

- The government should consider legislative amendments to streamline the process for SPV establishment and operations in Hong Kong, and provide clear guidance on the treatment of assets and liabilities in securitisation structures.
- Regulatory guidance should also address the use of digital assets and tokenisation in securitisation, aligning with Hong Kong's broader digital economy strategy.

Cross-border securitisation – Extend regulatory support to cross-border deals, ensuring Hong Kong SPV recognition and alignment with international standards.

- Given Hong Kong's role as a super-connector between the Chinese Mainland and global markets, regulatory support should extend to cross-border securitisation transactions utilising Hong Kong SPVs as issuance vehicles for structured debt issuances.

Developing a robust securitisation market – Provide alternative funding for businesses, enhance regional competitiveness in asset management, and position the city as a booking centre for private credit transactions.

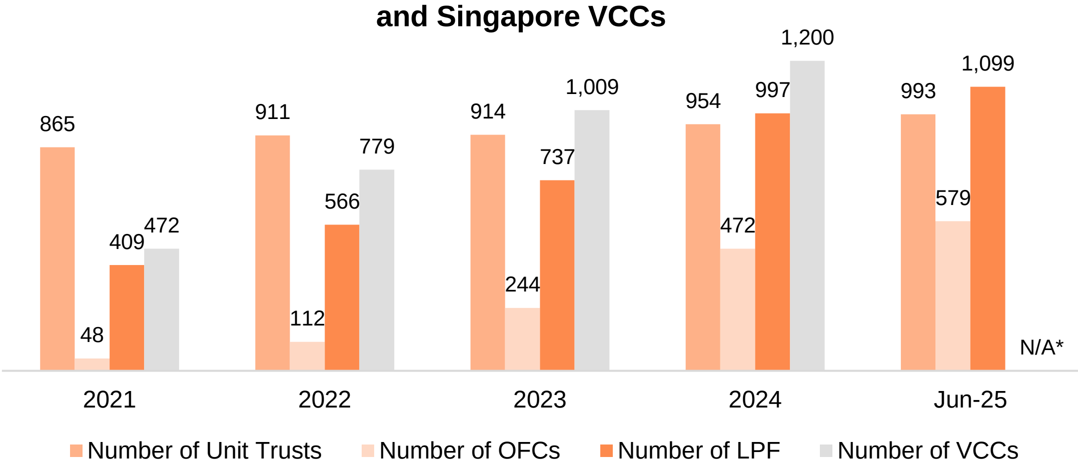
- The development of a robust securitisation and secondary debt market is directly aligned with the government's ambition to attract private credit to Hong Kong. A well-functioning market will:
    - Provide alternative funding sources for corporates and SMEs, supporting economic growth and innovation.
    - Enhance Hong Kong's competitiveness as a regional hub for AWM.
    - Enable the city to serve as a booking centre for private credit transactions, leveraging its legal and financial infrastructure.
    - Provide convenient exit opportunities for investors (such as banks, private credit, financial institutions) to offload their risk into the debt capital markets in order to free up capital for further investment.
    - Develop CMU into an Asian clearing and settlement hub in Hong Kong for debt capital markets to attract regional issuers and international investors.

Increasing the uptake of Hong Kong fund vehicles and building a holistic AWM hub

Hong Kong offers a comprehensive suite of fund structures – including Unit Trusts, Limited Partnership Funds (LPFs), and OFCs – designed to serve both public and private markets, while meeting the diverse needs of asset managers and investors. Policymakers have strategically aligned Hong Kong's initiatives and policy proposals to promote the use of Hong Kong-domiciled fund vehicles. These efforts include both financial incentives (such as subsidies for setting up OFCs) and non-financial measures (such as cross-border initiatives that exclusively support Hong Kong-domiciled funds, and government mandates that promote the use of local fund structures by asset managers). Against the backdrop of fund "onshorisation" (see chart below), these initiatives should be sustained and expanded to further differentiate Hong Kong and reinforce its position as a **premier fund domicile destination**.

> By continuing to enhance and refine these foundational pillars, Hong Kong can solidify its role as a global leader in AWM - not only as a fund domicile, but as a premier location for conducting business activities.

Hong Kong domiciled vehicles (Unit Trust / OFCs / LPFs) and Singapore VCCs



HK OFC launched in July 2018, HK LPF launched in August 2020, SG VCC (Variable Capital Company) launched in January 2020.
Source: Company Registries, HKSAR, SFC; *N/A: VCCs data unavailable in June 2025.

Recommendation:

To maintain its status as a leading AWM hub, several key elements must align. Policymakers should continue to ensure that Hong Kong remains a holistic and competitive environment for doing business by upholding the following enablers:

- A deep and diverse talent pool that attracts and retains top professionals.
- Ensure effective implementation of the enhanced tax concession regimes for funds and carried interest that the government is currently formulating, thereby providing greater certainty and clarity for stakeholders.
- Continued promotion of Hong Kong fund vehicles and ensuring recognition of Hong Kong SPVs in facilitating cross-border transactions and investments.
- A forward-looking and responsive regulatory environment that fosters innovation and investor confidence.
- A strategic gateway to and from Chinese Mainland, with connectivity schemes and initiatives continuously enhanced to meet the evolving needs of investors and businesses.

4.2 Democratising and broadening access to financial markets

Democratisation of private assets and alternative investments

The global democratisation of private markets and the rise of retailisation trends have enabled alternative asset managers to tap into vast pools of individual wealth and retail segments – markets that were traditionally untouched due to their historical focus on institutional clients such as endowments, pension funds, sovereign wealth funds, and insurance companies. **Private markets are increasingly playing a central role in investment strategies, offering the potential for superior returns, deeper portfolio diversification, and access to exclusive investment opportunities**.

Against this backdrop, a wave of initiatives has been launched in Hong Kong, with both regulatory efforts and the emergence of new market players aiming to align with global trends and shifting investor preferences. Notably, the introduction of a licensing regime for crypto exchanges, effective June 2023, has enabled retail access to certain vetted cryptocurrencies. Additionally, recent clarifications by the SFC regarding regulatory requirements have facilitated the **listing of closed-ended alternative funds on the SEHK**. For the latter, this development has further opened avenues for MPF scheme members to access private markets in the future. Digital wealth platforms and fintechs in Hong Kong are also playing a key role by offering curated access to hedge funds, private credit, and private equity, albeit for professional investors, often with lower minimum investment thresholds. Globally, many countries are also adopting policies to broaden retail access to private markets illustrated in **Figure 1**.

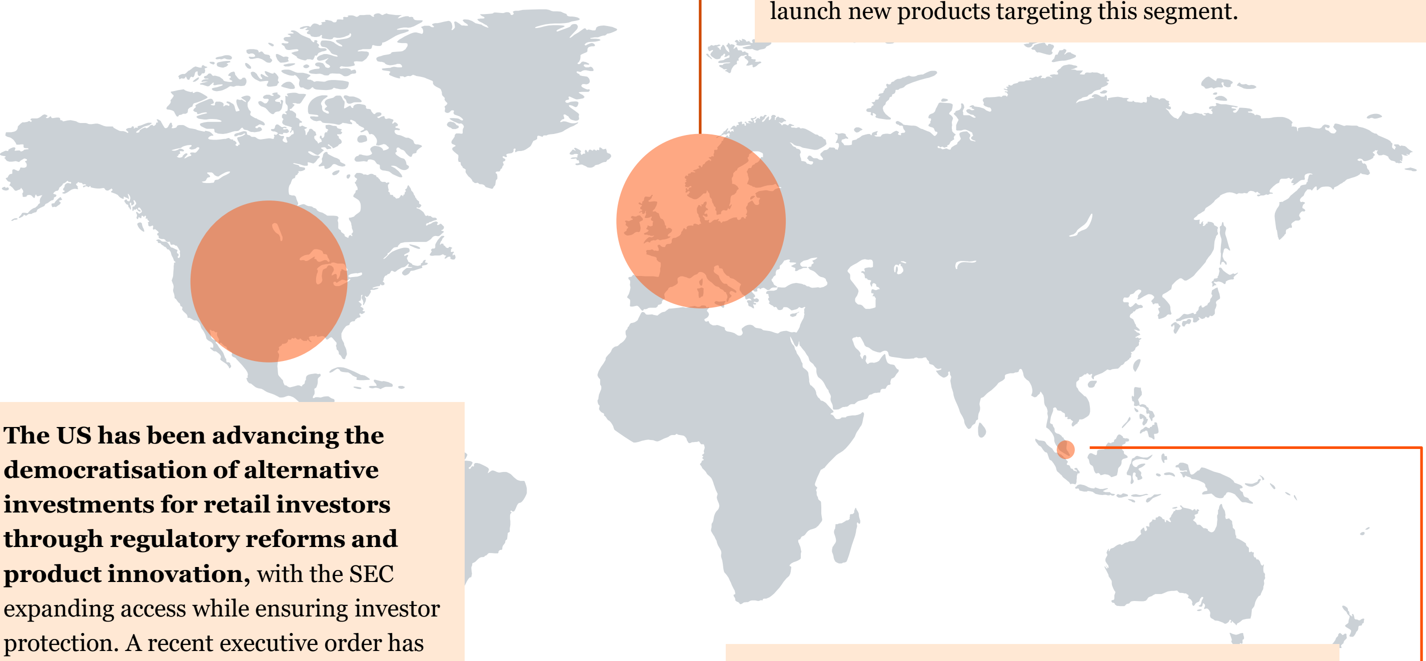
Drawing inspiration from international developments, Hong Kong could consider launching **targeted market initiatives** to support the democratisation of private markets. These should ensure that investor safeguards are in place to assess suitability, recognising that not all such investments are appropriate for retail investors. To address the inherent illiquidity of these assets, some funds may incorporate liquidity management features – such as **limited redemption windows or periodic liquidity** – allowing investors to exit at predefined intervals.

Recommendation:

Hong Kong should monitor emerging trends and innovative technologies and formulate strategies to effectively capitalise on the democratisation of private assets and alternative investments. This could involve developing a **framework** to support the growth and distribution of alternative assets to **retail investors**. The framework would incorporate elements such as suitability assessments, disclosure requirements, and robust risk management and governance standards for asset managers.

Additionally, consideration could be given to mechanisms that enable MPF scheme members to access **alternative assets beyond the listing of closed-ended alternative funds on the SEHK**. Investing in alternative assets can be beneficial from a maturity matching perspective, as these long-duration investments may better align with the long-term liabilities and retirement horizons of MPF members. As outlined in Section 3.2, we mentioned a **"distinct unified portfolio"** approach, whereby a centralised portfolio – established outside the current scheme-based system – could enable broader access and optimal allocation to private markets, thereby enhancing diversification and return potential for retirement savers.

Figure 1: International policies in broadening retail access to private markets



In Europe, the European Long-Term Investment Funds (ELTIF) framework was revised in 2023 to facilitate easier access for retail investors. Key changes include the removal of minimum investment thresholds, simplified suitability assessments, and more flexible investment strategies. These reforms have enabled more retail participation and encouraged asset managers to launch new products targeting this segment.

The US has been advancing the democratisation of alternative investments for retail investors through regulatory reforms and product innovation, with the SEC expanding access while ensuring investor protection. A recent executive order has paved the way for the future inclusion of private equity, real estate, cryptocurrency, and other alternative assets in 401(k) retirement plans. Semi-liquid investment vehicles are being introduced to offer retail investors exposure to traditionally illiquid asset classes, balancing accessibility and liquidity.

In Singapore, a consultation on a Long-Term Investment Fund (LIF) framework was initiated recently to explore ways of broadening access. Investment vehicles under this framework aim to provide retail investors with exposure to private market assets in a regulated and structured manner.

Secondary market trading of tokenised real-world assets in Hong Kong

Building on the Hong Kong Government's "Policy Statement 2.0" as highlighted in Section 2.3, one of the main benefits of tokenisation is the ability to **open up secondary trading in a wider universe of tokenised assets**. This is due to features such as fractionalisation, efficiencies in the costs and speed of settlement, and the ability to automate trading such that it can occur 24/7. However, trading is not the only use case for tokenised assets as real assets also have utility as asset owners can, depending on the asset, invest, transfer, trade, rent, license, insure, securitise or pledge those asset to raise finance. Many of these actions associated with tokenised assets could also be administered much more efficiently on **blockchain networks** if the legal and regulatory frameworks existed to facilitate this.

Recommendation:

As the real-world asset tokenisation market develops, **coordination between different government departments** that currently regulate or oversee these parts of the economy will become increasingly important. Regulators including the SFC, HKMA, Insurance Authority as well as government departments such as the Lands Department, Estate Agents Authority, Intellectual Property Department and Companies Registry, among others should consider whether and if there are benefits to exploring the **tokenisation and registration of various types of asset directly on blockchain networks** (e.g. the tokenisation of everything) and consider the corresponding infrastructure and oversight mechanisms to facilitate the tokenised economy in an efficient way that protects consumers and assets owners interests.

Developing a secondary debt trading market

A robust secondary debt trading market is critical to Hong Kong's ambition to remain a leading global financial hub. Such a market enhances liquidity, enabling investors to buy and sell bonds efficiently, repackage investment into tradeable bonds and attract a broader range of participants, including regional and international institutional investors. This liquidity supports price discovery, reduces borrowing costs for issuers, and strengthens investor confidence, fostering economic growth in Hong Kong.

One significant limitation on the growth of a **secondary bond trading market** in Hong Kong, and in Asia generally, is the lack of a local Asia-based clearing and settlement and custody system. Most bond issuances from Asia are currently cleared, settled and held through Euroclear or Clearstream in Europe. An Asian-based international clearing and settlement system would create significant opportunities for Asian investors and issuers, being able to clear and settle trades in local time-zones.

The creation of an **international level clearing and settlement system** in Hong Kong would require investment, but it would significantly enhance Hong Kong's competitiveness relative to other financial centres like Singapore (assuming they are not currently considering a similar initiative), encourage foreign investment, and support the city's role as a gateway for capital flows, particularly in green and sustainable finance, aligning with global trends and China's economic objectives.

Expanding the **Central Moneymarkets Unit (CMU)** to serve as a regional equivalent to Euroclear would significantly enhance Hong Kong's position as a leading international financial centre. By broadening the CMU's reach and capabilities, Hong Kong could attract more international investors and issuers, facilitate greater integration of Asian bond markets, and support the development of a more efficient, liquid and resilient regional bond market.

If successfully implemented, this initiative would fill a critical gap in Asia's financial infrastructure and reinforce Hong Kong's role as a global financial hub.

Recommendation:

To create a thriving secondary debt market, the Hong Kong Government and regulators should:

- First, **invest in upgrading CMU's technology and infrastructure**, enter strategic partnerships with other regional/global depositories and promote CMU as the default settlement platform for Asian bond issuance.
- Second, **offer market incentives** to attract regional issuers to issue bonds in Hong Kong in order to attract a diverse range of institutional investors and market makers to the territory.
- Third, it should **introduce regulatory and market incentives for market makers and liquidity providers to encourage active trading**.
- Fourth, it should encourage the use of **Hong Kong incorporated SPVs** for securitisation and repackaged bonds in order to attract a broader range of institutional investors.

Finally, it should **expand cross-border initiatives, such as Bond Connect**, to include debt securities (including securitisation) issued from the Chinese Mainland and other regions to enhance liquidity and integration.

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