PwC's Recommendations for the
Chief Executive's 2024 Policy Address

A Three-Pronged Approach to Fostering Hong Kong's New Quality Productive Forces

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Introduction

In recent months alone, Hong Kong has undergone drastic changes, unprecedented in both scale and scope, making the path to recovery longer than most anticipated; how quickly and effectively we adjust will determine Hong Kong's future economic health and competitiveness.

Despite a moderate economic growth of 3.3% year-on-year and resilient exports of goods in the second quarter of 2024, an array of challenges persist for Hong Kong, including a global economic slowdown, high interest rates, and geopolitical tensions that could impact trade and investment flows. Exports of services have experienced a slowdown revealing potential vulnerabilities in Hong Kong's service-oriented economy, while private consumption in Q2 2024 declined by 1.5% annually amid a structural shift in consumption patterns. The labor market remains tight, with the seasonally adjusted unemployment rate holding steady at 3%, a figure that underscores the competitive nature of employment.

This heightened worry about the future has been widely echoed by the local business community. According to PwC's CEO Survey China report released in March 2024, 71% of CEOs based in Hong Kong believe their companies will struggle to remain economically viable over the next decade if they persist on their current trajectory, a stark contrast to the 45% of CEOs globally who share this concern.

In this view, the HKSAR government must navigate the economic headwinds strategically and decisively, while capitalising on the opportunities presented by closer integration with the Chinese Mainland and regional partnerships. This is particularly relevant in the context of China's recent emphasis on developing "**New Quality Productive Forces**," which aims to transition the economy towards high-tech, high-efficiency, and high-quality growth models.

In formulating the policy recommendations in this report, PwC has given full thoughts to this national strategy and Hong Kong's current circumstances, focusing on enhancing the city's global competitiveness and financial resilience through three pivotal areas: **recouping capital, attracting enterprises and talent, and optimising opportunities in the digital economy.**

Under this three-pronged approach, Hong Kong should spare no efforts in addressing imminent challenges of an increasingly complex economic environment, with a focus on strengthening **its unique productive forces - capital, business, talent, and city**, thereby positioning itself as trailblazer in China's overarching goal of promoting innovation-driven development.

The proposed measures - as summarised in the executive summary and elaborated throughout this report - are designed to tackle the most pressing challenges we face, give full play to Hong Kong's unique advantages, and ensure its continued relevance and competitiveness in the global arena.

Content

Executive Summary

Hong Kong now stands at a pivotal juncture with an urgency to reinforce its global competitiveness and financial strength through strategic initiatives. To facilitate Hong Kong's much-needed recovery through the development of **new quality productive forces**, PwC recommends the adoption of a three-pronged approach: recouping capital, enhancing enterprise and talent attraction, and optimising opportunities in the digital economy. These key growth pillars are prerequisite to a robust economic environment that fosters growth, innovation, and sustainability, ultimately positioning Hong Kong for a strong comeback as a city of hope and opportunities.

1. Recouping Capital: Reinforcing Hong Kong's Global Competitiveness and Financial Strength

The first strategic pillar emphasises the need to improve the liquidity and competitiveness of Hong Kong's capital markets – the cornerstone of its economic success. To achieve this, several measures are proposed:

- **Alternative Funding Platforms for SMEs:** Establishing an over-the-counter (OTC) market by The Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange) for small and medium-sized enterprises (SMEs) to raise funds will diversify funding sources and stimulate economic activity.
- **Extension of Trading Hours:** By extending the trading hours of the Hong Kong Stock Exchange, the city can enhance market accessibility and attract more investors, thereby increasing trading volume and liquidity.
- **Implementing Primary Equity Connect:** Enhancing connectivity between Chinese Mainland and Hong Kong capital markets for initial public offerings (IPOs) will facilitate cross-border investment and strengthen Hong Kong's role as a financial gateway.
- **Stamp Duty Relief:** Waiving the buy-side stamp duty will improve the competitiveness of Hong Kong as a trading hub, making it more attractive for both local and international investors.
- **Tax Neutrality for Securitisation:** Implementing specific tax rules for tax neutrality in securitisation programmes will position Hong Kong as a global securitisation centre.

In addition to these measures, creating an ecosystem for **ultra-high-net-worth (UHNW) families** and **single-family offices (SFOs)** is crucial. This includes enhancing the existing tax concessions for SFO-managed investment vehicles by expanding the scope of qualifying assets to include virtual currencies and collectibles, and relaxing the restrictions on incidental income. To solidify Hong Kong's position as a premier destination for UHNW families, consideration should be given to granting residency status to principals and immediate family members of qualified SFOs, and granting two employment visas per qualified SFO. Furthermore, by offering tax concessions to SFOs similar to Singapore's 10% rate, Hong Kong can attract more UHNW families. Additionally, regularly assessing these concessions will ensure ongoing competitiveness.

Given the current global macroeconomic environment, Hong Kong should **diversify its investor base** by exploring opportunities beyond traditional markets, particularly in regions such as the Middle East and Southeast Asia. This strategy can be exemplified by replicating its success in the recent launch of a Saudi Arabian Exchange Traded Fund (ETF) tracking Hong Kong equities, as well as establishing a robust pipeline of Public-Private Partnership (PPP) projects to attract international capital investment.

Furthermore, Hong Kong should reinforce its **financial market infrastructure** to accommodate growth and innovation, which include catering for key initiatives such as fund tokenisation and the ‘retailisation’ of alternative assets, will enhance Hong Kong's competitiveness as a comprehensive International Financial Centre. Lastly, Hong Kong should continue to maintain an attractive environment for **private market assets** to attract new market participants to establish operations in the city, by safeguarding and improving the conducive regulatory and tax settings already in place.

2. Enhancing Enterprise and Talent Attraction: Revitalising a Vibrant Business Environment

The second pillar focuses on revitalising a vibrant business environment through enterprise attraction and talent acquisition. Key initiatives include:

- **Integration of Strategic Enterprises into Local Ecosystem:** Facilitating the integration of strategic enterprises into Hong Kong's ecosystem will boost their commitment while benefiting local economy.
- **Regional Headquarters Tax Incentives:** Offering regional headquarters tax incentives will further entice multinational enterprises to establish operations in Hong Kong.
- **Company Re-domiciliation Regime:** Expedite the implementation of the proposed company re-domiciliation regime and extend the streamlined Certificate of Residence (CoR) issuance process to re-domiciled companies will attract foreign companies seeking favourable business conditions.
- **Tax Treaty Network:** Directing more resources to expedite the expansion of Hong Kong’s tax treaty network will minimise double taxation for cross-border activities.
- **Captive Insurance Centre:** Promoting Hong Kong as a captive insurance centre involves introducing a fast-tracked licensing process for Chinese Mainland organisations with a global footprint to meet their development demand; and promoting insurance-linked securities to insurance policyholders.

Talent attraction and retention are equally vital. Improving one-stop facilitation services for businesses and their international executives will streamline processes related to visa application, housing, education, and healthcare. 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. Additionally, improving flexibility in the New Capital Investment Entrant Scheme (New CIES) and expanding eligibility for the Top Talent Pass Scheme, along with implementing effective tax measures, are key to attracting a broader pool of skilled individuals necessary for driving innovation.

3. Embracing the Digital Economy: Optimising Opportunities for Growth

Lastly, the third pillar revolves around building a smart city leveraging opportunities in the digital economy. Key recommendations include:

- **Digital Infrastructure:** Strengthening the backbone of the digital economy by integrating the CorpID platform with key data infrastructures to facilitate seamless data exchange. This includes securing commercialisation and trading of data while exploring cross-border collaborations with data exchanges in Chinese Mainland.
- **GBA Collaboration:** Strengthening Hong Kong's role in cross-border data flow within the Greater Bay Area (GBA) by collaborating on the GBA Standard Contract is also instrumental.
- **Digital Transformation Support Pilot Programme:** Broadening the Digital Transformation Support Pilot Programme to encompass more sectors is expected to enhance local business competitiveness.
- **Generative AI (GenAI) Adoption:** Deepening the adoption of GenAI across government departments to drive efficiency gains in the public sector, supercharge AI education and establish a GenAI innovation fund.
- Finally, as Hong Kong prepares for the future development of a digital economy, it is essential to establish a clear strategy for integrating **digital assets and distributed ledger technology** into Hong Kong’s financial services sector. Equally important is the expansion of the **Virtual Asset Trading Platform (VATP) regime** through broader product offerings, compliance cost management, a comprehensive custody regime and a separate OTC market for virtual assets. Moreover, initiatives to scale **fund tokenisation** in asset wealth management should be explored to address their challenges in this emerging field.

1. Recouping Capital: Reinforcing Hong Kong’s Global Competitiveness and Financial Strength

Hong Kong's capital markets, the cornerstone of the city’s economic strength, have experienced grave challenges in the past year not dissimilar to the broader economy, characterised by subdued stock performance, capital outflows and a marked shrinkage in trading volumes, with daily turnover falling to levels not seen in years, prompting urgent calls for revitalisation measures. In particular, the Hong Kong Stock Exchange has reported a marked decrease in the number of new listings, with less than 100 new listings since 2021. Further, total IPO fund raising in Hong Kong was below USD15 billion since 2022. This decline underscores the urgency for the HKSAR government to implement measures for restoring investor confidence and attracting international capital back to the market.

As a result, the need to recoup international capital has become increasingly critical. Without swift and effective interventions, Hong Kong risks losing its status as a premier financial hub, as investors seek more attractive opportunities elsewhere. Addressing these challenges is essential to restoring market confidence and enhancing the overall competitiveness of Hong Kong's capital markets.

Recent government initiatives, including the expansion of mutual access between the Chinese Mainland and Hong Kong capital markets, are pivotal in this regard. The HKSAR government has expressed its commitment to enhancing Hong Kong's status as an offshore RMB trading and management centre and a unique platform for attracting high-quality enterprises.

As we move forward, it is essential to focus on improving the liquidity and competitiveness of Hong Kong’s capital markets through targeted measures. These include establishing alternative funding platforms for SMEs, extending trading hours of the Hong Kong Stock Exchange, implementing the Primary Equity Connect to facilitate cross-border investments, and provide stamp duty relief on stock transactions.

1.1 Enhancing the liquidity and competitiveness of Hong Kong's capital markets

Alternative platform for SMEs to raise funds

To bolster the financial landscape and ease of capital access for SMEs in Hong Kong, it is essential to explore the establishment of an OTC market. This market would facilitate the fund raising and trading of stocks for SMEs by the Hong Kong Stock Exchange with minimum entrance requirements. Such a framework aligns with Hong Kong's initiative to support SMEs, providing them with a viable avenue to raise capital without the stringent requirements of traditional stock exchanges.

The proposed OTC market would enable SMEs that currently do not meet the criteria for listing on standard exchanges to access funding and attract a broader base of investors. By creating this alternative platform, the city can further proliferate its financial ecosystem, allowing SMEs to survive and thrive at times of liquidity shortage.

Extending trading hours of the Hong Kong Stock Exchange

To enhance the competitiveness of the Hong Kong Stock Exchange, it is recommended to extend trading hours to match those of other major international exchanges. Currently, the Hong Kong Stock Exchange operates for approximately 5.5 hours daily, while exchanges like the New York Stock Exchange (NYSE) and Nasdaq operate for about 6.5 hours daily, and the London Stock Exchange and Euronext Milan for around 8.5 hours daily.

Acknowledging the operational challenges of extending trading hours, such as personnel arrangements and the need for support from banking services after business hours, we propose an initial extension of 3 hours daily, allowing trading until 7:00 PM HKT (1:00 PM Central European Time). Further extensions could be considered to cover the entire European trading time zone based on an assessment of potential benefits.

Extending trading hours is expected to improve liquidity and attract institutional investors from Europe, increasing foreign trading volume. This change would also address time zone challenges, making Hong Kong a more attractive option for international listings, thereby broadening and deepening the local market.

Exchanges	Time zone	Trading time	Trading duration
Hong Kong Stock Exchange	Hong Kong Time	9:30am – 12:00pm 1:00pm – 4:00pm	5.5 hours
NYSE	Eastern Standard Time/ Eastern Daylight Time	9:30am – 4:00pm	6.5 hours
Nasdaq	Eastern Standard Time/ Eastern Daylight Time	9:30am – 4:00pm	6.5 hours
London Stock Exchange	Greenwich Mean Time/ British Summer Time	8:00am – 4:30pm	8.5 hours
Euronext Milan	Central European Time/ Central European Summer Time	9:00am – 5:30pm	8.5 hours

Source: The Hong Kong Exchanges and Clearing Limited (HKEX), NYSE, Nasdaq, London Stock Exchange and Euronext

Implementing Primary Equity Connect

To strengthen the connectivity between Chinese Mainland and Hong Kong capital markets, the implementation of the Primary Equity Connect scheme is recommended. This initiative would allow Chinese Mainland investors to subscribe to Hong Kong IPOs using RMB, while enabling Hong Kong investors to directly participate in IPOs on the Chinese Mainland. Particularly, Hong Kong, as the largest offshore RMB business centre processing 75% of global offshore RMB settlement, has a strong advantage in enabling trading and settlement of IPO securities in RMB.

Expanding the existing Stock Connect framework from the secondary market to include IPOs would significantly enhance cross-border investment opportunities. This initiative requires collaboration with Chinese Mainland regulators to ensure a seamless integration of the two markets. By facilitating such connectivity, Hong Kong can widen its investor base and improve market liquidity for both A-shares and the Hong Kong stock market.

Stamp duty relief

One effective way to bolster trading volumes and reinforce Hong Kong's position as a preeminent trading hub is to **provide stamp duty relief on stock transactions.** Currently, both buyers and sellers are subject to a stamp duty of 0.1% on the transaction value, culminating in a total of 0.2%. This rate stands in stark contrast to practices in other jurisdictions, where more favourable conditions are in place to stimulate market activity.

For instance, the United States does not charge stamp duty on stock trades entirely, creating a more attractive environment for investors. Similarly, Chinese Mainland has halved its stamp duty from 0.1% to 0.05% on the sell-side, effective from 28 August 2023, as part of a broader strategy to invigorate its capital markets and bolster investor confidence.

In the case of Hong Kong, where the stamp duty rate on stock transfers was reduced from 0.13% to 0.1% for both buyers and sellers effective from 17 November 2023, historical trading data on HKEX from the two and a half months before and after the stamp duty reduction points to a significant increase in trading value and volume of 15% and 24%, respectively. Therefore, **waiving the buy-side stamp duty altogether would be an effective measure** to further lower transaction costs, encourage long-term investments, and enhance the competitiveness of Hong Kong's stock market.

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

Providing tax neutrality for securitisation

Asset securitisation is widely recognised as a financing alternative that contributes to risk diversification by converting illiquid assets into tradable securities with varying risk profiles. By engaging investors in capital markets, securitisation can effectively mitigate credit risk by transferring ownership of these assets to an issuing special purpose vehicle, thereby removing them from the originator's balance sheet. This off-balance-sheet treatment not only improves the originator's financial ratios but also provides liquidity and enable further investment activities.

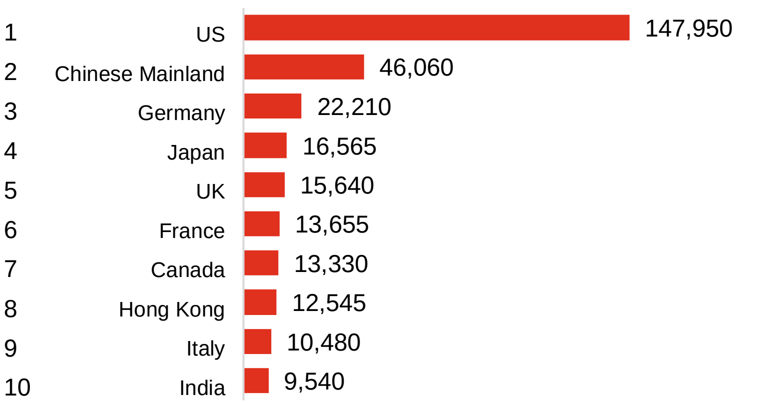
To capture the growth in demand for asset securitisation products in Asia Pacific, we propose implementing specific tax rules to ensure, as far as possible, that securitisation transactions do not result in additional tax liabilities or accelerate existing tax obligations beyond what would have occurred in the absence of securitisation. For instance, there should be tax neutrality at the issuer level. We believe providing tax certainty would significantly boost the development of Hong Kong's securitisation market.

The Luxembourg securitisation law serves as a successful model, having achieved near-complete tax neutrality. This approach has created a reliable and investor-friendly environment for structuring securitisation transactions, attracting both investors and asset managers. By implementing similar tax neutrality measures, Hong Kong can **enhance its competitiveness and appeal as a global securitisation centre.**

1.2 Strengthening Hong Kong's appeal for ultra-high-net-worth families and single family offices

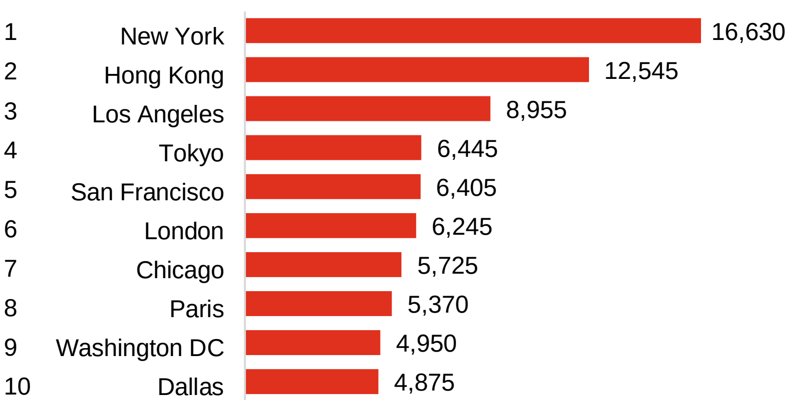
Hong Kong consistently ranks as one of the premier locations for UHNW individuals and should continue to cultivate a favourable business and living environment to attract and retain the wealthiest individuals from around the globe. Defined as individuals possessing investable net assets exceeding USD30 million, UHNW individuals play a crucial role in driving investment and capital inflows, significantly enhancing the financial, banking, and wealth management sectors.

Top 10 UHNW jurisdictions by population (2023)



Source: Altrata

Top 10 UHNW cities by population (2023)



Source: Altrata

As part of its strategy to develop Hong Kong as a leading hub for UHNW families, the HKSAR government introduced the family office tax concession regime last year. This regime offers a 0% concessionary profits tax rate on profits earned from qualifying transactions and incidental transactions (the latter subject to a 5% threshold) for eligible family-owned investment holding vehicles (FIHVs) managed by eligible single family offices (SFOs) in Hong Kong.

In light of keen competition from other wealth management hubs and the rapidly evolving client demands and the external environment, it is essential to further enhance the family office tax concession regime by:

Expanding the scope of qualifying assets for tax concessions – Allowing family offices to invest in a broader range of assets, including virtual currencies, art, antiques, and collectibles, which align with the evolving preferences of UHNW investors.

Relaxing the restrictions on incidental income – Currently, interest from fixed income instruments is classified as income from incidental transactions. Family offices frequently allocate a substantial portion of their investments to fixed income instruments to secure a stable income stream. Consequently, the interest income generated often exceeds the 5% threshold for incidental transactions. Therefore, we suggest that interest earned from fixed income instruments by FIHVs be regarded as qualifying transactions under the regime.

To further solidify Hong Kong's position as a premier destination for UHNW families, we propose the following:

Granting Hong Kong residency status to principals and immediate family members of qualified SFOs – Providing residency status to the principals and immediate family members of qualified SFOs is an attractive incentive. It could encourage more UHNW individuals to establish their family offices in Hong Kong, significantly contributing to the local economy.

In Singapore, family office principals are eligible to apply for permanent residency status, provided that they have investable assets (excluding real estate) of at least SGD200 million and a minimum of five years of entrepreneurial experience or business track record. Spouse and unmarried children under the age of 21 can be included as dependents in the application.

Granting two employment visas for each qualified SFO – SFOs may wish to retain the investment professionals they previously employed. If these professionals are not Hong Kong residents, SFOs must apply separately for work visas on their behalf. In line with Singapore's policy, which grants each family office one to three employment pass quotas, Hong Kong could consider adopting a similar approach to facilitate the establishment of SFOs by overseas UHNW families.

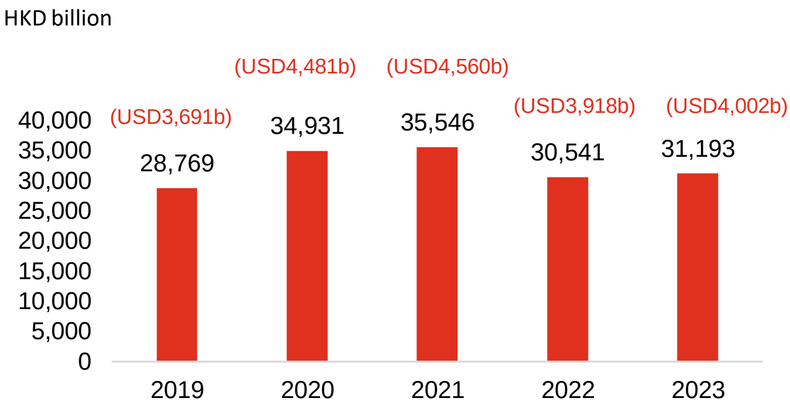
Offering tax concessions to SFOs – Granting tax concessions to SFOs, such as a reduced tax rate similar to Singapore's 10% concessionary rate, is a competitive move. We believe that offering tax concession to SFOs would further enhance the overall attractiveness of the tax regime.

Performing regular review and assessment – Regularly reviewing and assessing the tax concessions provided to family offices is a prudent step. It allows the HKSAR government to monitor the effectiveness of these measures and make necessary adjustments to maintain Hong Kong's competitiveness in a rapidly evolving market.

1.3 Diversify investor base to source investment capital beyond traditional markets

Hong Kong's asset and wealth management sector has demonstrated resilience, with assets under management (AUM) reaching approximately USD4 trillion in 2023. The current breakdown of the investor base by AUM indicates that 64% of AUM is derived from non-Hong Kong investors, a figure that has shown little to no variation over the past several years. This calls into question Hong Kong's ability to attract a more diverse range of international investors amid increasing fluctuation in global capital flows.

Hong Kong asset and wealth management business AUM



Source: Securities and Futures Commission (SFC)

Breakdown of asset and wealth management business - AUM by investor base

	2019	2020	2021	2022	2023
Hong Kong	**36%**	**36%**	**35%**	**36%**	**36%**
Non-Hong Kong	**64%**	**64%**	**65%**	**64%**	**64%**
Chinese Mainland	10%	10%	9%	9%	10%
Rest of Asia Pacific (including Australia and New Zealand)	14%	13%	13%	14%	13%
North America	22%	22%	23%	23%	24%
Europe (including the UK)	10%	11%	10%	11%	10%
Others	8%	8%	10%	7%	7%

Source: Securities and Futures Commission (SFC)

Enhancing relationship capital with strategic collaborations

To enhance Hong Kong's brand equity across the globe and diversify its investor base, Hong Kong should continue to proactively target and attract new capital sources and wealth groups by understanding the key objectives, values and needs of new wealth owners and asset managers from other regions.

Hong Kong should intensify its efforts to **build relationship capital with other countries and regions, particularly in the Middle East and Southeast Asia**, in order to source investment capital by employing several strategic approaches. In recent months, growing collaboration between Hong Kong and the Middle East has gained traction in the financial services sector, focusing on market connectivity, regulatory alignment and sustainable finance. For example, the HKEX was the first exchange in Asia Pacific to provide investors with direct access to Saudi Arabia's capital market opportunities through an ETF, enabling capital to connect with opportunities from afar. With this, Saudi Arabia approved its first ETF tracking Hong Kong's equities market on the local stock exchange, as policymakers on both sides strengthen financial ties between the two markets. This is a great example that can be repeated in other countries in the Middle East and Southeast Asia.

Another opportunity for international investors would be to participate in large-scale investment projects. These collaborations should focus on areas of mutual interest and expertise, such as infrastructure development, renewable energy, and technological innovation. Through these projects, Hong Kong can showcase its capabilities, build trust with its partners, and create tangible results.

As a cornerstone of the strategy to attract international capital into infrastructure, Hong Kong should actively promote the use of **PPPs** as a means of attracting capital and expertise from the private sector. To encourage the use of PPPs, Hong Kong should **establish a clear and transparent pipeline of projects that provide the platform for long-term investment by international capital**. This pipeline is key to building confidence in the quality of the opportunity in Hong Kong. Hong Kong's HKD90 billion annual capital project programme is extensive and includes cross boundary rail, Kau Yi Chau Islands and the component parts of the Northern Metropolis. Greater international awareness of this pipeline could unlock new sources of capital. Within this pipeline, accredited Green and Sustainable projects should feature strongly to reinforce Hong Kong's role as a regional centre of sustainable finance. Procurement models to de-risk green and sustainable infrastructure, including the provision of Government guarantees, first loss equity and availability payments, could be a highly effective way of "crowding in" more private capital into the delivery of infrastructure in Hong Kong.

Strengthening Hong Kong's financial market infrastructure for growth and innovation

As a 'super connector' between the East and West, Hong Kong has enabled global capital to move frictionlessly to gain access to Asia Pacific's dynamic economic growth. Platforms and enhancements to existing initiatives are increasingly enabling investors greater access to a broader suite of investment products. **To enhance Hong Kong's competitiveness as a comprehensive International Finance Centre (IFC), policymakers should focus on strengthening the financial market infrastructure.**

With the necessary building blocks now in place or about to launch, which includes the eMPF platform, Wealth Management Connect, and HKEX Integrated Fund Platform, policymakers could look ahead to build out the platforms further to ensure they are fit for purpose for the future. Driven by evolving investor preferences and technological advancements, innovations such as fund tokenisation (please refer to "Scaling fund tokenisation in asset and wealth management" under Section 3.2 for more details) and **the 'retailisation' of alternative assets** are sweeping across various mature markets around the globe. The end goal in Hong Kong could be to form an integrated ecosystem comprising a diverse range of asset classes, encompassing both public and private funds catering to all investor groups. This would improve market efficiency, expand the fund distribution network, and likely broaden investor participation. Innovation will be key to providing pathways for a broader range of investors to access alternative assets.

Hong Kong's Mandatory Provident Fund (MPF) System could serve as a testing ground for non-institutional investors to access alternative assets. Policymakers could consider broadening the range of investment options available to scheme members. For example, permitting MPF funds to allocate a portion of their portfolios to alternative assets would enhance diversification, potentially improve returns, and provide scheme members with access to a wider array of investment opportunities, and ultimately helping them to secure their financial futures.

Hong Kong as a destination for private capital

Private capital has been integral to the growth of Hong Kong's financial services sector, with the city currently managing a significant portion of private market assets in the Asia Pacific region. As the demand for private market investments continues to rise — driven by family offices, institutional investors, and high-net-worth individuals seeking to diversify their portfolios — Hong Kong should position itself as **a leading global hub** for the management of these assets. This shift underscores a growing trend among investors who are increasingly looking for higher returns through private market investments rather than relying solely on traditional public market assets.

To capitalise on the aforementioned trend, and to further attract renowned private capital players to Hong Kong, government investment vehicles could consider **prioritising the allocation of investment mandates to those alternative asset managers** who are committed to establishing a long-term presence in the city and hiring local talent.

Lastly, policymakers should also continue to be sensitive to the needs of industry players, adopting a proactive approach to ensure Hong Kong remains competitive with other jurisdictions. This includes ensuring that **Hong Kong's regulatory and tax environment** remain fit for purpose for private capital players against the backdrop of emerging trends and developments.

Going forward

Looking ahead, despite a recent slowdown in the growth of cross-border wealth, Hong Kong remains a renowned global booking centre, playing a crucial role in international finance and trade. If the city can successfully implement strategies to expand its sources of capital inflow, it may continue its trajectory toward overtaking Switzerland as the world's largest booking centre by 2028. Given the ongoing geopolitical tensions, the demand for geographic diversification is expected to remain high in the coming years. Therefore, it is essential for Hong Kong to seize growth opportunities in cross-border wealth management and maintain its status as a safe haven booking centre.

Top booking centres globally

Booking centre	Size (USD trillions)		CAGR, 2023-2028	Top source region, 2023
	2023	2028		
Switzerland	2.6	3.1	3.60%	Western Europe
Hong Kong	2.4	3.2	6.00%	Asia Pacific*
Singapore	1.7	2.5	8.50%	Asia Pacific*
US	1.3	1.8	6.90%	Latin America
UK mainland	0.9	1.1	3.80%	Western Europe
Channel Islands and Isle of Man	0.7	0.7	2.70%	Western Europe
United Arab Emirates	0.6	0.8	7.70%	Middle East and Africa
Luxembourg	0.5	0.7	4.60%	Western Europe
Cayman Islands	0.4	0.5	4.40%	North America
Bahamas	0.4	0.5	4.70%	North America
Others	1.7	2.1	5.30%	
Total	13.2	17.1	5.30%	

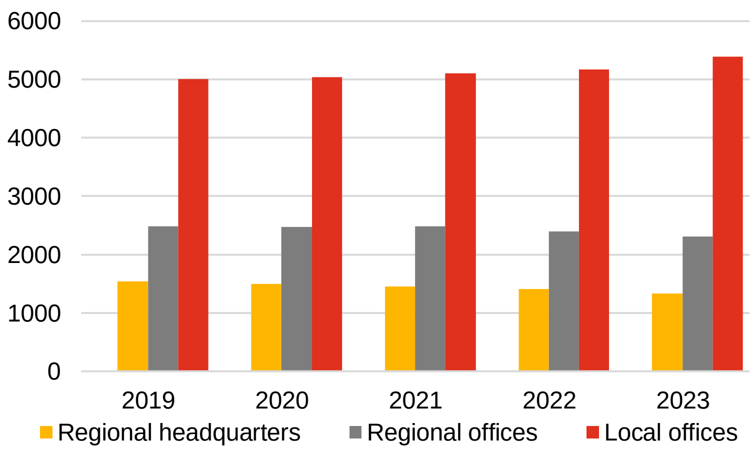
*Excluding Japan
Source: BCG

2. Enhancing Enterprise and Talent Attraction: Revitalising a Vibrant Business Environment

2.1 Fostering a vibrant ecosystem for enterprises

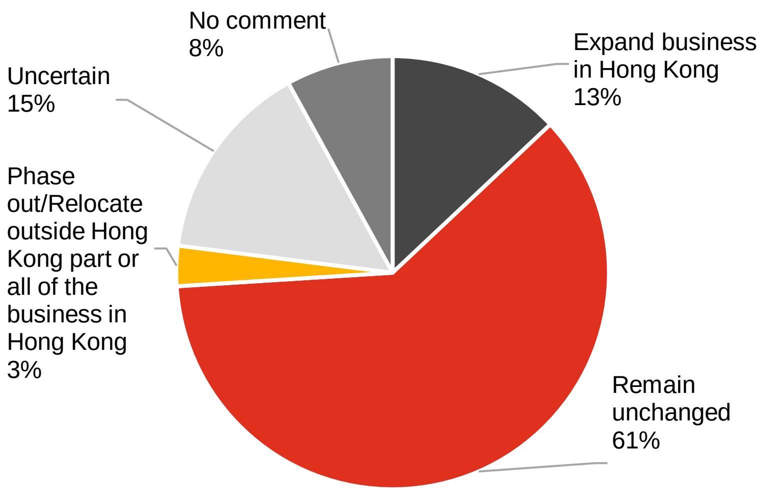
The 2023 Annual Survey of Companies reveals a positive trend, with 9,039 companies operating in the city under overseas or Chinese Mainland parent organisations, reflecting a recovery to 2019 levels. Notably, 61% of regional headquarters plan to maintain their current business strategies in Hong Kong, while 13% intend to expand, indicating a strong potential for growth. Among those planning to expand, 72% aim to recruit more staff, highlighting opportunities for job creation and enhanced business functions. To build on this momentum, the HKSAR government should implement strategic initiatives that facilitate the integration of enterprises into the local ecosystem, introduce regional headquarters tax incentives, and strengthen the tax treaty network.

Number of regional headquarters, regional offices and local offices, 2019 to 2023



Source: HKSAR Census and Statistics Department

Percentage share of views of regional headquarters/ regional offices/local offices on business plans in Hong Kong in the coming three years, 2023



Source: HKSAR Census and Statistics Department
Note: Figures may not add up to 100% due to rounding.

Facilitating strategic enterprises to find roots in local ecosystem

Hong Kong has made significant strides in this direction, particularly with the establishment of the Office for Attracting Strategic Enterprises (OASES), which has successfully brought over 30 strategic enterprises to city. However, the key challenge now lies in creating an environment that not only welcomes these businesses but also encourages them to thrive and integrate into the local ecosystem. A key consideration would be a tailored approach to **facilitating these enterprises as they navigate and build root in the local ecosystem**. This involves ensuring that they have access to the necessary resources, support, and networks that will enhance their operational efficiency and increase their commitment to Hong Kong.

Offering regional headquarters tax incentives

To consolidate Hong Kong's unique position as a super-connector and value-adder between Chinese Mainland and global markets, the HKSAR government should introduce tax incentives for regional headquarters. By offering attractive tax concessions, Hong Kong can entice more multinational enterprises (MNEs) to establish their regional or global headquarters in the city, thereby generating additional business opportunities.

One potential tax incentive could be a half-rate tax concession for qualifying headquarters that meet specific local expenditure and employment criteria. This would make Hong Kong a more appealing destination for MNEs seeking to base their regional operations, further strengthening the city's role as a bridge between Chinese Mainland and international markets.

Expanding the tax treaty network

On the other hand, Hong Kong should direct more resources to expedite the expansion of **its tax treaty network**, particularly with key trading partners and jurisdictions along the Belt and Road Initiative. Currently, several Belt and Road countries, including Laos, Kazakhstan, Peru, Argentina, Ecuador, Venezuela, Jamaica, Panama, Chile, Egypt, Sri Lanka, and Poland, do not have a tax treaty with Hong Kong. In contrast, Singapore has established tax treaties with most of these jurisdictions, putting it ahead in the race.

The expansion of Hong Kong's tax treaty network is crucial for minimising double taxation and facilitating cross-border trade and investment. By **concluding tax treaties with these jurisdictions,** Hong Kong can provide investors with clarity on their potential tax liabilities, thereby encouraging foreign direct investment. As of now, the city has signed tax treaties with 51 jurisdictions, but the need for more such treaties, especially with emerging economies participating in the Belt and Road Initiative, is pressing. This strategic move would enhance Hong Kong's global standing and align it more closely with the interests of MNEs seeking to optimise their tax positions.

The table below compares the key tax factors that MNEs consider when selecting regional headquarter locations.

	Hong Kong	Singapore
Headline tax rate	16.5%	17%
Tax concessions for headquarters company	No concession (i.e. taxed at the normal profits tax rate of 16.5%)	Concessionary tax rate of 10% under the International Headquarters Award. The incentive period is limited to five years. Extension of the incentive may be considered, subject to the company's commitment to undertake further expansion plans.
Tax concessions for treasury centres	• Concessionary tax rate of 8.25% • Hong Kong does not impose interest withholding tax	• Concessionary tax rate of 8% or 10% • Exemption for interest withholding tax
Tax treaties signed	51	Over 90

Company re-domiciliation regime

To attract foreign companies to re-domicile in Hong Kong, it is crucial to expedite the implementation of the proposed company re-domiciliation regime. This regime will provide a straightforward and simple route for non-Hong Kong companies to transfer their domicile while retaining their legal identities. This approach ensures maximum continuity in business operations and substantially reduces administrative complexity and compliance burdens compared to other methods of relocating to Hong Kong.

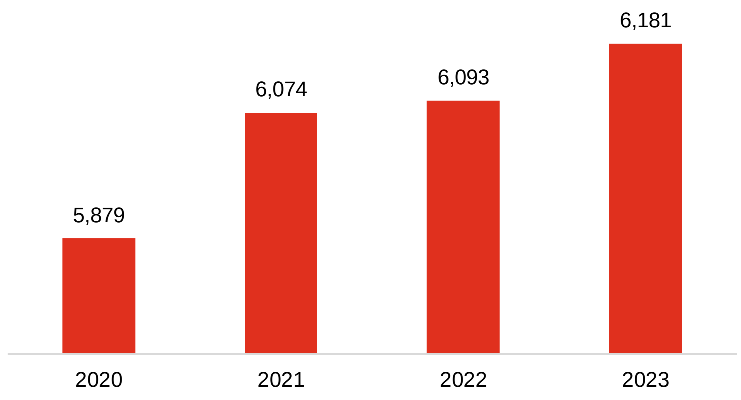
Since June 2023, the Inland Revenue Department (IRD) has implemented a more efficient process for issuing CoR to entities incorporated under Hong Kong's law. The streamlined procedure only requires companies to provide basic information about their business particulars, eliminating the need for detailed disclosures regarding their establishment and operational substance both within and outside of Hong Kong. Consideration should be given to extending this streamlined process for issuing CoR to include companies that have re-domiciled to Hong Kong.

2.2 Promoting Hong Kong as a captive insurance centre

The function of a captive insurer is to provide insurance coverage to the group companies of a global organisation. It addresses most of their insurance needs in the countries where the group companies operate, and manages and pays insurance claims in various currencies. Promoting the Hong Kong captive insurance license and its capabilities would help support the global businesses and operations of China-based organisations in their risk management, economic costs and market competitiveness.

Captive insurance enables international organisation to rationalise their global and domestic insurance coverage and economic costs; it also enhances the competitiveness of their products and services in the global market. The rationalisation of insurance cover and economic costs allows international organisations to better prioritise and price their insurance coverage while eliminating inefficient coverage arising from multi-jurisdictional protection. The tailored insurance coverage provided by captive insurance is key to building market competitiveness in products and services in an economic efficient manner.

Number of captives worldwide



Source: Captive Managers and Domiciles Rankings + Directory 2024 published by Business Insurance

Statistics indicate a growing trend in the captive insurance market, with most global domiciles witnessing an increase in new formations. The number of captives has risen steadily over the past four years, from 5,879 in 2020 to 6,181 by the end of 2023, according to a recent ranking published by Business Insurance.

The adoption of captive insurance in the China is in its infancy stage, with only a limited number of captives primarily covering energy-related risks. Given the sheer scale of China's economy and the global presence of Chinese organisations, coupled with the country's ongoing infrastructure developments including those in the Belt and Road Initiatives, the demand for captive insurance among Chinese organisation far exceeds the current size of its captive community. As such, Hong Kong is well positioned to support this necessary growth, thanks to its technical capabilities in captive insurance and its status as an international financial centre.

To address this significant demand, the Hong Kong government can continue to play a pivotal role in facilitating the establishment of captives. This can be achieved by **targeting Chinese Mainland organisations with a global footprint,** whether state-owned enterprises (SOEs) or private firms, and encouraging them to set up captives in Hong Kong, with an efficient **licensing process** and tailored license requirements designed for their global needs.

In line with China's National 14th Five-Year Plan, positioning Hong Kong as **designated risk management centre for financial services risks in Chinese Mainland** is essential. The diversification of general insurance products in the Chinese Mainland market presents a significant opportunity for Hong Kong's reinsurance industry to play a supportive role, particularly for those with specialised expertise in related insurance risks. By promoting the establishment of captives, Hong Kong can not only enhance its financial services landscape but also create a robust ecosystem that benefits all stakeholders involved.

Aside from Captive insurance**, the promotion of insurance-linked securities (ILS)** is another important focus for Hong Kong. Not only does ILS provide additional product options to meet the evolving demands of insurance policyholders in the market, it also serves as a growth catalyst to the local asset management industry. Moreover, ILS would facilitate the overall rebalancing of insurance assets toward China and other investment opportunities in a more efficient manner.

2.3 Attracting and retaining high potential and skilled talent

Hong Kong has been grappling with talent shortages across industries in recent years, with 78% of Hong Kong-based firms reporting difficulties in sourcing the right talent as they head into 2024, down slightly from previous years but still alarmingly high, according to a recent survey by ManpowerGroup. The urgency for rolling out effective talent attraction and retention policies is further underscored by the workforce's sentiments towards change. As PwC's 2024 Hopes and Fears Survey suggests, Hong Kong employees are more fearful about the transformations occurring in the workplace, compared to their global and Asia Pacific counterparts.

Thinking about changes you have experienced in your role in the last 12 months, to what extent do you agree or disagree with the following statements?

Hopes

	Hong Kong	Asia Pacific	Global
I am excited about opportunities to learn and grow in my role	70%	74%	72%
I feel ready to adapt to new ways of working	65%	75%	77%
Recent changes I have experienced make me feel optimistic about the future of my company	58%	66%	60%

Hong Kong employees are showing resilience in face of change. Although less than their global and Asia Pacific peers, the majority are excited about growth opportunities, ready to adapt, and optimistic about the future.

Fears

	Hong Kong	Asia Pacific	Global
I feel like there is too much change happening all at once	59%	59%	53%
Recent changes I have experienced make me concerned about my job security	58%	55%	47%
I don't understand why things need to change; the former state was working fine	54%	50%	44%

Hong Kong and Asia Pacific employees are equally overwhelmed by change, more concerned about job security, and finding it more difficult to understand the value behind these changes, compared to their global counterparts.

Source: PwC Global Workforce Hopes and Fears 2024
Base: All Global respondents (n=56,600), All Asia Pacific respondents (n=19,500), All Hong Kong respondents (n=1,000)

This fear is manifested in several ways. A large majority of Hong Kong employees feel that there is too much change happening and that their job security is threatened. Moreover, a staggering 54% of the Hong Kong workforce, which is 10% higher than the global average, do not fully grasp the value behind why change is necessary. This lack of understanding and apprehension towards change can hinder the successful implementation of new initiatives and impact employee engagement and productivity. The talent shortage and fear of change in Hong Kong's workforce highlight the urgent need for the HKSAR government and employers to prioritise talent attraction and retention strategies.

Streamlining support services for talent attraction

In alignment with its headquarters economy initiative, it is crucial for the HKSAR government to provide comprehensive support for businesses and their international executives. This support should encompass a range of services, including but not limited to assistance with visas, housing, children's education, and healthcare. **Establishing a one-stop facilitation service** is essential to streamlining these processes and enhance efficiency, allowing employers to avoid the complexities of navigating multiple government departments or service providers.

While the OASES promotes its one-stop facilitation services on its website, there remains a perception that the current offerings do not fully meet the needs of businesses and their executives. To truly create a welcoming environment for international talent, Hong Kong must go beyond mere promotion and ensure that **these services are robust, easily accessible, and tailored to the specific challenges** faced by expatriates. By enhancing the support framework and simplifying processes, Hong Kong can significantly improve its attractiveness as a destination for global talent.

Support for families, working parents and elderly

Supporting families, working parents, and the elderly are crucial in creating a conducive environment for talent retention in the medium to long term. Specifically, we recommend the following measures:

Subsidies and tax deductions for childcare – Providing financial support to working parents through subsidies for daycare services and tax deductions for hiring domestic helpers and caretakers will help alleviate childcare expenses while they are at work, thereby encouraging more working parents to return to the workforce.

Affordable childcare services – Beyond financial support, the HKSAR government should ensure the availability of adequate and affordable childcare services. This includes constructing more daycare centres, which may require partial subsidies from the government to keep prices manageable for families below the tax threshold. By increasing the number of affordable daycare facilities, the HKSAR government can help alleviate the childcare burden on these families, enabling parents to balance work and family responsibilities more effectively.

Elderly Care Expense Deductions – Extending tax deductions for elderly residential care expenses to include those incurred in Chinese Mainland would provide financial relief to families managing elder care costs. Currently, these deductions are only available for expenses paid to qualified elderly homes in Hong Kong. This recommendation aims to alleviate the financial burden on families with elderly residential care expenses, offering them broader support and flexibility in managing these costs.

Tax reforms and simplifications for attracting talent and investments

With respect to attracting talent and investments, Hong Kong's current immigration schemes, such as the Top Talent Pass Scheme, play a vital role in this effort by facilitating the entry of skilled professionals, setting out a good foundation on which further policies can be rolled out. The table below outlines the key features of existing immigration schemes, followed by a list of our recommendations:

Hong Kong Immigration Admission Schemes	General eligibility
1. Top Talent Pass Scheme	For persons with annual income HKD2.5 million or above; or World's top 100 university degree graduates with 3 years of working experience over the past 5 years, lesser working experience may also be considered subject to annual quota.
2. Quality Migrants Admission Scheme	For persons applying through (1) Point-based test where assessment is based on age, working experience, academic background, family background, language proficiency and talent list or (2) Achievement-based points test for candidates with exceptional international awards/achievement awards from professional industry.
3. Admission Scheme for Chinese Mainland Talents and Professionals / General Employment Policy	For talents and professionals not readily available in Hong Kong who have secured a confirmed employment. Normally candidates should have a good education background with a relevant degree and working experience in the proposed position.
4. Technology Talent Admission Scheme	Fast track arrangements for eligible companies to recruit non-locals technology talents to undertake research and development in Hong Kong. Sponsoring company allotted with a quota by the Innovation and Technology Commission can sponsor eligible persons provided requirement is being met. The quota is valid for 24 months.
5. Immigration Arrangements for Non-local Graduates	Non-local students who have obtained degree or higher qualification in a full time and locally accredited programme in Hong Kong can apply to stay in Hong Kong for 24 months. Students who have obtained a degree or higher qualifications in a full-time programme offered by institutions in Chinese Mainland cities of the Guangdong-Hong Kong-Macau Greater Bay Area jointly established by universities of Chinese Mainland and Hong Kong may also apply.

Enhancing flexibility in the New CIES – Under the New CIES launched earlier this year, eligible applicants must invest a minimum of HKD30 million in permissible investment assets. We recommend increasing the flexibility of permissible investment assets, which includes allowing CIES applicants to identify and invest in potential projects of their own choosing, subject to approval. This approach would provide applicants with greater flexibility and potentially attract a wider range of investors.

Expanding the Top Talent Pass Scheme – Expanding eligibility for the Top Talent Pass Scheme to include applicants with master's degrees, not just bachelor's, will allow Hong Kong to attract a broader pool of highly skilled individuals.

Attracting digital age talent – Hong Kong should continue enhancing its immigration schemes and explore new initiatives to attract and retain digital age talent, including those with non-traditional employment arrangements. This could involve expanding the current schemes to accommodate digital nomads and remote workers in the digital asset industry, developing specialised visas for blockchain, cybersecurity and digital asset finance professionals, and creating a welcoming environment for entrepreneurs and innovators in the digital asset space.

Furthermore, to attract and retain top talent, we recommend exploring the following measures to enhance the overall appeal and competitiveness of Hong Kong's taxation system:

Allowing unilateral tax relief for taxes paid by individuals in treaty jurisdictions – Prior to a legislative amendment in 2018, unilateral tax exemptions were available for income derived by a taxpayer from services rendered in a tax treaty jurisdiction. However, following the amendment, taxpayers can only claim a tax credit for any foreign taxes paid. Given the complexity of the tax credit calculation and that tax credits are restricted to Hong Kong tax residents only, there are many cases where full relief from double taxation is unattainable.

To address this issue, we propose reinstating the more favourable unilateral tax relief to enhance the attractiveness of Hong Kong's salaries tax regime. This change would be particularly beneficial for expatriates employed in the city who are required to travel for work to other jurisdictions, including Chinese Mainland.

Simplified tax filing for non-resident entertainers and sportsmen – The IRD should simplify the tax filing process for non-resident entertainers and sportsmen by accepting blanket filings if withholding requirements are met. This would facilitate the hosting of major sports and entertainment events in Hong Kong, boosting the city's appeal as an international venue for mega events.

Providing support for upskilling and reskilling – Providing tax deductions to employers who invest in upskilling and reskilling their workforce will help ensure Hong Kong's workforce has the necessary skills to support the city's economic development.

3. Embracing the Digital Economy: Optimising Opportunities for Growth

Hong Kong's commitment to digital innovation is evident in its global standing. In the latest IMD World Digital Competitiveness Ranking, Hong Kong secured the 10th position globally and 4th in Asia Pacific. While this represents a slight decline from previous years, it still firmly places Hong Kong among the world's top ten digitally competitive economies. Notably, Hong Kong excels in the Technology component, ranking 2nd globally, just behind Singapore. This underscores Hong Kong's strengths in the innovation and technology sector and its ongoing efforts to enhance its digital landscape.

In an era of rapid technological advancement, Hong Kong should strategically position itself as a trailblazer in smart city development and digital innovation. The approach to optimising opportunities in the digital economy is multifaceted, focusing on two critical components: the reinforcement of its **digital economy infrastructure**, and the development of robust **digital assets and virtual asset platforms**. These initiatives are designed to leverage Hong Kong's existing strengths in technology and finance while propelling the city towards a more digitally integrated future.

Global and Asia Pacific – Digital Competitiveness Ranking (2023)

No.	Global	Asia Pacific
1	USA	**Singapore**
2	Netherlands	Korea Rep.
3	**Singapore**	Taiwan
4	Denmark	**Hong Kong**
5	Switzerland	Australia
6	Korea Rep.	Chinese Mainland
7	Sweden	New Zealand
8	Finland	Japan
9	Taiwan	Malaysia
10	**Hong Kong**	Thailand

Source: IMD – World Digital Competitiveness Ranking 2023

3.1 Building the backbone of Hong Kong's digital economy

Hong Kong's commitment to digital transformation is evident in its global rankings across various smart city, innovation, and digital competitiveness indices. To further strengthen its position as a digital economy leader, the government is implementing several key initiatives.

CorpID Platform

The CorpID Platform, analogous to the iAMSmart system for individual citizens, is set to revolutionise corporate digital identification in Hong Kong. Scheduled for progressive rollout from late 2026, this platform will serve as a cornerstone infrastructure for the digital economy, fostering a business-friendly environment. To maximise its efficacy, it is important that the CorpID system integrates seamlessly with other critical data infrastructures such as the **Consented Data Exchange Gateway (CDEG)** and the **Commercial Data Interchange (CDI).** This integration will create a secure, frictionless digital ecosystem for data exchange, underpinning practical use cases of business transactions and other typical commercial practices.

Data Trading Hub

To capitalise on the growing importance of data as a valuable asset, Hong Kong should consider establishing a sophisticated data trading hub. This platform would facilitate the secure and efficient commercialisation and trading of data, potentially opening up new avenues for auxiliary business opportunities. Examples include data-related arbitration services for resolving ownership disputes and contractual conflicts, as well as specialised valuation services for determining the monetary worth of data assets in transactions.

Furthermore, Hong Kong has the opportunity to leverage its position by exploring cross-border collaborations with Chinese Mainland's data asset exchanges. The city can benefit from market proximity as China has pioneered the world's first accounting framework for digital assets and established trading platforms for data asset exchanges.

Cross-Boundary Data Transfer

The Memorandum of Understanding on "Facilitating Cross-boundary Data Flow Within the Guangdong-Hong Kong-Macau Greater Bay Area" signed in June 2023 positions Hong Kong as a strategic platform for cross-border data flow in the GBA. To capitalise on this opportunity, the government should:

- Conduct a thorough review of the progress achieved under the "early and pilot implementation" arrangement.
- Continue to collaborate with the Cyberspace Administration of Guangdong Province to refine and implement the GBA Standard Contract.
- Consider focusing the pilot on specific thematic areas, such as commercially relevant data beneficial to multiple industries or health data for Hong Kong citizens residing in the GBA.
- Maintain alignment of data governance policies with international standards to ensure robust data protection and cybersecurity measures, thereby instilling confidence among global businesses and partners.

Digital Transformation Support Pilot Programme

To enhance the competitiveness of local businesses in the digital economy, the government should consider expanding the Digital Transformation Support Pilot Programme. This expansion could involve:

- Increasing the funding allocation for the programme.
- Broadening the scope of eligible businesses beyond food and beverage (F&B) and retail SMEs.
- Potentially including sectors such as professional services (e.g., marketing and PR), membership-based businesses (e.g., private tuition centres, STEM education providers), and tourist attractions.
- By implementing these strategic initiatives and recommendations, Hong Kong can significantly strengthen its digital infrastructure, fostering a robust and competitive digital economy that attracts both local and international businesses and supporting local SMEs in their digital transformation efforts.

Harnessing GenAI in public sector transformation

The HKSAR government has been actively exploring and implementing GenAI applications to enhance public services and operational efficiency. In August 2024, the Digital Policy Office has updated its Ethical AI Framework to provide clearer guidelines for government departments on developing applications using AI-related technologies, including GenAI. Currently, the government is developing a homegrown GenAI system with a foundation model to provide a solid theoretical and technical base for future development. This system is expected to expedite government paperwork, with applications planned to be available within the year. To further promote greater adoption and use cases, the HKSAR government could consider:

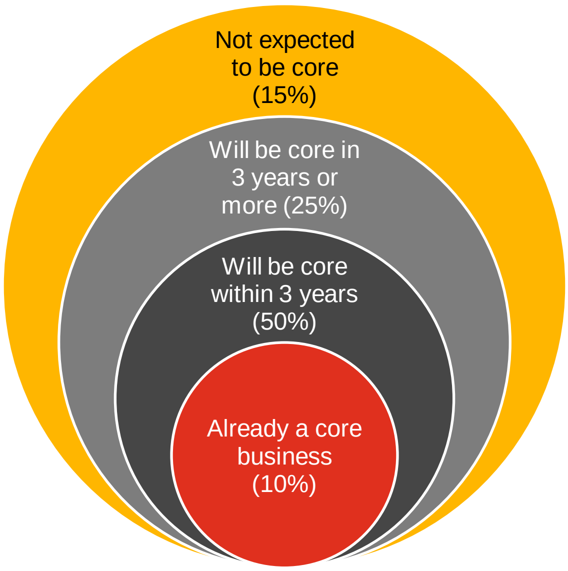
- Expanding the scope of GenAI applications across more government departments and services.
- Supporting statutory organisations in exploring use cases for GenAI, conducting pilot projects, and evaluating the feasibility of scaling up.
- Investing in AI education and training programs for civil servants to increase AI literacy and competency.
- Deepening collaboration with local universities and research institutions to develop Hong Kong-specific GenAI solutions.
- Establishing a dedicated AI innovation fund to support public sector AI projects.
- Organising hackathons or innovation challenges to encourage the development of novel GenAI applications for public services.
- Creating a centralised AI resource centre to share best practices and use cases across government departments.
- Partnering with private sector AI companies to leverage their expertise and technologies in government applications.

3.2 Empowering the future of digital assets

Recent statistics highlight the growing interest in digital assets in Hong Kong. For instance, the combined average daily turnover for the three digital asset futures ETFs listed in the city reached approximately USD51.3 million in the first quarter of 2024, a significant increase from USD8.9 million a year earlier. Additionally, these ETFs attracted USD529 million in net inflows during the same period, underscoring the demand for diverse investment products in the digital asset space. Moreover, the Hong Kong Monetary Authority (HKMA) has initiated various pilot programs to explore the use of central bank digital currencies (CBDCs) and stablecoins, further solidifying the city's commitment to advancing its digital asset ecosystem.

Similarly, according to a June 2024 report by the Hong Kong Institute for Monetary and Financial Research (HKIMR), 85% of surveyed traditional finance respondents intend to make digital assets a central part of their operations in the short to medium term. This strong interest in digital assets highlights the transformative potential of these technologies for Hong Kong as an international financial centre. We recommend the following measures to harness this potential.

Integration of Virtual Assets into the business operations of TradFi entities



Source: HKIMR staff compilation based on the Survey
https://www.aof.org.hk/docs/default-source/hkimr/applied-research-report/defirep.pdf

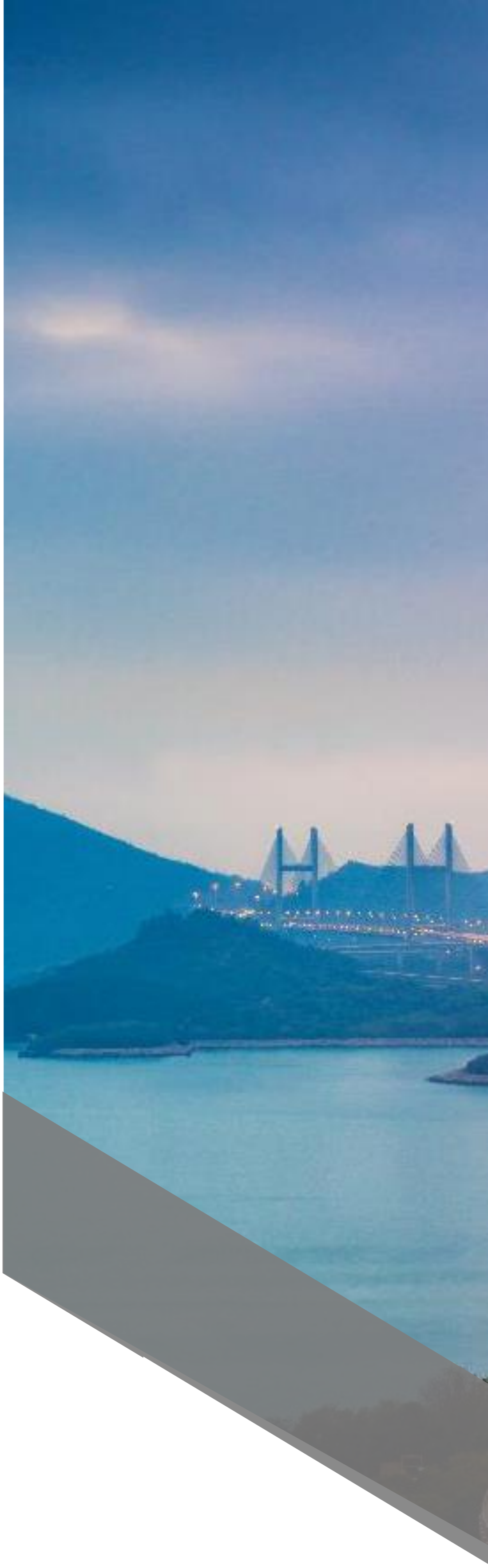
Setting out a clear strategy for the inclusion of digital assets and distributed ledger technology within Hong Kong's financial services sector

As Hong Kong braces itself for the future development of a digital economy, establishing a clear strategy for the integration of digital assets and distributed ledger technology within its financial services sector is imperative. The HKSAR government should develop a comprehensive and forward-looking policy roadmap that not only addresses the regulation of cryptocurrencies but also explores how blockchain technology can transform financial markets.

A well-constructed strategy should encompass several key elements:

1. **Long-term vision:** Articulate the government's long-term vision for digital assets, outlining specific goals and objectives to guide development.
2. **Regulatory evolution:** Identify areas where existing regulations may need to evolve or where new regulatory approaches should be tested to keep pace with rapid technological advancements.
3. **Market infrastructure changes:** Determine the necessary changes to market infrastructure to achieve this vision and clearly assign responsibilities for execution.
4. **Private sector consultation**: Establish mechanisms for private sector consultation and feedback to ensure that the strategy aligns with industry needs and expectations.
5. **Reducing regulatory uncertainty:** Provide companies and industry participants with the confidence to invest for the long term by minimising regulatory uncertainty.
6. **Support for innovation and R&D:** Consider grants to support innovation and research and development in financial services, particularly in areas where Hong Kong's unique needs cannot rely on innovations emerging from other markets.
7. **Talent development:** Create a clear direction that helps Hong Kong businesses attract, retain, and train talent, ultimately building a skilled workforce for the digital asset industry.

In sum, by setting a robust strategy for digital assets and blockchain technology, Hong Kong can enhance its role as a premier financial services centre in the digital age. This proactive approach will not only attract investment but also foster innovation and talent, ensuring the city thrives in an increasingly digital world.



Expanding the Virtual Asset Trading Platform Regime

The Hong Kong virtual asset trading platform (VATP) licensing regime is already recognised as one of the most comprehensive regulatory frameworks for virtual asset exchanges globally, emphasising investor protection—a critical feature that is often lacking in other markets. However, this regime has faced criticism for being potentially non-commercial, primarily due to high compliance costs and limited opportunities for licensed VATPs to fully capitalise on their operations.

To address these concerns, a holistic review of the VATP licensing regime is recommended after its first year of implementation. This review should include extensive consultation with industry stakeholders to gather valuable feedback. Key considerations should encompass:

- **Allowing a wider array of digital asset products and services**, such as staking, margin trading, derivatives, and tokenised securities, particularly for professional investors, would enhance market offerings and attract more participants.
- **Exploring practical ways to reduce or mitigate compliance costs** without significantly increasing risk is essential. Lowering these barriers could encourage new entrants into the market while maintaining a level of regulatory oversight to ensure investor protection and market integrity.
- **Establishing a comprehensive custody regime for virtual assets** to reduce costs for companies and market participants by outsourcing to specialist providers. This regime should promote good governance by separating custody from other client business and facilitate reliable custody solutions for businesses engaging with tokenised securities and stablecoins.
- **Introducing a separate virtual asset OTC regime** in addition to the current VATP framework, specifically targeting the needs of professional investors and wholesale international trading businesses. Regulating wholesale OTC trading in virtual assets separately from retail trading will allow for a more flexible regime that accommodates a wider range of products, helping to position Hong Kong as a hub for wholesale virtual asset trading.

Scaling fund tokenisation in asset and wealth management

Fund tokenisation has emerged as a key growth area for the asset and wealth management industry in recent years, offering significant potential benefits such as enhanced liquidity, cost efficiency, and improved accessibility for investors. By leveraging blockchain technology, tokenised funds can provide greater transparency through the use of distributed ledgers, while enabling operational gains through streamlined record-keeping, reconciliation, and settlement processes.

However, the path to widespread adoption of fund tokenisation is not without its challenges. Practical hurdles and legal uncertainties surrounding smart contracts can make the process of tokenising a fund both difficult and expensive. There are still unresolved questions regarding the legal recognition of smart contracts, leading to the need to duplicate certain key processes, such as maintaining both physical and on-chain shareholder registers.

To overcome these obstacles and drive the scaling of fund tokenisation in Hong Kong's asset and wealth management sector, the government should explore:

Establishing native blockchain fund vehicles – Hong Kong should consider the creation of new fund vehicles that are natively designed for blockchain systems and governed by smart contracts. This approach has the potential to unlock significant efficiency gains for tokenised funds by leveraging the inherent advantages of blockchain technology from the ground up.

Developing industry standards and frameworks – Partnering with global leaders in the financial and fintech sectors to establish industry standards, market practices, and risk management frameworks is crucial. This collaboration can help create a more robust and interoperable ecosystem for tokenised funds. Regulatory sandboxes can serve as an effective platform for industry players to experiment and innovate within a controlled environment, in addition to informing the development of these standards and frameworks.

Conclusion

It takes both foresight and courage to navigate the winding path of transformation and convert policies into actions. The policy recommendations outlined for the HKSAR government present a strategic, actionable roadmap for revitalising Hong Kong's economy and reinforcing its position as a leading global financial hub. By honing in on recouping capital, enhancing enterprise and talent attraction, and optimising opportunities in digital economy, the government can effectively address current economic challenges while capitalising on emerging opportunities. The proposed initiatives are not only aligned with national priorities but also tailored to leverage Hong Kong's unique strengths, ensuring the city remains competitive in an increasingly complex global landscape.

PwC stands ready to support the HKSAR government in this transformative journey. With our extensive expertise in financial services, technology, and regulatory frameworks, we are committed to collaborating with government stakeholders and industry leaders to implement these recommendations effectively. We look forward to engaging in further conversations with the HKSAR government to discuss and refine the policies herein proposed, as we hold hands in forging a better future for Hong Kong.

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