20th January 2020

Chris Sun
Deputy Secretary, Financial Services Branch
Financial Services and the Treasury Bureau
24/F Central Government Offices
2 Tim Mei Avenue
Admiralty, Hong Kong

Dear Chris

We spoke last week about the proposed Limited Partnership Fund structure. I wanted to follow up on a specific issue: re-domiciling limited partnerships from offshore to Hong Kong.

The motivation for raising this now is twofold:

- The December 2019 Consultation Paper on Proposed Enhancements to the Open-ended Fund Companies Regime proposes changes to encourage Re-domiciliation of overseas corporate funds by introducing a statutory mechanism to facilitate this.

- A recent announcement (8 January 2020) suggests the Cayman Islands' authorities are planning to introduce a Private Funds Bill 2020 which will, amongst other tightening of Cayman obligations on funds, require all private funds which are subject to the law have their accounts audited annually by a Cayman Islands based auditor. This has caused further concern for fund managers that the Caymans is becoming a more costly place for fund domicile. This is in addition to last summer's Cayman announcement that many fund managers will be required to have economic substance in the Caymans.

It appears that the principle is accepted, for a fund company, that if an existing fund wants to continue its operations but convert its domicile from offshore to Hong Kong, the transfer of assets into Hong Kong should not be taxed for stamp duty and there will be no deemed disposal from a profits tax perspective. It would appear to be logical for the same principle to be applied to Limited Partnership Funds as well as to OFCs.

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When we first started to discuss the Limited Partnership Fund structure, we anticipated that it would take some time to build the momentum of a Hong Kong fund structure against the established Cayman option. With the Cayman Islands undermining its own pre-eminent positioning, many Private Equity firms have launched internal reviews to consider what are the current and future optimal structures for funds and managers. Whilst we believe that the Hong Kong Limited Partnership Fund will mainly be used for establishing new funds, we suggest that seamless re-domiciliation should be encouraged.

Although Hong Kong's image as a stable, rule-of-law based jurisdiction has taken a dent, there is now an opportunity to gain greater initial traction for the launch of a new Limited Partnership Fund structure. The clear stated position that re-domiciling partnerships into Hong Kong will not attract stamp duties nor profits tax on deemed transfer of existing assets will encourage some firms to consider transferring existing funds as well as planning for future fund vehicles being established in Hong Kong.

We understand that Singapore has initiated a pilot scheme to encourage funds to re-domicile to Singapore VCC structures together with a grant scheme to defray part of the startup costs. The feedback suggests that most of the Singapore funds being established are new funds (not re-domiciled funds).

We greatly appreciate the work being done by your department to implement this new law that, in its outline form, looks well constructed for the use of Private Equity firms.

Is it possible to make it clear that the re-domiciling principles on stamp duty and no deemed disposal of assets for profits tax purposes, being proposed to OFCs, will be applied to Limited Partnership Funds?

Yours sincerely

John Levack
Chairman, HKVCA Technical Committee