



Asset Management Update

New Limited Partnership Fund regime in Hong Kong becomes law

Summary

The Hong Kong Government passed the Limited Partnership Fund Bill on 9 July 2020. Funds will be able to register under the regime from 31 August 2020.

The enactment of the Limited Partnership Fund ("LPF") regime is a welcomed development that should help Hong Kong attract funds to domicile in Hong Kong.

After extensive consultation with the Hong Kong funds industry, the Legislative Council passed the Limited Partnership Fund Bill on 9 July 2020. The new regime will enable asset managers to raise capital through an onshore domestic limited partnership fund structure — an alternative to the typical Cayman Islands limited partnership model. It is expected that the LPF regime will become law from 31 August 2020, at which time funds may register under the regime.

The LPF regime follows a range of asset management initiatives that have been introduced by the Government to ensure that Hong Kong remains competitive as an asset management centre. These have come in the form of updates to the offshore funds tax exemption regime and the open-ended fund company ("OFC") regime. Conditions to fall within the new LPF regime may be found in our [March 2020 Asset Management Alert](#).

Importantly, it is hoped that the introduction of the LPF regime will put Hong Kong firmly in the mix as an alternative location for GPs and assets managers to domicile their funds. This is important given the trend by GPs and asset managers to bring their fund structures onshore. In particular, we anticipate that Chinese asset managers looking to raise offshore capital will look to use the LPF regime.

Funds registered under the LPF regime will also be able to avail of exemption from Hong Kong tax under the Unified Fund Exemption regime ("UFE") in relation to profits from specified transactions. A further benefit of establishing funds with operations fully onshore in Hong Kong is that this should help funds meet substance requirements that overseas jurisdictions typically require in order to grant tax treaty benefits, such as on dividends and capital gains.

Asset management jurisdictions such as Singapore have long had domestic tax regimes which allow funds to fully domicile onshore. Hong Kong now has a comparable private equity fund exemption regime which will not only exempt the limited partnership from taxation, but also their special purpose companies. Having said this, it will still be important for managers to properly understand the workings of the tax exemption regime to ensure compliance.

As a next step, if the Government is able to legislate provisions for the concessional taxation of carried interest, Hong Kong should have a regulatory and taxation fund regime that is compelling and entices Asia-focused funds to domicile themselves here.

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