

Speech

Speech by SFST at opening ceremony of 13th Asia Securities Forum (English only)

Friday, September 5, 2008

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the opening ceremony of the 13th Asia Securities Forum organised by the Hong Kong Stockbrokers Association today (September 5):

Kenny (Lee), distinguished guests, ladies and gentlemen,

It is my honour to be invited to speak to you at the 13th Asia Securities Forum 2008 today. I must first express my heartfelt thanks to the Hong Kong Stockbrokers Association for hosting this forum. I am particularly grateful to all our esteemed guests and speakers who have come a long way to be with us today. Your presence will make this forum a resounding success.

In the era of rapid financial globalisation, it is of supreme importance for the Asian financial services community to strengthen co-operation at the regional level. In this connection, this forum provides a valuable opportunity for us to forge closer co-operation ties. I hope all of you will gain from the insightful presentations and discussions during this forum.

Over the last decade or so, Hong Kong has established its position as an international financial centre. Today, I shall give you a brief overview of Hong Kong as a financial hub of Asia and share with you what we have been doing to ensure that Hong Kong continues to stay ahead.

Hong Kong as an International Financial Centre

Situated at the heart of Asia and at the doorstep to Mainland China, coupled with our fundamental strengths, Hong Kong has developed as one of the most important financial centres in the world.

In a special report entitled "A Tale of Three Cities" published in the January

28th edition, TIME Magazine coined a new term "Nylonkong" and suggested that New York, London and Hong Kong were linked by a common economic culture and are "exemplars and explanations of globalisation". In addition, the Global Financial Centres Index compiled by the City of London Corporation ranked Hong Kong first in Asia and third in the world in terms of financial centre competitiveness, only after London and New York. It shows that Hong Kong's status as an international financial centre is well-recognised worldwide.

Hong Kong's financial markets have achieved top world rankings in a number of areas. Our stock market is deep and liquid with market capitalisation ranking seventh in the world and third in Asia. We are also a major fund raising centre in the region and in the world, with equity funds raised through initial public offerings ranking fourth globally and second in Asia as at end July this year.

Hong Kong is also a major asset management centre in the region. In 2007, Hong Kong's combined fund management business amounted to over US\$1,200 billion, which represented an increase of 57% over 2006. Our fund management industry has a strong international component, with over 68% of the non-REIT assets sourced from overseas investors.

In terms of banking, Hong Kong is the world's 15th and Asia's third largest banking centre. About 70 of the world's 100 largest banks are operating in Hong Kong. Moreover, we are one of the most open insurance centres in the world and have the highest concentration of insurers in Asia.

Strengths of Hong Kong

So what are the strengths of Hong Kong as an international financial centre?

Hong Kong is famous for having a clean and efficient government, the rule of law, a pool of world-class financial professionals, a sound regulatory regime and a low and simple tax regime. In this regard, Hong Kong has no capital gains tax, no dividend tax, no estate duty, and no profits tax on offshore funds.

Another crucial factor underpinning Hong Kong's success is our high level of economic freedom. The 2008 Index of Economic Freedom study released

by the Heritage Foundation rated Hong Kong as the world's freest economy for the 14th consecutive year, since the inception of the ranking in 1995 to this year. It is a recognition of our efforts in adopting the "Market leads, Government facilitates" principle here, i.e. we strive to provide a sound business environment to facilitate market development with least intervention.

Gateway to the Mainland

In recent years, the Mainland's continued and high economic growth has resulted in quick accumulation of wealth. More and more Mainland enterprises have turned to the capital markets looking for funds for the growth of their businesses.

Mainland authorities have also been progressively allowing its banks, securities and fund management companies and insurance companies to invest overseas through the expansion of the Qualified Domestic Institutional Investors (QDII) Scheme.

Blessed with our proximity, linguistic and cultural affinities with the Mainland, and our fundamental strengths as an international financial centre, Hong Kong has become the most preferred platform for the listing and asset management services of Mainland enterprises outside the Mainland.

Since 1993, the year the first Mainland company got listed on our stock exchange, over 450 Mainland enterprises have utilised our listing platform to raise over US\$240 billion. They now represent almost 60% of the total market capitalisation of our stock market.

Hong Kong is also the first place outside the Mainland to have banks providing renminbi services and to possess a renminbi bond market. So far, there have been five successful renminbi bond issues in Hong Kong amounting to RMB16 billion. The development of renminbi business in Hong Kong has facilitated further economic integration between Hong Kong and the Mainland and provided valuable opportunities for investors who wish to gain exposure to this currency. It also allows Hong Kong to play a more important role in the Mainland's domestic financial intermediation.

Sound regulatory regime

Despite our current position as an international financial centre, complacency has never been an option for us. We will continue our efforts in promoting the development of Hong Kong's financial services industry and reinforcing our position as an international financial centre.

To facilitate market development and maintain the stability of the market, we have been maintaining a sound regulatory regime.

To facilitate the development of our fund management industry, the Securities and Futures Commission (SFC) had announced a set of initiatives streamlining the licensing procedures for overseas fund managers wishing to operate in Hong Kong last year. Under the streamlined licensing procedures, some of the fund management companies can now obtain their licences within four to six weeks.

The SFC has also been embracing product innovation and adopting a flexible approach in authorising innovative financial products. Recent examples include the first Islamic fund for retail investors and the first gold exchange traded fund.

Apart from facilitation, we also strive to ensure that our regulatory system keeps abreast of international standards and is able to maintain stability in our financial system. We have undertaken a number of initiatives in this regard:

- * the establishment of the Financial Reporting Council, which is tasked to investigate audit irregularities and accounting non-compliance of listed companies in line with the international trend to strengthen the oversight of auditors;
- * the rewrite of the Companies Ordinance, which aims to modernise our legal infrastructure to strengthen Hong Kong's position as a major international business and financial centre; and
- * the study of proposed independence for the insurance regulator, the Office of the Commissioner of Insurance, in light of the international regulatory trends

and the development of the insurance industry in recent years.

In addition, Hong Kong has implemented "Basel II", a capital adequacy regime in line with international capital adequacy standards, since January last year. Indeed, we are among the first international financial centres to implement these standards, which increase attention to risk and incentives for enhanced risk management among banking institutions and contribute to greater robustness and stability of our banking system.

Notwithstanding the implementation of "Basel II", we are always keeping a close watch on the need for reviewing, adjusting and modifying our banking regulatory and supervisory regimes in the light of rapidly changing market standards and conditions.

New Market Initiatives

Looking ahead, we will continue to diversify our financial services platform. There are three latest initiatives that I would like to share with you in this regard.

First, Islamic finance. Our Chief Executive highlighted in his last Policy Address the potential of introducing Islamic finance and encouraged the development of an Islamic bond (sukuk) market in Hong Kong.

We do believe that Hong Kong is well placed to develop Islamic finance. Our qualities as an international financial centre have laid a solid foundation for the development. Our unique advantage as a gateway to the Mainland also provides a channel for Islamic investors to tap the enormous opportunities on the Mainland, which would help bridge the huge investment needs from the Middle East and capital needs for development on the Mainland.

Indeed, there have been some encouraging developments in Islamic finance in Hong Kong in the past year. We have seen the launch of an array of Islamic financial products such as an Islamic fund, exchangeable sukuk and Islamic index. The recent introduction of an Islamic banking window is another excellent example.

Furthermore, we are currently considering certain technical modifications to our taxation regime to accommodate sukuk transactions in our existing system. Our objective is to level the playing field for sukuk vis-a-vis conventional bonds. We are moving full-steam ahead in this regard. We also look forward to the introduction of more Islamic financial products and services in Hong Kong.

Second, development of a commodities market. As part of our on-going efforts to launch new financial products, the Hong Kong Exchanges and Clearing Limited (HKEx) will introduce cash-settled gold futures contracts in October 2008. The SFC will also continue to work with potential market operators to study the way forward for the development of Hong Kong's commodities futures market.

Third, introduction of depository receipts. HKEx has launched the framework for issuers to list in Hong Kong through Hong Kong depository receipts (HDRs) since July this year. HDR provides an alternative listing route for issuers from jurisdictions that prohibit the issuance of shares or the maintenance of a share register overseas.

Closing Remarks

Ladies and gentlemen, the Government is committed and will continue to spare no effort in maintaining Hong Kong's position as an international financial centre. Indeed, Hong Kong is also a firm supporter of the development of Asia's financial services sector. We look forward to continuing with this significant role and working with you closely to bring our financial services industry to new heights.

Business aside, I hope that you will take the opportunity to get first-hand experience of Hong Kong's wide-ranging and fascinating attractions as Asia's world city and take time to watch the Paralympic Equestrian Events commencing this Sunday to experience the thrill of a world-class competition. Thank you.