

Speech

PSFS's speech at signing of Declaration on Mutual Co-operation on Development of Islamic Capital Market and Collective Investment Schemes (English only)

Monday, November 9, 2009

Following is the speech by the Permanent Secretary for Financial Services and the Treasury (Financial Services), Miss Au King-chi, at the signing ceremony of the Declaration on Mutual Co-operation on Development of Islamic Capital Market and Islamic Collective Investment Schemes in Kuala Lumpur, Malaysia, today (November 9):

Yang Berhormat Dato' Seri Ahmad Husni Hanadzlah, Yang Berbahagia Tan Sri Zarinah Anwar, distinguished guests, ladies and gentleman, good morning to you all.

I am very honoured to be here today to witness this signing ceremony on behalf of the Government of the Hong Kong Special Administrative Region. Indeed, it is always a great pleasure to visit Malaysia and its capital city. The Declaration on Mutual Co-operation on Development of Islamic Capital Market and Islamic Collective Investment Schemes represents an important step for furthering the co-operation between Malaysia and Hong Kong in Islamic finance development.

Malaysia is a well-established hub of Islamic finance development, in particular in the capital market. To date, Malaysia is the world's largest "sukuk" issuance centre. More than 60% of "sukuk" outstanding globally originated in Malaysia. Last year, the "sukuk" market here reached US\$150 billion.

Malaysia is also very innovative in the development of marketing platforms and new products. For instance, Bursa Malaysia launched the world's first Shariah compliant commodity trading platform last August. The platform

facilitates commodity-based Islamic financing and investment transactions under Shariah principles.

Hong Kong is relatively new to the Islamic finance sector. There is a lot that we can look to and learn from Malaysia. We believe areas such as product development, infrastructure enhancement and investor education are key to the success of Islamic finance development.

Just now, Chairman Fong briefly took you through what Hong Kong is doing to promote Islamic finance development. I am going to share with you more on what we will do, and our vision on regional co-operation in this regard.

To start with, as Chairman Fong has mentioned, Hong Kong's credentials as an international financial centre have provided us with a solid basis for Islamic finance development. Our sound financial infrastructure and transparent regulatory regime are trusted by market players. Our capital market is open, liquid and efficient. We also anchor a pool of financial professionals with world class quality.

Market players tell us that our edge in Islamic finance development lies in our China proxy. That is true, and this is where our uniqueness lies. Mainland China is now one of the prime growth engines of the world economy. We are currently the most preferred platform for the listing of Mainland enterprises outside the Mainland. There are more than 480 Mainland enterprises listed on the stock exchange of Hong Kong, covering a wide spectrum of businesses ranging from financial services, telecommunications, manufacturing, mining to energy.

Hong Kong is the preferred testing ground for pilot schemes to prepare for the regionalisation and internationalisation of the renminbi. To leverage this privileged position, we are pursuing a series of initiatives to develop Hong Kong into an offshore renminbi centre. We are the only place outside the Mainland to have a renminbi bond market. Since July, we have implemented a pilot scheme to provide for renminbi trade settlement between Mainland China and its trading partners like Hong Kong and ASEAN. We welcome enterprises in Malaysia to make use of this renminbi trade settlement facility to lower their transaction costs and better manage their exchange rate risks.

Hong Kong is well positioned to bridge the investment needs of Middle East liquidity with the investment opportunities in Mainland China. Indeed, the potential requirement for capital in the Mainland, especially for infrastructure development projects, lends itself well to Shariah compliant financial structures. This is the market niche we are eyeing.

Unlike Malaysia, Hong Kong does not have a sizable Muslim population or a heritage of Shariah law. We need to make adjustments to our legal regime to accommodate Islamic finance development. We have been advised by market players and experts from other Islamic finance centres that the major impediment for Islamic finance development in Hong Kong is our taxation regime.

In response, we are preparing legislative amendments to level the playing field for Islamic financial products vis-à-vis conventional financial products. This is a challenging task for us, as we need to translate the rather technical concepts of Islamic finance structuring into legal provisions which can be understood by laymen. Inputs from experienced market players have helped make our job easier.

In developing Islamic finance, we are aiming to serve both Muslims and non-Muslims. Islamic financial products actually appeal to both Muslim and non-Muslim investors and issuers. For instance, "sukuk" is a product which is well received by the market in general because of its risk-sharing structure and stable yield.

We have been pressing ahead with our efforts to encourage product development, promote education and awareness, and raise Hong Kong's profile, for the purpose of developing Islamic finance. While the global financial crisis has clouded the prospects of Islamic finance development in the past year or so, the economy worldwide is gradually recovering. Islamic finance development remains an impetus in the global financial scene.

In the regional dimension, we shall continue our co-operation with other economies, in particular Malaysia, in Islamic finance development. The Hong Kong Monetary Authority just signed a Memorandum of Understanding with Bank Negara Malaysia last September. The MoU seeks to facilitate exchange and co-operation between the two sides on capacity building, infrastructure

development, and harmonisation of documents for Islamic finance development.

Last but not least, on behalf of the Hong Kong Government, I would like to express our sincere thanks to Securities Commission Malaysia and the Malaysian Government, and to the market players who flew all the way to witness this ceremony.

Ladies and gentlemen, the declaration signed today is another example of our joint endeavours. We are looking forward to more to come.

Thank you very much.