

Speech

Speech by SFST at Hong Kong Financial Summit (English only)

Friday, May 16, 2008

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the “Hong Kong Financial Summit: Globalisation through Hong Kong's Capital Markets” in San Francisco Bay Area on May 15 (San Francisco time):

Hong Kong as a Premier Listing/IPO Centre

Ladies and gentlemen:

Returning to beautiful San Francisco brings back a lot of memories. America is where I received my university education, and it is where I spent nine enjoyable years teaching at Ohio State University. When I was living in the Mid-West, one thing I enjoyed the most was to come to the Bay Area. My wife and I enjoyed the food, the sights, and the weather here. And we enjoyed visiting our many friends in the area. That is the area where many Hong Kong immigrants call home. Among them are the engineers, scientists, entrepreneurs, who have contributed to the success of the Silicon Valley. It feels good to be back.

In 1993, I returned to Hong Kong. I became a Dean of a business school. Part of my job is to foster the entrepreneurial spirit of my students. And I also work to develop ties between the business people and the academic community, including hosting seminar for the Silicon Valley executives to explore opportunities in Hong Kong and China.

A lot has also happened to Hong Kong in recent years. As you all know, Hong Kong returned to Chinese sovereignty in 1997. In that transitional year, there was almost wall-to-wall coverage of news about Hong Kong. These days, Hong Kong makes the headlines for different reasons, with the focus on business rather than politics. Our stock market traded at record high levels last year, we are making good progress in developing a market for Islamic finance and we have launched a Renminbi bond market. These are just a few recent

examples that reflect our role as an international financial centre.

Standing still has never been an option for Hong Kong. We have to be on our toes to stay ahead of the competition in our part of the world. What sets Hong Kong apart from our rivals is the unique role we play in the economic life of the Chinese mainland. We are both a city in China and Asia's world city. We are constantly absorbing energy and generating business opportunities in Mainland markets. With decades of experience under our belt, we know what it takes to succeed in China, and how to connect China with the rest of the world.

In Hong Kong, with our small externally oriented economy, we pay close attention to the financial indicators. This is the best way to keep track of how we are doing and identify areas where we can do better.

I am pleased to say we are doing fairly well as a financial services centre. Hong Kong is ranked No 1 in derivatives warrants turnover, No 1 in Asia's stock options markets, second in the ETF market after Japan, 5th in total equity raised for our stock market, and 4th in the world for IPO funds raised. The icing on the cake is that in 2007, we were voted the Derivatives Exchange of the Year by Asia Risk. The list could go on.

What is important to remember is that Hong Kong keeps reinventing itself. It has, for example, become one of the largest asset management centres in Asia. Our combined fund management business shot up by 36% in 2006 from a year earlier, to just shy of US\$800 billion. Hong Kong has also become Asia's third largest international banking centre, and the world's 6th largest foreign exchange market. We must be the insurance paradise of the world, because in 2007, with 178 authorised insurers and total gross premiums of US\$25.7 billion, we had the highest concentration of insurers in Asia. Not bad for a city of under 7 million people.

When China's economic miracle became world news centre-stage, Hong Kong has mostly stayed in the shadows. Quietly and efficiently, we have carved out a vital role as China's global financial centre.

I will simply let the numbers do the talking. Through Hong Kong, mainland enterprises have raised about US\$240 billion since 1993. Today, over 440 mainland enterprises have listed on our stock exchange, accounting for over

one-third of the total listings, and representing almost 60% of total market capitalisation. Their turnover also accounts for about 70% of the daily equity turnover of the Hong Kong Stock Exchange.

The 10 largest IPOs in Hong Kong have all been by mainland enterprises, including the Bank of China, the China Construction Bank, China CITIC Bank, the Industrial and Commercial Bank of China, China Mobile and China Unicom. These are names you will undoubtedly continue to hear.

But Hong Kong's role is more than just a facilitator of outward investment. We are also an efficient platform for inward investment of foreign funds in China. We are a two-level bridge between China, the world's fastest growing mega-economy and the international market. As an international financial centre, Hong Kong is running on parallel tracks – both national and international.

Hong Kong's unique role rests on its special strengths: the rule of law underpinned by an independent judiciary, our clean and efficient civil service, low and simple tax system, zero tolerance for corruption and world-class transportation and communications infrastructure. We also cherish our freedoms including a free and unfettered media and a free flow of ideas and information. Our freely convertible currency has been pegged to the US dollar since 1983 and our economy has for the past 14 years been ranked as the freest in the world by the US-based think-tank, the Heritage Foundation.

In addition, we have a transparent regulatory regime for the financial services sector. Our Securities and Futures Commission is recognised as a leading and efficient regulator. The Hong Kong Exchanges and Clearing Limited is a worthy companion to this regulatory structure.

As well as working hard to create a business-friendly environment we also have geography on our side. Situated mid-way between London and New York, we make it possible for trading activities to be carried out around the clock and around the world. In its January 28th edition, TIME Magazine coined a new term "Nylonkong". The lead article placed Hong Kong alongside London and New York as examples of globalisation, including globalisation of the capital markets.

The advantages of round-the-clock trading are self-evident. You don't want to wake up and find that you have just lost your shirt while you were asleep.

There is both maturity and diversity in the Hong Kong stock market. I'm sure our friends from Silicon Valley will have noted the successful listing of the Chinese internet company Alibaba, a B2B portal business, last year in Hong Kong. There are plenty of business opportunities still waiting to be explored.

Another role Hong Kong is famous for is that of matchmaker. We specialise in marrying investors to fund-raisers, regardless of the color of your money. If you are looking for investment opportunities, just remember that the appetite for capital in the Chinese mainland is insatiable. You will find our financial services expertise and our contacts in Mainland China and global markets very much to your advantage.

By the same token, we can also efficiently help American issuers raise capital by tapping the massive savings in the Mainland of China. One sign that new opportunities are cropping up is the arrival of new terminology and acronyms. You may be familiar with QDII. It stands for Qualified Domestic Institutional Investor. This is a relatively new scheme which allows qualified mainland banks, securities and insurance companies to invest in Hong Kong and overseas.

These and other emerging opportunities are among the reasons for some 3,890 international companies maintaining regional headquarters or offices in Hong Kong. That is 55% more than we had in 1997. There is plenty of room for more firms to join them. It is not a case of missing the boat just yet, but it is a chance to get ahead of the competition.

Some people are beginning to ask, whether the Hong Kong market is too dependent on Mainland stock trading, and whether our issuer base too narrow.

I believe these are legitimate questions and concerns. While we have been tapping the enormous opportunities in China, we must also give ourselves an international orientation. We have done well with our deep China market penetration. We can do even better with an international balance and participation.

It is a policy of ours to attract quality enterprises from around the world to list in Hong Kong.

In March last year, the Stock Exchange of Hong Kong and our Securities and Futures Commission issued a Joint Policy Statement aimed at facilitating the listing of overseas companies in Hong Kong. Our stock exchange is also planning to launch a Depository Receipt framework in Hong Kong later this year.

Our government, from our Chief Executive on down, is promoting Hong Kong globally as a preferred listing venue. Our Chief Executive visited the Middle East in January to drum up interest in this very initiative. Our Financial Secretary had earlier gone to India to do much the same thing. Now, I am here in the US on a similar mission. I ask you to look to Hong Kong for your fund raising, as well as other financial services needs.

Naturally, we want to make our listing platform as attractive and competitive as possible. We will maintain a delicate balance between market regulation and market facilitation. While we want to give our investors an appropriate level of protection, we do not wish to go overboard and burden listing companies with undue compliance costs. You can be sure that we will give it the typical efficient Hong Kong treatment: a minimum of fuss with a maximum of openness.

So, ladies and gentlemen, consider this a personal invitation to go to Hong Kong and extend and diversify your global reach through us. We speak your language, we enforce similar laws, we uphold international standards and practices, we understand your culture and share your values, we believe in fair play, but above all, we know China. For a partner halfway between Wall Street and London, there is no better place to look than Hong Kong. I thank you for lunch today. I hope you will soon be able cross the Pacific to Hong Kong and sample our own style of hospitality. You may find the food choices a little different but no less appetising. The prospects for business and profits are equally appealing.

This year Hong Kong will be hosting the Olympic and Paralympic equestrian events of the Beijing Games. So, saddle up and join the ride into a future of opportunity and prosperity. Thank you.