

Speech

Speech by SFST at Asia Sukuk Summit (English only)

Wednesday, February 18, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Asia Sukuk Summit today (February 18):

Hong Kong as an Islamic Financial Platform

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Ladies and gentlemen,

Good morning. It is my great pleasure to speak at the Asia Sukuk Summit today. First of all, I wish to thank ICG Events for organising this summit, which provides a platform for exchange of insights into the intricacies of this exciting and relatively new sphere of finance. I am particularly grateful to all our esteemed guests and speakers who have travelled across the miles to be with us today. I hope you will all enjoy your stay in Hong Kong, and am sure that your presence will make the summit a resounding success.

The staging of the Asia Sukuk Summit in Hong Kong is no doubt a strong vote of confidence in our vision and ability to develop Hong Kong into an Islamic financial hub. Speakers of different background are going to share with you their views on different topics in Islamic finance later. Before that, let me provide you with an overview of what Hong Kong is doing and where we are up to concerning the development of Islamic finance, taking into account the global financial crisis dimension.

Islamic Finance

The Hong Kong Special Administrative Region Government is fully committed to supporting the development of Islamic finance in the city. The Chief Executive highlighted in his last two Policy Addresses the potential of Islamic finance and encouraged the development of a sukuk market in Hong Kong. No doubt,

development of Islamic finance will help diversify Hong Kong's financial markets and further strengthen our platform to bring together investment products and investors from various regions in the world.

Hong Kong's Strengths

Being an international financial centre, Hong Kong possesses the required credentials to offer a suite of Shariah-compliant products as well as services and become an Islamic financial hub. Our uniqueness lies in our unrivalled role in bridging the Mainland, the world's fastest growing economic giant, to the international market. Hong Kong remains the only jurisdiction outside the Mainland in which banks may transact business using the renminbi. We are indeed the only Chinese city in the same elite league as London and New York as far as international financial services are concerned. These, together with our deep and liquid markets, lay a solid foundation for our role as a two-way springboard, facilitating the intermediation of savings and investments between the Islamic financial communities and the Mainland, and acting as the new Silk Road linking the two sides.

Apart from the above, our political stability, free economy, sound legal system underpinned by the rule of law, simple and low tax regime, pro-business market environment with adherence to international standards and practices and professional financial workforce, are also our boasts. In addition, our world-class financial market infrastructure, which provides a multi-currency and multi-dimensional payment and settlement system, is well suited to serve the needs of financial intermediation that takes place mostly in international currencies.

Global Financial Crisis

Notwithstanding our vision and strengths, there are concerns about the viability of developing Islamic finance worldwide, given the global financial crisis which is dampening the development of different economies, including those in the Middle East. Recession seems at the doorstep for many and liquidity remains very tight in the money market. Understandably, market players have become very cautious as to where and how to place their investment.

Given the contagious effects of the global financial crisis, it seems unavoidable

that Islamic finance would slow its pace of development in the near term, alongside growing downside risks in the global financial scene. This notwithstanding, our commitment and confidence in developing Islamic finance remain strong. It is my view that while economic cycles will have a bearing on the pace and intensity of Islamic finance development, prospects for the Islamic financial services industry in 2009 and beyond would remain positive, given the strong fundamentals underlying the development. These include the relatively strong economic growth of the Middle East against the global financial backdrop, the small size of the Islamic finance industry when compared with the conventional financial sector, and the peculiar risk-sharing and asset-based features of Islamic financial products. They are very attractive to market players.

Hong Kong's Efforts

So where is Hong Kong up to as far as the development of Islamic finance is concerned? I am not going to elaborate much here, since my colleagues from the Hong Kong Monetary Authority and the Securities and Futures Commission will share with you more in these areas later. Suffice to say that the Administration, with the Financial Services and the Treasury Bureau taking the lead, is putting in place tax neutrality measures to facilitate the development of Islamic finance, based on views from the market and experiences of other relevant economies. These measures seek to address disadvantageous treatments on the issuance and transactions of sukuk vis-a-vis conventional bonds. They will enhance the commercial viability of sukuk in our market.

Ladies and gentlemen, we have spared no effort in co-ordinating the establishment of closer partnership with the financial industry to extend international business linkages, nurture talent, build up knowledge, and facilitate the launch of new Islamic finance products including Islamic funds, indexes and banking windows, as well as sukuk. In addition, we continue to enhance our market infrastructure and raise our profile as an Islamic finance platform.

Market response to our effort is encouraging. Indeed, during my visit to Dubai last November, I was pleased to note that the relevant authorities, government agencies and market players in the Middle East were keenly looking to Hong Kong, as a newcomer to Islamic finance, to provide new impetus, inspiration and momentum to the development of Islamic finance.

Closing

On this note, may I wish you fruitful discussions and an insightful summit today. Thank you.