

Speech

Speech by SFST at Daiwa Investment Conference (Hong Kong) 2009 (English only)

Thursday, November 26, 2009

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Daiwa Investment Conference (Hong Kong) 2009 today (November 26):

Distinguished guests, ladies and gentlemen,

Good afternoon.

I am delighted to be able to join you today at the Daiwa Investment Conference. I would like to extend a very warm welcome to all of you especially our overseas and Mainland guests.

Latest financial market and economic conditions

A year after Lehman's fall, stability has seemingly returned to the global markets and we are enjoying a new wave of resurgence. Global stock markets, as measured by the MSCI World Index, have climbed 24.1% since the beginning of the year and a whopping 65.9% since their trough on March 9, 2009. In line with thawing corporate finance, the IPO market, having slammed shut after the crisis, has sprung back to life. The commercial paper market is also reviving, especially for investment-grade companies. Furthermore, interbank rates have fallen on receding counterparty credit risks. Market volatility has also declined on diminishing fears over systemic collapse and economic meltdown. Judging by these indicators, our economy seems to have turned a new leaf.

On economic activity, output is expected to cease shrinking in the world's big economies in the latter half of this year. Despite the return to growth, it remains to be seen if the global economy is solid and sustainable. The recent rallies of the global stock markets and the improvement in some economic data

have encouraged the optimists to predict that the world economy is on the mend. But there are just as many who feel that the unprecedented government actions may have resuscitated the global economy, but they have not resolved the underlying causes of the crisis.

Timing of exit

One thing that everyone agrees on is that a deft exit is essential and it is a question not only of "how" but also "when". At this juncture, there appears to be a penchant for a late exit from the extraordinary measures, particularly in the advanced economies, given the uncertain economic outlook and the impairment of bank balance sheets.

However, governments should also consider the price attached to a late exit. With the current loose monetary conditions, there is a risk of a build-up of asset bubbles worldwide, particularly in Asia. Sustained low global interest rates and stronger growth performance in this region has made it a magnet for capital inflows, further increasing the risk of asset price bubbles here.

The moral of the story is that we need to tread carefully. The world economies must jointly consider the effects of an exit, or lack of an exit. We need to map out a co-ordinated effort that would prevent any further financial crisis.

Hong Kong's fundamental strengths

Back to the situation at home. We have become a successful international financial centre not by chance but because of hard work from professionals like yourselves and our ability to capitalise on our core values and fundamental strengths.

Our score card in the capital markets speaks for itself. As at end October 2009, 1,297 companies were listed on Hong Kong Exchanges and Clearing Limited (HKEx). The market capitalisation of our stock market ranks seventh in the world and in terms of initial public offerings in the first 10 months of this year, Hong Kong ranked first globally.

Gateway to China

In terms of geographical location, we are fortunate to be situated in the heart of Asia and half way between New York and London and at the same time, we are a city in China.

The Mainland has been the engine of economic growth in East Asia and will soon become the second largest economy in the world. The IMF forecasts that China's GDP will continue growing between 7.5 and 10.7% annually in the next five years. With a large and increasingly affluent population and a high savings rate, the vast Mainland market has provided us with immense opportunities to expand the scope of our financial activities and service money coming out of the Mainland.

Streamlining the listing procedure

Despite our overwhelming success in the capital markets, we are not complacent. HKEx has been implementing ongoing initiatives which would streamline the listing process for issuers but yet would not compromise the quality of our listed companies. They have focused on shortening the timetable, lowering costs and reducing the paperwork burden. For example, in mid-2009, HKEx conducted a consultation regarding proposals to streamline the filing and checklist requirements for IPOs and the filing requirements for listing of additional equity securities by listed issuers. The proposals received general market support and will be implemented this month.

Broadening the source of listing

Hong Kong is also committed to broadening the source of listed companies on our exchange. In 2007, HKEx published a joint statement with the Securities and Futures Commission (SFC) to clarify listing requirements for listing overseas companies and provided a clear roadmap so that potential issuers know what to expect. Since then, HKEx's Listing Committee has sprung into action and accepted a number of new jurisdictions as the issuers'

place of incorporation. They include Australia, Canada, Cyprus, Germany, Jersey, Luxembourg, Singapore and the United Kingdom in addition to the four jurisdictions already recognised under the Listing Rules (ie Hong Kong, the Chinese Mainland, Bermuda and the Cayman Islands). HKEx will continue to admit new jurisdictions as an issuer's place of incorporation as appropriate.

To complete the package for our overseas friends, HKEx has tailored a set of IPO vetting practices for overseas companies. Such practices include publishing newly accepted overseas jurisdictions on the HKEx website; allowing subsequent issuers from jurisdictions which have already been accepted to follow a simpler process; allowing a potential issuer to show that its shareholder protection standards are comparable to those of any of the recognised or accepted jurisdictions; adopting a purposive interpretation of the requirements for "equivalence" to Hong Kong corporate regulation standards and so on.

HKEx has launched consultations on proposals to strengthen Hong Kong's role as an important listing centre for mineral and exploration companies and broaden investor choices by allowing exploration companies with "resources" to be listed. The proposals are aimed at updating Hong Kong's regulatory framework for listed mineral and exploration companies, bringing the framework in line with international best practice and ensuring investors will be provided with information that is both material and reliable.

The Government is fully supportive of HKEx's continuous efforts to upgrade and improve the listing process without compromising market quality.

Hong Kong as China's offshore RMB business centre

With the rise and liberalisation of RMB business comes new opportunities for Hong Kong. Our cultural affinities, robust risk management systems and close economic ties with the Mainland mean that Hong Kong is best placed to serve as a testing ground for the development of RMB business outside the Mainland.

We have been working with the relevant Mainland authorities, our financial regulators and the trade to draw more RMB liquidity and to build a market

offering a broad range of RMB products and services in Hong Kong, and I am pleased to report that significant progress has been made. The RMB trade settlement pilot scheme, which commenced operation in July, is offering eligible enterprises an option to settle trade transactions in RMB. We believe that the settlement volume will continue to rise. Also, Hong Kong banks with a presence on the Mainland are allowed to raise RMB by issuing RMB bonds in Hong Kong.

To top it all off, in September this year, the Ministry of Finance, as the agent of the Central Government, chose Hong Kong to launch its inaugural RMB sovereign bond issue, totaling RMB6 billion. It was a huge success and recorded a very high over-subscription rate.

The measures taken to broaden the scope of the issuance of RMB bonds in Hong Kong can be seen as an encouraging start to Hong Kong's development into a dynamic offshore RMB centre for China. We are confident that we will be able to elaborate on the current choices of RMB related investment products as the pace of the liberalisation of the RMB hastens.

Conclusion

Ladies and gentlemen, I hope I have given you a clearer picture of where the economy is today and where our financial market is heading. Although the world economy is just climbing out of the woods, Hong Kong will charge full steam ahead with our constant pursuit of maintaining our competitive edge amongst the leading financial and business centres of the world.

I hope you will find today's conference useful and informative. Have a nice day.