

Speech

Speech by SFST at the luncheon talk organised by the Hong Kong Investment Fund Association (English only)

Tuesday, January 29, 2008

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, today (January 29) at the luncheon talk organised by the Hong Kong Investment Fund Association :

"Hong Kong's Role as the Regional Asset Management Hub"

Gerry (Ng), distinguished guests, ladies and gentlemen:

Good afternoon. I am delighted to join you today to meet so many friends from various quarters of the wealth management sector, including fund managers, trustees, distributors, and related professionals like lawyers and accountants. I would particularly like to thank the Hong Kong Investment Funds Association for staging this event, which gives me an opportunity to share with you my thoughts on Hong Kong's role as a regional asset management hub.

A well-established asset management sector is beneficial to our economy. It helps attract foreign capital and talent and facilitate economic development and job creation. It forms a high-value added services chain with other professional services, such as legal, accounting, and corporate consulting, and strengthens our status as an international financial centre. In 2005, the value added per person engaged in the asset management industry in Hong Kong was about HK\$2.26 million, which is much higher than the corresponding figure of the financial services sector as a whole.

The Government and our financial regulators recognise the importance of the asset management industry. We have been sparing no effort in providing a conducive/suitable environment for the industry's development. We have also adopted multi-pronged measures to encourage funds that meet the relevant requirements to set up in Hong Kong.

Hong Kong as a Major Asset Management Centre in Asia

As a small and open economy, Hong Kong has established itself as a major asset management centre in Asia. The combined fund management business in Hong Kong was more than HK\$6.154 trillion in 2006, representing a substantial growth of 36% from 2005.

Over the years, funds sourced from non-Hong Kong investors have consistently accounted for more than 60% of our fund management business. In 2006, funds sourced from overseas investors totalled HK\$3.786 trillion which shows that Hong Kong is an attractive location for overseas fund managers to conduct asset management business. Hong Kong has provided a unique and attractive platform for overseas investors to invest in the region. The SFC survey also revealed that 80% of the assets managed in Hong Kong were invested in Asia in 2006.

Strengths of Hong Kong as a Major Asset Management Centre in Asia

So what makes Hong Kong an asset management centre in Asia? The answer lies in our fundamental strengths as an international financial centre. Situated at the heart of Asia and as the gateway to Mainland China, equipped with excellent infrastructure, Hong Kong serves as an ideal platform for overseas fund managers to access the Asian markets. We have rule of law, a low and simple tax regime, a stable currency with no foreign exchange control, and a free economy.

The 2008 Index of Economic Freedom study recently released by the Heritage Foundation again rated Hong Kong as the world's freest economy, for the 14th consecutive year. The Foundation noted that our income and corporate tax rates are very competitive, business regulation simple, the labour market highly flexible, and investment strongly encouraged with virtually no restrictions on foreign capital.

Quality human capital is crucial to the development of Hong Kong's asset management industry. We are glad that Hong Kong has gathered financial professionals, including many of you here today, who have demonstrated innovation, adaptability, diligence and strong entrepreneurial spirit to support the development of the financial services sector and the asset management industry in Hong Kong over the years.

Overseas investors are impressed by the quality of our legal, accounting and consultancy services, as well as our strong market infrastructure for the various asset management related businesses, such as custodians, administrators and prime brokers.

I would also like to share with you a special report entitled "A Tale of Three Cities" published recently by Time Magazine. The report examined how New York, London and Hong Kong drove the global economy and suggested that the three cities were linked by a common economic culture and were "exemplars and explanations of globalisation". The report pointed out that the three cities have created a financial network that has been able to lubricate the global economy, and critically ease the entry into the modern world of China.

This is not the first time that Hong Kong's strengths in the financial services sector have been recognised. The Global Financial Centres Index published by the City of London Corporation last September also ranked Hong Kong as the third major world financial centre, following London and New York.

Government Initiatives

Notwithstanding our strong foundation as an international financial centre and asset management centre, standing still is not an option, especially when competition with neighboring cities is getting fierce. We must continue to find ways to enhance the competitiveness of our asset management industry. That is why we have been making co-ordinated and concerted efforts with the SFC and Invest Hong Kong (InvestHK) to promote the development of the asset management industry in Hong Kong.

To fuel the growth of the asset management industry, we have adopted various tax measures in the past two years. Since 2006, offshore funds have been exempted from profits tax, bringing us in line with other major financial centres such as New York and London. Estate duty has been abolished since 2006 to encourage local and overseas investors to invest in Hong Kong.

As a financial regulator in Hong Kong, the SFC has been placing great emphasis on the facilitation of market development. For example, the Commission announced a set of initiatives to streamline the licensing procedures for overseas fund managers last year. We have received positive feedback from the industry on the streamlined

procedures as the fund management companies can now obtain their licences within a few weeks.

Hong Kong is actually one of the first jurisdictions in the world that allows the offering of retail hedge funds to the public. As at the end of September 2007, the net asset size of the 14 retail hedge funds authorised by the SFC was HK\$13 billion.

The SFC recently authorised the first Islamic fund for sale to retail investors in Hong Kong. It is an index-tracking fund, which aims to match the performance of the Dow Jones Islamic Market China/Hong Kong Titans Index through investing primarily in the constituent stocks of the Index. This has given added variety to our retail fund market. The Commission will continue to facilitate product innovation and keep the door open to new products.

As a government department in charge of inward investment promotion, InvestHK has proactively visited targeted fund management firms overseas and on the Mainland to promote Hong Kong as an ideal destination for asset management business. Indeed, InvestHK has so far assisted about 50 fund management and financial services companies establish a presence or expand their business in Hong Kong.

To promote our strengths as an international financial centre and asset management centre, senior government officials have embarked on a series of overseas visits. I went to Vietnam to promote Hong Kong as a preferred listing venue. Our Financial Secretary last month led a high level business mission of leaders from the financial and professional services sectors to India. Our Chief Executive is now in the Middle East with a high level business delegation.

Prospects of the Asset Management Industry

The potential for further growth of the asset management industry in Asia is substantial, thanks to the robust economic growth and the acceleration of wealth creation in the region in recent years.

And don't forget the enormous opportunities offered on the Mainland. Our country's robust economic growth and further liberalisation of its capital account have presented unprecedented opportunities for our asset management industry. As people are getting prosperous, the demand for asset management services will definitely soar.

The measures under the Qualified Domestic Institutional Investor (QDII) Scheme, which allow Mainland commercial banks, securities firms, fund management companies and insurance companies to invest in Hong Kong stocks and other specified securities, have also provided an impetus for the growth of our industry. Given our proximity, linguistic and cultural affinities, and increasingly close economic co-operation with the Mainland, Hong Kong is best placed to capture the tremendous opportunities under these measures.

Concluding Remarks

Ladies and gentlemen, the recent volatile market generated shockwaves worldwide and there was no market let alone. Having said that, the Asian economy is still in good shape and the liquidity-driven market will still be in need of capital and funds to propel further economic growth. The prospect of our asset management industry looks bright. While we will continue our efforts to create a conducive environment for the development of the industry, I look forward to your support in seizing the opportunities in front of us and let's work together to take our asset management industry to new heights.

Thank you.