

Press release

LCQ7: Impact of Dubai World's debt problem on the financial system and market of Hong Kong

Wednesday, December 9, 2009

Following is a question by the Hon Jeffrey Lam and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 9):

Replied by :

Question:

It has been reported that at the end of last month, the debt problem of Dubai World, a sovereign investment company, has triggered off financial turbulence with quite a number of stock markets worldwide becoming very volatile, and some banks in Hong Kong are also creditors of Dubai World. In this connection, will the Government inform this Council:

(a) whether it has assessed the impact of the debt crisis in Dubai on the Hong Kong stock market, and if it will slow down the pace of recovery of Hong Kong's economy; what measures the authorities have put in place to stabilise the stock market, so as to avoid recurrence of the financial tsunami;

(b) given that the Government has actively studied the development of Islamic bond market in recent years, whether the authorities have assessed the impact of the current economic situation in Dubai on the development of Islamic bond market in Hong Kong; of the latest progress of the development of such bond market in Hong Kong; and

(c) whether it knows the total number of banks and financial institutions in Hong Kong that have business connections with Dubai World at present, and of the impact of the debt problem of Dubai World on them?

Reply:

President,

(a) The financial difficulty facing Dubai World is a credit event of an individual debt issuer. According to the assessment made by the Administration and the regulators, the event will not cause any systemic implications on the financial system and market of Hong Kong. The event has however affected the overall investment atmosphere in the light of its impact on the confidence concerning the pace of global economic recovery.

The Administration and the regulators will continue to closely monitor the development of the event and market conditions. Investors should make investment arrangements having regard to their own investment needs and risk appetite.

(b) In the Dubai World event, the Islamic and conventional debts of Dubai World are all affected. While the event has some impacts on both the Islamic bond and conventional bond markets, the cause of the event has nothing to do with the trading structure and mode of operation of the Islamic bond market.

The objective of the Administration in developing an Islamic bond market in Hong Kong is to increase the breadth and depth of the local bond market, diversifying Hong Kong's financial market and consolidating Hong Kong's status as an international financial centre. This is a long-term policy goal, which will not and should not be affected by individual credit event.

Currently, the Administration is studying how to take forward amendments to the relevant laws to facilitate the development of a local Islamic bond market by levelling the playing field for Islamic bonds vis-à-vis their conventional counterparts as far as tax arrangements are concerned. Before amending the laws, we issued reference materials to the industry towards the end of last month to facilitate their application for tax exemption in relation to the launch and transaction of Islamic bonds.

(c) According to the assessment made by the Administration and the regulators, the Dubai World event has not posed any systemic risk to the financial system of Hong Kong. Aggregate risk exposure of the local banking sector to Dubai World and its subsidiaries only amounts to less than 0.14% of the total asset of the sector. Aggregate risk exposure to Dubai World and its subsidiaries of other financial institutions, including insurance companies and licensed corporations under the Securities and Futures Ordinance, is also limited.

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