Press release

SFST calls for global co-operation to restore stability in financial system

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Unilateral action by individual regulators would jeopardise the chances of successful regulatory reform of the financial industry, said the Secretary for Financial Services and the Treasury, Professor K C Chan, in Frankfurt, Germany today (Frankfurt time, November 17).

Speaking at the Euro Finance Week Lead Conference titled Restructuring the Global Financial Architecture - the Road Ahead, Professor Chan said that only an approach to regulation that goes beyond borders and has the capability of overseeing the organisation in its entirety would serve the purpose.

Professor Chan said: "What is required now is a recommitment to co-operation between governments and closer collaboration among regulators in leading markets to deal with the financial crisis.

"Hong Kong stands ready to be part of this global effort to restore stability to our financial system. You can count on us to play our part as an international citizen."

Telling the audience that Hong Kong had been able to tide over the financial crisis well and had not experienced any systemic failures, Professor Chan said that the Hong Kong Government had not needed to "rescue" any bank, nor had there been any default of intermediaries.

He said: "If there is one thing that we learnt from this crisis it would be that the financial system runs on a global platform and the problem faced by one economy could quickly spread to others. Hong Kong would not be spared by the collapse of any major financial institutions regardless of how far away we are by distance, how far removed the company is in structure terms, or how well our local economy is holding up."

Noting that many had blamed the current turmoil on the growth of complex derivatives, Professor Chan said that Hong Kong was supported the global efforts towards enhancing transparency of the over-the-counter (OTC) derivatives markets. In particular, the G20's recommendations to require all OTC derivative contracts to be reported to trade repositories and move all standardised OTC derivative contracts to exchanges or electronic trading platforms, and be cleared through central counterparties (CCPs) by end-2012.

Professor Chan said: "The increased transparency of this previously mysterious market would give the authorities a more complete picture of the positions that are building up and hence a better handle on the potential risks to global and domestic financial stability.

"Global co-operation amongst the regulators in overseeing clearing houses and sharing information collected by trade repositories is essential.

"Hong Kong welcomes the establishment of the OTC Derivatives Regulators Forum under the auspices of the Financial Stability Board in September 2009."

Professor Chan added: "It is important that we have access to information kept by the CCPs and repositories that is needed for our financial stability surveillance. More information sharing with the relevant regulators would be welcomed especially on (i) positions of Credit Default Swap (CDS) on Hong Kong-related entities, and (ii) positions of CDS taken by Hong Kong incorporated financial institutions."

On the hedge fund industry, Professor Chan noted that it was generally recognised that hedge funds did not cause the financial crisis, but the speed of growth of this industry had raised concern that sooner or later "systemically important" hedge funds would emerge and regulators needed to be prepared for any potential risk to financial stability caused by their failure.

He said: "We support The International Organisations of Securities Commissions' recommendation for co-operation between regulators and the hedge fund industry associations to identify the reporting standards of hedge fund managers.

"Reciprocal information is not only important among regulators but also to investors in different jurisdictions. There must be a level playing field for investors globally in terms of information disclosure and protection offered by regulators. It is also conducive to financial stability to have a regulatory regime which promotes active due diligence and risk monitoring by the investors themselves."

Turning to executive compensation, Professor Chan said that Hong Kong, being an international financial centre and an active member of the Financial Stability Board, was committed to adopting international standards and best practices.

He said: "To this end, we have developed a set of guidelines on the basis of the principles issued by the Financial Stability Board with a view to providing broad guidance on the governance and control arrangements for, and operations of, a sound remuneration system for the banking sector.

"We are currently consulting the local banking sector on the guideline and aim to finalise the guideline for implementation by the end of this year.”

On Hong Kong's regulatory reform, Professor Chan said given that attention had been primarily focused on handling complaints of mis-selling products which failed from the collapse of Lehman Brothers, Hong Kong's proposed reforms had veered towards strengthening the city's regulatory structure to enhance investor protection, rather than tightening prudential regulation on banks.

Earlier today, Professor Chan called on the Hesse State Minister of Finance, Mr Karl Heinz Weimar, and Chief Executive Director of BaFin (Federal Financial Supervisory Authority), Mr Karl-Burkhard Caspari. After visiting the Frankfurt Stock Exchange, Professor Chan left for Zurich in the afternoon to continue his visit to Switzerland.

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