Speech by SFST at the luncheon of the Hong Kong Institute of Directors (English only)

Friday, October 5, 2007

Following is a speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the luncheon of the Hong Kong Institute of Directors today (October 5):

Mr (Peter) Wong, distinguished guests, ladies and gentlemen,

Good afternoon. First of all, I would like to thank the Institute for inviting me to join this luncheon. I am delighted to be here to share with you some of my views on Hong Kong's positioning as an international financial centre of Mainland China, a topic which is close to the heart of many in the financial services industry.

It has been a fruitful and eventful year for Hong Kong. Not only are we celebrating the 10th anniversary of Hong Kong's reunification with our Motherland, our economy has made great strides. Our financial market has achieved impressive performance.

Our stock market now ranks seventh in the world and third largest in Asia in terms of market capitalisation. Hong Kong is also rising fast as Asia's leading wealth management centre. Hong Kong's asset management business amounted to more than HK$6.1 trillion at end 2006, representing a remarkable increase of 36% over 2005 and an accumulative growth of more than 70% in the past two years.

Going forward, how are we going to maintain our momentum for growth? The major shortcoming of Hong Kong is our comparatively small local economy. Our important strategy, therefore, is to further our economic integration with the Mainland.

"Mutually-assisting, Cooperative and Interactive" Relationship

Our role as China's global financial centre has been confirmed in our country's latest economic blueprint, the 11th Five-Year Plan. This plan clearly spells out Hong Kong's role as an international financial centre (IFC). Premier Wen Jiabao said last year that there was a need to develop a "mutually-assisting", "co-operative" and "interactive" relationship between the financial systems of Hong Kong and Mainland China. I would like to take this opportunity to share with you my thoughts on how such relationship may be developed -

* Mutually-assisting - We should capitalise on the strengths of the two financial systems and help the development of the other system. With Hong Kong's financial system already open to the rest of the world while Mainland's not yet fully liberalised, accessing international financial markets through Hong Kong can help reduce direct exposure of Mainland's financial systems to external financial risks. Hong Kong can also take the opportunity to capitalise on the tremendous growth of the Mainland market.

* Co-operative - The two financial systems can benefit from closer collaboration in areas such as financial supervision, financial infrastructure and risk management. This can be achieved through technical transfers, information exchange, qualification recognition and harmonisation of standards.

* Interactive - The two financial systems should interact with a view to promoting more efficient financial intermediation.

"Three-level" Relationship

The purpose of developing these stronger relationship between Hong Kong and the Mainland market is to create a large market, which consists of a domestic part and an international part, to serve the growing needs of the China economy.

To create a win-win situation, we need to develop "mutually-assisting", "cooperative" and "interactive" relationship with the Mainland financial market at all levels. They include -

* At the "political" and governmental level -

The HKSAR Government has been stepping up our efforts in impressing upon the Central People's Government how the financial system of Hong Kong may contribute to the development of Mainland China. Hong Kong can contribute to more effective financial intermediation in the Mainland market and provide an ideal testing ground for experimenting with financial reform and liberalisation.

Taking renminbi business as an example, Hong Kong is the first place outside the Mainland to have banks providing renminbi services. Since 2004, the renminbi business has been developing progressively. In June 2007, the first renminbi bond in Hong Kong was successfully launched, making Hong Kong the first place outside the Mainland to have a renminbi bond market. The encouraging development of renminbi business in Hong Kong is beneficial to both the Mainland and Hong Kong's financial markets. It provides a robust and reliable testing platform for the use of renminbi in international financial transactions.

* At "policy-making" level involving the financial regulators of the two markets -

There are many established channels for the HKSAR Government and financial regulators to communicate and co-operate at the "policy-making" level with the Central Government and the relevant ministries and commissions. For instance, the Hong Kong Monetary Authority entered into a co-operation arrangement with the People's Bank of China as early as 1993 for the exchange of views and co-operation on financial issues of the two markets. For the securities industry, the Securities and Futures Commission in Hong Kong, China Securities Regulatory Commission, and the stock exchanges in both places also meet regularly to facilitate consultation and co-operation among the regulators.

* At "working" level involving the frontline institutions and the financial industries of the two places -

Owing to the close and continuous co-operation at the "working level", the Closer Economic Partnership Arrangement, or commonly known as CEPA, offers greater market access and flexibility for Hong Kong's financial services providers or professionals to conduct business in the Mainland. For example, Hong Kong insurance agency companies may set up wholly-owned enterprises on the Mainland to provide insurance agency services to the Mainland insurance companies. Hong Kong residents, after obtaining the Mainland's insurance qualifications and being employed or appointed by a Mainland insurance institution, may engage in the relevant insurance business. Both sides have also agreed to give priority to and expedite the processing of applications of Hong Kong banks to set up businesses in the central western and northeastern areas and the Guangdong Province of the Mainland. Moreover, Hong Kong banks are encouraged to set up rural banks in the Mainland rural areas.

Besides, the recent expansion of the scope of QDII and the so-called "through-train" pilot scheme, which allows Mainland individuals to invest in securities listed on Hong Kong stock market through specific channels, would no doubt accelerate the interaction among the financial institutions and investors in Hong Kong and the Mainland.

Five-pronged Strategy

We are committed to further developing and intensifying our "three-level" relationship with Mainland China. Let me outline our strategy for developing such a relationship in five broad areas -

* Firstly, we need to expand the presence of our financial institutions in the Mainland. For instance, under the CEPA, the asset threshold for Hong Kong incorporated banks has been lowered from US$20 billion to US$6 billion, thus increasing opportunities for Hong Kong's financial services industry.

* Secondly, we need to increase our role in the outward mobility of funds from the Mainland. The bullish Mainland stock market, the gradual liberalisation of Mainland's capital account, the recent QDII expansion and the "through-train" pilot scheme all testify to the huge market demand for and potentials of Hong Kong to serve as a more effective channel for the orderly outflow of funds from the Mainland.

* Thirdly, Hong Kong financial instruments could be offered in the Mainland. With stronger linkage, the overall size and the breadth and depth of the two markets will increase, and that would help to enhance intermediation efficiency and limit price volatility.

* Fourthly, it is important for Hong Kong to continue to develop its handling of Renminbi-denominated transactions. This process began back in 2004 and has been progressing steadily since then. As of the end of July, Renminbi deposits amounted to 27.9 billion yuan, and we need to keep up the momentum.

* Last but not least, there is more room to dovetail the infrastructure of our two financial systems. Hong Kong has a world-class multi-currency system. One possible area we are looking at is facilitating the Mainland to settle its foreign currency transactions through Hong Kong. Looking ahead, there is also a need to develop new links to cater for the increasing flows of funds and instruments between Hong Kong and the Mainland.

Concluding remarks

Ladies and gentlemen, in tandem with Mainland China's remarkable development, our financial services industry has entered into an era of extra-ordinary growth. We have enjoyed an unparalleled and unrivalled position as China's unique international financial centre, capital formation hub, asset management centre, testing ground for renminbi reform, and gateway to the global market. I am confident that our five-pronged strategy I have just outlined will help strengthen the competitiveness of Hong Kong's financial market.

On the other hand, we are also mindful of the need for upholding market quality in order to sustain and enhance the development of our financial services industry. This aptly brings up the vital role that the Hong Kong Institute of Directors has been playing.

The importance of directors in guarding against corporate malpractice is well recognised. As a strong advocate of good corporate governance, the Institute has made great contributions to enhancing the quality of company directors and hence the corporate governance standard in Hong Kong, through the issuance of guidelines and the organisation of training programmes. In closing, I would like to appeal to all of you to continue to help disseminate and safeguard this important core value of our system.

Thank you.