

Speech

Keynote speech by SFST at the Prospectors and Developers Association of Canada (PDAC) Convention (Toronto) (English only)

March 8, 2010, Toronto time

Distinguished guests, ladies and gentlemen,

The friendship between Canada and Hong Kong started decades ago. We are pleased to see the growing partnership between Canada and Hong Kong in a number of areas, including financial services. With the large number of Canadians working in Hong Kong, and Hong Kong immigrants residing in Canada, it is fair to say that Hong Kong is Canada's gateway to China, and Canada is Hong Kong's gateway to North America.

I know that Hong Kong Exchanges and Clearing Limited (HKEx) has been organising a series of activities to promote the understanding of Hong Kong's securities market among government organisations and companies in Canada. I am sure the convention today, together with many events held or to be held, will bring Canada and Hong Kong closer together and strengthen our economic partnership. As financial services is an important industry in both economies, and indeed we have so much in common in our financial regulation, I see much scope of cooperation in the area of financial services that will benefit both our economies.

Financial Position of Hong Kong

The Global Financial Crisis has presented great challenges to Canada and Hong Kong, but it also reveals the strength and resilience in our economic and financial systems. Last week, our Financial Secretary announced Hong Kong's financial position for the past fiscal year and also the Budget for 2010-11. When we prepared the 2009-10 Budget a year ago, we forecasted a deficit of HK\$29.9 billion, equivalent to 2.4% of GDP. The gradual improvement of our economy from the second quarter of 2009 led to better-than-expected revenues. For 2009 as a whole, our GDP fell by only 2.7%. Employment conditions also improved from the middle of last year, with unemployment rate coming down from 5.4% to 4.9% most recently. Our revised estimate for 2009 – 10 is a surplus of HK\$13.8 billion, equivalent to 0.8% of GDP.

We are cautiously optimistic about Hong Kong's economic prospects in 2010. The global

economy has not yet regained its vigor, and there remain a number of uncertainties and potential pitfalls. In the coming year, we will continue to invest in infrastructure, promote the development of our industries and adopt various measures to achieve the objective of consolidating the recovery.

Hong Kong as an international financial centre (IFC) in the Asia time zone and the IFC for China

There is a great deal of similarities between the financial markets of Canada and Hong Kong. There is even more similarity in the regulatory systems of our two economies. Take the way we regulate banks for example. During the financial crisis, there was no need in our respective economies for the regulators to rescue any banks. We have strong and sound regulation in both of our markets that contribute to the stability in our systems.

The financial market landscape in Hong Kong should be very familiar to a Canadian company or investor. But I should emphasize the concept of “One country, Two systems” that speak to both the strength of our market and the opportunities there. With this unique system, Hong Kong is unique in having the most internationalized financial market to serve as a gateway to China to "capitalise" on China's growth.

As the international system of the two systems, we have simple and low taxes; high-quality services; free flow of information and capital with no foreign exchange controls, and a stable, fully convertible currency; as well as a free economy buttressed by the rule of law and an independent judiciary. Our regulatory regime is on a par with international standards; and our regulators are tasked to ensure a fair, transparent and orderly market. We have a world class stock exchange, which has the highest market value of all publicly listed stock exchanges, and our financial market regulators are well known worldwide for their professionalism, transparency and effectiveness.

Regulatory Approach

In designing the regulation of our market, we are careful in striking a balance between the goal of having a quality market and the goal for being forward looking and being market friendly. We also believe in being predictable and consistent in our regulation. I will use the HKEx to illustrate this point.

The HKEx is the only equities exchange in Hong Kong. It is a publicly listed company that makes it answerable to its investors. The HKEx is expected by both the public and its investors to pursue strategies to contribute to its growth, especially in increasing the importance of Hong Kong's equity market. At the same time, the HKEx is tasked with operating a quality market

and promoting public interests. Listing decisions are made by a committee of market professionals who apply their expertise in reviewing listing applications in a disclosure based vetting process. Any possible conflicts, if they happen at all, between the commercial interests of the HKEx and its public interest in promoting a quality market, are addressed by the dual filing systems where the securities regulator, the Securities and Futures Commission, can raise an objection to a listing application

The regulatory environment in the listing process has worked well. The HKEx has full control over its development strategy, and it has responded to market needs. The efficiency and quality of the listing process are further ensured with the regulatory oversight.

Listing on the Hong Kong Stock Exchange

In 2009, Hong Kong was the most active market for IPO funds raised globally. Hong Kong ranked number one globally in IPO fund raised for 2009 (US\$31.3 billion), and number four in the world in 2009 in terms of total fund raised (including post-IPO) of US\$81.4 billion. A total of 73 companies were newly listed on HKEx and they included overseas companies which have listed their Greater China related business operations in Hong Kong. Companies are attracted to list in Hong Kong on the back of our market's liquidity, attractive valuations and access to investors in Asia.

Earlier this year, we saw the first Russian company listed on our stock market, and I am confident that more foreign based companies will be looking to list on the Hong Kong stock exchange in the near future.

Asset Management Business

There will be a strong growth of asset management industry in Asia. Hong Kong is already one of the largest asset management centres in Asia, and its growth prospects are further enhanced by the increasing demand for wealth and asset management services in the Mainland. Together with our fiscal policy which encourages fund managers to be based in Hong Kong, we will reinforce Hong Kong's position as Asia's premier asset management centre.

We are also continuing our efforts to promote the local bond market. We implemented a government bond programme last year and we took an extra step this year by extending the concessionary profits tax rate derived from qualifying debt instruments to cover instruments with a maturity period of less than three years.

Hong Kong and Canada Financial Cooperation

Given the strong economic ties between Hong Kong and Canada, there is a wide scope of financial cooperation between our two economies. Hong Kong can serve as the financial gateway for Canadian companies to reach the Asian market, in the same way that Canada serves as a gateway for Hong Kong companies to invest in the North American market.

Canadian companies could consider listing in Hong Kong to tap the liquidity pool in Hong Kong. British Columbia and Ontario of Canada are overseas jurisdictions already accepted by HKEx. The procedures and issues for Canadian companies to list in Hong Kong are expected to be simplified. At the same time, companies listed in Hong Kong and other Asian markets can also consider a listing on the Canadian exchange to tap the liquidity there.

We would also welcome Canadian fund management companies to market their services to Asia through Hong Kong.

Ladies and gentlemen, there is no doubt that China is gaining increasing influence on the global economy. And there is strong potential for economic partnership between China and Canada. It is time that we strengthen our co-operation, collaborate and complement each others to make the most of these opportunities.

Thank you.