

Speech

Opening remarks by SFST at panel session in Moscow (English only)

Thursday, September 2, 2010

Following are the opening remarks by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the panel session on "Hong Kong: Asia's Fund-Raising Capital" at the business seminar "Hong Kong: Your Asian Connection" in Moscow today (September 2):

Distinguished guests, ladies and gentlemen,

It is great to be back here in Moscow.

It is always a pleasure to talk to you about Hong Kong's financial services sector as I believe there is a great deal of potential for stronger links between Hong Kong and Russia in this area.

I was here in Moscow in June 2008 and in St Petersburg in June this year.

I have had the opportunity to meet a number of leaders in Russia's financial services sector and encourage them to use Hong Kong to raise funds and expand their business in Asia.

The high-level nature of this delegation to Russia, led by our Chief Executive, speaks volumes of the importance Hong Kong places on the opportunities for co-operation with Russia.

I also see growing interest from the Russian business community in Hong Kong. I hope you will all find this panel session fruitful.

To understand the strength of Hong Kong's financial services, I should emphasise the concept of "One Country, Two Systems" regarding Hong Kong's relationship with the Mainland of China.

Under this principle, in the context of our financial services, Hong Kong shares the economic opportunities of our nation, China. At the same time, we retain our own unique characteristics. We have our own legal system and our own financial system as well as a highly internationalised financial market to serve as a gateway to China.

As the international part of the "two systems", we have simple and low taxes; a free flow of information and capital with no foreign exchange controls, and a stable and fully convertible currency.

We also have 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 ranks among the top two in market value of all publicly listed stock exchanges in the world. Our financial market regulators are well known worldwide for their professionalism, transparency and effectiveness.

Regulatory approach

Our regulatory regime is a key factor behind the high quality of our financial market. But regulation is not static; it has to respond to market needs and new sources of risk in our financial system.

In Hong Kong, in designing regulation, we have been careful to strike a balance between the goal of having a quality market and maintaining a forward-looking, market-friendly approach.

We also believe in being predictable and consistent in our regulation.

But the regulatory landscape of the world is changing fast in the wake of the global financial crisis. Reform measures coming out of the US and EU cover wide areas including monitoring of systemic risk, restrictions on banks, resolution regime for failing financial companies, trading of derivatives and oversight of hedge funds.

Many of these changes are warranted, but we should bear in mind that in the short term, these reform proposals can create uncertainties in markets and increase the costs of capital.

Hong Kong's financial market has shown its resilience in the face of the financial crisis.

Indeed, we have weathered many financial storms and upheavals in the past decades and learned new lessons each time.

During the recent global financial crisis, there was no major disruption to our markets. The banking system remained sound and resilient. Clearing and settlement were smooth and efficient despite a surge in trading volume. Our seasoned regulatory regime has once again served Hong Kong well in the current financial crisis.

Rising to the challenges of the financial crisis has confirmed the robustness of Hong Kong's regulatory regime. There are no calls for wholesale regulatory changes. Certainty and predictability, the treasured cornerstone of all financial transactions and capital markets, remain firmly in place.

Shifting of financial centre of gravity to the east

While regulatory reforms will affect the global financial landscape, a key feature in the emerging global financial order is the economic growth of China. We are seeing a shift of the financial centre of gravity from West to East. The internationalisation of the Chinese currency renminbi (RMB) will add momentum to this change.

The increasing use of RMB in the region is going to be a growth driver for the financial markets in Mainland China and Hong Kong. Connectivity with trading partners, investors and financial institutions overseas will increase the demand for international financial services in China and access to the Chinese capital market.

Mainland China's financial market will become more open, more international, because of the liberalisation of RMB.

At the same time, Hong Kong will play a very important role in the new centre of gravity.

Hong Kong is well positioned to offer an offshore RMB market, to support the internationalisation of RMB and the opening up of the Mainland's financial market.

We have a long history of playing host to international liquidity –and managing the inevitable risks that arise.

We are open to all investors, international and domestic, with no restrictions on capital flows. We are open to all issuers raising capital in Hong Kong, in equity and other forms of financing. Our regulatory structure is designed to facilitate this intermediation. With the opening up of China's financial market, Hong Kong will play a strong role in meeting the international financial needs of Chinese investors and companies.

I have talked about the strength of our market, and our positioning as China's global financial centre. We are well positioned to develop our markets on three fronts, as a premier capital-raising centre, the offshore RMB business centre, and a leading asset management centre.

Capital raising centre

For years, Hong Kong has been serving as the premium capital-raising platform for enterprises of Mainland China. As of end-July 2010, 547 Mainland enterprises were listed in Hong Kong, raising a total of US\$347 billion since the first such listing in 1993.

The total market capitalisation of Mainland stocks has exceeded US\$1.3 trillion, which is 58% of our total market size.

We have been expanding our source of listed companies from different markets around the world and different sectors, and we are focusing on companies from Russia.

Apart from Mainland enterprises, European, North American and Southeast Asian companies have also listed in Hong Kong. Many of them are expanding their business into Mainland China.

Similarly, many Russian companies also have strong business connections with Mainland China. Listing in Hong Kong would give them access to a growing liquidity pool in Asia, particularly in China.

The Stock Exchange of Hong Kong has also seen growing interest from natural resources companies wishing to be listed in Hong Kong.

Starting from June this year, the Stock Exchange has adopted an improved set of Listing Rules particularly catering for mineral and exploration companies. These are in line with the requirements for such companies in Canada, Australia and South Africa.

Russian firms have a strong advantage in the business of natural resources. With our improved regulatory regime, mineral and exploration companies listed in Hong Kong can better enjoy the liquidity, attractive valuation and international reputation offered by Hong Kong.

Offshore renminbi business centre

The offshore market in RMB is also growing fast in Hong Kong. Take the issue of RMB bonds for example. Last September, the Central Government launched its inaugural RMB sovereign bond issue, totalling RMB6 billion, in Hong Kong.

Hong Kong and foreign companies are also allowed to issue RMB bonds in Hong Kong, which has made us the only offshore RMB bond market in the world.

There has also been rapid growth in RMB trade settlement and the provision of corresponding banking services. Through the extended RMB trade settlement scheme commenced in June this year, Hong Kong and foreign companies can now settle trade transactions with eligible companies on the Mainland in RMB.

This could be done through the efficient clearing facilities in Hong Kong. Since mid-July, all companies, including financial institutions, can open RMB accounts at banks in Hong Kong.

The restrictions on RMB interbank transfers between personal accounts and corporate accounts have also been removed. Banks in Hong Kong can now also provide RMB conversion services to corporate customers for purposes other than for trade settlement.

All these new measures have greatly enlarged the scope of RMB banking services and financial products in Hong Kong.

Asset management centre

Turning to the asset management business. In 2009, the size of the combined fund management business in Hong Kong was about US\$1 trillion. Almost two-thirds of the funds managed in Hong Kong were sourced from non-Hong Kong investors. The size and wide range of the fund business, and the deep capital markets in Hong Kong, make us an ideal Asian centre for asset management.

Today, we have invited a number of experts and professionals to speak in more detail about Hong Kong's strength in various areas of finance and capital market activities.

I look forward to discussions on how these strengths can benefit Russian firms. I also look forward to working with you in building stronger ties between the business communities of Russia and Hong Kong.

Thank you very much.

Ends