

Speech

Speech by SFST at the 4th annual conference of the Hong Kong Investment Funds Association (English only)

Monday, October 4, 2010

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, on "Hong Kong as Asia's Fund Management Centre" at the 4th annual conference of the Hong Kong Investment Funds Association today (October 4):

Good morning, ladies and gentlemen,

It gives me great pleasure to attend the annual conference of the IFA. I am delighted to join you today to meet so many friends from various quarters of the wealth management sector. I would particularly like to thank the Hong Kong IFA for staging this event, which gives me an opportunity to share with you my thoughts on Hong Kong's role as a regional asset management hub.

Shifting of financial centre of gravity to the east

These days, when I talk to finance professionals in town, as well as overseas visitors coming to our city, I feel there is much excitement about Hong Kong, and a strong confidence in the health of our finance market and the new opportunities it offers. This level of excitement is stronger than what I felt even in the boom markets before the global financial crisis.

This confidence in our city is buoyed by the strong economic prospects in Asia. In the wake of the Great Financial Crisis, Asia and other emerging markets have regained their growth momentum, while many advanced economies in the West are still recovering from the crisis.

The strong economic performance of China through the crisis, and its leadership role in reviving global demand, has challenged the existing pecking order of economic influences around the world. There is a perception of a shift of the centre of economic gravity from the West to the East, and this will benefit Hong Kong.

There are more reasons to explain the confidence in our city. We are discovering, or perhaps I should say, re-discovering the strength of our city.

We know our business environment is world-class, our market is international, and our regulatory regime has strong international acceptance. We have a rich pool of professional talent and efficient infrastructure. And above it all, we facilitate the free flow of financial and human capital in our market.

As investors around the world are looking for Asia's opportunities, many of them are coming our way because of these strengths of our city.

What is more, we are also China's most international financial market, its traditional gateway. As investors around the world are looking for opportunities in China, they are also coming our way.

The city is also excited about the birth of a new market. We have in front of us a historic opportunity to develop new types of financial services, and to assist our country in a new phase of its market re-opening and reform. I am of course talking about the internationalisation of RMB. 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.

We are well positioned to offer an offshore RMB market. In 2004, Hong Kong is the first economy outside Mainland China to conduct yuan banking. Since the introduction of the pilot scheme of trade settlement in RMB a little more than a year ago, RMB trade settlement has been growing rapidly. Hong Kong is fast becoming an offshore RMB centre to facilitate trade settlement and related banking activities. With a pool of RMB liquidity that is being rapidly accumulated, Hong Kong has launched a variety of bank, securities and insurance products that are denominated and cleared in RMB.

We have a long history of serving the financial needs of China in its market opening process. The new market opportunities in the RMB business are a new reminder to us of the strength of our city, and our historic role in supporting the economic development of our country.

Hong Kong's advantage goes beyond location.

After the global financial crisis, we in Hong Kong, and many others in the world, have also discovered a new advantage of our financial market. It is the strength of our financial regulation. During the recent global financial crisis, there was no major disruption to our markets. Our banking system remained sound and resilient. Our regulatory regime has once again served us well in the recent financial crisis. While other financial markets are contemplating major reforms in their regulation, there are no calls for major overhaul of our regulatory structure.

Our regulators have been recognised worldwide for their professionalism, consistency and transparency. Financial markets prize certainty and predictability, and investors worldwide are discovering these virtues in our markets.

Hong Kong as a major asset management centre in Asia

All these exciting developments about our market will be beneficial to the development of our asset management industry.

Hong Kong has already established itself as a major asset management centre in Asia. There were a total of 1,968 authorised unit trust and mutual funds in Hong Kong as at the end of March 2010 and their Assets Under Management amounted to around US\$1 trillion in 2009, a whopping 45% jump from 2008.

In 2009, Hong Kong was ranked second in Asia-Pacific in terms of asset management business, after Australia and followed by Japan. Hong Kong is widely recognised as having the largest concentration of Mainland asset managers outside the Mainland. Hong Kong is also the place where nearly half of the Funds of Funds' Asian head offices are based. In recent years, Hong Kong and China combined have raised more than half of the private equity funds in Asia. All this is not surprising given Hong Kong's strength as a global equity funding leader - in 2009, total equity funds raised through IPO in Hong Kong amounted to US\$31.8 billion, ranked first globally.

What will further drive the growth of our asset management industry? The answer lies in the fundamental strengths that I have mentioned, and our unique position as China's gateway to the world's financial markets. We will help overseas managers in their search for investment opportunities in China. At the same time, we will handle money going in the reverse direction - we can lead the world to Mainland China's increasing wealth pool.

Hong Kong's position is unique because it is the only place in the world where the China advantage and global advantage converge in one single city.

For anyone looking for a place where you can tap the opportunities in both Mainland China and the rest of the world (particularly Asia), simultaneously, Hong Kong is the place to be.

Just remember:

"China Opportunities" + "Global Opportunities" =
"Hong Kong Advantage"

Government initiative

The Hong Kong Government has in the past and will continue to support our asset management industry.

We have adopted various fiscal policies in the recent past which encourage fund managers to set up and manage their funds out of Hong Kong. These include the exemption of offshore funds from profits tax, and the abolition of estate duty.

In this year's Budget, we have further proposed a number of measures to develop our asset management business such as extending the stamp duty concession in respect of the trading of exchange traded funds (ETFs), extending concessionary profits tax rate for some debt instruments, clarifying concerns on residency of directors of offshore funds.

Our regulators have made headways in expanding market access for our managers, by signing MOU to provide for the mutual recognition of products. In relation to Islamic collective investment schemes, in November 2009, the SFC signed a Declaration on Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investment Schemes with the Securities Commission of Malaysia to provide for the mutual recognition of Islamic collective investment schemes between the two markets.

There is also much appetite for exposure to Mainland China through products manufactured and distributed in Hong Kong. Hong Kong saw the first ETF tracking the China A-share market (the iShare FTSE/Xinhua A50 China Tracker) in 2004 which was also the first in the world to offer investors outside Mainland access to the A-share market. In January this year, we saw the first ETF in Hong Kong tracking a Shenzhen Stock Exchange Index. We are actively developing the ETF markets in Hong Kong. In 2009, we signed a MOU with Taiwan which provided for mutual recognition and opportunities for cross-listing of ETFs. Since then, we have listed three Hong Kong ETFs in Taiwan and one Taiwan ETF has been cross-listed in Hong Kong.

Hong Kong was the first market where Mainland monies were allowed to invest overseas through the QDII Scheme. We will continue forward in this direction.

We recognise the enormous potential for RMB financial and investment products. The Government will continue to work with our regulators, SFC, HKMA and our Mainland counterparts to build on progress so far, both in terms of policy and strategy setting, and in specific initiatives.

You can be rest assured that our Government will continue to seek ways to improve Hong Kong's business environment and make it conducive for funds to operate here.

A new direction we are working on is to facilitate funds' incorporations in Hong Kong. This will not only attract more funds to be located here but also bring many employment opportunities at all levels - from fund managers, to professional services such as accountants and lawyers to administrative support.

Promotional Activities for Hong Kong as an International Financial Centre

The Government will soon organise a global promotional campaign to showcase Hong Kong as China's Global Financial Centre. It will introduce Hong Kong as the only place in the world where the China advantage and the global advantage converge at one single city which I have talked about earlier.

The first leg will be a promotional seminar in London on November 16, 2010.

We would like to invite your counterparts in London and Europe to attend the London seminar to learn more about Hong Kong's unique position and our ability to help them tap into rich opportunities in both China and around the world. We will be organising a similar seminar in North America in the first quarter of 2011 so you can assure your American colleagues that they will not miss out!

Concluding Remarks

Once again, I would like to thank every one of you for your contributions to the asset management industry in Hong Kong. We all look forward to and will benefit from your industry scaling new heights. I wish you all a successful conference and our visitors a memorable stay in Asia's world city.

Thank you very much.

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