

## **Speech**

### **Speech by SFST at the Russia - Asia Pacific Investment Forum (English only)**

Tuesday, November 2, 2010

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Russia - Asia Pacific Investment Forum today (November 2):

Distinguished guests, ladies and gentlemen,

A very warm welcome to all of you, particularly to those who have travelled from Russia to explore opportunities with us. After you have heard what I have to say, I hope you will still consider your journey to have been worthwhile!

"Mainland China - Hong Kong - Russia" have been firmly connected for many years and in many permutations.

First of all, geographically, Mainland China and Russia are neighbours. Second, trades take place between the three places all the time, in many ways, through many different routings and directions. Third, given the simultaneous rise of the Russian and Chinese economies - we are all facing exciting new opportunities.

Given the level of economic co-operation between our nations, Hong Kong plays a central role in many financial transactions and business opportunities.

To support this growing partnership we introduced reciprocal visa-free travel arrangements between Russia and Hong Kong just last year. The number of travellers in both directions has increased significantly since then.

And in response to this trend, two Hong Kong-based airlines have launched new direct passenger services between Moscow and Hong Kong.

Since coming into office a little over three years ago, I have visited Russia more than any other foreign country. I was in Moscow in June 2008, in St. Petersburg earlier this year, and Moscow again with our Chief Executive two months ago.

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

I have had the good fortune to meet a number of leaders in Russia's financial services sector and encouraged them to raise funds and expand their business in Hong Kong. I believe there is a great deal of potential for stronger links between Hong Kong and Russia in the financial services sector.

Judging by the success of this forum, the feeling about Russian and Hong Kong businesses co-operating is mutual.

### Hong Kong's strengths

To understand the strength of Hong Kong's financial market, 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 market, 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 financial gateway to China.

As the international part of the "two systems", we have simple and low taxes; 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.

We have a world-class stock exchange that ranks top in market value of all publicly listed stock exchanges. Our financial market regulators are well known worldwide for their professionalism, transparency and effectiveness.

### Regulatory approach

Our regulatory system is a key factor behind the high quality of our financial market.

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. Our 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 us well in the current financial crisis.

In Hong Kong, when 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.

Reform measures coming out of the US and EU cover wide areas, including monitoring of systemic risk, restrictions on banks, resolution regimes for failing financial companies, trading of derivatives and oversight on 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 regulation and increase the costs of capital.

### Capital raising centre

For years, Hong Kong has served as the premium capital-raising platform for enterprises of Mainland China. As of end-September 2010, 556 Mainland enterprises were listed in Hong Kong, raising a total of US\$351 billion since the first such listing in 1993.

The total market capitalisation of Mainland stocks have exceeded US\$1.45 trillion, which is 57% of our total market size.

Apart from Mainland enterprises, companies from different markets and different sectors have designated Hong Kong as their preferred fund-raising platform.

This is not surprising given that 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 international financial needs of Chinese investors and companies.

In the first nine months of 2010, listed companies raised HK\$160 billion (US\$20.5 billion) through IPOs in Hong Kong, an increase of 153% when compared with the same period in 2009.

European, North American and Southeast Asian companies have all listed here. And earlier this year, we welcomed the first Russian enterprise to list on the Hong Kong stock market - and we are expecting more to come.

It makes perfect sense for the companies who are expanding their business into Mainland China to list here.

Listing in Hong Kong not only gives them attractive valuations but also access to a growing liquidity pool in Asia, particularly in China.

The recent listing of AIA Group Limited (AIA) illustrates the strength of our markets. The IPO was US\$20.5 billion, which is the biggest ever IPO in Hong Kong and one of the biggest ever IPOs in the world. Only Hong Kong's deep pool of capital can cater for a listing of this size.

Hong Kong's successful experience in conducting mega IPOs testifies to our strong fund-raising capability, in particular our ability to attract international capital.

The Stock Exchange of Hong Kong is continuously improving its listing process to ensure that they keep up with market needs and the latest market trends, without compromising our market quality.

## Offshore Renminbi business centre

Virtually all businesses with a Mainland connection would be interested to know that Hong Kong is well on its way to becoming the offshore centre for Renminbi (RMB) business. And Mainland China has designated Hong Kong as the place for international businesses such as yourselves to raise RMB.

Now you can also raise RMB by issuing bonds in Hong Kong. Last September, the Central Government launched its inaugural Renminbi sovereign bond issue, totalling RMB6 billion, in Hong Kong.

This was quickly followed by Hong Kong and foreign companies taking advantage of our RMB bond platform. Companies including Hopewell, a Hong Kong corporation and McDonald's, which requires no further introduction, and more recently Asian Development Bank have all issued RMB bonds here.

Earlier this year, the Central Government in Beijing gave the green light for companies around the world, including Russian companies, to settle trade with the Mainland using RMB in Hong Kong.

The ability to settle in RMB has proven a hit for many corporations. In the second quarter of 2010, the value of RMB trade settlement grew to RMB48.7 billion, which is 2.7 times of that in the first quarter 2010. In the months of July and August of this year, the value reached RMB87 billion, which is a further significant gain over the period.

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

## Why Hong Kong?

As corporations and businesses like yours eye the China market, they also realise that they cannot fully capture these big opportunities without Hong Kong. We have financial infrastructure here which connects to the rest of the world. We have a rare breed of intermediaries, like our bankers, lawyers and accountants, who can advise on international standards and regulations and at the same time are familiar with the Chinese markets.

Hong Kong's financial infrastructure can make life much easier for you in China, including helping your business settle Mainland trade transactions in RMB. Please make the most of our services.

## Conclusion

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

I look forward to working with you in building stronger ties between the the business communities of Russia and Hong Kong. I wish you all a successful conference and our visitors a memorable stay in Asia's world city.

Thank you very much.

Ends