

Speech

Speech by SFST at Hong Kong Trustees' Association Annual Conference (English only)

Wednesday, November 24, 2010

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Trustees' Association Annual Conference today (November 24):

Good morning to you all. It is an honour to join you today for the Hong Kong Trustees' Association Annual (HKTA) Conference. I would like to thank HKTA for inviting me for the second time to speak at this prestigious event.

Last time I spoke at this conference, it was two years ago and the theme that year was "Trustees Beyond 2010". Time flies, we are nearing the end of 2010 already.

So much has happened in the last two years. In 2008, we saw the collapse of Lehmans which triggered the global financial tsunami. Our economy went through a low point, but we were always confident that we would come back stronger.

Shifting of financial centre of gravity to the East

Two years on, Asia has emerged from the global financial crisis. In particular, China has led the revival of global demand since the crisis and tipped the greater economic growth opportunities from the West to the East. We now stand at a juncture where China's economy is taking off whilst markets in Europe and the US are still struggling to recover from the crisis.

Every corner you turn in Hong Kong you can feel the buzz and excitement. We have a vibrant securities market, and Hong Kong is ranked first globally in terms of initial public offerings raised in 2009. As recently as two weeks ago, we saw mega IPOs like AIA being listing on our stock exchange. The IPO was worth US\$20.5 billion, the biggest ever IPO in Hong Kong and one of the biggest ever IPOs in the world.

Hong Kong, located in the centre of the burst of economic and financial activities is bombarded with new opportunities everyday.

We believe that by reinforcing Hong Kong's considerable advantages as an international financial centre, as a place with free flow of capital, as a place with good regulations, as a place to have good access to the Chinese market and products, and also good co-operation with Chinese financial regulators, we can actually capture all these opportunities.

Hong Kong as a global financial centre

A HK government delegation went to London last week, including the SFC, HKMA and Invest Hong Kong, to tell the Hong Kong story. The theme that we came up with was "Hong Kong: China's Global Financial Centre".

Hong Kong today is living up to everyone's expectation as being China's global financial centre. We are able to ride on the rich opportunities in the Mainland by using the global connection we worked hard to establish over the years. We are part of China but yet able to cover financial activities happening in all corners of the globe. I dare say there is not another spot on planet earth where you can enjoy both opportunities brought about by the economic development of China and the advantages of being a global financial centre.

Hong Kong enjoys a deep and extensive means of connection with the mainland Chinese market. Historically we have helped the Mainland develop its capital markets. Taking state-owned enterprises as an example, it was Hong Kong who debuted them with international investors. The established market discipline in Hong Kong helped mainland China enterprises meet international best practice standards in corporate governance, accounting, disclosure and management.

We are proud to have led the development of our nation's capital markets and we are even more excited about assisting our nation's next phase of reform in market opening. It is no secret that Hong Kong has the full backing of the Central Government in developing offshore Renminbi(RMB) business.

We are well positioned to offer an offshore RMB market. In 2004, Hong Kong was 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.

Asset Management Centre

Hong Kong operates in the Asian time zone and we have a world-class business infrastructure to support our proximity to China and the rest of Asia. This includes a highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law, a rich pool of professional talent and robust infrastructure support, and the free flow of information and capital.

I have talked extensively about our preparation for being a global financial centre, now let's look at the opportunities in front of us.

After the financial tsunami, the strong rebound of China's economy has spearheaded the overall economic recovery of Asia and created abundant investment opportunities in the region. Asia is now the bright spot in the eyes of any investors.

Institutional investors in particular will place greater emphasis on Asia in their investment portfolios and it makes perfect sense for them to establish footholds locally where they have better access to information on their investments and able to respond faster to market movements.

Hong Kong is an ideal platform to access the Asian markets. Our fund management businesses have been taken to new heights in recent years. The combined fund management business of Hong Kong amounted to around HK\$8,507 billion (US\$1,091 billion) as at end 2009, up 45% from 2008.

Reasons for Reform

We are undertaking a number of legislative initiatives to further strengthen Hong Kong's competitiveness as Asia's leading business and financial hub. For instance, we are rewriting our company legislation, modernising our trust law which would be of immediate interest to you and preparing legislative proposals to introduce a corporate rescue regime.

On trust law reform, we have been working closely with the Joint Committee on Trust Law Reform (Joint Committee) consisting of members from your association and the Society of Trust and Estate Practitioners.

As you would expect from a trust law that was enacted in 1934, many provisions are outdated. The current Trust Ordinance (TO) was put together at a time when family friends were asked as favours to manage estates for the purpose of preserving wealth for future generations. As the importance of trust grows over the years, trusteeships have become a profession. For an effective and efficient management of trust, modern trustees may need to delegate some of their powers to other experts and appoint nominees and custodians. Such powers, as you can imagine, were not necessary in the "one-man-band" trusteeship arrangement one hundred years ago.

You will be hearing from my colleague, Mr John Leung, the Deputy Secretary of the Financial Services and the Treasury Bureau later this morning. He will be updating you on the latest thinking and proposals of our Trust Law Reform.

Comprehensive Avoidance of Double Taxation Agreements

Another piece of legislation you may be interested in is the Inland Revenue (Amendment) Ordinance 2010 (Amendment Ordinance). It enabled Hong Kong to adopt the Organisation for Economic Cooperation and Development (OECD) 2004 version of the Exchange of Information (EoI) Article in any Comprehensive Avoidance of Double Taxation Agreements (CDTAs) we sign with our trading partners.

Since passing the legislation, we have started signing CDTAs with many jurisdictions which would normally result in reduction of withholding tax rates on passive incomes such as dividends, royalties and interest. Tangible benefits have also been brought to our businesses and taxpayers and Hong Kong's position as an international financial centre have been significantly enhanced.

We considered taxpayers' privacy and confidentiality before we passed this legislation and provided additional safeguards in response to public concerns in the Inland Revenue (Disclosure of Information) Rules.

In particular, the domestic safeguards stipulate a mechanism to notify taxpayers before information is exchanged and a system that enables taxpayers to request a review on the factual accuracy of the information by the Commissioner of Inland Revenue and the Financial Secretary.

There are also safeguards to prevent fishing expeditions and to ensure that individual requests are foreseeable relevant.

Conclusion

Ladies and gentlemen, we see huge potential for Hong Kong to develop into a leading asset management centre in Asia. Given our strong fundamentals and competitive advantages which I have mentioned earlier, Hong Kong is best placed to capture the tremendous opportunities coming out of Asia. The reform of our trust law will further enhance our competitiveness as a global financial centre. I look forward to your continuous support in moving our financial industry forward.

Thank you very much, have a great Conference and for our overseas guests, I wish you a very enjoyable stay in Hong Kong.

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