Speech

Speech by SFST at Asia Pacific Investment Conference (English only)

Wednesday, March 7, 2012

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Asia Pacific Investment Conference held by the Chartered Financial Analyst Institute and the Hong Kong Society of Financial Analysts today (March 7):

Good morning, ladies and gentlemen,

It gives me great pleasure to attend this forum. I would like to extend a special welcome to our visitors from overseas and I hope that this conference will provide you with an overview of our financial markets and the direction we are heading.

It is generally recognised that there has been a shift of economic activities post-global financial crisis from the East to the West. This is no surprise, given that the European and US economies are still searching for a workable and sustainable recovery path. Deleveraging and high unemployment in both places are expected to linger on. There is yet to be a satisfactory resolution to the European sovereign debt crisis.

This shift of economic activities to the East has played into Hong Kong's strengths. Our expertise in connecting the international business community with opportunities in emerging markets in Asia, particularly in Mainland China, has come into great demand.

Hong Kong's Strengths

Every financial centre has its unique strengths. For Hong Kong, our standout advantage is our "One Country, Two Systems" policy. We follow the rule of law, and we hold distinct, internationally recognised financial infrastructure while being part of China. Hong Kong is China's most international financial centre. We have a rich pool of professional talent to support our business. We facilitate a free flow of capital and information.

Our regulatory regime has strong international acceptance and our regulators have been recognised worldwide for their professionalism, consistency and transparency. Throughout the financial crisis, our banks have been well capitalised and prudent in their lending practices. None of our banks have required rescuing. Securities market regulation stood the test of wide swings in the turbulent market.

Hong Kong's Role in the Past

The international financial community as well as the Central Government have seen how Hong Kong's strengths could help them capture the capital raising opportunities of the past two decades. It was a resounding success for all when Hong Kong helped with the listing of Mainland state-owned companies back in the days when China's capital market was still in its infancy. China and its professional advisers appreciated the established market discipline in Hong Kong, including our international best practice standards in corporate governance, accounting, disclosure and management. These qualities often lifted the governance of local Mainland companies to a standard international investors were comfortable with. A Hong Kong listing was akin to quality assurance. Hong Kong listing also gives these companies attractive valuations and access to a deep international liquidity pool.

We started with the listing of Tsingtao Brewery in 1993. As at end-February, we have 645 Mainland enterprises listed in Hong Kong, including all four of the Chinese state-owned banks, and have raised a total of US$412 billion since 1993 (US$29 billion in 2011).

For three years running, the Hong Kong Stock Exchange ranked number one in the world for IPO funds raised.

Beyond Listing Mainland Companies

The natural extension for Hong Kong after the series of successful Mainland companies' listings was the listing of non-Hong Kong and non-Chinese companies. With our unique time zone and valuation advantages, it is not surprising that many overseas companies, particularly those with a Chinese connection, find it attractive to list here.

Through a listing in Hong Kong, overseas companies gain access to the world's top IPO fundraising market as well as a strong secondary fundraising market. From 2009 to 2011, companies raised aggregate IPO funds of US$122 billion on our stock exchange. Let me put that into perspective: that figure exceeds the IPO funds raised at the New York Stock Exchange and the London Stock Exchange put together over the same period.

Capital is not all you get from a listing in Hong Kong. We throw in an unparalleled opportunity for brand building and secure an important presence in Asia and China. We have what other markets may have - international institutional investors - but we also have what other markets may not have: a growing number of both institutional and retail investors from Greater China and the rest of Asia.

Hong Kong Exchanges and Clearing Limited (HKEx) is the world's largest exchange group in terms of its own market capitalisation. In 2011, Hong Kong was the world's freest economy according to the Wall Street Journal and Hong Kong was named the world's financial centre by the World Economic Forum. In addition, as China's designated offshore Renminbi (RMB) centre, Hong Kong facilitates companies' access to vast capital through a variety of RMB products developed by HKEx.

Listing Rules on Foreign Companies

Listing of foreign companies is not something new to us. We first encountered it under very different circumstances more than 20 years ago. In the early 1990s, during a time of political uncertainty, some Hong Kong incorporated issuers chose to re-domicile outside Hong Kong. Nonetheless, the majority of the holders and the trading volume of these issuers' shares remained in Hong Kong. Our first set of rules for overseas issuers implemented in 1991 catered towards these re-domiciled issuers and aimed at ensuring their investors enjoyed an equivalent level of investor protection as Hong Kong incorporated companies.

The next decade and a half saw many more foreign listings, but they were mostly companies incorporated in Commonwealth countries or jurisdictions such as the Cayman Islands and Bermuda, which offer fast and convenient company registry services based on UK law.

It was after the success of the Mainland IPOs that we saw a huge demand for what I call genuine foreign companies wanting to list here. In response to the demand, HKEx issued the Joint Policy Statement Regarding the Listing of Overseas Companies (JPS), which clarified the listing requirements of overseas companies and provided a clear road map for overseas applicants and their advisers on key shareholder protection matters.

The JPS was streamlined in 2009 to do away with a detailed comparison of jurisdictional differences because we recognise that shareholder protection goal could often be achieved in a number of different ways. Cross-benchmarking to standards of any other accepted jurisdiction, not just Hong Kong, is allowed.

From 2009, we saw many firsts on our stock exchange. In December 2009, Schramm AG became the first German company to list here. In 2010, L'Occitane International S.A. was the first French company, Vale S.A. the first Brazilian company and RUSAL the first Russian company. In 2011 we listed the Japanese company SBI Holdings, Samsonite from the US and Prada S.p.A as the first Italian company. And the list goes on.

When we first started gaining experience in these foreign listings, the volume was relatively low. The stock exchange was able to examine these companies and the laws governing them on a case-by-case basis and compare them against the Hong Kong listing requirements. The final approval often involves the granting of many case-specific waivers in circumstances where investor protection is not jeopardised.

The number of listing applications from foreign companies has climbed over the years and our regulators and professionals have gathered valuable experience. I believe it is time to re-examine the efficiency of the process and the user-friendliness of the rules.

Would it give greater clarity to the foreign companies and their professional advisers if a common standard and principles are applied to all overseas listings rather than granting approval on a case-by-case basis? Any changes we make would be part of the general evolution of our rules in recognition of the fact that Hong Kong is now increasingly an international exchange, broadening out from a dominance by Greater China companies.

Secondary Listing

Secondary listing is another recent phenomenon. This is very different from primary listing because, by definition, these companies are already listed elsewhere and are subject to the rules and regulations and supervision of their home regulators. So it begs the question on whether our market and investors would be open to a lighter approval process in Hong Kong if these foreign companies are already regulated by a highly credible exchange, and of course the companies need to have a good track record.

Enforcement

This influx of foreign companies' listings brings new enforcement challenges to our regulators. Our regulators may not have as much access to information as they would for Hong Kong companies. Is that an issue? Is that something investors are willing to accept? Is it something that can be solved by disclosure? All these issues need to be discussed.

Debt Listing

Capital raising is not our only focus area. We are also continuously working on improving our debt listing platform. The process for debt listing was simplified in November last year.

The revised rules removed requirements not appropriate for debt offerings to professional investors. They also aligned us with other leading markets and enabled us to offer processing times comparable with those markets. Based on recent experience, HKEx has been able to grant approval for debt listing within 48 hours for most applications.

Conclusion

Thank you for taking the time to understand our financial market. May I wish you a fruitful conference and I hope you will find what you came looking for.

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