

## Speech

### **SFST's speech at Lipper Fund Awards Hong Kong 2012 presentation ceremony (English only)**

Monday, March 26, 2012

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the presentation ceremony of the Lipper Fund Awards Hong Kong 2012 today (March 26):

#### Introduction

Thank you for inviting me back for the second time to speak at this prestigious ceremony. I regard the Lipper Fund Awards as the "Oscars" of the fund industry.

A great movie can only be created by a team of actors, directors, cameramen, musicians, screenwriters and other talented folk. It takes much more than just Angelina Jolie and Brad Pitt. This is very much the same for the fund industry. A fund can only be successfully launched and managed if it is supported by experts from different fields - on the frontline, we have sales staff; for daily management of the money, we have fund managers; and for production and on-going advice, we have lawyers and accountants.

#### Setting the scene

A good movie typically begins by setting the scene, then goes on to introduce the main characters and plot their relationships. If I were to make a movie about Hong Kong's financial development, here is how I would begin.

It is 2012. Doom and gloom looms over Europe. Its sovereign debt crisis is weighing heavily on global economic sentiment and financial market stability. European Union leaders and the European Central Bank are scrambling to save the European banking system. If the Eurozone sovereign debt situation is not contained, the ticking time bomb under the global financial system will explode.

On the other side of the Atlantic, marginal improvements have been seen lately. But the US is still fragile - faced with onerous problems including household deleveraging, an anaemic housing market, and continuing government deficits.

## Hong Kong as a global financial centre in Asia

Hong Kong, the main character in this movie, is a very special place. Don't let its first on-screen appearance fool you. It may be small but its unique upbringing gives it a very special role.

As a city in China but outside the Mainland, Hong Kong has grown up differently from the rest of our nation. Under the "One Country, Two Systems" principle, Hong Kong enjoys the best of both worlds.

It has its own legal system, which is independent of the Mainland system and is deeply rooted in common law. It has its own low and simple tax system. It has a financial system supported by free flow of capital, information, ideas and financial talent. It enjoys a unique interpretation of capitalism and way of life.

With these merits, Hong Kong usually gets cast in the leading role as the premier gateway to Mainland China. This gateway role not only covers business and finance, but also the flow of ideas and innovations, talent and cultural appreciation.

### Asset management business

One role which Hong Kong has mastered is acting as Asia's major asset management centre. Our fund management businesses have reached new heights in recent years. There were 1,846 authorised unit trusts and mutual funds in Hong Kong in September 2011, and their Assets Under Management (AUM) amounted to over US\$1,000 billion at the end of 2010. We have international investors and we invest globally. Funds sourced from overseas investors have consistently accounted for over 60 per cent of the non-REIT fund management business in Hong Kong, and over 70 per cent of the AUM is invested outside Hong Kong.

### Offshore RMB business development

In superhero movies, ordinary human beings can be transformed into superhumans in the blink of an eye - we have Tony Stark becoming Ironman, Clark Kent becoming Superman. Financial reforms cannot happen quite so fast but progress is allowing us to approach that speed.

In its latest major strategic work - National 12th Five-Year Plan - the Central Authorities have scripted Hong Kong to be the nation's offshore RMB (Renminbi) business centre. The measures announced by Vice-Premier of the State Council, Mr Li Keqiang, last August gave us the tools to take on this important role.

How is our mission to grow the nation's offshore RMB business going so far? RMB deposits as at the end of January this year stood at RMB576 billion. Some might doubt whether the slight decline in RMB deposits in the past two months indicates a slowdown in our RMB business. In actual fact, the level of deposits can be affected by a number of reasons, including the direction of flow in cross-border trade and the availability of investment options. What happened recently is a sign that our market is becoming more diversified.

Nowadays, the amount of RMB paid by Hong Kong to settle import from the Mainland is quite balanced compared to RMB paid in the reverse direction, which is quite different from the outflow of RMB in 2010. The use of RMB deposits in Hong Kong to pay for import from the Mainland indicates the healthy development of the offshore RMB business in Hong Kong.

The level of RMB deposits is a useful indicator for assessing the development of the offshore RMB market in Hong Kong, but it is not the only indicator. Equally important is the size of RMB investment products when measuring the pool of RMB liquidity. In this regard, there were 91 issuances of RMB dim sum bonds in Hong Kong in 2011, with a total value amounting to RMB107.9 billion. The issuers included multinational corporations and overseas financing institutions.

As the offshore RMB market becomes more mature, we are seeing a broader range of RMB investment products. Besides customer deposits, banks issue RMB-denominated certificates of deposit to absorb RMB. The outstanding amount of certificates of deposit issued by banks increased from RMB5.7 billion at the beginning of last year to RMB72 billion by the end of last year. This amount of RMB raised by banks is not covered in the statistics of RMB deposits.

Working with other roles

Back to movies, heroic movie characters never work alone. Sherlock Holmes has Watson, Batman has Robin, even the seemingly invincible Tom Cruise has to assemble a team to complete his Mission Impossible.

## Treasury Market Associations

Hong Kong has the Treasury Markets Association (TMA) to help with promoting and enhancing the city's offshore RMB market. The Association plays a key role in establishing reference rates within this burgeoning market - a role which increases market transparency and encourages the development of new RMB products.

The Association also launched spot USD/CNY(HK) fixing in June last year. This is a useful reference for pricing our expanding range of RMB-denominated products. It provides a precise and impartial reference rate for use in RMB-related contracts and the management of foreign exchange risks. It also provides a website platform for CNY(HK) interbank rates to be posted.

## Going forward

Like the heroes in movies, we have to be ten steps ahead of the game. We are constantly working on plans to improve and expand our RMB market. We will explore ways to allow more financial institutions such as insurance companies to have access to the Mainland's interbank bond market for making long-term investments.

Regarding the RQFII (RMB Qualified Foreign Institutional Investor) pilot scheme, we will study how the scheme can be expanded in terms of its investment quota, the numbers and types of institutions allowed to participate and the investment coverage. Needless to say, bringing improvement to the RMB settlement infrastructure is also on our agenda. For example, the Hong Kong Monetary Authority will extend the operating hours of the RMB Real Time Gross Settlement system in Hong Kong to 15 hours - from 8.30am to 11.30pm (Hong Kong time) - by the end of June, giving financial institutions in the European time zone an extended window to settle offshore RMB payments through the Hong Kong infrastructure.

Ladies and gentlemen. Just like at the Oscars, we are all surrounded by stars on this occasion. The credit for Hong Kong's financial development goes to each and every one of you.

Thank you.

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