

Speech
**Speech by SFST at the London Stock Exchange Group Greater
China Forum (English only)**

Monday, June 9, 2014

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the London Stock Exchange Group Greater China Forum today (June 9):

Mr (Alexander) Justham (CEO of London Stock Exchange plc), distinguished guests, ladies and gentlemen,

Good morning. I am glad to join you all today at the London Stock Exchange (LSE) Greater China Forum. I would like to thank the LSE for bringing this event to Hong Kong. This is a rare opportunity for buy-side and sell-buy communities to sit together and examine the unique partnership between Hong Kong and London, the largest financial centres in their respective regions. A warm welcome to you all, especially those who have travelled a long way to join us.

Hong Kong and London are natural partners. If you walk the streets of Hong Kong, you will find that we share many similarities with London. Many would point to our traffic signs and old post boxes. But if you look closer, the list of similarities goes far beyond that.

Both cities share a legal system based on the common law, the use of English as an official language, and they each embrace diversity, transparency, accountability and economic freedom. Both have modern service economies operated by a highly educated work force with a global outlook. This is probably why Hong Kong and London have developed into two of the world's largest international financial centres over the past decades.

It could even be said that we share the same pool of capital and professional talent. In this age of globalisation we see funds flowing into and out of a region in response to international developments. It is also common for skilled professionals working in Hong Kong to have spent time working in London and vice versa. Many have even completed part of their education in the other city.

So it is not surprising that there is talk of increasing competition for capital, talent and business opportunities between international financial centres.

It is true that international finance is an extremely competitive industry. Avid investors search the globe for the lowest capital costs and the best investment opportunities. Companies list themselves in markets where they are given the most attractive valuations. The best brains are ready to pack their bags and relocate to the places that offer the best rewards for their work. Yet I do not see the relationship between Hong Kong and London, or any financial centres for that matter, as a simple zero-sum game.

This is because, despite their similarities, Hong Kong and London are also very different places. First of all, we operate in different time zones. When I buy my coffee in the morning, many Londoners are probably just going to bed. We also serve very different groups of customers. Located in the geographic centre of East Asia, Hong Kong has long been a commercial and financial hub for Greater China and much of Asia, just as London is for the UK and Europe. Our status as a Special Administrative Region of China under the "one country, two systems" arrangement also gives us unique access to the Mainland market as it continues to open up and reform.

What, then, is the relationship between Hong Kong and London as international financial centres? What is the scope for co-operation between these two cities in the age of the global village? I would say the scope is unlimited. Hong Kong and London's understanding of each other is unparalleled. Their mutual understanding is the result of historical, cultural and human links that were built over one and a half centuries. We have also been watching each other closely as we develop our financial markets, to the extent that our development has become complementary.

The growth of the offshore Renminbi (RMB) market in Hong Kong and London is a good example. The offshore RMB market was born when basic banking services in RMB were first offered in Hong Kong about 10 years ago. This was followed in 2007 by the introduction of offshore RMB bonds, dubbed the "dim sum" bonds. The cross-border trade settlement scheme followed two years later. The launch of the RMB Qualified Foreign Institutional Investor Scheme (RQFII) in 2011 allowed offshore RMB to be invested in onshore equity and bond markets. This set the stage for RMB to develop into an international investment currency. In the process, Hong Kong has also developed into the largest offshore RMB centre, serving not only customers in Hong Kong but also the rest of the world.

During this period, London did not just sit on the sidelines. As one of the

world's most active centres for interest rate and currency products, it launched its RMB market way before a local clearing bank was on the horizon. It did so by settling its RMB trades via the clearing facilities operated by the Hong Kong Monetary Authority. The RQFII scheme was expanded to include London last October, the first time it was offered outside Hong Kong. This move was made after the scheme had run smoothly for more than two years in Hong Kong. There is much for the financial professionals of the two cities to share, and the private sector-led Hong Kong-London Forum was launched for this purpose – specifically, to promote mutual co-operation on the development of international RMB business. Assisted by the Hong Kong Monetary Authority and the UK Treasury, the Forum has met three times since it was launched in 2011. The participants have agreed on a number of initiatives to promote the use of RMB by corporate bodies around the world.

Saving the best for last, let us now turn to the Shanghai-Hong Kong Stock Connect scheme announced in April. Expected to commence later this year, our stock-connect scheme not only turns a new page in China's opening up of its capital market, it will also offer many new opportunities for co-operation between Hong Kong and London.

The programme is a two-way arrangement, whereby investors can use RMB funds in the offshore market to invest in shares listed on the Shanghai Stock Exchange. At the same time, Mainland investors can use RMB funds in the onshore market to invest in shares listed on the Hong Kong Exchange. The arrangement will strengthen the strategic co-operation and interaction between capital markets in Hong Kong and the Mainland. It will also catalyse the two-way RMB fund flows between onshore and offshore markets, and further increase RMB liquidity in Hong Kong. Companies wishing to attract investors from the Mainland or raise their profile among them may also consider a listing in Hong Kong. London-based investors with RMB funds will be able to take part in this new scheme to access the onshore stock market using Hong Kong's platform.

This stock-connect scheme is only the beginning. China has launched reforms leading to more balanced growth. The leadership team is keen to keep the growth momentum going. The Central Government set out the national reform blueprint for the next decade during the Third Plenum last November. Financial reform is a top agenda item. The plan calls for an orderly, risk-managed and two-way opening of the capital account, as well as further liberalisation of the foreign exchange and interest rate regimes. The plenum also

advocated the strategy of promoting reform through opening up. This will be carried out through improved access for foreign investors and the establishment of free-trade zones.

Building on a strong track record of market development and policy innovation, Hong Kong is ready to play a vital role in the Mainland's continued reform and opening up. Hong Kong has acted as a testing ground for new reform initiatives ever since the days when the first H-share was listed here 20 years ago. More recently, we have been playing a key role in the establishment of the offshore RMB market.

The benefits of China's reforming and opening process will be shared far beyond Hong Kong. How China manages its reform and growth will matter greatly to the world. London Stock Exchange is here today at the right time, as these reforms will surely bring new business opportunities to the rest of the world.

As a Special Administrative Region of China well connected with other business hubs in the world, Hong Kong will continue to connect the Mainland with its business partners. We will also continue to provide a low-risk test environment for new reform initiatives. Hong Kong's professionals have acquired much expertise during this process. We are ready to share this knowledge with other business partners as they seek to take advantage of the opportunities arising from the Mainland's opening process.

Ladies and gentlemen, I have walked you through a partnership between two cities that covers more than one and half centuries. I hope I have convinced you that the best days still lie ahead of us. I would like to thank the LSE once again for organising this full-day programme, which is packed with useful sessions covering topics ranging from exchange traded funds to stock listing and derivatives. I encourage you to take this opportunity to explore further means of co-operation between these two great cities.

Thank you.

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