Speech

Speech by SFST at Morningstar Investment Conference 2014

(English only)

Thursday, June 12, 2014

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Morningstar Investment Conference 2014 today (June 12):

Joe (Mansueto), Nick (Cheung), distinguished guests, ladies and gentlemen,

Good morning everyone. I am delighted to join you all today at the Morningstar Investment Conference 2014. I am pleased that Morningstar is staging its first investment conference here in Asia. I am even more pleased that you have chosen our city to be the venue for this groundbreaking event. This is an excellent occasion for industry experts to meet and discuss issues that are important to the industry from an Asian perspective. I can assure you that there is plenty to talk about.

The reform and opening of our country, China, has been the driving force behind the development of Hong Kong's financial markets in the past decades. Since the first Mainland China company was listed on the Hong Kong stock market 20 years ago, the so-called H-shares have really taken off. At the same time, Hong Kong has become a highly effective testing ground for new financial reform initiatives coming out of Beijing. At the end of May, there were a total of 165 H-shares listed on the Hong Kong Stock Exchange. H-shares have raised more than HK$1.6 trillion over the years. Together they are worth over HK$4.7 trillion today (US$606 billion). With Mainland companies listed on a market that is directly accessible to the rest of the world, China is now a firmly established investment destination for international securities investors.

More recently, Hong Kong has played a key role in the liberalisation of the Mainland China currency, the Renminbi (RMB). In fact, this year marks the 10th anniversary of the launch of an offshore RMB market in Hong Kong, the first such market outside Mainland China. In February 2004, the first RMB banking services were launched in Hong Kong, and the rest is history. After banking services came offshore debt-raising, which was followed by a scheme to facilitate offshore RMB trade settlement. As the market continued to open up, we took on the role as an international centre for offshore investment and risk management products. We have since accumulated the largest pool of RMB outside Mainland China amounting to more than RMB1.1 trillion in deposits and certificates of deposit.

Up to the end of April 2014, 414 RMB bonds, or "dim sum" bonds, had been issued in Hong Kong with a cumulative outstanding amount of more than RMB388 billion. Last year, RMB-denominated trades worth RMB3.8 trillion were settled by banks in Hong Kong, representing a year-on-year increase of 46 per cent. According to SWIFT (the Society for Worldwide Interbank Financial Telecommunication), the RMB has overtaken the Swiss Franc as the world's seventh payment currency, with Hong Kong handling 72 per cent of the activity in April this year.

The RMB Qualified Foreign Institutional Investor (RQFII) scheme introduced in 2011 was one of the most groundbreaking developments for Hong Kong's asset management industry in recent years. The scheme vastly expanded the investment scope of offshore RMB funds by giving them access to the onshore equity and fixed income markets. Making use of the RMB270 billion quota granted, RMB-denominated investment funds mushroomed in Hong Kong. By the end of March, the number of retail unlisted RQFII funds reached 31, with RMB14.6 billion under management. In addition, there are 16 RQFII exchange traded funds (ETFs) listed on the Hong Kong Stock Exchange, with total asset management reaching RMB38.4 billion by the end of April.

Capital has also started to move in the other direction. Gone are the days when Mainland China was solely an investment destination for foreign capital. As more and more wealth is created, individuals and enterprises in Mainland China are increasingly seeking to invest their funds overseas. There is much room for Hong Kong to grow into the asset management centre serving outbound capital coming from the Mainland.

We are building on solid foundations. According to the annual Fund Management Activities Survey 2012 published by the Securities and Futures Commission (SFC), the combined fund management business in Hong Kong reached a record high of HK$12.6 trillion (about US$1.6 trillion) as of end-2012, representing year-on-year growth of 39.3 per cent. The figures also showed that Hong Kong continued to serve as an investment platform for attracting capital from non-Hong Kong investors, who have contributed over HK$8 trillion (or 64.6 per cent) in 2012.

In addition to leading international asset management houses, Hong Kong is also home to the largest concentration of Chinese securities and fund management companies outside Mainland China. At present more than 60 per cent of our funds are coming from overseas; Mainland investors are still underrepresented in our market. There is ample room for us to attract more outbound capital from Mainland China. To keep the momentum going, the Hong Kong Government will strive to provide a competitive legal and regulatory framework, and a clear and competitive tax environment.

In March, we launched a three-month public consultation on plans to introduce a new open-ended fund company (OFC) structure to complement the existing unit trust structure. Open-ended investment companies are gaining popularity within the fund industry as a vehicle for investment funds. We believe that the OFC initiative will help Hong Kong develop into a comprehensive asset management centre, covering registration, product manufacturing, investment management and sales and marketing. By providing an additional choice for the industry, we seek to attract more funds to base in Hong Kong.

We are also preparing the legislative work to extend the profits tax exemption for offshore funds to also include private equity funds. Under the proposal, the exemption will include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong. This will attract private equity funds to expand their business in Hong Kong.

The exchange traded funds market has seen rapid development. In 2010, we extended the stamp duty concession to cover ETFs that track indices comprising not more than 40 per cent of Hong Kong stocks. The number of ETFs listed in Hong Kong has since risen from 69 at end-2010 to 116 at the end of last year. The daily average turnover of ETFs also increased from $2.4 billion to $3.7 billion, making Hong Kong one of the largest ETF markets in the Asia-Pacific region. To further promote the development of the market, we propose to waive the stamp duty for the trading of all ETFs in order to lower the transaction costs. We plan to introduce the legislative amendments into the Legislative Council in the next legislative session.

We are also working with the Mainland China authorities on arrangements for the mutual recognition and cross-border offering of funds between Hong Kong and Mainland China. A general consensus has been reached between our SFC and relevant Mainland authorities on the arrangement, pending formal approval from the State Council. When implemented, this arrangement will further promote the diversification of fund products in the Mainland and Hong

Kong.

Another new development that will give fresh impetus to the market is the Shanghai-Hong Kong Stock Connect pilot programme announced in April. It is widely regarded as the boldest measure yet in China's gradual opening up of its capital market. The programme is a two-way arrangement which will enable Hong Kong and international investors to use RMB funds in the offshore market to invest in eligible shares listed on the Shanghai Stock Exchange. At the same time, RMB funds will also be remitted from onshore to offshore when Mainland investors invest in eligible shares listed on the Hong Kong exchange.

The arrangement will strengthen the strategic co-operation and interaction between markets in Hong Kong and Mainland China. It will also facilitate the two-way flow of RMB funds between the onshore and offshore markets, and further increase the liquidity of the offshore RMB market in Hong Kong. Funds based in Hong Kong will be able to take part in this new scheme, which is expected to commence in six months' time.

Ladies and gentlemen, I have mentioned a few of the latest financial developments in our region. Our financial services industry is a high value-added industry which generates about 16 per cent of our GDP. I am confident that there is enormous potential to develop the financial services sector further and take full advantage of the rapid financial developments in Mainland China as well as the rest of Asia.

Once again, I would like to congratulate Morningstar on organising this event in Hong Kong. I wish you a very successful Investment Conference and our visitors a wonderful stay with us in Hong Kong.

Thank you very much.

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