Speech
Speech by SFST at Financial Times Asset Management Summit 2014
(English only)

Thursday, June 19, 2014

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Financial Times (FT) Asset Management Summit 2014 today (June 19):

Angela (Mackay), distinguished guests, ladies and gentlemen,

Good morning. I am very delighted to join you all today at the FT Asset Management Summit 2014. Now in its third year, this summit has become a highlight on Hong Kong's financial services calendar. I am very pleased that the FT shares our enthusiasm for the asset management industry by hosting the summit in Hong Kong. I will first speak to you about the great opportunities in Hong Kong as we see it. Indeed when we look at Hong Kong in the coming decade, we see a lot of potential for Hong Kong in developing the asset management industry to cater for the needs of China. I will argue that the potential opening of the capital account of China will provide great opportunities to Hong Kong and the region.

The reform and opening up of the Mainland China capital markets has been a driving force for our own market. If you look at the success of the equity market in Hong Kong, the hosting of IPOs (initial public offerings) from China, how Hong Kong became the sixth largest stock market in the world and the second largest in Asia, and all that would not be possible if not for the opening of China's capital markets. When we look at our own history, we also see that Hong Kong is providing a critical function for China's strategy in opening up the economy. Why does a Mainland Chinese company come to Hong Kong for listing? Of course, fundraising is one of the reasons but also using Hong Kong as a place for the Chinese firm to adopt international accounting standards, knowing how to deal with investors. These are also very important for the Chinese firms in the past to come here to list and are the reasons why the Chinese Government chose Hong Kong as an IPO centre in order to facilitate reform. Our close connectivity with, and deep understanding of, the Mainland China markets means there is much room for further regulatory co-operation. We provide a unique gateway for the Mainland market to reform and open up in a risk-controlled manner.

The rapid development of the offshore RMB market is another demonstration of what Hong Kong can offer as China's global financial centre. Without interfering with regulations onshore, the RMB is today the seventh most-used currency for payments worldwide, with offshore exchange and interest rates determined entirely by market forces. Those with offshore RMB funds may choose to place their money in deposits, bonds or investment funds according to their risk appetite. They may also make use of products under the RMB Qualified Foreign Institutional Investor (RQFII) scheme to invest in onshore equities and bonds. They may even invest directly in projects in the Mainland through direct investment arrangements. At the same time, those with RMB funding needs may choose to draw a loan in RMB or issue an offshore "dim sum" bond. You may also manage your RMB risk exposures by utilising RMB insurance policies as well as listed and over-the-counter derivatives traded offshore here in Hong Kong.

Today's dynamic offshore RMB market is the result of successive reform measures coming from Beijing and implemented under the regulatory framework in Hong Kong. It all began with the first offshore RMB clearing bank being appointed here in 2004. Since then policy makers and regulators in the Mainland and Hong Kong have been working closely together to roll out new initiatives one after another. In the process, Hong Kong has become a highly effective testing ground for new financial reforms coming out of Beijing.

The Shanghai-Hong Kong Stock Connect announced in April is the boldest step yet in China's charge towards an opened capital account. The scheme will open Shanghai's stock market to offshore RMB investors through Hong Kong's trading infrastructure. Mainland investors will also be able to use their onshore RMB funds to invest directly in Hong Kong's stock market. Through the link-up between the two stock exchanges, the capital markets in the two cities will be connected with minimal risk and regulatory change. We are currently working very closely with the relevant Mainland authorities in order to kick off the scheme within this year.

As an IPO centre, Hong Kong has helped many Chinese companies raise capital from around the world. The Shanghai-Hong Kong Stock Connect will provide a path of least resistance for RMB funds to flow between the two markets.

What, then, does Hong Kong have to offer to Chinese capital seeking to go overseas? Hong Kong's vibrant asset management industry has been growing rapidly. Expanding by almost 40 per cent year-on-year between 2011 and 2012, our combined fund management business has reached a record high of HK$12.6 trillion (about US$1.6 trillion). We are already home to the largest concentration of Chinese securities and fund management houses outside Mainland China, serving as a base for them to expand abroad. Currently, more than 60 per cent of funds in our asset management industry are sourced from non-Hong Kong investors. The launch of the RQFII funds has given Hong Kong-licensed, Mainland-related asset managers access to international liquidity via Hong Kong's platform. This has allowed these Mainland-related asset managers to take advantage of Hong Kong's platform to increase their brand recognition outside the Mainland. As the RQFII scheme is set to expand, capital inflows into the Mainland are likely to increase, and more firms in Hong Kong are expected to become eligible to participate. Therefore, it is foreseeable that there will be increasing Mainland participation in the asset management business in Hong Kong, which will benefit both economies.

The Hong Kong Government is working hard to provide a competitive legal and regulatory framework, and a clear and attractive tax environment to support further growth of the industry. The public consultation on our plan to introduce the open-ended fund company (OFC) as a fund vehicle ends today. The OFC structure is a proposal in response to the market need for a more flexible choice of investment fund vehicle. Under the current law, an open-ended investment fund may be established only in the form of a unit trust but not in corporate form due to various restrictions on capital reduction under the Companies Ordinance. We hope that this new market choice will help attract more funds to use Hong Kong as their investment platform and help Hong Kong develop into a comprehensive asset management centre encompassing the registration, launching, management, sales and marketing of fund products.

We are also working on the legislative proposals to extend the offshore profits tax exemption to private equity funds. The exemption will include transactions in private companies incorporated or registered outside Hong Kong that do not hold properties nor carry out business in Hong Kong. This will allow private equity funds to enjoy the same tax exemption as offshore funds, attracting them to expand their business in Hong Kong.

In 2010, we extended the stamp duty concession to cover ETFs (exchange-traded funds) that track indices with no more than 40 per cent in Hong Kong equities. To further promote the development of the ETF market, we are planning to waive the stamp duty for the trading of all ETFs with a view to reducing transaction costs. We aim to introduce the legislative proposal in the next legislative session.

We have also been working closely with the Mainland authorities on arrangements for the mutual recognition and cross-boundary offering of funds between Hong Kong and Mainland China. General consensus has been reached between our Securities and Futures Commission and relevant Mainland authorities on the arrangement, pending formal approval from the State Council. When implemented, this arrangement will help diversify the range of fund products available to investors in the Mainland and Hong Kong.

Ladies and gentlemen, fast-moving markets have become a feature of our post-crisis financial world, and few markets are moving more quickly or more significantly than those of Mainland China. The theme of this year's Summit: "Finding Effective Solutions in Fast-Moving Markets" is highly appropriate for us in Hong Kong. With unparalleled global experience and Mainland connectivity, Hong Kong is an "effective solution" for fast-moving Chinese markets. As Mainland China continues to move forward with its opening up and reform policies, there are tremendous opportunities to further develop the financial services sector. I invite all of you to join us in taking full advantage of the rapid financial developments in the Mainland of China as well as the rest of Asia.

Thank you very much.

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