Speech

Speech by Acting FS at Thomson Reuters' 5th Pan Asian Regulatory Summit (English only)

Thursday, October 30, 2014

Following is the keynote speech delivered by the Acting Financial Secretary, Professor K C Chan, at the Thomson Reuters' 5th Pan Asian Regulatory Summit today (October 30):

Distinguished guests, ladies and gentlemen,

Good afternoon.

It is indeed a pleasure for Hong Kong to host the Pan Asian Regulatory Summit for the third time. This is an excellent opportunity for leaders from key financial institutions in the region to exchange views on important regulatory issues.

Because Hong Kong hosts the Summit every two years and we hope to do more in future, it motivates me to ensure that we make good progress on getting our regulatory environment right. Let me share with you Hong Kong's score card, which shows how we are making major progress in three key areas.

First, fulfilling international obligations. As we are inextricably hooked up to the global financial system in Hong Kong, we have to ensure that our regulatory environment is on a par with international standards. At the same time, and this is very important, we are very mindful of the needs of the local community and our unique market. So we always aim to strike the right balance.

We implemented the first phase of the Basel III capital standards in January last year. Our locally incorporated banks remain well capitalised under the new standards. At the end of June 2014, the consolidated capital adequacy ratio reached 16 per cent - well above the minimum international standard of 8 per cent.

Full implementation of Basel III standards will make our financial markets more resilient. We are working to implement the second phase of Basel

III standards, covering liquidity standards, capital buffers and leverage ratio disclosure requirements. In line with the Basel Committee timetable, we are aiming to bring them into effect from January 1, 2015.

In compliance with the G20 commitments on over-the-counter derivatives regulatory reform, the relevant primary legislation was enacted in Hong Kong in March this year. The regulatory regime will be implemented in phases, starting with the reporting of standardised interest rate swaps and non-deliverable forwards. This will be followed by introducing regulations on clearing and trading.

In line with the Key Attributes promulgated by the Financial Stability Board, we are also working on an effective regime to resolve non-viable financial institutions. In April, we completed a three-month public consultation on this area. We aim to launch the second stage of the public consultation later this year on details of the regime, with a view to introducing the legislative proposals next year.

Hong Kong has also been a staunch supporter of international efforts to promote tax transparency and combat cross-border tax evasion. We are pursuing comprehensive agreements on avoidance of double taxation and tax information exchanges with other jurisdictions. Hong Kong has been an active participant in the work of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. Recently in Hong Kong we gave our support for the new global standard on automatic exchange of information on a reciprocal basis with appropriate partners. Provided that the domestic legislation is in place by 2017, we plan to start exchanging information by the end of 2018. Before placing this before the legislature, we will be engaging local stakeholders and address relevant legal and policy issues. Obviously there are quite a lot of issues that we need to work through to bring the community on board.

Turning to my second point, international obligations aside, we are also working hard to strengthen the local financial regulatory regime. We are in the process of establishing an independent Insurance Authority to replace the existing Government regulatory body. After several rounds of public consultations and industry engagements, we introduced a bill to our legislature earlier this year. The new regulator, who will administer a statutory licensing regime for insurance intermediaries, will be financially and operationally independent of both the Government and the industry. This will be a win-win formula benefiting policyholders and the insurance industry.

We also propose to reform the present regulatory regime for listed entity auditors, currently considered by many as largely a self-regulatory regime. In line with international standards, this reform aims to enhance the independence of the regulator from the auditing profession. We completed the public consultation on the reform proposals last month. We are working closely with stakeholders to achieve the aim of enhancing investor protection, while minimising the impact on the audit profession. We are currently looking at the submissions that we received, and preparing the relevant legislative proposals.

In regard to the securities sector, a statutory disclosure regime has been in place since January last year. Under the new regime, listed companies are required to disclose price sensitive information in a timely manner, backed by civil sanctions for any non-disclosure. Along with the updates on the Corporate Governance Code and Listing Rules which came into effect in 2012, the new measures have enhanced market transparency and quality, as well as corporate governance of listed companies.

I am sure some of you may have complained about the complex and ever-changing regulatory environment. You are not alone. But please rest assured that governments and regulators are taking pains to avoid market fragmentation and unreasonable compliance burdens, as we work to improve investor protection and the resilience of our financial system. We want to develop rules comparable with overseas jurisdictions, based on standards and guidelines set by international bodies. We also want to develop rules that meet the needs of the local community. That's why our regulators, who you have seen in the last two days, have been participating in global forums to contribute to the international standard-setting process.

We know that too many burdens on the industry could stifle market development and competitiveness. This leads me to the third area of our work, which is to facilitate market development. Our latest initiative is Shanghai-Hong Kong Stock Connect.

You might have heard about this programme. Under this pilot programme, the capital markets in both places, Hong Kong and Shanghai, will be connected directly. Investors from Hong Kong and around the world will be able to trade on 568 Shanghai-listed securities through the Hong Kong Stock Exchange. Mainland investors will be able to trade on 266 Hong Kong-listed shares through the Shanghai Stock Exchange. This programme will enhance Hong Kong's position as the largest offshore RMB market by increasing RMB liquidity and the two-way RMB fund flows between onshore and offshore markets. The scheme, more importantly, will open up the Mainland capital markets to the world and promote the use of the RMB as an international investment currency. As you know, the launch date of this scheme has not been fixed, but rest assured that we are working on the project to bring about its successful launch.

We are also going the extra mile to strengthen our leading position in the asset management industry. Hong Kong is Asia's largest asset management centre, with total assets under management reaching a record high of HK$16 trillion last year. In fact, 70 per cent of the funds came from outside. Our new initiatives include the introduction of a new open-ended fund company, or OFC structure, to attract more investment funds to domicile in Hong Kong. We also plan to extend profits tax exemption enjoyed by offshore funds to private equity funds, and also we are introducing measures to waive stamp duty for all exchange-traded funds.

There is also a proposal for mutual recognition of funds between Hong Kong and Mainland China. General agreement has already been reached between the respective regulators, pending formal approval by the Central Government. The arrangement will expand the investment options for offshore RMB and provide a wider choice of products to investors in both markets.

It is also our goal to facilitate the sustainable development of our local bond market. The Government Bond Programme, introduced in 2009, has helped increase the depth and breadth of the market. The first batch of RMB-denominated sovereign bonds in Hong Kong was issued by the Ministry of Finance in 2009. We have successfully placed RMB5 billion worth of these bonds with overseas central banks. With a tenor of up to 30 years, the bonds have helped the development of a benchmark yield curve for RMB bonds in Hong Kong.

The issuance of the first sukuk by the HKSAR Government last month marked a milestone in the development of the Islamic capital market. Incidentally, this was also the first US-dollar sukuk originated by an AAA-rated government. The issue, which was 4.7 times over-subscribed, was a great success. This proves the benefits of raising sukuk funds in Hong Kong.

Ladies and gentlemen, the record high number of participants at this year's Summit shows that regulatory issues remain on top of the agenda for our region's financial institutions. I would take this as a positive sign that all of us are staying vigilant six years after the global financial crisis of 2008. As we implement new reforms designed to prevent future crises, it is important for us to strike the right balance between regulations and market development. For example, when I talk about the Insurance Authority that we are setting up, in terms of the mission of the insurance regulator, other than regulating the market we also task the regulator with market development. So we are asking the independent regulator to work with the industry in order to develop that industry in Hong Kong.

Six years after the crisis, Hong Kong remains a stable and dynamic economy. We will continue to make the best use of our platform to help channel capital in and out of Mainland China, and to play a vital role in capital market reforms in Mainland China.

I wish you all a successful Summit and our visitors an enjoyable stay in Hong Kong.

Thank you.

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