

Speech

Speech by SFST at HKIFA 8th Annual Conference (English only)

Monday, November 3, 2014

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Investment Funds Association (HKIFA) 8th Annual Conference today (November 3):

Mr (Bruno) Lee, distinguished guests, ladies and gentlemen,

Good morning. It is a great pleasure to join you today at the HKIFA Annual Conference. I last spoke to you, to this conference, in 2010. My focus then was on the "strong confidence" - the "excitement" - the world had in Hong Kong, the health of our finance market and the new opportunities we offered the world.

Well, four years later, it's fair to say that some of you might be wondering about the state of Hong Kong, given the continuing protests. To that, let me say that we are working hard to bridge the political divide that exists in our community. And I believe that the decency and mutual respect Hong Kong has long been known for will help us find a way forward.

At heart, I am a pragmatist. While there can be honest differences in politics among the people of Hong Kong, that need not - and will not - impinge on what Hong Kong does best: create business opportunities here in Asia and around the world. With that in mind, I'm pleased to tell you what we've been up to in financial services - what we've accomplished and what we've set our targets on.

Allow me to begin with Hong Kong's asset management industry, which has been growing from strength to strength. According to the Fund Management Activities Survey conducted by SFC (Securities and Futures Commission), the total combined fund-management business reached a record high at the end of last year, topping HK\$16 trillion. That's a growth of more than 27 per cent, year on year.

Our deepening economic integration with Mainland China makes Hong Kong the ideal testing ground for measures designed to gradually open the

country's capital markets. The rapid growth of the offshore Renminbi (RMB) market over the past 10 years certainly showcases the role Hong Kong can play.

Perhaps most relevant to the asset management industry is the RQFII (Renminbi Qualified Foreign Institutional Investor scheme). Launched in 2011, the arrangement allows holders of offshore RMB to invest in Mainland equities and bonds. Under the RQFII, the range of products available to offshore RMB holders has vastly increased, promoting the RMB as an international investment currency.

At the end of August, 74 Hong Kong financial institutions were qualified under the scheme, with approved quotas reaching RMB265 billion. Some 55 fund products have been approved by the SFC, including 16 exchange traded funds (ETF). At the end of June, RMB63 billion was managed under RQFII products. It's fair to say they are now an integral part of our asset management industry.

It's important here to note that the capital flow is a two-way street. After years of rapid growth and wealth accumulation, Chinese companies and individuals are increasingly seeking to invest their capital offshore. And Hong Kong's asset management industry is uniquely positioned to serve this ever-growing need.

In this regard, we provide a competitive tax and regulatory framework to help our asset management industry meet the challenges and opportunities. Public consultation on our plan to introduce an open-ended fund company, or OFC, as a fund vehicle, ended in June. We believe that the OFC will attract more funds to Hong Kong; that it will help us develop a more comprehensive asset management industry, one that encompasses registration, investment, and sales and marketing of fund products.

We are also planning extra support for the private equity industry. This will be in the form of a profits tax exemption on transactions in private companies incorporated or registered outside Hong Kong, and those neither hold properties in Hong Kong nor carry out business here.

The ETF is a product popular among those investing overseas for the

first time. To promote their use, we will waive the stamp duty for the dealing of all ETFs.

We've also been working closely with the Mainland authorities on the proposed mutual recognition and cross-boundary offering of funds. Once implemented, the range of fund products available to investors in the Mainland and Hong Kong will expand significantly.

Then of course there's the Shanghai-Hong Kong Stock Connect, which will allow Mainland investors to invest directly in 266 stocks listed in the Hong Kong market. The scheme will also open Shanghai's stock market to international RMB investors using Hong Kong's trading infrastructure. Although the launch date has not yet been fixed, we will continue to work hard to bring about the successful launch of the scheme. Once launched, it will bring unprecedented opportunities to the financial world. Indeed, in a recent New York Times feature on the initiative, a senior Western banker in Asia called it "the single most important development in China's intention to internationalise this market".

Industry growth, of course, is not without challenges. As a good global citizen, Hong Kong has been a supporter of international efforts to promote tax transparency and combat cross-border tax evasion. We are pursuing comprehensive avoidance of double-taxation agreements and tax-information-exchange agreements with other jurisdictions. We have also been an active participant in the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

Recently, we indicated our support for the new global standard on the automatic exchange of information with appropriate partners on a reciprocal basis. Indeed, we hope to have legislation in place by 2017. With that, we would begin the first information exchanges by the end of 2018. Our next step would be to engage local stakeholders and to address relevant policy and legal issues before seeking our legislature's approval.

On this, we look forward to your support and input. The key here is in protecting Hong Kong's status as an asset management centre.

The Government is also keenly aware of the talent shortage in the

industry. According to a survey by the Vocational Training Council, there is a general need for qualified professionals in all areas. After engaging the industry in various ways, we found that there is a need to raise the awareness of the spectrum of career opportunities available in the financial industry. It is also important for practitioners to continue to upgrade their skills.

To solve the human resource challenge, I ask the industry to join us in making the development of talent a priority. This can be in the form of increased hiring at the university graduate level and additional training and mentoring for junior staff. After all, human resources are our most important asset.

Ladies and gentlemen, as Mainland China continues to move forward with its opening up and reform policies, it opens up tremendous opportunities for our asset management industry. I trust that you will make the most of your annual conference to explore ways of taking full advantage of these opportunities - in Mainland China and throughout Asia.

Thank you.

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