

## Speech

### **Speech by SFST at Seminar on RMB Business and Shanghai-Hong Kong Stock Connect in Paris, France (English only) (with photos)**

Wednesday, December 3, 2014

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Seminar on RMB Business and Shanghai-Hong Kong Stock Connect in Paris, France, on December 2 (Paris time):

Mr (Stephane) Janin, Mr (Arnaud) de Bresson, Mr (Philippe) Ruault, ladies and gentlemen,

Good morning.

It is a great pleasure to be here in Paris. This is my first official visit to the City of Lights. Of course, I haven't seen much of that storied light yet this morning. But not to worry. I took in the brilliant Christmas lights of Paris last night. And they'll keep me aglow until the holiday lights return again this evening.

In the meantime, I'm here to spotlight Hong Kong-France ties. For that, my thanks to the organisers - the Paris EUROPLACE, the AFG, the HKTDC office in Paris and the HKETO in Brussels, for hosting this morning's seminar.

Ties between France and Hong Kong have never been stronger. Those of you who attended the "Think Asia, Think Hong Kong" symposium here in Paris, in late October, saw that first-hand. More than 2 600 French businesspeople and government officials participated in the day-long event. Financial Secretary John Tsang led a senior business and government delegation from Hong Kong and Mainland China. More than 1 500 business-matching meetings took place.

The purpose of Think Asia, Think Hong Kong was to showcase the advantages of Hong Kong for French businesspeople looking to tap the vast markets of Mainland China and Asia in general.

Of course, French business is already very well acquainted with Hong

Kong's strengths as an Asian base of operations. Indeed, some 17 000 French nationals live and work in Hong Kong. And, according to the Overseas French Association, Hong Kong is home to 800 French companies, including financial giants BNP Paribas, Credit Lyonnais, Credit Agricole and AXA. French companies in Hong Kong employ 30 000 people and generate about Euro 8 billion in revenue a year. It helps that the Comprehensive Double Taxation Agreement between France and Hong Kong has been in place for three years now.

We are also fortunate that our two economies, and cultures, complement each other so well. Consider. Hong Kong is an international financial hub, as well as a shopping paradise and culinary capital. It is no coincidence that Hong Kong, in 2008, became the first Asian city beyond Japan to be awarded the Michelin Guide's prestigious stars. In the latest edition, released just in October 2014, five Hong Kong dining establishments were honoured with the coveted three stars.

France, on the other hand, is a banking powerhouse, and a global leader in the good life - in the production, and consumption, of food, wine and luxury goods.

We are no less connected when it comes to the business of money, of international finance. Indeed, French financiers first set up shop in Hong Kong in 1862, barely 20 years after Hong Kong opened for business. More than 150 years later, there are no less than 11 banks of French-interest operating in Hong Kong.

Our stock market, Asia's second largest and the sixth-largest in the world, attracts French companies seeking to boost their brand in Asia. In 2010, L'Occitane en Provence became the first French company to be listed in Hong Kong. This was followed by Sun Art Retail Group Ltd the following year.

France and Hong Kong are also close partners in growing the offshore Renminbi market. Our offshore Renminbi market was born in 2004, when Hong Kong banks began to offer a range of Renminbi services, from deposit-taking, to exchange, remittance and card services. These services were expanded to non-residents in 2012. With the daily conversion cap for local residents scrapped only last month, it will be more convenient for local residents

to conduct Renminbi financial transactions.

We've come a long way since 2004. Today, the combined value of deposits and certificates of deposits in Hong Kong has passed the RMB1.1 trillion mark. The market for offshore Renminbi bonds, dubbed "dim sum" bonds, got going in 2007. At the end of October, RMB577 (US\$94) billion was raised through 462 "dim sum" issues.

I'm pleased to note that, since 2011, French companies have raised more than 7 billion Renminbi through nine "dim sum" issues. I am sure that other French companies are in need of Renminbi capital to fund their Mainland China operations, and will soon follow suit.

I have some good news for the money managers here today - I know there are many - you can now get a piece of the "dim sum" action with little trouble. By investing in funds, and that includes Exchange Traded Funds, you can get exposure to indexed or actively managed "dim sum" portfolios. Ways are also being created for offshore Renminbi holders to access onshore equity and bond markets.

Launched in 2011, the RMB Qualified Foreign Institutional Investors scheme vastly expanded the use of the Renminbi as an investment currency. At the end of October, we had 74 fund products, including 17 exchange traded funds.

In 2012, Mainland China surpassed the United States to become the world's largest trading nation - just three years after the Mainland began to settle trade in its own currency. Hong Kong, again, played a pioneering role. In 2009, Mainland China introduced the Renminbi cross-border trade settlement pilot scheme, which was extended nationwide two years later. Good progress has been made since. During the first three quarters of this year, Renminbi trade settlement handled by banks in Hong Kong amounted to RMB4.5 trillion.

According to the Society for Worldwide Interbank Financial Telecommunication, the Renminbi overtook the Swiss franc as the world's seventh most-used payment currency earlier this year. Banks in Hong Kong now handle around 70 per cent of the global RMB payments.

In short, Hong Kong is your global Renminbi hub. By the end of September, 223 institutions were participating in our Renminbi settlement, with 198 of them coming from the Mainland and overseas.

In October, we also extended the operating hours of our Renminbi settlement system from 11.30pm to 5am of the next day, Hong Kong time. That gives our American and European partners an extended window in which to settle payments. According to a recent report by HSBC, by the way, French companies are the most avid users of the Renminbi beyond Greater China. Some 26 per cent of French corporations were settling trades in the Chinese currency.

Hong Kong is also a centre for Renminbi product innovation. Since 1996, offshore non-deliverable forwards on the Renminbi have been traded over the counter between institutions in Hong Kong. Retail customers also joined the market in 2005.

This was followed by a liquid market for options and cross-currency swaps, backed by the debut of the Hong Kong Interbank Offered Rate, or HIBOR fixing - the first offshore Renminbi interest-rate benchmark last year.

In each case Hong Kong has proved to be the ideal testing ground for the liberalisation of the Renminbi. And I'm pleased to say that the economic integration between Hong Kong and Mainland China continues to deepen. Look no further than the Shanghai-Hong Kong Stock Connect. It kicked off last month and may be the boldest step yet in that integration.

The programme is a two-way arrangement. Through the Hong Kong Stock Exchange, offshore Renminbi investors in France, or anywhere else in the world, can invest directly in 568 stocks listed on the Shanghai Stock Exchange. At the same time, Mainland investors can use onshore Renminbi funds to invest directly in 268 shares listed on the Hong Kong Exchange. These stocks make up about 80 per cent and 90 per cent, respectively, of Hong Kong's and Shanghai's market capitalisation.

That combined market capitalisation topped US\$6 trillion at the end of September. Let me put that another way: Thanks to Stock Connect, you can now access the world's largest stock market outside the US, backed by the

world's fastest-growing major economy.

This pilot programme is expected to diversify Shanghai's investor mix, one that is currently dominated by local individual investors. It will also enhance Renminbi liquidity in Hong Kong by stimulating Renminbi flow between onshore and offshore markets.

The scheme also provides Mainland investors easy access to global companies listed in Hong Kong. Indeed, French companies may consider a listing in Hong Kong to attract Mainland investors or raise their profile with them. And France-based investors with Renminbi funds can take part in the scheme through Hong Kong.

Stock Connect is only a beginning. We are also working closely with the Mainland Chinese authorities on the mutual recognition and cross-border offering of fund products between Hong Kong and the Mainland. General consensus on the arrangement has already been reached. Once it's formally approved, the arrangement will give investors a broader range of fund products to choose from. Asset managers will also enjoy a huge expansion in the reach of their products.

Hong Kong is uniquely positioned to help Chinese companies and individuals invest overseas. The Hong Kong Government already provides a competitive tax and regulatory framework to help our asset management industry. And we are in the process of introducing an open-ended fund company as a fund vehicle. This will attract more funds to Hong Kong, and help us build our fund services related to the registration, investment and sales and marketing of fund products.

We are also planning to support the private equity industry through a profit tax exemption on transactions by private companies incorporated or registered outside Hong Kong, and those that neither hold properties in Hong Kong nor carry out business there. We are also planning to waive the stamp duty for all trading in ETFs.

Last month, Banque de France (Bank of France) and the Hong Kong Monetary Authority signed an MOU to strengthen their cooperation on the business development of the Renminbi in Hong Kong and France. The Bank of

France also signed an agreement with the Chinese central bank, and the Bank of China was authorised to be the local Renminbi clearing bank in Paris. We look forward to working closely with our partners in France to promote the Renminbi as an international trading and investment currency.

Ladies and gentlemen, with unparalleled global experience and Mainland connectivity, Hong Kong is your ideal gateway to the tremendous opportunities that Mainland China's continuing economic reform offers. I invite you to join us, to realise those opportunities through Hong Kong. I assure you, they will reward us all.

Thank you.

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