

**Speech**  
**Keynote Speech by SFST at London Stock Exchange Group**  
**Greater China Forum (English only)**

Monday, June 15, 2015

Following is the keynote speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the London Stock Exchange Group Greater China Forum today (June 15):

Alex (Mr Alexander Justham), distinguished guests, ladies and gentlemen,

Good morning. A warm welcome to you all, especially those who are traveling here to join us today. I am very glad to speak again at the London Stock Exchange (LSE) Greater China Forum. It was barely one year ago when I spoke at the inaugural forum here in Hong Kong. I spoke about the ties and similarities between Hong Kong and London, and how we could work together to grow the offshore Renminbi (RMB) market. I also spoke rather excitedly about the Shanghai-Hong Kong Stock Connect.

And here we are one year later. I would be very excited if I were the CEO of a listed company about to report to my shareholders. Indeed, RMB trade settlement handled by Hong Kong banks grew by 9 per cent year on year to RMB1.6 trillion during the first quarter. The Shanghai-Hong Kong Stock Connect was successfully launched last November. The scheme proved to be an excellent catalyst for mutual interest between the two markets. The recent jump in trading volumes is no doubt a reflection of that.

I would also be glad to report that ties between Hong Kong and London have also been growing from strength to strength. We have been working closely as partners in growing the offshore RMB market. A RMB clearing bank was appointed in London last year. The UK Government also issued its first RMB bond, which is the first non-Chinese issuance of sovereign RMB debt. The RQFII scheme was expanded to London in 2013 after running smoothly in Hong Kong for two years. As of May, 10 UK-based firms have already been awarded RQFII quotas, totalling RMB20 billion.

In Hong Kong, we have extended the operating hours of our RMB settlement platform to 20.5 hours daily to provide financial institutions in

different time zones more time to settle their RMB payments. According to SWIFT (the Society for Worldwide Interbank Financial Telecommunication), RMB payments in value grew by more than 100 per cent globally in 2014. The RMB is already the second most used currency for trade finance.

After all, the private sector is the driver behind internationalisation of the RMB, and our professionals have much to learn from each other. The private-sector-led Hong Kong-London Forum to promote co-operation on the development of international RMB business was launched in 2011 for that purpose. Facilitated by the Hong Kong Monetary Authority and the UK Treasury, the Forum met for the fourth time in November last year. The participants highlighted the need to ensure that RMB liquidity in Hong Kong and London is fully fungible. They also agreed to further develop the RMB repo market as a tool for liquidity management.

Let me also give you a quick update on other initiatives that we are pursuing. Currently in focus is of course the implementation of mutual recognition of funds arrangement, or MRF, announced just last month. Under the MRF, qualified Mainland and Hong Kong funds may be offered directly to retail investors in each other's market with streamlined approval procedures. Regulators of both sides will begin to accept applications from 1st of July. We expect the first recognised fund to appear in the market very soon.

The MRF exemplifies the Mainland Government's commitment to open its capital market. It will expand mutual capital market access between the Mainland and Hong Kong in an orderly manner. Under the MRF, capital flows will be managed by professional asset managers. This will help raise the participation of institutional investors in the Mainland.

Under the MRF, the investing public in both places will also gain access to an expanded range of fund products. The MRF is also a huge boost to Hong Kong's fund industry. It will surely expand our industry's distribution network and attract more funds to domicile here. This will help expand fund manufacturing capabilities and help Hong Kong develop into a full-fledged fund management centre.

At the same time, Mainland investors will have access to recognised Hong Kong funds. These funds may invest in any offshore markets as long as

they are domiciled in Hong Kong. This would include, of course, stocks listed on the London Stock Exchange, and other exchanges.

From a macro perspective, the MRF will also lay the foundation for the CSRC (China Securities Regulatory Commission) and SFC (Securities and Futures Commission) to jointly develop a regulatory standard. A shared standard will help promote integration of the Asian asset management industry and the transfer of Asian savings into cross-border investments.

Fintech is currently a hot topic in financial circles. London is rapidly moving on with an innovative approach to promote and regulate these new and potentially disrupting technologies. As we know technology is not new to finance. We have been transacting with our phones and the Internet for more than 10 years now. However, recent advances in mobile and data technologies are empowering more changes. Start-ups and e-commerce businesses are competing with traditional providers in offering financial services in many countries. Social media promises to change the way young people access financial services.

Like London, Hong Kong is a natural base for Fintech activities as an international financial centre. Our population has a reputation for embracing new technology. We also have professionals who know the nuts and bolts of modern finance, and insights on how to improve the system, or even disrupt the system. Given the right ecosystem, these professionals will team up with technology experts to turn insights into reality through new business models and applications.

Fintech as we know is also developing rapidly in the Mainland. Our proximity to the Mainland allows Fintech firms based here to expand into the Mainland. Many innovations in Fintech come from start-ups, and thus it is also our goal to develop a healthy ecosystem to support these start-ups.

In this regard, the recent explosion in start-up activities in Hong Kong is encouraging. The number of start-up co-work spaces and accelerators has grown from three in 2010 to 35 last year. According to surveys by InvestHK, our investment promotion agency, the number of local start-ups has reached 1,065, growing by 30 per cent over the past year. Of these, 74 are involved in Fintech. Out of the top 100 Fintech companies in the world, 41 already have a

presence in Hong Kong. These statistics point to a very initial development of the Fintech sector, but they suggest that the ecosystem that supports it is taking shape in Hong Kong.

I am currently leading a steering group to look into Fintech for Hong Kong. Members are drawn from academia, regulatory bodies and the industry. The convergence of finance and technology is one of the most important and exciting spaces to watch today. There is much room for co-operation between Hong Kong and London in this important area.

Among other things, we have talked about the RMB internationalisation, mutual recognition of funds and Fintech. If there is one theme that connects all, it would be the word "integration". And communication is the basis for integration. With that in mind I would like to thank the LSE again for organising this forum once again. Enjoy the rest of the programme.

Thank you.

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