Speech

Speech by SFST at Alternative Investment Management Association in Asia 2016 (English only)

Thursday, January 21, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Alternative Investment Management Association (AIMA) in Asia 2016 today (January 21):

Jack (Inglis), distinguished guests, ladies and gentlemen,

Good morning. It is a great pleasure for me to join you all today at this AIMA in Asia 2016 conference. This is the second time you hold the conference in Hong Kong and it has become a highlight on the city's financial event calendar. We appreciate your doing this particularly in this week when we hold the Asian Financial Forum as well as a number of other Asian financial events, getting our city very much concentrated on thinking about finance and regional economic growth.

It is also good to meet and share during times of market turbulence. During the first two weeks of 2016, we have seen substantial corrections in equity markets worldwide, caused by anxiety over slowing growth and plummeting commodities prices. In fact, the IMF has just lowered its global economic growth forecast for 2016 from 3.3 per cent to 2.9 per cent. The equity market perhaps knows it already. Oil prices slumped to below US$28 a barrel, a low not seen since 2003. The year 2016 is likely to remain a bumpy one.

The economic fundamentals and financial infrastructure that we have now today are different from the times when we experienced similar kind of turbulence. If you compare the Asian markets today with those some 20 years ago, certainly the economic fundamentals are very different. Looking at the degree of possible contagion between markets now vis-à-vis the 2007/08 period, the financial infrastructure is also very different. There are reasons to believe that even with volatilities behaving the way they are, the responses and development may not look like what we went through.

Asian markets have started to respond to the first US rate hike since 2006. As interest rate gap between the Hong Kong dollar and the US dollar begins to widen, the Hong Kong dollar has weakened against the US dollar as the massive inflow of capital to Hong Kong begins to reverse, pretty much predictable and within expectation. The normalisation of monetary policy in the US has been a long time coming. Supported by a solid financial infrastructure, I am confident that our markets will remain resilient as the consequences of normalisation unfold. The media have been talking about the Hong Kong dollar peg and we have every confidence that the peg is supported by a well-designed system.

In fact, our markets have made substantial progress since the last crisis. The asset and wealth management industry in Hong Kong is doing particularly well. According to our Securities and Futures Commission (SFC), the total combined fund management business has grown from HK$8.5 trillion in 2009 to HK$17.7 trillion in 2014. That's more than a double in five years. The number of corporations licensed for asset management by the SFC has also topped 1,000 in 2014, growing by 8.5 per cent year-on-year.

The phenomenal growth of the broader industry is also mirrored in the hedge fund sector. Total hedge fund AUM in Hong Kong has more than doubled in the past five years, expanding from US$55.3 billion in 2009 to US$120.9 billion in 2014. The number of hedge funds managed by SFC-licensed managers has reached 778 at the end of September 2014.

Despite the increase in the number of funds and AUM, equity long/short and multi-strategy remain the most popular investment strategies. There is, however, a notable increase in participation of investors from outside America and EU, rising from 16 per cent in 2009 to 38.7 per cent in 2014.

This trend is the result of a number of factors. Despite recent market volatilities and slowing global growth, emerging and developing Asia is expected to grow 6.3 per cent in 2016 according to the IMF. With growth come investment opportunities. Many investors have turned to Hong Kong to take advantage of our central location and superior connectivity.

Asian investors are also becoming increasingly sophisticated. In 2014, Hong Kong-based investors accounted for 7.9 per cent of the total hedge fund AUM, compared to just 1.9 per cent five years ago. As China becomes the world's second largest economy, Chinese companies and individuals are looking for ways to invest their capital. Hong Kong is often their first offshore destination.

On the part of the Government, we are keen to further consolidate Hong Kong's position as an asset management centre. Through a number of new initiatives, we seek to attract more funds to domicile here and develop Hong Kong into a comprehensive fund service centre, covering activities from product design and management to marketing and distribution. We believe this will drive demand for other relevant professional services.

First of all, we are going to introduce the open-ended fund company as a fund vehicle. Available for public funds as well as hedge funds, the new fund structure will give the industry an alternative to the existing unit trust form. Last year we extended the profits tax exemption for offshore funds to the private equity sector to encourage private equity funds to expand their business in Hong Kong.

In the meantime, surely you are aware that we have been doing quite a lot to improve connectivity between our market and the Mainland market. The Shanghai-Hong Kong Stock Connect has been running smoothly for more than a year, under a range of market conditions. Through direct connection between the two exchanges in the same time zone, the Stock Connect allows direct access between two markets in a risk-managed manner. We expect the link to become more mature as investors find out how to use it. The Shenzhen-Hong Kong Connect, once implemented, will allow investors access to many fast-growing smaller Chinese companies listed in Shenzhen.

Another example on connectivity that we are working on, implemented in July last year, is the mutual recognition of funds arrangement. It allows qualified Mainland and Hong Kong funds to offer directly to retail investors in each other's market, subject to authorisation or approval under streamlined procedures. As of today, the SFC has already approved 23 Mainland funds for distribution in Hong Kong. Three Hong Kong funds are approved by the CSRC for distribution on the Mainland.

The mutual recognition arrangement is very important as it allows the Mainland and Hong Kong regulators to work together to develop a shared set of regulatory standards, in addition to broadening cross-border investment channels. Although not opened to hedge funds, the scheme will no doubt raise the awareness of different investment options on the Mainland, including hedge funds.

Another initiative that we are tackling is fund distribution. The industry has reflected that it is a challenge shared by the entire asset management industry, alternative or otherwise. We understand that the SFC, though at a very preliminary stage, is exploring the possibility of exchange-based platforms for fund investors as well as other similar electronic platforms for distribution of fund products.

You may also notice that we have been promoting the trading of Exchange Traded Funds (ETFs). We have waived all stamp duty on the transfer of ETFs last year. As of December 2015, there were 26 ETF issuers and a total of 133 ETFs listed in Hong Kong. During the first 11 months of 2015, the Hong Kong Stock Exchange ranked sixth in the world and third in Asia by ETF turnover. They contributed to about 8 per cent of our exchange's cash market turnover, still small as compared to the turnover in Europe and the US so more work is coming to promote the industry.

Finally, about innovation and technology. We believe that financial technology will play a crucial role in the development of Hong Kong's financial industry. Broadly speaking, Fintech refers to the application of technology in finance. People in the finance industry are no strangers to technology as it has been helping you to do your work faster and safer.

We see that a vibrant Fintech ecology is taking shape in Hong Kong, taking advantage of our position as an international financial centre. We see a lot of co-working spaces, incubator and accelerator programmes that started here, many of them are engaging in Fintech, focusing on a great variety of projects like trading and investment portfolio optimisation.

It is no surprise that many overseas entrepreneurs are joining local companies to launch Fintech start-ups in Hong Kong. We have a large body of professionals specialised in various aspects of finance. Such domain knowledge is fundamental to the success of the Fintech industry and Hong Kong is an ideal hub for Fintech companies to scale up and expand into Mainland China and other Asian markets.

The Government is very keen to promote Hong Kong's development into the Fintech hub for Asia. In fact, new Fintech initiatives are already under way. One of them announced in the Chief Executive's Policy Address last week is the plan to set up an HK$2 billion Innovation and Technology Venture Fund for co-investing with private venture capital funds on a matching basis. Our goal is to encourage investment from venture capital funds in local innovation and technology start-ups.

Talent is the principal driver behind the success of the financial services industry. However, many students and graduates in Hong Kong are often unaware of the range of functional posts and career opportunities within the sector. As a result, the industry often finds it difficult to attract new joiners to relatively technical functions like operations, compliance and risk management.

As such, the Government has earmarked HK$100 million to enhance training for asset and wealth management and the insurance sectors. For the asset and wealth management sector in particular, we are working with the industry to sponsor summer internships relating to asset and wealth management at Hong Kong's financial institutions. There will also be financial incentives for in-service professionals to beef up their skills and knowledge through further training.

That's a quick word from me to share with you some of the initiatives that we are working on to make Hong Kong an even stronger asset management centre. I'd like to thank everyone for joining us today in Hong Kong.

Thank you.

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