Speech

Speech by SFST at Moscow Exchange Forum 2016

(English only) (with photos)

Wednesday, April 13, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Moscow Exchange Forum 2016 in Moscow yesterday (April 12, Moscow time):

Mr (Alexander) Afanasiev, distinguished guests, ladies and gentlemen,

Good morning. Thank you for inviting me to speak at the Moscow Exchange Forum 2016 today. This is my fifth trip to Russia so I have long interest in promoting financial co-operation between the Hong Kong market and the Russian market, and I am very glad to be here.

Hong Kong and Russia have just signed a comprehensive agreement for the avoidance of double taxation, which is good for investors in both economies. We are pursuing other agreements such as the investment promotion and protection agreement and the free trade agreement with Russia, and I hope we will have progress there.

Now let me turn to the topic today on how the regulators help the market. In Hong Kong, the principal regulator of our securities market is the Securities and Futures Commission (SFC), a statutory body funded mainly by a levy on all trading. It is responsible for day-to-day supervision of intermediaries, with investigative, remedial and disciplinary powers independent of the Government.

Regulated by the SFC, the Hong Kong Exchanges and Clearing Limited (HKEX) operates the only stock exchange and futures exchange in Hong Kong and is the front-line regulator of the companies listed in Hong Kong.

In the Hong Kong market, we emphasise good corporate governance, which is secured through a transparent audit and disclosure regime. The responsibility of the Government is to ensure that the regulatory framework can best enhance financial stability, investor protection and promote market development. This is achieved through formulation of policies and introduction of legislation that takes into account global needs, local circumstances and the co-ordination of various stakeholders in the process.

In simple words, in formulating policies, the Government and the regulators must be open to new ideas, and continuously monitoring the effect of existing regulations on the market development, and strike a proper balance between investor protection and market development.

The framework has been serving the market well. As some of you may know, Hong Kong's stock market was the seventh largest in the world and the third largest in Asia. Our financial sector is also acknowledged by the Financial Sector Assessment Programme of the International Monetary Fund as one of the largest and most developed in the world.

Given the size and complexity of the securities market, we need to constantly review the relevant regulatory regimes, streamline procedures and enhance market efficiency and quality. For example, only recently in last month, the Government asked the SFC and the HKEX to conduct a joint public consultation exercise on enhancing the regulatory structure in respect of listing matters.

The reason for this review is not prompted by any incident. It is simply that we want to respond to, one, some market concerns about the quality of newly listed companies, and second, an increased perception of market risks mainly in the overall macro economy and also in China's economy. We want to make sure that we have reviewed our listing procedures to enhance market quality and to streamline procedures for better efficiency.

The Government clearly has a strong hand in the market development. Let me give you two examples. The introduction of Renminbi (RMB) products and linkages between the Hong Kong market and the Mainland market. Today, Hong Kong is home to the largest offshore RMB liquidity pool and Hong Kong banks process over 70 per cent of offshore RMB trade settlements.

On developing the connectivity between the two markets, the most recent major milestones include the Shanghai-Hong Kong Stock Connect launched in 2014, and the Mutual Recognition of Funds arrangement implemented last year. In each case new initiatives are preceded by government-to-government, regulator-to-regulator and industry-to-industry dialogues between Hong Kong and our Mainland counterparts, with inputs from the industry being considered during the process.

Another example is the fund management industry in Hong Kong. This is very important to us. We have got the largest fund management sector in Asia and we are keen to promote the fund management industry further. So in the last couple of years, the Government and the regulators have launched numerous initiatives to attract more funds to domicile here and develop Hong Kong into a comprehensive fund service centre.

We have waived all stamp duty on the transfer of exchange-traded funds last year. We have also introduced profits tax exemption for offshore funds, and more recently extended to the private equity sector. We are also going to introduce the open-ended fund company as an alternative fund vehicle to provide investment managers with more options when they set up their funds.

Again, many of these initiatives are the result of the Government consulting the industry, like how we went to the industry to ask for ideas for attracting more funds to domicile in Hong Kong, in terms of fund structures and tax incentives for example. We do not satisfy the industry on every one of their requests - say we are very cautious on giving tax incentives - but by and large we are very open to industry requests and would try to satisfy their needs.

Another topic that has generated much interest in our market is the development of Fintech, financial technology. As an international financial centre, Hong Kong is an ideal place for Fintech companies to flourish. The market participants in Hong Kong have come to us saying that a lot of changes in legislation need to be done to accommodate Fintech. Our response is that we have to look at the situation carefully. We must continue to protect investors and we must examine what needs to be done in our legislation. We did make some changes, for example we passed the legislation in Hong Kong last year to introduce a regulatory regime to cover stored value facilities and retail payment systems.

We introduced this because we realise that without changing the existing laws, it would be very difficult for e-payment to flourish in Hong Kong. It does not, however, mean that every business model under Fintech calls for changes in legislation. Some innovations touch on on-boarding, Know-Your-Customer processes and privacy issues and often only require clarifications of the existing regulations from the regulators.

The Hong Kong Government and our financial regulators are ready to engage in open dialogues on new and evolving business models that can offer consumers novel experiences in managing their finances and provide financial institutions with tools to improve their operational efficiency. To further facilitate the dialogue with the industry, our banking, securities and insurance regulators have established their respective dedicated liaison platforms to enhance communication between regulators and the Fintech community. Our goal is to ensure that an appropriate balance between market innovation and investors' protection can be reached in response to these new business proposals.

Ladies and gentlemen, the topic of our session today is "What the market expects from regulators, and regulators expect from the market". In Hong Kong, the relationship between the Government and the regulators on one hand, and the market participants on the other, has always been a bilateral one, based on open dialogue.

In this respect, back to what I have said at the beginning about encouraging more financial co-operation between the Hong Kong market and the Russian market, I also believe that the efforts call for open dialogue between market participants in your market and our market, as well as regulators in the two markets.

Once again, thank you very much for giving me the opportunity to speak at the forum and I wish you every success in today's discussion. Thank you.

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