Speech

Speech by SFST at Hong Kong Securities and Investment Institute Autumn Dinner 2016 (English only)

Thursday, October 20, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Securities and Investment Institute Autumn Dinner 2016 today (October 20):

John (Chairman of HKSI Institute, Mr John Maguire), distinguished guests, ladies and gentlemen,

Good evening. I'm pleased to join you today at the HKSI Institute Autumn Dinner. I notice that the dinner has been held here at the Asia Society three years in a row already. By now I'm convinced that this is indeed a perfect location for an Autumn Dinner. I love the venue, but due to the typhoon, cannot enjoy it tonight.

Meanwhile, the global financial markets were not exactly smooth sailing over the past few years. We witnessed the dramatic fall of oil prices from over US$100 per barrel to less than half that value in 2014. Last year, some of us were surprised by the volatility in the mainland markets. Others were more concerned about monetary normalisation in the US when other central banks were moving rates into the negative. This year we went through Brexit, and will find out who will be the next US President very shortly.

In Hong Kong, our markets have remained robust. Our IPO market has remained strong. In fact, Hong Kong ranked first in terms of IPO funds raised in 2015 and this year so far. Our asset management industry has also been doing well. Our combined fund management businesses reached HK$17 trillion at the end of last year. This is almost a double from 2011.

Such phenomenal growth is also mirrored in the hedge fund sector. Total hedge fund AUM in Hong Kong was over US$120 billion in 2014. This is again a double over the previous five years. At the end of September 2014, there were almost 800 hedge funds managed by managers licensed by the SFC (Securities and Futures Commission).

The introduction of the Shanghai-Hong Kong Stock Connect in 2014 was another milestone. First of all, the scheme has illustrated the commitment of the Mainland authorities to bilateral opening and the role Hong Kong plays in the process. Moreover, smooth operation over the past two years has demonstrated our execution ability, as well as the mutual co-operation between the regulators.

Meanwhile, the Mutual Recognition of Funds (MRF) arrangement launched last year is a breakthrough for our asset management industry. This is the first such scheme between the Mainland and a market outside the Mainland. The MRF also allows regulators on both sides to jointly develop a shared set of regulatory standards for fund products. This is again a first for Asia.

We have also upgraded our legal and tax regime to give our asset management sector a further push. As a start, we have waived all stamp duty on Exchange Traded Funds (ETF) transactions in 2015. During the first seven months of this year, Hong Kong ranked third in Asia in terms of ETF turnover and the number of ETF listed.

To support the private-equity business, we extended the profits tax exemption for offshore funds in 2015.

We are also going to introduce the open-ended fund company, or OFC, as a fund vehicle. The industry welcomes this as a more flexible and efficient alternative to the existing unit trust form. We hope to attract more funds to set up in Hong Kong. This will help us build a more comprehensive asset management industry and there will be more jobs across the fund industry, from registration and investment to sales and marketing.

At the same time, we are also tackling the challenge of fund distribution to make fund products more accessible. We understand that the SFC has started to explore exchange or electronic-based platforms for fund investors.

This initiative, however, can be considered in the light of a bigger trend in the industry. Yes, I am talking about the use of new technology in the financial services industry, or Fintech in short. We believe Fintech can significantly bring down the cost of providing financial services. This is powerful. And Fintech has the potential to fundamentally transform the financial services industry.

We have been working with the industry and regulators to explore the opportunities for Fintech in Hong Kong. We have every reason to believe that Hong Kong can be a Fintech hub for Asia and beyond. Much is happening already, including the dedicated space and incubation programme at the Cyberport as well as those supported by the industry. Fintech entrepreneurs can also make use of new and existing funding schemes. The pool of aggregated funding is no less than HK$5 billion. The SFC, the HKMA (Hong Kong Monetary Authority) and the insurance regulator have also set up dedicated platforms to engage with the Fintech community. And Hong Kong will be hosting our first Fintech Week in early November, do watch out for the programmes.

Looking forward, there are good reasons to believe that there is much room for Hong Kong to go further, given our positioning and the great pool of talents here. As the mainland market continues to open, Hong Kong is best positioned to benefit from the resulting fund flows. Our markets are well-tested with a solid track record on risk management. We are well positioned for new growth in demand for financial services.

I have given a brief review of the achievements we have made. This is not to say that our financial services industry is without challenge. To start with, the global financial market remains highly uncertain. The macro outlook for the world is affected by low growth and worry about whether the low interest rates policy is still effective. It is not surprising for companies and investors to remain cautious about new investments under these circumstances. This has a dampening effect on financial transactions, or investor appetite around the world. The decrease in trading and corporate finance deals has made the business environment more difficult for financial institutions and fund managers.

With so much about the markets feeling uneasy, what can we do? My answer is that we should do our best to build on our strength. I would say we need to work harder to make our market stronger. On the equity market, we should increase the strength of our listing platform and a trading centre for equity products. I notice that the joint consultation paper of the SFC and the SEHK on enhancements to listing regulation and governance has brought about lots of discussion. The discussion has been wide ranging, covering the regulatory and developmental aspects of our market regulation. Open discussion among stakeholders is both healthy and welcomed.

To me, the real challenge we face is how to make our listings more attractive to investors worldwide. Clearly we must ensure we have a quality market, because investor confidence in our market is the key to our competitiveness. But we also need to diversify types of industries and companies represented in our market. We should make our market attractive to companies of different industries and from different countries to seek a listing.

This is not a new goal. But the markets have changed. The economy has changed, and there are many exciting emerging new industries. We need to re-examine our market positioning, regulation, and marketing to see how we can be stronger and better. I look forward to discussion that leads to a shared vision with industry and regulators, and from there, an action plan.

With vision comes manpower need for market development. It is with this in mind that I would like to thank the HKSI Institute for its continued support. Just days ago we jointly launched the Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector. This will help attracting new blood to expand the talent pool, and enhance the professional competency in the asset and wealth management sector.

We look forward to working closely with the industry and the HKSI Institute to take our financial services industry to newer heights. And, congratulations again to the Senior and Hononory Fellows of the Institute.

I wish you all a nice evening. Thank you.

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