Speech

Speech by SFST at ASIFMA's 7th China Capital Markets Conference (English only)

Wednesday, June 14, 2017

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Asia Securities Industry & Financial Markets Association (ASIFMA)'s 7th China Capital Markets Conference on "Hong Kong's Role in China's Capital Markets Development Including the Belt and Road Initiative" today (June 14):

Mark (Chief Executive Officer of ASIFMA, Mr Mark Austen), distinguished guests, ladies and gentlemen,

Good morning, and thank you Mark for your very nice introduction. It is great joining you today at this China Capital Markets Conference. I remember speaking here to members and friends of ASIFMA about two years ago on an RMB (Renminbi) topic and today I am asked to talk about Hong Kong's role in the development of China's capital markets, with the inclusion of the Belt and Road Initiative.

I have been in this post for 10 years and my perspective here is one of government of course, talking about how we see Hong Kong's role in the capital markets development in China. It is also a bit of personal involvement because after all much of what is going on actually took place in the last 10 years.

To begin with, when we talk about Hong Kong's role in the capital markets development in China, let's not forget one thing: that Hong Kong is economically very integrated with China. That is the starting point as without economic integration, you cannot have any meaningful financial collaboration. Let me give you some numbers. Hong Kong is the Mainland's largest source of foreign direct investment (FDI), accounting for about 51.7 per cent of the national total as at the end of 2016. So Hong Kong has been the intermediary of the FDI flows into China. On the other hand, Hong Kong has also been the Mainland's largest destination of outward direct investments and when China's money is going out, it also has been going through Hong Kong. We have always been an intermediary to facilitate investment flows in both directions.

Today the RMB is ranked seventh on the list of global payment currencies, and has become an international trading, investment and reserve currency not only here in Hong Kong but also in many parts of the world. The offshore RMB market was born right here in Hong Kong in 2004, when Hong Kong banks started to do personal banking services like remittance, currency exchange and so on. Once the RMB internationalisation policy took place, Hong Kong's RMB market developed very quickly. Despite the volatilities in exchange rates sometime earlier, the RMB liquidity pool in Hong Kong stood at RMB602 billion and remains the largest in the world.

We have a lot of financial products developed along the way. One that you are very familiar with is the "dim sum" bond which started in 2007. As the market grew, we had very active trading of the RMB in the offshore market where interest rates were determined by market forces.

In 2009, cross-border trades were allowed to be settled in RMB for the first time. The introduction of the RMB Qualified Foreign Institutional Investor scheme in 2011 allowed investors to invest directly in onshore capital markets. The CNH HIBOR fixing was introduced in 2013 and subsequently other interest rate and foreign exchange tools linked to the RMB were launched to allow investors to manage relevant risks.

And then we had the RMB being included in the Special Drawing Rights basket of the International Monetary Fund and I am sure Hong Kong will continue to play an instrumental role in the development of the offshore RMB market.

Now let's turn to the bigger market, the equity market. The H-share market as we know today was born in 1993 when the first Mainland H-share was listed in Hong Kong. Since then, we have become one of the major fundraising platforms for Mainland enterprises seeking to "go global". At the end of last year, a total of 1,002 Mainland companies were listed on the Stock Exchange of Hong Kong, accounting for 63 per cent of the total market capitalisation. About US$25 billion was raised through IPOs last year, placing Hong Kong at the top of the global rankings for the second year in a row.

We know that a listing in Hong Kong is not just about raising funds. It is also about access to international investors and benchmarking the governance, accounting and disclosure requirements against the best of international standards. Hong Kong is a platform providing opportunities for Mainland companies to improve their corporate governance and management processes through raising money in our market.

As investors are showing more and more interest in accessing the Chinese markets, and likewise for Chinese investors to access the overseas markets, we have the connect schemes. The Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect demonstrate once again how Hong Kong can contribute to the opening up of the Mainland's capital markets. These connect schemes were not easy to conceive or implement and Hong Kong has been in a very unique role in bridging the overseas and the domestic markets.

Leveraging on Hong Kong's role as an international financial centre, the stock connect schemes allow the Mainland to open up its capital markets to global investors in a risk-controlled manner and promote the internationalisation of the RMB. Mainland investors having been using the connect schemes very steadily and increasingly, and they are able to gain exposure to offshore markets by investing in stocks listed in Hong Kong.

The stock connect schemes are also a milestone in cross-border regulatory co-operation. Close ties have been built between the China Securities Regulatory Commission (CSRC), the Hong Kong Securities and Futures Commission (SFC) and the respective stock exchanges. It now became necessary for all these parties to have regular dialogues in order to anticipate problems and deal with issues arising from the links.

It is based on this foundation that the mutual recognition of funds (MRF) arrangement was implemented in July 2015. Fifty-five funds have since been authorised under the arrangement with net sales reaching over RMB7.4 billion as at the end of April this year.

The MRF has expanded the industry's distribution network and provides more investment choices for investors in both Hong Kong and the Mainland. It has laid the foundation again for the CSRC and SFC to jointly develop a regulatory standard. This will help promote the development and integration of the Asian asset management industry and facilitate transfer of Asian savings into cross-border investments.

Going further, we are anticipating the Bond Connect scheme, which was announced last month. The bond market is an integral part of the Chinese capital markets. The Mainland currently hosts the third largest bond market in the world, with an outstanding amount of roughly RMB65 trillion. Nevertheless, the overseas holding of Chinese onshore bonds is only less than 2 per cent of the total holdings in March. Obviously there is a lot of room for the overseas holding to grow.

As such, the northbound leg of Bond Connect will enable investors from Hong Kong and overseas to invest in the Chinese Interbank Bond Market through mutual access between the Hong Kong and Mainland financial infrastructures. The scheme underlines yet again Hong Kong's unique and significant role in the opening up of the Mainland's financial markets to the rest of the world.

So much about accessing the Chinese capital markets, and let's now talk about Chinese money going out. The Belt and Road Initiative will play a central role as China continues to integrate with regional and world economies. The Initiative centres on international co-operation. As China's international financial centre, Hong Kong is well positioned to support when projects and businesses are rolled out along the Belt and Road.

Capital intensive projects along the Belt and Road may make use of the various funding channels we offer, ranging from syndicated loans, private equity funds, bonds, and others. I have to say that there is a lot of interest, a lot of needs, a lot of money waiting to invest in the Belt and Road projects, but there is not a lot of understanding on how to get it done. The Hong Kong Monetary Authority has done a very good job in this aspect and they have set up an Infrastructure Financing Facilitation Office (IFFO) as a one-stop shop to help facilitate infrastructure investment and financing. It is a facility that tries to bring people together, bridge the knowledge gap and promote more specialised solutions.

Today, more than 60 financial agencies, banks, investors and insurance companies have already joined the IFFO as business partners. A seminar on

"Risk Mitigation Techniques in Infrastructure Financing for the Belt & Road Initiative" was successfully held in February. As an international financial centre, Hong Kong has a lot to offer in asset and risk management, insurance and re-insurance, and corporate treasury services and so on.

Last month, the HKSAR Government participated in a high-level Belt and Road Summit in Beijing. We had a delegation of 30 people, including some government officials and many of the industry representatives, including our people from the airport and MTR, people not just doing financing but also with expertise in infrastructure developments. We were there to give Hong Kong a profile to highlight the importance of Hong Kong in the financing of the Belt and Road Initiative. The Chief Executive, Mr C Y Leung, spoke at a thematic seminar on the financing aspect and there was a lot of good discussion. Hong Kong for sure will continue to play a role not only in financing but also in offering expertise in professional services and dispute resolution for the facilitation of infrastructure development.

Hong Kong can do more. The SFC issued a statement in April to explain its approach to the listing of infrastructure project companies, such as those falling within the Belt and Road Initiative, in Hong Kong. The statement sets out the factors that it will take into account when reviewing the proposed listing of infrastructure project companies in Hong Kong. Through the statement, the SFC aims to provide a pathway for infrastructure project companies to achieve a listing in Hong Kong.

The latest news is Hong Kong has just been admitted as a new member to the Asian Infrastructure Investment Bank (AIIB). Hong Kong stands ready to serve as the treasury management centre of the AIIB. Hong Kong's membership and contribution to the AIIB's capital underline our commitment to the bank, which will strengthen Hong Kong's standing and credibility in our bid for the AIIB to set up a sub-office as well as issuance of bonds in Hong Kong to support the AIIB operations.

Thanks to our cosmopolitan culture, we are home to teams of professional services providers, including bankers, lawyers, accountants and risk managers, coming from all over the world like yourselves, but also with local knowledge. Our knowledge and services will become handy as the RMB is increasingly used as a trading, financing, investment and reserve currency along the Belt and Road. Our membership should stand Hong Kong companies in good stead to participate in the AIIB's projects.

Let me also talk about something that happened lately: it is the development of the Guangdong-Hong Kong-Macao Bay Area. I am very excited about it and see that if we do it right, Hong Kong can play a role in the development of very innovative and high-growth industries in this region. The Bay Area is home to many of the fastest growing Chinese technology and Internet companies. The Hong Kong capital markets can play a role to facilitate this growth and in the process, Hong Kong can promote the development of our own high-growth and innovative industries. This is the kind of integration I said at the beginning. Financial integration must be underlined by good economic integration or collaboration.

Lastly, this year is the 20th anniversary of the establishment of the HKSAR. Ladies and gentlemen, as you can see, Hong Kong has played a fundamental role in the development and opening up of China's capital markets, taking full advantage of "one country, two systems". This role is once again emphasised in the 13th Five-Year Plan of the Central Government promulgated in March last year. In particular, the plan calls for Hong Kong to leverage on our unique advantages to enhance our role and functions in the country's economic development and opening up to other countries. We look forward to working closely with you as we embrace these new opportunities.

Thank you.

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