

LCQ8: Development of an Islamic financial market

Following is a question by the Hon Mrs Regina Ip Lau Suk-yea and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (April 21):

Question:

In 2007, the then Chief Executive mentioned for the first time in his Policy Address the introduction of Islamic finance and the development of an Islamic bond (sukuk) market in Hong Kong. To this end, the Government amended the Inland Revenue Ordinance (Cap 112) and Stamp Duty Ordinance (Cap 117) to provide, for the issuance of sukuks, a tax structure comparable to that for conventional bonds. Subsequently, the Government issued three tranches of USD-denominated sukuks in September 2014, June 2015 and February 2017 respectively. In this connection, will the Government inform this Council:

(1) of the development of the Islamic financial market in Hong Kong since the issuance of the third tranche of USD-denominated sukuks; Hong Kong's market share in global Islamic financial activities and the annual changes in such market share, in each of the past three years;

(2) of the challenges, according to the Government's latest evaluation, that it needs to face in developing an Islamic financial market in Hong Kong; Hong Kong's competitive edges, as compared with the neighbouring regions (e.g. Singapore), in developing an Islamic financial market;

(3) of the details of the Government's latest plans to strengthen market infrastructure, nurture talents, encourage product development and foster cooperation with other Islamic financial markets, for the purpose of developing an Islamic financial market in Hong Kong; and

(4) whether the Government has formulated quantitative performance indicators for the coming 5, 10 and 15 years with regard to its efforts to develop an Islamic financial market in Hong Kong; if so, of the details; if not, the reasons for that?

Reply:

President,

In consultation with the Hong Kong Monetary Authority, our consolidated reply to Hon Mrs Regina Ip is as follows:

Over the past few years, to promote the development of Islamic finance including the sukuk market in Hong Kong, we have taken concrete steps to build a conducive platform for sukuk issuance, including amending our laws in

2013 and 2014 respectively to provide a tax structure for sukuk which is comparable with that for conventional bonds, and to allow for the issuance of sukuk under the Government Bond Programme.

In 2014, 2015 and 2017, three sukuk of different structures and tenors totalling US\$3 billion were issued under the Government Bond Programme to demonstrate to the global market the strengths of our Islamic finance platform, with a view to attracting more issuers and investors to participate in the capital market of Hong Kong. The three issuances have helped to demonstrate the viability of Hong Kong's platform and that our legal, regulatory and taxation framework can readily support sukuk issuances, including sukuk of different structures. We believe that these market development efforts have helped enhance the attractiveness of Hong Kong's sukuk platform vis-a-vis other financial centres in the region. In fact, an array of Islamic financial products and services have been introduced in Hong Kong, including the listing of global sukuk on the Hong Kong Stock Exchange, Islamic funds and Islamic banking windows.

The future development of the sukuk market is market-driven and depends on a number of factors, including issuer and investor appetite. Its development in Hong Kong is currently somewhat constrained by the overall market sentiments and demand. However, the global financial market is fast changing. We will continue to monitor the development of the domestic and global Islamic finance market as well as other emerging trends and opportunities in the global financial market, and keep such factors in view in considering the way forward.

We will also continue to strengthen the promotion of the merits of Hong Kong's financial system and market overseas, so as to attract foreign investment or financing activities in Hong Kong. For instance, our Bureau has held a number of online seminars and exchanges through the Hong Kong Economic and Trade Offices (including Toronto, Sydney, New York, San Francisco, Singapore, Indonesia) since the middle of last year. The target participants included market institutions and stakeholders who were interested in taking part in our Muslim financial activities.