Speech by FS at Bloomberg Global Regulatory Forum in New York (English only) (with photos/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Bloomberg Global Regulatory Forum in New York, yesterday (October 22, New York time):

Mike (Founder of Bloomberg L.P. & Bloomberg Philanthropies, Mr Michael Bloomberg), Mr Cotzias (Global Head of External Relations of Bloomberg, Mr Constantin Cotzias), distinguished guests, ladies and gentlemen,

Good afternoon. I'm pleased to be here, in New York City, in fall. And delighted to hear that baseball, more than politics, is still the talk of the town.

Well, baseball and finance. For that, for hosting today's Global Regulatory Forum, for consistently driving high-powered discussion on the future of global finance, my thanks to Bloomberg.

Last year's Forum took place for the first time in Hong Kong, when we discussed how to navigate complexity and unlock opportunities. A year on, many things in the financial world have changed, and I'm pleased to bring you some positive updates about our city.

Hong Kong: strong fundamentals

Despite several challenging years, from social violence to the pandemic, Hong Kong is back, back once again with a stable, welcoming and promising business environment.

Our strong fundamentals continue to be internationally recognised. Hong Kong ranks once again among the top three global financial centres, behind only New York and London.

Canada's Fraser Institute has again ranked Hong Kong the world's freest economy.

The International Monetary Fund and credit-rating agencies have reaffirmed Hong Kong's institutional framework, our quality regulation and economic and financial resilience.

These commendations are echoed by the global investor community. Total banking deposits in Hong Kong, for example, have grown 5 per cent, or US$100 billion, this year to date, reaching more than US$2 trillion.

Our asset-and-wealth-management sector is also growing. We are managing over US$4 trillion in assets, and over half of that value was sourced from investors outside Hong Kong and the Chinese Mainland.

Coupled with easing interest rate cycles and the Mainland's stimulus package to inject liquidity to the banking sector and provide more support to the real estate sector, our stock market has gone on a rally, rising some 15 per cent in the past month or so.

From late September to early October, we have seen strong net buys from American and European investors, constituting some 85 per cent of the buy side by value. And 90 per cent of those investors are long-term fund managers and investment banks.

International investors have good reason to be confident in Hong Kong. Our singular "one country, two systems" arrangement is here to stay, here for the long term.

That clear and compelling commitment has been reiterated, time and again, by President Xi Jinping. Indeed, the arrangement was designed not for short-term expediency but for the long-term interests of our country. It is clear that the Mainland is fully embracing high-level opening up, evident in the conclusions of state and party meetings in Beijing in the past year or so. The Mainland will support Hong Kong in remaining as a "super connector", to assist in realising the country's vision.

We can, and will, continue to do just that, thanks to the advantages that define Hong Kong's international character: our common law tradition, a judiciary that exercises powers independently; the free flow of goods, capital, talent and information; a currency pegged to the US dollar; and business practices that align with the best international standards.

For so long, we have built our success as an international financial, trade and shipping centre on these merits, and they will continue to underpin Hong Kong's development in the future.

Robust financial regulation

But still, Hong Kong is a small, fully open and externally-oriented economy. That means we are prone to external shocks and volatility. The trials and tribulations in the Asian Financial Crisis in 1998, the Global Financial Crisis of 2008, and the market squeeze during the onset of the COVID pandemic, are good lessons to learn.

Each time we weathered a crisis, we grew more resilient, but the take home message for us is clear: first, we need to identify systemic weaknesses and vulnerabilities, and address them. Second, establish multi-sectoral risk detection and monitoring systems to raise alarm against potential crises. Third, build in a strong buffer to allow us to respond to the unknowns.

This is particularly valid for Hong Kong which implements a linked exchange rate system. Hong Kong dollar is pegged to the US dollar, and therefore we must have sufficient monetary depth to enforce our convertibility undertakings and defend our currency board system. To ensure we have ample liquidity as we need it, we have a foreign exchange reserve of more than US$420 billion at our disposal.

In light of rising geopolitical and economic challenges, we've established a high-level, cross-market, co-ordinated and round-the-clock monitoring mechanism. It covers all sectors of the financial market and gathers all financial regulators, allowing us to detect looming risks.

I'm glad to report that over the past few years, our financial markets have been functioning in an orderly manner, despite volatility that might appear from time to time.

The role of regulators in market development

Good regulation, of course, is only half the story. For the ultimate goal of regulation is to promote the healthy and sustainable development of the financial market. Good market development, in my view, is equally important, and it is the best means to future-proof our financial systems.

This requires the regulatory regime be agile and forward-looking. This requires the regime to respond to market and economic changes, embrace and empower technological innovation, and create the conditions for markets to thrive.

It's why in Hong Kong, regulators have been given a dual mandate, serving both as regulators and market enablers.

Our listing regime reform is a good case in point. Back in 2018, the Government and the financial regulators made bold decisions to allow pre-profit or pre-revenue biotech companies, and new economy companies with weighted voting rights structures, to list on our stock exchange. The idea was met with doubt initially. But today the facts speak for themselves: new economy companies constitute only 13 per cent of the total number of listed companies, but their capitalisation accounts for 26 per cent. These reforms have not only broadened our market's appeal but also put Hong Kong as a leading listing hub for innovative enterprises.

Reform is an ongoing process. For instance, last year we introduced a new Chapter in our listing rules to facilitate the listing of specialist technology companies.

Looking ahead, two key areas will be vital for Hong Kong's financial future: enhancing our financial connectivity with the world, and embracing innovation.

Enhancing Connectivity

Connectivity has always been the trump card of Hong Kong – although "trump" may be a word that you may now love or hate. For long, we have been the premier listing platform for Mainland companies going global. The launch of the "Stock Connect" 10 years ago was a landmark in forging close connectivity between the two markets. Its very significance was to allow foreign investors to make use of the Hong Kong Stock Exchange, and all the regimes, regulation and practices with which they are familiar, to access the Mainland's stock market. Today, over 70 per cent of the A-share holdings by foreign investors were acquired through the Stock Connect. The Scheme has been continuously expanding, now covering bonds, ETFs, derivatives such as swap contracts.

Just in April this year, the China Securities Regulatory Commission announced four further measures to expand the Connect Schemes, including enlarging the scope of ETFs Connect, covering REITs in Stock Connect, and more. Meanwhile, it also made clear that they will support leading Mainland companies to list on the Hong Kong Stock Exchange. Obviously our IPO market has seen a rebound. In the first nine months this year, we raised more than US$7.1 billion, ranking fourth globally thus far.

Looking ahead, Hong Kong is also strengthening connections with other markets in the ASEAN countries, the Middle East and the Belt and Road countries. For instance, next week, we will be seeing the launch of two ETFs on the Saudi Stock Exchange investing in the Hong Kong Stock market.

So Hong Kong's role as a connector of markets will only grow stronger. And with this, our financial regulators will continue to make it their strategic priorities to enhance collaboration with regulatory counterparts for timely and effective responses.

Embracing innovation

Ladies and gentlemen, another area essential to our future is innovation.

In Hong Kong, we're taking a balanced regulatory approach to enable financial innovation.

For example, last year, we introduced a regulatory regime for digital assets, along the principle of "same activity, same risks, same regulation". The key feature is to put in place guardrails for investor protection, while enabling financial innovation to thrive in a responsible and sustainable manner.

So far, three firms have been issued with virtual asset trading platform licences, and we are expecting more in the next couple of months.

Besides, legislation will be introduced later this year for the regulation of stablecoins.

Then there's also AI (artificial intelligence), which is reshaping the financial services industry, driving new products and services that enhance efficiency, security and customer experience.

Like blockchain and other new technologies, we must address the potential challenges of AI, such as cybersecurity, data privacy and the protection of intellectual property rights.

To that end, we will publish a policy statement next week. We will work to provide a clear supervisory framework and create a conducive and sustainable market environment.

Concluding remarks

Ladies and gentlemen, alongside changing global financial landscape comes far-reaching opportunity. Judging from Hong Kong's experience, capturing such opportunities calls for the mentality of policy makers to focus not just on regulation compliance but also market development. For some, this may require a paradigm shift. But in our view, it will be an essential path to future-proof our financial markets, ensuring their long-term sustainable growth.

Finally, I wish to convey my thanks again to Bloomberg for inviting me to this Forum. I wish you all the best of business and health in the coming year. Thank you.