

Speech by FS at Pan Asian Regulatory Summit 2018 (English only) (with photo)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Pan Asian Regulatory Summit 2018 this morning (October 9):

David (Chief Executive Officer of Refinitiv, Mr David Craig), Julia (Deputy Chief Executive Officer and Executive Director, Intermediaries of Securities and Futures Commission, Ms Julia Leung), distinguished guests, ladies and gentlemen,

Good morning.

I'm pleased to join you for this Refinitiv Pan Asian Regulatory Summit here in Hong Kong. And a very warm welcome to our guests from abroad.

This is not my first time joining the Summit. I was here last year too. But I would say the world we face today is decidedly different from what it was at the opening of last year's Summit – clearly I'm not exaggerating.

There's the trade conflict between the United States (US) and China, which surely is not something we would like to see. And there's today's extraordinary bi-polarity of global financial markets. We have the market in the US again enjoying record highs, while some emerging markets contend with heightened risks and increased pressure from international investors.

All of which makes this year's two-day Summit all the more important for investors, regulators and policymakers.

Let me begin with a look at Hong Kong's financial sector and our regulatory environment. In financial services, Hong Kong remains a global leader. Indeed, the Global Financial Centres Index last month once again ranked Hong Kong third in the world, only behind New York and London. Let me add that Hong Kong was ranked first in investment management, as well as infrastructure and human capital, and finishing second in banking, following London.

The International Monetary Fund also commended our regulatory and supervisory framework, which we've strengthened over the past decade. It's fair to say that a big reason firms and financial institutions establish a presence in Hong Kong is because of our strong, transparent and efficient regulatory system.

World-beating financial services and a regulatory environment that attracts international business and investors add up to opportunity for Hong Kong. The Guangdong-Hong Kong-Macao Greater Bay Area development, in

particular, should allow us to cement our position as the global gateway to the Mainland, while elevating our role in the opening up of the country's markets.

The Mainland is certainly counting on Hong Kong to serve as a major investment and financing hub for the Belt and Road Initiative. The companies behind Belt and Road projects can raise capital and seek financing here in any number of ways, from IPOs (initial public offerings) and post-listing arrangements to bond issuances and bank loans.

The Hong Kong Monetary Authority plays a critical go-to role in this through its Infrastructure Financing Facilitation Office, working with key stakeholders who sign on as partners.

And our Securities and Futures Commission provides a clear pathway for infrastructure project companies looking to achieve a listing in Hong Kong.

We are, as well, promoting Hong Kong's bond market, given the increasing funding demands associated with the Belt and Road Initiative, from the Pilot Bond Grant Scheme to the enhanced tax concessions for qualifying debt instruments.

Hong Kong will also continue to expand its status as the global hub for the offshore Renminbi business. Our role as China's international financial centre is on full display through the Stock Connects, Bond Connect and the Mutual Recognition of Funds arrangements between Hong Kong and the Mainland.

In May, let me add, the daily quota of each of the northbound trading links under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect was quadrupled.

That means that Hong Kong's capital markets will play an even more significant role in the opening up of the Mainland's capital markets to the rest of the world.

Hong Kong also boasts the biggest Renminbi Qualified Foreign Institutional Investor quota in the world. And that has been increased from RMB270 billion to RMB500 billion.

These and other initiatives highlight Hong Kong's strategic position as the springboard for overseas investors eager to enter the Mainland financial markets.

Hong Kong has also emerged as a premier regional asset and wealth management centre. This is contributed to by a number of propitious factors, including economic growth and wealth creation in Asia, the continuing increase in portfolio allocation to Asian markets, and the deepening liberalisation of the financial market in the Mainland.

At the end of 2017, our asset and wealth management business stood at US\$3.1 trillion, and two-thirds of those assets came from non-local

investors.

To expand and diversify the fund business here, we have enhanced our legal structure.

We have, for example, introduced a new open-ended fund company structure, giving more choices to fund managers, particularly those from jurisdictions unfamiliar with trust laws.

We have also offered tax incentives to broaden the distribution network for our fund industry.

Given these, and other measures to come, I believe Hong Kong has the potential to emerge as the asset management and private equity hub in Asia. Besides, we can also serve as the Belt and Road's pivotal risk management centre. We are blessed with a great variety of multinational insurers and reinsurers. They're equipped with the experience and expertise to underwrite the risks associated with big-ticket, international infrastructure development.

The Insurance Authority and the China Banking and Insurance Regulatory Commission have reached a consensus that will prove beneficial in the long run. When a Mainland insurer cedes business to a qualified Hong Kong reinsurer, the capital requirements of the Mainland insurer will be reduced.

This has been designed to increase the competitiveness of Hong Kong reinsurers in capturing reinsurance business ceded from Mainland insurers.

The Insurance Authority is setting up the Belt and Road Insurance Facilitation Platform. It will bring together key insurance and reinsurance stakeholders, helping Mainland companies involved in Belt and Road projects to find suitable insurance services in Hong Kong.

We're painting Hong Kong finance green, too. In January, the Hong Kong Quality Assurance Agency launched its Green Finance Certification Scheme, providing third-party conformity assessments for issuers on their green debt instruments.

As announced in my Budget this year, a green bond issuance programme with a borrowing ceiling of HK\$100 billion – that's about US\$13 billion – will be launched as soon as possible. It will furnish funding for green Government public works projects. That should encourage more issuers to arrange financing for their green projects through our capital markets.

The Government and our financial regulators also play an important role in safeguarding the sound functioning of the financial system through regulatory reform.

In January, the Government introduced a bill on reforming the Financial Reporting Council. Under the legislative proposals, the Council will become an independent oversight body. Its mission will be to regulate auditors of

listed entities, assuming responsibility for the inspection, investigation and discipline of these auditors.

The proposed new regime will better safeguard the interests of the investing public, reinforcing Hong Kong's status as an international financial centre and capital market. It will also enable Hong Kong to enter into international co-operation for the regulation of auditors.

Hong Kong is committed to implementing international standards that improve our banking sector's resilience. In that regard, we have been implementing the regulatory reform of Basel III since 2013, doing so in accordance with the timetable set by the Basel Committee on Banking Supervision.

The Government is also working to implement the Basel Committee's latest capital and financial-exposure standards, which are scheduled to take effect next year.

We are confident that such measures will strengthen our financial system and contribute to the financial stability of Hong Kong.

Minimising risk is certainly central to effective regulation.

Over the past year, Hong Kong has approved legislation in a number of areas designed to tackle financial risk. These include the Anti-Money Laundering and Counter-Terrorist Financing Ordinance; the Companies Ordinance; the United Nations (Anti-Terrorism Measures) Ordinance; the United Nations Sanctions Ordinance; and the Cross-boundary Movement of Physical Currency and Bearer Negotiable Instruments Ordinance.

I won't go into individual detail here regarding the measures. But the point is clear: the new legislation will go a long way towards enhancing Hong Kong's AML (anti-money laundering) and counter-terrorist financing regime. And we will continue to stay on top of the issue, to reinforce Hong Kong's credibility as a transparent and trusted international financial centre.

Hong Kong will also implement the G20 commitments on over-the-counter derivatives regulatory reform. The legislative framework introduces mandatory reporting, clearing and trading obligations in Hong Kong's over-the-counter derivatives market.

Our progress on regulatory reform continues. Reporting and clearing standards and requirements, of course, are now in force with respect to more than 90 per cent of transactions.

We are also committed to strengthening insurance policyholder protection. That's essential if we are to maintain public confidence in the insurance industry. The new statutory licensing regime for insurance intermediaries is expected to begin operation in the coming year.

We are working, as well, on a Policy Holders' Protection Scheme to

provide policyholders with a safety net.

To align Hong Kong's regulatory regime with international standards and make capital requirements more sensitive to the level of risk insurance companies bear, we are preparing to establish a risk-based capital regime for the insurance industry.

A new statutory corporate rescue proposal, together with insolvent trading provisions, will also be introduced. It will help companies experiencing short-term financial difficulty to revive their business.

A key objective is to maximise the existence of a viable company, thereby preserving jobs. If this is not possible, we hope to achieve a better return for the company's creditors than is the case in an immediate insolvent winding-up.

While the application of innovation and technology in all aspects of life is an irresistible global trend, financial technology and regulation are often viewed as opposing forces. Regulation maintains order in the financial system, while the innovative face of fintech offers immense promise, and fresh regulatory challenges as well.

We believe that a robust regulatory framework provides a solid foundation for fintech's long-term prosperity. To that end, our financial regulators have launched regulatory sandboxes which provide secure testing grounds for future fintech solutions.

Industry players appreciate the sandboxes as they expedite the launch of fintech products while allowing users and regulatory feedback to accumulate at an early stage.

Financial regulators have also issued guidelines to help our transition to the latest technology. The Securities and Futures Commission, for example, issued a circular in July allowing electronic signatures online. In May, the HKMA (Hong Kong Monetary Authority) issued revised guidelines for the authorisation of virtual banks. It hopes to begin granting licences to virtual banks here in Hong Kong by the end of this year.

Ladies and gentlemen, Hong Kong is committed both to market development and to regulatory enhancement. With both, we count on your input, your experience, to help us along. This Summit is an ideal platform to hear from you. But if we are to be successful, and if we are to help enable your success, we need to work together long down the financial services and regulatory road.

My thanks again to the organiser for this very welcome opportunity to speak to you today. I wish you all a rewarding Summit, and the best of business in the coming year.

Thank you very much.

