Speech by SFST at ASIFMA’s 8th China Capital Markets Conference (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at the Asia Securities Industry & Financial Markets Association (ASIFMA)'s 8th China Capital Markets Conference this morning (May 15):

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

Good morning. I am delighted to join you all today at ASIFMA's 8th China Capital Markets Conference. This year marks the 40th anniversary of China's economic reform. In the last few years China has in particular championed the development of the new economy and the green economy. I believe it would be useful to take a quick look at these developments.

Now, the overall story of China's economic transformation is well known. Since the reform that began in 1978, China has progressively opened up its economy, attracting foreign investment, becoming the "factory of the world", and for a period of time achieving double digit growth rates.

Today, China has moved on from being an observer to being an active and a major player in the global economy.

According to the IMF, China's GDP in 1980 was US$305 billion, amounting to 2.7 per cent of the world's GDP. Last year, China's GDP was over US$12 trillion, amounting to 15 per cent of the world's GDP, but it contributes to some 30 per cent of global economic growth.

In terms of trade, China's total trade amounted to US$21 billion in 1978, accounting for 0.8 per cent of the world total. Last year, the amount was over US$4 trillion, accounting for 11.5 per cent of the world total, making China the largest trading entity out of 204 economies.

As for Hong Kong's role in spurring China's growth, apart from being the largest source of foreign direct investment, we readily embrace our role of being a premier listing platform for Mainland enterprises.

Tsingtao Brewery entered the history books in 1993 when it became Hong Kong's first H-share listing. Hong Kong also hosted the IPOs of the Big Four state-owned commercial banks in China. Bank of China listed in Hong Kong in 2002, China Construction Bank in 2005, Industrial and Commercial Bank of China in 2006 and Agricultural Bank of China in 2010.

Hong Kong's stock market currently has a high concentration in the financial and property sectors. Today, there are over 1000 Mainland enterprises listed on the Stock Exchange of Hong Kong, representing 67 per cent of total market capitalisation and 80 per cent of total trading volume.

But China has of late been shifting toward a "new normal" in economic development with innovation at its core. This began with the Internet Plus strategy unveiled in March 2015 "to integrate mobile Internet, cloud computing, big data, and the Internet of Things with modern manufacturing, to encourage the healthy development of e-commerce, industrial networks, and Internet banking, and to get Internet-based companies to increase their presence in the international market". This strategy has gone very well for China and the rest is history.

In China's 13th Five-Year Plan covering the period 2016-2020, President Xi Jinping outlined innovation and greenness, along with co-ordination, openness and inclusiveness, as China's five major development concepts. And at China's 19th Party Congress last year, there were calls for resolve in implementing seven key strategies, including an innovation-driven development strategy and sustainable development strategy.

In fact, China is increasingly moving from being a follower of international benchmarks to becoming a pioneer in setting global standards, as evidenced by a thriving eco-system for technology companies and a leading role in the global green economy.

Today, China has emerged as a global leader in Internet finance and boasts one of the world’s most dynamic scenes for start-ups in technology. Underpinned by a huge domestic market, a high mobile penetration rate, and an open and supportive regulatory environment, China is embracing an innovative future in all things digital.

Last year, more than half of the 406 blockchain-related patent applications in the World Intellectual Property Organization's database were from China. Various studies have highlighted China’s numerous investments in artificial intelligence, and in applications ranging from drones to electric cars. And while the likes of Baidu, Alibaba and Tencent are the biggest tech players in China, millions of medium-sized enterprises are seen as hidden champions that may become tomorrow's heroes.

According to a report released by the Hurun Research Institute in April this year, China had more than 150 unicorns at the end of March, with a combined value of over RMB4 trillion, around US$630 billion. These include over 30 new unicorns that were added to the list in the first quarter of this year.

What is interesting is that the start-ups in China appear to be scaling up faster than those in the United States. A report by the Boston Consulting Group suggests that Chinese tech start-ups are reaching the US$1 billion mark for unicorns three years faster than their US counterparts, taking an average of four years compared to seven for American companies.

Now, coming back to Hong Kong, how have we responded to all of these exciting developments? The Stock Exchange of Hong Kong recently published the consultation conclusions on a listing regime for companies from emerging and innovative sectors, and the amendments to the Listing Rules came into effect just over two weeks ago on April 30.

Under the new regime, biotech companies with no prior record of revenue or profit will be allowed to list on the Main Board of our Stock Exchange. Secondly, high growth and innovative companies with weighted voting rights (WVR) structures will be allowed to list on the Main Board. Already we have seen an electronics company file an IPO under the new regime in what could be one of the biggest flotations of the year. But I have to hasten to correct because news this morning said there is another big IPO float involving telecommunications towers, which is said to be a competitor to Xiaomi, in flotation.

At this juncture, I should add that when the above changes were proposed, careful thought had been given to the introduction of a package of safeguards to achieve a proper balance between encouraging market evolution to meet development needs and maintaining market quality and investor protection.

Under our new regime, a class of shares conferring WVR in a listed issuer must not entitle the beneficiary to more than 10 times the voting power of ordinary shares, and the beneficiaries of WVR will be restricted to those individuals who are directors of the issuer at listing and remain directors afterwards. The beneficiaries of WVR must also beneficially own collectively at least 10 per cent of the underlying economic interest in the applicant's total issued share capital at the time of its initial listing.

The WVR attached to beneficiaries' shares will lapse permanently if a WVR beneficiary dies, ceases to be a director, is deemed by the Stock Exchange to be incapacitated for the purpose of performing his or her duties as a director, or is deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules. The WVR attached to a beneficiary's shares must also cease upon transfer to another person of the beneficial ownership of, or economic interest in, those shares or the control over the voting rights attached to them.

In addition, an issuer with a WVR structure must establish a Corporate Governance Committee that is composed entirely of independent non-executive directors. As part of enhanced disclosure requirements, the listed equity securities of an issuer with a WVR structure must have a stock name that ends with the marker "W". All of the above are important safeguards to ensure adequate protection for investors.

Let me now turn to a second topic, green economy. While China was in the past often associated with pollution and environmental problems, the country has emerged as a champion of sustainable energy. In fact, the country's top leadership has embraced the green economy as a key component of China's growth strategy, both as a means to reverse environmental challenges and as a sign of China's commitment to sustainable development.

China now accounts for around 60 per cent of global solar cell production, while the country's global presence in wind power is also rising. Last year, China was the biggest investor globally in renewable energy. According to a report by the Institute for Energy Economics and Financial Analysis, China's total investment in clean energy projects was more than US$44 billion in 2017, a significant increase over US$32 billion in 2016.

As part of the efforts to educate and engage the public, market players in China have mobilised technology to support a sustainable development strategy. As an example, Alibaba's Ant Financial launched the app "Ant Forest" on Alipay last year to encourage users to reduce their carbon footprint. The app aims to green the consumption behaviour of its users by providing individualised carbon savings data straight to their smartphones. A total of 280 million Ant Financial users have voluntarily signed up for this app, and 1.22 million tonnes of carbon dioxide emissions have been avoided due to behavioural changes induced by the app.

China has also emerged as a leader in green finance. Under its G20 Presidency in 2016, China initiated work on green finance and launched the G20 Green Finance Study Group, co-chaired by the People's Bank of China and the Bank of England. The G20 Leaders' meeting in Hangzhou in September 2016 issued a communique recognising for the first time the importance of green finance. This played a critical role in bringing the concept of green finance into the mainstream.

On the other hand, the development of green industries is also outlined in China's 13th Five-Year Plan, which has a section on financial services covering the construction of a green financial system, green standards, the development of green loans and green bonds, and the establishment of green development funds.

The development of green bonds in particular holds much promise in China and spells opportunity for Hong Kong. Mainland China was the largest green bond issuer in the world in 2016, with the total issuance amount reaching US$23 billion, over one-quarter of the total global issuance. In 2017, China's green bond issuance also totalled around US$23 billion, similar to 2016, and was actually the second in the world.

As we look at these developments here in Hong Kong, we envision a new role for Hong Kong's capital markets as a fundraising platform for green projects. The Hong Kong Quality Assurance Agency (HKQAA) launched its Green Finance Certification Scheme in January this year, providing third-party conformity assessments for issuers on their green debt instruments.

The Financial Secretary also announced in the 2018-19 Budget that the Government will develop a Green Bond Grant Scheme to subsidise qualified green bond issuers using the HKQAA's certification scheme. The subsidy per issue is up to HK$800,000 to cover certification expenses and the issuance would need to carry a minimum size of HK$500 million.

And there is also a separate scheme, the Pilot Bond Grant Scheme which was launched last week to provide further incentive to eligible issuers, both local and overseas, who have not issued bonds in Hong Kong over the preceding five years. Eligible issues must be issued in Hong Kong, have an issuance size of at least HK$1.5 billion and the grant amount for each bond issue would be up to HK$2.5 million. Each issuer can apply for a grant for two bond issuances at most, and these arrangements apply to green bond issuances as well.

Last but not least, the Government also plans to launch a green bond issuance programme with a borrowing ceiling of HK$100 billion to finance green works projects of the Government. The programme will set a good benchmark and encourage more green issuers arranging financing for their green projects through our capital platform and help promote green finance.

Just to conclude, the last four decades have seen remarkable progress in China's economic modernisation. I only had an opportunity to touch briefly on China's efforts in capturing innovation, technology and sustainable development. China's thriving new economy and green economy present opportunities for Hong Kong to further develop our capital markets and economy as a whole. Throughout this process, we will continue to reinvent ourselves to bolster our position as the leading, vibrant and competitive financial hub in Asia. Thank you very much.