

# Speech by SFST at HKEX FIC Summit APAC 2024 (English only) (with photo)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the HKEX FIC Summit APAC 2024 today (October 15):

Bonnie (Chief Executive Officer of Hong Kong Exchanges and Clearing Limited, Ms Bonnie Chan), distinguished guests, ladies and gentlemen,

It is both an honour and a privilege to stand before you today at the HKEX FIC Summit APAC 2024. We gather to explore the rich landscape of fixed income and currency markets, particularly as they pertain to the burgeoning opportunities in Mainland China. This year's summit comes at a pivotal moment for not only Hong Kong but also for the broader Asia-Pacific region as we navigate the complexities of a rapidly evolving financial world.

As we delve into the exciting topics surrounding Chinese government bonds, Renminbi (RMB) internationalisation, and the innovative Swap Connect initiative, we recognise that Hong Kong is uniquely positioned at the intersection of global finance and the vast opportunities that lie within Mainland China's fixed income space.

### Hong Kong as an international financial centre

Hong Kong has long been heralded as a beacon of international finance, a vibrant hub characterised by its openness, robust regulatory framework, and professional expertise. Our market is not just a financial centre; it is a dynamic environment where diverse talents converge, facilitating the free flow of information and capital. This unique position allows us to leverage the advantages of both worlds – global access coupled with deep insights into the Mainland's economic landscape.

As the world's second-largest economy, Mainland China is increasingly integrated with the international financial world, and we are thrilled to be part of this journey. The rise of the RMB as a significant player in international trade, investment, and cross-border transactions is not just a trend; it is a transformation that presents us with incredible opportunities.

### The rise of the Renminbi

The growth trajectory of the RMB is remarkable. According to various reports, the proportion of RMB used in global transactions has been steadily increasing. RMB is the fourth most active currency for global payments by value as of August this year, with its share rising to 4.7 per cent, according to SWIFT data. This is not merely a consequence of Mainland China's economic growth; it reflects a strategic rise of the RMB as a global currency.

Here in Hong Kong, we have been at the forefront of this initiative since 2004, establishing ourselves as the world's leading offshore RMB business hub. The developments we have witnessed – such as the largest offshore pool of RMB funds and a vibrant market for foreign exchange and interest rate derivatives – highlight our commitment to creating a diversified ecosystem that enhances the RMB's global standing.

The opportunities for businesses and investors are vast. As we facilitate the growth of the RMB, we also open doors for international investors looking to capitalise on the Mainland's economic potential. Our position as a financial conduit for RMB transactions allows us to attract global capital, creating a win-win scenario that benefits all parties involved.

#### Advancing the FIC market development

As we strive to strengthen our position as a leading international financial centre, we are dedicated to enhancing our fixed income and currency (FIC) markets. Our vision is to transform Hong Kong into a premier FIC hub in the Asia-Pacific region, a goal that aligns with our broader market development objectives.

The local bond market is a vital component of this strategy. We are committed to developing it further to complement the financing functions of the stock market and banking system. According market statistics, Hong Kong ranked the first in the region for 16 consecutive years in terms of arranging international bond issuance by Asian institutions, and has ranked first in the world for nine of those years. The amount of issuance arranged through Hong Kong last year was close to US\$90 billion, which accounted for nearly a quarter of the market.

Our dedication to strengthening the local bond market is evident on many fronts. Earlier this year, we successfully offered approximately HK\$25 billion worth of green bonds denominated in RMB, USD and EURO. Impressive response was received from global investors with the subscription amount exceeding HK\$120 billion equivalent, which was about four times of oversubscription. In particular, the 20-year and 30-year RMB Green Bonds were offered for the first time by the Government, among which the 30-year bond is also the longest tenor RMB bond offered by the Government so far, providing new benchmarks for the market. We have seen significant progress, particularly with the issuance of RMB sovereign bonds and municipal government bonds in Hong Kong. These bonds not only enhance our local bond market but also help establish a benchmark yield curve for offshore RMB bonds. So far, the Ministry of Finance has issued a total of RMB352 billion RMB sovereign bonds in Hong Kong. Furthermore, recent tax exemptions for debt instruments issued by Mainland local governments underscore our commitment to fostering a robust bond market. This exemption, effective from March last year, extends the profits tax exemption to debt instruments issued in Hong Kong by all Mainland local governments, thus encouraging more participation and investment.

## The impact of Bond Connect

We must also acknowledge the transformative impact of the Bond Connect scheme. Launched in 2017, Bond Connect has facilitated mutual access between Hong Kong and Mainland bond markets, enabling overseas investors to participate in the China Interbank Bond Market. This scheme has fundamentally changed the landscape of bond investment in the region. As of August this year, foreign holdings of Mainland onshore bonds through Bond Connect have exceeded RMB4,500 billion, illustrating the strong demand for Chinese assets. The total monthly trading volume has also increased from RMB31.0 billion in July 2017 to about RMB1,000 billion in August this year.

The launch of Southbound trading in September 2021 has further enriched this initiative, providing an effective avenue for qualified onshore investors to diversify their asset allocation while presenting enormous opportunities for Hong Kong's financial industry. Not only does this enhance the attractiveness of Hong Kong as a bond-issuing platform, but it also promotes the liquidity of our bond market and facilitates the progress of RMB internationalisation.

The interconnectedness fostered by Bond Connect not only enriches our markets but also serves as a catalyst for RMB internationalisation. As we continue to enhance this framework, we create new opportunities for collaboration and investment that will benefit both local and international stakeholders.

## Innovations with Swap Connect

The introduction of Swap Connect is another significant milestone in our journey toward enhancing Hong Kong's offshore RMB market. Launched in May 2023, Swap Connect allows for mutual access between interest rate swap markets in Hong Kong and the Mainland. This initiative provides a much-needed avenue for global investors to manage interest rate risks associated with their bond investments.

As we celebrate the first anniversary of Swap Connect, we are excited about the recent enhancements that have been launched. The enhancements expand the range of products available, enhance operational efficiency, and reduce participation costs. It has also been announced that offshore investors will be able to use onshore bonds issued by the Ministry of Finance and policy banks on the Mainland as margin collateral for transactions. This measure will improve capital efficiency and also stimulate greater market participation.

We are committed to ensuring that Swap Connect remains a robust and dynamic platform for investors. We believe that by addressing the diverse risk management needs of domestic and foreign investors, we can further invigorate market participation in the Connect Schemes.

## Future opportunities

Looking ahead, there are abundant opportunities on the horizon. As we embrace the development of the Guangdong-Hong Kong-Macao Greater Bay Area, we find ourselves in a unique position to facilitate RMB internationalisation and strengthen our role as a testing ground for innovative financial practices. This initiative is not only vital for economic growth but also positions us as a leader in the global financial arena.

Moreover, we will continue to leverage technological advancements to enhance our financial services. The integration of fintech solutions into our FIC markets will not only improve efficiency but also attract a new generation of investors who are looking for innovative ways to engage with the market. Building on the success of the first tokenised green bond issuance, we have issued the world's first multi-tranche digitally native green bonds this year, denominated in HKD, CNH, USD and EUR. By embracing technology, we can enhance transparency, streamline operations, and create a more inclusive financial environment.

## Conclusion

As we continue to leverage our distinctive advantages, I am confident that we will solidify Hong Kong's status as a leading international financial centre and offshore RMB business hub. Together, let us explore the pathways to greater collaboration, innovation, and growth. I look forward to fruitful discussions and collaborations in the days to come. Your participation and insights are invaluable as we chart a course toward a prosperous financial future for Hong Kong, China, and the Asia-Pacific region. Thank you.

