

**Welcoming Remarks by Mr. YK Choi**  
**Chairman of Treasury Markets Forum of Hong Kong**  
at the Second Annual Global Bond Summit: Asian Bond Conference  
8:15 am – 8:30 am, 14 November 2005  
Four Seasons Hotel, Hong Kong

Distinguished guests, Ladies and Gentlemen,

First of all, I would like to extend a very warm welcome to all of you for joining the Annual Global Bond Summit today. I understand that this is the first time for this event to be held in Asia and we are very pleased that Hong Kong has been selected as the venue.

The theme of the Summit this year is to explore and discuss the best use of bonds as the building blocks for economic and financial market growth, development and prosperity. The first day of the conference will focus on Asian bond market, and the second and third days will look at issues related to the development of global government bonds.

For those of you who are not familiar with the debt market of Hong Kong, I thought it would be useful to review with you the development of our debt market here. Actually, the history of the HKD debt market is relatively short. Before 1990, since the Hong Kong Government adopted prudent fiscal policy and had accumulated substantial fiscal reserves, it had not found it necessary to issue any public debt on a regular basis. As a result, we did not have a yield curve for Hong Kong dollar as such back in the 80s. In the absence of a yield curve, private sector entities had found it very difficult to price their own issues. This was the main reason why we did not have a well-developed debt market at that time.

Recognising that a yield curve was very important to the development of the debt market in Hong Kong, the Exchange Fund started to develop an Exchange Fund Bills and Notes Programme starting in 1990. A number of major banks in Hong Kong were appointed as Market Makers to help maintain an active secondary market for the Exchange Fund Bills and Notes. This arrangement has proven to be very successful and helpful to the development of the debt market. As of today, a HKD yield curve from 3 months up to 10 years is available and provides the basis for the private sector entities to price their issues. The amount of HKD debt instruments in issue rose substantially from virtually nothing in early 1990 to 640 billion Hong Kong dollars at the end of August 2005.

Apart from a yield curve, the Hong Kong Monetary Authority believes that an efficient payment and settlement system is essential to the development of the financial market. One of the key

policy objectives of the Hong Kong Monetary Authority is to develop and maintain an efficient payment and settlement system in Hong Kong to facilitate PvP and DvP settlements. You may be interested to know that all the Exchange Fund Bills and Notes have been issued in electronic book-entry form since inception under the custodianship of the Central Money Markets Unit. Apart from Exchange Fund paper, the CMU also acts as the custodian for private sector issues which are issued in paperless form. The use of such a paperless system, coupled with the HKD real time gross settlement system introduced in the mid 90s, means that all the transactions in debt instruments under the custodianship of the CMU can be settled on a DvP basis. Through linkage with the USD and Euro real time gross settlement systems in Hong Kong and with other international custodians, transactions in USD and Euro debts can also be settled DvP in Hong Kong.

The Hong Kong Monetary Authority's effort to develop the debt market actually goes beyond the local market. Recently, in a bid to develop the bond market in the region, the Hong Kong Monetary Authority worked together with ten central banks and monetary authorities in the region under the auspices of EMEAP in the design and implementation of the Asian Bond Fund One and Asian Bond Fund Two.

Now, wearing my other hat as the Chairman of the Treasury Markets Forum, which is one of the co-organisers of this Summit, I cannot resist the temptation of saying something about the TMF. We see this as a key effort to help develop and promote the treasury markets in Hong Kong. The TMF was established in 2004. It brings together different participants in the treasury markets including the HKMA, the intermediaries such as banks and brokers, the users such as investment houses and the corporate treasurers. Apart from the HKMA, the other participants are represented on the TMF by the respective industry associations including the Hong Kong Bankers Association, the Deposit-taking Companies Association, the Hong Kong Foreign Exchange and Deposit Brokers Association, the Capital Markets Association, the Corporate Treasurers Association and ACI - the Financial Markets Association of Hong Kong etc.

Notwithstanding its short history, the TMF has made a number of useful contributions. For example, the TMF just announced last week the launch of a new product - the retail renminbi non-deliverable forward contracts. Altogether 16 banks have signed up to offer the product to their customers. Following the reform of the renminbi exchange rate regime in July, there is an increasing demand from small and medium-sized enterprises and other retail customers for financial products to hedge their renminbi exposures. The launch of the retail renminbi NDF contracts, the first of its kind in the region, is a good demonstration of how the TMF leverages on the co-ordinated efforts of its members to drive market and product developments.

Another priority of the TMF is to work with the industry to enhance the professionalism of

practitioners in the treasury markets, including the bond market. Last year, the TMF joined hands with ACIHK to launch a new membership and accreditation programme. ACIHK's membership has risen sharply from less than 500 to more than 2,000 since then. Its members include foreign exchange dealers, bond dealers, foreign exchange and money market brokers, and corporate treasurers etc.

Apart from serving the needs of the local customers, the TMF believes that as the only international financial centre of China, there is a useful role for Hong Kong to play to meet the needs of Mainland customers and help develop the treasury markets on the Mainland. Hong Kong is in an excellent position to offer its services and expertise to this potentially huge market, given our exceptional advantages in geographical proximity, culture and language, as well as a talented pool of professionals and a highly efficient market place. The TMF therefore maintains regular contacts with the Mainland financial regulatory bodies and organised seminars for market participants there to deepen their understanding of the treasury markets in Hong Kong, as well as the services and products available to them.

The TMF has been successful in developing the treasury markets in Hong Kong. With a view to consolidating the success achieved so far, and to provide a solid institutional structure to take forward further initiatives for market development, the TMF is working to transform itself into a Treasury Markets Association, or the TMA in short. Preparatory work is progressing well and we expect the TMA to be formally established very soon.

I believe that the establishment of the TMA should provide a better platform to intensify the collaborative efforts. The TMA will continue to work closely with the industry both locally and overseas to foster financial innovation and enhance the skills of market professionals, and I am confident that such move will be well received by the financial community to further promote the development of the treasury markets.

The financial market is a vibrant and dynamic place. With globalisation taking place, the world is getting smaller and all of us are getting closer. In the financial world, this will, on the one hand, gives us more opportunities but, on the other hand, poses challenges to us at different levels. I think that this is the reason why we are here today. I believe that this Summit will give us a better picture on what are new in the bond market and how to tackle them.

Now, ladies and gentlemen, let me welcome you once again to this Summit and wish you a very successful discussion.

Thank you.