

Joint Luncheon
13 April 2005
Salon 1-4, JW Marriott Hong Kong
Speech by Honourable Henry Tang, GBS, JP
Financial Secretary, HKSAR

Distinguished guests, ladies and gentlemen,

It is my great pleasure to be among so many financial professionals today. Financial services industry is a major pillar of our economy, and we have always attached great importance to it. As you might recall, I spent a disproportionate amount of time in my Budget speech on how the Government could facilitate the development of our financial markets, as I truly believe this is what makes Hong Kong tick and that our economic future hinges on it. This luncheon is most opportune for me to exchange views with you on the prospects of Hong Kong's financial markets and how the industry and the Government could work together to enhance our positioning as an international financial center.

The development of our financial market over the past decades has been truly impressive. Last year, we ranked first in Asia and third in the world in terms of capital raised, out-performing London and Tokyo. This is indeed a most impressive achievement. Ten years ago, who would have imagined that Hong Kong could beat London and Tokyo in fund raising? Mainland enterprises have so far raised over \$900 billion through listing in Hong Kong. They now account for 30% of our total market-cap, and constitutes half of the market turnover. Indeed, Mainland enterprises whose shares are also listed in New York or London see an average of 70% of their turnover here in their home market, Hong Kong.

Another way of appreciating how well our stock market performs is to look at the amount of funds raised in our stock market in terms of our GDP. In 2004, we came first in the world with 22%, compared to mere 2% for the UK and Singapore, and 1% for the US. It is, of course, difficult to imagine 22% of Hong Kong's domestic income, as approximated by the GDP, going into IPOs or the other fund raising activities in our stock market. Although the stock market is a popular home for savings of Hong Kong people, the banks probably still get the lion's share, with

the bond market becoming more significant by the day. The 22% indicates very clearly the significant presence of foreign savings attracted to the fund raising activities organized in our stock market. And this is what makes us truly international and unique.

You are all market practitioners and there is no need for me to fill you with more figures. Suffice it to say that our financial markets have achieved so much in the past years, and you all here play a significant part in it. And, I am sure you share my view that the potential for future growth is still enormous. Particularly with the gradual liberalization of the Mainland, Hong Kong is uniquely positioned to capitalize on these opportunities.

The Mainland is, and will continue to be, the most important growth area of our financial services industry. Continued restructuring of the state-owned sector as well as the flourishing private enterprises in the Mainland will generate substantial financing needs. The huge savings in the Mainland and the policy to gradually expand investment channels will generate large investment demands. More importantly, many Mainland enterprises consider that listing in Hong Kong could give them a "Q-mark" on corporate governance and financial reporting, as Hong Kong's regulators are known to apply our rules fairly, without fear or favor. All these point to a promising prospect for our financial markets. Looking beyond Mainland, Taiwan and Japanese companies have invested heavily in the Mainland. We offer them an opportunity to diversify their capital formation.

There is, however, no room for complacency. We must capitalize on our strengths and grasp the opportunities. I emphasized in the Budget Speech the principle of "Market Leads, Government Facilitates". We have taken forward a number of proposals and measures to increase our attractiveness to investors and fundraisers, and to enhance our market quality.

In the Budget, I have proposed to abolish estate duty. I trust everyone in this room realizes that this is not a tax concession to benefit the few hundred cases we capture a year. But the foregone revenue is an investment on the competitiveness of our financial services industry. The proposed abolition will encourage investors,

both local and overseas alike, to hold assets in Hong Kong through a Hong Kong corporate vehicle or trust. More overseas companies and professionals will come here to serve these clients, and this will in turn create more employment opportunities and make Hong Kong more competitive as an international asset management centre. We are confident that this investment will bring a multi-fold return and go a long way to further consolidating our status as a premier financial center. The Government will introduce the bill on the abolition of estate duty as soon as possible, and we look forward to your continued support.

In addition, the Government intends to introduce the necessary legislative amendments to exempt offshore funds from profits tax in the current legislative year. The exemption would help attract new offshore funds to Hong Kong and to encourage existing funds to continue to invest here. Anchoring offshore funds in Hong Kong markets helps maintain international expertise and encourage investments in the local fund management industry. The proposals have gone through extensive and thorough consultations with the industry. We, of course, welcome your support when we submit the proposed legislation to LegCo.

Besides nurturing our stock market, we are also making an all-out effort to become the preferred bond market in Asia. The SFC is conducting a comprehensive review of the public offering regime in order to provide an efficient, competitive and fair environment for bond issuers and investors. To deepen the retail bond market development, the retail Exchange Fund Note programme would be re-launched this year, with refinements in marketing and product features to enhance its attractiveness. The Hong Kong Mortgage Corporation also raised \$2.9 billion through retail channel in 2004, making it the most active corporate issuer of retail bonds. But of course, we will encourage the private sector to do more. We will also continue to improve our market infrastructure and step up investor education on bond investment. I am grateful to the industry associations for your continued support in promoting our bond market. Such concerted efforts between the industry and the Government are key to success.

To grasp the opportunities brought about by our unique relationship with the Mainland, I must mention our RMB initiative. Last year, Hong Kong became the first place outside the Mainland to conduct personal RMB business. While the range

of RMB services now available in Hong Kong is quite limited, the provision of such services already represents a major breakthrough. For the further development of RMB business in Hong Kong, I have earlier indicated we should work towards three strategic directions: first, exploring the diversification of the RMB assets and liabilities of Hong Kong banks; particularly on the liability side, diversification to non-residents and non-individuals of deposits now restricted to resident individuals; second, exploring the provision of appropriate RMB banking services for trade and other current account transactions between Hong Kong and the Mainland; third, exploring the feasibility of establishing a RMB debt issuance mechanism in Hong Kong. These proposals, if implemented, will facilitate the channeling of RMB back to the Mainland and the diversification of RMB assets. The Government is exploring with the Mainland authorities ways to expand the scope of RMB business on a sound footing in these three strategic directions. In this context, we will also be studying the establishment of a clearing and settlement platform for RMB transactions so as to enhance their efficiency and safety.

While our financial markets grow in a rapid pace, we are absolutely determined that the growth must not be at the expense of our market quality. With a view to attracting even more local and international investors, we are doing our utmost to enhance corporate governance and ethical standards of our market practitioners. The Professional Accountants (Amendment) Ordinance 2004 has been enacted, which improves the transparency and independence of the regulatory framework for the accounting profession. Later this year, we will introduce two bills which will give statutory backing to major listing requirements and establish the Financial Reporting Council to strengthen the supervision of auditors and raise the quality of financial reporting by listed companies. In respect of the banking sector, we have introduced a bill to establish a legislative framework for implementing "Basel II" in Hong Kong. Meanwhile, we are also preparing for the implementation of a deposit protection scheme which we hope would come into operation in the second half of 2006.

For the financial analysts here, you must be aware that the "Guidelines to address analyst conflicts of interest" issued by the SFC has come into effect early this month. The objectives of the guidelines are to reduce, manage and disclose conflicts that analysts face or potentially face and to provide greater protection to investors. Its implementation will surely reinforce Hong Kong's regulatory framework and our position as an international financial centre.

I also note that the Treasury Markets Forum (TMF), in which the Hong Kong Capital Markets Association and the Hong Kong Association of Corporate Treasurers are represented, has undertaken a number of initiatives to raise the level of professionalism of market practitioners and promote the treasury markets of Hong Kong to the Mainland. I look forward to more work by the TMF with our industry associations together on these fronts.

Promoting economic growth and social stability is the theme of this year's Budget. The financial services industry is high value-added, contributing to over 13% of our GDP. We will uphold the principle of "Market Leads, Government Facilitates" and provide the most favorable environment for our financial markets to develop. I very much welcome your views on how we can do a better job. Together, we shall build a world-class financial centre, not only serving our country, but also Asia and the rest of the world.

Thank you.