

**31<sup>st</sup> Annual Conference of  
The International Organization of  
Securities Commissions  
(IOSCO)**

**7 June 2006  
Hong Kong SAR**

**Opening Ceremony**

**By Martin Wheatley  
Chairman  
Securities and Futures Commission  
Hong Kong**

The Hon. Rafael Hui, Acting Chief Executive  
Jane Diplock, Chairman of the Executive Committee  
Michel Prada, Chairman of the Technical Committee  
Dogan Cansizlar, Chairman of the Emerging Markets Committee  
Philippe Richard, Secretary General of IOSCO  
Distinguished Guests  
Ladies and Gentlemen

It is with great pleasure that I extend a warm welcome to all of you to the 31<sup>st</sup> Annual Conference of the International Organization of Securities Commissions (IOSCO) that the SFC is very honoured to host in Hong Kong for the first time.

IOSCO remains a fairly young organisation – though one that has achieved much already.

IOSCO was established in 1983. But its roots go back to 1974 in the Americas, where its ancestor the inter-American regional association was created. April 1983 was the turning point, when the eleven securities

regulatory agencies decided in Ecuador to widen membership to become a truly international cooperative body. In 1984, securities regulators from France, Indonesia, Korea and the United Kingdom were the first agencies to join the membership from outside the Americas. Today, IOSCO has more than 180 members and its members regulate more than 90% of the world's securities markets.

The SFC itself is even younger than IOSCO - it was established in the aftermath of Black Monday in October 1987, following recommendations that a single independent statutory body be established to oversee and regulate the securities markets.

The securities market of Hong Kong has come a long way since then as the Honourable Rafael Hui has said. Mainland Chinese companies started listing in HK as H-shares and Red Chips in 1993, and today there are 217 Mainland listings in HK, accounting for 40% of the market.

The takeoff in the derivatives market has also been stellar. Starting with only one product, the HSI Future, in 1988 with annual trading of 140,000 contracts, last year we saw 25.5 million futures contracts traded. Increases in the number of authorised unit trusts and mutual funds tell a similar story; the number growing from 920 five years ago, with net asset value of US\$26 billion to 2,000 funds today with net asset value of US\$668 billion 25 times as large.

A milestone for the SFC was the enactment of the Securities and Futures Ordinance (SFO) in March 2002. The SFO consolidates, modernises and replaced 10 previous legislations, bringing Hong Kong in line with international standards. It is flexible in catering for a rapidly changing market environment. With the SFO, dual filing was implemented for listed companies and those seeking listing, whereby the SFC shares the regulatory role for new listings with the Hong Kong Exchange and with new laws, to give statutory backing to the Listing Rules, the SFC will become the statutory regulator of corporate disclosure.

The fund management activities surveys conducted by the SFC in the past few years have shown that the growth of Hong Kong's asset management industry has been sizable. In 2004, Hong Kong's total asset management business, which includes asset management, advisory business and other private banking business, increased 23% over 2003 to HK\$3.6 trillion. We have seen the trend of large US and European houses establishing a presence in HK. Over the past few years, we have also been witness to a thriving hedge fund industry in Hong Kong.

According to AsiaHedge, Hong Kong had the largest number of new Asian hedge funds within Asia in year 2005, followed by Australia, Singapore and Japan. In respect of aggregate asset size of these start-ups, Hong Kong had the largest new fund. About 148 hedge funds were operating in Hong Kong with total assets under management (AUM) amounted to US\$17 billion.

Hong Kong is one of the very first jurisdictions in the world to allow the sale of hedge funds to the retail public since May 2002. There are 13 retail hedge funds authorised by the SFC with a total net asset size of US\$1.15 billion. The net asset size as at March 2006 was more than six times larger than that as at 2002-end, the year when the hedge funds guidelines were first issued. But hedge funds, whilst bringing significant new businesses to markets – also raise concerns as to whether they are safe investments – and also whether their failure could have widespread consequences for the market. Something we will return to in this conference.

There is great potential for Hong Kong to expand its asset management business further. Why? For many reasons, just name a few : -

1. HK is located at the heart of Asia and doorstep of Mainland China,
2. Domestic savings in Asia is high,
3. Regional economic outlook is promising,
4. Banks, fund managers and insurance companies in the region held vast pension scheme assets,
5. The Mainland's policy direction is relaxing and expanding outward investment.

Let me talk about the development of HK Real Estate Investment Trusts (REIT) market. Since the listing of the first REIT in Hong Kong in November 2005, we have seen major milestones in the development of the REIT market in Hong Kong. The first product, the Link REIT marks the largest privatisation of properties by way of REIT in 2005 and is the largest initial public offering of REITs so far in the world. We have seen a number of other issues within the short space of seven months of the first REIT listing. The market capitalization of HK REITs has grown to US\$6.3 billion, and turnover in REITs account for nearly 3% of the turnover of the Hong Kong Stock Exchange. We also have the first REIT with 100% portfolio to mainland properties. To date, the REIT market in Hong Kong offers investors a wide choice of properties, ranging from

retail properties, commercial properties in decentralised locations in Hong Kong, Grade A office in Hong Kong to properties in the mainland.

These are only the starting points for the REIT market in Hong Kong. I am confident that more achievements are to be made as the market develops, given the presence of a rich pool of talents in Hong Kong, the world class legal and regulatory system that Hong Kong has established, and the expertise that Hong Kong has developed in investments in assets and business in China, which is predicted by the market to be the long term source of growth potential for REITs.

Hong Kong continues to be one of the leading capital-raising centres in the world, and the primary fund-raising centre for mainland China companies, evident by the recent initial public offering of the Bank of China. Therefore, sponsors play a very important role in advising these listing applicants and prepare them for their listings in the Hong Kong market, as well as their compliance with the relevant listing regulations.

With a view to enhance sponsor standards in Hong Kong, the SFC in early 2007 will impose a set of specific eligibility criteria and ongoing compliance obligations on sponsors, focusing on:

- the sponsor's organizational structure, controls and resources; and
- the responsibility of the sponsor's management.

Coupling with the SFC's regulatory functions of monitoring and supervising, the SFC will continue its efforts to foster the healthy growth of the Hong Kong capital market. The SFC believes that in order to maintain Hong Kong's status as one of the elite capital-raising centres in the world, sponsor standards should not be compromised. The SFC will not hesitate to take action against sponsors where we find substandard work.

As an international financial centre, Hong Kong plays its part in the international financial community. SFC is a member of the Technical Committee of IOSCO, and two of its former Chairmen Anthony Neoh and Andrew Sheng had the privilege and honour to chair the Technical Committee of IOSCO. You will hear more of the work of IOSCO from the respective Committee chairs who will speak next.

More than 650 participants from over 135 jurisdictions spanning more than 90 countries are here with us this week. The participants and stakeholders are wide-ranging from the entire spectrum of the securities

markets. We have securities regulators, stock and futures exchanges, market practitioners and intermediaries, industry associations, issuers, government agencies, academia and the media.

Starting later this afternoon and continuing tomorrow, participants in the public panel sessions will have an opportunity to listen to panellists from around the world present their views on topics that are of current interest to market participants and regulators. The issues addressed by the four panels are:

- International Financial Reporting Standards (IFRS) – Initial Experiences
- Hedge Funds – How Far is it Necessary to Regulate
- Bond Markets – Should their Transparency be Enhanced?
- Challenges related to the Implementation of the IOSCO Principles and of the IOSCO MOU in Emerging Securities Markets

We have an impressive line-up of panellists who will bring different insights and interesting perspectives to the issues at hand. As opinion formers or market leaders and professionals in their respective fields, the speakers and moderators will make for a lively discussion, more so with active participation from the floor.

Hong Kong is a city that offers something for everyone. We have had a full schedule that has kept IOSCO members in meetings. Last night, we brought them away from Victoria Harbour to the Peak for dinner.

My heartfelt thanks go to all IOSCO members for your support in coming to Hong Kong, and to all other participants for your support. I especially wish to thank the panellists who have had to juggle the heavy demands of their office or business, and to travel such a long way to participate in this Conference. I also wish to thank the Secretary-General and his colleagues for their support and cooperation. Last, but not least, I wish to thank SFC colleagues for their hard work in putting together this Conference.

All that remains for me to do is to express my appreciation and to thank the Honourable Rafael Hui for officiating at this Opening Ceremony. I also wish to thank our distinguished guests for taking time out to grace this occasion.

Thank you.