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Good morning, and happy New Year!

We start another calendar year and can look back on 2009 as a turbulent time. You'll have much to discuss here today, focusing not just on proposed reforms that will affect the industry but also on continued innovation in the current market environment.

One of the major topics of discussion among investors, product providers and distributors of investment products in Hong Kong is the Securities and Futures Commission's recent public consultations on investor protection[1] and reform of the prospectus regime[2]. I will therefore spend a little time updating you all on some of the products-related proposals in those consultations. We should not, however, lose sight of the larger picture, and thus I will also share some thoughts on the opportunities that are laid before us, and how together we can capture these.

Public consultations

First, let's address some aspects of the public consultations I mentioned.

The public consultation released in September last year concerning investor protection was intended to serve two broad objectives. The first was to ensure that investment products are sold on the basis of clear disclosure of risks and product features. The second was to strengthen the regulatory regime for the conduct of sales intermediaries.

In furtherance of the first objective, we published a consultation draft of a Products Handbook which consolidates requirements for documents and products for which our authorization is sought under the Securities and Futures Ordinance. An array of regulatory tools is being used in furtherance of the second objective, relating to intermediary conduct, and these include a proposal to revise certain parts of the Code of Conduct.

The draft Products Handbook has in it the Codes on Unit Trusts and Mutual Funds and Investment-Linked Assurance Schemes, with which the market is familiar but to which we have proposed certain changes, and also a Code on Unlisted Structured Products, which is new. I should at the outset point out that this Code is intended to cover all unlisted structured

[1] Consultation Paper on Proposals to Enhance Protection for the Investing Public published by the SFC in September 2009.
[2] Consultation paper on Possible Reforms to the Prospectus Regime in the Companies Ordinance and the Offers of Investments Regime in the Securities and Futures Ordinance published by the SFC in October 2009.

products commonly available to the public in Hong Kong at present, such as equity, credit and commodity-linked notes and instruments and equity-linked deposits. In a separate public consultation paper issued last October relating to the reform of the prospectus regime, we proposed that offers of unlisted structured products that take the legal form of debentures and that currently fall within the scope of the prospectus regime in the Companies Ordinance should be brought within the offers of investments regime in the Securities and Futures Ordinance. These debenture products will therefore fall within the scope of the proposed Code on Structured Products. The scope of these proposed legislative amendments is confined to unlisted structured products in debenture form; it does not extend to cover other products which currently are outside the scope of the Companies Ordinance and the Securities and Futures Ordinance. We do not, for example, intend changing the regulatory regime that is currently applicable to currency-linked and interest rate-linked products which are banking transactions or treasury instruments of banks.

Responses to the proposals

Let me spend a few minutes on the products-related proposals.

As we've indicated before, our intent is to create a workable framework which addresses our primary objectives. It is a balancing act between ensuring an appropriate level of protection for the interests of the investing public and providing sufficient scope for the market to continue to develop. Thus our goal is to maintain an appropriate environment for the offering of investment products without stifling the market by over-regulation.

I would like to thank those of you who have participated in the process to date, providing informal feedback during the soft-consultation process and afterwards, attending the industry briefing sessions we've held, and submitting detailed, well-thought out and practical responses to the consultation proposals themselves. The time and effort that many of you have spent on this is apparent, and we appreciate it very much.

We are in the process of analysing the comments and suggestions received. We will develop responses after taking into account the submissions made to us. We will engage with various stakeholders and respondents to better understand some of the proffered points of view and assess the practical impact of particular items.

Two of the proposals which have attracted much comment are the proposed requirement for Key Facts Statements, designed to be user-friendly summaries of the key features and risks of investment products, and the possibility of a cooling-off or unwind period after an investor has placed an order for a product.

The responses indicate broad support for the introduction of Key Facts Statements. The underlying common intent here is clear - to provide investors with clear, succinct and useful disclosure and to enable easier reading and comparison among investment products. Of course, many of you have made detailed submissions about how best these documents should be presented (and not least how long the documents could or should be!) and what information they should contain. As I've noted in previous public remarks, many different jurisdictions and supranational organisations have in recent months come out with their own versions of a summary document for one or more types of investment product. Our aim here is not to get bogged down in matters of form, but rather to focus on efficient ways to ensure that summary documents satisfy substantive requirements in Hong Kong while accommodating - to the extent practicable - the fact that other jurisdictions may have their own take on what the documents should look like.

The prospect of a cooling-off period, what exactly the shorthand phrase “cooling-off” encompasses and what exactly that might mean in practice, has, as could have been expected, excited much controversy and comment in the market. We noted in our consultation paper that there were several considerations and complexities, not least that it could not be a “one-size-fits-all” requirement and that for the most part investors would not receive a refund of the full principal amount invested. We raised the question as to whether, and if so when, stakeholders felt that this sort of exit could be of benefit to investors. We also asked for opinions on if and when that benefit would be outweighed by attendant costs. Of course, there are different ways in which a “cooling-off” mechanism could be implemented. We have received responses ranging from strong support to strong opposition, and many detailed suggestions about how and when these sorts of exits could or should be provided, for which products and to whom.

Hong Kong as experimental ground for development of RMB investment products

Let me now turn to a different but no less important subject. I mentioned earlier that it is important to keep the bigger picture in mind. We are seeing more impetus in some areas of the market, and we are also seeing opportunities for development of new products.

An opportunity that Hong Kong needs to seize is one which arises in the course of the internationalisation of the Renminbi (RMB). Internationalising the RMB is one of the Central Government’s key policy objectives. Hong Kong is an international financial centre within China, and a free market. It has world-class services and capabilities, and a talented and resourceful workforce. It is thus the natural choice for providing the services and infrastructure required to facilitate RMB internationalisation. Of course, in the process, Hong Kong also stands to benefit.

Let us think about what RMB internationalisation requires. First the currency must gain international recognition. Internationally, there must be a demand for the currency, and a willingness to hold the currency. For this to happen, there must be avenues to which this currency can be put to use, for example, in trade settlement, as a unit of exchange and as an investment currency, ie, as a unit that can be invested for value accretion. This means that there must be RMB-denominated investment products readily available, and this is where Hong Kong is especially well-placed to contribute and where it stands to benefit. In fact, this has already been recognised by the Central Government.

During our Chief Executive’s visit to Beijing last month, Premier Wen Jiabao expressed the Central Government’s support for Hong Kong as a testing ground for Mainland financial reform. Premier Wen stated four broad objectives in response to certain proposals from the Hong Kong Administration, namely:

1. The encouragement of cross-border RMB trade settlement in Hong Kong, and exploration of different types of business relating to the flow of RMB, including RMB trade financing, account financing, project financing and RMB direct investment in Hong Kong;

2. Development of the RMB bond market in Hong Kong, including expanding the scope of bond issuances and the range of permitted bond issuers;

3. Continuing to encourage Mainland enterprises to list securities in Hong Kong; and

4. Promoting co-operation between the securities markets in Shanghai and Hong Kong.

Premier Wen's first two points are related to RMB-denominated products.
Given this background, we have clear support and encouragement to enter uncharted waters of RMB-related business, and we are able to do this with a new perspective. We should explore this on two fronts. On the supply side, Hong Kong should look into widening the availability of RMB-denominated investment products. On the demand side, we need to work on allowing a broader group of investors to invest in these RMB-denominated products.

Let me first talk about what we can do on the supply side. We believe that we can consider three types of products, namely, bond, equity, and derivative products, taking a gradual approach.

As of now, a total of RMB38 billion of RMB bonds have been issued in Hong Kong, RMB32 billion being issued by Mainland financial institutions or the Mainland bank subsidiaries of Hong Kong financial institutions, and RMB6 billion being sovereign bonds issued by the Ministry of Finance in September 2009. Given Premier Wen's comments, there is strong support for further development in this area, in the range of issuers, the size of issues, the range of investors and the depth and liquidity in the market.

In addition, we see opportunities for Hong Kong to leverage its strengths in equity and derivative products. As a start, RMB-denominated and traded equity products such as collective investment schemes and exchange traded funds could be considered.

For the RMB to become a currency that is widely held and used for trade and settlement purposes, financial products need to be available for hedging interest rate and currency risks. Clearly, in developing these products, we need to be mindful of the long-term objectives and specific needs of the underlying Mainland economy. China is now the Number One exporting nation in the world. It needs to broaden and deepen the volume of RMB cross-border trade settlement and trade finance. To get there, we need RMB hedging instruments outside the Mainland. Of course, in developing these products, we need to be mindful of the attendant risks, and to be able to craft proper parameters.

In terms of investment channels for the currency, having RMB-denominated products is not sufficient in itself. To create a dynamic market, on the demand side, it is important to have a complementary expansion of the investor base for these products. Currently, only individuals are able to open RMB accounts in Hong Kong and invest in RMB-denominated products. In order to increase the usage of RMB outside the Mainland and the demand for RMB-denominated products, it is only natural to expand the investor base to include institutions. Again, here, we believe that we should adopt a gradual approach, taking special care to ensure that attendant risks are managed within acceptable parameters.

Of course, supply of and demand for RMB-denominated products and RMB financial transactions cannot be developed in a vacuum. In addition to greater access to the currency, among institutions as well as retail investors, there will need to be sufficient commercial incentives, and the necessary supporting infrastructure and policy accommodations. We cannot expect this kind of development to happen overnight, as there are many considerations and sensitivities involved, although momentum is increasing. And while there may be considerable challenges in some areas, development in other areas could progress more swiftly.

We all have a role to play in this. For our part, we at the Commission will continue to work with the HKSAR Government, the Hong Kong Monetary Authority and our Mainland counterparts to build on progress so far, both in terms of policy and strategy considerations and in specific initiatives. You also have an opportunity here to contribute to this process, to voice your views and to identify specific areas for growth and expansion as we progress along this path.

I will wrap up here, as you have the panel discussion to come next and I’m sure there are many views to be aired on structured products reform! Thank you for inviting me to share a few thoughts with you today, and I hope you all enjoy the rest of the conference.