

Reshaping Finance: Regulation for Progress in a World of Pivots and Perils

Keynote speech at the Fourth ASEAN+3 Economic Cooperation and Financial Stability Forum

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25 November 2025

Distinguished guests, ladies and gentlemen, good afternoon. It is my honour to address this prestigious audience at the fourth ASEAN+3 Economic Cooperation and Financial Stability Forum.

The financial landscape we navigate today has changed drastically since the Global Financial Crisis some 17 years ago. Structural shifts have accelerated over the past decade, particularly the last five years. These pivots are catalysed by a confluence of mega forces – from technological innovation and regulatory evolution, to macro-economic upheaval and geopolitical realignment.

The more interconnected markets and complex dynamics are reshaping the way capital flows, risks are managed, and resilience is built. The line between public and private markets has become blurred, and so will the line between fiat currencies and stablecoins going forward.

Navigating this uncharted landscape demands agility and foresight from regulators, deeper collaboration and forward-looking strategies. These are the qualities that ASEAN+3 Macroeconomic Research Office (AMRO) embodies, and they are also essential for us to regulate for progress in a world of pivots and perils.

Now, let me focus on some of these transformative forces in financial markets.

Rapid growth of private markets

The first is the rapid growth of the private credit market. Since the Global Financial Crisis, the progressive phasing-in of Basel III has increased capital and liquidity requirements for banks. This constrains the bank sector from extending excessive leverage to the real sector, to shield the financial system from another major shock.

This has resulted in the rise of private credit, which comes in to fill the funding gap left by banks constrained by prudential regulation. Private credit increasingly acts as a mainstream alternative to bank lending to support growth and innovation. As a result, assets under management of global private capital have roughly tripled to US\$14 trillion over the last decade.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

As leverage provision shifts from banks to non-banks, the risk also spreads across asset owners and non-bank intermediaries. The two sectors are increasingly interwoven, as banks provide margin funding to private fund managers and the underlying assets. For a sector of such fast growth, we have seen bifurcation in its asset quality. Recent collapses of First Brands and Tricolor in the US have sounded the alarm bell about the risks of private credit – they can be complex, illiquid, opaque, difficult to value, and susceptible to fraud.

Retail participation in private credit is rising too, adding urgency for regulators to closely examine the private credit ecosystem and its key interlinkages with banks, insurers and other key market participants. Investors and counterparties also need greater clarity and transparency on valuations, leverage and governance structure in order to manage their exposure.

To rise to the challenge, we have stepped up surveillance of the over-the-counter (OTC) derivatives market in Hong Kong. Under the new requirements effective in September, it is now mandatory to report delta positions of OTC trades to the trade repository, among other data requests. In international forums, regulators are discussing how to standardise disclosure requirements to better manage counterparty risks. Any required disclosures should be proportionate, taking into account the heterogeneity of non-bank financial institutions, and concerns about disclosing proprietary and commercially sensitive information. In this light, the industry is well-placed to identify the key risks and information needed, and public-private partnership would be helpful to work out the details of necessary disclosure.

Technology in financial services sector

The second driver of financial market transformation is technological advances. In the past decade, algorithmic trading and machine learning have increased trading efficiency through lower transaction costs and faster execution. Artificial intelligence (AI) models enable robo-advisors to deliver automated, tailored investment advice to clients. Asset managers can leverage these models to identify investment signals from a surfeit of data today. Firms can also improve fraud detection and risk management.

Further to these, generative AI (GenAI) large language models hold even greater promises to boost productivity, save costs and fuel innovation across the economy. So far, financial firms are using GenAI mainly to improve operational efficiency, while use cases in trade execution are still nascent. They are also exploring agentic AI to further streamline workflows and minimise human intervention. Moreover, quantum computing is set to empower firms to perform complex real-time calculations.

However, as we all know, technology is a two-edged sword. With a surge in computing power, financial stability can be unsettled by new operational risks, data breaches and cybersecurity issues. AI models can generate inaccurate or biased output, leading to flawed trading signals, unsuitable investment advice or mispriced risks. These models and their output can be more difficult to audit, validate and explain. Furthermore, GenAI models are known to hallucinate. Concentration of AI providers raises concerns on firms' operational resilience and potential correlated market behaviour. On top of these, quantum computers may render current encryption technologies obsolete, therefore giving rise to data protection issues.

In light of these challenges, we have emphasised to licensed firms that they must have a robust governance and risk management framework, and fully understand the AI models they deploy. In particular, for high-risk GenAI use cases, we require firms to have “a human in the loop”. In addition, to adapt our regimes to changing times, regulators in Hong Kong are developing the relevant cybersecurity framework and quantum-safe infrastructure.

Rise of DLT and new asset classes

Digitalisation and data standardisation have improved post-trade efficiency and driven trade settlement to migrate from T+2 to T+1 in traditional finance. The emergence of distributed ledger technology (DLT) and digital assets along with it is the third driver of market transformation: they are putting instant clearing and settlement within our reach.

As we all know, our younger generation lives their lives on mobile phones. The investment behaviour of these digital citizens is very different from the previous generations, which also explains why digital assets are fast adopted. They are risk-tolerant, prioritising speed, accessibility and peer-driven information on social media. They also embrace Web3 and 24/7 trading. This trend is particularly dominant in Association of Southeast Asian Nations (ASEAN) countries, where the median age is about 30.

Therefore, Hong Kong is leading the regulatory efforts undertaken globally to build a secure and trusted platform for digital assets. To future-proof our financial markets, a comprehensive regulatory framework for digital assets is in the making – we have in place the regimes for centralised exchanges, advisors, asset managers and products. After public consultations, we are now finalising the regulatory regimes for digital asset dealers and custodians. These will be the last pieces of our regulatory “puzzle” to support a robust digital asset ecosystem.

In the meantime, we are seeing increased adoption of tokenised financial products in Hong Kong, such as tokenised green bonds, as well as money market funds and retail gold product authorised by the Securities and Futures Commission (SFC). With varying degrees of tokenisation, these tokenised products in Hong Kong had a market size of around US\$3 billion. At this stage, most of the tokenisation pilots remain nascent, with considerable room for upgrades. Some have achieved modest efficiency gains and cost savings in clearing and settlement, while many continue to rely on fiat currency to settle the cash leg.

Many in the market now hold the long-term vision to put on chain the entire lifecycle of traditional financial products, and achieve instantaneous settlement and its finality. The processes should cover subscription, redemption, trading, settlement and record keeping. Under the guidance of the SFC and the Hong Kong Monetary Authority (HKMA), firms are now conducting live transactions during the pilot phase of Project Ensemble, where investors transfer tokenised deposits across banks to subscribe for tokenised products. To achieve scale, interoperability is essential. That would require a common blockchain layer to be built for interbank payments, and its gradual integration with the broader financial market.

In the Web3 ecosystem, stablecoins are used by crypto natives as a currency for exchange. If left unregulated, their widespread use would introduce new risks, particularly in case of large-scale redemptions. With Hong Kong’s stablecoin legislation coming into effect this August, the HKMA has put guardrails in place to ensure reserve assets backing the authorised stablecoins are properly managed and regularly audited by an independent auditor.

None of us has a crystal ball to predict the scale and speed of tokenisation or the use of stablecoins in cross-border supply chain payments. However, as Hong Kong continues the digital asset journey, we will be steadfast in upholding investor protection, resilient financial infrastructure and sound regulation mirroring that in traditional finance.

Shifting connectivity in financial markets

The last driving force is geo-economics and the new pivots in financial linkages. Geo-economic strategies and tariff resurgence are reshaping global supply chains, fragmenting what was once a seamless global network into regional clusters. In Asia-Pacific, we have witnessed a decisive pivot towards regionalisation: intra-regional trade now accounts for nearly 60% of the region's total exports. Firms are fast adapting their strategies and diversifying production hubs to ASEAN economies. Capitalising on these opportunities, ASEAN has transformed into a vibrant economic bloc.

This realignment is mirrored in investment flows: despite global headwinds, developing Asia attracted more than US\$600 billion in foreign direct investment in 2024, representing 40% of global inflows. ASEAN alone drew a lion's share. For Hong Kong to remain a critical financial conduit, financial firms here have forged new ties to the reconfigured regional treasuries, supply chain financing and capital markets.

The Middle East and other regional markets are also looking to Hong Kong for diversification and new financial linkages. This can be seen in the Hong Kong listing of an ETF¹ for Saudi stocks and its subsequent cross-listings on Mainland exchanges.

Within Asia, fragmented liquidity and diverging regulatory approaches pose challenges to a more integrated capital market. This would require regulatory collaboration among us in this region, and AMRO is best positioned to deepen our dialogue to build a more resilient and synergistic Asian market.

Conclusion

Ladies and gentlemen, the four drivers I mentioned are reshaping financial markets in magnitude unforeseen. Technology, shifting capital flows, and new risk dynamics are redefining the contours of our financial ecosystem. To avoid perils in navigating this transformation, we must pivot to action and collaboration.

The imperative for regulators to adapt has never been greater. At the SFC, we strive to be the change that we wish to see in financial markets: we are reviewing our regulatory regimes to move with the times—balancing innovation with stability, and growth with prudence. Rules must evolve to safeguard resilience while pushing for progress.

We encourage market participants to embrace collaboration, transparency and future readiness. We must also continue to leverage regional institutions like AMRO in fostering dialogue and harmonising differences across jurisdictions. Together, we can turn disruption into opportunity, division into trust, and global challenges into Asian prosperity.

Thank you very much.

¹ Exchange-traded fund