

Lipper Fund Awards 2014 Opening remarks

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Good morning ladies and gentlemen

It is a pleasure to be here today. Each year, the Lipper Fund Awards recognise funds and fund management firms that have excelled in consistently strong risk-adjusted performance, relative to their peers. I congratulate this year's award recipients and also applaud all participants. Together your efforts and contributions enable Hong Kong to maintain its status as a key international hub for asset management.

Your innovation, skill and hard work have placed us at the forefront of global financial centres. Last year's robust figures in asset management tell a compelling story.

Hong Kong's fund industry in 2013

Following the remarkable achievement in the combined fund management business in Hong Kong in 2012, which saw a year-on-year growth of 39.3% to reach a record high of HK\$12.6 trillion, Hong Kong's fund industry has continued to reach new highs. According to the Hong Kong Investment Funds Association, gross sales of the fund industry in Hong Kong hit a record high of US\$71 billion in 2013, up by 30% over that of a year-ago.

In line with this growth in gross fund sales, we saw an increase in the number of companies licensed or registered to conduct asset management business in Hong Kong. About 62% of the new licenses granted by the Securities and Futures Commission (SFC) in 2013 were asset management licenses. About 13% of these new asset management licensees are firms with Mainland background, indicating that Mainland Chinese financial institutions are now an integral part of the Hong Kong market.

Market opportunities

Despite the changing landscape in the global financial markets and recent challenges in some emerging markets, we continue to see promising investment opportunities in Asia, with China continuing as the key driving force of economic growth, attracting funds for investment from everywhere.

With its proximity to the Mainland and its role as an international financial centre underpinned by a robust regulatory regime and a pool of investment talents, Hong Kong continues to be the preferred platform for investments by international investors. Ability to access funds sourced from overseas investors is an important feature of the Hong Kong market. As the 2012 Fund Management Activities Survey by the SFC pointed out, international investors contributed over 60% of the fund management business.



To maintain the competitiveness of Hong Kong, we must do more to develop Hong Kong into a truly comprehensive fund management centre and ensure that funds based in Hong Kong are best placed to explore investment opportunities in the region, and to attract capital.

Let me now quickly highlight some of the more significant initiatives that are in the works.

Hong Kong's role as an offshore RMB market

Hong Kong is the world's largest offshore RMB centre. RMB deposits and outstanding certificates of deposits in Hong Kong totalled more than RMB 1 trillion at the end of 2013, accounting for 70% of the offshore pool of RMB liquidity. This sizeable liquidity pool drives demand for and support further development of a more diversified range of RMB investment and financial products.

Hong Kong is so far the undisputed leader in introducing offshore RMB funds. As both an international market and an offshore market of China, it enjoys a unique position of strength, thanks to a number of key factors rooted close to home. In terms of SFC-authorized funds alone, RMB funds have grown from literally nothing three years ago into a sizeable product category with over RMB80 billion under management as of the end of 2013.

Development of the RQFII scheme

There is a lot of excitement surrounding the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme. It has given some RQFII managers almost instant recognition. Originally devised and proposed by Hong Kong, this rather simple concept has further evolved to a well recognised scheme with a broad range of RMB products, giving Hong Kong a wider lead as an offshore RMB centre.

So much magic appears to rest on the brand. Yet, as a concept, it is actually very simple. It is, simply, a Qualified Foreign Institutional Investor (QFII). China has been giving QFII quotas to different types of institutions like banks and institutional investors around the world since 2003.

What sets the RQFII apart from the regular QFII is that we saw that the QFII could be used to help RMB internationalize, so we asked for a QFII in RMB, to be given to Hong Kong-based asset managers so that they could use the Hong Kong asset management platform to create RMB investment products for investors worldwide. It has always been clear to us that for the RMB to become truly international, it must be widely used outside the Mainland for payment, for investment, and ultimately, as a vehicle for holding value. The RQFII could significantly help to drive the international use of RMB for investments.

Our thesis has been vindicated by the success of the RQFII. Today, every aspiring offshore RMB centre wants a piece of the RQFII quota.

Asset management opportunities in Hong Kong

Mutual recognition of funds with Mainland

Now, a word on mutual recognition. As you know, we have reached broad agreement with the relevant Mainland authorities on mutual recognition of funds between Hong Kong and the Mainland.

Once implemented, this arrangement will significantly expand Hong Kong's RMB investment products universe, and add to the diversity and richness of the asset management talent pool



here. It will also give fund managers greater incentive to set up more Hong Kong-domiciled funds, to gain access to the huge pool of savings on the Mainland.

Open-ended fund company structure

Yesterday, the Financial Services and Treasury Bureau (FSTB) unveiled proposals to create an open-ended fund company regime.

This open-ended fund company structure will allow fund managers to set up investment funds in Hong Kong in the form of a corporation with variable capital in addition to the existing unit trust structure. This will provide market participants with more flexibility and greater efficiency in establishing and operating Hong Kong domiciled funds and further develop Hong Kong as an international asset management centre of choice.

Other legislative initiatives

In addition, the Financial Secretary has announced a number of other key initiatives in the 2014/15 Hong Kong Budget in creating a more market-friendly environment for the asset management industry, such as the proposal to waive the stamp duty for the trading of all exchange-traded funds (ETFs). This will help promote the development, management and trading of ETFs in Hong Kong.

Conclusion

As we can see Hong Kong is a place where portfolio management skills, product innovation, dedicated sales teams, operational and custodial services come together. It is also a place where a robust regulatory environment and a groundbreaking initiative will encourage more players, more investors and more competition. Competition drives success.

Once again, let me congratulate all the award recipients for their achievements last year, and I wish you all a prosperous year ahead.

Thank you.