

SFC-SC Joint Seminar on Islamic Funds Opening remarks

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Colleagues from the Securities Commission Malaysia, ladies and gentlemen. Good morning.

It is with great pleasure that I welcome you all to the first seminar on Islamic funds jointly organised by the Hong Kong Securities and Futures Commission (SFC) and the Securities Commission of Malaysia (SC). We are privileged to have with us today Mr Zainal Izlan Zainal Abidin, Executive Director of Islamic Capital Market of the SC, who leads a delegation of Islamic finance experts from Malaysia to share with us their invaluable insights and experience on a wide range of current issues concerning Islamic finance and specifically, Islamic funds.

There is no doubt that Islamic finance is a growth industry and has made tremendous progress. Shariah-compliant funds continue to expand rapidly on a global scale. According to the MIFC Global Islamic Fund Insights issued in December 2013, the global Islamic funds industry has grown from a USD29.2 billion market in 2004 to a USD73.7 billion market as at December 2013. The number of Islamic funds has grown almost four-fold, in the same period. Further, according to AsianInvestor of March this year, the Shariah-compliant assets of the top 50 Islamic fund houses rose by a quarter, representing an increase of 25.6% last year. This significantly outpaces the conventional global AUM growth.

Further developing the Islamic finance market in Hong Kong

Hong Kong is certainly keen to further develop its Islamic finance market. We see Islamic finance as a valuable proposition, one which can contribute towards innovation and diversity in our financial market.

Preparations are already underway to lay the appropriate foundation and structure for a robust Islamic finance market. For instance, in July last year, Hong Kong enacted new tax laws to provide a market-friendly taxation framework for Islamic bonds, or sukuk. Early this year, Hong Kong passed a bill to amend the Loans Ordinance to accommodate the issuance of sukuk under the Government Bond Programme. These initiatives help diversify the range of financial products and services for investors, further promotes the Islamic finance market and reinforces Hong Kong's position as a major international financial center.

Currently, I imagine it would be easy to overlook Hong Kong as a platform for Islamic finance. Indeed, if Hong Kong's standing in the world of Islamic finance is directly proportionate to the availability of halal food in the city: we do have a fair distance to go! We do not have any resident body of Shariah scholars, and there is a lack of natural demand for Islamic products domestically.



That said, Hong Kong has a deep pool of talent and a wealth of expertise in being a strong asset management centre for international investors. Our 2012 Fund Management Activities Survey showed that the AUM of Hong Kong's combined fund management business reached a record high of USD1.6 trillion in 2012. International investors contributed over 60% to this business. Hong Kong's free market is intensely international and dynamic. Our capability in distribution, research, innovation and trade execution, our robust infrastructure and world class reputation and very importantly, our first mover advantage in RMB finance and products, all combine to make Hong Kong an excellent platform to further develop Islamic finance products for sale to investors domestic and internationally.

According to the Hong Kong Investment Funds Association, gross sales of the fund industry in Hong Kong hit a record high of USD71 billion in 2013, up by over 30% compared to a year ago. As trade and investment ties continue to strengthen between China and Islamic countries such as the Middle East and North Africa and, closer to home, Malaysia, demand for RMB Shariah-compliant products will continue to grow. We have the largest pool of offshore RMB deposits, which totalled more than RMB 1.1 trillion at the end of 2013, accounting for about 70% of the offshore pool of RMB liquidity. I am sure you can see the enormous potential for further innovation and I would encourage the asset management industry to leverage on our platform to develop RMB Islamic products.

Cooperation with the Securities Commission of Malaysia

Malaysia is a leader in the development of Islamic finance. It has an impressive depth and breadth of experience in the creation, management and regulation of Islamic funds. According to the Global Islamic Asset Management Report 2014 issued by Thomson Reuters, Malaysia is home to the largest number of Islamic funds globally, in addition to being among the three largest Islamic fund markets in the world. Malaysia is recognized as having one of the most comprehensive Islamic financial systems in the world in banking, capital markets and Islamic insurance.

The SFC and SC Malaysia have enjoyed a close and mutually beneficial relationship. We have been long-time partners on promoting and resolving regulatory issues in our respective financial markets. Building on the foundation of the Memorandum of Understanding on Information Sharing and Enforcement entered into between SFC and the SC in 1994, we signed the Declaration on Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investment Schemes ("Declaration") in 2009 to facilitate cross-border offering of Islamic funds. It provides a solid foundation for the development of the Islamic asset management industry in Hong Kong.

Under the mutual recognition arrangement, SC-approved Islamic collective investment schemes (excluding hedge funds, wholesale funds and real estate investment trusts) primarily regulated by the SC and managed by SC-licensees that seek authorization by the SFC will enjoy a streamlined vetting process. Similarly, SFC-authorized Islamic collective investment schemes primarily regulated by the SFC and managed by SFC-licensees will enjoy streamlined processing by the SC in their authorization application process. The Declaration enables the cross-border offering of Islamic collective investment schemes in Hong Kong and Malaysia, thereby contributing to a broader range of investment funds available to both jurisdictions and facilitating the further growth of Islamic investment management expertise in Hong Kong.



The SFC authorised the first actively managed Islamic equity fund under the mutual recognition framework in 2012. We are pleased to note that the first actively managed Islamic balanced fund under the mutual recognition framework will be launched today. The SFC will continue to work closely with SC Malaysia, as well as the global Islamic finance community, to develop Hong Kong's Islamic finance platform.

This is only the beginning. We expect more of such products to be introduced in Hong Kong. The synergies between our markets are considerable and we would encourage the Islamic finance community in Malaysia to make full use of the existing mutual recognition framework to bring more of your Islamic funds to Hong Kong. We also encourage international and local fund managers to set up Hong Kong domiciled funds including Islamic funds in Hong Kong.

Other opportunities in Hong Kong

I would like to take this opportunity to highlight some of the other initiatives for the broader asset management market in Hong Kong.

Mutual recognition of funds with Mainland

On mutual recognition of funds with Mainland China, we have reached broad agreement with the relevant Mainland authorities. Once implemented, this arrangement will significantly expand Hong Kong's RMB investment products universe. Qualified SFC authorized funds domiciled in and operating from Hong Kong are to enjoy the status of "recognised Hong Kong funds" for the purpose of mutual recognition in Mainland China. 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

In March this year, the Hong Kong Government launched a three-month public consultation on a new open-ended fund company (OFC) structure for investment funds. This OFC structure will allow market participants to have more flexibility in establishing and operating funds in Hong Kong.

Other legislative initiatives

Further, the Financial Secretary 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, including the proposal to waive the stamp duty for the trading of all exchange-traded funds (ETFs). This will help promote the ETFs market in Hong Kong.

The SFC will continue to facilitate market development while ensuring that the integrity of financial markets is firmly upheld. We will ensure that investors are protected and markets are fair, efficient and transparent.

Closing

I am sure today's seminar will be a great opportunity for regulators, market leaders and experts from Malaysia, Hong Kong and other jurisdictions to exchange views on Islamic funds. As you explore market opportunities and assess investor demand, I am confident that you will come to appreciate the potential of Hong Kong as a platform for hosting international issuers and investors for Islamic funds. I wish you all a fruitful and enjoyable seminar this morning. Thank you.