

3rd Malaysian Islamic Finance Issuers and Investors Forum 2008 Hong Kong's Country Presentation

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Opening

Good afternoon Ladies and Gentlemen. First of all I would like to thank the organisers for giving me the opportunity here to speak today at the 3rd Malaysian Islamic Finance - Issuers and Investors Forum 2008. The forum provides an excellent opportunity for the best of the Islamic finance industry to gather and share their views and visions. It gives me great pleasure to have this chance to update you on the latest developments in Hong Kong's financial market, particularly with respect to Islamic finance.

Hong Kong's commitment in developing an Islamic financial platform

In his 2007/08 Policy Address¹, the Chief Executive of the Hong Kong Special Administrative Region Donald Tsang stated that Islamic finance offers huge potential for development. To further consolidate Hong Kong's position as a global financial centre, Hong Kong should actively leverage on this new trend by developing an Islamic financial platform.

Furthermore, Professor K C Chan, Hong Kong's Secretary for Financial Services and the Treasury recently mentioned in a speech² that having reviewed Hong Kong's legal, taxation and regulatory regime for accommodating a Sukuk market under Hong Kong's existing systems and network, it was found that there are no fundamental obstacles to the issues and transactions of Sukuk in Hong Kong, and only technical modifications will be necessary to ensure tax neutrality is achieved between conventional and Islamic finance transactions.

Executing the commitment – developing using Hong Kong's strengths

Given Hong Kong's position as an international financial centre and its commitment, we believe that Hong Kong has the strengths and capabilities to develop its Islamic finance sector and contribute to the growth of the global Islamic finance market.

An open market economy

Named as the world's freest economy 14 years in a row by the Heritage Foundation, Hong Kong has an open market economy with world class infrastructure that is conducive to the development and growth of its financial market. Similar to other developed markets, Hong Kong has a judiciary system whereby common law is practised. Hong Kong has no foreign

¹ <http://www.policyaddress.gov.hk/07-08/eng/p25.html>

² <http://www.info.gov.hk/gia/general/200805/19/P200805190189.htm>



exchange control, and relative to other neighbouring jurisdictions, both financial and human capital can move freely in and out of Hong Kong.

Furthermore, with a corrupt-free society that enjoys high transparency in its policies and regulations, Hong Kong provides market players with a level playing field. Hong Kong also adopts the international accounting standards to facilitate cross-border business and to maintain its accounting standards on a par with other overseas jurisdictions.

Many international financial institutions have taken advantage of Hong Kong's robust infrastructure and established operations in Hong Kong. 68 of the top 100 banks have operations in Hong Kong³ and as at June 2008, there are 1,579 corporations and institutions, and 34,283 individuals licensed or registered with the SFC.

Hong Kong as an international asset management centre

Islamic investors looking for investment opportunities can utilise Hong Kong as their platform to manage their wealth and invest into other Asian markets. Our recently released Fund Management Activities Survey for the year 2007 reconfirmed Hong Kong as an international asset management centre. As Hong Kong's asset management sector continued its strong growth, its combined fund management business reached \$9,631 billion in 2007, representing an increase of 56.5% over the previous year and more than double the figure in 2005. Furthermore, over 82% of the assets managed in Hong Kong were invested in Asia, reflecting Hong Kong's position as a centre for managing investments in the Mainland and other parts of Asia.

The Fund Management Activities Survey also revealed that 68.4% of Hong Kong's fund management business was sourced from non-Hong Kong investors, indicating large overseas investor participation in the Hong Kong market.

Utilising Hong Kong's platform for investments into Mainland China

The diversity and depth of investors and market practitioners has allowed Hong Kong to become the 8th largest stock market in the world by capitalisation as at the end of June 2008⁴. The Hong Kong stock market can also provide opportunities for Islamic investors interested in investing into the Mainland China market, as the Hong Kong stock exchange has become the preferred choice of listing for Mainland China enterprises. As at June 2008, there are 243 Mainland China enterprises listed on the Hong Kong stock exchange⁵. Although these companies only account for 19% of all listed companies in the stock exchange, they account for an astounding 57% of the exchange's total market capitalisation, and 70% of the equity turnover⁶. By investing in the Mainland China through Hong Kong, investors can capture the investment opportunities in an emerging market, while enjoying the services and investor protection of a developed market.

³ <http://www.investhk.gov.hk/pages/1/179.html>

⁴ Source: World Federation of Exchanges and SFC research

⁵ Source: Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>)

⁶ Source: Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>)



Hong Kong's market innovation

The characteristics of the Hong Kong market have made Hong Kong one of the forerunners in financial innovation and a testing ground for new investment products. Hong Kong was one of the first jurisdictions to authorise hedge funds for sale to the investing public. Hong Kong was also the first market in Asia to authorise bond index-tracking exchange-traded funds, and the only jurisdiction outside the Mainland to operate a Renminbi bond market.

Recently, the SFC authorised the first Gold ETF in Hong Kong. The gold ETF, which is also listed in other markets such as the Japan and Singapore, was well-received by Hong Kong investors, as the trading volume of the gold ETF reached US\$18.8 million on its first day of trading. This trading volume was greater than the trading of the same fund in Japan and Singapore combined. The listing of the gold ETF once again demonstrates Hong Kong investors' strong appetite for new products in the market.

Hong Kong's Islamic finance initiatives

Following the Hong Kong Government's commitment to develop an Islamic finance platform, the SFC has already taken various initiatives and the Hong Kong market has seen the introduction of several Islamic-related financial products over the past year.

Islamic financial products in the Hong Kong market

In November 2007, the SFC authorised the first retail Islamic fund for sale to Hong Kong's investing public. The fund is an index tracking fund that tracks the Dow Jones Islamic Market China/Hong Kong Titans Index. As at the end of June 2008, the fund's size reached US\$43 million, up nine times since the fund's initial launch.

Also, in March 2008, the Khazanah Nasional Berhad successfully issued a US\$550 million Islamic exchangeable trust certificates, or Sukuk, on the Hong Kong stock exchange. The Sukuk, which is exchangeable into shares of Parkson Retail Group Limited, was well received by investors as the offering was 10 times over-subscribed⁷ despite the prevailing market conditions during the first half of 2008.

Signing of the MOU with the Dubai Financial Services Authority

As a newcomer to the Islamic finance community, the SFC understands the importance of establishing and maintaining strong relationships with other Islamic finance centres, to learn and share experiences in developing the Islamic finance sector.

In April 2008, the SFC entered into a Memorandum of Understand (MOU) with the Dubai Financial Services Authority for mutual co-operation on capacity building and human capital development of their respective Islamic capital market segments. Under the MOU, both Hong Kong and Dubai will examine the possibility of establishing a framework for the mutual recognition of their regulatory regimes on Islamic funds to facilitate cross-border marketing and distribution of Islamic funds. The SFC is now working with the Dubai Financial Services Authority on the implementation of the intents set out under the MOU.

⁷ <http://biz.thestar.com.my/news/story.asp?file=/2008/3/7/business/20568645&sec=business>



Further development of Hong Kong's Islamic finance sector

The recent upgrade of Hong Kong's long-term foreign and local currency sovereign ratings to "AA+" from "AA" by Standard and Poor's reconfirms the strong fundamentals of the Hong Kong economy. We believe that Hong Kong is well-positioned to capitalise on this ratings upgrade not only to fuel the development of its Islamic finance sector, but to also cement its status as an international financial centre. We understand that the Hong Kong Government and other public authorities, such as the Hong Kong Airport Authority, have been considering the issuance of Sukuks. We hope it would not be long before we see the first domestic issue of Sukuks in Hong Kong.

The SFC will continue to work closely with Hong Kong Government, as well as the Islamic finance community, to develop Hong Kong's Islamic finance platform. We welcome discussions with any new intermediaries or investors that are interested in coming to Hong Kong and invite all parties to experience first hand the advantages that the Hong Kong financial market can offer. As indicated earlier, the Hong Kong market provides a level playing field for all of its participants and we will continue to adopt our regulatory philosophy to maintain a fair, efficient, competitive, transparent and orderly market.

Hong Kong is excited to be part of the rapid growing Islamic finance sector. We look forward to working together with the Islamic finance community, and contribute to the further growth of the Islamic finance market. Finally, I wish the 3rd Malaysian Islamic Finance - Issuers and Investors Forum 2008 a great success.

Thank you.