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Good afternoon ladies and gentlemen.

It is my pleasure to be here today and may I first thank the organisers, Taifook Securities Group, for their invitation. The organisers have asked me to share my thoughts on the subject of how co-operation between the Mainland and Hong Kong regulators could benefit Hong Kong's financial markets. This topic may seem quite straightforward.

But as I thought about it, the bigger question we should address is, as Mainland China debuts on the world stage at the dawn of a new financial order, how Hong Kong can play a meaningful role to facilitate and support China's monumental journey.

In this context, I would be happy to speak about how the Securities and Futures Commission (SFC) maps out and executes its strategies, with the help of our market participants, to position the Hong Kong market so that the Mainland may leverage on our strengths as it continues to open its capital market and become a key player with global reach. This has actually been my role since 1 March 2008 at the SFC when I formally took up responsibility for policies on working with the Mainland.

Closer co-operation with the Mainland

Last weekend, Premier Wen Jiabao told us that it is important that we continue to strengthen co-operation between the Mainland and the Hong Kong Special Administrative Region (SAR) and fortify the leading positions enjoyed by our key industries. Financial services is one of the key industries where Hong Kong enjoys international recognition. International investors and market players converge in Hong Kong to leverage on our financial services and use our established financial infrastructure as a secure and well-regulated conduit to the Mainland market and its economy. They also look to us to access the best financial talents and services in the Asian region.

Hong Kong's strategic value to the Mainland lies in its status as an international offshore market, a place where the Mainland can conduct capital market experiments in an environment that operates on international rules while providing business models that, once honed, could be seamlessly adopted on the Mainland. For Hong Kong, the Mainland is an unparalleled source of support and resources, providing a strong bulwark for continued development and innovation. I believe this is why Premier Wen called on us to continue to work closely with the Mainland to foster deeper ties and broader business opportunities, particularly at this time of economic turbulence.

What did we do in the past year?

Let me first briefly recap what the SFC did in the past year to facilitate business activity in our financial markets. Following on from that, I will give you an idea of our vision and objectives going forward. Let me also stress that none of our efforts last year could have been successful without your help, and in the same vein, we need your continued support as we move forward.

More heavyweight Mainland financial intermediaries set up in Hong Kong

As the Mainland's capital market continues to grow and converge with international markets, its financial intermediaries will take on an important role. Hong Kong provides a macro environment where these intermediaries could compete with the best of breed in an open market under transparent rules enforced in accordance with international standards. It was with this in mind that we designed the different financial services initiatives under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) umbrella.

You will recall that the SFC first started with securing the ability for our licensees to take examinations and qualify to become licensed professionals on the Mainland, and allowing Mainland professionals reciprocal access in Hong Kong. Building on that initiative, we reached agreement with the Mainland authorities for Mainland securities and futures firms to come to Hong Kong to operate under the SFC's regulation and for Hong Kong futures brokerage companies to operate on the Mainland. Last year, the China Securities Regulatory Commission (CSRC) issued regulations allowing Mainland asset management firms to set up offices in Hong Kong to operate under the CEPA IV program. Working closely with the CSRC to launch this program, we have today granted asset management licences to four Mainland firms to operate in Hong Kong, with many more waiting in the pipeline. This is an exciting development for the Hong Kong market, as each of these firms brings its own catchment of clients, liquidity and expertise.

During this period, we have been in close dialogue with all these firms, encouraging them to use Hong Kong not just to service their Qualified Domestic Institutional Investors (QDII) back home but more importantly to combine the Qualified Foreign Institutional Investors (QFII) and QDII concepts to create new fund products for Hong Kong and international investors. The three A-share Exchange Traded Funds (ETF) listed here account together for around 69% of the volume of ETF trading on the Stock Exchange of Hong Kong. Our investors have a keen interest in the A-share market. Expertise in that market of course rests with the Mainland intermediaries.

The success of the Hong Kong market lies in the fact that we maintain an open architecture, encouraging the best and brightest from all over the world to come here to easily plug in and play under a set of transparent rules that are firmly and fairly enforced. As Mainland China takes its place in the league of the world's biggest economies, every financial market in the world will compete for the attention and business of Mainland financial intermediaries. We are fortunate that because of the strategic value we offer and the unique relationship that we enjoy, these intermediaries have chosen to use Hong Kong as their springboard to the world. These new comers will bring opportunities for everyone – investors, Hong Kong-based asset managers and brokers, banks, professional advisers and other service providers and of course our securities and futures market.

Mainland insurers cleared to use Hong Kong as international investment platform

In March 2008, we signed a Memorandum of Understanding (MOU) with the China Insurance Regulatory Commission (CIRC), the Mainland insurance regulator. The MOU was a critical piece that the CIRC required before it would allow Mainland insurers to use Hong Kong as the platform to make their overseas investments, which may be as much as 15% of their insurance assets. Today, four Mainland insurance giants have established four asset management subsidiaries and one securities brokerage in Hong Kong under SFC supervision. The overseas investment activities of the Mainland insurance companies present huge opportunities for the Hong Kong market and our financial and professional services providers. We expect more Mainland insurers to establish their asset management business here.

Initiatives under the Mainland-Hong Kong Internal Work Group on Financial Matters

Last year, we lent our full support to the HKSAR Government under the Mainland-Hong Kong Internal Work Group on Financial Matters. Together with the Hong Kong Monetary Authority (HKMA), we worked closely with the CSRC and the People's Bank of China (PBOC) on different initiatives including examining the market and technical issues to enable cross border ETF offerings, red chip companies issuing shares on the A-share market, and further removing of impediments to make it easier for Mainland companies to list in Hong Kong. Such technical studies are important as it provides the regulators with different platforms to explore and develop concepts, and the results provide the scientific analysis that the Central Government looks for in its financial market policy deliberations.

Taiwan opportunities

In June 2008, one month after Taiwan's change of leadership, we started a constructive dialogue with the Taiwan financial regulator, the stock exchange and industry associations of Taiwan. With a new leadership in place, Taiwan is poised to explore new relationships with the Mainland. We believe that there are opportunities for Hong Kong as the Mainland and Taiwan search for new beginnings. For one thing, we can play the role of providing the bridge between them, given that we are both a part of China and yet a place which is offshore from the Mainland. For another, as the Taiwan market has been inward-looking and effectively closed to the Mainland in the last decade, Taiwan will need to quickly catch up with the rest of the world and in this regard, Hong Kong has much to offer.

As Taiwan grapples with the task of realigning its market priorities, we offered to provide our expertise, business and training opportunities. We also organised a group of Hong Kong securities market professionals to visit Taiwan to open discussions with their counterparts on cross listings of ETFs. After a lost decade, the Taiwan market is eager for a new growth story. The idea of co-operation with the Hong Kong market, which has significant Mainland participation, is an exciting prospect for Taiwan.

Looking into the Future

Going forward there are several key financial market initiatives that we plan to work on. Some of these are part of the Mainland's economic and market reform program and in the current financial market turmoil, these initiatives have taken on an urgent life of their own. Let me set them out here for you.

Internationalisation of the RMB

The internationalisation of the RMB will be a defining event of this century, and I am confident that it will happen in our working lifetime. Hong Kong is proud to have a role in this historic chapter of the country's development.

Last weekend Premier Wen unveiled for Hong Kong several measures that are key building blocks for RMB internationalisation. Crowning them all is the plan for the Ministry of Finance to consider issuing RMB debt in Hong Kong. This will be the Mainland's first issue of treasury bonds offshore. It will underscore Hong Kong's status as an international financial centre. Together with the plan to widen the scope of institutions and companies that may issue RMB bonds here, the bonds will deepen our debt market and give us a clear role as an RMB offshore centre.

The SFC pledges that it will work closely with the Mainland authorities, the HKMA and the Stock Exchange of Hong Kong to make the issuance of RMB treasuries and corporate bonds a success.

The Greater Pearl River Delta Development Plan

The Pearl River Delta Development Plan (PRDDP) 2008-2020 was unveiled by the National Development and Reform Commission in January this year.

The Plan envisages a synergistic framework created through the different cities in the Pearl River Delta (PRD) region working together, with the common goal that the PRD region would become a primary economic engine and contributor to the country's development.

Hong Kong is part of the PRD. This is borne out not just by our geographical location, but also the deeply-rooted cultural heritage shared between people on both sides of the border demarcating the Hong Kong SAR. Our destinies are certainly intertwined. Using the Chinese idiom, we drink the same Pearl River water, speak the same Cantonese dialect and in a metaphoric way ride the same boat. Our fortunes are very much tied to those of the Guangdong Province, where many Hong Kong people have investments, businesses and relatives.

Thirty years ago, the PRD was handpicked by Deng Xiaoping as the laboratory for a new economic experiment. Of the four special economic zones created where market reforms and the maxims of capitalism and market economy were tested, two are in the PRD region. The reason behind that deliberate choice was obvious – the ties with Hong Kong. The calculated expectation was that Hong Kong money and entrepreneurship would quickly nurture the economic experiment. And it did. Export-orientated light industries relying on abundant and inexpensive land and labour in the PRD area and using Hong Kong-sourced capital, technology and managerial skill mushroomed. The GDP of the PRD region grew from HK$62.4 billion in 1980 to around HK$2,887 billion in 2007. Today, as US consumer demand shrinks and Chinese labour costs continue to rise, that model is fast becoming obsolete. As factories in the PRD region continue to close due to the global slump in demand, the PRD needs to find a formula for the next economic miracle. Once again, the Central Government has called on Hong Kong to provide key input.

Under the PRDDP, Hong Kong has been invited to spearhead initiatives in international financial services. We are also called upon to provide international shipping, logistics, trade, and high-value-added services to feed the corresponding needs of our partner cities in the PRD.

We believe it is strategically important for Hong Kong to play a defining role in the PRD's next reincarnation. As far as the SFC is concerned, we are seriously looking into how our securities and futures industry could co-operate with its counterparts in neighbouring PRD cities and vice versa. One area in which we are presently exploring is how our qualified securities dealers could broaden their business opportunities across the border. Although financial market policy is a matter for the Central Government and not provincial governments, the PRDDP calls upon the whole region to provide new ideas.

Exchange Traded Funds

Last week we saw the launch of our third A-share ETF - the W.I.S.E.-SSE 50 China Tracker. According to data from the World Federation of Exchanges[1], between January and November 2008, Hong Kong's ETF market became the Asia-Pacific region's largest in terms of turnover value. This could be largely attributed to the vitality of the A-share-related ETFs. Going forward, we are looking to explore with the China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange (SAFE) the possibility of cross-border ETFs on the Shanghai, Shenzhen and Hong Kong exchanges. Some of the existing QDII funds do invest in ETFs tracking Hong Kong indices and in this way, Hong Kong ETFs are available to Mainland investors although they come at a higher cost. We believe that it would be beneficial to Mainland investors if Mainland fund managers could use their QDII quotas to simply create an ETF that directly tracks Hong Kong (and possibly other) indices, which will mean lower costs and more choices to Mainland investors. We also look forward to the day when Hong Kong managers can directly hold QFII quotas so that they may offer Hong Kong investors A-share ETFs that directly invest in A shares and not just market access products, which is how our three A-share ETFs are currently structured.

Cross listing of Taiwan and Hong Kong ETFs

We are working on an MOU with Taiwan that will provide the necessary regulatory basis for cross-listings of ETFs in Taiwan and Hong Kong. This would be a positive step for the Hong Kong market, as we could access a new pool of liquidity, and reap the advantage of playing the role of a bridge that connects Mainland and Taiwan investors, liquidity and issuers. We monitor the developments in cross-strait relations with great interest. Yesterday, the newspapers here reported that the Mainland and Taiwan have reached broad consensus on the principles for three MOUs with each other in the areas of banking, insurance, and securities and futures. The Greater China story, at least in the area of finance, is finally coming to fruition.

But the story should not end there. Given sufficient amount of goodwill and support, we believe Hong Kong could be the platform for the launch of the first ETF that tracks the major indices of the Mainland, Taiwan and Hong Kong markets.

The GEM Board on the Shenzhen Stock Exchange

We have maintained close ties with the Shanghai and Shenzhen Exchanges. We meet regularly with them and the CSRC under the Memorandum of Regulatory Co-operation. Last

[1] HKEx: January newsletter on 19 January 2009 – *"Hong Kong's ETF Market Leads Asia-Pacific Region in Turnover"*.

year, we also met separately with the Shanghai Stock Exchange to share our experience and expertise in the regulation of the A-share ETFs listed here. Similarly, we met with the Shenzhen Stock Exchange to exchange views on the market. I also led a team of representatives from the US Securities and Exchange Commission to visit the Shenzhen Stock Exchange, which stimulated a fruitful exchange of views, observations and ideas. The Stock Exchange of Hong Kong also signed MOUs with each of the Shanghai and Shenzhen Stock Exchanges.

Recently, the Shenzhen Stock Exchange released its GEM Board rules and I congratulate them on this milestone achievement. The GEM board has been a brainchild of the Shenzhen Stock Exchange for a good ten years and it is to their credit that they have finally given life to this new creation. This gives millions of private enterprises on the Mainland recognised access to the capital market. To me, this sector may provide the Mainland with some of the answers that the Central Government is looking for as it seeks to achieve a GDP of about RMB 27.4 trillion by year 2020. We should not under-estimate the potential of this sector as among the many fledging companies of today, the Shenzhen Stock Exchange will find China's Microsoft and Apple of tomorrow.

The SFC will share its experience with the Shenzhen Stock Exchange as it rolls out the GEM program. We will also encourage our intermediaries to provide support to the Shenzhen Stock Exchange as it embarks on the historic journey of creating the Mainland's alternative market.

Closing remarks

As you can appreciate, we are indeed blessed with the many opportunities that the opening of the Mainland's economy and capital markets has bestowed on us. We thank the Central Government for these opportunities, and we believe that on our part, we have worked hard to earn these blessings. In the wake of 1979 when the Mainland first embraced reforms, Hong Kong was right there to provide capital and managerial expertise. In the second phase of its reforms when the Mainland needed capital for its state-owned enterprises, Hong Kong helped bring these companies to market and gave them access to international money and investors. More importantly we gave them international branding and a model from which to learn good governance and discipline.

Commencing 2007, we started helping the Mainland to manage its need to export its excess liquidity. Meanwhile, just as importantly, we have taken on the task of training the Mainland corporations and financial intermediaries in the art and science of financial markets, governance, regulation and risk management.

Hong Kong has unique strengths. We are both an international market and an offshore market of China. We owe our success to a strong open economy heritage, a well established Common Law legal system, a simple and transparent tax framework and strong market discipline. Combine these with a talented and dedicated workforce, these have made the city what it is today.

As a coastal city, Hong Kong takes pride in its diversity of thoughts and ideas. Every player here has to fight in the game of survival. This is what made our city competitive and appealing. Hong Kong's value to the Mainland lies in our different but established systems and our plurality. This value is strategic to the Mainland, especially at this time of its development.

You have all helped to make Hong Kong what it is today. I hope you will join hands with us as we seek to bring home the fruits of the new initiatives that we have identified for this coming year.

Thank you.