Lipper Fund Awards Hong Kong 2013

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SFC’s Chairman

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Introduction

Good afternoon, honoured guests, ladies and gentlemen.

I would like to thank the Hong Kong Economic Journal for inviting me to the Lipper Fund Awards Hong Kong 2013 and it is indeed an honour for me to be part of this award ceremony.

First of all, I would like to congratulate all our award recipients today for their achievements which have been well earned and deserving but let’s not forget the other participants for their efforts and contributions.

As you know, I have only been in the role of Chairman of the SFC for four months but I have very quickly appreciated the importance of the funds industry to Hong Kong as a leading international financial centre. I therefore truly believe that all of you merit recognition for driving Hong Kong’s developments in becoming a global asset management hub and a premier offshore renminbi centre, which help elevate Hong Kong’s status as an international financial centre.

In a survey conducted by The Banker in October 2012, Hong Kong was voted as the second most attractive centre for expanding and relocating asset management operations after London. Needless to say, this cannot be accomplished without all of you here today. Well done and thank you.

Hong Kong’s fund industry in 2012

Despite a challenging environment, it is comforting to note that year 2012 was a fruitful year for Hong Kong’s fund industry, as evidenced by its robust sales growth. According to the Hong Kong Investment Funds Association, gross sales of the fund industry reached US$51.4 billion in the first 11 months of 2012, surpassing the last record high of US$45.5 billion in the full year of 2007, that is, before the financial crisis. This is truly an amazing achievement!

In line with the growth in sales figures, we saw a 5.8% year-on-year increase in the number of companies licensed or registered to conduct asset management business in Hong Kong, bringing the total number to 935 companies in 2012.

Hong Kong’s fund industry has continued to provide a wide array of products responding to investors’ investment needs and risk appetites under different investment environments. Over the years, Hong Kong has had a strong appeal to foreign investment capital. Our latest Fund Management Activities Survey shows that by source of fund, non-Hong Kong investors comprised about 63% of the total non-Real Estate Investment Trust fund management business, which was valued at HK$8,914 billion at the end of 2011.
Hong Kong as a fund centre

Amid growing demand for wealth and asset management services from the Mainland, Hong Kong has been the preferred location for conducting asset management business thanks to a number of factors, including a strong institutional structure that upholds the rule of law, both free capital and information flows and not to mention a pool of skilled investment professionals like all of you here today, as well as our strong ties with mainland China.

Renminbi Qualified Foreign Institutional Investor (RQFII) Scheme

The fund industry has been able to capitalise on opportunities arising from new policy developments, mainly as a result of our close collaboration with the Mainland, including the RQFII scheme, and the proposed Mainland-Hong Kong mutual recognition platform for public funds.

Undoubtedly, RQFII marks an important chapter in the history of Hong Kong’s fund industry. The launch of the RQFII regime in December 2011 not only sets another major milestone in the process of transforming renminbi into an internationally accepted and widely used currency, but also confirms the strategic significance of Hong Kong as a testing ground for the Mainland’s financial reforms. As of the end of 2012, the SFC had authorized 19 RQFII unlisted bond funds with an aggregate RQFII quota size of RMB20.6 billion. In June 2012, we authorized the first RQFII A-share ETF for listing in Hong Kong, thus offering an alternative channel for local and global investors to invest in the A-share market. Four RQFII A-share ETFs with a total investment quota of RMB43 billion were authorized in 2012.

Separately, we authorized eight renminbi-denominated dim sum bond or fixed income funds from 2012 up to 7 Feb 2013, bringing the total number of such funds to 13. These funds invest primarily in renminbi-denominated debt securities issued or distributed outside the Mainland.

Recent announcement of expansion of RQFII pilot scheme

We are very excited about the Mainland authorities’ announcement made just two days ago concerning the expansion of the RQFII pilot scheme. The types of qualified RQFII holders have now been extended to include Hong Kong subsidiaries of Mainland commercial banks and insurance companies, and other Hong Kong incorporated financial institutions with their operations based in Hong Kong, which have obtained asset management licences of the SFC. In addition, the investment restrictions of RQFII products have also been relaxed, so that the RQFII holders will enjoy more flexibility in their product design.

These changes will further broaden the range of renminbi products on offer in Hong Kong. Going forward, more investors and financial institutions will be able to participate in the RQFII regime. The financial markets as a whole will therefore benefit from this. Hong Kong’s impressive level of renminbi liquidity is also favourable for continued development of renminbi products.

Mutual recognition of funds with Mainland

Building on our close working relations with the Mainland authorities, we are committed to extending our support in facilitating the development and implementation of the RQFII regime and seeking new opportunities in support of the fund industry. We strive to open up the next frontier, which is for the Mainland and Hong Kong to establish a mutual recognition platform for our public funds. Building on the experience and success of the RQFII scheme, we have
formed a working group with the China Securities Regulatory Commission to study the possibility of the mutual recognition of funds between Hong Kong and the Mainland. 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.

As the relevant rules and requirements are still in the development stage, there is no better time for all of you to put on your thinking caps and get involved in the process. This mutual recognition initiative, which will undoubtedly cement Hong Kong’s role as an international asset management centre, is set to benefit all reputable firms concerned.

On the regulatory front, we are also looking to enhance our platform to facilitate these new opportunities. The SFC has been supporting the Hong Kong Government to look into potentially expanding the legal and regulatory framework for investment fund vehicles with a view to giving more flexibility to managers looking to domicile their funds in Hong Kong, and continuing to strengthen Hong Kong’s status as an international asset management centre.

Global involvements

Marked by volatility in global markets, year 2012 was an eventful and exciting year for the fund industry. We continue to see the introduction of important new rules and regulations either as part of G20’s global mandate on regulatory reforms or out of domestic needs. With the ongoing financial regulatory reforms in the United States and the European Union, as well as the inevitable changes to the industry, Hong Kong can no longer adopt a silo approach and must stay alert to the reforms in the West.

We all understand what “survival of the fittest” really means in the financial world. However, we have also witnessed large corporations come and go. Being “the fittest” in a credit-fuelled environment does not mean immunity to crises. In the post-crisis age, in order to remain competitive and ensure investors’ confidence, it is important for Hong Kong to be adaptable to changes and to ensure that its regulations and standards are comparable to international requirements. This is where the SFC plays a key part – in addition to its domestic role as a regulator, the SFC has also joined a number of international work groups in shaping the future direction of global regulations for investment products.

The SFC is an active member of the Financial Stability Board and the International Organization of Securities Commissions, which we simply call IOSCO. This year, we will chair the Asia-Pacific Regional section of IOSCO, which will enable us to voice out Asia’s views and concerns with regard to some of the financial reforms promulgated by the US and Europe, which may not be so suitable for us due to the differences in our market. Through our global involvement, we seek to keep abreast of changes in the world market and foster close ties with other regulators and industry groups, thereby allowing Hong Kong to adopt essential regulatory improvements to cater for the changing financial regulatory environment. Of course, there is always going to be questions on what is “essential”. The bottom line is, by participating in the global regulatory arena, the SFC is dedicated to representing Hong Kong and your interests. And in so doing, we seek to continue to attract foreign capital and give confidence to all market participants.
Closing

We anticipate more new initiatives and challenges in 2013. The SFC will strive to create a solid Mainland-Hong Kong funds platform and partake in cross-border discussions with regulators from around the world. We believe enhanced international co-operation will facilitate an effective response to securities regulatory issues which are becoming increasingly complex and globalised. It is high time for all market participants, particularly asset managers, to equip themselves with the necessary infrastructure, systems and support, so as to capture new opportunities and initiatives that lie ahead.

Once again, I would like to congratulate all award recipients for their achievements.

Kung Hei Fat Choy and I wish you all a very prosperous and successful Year of the Snake!

Thank you.