

## Lipper Fund Awards 2011

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### **Introduction**

Good afternoon, ladies and gentlemen.

I am delighted to be here at this award ceremony and to have the opportunity to speak to all of you today.

First, I would like to extend my heartiest congratulations to the award recipients today. As everyone knows, the fund industry in Hong Kong is fiercely competitive. It is therefore no small feat to be recognised as a leader and an achiever in this field.

Let me also say a big “thank you” to all of you who are here today. Thanks to your unstinting efforts, world class skills and business savvy, Hong Kong is one of the world’s leading international financial centres, and the fund industry is one of the major pillars supporting Hong Kong’s success.

### **Hong Kong’s fund industry in 2010**

I don’t think I am overstating the case by saying that 2010 has been a very good year for Hong Kong’s fund industry. For example, according to the Hong Kong Investment Funds Association, for the first 10 months of 2010, net sales for the industry increased by an impressive 166%. For ETFs listed in Hong Kong, turnover increased by over 20% last year, helping us to retake the number one spot in Asia.

Another reason for optimism is the rapid and timely innovation and product development shown by the fund industry, and in this connection, I would like to highlight RMB products. I have been saying this for some time: RMB products have the potential to hold the key to Hong Kong’s future as an international asset management centre. I am pleased to have seen some breakthroughs in 2010, including the authorisation of the first retail RMB bond fund. I hope to see more of such positive developments in the near future.

Besides products, we are also seeing some new faces in the market. The opening of new offices in Hong Kong by some international fund managers last year has attracted a lot of media attention. In 2010, the total number of SFC licensed firms holding an asset management licence was 798, an increase of 68% from 2005. We certainly welcome all new products and new players because we strongly believe that innovation, diversity and competition are important elements to the health of our financial markets. Of course, we will continue to expect the same high standards of professionalism, skill and integrity from all new and current players alike.



## **Hong Kong's fund industry in 2011**

So things were good last year and it is an undeniable fact that Hong Kong's fund industry has had a fantastic run over the past number of years. What is important now is how we write the next chapter of this winning story, to ensure the continued growth and success of the fund industry.

Looking ahead, I would like to share with you three key issues that I have been thinking about with respect to the Hong Kong fund industry.

### **Global Uncertainty**

Just as financial markets are starting to shake off the effects of the financial crisis in 2008, the recent turmoil in various parts of North Africa and the Middle East signal a new challenge in the form of inflation due to oil supply shocks. Should this prompt central banks to raise interest rates, the impact would be felt across the wider economy and certainly in ours.

Other global uncertainties such as the sovereign debt crisis in Europe, the questionable strength of the US economy, food and commodity price spikes, the increasing income gap in both advanced and emerging economies, the inflow and outflow of hot money etc. are all factors that can individually or collectively derail the global economic recovery. Understandably, the market seems to be in two or three minds about where the economy is heading, so the one thing that we can be sure of is uncertainty and market volatility.

My advice to you, as key players in the industry, is to stay alert and ensure that you have all the necessary risk management systems and sound internal controls in place to weather any looming storms.

### **China**

China is what I want to talk about next. We are all aware of the Mainland's importance and contribution to the Hong Kong market. What I would like to make clear is that this is not a one-way street. Yes, China's economic rise has benefitted Hong Kong. There is no more cogent example than the numerous listings of Mainland enterprises in Hong Kong which has transformed our stock market into one of the most dynamic and liquid markets in the world.

But we also need to remember that China is still an emerging market that is in the midst of developing its rules of play and has very specific needs and requirements in order for its economy to continue to develop and grow. For example, China's economy needs financial markets and asset managers to facilitate an efficient allocation of capital to continue to fund its growth and deliver jobs and a higher per capita GDP (to bridge the increasing wealth gap).

I am but one of many who believe that Hong Kong is in the very best position to meet those needs. We are the central bridge that connects the vast Mainland economy with its wealth of resources and hunger for investment opportunities to the rest of the world. In fact, the Western world and the Chinese economy are looking to Hong Kong to help them match their needs. This is a heady and privileged role that Hong Kong plays and let us be frank about it, the world's major markets are all lining up and gunning for a piece of the pie. Make no mistake, should we fail to play our role as we should, there are many who would be eager and willing to take over.



To succeed in playing and maintaining this role, we must preserve the quality of our market and regulation. Let me explain why.

**(i) Market**

The key strengths of Hong Kong's financial market are based on quality, investor protection, efficiency, transparency and the fairness of our rules and implementation. To continue to meet the demands of the Mainland economy, our market must go up the value and standards curve. Standing still is not an option. In short, we must vigilantly preserve and fiercely protect the reputation of our market, we must vigorously enforce the law to combat market misconduct, and maintain our strong international character and reputation. There is a view, fortunately a minority view, that lowering the standards in Hong Kong to make it easier for the Mainland and its players would attract more business. Those who espouse this view do not really understand the relationship between the Mainland and Hong Kong markets, nor the purpose behind this relationship. The Mainland uses Hong Kong because it wants to benchmark itself and its activities with international practices. It needs to reform and open its capital market and converge with international standards. Using Hong Kong, a completely open and international market that enjoys the trust of international investors and players, will help the Mainland expedite the process, and fashion an appropriate way forward.

Consequently, Hong Kong must continue to preserve its international reputation so that it could properly serve the Mainland's needs. As well, investors of the Hong Kong market are predominately international investors. Our listed market cap is about 13 times our domestic GDP. Compare this with the combined NYSE/NASDAQ market cap is only 1.3 times US GDP. Over 60% of our asset management business comes from money overseas. These investors have a choice of markets and services worldwide. They will vote with their feet if our market does not deliver the transparency and protection they require.

**(ii) Regulation**

Regulation is important because it sets the standards and thus the quality of our financial market. For regulators, we also have a responsibility to regulate firmly, fairly and independently. I should also point out that regulation today is not simply a domestic issue. A torrent of reforms is sweeping through the financial markets around the world. The G20 and Financial Stability Board are spearheading international efforts to focus on co-ordinated global solutions to what are perceived to be global problems, notably issues with respect to systemic risks, macro-prudential regulation and international regulatory co-operation. The desire is for global solutions and global adherence to international standards. As an international financial centre, Hong Kong must ensure that its regulation and standards meet international requirements. Of course, it is important that we seek to ensure that the standards set are reasonable and don't present knee-jerk reactions to particular issues.

Looking ahead, the opening up of the Mainland's capital account and the internationalisation of its currency are likely to present huge opportunities. We have been working with local and Mainland authorities to position Hong Kong to benefit from such developments, and we have had some success. Last year's relaxation of the rules on renminbi businesses in Hong Kong is a case in point, as is the recognition of Hong Kong's role as an offshore renminbi centre in the Mainland's 12th Five-year Plan. We understand that the Plan will also include provisions supporting Hong Kong's development as an international asset management hub. That, again, is not just a one-way benefit exclusively for Hong Kong. The world consensus is that in the next five to ten years, China will continue to deliver stellar growth. That growth will generate very substantial wealth. The Mainland will need to preserve and grow this wealth. That would require the services of an honest, talented and well regulated asset management



industry. That the 12th Five-Year Plan includes the aspiration that Hong Kong is to develop into an international asset management hub is therefore particularly encouraging. I would urge you, the asset managers in Hong Kong, to rise to the occasion, and work with us to build Hong Kong into the international asset management centre that matches global liquidity, especially Chinese liquidity, with the world's best investment opportunities.

## **Regulatory Framework**

The third issue that I would like to touch on today is the paradigm shift in financial regulation or should I say the public's perception of a financial regulators' role. Coming out of the financial crisis, the public now expects regulators to play a bigger role in ensuring that investors get a fair deal and that the market operates smoothly. I assure you that, as a regulator, these are also some of our key objectives! Let me touch upon a couple of the initiatives that we have introduced over the past year.

As many of you already know, we released the Products Handbook last year with a revised Code on Unit Trusts and Mutual Funds. One of the new measures is a requirement to include a key facts statement (KFS) in fund offering documents. By the 25th of June this year, all SFC-authorized funds that continue to be sold to the public will have to have a KFS. We are working closely with industry participants to meet the deadline. There are altogether 2000 odd SFC-authorized funds managed by some 80 fund houses. Over 60 of these fund houses have already submitted their draft KFS to us for directional comments. We have been organising workshops and providing practical guidance on implementation to the industry, and we are pleased with the progress so far.

Apart from the Products Handbook, we are also stepping up our investor education efforts. And of course, we will continue to act decisively and firmly whenever we encounter firms who do not comply with the regulatory requirements.

Amid the global and local debates on financial reform, we have always been watchful that the pendulum does not swing too far from one extreme to another. We all want regulations that protect the investor but do not stifle innovation and growth. This usually involves a very fine balancing act and we may not always instantly get the balance "just right" as Goldilocks would say. But, by listening with an open mind to industry and public views and feedback, and at the same time avoiding kneejerk reactions to pressing issues, I believe we have struck a reasonable compromise.

## **Conclusion**

I hope I have given you some idea of the key issues that I believe are the most likely to have an impact on Hong Kong's fund management industry. There are risks, and there are certainly many opportunities. I would urge all of you to leverage on the skills, experience and international exposure that has brought the fund industry such remarkable success in 2010.

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

Thank you.