Unravelling Myths and Forging Ahead on New Pathway for Hong Kong as International Financial Centre

Keynote speech at HSBC Global Investment Summit

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Distinguished guests, ladies and gentlemen, good afternoon. First of all, congratulations to HSBC on this inaugural summit, and thanks for giving me this opportunity to speak today.

"New Networks Connecting the Global Economy" is the theme of this summit. As a regulator, the Securities and Futures Commission (SFC) plays a key role in connecting Hong Kong's capital markets and the world's on the policy and regulatory fronts. Just in February and March, I visited Paris and then Beijing. At a conference with leading regulators in Paris, we advanced the cause of interoperability between various global standards in sustainable finance. In Beijing, we met with the new chairman of the China Securities Regulatory Commission Mr. Wu Qing to explore further expansion of our Connect schemes. Just last Friday, we organised a business roundtable in Hong Kong with Dubai Financial Services Authority CEO Mr. Ian Johnston to discuss the regime for Hong Kong-domiciled funds to distribute in Dubai and the UAE.

In short, there is plenty for us to do to build new networks and reinforce old ties, as we forge ahead to chart a new pathway for Hong Kong as an international financial centre.

Demystifying the myths

Growing number of licensed firms

First, I will unravel some of the myths about the city's financial markets. I am sometimes told that Hong Kong is not quite its former self. But with comprehensive data and facts on hand, let me tell you all that Hong Kong is still the vibrant and resilient international financial centre we have known for years.

For one thing, financial firms' faith in the city has not wavered. The fact that HSBC hosts this landmark summit here clearly demonstrates its belief in Hong Kong as a dynamic hub for capital, business and opportunities. Also, our data shows the number of SFC-licensed firms actually grew by more than 4% to about 3,250 over the past three years, notwithstanding the pandemic. In particular, firms holding Type 4 (advisory) and Type 9 (asset management) licences both jumped more than 13%. Among our licensed corporations, foreign-controlled ones consistently accounted for about 15% each year from 2020 to 2023.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

Asset management hub advancing further

For Hong Kong's asset management sector, it is holding its ground against macro headwinds. Media reports have focused on the few instances of firms relocating and scaling back, but not those opening new offices. In fact, over the past three years, we have seen a strong increase of 24% in the total number of hedge fund managers, private equity fund managers and family offices in Hong Kong.

In 2023, net fund inflows into Hong Kong-domiciled investment funds recovered with 93% year-on-year growth. Their assets under management also increased by a mid-single digit. For our new investment fund regimes, last year was also remarkable. Compared to 2022, the number of registered open-ended fund companies more than doubled to 244, and that of limited partnership funds jumped 30% to 737. Besides, the asset management income growth in 2023 also turned positive for major financial groups regulated by the SFC.

Solid track record in weathering crises

Challenges have continued to come our way, but our free economy, robust financial markets, world-class regulation, rule of law and confluence of financial talents, including all of you here today, have allowed us to play the long game. Even during past crises as in 1998 and 2008, our financial markets managed to bounce back each time with greater resilience and new vigour.

Regulatory principles intact, but strategy adapted – five-pronged roadmap

This is not to say we can just sit on our laurels and wait out the storm. The industry must stay agile to adapt to the changing times. Let me start with things that do not change, that is, our firm commitment to our regulatory principles, global best practices and common law. With national security ensured, we continue to champion the free flow of information under our regulatory philosophy, which is essential to an efficient and fair market. All our market players enjoy the same freedom as ever to collect market information, analyse data and express their views.

Then, we must adapt our strategy to tackle the challenges of the times. This is also part of the SFC's Strategic Priorities for 2024-26 published in January. I will now explain our five-pronged approach to raise Hong Kong market's competitiveness.

(a) Improving market liquidity and efficiency

Enhancing stock market liquidity and efficiency is the first prong. And to achieve this and therefore stay competitive, we must continue to raise market efficiency and reduce transaction costs, both direct and indirect. In August 2023, the HKSAR Government established the Task Force on Enhancing Stock Market Liquidity, in which I was a member. A number of proposed short-term measures to reduce stamp duty and market data fees have already been implemented.

Over the medium to long term, the SFC will continue to work with the Hong Kong Exchanges and Clearing Limited (HKEX) to explore different ways to reduce market friction, lower transaction cost and boost capital efficiency. Potential measures include reducing the minimum stock trading spreads, enhancing the price discovery process for IPOs, reviewing requirements on the public float of listed companies' shares, optimising collateral arrangements, allowing Mainland bonds held in custody under Bond Connect to be collateralised for renminbi (RMB) swap lines and other purposes, and adding block trades under our Connect schemes.

(b) Expanding connectivity

Expanding connectivity is the second prong, and it is crucial to maintain Hong Kong's position as a premier capital intermediary. Core to this strategy is the Mainland-Hong Kong Connect schemes, which will celebrate the 10th anniversary later this year, after a decade of steady expansion that has benefited investors far and wide. The flagship Stock Connect now covers 80% of the equities in both Hong Kong and Mainland markets. To build on its success, block trading, RMB counter inclusion, REIT[1] Connect and more are in the pipeline.

One of the recent enhancements is ETF[2] Connect, which has enjoyed instant success since its launch in July 2022. In the last quarter of 2023, southbound ETF Connect trading jumped more than 80% year-on-year and northbound turnover even surged more than five-fold.

For Wealth Management Connect, more than 70,000 investors across the Greater Bay Area have participated since its launch in 2021. To bring it to new heights, we introduced enhancements just in February, by relaxing investment quota, broadening the eligible products and allowing brokers to participate.

This is only half of the story, because, as a bridge, Hong Kong's connectivity goes out to the world. We are striving to strengthen ties with Middle Eastern and Southeast Asian markets. Asset managers are encouraged to explore fund distribution to these markets through existing channels, including the Mutual Recognition of Funds arrangements. Indeed, they are already seizing regional opportunities, as two depository receipts investing in Hong Kong ETFs have recently gone public in Thailand. Also, Asia's first and the world's largest ETF investing in Saudi Arabian stocks was listed in Hong Kong last November.

(c) RMB internationalisation

The third prong of our approach is to cement Hong Kong's role as an offshore RMB hub. Backed by our deep RMB pool, the city has evolved into the world's largest offshore RMB hub with vibrant issuances of RMB bonds over the past two decades. As RMB is gaining momentum as an international currency for payment, investment and reserve, the city's FICC[3] business has grown with the development of more RMB-denominated investment products and their hedging instruments in our market.

In this connection, we have taken the Connect schemes forward into derivatives territory. The one-year-old Swap Connect allows investors to hedge Mainland interest rate risk from here. And the HKEX is preparing to launch China treasury bond futures contracts.

The Stock Exchange of Hong Kong launched the Dual Counter Model in June 2023, to facilitate trading of Hong Kong stocks in both RMB and HK dollar. The average daily turnover of RMB counters up to late March came in at about RMB100 million, and market making has been functioning smoothly as designed. This represents a meaningful start to build our ecosystem and expand listed RMB products. We are now working to bring the RMB counters into Stock Connect to attract the deep pool of RMB from Mainland investors.

[1] Real estate investment trust
[2] Exchange-traded fund
[3] Fixed income, currencies and commodities

(d) Leading financial market transformation through technology and ESG

The fourth prong is essential to guiding the markets' way towards the future, and its two legs are namely technology and environmental, social and governance (ESG). In both cases, we are actively building the ecosystem through a pragmatic approach benchmarked to global standards that are interoperable.

We support the responsible use of innovative technologies such as distributed ledger technology to drive efficiency gains for the financial industry and foster a Web3 ecosystem in Hong Kong, provided that investor protection is safeguarded. We encourage tokenisation, viewing it as a technology wrapper around conventional securities and investment products. HSBC's gold token was indeed the first such public product authorised by the SFC. In late 2023, we also set out clear regulatory expectations to allow authorised funds to gain exposure to spot virtual assets, with additional requirements on investor protection such as avoiding fund-level leveraged virtual asset exposure.

For ESG, the priority is to align our corporate reporting standards with the IFRS[4] Sustainability Disclosure Standards, as set out in the Vision Statement published by the HKSAR Government two weeks ago. A first step is for the HKEX to incorporate the IFRS standards into the corporate disclosure standards for Hong Kong listed companies. Along with other initiatives to make available emission calculation tools especially for small and medium enterprises and to establish a voluntary code of conduct for ESG data providers, we are making sure investors will be well informed in order to put their capital where sustainability is.

(e) Attracting firms in growth industries to IPO market

The fifth and last prong is to attract the initial public offerings (IPOs) of growth companies, not only from the Mainland but also elsewhere. In recent years, we have enhanced our listing regime to welcome fast-growth companies in new-economy sectors to list here. By market capitalisation, the share of new-economy stocks in Hong Kong has gone up to 36% from 22% in about five years[5].

Building on the success of our biotech and weighted voting rights regimes, the new Chapter 18C regime was launched last year to facilitate the IPOs of specialist technology companies. It opens another door to companies in new-economy sectors such as artificial intelligence, semiconductors, robotics, electric vehicles and green technology. While Hong Kong is not immune to the IPO drought that has affected major markets elsewhere, we are making greater efforts to diversify the sources of primary listings and recognise more overseas exchanges, such as Saudi Arabia and Indonesia. This paves the way for the secondary listing in Hong Kong of the stocks listed on the main markets of these overseas exchanges.

Closing

Ladies and gentlemen, talk of doom and gloom never fails to find an audience, but Hong Kong as an international financial centre was not built in one day. Through thick and thin over the past decades, our markets have been put to test time and again, only to be reborn stronger after each and every challenge. There have been a few bumps along the way, but as the biggest international intermediary for China's capital markets, Hong Kong will continue

[4] International Financial Reporting Standards
[5] 36% as of end-March 2024; 22% as of end-December 2018

to thrive on the nation's long-term growth story, by staying resilient and agile in strengthening both existing and new market connections.

Thank you.