Speech at ASIFMA Annual Conference 2014

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Thank you Mark for inviting me to speak this afternoon.

Today I would like to talk about the way in which regulators in Asia are starting to speak to the rest of the world with one voice. I also want to touch on why I think it is vital to pursue closer coordination between Asia region regulators to grow better local capital markets.

This is an ambitious project because Asia is incredibly diverse, embraces countries in vastly different stages of development, and the major financial centres have been defined by competition rather than collaboration. But I am glad to say that we have made a good start.

First, it is blindly obvious that the US and the EU have taken the lead in setting the global reform agenda. There is nothing remarkable in this because they are large markets and were at the epicentre of the crisis.

The problem is that the design of these regulatory reforms did not take into account the different legal and market structures in Asia, or our different policy priorities. This matters because many of these reforms are being exported to Asia.

For this reason many Asian regulators have now understood why they should act together to ensure that global financial regulation takes account of the very different Asian landscape.

This is not to say that we can or should ignore global reforms. And we must at all costs avoid the pursuit of regulatory arbitrage, which is always short-termist and self-defeating.

Asia has a big incentive to ensure that regulation involves a race to the top, and not to the bottom. Patient, cross-border capital investment is founded on market confidence in stable, world-class regulation in Asia.

But in some areas it is impossible to accept the extraterritorial imposition of rules set by the EU or the US without any attention being paid to conditions on the ground in this region.

So to this end the SFC is part of a big push by the IOSCO Asia-Pacific Regional Committee of securities regulators to communicate our views far more clearly.

So far our efforts have yielded good results. We are working on a number of fronts, one of which achieved a good outcome with a press release made by the European Commission only last week. This concerned the EU's formal recognition of the way in which four jurisdictions in Asia regulate their securities clearing houses.

This discussion started in the middle of 2013, when a large number of Asian regulators engaged together with the European authorities to demonstrate why EU laws about clearing houses should not – and as a practical matter could not – be simply replicated across local Asia clearing systems.

Had we not made a concerted effort on this issue the result could have been a severe reduction in the participation of European banks in local securities markets. That would not have been a good outcome for anyone.

This was a small beginning, but signifies a new confidence that speaking with one Asian voice can be extremely effective. I should also say that the European Securities and Markets Authority and the EU Commission responded by working very hard to understand our different local regimes and to achieve a result which recognised that our approach in Asia is different, but achieves equivalent regulatory outcomes for investors.

We have since written collectively to the US Commodity Futures Trading Commission concerning the effect on Asia Pacific markets of its rules about derivatives exchanges.

These have led to some non-US trading platforms finding it hard to determine which clients might qualify as US counterparties, and some have stopped dealing with them altogether.

This implies fewer hedging opportunities, more cost and reduced market liquidity. We are confident that a unified Asian voice will resonate in the US as it has in the EU.

The broader lesson from all of this is that Asia can only have real influence on the shape of global financial regulation if it acts collectively. And I firmly believe that there is now a real determination to do so.

Regulation of large firms in Hong Kong

Another reason to work together is to do with a globally active financial industry which is larger and more complex than ever.

Big firms are now highly mobile, with subsidiaries and business lines stretching around the globe.

As a consequence, business, risk and compliance decisions affecting our local jurisdictions are often made elsewhere.

And here there are striking parallels between Hong Kong and Singapore.

Both are physically very small, and much of their success can be attributed to the fact that they are both very open markets, hosting an international financial services industry which is heavily entwined with global financial markets.

Financial services now make up nearly 16% of Hong Kong's gross domestic product (GDP) and 12% in Singapore. This compares to less than 5% in Japan – even in the UK it is less than 10%.

And we, like Singapore, are a net importer of financial services – rather than an exporter like Switzerland.

This means that, at a practical level, we need to work out how we can better regulate those larger firms who contribute so much to our financial markets and whose activities are often managed regionally or even globally.

We have concluded in Hong Kong that our regulatory reach must extend, at the very least, to the broader management of regional or globally active firms when Hong Kong financial market interests are at stake. Our existing securities laws give a solid basis on which to do this.

These laws enable us to look more broadly into how local, regional and global decisions and operations may affect Hong Kong's markets and investors.

And where there are serious conduct issues we will pursue disciplinary or penal action against firms and individuals wherever they are – including senior management.

You might be forgiven for thinking that this is a Hong Kong version of extraterritorial regulation. But this would be the opposite of the truth. Regulators are already dependent on each other for enforcement cooperation. But we also firmly believe that greater supervisory cooperation – which is now virtually non-existent – is the only way forward in Asia.

Regional cooperation

This is because large overseas financial institutions are present in all of our markets and are vital actors.

We all share the experience of seeing many of these institutions respond to global regulatory reforms by subsidiarising or otherwise localising.

We think that's unfortunate.

It creates additional, unnecessary costs for firms and for real economies.

And we know that it is next to impossible to properly supervise the component parts of large global firms alone.

To do our job effectively requires us to work better with our international and regional counterparts including our fellow regulators in Asia.

The overarching need is to work far better together to promote efficient flows of capital across regional markets and to encourage a wide range of cross-border financial activities.

The challenge is to do this in a way that is both right for Asia and results in positive engagement with the EU and US, where the vast majority of globally active firms are headquartered.

To achieve this we are now proposing to set up new, bilateral and multinational supervisory arrangements between securities regulators. This is to enlarge the scope of information sharing and cooperation as a means to better supervise firms which have a global footprint.

The first step will be regional supervisory memoranda of understanding (MOUs) and multilateral regional supervisory "colleges" for large firms. We have already started discussions on this.

Colleges of supervisors are permanent, but flexible, structures for cooperation and coordination among regulators.

They can enhance information-sharing, joint inspections, help develop a common understanding of risk in financial groups, promote a shared agenda for addressing risks and vulnerabilities, and serve as a platform for communicating key regulatory messages.

These arrangements will help regulators in Asia better understand a firm's local operations against the wider context of the firm's group-level activities. More importantly, they enable Asian regulators to start placing more reliance on each other, as an alternate to individual approaches which could drive further localisation of financial services.

I should say that this apparently simple idea is not easy to implement – secrecy laws, inadequate local law gateways to share information and other confidentiality concerns need to be dealt with sensitively. But we are determined to get there.

Conclusion

So I have described the stronger Asian voice with which we are now engaging the EU and the US.

I have also described how we are pursuing more collaboration within Asia in a serious effort to better supervise large firms operating in the region without leading to unnecessary fragmentation.

The overarching goal is to develop market-based financing within the region in order to achieve stable, efficient and sustainable investment across Asia.

But there is still a lot more to do.

China has taken remarkable steps in the last three years to increase market access to and from what has been a vast but largely insulated domestic market. Hong Kong and others will continue to play a vital role here.

We will work on projects that aim to reduce regional dependence on bank financing, develop bond markets and promote financial inclusion. In addition, a number of funds passporting proposals are being pursued.

Asia already accounts for roughly one-third of global GDP and this is projected to rise to half of world GDP in 15 years.

And in a few years' time, Asian financial institutions will have a large presence overseas.

The programme that we are now embarked on is part of a broader ambition to ensure that a far more collaborative effort enables Asia to match its sheer size with a more unified voice on the global stage.

Although there will always be competition, better cooperation will grow the pie for everyone, resulting in efficient allocation of regional savings to investment across the region, and less dependence on volatile foreign capital and currencies.

That is the essence of the Asia regional project now being pursued by the Asian securities regulators.

Thank you.