Norman T L Chan: Remarks for TraHK 10th Anniversary

Remarks by Mr Norman T L Chan, SBS, JP, Chief Executive of the Hong Kong Monetary Authority, at the TraHK 10th Anniversary Gathering Celebration/Reception, Hong Kong, 12 November 2009.

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Good afternoon ladies and gentlemen.

I am delighted to be here today on the 10th anniversary of the listing of the Tracker Fund of Hong Kong and to see so many familiar faces from the original project team. Thank you State Street for organizing this timely get-together.

A decade has come and gone since we created Tracker. We've seen another crisis and a whole raft of intervention measures by governments, some of which are of unprecedented scale.

Now the focus is turning to "exit strategies" and, looking back ten years' on, I think we can all take some collective pride in having been part of one of the most innovative, and dare I say elegant, exit strategies. The strategy, of course, was to dispose of the stocks acquired by the Government in the stock market operations of the summer of 1998 with minimal disruption to the market. This was by no means a small task – but together we rose to the challenge with an exit strategy that saw us launch the first ETF in Asia ex-Japan, in a public offering which turned out to be the largest in Asia ex-Japan at the time of launch, raising HK$33.3 billion from over 180,000 retail investors and institutions.

We created the Tracker Fund in a little under 6 months, from the time the EFIL Board recommended on 21st June 1999 that this was the way to launch the disposal programme. We did this at a time when market sentiment in Asia was just beginning to become less negative. If this were not enough of a challenge, we also had the shadow of Y2K hanging over us! By some miracle or rather due to the sheer hard work, long hours and perseverance on the part of the project team, we overcame countless operational, IT, legal and regulatory challenges thrown at us.

Just to add to the degree of difficulty, we had to work in the full glare of the public eye, knowing that any miscommunication (however slight) could have a severely negative effect not only on our stock market but also on the international perception of Hong Kong.

I have to tell you that making the decision to use an ETF as the disposal strategy was not an easy one. The strategy was then unorthodox and unproven in Asia, as was the investment appetite for such a product. The investment banking community was perplexed that we should launch an ETF when a block trade or a convertible bond option was so much more "familiar" or "safer". Our legal advisers were perplexed that we should launch a fund through an IPO. Our global coordinators were amazed by our determination to create an innovative "Tap Facility" to allow the continued block creation of more Tracker units from the remaining portfolio of shares. Also we insisted on not giving any discount to the public at launch of the IPO and instead we offered an innovative back-end loaded incentive scheme in the form of a loyalty bonus.

From the Government perspective, we had by April 2001 recouped more than the HK$118 billion used by the Exchange Fund in the stock market operation. In total, we sold HK$140 billion worth of shares into Tracker, received $24 billion from dividends on our shareholdings and still retained $50 billion in the Exchange Fund's long term equity portfolio when the "tap" into Tracker was terminated.

We could not have achieved this without the dedication and support of our highly professional project team members: Tracker Fund's manager and custodian (our hosts tonight), the three global coordinators, the lawyers, the Marketing & PR Firms, colleagues at the SFC, HKEx & CCASS, and of course the Chairman (Mr TL Yang), all the directors and fellow staff of EFIL.

If one were to mark the Tracker Fund as an exit strategy, I think it deserves a fine report card. We did dispose of the shares with minimal disruption to the market. The Fund did encourage longer term investment into unit trusts and kick started the ETF market on the HKEx and elsewhere in Asia, where we now have a variety of ETFs covering a wide range of asset classes. The result has been the provision of more choice to investors, both retail and institutional, at lower cost than traditional unit trusts.

As we enjoy our 10th anniversary celebration, I cannot help but wonder if the exit strategies currently on drawing boards around the world will be as successful as we were? Only time will tell.

I wish you all a very pleasant day and once again many thanks to State Street for organizing this celebration.