Norman T L Chan: How can Hong Kong consolidate its position as Asia's premier wealth and asset management hub

Welcoming remarks and keynote speech by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the Treasury Markets Summit 2013, Hong Kong, 6 September 2013.

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Good morning, Ladies and Gentlemen,

1. It is very nice of the Treasury Markets Association (TMA) to invite me to speak at this year's Summit. It should not come as a surprise to you if I choose to talk about the "soft powers of Hong Kong" again today. I have no doubt that financial centres aspiring to win the privileged position of IFC (international financial centre) all have very good hard infrastructure, such as airport, roads, telecommunications, IT etc. But what really differentiates a winner from the rest is its clear edge in the "financial market infrastructure" or the "soft powers". Today I would like to talk about two key building blocks in the arena of "soft powers" competition: **"*platform building*"** and **"*reaching out*"**.

Tribute to TMA

2. The aim of "platform building" is quite simple. An IFC must ensure that it has the appropriate legal, regulatory, tax and policy framework for the financial services to develop and prosper. Competition is not just about how good you are or have been, but more about whether you are better than your competitors or not. So it is no good for Hong Kong to sit on its laurels and just hope or pray that other financial centres do not or cannot catch up.

3. The main reason why I decided to set up the TMA back in 2005 was precisely the desire to enhance the "soft powers" of Hong Kong's financial services industry. As many founding members of the TMA who are here today may recall, the predecessor of the TMA was the ACIHK, the Hong Kong branch of the international ACI headquartered in Paris. The ACIHK played a useful role in supporting the treasury markets in Hong Kong, but there were limitations on its remit and resources. I can still remember vividly how I worked with the founding members (some of them are here today), such as Horace Fan, Andrew Fung, Benny Luk and Peter Pao to transform the ACIHK into the TMA as we now know. I would like to take this opportunity to thank all the founding members for their efforts and contributions to help bring this important piece of soft infrastructure into fruition.

4. The TMA's work through the years is commendable. In the past year alone, the TMA has, in collaboration with the HKMA and other stakeholders, made many contributions to enhance Hong Kong's soft powers. I would like to highlight today three important pieces of work of the TMA:

(a) the TMA has conducted a thorough review of the Hong Kong Interbank Offered Rate (HIBOR) fixing mechanism and presented to the Hong Kong Association of Banks (HKAB) recommendations to enhance the transparency, robustness and governance of the HIBOR fixing mechanism. These recommendations were subsequently accepted by the HKAB and endorsed by the HKMA in February 2013 for implementation. Under the new regime, the TMA has taken over from HKAB as the administrator of the HIBOR fixing mechanism with Hong Kong Interbank Clearing Limited serving as the calculating agent.

(b) Another landmark achievement was the launch of CNH HIBOR. Having undertaken more than one year of pilot trials, the TMA officially launched in June 2013 the CNH HIBOR fixing, which is the first offshore RMB interest rate benchmark in the world. This is a very important piece of market infrastructure which will facilitate the development of a whole array of offshore RMB credit and interest rates contracts and products; and

(c) The TMA is also an important player in professional training. In close collaboration with the HKMA, the Hong Kong Institute of Bankers and the Hong Kong Securities and Investment Institute, the TMA has participated and contributed to the design of a new professional competency framework for practitioners in the private wealth management industry. Good progress has been made and we expect the new competency framework can be rolled out within the next few months.

5. I would like to thank the TMA and its committees for their tireless efforts in joining hands with the HKMA and others in the "platform building" work.

Measures that make Hong Kong more competitive as a wealth and asset management centre

6. It is not easy to come up with an exhaustive list of factors that affect Hong Kong's competitiveness as a wealth and asset management centre in Asia. There are some factors such as air quality, law and order, cost of doing business, international school places, etc that have a major effect on individual firms' decision to locate or expand operations in Hong Kong and not elsewhere, but these factors apply across the board and are not confined to the financial services sector. What I propose to do now is to highlight a couple of key "soft" infrastructure that is uniquely important to Hong Kong's future development as the wealth and asset management hub in Asia:

(a) as we all know, the existence of an inheritance tax or estate duty, even at low rates, is a material impediment to the development of wealth and asset management businesses. Back in 1998, the HKMA started to lobby the HKSAR Government to abolish the estate duty in Hong Kong in order to foster Hong Kong's development as a wealth management centre. The lobbying efforts met with considerable resistance initially but we did not give up and continued with such efforts under the terms of three successive Financial Secretaries. In 2005, after seven years of relentless appeals, we finally convinced the Financial Secretary to include the abolition of estate duty proposal in his Budget Speech. This was followed by the Legislative Council's passage of the bill implementing the abolition from February 2006;

(b) Modernisation of the trust laws: the amendment bill seeking to modernise Hong Kong's trust laws was passed by the Legislative Council on 17 July 2013. This was an important milestone to revamp Hong Kong's antiquated trust regime which had not been substantially reviewed and modified for decades. This is again something that the HKMA had advocated and pushed strongly within the Government in the past few years so that our trust law regime can catch up with the other financial centres;

(c) Promotion of Islamic Finance: the legislative amendments to provide a comparable taxation framework for common types of sukuk vis-à-vis conventional bonds were passed by the Legislative Council on 10 July 2013. It was a key policy proposal made in the study jointly led by the HKMA and the TMA in late 2007, following the announcement in the 2007 Policy Address of the initiative to develop an Islamic financial platform in Hong Kong. Last week, HKMA also announced jointly with Bank Negara Malaysia (BNM) the establishment of a private-sector led joint forum for advancing the development of Islamic finance in Hong Kong, and we are glad to have Assistant Governor Bakarudin Ishak of the BNM attending the panel discussion of the Summit this afternoon;

(d) open-ended investment company (OEIC): the HKMA has intensively lobbied for a legislative framework and regulatory regime for OEIC in Hong Kong. We were very encouraged that this initiative was announced by the Financial Secretary in the 2013–14 Budget to provide more choices to market participants in terms of the legal form of funds. This would be a major step to attract more funds to domicile in Hong Kong; and

(e) last but not least, the HKMA, in close collaboration with the Securities and Futures Commission (SFC) and the private banking industry, has undertaken a series of measures to promote the development of Hong Kong as the premier private wealth management hub in the region. The HKMA issued guidance to private banks in June 2012 to facilitate the adoption of a portfolio based approach in assessing the suitability of investment recommendations so that private banks can be more flexible in serving customer needs without compromising investor protection.

7. In addition to lobbying and advising the HKSAR Government on the abovementioned measures that are crucial to Hong Kong's development as a wealth and asset management centre, the HKMA has seconded staff to provide technical support to the Financial Services Branch during the policy formulation as well as the legislative process.

8. Ladies and gentlemen, while we have done a lot in the past few years to build and reinforce Hong Kong's platform as the wealth and asset management hub, we fully appreciate that such work is a never ending task as most financial centres in the region, including those in Mainland China, all harbour the understandable aspirations to become an international financial centre.

Outreaching to supplement platform building

9. Now let me turn to the second "building block" of soft powers, which is "reaching out". I am sure most of you would agree with me that the platform building work must be supplemented by appropriate "outreaching" efforts. This is similar to the situation in which a company, having created a very superior and competitive product, needs to do a lot of marketing and advertising in order to increase customer awareness and market share. For this reason, the HKMA has over the past few years undertaken a series of outreaching and marketing programmes with special emphasis on Hong Kong as the Asian hub for wealth and asset management businesses.

10. Hong Kong is already a hub for private wealth and asset management. Nearly 80 of the top 100 global money managers are in Hong Kong. Fifteen private banks have opened for business since 2009, bringing the total to 45 banks offering private banking services to their clients today. For the asset management business as a whole, the combined fund management assets hit a record high of US$1.6 trillion in 2012, with 65% of the funds sourced from non-Hong Kong investors, according to a recent SFC survey. It is, however, worth noting that the survey also showed that 74% of the practitioners in the asset management field were engaged in the sales and marketing functions. While the figure has already trended downward from 81% in 2008, it does reflect the fact that Hong Kong needs to further expand the other segments of the asset management "value added" chain, e.g. in structuring, research, investment and trading. To achieve this objective, the HKMA's outreach work in the last two to three years has taken a new focus on asset owners, such as pension funds and sovereign wealth funds.

11. Since 2010, the Market Development Team of the HKMA attended hundreds of meetings with overseas asset managers and owners. I am pleased to report that these outreaching campaigns are generating positive results, with about one-third of the institutions that we have approached indicating a commitment to devote resources to Hong Kong. Specifically, 67 institutions have expressed interest in pursuing a Hong Kong presence and 48 institutions are planning to expand their existing operations in Hong Kong.

12. There are several reasons why the HKMA is uniquely well placed to undertake effective outreach programmes. First, the HKMA is a banking supervisor and banks are the key players in the financial markets in Hong Kong. Second, the HKMA is also itself a major asset owner and manager, with over US$370 billion of Exchange Fund assets under management. This makes it easier for the HKMA to make the right connections and speak the same language of the asset owners or managers overseas. Thirdly, the HKMA senior management is fortunate to have the support from a small but dedicated team of highly professional staff in the outreaching programmes. Finally, the HKMA is part of the Government and it is easier for us to refer issues or problems to the relevant government bureaux or departments for consideration or actions. In this context, I would like to thank in

particular the SFC and InvestHK, which have been working very closely with us to provide the much needed advice or help when overseas financial institutions are thinking of locating or relocating their operations to Hong Kong.

Concluding remarks

13. Ladies and gentlemen, I would like to end my comments by saying this: competition amongst financial centres has always been fierce and will be even more so in the future. Competition is quite like rowing a boat up a river, in which case there is a Chinese saying: "**逆水行舟，不進則退**"or in English: "excel and advance" or "stay put and be left behind"!

14. Hong Kong has already built a world class platform for the private wealth and asset management industry. However, there is no room for complacency. We will need to do more to further enhance the platform and to reach out to the overseas asset managers and owners to market Hong Kong's platform. We will continue to look to the TMA and all the stakeholders in the financial services industry for support and collaboration to build "Hong Kong" as the brand name that represents quality, trust and confidence to asset owners and managers. This is an ongoing task and I have no doubt that Hong Kong, in line of our "can do" spirit, can live up to the challenges ahead of us. Thank you very much.