Eddie Yue: New and important frontiers of financial development reached in 2017

Welcome remarks by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Hong Kong-London Financial Services Forum 2017, Hong Kong, 18 December 2017.

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Opening

- Richard, distinguished guests, ladies and gentlemen, good afternoon.
- I would like to welcome you all to the Hong Kong-London Financial Services Forum 2017, especially our guests travelling from London. This is already the seventh Forum since the first Hong Kong-London RMB Forum convened back in 2012. The Forum has proved to be an effective platform for the private sectors in the two places to collaborate and promote the use of RMB in the international markets as well as to grasp the associated business opportunities.
- Last year, London and Hong Kong decided to broaden the scope of the Forum to cover not only RMB business but also other new and important frontiers of financial development including infrastructure financing, the Belt and Road (B&R) Initiative, green finance, as well as Fintech. Looking back, it was a good move. As 2017 is drawing to a close, I think most of you would agree that B&R and fintech are the two hottest buzzwords in the financial services sector this year.

RMB Internationalisation

- But that is not saying offshore RMB business has been all quiet in the past year. On the contrary, 2017 witnesses important milestones in Mainland China's capital account liberalisation. Since the start of the year, there have been signs of stabilisation in the offshore RMB liquidity pool in Hong Kong, now hovering at around RMB 600 billion. On the other hand, our RMB RTGS system continues to record a high volume of turnover of some RMB 900 billion per day, indicating that a large amount of RMB financial intermediation activities have been taking place in Hong Kong.
- July this year, the HKMA and the People's Bank of China jointly launched the **Bond Connect**. It provides an additional channel for international investors to gain access to the vast bond market in Mainland China, using international common practice in securities settlement and custody. This is made possible thanks to new infrastructure linkages between HKMA's Central Moneymarkets Unit and relevant onshore institutions. So far, over 200 investors have successfully registered as Bond Connect investors, holding some RMB80 billion Mainland bonds. Daily turnover averaged RMB2 billion per day. This is not bad in four months' time, but we foresee considerable headroom to grow further. The investment thesis is compelling – Mainland China's solid economic fundamentals, RMB internationalisation, inclusion of RMB bonds in major indices, etc. And from an investor's perspective, the nominal yield of around 4% on 10-year government credit is simply attractive.
- The Stock Connect schemes have been running smoothly and next year, A-share will be included in the MSCI Emerging Markets Index, which is tracked by some US$1.6 trillion in assets. This will be a big boost to Stock Connect trading. The RQFII investment quota for Hong Kong has also been significantly increased to RMB500 billion July this year. In short, Hong Kong offers unparalleled access to Mainland markets and will continue to be the centre of action for market participants seeking to capitalise on the Mainland China story.
- Another exciting development is the Guangdong-Hong Kong-Macao Bay Area. It is an

ambitious plan to build a cosmopolitan cluster covering Hong Kong, Macao, and nine other coastal cities in the Pearl River Delta. With a combined GDP of some US$1.3 trillion, it will be the fifth largest economy in Asia, just after South Korea. It will also be one of the wealthiest regions in Mainland China. I am sure this Greater Bay Area will provide a bigger stage for financial institutions to launch and expand their business. The planning is still at an early stage and we expect more details will be available soon.

Belt & Road Initiative

- On infrastructure financing, the high-level Belt & Road Forum for International Cooperation in Beijing last May has added considerable momentum to infrastructure developments. Hong Kong has been positioning itself as the infrastructure hub to facilitate the related financial activities. A lot has been done through the **Infrastructure Financing Facilitation Office**, or IFFO in short, set up under the HKMA in 2016. A key mission of IFFO is to build and work with a cluster of stakeholders in the infrastructure financing and investment space. Closed to 80 partners have joined the IFFO platform since its launch and today, **I am pleased to welcome the City of London as the newest partner to IFFO.** I believe City of London will serve as the linkage to foster partnership between the financial institutions of London and Hong Kong to leverage on the tremendous opportunities in infrastructure financing and investment.
- Being an investor itself, the HKMA is aware of the challenges when it comes to infrastructure investment. I think there are currently two salient gaps on which IFFO is focusing its work. First is the funding gap. According to an estimate, there would be a funding gap of over US$5 trillion in the coming 15 years in infrastructure investment. There is no way the public sector or multilateral development banks can shoulder this funding responsibility alone. More private capital is needed. Three months ago, the HKMA signed an agreement in London with the International Finance Corporation under the World Bank Group, committing US$1 billion to the innovative Managed Co-Lending Portfolio Program, which is a debt mobilisation platform for emerging markets. Meanwhile, we are working with some like-minded institutional investors to identify suitable opportunities. The aim of all these initiatives is to create a demonstration effect to encourage more private investment in infrastructure.
- The second gap is what I would call a language gap. In considering infrastructure pipeline, institutional investors talk more about the risks and how they can be mitigated, whereas project developers may be relatively more opportunity-driven. To increase the chance that project developers can attract private funding, they need to enhance their communication with investors by understanding their risk concerns and speaking in their risk language. This is how we can make projects more bankable. On this front, IFFO has developed a reference term sheet for infrastructure investments in Emerging Markets together with key institutional investors last March. To further facilitate the use of this common language, IFFO has also rolled out a number of capacity building initiatives the past year for all partners.

Fintech

- Apart from infrastructure financing, fintech counts as another most frequently discussed topics in industry events and international conferences in the past year. But like infrastructure financing, we are not just talking about it, we are also doing something about it. HKMA announced September this year a series of measures to facilitate the financial services industry to grasp the opportunities in fintech, covering financial infrastructure, regulatory sandbox, research and talent development, etc. I will leave this to my colleague, Shu-pui, to share more with you in the panel on fintech later this afternoon. But I wish to highlight one point, and that is, fintech is borderless. It requires collaboration among financial centres like Hong Kong and London. A fintech solution that works only in a particular jurisdiction is of little value to clients and financial institutions that are often located half-way across the globe. This is particularly pertinent to the Distributed Ledger Technology platform for trade finance that we are building with the industry. This is why we have earlier announced a collaborative initiative with Singapore in this area. And I am also very pleased to note that HM Treasury and the HKMA have just started a dialogue to explore further cooperation under this project.

Green Finance

- If I am asked to predict what will be an emerging theme for the financial services sector in 2018, green finance looks like a safe bet. Green finance is growing rapidly and Mainland China has become one of the major markets for green bonds. Hong Kong is also keen on tapping into the green finance opportunities. The Hong Kong Government plans to issue a green bond for the first time next year. There is much we can learn from and collaborate with London, which has been a forerunner in this segment of the market. One of the burning issues is the divergence in various green bonds standards and assessments currently in the market. I hope today's Seminar could shed some light on this and also the way forward for green finance development.

Conclusion

- The future is not all rosy though. Challenges and uncertainties abound and this calls for stronger cross-border collaboration. The success of this Forum in the past six years shows that London and Hong Kong can be an all-weather friend. And I wish all of you a very fruitful discussion today.
- Thank you.