

Speech by FS at the SFC Regional Securities Regulatory Leadership
Symposium

Following is the video speech by the Financial Secretary, Mr Paul Chan, at the SFC Regional Securities Regulatory Leadership Symposium today (February 28):

Tim (Chairman of Securities and Futures Commission (SFC), Mr Tim Lui), Julia (Chief Executive Officer of the SFC, Ms Julia Leung), distinguished guests, ladies and gentlemen,

Good afternoon everyone. I am delighted to welcome you all to the SFC Regional Securities Regulatory Leadership Symposium. And congratulations to our Securities and Futures Commission on its 35th anniversary this year.

Unfortunately I can't be with you in person. Today is "Budget Day", which means that I have a busy day of activities. I can assure you that my Budget includes a number of initiatives that reflect some of the challenges and opportunities under discussion at this symposium. Please do take a look at the document when you have time.

Let me start by saying how pleased I am that so many financial experts and regulators from the Asia-Pacific region and beyond are attending this symposium. It is indeed a timely occasion to explore the global and regional financial market and investment landscapes, examine the role of regulation in sustainable finance, how technology is transforming the financial sector, and more.

Prospects of our capital markets

Over the past 35 years, the SFC has worked hard to strengthen our city's financial stability and vitality. The fruits of this work are clear for all to see. Today, Hong Kong is Asia's international financial centre and China's international financial centre, too!

I believe an issue that interests you all would be the state and prospects of the financial markets in Hong Kong and on the Mainland. Two crucial aspects here. The first concerns financial security. Are there any systemic issues that may threaten our financial security?

I am glad to tell you that the various segments of our capital markets have been functioning well. The Government attaches great importance to effective financial regulation. We work with our financial regulators, including the SFC, the Hong Kong Monetary Authority, and others in closely monitoring our financial markets in a cross-market, round-the-clock and well-coordinated manner.

Also, our fundamentals remain strong and robust. Our banking sector has a capital adequacy ratio at around 21%, much higher than the international standard of 8%. The liquidity ratio is at 175%, much higher than the 100% international benchmark. The Linked Exchange Rate System remains the bedrock of our freely convertible currency. It is underpinned by strong foreign currency reserve assets of over US\$420 billion, which is almost 1.7 times of our monetary base.

The second aspect relates to the outlook for the capital markets of Hong Kong and the Mainland.

It is true that our equities markets have been under pressure over the past year or so. High interest rates have affected investment appetite. Geopolitical tensions have influenced global capital flows, and there has been no lack of negative – and sometimes even false – narrative about the Chinese economy and the future of Hong Kong.

But facts speak louder than words, we are seeing growth in bank deposits. Last year, the increase was about 5%. There was also a net growth of another 5% in AUM to about US\$4 trillion for our assets and wealth management sector.

Now, it is a time of opportunities.

The general consensus is that interest rates in major markets have peaked. Inflation is moderating further and a hard landing is becoming less likely. There have been different opinions about the timing, pace and magnitude of rate cuts. But the direction is clear. Fund managers are now keen to capture stocks that are undervalued. In other words, this may be an incredible opportunity to invest in our markets.

Hong Kong's stock market performance is closely related to the Mainland's economy. More than half of our listed companies are based in the Mainland. Over 70% of our market cap and 80% of average daily turnover are attributable to these companies. We are also a unique bridge connecting the capital markets and investors of the Mainland and the world. No other place can offer this advantage.

Last year, the Mainland’s economy grew by 5.2%; the IMF forecast it to grow further by 4.6% this year. This is an impressive figure for such a large economy, especially when compared to forecasts for other advanced countries. Not only has the Mainland seen rapid growth in recent years, it has also established solid fundamentals, including a strong and complete industrial base, strong innovation capability, and a deep pool of capital and talent. Now the country is firmly on track to achieving high-quality development. In such areas as advanced manufacturing, artificial intelligence and green transformation, the Mainland will be a leading force in the world – and Hong Kong will continue to contribute and benefit from our country’s development every step of the way.

Enhancing regional partnerships

Our role as a financial super-connector and super value-adder for the Mainland and international markets is undisputed. In this respect, we will continue pushing to boost our various Connect Schemes with the Mainland. Take Stock Connect, as an example, inclusion of international companies listed in Hong Kong in the Southbound Connect will benefit international companies gaining access to both Mainland and international capital.

At the same time, while reinforcing our “super-connector” relationship with traditional markets, such as the United States and Europe, we are building closer collaborations with our partners in Asia, a region that is home to three of the world’s five largest economies. The IMF predicted that our region would contribute around 70% of global growth in 2023; and the Asia-Pacific region is a magnet for global capital, given its relatively young populations, high savings and fast-growing infrastructure demand. The mutual benefit in enhancing our financial cooperation is clear: whether

through listing ASEAN and Middle East, companies on our stock exchange, or jointly expanding the reach of fintech. To this end, I believe that Tim has just highlighted some of our recent moves with Indonesia and Saudi Arabia. And we keenly welcome more collaborations with other partners in the region.

Green investments and fintech

Turning to green finance and fintech, which are two areas in sharp focus at this symposium.

Hong Kong's vision is to establish ourselves as an international centre for green tech and green finance. This is a vision that I outlined in my Budget last year. Hong Kong is a leader in the region in green and sustainable finance, and is well-positioned to support climate action and green transition in Asia. We are building a green finance system that aligns with best international standards. Together, the Government and the financial regulators, the SFC included, are working hard to devise a pragmatic roadmap to adopt the IFRS Sustainability Disclosure Standards in HK.

Alongside green finance, green tech is a hugely promising area. In Hong Kong, we have a vibrant green tech eco-system. Some of our green tech companies are making their mark in the global arena and have successfully expanded to the Mainland and overseas markets.

Some of you may also be participating in our inaugural Hong Kong Green Week. The event gathers political and business leaders as well as industry representatives from the Asia-Pacific. It covers important financial

issues relating to green transformation and signals our firm commitment to developing this sector.

Turning to fintech. Web3 is a fast-evolving area and HK is a leading player. With the tremendous efforts of the SFC, the city was among the first to put in place a licensing regime for virtual asset service providers. Our principle is clear: under the “same activity, same risk, same regulation” approach, we have put in place proper guardrails so that this unstoppable financial innovation can flourish in a sustainable and responsible manner. In this endeavour, consumer and investors protection is a key focus.

Recently, we have launched a consultation on the regulation of stablecoin issuers. A sandbox will be arranged to facilitate dialogue between regulators and the industry. Meanwhile, we are also consulting the public on over-the-counter trading of digital assets.

Closing Remarks

Ladies and gentlemen, this is indeed a busy week for Hong Kong’s finance professionals. I congratulate the SFC for organising this event and I wish our visitors a very enjoyable and rewarding stay here in Hong Kong.

Thank you.