

Darryl Chan: Hong Kong focus - strengthening the International Financial Center Development

Keynote speech by Mr Darryl Chan, Deputy Chief Executive of the Hong Kong Monetary Authority, at the International Finance Forum 2024 Annual Meeting, Hong Kong, 23 November 2024.

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Vice Chairman Zhou Xiaochuan, distinguished guests, ladies and gentlemen, good afternoon!

It's my great pleasure to speak on a subject of huge importance to Hong Kong. Thank you International Finance Forum (IFF) for hosting this annual meeting in Hong Kong and thoughtfully putting this topic on your agenda.

Vice Chairman Zhou, on behalf of the Hong Kong Monetary Authority (HKMA), I would like to express our heartfelt thanks to you for your staunch support over the years for Hong Kong and the HKMA. Your insight and leadership in promoting financial collaboration between the Mainland and Hong Kong have left great legacy in shaping the growth trajectory of our financial sector, not least the launch of the offshore RMB business. Thank you Mr Renminbi!

Speaking of strengthening Hong Kong's role as an international financial centre, this has been a symbolic week. On Monday we celebrated the 10th anniversary of the Stock Connect between Hong Kong and Shanghai, the very first member of the ever expanding suite of Connect schemes that links up the Mainland and global financial markets. Thank you again Vice Chairman Zhou for throwing your weight behind this ground-breaking initiative.

The celebration was followed by the Global Financial Leaders' Investment Summit hosted by the HKMA. The Summit was attended by over 300 leaders from more than 120 global financial institutions to discuss trends and issues that have profound implications on the global economy and financial system.

We were encouraged by the strong commitment of the Central People's Government to supporting Hong Kong as an international financial centre, as conveyed at the Summit by Vice Premier He Lifeng of the State Council and the Mainland's financial regulators.

The success of the Summit is testament to the confidence and conviction of the global financial community that Hong Kong will continue to play a leading role in global finance.

This leading role is broad-based, covering banking, equity, fixed income, asset and wealth management, foreign exchange, insurance, and offshore RMB business. That said, there is no room to be complacent. There are still gaps with other leading hubs in terms of market depth and breadth, innovation, and talent. We face strong competition from other financial centres in the region. So we have a long to-do list to maintain Hong Kong's competitiveness. Let me give you an overview of our priority.

First and foremost is ensuring the robustness and resilience of our financial system. Over the years, Hong Kong has implemented robust regulatory regimes and built buffers that ensure the safety and soundness of our monetary, banking and the broader financial systems. We have stood the tests of multiple financial crises.

Yet, episodes of turmoil in the banking and non-bank sectors elsewhere keep reminding us that there are always known or unknown risks out there. Meanwhile, heightened cyber security threats, escalating geopolitical tensions, and even public health concerns are posing new challenges to financial stability and security.

To deal with these challenges, we stay vigilant in our day-to-day supervision of financial institutions and monitoring of market activities. We constantly review and update our regulatory regimes to ensure that they remain fit for purpose with the evolving landscape. We maintain close collaboration with regulators in other jurisdictions to contain cross-border financial risks. We also work with the financial sector to get prepared for different shock scenarios that may impact financial stability.

A safe and secure financial system enables us to pursue our developmental agenda that keeps Hong Kong ahead. We need to look for growth opportunities by expanding the breadth and coverage of our financial markets. Hong Kong's strength is rather broad-based, but there are new grounds to break. Our recent initiative to develop the gold and commodities storage and trading markets is just one of such examples. On coverage, we are proactively reaching out to emerging markets including ASEAN countries, the Gulf region and other Belt and Road countries.

But equally important is to keep enhancing the value proposition of the sectors where Hong Kong has a competitive edge. This requires constant reforms and upgrades.

- Take the equity market for example. Recent reforms in the listing regime have resulted in a much more competitive platform to support fund raising by companies from the innovation and technology sectors.
- On banking services, we have been partnering with the banking sector to leverage technology to raise banks' efficiency, support SMEs, promote financial inclusion, and enhance user experience.
- On asset and wealth management, we create an enabling environment for the sector by constantly refining regulatory requirements and, where appropriate, providing incentives for asset and wealth managers to set up and expand their business in Hong Kong.
- On financial infrastructure, we have built a highly efficient and reliable retail payments system with remarkable penetration and utilisation rates.

Perhaps the most game-changing development is the expanding financial connectivity between the Mainland and the global financial markets, with Hong Kong sitting right in between. Starting from the stock markets, the Connect family now also covers bonds, wealth management products and derivatives. And more are in the pipeline.

The most exciting feature of the various Connect schemes is the promotion of the wider use of RMB globally. For two decades, Hong Kong has been fully committed to developing our offshore RMB business. We have built an ecosystem of ample liquidity, expanding product offerings, the underlying financial infrastructure, and a talent

pool. Our hub status presents a unique competitive edge for Hong Kong. This is a never ending journey and the growth potential is unlimited. Active engagements with market players and our Mainland counterparts are ongoing to enable us to unleash and capture the unlimited potential.

Ladies and gentlemen, we are living in an increasingly complex world. Geopolitics and the resultant geoeconomic fragmentation, technological advancements, climate challenge – all are adding to the complexity and uncertainty faced by global finance. We have no choice but embrace these changes and challenges, and ensure that we turn these into opportunities and future-proof Hong Kong's financial sector.

Take for example geoeconomic fragmentation that is reshaping the global supply chain. Along this we are seeing an increasing trend of corporates including Mainland companies expanding into other emerging economies and closer intra-regional economic linkages. Such fragmentation, which is not purely because of economic or commercial considerations, may negatively impact the efficiency of global trades and economy. But as the saying goes, if you can't beat them, join them.

Hong Kong is known for its agility and adaptability. Our strengths in trade, logistics, professional services, and being a preferred location to set up regional headquarters, put us in good stead to play a part in this process. Our financial sector is well positioned to provide trade finance and cross-border payment services, support corporate treasury activities, raise funding through the banking system or capital markets to finance investment or infrastructure projects.

On technology, we don't just see it as a disruptive force – we embrace it. Use the blockchain technology as an example. We leverage on the technology to explore the use of central bank digital currency to raise the efficiency and lower the cost of cross-border payments. We encourage banks to pilot the use case of tokenised deposits. We put in suitable regulatory guardrails that facilitate the responsible and sustainable development of the crypto market and the use of AI.

On climate, we have an ambitious objective backed by concrete roadmaps and timeline to help the financial sector properly manage their climate risk, facilitate their clients' climate transition, and support the Government in achieving Hong Kong's net zero commitment.

In short, we want to make sure that Hong Kong's financial sector is fully prepared and capable to capture the opportunities brought by these long-term, mega trends.

Let me conclude. Hong Kong as an international financial centre has benefited from a combination of its location, system, institutions, and people. We are further blessed by the remarkable growth of our country and the strong support from the central authorities under the "One Country, Two Systems" principle. Keep improving our services, embrace changes, capture new opportunities, and this financial hub will continue to thrive.

With that, I look forward to hearing the insightful sharing by this panel which I am sure will further inspire us on how we can do a better job.

Thank you.