Speech by SFST at the Seminar on
"Greater China - Trends in the Marketplace and Islamic Opportunities"
in Dubai
(English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Seminar on "Greater China - Trends in the Marketplace and Islamic Opportunities" in Dubai today (November 26):

Ladies and gentlemen,

Good morning. It is my great pleasure to speak at the seminar on "Greater China - Trends in the Marketplace and Islamic Opportunities" today. First of all, I wish to thank Dow Jones for organising this event, which provides a platform for exchange of insights into the intricacies of this promising and fast-growing sphere of finance. You will be hearing from different speakers on the subject of Islamic finance in the context of Greater China later. To herald the discussion, I would like to share with you my views on the potential of Islamic finance as well as what Hong Kong is doing to position ourselves as an Islamic financial platform.

Islamic Finance

Islamic finance offers great potential and opportunities in the global financial scene. According to the Islamic Financial Services Board, there were more than 300 institutions in over 65 jurisdictions managing assets of around US$700 billion to US$1 trillion in a Shariah-compatible fashion by the end of 2005. The average annual growth rate of Islamic financial services industry assets from 1995 to 2004 is estimated to have been 10% to 15%. Assuming that these assets amounted to about US$700 billion in 2005 and an annual growth rate of 15% was applicable, the Islamic financial services industry could grow to US$1.4 trillion by 2010 and to US$2.8 trillion by 2015. The exponential growth in Islamic finance has provided an impetus for the Islamic financial community to look at financing and investment opportunities beyond their domestic boundaries and attracted players from outside the Islamic world to serve the broad base of Islamic investors worldwide.

Inevitably, the current global financial turmoil may somehow cloud the prospects of the expansion of the Islamic finance industry. The moderation, for instance, has taken the form of a decline in Islamic financing activities such as sukuk, which registered US$12.7 billion in issuance in the first three quarters of this year, compared to a record US$20.8 billion during the same period in 2007.

But there remains long-term upside potential for the Islamic financial services industry. The Middle East financial markets have been developing rapidly. According to the most recent Global Financial Centres Index published by the City of London in September 2008, Dubai, Qatar and Bahrain are among the top most cited centres that people expect would become more significant. Saudi Arabia, which has the largest national economy and biggest stock market in the Gulf region, has also begun the construction of a major financial centre named the King Abdullah Financial Centre. The Gulf Co-operation Council (GCC) comprises countries that are in possession of a sizeable proportion of world wealth. The government investment funds which are more widely known as sovereign wealth funds in Abu Dhabi, Kuwait, Qatar and Saudi Arabia together accounted for as much as US$1.5 trillion at the end of 2007.

Hong Kong's Strengths

So there is no dispute on the potential of this industry. Indeed, Hong Kong, like other international financial centres, are very keen to introduce Islamic finance to the Hong Kong community. We believe that Hong Kong's current strengths in conventional financial services industry can serve as a base for our growth of Islamic finance, especially in the wholesale and capital market.

Hong Kong has already been serving as a centre for international financial intermediation for many years, matching investors and fund raisers from many different places. Our stock exchange has successfully hosted the largest IPOs of Chinese enterprises globally. Our bond market is also very open and highly internationalised with foreign issuers being the major issuers of Hong Kong dollar bonds.

A unique advantage for Hong Kong is our unrivalled role in bridging the Mainland, the world's fastest growing economic giant, to the international market. Hong Kong remains the only jurisdiction outside the Mainland in which banks may transact business using the Renminbi (RMB). We also became the first place outside the Mainland to operate a RMB bond market. We are indeed the only Chinese city in the same elite league as London and New York as far as financial services are concerned. These, together with our deep and liquid markets, laid a solid foundation for our role as a two-way springboard, facilitating the intermediation of savings and investments between the Islamic financial communities and the Mainland.

Political stability, free economy, sound legal system underpinned by the rule of law, simple and low tax regime, pro-business market environment with adherence to international standards and practices, and professional financial workforce, are also our boasts. In addition, our world-class financial market infrastructure, which provides a multi-currency and multi-dimensional payment and settlement platform, is well suited to serve the needs of financial intermediation that takes place mostly in international currencies.

Hong Kong's Initiatives

Development of Islamic finance in Hong Kong benefits not only market players but also Hong Kong, adding to the breadth and depth of our financial markets. The Hong Kong Special Administrative Region Government is fully committed to supporting the development of Islamic finance in Hong Kong. The Chief Executive highlighted in his 2007-08 and 2008-09 Policy Addresses the potential of introducing Islamic finance and encouraged the development of a sukuk market in our city.

With a view to putting in place an Islamic financial platform in Hong Kong, we have conducted a review on our legal, taxation and regulatory regimes to ascertain whether a sukuk market can be accommodated in our existing system and framework. Our finding suggests that there is no fundamental obstacle to the issue and transactions of sukuk in Hong Kong. On the other hand, we are aware that additional stamp duty, profits and property tax implications may arise from the unique structures of sukuk, which may involve sale, repurchase and lease of the underlying assets and creation of special purpose vehicles for risk-sharing and partnership purposes. We are now actively pursuing technical modifications to the taxation regime to deal with the possible differential implications on tax obligations and liabilities arising from the peculiar structures of sukuk, with a view to leveling the playing field for sukuk vis-à-vis conventional bonds.

In addition to putting in place conducive market infrastructure, we spare no effort in establishing a close partnership with the financial industry. Our financial regulators in Hong Kong have joined hands with the financial industry in extending international business linkages, nurturing talent and knowledge and facilitating new Islamic finance products.

The dynamism of Hong Kong is duly reflected in the speed market players have seized upon the new opportunities presented by Islamic finance. We are pleased to see the launch in Hong Kong of a variety of Islamic financial products, such as Islamic banking window, fund and indexes, as well as sukuk, in the past year or so. We also note that the introduction of Islamic deposit products is gathering speed from market players.

Closing

Ladies and gentlemen, Islamic finance is no doubt an area with ample room for expansion. Being an international financial centre, Hong Kong is moving full-steam ahead to put in place a conducive platform for the development of Islamic finance. You can certainly look forward to the development of an exciting market for Islamic finance here in Hong Kong in the years to come. Thank you.

Ends