



## **HKICPA – Financial Services Interest Group**

**“Hong Kong vs Shanghai – a Tale of Two Cities”**

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# Background

- Of the four Pillar Industries, Financial Services has the most distinct competitive advantages
- At one time, it was said that Financial Services Industry alone could prop up Hong Kong's economy and could support a population of 10M people
- Hong Kong has been enjoying remarkable success since 2004
- Booming stock market up to early 2008
- Re-bounced very sharply in 2009

# Thunder in a Sunny Day

- **March 2009** Premier Wen Jiao Bao announced the resolution of the State Council.  
2020 Shanghai – an international financial centre, commensurate with China's national strength and RMB's international status

**Question: Can HK continue to be China's international financial centre?**

# Thunder in a Sunny Day (cont'd)

- For a long time, debate about Shanghai and Hong Kong, which will be the leader
- Many people contend that
  - Foreign investors go direct to China, particularly Shanghai instead of routing through Hong Kong
  - Foreign companies, who will set up headquarters in China, choose Shanghai rather than Hong Kong

# Is this worry justified?

Three perspectives: -

1) Internationally, which countries has two international financial centers?

U.S. - N. Y. and Philadelphia

- N.Y. and Chicago

Japan – Tokyo and Osaka

6 Stock Exchanges in Japan

Europe

# Is this worry justified? (Cont'd)

## 2) Hong Kong ourselves

- 1993 Tsingtao Brewery
- End of 2009 500+ mainland companies, out of 1,300 listed companies
  - Market capital 58%
  - Daily Turnover over 70%
- Largest 10 IPOs in the past few years, all mainland companies except LINK in 2005,
- HK Alone - > cannot sustain an international financial centre, our economy is too small

# Is this worry justified? (Cont'd)

## 3) Policy Perspective

- The competition between Shanghai and Shenzhen
- The ambition of Tianjin to become international financial centre, e.g. first to launch “Mainlander to invest directly in stock market”
- National Policy has a significant impact on the success of a city

# Hong Kong Vs Shanghai

## Size of the market

	Hong Kong	Shanghai
No. of Companies	1,308	869
Market Capital	HK\$17,515B	RMB17,865B
Turnover (Avg Daily)	HK\$63B	RMB140B
Total Fund Raised	US\$68B	US\$37B
Fund Raised by IPO	US\$24B	US\$14B
Derivates		} none
Total Turnover	US\$90B contracts (World No. 14)	
Notional Turnover	US\$3,896B	
Warrant	US\$394B (World No. 1)	



# Hong Kong's Competitive Advantages

1. Low and Simple Tax System
2. Freely Convertible Currency
3. World Class Infrastructure – Hardware and software
4. Common Law Legal System and Rules of Law
5. Clean Government
6. Free Flow of Information
7. Freedom of Speech
8. Free Press
9. International Accounting, Auditing and Corporate Governance Standards
10. Talent

# Hong Kong's Competitive Advantages (Cont'd)

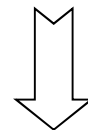
Some of these advantages are fading out : -

1. International Accounting, Auditing and Corporate Governance standard
  - A+H Audit
  - Chinese SOX 404
2. Talent
  - Mainland Chinese
  - International Executives
3. Freely Convertible Currency
4. Infrastructure

# Hong Kong Competitive Advantages (Cont'd)

Advantages in the next decade or further: -  
soft-power/intangible infrastructure

1. Common Law Legal System, English and Rule of Law
2. Clean Government
3. Free flow of information
4. Free Press and Freedom of Speech
5. Corporate governance standards, regulatory standards and integrity of the market and its participants



**Cornerstone of investor confidence**

# Hong Kong's Constraints/Weaknesses

1. Difficult to attract foreign companies to come here to list
2. Competitive advantages vis-à-vis other international financial centres such as New York and London
3. Ability to implement strategies
4. Political Risk  
China may reduce reliance on HK because of political risk
5. Not much to offer, other than stock market

# To Stay Ahead of the Curve

- Build our strengths vs NY, London, Tokyo & Singapore
  - RMB Business
- Relevant and useful to China
  - Assist China in the internationalization of RMB
  - National financial security

# To Stay Ahead of the Curve (cont'd)

- Enhance market attraction and product innovation : -
  - Bond market
  - Wealth management
  - Captive Insurance centre
  - Islamic finance
  - RMB bonds
  - RMB offshore settlement

# To Stay Ahead of the Curve (Cont'd)

- Enhance our regulatory regime and standard
  - Regulation of the capital market
    - Statutory backing of “certain” listing rules
    - Class action
    - Protection of minority rights
    - Codify directors’ responsibility and duty of care

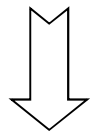
# To Stay Ahead of the Curve (Cont'd)

- Further enhance HK as a place to do business
  - Company Law Rewrite
  - Trustee Ordinance update
  - Corporate Rescue Law
  - IRO Amendment
    - EoI to enable DTAs to be signed
    - Others
  - Attract Talents
    - City Life
      - culture and recreational (e.g. NY/London)
      - Pollution
      - International School Places



# To Stay Ahead of the Curve (Cont'd)

- Collaborate with Shanghai
  - Mutually Assisting
  - Complementary
  - Interactive



**To increase the width of depth of the capital market**

# To Stay Ahead of the Curve (Cont'd)

- Enhance efficiency of our market/reduce costs
  - Scriptless system
  - Electronic Prospectus
  - XBRL
- Enhance governance standard of listed companies
  - Quarterly management reporting
  - Minority shareholders to elect INED

# To Stay Ahead of the Curve (Cont'd)

## Regulation of Retail Securities Business – Improvement measures

- Disclosure Based with suitability test
- Cooling off period
- Dispute resolution mechanism
- KYC – Mandatory audio recording

## To Stay Ahead of the Curve (Cont'd)

- Notice of change in risk rating after purchase
- Mystery shopper program
- Investor Education Council
- Product “Key Facts x” and “Sales Key Fact x”
- Clear differentiation between deposit-taking business and retail securities business
- Amend companies ordinance about “Debenture”
- Commission Disclosure
- Definition of Professional Investors & Private Placement Regime

# To Stay Ahead of the Curve (Cont'd)

- Financial Services Industry Regulatory Regime
  - Institutional Approach
  - Functional Approach
  - Integrated Approach
  - Twin Peak Approach

# Difficulties and Uncertainties

- Technical Level
- Policy Level
- Political Level



**Thank you!**  
**Q&A and Advice**

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