

Budget Speech

International Financial Centre

22. As an important pillar of our economy, the financial services industry contributes directly around 13 per cent of our GDP and employs more than 180 000 people. In 2006, Hong Kong ranked first in Asia and second worldwide, ahead of New York, in terms of the total amount of funds raised through initial public offerings in our stock market. By abolishing estate duty and exempting offshore funds from profits tax, we have further consolidated our position as a major asset management centre. Looking ahead, it is my belief that the financial services industry will become the most important sector in our economy.

23. With the Mainland's on-going modernisation process, its demand for quality financial services will increase substantially. I therefore consider that this should create ample room for our financial services industry to develop in the years ahead. A complementary, co-operative and interactive relationship needs to be established between the financial systems of the Mainland and Hong Kong. We have an advanced financial infrastructure, a regulatory regime up to international standards, deep and liquid internationalised financial markets, a rich pool of professionals and diversified investment products. These advantages enable us to contribute to raising the efficiency of financial intermediation in the Mainland and facilitating reform of the Mainland's financial system in the following ways:

- first, the entry of Hong Kong's financial institutions and professionals into the Mainland market will help upgrade the corporate governance standards of Mainland enterprises, introduce innovative financial products and help enhance the efficiency of the Mainland's financial intermediation;
- second, we can help Mainland enterprises raise capital and reach out to the international market, and provide a global investment platform for Mainland funds. By further expanding our Renminbi (RMB) business, Hong Kong can serve as a test bed for the use of RMB in international trade and financial transactions. Our sound financial system, coupled with close co-operation between the regulatory bodies of both places, can help manage the risks involved;
- third, Hong Kong and the Mainland can work together to establish appropriate channels to allow cross-boundary access to financial instruments issued in the two markets. This will help enrich the variety of financial instruments available in each market and offer investors more choice. The greater market size resulting from such linkages will also enhance market efficiency and liquidity.

24. In promoting the development of our markets, we will explore ways to broaden the source of enterprises coming to list in Hong Kong, in an effort to attract quality foreign enterprises. To meet the demand for risk management in Mainland financial markets, we are also exploring further ways to develop our derivatives markets, including financial and commodity futures trading, and insurance and reinsurance industries.

25. As regards improving our regulatory framework, Hong Kong is one of the first places in the world to implement the New Basel Capital Accord, which helps

enhance the banking industry's management of risk. In addition, we will introduce a Bill into this Council in the current legislative session to give statutory backing to major listing requirements. We have also established the Financial Reporting Council to upgrade the regulation of the accounting profession and the quality of financial reporting of companies listed in Hong Kong. Furthermore, we have embarked on an exercise to rewrite the Companies Ordinance to ensure that our company law continues to serve Hong Kong's developing needs as a major international business and financial centre. The Securities and Futures Commission will also explore ways of utilising part of its levy income to enhance investor protection and education.

26. By complementing the financial development of our nation and enhancing our own competitiveness as I have elaborated, Hong Kong will flourish as a world-class international financial centre for our nation and enhance the latter's financial security in increasingly-globalised financial markets.