

SFST's speech at Regional Restructuring and Insolvency Conference (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the Regional Restructuring and Insolvency Conference today (November 1):

Ian (Partner of Tanner De Witt, Mr Ian De Witt), distinguished guests, ladies and gentlemen,

Good morning. I am very pleased to join you all at the Regional Restructuring and Insolvency Conference today, bringing together leading professionals, scholars and judges in the region.

Strong fundamentals in Hong Kong

Despite several challenging years, Hong Kong is back with a stable, welcoming and promising business environment. Our strong fundamentals continue to be internationally recognised. Among global financial centres, Hong Kong ranks first in Asia, and third globally behind only New York and London. Fraser Institute has again ranked Hong Kong the world's freest economy. The International Monetary Fund and credit-rating agencies have also reaffirmed Hong Kong's institutional framework, our quality regulation and economic and financial resilience.

These commendations are echoed by the global investor community. International financial institutions maintain a strong presence in Hong Kong, with 72 of the world's top 100 banks, and six out of the top 10 global insurance companies operating in the city. The total market capitalisation of listed companies in Hong Kong reached a total of US\$4 trillion as at end-August 2024, the fourth largest in Asia. Recently, coupled with easing interest rate cycles and the Mainland's stimulus package to inject liquidity to the banking sector and provide more support to the real estate sector, our stock market has gone on a rally, rising some 15 per cent in the past month or so. Hong Kong is also a leading asset and wealth management hub in Asia, managing close to US\$4 trillion of assets as at end-2023, with over half of the funds sourcing from investors outside Hong Kong and the Mainland. In fact, Hong Kong is also the world's second-largest cross-boundary wealth management centre after Switzerland, Asia's largest hedge fund hub, and second largest private equity hub after the Mainland. In addition, we have long been the largest offshore Renminbi hub in the world, currently processing over 80 per cent of global trade settlement denominated in the Renminbi. We are also the premier green and sustainable finance platform in Asia, and one-third of the Asian green and sustainable bond issuance was arranged in Hong Kong, ranking top in the region.

Amidst the uncertain and complex external environment, it is all the

more important to build up resilience and embrace a reform mind-set to enhance the regulatory regime in Hong Kong, with a view to promoting the high-quality development of the financial sectors.

Hong Kong's insolvency services

To grow an economy, there must be an effective, fit-for-purpose insolvency process to ensure that not only is the value retained but closure of an enterprise that has failed can be dealt with quickly and efficiently. The Government strives to ensure that insolvency services in Hong Kong are of high quality and that the insolvency legislation is commensurate with the objective of reinforcing Hong Kong's status as an international financial centre and facilitating its development as a global business hub.

We have completed two rounds of legislative exercise for improving the winding-up legislation in recent years, with the first round in 2017 to modernise our winding-up provisions and to increase protection of creditors in the course of a winding-up; and the second round in 2023 to facilitate the use of electronic submissions to the Official Receiver and to streamline the requirements of publication of insolvency and related notices. Insolvency practitioners and the public can now submit various forms and returns to the Official Receiver via our electronic submission system.

To facilitate cross-border insolvency, the Official Receiver's Office participated in the negotiation between the Supreme People's Court and the HKSAR (Hong Kong Special Administrative Region) Government, whereby a Record of Meeting was entered into on May 14, 2021, relating to the mutual recognition of and assistance to bankruptcy (insolvency) proceedings between the courts of the Mainland and the HKSAR. A co-operation arrangement was entered into between the Official Receiver's Office and the Bankruptcy Affairs Administration of Shenzhen Municipality to enhance co-operation on bankruptcy law matters.

We have been in close contact with stakeholders, including insolvency professionals, business sectors and legal professionals, in considering proposals aiming to further enhance the winding-up and restructuring regimes.

Other policy initiatives to enhance professional sectors

Apart from enhancing the insolvency regime, the Government has rolled out many initiatives to promote the development of the financial sector. Among our many initiatives, I wish to take the opportunity to highlight a few that are relevant to enhancing our professional sectors.

As announced in the 2024 Policy Address, we will work with the Accounting and Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants (HKICPA) to actively address development issues of the accounting sector. As mentioned in my recent blog post, we are determined to tackle the long-standing problem of "bogus accountants", which has been raised by the accounting sector for many years. It generally encompasses two issues including an unqualified person pretending to be a CPA (certified public accountant) and providing audit service. The more common

issue refers to a CPA "blindly" signing off audited financial statements, of which the audit engagements may be undertaken through intermediaries commonly referred as "à»" in Cantonese. While we believe these bogus accountants are merely a tiny minority of the profession, what they did has in fact undermined the overall quality and credibility of Hong Kong's financial reporting standards and tainted the reputation of profession. From the public finance perspective, audit reports are essential for assessing many government policies (such as taxation) and funding programmes. We have no reason to turn a blind eye to this issue. Taking into account the enforcement experience and feedback from the industry, the difficulty in handling such cases primarily stems from the lack of sufficient evidence to track down the accountants. With the staunch support of different parties especially the HKICPA, we are working at full steam to review the Hong Kong Standards on Auditing with a view to mandating the indication of practicing certificate number on the audited financial statements. We are also exploring mandating the presentation of the auditor's practicing certificate number in the context of preparing profits tax returns. After consultation with stakeholders, the above measures are expected to take effect from the tax assessment year of 2024/25.

Another Policy Address initiative which may interest the professional sectors such as audit, accounting and legal services is company re-domiciliation. As part of our effort to expand markets and deepen overseas networks, we are working on a legislative proposal to introduce a company re-domiciliation regime to assist companies domiciled elsewhere to re-domicile to Hong Kong. The regime will enable a non-Hong Kong-incorporated company to transfer their domicile to Hong Kong while maintaining its legal identity as a body corporate, thereby ensuring its business continuity and reducing the need to go through complicated and costly judicial procedures. Without such a regime, a non-Hong Kong-incorporated company currently has to be wound up overseas and establish a new company in Hong Kong, or undergo a court-sanctioned scheme of arrangement to be converted into a wholly owned subsidiary of a Hong Kong-incorporated company. These existing options involve complicated procedures and substantial costs, and the companies concerned cannot preserve their legal identities, assets, intellectual property, contracts and corporate history. We already launched public consultation and are glad to note the public's support. We are happy to note the keen interest of some companies in re-domiciling to Hong Kong. We believe that this will bring greater demand for Hong Kong's professional services such as audit, accounting and legal services, and create more investment as well as skilled job opportunities, as it is likely that re-domiciled companies would move some of their business operations to Hong Kong. We target to submit the amendment bill to the Legislative Council within this year.

Closing remarks

Ladies and gentlemen, I wish to express my gratitude to each and every one of you for your dedication to upholding the integrity and strength of our financial system. I hope you all a fruitful discussion at today's conference. Thank you.