

Keynote speech at AIMA Policy and Regulatory Forum

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Introduction

Thank you for inviting me here.

We have just heard from a panel of distinguished speakers sharing their insights into policy and regulatory issues in the alternative investment space. Quite rightly, much of your discussion today will focus on the “what” and “how” questions, dissecting the rules and regulations that are being put in place, and contemplating compliance solutions. These are no doubt important questions, not least because many of the new rules will have a major impact on the way you do business, and your bottom line.

Since we do not often have such a large gathering of regulators and hedge fund professionals all in one room, I thought it would be useful for me to take a step back from the more technical issues, and use this occasion to share with you the regulators’ thinking, and explore how the hedge fund industry could work more closely with the regulators. It has always been my belief that a frank, open dialogue between the regulator and the regulated would help the industry develop in a healthy manner, and provide reference points for us as we write rules to regulate the industry and the market. Many of you here today have picked Hong Kong as your base. You therefore have a stake, as much as we do, in maintaining the Hong Kong market’s integrity, depth and vibrancy.

In the last three years we have seen a strong inflow of firms, among them hedge funds and other alternative managers, eager to tap the opportunities that open up as mainland China continues to liberalise the use of its currency and allow liquidity to leave its border. To capture those opportunities, our market must offer not just choice and talent but also proper investor and systemic protection. I will also share with you my thoughts on why some of the recent reform developments will help in these areas.

The current hedge fund regulatory regime

First, let’s clarify the facts. While across the global markets there has been a slew of new legislation and rules since the 2008 financial crisis aimed at bringing hedge fund managers under the oversight of regulators, we in Hong Kong have always regulated hedge fund managers who operate in our market. Whether you manage assets for institutional clients or you offer your products to the public, without exception you are required to be licensed with, and supervised by, the SFC.

Our rules and regulations are clear, transparent and consistently applied. We do not wish your compliance costs to be higher than they need to be. Our statutory functions are to protect investors and maintain market integrity. As you will have seen from the proceedings






that those in charge of risk monitoring could not see the whole picture. In hindsight, we now know that there was one crucial regulatory blind spot – AIG. The insurer accumulated huge potential liabilities that went unnoticed and in the end it had to be bailed out by the US



(i) Central clearing of standardized OTC derivative contracts

As you know, the G20/FSB has made firm commitments on central clearing and reporting of OTC derivatives. The idea behind this is the desire to avert another AIG-



consultation paper in June this year. I hope that the industry will actively participate in the deliberation process, to ensure that our proposals are effective and practical.

Hedge fund transparency

The hedge fund industry has a strong track record of responding to changing market conditions, including regulatory demands. There is, however, one particular area that I would urge you to do more, and that is transparency.

I understand that many of you have reservations over publicity. After all, hedge fund products are sold to a limited circle of investors. The hedge fund is not systemically important. However, we are seeing a gradual expansion of the hedge funds' investor base, from the super rich and endowments to pension funds and funds of funds. Whether you like it or not, the high profile successes, or failures of hedge funds and their star managers



Kong is the Mainland's offshore international market that could access the rest of the world for the Mainland while the Mainland is not ready to do so itself. The Mainland therefore has a strategic interest in Hong Kong's continued development as an international financial