SECURITIES AND FUTURES COMMISSION

Speech

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Thank you Jack[1] and AIMA for inviting me here today.

conference. When I sat down to think about what to say, it struck me that my audience are

10 years ago, that the industry would rather have as little to do with regulation and regulators as possible. You were outside the regulatory radar and worked hard to keep it that way.

In 2014, events seemed to have taken a turn for the better. Recovery in the U.S. appeared more sure-footed, unemployment continued on its downward trend, and corporate profitability looked healthy. But market-changing events always seem to be just around the corner. First there were geopolitical tensions in Europe. Then there were concerns over the Chinese economy, the effectiveness of Abenomics and the health of other emerging economies. More recently, oil prices have tumbled and you only have to witness the massive correction in the Shanghai stock market a few day ago to see that all these events are causing major market gyrations. The poor stock market investor is completely befuddled and seems to always be on the wrong side of the market.

This is because the only certain trend is that of uncertainty and volatility. And unfortunately for those investors, investment options are few. Even the darling of many Hong Kong savers stashing money in RMB term deposit accounts looks less attractive as the rising streak of the currency seems to be nearing an end.

Hedge fund industry performance

This uncertainty and volatility is exactly the kind of environment in which we expect the hedge fund industry to prosper. After all, the industry promises all-weather returns and i continuously demonstrating robust risk management and providing clear and appropriate disclosure to your investors. This is also how you gain investors trust and confidence which must be the cornerstone of any viable business.

These very important considerations were the key reasons behind our introduction of the retail hedge funds guidelines in 2002 and they are just as relevant and important today.

I mentioned at the beginning that I will try to explain the positive synergies between regulation and industry efforts. This is how I see it. I believe the longer term health of the hedge fund industry rests on two pillars. The first is return. The second is governance. In terms of dictating returns, there is really not much regulators can or should do.

Governance is another matter. Regulations aim to introduce best practices in areas such as disclosure, valuation, and protection of investor assets. This has immense value - we are told time and again that investors are reassured and feel more confident with fund managers that come from jurisdictions with credible and robust regulatory regimes.

More directly, regulatory efforts are useful in shedding light on and improving the

example, the Commission has been conducting regular surveys of the hedge fund industry since 2006. The information is useful not just for regulators, but also for existing and prospective investors in understanding industry developments and making investment decisions.

The Hong Kong hedge fund industry has expanded rapidly. Results from our survey of hedge fund activities show that assets managed by SFC-licensed hedge fund managers or advisors rose almost ten-fold between 2004 and 2012, from about USD9 billion to USD87 billion. I believe appropriate regulation had an important role in this growth.

The way forward

Although regulators and regulation are a lot more palpable in your business today, there are limits on what regulation can achieve. Despite recent developments, the hedge fund industry remains relatively lightly regulated. And one reason for this is that the majority of you target professional and institutional investors. In many jurisdictions, this scopes you out of the

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higher level. There is often room for managers to determine how best to implement them. At the end of the day, it is you, the fund managers, who make the call on where you want to be on the governance spectrum.

Disclosure, I know, is a prickly issue for many of you. Many see it as a stark choice between either safeguarding proprietary trading models and positions, or greater transparency and more information for investors. I do not believe that such a zero sum result is the only outcome. We have seen numerous examples where fund managers are able to strike a balance between the two. What is needed is some hard, innovative think

Transparency is also in the best interest of fund managers. When the market is good, investors are generally happy to give managers a free reign and quietly watch their wealth grow. But markets are nothing if not fickle. At the first sign of weakness, investors will come pounding at the door asking for reassurance, with a string of probing questions. And you do