

## Acting SFST's speech at HKEX ETF Summit 2024 (English only)

Following is the speech by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, at the HKEX ETF Summit 2024 today (November 5):

Wilfred (Deputy Chief Executive Officer of Hong Kong Exchanges and Clearing Limited (HKEX), Mr Wilfred Yiu), Howard (Deputy Chief Executive of the Hong Kong Monetary Authority, Mr Howard Lee), Christina (Executive Director (Investment Products Division) of the Securities and Futures Commission, Ms Christina Choi), Eric (Executive Director (Policy) of the Mandatory Provident Fund Schemes Authority, Mr Eric Cheng), distinguished guests, ladies and gentlemen,

Good afternoon. It is my great pleasure to join you today at the HKEX ETF Summit 2024. First of all I would like to extend my gratitude to HKEX for organising this timely gathering where we can explore the vibrant landscape of ETF (exchange-traded fund) markets, particularly the emerging opportunities, in Hong Kong. This summit arrives at a crucial juncture for both Hong Kong and the broader Asia-Pacific region as we navigate the complexities of a rapidly evolving market environment.

Hong Kong's ETF market

Over the past decade, passive investments, especially ETFs, have experienced remarkable growth. These products have emerged as a vital tool, providing exposure to diversified asset classes and investment strategies, enabling investors to effectively diversify their portfolios. ETFs have become one of the fastest-growing investment products globally, fundamentally transforming how investors access financial markets and construct their investment strategies.

In response to this fast-growing ETF market, major jurisdictions worldwide, including Hong Kong, have been vying for the title of premier ETF hub. As a critical gateway to Mainland China, Hong Kong serves as a "super-connector" between Mainland China and the global markets. By leveraging its favorable tax, legal, and regulatory frameworks, Hong Kong has established itself as a leading player in the Asia-Pacific ETF market.

Since launching the first ETF in 1999, HKEX has become one of largest and most active ETF exchanges in Asia. The Government has actively supported the development of our ETF ecosystem, introducing a stamp duty waiver for secondary market transactions of ETFs in 2015 and expanding it to include primary market activities for ETF market makers in 2020. These initiatives have reduced transaction costs and enhanced Hong Kong's competitiveness as a listing venue. With robust policy support, Hong Kong now boasts a diverse range of ETF products backed by deep liquidity, attracting renowned issuers,

market makers, and investors. In the first three quarters of 2024, the average daily turnover of ETFs reached HK\$13.0 billion, up by 10 per cent from the average in full year 2023, and up by 32 per cent from the average in full year 2022 respectively.

#### Inclusion of ETFs under Stock Connect

The expansion of mutual stock market access between the Mainland and Hong Kong (Stock Connect) in July 2022 to include eligible ETFs has opened new avenues for trading. This initiative allows both Hong Kong and foreign investors to trade ETFs listed on the Shanghai and Shenzhen stock exchanges while enabling Mainland investors to access Hong Kong-listed ETFs. This development enhances the interaction between our capital markets, providing more diverse asset allocation options and promoting liquidity and sustainable growth.

In April 2024, the China Securities Regulatory Commission (CSRC) announced measures to further broaden mutual access between the Mainland and Hong Kong capital markets. These measures include, among others, expanding the range of eligible equity ETFs under Stock Connect by lowering criteria for Both Northbound and Southbound trading, which has led to the addition of 85 new Mainland ETFs and six new Hong Kong ETFs, bringing the total to over 240 eligible products in July this year. This expansion enriches investment options and facilitates efficient asset allocation for investors in both markets, attracting capital inflows and supporting long-term market development. With continuous enhancements, we are pleased to see that trading of ETFs under Stock Connect has been widely accepted by investors since its commencement.

#### Attracting foreign capital

Indeed, since we established Stock Connect in 2014, its Southbound trading has brought a net inflow of over HK\$3.4 trillion to the Hong Kong stock market. Meanwhile, the Northbound trading has been an important avenue for international investors to access the Mainland market. Seventy per cent of the A-shares held by international investors were acquired via this channel. This unique connectivity Hong Kong enjoys is increasingly recognised and favoured by investors.

A year ago, we celebrated the listing of Asia's first ETF tracking the Saudi Arabian market in Hong Kong, allowing Asian investors to tap into the vast opportunities offered by Saudi Arabia and the Middle East. And just last month, we welcomed the listing of two ETFs tracking Hong Kong stocks in Saudi Arabia, completing a two-way capital flow conduit between our markets. These listings are significant on multiple levels: they provide Saudi and Middle Eastern investors direct access to the Hong Kong stock market, enhance the developing ETF market in Saudi Arabia, and diversify Hong Kong's capital sources while boosting market liquidity.

#### Diversifying product offerings

In addition to attracting foreign capital, we are committed to expanding our ETF ecosystem and enhancing product diversity in Hong Kong's markets, further supporting the city's position as the region's leading ETF marketplace by offering investors even more choice.

As Wilfred mentioned, the introduction of virtual asset spot ETFs is an exciting addition, providing investors access to new asset classes through ETFs. This year has also seen the debut of Hong Kong's first covered call ETFs, enabling investors to navigate volatile markets and hedge risks while diversifying beyond traditional products. We look forward to continuing working closely with our stakeholders with a view to launching more products to our international marketplace.

## Closing

Ladies and gentlemen, I would like to express my gratitude to all stakeholders for your dedication in solidifying Hong Kong's status as a leading international financial centre and ETF hub. Together, let us explore pathways to greater innovation and collaboration. I wish the summit every success and wish you good health and business for the time to come. Thank you.

