

LCQ10: Collaboration between Hong Kong and Mainland securities markets

Following is a question by the Hon Nelson Lam and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 4):

Question:

It is learnt that as the Growth Enterprise Market Listing Rules, upon amendment by the Hong Kong Exchanges and Clearing Limited (HKEX) in 2018, have significantly raised the admission thresholds of the Growth Enterprise Market (GEM) and decreased the attractiveness of GEM, the number of new listings plummeted from 75 in 2018 to one in 2021, whilst the ranking of the funds raised through initial public offerings in Hong Kong fell out of the world's top three in 2021. On the other hand, the Financial Stability and Development Committee under the State Council pointed out at a thematic meeting in March this year that, the regulators on the Mainland and in Hong Kong should enhance communication and collaboration with regard to the stability of the financial market in Hong Kong, and stressed that the relevant authorities should earnestly shoulder their responsibilities by proactively introducing market-friendly policies as well as prudently rolling out policies with contractionary effects. In this connection, will the Government inform this Council:

- (1) as the HKEX has indicated earlier on that it will conduct a review and consult the market on the positioning and functions of GEM, whether the Government knows the progress and timetable of such work;
- (2) whether it knows if the HKEX has plans to merge the Main Board with GEM; if the HKEX does, of the details and timetable; if the HKEX does not, the reasons for that;
- (3) whether it has studied the possibility of the HKEX forming an alliance with the Shenzhen Stock Exchange (SZSE) or the Beijing Stock Exchange (BSE) by, for example, introducing into the HKEX's GEM for secondary listing (i) those enterprises listed on SZSE upon the merger of SZSE's Main Board and Small and Medium Enterprise (SME) Board, or (ii) the innovative SMEs listed on BSE; if so, of the details; if not, the reasons for that; and
- (4) whether it has plans to expand the daily quotas under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect; if so, of the details and timetable; if not, the reasons for that?

Reply:

President,

Hong Kong is a major global listing platform for companies from different jurisdictions. In 2021, Hong Kong raised over \$300 billion for almost 100 enterprises through initial public offerings. The Government, the Hong Kong Exchanges and Clearing Limited (HKEX) and the Securities and Futures Commission (SFC) will continue to strengthen the breadth and depth of the Hong Kong fundraising platform and safeguard investors' interests.

In consultation with the HKEX and the SFC, my reply to the four parts of the question is as follows:

(1) to (3) As far as the Growth Enterprise Market (which is called GEM at present) is concerned, previously there were market views that the requirements of GEM back then were abused by market participants, causing possible disruption to the market order of some securities and thereby affecting the overall market quality. In response, after consulting the market in 2017, the HKEX repositioned GEM in 2018 as a stand-alone board; cancelled the streamlined process for transfer to the Main Board; raised the minimum market capitalisation requirement at the time of listing of GEM applicants, while at the same time correspondingly raised the minimum market capitalisation at the time of listing of Main Board applicants. The measures aimed to allow applicants who intend to list in Hong Kong but could not meet the Main Board listing requirements, including small and medium-sized enterprises (SMEs) with relatively low market capitalisation and profit, to choose GEM as a more targeted fundraising platform and improve the overall standard and quality of companies listed on GEM.

The HKEX is cognizant of the recent market conditions, including new listings and progress of listing applications. The HKEX is also aware that some market participants consider that further study should be conducted on enhancing the positioning and functions of GEM as a specific board for listing of SMEs and innovative companies. To this end, the HKEX commenced a review on the functions and positioning of GEM last year, and established a dedicated panel under the Listing Committee to handle the work concerned. The review will be conducted with a view to further strengthening the competitiveness of Hong Kong as a global premier listing hub and enhancing the overall quality of the Hong Kong capital market. Alongside facilitating different types of enterprises to list in Hong Kong, the HKEX will take into consideration market attractiveness and liquidity, and safeguard the interests of the investing public.

The HKEX is approaching different parties and will make reference to the experiences of similar markets in other places, including the development of SME fundraising platforms in the Mainland in recent years. Relevant views such as integration with the Main Board, re-introduction of streamlined transfer mechanism, mutual access with relevant Mainland markets, allowing enterprises from other places for secondary listing, etc, will be carefully considered as a whole. Upon adequately understanding market demand and considering relevant risks, the HKEX will propose concrete measures and further consult the market publicly.

(4) The Government has all along strived to leverage on the unique advantages

of the financial system in Hong Kong under the "one country, two systems" principle, deepen mutual access between the capital markets of Hong Kong and the Mainland, and reinforce Hong Kong's position in connecting the financial markets in the Mainland and the rest of the world, while contributing to the high quality opening-up of the capital market of our country.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched in 2014 and 2016 respectively. The concerned quota is designed to monitor cross-boundary fund flows with a view to maintaining an orderly and controllable market, and is calculated on a net buy basis. It ensures effective and smooth cross-boundary fund flow, exchange and clearing activities under the mutual market access mechanism. The quota itself is not an indicator for assessing the overall market condition of Stock Connect. To address the market demand for fund flows, the regulatory authorities of the Mainland and Hong Kong expanded the daily quota under the schemes with effect from May 1, 2018, under which the Northbound daily quota for each of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect was increased from Renminbi (RMB) 13 billion to RMB 52 billion respectively, while the Southbound daily quota for each of them was increased from RMB 10.5 billion to RMB 42 billion respectively. According to the data over the past six months (i.e. from October 2021 to March 2022), the average daily trading volume has not reached the limit, indicating that the existing quota is able to satisfy market demand.

The Government and the regulators will continue to monitor market development and maintain close communication with the Mainland authorities. If demand arises, the Government will explore measures with the Mainland authorities and introduce suitable enhancements, while ensuring orderly and smooth operation of the capital markets in the two places.