

LCQ13: Building international gold trading market

Following is a question by the Hon Rock Chen and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (November 6):

Question:

The Third Plenary Session of the 20th Central Committee of the Communist Party of China, convened in July this year, adopted a resolution to, among others, consolidate and enhance Hong Kong's status as an international financial centre. Meanwhile, the 2024 Policy Address has proposed to build an international gold trading market and develop world-class gold storage facilities, while exploring with the Mainland authorities the inclusion of gold-related products in the mutual market access programme. There are views that facilitating financial flows among Hong Kong, the Guangdong-Hong Kong-Macao Greater Bay Area and the international market can consolidate Hong Kong's status as an international financial centre. In this connection, will the Government inform this Council:

(1) whether it has any specific plans to take forward the mutual market access regime with the Mainland to include gold products, and to consider conducting offshore Renminbi-denominated gold trading; if so, of the timetable and trading implementation rules, and whether it will study the related arrangements jointly with the National Financial Regulatory Administration and other relevant Central ministries;

(2) whether it has plans to promote cross-industry collaborative mechanisms in the related work, thereby facilitating co-operation among the Hong Kong Exchanges and Clearing Limited, financial institutions, insurance companies, logistics companies, gold storage companies and traders; and

(3) how it will promote the gold trading market in Hong Kong, particularly in attracting international and Mainland investors; whether it has plans to enhance ties with suppliers in the Middle East and the Southeast Asian region through organising international conventions or exhibitions?

Reply:

President,

Our consolidated reply to the three parts of the question is as follows:

The Third Plenary Session of the 20th Central Committee of the Communist Party of China (CPC Central Committee) adopted the Resolution of the CPC Central Committee on Further Deepening Reform Comprehensively to Advance Chinese Modernization. The Resolution calls on Hong Kong to fully harness the

institutional strengths of "one country, two systems" while consolidating and enhancing its status as an international financial, shipping and trade centre.

In the Policy Address this year, the Chief Executive has emphasised the need to explore new growth areas. Building an international gold trading centre is a new growth point for Hong Kong to consolidate and enhance its status as an international financial centre. Gold serves as a crucial anchor in the precious metals category, possessing multiple attributes as a commodity, a reserve asset, and an investment product. Under increasing global political and economic uncertainties, gold is one of the key hedging tools. With the geopolitical environment becoming more complex and some regional situations remaining unclear, it is expected that global demand for gold will remain substantial. Many investors would like to store physical gold in different geographical locations, which presents opportunities for Hong Kong to develop the gold market.

Financial trading of gold generally refers to investors on the basis of needs making use of standard or tailored contracts to buy and sell physical gold or related spot or futures financial products (e.g. funds, forwards, swaps and futures). Experiences of overseas trading show that commodity markets, including those specialising in financial trading of gold, have their own characteristics. It takes time to build up trading and the ecosystem. While Hong Kong has the potential for both on- and off-exchange transactions, the relevant development requires detailed planning and a gradual and orderly progression.

As the first step, the Government will focus on the development of world-class gold storage facilities, thereby attracting more investors and users from different economies, including the Middle East and Southeast Asia, to store gold in Hong Kong. Based on increased storage, we expect to scale up associated support services in insurance, testing and certification, logistics, etc, while in parallel expanding related transactions including collateral, loan and hedging, hence creating a comprehensive ecosystem in a progressive manner. This will drive all-round multi-currency trading, clearing and delivery, as well as the development of the regulatory system (covering transactions using offshore Renminbi), thereby establishing a holistic gold trading centre with an industry chain. We will also as appropriate explore with the Mainland institutions (including financial regulators) mutual access with the Mainland financial market.

In the proactive development of gold trading in Hong Kong, the wisdom, contributions and concerted efforts of different sectors involved are needed. The Financial Services and the Treasury Bureau will set up a working group within this year to formulate plans on enhancing the trading and regulatory mechanisms of the market. Issues to be looked into will cover gold supply and demand, product development, application of standards, clearing mechanism, logistics and storage, testing and certification, talent training, cross-boundary collaboration, etc. We are considering the composition of the working group, which will encompass industry professionals, the Hong Kong Exchanges and Clearing Limited, Chinese Gold and Silver Exchange, financial

institutions, etc. We will also communicate and liaise with the Mainland exchanges concerned. When discussing specific issues, the working group will invite the participation of relevant industry practitioners (e.g. those from the insurance and logistics sectors). The working group will also explore conducting promotion activities in the Mainland and globally to attract Mainland and international investors and users to store gold and conduct trading, clearing and delivery in Hong Kong.