

LCQ13: Hong Kong Dollar-Renminbi Dual Counter Model

Following is a question by the Hon Rock Chen and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (June 7):

Question:

It has been reported that the Hong Kong Exchanges and Clearing Limited (HKEX) has arranged to conduct testing for the Hong Kong Dollar – Renminbi Dual Counter Model (the Model) between May and June this year, but a number of securities brokers have relayed that the testing was unsatisfactory (e.g. the technical backwardness of the relevant system and its inability to do automatic conversion for day-trade clearing, as well as inadequate support provided by the HKEX). In this connection, will the Government inform this Council if it knows:

- (1) the latest progress and preliminary results of the aforesaid testing;
- (2) whether the HKEX has explored solutions to address the aforesaid issues; and
- (3) the current number of listed companies that have applied for the setting up of an additional Renminbi stock counter under the Model?

Reply:

President,

To complement the new development paradigm of our country and cater for the escalating demands from global investors for Renminbi (RMB) asset allocation, the Government, together with financial regulators and the Hong Kong Exchanges and Clearing Limited (HKEX), has been actively promoting the issuance and trading of RMB securities in Hong Kong, as well as increasing the use of offshore RMB for investment purposes. This further consolidates Hong Kong's status as a global offshore RMB business hub, while at the same time contributing to RMB internationalisation in a gradual manner.

The HKEX announced on May 19 this year its plan to launch the "Hong Kong Dollar (HKD)-RMB Dual Counter Model" (dual-counter model) on June 19 for specified securities subject to market readiness, so that investors can trade securities of the same issuer in both HKD and RMB, and transact across HKD and RMB counters. The HKEX will also introduce the "Dual Counter Market Maker" (DCMM) regime on the same day, under which buy and sell quotes will be offered by the RMB counter to promote the liquidity of RMB-denominated stocks. Meanwhile, market makers can also conduct arbitrage transactions across the two currency counters of the same stock, so as to minimise the

price discrepancies between the two. The Government has earlier exempted the stamp duty payable for specified transactions by market makers through the Stamp Duty (Amendment) Ordinance 2023. The HKEX is also processing and reviewing applications from market makers.

Having consulted the Securities and Futures Commission (SFC) and the HKEX, the consolidated reply to the various parts of the question is as follows:

(1) and (2) The HKEX has since 2010 established the mechanism to allow the trading and settlement of securities at RMB counters. The arrangements are similar to those for the HKD securities counters, and are widely adopted for exchange-traded funds. As regards connecting brokers' systems to the HKEX's trading terminal, the dual-counter model does not require new technical upgrades. In other words, if brokers concerned are currently offering trading services for RMB-denominated securities, they should have technically and operationally met the basic requirements to provide dual-counter trading. Some 200 brokers have participated in the trading of RMB-denominated securities over the past 18 months, accounting for about 90 per cent of the market share.

To familiarise the market with dual-counter model trading, the HKEX arranged a one-month voluntary end-to-end testing session for exchange participants from May 2, and completed two market rehearsals (including cross-counter settlement testing) on May 27 and June 3 respectively. A substantial number of brokers, including all institutions interested in becoming market makers, had verified that their systems could operate smoothly under the dual-counter model during the testing. This seeks to ensure the smooth implementation of the dual-counter model and DCMM regime when launched.

Participation in trading at RMB counters, especially cross-counter trading and relevant testing, is not a mandatory requirement. Since market makers will enjoy stamp duty exemption for specified transactions, the HKEX expects that market makers will be the main participants of cross-counter trading at its inception. Brokers yet to activate relevant functions can make appropriate plans and arrange relevant system upgrades according to their individual business needs. The HKEX will continue to support their preparatory work and provide technical support as necessary.

(3) At present, more than 20 listed companies stocks are designated as dual-counter securities by the HKEX, accounting for about 40 per cent of the daily turnover for equity securities. Various preparations are being carried out in an orderly manner. The HKEX already announced the first batch of DCMMs, and confirmed the formal launch date. The HKEX, the SFC and the Hong Kong Monetary Authority will continue to maintain close liaison with market participants, and launch a series of market promotion and investor education activities. With the launch of the dual-counter model and DCMM regime, we are confident that investors will be provided with more diversified trading options, thereby further enriching our RMB investment product suite in the offshore market and enhancing the competitiveness of the securities market in

Hong Kong.