

LCQ14: Promoting liquidity of stock market

Following is a question by Dr the Hon Tan Yueheng and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 18):

Question:

Some financial institutions have estimated that China Concept Stock (CCS) companies that meet the requirements of secondary listing and return to Hong Kong may, by the end of 2024, bring about approximately HK\$200 billion of new financing needs. Some investors are concerned whether such situation will create pressure on the liquidity of the stock market in Hong Kong. In this connection, will the Government inform this Council:

- (1) whether it has assessed the financing scope involved in the listing of the aforesaid CCS companies on their return to Hong Kong, as well as the impacts of which on the liquidity of the stock market;
- (2) of the specific plans and timetable for expanding the liquidity pool, including attracting more Mainland and international capital to flow into Hong Kong to promote liquidity of the market, thereby preparing well for the return of CCS companies of a certain scale; and
- (3) whether it has plans to review and update with Mainland regulatory bodies the contents of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, so as to further expand the investment coverage under these mechanisms, thereby increasing the liquidity of the stock market in Hong Kong; if so, of the specific propositions; if not, the reasons for that?

Reply:

President,

As an international financial centre, Hong Kong possesses a deep and broad stock market and is also 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 (IPOs). The Government, the Hong Kong Exchanges and Clearing Limited (HKEX), the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) will continue to strengthen the breadth and depth of the Hong Kong fundraising platform, as well as to ensure the resilience of Hong Kong's financial system and safeguard investors' interests.

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

(1) and (2) Regarding China Concept Stocks, the Financial Stability and Development Committee under the State Council stated after the meeting on March 16 that the regulatory bodies concerned maintained good communication on the regulation over US-listed Chinese enterprises and made positive progress. The two sides were working on a concrete co-operation plan. Subsequently, the China Securities Regulatory Commission also indicated that it would further expand high quality market opening-up and strive for an early implementation of new draft rules for overseas listings, rendering continued support for eligible companies to seek listings in overseas markets, continuing to deepen cross-boundary regulatory co-operation, and promoting healthy and orderly overseas listing activities.

Hong Kong has a highly open and internationalised market, which is not only conducive to addressing the needs of Mainland and international investors, but also provides a highly efficient, open and transparent global listing platform where enterprises from different sectors raise significant amount of funds every year. Since 2020, China Concept Stocks issuers have made relevant arrangements according to their respective circumstances. As of April 2022, 21 China Concept Stocks issuers have returned to Hong Kong through secondary listing or dual primary listing, the total market capitalisation of which accounted for over 70 per cent of all China Concept Stocks listed in the United States. The HKEX and regulators have been closely monitoring the developments and market situation, and striving to facilitate quality China Concept Stocks to return through a series of enhancements to the listing regime while balancing the risks involved and investor protection, so as to further enrich the attractiveness of Hong Kong's securities market.

On market liquidity, the Basic Law prescribes that no foreign exchange control shall be applied in Hong Kong, and the Government shall safeguard the free flow of capital within, into and out of Hong Kong. The trading, clearing and settlement activities of the HKEX have been conducted orderly all along. The average daily turnover in 2022 (as at April) was \$139.6 billion, representing an increase of over 60 per cent compared with that following the implementation of the new listing regime in April 2018 (i.e. the average daily turnover in 2019). Thanks to our robust and effective regulatory regime and a well-established institutional framework for systemic risk monitoring, Hong Kong's financial markets have been functioning in an orderly manner with ample liquidity.

Separately, China Concept Stocks with dual primary listing status could be included as eligible securities under Stock Connect currently if they fulfill the relevant requirements. The regulatory authorities of the Mainland and Hong Kong expanded the daily quota under Stock Connect 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 November 2021 to April 2022), the quota usage has not reached the limit, indicating that the existing quota is able to satisfy

market demand.

The Government and regulators have also been monitoring the excessive liquidity lock-up as well as the potential liquidity stress on the banking system amid large-scale shares offerings and when multiple IPOs are carried out in parallel. The HKMA operates the Hong Kong Dollar Liquidity Facilities, including Settlement Facilities and Standby Liquidity Facilities, which make liquidity support available to banks to manage unexpected liquidity tightness. The HKMA has the capability and experience to ensure the efficient operation and ample liquidity of the Hong Kong money market.

Meanwhile, the HKEX has announced that it will proceed to launch FINI (Fast Interface for New Issuance), an electronic IPO settlement platform. The platform will reduce the settlement cycle from T+5 to T+2. The clearing participants responsible for handling subscription of new shares will also be allowed to opt in for a compressed prefunding requirement, whereby they are only required to deposit the highest possible total share allotment value. The arrangements could further relieve the liquidity stress brought about by shares offerings.

(3) The deepening of integration and interaction of financial markets between the Mainland and Hong Kong has been the policy objective of the Government. In order to further expand the mutual access of financial markets of the two places, we have included pre-revenue/pre-profit biotechnology companies listed in Hong Kong and companies listed on the Mainland's STAR Market (Shanghai Stock Exchange's Sci-Tech Innovation Board) that fulfill certain criteria in the scope of eligible securities under Stock Connect from December 2020 and February 2021 respectively.

In addition, the HKEX, Shanghai Stock Exchange, Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited reached an agreement on the Stock Connect inclusion arrangements for exchange traded funds (ETFs) in December 2021. The parties are working closely on the business and technical preparations with a view to facilitating trades as soon as possible. A working group, formed by the SFC, the HKEX and the HKMA, has also completed the feasibility study on allowing stocks traded via the Southbound Trading of Stock Connect to be denominated in RMB and put forth recommendations. The working group is proceeding with the necessary preparation in this regard and discussing with the regulatory authorities and relevant organisations in the Mainland. The Government will roll out supporting measures to increase the liquidity of RMB-denominated stocks alongside the launch of the initiative and is undertaking preparatory work on the necessary legislative amendments.

The Government will continue to expand the mutual market access programmes in a gradual manner in future and explore with the Mainland to further expand the scope of eligible securities.