

LCQ16: Arrangements for operation of the securities market under inclement weather

Following is a question by the Hon Robert Lee and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (November 8):

Question:

It has been reported that the Hong Kong Exchanges and Clearing Limited (HKEX) is examining with the Government and regulatory bodies the arrangements for maintaining the operation of the market under inclement weather. Some members of the industry have relayed that before implementing the relevant arrangements, HKEX must adequately consult the industry and stakeholders, and ensure the work safety of the employees concerned as well as the smooth functioning of cross-bank fund transfers and the clearing and settlement systems. In this connection, will the Government inform this Council:

(1) how it co-ordinates the efforts of various stakeholders to support securities brokers in physical cheque clearing and settlement under inclement weather, so as to ensure the smooth functioning of cross-bank fund flows and transfers, as well as provides clear guidelines on raising the limit for electronic fund transfers and introduces standardised procedures for fund withdrawals and deposits, so as to facilitate large-value fund transfers;

(2) as some securities brokers are worried that the technical upgrade of the trading and settlement systems carried out to tie in with maintaining the operation of the market under inclement weather will increase their operating costs, and banks will also charge them the relevant additional fees, whether the authorities have put in place measures to reduce the relevant operating costs of the industry; if so, of the details; if not, the reasons for that; and

(3) whether it will draw reference from the experience of maintaining the operation of the markets in other international financial centres under inclement weather, and consider providing the industry with flexible implementation plans, such as allowing securities brokers to defer clearing and settlement, or permitting some of them to choose not to carry out transactions under inclement weather?

Reply:

President,

In consultation with the Hong Kong Exchanges and Clearing Limited

(HKEX), the Securities and Futures Commission and the Hong Kong Monetary Authority, a consolidated reply to the three parts of the question is as follows.

As an international financial centre, Hong Kong's securities market is deeply integrated with markets and investors around the globe. In recent years, mutual access with the financial markets of the Mainland has also expanded continuously with gradually increasing trading days and market turnover. The Government and relevant regulators have been working with the HKEX in taking forward enhancements to the trading mechanism, with a view to strengthening the overall competitiveness of the Hong Kong market.

Among the major stock markets around the world, trading is maintained under severe weather in the Shanghai and Shenzhen stock exchanges in the Mainland, the US and European markets such as New York, London, Paris and Amsterdam, as well as Asian markets such as Japan and Singapore. For enhancing the competitiveness of the Hong Kong stock market, developing a more diversified product suite, and promoting our securities market to overseas markets and capital sources, the demand and importance for facilitating market participants to trade as usual during typhoons or rainstorms will continue to grow.

As mentioned by the Financial Secretary in the 2023-24 Budget, the HKEX is exploring arrangements for maintaining market operation under severe weather, so as to facilitate investors' transactions and meet market development needs. The initiative is also supported by the Task Force on Enhancing Stock Market Liquidity as one of the short term measures to enhance the competitiveness of the securities market.

The main purpose of the initiative is to facilitate global investors to continue trading Hong Kong stocks and derivatives as well as Mainland A-shares through Northbound trading of Stock Connect, and to adjust their investment and risk management (Note 1) strategies in response to changing market and company-specific fundamentals, without being affected by the adverse local weather conditions in Hong Kong. The arrangements will further consolidate Hong Kong's role as the two-way gateway and bridge for international and Mainland investors and capital, hence enhancing the attractiveness of Hong Kong's market to domestic and foreign investors. It will also allow the prices of Hong Kong stocks, especially those with dual primary listing in overseas securities markets or secondary listing in Hong Kong, to adjust continuously based on different factors and in tandem with other markets.

In light of market development needs and increasing prevalence of electronic transactions and remote working with technological advancements, the HKEX is, with the Government's support, working with financial regulators to examine a feasible implementation plan for maintaining trading under severe weather. We believe that promoting the operation of the securities and futures markets during severe weather could address global investors' aspirations, and accord greater convenience and price certainty for investors, hence enhancing Hong Kong's competitiveness. At the same time, the

initiative could foster continuous modernisation of local financial market infrastructure and upgrade the operations of local financial services sector, respond to the ongoing trend of developing a paperless and digitalised securities market in Hong Kong, and align with global market practices, thereby further consolidating Hong Kong's status as one of the leading international fundraising and trading platforms.

The Government understands that implementing trading arrangements under severe weather would require not only resolving various technical issues and providing related support, but also collaboration among different stakeholders including securities brokers, the banking community, index compilers, etc. To this end, the HKEX and financial regulators have discussed with industry representatives different specific issues regarding the operational model under severe weather, so as to fully comprehend the practical circumstances faced by relevant sectors and co-ordinate different operational needs.

The HKEX will commence a public consultation within November this year on the proposed model and relevant arrangements for operating the stock market under severe weather. The consultation document will set out the details covering trading and settlement, share registration, banking services, payment and other necessary support, and solicit views of the public.

Note 1: Such as trading futures and options based on local and international market indices.