

LCQ20: Developing the futures and derivatives business

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 (June 12):

Question:

The National 14th Five-Year Plan has established Hong Kong's functions and positioning in the national development, including strengthening Hong Kong as a global offshore Renminbi business hub, an international asset management centre and an international risk management centre. Some members of the finance industry are of the view that in order to promote Hong Kong as an international risk management centre, the Government should proactively develop the futures and derivatives business. In this connection, will the Government inform this Council:

(1) whether it will urge the Hong Kong Futures Exchange to (i) look into the introduction of trading hours that dovetail with the global markets to enhance market continuity and liquidity; (ii) increase the futures products available for Derivatives Holiday Trading; and (iii) expeditiously implement the trading arrangements for futures and derivatives under inclement weather;

(2) whether it knows the latest development in respect of the launch of China Treasury Bond Futures in Hong Kong by the Hong Kong Exchanges and Clearing Limited (HKEx);

(3) whether it will discuss with relevant regulatory bodies to introduce more futures and options products for mainstream virtual assets, such as bitcoin and Ethereum;

(4) whether it will discuss with the Mainland authorities to expedite the inclusion of international futures products of Mainland futures exchanges (including the Shanghai International Energy Exchange, the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange) into the mechanisms for mutual access between the financial markets of the Mainland and Hong Kong; and

(5) whether it will urge the London Metal Exchange under HKEx and commodity market participants to proactively look into and expeditiously take forward the establishment of bulk commodity delivery warehouses in Hong Kong, so as to strengthen Hong Kong's infrastructure for commodity futures and foster the development of the relevant ecosystem?

Reply:

President,

The National 14th Five-Year Plan supports Hong Kong in enhancing its status as an international financial centre, and puts forward specific targets including strengthening Hong Kong's functions as a global offshore Renminbi (RMB) business hub, an international asset management centre and a risk management centre. The Government, in collaboration with the regulators and the Hong Kong Exchanges and Clearing Limited (HKEX), strives to leverage on the unique advantages of Hong Kong under "one country, two systems" to continuously deepen the mutual access between the Mainland and Hong Kong financial markets, enrich investments choices under the mechanism, and address the diverse asset allocation and risk management needs of domestic and overseas investors.

In consultation with the HKEX and the Securities and Futures Commission (SFC), my reply to the five parts of the question is as follows:

(1) The derivatives market is an important part of Hong Kong's securities market. The derivatives market under the HKEX registered increased trading volume in 2023, with the average daily trading volume of futures and options reaching 1.35 million contracts, representing a rise of four per cent from 2022. The average daily trading volume of key derivative products such as Hang Seng Index futures and options as well as Hang Seng Tech Index futures all hit new highs during 2023. Since the beginning of 2024 (as of end-May), the average daily trading volume of futures and options had further risen to over 1.56 million contracts.

To provide the market with greater flexibility and facilitate investors to manage risks during the overseas market hours, the HKEX launched the After-hours Trading Session (T+1 Session) in the derivatives market in 2013, and further extended the trading hours in phases subsequently. With effect from June 2019, the trading hours of T+1 Session have been extended to 3am of the next day. In line with the continuous expansion of the ecosystem of Hong Kong's derivatives market and the rapid growth of the number cum types of non-Hong Kong Dollar denominated products as well as the asset class covered, the HKEX launched the derivatives holiday trading service in May 2022 with MSCI futures and options contracts as the first suite of products. In March 2024, the service was extended to currency futures and options contracts, facilitating investors to manage foreign exchange risks during public holidays in Hong Kong. In addition, the HKEX is developing a new derivatives platform to further enhance trading and clearing efficiency, with a view to addressing evolving client needs.

On the other hand, the Government in co-ordination with the SFC made legislative amendments in 2023 to optimise the derivatives position limit regime. The 2024-25 Budget also announced that the fixed-rate stamp duty payable on the jobbing business of options market makers will be waived, so as to lower transaction costs, enhance market liquidity and improve investors' efficiency in risk management. The Government target is to introduce an amendment bill into the Legislative Council within 2024.

On the implementation of the initiative to maintain trading under severe weather, we believe that it will serve an important function of further

strengthening Hong Kong's position as a two-way gateway between the international and Mainland markets, consolidating its competitiveness as an international financial centre. The HKEX conducted the public consultation from November 2023 to January 2024 on the proposed model and relevant arrangements for operating the Hong Kong securities and derivatives markets under severe weather. The Government, the HKEX and regulators have maintained close communication with relevant stakeholders on the implementation. The details and timetable will be announced within this month.

The HKEX and the SFC will continue to explore other initiatives that would benefit the development of the derivatives market. Specific improvement measures will be announced as appropriate for market consultation.

(2) and (4) The Government, regulators and the HKEX are committed to deepening and widening the mutual access between the Mainland and Hong Kong capital markets. With the strong support from the Central People's Government, a number of enhancement measures and new products were introduced under the mutual market access programme in 2023, fostering the connectivity and concerted development of the two markets. We will continue to liaise closely with relevant Mainland authorities and actively implement the expansion measures as supported by the regulators of the two places. Notably, the SFC announced in November 2023 that offshore Mainland government bond futures will be launched in Hong Kong, which will introduce an effective offshore risk management tool for investing in Mainland government bonds in Hong Kong. Relevant preparatory work has reached the final stage. The HKEX will announce the launch date and details upon obtaining regulatory approval.

On the expansion of product scope, various initiatives in broadening mutual access such as Bond Connect, Cross-boundary Wealth Management Connect, inclusion of Exchange-traded Funds (ETFs) under mutual access, Swap Connect, etc. were successively implemented in recent years. Apart from the launch of Mainland government bond futures mentioned above, we are actively collaborating with the Mainland authorities to take forward the five measures announced by the China Securities Regulatory Commission in April (including expanding the eligible product scope of equity ETFs under Stock Connect, including real estate investment trusts under Stock Connect, supporting the inclusion of RMB stock trading counter under Southbound trading of Stock Connect, enhancing the arrangements for mutual recognition of funds, and encouraging leading enterprises of industries in the Mainland to list in Hong Kong) as well as the other measures announced earlier such as the introduction of block trading under Stock Connect. We will continue to discuss with the Mainland various expansion and enhancement arrangements, and study recommendations for facilitating two-way capital flows between the two places. Individual enhancement measures will be announced as appropriate once they are ready.

(3) On virtual asset (VA), the Government issued a policy statement in October 2022 to set out the policy stance and approach towards developing a vibrant VA sector and ecosystem in Hong Kong. The objective is to provide suitable regulation for the market to unleash the potential of Web3 and other related technologies while addressing the actual and potential risks, thereby

ensuring responsible and healthy market development. Since the issuance of the policy statement, the development of VA-related products in Hong Kong has achieved notable progress. Following the introduction of the first batch of VA futures ETFs in 2022, the Asia's first batch of VA spot ETFs were listed in Hong Kong in April 2024, providing investors with a richer array of VA investment options. As of end-May, the total asset under management of VA futures and spot ETFs listed in Hong Kong reached HK\$3.2 billion. The Government and regulators will continue to facilitate the development of VA-related products.

(5) The Government attaches importance to enhancing commodities trading in the financial services sector. With the Mainland being one of the global leading commodities consumers, the influence of RMB in the commodities market has gradually increased alongside the progression of RMB internationalisation. The unique advantage of having the Mainland's support provides Hong Kong with the potential to further optimise relevant product development and infrastructure, and strive to become a major cross-boundary commodities market. The HKEX has launched a series of commodities futures products settled in RMB, covering various metal types such as gold, silver, aluminium, zinc, copper, nickel, tin and lead.

The HKEX will continue to explore relevant development, including the issuance of high-liquidity products and suitable trading methods. It will work closely with the Mainland institutions to explore the feasibility of cooperation of the HKEX and its company Qianhai Mercantile Exchange with other Mainland commodities and futures exchanges. Fully leveraging the functions of Qianhai Mercantile Exchange as a cross-boundary trading platform for specific commodities (such as soybean) will strengthen the two-way connectivity between domestic and overseas commodities market participants as well as contribute to enhancing our country's pricing power in the international commodities market. The Government and financial regulators will support the work of the HKEX, and actively discuss relevant measures with the Mainland. We are pleased to note that the industry has liaised with the London Metal Exchange on specific measures, including the proposal to establish an accredited commodities settlement warehouse in Hong Kong. The London Metal Exchange is positive towards the proposal and will further study the practical commercial demand and feasibility with the industry. The Government and financial regulators will provide assistance as appropriate.