LCQ4: Stability and development of financial market

Following is a question by the Hon Christopher Cheung and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (June 3):

Question:

With the coronavirus disease 2019 pandemic having dealt a heavy blow to the global economy and showing no signs of abating, coupled with the continued wrestling between China and the United States (US) in various aspects, financial markets around the world have been very volatile recently. However, unlike other stock markets, Hong Kong's stock market does not have a circuit breaker mechanism in place. In respect of ensuring the stability and continued development of the local financial market, will the Government inform this Council:

(1) whether it will review the volatility control mechanism in the local stock market and if there is any need to introduce a circuit breaker mechanism, so as to ensure that Hong Kong's stock market can maintain a smooth and orderly operation amid the turmoil in the international financial markets; if so, of the details of such review (including consultation with stakeholders);

(2) whether it has reviewed if the various exchange participants have now taken sufficient measures in response to the epidemic, e.g. how the authorities ensure the normal operation of the market in the event that some brokerage firms have to close their offices temporarily due to the epidemic and as a result are unable to settle the transactions on that day; and

(3) whether it has examined the challenges and opportunities brought to the Hong Kong financial market by the wrestling between China and US which has extended to the areas of finance and technology, how the financial services industry of Hong Kong may play a greater role in the development of the financial services in the Guangdong-Hong Kong-Macao Greater Bay Area, as well as if the proportion of investment in local stocks in the investment portfolio of the Exchange Fund may be increased?

Reply:

Acting President,

Financial markets are fast-changing. To safeguard financial security, the Government and financial regulators have been working closely together in the "cross-market, well-coordinated, and cross-time zone" monitoring of all sectors of the financial market, including currencies, stocks, futures, derivatives, etc. Since each market is unique, the approach of monitoring and control in each market also varies. The Securities and Futures Commission (SFC) is responsible for regulating the trading activities in the securities market to ensure that there is no abnormal trading and position holding, as well as market manipulation. The SFC also keeps a close watch on the operation of the intermediaries to ensure that the market can operate in an orderly manner under a stable environment.

In fact, the financial system of Hong Kong has withstood crises over the years and has been operating in a fair and orderly manner. We will continue to monitor the market closely and strengthen the enhancement measures as necessary to safeguard the financial stability of Hong Kong.

Having consulted the SFC and the Hong Kong Monetary Authority (HKMA), we would like to respond to the three parts of the question raised by the Hon Christopher Cheung as follows:

(1) In 2016, the HKEX (Hong Kong Exchanges and Clearing Limited) introduced the Volatility Control Mechanism (VCM) under which a cooling-off period would be triggered if the volatility of a stock as covered reaches 10 per cent within five minutes. HKEX consulted the market on proposals to enhance the VCM in 2019. In light of the general support from the market on VCM enhancement, HKEX has implemented the first phase of enhancement measures since mid-May this year by expanding the coverage of VCM from 78 constituent stocks of the Hang Seng Index and Hang Seng China Enterprises Index, to almost 500 constituent stocks of Hang Seng Composite LargeCap, MidCap and SmallCap Indexes, with triggering thresholds respectively set at ±10 per cent, ±15 per cent and ±20 per cent to the last traded price five minutes ago. HKEX will review the market operation six months after the first phase of enhancement measures and decide on the timing to implement the second phase of enhancement measures. Multiple triggers per stock covered under the VCM per trading session would be allowed by then.

In conducting the abovementioned consultation on VCM enhancement, HKEX also invited market feedback on whether market-wide volatility control measures (e.g. market-wide circuit breaker) should be introduced in Hong Kong. Due to the mixed responses across the market, HKEX would not make a firm decision on the matter at this stage. We wish to point out that the volatility control measures adopted in securities markets around the world are unique, and some of which may not be applicable to all. HKEX will, having regard to the feedback received from the abovementioned consultation, formulate a feasible model for further market engagement.

(2) Hong Kong's financial system has withstood crises one after another. With our resilient regulatory regime, Hong Kong can cope with the ever-changing market. Financial regulators and the trade have also, in response to the novel coronavirus epidemic, adopted an array of measures to maintain business operations and provide necessary services while minimising the risk of infection.

The SFC has enquired licensed corporations (LCs) on their business continuity plans adopted, and noted that some LCs had already adopted contingency measures in response to the epidemic or other reasons that had prevented employees from returning to the workplace. Specific measures include working from remote office, relocating of certain functions to different offices, etc. In light of this, the SFC is pursuing a flexible approach to ensure that markets continue to function properly, while safeguarding investor protection. As of now, all trading and settlement were orderly conducted. The SFC will continue to monitor the market closely to ensure that it will operate efficiently and fairly amidst the extraordinary conditions that it is experiencing.

(3) Given multiple unstable factors affecting the situation around the world and locally are at play, it is inevitable that the financial market in Hong Kong will become volatile. Notwithstanding the above, Hong Kong's underlying fundamentals remain strong, and the core competitiveness remains unchanged. We will continue to maintain Hong Kong's position as a major international financial centre, leverage Hong Kong's connectivity with the Mainland and international market, and exploit the opportunities presented by, among others, the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area) development.

On May 14, the People's Bank of China and respective Mainland authorities jointly promulgated the "Opinion on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area" (the Opinion). Out of the 30 items, the Opinion sets out 26 concrete measures for the financial services development of the Greater Bay Area to further promote financial liberalisation and innovation, as well as deepen financial co-operation between the Mainland, Hong Kong and Macao. Among others, item 18 of the Opinion supports the opening up of the securities sector; the setting up of foreign-owned securities companies, fund management companies and futures companies orderly in the Greater Bay Area in accordance with the law; the expansion of business scope of eligible securities firms in accordance with the law; and the participation of Hong Kong's private equity funds in financing innovation enterprises in the Greater Bay Area. We will continue to liaise closely with the Mainland authorities and take forward the measures in the Opinion progressively in a risk-controlled manner, with a view to leveraging the opportunities brought by the Greater Bay Area development and promoting the development of the local financial services sector.

Separately, the Exchange Fund primarily invests in highly liquid foreign currency assets to ensure that it can readily liquidate assets for achieving its statutory objective of maintaining Hong Kong's monetary and financial stability. The HKMA has been cautious towards investing in HK dollar assets and currently has no plan to change such investment strategy.

Thank you Acting President.