

LCQ5: Enhancing the competitiveness and attractiveness of the capital market

Following is a question by the Hon Robert Lee and a reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (April 10):

Question:

There are views that in order to enhance the global competitiveness and attractiveness of Hong Kong's capital market, the Government and regulatory bodies have to adopt a multi-pronged approach, including taking forward reforms, exploring new markets and promoting diversified development of the market. In this connection, will the Government inform this Council:

(1) whether it will urge the Hong Kong Exchanges and Clearing Limited (HKEX) to actively study the cancellation of the "board lot" requirement and review the fees and charges related to board lots, and to study with the Mainland regulatory authorities the lowering of income tax levied on dividends and bonuses for investors who engage in southbound trading under the Southbound Stock Connect, so as to attract the flow of Mainland capital into Hong Kong stocks;

(2) whether it will explore with HKEX improvements to the delisting mechanism, including not taking a hard line on listed enterprises undergoing business change or transformation or making hasty decisions to cancel their listings, with a view to assisting such enterprises in maintaining their avenues for financing, and draw reference from the practices in overseas countries to launch a Hong Kong version of the over-the-counter trading platform, so that stocks of delisted enterprises can still be tradable; if not, of the reasons for that; and

(3) of the new measures in place to attract the flow of capital into Hong Kong from emerging market countries with good potentials and relatively less contact with Hong Kong previously, and promote reciprocal investment and financial market co-operation, including the development of more bond products dovetailing with the characteristics of emerging market countries, exchange traded fund cross-listings and precious metals products, thereby opening up new opportunities for Hong Kong's financial services sector?

Reply:

President,

The Government is committed to driving the Hong Kong Exchanges and Clearing Limited (HKEX) and the Securities and Futures Commission (SFC) to

continuously enhance the listing platform, so as to attract different types of enterprises as well as investors from the Mainland and overseas to participate in investment and fundraising/financing activities in Hong Kong, thereby exemplifying Hong Kong's function as an international fundraising/financing centre and facilitating its diverse and sustainable development.

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

(1) The securities market currently uses "lot" as a single trading unit, and the number of shares per "lot" is determined by the issuer. We are aware of views of the market that the current arrangement lacks consistency and may pose obstacles to retail investors' entry into the market. On the other hand, some hold the views that the current arrangement has been widely accepted by the market and issuers also have mechanisms in place to adjust the lot size through stock splits, mergers, etc. Therefore any fundamental changes to the trading mechanism will have great impact on investors, intermediaries, and other service providers such as custodians. In this respect, HKEX will comprehensively examine the stock trading unit arrangement and related market impact, and review relevant matters including the board lot arrangement. Since HKEX and the SFC are currently conducting a review of the stock bid-ask spread and a determination on both the trading unit and the bid-ask spread will affect the market trading mechanisms, HKEX will firstly present the review outcome of the bid-ask spread for market consultation in the second quarter of 2024, and commence the examination of the trading unit as the next step.

On mutual access between the Hong Kong and Mainland financial markets, the Government and regulators have maintained close communication with relevant Mainland authorities and institutions to continuously deepen the interaction and integration of the capital markets of the two places. With the strong support of the Central People's Government, a number of enhancement measures and new products were introduced under the mutual market access programme in 2023, including the expansion of eligible stocks under Stock Connect, introduction of Northbound trading of Swap Connect, etc. On this basis, we will continue to explore with the Mainland arrangements for further expanding and enhancing the mutual access mechanisms and study recommendations for facilitating two-way capital flows between the two places, including the feasibility of enhancing relevant tax arrangements. Specific measures will be announced as and when they are ready.

(2) Apart from striving to enhance the breadth and depth of the securities market, we also attach great importance to improving the quality of listed issuers with a view to safeguarding the interest of investors. The purpose of HKEX's existing delisting mechanism is to execute in a systematic manner timely delisting of issuers that no longer meet the continuing listing criteria, and to incentivise suspended issuers to act promptly towards resumption by addressing the fundamental issues involved in the suspension of the trading of their securities. If HKEX considers that an issuer fails to meet the continuing listing criteria after comprehensive consideration, it

will suspend the relevant share trading in accordance with the Listing Rules and issue resumption guidance to the issuer. It will give the issuer 18 months to re-comply with the relevant requirements. If the issuer fails to meet the resumption conditions within the time limit (e.g. business volume still not meeting the minimum requirements, audited financial results not released, internal controls found to be seriously inadequate, etc.), the Listing Division of HKEX will recommend that the Listing Committee consider delisting the issuer's shares to maintain the reputation of the Hong Kong market. HKEX understands that the economic situation in the region is currently in the cycle of adjustments, and will make a comprehensive assessment having regard to the individual circumstances of issuers when enforcing relevant provisions.

The transfer of shares of delisted companies (i.e. transferring shares of unlisted companies over the counter) is governed by the relevant corporate laws of the place where the relevant companies are registered as well as the companies' articles of association. If a listed company's listing status is involuntarily revoked, its delisted shares are deemed to be no longer suitable for trading by general investors on a recognised exchange. Although such shares cannot be traded in the securities market, transactions can still be completed in the form of share transfers in accordance with the existing legal framework and execution mechanism. We, in collaboration with HKEX, will continue to monitor market developments and relevant situations.

(3) The Government, the SFC and HKEX are committed to attracting companies of different sizes and with growth potential from around the world (including emerging markets along the Belt and Road Initiative such as the Middle East and the Association of Southeast Asian Nations (ASEAN)) to list and raise funds in Hong Kong for business expansion. Notably, HKEX signed a memorandum of understanding with the Saudi Tadawul Group and the Indonesia Stock Exchange in 2023 respectively, exploring co-operation opportunities such as cross listings in the two places, joint product development, etc. HKEX also included the Saudi Exchange and the Indonesia Stock Exchange onto its list of recognised stock exchanges, allowing companies listed on their main boards to apply for secondary listing in Hong Kong. The SFC authorised a number of new types of exchange-traded funds (ETFs), including Asia's first and the world's largest ETF investing in Saudi Arabia listed stocks as well as the first batch of active ETFs which adopt the strategy to sell covered call options. These ETFs were listed in Hong Kong in November 2023 and February 2024 respectively, offering more choices to investors. The SFC and HKEX will continue to enrich the product ecosystem in Hong Kong's securities market, meeting investors' diverse investment needs and bolstering the local financial services industry in exploring new opportunities.

To further promote Hong Kong's fundraising platform to overseas enterprises and capital, HKEX is preparing for various major promotion activities in the coming year, including jointly organising different thematic flagship summits with organisations in the Middle East and Southeast Asia. It will also participate in different outreach activities, expanding and deepening the coverage of overseas markets as well as introducing the advantages of Hong Kong's listing platform through thematic speeches, forum

exchanges and roadshow events. The SFC is also actively exploring possible co-operation arrangements in the asset management sector with regulators in the Middle East and ASEAN markets. It supports Hong Kong's fund managers to actively explore distributing their funds to relevant markets through different channels, thereby seizing the opportunities of business expansion while facilitating the local asset management sector to diversify capital sources and investor base.

Meanwhile, the Government will strengthen external promotion efforts in the coming year to publicise the latest developments and opportunities in the various financial services sectors (including the securities market) in Hong Kong. We will continue to provide assistance to interested enterprises through the Office for Attracting Strategic Enterprises, Invest Hong Kong, and Economic and Trade Offices in the Mainland and overseas, as well as organise international financial mega events to strengthen networking and tell the good stories of Hong Kong.

Thank you, President.