

LCQ12: Reinforcing Hong Kong's status as an offshore Renminbi business hub

Following is a question by the Hon Adrian Ho and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 26):

Question:

The Chief Executive has proposed in the 2024 Policy Address that the Government will continue to enhance the mutual market access regime and reinforce Hong Kong's status as the world's largest offshore Renminbi (RMB) business hub, contributing to the internationalisation of RMB. In this connection, will the Government inform this Council:

(1) given that the Hong Kong Exchanges and Clearing Limited (HKEX) launched the "Hong Kong Dollar-Renminbi Dual Counter Model" (dual-counter model) in June 2023 to provide investors with a variety of trading currency options and more investment opportunities, and investors' holdings in Hong Kong Dollar and RMB counters of the same security can be seamlessly switched, of the total transaction amount recorded since the implementation of the dual-counter model and its proportion in the securities market;

(2) whether it has assessed the operation and effectiveness of the dual-counter model based on the figures in (1); of the policies to be implemented in the future to enhance promotion, so as to encourage more listed companies and investors to adopt the dual counter model;

(3) given that the HKEX has announced earlier the launch of a Single Tranche Multiple Counter this year to optimise the settlement procedures for Multi-counter Eligible Securities (including dual-counter securities) within the Central Clearing and Settlement System, of the progress of implementing such arrangement; and

(4) given that the Government has indicated that it, in co-ordination with the regulators and the HKEX, will continue to make efforts in promoting offshore RMB business and strengthening product ecosystem at various levels, of the policies and measures in place to further enrich the RMB investment product suite in Hong Kong (e.g. incentivising more institutions to issue RMB-denominated exchange-traded funds and other products), so as to consolidate Hong Kong's position as an offshore RMB hub?

Reply:

President,

Hong Kong is a premier global offshore Renminbi (RMB) business hub which possesses the world's largest offshore pool of RMB funds, and operates the

largest offshore RMB foreign exchange and over-the-counter interest rate derivatives market. Hong Kong also provides a diversified range of RMB products and services. With the support of the Central People's Government, the Government, regulators and Hong Kong Exchanges and Clearing Limited (HKEX) have all along been leveraging the unique advantages under "one country, two systems" to continuously enhance the mutual market access mechanism, further strengthening Hong Kong's function as a global offshore RMB business hub while promoting the progress of RMB internationalisation.

In consultation with the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the HKEX, my reply to the four parts of the question is as follows:

(1) and (2) To meet the increasing demand from global investors for allocating RMB assets, the Government, regulators and the HKEX actively promote the issuance and trading of RMB securities in Hong Kong. To this end, the HKEX launched the "Hong Kong Dollar (HKD)-RMB Dual Counter Model" (dual-counter model) in 2023 to provide investors with more diversified trading options and flexibility to trade securities in HKD or RMB according to their needs. The HKEX also introduced the "Dual Counter Market Maker" (DCMM) regime, under which buy and sell quotes are offered through the RMB counter to promote liquidity of RMB-denominated stocks. To create favorable conditions for market makers to conduct market making and liquidity providing activities at lower transaction costs, the Government has made legislative amendments to exempt the stamp duty of specific transactions by DCMMs.

Since implementation, the dual-counter model and the DCMM regime have been operating smoothly. Currently, a total of 24 issuers have adopted the dual-counter model to provide HKD and RMB securities trading. Meanwhile, 12 exchange participants have been designated as DCMMs to conduct market making and liquidity providing activities. Since the launch of the regime in June 2023 until mid-February 2025, the total trading volume of the HKD counter and RMB counter of dual-counter securities reached approximately HKD16.5 trillion and RMB42 billion respectively, accounting for about 31 per cent of the total turnover of the cash securities market in total. Under the dual-counter model, the HKEX and market participants (including listed companies, investors, brokers, banks and market makers) have accumulated considerable practical experience in issuing, trading, settling and converting the same stocks, especially the highly liquid ones, in different currencies. This helps consolidate readiness for further developing the RMB securities market.

With the sustained growth of RMB cross-boundary payment and its share in global payment, we believe that the number of offshore investors holding RMB will gradually increase. Meanwhile, the China Securities Regulatory Commission announced in 2024 its support for the inclusion of RMB stock trading counter under Southbound trading of Stock Connect. The regulators and exchanges of the two places are conducting relevant technical preparations at full speed, so as to enable Mainland investors to trade Hong Kong stocks in RMB as soon as possible. The Government and the HKEX will also continue to expand and deepen the coverage of listed and potential issuers through various channels such as key promotional activities, roadshow events,

thematic speeches and forum exchanges, and introduce in detail the advantages of the dual-counter model in Hong Kong with a view to gradually attracting more listed companies to adopt it.

(3) To improve the efficiency and scalability of trading and settlement of multi-counter securities (such as dual-counter securities and exchange-traded products), the HKEX has announced the upcoming launch of the single tranche multiple counter arrangement to optimise the settlement procedures for multi-counter eligible securities within the Central Clearing and Settlement System. Under the enhanced arrangement, trading under different trading counters of securities will be reflected under the domain settlement counter for clearing and settlement purposes. It will spare clearing participants from inter-counter transfer, obviating the need for separate clearing and settlement for individual trading counters. Moreover, a "same stock netting" procedure will be added to allow offsetting the position of one currency counter against the position with opposite direction of another currency counter of the same securities.

The enhanced measures will better utilise the characteristics of multi-counter securities as a single security and improve settlement efficiency. Relevant information including launch arrangements, technical documents, sample reports and data files, and frequently asked questions have been uploaded to the HKEX's dedicated website (Note). To facilitate market participants to familiarise with the operation of the single tranche multiple counter arrangement, the HKEX will hold practice sessions in the second quarter of this year. Relevant details will be announced in due course. Subject to technical preparations and regulatory approval, the enhanced arrangement is targeted for implementation by the end of June this year.

(4) The Government, in collaboration with the regulators and the HKEX, have been committed to promoting the development of Hong Kong's offshore RMB business and enriching the RMB product ecosystem. Apart from stock trading, we have been supporting Mainland institutions to issue more offshore RMB bonds and promoting more institutions to issue RMB denominated exchange-traded funds (ETFs) and other products, etc.

The Ministry of Finance has issued RMB sovereign bonds in Hong Kong for 17 consecutive years since 2009. The cumulative issuance amount reached RMB366 billion as of end-2024. Earlier this month, it further issued five series of RMB sovereign bonds totalling RMB12.5 billion.

Over the past year, various measures have been introduced to enrich and support offshore RMB business. The eligible product scope of equity ETFs under Stock Connect was further expanded in July 2024, including 91 new ETFs in total. The Mainland-Hong Kong Mutual Recognition of Funds arrangement has been enhanced with effect from January this year. The measures, including relaxation of sales restriction, will significantly enhance the scale of funds. On the other hand, OTC Clearing Hong Kong Limited has allowed offshore investors to use Mainland Government Bonds and Policy Bank Bonds held through Bond Connect as margin collateral for Northbound Swap Connect, providing greater flexibility to international investors and enhancing their capital

efficiency, which are conducive to further attracting participation of overseas investors.

In addition, the Hong Kong and Mainland regulators announced in January new measures to deepen financial co-operation between the two places. Notably, the extension of settlement time under the Central Securities Depositories (CSDs) and supporting of settlement of multi-currency bonds through the CSDs linkage under Southbound Bond Connect were implemented in January this year, while expansion of the scope of eligible Mainland investors will be taken forward in due course. Offshore RMB repurchase business using Northbound Bond Connect bonds as collateral was also implemented smoothly on February 10, with multiple repurchase transactions completed on the first day of implementation. The RMB Trade Financing Liquidity Facility arrangement will be launched on February 28, with a view to facilitating banks in providing RMB trade finance services to corporates. The total facility size is RMB100 billion.

In terms of insurance, the insurance industry has been developing RMB-denominated policies, and has recently introduced multi-currency insurance products including those in RMB to meet market needs.

We will continue to spare no efforts in building the offshore RMB ecosystem, taking forward mutual market access measures that are supported by regulators of the two places, including the inclusion of real estate investment trusts under Stock Connect, and exploring new initiatives with the Mainland regulators. We will also continue to support Hong Kong financial institutions to further expand the suite of attractive investment products for providing more investment opportunities for domestic and overseas investors and consolidating Hong Kong's status as an offshore RMB business centre.

Note: The HKEX's dedicated website:

www.hkex.com.hk/Services/Clearing/Securities/What_s-New/Enhancement-of-Settlement-Arrangement-for-Multi-counter-Eligible-Securities?sc_lang=en