

LCQ21: Promoting development of Hong Kong's capital market

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 (March 19):

Question:

Recently, six departments of the Central Authorities jointly announced the Implementation Plan on Promoting the Inflow of Medium to Long-term Capital into the Market, so as to steadily expand the scale of investment and improve the supply and structure of funds in the capital market. Moreover, it has been reported that as pointed out by the Governor of the People's Bank of China, the proportion of the country's foreign exchange reserves allocated to Hong Kong's assets will be substantially increased to support the development of Hong Kong's capital market. In this connection, will the Government inform this Council:

(1) whether the Government has discussed with the relevant Mainland authorities the specific details (such as the target level of the allocation proportion, the types of assets to be allocated and the amount involved) and the implementation timetable for increasing the allocation of the country's foreign exchange reserves to Hong Kong's assets; if so, of the details; if not, the reasons for that;

(2) whether the Government will study with the Mainland regulatory authorities the establishment of a mechanism for channelling capital, so as to promote the investment of the country's foreign exchange reserves and some of the Mainland medium to long-term capital (such as the National Social Security Fund, commercial insurance funds and pension funds) in Hong Kong's capital market;

(3) whether the Government will actively consider making good use of the funds under its control, such as charitable trust funds, university endowment funds and funds managed by different government departments, to jointly increase investment in Hong Kong stocks, so as to play a leading role and boost market confidence; if so, of the details; if not, the reasons for that; and

(4) as it has been reported that the Deputy Director of the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region (SAR) has recently proposed to promote the publication of a White Paper on Hong Kong's Capital Market (the White Paper), whether the SAR Government will implement the formulation of the White Paper; if so, whether it will study collecting various financial institutions' views in areas such as market regulation, transaction costs and corporate governance?

Reply:

President,

In consultation with the Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited (HKEX), my consolidated reply to the four parts of the question is as follows:

During his remarks at the Asian Financial Forum in January 2025, the Governor of the People's Bank of China said that a thriving capital market serves as the core and backbone of Hong Kong as an international financial centre. It will encourage quality enterprises to get listed and issue bonds in Hong Kong, and continuously enhance and expand the connectivity mechanisms between the Mainland and Hong Kong for stocks, bonds, wealth management products and interest rate swaps. It will also deepen the financial co-operation within the Guangdong-Hong Kong-Macao Greater Bay Area, and increase the allocation of our country's foreign exchange reserves in assets in Hong Kong, so that the financial development in Hong Kong will embrace a broader future. The Hong Kong Special Administrative Region Government and financial regulators will continue to co-ordinate closely with relevant Mainland authorities as always to support the integration and healthy development of the Mainland and Hong Kong capital markets. We will also discuss with the Mainland further expansion and enhancement arrangements for mutual market access between capital markets of the two places, so as to better meet the needs of residents in both places for cross-market and diversified asset allocation, as well as attract more Mainland and international fund flows into Hong Kong.

The Government very much welcomes and is grateful to the increase in allocation of the national foreign exchange reserves in assets in Hong Kong, which is a recognition of Hong Kong's investment environment and the quality of our products. The specific details (such as funding distribution or timetable) will be considered by relevant Mainland institutions and announced as necessary. The Government and financial regulators have been maintaining communication with the Mainland financial regulators on financial market matters and will fully support related work. In fact, we need to strengthen our efforts in optimising the market and utilising our own attractiveness to encourage more Mainland and overseas institutions and individual investors to participate in trading Hong Kong stocks. In the face of challenges from the external environment in the past few years, the Government has been striving to continuously improve market liquidity through taking forward specific enhancement measures. Specifically, the Government set up the Task Force on Enhancing Stock Market Liquidity in 2023 to review the factors affecting market liquidity and put forward improvement recommendations on different areas such as listing regime, market structure, trading mechanism, etc. The Government together with the SFC and HKEX have taken forward various measures, including enhancing the specialist technology listing regime, reforming GEM, facilitating listing of overseas issuers, implementing arrangements for trading under severe weather, establishing the regime for share repurchase and treasury, narrowing the trading spread, etc. We have also been actively attracting overseas capital through different channels,

including consolidating traditional sources of funds and opening up new capital sources.

As our country's economy demonstrates resilience with breakthroughs in key technologies, and as the enhancement measures that we have implemented begin to bear fruit, the sentiment and trading in the Hong Kong stock market have improved since last year. From the beginning of this year, stock market trading has become even more active, with average daily turnover until February exceeding \$220 billion, an increase of close to 70 per cent over that of 2024. Last year, Hong Kong was one of the world's four largest initial public offering (IPO) markets, with total IPO funds raised exceeding \$87 billion, up nearly 90 per cent year-on-year. As of the end of February this year, HKEX was processing over 100 listing applications, demonstrating increasing confidence of companies in raising funds in Hong Kong. HKEX and the SFC will continue their efforts in strengthening the competitiveness of the stock market by facilitating corporate financing, promoting product innovation, and improving trading and risk management efficiency.

As regards investment of funds under the Government, funds established by the Government or operated by Government departments have specific purposes and management mechanisms. The relevant funds need to formulate appropriate investment strategies based on factors such as its size, overall risk tolerance, liquidity needs, etc, so as to achieve target returns, cash flow or specific policy objectives through different asset allocations. It is not appropriate to formulate uniform asset allocation recommendations or restrictions for the investment of relevant funds.

The Government has been implementing various reforms for the development of the capital market, including establishing listing avenues for new economy and technology enterprises with weighted voting rights structures, facilitating overseas issuers to raise funds in Hong Kong, etc. As also mentioned in the 2025-26 Budget, the key to consolidating and enhancing the strengths of Hong Kong as an international financial centre lies in institutional innovation, product innovation, a critical mass of enterprises and financial connectivity. To dovetail with the latest economic trends and corporate needs, HKEX and the SFC are taking forward a comprehensive review of the listing regime, which will review listing requirements and post-listing ongoing obligations, evaluate listing-related regulations and arrangements to improve the vetting process, optimise the thresholds for dual primary listing and secondary listing, and review the market structure, including exploring the establishment of an over-the-counter trading market. HKEX and the SFC will conduct in-depth review in each area, with a view to putting forward enhancement proposals in different areas by batches when they are ready within this year for market consultation. Meanwhile, the Government will also collect market views through various channels from time to time, including the financial regulators and the Financial Services Development Council, so as to formulate relevant development strategies in a timely manner.