

LCQ22: Enhancing the competitiveness of the securities market of Hong Kong

Following is a question by Dr the Hon Tan Yueheng and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 25):

Question:

According to the statistics released by an accounting firm, Hong Kong ranked sixth in the world in terms of funds raised through initial public offerings (IPOs) in the first quarter of this year, with the amount slumping nearly 90 per cent year-on-year to only about \$13.6 billion, hitting a record low in nearly nine years. On the other hand, some members of the financial sector are of the view that, as announced by the Hong Kong Exchanges and Clearing Limited (HKEX) in March this year, the contents of the three strategic pillars (i.e. Connecting China and the World, Connecting Capital with Opportunities and Connecting Today with Tomorrow) to be implemented are relatively vague and general and lack concrete measures, and the pillars are unattractive to investors. In this connection, will the Government inform this Council:

(1) whether it has conducted an in-depth analysis of the reasons for the slump in the amount of IPO funds raised in Hong Kong in the first quarter of this year; if so, of the details, including whether there were reasons other than the epidemic;

(2) of the measures in place to boost Hong Kong's IPO fundraising market, as well as the specific implementation timetable;

(3) whether it knows the specific measures that the HKEX has put in place in the short to medium term (i.e. three to five years) to implement the aforesaid three strategic pillars, as well as the new highlights and breakthroughs of such measures; and

(4) whether it knows the specific proposals that the HKEX has put in place to pursue differentiated development, so as to cope with the competition from other exchanges in the region?

Reply:

President,

In 2022, the uncertainties in global economy and financial markets have brought tremendous challenge to worldwide markets, among which the stock markets have been particularly volatile. The Government, the Hong Kong Exchanges and Clearing Limited (HKEX) and financial regulators have been closely monitoring market conditions to ensure that Hong Kong's stock market

and financial system are operating in an orderly and smooth manner, while continuing to take forward market development and endeavouring to enhance the overall competitiveness of Hong Kong's listing platform.

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

(1) In light of various macroeconomic factors such as heightened geopolitical tensions, uncertainty of COVID-19 situation, inflation and interest rate increase by major central banks, the leading financial markets around the globe have been relatively volatile in recent months. Initial public offerings (IPOs) have also been affected as issuers generally are more cautious. According to market information, the amount of fund raised through IPOs globally decreased by more than 50 per cent year-on-year in the first quarter. The ranking on IPO fund raised of other markets, such as the major exchanges in the United States and Europe, also declined. The ranking on IPO fund raised of Nasdaq dropped from the first in 2021 to the fifth in the first quarter, whereas the ranking of New York Stock Exchange and London Stock Exchange, which were the second and sixth in 2021 respectively, fell out of the global top ten places. As an international financial centre, Hong Kong's IPO performance was also affected by external factors. Notwithstanding this, the HKEX received 22 new listing applications in April 2022, and was processing a total of 168 listing applications as at the end of April. This reflects that the demand for listing has not slowed down.

(2) Despite the short term market situation, the Government, SFC and the HKEX are committed to continuously strengthening the competitiveness of our fundraising platform, building a solid foundation for future development. Over the past few years, we implemented a series of enhancements to the listing regime in forging a more diverse, dynamic and sustainable listing platform, promoting the prosperity of the securities market.

To cater for the fundraising needs of emerging and innovative companies, the HKEX launched a new listing regime in April 2018 to allow emerging and innovative enterprises that have weighted voting rights (WVR) structures and pre-revenue / pre-profit biotechnology companies to list in Hong Kong, and establish a new concessionary route for qualifying issuers to seek secondary listing in Hong Kong. As at the end of April 2022, a total of 74 companies had been listed through the new regime with \$580.7 billion raised, representing over 40 per cent of the total fund raised through IPOs in the same period. Hong Kong has also become Asia's largest and the world's second-largest fundraising hub for biotechnology.

The HKEX launched a listing regime for special purpose acquisition companies (SPACs) in January 2022, introducing a brand new listing avenue for emerging enterprises with potential. At the same time, the HKEX has implemented enhancement measures to allow Greater China companies without WVR structures which are not from innovative sectors to seek secondary listing in Hong Kong and offer greater flexibility for issuers seeking dual-primary listings. Such measures would further attract quality "China Concept Stocks" to list in Hong Kong and provide more choices to investors, thereby

increasing market liquidity.

The Financial Secretary announced in the 2022-23 Budget that, in order to cater for the emerging new economy in the Mainland in recent years and considering the fundraising needs of large-scale advanced technology enterprises, SFC and the HKEX would review the Main Board Listing Rules and, having due regard to the risks involved, examine the revision of the listing requirements to meet the fundraising needs of such enterprises. The HKEX is approaching relevant market participants for views, with a view to putting forward concrete recommendations as soon as practicable.

In addition, in response to market views, the HKEX commenced a review on the functions and positioning of GEM last year, and established a dedicated panel under the Listing Committee to handle the work concerned. The review will be conducted under the principle of further strengthening the competitiveness of Hong Kong as a global premier listing hub and enhancing the overall quality of the Hong Kong capital market. Alongside facilitating different types of enterprises to list in Hong Kong, the HKEX will take into consideration market attractiveness and liquidity, and safeguard the interests of the investing public. The HKEX is engaging different parties and will make reference to the experiences of similar markets in other places.

(3) and (4) The HKEX unveiled in March 2022 its vision to build the "Marketplace of the Future", with a view to facilitating the two-way capital flows between East and West as well as delivering vibrant and diversified markets, thereby strengthening Hong Kong's position as an international financial centre. Building on Hong Kong's unique advantages in leveraging the strengths of our country and engaging the world, the HKEX put forward three strategic pillars, namely "Connecting China and the World", "Connecting Capital with Opportunities", and "Connecting Today with Tomorrow". The HKEX has devised concrete measures in the short, medium and long term under each of the three strategic pillars. With the continuous growth of the Mainland economy and the opportunities brought by Hong Kong's position in connecting the financial markets in the Mainland and the rest of the world, the HKEX will enhance Hong Kong's overall competitiveness relative to other overseas markets. The concrete details and measures on the HKEX's vision have been uploaded to its dedicated webpage www.hkexgroup.com/about-hkex/about-hkex/our-strategy.

Overall speaking, leveraging on the Mainland strength, the HKEX will continue to bring the Mainland growth story to international investors, while facilitating Mainland enterprises to raise funds in Hong Kong and Mainland capital in offshore asset allocation through the Hong Kong capital market. By further developing the mutual access programme and growing its portfolio of Mainland-related product offerings, the HKEX's goal is to develop Hong Kong into Mainland's go-to offshore hub for fundraising, trading, and risk management. In the short term, the HKEX will work to expand the mutual access schemes, take forward the inclusion arrangements for exchange traded funds (ETFs) in Stock Connect and allow stocks traded via the Southbound Trading of Stock Connect to be denominated in Renminbi. The HKEX will also look into including more products and services under the mutual access programme, such

as listed bonds, and expand the suite of risk management tools in equity and fixed income products.

In addition, the HKEX is committed to enhancing the depth, vibrancy and diversity of its markets, strengthening Hong Kong's position as a premier fundraising, risk management and trading hub by improving the primary market attractiveness and enabling more efficient trading, clearing and settlement. Apart from the initiatives mentioned in part (2) and this part as above, the HKEX will also strive to optimise the efficiency of IPO price discovery, as well as to enhance the trading hours of derivatives products and trading calendar of mutual access programmes, thereby enhancing market structure.

In face of the new trends including digitisation, tokenisation, big data, personalised finance, and the new mission of incorporating environmental, social and governance (ESG) considerations, the HKEX is actively developing digital capabilities and exploring new opportunities in digital assets, ESG, private markets and other emerging sectors, leveraging its data as well as agile and modern infrastructure to develop new business. In the short and medium term, the HKEX plans to launch FINI (Fast Interface for New Issuance), an electronic IPO settlement platform, and will look into the introduction of ESG equity index derivatives and voluntary carbon credit trading, as well as enhance its Sustainable and Green Exchange (STAGE).

Over the next few years, the HKEX will, in collaboration with the Government, take forward various business reforms following the above plans and drive the development of the local financial services sector in collaboration with the Government, with a view to supporting the development of the financial market for the future of Hong Kong.