

LCQ22: Hong Kong Dollar-Renminbi Dual Counter Model

Following is a question by the Hon Yim Kong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (November 20):

Question:

It is learnt that the Hong Kong Exchanges and Clearing Limited (HKEX) launched the Hong Kong Dollar (HKD)-Renminbi (RMB) Dual Counter Model (the Dual Counter Model) in June last year, which has produced positive effects such as expanding the conduit for offshore RMB investment, facilitating the trading of Hong Kong stocks by RMB investors, enriching the ecosystem of RMB products, and cementing Hong Kong's role as the world's leading offshore RMB hub. However, having been in operation for a year or so, the Dual Counter Model is facing some challenges, such as the volume of dual counter securities not increasing, the poor liquidity of RMB counters, and the relatively large price gap between the counters of the two currencies. In this connection, will the Government inform this Council:

(1) whether it knows if the HKEX has conducted analysis and assessment of the operation, effectiveness and challenges of the Dual Counter Model recently; if so, of the details and the major conclusions;

(2) as it is pointed out in this year's Policy Address that the HKEX will encourage more listed companies to have shares listed in the RMB stock trading counter, and expand the scope of RMB equities, whether the Government knows if the HKEX has the specific measures and timetable in place to attain the goal; and

(3) as the financial regulatory authorities of the Mainland have expressed support for including RMB stock trading counter under Southbound trading of Stock Connect and support for the issuance of RMB-denominated stocks in Hong Kong by Mainland banks and insurance companies, how the Government will support these policies, such as whether it will take the initiative to negotiate with the relevant Mainland authorities on motivating more Mainland institutions and investors to participate in the Dual Counter Model to facilitate its further development?

Reply:

President,

In line with the new development paradigm of our country and to meet the increasing demand from global investors for allocation of Renminbi (RMB) assets, the Government, together with the financial regulators and the Hong Kong Exchanges and Clearing Limited (HKEX), has been making active efforts in

enhancing the RMB product ecosystem, with a view to strengthening Hong Kong's function as a global offshore RMB business hub, and at the same time contributing to the RMB internationalisation process.

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 allocate 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.

In consultation with the Securities and Futures Commission and the HKEX, the reply to the three parts of the question is as follows:

(1) Currently, a total of 24 issuers have adopted the dual-counter model to provide HKD and RMB securities trading. The combined turnover of the HKD counters of their securities accounts for about 40 per cent of the average daily turnover of the cash securities market. Meanwhile, 12 exchange participants have been designated as DCMMs to conduct market making and liquidity providing activities. Since implementation, the dual-counter model and the DCMM regime have been operating smoothly. It is not unexpected for early stage trading of RMB-denominated securities to be relatively not significant in the overall market turnover.

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, and builds a solid foundation for promoting more listed companies to adopt the dual-counter model as well as including the RMB counters in Stock Connect southbound trading.

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. The dual-counter model will provide a convenient channel for investors to allocate assets in RMB, and enhance the function of RMB as an international investment currency. It will also increase offshore investment channels for RMB, continuously enrich offshore RMB business and asset categories in Hong Kong, and contribute to the steady progression of RMB internationalisation.

(2) and (3) In the Policy Address this year, the Chief Executive has highlighted that the Government will continue to enhance the mutual market access regime and reinforce Hong Kong's status as the world's largest offshore RMB business hub, thereby contributing to the internationalisation of RMB. We together with the HKEX will continue to maintain close contact

with issuers and market participants, and spare no effort in improving the existing supporting measures and optimising the trading and settlement mechanisms. Based on the successful implementation of the dual-counter model, we will facilitate the provision of RMB stock trading counters by more listed companies to further expand the scope of RMB stocks.

In this regard, the HKEX has announced the launch of a Single Tranche Multiple Counter in 2025 to optimise the settlement procedures for Multi-counter Eligible Securities (including dual-counter securities) within the Central Clearing and Settlement System. Under the new arrangement, market contracts under different trading counters of Multi-counter Eligible Securities will be reflected under the domain settlement counter for clearing and settlement purposes. The optimised arrangement will spare clearing participants from inter-counter transfer, obviating the need for separate clearing and settlement for individual trading counters. Moreover, a "same share netting" procedure will be added to allow offsetting the long position of one currency against the short position of another currency of the same Multi-counter Eligible Security. The enhanced measures will better utilise the characteristics of Multi-counter Eligible Security as a single convertible security, improve settlement efficiency and significantly reduce operational and market risks.

Meanwhile, the China Securities Regulatory Commission announced in April this year that it would implement a series of measures to expand capital market mutual access between the Mainland and Hong Kong, encompassing supporting the inclusion of RMB stock trading counters in Stock Connect southbound trading. This will facilitate Mainland investors to trade Hong Kong stocks in their own currency (i.e. RMB) and save exchange costs, thereby attracting more Mainland investors to allocate Hong Kong stocks. The Mainland and the HKEX have preliminarily attained a consensus on the relevant business plans and entered the implementation stage of technical preparations. We will continue to ask the regulators and the HKEX to step up preparations for early operation of the measure to bring new catalysts for the issuance and trading of RMB stocks in Hong Kong.

We, 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, including supporting Mainland listed companies to set up RMB counters, encouraging Mainland institutions to increase the issuance of offshore RMB bonds, and incentivising more institutions to issue RMB-denominated exchange-traded funds and other products, with a view to further enriching the RMB investment product suite in Hong Kong. We will also continue to conduct promotional activities for the dual-counter model. Building on the addition of RMB stock counters, we expect that the trading scale of dual-counters would gradually expand, thereby enhancing the overall competitiveness of the Hong Kong securities market.