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Hong Kong

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## HONG KONG STOCK EXCHANGE STRATEGIC PLAN 2016-2018

### Introduction

On 21 January 2016, the Hong Kong Stock Exchange (**Stock Exchange**) announced its Strategic Plan 2016-2018. The plan focuses on Hong Kong as the gateway connecting China with the rest of the world, and emphasises Hong Kong's role in the internationalisation of the RMB. As Mainland investors enter global financial markets and Mainland markets are liberalised, Hong Kong and the Stock Exchange have considerable opportunities in developing multiple asset classes and platforms.

The 2016-18 strategic goal of the Stock Exchange is to cement its position as a leading cross-border access platform and develop a unique destination market in Hong Kong for products with both Chinese and international relevance in the areas of equities, commodities, fixed income and currencies.

### Business Strategy

The Stock Exchange's business consists of trading in Equity, Commodities, and Fixed Income and Currency (**FIC**).

### Equity

The Stock Exchange aims to grow its core equity market as well as maintain its competitiveness as a global leader in fundraising by reforming its listing regime and attracting a broader range of issuers.

The Stock Exchange launched its innovative Shanghai-Hong Kong Stock Connect (**Stock Connect**) in 2014, which connects the Shanghai and Hong Kong stock markets, with Mainland

and Hong Kong investors being able to trade and settle shares listed on the other market. The Stock Exchange aims to increase the functionality of Stock Connect, launch Shenzhen-Hong Kong Stock Connect, and introduce new products, such as Exchange Traded Funds (**ETFs**), listed bonds and convertible bonds to the two Stock Connect Schemes. The Stock Exchange also wishes to ease trading restrictions including quotas, eligible securities and eligible investors as well as restrictions on stock borrowing and lending, although this will require collaboration with Hong Kong and Mainland regulators. There are also plans to launch 'Primary Equity Connect' which would allow investors to subscribe for IPO shares. This would allow foreign companies listing on the Stock Exchange to raise funds from Mainland investors.

The Stock Exchange plans to expand its range of derivative products, for example by listing A-share index benchmarks, adding sector-specific products, and exploring international benchmark derivatives in Hong Kong. These measures will significantly enhance cross-border investors' risk management strategies.

### Commodities

Since 2012, the Stock Exchange has owned the London Metal Exchange (**LME**), which is the world's largest market in futures metals contracts.

The Stock Exchange plans to extend its existing global price benchmarks in commodities that it owns through the LME, and attract international and Mainland investors to those products.

The Stock Exchange will endeavour to break into the Mainland commodities market by focusing on the physical foundations of the market, with the ultimate objective of facilitating cross-border access to the international commodities markets.

The Stock Exchange plans to expand its Commodities product range in London and Hong Kong, and expand the services of LME Clear (the clearing house of LME) to the OTC-traded market.

In order to attract new Asian liquidity to the LME, the Stock Exchange will list LME products in Hong Kong in the near future. The Stock Exchange is in the early stages of establishing 'London-Hong Kong Connect', a trading link between Hong Kong Futures Exchange (HKFE) and the LME, as well as a clearing relationship between HKFE Clearing Corporation and LME Clear. Priority of this initiative will be given to the trading and clearing of LME products for HKFE Participants, so that Qualified Domestic Individual Investors and Asian corporations will have increased access to international metals markets.

The Stock Exchange will also examine whether a Mainland spot commodity trading and financing platform can be established to service investors, warehouse operators, physical producers and consumers, and financing banks.

There is a proposal to establish a Mainland-Hong Kong 'Commodities Connect' system so as to ensure that onshore commodities derivatives are accessible to Hong Kong and international participants.

### Fixed Income and Currency

Due to the internationalisation of the RMB, Hong Kong is uniquely placed to consolidate its position as a gateway for cross-border fund flows and as a risk management centre. As international investors' appetite for RMB assets grows, there will be increased demand for interest rate and currency derivatives as a risk management tool. The Stock Exchange anticipates that there will be demand for similar products from Mainland investors entering international markets. Thus, the Stock Exchange's strategy is to increase the platform and product range that will assist these investments.

The Stock Exchange currently provides a trading platform for USD/CNH futures contracts. It intends to launch more benchmark derivatives which are relevant to China, such as additional RMB currency products and derivatives on onshore interest rates.

The Stock Exchange will launch several new products and services in OTC Clear, a central counterparty which provides OTC derivatives clearing and settlement services. Products and services include deliverable foreign exchange forward and swap contracts, cross-currency swaps, OTC currency options and client clearing.

The Stock Exchange also plans to establish a 'Bond Connect' scheme so as to facilitate cross-border capital flows in the underlying RMB cash bond market. This scheme will provide cross-border cash bond trading and settlement connectivity with China's major onshore bond market infrastructures, with a focus on the institutional bond market.

### Platforms and Capabilities

In order to ensure the success of its Business Strategy, the Stock Exchange will foster a strong client relationship management culture within the Group, which may entail a review of its market maker functionality and other incentive schemes. The Stock Exchange will also upgrade its core systems in its cash market, and invest in information security and other key areas so as to take advantage of emerging trends in financial technologies.

The Stock Exchange plans to develop various market microstructure reforms, such as new capabilities in pre-trade risk management, stock borrowing and lending, and a new hedge exemption regime for derivatives position limits.

The Stock Exchange will monitor its risk management processes in its clearing houses in London and Hong Kong, review the existing margin model in the cash market and the margin and collateral arrangements in the derivatives markets, and will explore portfolio margining in selected product suites.

Finally the Stock Exchange emphasises that it will continue to adhere to international regulatory requirements such as those from US and European regulators, as well as comply with domestic regulations in Hong Kong.

### Conclusion

The Stock Exchange's Strategic Plan 2016-2018 contains a large number of initiatives aimed at ensuring Hong Kong's position as a major regional and international financial services centre. The proposals will expand the linkages between Hong Kong and the markets in Mainland China and London, make Hong Kong a more attractive destination for the entire range of asset classes, and through its cross-border asset platforms, cement Hong Kong as the gateway for connecting China with the world.

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