Press release

LCQ5: Measures to assist securities dealers in developing the Mainland market

Wednesday, July 17, 2013

Following is a question by the Hon Christopher Cheung Wah-fung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (July 17):

Question:

It has been reported that the "Qualified Domestic Individual Investors Scheme" (i.e. QDII2), which is known as the "mini through-train for Hong Kong stocks", is said to have new development recently. It has also been reported that in April this year, the Guangdong provincial authorities submitted the QDII2 trial scheme to the State Council, under which initially two to three securities companies registered in the Guangdong Province would be selected to provide individual Mainland investors with services for investing in the securities products listed on the Hong Kong Stock Exchange, and the investment quota would be RMB 20 million for each client. Regarding assisting local securities dealers in developing the Mainland market through QDII2 and other channels, will the Government inform this Council:

(a) of the progress of the discussions on QDII2 between the relevant authorities of Hong Kong and the Mainland; whether it knows the specific contents, vetting and approving progress as well as the implementation timetable of the trial scheme;

(b) whether it has assessed the business opportunities that will be brought to local securities dealers after the implementation of QDII2; how the authorities will ensure that small and medium securities dealers can engage in the business concerned; and

(c) of the progress of the work undertaken by the authorities to facilitate local securities dealers to develop business on the Mainland; how the authorities will expand the room of operation for local securities dealers on the Mainland, so that the scope of their business will not be restricted to investment advisory business; and whether the authorities will seek approval from the Mainland authorities for local securities dealers to operate wholly-owned business on the Mainland to provide securities related services?

Reply:

President,

We have been maintaining close liaison and co-operation with relevant Mainland authorities to promote cross-border investment activities between Hong Kong and the Mainland and to expand the room of operation for Hong Kong financial institutions on the Mainland.

Regarding entering the Mainland market to invest, relevant Mainland authorities, on the basis of the Qualified Foreign Institutional Investor (QFII), launched the Renminbi Qualified Foreign Institutional Investor (RQFII) arrangement in 2011, and the arrangement was further expanded this year. The China Securities Regulatory Commission announced the new revised pilot rules on March 6, this year, under which the types of institutions eligible for applying for RQFII have been enlarged to cover, amongst others, all Hong Kong-licensed asset management companies with major operations in Hong Kong. The investment restrictions of RQFII funds have also been relaxed. The changes enable more market players to participate in the RQFII scheme, and increase the attractiveness of the RQFII products for investors. So far, a total of 37 companies were granted the RQFII qualification, including the first local bank, with a combined approved RQFII investment quota of RMB104.9 billion.

As regards foreign investment made by Mainland investors, the State Council executive meeting held in May this year proposed to establish the system for individual investors to invest overseas. We understand that relevant Mainland departments are making relevant preparation work. In this connection, we have been liaising with the relevant Mainland authorities to strive for the Qualified Domestic Individual Investors (QDII2) pilot scheme fully making use of Hong Kong's financial platform and services, so that local financial sector and intermediaries could participate in related business.

We have taken a number of measures to enhance the competitiveness and support the sustainable development of the industry in conjunction with the Securities and Futures Commission of Hong Kong (SFC). For example, the SFC is discussing with the Hong Kong Securities and Investment Institute as to how it may help further enhance the quality and coverage of services provided by brokers, asset managers and other practitioners in the securities industry. The SFC indicates that it stands ready to provide financial support for increasing the variety and intensity of targeted training programmes. We have invited the SFC to focus such training support on small and medium-sized brokerage firms. This will help practitioners to meet market development needs.

Regarding assisting the local financial industry to gain further access into the Mainland market, we have been maintaining communications with relevant Mainland authorities in a bid to facilitate Hong Kong's financial institutions to gain access to the Mainland market. Under Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) signed on May 9, 2009, qualified Hong Kong securities companies and Mainland securities companies which satisfy the requirements for establishing subsidiaries can set up in Guangdong Province joint venture securities investment advisory companies. The joint venture securities investment advisory company shall be a subsidiary of the Mainland securities company, the scope of business of which shall focus specifically on carrying on securities investment advisory business. The percentage of shareholding of the Hong Kong securities company could, at a maximum, reach one-third of the total shareholding of such a joint venture securities investment advisory company. Since then, we have been working closely with Mainland authorities concerned in taking forward and enhancing the relevant measures. Under Supplement IX to CEPA concluded on June 29, 2012, the shareholding of Hong Kong securities companies in joint venture securities investment advisory companies has been increased to a maximum of 49% of the total shareholding, and the application of the measure has been expanded to cover the whole country.

Moreover, we hope to facilitate Hong Kong's financial industry to gain access to the Mainland market through Qianhai, seeking to lower the entry requirements for Hong Kong enterprises to enter the Mainland market, and increasing the shareholding limit of Hong Kong enterprises in joint-venture companies. Regarding the securities industry, we are striving to relax the percentage of shareholding of financial institutions with Hong Kong capital in Hong Kong-invested securities companies in Qianhai, allowing the establishment of two full licence securities companies with shareholding of Hong Kong capital in Qianhai (of which the percentage of shareholding of one Hong Kong capital reaching 51% at a maximum, and the percentage of shareholding of another Hong Kong capital not exceeding 49%).

We will continue to maintain close liaison with relevant Mainland authorities in a bid to identify new business opportunities for Hong Kong financial institutions in the Mainland, including relaxing the upper limit of their shareholding in joint venture companies, expanding the range of services that they may provide, etc. Meanwhile, we will continue to strengthen the co-operation and exchange between Hong Kong and the Mainland in respect of financial institutions, financial instruments, capital and talents, through CEPA and other regional co-operation platforms including those forged with Guangdong, Shanghai and Qianhai.

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