

## **Press Release**

### **LCQ6: Shanghai-Hong Kong Stock Connect pilot programme**

Wednesday, May 14, 2014

Following is a question by the Hon Frederick Fung Kin-kee and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 14):

Question:

Following the remarks made by the State Premier at the Boao Forum for Asia on the 10th of last month that "conditions would be actively created for the establishment of a Shanghai-Hong Kong stock exchanges connectivity mechanism" (the Shanghai-Hong Kong Stock Connect), the China Securities Regulatory Commission and the Securities and Futures Commission of Hong Kong made a joint announcement immediately on the same day that a Shanghai-Hong Kong Stock Connect pilot programme would be launched officially six months later, allowing investors of both places, through their local securities companies, to place orders to trade eligible shares listed on the stock exchange of the other side. There are comments that the Shanghai-Hong Kong Stock Connect marks an important step in the financial reform in China, but it will at the same time bring about problems of cross-boundary regulation. In this connection, will the Government inform this Council:

(1) whether the authorities have conducted any comprehensive and in-depth assessment on the Shanghai-Hong Kong Stock Connect to be launched six months later, including the possible positive and adverse impacts that may arise from the relevant co-operation model; if so, of the assessment outcome; and

(2) how the authorities will ensure that no adverse impact will be brought about by the Shanghai-Hong Kong Stock Connect to the existing regulatory system and investor protection measures in Hong Kong, including how the authorities will tackle problems of cross-boundary regulation so arise; in discussing with the stock exchanges of Shanghai and Hong Kong on matters relating to the "connectivity mechanism", how the authorities will ensure that the Shanghai-Hong Kong Stock Connect can achieve the greatest effect in promoting the financial and economic development of both places, rather than merely benefitting the development of the relevant stock exchanges themselves; whether the authorities or the Hong Kong Exchanges and Clearing Limited have currently formulated any plan or timetable

for further extension of the relevant programme, such as co-operation with the Shenzhen Stock Exchange under a model similar to the "connectivity mechanism"?

Reply:

President,

On April 10, 2014, Premier Li Keqiang announced the establishment of mutual access between Hong Kong and Shanghai stock markets, with a view to further promoting the two-way opening up of the capital markets of the two sides. On the same day, the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC) of Hong Kong announced in a joint statement that they had approved, in principle, the development of a pilot programme (Shanghai-Hong Kong Stock Connect) for establishing mutual stock market access between Shanghai and Hong Kong. Shanghai-Hong Kong Stock Connect will not only help strengthen the two securities markets, but will also have long-term and strategic significance.

This is a mutually beneficial development. For the Mainland, Shanghai-Hong Kong Stock Connect will help increase the participation of overseas investors, in particular institutional investors, in the Shanghai securities market, which will promote the further development of the market in a step-by-step manner, enable Mainland investors to invest in overseas markets in an orderly way, enhance the opening up of the Mainland's capital markets and promote the internationalisation of the Renminbi (RMB). For Hong Kong, Shanghai-Hong Kong Stock Connect will strengthen the strategic co-operation and interaction between the Hong Kong and the Mainland markets, catalyse the two-way RMB fund flows between the onshore and offshore markets, and further increase the liquidity of the offshore RMB market in Hong Kong, whilst reinforcing and enhancing Hong Kong's position as the premier international financial centre and offshore RMB business centre through this process.

The development of Hong Kong as an offshore RMB business centre has made significant progress over the past few years. The relevant financial platforms are increasingly comprehensive and are ready to capture the opportunities offered by mutual access between the Hong Kong and Shanghai stock markets. As the two-way opening-up of the Mainland capital markets and the internationalisation of RMB proceed further, Hong Kong will continue to play a unique and

indispensable role in the process.

The government and regulatory authorities of the two sides, together with the Shanghai Stock Exchange (SSE), the Stock Exchange of Hong Kong Limited (SEHK), the China Securities Depository and Clearing Corporation Limited (ChinaClear) and the Hong Kong Securities Clearing Company Limited (HKSCC), have worked closely together on the development of Shanghai-Hong Kong Stock Connect. To launch Shanghai-Hong Kong Stock Connect, the preparatory work will take approximately six months.

The regulatory authorities of the two sides will take all necessary measures to establish, in the interests of investor protection, an effective regime under Shanghai-Hong Kong Stock Connect to respond to all misconduct in either or both markets on a timely basis. CSRC and SFC will upgrade the current bilateral agreement to strengthen enforcement co-operation in respect of mainly the following areas -

- \* referral and information exchange mechanisms concerning improper activities;
- \* investigatory co-operation in relation to cross boundary illegal activities including disclosure of false or misleading information, insider dealing and market manipulation;
- \* bilateral enforcement exchange and training; and
- \* enhancement of general standards of cross-boundary enforcement co-operation.

The regulatory authorities of the two sides will establish a dedicated liaison mechanism for Shanghai-Hong Kong Stock Connect to deal with any issues that may be encountered during the pilot programme which may require joint resolution. SSE, SEHK, ChinaClear and HKSCC will collaborate with one another to develop the operational and other components of Shanghai-Hong Kong Stock Connect prior to launch, including all necessary arrangements to ensure an orderly market and prudent risk management. Launch of Shanghai-Hong Kong Stock Connect will only take place once relevant trading and clearing rules and systems have been finalised, all regulatory approvals have been granted, market participants have had sufficient opportunity to configure and adapt their operational and technical systems. All necessary investor education programmes must also be in place. SSE, SEHK, ChinaClear and HKSCC will, during the

development of Shanghai-Hong Kong Stock Connect, and prior to launch, liaise with market participants in relation to all rules, systems and technical requirements relevant to their operations.

We will accumulate experience through the implementation of Shanghai-Hong Kong Stock Connect, and discuss enhancement and expansion arrangements with the market and the relevant authorities of the Central People's Government in a step-by-step manner.

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