

Press Release

LCQ2: Implementation of the Shanghai-Hong Kong Stock Connect

Wednesday, October 22, 2014

Following is a question by the Hon Christopher Cheung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (October 22):

Question:

The Shanghai-Hong Kong Stock Connect (S-HK SC) will soon be launched. There are comments that S-HK SC marks an important step in the financial reform on the Mainland and it will help promote the internationalisation of Renminbi. Regarding matters relating to S-HK SC, will the Government inform this Council:

(1) given that it takes six months to launch S-HK SC, whether the authorities will, upon the formal launch of S-HK SC and in collaboration with the mainland authorities, carry out a comprehensive review and draw up a blueprint for its future development, so that S HK SC can better meet the needs of the financial market and can be perfected;

(2) as it has been reported that when local issuers of derivatives issue warrants and callable bull/bear contracts constituted by stocks listed or indexes in Hong Kong or Shanghai, and upon the listing of such products in the other market, the gains from them will be shared equally between the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange, whether the authorities know the justifications for such an arrangement, and whether they have examined the differences between this arrangement and the relevant practices currently adopted by the Hong Kong stock market; and

(3) whether it has plans to promote business opportunities for Mainland and local securities dealers to further develop their business in each other's markets, such as striving for local securities dealers being allowed to operate wholly-owned S-HK SC business on the Mainland; if it has such plans, of the details; if not, the reasons for that?

Reply:

President,

(1) As a pilot programme, Shanghai-Hong Kong Stock Connect is a major attempt to open up the Mainland's capital markets. Therefore, we will implement it in a progressive and risk-controllable manner, incorporating restrictions on eligible shares, eligible investors and quotas in the initial phase. These restrictions may be adjusted in light of operation of the pilot programme. Besides, based on market feedback on the operational arrangements of the programme, the Hong Kong Exchanges and Clearing Limited (HKEx) has reviewed the relevant arrangements in terms of trading, clearing and risk management, etc. The Administration, the regulatory authorities and HKEx will continue to closely monitor market needs, 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.

(2) One of the key features of Shanghai-Hong Kong Stock Connect is that both sides' exchange and clearing companies will equally share the revenue generated from cross-boundary orders, with a view to achieving mutual benefits. Derivatives are outside the current scope of Shanghai-Hong Kong Stock Connect. That said, HKEx and the Shanghai Stock Exchange (SSE) will, under the principle of fair and equal revenue-sharing, strengthen co-operation in the development of cross-boundary derivative products as investor demands for relevant derivative products in each market evolve after the launch of the programme.

Pursuant to the four-party agreement signed by the Stock Exchange of Hong Kong Limited (SEHK), Hong Kong Securities Clearing Company Limited, SSE and China Securities Depository and Clearing Corporation Limited for the establishment of Shanghai-Hong Kong Stock Connect, each of SSE and SEHK agrees that it will not, without the other's written consent, develop any options, futures or other derivative products that are based on any stock or stock index listed on the other exchange's market. In the event that any issuer proposes to issue any warrants or other derivative products (including callable bull/bear contracts) that are based on any stock or stock index listed on either SSE's or SEHK's market for listing on the other exchange's market, such arrangement will be subject to separate agreement between SSE and SEHK.

Where written consent is obtained from or separate agreement is reached with the other party in relation to any product referred to above, the income derived by SSE or SEHK (as the case may be) from the product will, subject to exceptions, be shared between them equally. Derivative products that are already listed in both markets will not be affected.

(3) We have been promoting financial co-operation between Hong Kong and the Mainland under the Mainland and Hong Kong Closer Economic Partnership Arrangement (i.e. CEPA) and other regional co-operation platforms covering Guangdong/Hong Kong, Shanghai/Hong Kong and Shenzhen (including Qianhai)/Hong Kong, and have been maintaining close communication with the relevant Mainland authorities, seeking to provide the financial services sector (including the securities sector) with greater access to the Mainland market to offer more diversified services. We will continue to press ahead with our work in this area.

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