Press Release

LCQ18: Impact of road occupation on securities market

Wednesday, November 12, 2014

Following is a question by the Hon James Tien and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 12):

Question:

It has been reported that since the occurrence of the road occupation movement (the occupation movement) on September 28 this year, there were some unusual fluctuations in the securities market of Hong Kong, including a significant drop in the Hang Seng Index and the more active trading activities to build stock index futures positions, etc. The reports have further pointed out that foreign hedge funds and local individuals participating in the occupation movement had seized the opportunity to make profit by block sale of index futures contracts. In this connection, will the Government inform this Council:

(1) whether the authorities concerned have conducted an investigation into the aforesaid fluctuations in the securities market; if they have, of the methods and outcome of such investigation; if not, the reasons for that;

(2) in the light of the involvement of foreign-funded institutions or local individuals participating in the occupation movement in the aforesaid profit-making acts, how the authorities prevent market manipulation and avoid the recurrence of substantial fluctuations in the securities market due to such acts;

(3) given that the Financial Secretary remarked in his blog in August this year that "the multitude of complicated and entangled risk factors (which by themselves cannot be tackled easily), if combined with political instability locally, may trigger a perfect financial and economic storm and open up the opportunities for international speculators, with consequences too ghastly to contemplate", whether the authorities have assessed the likelihood of Hong Kong being attacked by international speculators at present; if they have, of the details; if not, the reasons for that; and

(4) whether it has assessed the impact of the occupation movement on the launch time and specific arrangements of the Shanghai-Hong Kong Stock Connect as well as the credit ratings of Hong Kong; if it has, of the details; if not, the reasons for that?

Reply:

President,

(1) and (2) Hong Kong has a robust regulatory framework for short selling. Aside from prohibiting naked short selling and imposing an uptick requirement to prevent short sales of securities at successively lower prices, a statutory short position reporting regime was also introduced in June 2012 to enhance the Securities and Futures Commission (SFC)'s monitoring of short selling activities in the market.

The SFC has been monitoring closely trading activities of the cash market, particularly short selling activities, as well as trading activities and open interests of the derivatives market, so as to assess the potential systemic risks and detect any market misconduct.

The SFC is not aware of any significant abnormalities so far. According to the SFC's analysis, in October, the average daily open interests of the Hang Seng Index (HSI) and Hang Seng China Enterprises Index futures were 122 400 and 212 766 contracts respectively, which were comparable with the average daily open interest levels during the period between January and September (i.e. 124 420 and 231 113 contracts respectively). The SFC is not aware of any signs of concentration or build-up of large positions in the futures markets.

(3) In the past month or so, together with the financial regulators, we have been monitoring closely the financial market situation and taken relevant measures to minimise the impact of the protests on the financial system. Generally speaking, Hong Kong's financial system, including the banking system, stock market and foreign exchange market, etc. have been functioning in a normal and orderly manner. The linked exchange rate system is robust, interest rates remain steady. However, any prolonged protests would give rise to more evident impact on Hong Kong, and social instability may affect the confidence

of local and overseas investors. We will, together with the financial regulators, continue to monitor closely the financial market situation, and take appropriate measures as and when necessary.

(4) On November 10, 2014, the China Securities Regulatory Commission and the SFC issued a joint announcement on their approval of the official launch of the Shanghai-Hong Kong Stock Connect on November 17, 2014. The Shanghai-Hong Kong Stock Connect is a mutually beneficial collaboration project. Through enhancing mutual stock market access between Hong Kong and Shanghai, the programme promotes the gradual opening up of the Mainland's capital accounts as well as the internationalisation of Renminbi (RMB). The collaboration project will reinforce Hong Kong's position as a premier international financial centre and also strengthen Hong Kong's role as an offshore RMB business centre.

Regarding whether the protests will affect Hong Kong's credit ratings, we note that the credit rating agencies generally consider that the immediate impact of the protests on Hong Kong's economic and financial systems to be minimal. However, any prolonged protests would inevitably affect the confidence of local and overseas investors, which would in turn cause negative impact on Hong Kong's economic prospects, thereby creating downward pressure on the ratings of Hong Kong over the longer term.

The credit rating agencies maintained the credit ratings of Hong Kong in their reports published in October. Together with the financial regulators, we will continue to maintain close dialogues with credit rating agencies to ensure that they maintain a balanced and objective assessment on Hong Kong's credit ratings.

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