Press Release

LCQ4: Shanghai-Hong Kong Stock Connect

Wednesday, December 3, 2014

Following is a question by the Hon Chung Kwok-pan and a reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (December 3):

Question:

The Shanghai-Hong Kong Stock Connect (S-HK SC), implemented since the 17th of last month, has widened the investment channels between Shanghai and Hong Kong. The Government envisages that driven by S HK SC, the capital markets of the two places will gradually move towards integration, enabling the finance industry of Hong Kong to expand and enhancing Hong Kong's competitiveness, thereby transforming Hong Kong into a premier gateway for international capital to make investments on the Mainland. Investors may directly invest, through the S-HK SC platform, in specified types of stocks listed in Shanghai and Hong Kong. Besides, the abolition of the daily exchange limit of Renminbi imposed on Hong Kong people also facilitates financial transactions. Nonetheless, since the launch of S-HK SC, utilisation of the investment quotas is well below market expectations, and S-HK SC has failed to boost the prices of Hong Kong stocks substantially, with investors giving lukewarm response to southbound investments on Hong Kong stocks under the Southbound Trading Link in particular. In this connection, will the Government inform this Council:

(1) as some members of the securities industry have pointed out that utilisation of the quotas in the Southbound Trading Link has lagged far behind that in the Northbound Trading Link in the first week since the launch of S-HK SC because major mainland institutional investors including public funds and insurance companies, etc. are still waiting for the publication of relevant investment guidelines by regulatory organisations, whether the authorities have examined why such investors are not yet ready given that S-HK SC was in the pipeline for a long time; whether the authorities have, in collaboration with the relevant mainland authorities, formulated any mechanism to jointly review the specific impacts of S-HK SC on the securities markets in the two places;

(2) whether the authorities have assessed if S-HK SC will lead to the situation of "southern capital being channelled to the north", which means that a large amount of money originally invested in Hong Kong stocks is transferred to invest in Shanghai stocks; if they have assessed, of the outcome; whether the authorities will introduce more policies to attract capital inflow to invest in Hong Kong stocks, such as further cooperation with the relevant mainland departments to enable more mainland institutional investors to get familiar with the securities market in Hong Kong, as well as encourage and facilitate these investors to invest in Hong Kong stocks; and

(3) as there are differences in the law and regulations governing the securities markets in Shanghai and Hong Kong, whether the authorities will provide assistance to Hong Kong investors who have encountered legal problems or disputes when making investments in mainland stocks; if they will, from which government department(s) the investors may seek assistance; how the authorities will tackle the issues concerned so as to protect small investors and further enhance the connectivity between the securities markets in Shanghai and Hong Kong; of the measures to be put in place in future to help investors in the two places to understand the respective law and regulations governing the securities markets in the two places?

Reply:

President,

Regarding parts (1) and (2) of the question, it is generally the case that investors, in particular institutional investors, necessarily take a cautious approach when entering a new market. Institutional investors may need to conduct due diligence and risk assessment before they will consider participating in a new market. Some institutional investors such as investment funds may also need to change constitutional documents to allow them to invest in a new market. Besides, the Mainland and Hong Kong stock markets have rather different structures in terms of investor profiles, regulatory requirements as well as trading and clearing arrangements. Some Mainland institutional investors may need to obtain regulatory approval before they will consider participating in a new market.

The exchanges in the two markets have done a lot of promotional work before the launch of Shanghai-Hong Kong Stock Connect (Stock Connect), and will continue such work. They will also continue to maintain close liaison with market participants, and help them understand and participate in each other's market.

The Stock Connect is a pilot programme just launched recently. The relevant promotional work will continue. We hope that investors will gradually be familiar with this mechanism. It is too soon to do an assessment on the trading volume at this stage. In fact, the investment quota under the Stock Connect is imposed as a risk management tool for the market, not as a volume target or even an indicator. The very priority at the present stage is to ensure the smooth operation of the Stock Connect and the effective implementation of risk management and regulatory measures. Overall speaking, the Stock Connect is operating smoothly. The Administration, the relevant regulators and the exchange in Hong Kong will continue to collaborate with their Mainland counterparts in monitoring the development of the Stock Connect, and will communicate with market participants closely to assess the state of implementation.

As regards part (3) of the question on how to handle information requests from investors, the Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC) have established an arrangement for handling and referring requests from investors under the Stock Connect.

Under the arrangement, requests from Hong Kong and overseas investors investing in Mainland stocks will be treated at par as Mainland investors. Investors under the Northbound Trading Link can file complaints in respect of their disputes directly with the CSRC, Shanghai Stock Exchange, the eligible Shanghai listed company or the clearing service provider for Shanghai stocks. In accordance with the principle of home supervisor regulation, requests from Mainland, Hong Kong and overseas investors on issues within the CSRC's jurisdiction will be handled by the CSRC in accordance with the relevant Mainland laws and regulations.

Hong Kong and overseas investors can also raise the above requests with the SFC, which will refer such requests to the CSRC for further handling.

Regarding investor education, Hong Kong's Investor Education Centre

(IEC) is responsible for education of Northbound Hong Kong and overseas investors while the Mainland's Investor Protection Bureau targets Southbound Mainland investors.

These education initiatives aim to help investors understand this pilot programme before entering a different market and to encourage them to get well prepared and make informed investment decisions. The education initiative has focused on key issues from the perspective of retail investors, in particular the different rules and regulations, trading and settlement arrangements between Hong Kong and the Mainland, as well as the risks involved in cross-boundary investment. The IEC also reminds the public to be aware of the difference in investor protection rules, taxation and fees and charges arrangements between the two markets.

Both before and after the launch of the Stock Connect, the IEC has conducted investor education work through various channels and means, including publications, websites, seminars, media interviews and columns as well as programs and education video on television and radio.

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