Press Release

LCQ12: The proposed Shenzhen-Hong Kong Stock Connect

Wednesday, February 4, 2015

Following is a question by the Hon Dennis Kwok and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 4):

Question:

It has been reported that the Premier of the State Council recently said that a stock connect for cross-boundary trading of stocks listed on the Shenzhen Stock Exchange and the Stock Exchange of Hong Kong (the Sz-HK Stock Connect) should be the next scheme to be launched following the commencement of the Shanghai-Hong Kong Stock Connect (S-HKSC) in November last year. Meanwhile, the Chief Executive of the Hong Kong Exchanges and Clearing Limited said that the launch of the Sz-HK Stock Connect would be a must for 2015, and that the technical systems of the stock markets in Hong Kong and Shenzhen would be connected soon after the regulators from both places completed their study of the proposed Sz-HK Stock Connect. In this connection, will the Government inform this Council if it knows whether the Hong Kong Monetary Authority as well as the Securities and Futures Commission:

(1) have drawn up details regarding the proposed Sz-HK Stock Connect, including the implementation timetable; if so, of such details; if not, the reasons for that;

(2) have assessed the risks to be posed to Hong Kong's financial regulatory system by launching the Sz-HK Stock Connect shortly after the commencement of S-HKSC; if they have assessed, of the details and whether they have formulated measures to minimise the risks; if they have not assessed, the reasons for that; and

(3) have reviewed the achievements and failures of S-HKSC (including the fact that utilisation of the investment quotas has been well below market expectations), and the implications of a recent plunge of the Shanghai stock market due to the China Securities Regulatory Commission curbing margin

financing; if they have reviewed, of the details and how the review outcome will affect the proposed Sz-HK Stock Connect; if not, the reasons for that?

Reply:

President,

(1) We understand that Hong Kong Exchanges and Clearing Limited is discussing with Shenzhen Stock Exchange regarding Shenzhen-Hong Kong Stock Connect. Details including operational arrangements and implementation timetable will be available at a later stage when the discussion progresses further.

(2) The implementation of Shenzhen-Hong Kong Stock Connect will require regulatory approvals. In reviewing any proposals, the regulators will assess the potential implications for the Hong Kong financial market to ensure an orderly market and prudent risk management.

(3) Shanghai-Hong Kong Stock Connect has been in operation for only two months and, as a pilot programme, it is too soon to make a comprehensive assessment of its impact in the Mainland market and in the Hong Kong market. Nevertheless, the operations of Shanghai-Hong Kong Stock Connect, including order routing and matching, trade confirmation and reconciliation, clearing and settlement as well as risk management, have been smooth.

Also, since the launch of Shanghai-Hong Kong Stock Connect, the offshore Renminbi (RMB) market in Hong Kong has been stable and orderly, and is able to accommodate the related fund flows. Specifically, the pool of RMB deposits in Hong Kong (i.e., customer deposits and certificates of deposit issued by banks) grew from RMB1,117 billion at end October 2014 to RMB1,158 billion at end December 2014. The offshore RMB exchange rate and interbank interest rates have also moved generally in line with the onshore rates.

Shanghai-Hong Kong Stock Connect has opened up a new channel for cross-border use and circulation of RMB funds, and will help further develop Hong Kong's offshore RMB business. Moreover, the unique connectivity with the Mainland stock market offered by the scheme is benefiting the financial intermediary businesses in Hong Kong as they provide services ranging from investment management, market research to custodian and brokerage services to Hong Kong and international investors going into the A-share market. All in all, Shanghai-Hong Kong Stock Connect and other cross-border investment schemes will help reinforce and enhance Hong Kong's position as the premier international financial centre and offshore RMB business centre.

Regarding the other questions raised in part (3) of the question, in terms of quota utilisation, it should be noted that the quota is designed to control cross-boundary fund flows which only reflect market activities on a net buy basis and thus is not an appropriate indicator for assessing usage of the programme. Since launch on November 17, 2014 to January 16, 2015, the average daily turnover (i.e., aggregate buy and sell transactions) of Northbound and Southbound trading represented 231 per cent and 183 per cent of the daily quota utilised respectively.

The recent plunge of the Shanghai stock market in January 2015 did not carry any significant adverse implications for the Hong Kong market; market operations in Hong Kong, including the operations of Shanghai-Hong Kong Stock Connect, remained smooth and orderly.

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