

**For discussion
on 2 March 2020**

Legislative Council Panel on Financial Affairs

**Strategic Development of Hong Kong as a Premier Listing Platform and
the Future Strategic Development of
Hong Kong Exchanges and Clearing Limited**

PURPOSE

This paper briefs Members on our strategy to develop Hong Kong as a premier listing platform and the future strategic development of Hong Kong Exchanges and Clearing Limited (“HKEX”), including its Three-year Strategic Plan.

OVERVIEW

2. Hong Kong is a major global listing platform for companies from different jurisdictions. In 2019, Hong Kong raised a total of \$314 billion of funds through Initial Public Offerings (“IPOs”), ranking first in the world for the seventh time over the past 11 years. The Stock Exchange of Hong Kong is also one of the largest stock exchanges in the world in terms of market capitalisation, alongside New York Stock Exchange, NASDAQ and Japan Exchange Group.

STRATEGY TO FURTHER DEVELOP HONG KONG AS A PREMIER LISTING PLATFORM

3. While Hong Kong is a very popular listing venue for companies from different jurisdictions, the Government, the financial regulators and the HKEX adopt a proactive strategy to develop Hong Kong’s listing platform and enhance our competitiveness through a multi-pronged approach, with focus on (a) embracing the new economy; (b) improving market quality; (c) strengthening mutual market access with the Mainland; and (d) going international. Brief descriptions and the specific initiatives underpinning the strategy are outlined in the following paragraphs.

(a) *Embracing the New Economy*

4. In recent years, innovation and technology have re-shaped the global business and economic environment. Major jurisdictions around the world, including Hong Kong, have been adopting different measures to cater for the fundraising needs of new economy companies.

5. In April 2018, the HKEX revised its Listing Rules to expand the existing listing regime to facilitate the listing of companies from the emerging and innovative sectors, subject to appropriate safeguards. The new listing regime allows certain new economy companies to list on the HKEX's Main Board, including (a) pre-revenue / pre-profit biotech companies; (b) high growth and innovative companies that have weighted voting rights ("WVR") structures; and (c) qualifying companies seeking a secondary listing on the HKEX through a new concessionary route.

6. As at end-January 2020, 17 companies have listed on the HKEX under the new listing regime, including 14 biotech companies and three companies with WVR structures (including one company with secondary listing in Hong Kong). These companies have altogether raised \$211 billion of funds through IPOs, representing 36% of all the IPO fund raised during the same period. In addition, in less than two years after the implementation of the new listing regime, Hong Kong has become the second largest biotech fundraising centre in the world.

7. The new listing regime has been effective in bringing more listings of new economy companies to Hong Kong. To move further forward, the HKEX has, in end-January 2020, launched a three-month consultation to seek market feedback on the proposal to allow corporate entities to benefit from WVR structures, subject to additional conditions and investor safeguards. The HKEX will take into consideration the market's feedback before deciding on the way forward.

(b) *Improving Market Quality*

8. We are mindful of the need for both broadening the sources of issuers and upholding the quality of our market. Good quality companies listed on HKEX can heighten investors' interest in our market which, in turn, increases the valuations and liquidity that companies can achieve by listing in Hong Kong. As such, the Securities and Futures Commission ("SFC") and the HKEX have introduced different reforms to the listing regime to improve market quality in order to reinforce the virtuous cycle. Details are as follows –

- (i) Since early 2017, the SFC has adopted a front-loaded regulatory approach to protect market integrity by taking early preventive

action directly against suspected fraud and other serious market misconduct behaviours. In 2019, the SFC exercised its power under the Securities and Futures (Stock Market Listing) Rules (“SMLR”) to intervene in 13 post-IPO transactions as there were reasons for the SFC to believe that the transactions, if completed, would be unfairly prejudicial to the investing public. The SFC also exercised its powers under the SMLR in 29 IPO applications, which led to either improved disclosure or a withdrawal of the listing application. These actions were supplemented by enforcement actions against sub-standard sponsor work and other targeted front-loaded regulatory actions to prevent misconduct behaviours and to maintain and raise professional standards among intermediaries.

- (ii) The HKEX has been applying a heightened review on listing applications that marginally meet the eligibility requirements under the Listing Rules, and updated a guidance letter¹ in April 2018 to emphasise that it would focus on reviewing the commercial rationale of a listing application. The number of listing applications rejected increased from three in 2017 to 24 in 2018, but reduced to 18 in 2019, indicating that the quality of companies listed have been improved.
- (iii) The SFC and the HKEX have been working closely to introduce a series of reforms to the listing regime to combat “shell” listing-related activities². There are encouraging signs that these efforts have yielded results. In particular, following the HKEX’s consultation in 2017, it amended the GEM Listing Rules and the Main Board Listing Rules with effect from 15 February 2018 to revise the positioning and admission requirements of the two Boards. The key changes and the latest position (since we last reported to the Panel in August 2018³) are summarised in **Annex A**. In addition, the HKEX amended the Listing Rules with effect from October 2019 to specifically address “shell” activities⁴.

¹ Titled “Guidance on IPO vetting and suitability for listing”.

² Including tightening the listing rules and practices relating to backdoor listings, cash companies, highly dilutive equity issuances, GEM IPO placings and issuers with disclaimer audit opinions.

³ Vide LC Paper No. CB(1)1406/17-18(02), titled “Review of the Growth Enterprise Market (“GEM”) and Changes to the GEM and Main Board Listing Rules”.

⁴ The HKEX amended the Listing Rules with effect from 1 October 2019 on reverse takeovers and continuing listing criteria and adopted a purposive approach to restricting “shell” related transactions, and to delist companies that do not carry on a sufficient level of operations or do not have sufficient assets warranting a listing status.

It also amended the Listing Rules with a view to improving the quality and reliability of financial information published by listed companies⁵.

- (iv) Separately, following a consultation conducted in late 2017, the HKEX amended the Listing Rules in August 2018 to delist, in a more timely manner, companies that no longer meet the continuing listing criteria. Under the revised delisting framework, the HKEX may delist a company listed on the Main Board or GEM if trading in the company's shares has been suspended for 18 or 12 continuous months respectively.

9. Apart from improving the quality of the listed companies, we also strive to improve the quality of other key important players in the market. For example, the SFC is conducting a thematic review of book building processes in the capital markets and will issue guidance based on its findings. The SFC and the HKEX are also studying ways to enhance the structure of the IPO process.

(c) Strengthening Mutual Market Access

10. Being strategically located at the gateway of the Mainland, Hong Kong has unrivalled advantages in developing our financial services sector by facilitating mutual market access between Hong Kong and the Mainland. A number of mutual capital market access schemes were launched over the past years, including Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

11. Continuous efforts are also being made to enhance these schemes. For example, with effect from 1 May 2018, the daily quota of each of the Northbound trading links under Stock Connect has been quadrupled to RMB52 billion, while that of each of the Southbound trading links has been quadrupled to RMB42 billion. With effect from 28 October 2019, companies with WVR structure as listed in Hong Kong under the new listing regime could be included as eligible securities under the Southbound Trading of Stock Connect upon fulfilment of certain criteria. With the successful inclusion of A-shares into international benchmark indices such as MSCI, FTSE Russell and S&P Dow Jones Indices, trading volumes of Stock Connect have reached new records⁶ in 2019.

⁵ Effective for financial reporting years commencing 1 September 2019, the HKEX would require suspension of trading in a company's securities if the auditor issues or intends to issue a disclaimer of opinion or an adverse opinion on the company's financial statement.

⁶ Total turnover for Northbound Trading of Stock Connect reached RMB9,757 billion in 2019, while the total turnover for Southbound Trading reached \$2,481 billion.

12. To further deepen the access schemes and promote the collaboration and interaction between the two financial markets, the Government and the regulatory authorities are in discussion with the relevant Mainland authorities to include more types of products in the mutual market access schemes. This will also strengthen the attractiveness of our listing platform.

(d) Going International

13. Some of the above-mentioned initiatives, such as the implementation of the new listing regime and the Stock Connect schemes, are indeed conducive to supporting the development of Hong Kong as a more internationalised listing platform. The new listing regime provides many new economy companies around the world with the opportunity to list in Hong Kong, which was previously not available to them. Meanwhile, the Stock Connect schemes attract international investors to access the Mainland capital market through Hong Kong. We strive to build on these strong fundamentals to attract international companies to consider listing in Hong Kong, as well as to attract international investors to consider investing in Hong Kong.

14. As part of its efforts to go international, the HKEX has commenced a review that aims to address the regulatory challenges faced by overseas companies seeking listing in Hong Kong. The review aims to streamline and simplify the listing process, whilst maintaining sufficient safeguards for investors. On-going initiatives are being launched to facilitate the listing of overseas companies. Among other things, the HKEX published a guidance in October 2019 on how overseas companies can meet Hong Kong requirements regarding the clearing of share transactions in order to address the issue faced by many international companies with different clearing regimes from that in Hong Kong.

15. Separately, the HKEX has been increasing the number of jurisdictions of incorporation that are acceptable for listing. Up to January 2020, a total of 28 jurisdictions⁷ have been included on the list of acceptable jurisdictions. The HKEX has published “Country Guide” to enhance overseas companies’ understanding of the expectations, practice, procedures and the criteria that the HKEX would consider when processing the listing applications.

⁷ Including Austria, Australia, Brazil, British Virgin Islands, Canada (Alberta, British Columbia and Ontario), Cyprus, England & Wales, France, Germany, Guernsey, India, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Republic of Korea, Labuan, Luxembourg, the Netherlands, Russia, Singapore, USA (State of California, Delaware and Nevada). Apart from these 28 jurisdictions, the HKEX has also recognized the People’s Republic of China, Cayman Islands and Bermuda for the purpose of eligibility for listing.

DEVELOPMENT OF THE HKEX

16. Being an important building block of Hong Kong's financial industry, the HKEX plays a vital role in the strategic development of Hong Kong as a premier listing platform, and has significant contribution to many of the initiatives mentioned above. The HKEX Group is one of the world's major exchange groups and operates a range of equity, commodity, fixed income and currency markets. It is also the global leader in metals trading through the London Metal Exchange, wholly owned by the HKEX.

17. In February 2019, the HKEX announced its Three-year Strategic Plan (please see **Annex B**), with the vision of being *the Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World*. Under the themes "China anchored", "Globally connected" and "Technology empowered", the Strategic Plan builds upon the successes achieved under the previous strategic plans and aims at transforming the HKEX into a global markets leader.

18. As part of the Strategic Plan, the HKEX has been undertaking a series of market microstructure enhancements in 2019 to boost the overall market liquidity and competitiveness. For example, the HKEX has extended the After-Hours Trading Session by two hours to 3 a.m., and expanded the Closing Auction Session to cover all equities and funds in the securities market.

19. Looking ahead, the HKEX will remain focused on executing its Strategic Plan to capture further growth opportunities in the region and beyond, further building, strengthening and diversifying its capabilities in market connectivity, developing its talent pipeline and reinforcing Hong Kong's relevance to both the East and the West.

WAY FORWARD

20. The Government and the financial regulators will continue to work closely to achieve our shared goal of enhancing the attractiveness of Hong Kong's listing platform, and thereby strengthening Hong Kong's position as an international financial centre. In doing so, we will continue to engage the relevant stakeholders in the market. We are also cognizant of the business environment of the different industry players, including small and medium-sized securities firms, in recent years and will continue to render suitable support to enable them to make continued contribution to fostering the development of the listing platform in Hong Kong.

ADVICE SOUGHT

21. Members are invited to note and offer views on the strategic development of Hong Kong as a premier listing platform and the future strategic development of the HKEX.

**Financial Services and the Treasury Bureau
Securities and Futures Commission
Hong Kong Exchanges and Clearing Limited
February 2020**

**Changes to GEM and Main Board Listing Rules
as Proposed by the HKEX in June 2017 and
Implemented since February 2018:**

Latest Position

Key changes to GEM and Main Board Listing Rules

(a) GEM's Position

On 15 February 2018, GEM was re-positioned as a stand-alone board. The streamlined process for GEM Transfers to the Main Board was removed save for certain transitional arrangements (i.e. GEM Transfers application made before that day). Under the new arrangements, GEM Transfer applicants are required to appoint a sponsor to conduct due diligence and publish a “prospectus-standard” listing document to list on the Main Board, in addition to meeting the Main Board eligibility requirements. To reflect the new role of GEM, the name of “Growth Enterprise Market” was changed to “GEM”.

(b) GEM Admission Requirements

2. The GEM admission requirements were enhanced by increasing (i) the cashflow requirement from at least \$20 million to at least \$30 million; (ii) the minimum market capitalisation requirement from \$100 million to \$150 million; and (iii) the post-IPO lock-up requirement on controlling shareholders from one year to two years.

(c) Open Market Requirements

3. The open market requirements were enhanced by, amongst others, introducing a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs and increasing the minimum public float value of securities from \$30 million to \$45 million.

(d) Main Board Requirements

4. Certain requirements of the Main Board were increased to ensure that there is a clear distinction between companies listed on GEM and the Main Board, namely (i) an increase in the minimum expected market capitalisation of Main Board applicants at the time of listing from \$200 million to \$500 million; and (ii) an increase in the minimum public float value of Main Board companies at the time of listing from \$50 million to \$125 million.

Latest Position

5. Since the implementation of the revised Listing Rules in February 2018, coupled with other regulatory actions, we observed that GEM IPOs have met the new open market requirement, with fewer GEM companies that are owned by a small group of concentrated shareholders. Also, the price-volatility of newly-listed GEM stocks has significantly reduced. For instance, the average first-day price increase of GEM listings dropped from about 530% in 2016 to about 13% in 2019.

6. In terms of the number of listings, the situation before and after the implementation of the reform proposals are as follows:

| | Total number of new listing | Main Board⁸ | GEM |
|--|------------------------------------|-------------------------------|--------------------|
| 2017 <i>(before reforms)</i> | 174 | 94 <i>(54%)</i> | 80 <i>(46%)</i> |
| 2018 <i>(reforms in February)</i> | 218 | 143 <i>(66%)</i> | 75 <i>(34%)</i> |
| 2019 <i>(first full year of reforms)</i> | 183 | 168 <i>(92%)</i> | 15 <i>(8%)</i> |

7. We observe that the number of GEM listings decreased as a proportion of the total number of new listings from 46% of all new listings in 2017 to only 8% of all new listings in 2019. However, over the same period, the total number of all new listings increased by 5% from 174 in 2017 to 183 in 2019. The drop in GEM listings has been more than made up for by the listings on the Main Board. Taken together with the decrease in the overall price-volatility of newly-listed stocks as mentioned in paragraph 5 above, these are signs of improvement for the GEM market.

8. Although GEM listings decreased, the Hong Kong IPO market continued to be robust in 2018 and 2019. The number of new listings on the Main Board increased from 94 in 2017 to 143 in 2018, and further to 168 in 2019 despite the increase in the market capitalisation requirement for Main Board applicants (see paragraph 4 above) that took effect on 15 February 2018.

9. Based on the above, we consider that the reforms made to the Main Board and GEM Listing Rules have been effective in addressing concerns on the quality and performance of GEM applicants and listed companies, thereby contributing to the improvement of the quality and standard of the market.

⁸ These Main Board listings include 13 transfers of listing from GEM in 2017, 10 transfers of listing from GEM in 2018 and 20 transfers of listing from GEM in 2019.

**The Three-year Strategic Plan of
Hong Kong Exchanges and Clearing Limited**

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Strategic Plan

2019-2021



1. OVERVIEW

Our previous three 3-year strategic plans set out a bold vision for connecting international investors and our market with that of the Mainland and diversifying into new asset classes. In pursuing this vision, we have transformed HKEX from the premier offshore equity capital formation centre for China into both a destination and an access market that facilitates inbound and outbound securities investment in equities and fixed income via the *Stock Connect* and *Bond Connect* schemes. Further, we have become a leading player in international commodities trading through the acquisition and commercialisation of the London Metal Exchange.

Responding to the need to offer our enlarged investor base a greater diversity of investment exposures and to improve Hong Kong's market competitiveness, we also recently undertook the most significant reforms to our listing regime in 25 years with the launch of three New Chapters of our Listing Rules to better cater to the needs of new economy issuers.

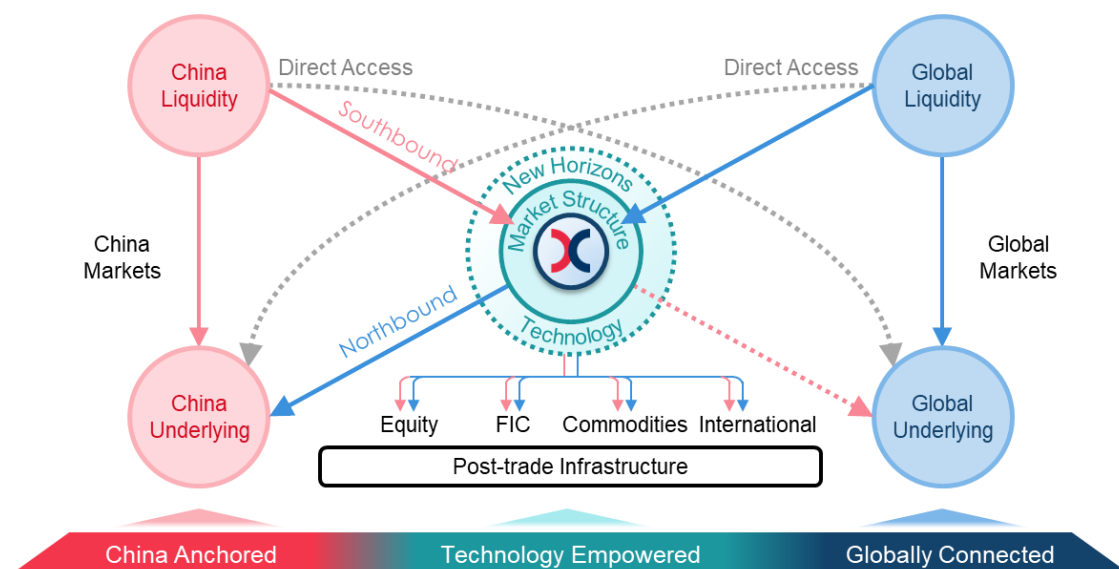
Through the *Connect* schemes, we have helped open the door for the inclusion of Mainland Chinese securities into major global benchmark indices, thereby heralding a new phase of internationalisation of China's capital markets and catapulting Hong Kong to greater international relevance for investors and issuers around the world. While our international stakeholders have mostly focused on the improved ease of access to onshore Chinese markets offered by these schemes, the *Connect* model has also helped China address its need to provide its citizens with a secure and transparent channel for investment diversification.

The continuing growth of international portfolio investment in Mainland China and the still nascent stage of Chinese outbound securities investment should provide the basis for significant growth for Hong Kong's financial markets and for HKEX for many years to come. As we continue to improve the ease of access and gradually extend the scale and scope of the *Connect* programmes, enhance our commodity and offshore RMB product offerings, and develop risk management tools across asset classes, these efforts will facilitate China's continuing financial markets liberalisation: they will help bridge the standards of the Mainland markets with international standards, and also serve to support the Guangdong-Hong Kong-Macao Greater Bay Area initiatives to promote mutual market access. In turn, they will cement Hong Kong's status as the premier global offshore RMB and risk management centre. These developments have laid a firm foundation for the next chapter in HKEX's growth, where we intend to transform ourselves from being a leading global exchange, not only by virtue of our size, but also in terms of our asset class and product range, reach, global relevance, regulatory standards, market efficiency, culture, and technological innovation.

1.1 Our Vision

Our vision is to be ***the Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World***. Building upon the role we already play as the leading venue for investing into and out of Mainland China, we aim to further increase our international relevance to China and Asia, and our Asia relevance to the global markets, serving as the venue of choice for investors and issuers in the Asian time zone.

1.2 Key Themes Underlying Our Strategic Plan 2019-2021



The major themes underlying our Strategic Plan 2019-2021 build upon the successes achieved under our previous Strategic Plans and centre on the following three focus areas:

- i. **China Anchored** through two-way capital flows: (i) enhancing the internationalisation of China's domestic capital markets through the *Northbound Connect* programmes; and (ii) facilitating the international investment diversification of China's national wealth through the *Southbound Connect* programmes.

To achieve these aims, we need to provide international investors with better access to China underlying, both onshore and offshore, broaden our product suite to include more global underlying for Mainland investors, and enhance our market infrastructure to address the risk and capital management needs stemming from the expected growth in cross-border capital flows, particularly in Fixed Income and Currency (FIC).

- ii. **Globally Connected** on two fronts: (i) further increasing the relevance of Hong Kong's markets to global liquidity; and (ii) offering more Asia Pacific investment exposures in Hong Kong.

To meet the needs of our changing investor mix, we need to attract and service an expanding global customer base by adding Asia Pacific products across asset classes to our existing strong China product suite, improving our global competitiveness through market microstructure enhancements to deepen market liquidity, and expanding our global presence.

- iii. **Technology Empowered** to meet two objectives: (i) modernisation and growth of our core business; and (ii) exploration of new frontiers.

To capture the benefits of the accelerating pace of technological change in our industry, we need to modernise our core systems to improve market efficiency; embrace the application of new technologies across, and beyond, our value chain to deliver a better market experience and cost-effective outcomes; and explore potential strategic partnerships to venture into new horizons in Fintech and data markets.

2. OUR MISSION

Our mission is to:

- i. Build on our leading position in Hong Kong and be a globally respected organisation.
- ii. Add value to our core franchises:
 - **Hong Kong:** promote and reinforce Hong Kong as a leading International financial centre, globally and particularly in Asia;
 - **China:** contribute to China's ongoing opening up and modernisation, offer attractive capital markets for its enterprises and investors, and facilitate interactions with the rest of the world; and
 - **Globally:** act as the go-to market for diversification into China and the rest of Asia, and as a major capital raising centre.
- iii. Engage within our communities and promote broader social responsibility, providing strong career development for our people; and continual technological and financial innovation.
- iv. Provide attractive long-term value to our shareholders.

3. STRATEGIC INITIATIVES

Underlying these key themes of our Strategic Plan 2019-2021 is a deep analysis of the macroeconomic, geopolitical, competitive, technological and regulatory backdrops in which we operate today, and which we foresee over the coming three years and beyond.

3.1 China Anchored: Facilitating China's Internationalisation and Investment Diversification

As the Mainland continues to pursue structural reforms, further internationalisation of China's capital markets will drive increasing flows of global liquidity into China underlying both onshore and offshore, supported by international index inclusions, demand for greater international portfolio diversification by Mainland investors, and the growing international role of the RMB.

To facilitate capital flows *into* the Mainland, we will need to provide international investors with the most comprehensive range of Chinese securities investments – whether they be listed on our market or via access to onshore trading venues – in the most efficient manner, and deliver cross-border FX solutions to meet the needs arising from surging inbound liquidity.

We continue to believe that it is in China's national interest to enable its citizens to seek long-term investment diversification on a global basis and that the *Connect* programmes provide the most mutually beneficial, secure, transparent and cost effective way of doing so. To support greater *outbound* investment, we will need to work with Mainland regulators and exchanges to leverage and expand these secure, transparent and controlled channels for Mainland citizens to invest in the growing portfolio of underlying products that we plan to bring to Hong Kong from global and Asia Pacific markets.

Increasing two-way cross-border investment in cash securities markets will also drive greater demand from investors for derivatives for risk and portfolio management purposes. These developments in turn will require HKEX to invest further in critical areas of risk management and post-trade infrastructure to provide for the cross-border custody and settlement needs of both Mainland and international investors. In this connection, we need to further extend our connectivity in FIC and commodities (QME and LME) to fully capture the potential upside in China's internationalisation.

Key Strategies

- **Expand Northbound capital inflows** by broadening the availability of onshore products and underlying, and through delivering more risk management tools offshore.
- **Expand Southbound capital allocation** to facilitate Mainland investors' investment diversification by offering more global underlying.
- **Expand post-trade infrastructure** to position Hong Kong as the trusted and secure cross-border trading, settlement, clearing and custody centre, particularly in FICC, and address the capital efficiency needs of both Northbound and Southbound capital.

Key Initiatives

- **Enhance *Stock Connect*** by gradually expanding product coverage across more stocks (including international companies), ETFs, listed bonds (including convertible bonds) and primary issuance (*Primary Connect*), introducing market microstructure improvements, and working with onshore regulators to introduce stock borrowing and lending for Southbound holdings and to allow short-selling by Northbound capital under existing mechanism on the onshore markets. In doing this, we will seek to work with the onshore exchanges on a win-win basis.
- **Launch A-share futures products** to support hedging of China A-shares by international investors, thereby enabling an increase in China A-shares' weighting in international benchmark indices.
- **Enhance *Bond Connect*** through structural improvements, the addition of a wider range of access platforms, and preparations to launch Southbound trading.
- **Develop connectivity to support cross-border execution in the RMB FIC derivatives market** for both exchange-traded and OTC hedging and capital management tools, including by working with onshore regulators and partners to expand eligible cross-border products to repos and derivatives, supported by cross-border clearing functionality.
- **Support improved access to the CNY market** through developing infrastructure to enable close regulatory monitoring and transparency.
- **Leverage *Bond Connect* to expand our FIC value chain and explore the development of Hong Kong as an international custody hub** to enhance cross-border trading and support Mainland investors' increased outbound investment in Hong Kong and beyond.
- **Offer an expanded commodities product suite** in LMEprecious (gold, silver, platinum), ferrous (hot-rolled coil, iron ore options, molybdenum), alumina and battery metals (lithium and cobalt).
- **Extend LME trading into the Asian time zone and expand our commodity spot price discovery capabilities** by leveraging our London, Hong Kong and onshore (QME) platforms; this will be done through acquisitions, partnerships and/or organic build-outs of spot trading platforms (utilising QME and LMEbullion) and developing Price Reporting Agency capabilities, thereby creating reliable global and China spot prices that can be used as reference prices for derivatives.
- **Extend our onshore commodities capabilities in the Mainland**, by exploring with onshore regulators the possibility of establishing LME licensed warehouses onshore to enhance the global competitiveness of Chinese commodities enterprises, developing QME to discover a reliable China spot price and eventually enabling international investors to get access to QME trading by extending our *Commodities Connect* programme and potentially launching futures on QME spot prices in Hong Kong and London.

3.2 Globally Connected: Bringing Global Liquidity to China and Asia Pacific Underlying

Our strategic initiatives in recent years, particularly the *Connect* programmes, have significantly increased our relevance to international investors. As Mainland financial assets are included in international benchmark indices and their weighting in those increases, our relevance to international investors will continue to grow.

However, the changing investor mix in global markets and structural shifts in the investment management sector, including the rise in passive investment, algorithmic trading and pressures on traditional asset managers, are driving increasing geographic and asset class agnosticism. Against the backdrop of intensified industry competition to attract trading volumes, we must enhance the competitiveness of our core business by lowering our barriers to entry and reducing the costs and frictions of doing business with us through a range of market microstructure improvements and by adopting a more global approach.

Further, in light of rising levels of wealth, AUM and development in the Asia Pacific region, we see growing global demand for regional investment and exposures that today are either unmet entirely or which are relatively inefficient to access. To capture these opportunities, we must develop a larger ecosystem of products.

In particular, ETFs have increasingly become the preferred passive investment vehicles for both institutional and retail investors globally. As global investors are demanding more regional themes and products and Mainland investors are demanding more global themes and products over time, based on our attractive core market and close connection with Mainland's capital markets, Hong Kong is well positioned to be *the* hub for ETFs in the Asia Pacific.

To support us in pursuing these objectives, we must also strengthen our engagement with our clients, regulators and other stakeholders on a global basis.

Key Strategies

- **Enhance our product ecosystem across asset classes**, providing global liquidity with more comprehensive access to Hong Kong-listed or traded Asia Pacific underlying in addition to our existing offering, and onshore Chinese products through the *Connect* programmes.
- **Improve our market microstructure** to make our markets more globally competitive, cost effective and accessible, in order to enhance overall market liquidity.
- **Expand our international footprint further** to broaden and deepen our global operations beyond LME.

Key Initiatives

- **Build upon our 2018 Listing Reforms by further enhancing the structure of our IPO regime**, including pursuing measures to streamline our IPO process, shortening the IPO settlement cycle, and addressing microstructural frictions.

- **Develop a listing and capital raising hub for major global and regional companies** on either a primary or secondary basis, thereby attracting global investment seeking exposure to Asia Pacific companies and Mainland investors seeking international exposure. To better attract Asia Pacific companies to list in Hong Kong, we will work with relevant regulators on introducing changes to our listing regime as well as Remote Participantship arrangements. We will also work with Mainland regulators on facilitating the gradual inclusion of these listings in the *Connect* programmes on both a primary and secondary basis.
- **Become *the* ETF issuance and trading hub for the Asia Pacific time zone** through broadening our offering of both global and Asia Pacific exposure ETFs, working with our Mainland regulators and partners to include suitable ETFs in *Southbound Connect*, lowering barriers to issuance, implementing market microstructure improvements, orchestrating investor education programmes, and proactively supporting regional ETF product development with the development of corresponding derivatives and structured products.
- **Accelerate the pace of development of new products across derivatives and structured products** and adopt a holistic product development approach across our entire product ecosystem, by shortening our product development cycle, filling the remaining product gaps in our time zone, coordinating our equity product development efforts across single shares, ETFs, structured products, and futures and options, and supporting those efforts with targeted marketing.
- **Increase market liquidity in both cash and derivatives** by undertaking a series of market microstructure enhancements for both the Hong Kong market and *Stock Connect*, including further extending trading hours for equity derivatives, expanding the list of short-sellable stocks, and exploring initiatives to reduce the overall cost of trading.
- **Improve the ease of access to the Hong Kong markets** by streamlining our client on-boarding process, allowing Remote Participantship, and pursuing measures to offset the costs of initial on-boarding and new product support.
- **Expand our international footprint and customer engagement** to improve client coverage and promote the Hong Kong markets, our products and our offering, by launching new marketing and client coverage hubs in North America and Europe, dedicating more group resources to monitoring and assessing the opportunities presented by international market developments, and building upon our increased level of participation in international bodies in recent years.

3.3 Technology Empowered: Leveraging New Technology for Modernisation and Growth

Against the backdrop of an accelerating pace of technological innovation in our industry, we must focus on applying new technologies to modernise our core functions in order to enable greater efficiency in our operations and deliver new services to our market. As data becomes ever more important not only to us but to our clients, we are instituting a more data-oriented management culture throughout HKEX and will drive the adoption of integrated management information systems.

Beyond our core market competencies, we will continue investing in further enhancing our development capabilities and pursuing value-additive business solutions that may substantially alter our markets, by both leveraging our Innovation Lab and collaborating with specialist technology and solutions vendors.

Finally, in order to fully utilise technologies as enablers to drive further growth, we need to increase our focus on innovations that may offer new business opportunities and avenues of revenue generation, including through establishing potential partnerships with leading new economy companies.

Key Strategies

- **Modernise our core systems** to enhance product and service offerings and improve market and operational efficiency.
- **Leverage new technology**, including artificial intelligence, Blockchain, cloud infrastructure, and data analytics, in an agile manner to optimise processes, strengthen client engagement, and engage different parts of our value chain to deliver cost-effective outcomes.
- **Expand our horizons** by leveraging our regulatory and market trust and partnering with China's technology leaders to explore and pioneer in completely new frontiers, particularly with respect to data as a new asset class for the financial markets.

Key Initiatives

- **Roll out the Next Generation Post-Trade platform** and consolidate our Hong Kong clearing houses, thereby upgrading our clearing, settlement and depository infrastructure across cash and derivatives trading and facilitating dramatic improvements in capital and operational efficiencies in the Hong Kong market.
- **Introduce a series of core system enhancements** including the upgrading of the Genium derivatives trading platform and the integration of the LME's metals market and our Hong Kong derivatives market onto the Orion Trading Platform.
- **Expand our technology resources** through acquisitions or alliances with technology partners, including a majority investment in Ronghui Tongjin (a subsidiary of Kingdom Sci-Tech), a leading financial markets technology company with an established presence in the fields of securities, data application, and regulation technologies, which will enhance our overall technological capabilities to accelerate many of our future IT projects and initiatives.

- **Leverage our Innovation Lab** to stay abreast of emerging new technologies and, where relevant, take a flexible approach to introducing them into our business via partnerships and/or pilot schemes, such as the application of Blockchain in *Stock Connect* trade allocations.
- **Launch *Client Connect***, a unified single platform for our Exchange Participants, Clearing Participants and issuer clients to securely access an expanded range of HKEX services, enabling product cross-selling, digitised client workflows and straight-through processing.
- **Execute on an enterprise data strategy** by integrating our data architecture, digitising and automating processes group-wide, and establishing central data governance and ownership, thereby establishing a strong foundation for our ongoing technology innovation, reducing operational costs and time to market, and improving market insight and engagement.
- **Explore an opportunity to create a scalable *Data Marketplace* platform** for sharing data and analytics via a commercial pricing mechanism to better mobilise and monetise the large amount of data being produced.
- **Unlock new growth opportunities** by leveraging our network and trust among regulators and market participants, establishing potential strategic partnerships with China's technology leaders in areas beyond our current core competencies, and via investments in new technologies and talent that can bring in new capabilities.

4. BUILDING THE RIGHT ORGANISATION AND CULTURE FOR A MARKET LEADER

To support our strategic objectives, we will need to take a further leap forward in our talent development, capabilities and corporate culture, driving a more commercial, innovative and customer-centric approach in all aspects of what we do. We will seek to automate and optimise internal processes to free up resources that could otherwise be deployed towards development and growth. We are also committed to strengthening our engagement with external stakeholders, aligning our interests to the future prosperity of Hong Kong as a whole. HKEX's ambition to be a globally trusted and innovative organisation is matched by our commitment to deliver the highest standards of integrity and transparency in all that we do.

4.1 Driving the Right Culture

As part of our commitment to building a common and progressive culture across HKEX, we will launch our new 'Vision, Purpose and Values' to employees, with values that we can share and a common vision for success. This will support a more collaborative approach and reflect the key role that we play in society and in the future prosperity of our communities as a whole.

4.2 Optimisation of Internal Processes

Through investment in our technology platforms and greater levels of automation, we will liberate our employees from many of the mundane and repetitive tasks that are carried out across the organisation. We expect to increase employee engagement and be able to reorient more of our resources towards customer engagement and business development.

4.3 Talent Development and Succession Planning

We will further invest in greater training and development throughout the organisation, to ensure that employees are continually improving their skills and knowledge, are best able to balance the alignment of business and risk objectives, and to provide specific leadership training to high potential employees.

As a part of our training and development, we will encourage greater employee mobility between our business divisions, improve collaboration and foster the development of 'all-rounders' with experience in multiple areas of our business, which will support our long-term succession planning. We will instil a top-down focus and support to facilitate such comprehensive programme of talent development.

4.4 Engagement with External Stakeholders and Elevating Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) Standards

We will step up our level of engagement with the Hong Kong SAR Government and our regulators not only for product and policy approvals, but also on the latest market developments, in order to foster greater alignment for the long-term health of the Hong Kong market. We will also continue to invest in our relationships with international regulators and associations, so that we can align with latest market best practices and shape future regulation and policies.

Through establishing a new Board level CSR Committee, we will take a more strategic approach in our CSR activities and focus on areas where our skills as a business can benefit the community and our own business. We aim to be the best-in-class among the Hong Kong community, through leading by example, continuing to enhance requirements for CSR and ESG reporting and disclosure by our listed companies, and providing guidance on meeting disclosure and operational standards. We will also seek to develop a green finance regime to facilitate sustainable financing for environmentally-aligned issuers seeking lower costs of funding.

5. CONCLUSION

In our previous 3-year strategic plan, we set out a bold vision: *Connecting China with the World, we are Reshaping the Global Market Landscape*. We believe we have, to a great extent, realised our strategy of building the most effective platform for cross-border access with Mainland China, and developed a unique destination market for products with both Chinese and international relevance.

Building on the successes of our Strategic Plan 2016-2018, we are now ready to declare an even bolder vision to bring Hong Kong and HKEX forward into a new sphere: to be ***the Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World***. In support of this vision, as part of our Strategic Plan 2019-2021, we intend to focus our efforts in the following areas:

- **Mainland investors' diversification:** Support international portfolio diversification by Mainland investors and facilitate further internationalisation of the domestic capital markets through secure, effective and transparent channels across asset classes;
- **Global access to Asia underlying:** Attract global liquidity to Hong Kong by providing broader and more effective access to Asia Pacific underlying, creating a comprehensive and competitive one-stop shop for China and Asian exposures; and
- **Technology and innovation:** Leverage technology to modernise our core business and explore new frontiers through strategic partnerships with technology leaders.

Our vision and strategic objectives represent the most ambitious and challenging in our recent history. However, when realised, these initiatives will position HKEX for continued leadership among the global exchange groups and drive Hong Kong to pre-eminence among the world's financial centres.

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