



SFC's response to the follow-up request arising from the Legislative Council Panel on Financial Affairs meeting on 1 February 2021

We refer to the letter dated 8 February 2021 from the Clerk to the Legislative Council Panel on Financial Affairs to the Financial Services and the Treasury. Please find below our response to the follow-up request set out in the above letter.

- **The Securities and Futures Commission is requested to provide information on the factors, including a possible increase of stamp duty on stock transaction, that may affect investors and the volume of transactions in the market.**

Trading activities are driven by a combination of factors. In addition to transaction costs (including stamp duty), there are other factors that may affect trading activities on the stock market.

- (a) Market conditions
 - **Market performance and volatility:** Among other factors, trading activities seem to be positively associated with market performance and market sentiment. Generally speaking, investor participation tends to be higher when the market advances. Also, trading activities tend to increase at times of high market volatility, as some investors may have to manage their exposure and some short-term investors are likely to trade frequently to capture opportunities arising from market movements.
 - **Capital flow:** Trading activities usually become more active as liquidity increases amid periods of fund inflows from overseas markets. In particular, at times when major central banks adopt accommodative monetary policy, liquidity conditions in the market are likely to be abundant which stimulate investment in the stock market.

- (b) Market structure
- **Number of listed companies:** As more prominent companies are listed in the market, it may attract investor interests leading to more active trading. It is observed that trading increases with the number of large listed companies.
 - **Investor base:** The participation of a wider spectrum of investors is conducive to the growth in trading. Amid the opening up of the Mainland market, Stock Connect has enhanced liquidity to the Hong Kong stock market.