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LC Paper No. CB(1)1407/20-21(01)
FINANCIAL SERVICES BRANCH
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GOVERNMENT OF THE HONG KONG
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來函檔號 YOUR REF.:

30 September 2021

Clerk to Panel on Financial Affairs
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Connie Szeto)

Dear Ms Szeto,

Panel on Financial Affairs
Development of Hong Kong as a Premier Listing Platform

At the meetings on 2 November 2020, 1 March 2021 and 9 August 2021, members raised enquiries on a few issues relating to Hong Kong's listing platform. The attached note at the Annex provides an overview of the latest situation and an update on our efforts to enhance its competitiveness, and responds to members' questions.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Larry Chu', written over a faint circular stamp.

(Larry Chu)

for Secretary for Financial Services
and the Treasury

c.c.
Securities and Futures Commission
Hong Kong Exchanges and Clearing Limited

(Attn: Mr Paul Yeung)
(Attn: Miss Allie Cheung)

Development of Hong Kong as a Premier Listing Platform - Latest Position

The Government have taken proactive policy initiatives to drive the development of our capital market with the financial regulators and the Hong Kong Exchanges and Clearing Limited (“HKEX”). Notably, we revamped our listing regime in 2018 to facilitate the listing of companies from the emerging and innovative sectors with encouraging results. As at end-August 2021, 58 companies have listed on the Stock Exchange of Hong Kong under the new listing regime, raising over \$550 billion of funds which represented over 40% of all the Initial Public Offerings (“IPOs”) funds raised during the same period.

2. With the support of the Central Government, we have expanded the mutual capital market access schemes between the Mainland and Hong Kong. In 2021 (up to the end of August), the average daily trade values (including buy and sell trades) of Northbound Trading under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were RMB55.3 billion and RMB65.3 billion respectively, representing an increase of 41% and 25% respectively when compared with the full-year figures of 2020. The average trade values of Southbound Trading of the two Stock Connect schemes were \$22.7 billion and \$24.4 billion respectively, representing an increase of 73% and 116% respectively when compared with the full-year figures of 2020. Meanwhile, the amount of foreign holding of Mainland onshore bonds through channels including Northbound Trading under Bond Connect was RMB3,775.4 billion. The average daily trading volume of Northbound Trading under Bond Connect increased from RMB1.5 billion in July 2017 when the programme was first launched to RMB26.5 billion in 2021 (up to the end of August).

3. The overall development of Hong Kong as a major global listing platform has also sustained its good momentum. In 2020, Hong Kong raised a total of \$400 billion of funds through IPOs, representing more than 27% increase over the amount in 2019. In the first eight months of 2021, Hong Kong raised a total of about \$270 billion of funds through IPO and recorded an average daily turnover of \$183.8 billion, representing 81% and 46% year-on-year increase. Market capitalisation was \$46.8 trillion at the end of August 2021, representing 10% year-on-year increase.

Efforts to Enhance the Listing Platform

4. Looking forward, we strive to take the lead to drive the development of our listing platform together with the financial regulators and HKEX through a multi-pronged approach, including modernising our listing regime and infrastructure for new opportunities; improving market quality; and strengthening mutual market access with the Mainland in keeping with our gateway role and

international financial centre status. The initiatives are summarised below.

(a) Modernising our Listing Rules

5. To broaden the pool of potential issuers seeking secondary-listing in Hong Kong, **further grandfathering arrangements** were implemented in October 2020 for companies with corporate weighted voting right (“WVR”) structures¹ that have already listed at overseas stock markets² before end-October 2020 to apply for secondary listing in Hong Kong. HKEX has also consulted the market on new proposals to **allow Greater China companies from traditional industries without a WVR structure to seek secondary-listing in Hong Kong and provide flexibility for Greater China companies to seek dual-primary listings in Hong Kong whilst retaining their WVR and variable interest entity structures.** Final recommendations are targeted to be announced by the end of 2021.

6. HKEX is consulting the **market until 31 October 2021 on creating a listing regime for special purpose acquisition companies (“SPACs”)** that will provide potential issuers with an alternative route to traditional IPO, whilst restricting subscription and trading of a SPAC’s shares to professional investors only until after the completion of acquisition of the target company.

7. HKEX has also **commenced a review on GEM’s positioning** with a view to further developing GEM into a specific board to attract and facilitate the listing and fundraising of small and medium enterprises to nurture long-term growth.

(b) Harnessing Technological Advancement for Infrastructure Development

8. We have **established a legal framework for implementing an Uncertificated Securities Market (“USM”) regime** that will enable investors to hold and trade securities on a digitised environment without paper documents. The operational details of the regime would be presented to the market by the end of 2021.

9. On the IPO subscription and settlement front, **all IPO listing documents are required to be published in electronic format and IPO subscriptions are only made through electronic channels** from 5 July 2021. HKEX targets to **establish an electronic IPO settlement platform named “FINI”** by the fourth quarter of 2022 to allow sponsors, share registrars, securities brokers and regulatory authorities, etc. to process IPO applications simultaneously and **shorten the settlement cycle from T+5 to T+2.**

¹ Companies with WVR shares possessed by corporate entities

² The specified overseas stock markets include New York Stock Exchange, NASDAQ Stock Market and the Main Market of London Stock Exchange.

(c) Improving Market Quality

10. To address regulatory issues involving listed companies barely meeting the minimum market capitalisation requirements and with relatively low profit, HKEX has, after thorough market consultation, decided to **increase the Main Board profit requirements by 60% with effect from 1 January 2022**. At the same time, **regulators have stepped up their collaboration to tackle misconduct and improper behaviour** involving newly-listed companies.

11. HKEX has **upgraded the disciplinary regime for listed companies** in July 2021 by introducing new measures such as tightening disclosure requirements for directors and subjecting senior management, advisors and guarantors of listed companies to sanctions.

12. Separately, the Securities and Futures Commission aims to announce in the fourth quarter of 2021 recommended measures to **enhance the regulatory oversight of IPO bookbuilding activities**, and HKEX is contemplating proposals to **optimise the IPO price discovery process** for consulting the market within 2022.

13. To promote good corporate governance and provide better guidance to the boards of listed companies, HKEX has consulted the market on **enhancements to the corporate governance framework for listed companies** including to promote board independence and refreshment, as well as improve board diversity. Final recommendations are targetted to be announced by the end of 2021.

(d) Strengthening Mutual Market Access

14. We continue to expand mutual capital market access schemes in a gradual manner. **Pre-revenue / pre-profit biotechnology companies listed in Hong Kong and companies listed on Mainland's Sci-Tech Innovation Board (STAR Market) were included as eligible securities of Stock Connect** in December 2020 and February 2021 respectively. The regulatory authorities in the Mainland and Hong Kong have also established a scheme to facilitate **cross-listing of ETFs between Hong Kong and the Mainland** since October 2020.

15. Building on the success of its Northbound Trading, we have launched **Southbound Trading under Bond Connect on 24 September 2021** to provide an effective channel for qualified onshore investors to make diversified asset allocation. **MSCI China A50 Connect Index futures contract**, which has been formally endorsed by the Mainland authorities, would be launched in Hong Kong on 18 October 2021 to serve as a useful risk management tool for offshore investors participating in the A-share market.

Contributing to the National Development

16. As regards the points raised by members, the Mainland authorities have implemented several measures to strengthen regulation of certain industry sectors in the last few months.

17. In its response to the media enquiries on 1 August 2021, the China Securities Regulatory Commission expressed that it would coordinate closely with the relevant Mainland authorities to enhance the transparency and predictability of Mainland policy measures. It also indicated that the Mainland would maintain Hong Kong's position as an international financial centre and support full-scale collaboration between the Mainland and Hong Kong, including to further enhance the Stock Connect schemes, **support Mainland companies to list in Hong Kong**, take forward the development of Guangdong-Hong Kong-Macao Greater Bay Area, and promote comprehensive integration of Hong Kong into national development.

18. As an international financial centre, Hong Kong's securities market performance is subject to different factors, including factors in the local and external context. While some recent market movements were observed, there is **no systemic risk** to the securities market and trading in Hong Kong continues to be conducted in an orderly manner. We have established a comprehensive surveillance mechanism to closely monitor the trading activities in the market and would closely communicate with market participants to maintain comprehensive surveillance. Separately, foreign investors currently only account for 5% of the A-share market, the potential for future development is enormous. Despite of some regulatory measures targeting specific sectors were implemented, we are confident that foreign investors' confidence towards long-term development of the Mainland would not be affected.

19. The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035 reiterates Hong Kong's position as an international financial centre and expresses staunch support for Hong Kong to strengthen its functions as a global offshore Renminbi business hub, an international asset management centre and a risk management centre. The Government will continue to proactively work towards the goal of enhancing the competitiveness and attractiveness of Hong Kong's listing platform, thereby contributing to the fulfilment of the above targets and our integration into the national development.

Financial Services and the Treasury Bureau
September 2021