

**For discussion  
on 7 April 2025**

**Legislative Council Panel on Financial Affairs**

**Enhance the Competitiveness of the Securities Market**

**PURPOSE**

This paper briefs Members of the progress of implementing various measures to enhance the competitiveness of the securities market, and of a series of further enhancements measures, including legislative proposals in increasing the position limits of derivatives on major indices and implementing an electronic public offering subscription process.

**BACKGROUND**

2. The key to consolidating and enhancing the strengths of Hong Kong as an international financial centre lies in institutional innovation, product innovation, a critical mass of enterprises and financial connectivity. Over the past few years, we have been constantly striving for progress and self-innovation, seeking breakthroughs through reforms. We actively put forward new ideas to enhance the functions of Hong Kong as an international financial centre, consolidate existing advantages and explore new growth areas.

3. The institutional reforms to the capital market in the last few years, including establishing listing avenues for new economy and technology enterprises with weighted voting rights structures, facilitating fundraising by overseas issuers, etc., coupled with the Government's active efforts in attracting new capital overseas and expanding new markets, have injected impetus to the Hong Kong market and improved its liquidity. Since the listing regime reform in 2018 and with the implementation of recommendations of the Task Force on Enhancing Stock Market Liquidity, various measures are gradually bearing fruits. Last year, Hong Kong ranked among the top three international financial centres and the top four initial public offering (IPO) markets in the world. We welcomed a total of 71 new listings last year, with total funds raised amounting to over \$87 billion, an increase of close to 90% year-on-year. Trading volume in the securities market hit new highs, with total market capitalisation increasing by 14% year-on-year and average daily turnover increasing by 26% year-on-year. The derivatives market was also very active over the past year, with average daily trading volume of futures and options reaching 1.55 million contracts, up 15% year-on-year and setting a record high.

4. The significant improvement in market sentiment can be attributed to not only the resilience of our country's economy and breakthroughs in key technologies which have attracted international investors to increase their holdings of Hong Kong-listed assets, but also to the close collaboration between regulators, the industry and the Government in implementing reforms for improving market vitality and liquidity. In the past year, the Government coordinated the Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited (HKEX) to jointly take forward various measures in enhancing the competitiveness of the securities market, covering the listing regime, market structure, trading mechanism, corporate governance and market expansion.

## **WORK PROGRESS**

### *Enhancing the Listing Regime*

#### *(1) Enhancing the listing regime for specialist technology companies and special purpose acquisition companies*

5. The SFC and HKEX have lowered the initial market capitalisation threshold for listing of specialist technology companies<sup>1</sup> and the minimum independent third-party investment for de-SPAC transactions conducted by special purpose acquisition companies (SPACs)<sup>2</sup>, so as to boost the inclusivity and dynamism of relevant listing framework, providing greater flexibility and clarity for issuers and investors. The adjustments took effect from September 2024 for three years. HKEX will review the relevant requirements as necessary during the period.

#### *(2) Enhancing the listing application vetting process*

6. To facilitate more quality enterprises to raise funds in Hong Kong, the SFC and HKEX announced specific measures to further optimise the relevant procedures to provide greater certainty regarding the time required for vetting of listing applications in October 2024. Under the enhanced application timeline, the SFC and HKEX will continue to commence regulatory assessments in parallel upon receiving new listing applications. The two regulators will indicate any material regulatory concerns on new listing applications after a maximum of two rounds of regulatory comments in no more than 40 business days<sup>3</sup>. Subject

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<sup>1</sup> For commercialised companies, the minimum market capitalisation is reduced from \$6 billion to \$4 billion; and for pre-commercialised companies, the minimum market capitalisation is reduced from \$10 billion to \$8 billion.

<sup>2</sup> The minimum independent third-party investment involved in a de-SPAC transaction is reduced to the lower of: the original prescribed percentage of the relevant investment amount corresponding to the negotiated value of the de-SPAC target as set out in the Listing Rules; or \$500 million.

<sup>3</sup> Excluding the response time of the listing applicants.

to the response time of applicants in addressing the regulatory comments, it is expected that new listing applications meeting relevant requirements and without material regulatory concerns could generally be completed within the six-month application validity period. If an A-share company meets the relevant criteria when submitting a new listing application<sup>4</sup>, the SFC and HKEX will indicate any material regulatory concerns on the application after one round of regulatory comments in no more than 30 business days<sup>5</sup>, further shortening the time by a quarter when compared to other new listing applications generally.

### *(3) Facilitating listing of overseas issuers*

7. With Hong Kong as a leading international fundraising centre, we are committed to attracting companies of different sizes and with growth potential from around the world to list and raise funds in Hong Kong for business expansion. On the basis of the enhancements to the listing regime for overseas issuers over the past few years, HKEX continues to review the scope of its recognised stock exchanges. Further to the inclusion of the Saudi Exchange, the Indonesia Stock Exchange, the Abu Dhabi Securities Exchange and the Dubai Financial Market onto its list of recognised stock exchanges in 2023 and 2024, HKEX further added the Stock Exchange of Thailand in March this year, extending the list to 20 recognised exchanges, enabling overseas companies listed in the relevant main markets to apply for a secondary listing in Hong Kong.

### *(4) Optimising IPO price discovery and open market requirements*

8. To further enhance the existing regulations and mechanism, HKEX launched a consultation in December 2024 on optimising IPO price discovery and open market requirements, which represents a holistic reform of the relevant regulatory framework to ensure the attractiveness and competitiveness of the listing mechanism to existing and prospective issuers. The major specific proposals include increasing the participation of “price setting” investors in the IPO price discovery process to reduce the likelihood of the final offer price being set at a large disparity to the actual trading price after listing; reviewing the open market requirements to ensure that issuers have sufficient shares in public hands that are available for trading at listing, and relaxing certain restrictions on public shareholding. The consultation ended in March this year. HKEX is consolidating and considering the views received, and will consult further on certain further suggestions and related matters if necessary before finalising the proposal.

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<sup>4</sup> Including that it is expected to have a minimum market capitalisation of \$10 billion; and it can confirm, with the support of legal advisers’ opinion, that it has complied with all laws and regulations in all material respects applicable to its A-share listing throughout the two full financial years immediately preceding the new listing application.

<sup>5</sup> Excluding the response time of the listing applicants.

### *(5) Implementing an electronic public offering subscription process*

9. The Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L) (Class Exemption Notice) currently allows companies to distribute a printed application form without it being accompanied by a printed prospectus in connection with an offer for any shares or debentures that have been approved for listing on HKEX through a mixed media offer. In order to facilitate a fully electronic public offering subscription process, the SFC and HKEX conducted consultations in August 2024 respectively, inviting the market to provide views on the proposal to abolish mixed media offers. With wide support from the market, the SFC and HKEX published their consultation conclusions in January this year respectively, announcing that they would adopt the relevant proposals and implement corresponding amendments to the Listing Rules. Details are provided in paragraphs 28 to 31 below.

### ***Reducing Investors' Costs***

#### *(6) Exempting specific stamp duty*

10. To enhance the competitiveness of Hong Kong's real estate investment trusts (REITs) and reduce the transaction costs of options market makers, the Government has implemented the stamp duty waiver for the transfer of REIT shares or units and the jobbing business of options market makers with effect from December 2024. These measures will facilitate investors' transactions and help further enhance the efficiency and liquidity of the Hong Kong REIT and derivatives markets, thereby supporting the sustainable development of relevant products.

#### *(7) Launching a new data platform*

11. Providing investors with richer market data will help improve market transparency and facilitate them to formulate appropriate investment strategies, therefore having a positive effect on enhancing market vitality and liquidity. HKEX launched the new HKEX Data Marketplace in December 2024, providing data users with smoother network data services and multiple data delivery channels including cloud transfer to facilitate their access to HKEX data. Currently, the platform provides shareholding data of the Central Clearing and Settlement System, comprehensive historical data of HKEX's securities and derivatives markets, and daily reference data of the securities market. HKEX will gradually add new data products and features, including customised data tools and more data distribution channels, so as to meet the changing needs of global investors.

#### *(8) Reducing the minimum stock trading spread*

12. After consulting the market, HKEX published the consultation conclusions on reducing the minimum spread in December 2024, with the target to implement the first phase of the minimum spread adjustment in the middle of this year, reducing the minimum spread of securities in the price range of \$10 to \$20 and \$20 to \$50 by 50% and 60% respectively. After reviewing the implementation of the first phase, the second phase is expected to be launched in mid-2026, reducing the minimum spread for securities in the price range of \$0.5 to \$10 by 50%. The measure will enable stock prices to better reflect changing market conditions, reduce investors' indirect transaction costs, and promote liquidity in the Hong Kong market. To ensure smooth implementation of the measure in reducing trading spread, the SFC has approved HKEX to revise the stock settlement fee structure. In addition, adjustments to order input limits and responsibilities of single stock options market makers will also be implemented before or simultaneously with the launch of the first phase.

#### *Improving the Trading Mechanism*

##### *(9) Implementing severe weather trading*

13. HKEX has implemented the measure to maintain trading under severe weather from September 2024. Under the new arrangement, the securities and derivatives markets, including Stock Connect, holiday trading of derivatives and after-hours trading sessions, will operate as usual under severe weather conditions. Under the coordination of the Hong Kong Association of Banks and Hong Kong Interbank Clearing Limited, relevant banking services will operate as usual during severe weather, including electronic transfer services between designated banks of the clearing house and settlement banks. The first severe weather trading day was successfully completed in November 2024.

##### *(10) Implementing the uncertificated securities market regime*

14. In accordance with the legislative framework established by the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 (No. 17 of 2021), the Government and the SFC submitted six pieces of subsidiary legislation to the Legislative Council in February this year to provide for operational and regulatory details under the uncertificated securities market (USM) regime, with a view to enhancing the efficiency and infrastructure of Hong Kong's securities market and providing better investor protection and transparency. The relevant subcommittee has completed scrutiny of the subsidiary legislation. HKEX and the industry are also actively making relevant technical preparations. In addition, the SFC launched a consultation in February this year on upper limits for certain fees that may be charged by approved securities registrars under the USM regime. Subject to completing relevant

subsidiary legislation vetting procedures and the technical preparations by the industry, we aim to implement the USM regime in early 2026<sup>6</sup>.

*(11) Increasing the position limits for key index derivatives*

15. Hong Kong's position limit regime aims to strengthen the transparency of Hong Kong's derivatives market, and prevent as well as minimise the build-up of excessive positions which may affect the orderly functioning and stability of the Hong Kong's financial market. To further meet the risk management needs of investors, the SFC launched a one-month consultation in February this year on the proposal to increase the position limits for exchange-traded derivatives based on Hong Kong's three major stock indices, so as to enhance flexibility for investors to use the relevant derivatives while safeguarding financial safety. Details are set out in paragraphs 23 to 27 below.

***Enhancing Corporate Governance and Sustainable Development***

*(12) Enhancing the Corporate Governance Code*

16. We are committed to enhancing the standards of corporate governance of listed issuers and creating an environment conducive to the entry of capital in the medium to long term. After consulting the market, HKEX published conclusions to its consultation on Review of Corporate Governance Code and Related Listing Rules in December 2024, announcing that it would take forward a series of measures to improve board effectiveness, independence and diversity, as well as to strengthen corporate risk management, internal controls and capital management. The new requirements, which will be implemented in phases starting July this year, are mainly in response to the higher expectations of global investors for enhancing corporate governance standards in the market. HKEX will publish updated guidance in the first half of this year to help issuers understand the new requirements.

*(13) Enhancing climate disclosures*

17. In line with the Government's vision and roadmap to develop a comprehensive ecosystem for sustainability disclosure in Hong Kong, HKEX implemented new climate-related disclosure requirements in phases starting January this year. The new climate requirements are more closely aligned with the IFRS S2 Climate-related Disclosures issued by the International Sustainability Standards Board, which will help listed companies towards eventual sustainability reporting in accordance with local sustainability

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<sup>6</sup> Prescribed securities that are first listed after implementation of the regime (i.e. IPO securities) will have to be in uncertificated form from the time of listing, while those that are already listed at the time of implementation will have to participate in the USM regime within five years and after completing relevant procedures. Arrangements will be made to queue existing securities for participation in USM to ensure an orderly transition.



disclosure standards. HKEX is also among the world's first exchanges to introduce the relevant requirements. HKEX has published an Implementation Guidance to assist listed companies in complying with the new disclosure requirements.

### *Attracting Mainland and Overseas Capital*

#### *(14) Attracting more overseas capital*

18. Asia's first exchange-traded fund (ETF) tracking the Saudi Arabia market was listed on HKEX in November 2023, which was subsequently cross-listed on the Shanghai and Shenzhen stock exchanges in the form of a feeder fund through the Mainland-Hong Kong ETF cross-listing arrangement in July 2024. In October 2024, two ETFs tracking Hong Kong stocks were also cross-listed on the Saudi Exchange in the form of feeder funds, which helps attract allocation of local capital to Hong Kong stocks and is also a milestone for the two-way capital flows between the two places. As at the end of February this year, the total market capitalisation of relevant Saudi feeder funds exceeded \$14 billion. In addition, HKEX has announced its plan to open an office in Riyadh, further fostering ties with the Middle East.

19. Separately, the New Capital Investment Entrant Scheme (New CIES) opened for application in March 2024 with a view to further enriching the talent pool and attracting more new capital to Hong Kong. As of end-February this year, the New CIES has received 918 applications. Among the 386 approved applications for Assessment on Investment Requirements<sup>7</sup>, the investment amount in equities and eligible collective investment schemes are \$3.5 billion and \$5.1 billion respectively.

#### *(15) Deepening mutual access between the Mainland and Hong Kong*

20. The Government, together with the SFC and HKEX, have been actively deepening mutual access between the Mainland and Hong Kong financial markets. In April 2024, the China Securities Regulatory Commission announced a series of measures to promote the expansion of mutual access between the two capital markets. Amongst them, the expansion of scope of eligible equity ETF products under Stock Connect was implemented in July 2024, with a total of 91 new eligible ETFs included. As of the end of February this year, the number of eligible ETFs reached 265. Enhancements to the Mainland-Hong Kong Mutual Recognition of Funds arrangement were also implemented from January this year, including relaxing the cap on the value of a recognised fund sold in the host

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<sup>7</sup> After Invest Hong Kong (InvestHK)'s verification on the fulfilment of Net Asset Assessment and Immigration Department (ImmD)'s assessment from the immigration perspectives, ImmD may grant "approval-in-principle" to allow the New CIES applicant to enter Hong Kong as a visitor for not more than 180 days for making the committed investment. Upon the applicant's completion of the committed investment and InvestHK's verification on the fulfilment of Assessment on Investment Requirements, ImmD may grant formal approval of the entry application.

market from 50% to 80% of the fund's total assets, and relaxing restrictions on delegation of functions overseas. The measures will provide more investment opportunities for domestic and overseas investors and consolidate Hong Kong's position as an offshore Renminbi (RMB) business centre.

21. We will further optimise the mutual market access mechanism with the Mainland, including launching offshore government bond futures in Hong Kong, implementing block trading of stocks, and including REITs under Stock Connect. We will also actively work with the Mainland to explore taking forward further expansion arrangements, extend the Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area, enhance market liquidity and enrich the risk management toolbox.

## **ENHANCEMENT MEASURES TO FURTHER STENGTHEN MARKET COMPETITIVENESS**

22. Apart from the above measures, we will continue to drive the high-quality development of the Hong Kong securities market at full speed this year, actively study further measures and create more new growth areas. To this end, the Government will coordinate with the SFC and HKEX to explore the following areas:

- (a) **Taking forward reforms to the listing regime:** To enable the market to align with the latest economic trends and corporate needs, we will take forward a comprehensive review of the listing regime, including reviewing listing requirements and post-listing ongoing obligations, evaluating listing-related regulations and arrangements to improve the vetting process, optimising the thresholds for dual primary listing and secondary listing, and reviewing the market structure, including exploring the establishment of an over-the-counter market in Hong Kong. We hope to attract more investors, especially patient capital and overseas long-term investors, to participate and increase their allocation to Hong Kong stocks, and further attract and support the return of "China Concept Stocks" and overseas companies to raise funds in Hong Kong.
- (b) **Establishing a dedicated "technology enterprises channel":** To further assist specialist technology and biotechnology companies, especially those listed in the Mainland, in raising funds and expanding business, HKEX is actively taking forward the establishment of a dedicated "technology enterprises channel" (TECH). It allows the relevant companies or their sponsors to communicate with HKEX through the channel at an early stage of the listing process, facilitating their preparations for listing applications. The SFC will also work



closely with HKEX and provide support in the process to enable a smoother application process.

- (c) **Facilitating financing of overseas enterprises and specific products:** The SFC and HKEX will further step up promotion in ASEAN and the Middle East, and actively explore areas of co-operation with countries in the region, including the listing of ETFs, to enrich the investment product choices in mutual markets and promote two-way capital flows. In addition, HKEX will put forward recommendations to enhance the listing regime for structured products with a view to providing greater flexibility for product issuance.
- (d) **Improving trading and risk management efficiency:** We will continue to advance reforms to the trading mechanism. HKEX is conducting system upgrades to its post-trade system and gradually introducing new functions, so as to ensure technical compatibility with the T+1 settlement cycle by the end of this year, and will begin discussions on the settlement cycle of Hong Kong market with the industry in the middle of this year. HKEX and the SFC will also put forward recommendations on improving the trading unit system (or so-called “board lot” system) within this year, so that trading arrangements can better meet liquidity characteristics of shares of different sizes and investment needs, as well as facilitate trading and improve efficiency.
- (e) **Promoting trading of more stocks in RMB:** To promote trading of more stocks in RMB and improve market liquidity, the Mainland and Hong Kong institutions are conducting technical preparations to implement the inclusion of RMB counters under Southbound trading of Stock Connect. In addition, HKEX is taking forward a new single tranche multiple counter arrangement, including adopting the same International Securities Identification Number for dual-counter stocks, so as to enhance settlement efficiency. The Government is also conducting preparatory work to allow the stamp duty payable on the transfer of stocks at RMB counters to be paid in RMB, with a view to putting forward a legislative proposal next year.

## **LEGISLATIVE PROPOSAL TO INCREASE POSITION LIMITS OF DERIVATIVES ON MAJOR INDICES**

### ***Justifications***

23. Pursuant to section 35(1) of the Securities and Futures Ordinance (Cap. 571), the SFC is empowered to establish the Securities and Futures (Contract

Limits and Reportable Positions) Rules (Cap. 571Y) (the Rules), which prescribe position limits on futures and options contracts traded on the Hong Kong Futures Exchange Limited and stock options contracts traded on the Stock Exchange of Hong Kong Limited, both of which are under HKEX. The statutory prescribed limits cap the number of specified futures / options contracts and stock options contracts that any person may hold or control. Currently, the position limits prescribed by the Rules cover futures and options contracts based on Hang Seng Index, Hang Seng China Enterprises Index, and Hang Seng TECH Index (collectively referred to as Hang Seng Indexes Derivatives).

24. Over the past decade, the Hong Kong stock market has experienced significant growth, with the market capitalisation of Hang Seng Index and Hang Seng China Enterprises Index increasing by approximately 60% and 250% respectively. The average daily turnover of their constituent stocks has also increased substantially. The SFC has noted that while the notional value growth of the position limits for Hang Seng TECH Index was relatively modest compared to the growth in the relevant market size or liquidity, there is still room for enhancement. Therefore, the SFC recommends lifting the position limits for Hang Seng Indexes Derivatives, allowing market participants greater flexibility in managing their positions, and promoting liquidity and efficiency in the derivatives market and the overall market.

25. In determining the limit levels, the SFC has taken into account various factors, including the growth in market size and liquidity, as well as the existing utilisation of position limits by market participants. Overall, the SFC considered that the proposed changes will meet the needs of most market participants, enhance the competitiveness of Hong Kong financial market, and will not introduce additional risks to the Hong Kong financial market.

26. The SFC conducted a consultation in February this year, inviting the market to provide feedback on lifting the position limits for exchange-traded derivatives based on Hong Kong's three major stock indexes. The consultation concluded on March 28.

### ***Legislative Proposals***

27. The SFC recommends lifting the current position limits for the futures and options contracts for Hang Seng Index, Hang Seng China Enterprises Index, and Hang Seng TECH Index by 50%, 108%, and 43% respectively, raising them to 15,000, 25,000, and 30,000 position delta.

## **LEGISLATIVE PROPOSAL TO IMPLEMENT AN ELECTRONIC PUBLIC OFFERING SUBSCRIPTION PROCESS**

### ***Justifications***

28. According to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (C(WUMP)O), any form of application for shares in or debentures of a company must be issued with a prospectus that complies with the relevant requirements, unless certain exceptions apply. The industry interprets this provision as requiring the distribution of application forms and prospectuses in the same medium (either electronically or in printed form). Meanwhile, C(WUMP)O<sup>8</sup> stipulates that the SFC may exempt certain class of companies or prospectuses from the relevant requirement if the exemption will not prejudice the interest of the investing public. In this regard, the SFC introduced an exemption into the Class Exemption Notice, allowing issuers of shares or debentures to conduct a mixed media offer (MMO), which allows the distribution of a printed application form without it being accompanied by a printed form prospectus, provided that specified conditions are complied with (including, but not limited to, making an electronic prospectus available on the required website(s)).

29. In July 2021, HKEX introduced a paperless listing and subscription regime which requires that listing documents for new listings be published in electronic format only and all new listing subscriptions be made through electronic channels only, except for listing applicants adopting an MMO. No issuer has adopted MMOs in the past 3 years since then. To facilitate a fully electronic subscription process and enhance the efficiency of the regulatory processes, the MMO arrangement could be abolished.

30. The SFC and HKEX conducted consultations in August 2024 respectively, inviting the market to provide feedback on the proposal to abolish MMOs. The proposal received support from the majority of respondents. The SFC and HKEX published their respective consultation conclusions in January this year, announcing that they would make corresponding amendments to the relevant subsidiary legislation and the Listing Rules.

### ***Legislative Proposals***

31. The Class Exemption Notice contains the class exemptions granted by the SFC under Sections 38A(2) and 342A(2) of C(WUMP)O. The SFC proposes to remove the exemption provision regarding permitting MMOs (i.e. Section 9A) from the Class Exemption Notice. Following the removal of the exemption, an issuer of shares or debentures will no longer be able to issue printed application forms accompanied by electronic prospectuses.

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<sup>8</sup> Sections 38A(2) and 342A(2)

## **LEGISLATIVE TIMETABLE**

32. Subject to the views of Members, we plan to submit the subsidiary legislation on the two proposals to the Legislative Council in the middle of this year for negative vetting.

## **ADVICE SOUGHT**

33. Members are invited to note the market development measures mentioned above, and provide comments on the legislative proposals to increase the position limits of derivatives on major indices and implement an electronic public offering subscription process.

**Financial Services and the Treasury Bureau  
Securities and Futures Commission  
Hong Kong Exchanges and Clearing Limited  
March 2025**