

# **立法會**

## ***Legislative Council***

LC Paper No. CB(1)494/2025(03)

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### **Panel on Financial Affairs**

**Meeting on 7 April 2025**

### **Background brief on enhancing the competitiveness of the securities market**

#### **Purpose**

This paper provides background information on various measures to enhance the liquidity and competitiveness of the securities market. It also summarizes the major views and concerns expressed by Members on the relevant subject in recent years.

#### **Background**

2. A vibrant stock market is vital for upholding Hong Kong's status as an international financial centre and maintaining its competitiveness. In the face of the challenges from the external environment to the stock market, the Government established the Task Force on Enhancing Stock Market Liquidity ("Task Force") in August 2023 to comprehensively review key internal and external factors affecting market liquidity, including the listing regime, market structure and trading mechanism and to make improvement proposals to the Chief Executive. The Task Force comprises the relevant Legislative Council ("LegCo") member from the industry, individuals from the securities and related financial services sectors, Government officials, and representatives from financial regulators as well as the Hong Kong Exchanges and Clearing Limited ("HKEX"). Apart from holistically reviewing factors affecting market liquidity, the Task Force also puts forward specific recommendations on such matters as strengthening the competitiveness and sustainable development of Hong Kong's stock market, and promoting it to issuers and investors in strategic markets.

3. The Task Force submitted its report to the Chief Executive in October 2023, which recommended a total of 12 short-term improvement measures,

covering different aspects including listing regime, market structure, trading mechanism, and expansion of the domestic and overseas markets. In addition, the Task Force has also proposed the medium and long-term directions for continued market enhancement in the future, with a view to promoting the sustainable development of the stock market on a continuous basis. The Chief Executive announced in the 2023 Policy Address the acceptance of the Task Force's recommendations, and asked the Securities and Futures Commission ("SFC") to work closely with HKEX to take forward the short-term measures<sup>1</sup> proactively and further examine how to implement the other areas for enhancement in the medium and long term as raised by the Task Force.

4. In addition to the above short-term measures, the Financial Secretary announced in the 2024-2025 Budget that SFC and HKEX would consider an array of measures to further boost market efficiency and liquidity in line with the medium and long-term directions recommended by the Task Force, which included, among others, exploring enhancement to the process of price discovery in the initial public offering ("IPO") of shares and reviewing requirements for the public float of shares of listed companies; exploring enhancement to stock-trading units adopted in the cash market; and further exploring refinement to real-time market-data services.

#### Treasury share regime for listed companies

5. In response to the recommendations of the Task Force, the Administration introduced the Companies (Amendment) Bill 2024 into LegCo in November 2024. The Bill, which was subsequently enacted in January 2025 as the Companies (Amendment) Ordinance 2025, sought to introduce a new treasury share regime for listed companies, so as to allow listed companies incorporated in Hong Kong to hold bought-back shares and sell or transfer treasury shares, providing more flexibility to such companies to manage their capital. The new regime will come into operation on 17 April 2025.

#### **Views and concerns expressed by Members**

6. At the meeting on 8 April 2024, the Panel on Financial Affairs was briefed on the implementation of various short-term measures recommended by the Task Force, and a series of enhancement measures to further enhance market efficiency and liquidity, including the legislative proposals to enable listed companies incorporated in Hong Kong to hold treasury shares. The

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<sup>1</sup> See [LC Paper No. CB\(1\)368/2024\(02\)](#) for the implementation status of the short-term measures.

major views and concerns expressed by Members are summarized in the ensuing paragraphs.

Enhancing the quality of the securities market and attracting high quality companies to list in Hong Kong

7. Members were concerned about how the Administration would **enhance the delisting mechanism** to ensure that underperforming listed companies which had been suffering losses/suspended for years could be delisted as soon as possible, and attract genuinely quality companies to list in Hong Kong. Regarding the currently leading investment trends in the market, such as artificial intelligence (“AI”), high-end chips, biotechnology, clean energy, environmental, social and corporate governance, as well as sustainable investment, Members suggested that the Administration proactively pay visits to different places to encourage the listing of these companies in Hong Kong. Members also suggested that **the Hong Kong Investment Corporation Limited or other government funds be allowed to purchase new shares of the innovation and technology (“I&T”) industry**, so as to send a positive message to the market that the HKSAR Government supported these I&T companies to set up their presence in Hong Kong and engage in financing and listing activities.

8. The Administration advised that an important direction of the Task Force’s work was to undertake a **long-term review on how to enhance the competitiveness and development momentum of the Hong Kong stock market**. In its report, the Task Force had set out clear directions for medium to long term development, including: improving the listing and regulatory mechanisms; enriching the existing suite of products and facilitating more trading modes; providing diversified services and enhancing market transparency; improving the existing trading and settlement arrangements as well as related processes; widening and deepening the mutual access between the Hong Kong and Mainland financial markets; stepping up external promotion and investor education.

9. On **attracting quality companies to list in Hong Kong**, HKEX pointed out that in addition to the requirements under Chapter 8 of the Listing Rules on the basic conditions to be fulfilled for the listing of equity securities, from 2018 onwards, **HKEX had formulated different listing conditions and requirements for enterprises in different sectors**, such as Chapter 18A applicable to biotechnology companies and Chapter 18C applicable to specialist technology companies. Chapter 18C, which came into effect in March 2023, sought to cover “new, distinctive, specialized and sophisticated” technology companies, including those engaged in new energy, new materials, semiconductors, AI, etc. This was in line with the country’s direction of supporting the development of new quality productive

forces, and it also attracted high-quality companies to list in Hong Kong by providing financing channels for “new, distinctive, specialized and sophisticated” companies. In addition, to maintain the quality of listed companies, **HKEX amended the delisting mechanism a few years ago and introduced an 18-month remedial period for long suspended listed companies**, requiring them to make remedies before the deadline. With the introduction of the remedial period, 68% of the long suspended listed companies had resumed trading in 2023.

### Enhancing the listing mechanism

#### *Allowing issuers to hold treasury shares and resell repurchased shares*

10. Regarding the legislative proposals to enable companies incorporated in Hong Kong to hold treasury shares, Members enquired about **the restrictions to be imposed on listed companies in respect of the ratio, cancellation and resale of treasury shares after share buy-back**, and upon the removal of the requirement to cancel repurchased shares, the measures to be put in place by HKEX, apart from the proposed 30-day moratorium period, to prevent the risks of market manipulation by issuers repeatedly repurchasing and reselling their own shares on the market and abuse of inside information by insiders.

11. HKEX responded that listed companies would **decide on the number of new shares to be placed and shares to be repurchased through general mandates at their annual general meetings** each year. In parallel, HKEX would introduce a number of safeguards to maintain fairness and transparency in the trading of relevant issuers’ shares, ensure minority shareholders would receive consistent and fair treatment, and minimize market manipulation and insider trading risks. The key safeguards included (a) **setting a price discount limit** for on-market and over-the-counter resale of treasury shares to protect shareholders from material value dilution; (b) imposing **a 30-day moratorium period** to restrict: (i) a resale of treasury shares after a share repurchase (on-market or over the counter); (ii) a share repurchase on the Stock Exchange of Hong Kong Limited (“on-Exchange”) after an on-Exchange resale of treasury shares; (c) prohibiting an on-Exchange repurchase of shares and resale of treasury shares when **there was undisclosed inside information, during the 30-day period preceding the results announcement, or if it was knowingly made with a core connected person**; (d) allowing new listing applicants to retain their treasury shares upon listing, with any resale of these shares **subject to the same lock-up requirement as an issue of new shares**; and (e) **requiring an issuer to disclose** in the explanatory statement to shareholders on the recommended repurchase mandate **its intention as to whether any shares to be repurchased would be cancelled or kept as**

**treasury shares.** The above safeguards, coupled with **the provisions in the Securities and Futures Ordinance (Cap. 571) related to insider trading, stock price manipulation and disclosure of interests**, would exude sufficient restrictions and deterrents on issuers, dissuading them from engaging in insider trading and price manipulation through the repurchase of shares and resale of treasury shares.

*Filing regime for the listing of Mainland companies in Hong Kong*

12. Members were concerned that **the filing regime for the listing of Mainland companies in Hong Kong, which involved a complicated process and different counterpart departments and units**, might impact adversely the incentives and progress of Mainland companies to list in Hong Kong. HKEX advised that it had all along worked together with the Financial Services and the Treasury Bureau and SFC to maintain communication with the relevant Mainland authorities and institutions, including the China Securities Regulatory Commission (“CSRC”). Given the involvement of different authorities and institutions in the filing process, CSRC played a coordinating role in expediting the filing of Mainland companies seeking to list in Hong Kong.

*Expediting the listing vetting process*

13. Expressing concern about **the lengthy time to vet listing applications from companies and the complicated vetting process in some cases**, Members sought information on the actual number of days taken by HKEX to vet listing applications and how HKEX would make improvements.

14. HKEX pointed out that it had received 65 listing applications in the first quarter of 2024, an increase of more than 30% over the first quarter of 2023. **The vetting time taken would depend on the quality of the companies’ response to enquiries, whether the documents were complete, and so on. In 2023, the median processing time** taken by HKEX for vetting Main Board listing applications **was 48 business days**, a significant improvement from 70 business days in 2022. However, for some IPOs approved by the Listing Committee, their issuers and intermediaries, particularly investment banks, would only proceed with actual listing when the market price was right. HKEX was relatively passive in this regard. To help the market understand its vetting criteria as the regulator, HKEX published the [Guide for New Listing Applicants](#) in November 2023 to consolidate, revise and rearrange the materials in the previous guidance notes, with a view to further facilitating preparation for listing.

*Facilitating listing of overseas issuers*

15. Members note that in 2023, HKEX signed Memorandums of Understanding (“MOUs”) with the Saudi Tadawul Group Holding Company and the Indonesia Stock Exchange, and included the two exchanges onto its list of recognized stock exchanges, allowing companies listed on their main boards to apply for secondary listing in Hong Kong. Members enquired about the latest progress of **applications for secondary listing in Hong Kong** made by companies from the two places. Members also suggested that the Administration encourage locally listed companies to seek secondary listing in these places and arrange site visits for the financial sector to assist them in exploring investment and cooperation opportunities with potential clients in the Middle East or Southeast Asia.

16. HKEX advised that following the signing of MOUs with Saudi Arabia and Indonesia, Hong Kong saw the first Indonesian company with primary listing locally in 2023. **The advantage of having a primary listing in Hong Kong was that the company could be included under Southbound trading of Stock Connect so long as it was successfully listed and met the requirements for inclusion into the mutual access.** HKEX remarked that it had also been maintaining initial communication with some Saudi Arabian and Indonesian companies recently, and announcements would be made in due course. **For enterprises listed in Hong Kong seeking a secondary listing** in other jurisdictions, **HKEX had put in place a simplified procedure** which could basically be completed without any additional vetting requirements as long as an announcement was issued by the enterprise concerned. In addition, the Administration would continue to organize study tours to places such as the Middle East and the Association of Southeast Asian Nations, and would invite the industry’s participation.

*Reducing investors’ costs*

17. Members suggested that the Administration consider introducing a **tiered stamp duty system** whereby stamp duty would be reduced or even waived for high volume transactions, so as **to attract more high-frequency trading** and increase the liquidity of the securities market.

18. The Administration pointed out that in order to enhance the competitiveness and liquidity of the stock market, **the rate of stamp duty on stock transfer was reduced to 0.1% in November 2023.** The Administration stressed that as the stamp duty on stock transfers was one of the important sources of public revenue, the Government must strike a balance between maintaining government revenue and promoting market development. Moreover, the cost of investment in Hong Kong was competitive for investors as there was neither capital gains tax nor dividend

tax in Hong Kong. The Administration would adopt various ways to further reduce transaction costs so that market liquidity would continue to increase. In this regard, HKEX and various financial regulators were **conducting a comprehensive review on the possibility of narrowing the spread by introducing smaller tick size. By substantively reducing the bid-ask spread**, the prices of relevant stocks could better reflect the changing market conditions, thus **reducing the indirect transaction cost to investors and enhancing their market participation**. HKEX aimed to put forward specific proposals for market consultation in the second quarter of 2024.<sup>2</sup>

### **Relevant motion passed and questions raised at Council meetings**

19. At the Council meeting of 18 October 2023, a motion on “Comprehensively reviewing the securities market regime for small and medium enterprises” was passed, which among others, urged the Government to comprehensively review and reform the current listing regime for small and medium enterprises (“SMEs”), thus enabling enterprises from different countries, in different industries and of different scales to list and raise funds in Hong Kong; review the role positioning of financial intermediaries of different capital backgrounds to assist more SMEs in listing and raising funds, thereby boosting the sustainable development of the securities market.

20. Details of the above motion and the relevant questions raised at Council meetings since 2022 are provided in hyperlinks in [Appendix](#).

### **Relevant papers**

21. A list of relevant papers is set out in the [Appendix](#).

Council Business Divisions  
Legislative Council Secretariat  
2 April 2025

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<sup>2</sup> On 28 June 2024, HKEX published a consultation paper on the proposed reduction of minimum spreads of the applicable securities in two phases, with a view to lowering overall transaction costs and improving liquidity. The consultation period ended on 20 September 2024. HKEX published the [Consultation Conclusions](#) on 17 December 2024.

## Appendix

### Enhancing competitiveness of securities market

#### List of relevant papers

Committee	Date of meeting	Paper
Panel on Financial Affairs	8 April 2024	<a href="#">Agenda</a> Item III: Measures to enhance liquidity and competitiveness of the stock market  <a href="#">Minutes of meeting</a>  <a href="#">Follow-up paper</a>

Council meeting	Paper
18 May 2022	<a href="#">Question 14</a> : Promoting liquidity of the stock market
6 July 2022	<a href="#">Question 4</a> : Reforming the Growth Enterprise Market
5 July 2023	<a href="#">Question 19</a> : Rate of stamp duty on stock transfers
18 October 2023	<a href="#">Members' motion</a> : Comprehensively reviewing the securities market regime for small and medium enterprises  <a href="#">Progress report</a>
26 February 2025	<a href="#">Question 12</a> : Reinforcing Hong Kong's status as an offshore Renminbi business hub