HKEX
香港交易所

21 January 2016

# HKEX Chief Executive Charles Li's Elaboration on HKEX's Strategic Plan 2016-2018

**1. Is your plan too ambitious? Can you complete the proposed initiatives within three years?**

Achievement of a number of the initiatives included within our Strategic Plan are subject to external factors, including local and overseas regulatory approvals, the pace of Mainland policy developments and market readiness. We will continue to pursue proactive engagement with regulators, policymakers and market participants, and while the completion timeline for certain of our initiatives may extend beyond the current three-year plan, we aim to make significant progress on all parts of our Strategic Plan between now and the end of 2018.

**2. What are your key initiatives to further develop your core equity business?**

In cash equities, we will extend the scope and product range available under Stock Connect, and seek to enable primary cross-border capital raising. With the arrival of a greater number of Mainland investors in our market through the Stock Connect and other anticipated channels, we intend to increase the range of products available on our market to meet their international diversification needs. At the same time, we will continue to review our rules and market structure, so as to ensure that we remain internationally competitive and continue to maintain our high regulatory standards.

In equity derivatives, we will add further products to enhance and enrich the ecosystem in Hong Kong, and to meet the investment and risk management needs of both our Mainland and international investors.

**3. Could you elaborate your plan to enhance the listing regime to attract more new Mainland and international listings and strengthen market quality?**

We plan to undertake a comprehensive review of Hong Kong's competitiveness as a centre for listings and IPOs and how we can better position Hong Kong as a global financial centre and promote Hong Kong as a listing venue. This includes a holistic review of the listing regime for overseas companies (eg, eligibility requirements, the listing process, Hong Kong Depository Receipts regime); continuing to identify jurisdictions where there are potentially a number of issuers which may have a desire to list in Hong Kong (eg, we recently published a country guide for companies incorporated in Russia – our country guide sets out user friendly guidance on how companies incorporated in the jurisdiction can meet the requirement for equivalent shareholder protection standards in the Listing Rules); reviewing secondary listing requirements including whether there should be greater flexibility to permit an overseas company that has its "centre of gravity" in the Greater China region to seek a secondary listing in Hong Kong; and exploring potential structures to enable cross-border capital raising.

We will continue to review listed company regulations (eg, "shell" companies, long suspended companies, delistings and related requirements), consult the market on proposed rule changes to strengthen market quality and enhance corporate governance, and issue guidance to the market where appropriate. For example, in response to the recent increase in listed companies proposing large scale fundraisings with substantial amounts of cash being injected by new investors into the companies, we published a guidance letter on cash company rules. We also noted an increase in the number of trading halts in the first half of last year alongside an increase in issuers' corporate activities, and published guidance on good practices about trading halts pending disclosures of material information by listed issuers.

…/2

**4. Can you explain the meaning of 'financialising' the London Metal Exchange (LME)?**

The commodity market usually consists of three layers of market participants: (1) physical users (producers and consumers); (2) intermediaries (traders, financial institutions and logistics service providers); and (3) financial players. The spot trading of physical users forms the basic benchmark prices for commodity derivatives, which traders, financial institutions and logistics service providers use for hedging or financing. The financial players, who use commodity derivatives for speculation, provide vital liquidity.

The LME market is already very global in terms of the location of its users. While these users include physical users, intermediaries and financial players, the structure and history of the market have evolved so that base metals remain a more institutional, more industrial asset class than, say, gold or crude oil. We absolutely believe that broadening and expanding the base of users who trade LME contracts can add liquidity to the market, enhance transparency and reduce spreads to the benefit of all market participants. For this reason, we've been taking a series of steps to 'financialise' the LME, including the LME Liquidity Roadmap introduced in 2015, which has already delivered encouraging results.

Looking forward, we see the greater participation of Asian investors as a large untapped opportunity for the LME. In Asia, and especially in Mainland China, financial interest in metals is unrivalled, as evidenced by the huge derivatives volumes on Mainland commodity exchanges. Through London-Hong Kong Connect, we aim to bring more of this liquidity to the LME.

**5. Can you explain the meaning of 'physicalising' the Mainland commodity market? What kind of role can HKEx play?**

Partially as a result of this dominance of financial players, the Mainland market has a somewhat opposite issue: there are not enough physical users in the futures markets to balance trading, and commodity futures in essence trade like financial futures, with huge liquidity but low open interest. In addition, in most commodities, including base metals, the spot trading market remains fragmented and inefficient. The combination of these two factors results in a price discovery process that is significantly less influenced by the physical market than is the case with the LME. If this situation persists, we believe that it will be difficult for Mainland China's commodity market to truly reflect the Mainland's influence in global commodity production and consumption.

We think this is something HKEX can help address, given our credibility, and the unmatched expertise of the LME in physical metals warehousing and trading. This is what we mean by 'physicalising' the Mainland market using the LME model.

Specifically, we are exploring the establishment of a spot commodity trading platform on the Mainland supported by warehousing and a financing platform. We would work with appropriate partners and the platform would be aimed initially at facilitating and aggregating the electronic trading of base metals, underpinned by warehouse receipts, with a view towards facilitating efficient and easy trading, payments, settlement and financing across the value chain, from producers and consumers to trading firms and financial institutions. One of the key objectives would be to further link the Mainland's price discovery process for commodities to the physical market. We also see potential to establish and internationalise benchmarks through Hong Kong and the LME. With a successful platform, we can realise the commodity dream of Hong Kong.

**6. What is the most likely model for Bond Connect?**

We think of Bond Connect as two-directional: Inbound and Outbound. For Inbound, we recognise that the bulk of the Mainland bond market is traded over the counter, or OTC, in the so-called interbank market, rather than on-exchange, and facilitating overseas investors' access to that market is the focus of our attention. For Outbound, Hong Kong alone, without a large 'sovereign issuer', is not a compelling proposition. Therefore we are looking to partner up with a global platform to help Mainland investors reach international bonds further afield, while trading and settlement still takes place through Hong Kong.

Bond Connect, being an off-exchange initiative, represents a new direction for HKEX in fixed income and currency, or FIC, but we are confident that we can deliver a unique value proposition to make existing markets connect better, without trying to reinvent the way that investors currently trade bonds.

**7. What is your plan in developing Renminbi (RMB) related products?**

We believe that RMB will become an increasingly common currency of denomination for financial products – including listed products – and we intend to ensure that our product suite caters to our clients' demand for such products. We have already started doing this with LME mini futures listed in Hong Kong, and we plan to launch more such products in the coming years.

In addition, we see RMB as an asset class in its own right, especially in the context of risk management for cross-border investors. Using currency as an example, a USD-CNH (US dollar-offshore RMB) futures contract like the one we have today is equally useful for an international investor using RMB to do business with Mainland China, and a Mainland investor using US dollars to conduct business abroad. They may find themselves on opposite sides of the same trade. This is a perfect illustration of what we mean by a 'mutual price discovery venue', and we believe that Hong Kong is the optimal place for this to happen. The same logic applies to interest rate products, where lenders and borrowers may be on opposite sides of the border, but require the same derivative to hedge their risks. We plan to expand our product suite in both currency and interest rates, in line with the demand we see in the market.

**8. Are your strategies too Mainland-centric?**

We are focusing on what we do best and areas where we have developed a strong niche. Our vision is focused on connecting Mainland China with the world – something that Hong Kong has been doing as a trading port and as a financial centre for decades. We believe that the Mainland's 'opening-up' of its capital markets is a one-time event that is capable of permanently transforming the scale and nature of Hong Kong's financial markets. While the pace of this opening cannot be certain, and will vary by asset class, we believe that being thoroughly prepared for it is critical to securing HKEX's future, and represents by far the largest long-term growth opportunity available to us today.

The rapid and uneven growth of the Mainland economy presents both opportunities and risks to the global market. As an open international market, Hong Kong is exposed to the risks, whether we are Mainland-centric or not. Only by focusing on our China Dimension can we continue to thrive as an international financial centre, and only by being international can we continue to create value for China. Only if we focus on China we will be able to develop rapidly and prepare in advance for any emerging risks.

**9. It seems your plan depends a lot on support from Mainland China. Have you reached any agreement with the Mainland authorities?**

It is important to stress that support from Mainland or other authorities will only come if HKEX and Hong Kong provide a compelling value proposition to them. Therefore, one of the things we focus on most in our strategic planning process is finding ways to address the needs of investors from the Mainland and elsewhere as well as the concerns of regulators and policy makers.

**10. Has HKEX discussed the strategic plan with its regulators? If so, what was their feedback?**

As part of our strategic planning process, we have engaged extensively with our regulators, whose feedback is crucial to guiding our strategy and ensuring that we continue to fulfil our statutory and regulatory duties and obligations in everything we do.

We have good relationships with our regulators and are always seeking to strengthen them so that we can continue to address the challenges that arise from ground-breaking projects such as Shanghai-Hong Kong Stock Connect with a collaborative approach based on mutual trust.

**11. How will this strategic plan affect HKEX's capital expenditure?**

Following the peak in our capital expenditure in 2012, we have maintained a stable level of capital investment in our business. It should be noted that, while our Mainland connectivity programmes have involved a significant investment of management time, the associated capital expenditure has been modest. We will continue to invest in our business in a disciplined manner in order to be able to support our organic business growth and to exploit new opportunities.

**12. How will this strategic plan affect HKEX's organisation structure? How many additional staff will you require to implement the plan?**

Overall we don't expect significant net growth in headcount in the core operations in Hong Kong and London. However, in new business areas where we don't have a large pool of in-house expertise such as the FIC and spot commodities initiatives, additional manpower will be required. The scale and pace of recruitment will depend on the progress of the new business development.