

21 January 2016

ANNUAL MEDIA LUNCHEON
2016-18 STRATEGIC PLAN



Charles Li
Chief Executive, HKEX Group

Agenda

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What Does it Mean for Hong Kong?



Our Journey So Far



Mainland China

- Fast economic growth
- Privatisation of SOEs
- Domestic capital markets develop
- Retail investors are the driving force
- Derivatives turnover grows quickly
- RMB internationalisation
- Progressive two-way capital opening
- Expansion of Free Trade Zones



Hong Kong

- Offshore fundraising centre
- Segregated from Mainland market
- Capital gateway for IPO proceeds
- Limited direct access: QFII & QDII
- RMB trade settlement and payments
- Expansion of direct access: RQFII
- Offshore RMB benchmarks



IPO Era

1993-2009

Domestic
Growth Era

2001-2010

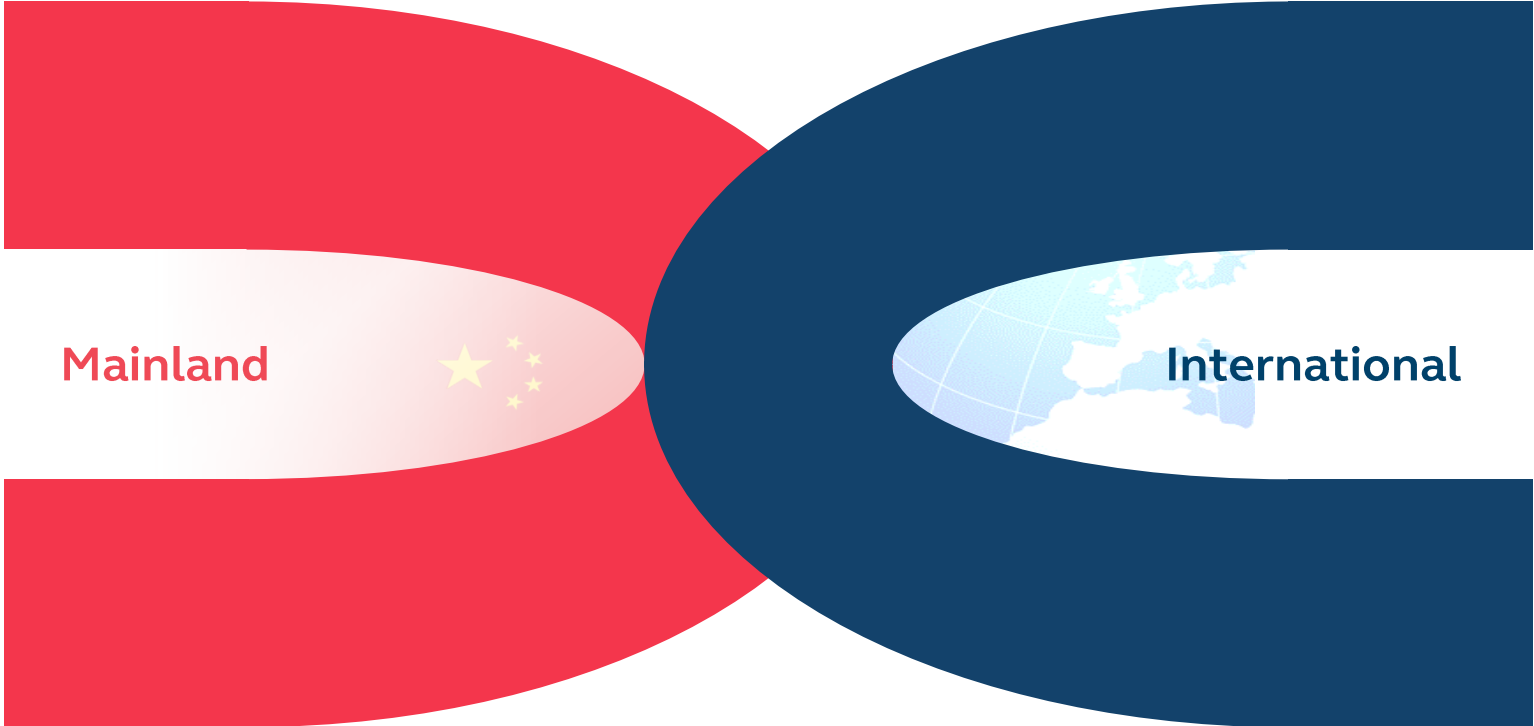
Opening
Up Era

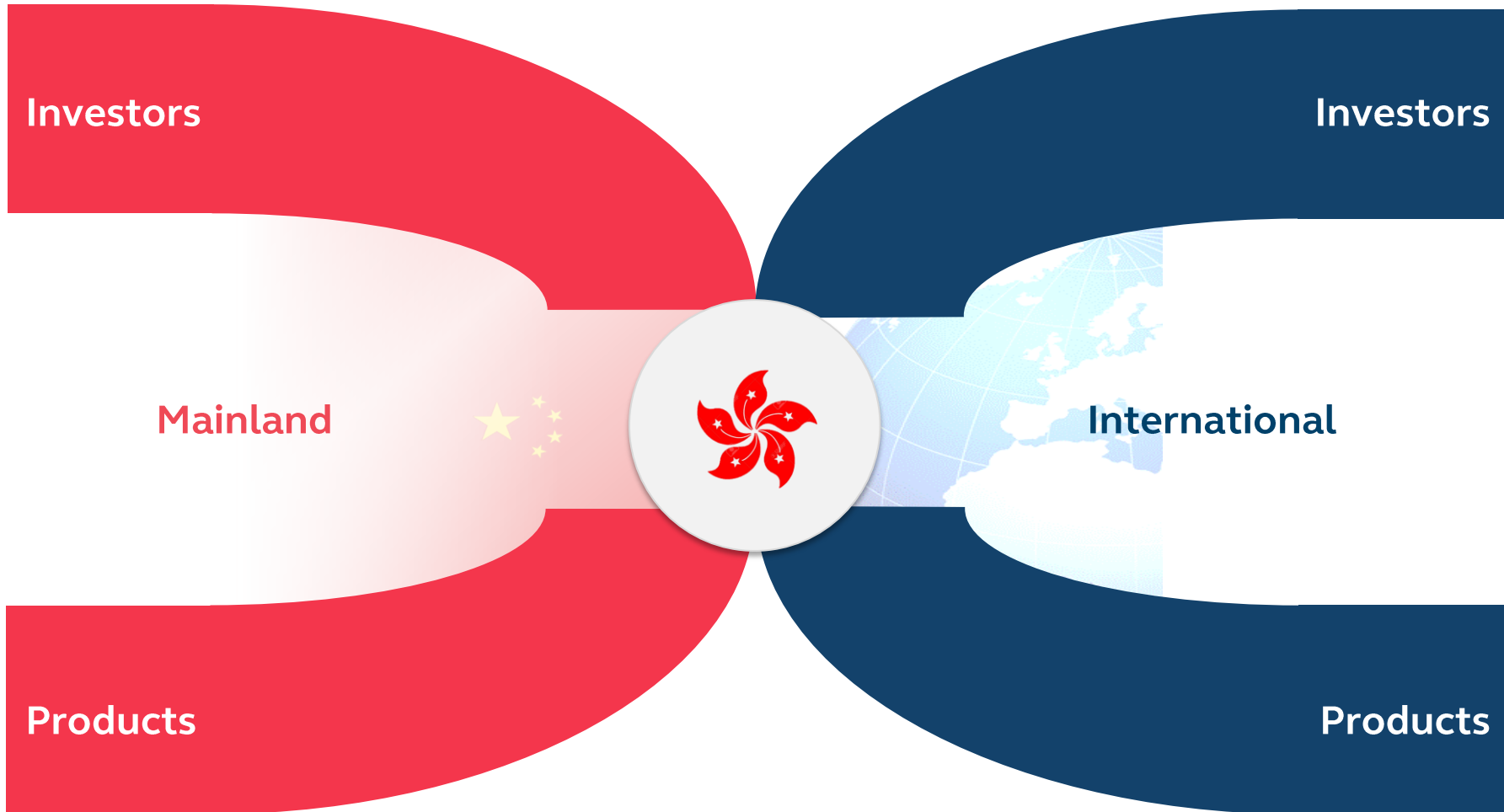
2011-2014

Mutual Market Era

2015-

Our New Identity Represents the Mutual Market







Investors

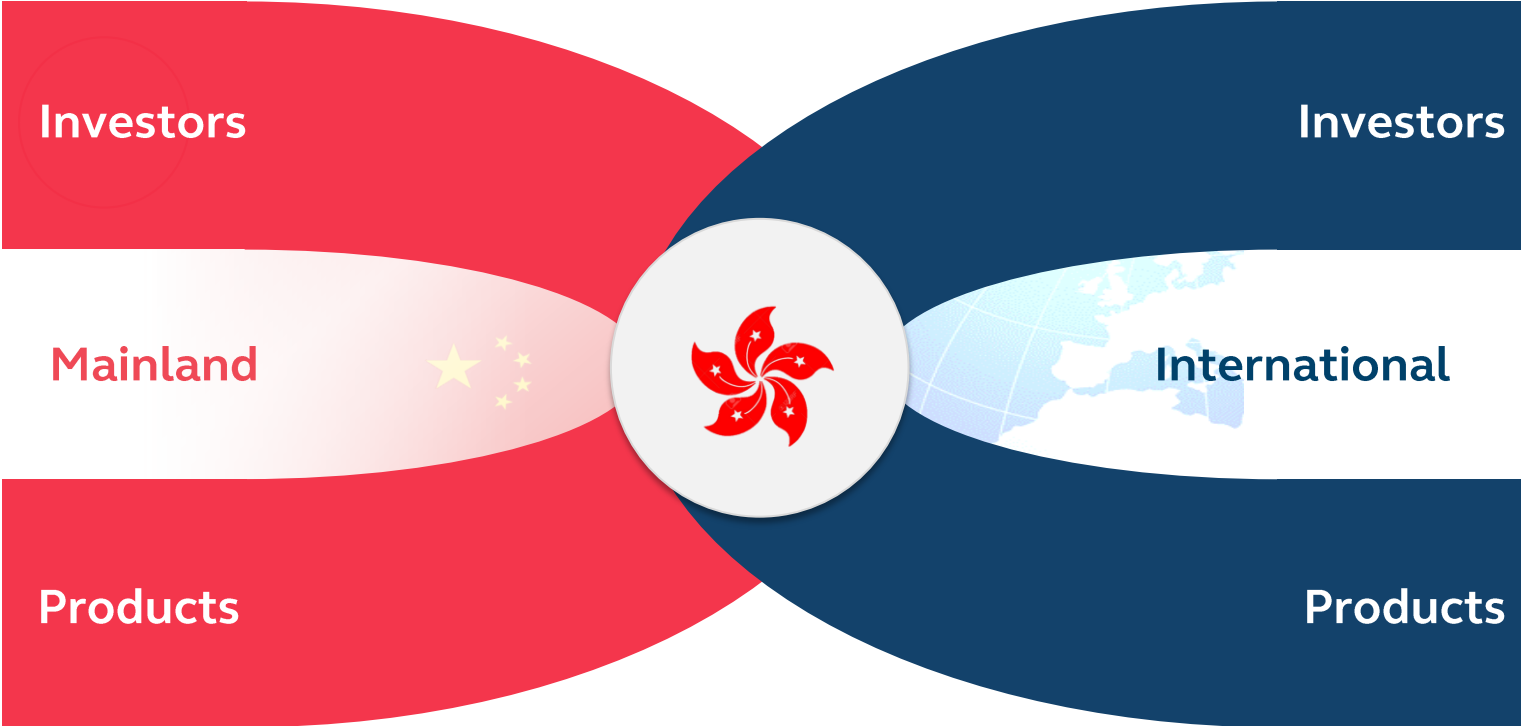
Investors

*In the Mutual Market Era, our Vision is to be the global exchange of choice across asset classes for both our **Chinese Clients** and our **International Clients** seeking China exposure*

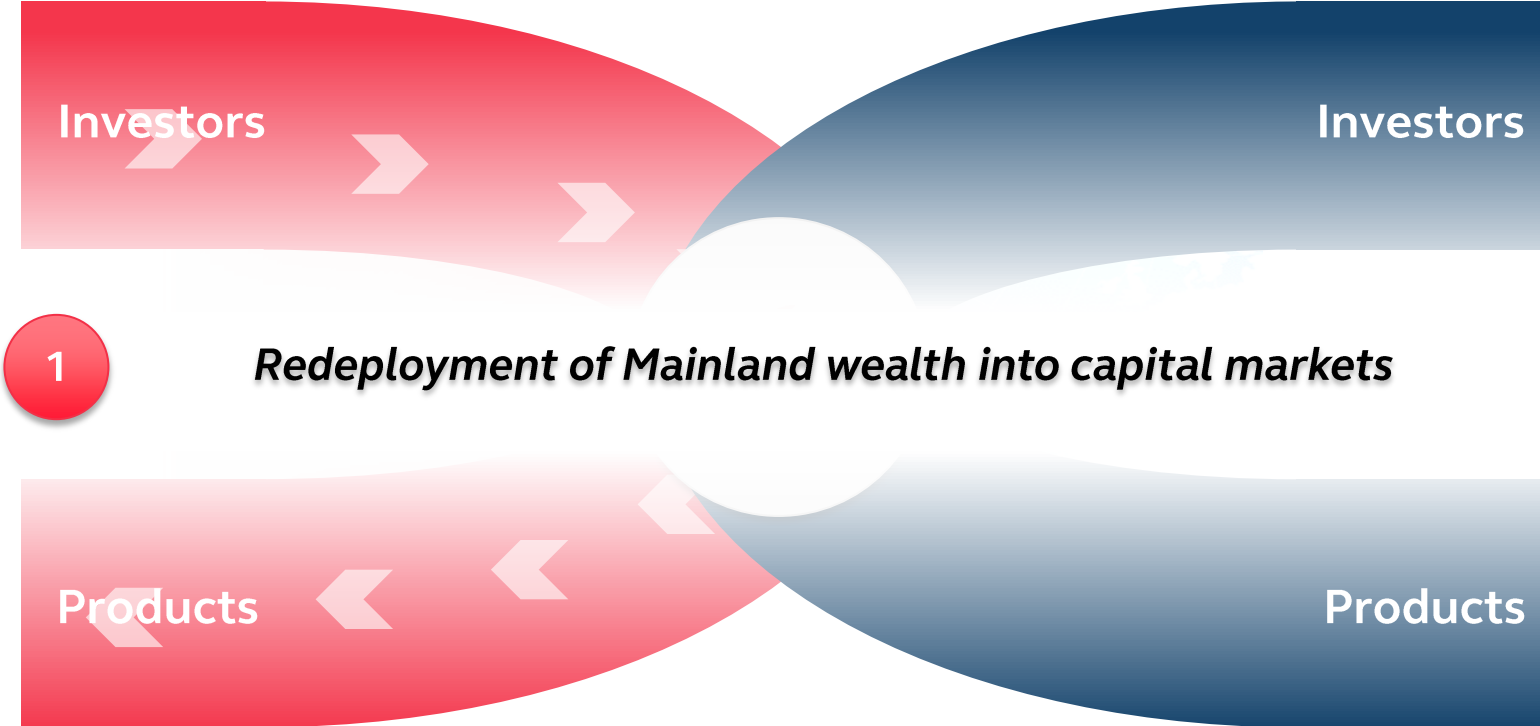
Products

Products

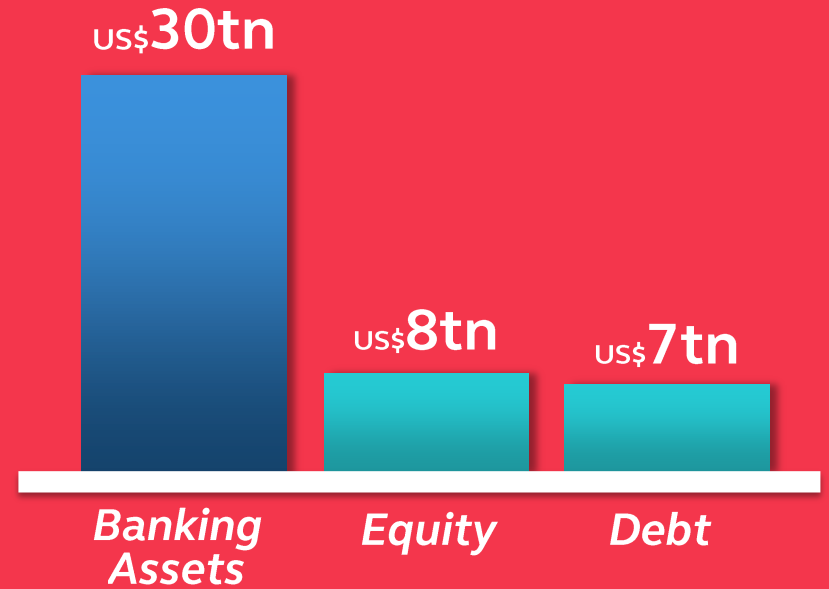
What is Driving our Strategy?



What is Driving our Strategy?



Investors

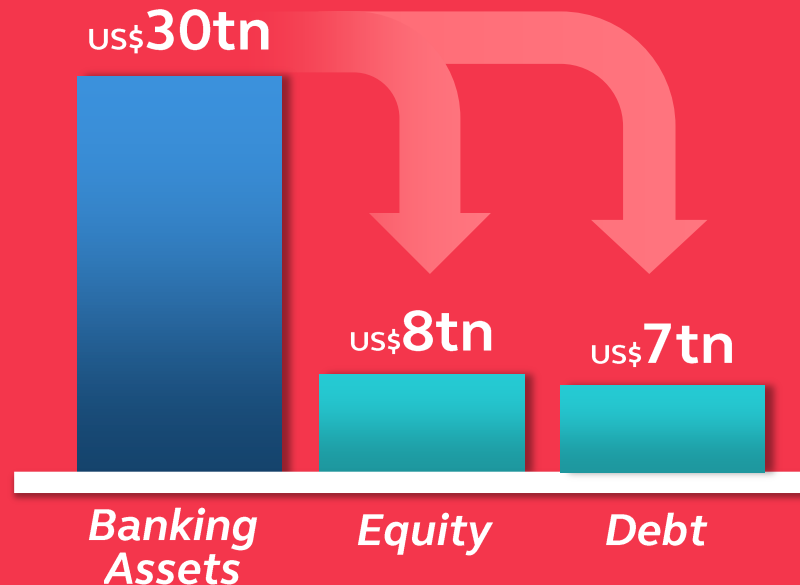


Investors

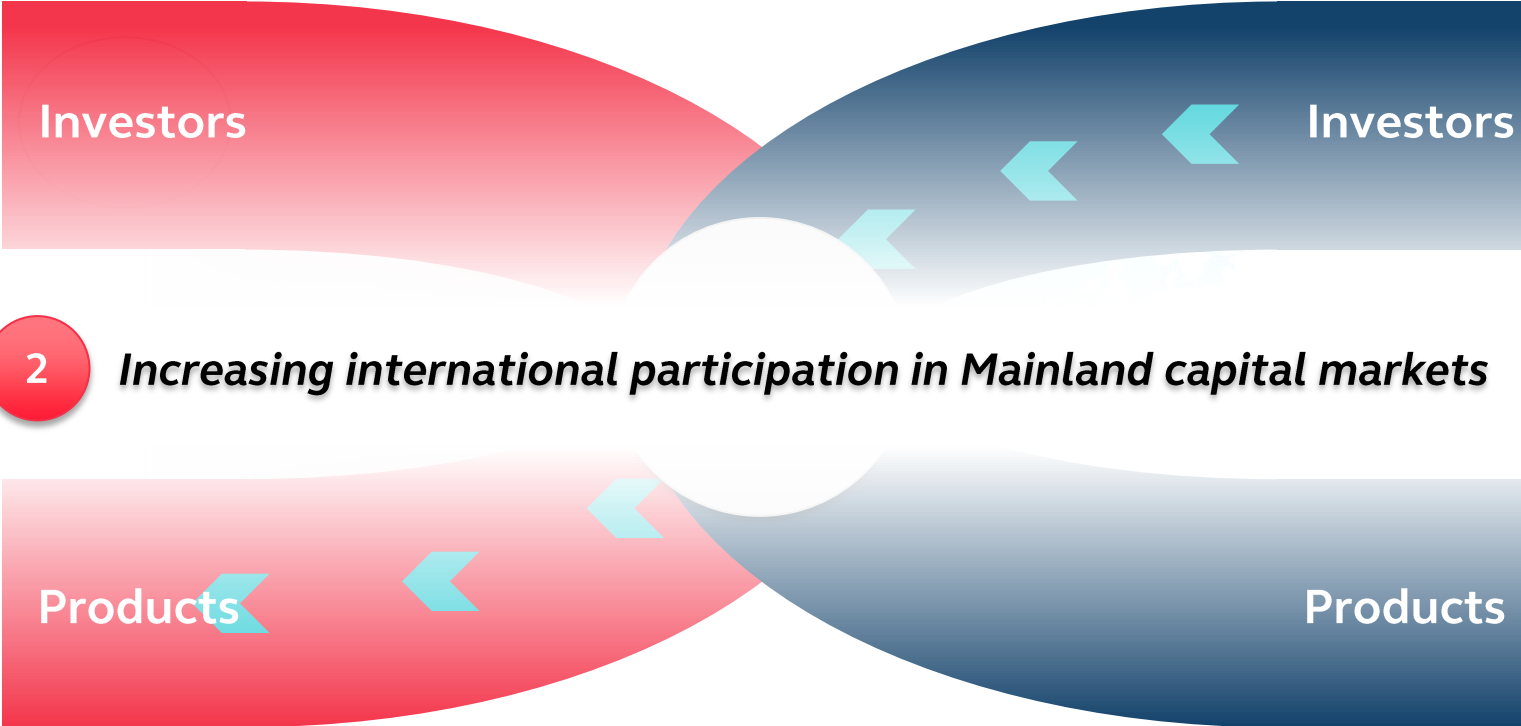
- *Ageing population's pension savings*
- *Property market correction*
- *Wealth diversification*

Products / Issuers

- *Investment in "new economy"*
- *SOE privatisation and reform*
- *Lower reliance on bank funding*

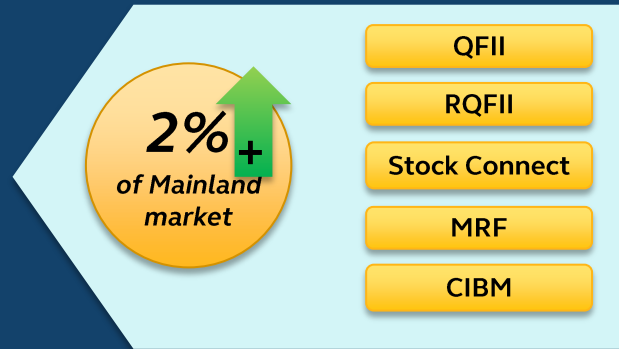
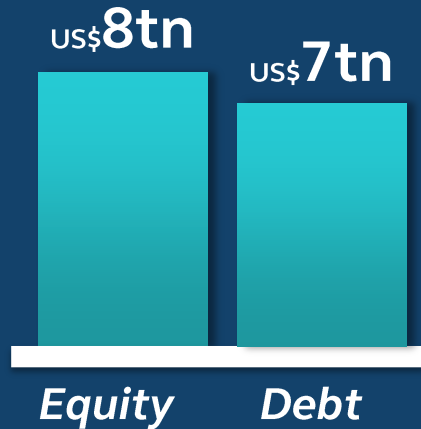


What is Driving our Strategy?



Investors

Mainland China's Capital Markets



Drivers:

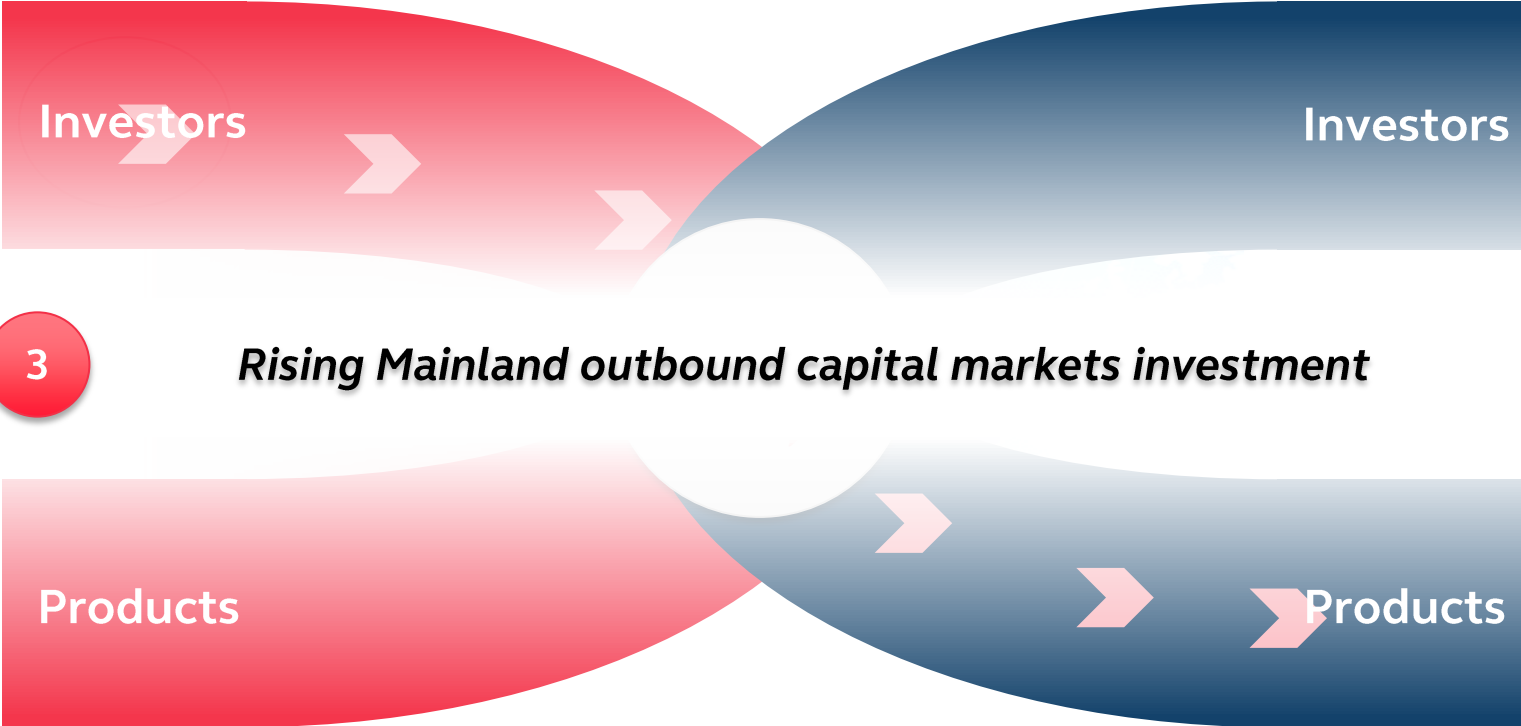
Equity index inclusion
(MSCI, FTSE)

RMB inclusion in SDR

Easing of access scheme
quotas & restrictions

Internationalisation of
Chinese benchmarks

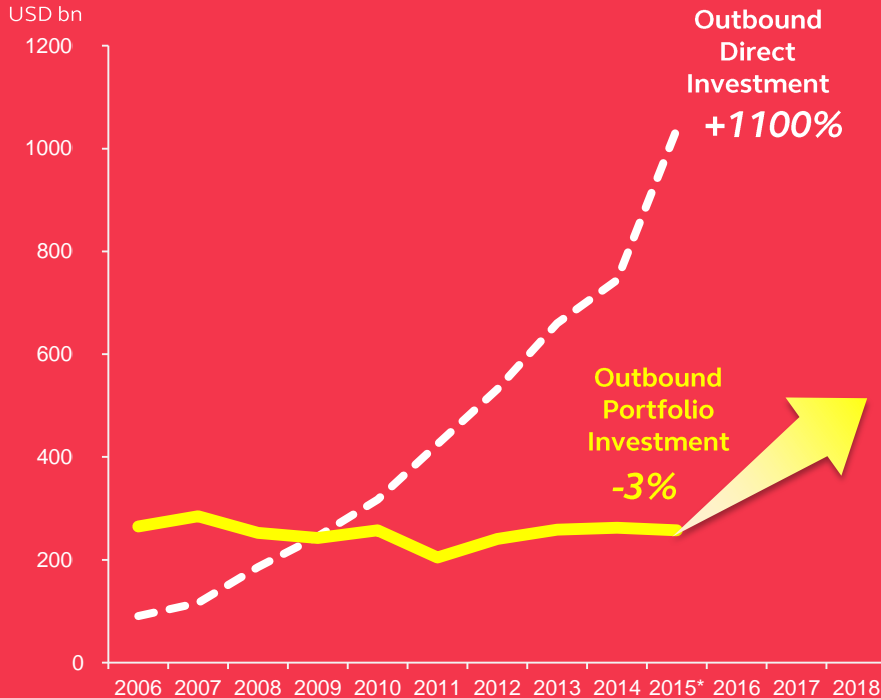
What is Driving our Strategy?



3

Rising Mainland outbound capital markets investment

Investors



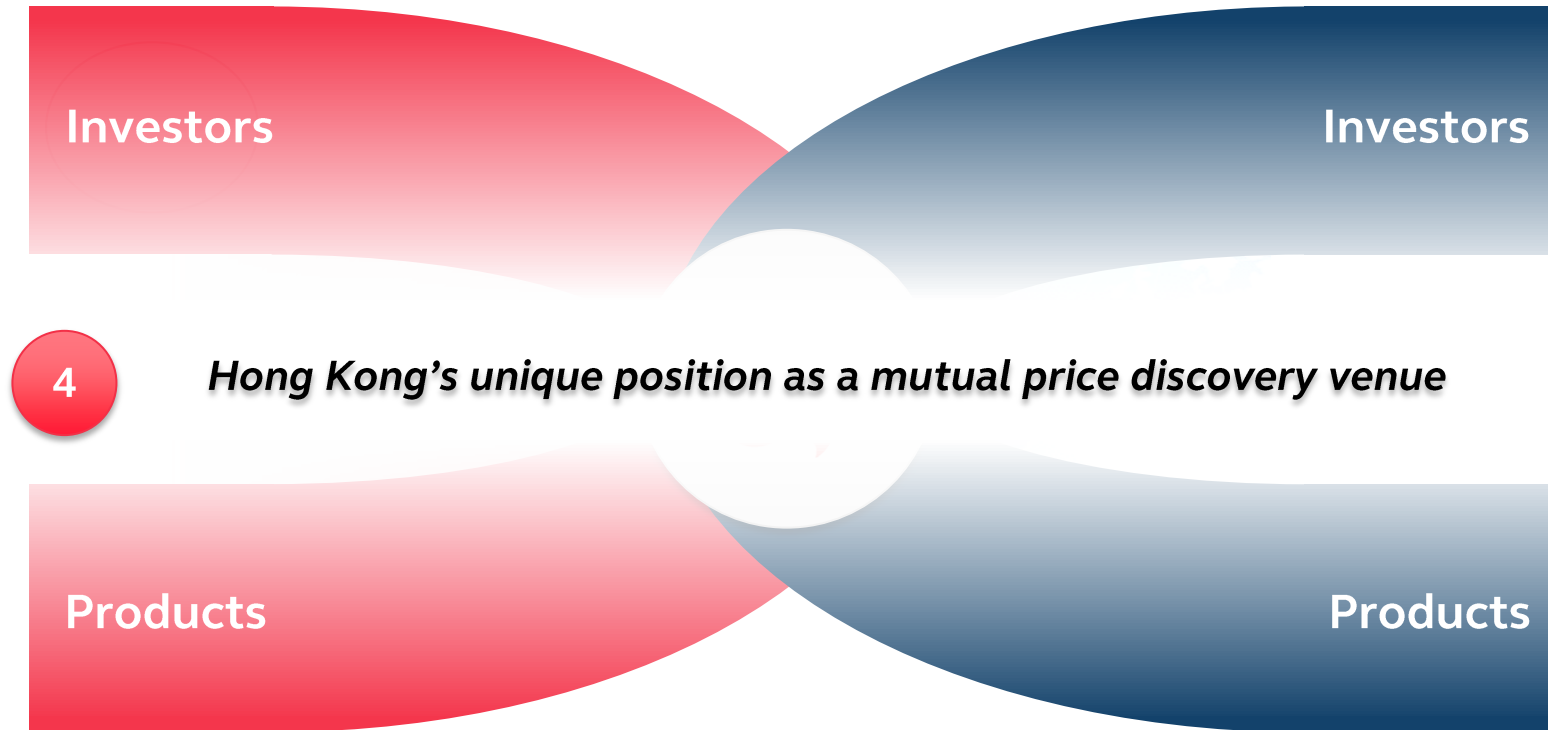
Mainland investors have yet to meaningfully enter the global capital markets

Outbound portfolio investment has remained flat for almost a decade

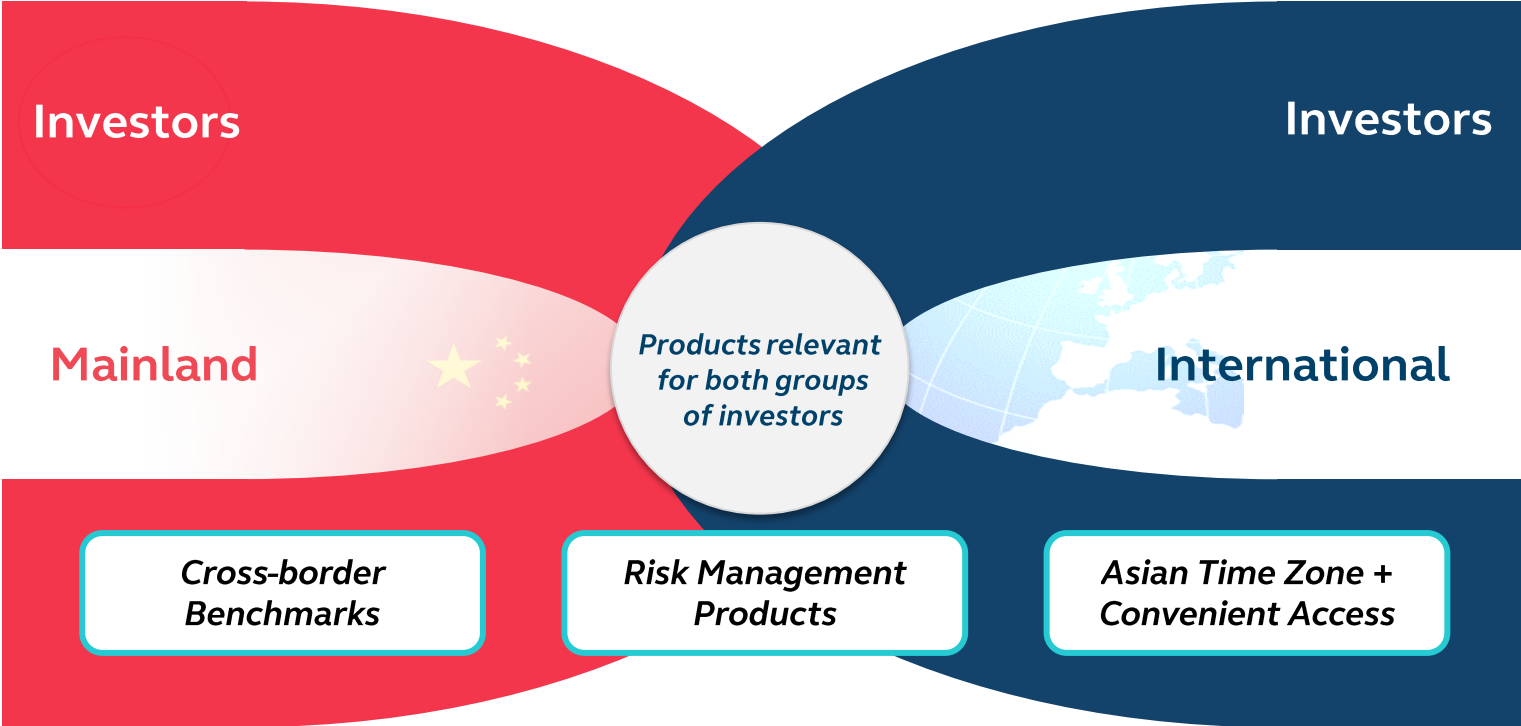
Investors and corporates need to diversify their assets and risk exposure

QDII-2 will drive further asset allocation into overseas markets

What is Driving our Strategy?



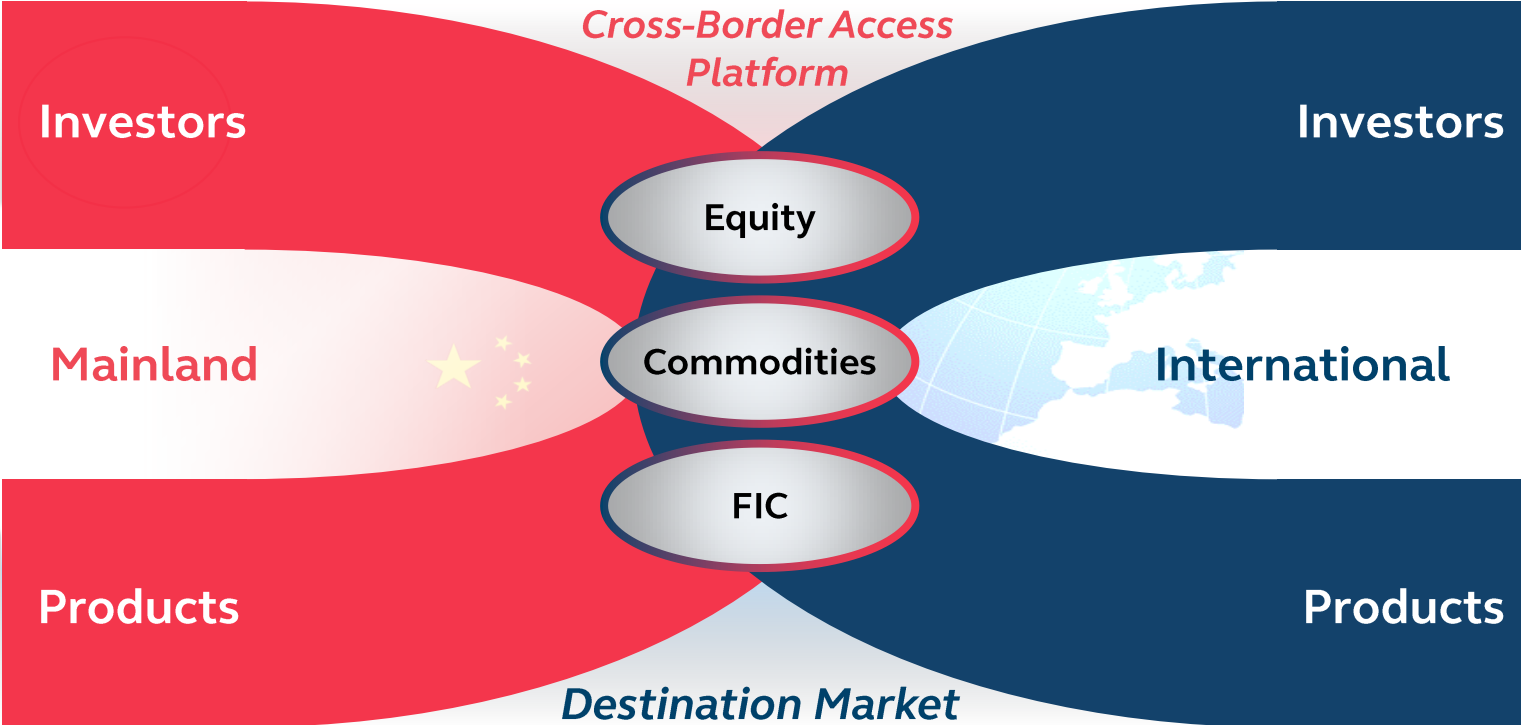
What is Driving our Strategy?





How do we see our role in the Mutual Market?

How Do We See Our Role in the Mutual Market?



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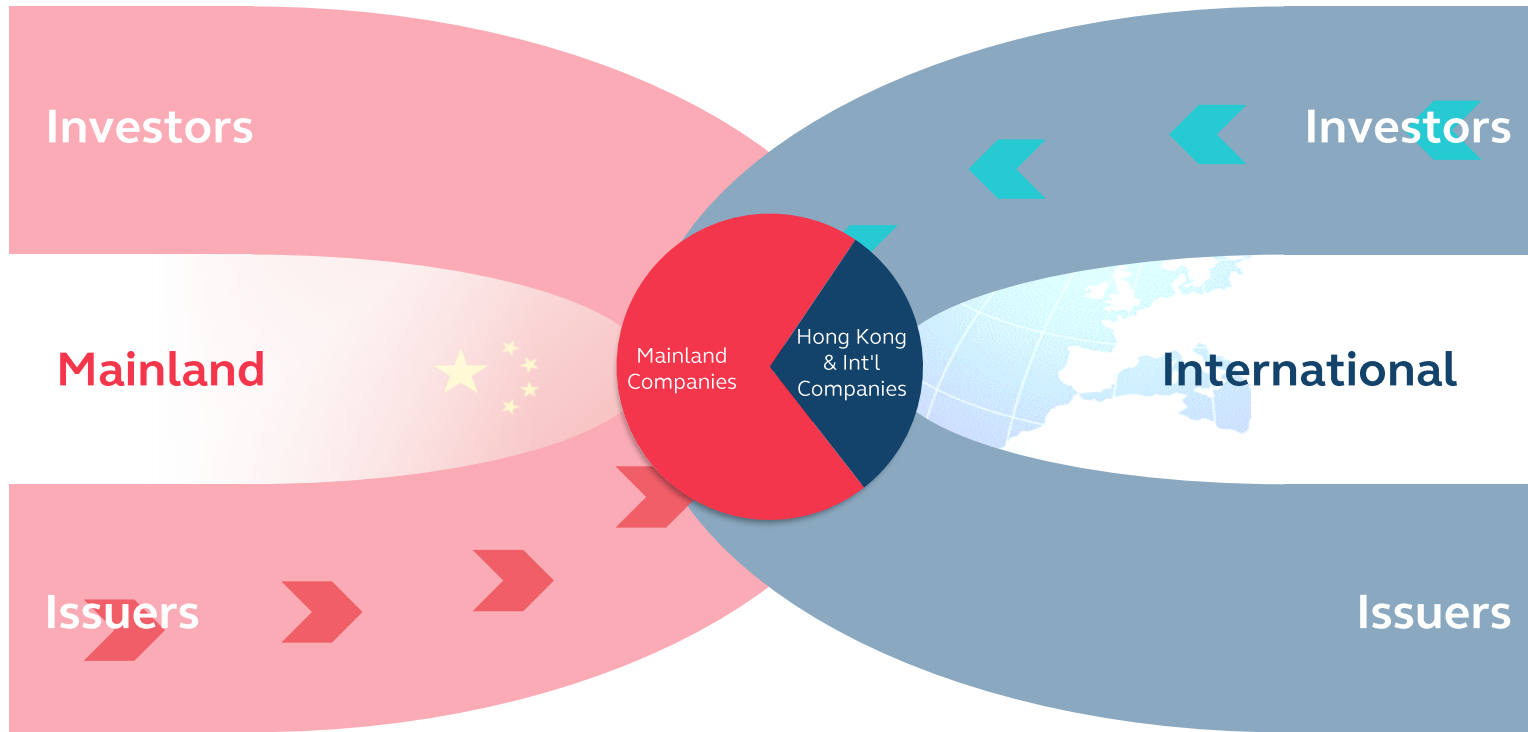
FIC

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What Does it Mean for Hong Kong?

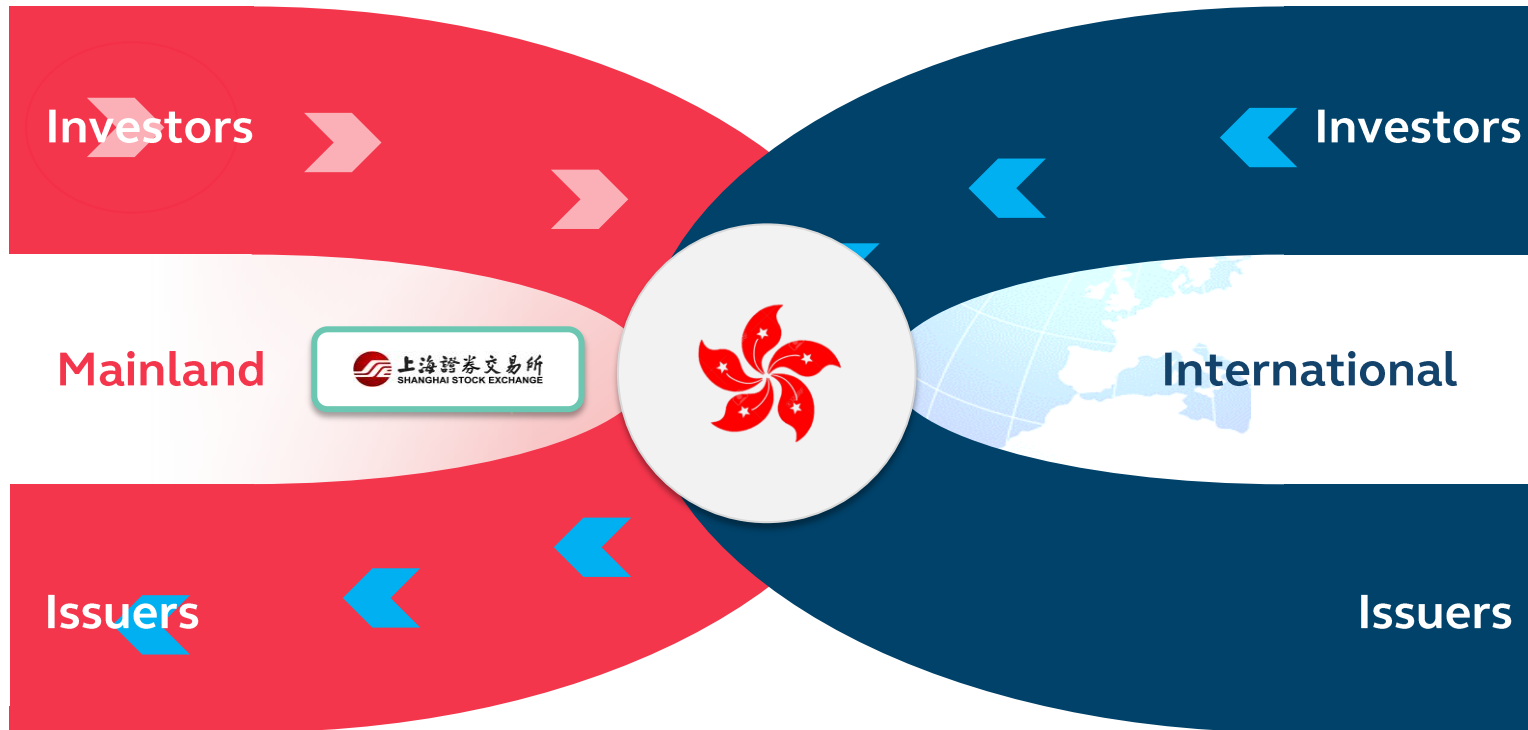


Our Equity Market Historically



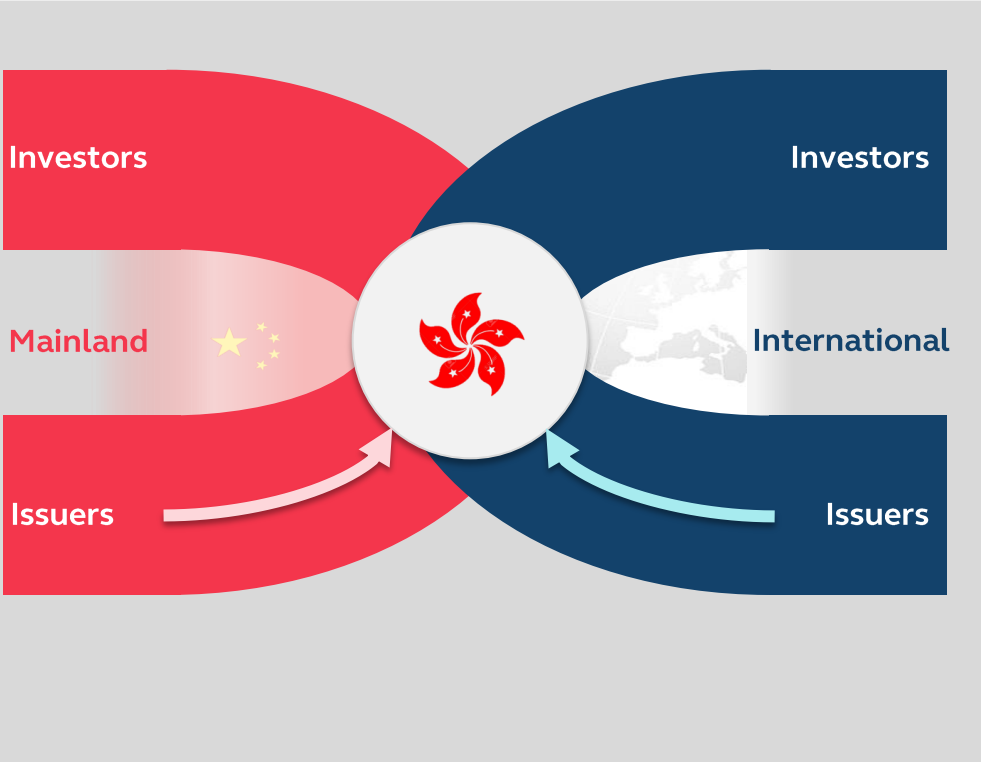
Traditional fundraising venue for Mainland issuers with trading dominated by local and international investors

Breakthrough with Stock Connect



Stock Connect has brought new investors and products to our market

Key Equity Initiatives

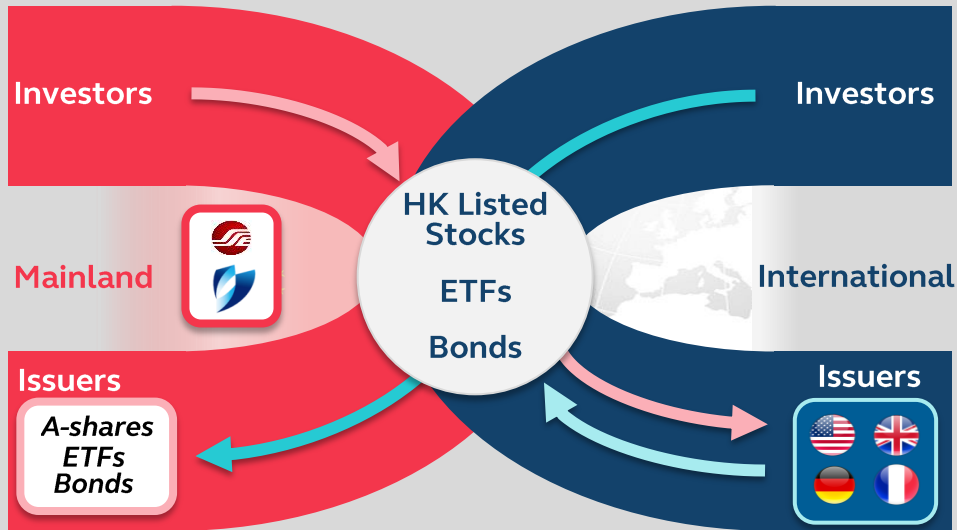


1

Grow core listing franchise

- Venue of choice for Mainland and Hong Kong issuers
- Enhanced listed company regulations
- GEM / Third Board?

Key Equity Initiatives

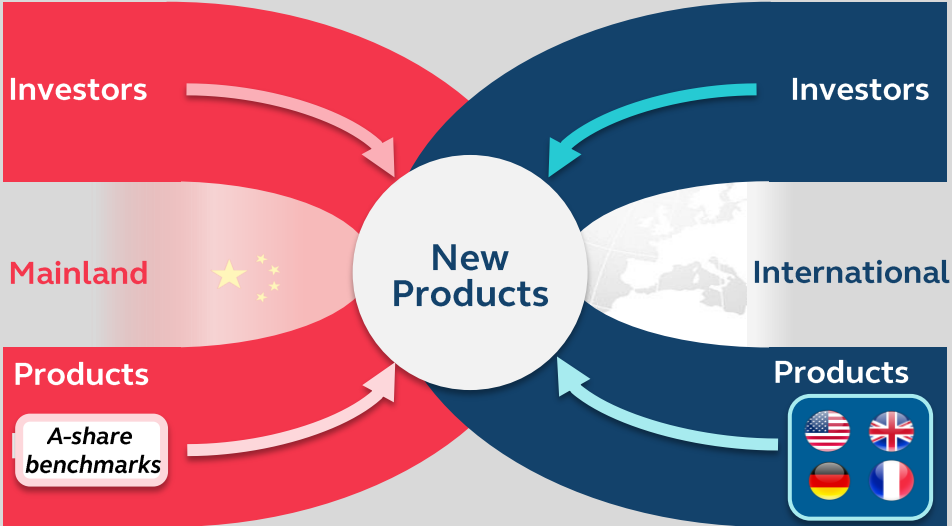


2

Expand mutual connectivity

- Add Shenzhen Connect
- Add ETFs and listed bonds
- “Primary Equity Connect”: catalyst for cross-border fundraising by international issuers

Key Equity Initiatives

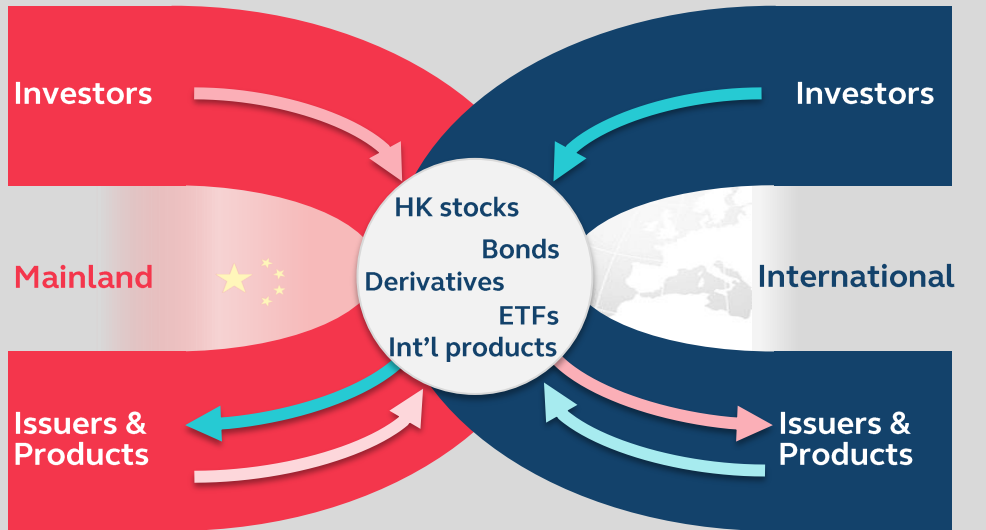


3

Expand our derivatives suite

- A-share index futures and options
- A-H premium products
- Sector index products
- International benchmarks

Equity - Recap



1

Grow core listing franchise

2

Expand mutual connectivity

3

Expand our derivatives suite

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5 What Does it Mean for Hong Kong?

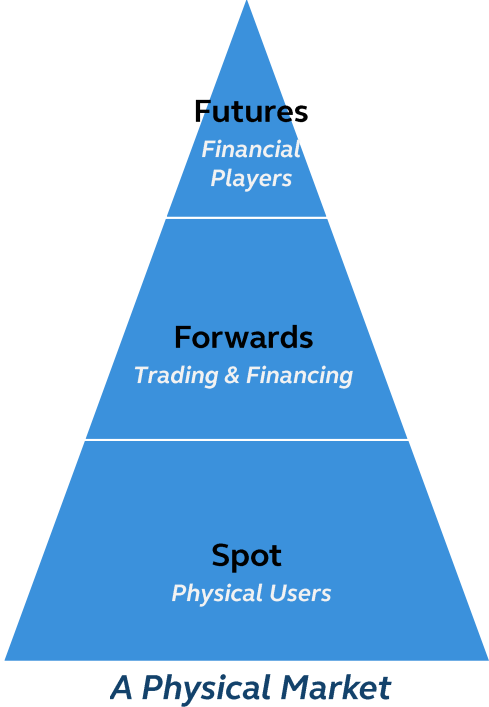
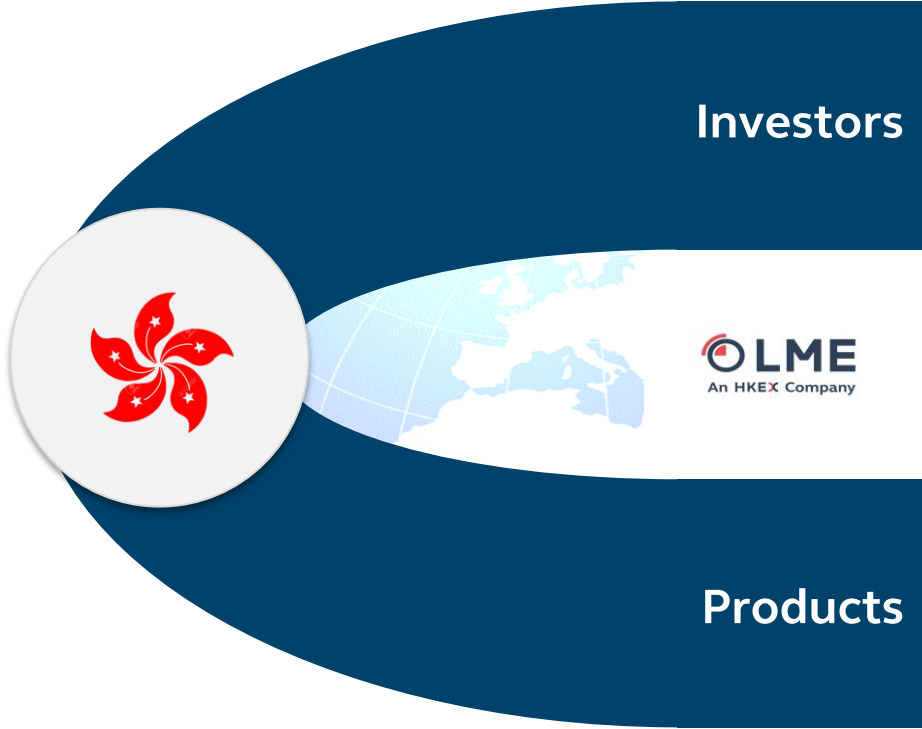


Our Position in Commodities

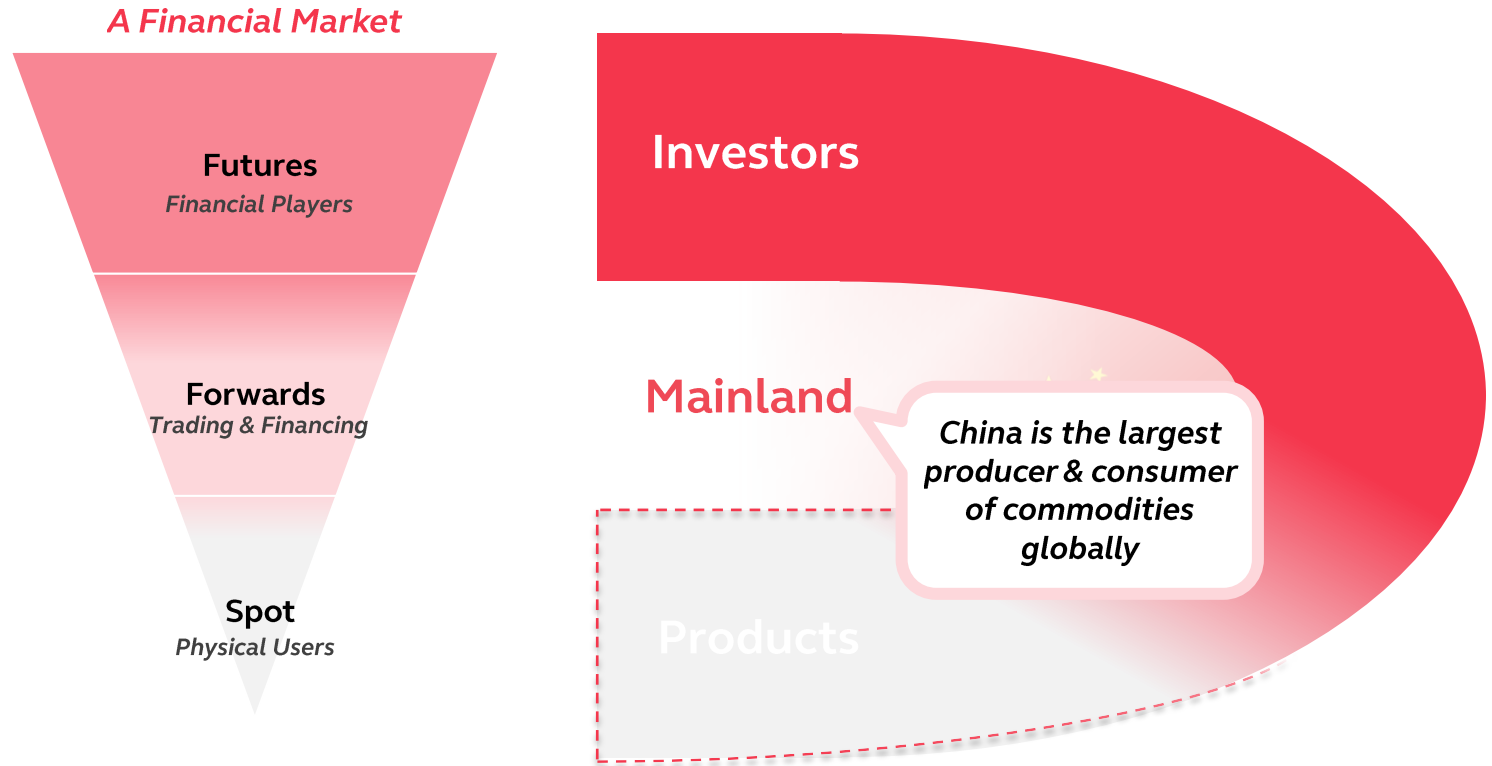
No history of commodities trading in Hong Kong



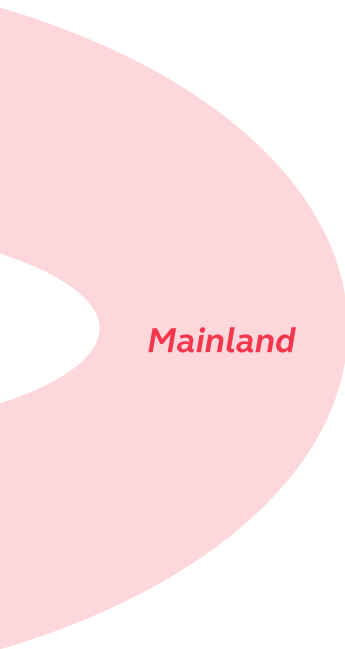
Acquisition of LME in 2012



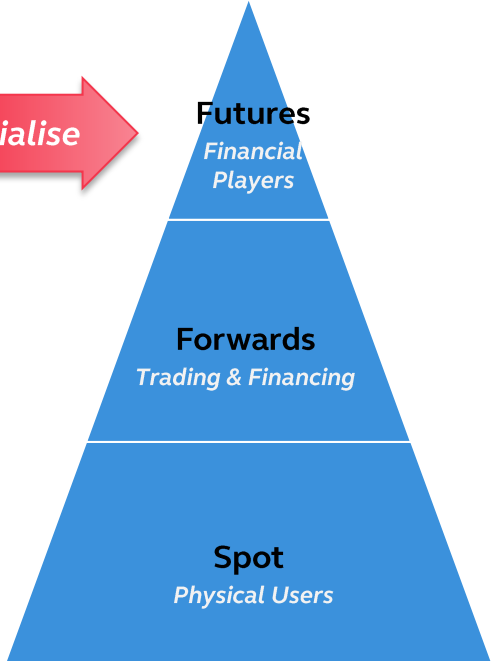
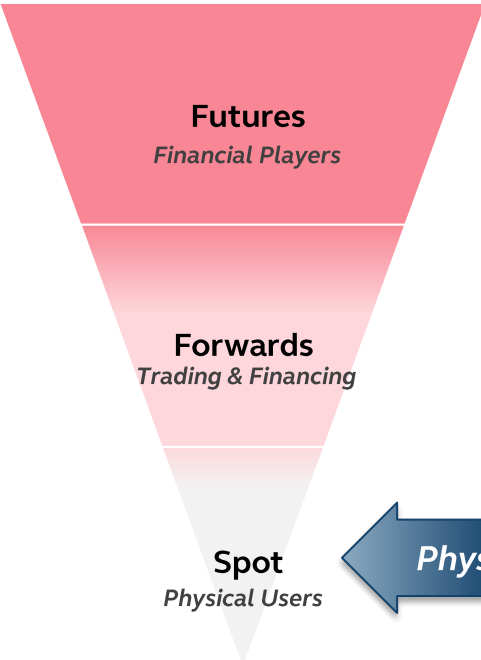
The Mainland Commodities Market



Our Vision in Commodities

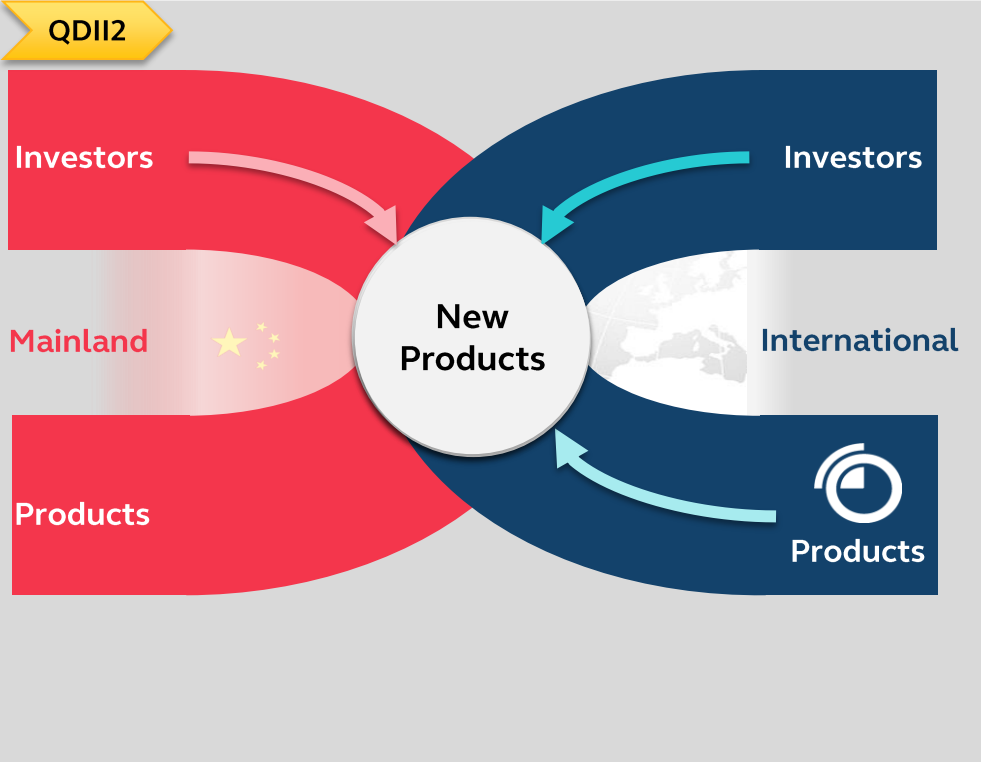


A Financial Market



A Physical Market

Key Commodities Initiatives

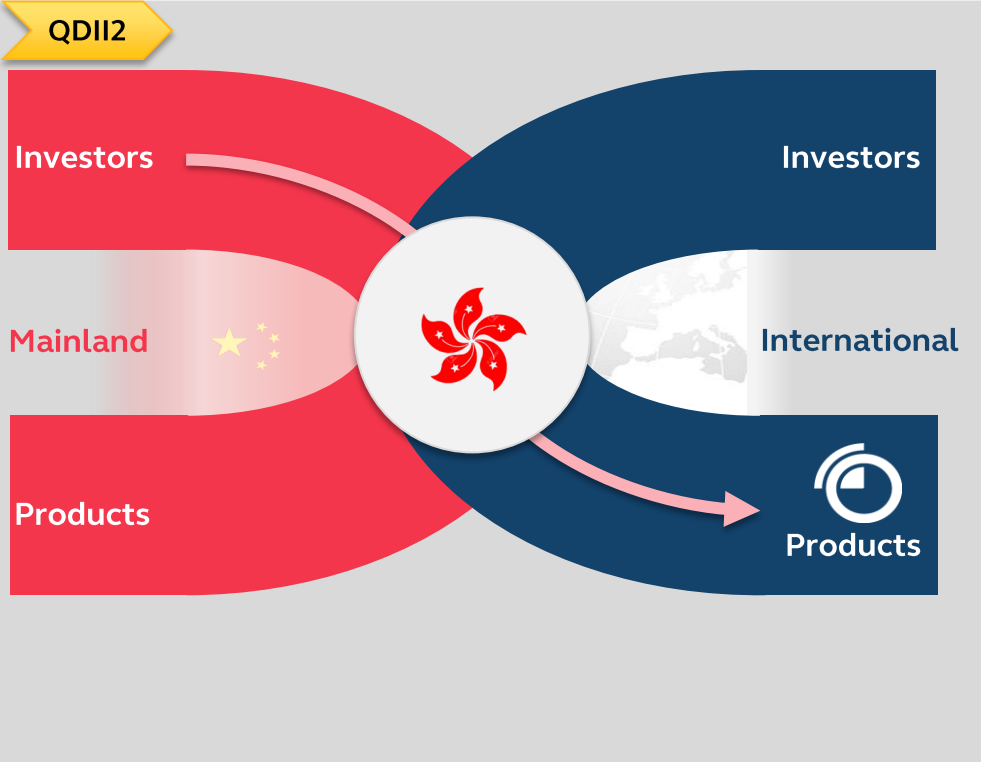


1

Extend product complex

- Precious Metals
- Ferrous and Steel Complex
- Trading on LME & HKFE

Key Commodities Initiatives

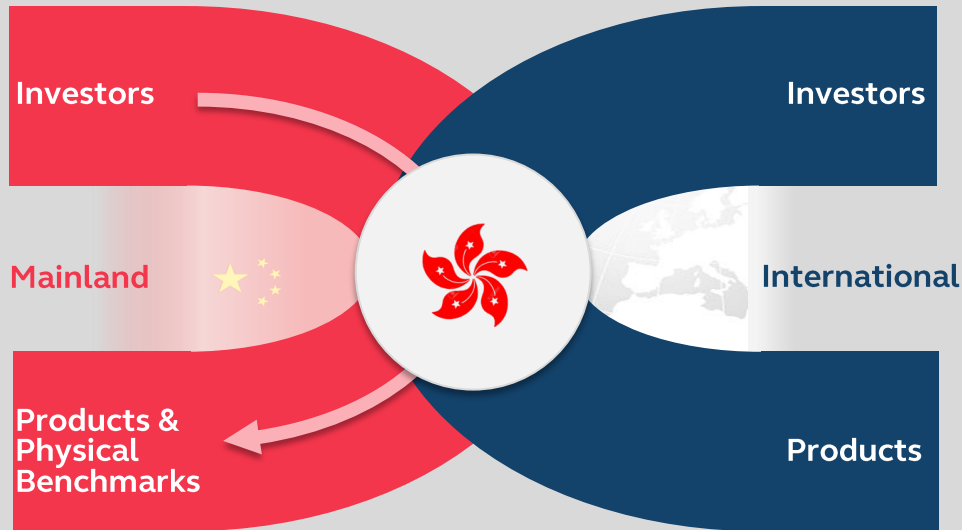


2

London-Hong Kong Connect

- Bring greater Asian participation into LME
- Trading and clearing links through Hong Kong
- Initial focus on QDII-2 / “Westbound” investors

Key Commodities Initiatives

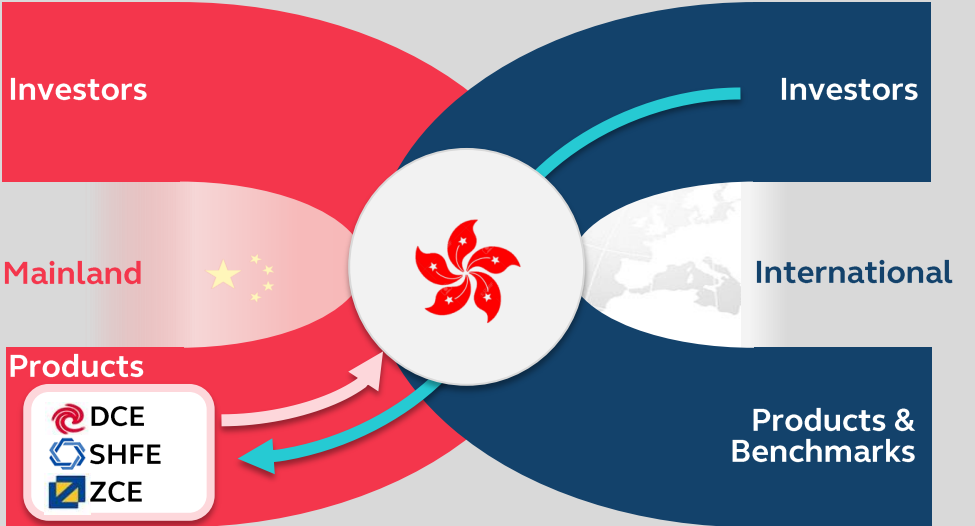


3

Mainland spot commodity platform

- Explore creating a spot commodity trading and financing platform in Mainland China
- Aim to develop and internationalise China's commodity benchmarks, grounded in the physical market
- HKEX is well placed to fill this gap in the market:
Trust | Expertise | Commitment

Key Commodities Initiatives



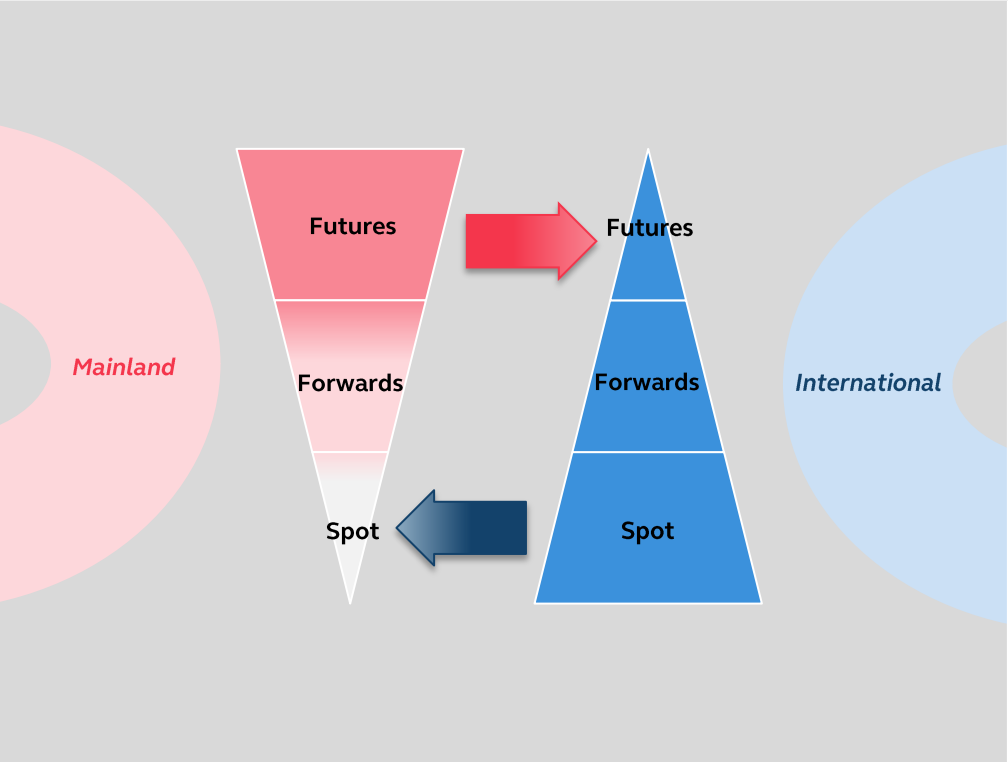
Financialise

4

Connect with onshore exchanges

- Cross-listing of commodities contracts
- Internationalisation of Chinese benchmarks
- Ultimate goal of Mutual Market access

Commodities - Recap



Financialise

- 1 Extend product complex
- 2 London-Hong Kong Connect
- 4 Connect with onshore exchanges

Physicalise

- 3 Mainland spot commodity platform

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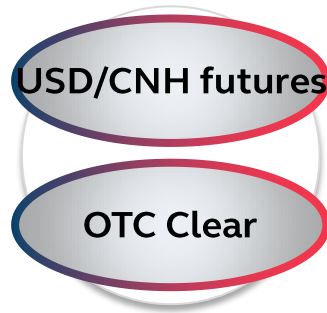


Our Position in FIC Today

HK: no FIC legacy

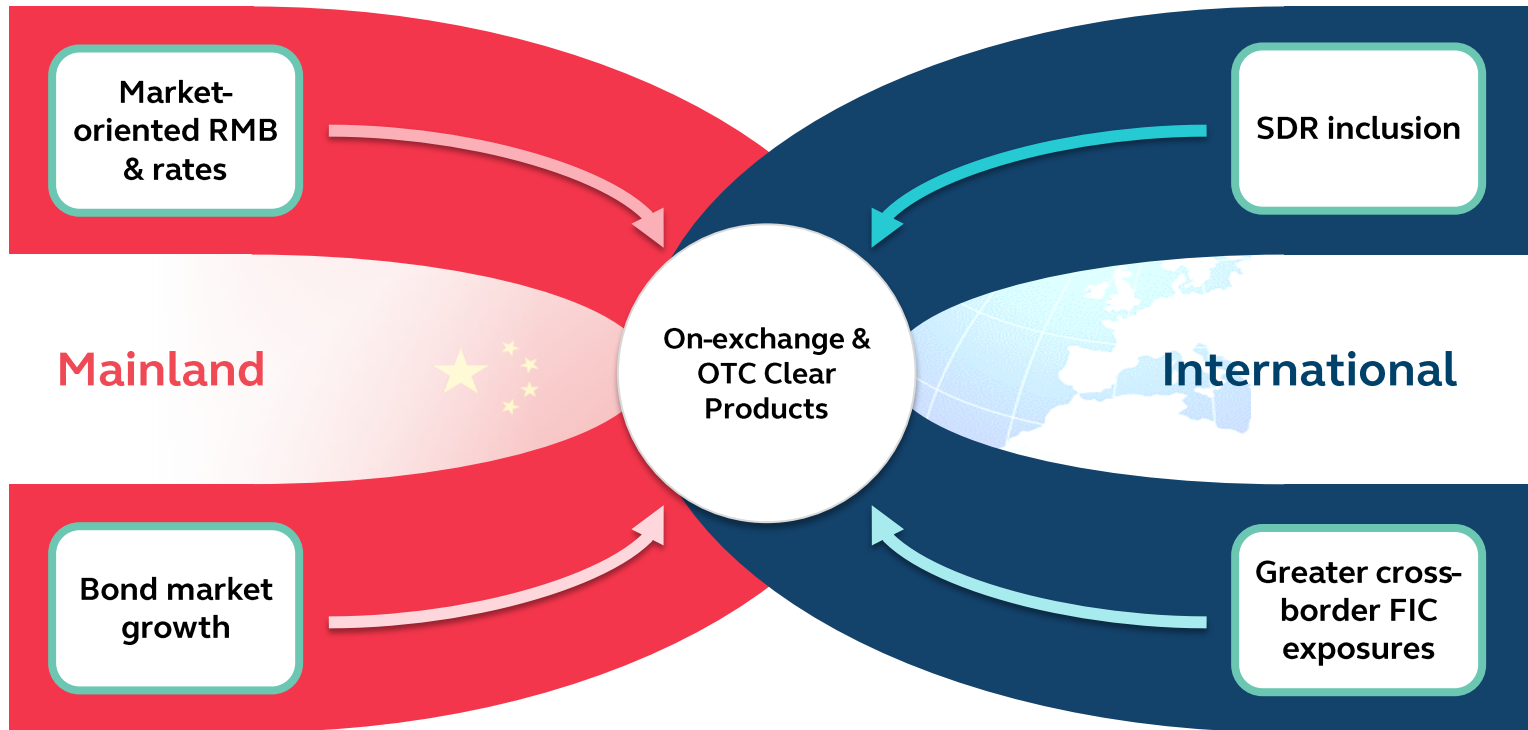


Our Position in FIC Today

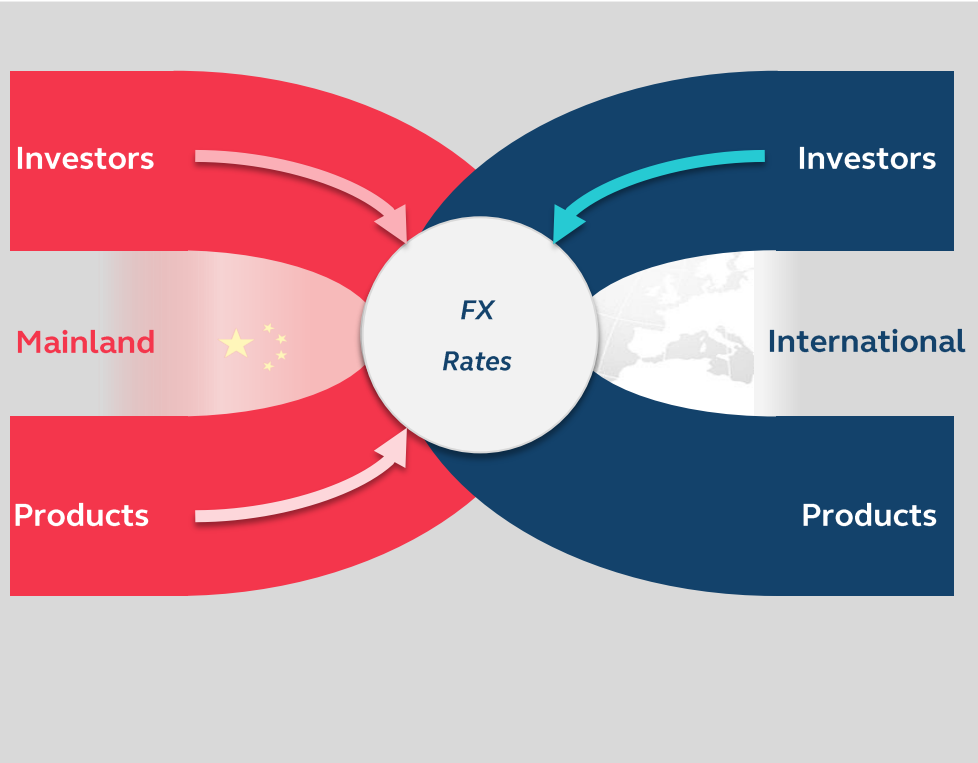


Through our CNH futures and OTC Clear, we have taken the first steps to position ourselves for the huge potential of RMB internationalisation

What Will Change?



Key FIC Initiatives



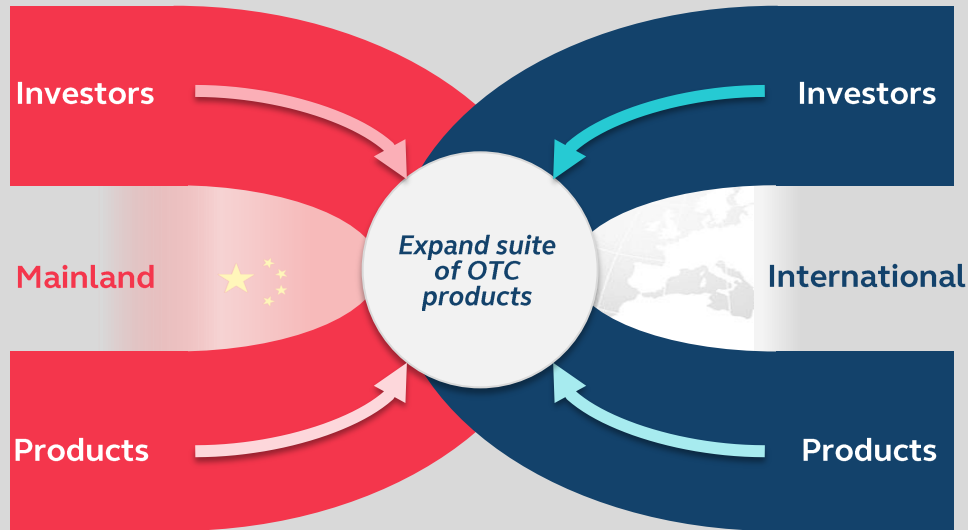
1

New benchmark RMB derivatives

Hong Kong uniquely placed to become a mutual price discovery and risk management centre for RMB FX and interest rates

- Additional RMB currency pairs
- MOF T-Bond futures
- RMB interest rate products

Key FIC Initiatives



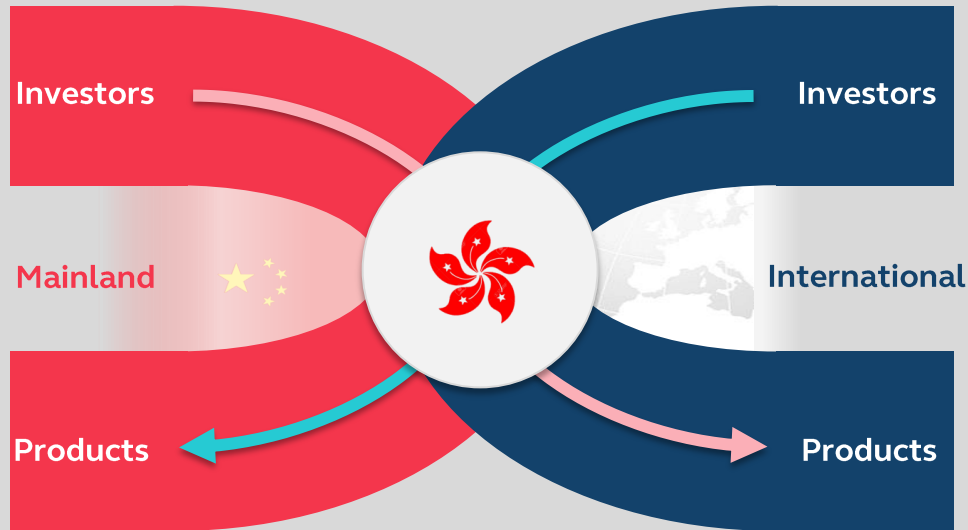
2

New OTC Clear products

Cross-border product suite with Mainland bank membership and internationally compliant CCP status

- Cross-currency swaps
- FX deliverables (forwards and swaps)
- OTC FX options

Key FIC Initiatives



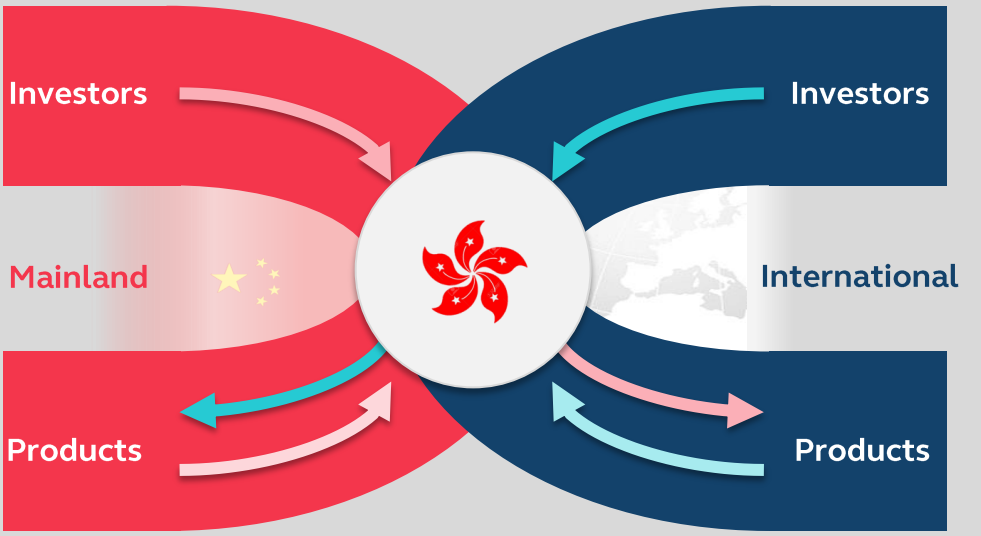
3

Bond Connect

Critical to stimulating demand for RMB FIC derivatives offshore

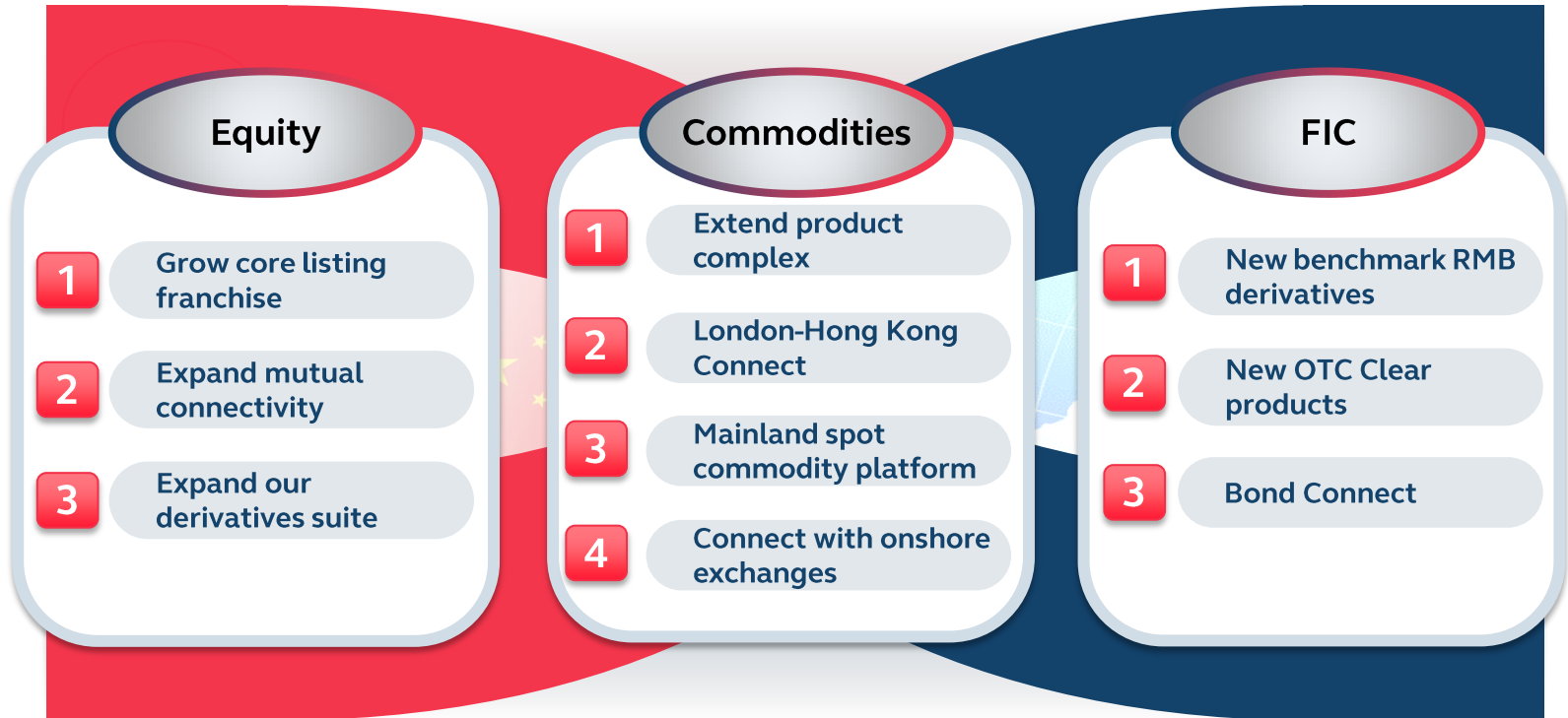
- Institutional market
- Electronic trading
- Centralised settlement

FIC - Recap



- 1 New benchmark RMB derivatives
- 2 New OTC Clear products
- 3 Bond Connect

Key Initiatives - Recap



Our Aspirational Goals: The Three Doublings

Equity

DOUBLE

Market share of
cash market
turnover vs
Mainland

Equity
Derivatives

DOUBLE

Equity
derivatives
volume

FICC

DOUBLE

FICC
contribution
to HKEX

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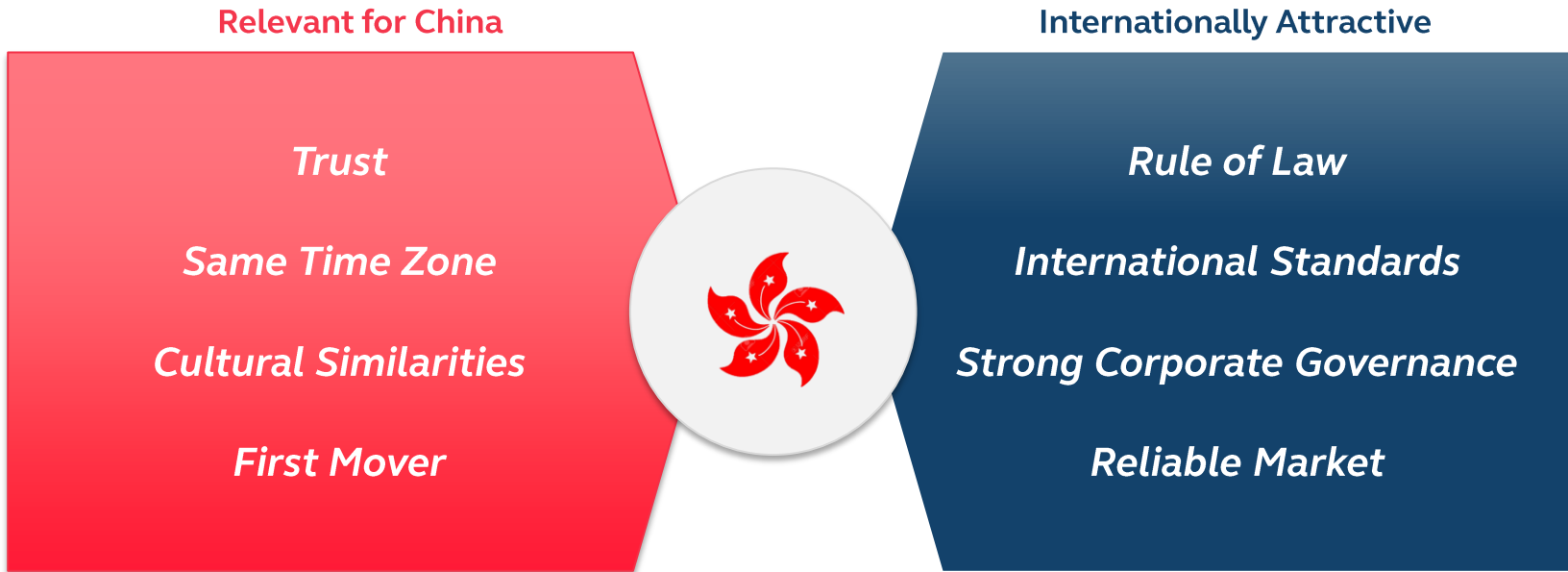
5

What Does it Mean for Hong Kong?



What does the Mutual Market mean for Hong Kong?

Our success as the Mutual Market linking China with the World depends on maintaining our core appeal to both groups of investors and issuers



What are the main risks to our strategy?

Is our strategy too Mainland centric?

Does Hong Kong have the ability to adapt?

How will HKEX prepare for strategic change?

Is our strategy too Mainland centric?

POLICY

Pace of implementation may vary, but we believe overall direction remains unchanged

OPPORTUNITY

Too big to ignore. China will integrate with global markets with or without Hong Kong

CHALLENGES

Whether or not we choose to connect, we will not be immune to the challenges & risks presented by China

MARKETS

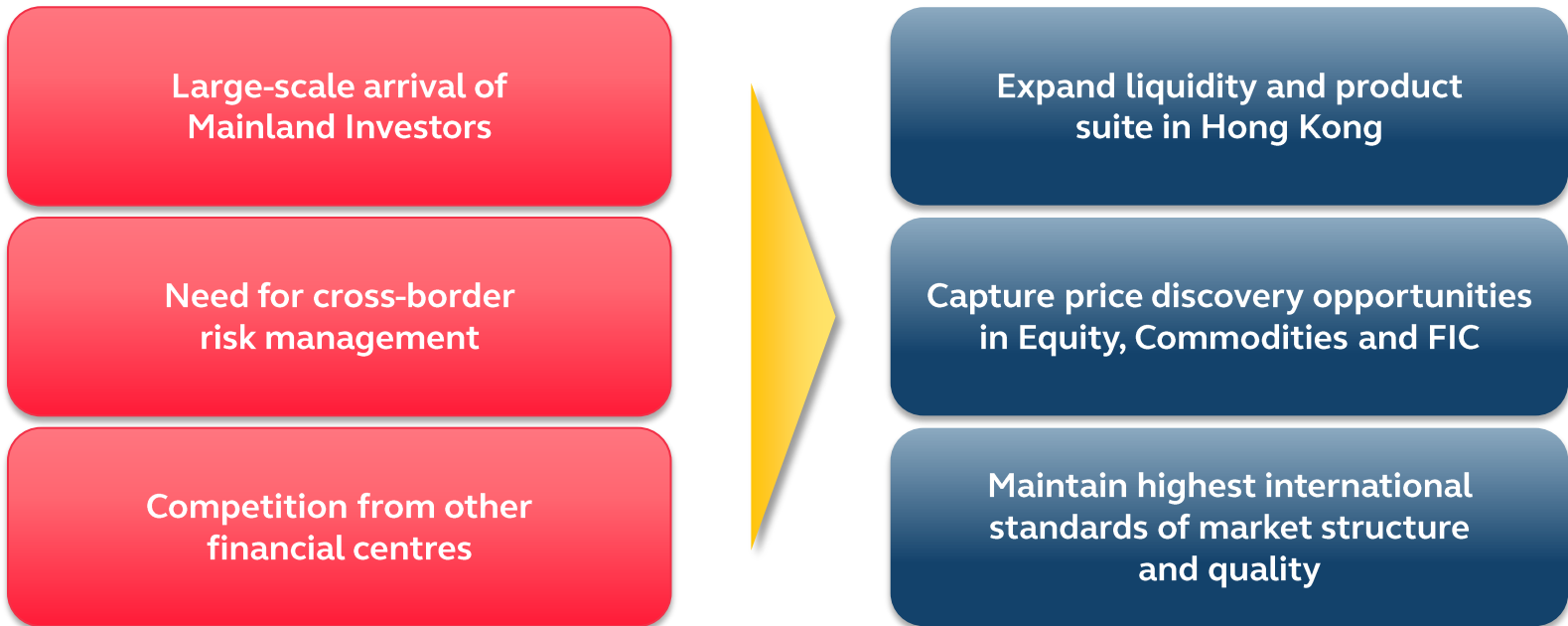
Hong Kong needs to adapt to accommodate Mainland participation, while retaining core values and market structure

STRATEGY

Entrench Hong Kong as the Mutual Market of choice across asset classes for both Chinese and International investors

Does Hong Kong have the ability to adapt?

Hong Kong's markets must adapt and evolve quickly to capture transformational new opportunities, but without compromising our unique qualities

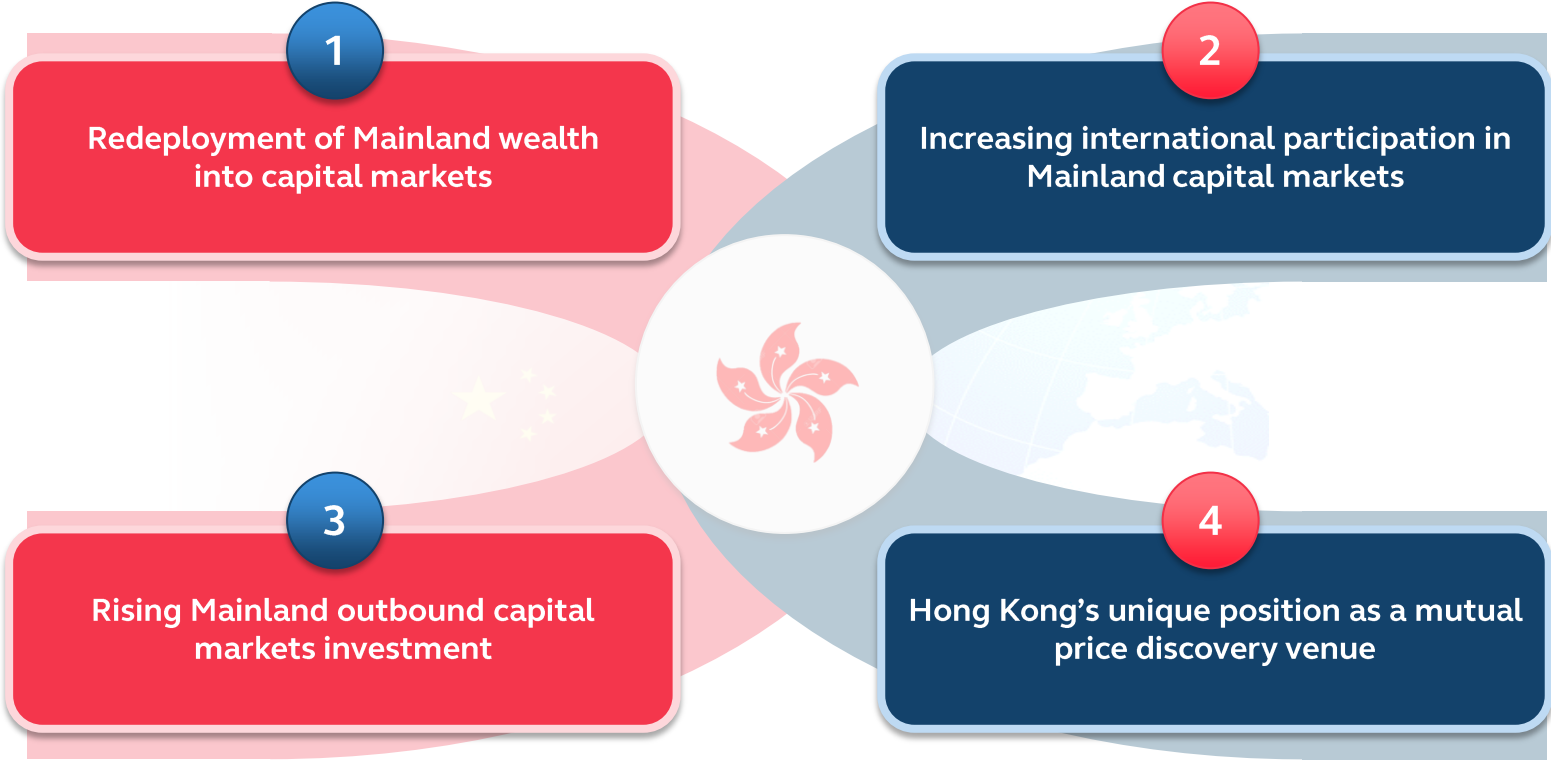


How will HKEX prepare for strategic change?

Market enhancements for 2016-18 to keep our markets modern, safe and compliant

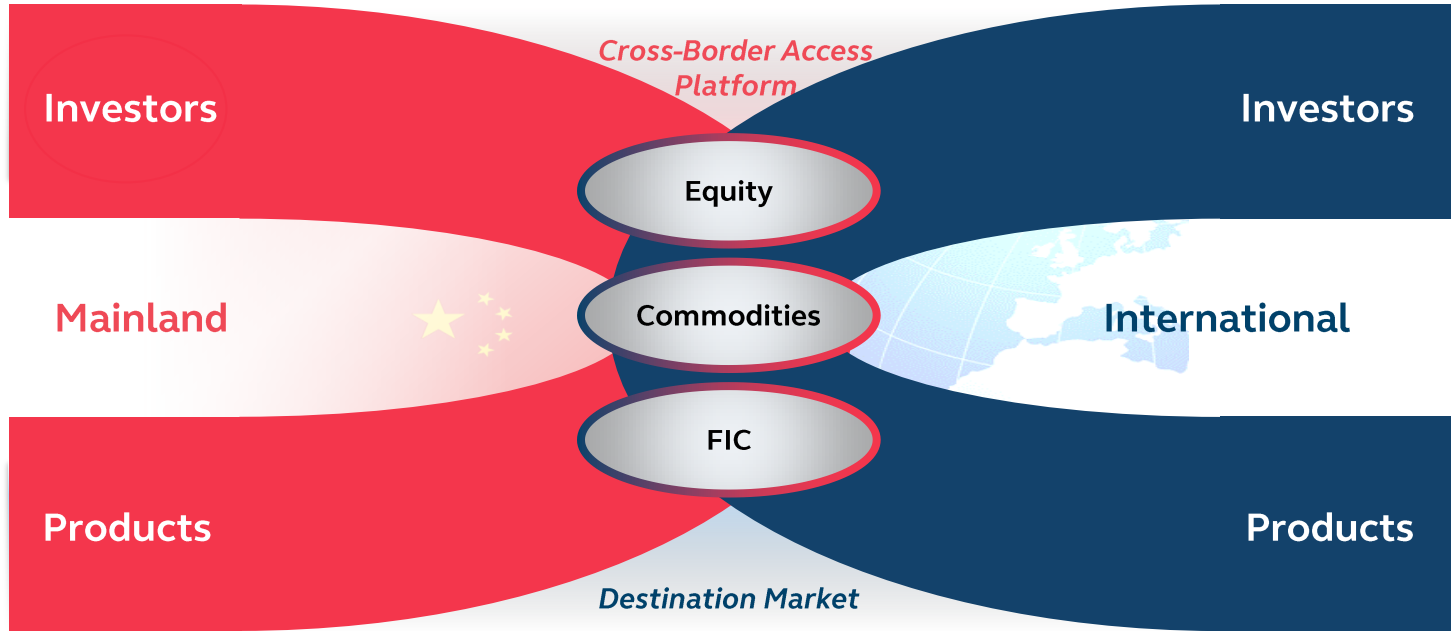


Key Drivers of our 2016-18 Strategic Plan



Our Vision

CONNECTING CHINA WITH THE WORLD



RESHAPING THE GLOBAL MARKET LANDSCAPE

Thank you

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HKEXnews Website: www.hkexnews.hk



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