

Markets

China treasury bond futures to launch

During the quarter, the SFC announced the upcoming launch of China treasury bond futures contracts in Hong Kong. This important risk management tool can facilitate further participation by offshore institutional investors in the Mainland treasury bond market and promote its healthy development. We are working closely with Hong Kong Exchanges and Clearing Limited (HKEX) on the launch. Its date and details will be announced when ready.

Enhancing position limit regime

The enhanced position limit regime became effective on 22 December 2023. The amendments aim to clarify regulatory requirements related to funds, facilitate compliance and provide more flexibility to the market. The key enhancements include raising the statutory position limits for stock futures, stock options and USD/CNH contracts, expanding the list of “specified contracts” for granting excess position limits, as well as clarifying the application of the laws to the asset managers of funds or sub-funds of umbrella funds. The SFC published an FAQ and updated the related guidance note to help market participants understand the enhancements.

Stock Connect momentum continues

Stock Connect continued to account for an important share of stock market turnover. In 2023 (calendar year), daily northbound (NB) trading averaged RMB108.3 billion (6.2% of Mainland market turnover), up 8% from RMB100.4 billion in 2022 (5.4% of market turnover). During the quarter, the NB average daily turnover was RMB108.4 billion, slightly higher than RMB106.1 billion in the previous quarter. On the other hand, daily southbound (SB) trading averaged \$31.1 billion in 2023 (14.8% of Hong Kong market turnover), similar to \$31.7 billion in 2022 (12.7% of market turnover). During this quarter, SB average daily turnover was \$28 billion, similar to the \$29 billion in the previous quarter. Both NB and SB trading recorded net buys in 2023, with RMB43.7 billion for NB (RMB90 billion in 2022) and RMB292.9 billion for SB (RMB339.4 billion in 2022).

In addition, the Mainland stock exchanges have implemented programme trading reporting rules for A-share trading, which exclude programme trading conducted through northbound trading links. The SFC and the China Securities Regulatory Commission have agreed to work out a separate arrangement for reporting programme trading under northbound trading links.

Uncertificated securities market (USM) consultation to close

In October, we published a consultation paper on the proposed amendments to code and guidelines relating to the regulation of approved securities registrars under the USM environment. This consultation followed the SFC’s earlier consultation in March on proposed subsidiary legislation to implement a USM regime. It also covered further amendments to the Stamp Duty Ordinance. We aim to publish a consultation conclusions paper in the first half of 2024.

Monitoring launch of Fast Interface for New Issuance (FINI)

We closely monitored HKEX’s preparations for FINI, which was launched on 22 November. It is a new digital platform which will streamline the settlement process for new listings in Hong Kong and shorten the time between initial public offering (IPO) pricing and trading, driving efficiency and bolstering Hong Kong’s position as a capital raising centre. The overall IPO listing and settlement operations have run smoothly since its launch.

Legislative amendments to Clearing Rules for OTC derivatives

Following our market consultation on proposed amendments to the Clearing Rules¹ for the over-the-counter (OTC) derivative transactions, the legislative amendments were introduced to the Legislative Council in November. With the legislative process now complete, the amendments will take effect on 1 July 2024. The amendments are in line with the global interest rate benchmark reform.

¹ The Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

Markets

Automated trading services

As of 31 December, there were 53 automated trading services (ATS) providers² authorised under Part III of the Securities and Futures Ordinance (SFO), while 30 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

| | As at 31.12.2023 | As at 31.3.2023 | Change (%) | As at 31.12.2022 | YoY change (%) |
|----------------|---------------------|--------------------|---------------|---------------------|----------------------|
| Under Part III | 53 | 51 | 3.9 | 51 | 3.9 |
| Under Part V | 30 | 28 | 7.1 | 27 | 11.1 |

² Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.