

Market infrastructure

Bond Connect

We worked with the Hong Kong Monetary Authority (HKMA) and Hong Kong Exchanges and Clearing Limited (HKEX) to implement Bond Connect, launched on 3 July to provide offshore institutional investors with access to the China Interbank Bond Market via the China Foreign Exchange Trade System & National Interbank Funding Centre (CFETS). On 29 June, the SFC approved the automated trading services (ATS) application of Bond Connect Company Limited, a joint venture company established in Hong Kong between HKEX and CFETS to facilitate the operation of Bond Connect.

Closing Auction Session Phase 2

In June, the SFC approved HKEX's proposed rule amendments to introduce Closing Auction Session (CAS)¹ Phase 2, which covers constituent stocks of the Hang Seng Composite SmallCap Index and allows short selling orders. CAS Phase 2 was launched in July.

Enhanced position limit regime

Following a public consultation which concluded in March, the enhanced position limit regime for futures and options contracts became effective on 1 June after completion of the legislative amendments. The regime expands the scope of excess position limits which can be granted to qualified market participants.

Automated trading services

	As at 30.6.2017	As at 31.3.2017	Change (%)	As at 30.6.2016	YoY change (%)
ATS authorisations under Part III	50	49	2	39	28.2
Corporations providing ATS under Part V	24	24	0	27	-11.1

¹ CAS Phase 1, launched by HKEX to its cash market in July 2016, covered constituent stocks of the Hang Seng Composite LargeCap and MidCap Indices, H shares which have corresponding A shares listed on a Mainland exchange and all exchange-traded funds.

² Delta One Warrants are call warrants with a strike price set at zero or very close to zero. They are intended to enable investors to gain synthetic exposure to the underlying assets, in particular in closed or difficult-to-access markets.

³ 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 by Part III under the SFO. Intermediaries that provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Over-the-counter (OTC) derivatives

In response to requests from market participants, we launched a joint public consultation with HKMA in April on proposed adjustments to the scope of the term "OTC derivative product" under the OTC derivatives regulatory regime. The adjustments exclude Delta One Warrants² from the definition of the term and prescribe additional markets and clearing houses so that products traded and cleared through them will not be regarded as "OTC derivative products".

We approved a product proposal from OTC Clearing Hong Kong Limited (OTC Clear) to clear Hong Kong dollar basis swaps and non-deliverable interest rate swaps in five Asian currencies. The service was launched in May. For mandatory clearing purposes, in June we also designated OTC Clear as a central counterparty for Hong Kong dollar basis swaps.

Automated trading services

As of 30 June, the number of ATS³ authorisations under Part III of the Securities and Futures Ordinance (SFO) was 50, while 24 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.