

Markets

Swap Connect

Swap Connect, the first Mainland-Hong Kong mutual market access programme for financial derivatives products, was launched on 15 May with the introduction of northbound trading, allowing investors from Hong Kong and other jurisdictions to participate in the Mainland interbank interest rate swap market. On the launch day, 27 overseas investors participated and interest rate swaps with a notional value of about RMB8.3 billion were executed. Swap Connect deepens the connectivity between the Mainland and overseas capital markets and bolsters Hong Kong's position as a risk management hub. As of end-June, a total of 540 Mainland interbank interest rate swap contracts were traded under Swap Connect, with a gross notional amount of about RMB129 billion or a daily average of about RMB3.9 billion.

Stock Connect

Following enhancements to the Stock Connect trading calendar¹ implemented on 24 April, investors can trade eligible stocks through Stock Connect on all trading days when both the Hong Kong and Mainland markets are open. Trading, clearing, settlement and risk management in support of trading all proceeded smoothly on the additional trading days during the quarter².

RMB counters

We worked with the Hong Kong Monetary Authority (HKMA) and Hong Kong Exchanges and Clearing Limited (HKEX) to prepare a Hong Kong dollar (HKD)-renminbi (RMB) dual-counter model for Hong Kong-listed securities. We completed our review and approval of HKEX's proposed rule amendments and

relevant documents for introducing the dual-counter model and dual-counter market making programme. On 19 June, the RMB counters of 24 stocks were launched for trading on the Stock Exchange of Hong Kong Limited (SEHK). Since the launch, nine dual-counter market makers have participated in market making activities for these 24 RMB counters, which help promote liquidity and minimise price differences between the RMB and HKD counters. RMB counters closely track the corresponding HKD counters and contribute to the liquidity and trading volume of RMB-denominated securities in Hong Kong.

During the period from 19 to 30 June, average daily trading of the 24 RMB counters totalled RMB193.9 million, equivalent to 10 times the average daily trading in the RMB-denominated products listed on SEHK prior to 19 June. This initiative helps promote the internationalisation of the RMB by increasing its use as an investment currency and also consolidates Hong Kong's role as the prime offshore RMB centre. The SFC is liaising with the Mainland authorities on the southbound inclusion of RMB counters into Stock Connect.

Position limit regime

In June, we concluded our further consultation on proposed changes to the position limit regime for the derivatives market. These included further amendments to the Securities and Futures (Contracts Limits and Reportable Positions) Rules which relate to the position limits and reporting requirements for funds and the proposed enhancements of HKEX to its position limit regime. Subject to the legislative process, we expect the amended rules to take effect in December 2023.

¹ The enhancements were announced in press releases issued by the SFC and the China Securities Regulatory Commission on 24 February 2023.

² The first two additional southbound trading days were 27 and 28 April and the first additional northbound trading day was 25 May.

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OTC derivatives

In April, we launched a joint consultation with the HKMA on the annual update to the list of financial services providers³ under the over-the-counter (OTC) derivatives clearing regime. We issued consultation conclusions in June and the updated list will be gazetted in the fourth quarter of 2023 for implementation on 1 January 2024.

Automated trading services

As of 30 June, the number of automated trading services (ATS) providers⁴ authorised under Part III of the Securities and Futures Ordinance (SFO) was 52, whilst 28 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

	As at 30.6.2023	As at 31.3.2023	Change (%)	As at 30.6.2022	YoY change (%)
Under Part III	52	51	2.0	50	4.0
Under Part V	28	28	0.0	26	7.7

³ The list includes entities which meet two criteria: (a) they belong to a group of companies appearing on the list of global systemically important banks published by the Financial Stability Board, or on the list of dealer groups which undertook to the OTC Derivatives Supervisors Group to work collaboratively with central counterparties, infrastructure providers and global supervisors to make structural improvements to the global OTC derivatives markets; and (b) they are clearing members of the largest central counterparties offering clearing for interest rate swaps in the United States, Europe, Japan and Hong Kong.

⁴ 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.