

Traders – Driving the Future of Hong Kong's Capital Markets

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Good morning, ladies and gentlemen. It is my pleasure to speak at the Asia Trader Forum for the first time as the Chairman of the Securities and Futures Commission (SFC). It is great for me to engage with the buy-side trader community in person.

There is a timeless maxim in our industry: Markets live by liquidity, and liquidity lives by traders. Today, I want to talk about how you, Hong Kong's trading community, participate in our markets and make them breathe.

As the capital market regulator of the Hong Kong international financial centre, we understand it is of utmost importance to strengthen ties with market stakeholders, including all of you here today. As buy-side traders, you play a pivotal role in the smooth functioning of our capital markets. Your contribution is significant to the value creation process for both your firms and investors. This also lays a very solid foundation for Hong Kong's success and sustainable development as a world-leading asset and wealth management centre.

Today, I want to cover four key areas to help build closer ties between the SFC and the trader community, and to align our objectives in order to foster a more vibrant Hong Kong market. First, I will outline the SFC's vision and regulatory approach for your better understanding of our policy. Second, I will discuss the important role of traders and how it aligns with our vision to develop markets. Third, the opportunities and challenges in today's markets. Finally, the SFC's expectations on market participants including traders, in order to drive a better future.

SFC's regulatory approach – effective regulation

My first point is about the SFC's vision and regulatory approach. Our objective is to enforce robust and effective regulation that not only fuels market development but also reinforces Hong Kong's status as a leading global financial hub. We achieve this through close collaboration with the Hong Kong Exchanges and Clearing Limited (HKEX) and by actively engaging with all stakeholders. By working hand in hand, we are strengthening the fabric of Hong Kong's capital markets, creating a more resilient and vibrant financial ecosystem.

In today's rapidly evolving financial landscape, marked by emerging geo-economic fragmentation, persistently high interest rates, and the rapid rise of disruptive technologies, it is more crucial than ever to seize opportunities. That is why one of the SFC's top priorities is to empower all of you, our market participants, to capitalise on new connectivity initiatives and product innovations. Whether it is here in Hong Kong or across Asia, we want to ensure

Note: This is the text of the speech as drafted, which may differ from the delivered version.

you have the support and regulatory environment needed to tap into these emerging opportunities.

Now, let us talk about our philosophy on regulation. We firmly believe that regulation is a powerful tool, but it is a means to an end, not the end itself. Our regulatory efforts are centred around creating a thriving, inclusive economy – a place where capital flows freely, innovation flourishes, and, most importantly, the interests of investors are safeguarded at all times.

As regulators, we are acutely aware of the delicate balance we must strike. On one hand, we need to ensure proper oversight to maintain market integrity and investor trust. On the other, we must foster an environment that allows markets the freedom to grow and innovate. At the SFC, we recognise that this balancing act is not static; it is a dynamic process that demands continuous review and adaptation. We understand that too little oversight can erode confidence in the markets, while overly rigid regulation can stifle the very innovation that drives our financial sector forward.

In this increasingly complex market environment, we are committed to developing regulatory frameworks that are both adaptive and responsive. Our goal is to protect investors effectively without burdening you, our market participants, with excessive red tape. We want to provide certainty and stability in an uncertain world.

To achieve this harmonious balance, we place great importance on open and regular communication with all of you—investors, issuers and industry groups alike. These dialogues are invaluable as they help us craft policies that are not only effective but also empathetic to your needs. We work in partnership with market forces, setting standards, guiding conduct and promoting efficient markets. At the same time, we remain steadfast in our independence, ensuring that every decision we make is in the best long-term interest of Hong Kong's society and economy.

Role of buy-side traders and alignment with SFC's vision

Now, I would like to turn to my second point, which focuses on the crucial role you, the traders, play in our financial ecosystem. Traders are the lifeblood of vibrant capital markets. Your work in facilitating the buying and selling of financial instruments is nothing short of essential. By driving liquidity, enabling price discovery and promoting efficient capital allocation, you are the key drivers behind market development and economic growth.

By providing liquidity, you make sure that transactions are completed smoothly, with minimal price fluctuations and tight bid-ask spreads. This not only enhances market efficiency, but also makes our financial markets more attractive to investors around the world. Moreover, when you incorporate the latest information, such as earnings reports and economic data, into your trading decisions, you are helping to establish fair market values. This process of price discovery increases market transparency and contributes significantly to overall market stability.

I want to give special recognition to our buy-side traders, many of whom are here with us today. You are the unsung heroes who execute portfolio managers' investment strategies with remarkable precision and efficiency. Your work is crucial for generating returns for asset management clients. You leverage your expertise in order execution to minimise the market impact of large orders, optimise pricing, and ensure strict regulatory compliance. Your

hedging strategies are equally important, as they help mitigate risks, align trades with portfolio objectives, and uphold the highest standards of professionalism and integrity.

Your critical role aligns squarely with the SFC's overarching goals. As regulators, we are committed to maintaining markets that are efficient, transparent and orderly. By creating such an environment, we aim to foster stability, growth and value creation. In return, this enables you to optimise trade execution and enhance investment returns. Your activities, in turn, contribute to wealth creation for numerous individuals and fuel the growth of our capital markets. This synergy between your work and our regulatory vision is what will drive the continued success of Hong Kong's financial sector. Together, we are building a future-proof financial ecosystem in Hong Kong, where regulation and market activity work hand in hand to achieve greater heights.

Overcoming challenges and seizing Asia-Pacific (APAC) capital market opportunities

Overcoming challenges

One of our most pressing challenges is extreme volatility. Geopolitical tensions and trade conflicts have cast a shadow over the global economic outlook, creating an environment of uncertainty. As regulators and market participants, we share a common responsibility to protect investors' interests. That is why we must adopt robust risk management measures to safeguard against extreme events. By working together, we can ensure that our markets remain stable and resilient, even in the face of adversity.

We are also focused on addressing challenges related to market liquidity, trading efficiency and transaction costs. We collaborate closely with the Stock Exchange of Hong Kong Limited (SEHK) on a number of initiatives. For example, starting in mid-2025, we will be reducing the minimum bid-ask spreads by 50-60% in two phases. This will make trading more efficient and cost-effective for everyone.

In the medium to long term, we're reviewing the board lot arrangement. This will make it easier to trade high-priced stocks and odd lots, further enhancing market liquidity. We are also working with the HKEX to review the initial public offerings (IPO) price discovery process and exploring ways to reduce costs for market participants. These efforts are all part of our commitment to creating a more efficient and competitive market environment.

Seizing opportunities

Despite these challenges, there are many opportunities in the market, and the SFC is committed to helping you take advantage of them.

The APAC region is experiencing rapid growth in its capital markets, presenting a wealth of opportunities for business development and international collaboration. Over the past five years, APAC has been a major driver of global capital market growth. Its equity markets have grown by 33% to reach US\$36 trillion, accounting for 30% of the global total. The Chinese markets, including Shanghai, Shenzhen and Hong Kong, together represent 14% of global market capitalisation.

Hong Kong, in particular, has solidified its position as a leading international financial centre. We have reclaimed a top-three ranking among financial hubs and a top spot in global IPOs. Equity trading activity has been booming this year, with the average daily turnover in the first

four months increasing by a remarkable 144% year-on-year to HK\$250 billion. The Hang Seng Index has also outperformed global benchmarks, gaining more than 20% year-on-year.

Our asset management industry is also thriving. Hong Kong-domiciled funds have seen significant growth over the past year. By March 2025, assets under management had increased by 40% year-on-year to US\$249 billion, with strong net inflows of US\$44 billion.

At the SFC, we are focused on strengthening Hong Kong's role as a bridge between Mainland China and overseas markets. The Mainland-Hong Kong Stock Connect scheme has been a huge success, facilitating over HK\$4 trillion in southbound net inflows over the past decade. Looking ahead, we are considering comprehensive enhancements, such as relaxing northbound investor eligibility for Mainland-listed growth stocks and enabling offshore investors to conduct block trades on Mainland exchanges. We are also planning to include more products, like renminbi counters, real estate investment trusts and exchange-traded funds (ETFs), in Stock Connect to further integrate our markets.

In addition to our connections with the Mainland, we are expanding our reach globally. We are fostering collaboration with overseas markets, especially in the Middle East and Southeast Asia. The SEHK now recognises 20 overseas stock exchanges, making it easier for foreign companies to list here. The Mutual Recognition of Funds scheme has been expanded to include Ireland, giving investors more options. And our growing ties with the Middle East markets are helping us diversify our investor base and product offerings. We witnessed a landmark Islamic bond ETF listing in Hong Kong just last month, as well as closer equity ETF cooperation between Hong Kong and Saudi Arabia over the past years.

Another area of significant growth is the ETF market. The on-exchange channel for asset management products offers a well-regulated, cost-effective way for firms, traders and investors to manage their assets. The SFC has been actively supporting the development of this market. We have enabled new product types through the years, such as leveraged and inverse products, actively-managed ETFs and ETFs investing in virtual assets. As a result, Hong Kong's ETF market has expanded significantly, with the total market capitalisation rising by 35% year-on-year to US\$67 billion as of March.

The Mainland ETF market also holds enormous potential. Through the ETF Connect scheme, northbound investors can gain diversified exposure to the Mainland economy using Hong Kong's world-class platform. Since its launch in mid-2022 and subsequent enhancements in July 2024, ETF Connect has seen average daily turnover double, and now offers access to over 240 Mainland ETFs.

SFC's expectations on market participants and traders

Last but not least, I want to emphasise what the SFC expects from all of you—traders and other market participants. At the heart of our expectations is the crucial need to manage risks and build resilience, two elements that are essential for the sustainable development of our financial markets.

Resilience has been a core value of the SFC since our establishment 36 years ago. By working hand in hand with industry participants, we have made it our mission to ensure that market operations stay secure and stable, even when faced with unexpected shocks and extreme volatility. This is not just a lofty goal; it is a commitment we have upheld through many market cycles.

Strengthening market resilience and effective risk management are top priorities for us. They form the very foundation of long-term capital formation, wealth creation and, most

importantly, the trust that investors place in our financial system. We firmly believe that every one of you has a vital role to play in this effort. Your actions in managing risks contribute directly to the overall stability of our markets.

Over the past few decades, we have taken significant steps to safeguard Hong Kong's status as a globally trusted financial platform. We have fortified the resilience of our stock exchange, clearing houses and licensed firms through strict stress testing and financial resources requirements. To protect the integrity of our markets, we have implemented a comprehensive market surveillance system that monitors both the on-exchange market and the OTC derivatives market, allowing us to detect issues like market manipulation and position concentration, and to prevent systemic problems before they occur. More recently, we introduced an investor identification regime, which gives us better visibility into how different market segments interact.

A great example of the success of our risk-mitigation efforts was the orderly operation of the Hong Kong market on 7 April during the worldwide market selloff. Despite the benchmark index experiencing its worst one-day drop in over 30 years and a huge spike in daily turnover, our markets remained sound and orderly. This was thanks to the resilience we have painstakingly built over the years, through both good times and bad. And we are committed to ensuring that our markets continue to perform this way in the future.

Now, I would like to turn to a topic that has been on everyone's mind lately: generative artificial intelligence (AI). Since the "DeepSeek moment" a few months ago, it has become a recurring theme at almost every industry event.

AI-driven algorithmic trading is not new to our markets, but with the rise of generative AI, there is potential to take algo trading to the next level. It can optimise trading strategies, enhance order execution, simulate market conditions, gauge market sentiment, improve forecasting accuracy, and aid in risk management as well as stress-testing and back-testing strategies. The possibilities are vast.

As regulator, the SFC operates under a clear philosophy: we aim to promote the responsible innovation and deployment of technology. Our goal is to leverage technology to boost market efficiency, transparency, cost-savings and the investor experience, all while safeguarding market integrity and stability. We actively encourage and support licensed corporations to use technology responsibly to innovate, deliver better products and services, and streamline their internal processes. This not only improves operational efficiency but also frees up human resources for more value-adding tasks.

However, we are also acutely aware of the risks that come with generative AI. Existing risks, such as herd behaviour and market concentration, could be amplified, and new risks like model data biases may emerge. That is why, in late 2024, we issued guidance to the industry. Our guidance takes a risk-based approach and clearly outlines what we expect from licensed firms when adopting generative AI. To strike the right balance between client protection and business development, we require firms to validate the output of generative AI models, closely monitor model performance, and ensure that senior management is accountable for internal controls and oversight. We have also identified key risks that need to be managed, including cyberattacks, hallucinations, privacy breaches and intellectual property violations.

Conclusion

As I wrap up my sharing today, I want to leave you with some words of encouragement. In this rapidly changing financial landscape, it is crucial that we all stay resilient. But at the



same time, let us not overlook the incredible opportunities for development that lie ahead. The potential for growth in our markets is vast, and I am confident that, together, we can make the most of it.

At the SFC, our commitment to effective regulation is unwavering. We understand the importance of striking a dynamic balance between providing robust oversight to maintain market integrity and fostering an environment that encourages growth. This balance is not always easy to achieve, but it is essential for the long-term success of Hong Kong's financial markets.

We also recognise that collaboration is key. That is why we will continue to engage proactively with all our stakeholders, including buy-side traders. Through open and honest dialogue, we can better understand your needs, address your concerns, and work together to develop policies that enhance Hong Kong's position as a leading international financial centre. Your insights and expertise are invaluable to us, and we look forward to strengthening our partnership in the days to come.

Let us take the momentum from today and carry it forward as we build an even more competitive financial ecosystem for Hong Kong.

I hope you all have a rewarding forum today. Thank you.