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Defence and Offence: A Multi-pronged Strategy to Harness Epochal Opportunities

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Good morning, ladies and gentlemen. First up, I would like to thank Caixin for inviting me to the Summer Summit. It is my pleasure to speak here again after two years and share with you the SFC's efforts in developing capital markets.

Two years does not seem a long time: I still recall sharing a number of development plans at the summit back in 2023, which was held not long after the pandemic as our society gradually resumed normalcy. As I stand here today, I am glad to say that we have put our plans into action over the past two years: expanding the Connect schemes, enhancing the Mutual Recognition of Funds arrangement, launching Wealth Management Connect 2.0, and attracting more companies to list in Hong Kong.

At the same time, Hong Kong has regained its position as a top-three international financial centre after experiencing setbacks.

An era of change

Of course, some say even one day is too long, as global dynamics can change in the blink of an eye. Today, the world is undergoing profound transformation. However, geopolitical complexities, technological competition and US-China relations are not only sources of unprecedented challenges, but also wellsprings of emerging opportunities.

Against this macro backdrop, capital market volatility is now a new normal. As regulator, we must therefore respond with an agile and robust regulatory approach to ensure Hong Kong's market resilience while leveraging its unique advantages to capitalise on new opportunities. To put it simply, the SFC's approach is embodied by one "shield" and three "arrows": the sturdy shield symbolises the resilience of markets and financial institutions, while the arrows represent targeted growth strategies aimed to unlock market potential.

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

A sturdy shield of resilience

Let me explain this strategy of “one shield and three arrows”.

First and foremost, market resilience serves as a sturdy shield. Hong Kong has been able to defend against bouts of extreme market volatility in the past few decades by constantly strengthening systemic resilience. This has effectively managed systemic risks and successfully mitigated the impact of unexpected events.

Take a recent example. In early April, the US announced sharp tariff hikes, which triggered a global market selloff. On 7 April, the Hang Seng Index recorded the largest single-day drop in nearly 30 years, with turnover more than doubling the daily average. Despite the shock, Hong Kong’s market demonstrated its hallmark resilience: on that day, bid-ask spreads remained narrow; short position levels stayed normal without building up; and intraday margin calls were settled on time.

The key to maintaining such market resilience lies in our effective regulatory framework, sound risk management measures and robust financial infrastructure. Part of this has to do with the SFC’s close monitoring of market conditions to manage risks. Our see-through surveillance capability allows us to detect anomalies such as short position buildups and market manipulation, while our regular stress tests on our exchanges and intermediaries are also vital to assessing the risk control capabilities of our market.

In addition, we continue to step up our enforcement action to ensure market integrity, and strengthen our investor education and anti-scam initiatives to protect investors.

For the senior management of financial institutions here today, you must have previously heard me speak about the importance of strengthening risk controls. I believe this message resonates with all of you after experiencing the extreme and erratic tariff policy in April. No matter how effective your shield was in the past, increasing resilience is essential to navigate persisting uncertainties in the future.

First arrow: enhancing core competitiveness to seize opportunities

Of course, as in a football match, the key to victory lies not in defence, which is the basics, but in offence. Hong Kong’s long-term success as a top-three international financial centre hinges on our multi-pronged offensive strategy that calls for continued evolution and harnessing the changing currents of the times.

Such opportunities are probably emerging. In the past, upon major declines in the global stock market, we would often witness the flight of global capital from the Asia-Pacific to US bonds due to risk aversion. However, it is different this time: international investors are diversifying risk exposure by increasing allocation to non-dollar assets. As a result, US Treasury yields have gone up rather than down, and the US dollar index has slipped 5%.

In May, we saw a strong rush of international capital into the Mainland A-share and Hong Kong stock markets. A seismic shift in global asset allocation may be imminent, which is why views of “the East rises as the West declines” are fast gaining ground.

Our three arrows take aim at these opportunities. The first arrow revolves around enhancing Hong Kong’s core competitiveness as a premier financing centre and a leading asset and wealth management hub. Over the past year, thanks to the support from the China Securities Regulatory Commission, a number of A-share enterprises listed their H shares in Hong Kong and have performed remarkably well. Recently, the H-share listing of Contemporary Amperex Technology Co. Ltd., or CATL, set a total fund raising record of US$5.3 billion, with its cornerstone investors all being international long funds. While the global stock market is still suffering from tight liquidity, Hong Kong is playing its critical role as a financing platform to facilitate Mainland enterprises’ overseas expansion, thereby addressing the challenges of global supply chain reconfiguration.

We will continue our unwavering collaboration with Hong Kong Exchanges and Clearing Limited (HKEX) to further diversify the sources of listings in Hong Kong to increase our global competitiveness, while reducing transaction costs and enhancing market efficiency.

Second arrow: deepening connectivity

The second arrow centres on deepening connectivity. Hong Kong is uniquely positioned as a premier gateway between the Mainland and the rest of the world. At the same time, deepening Hong Kong’s connectivity with emerging markets in the region as well as developed markets in Europe and the US will further enhance the city’s global clout and diversification drive, thus opening up new avenues of growth.

After more than a decade of operation, furthering market integration remains the top priority for the development of Mainland-Hong Kong Connect schemes in the future. Over the years, we have achieved many firsts, by expanding the scope of the Connect schemes beyond equities and bonds towards fund products, exchange-traded funds (ETF) and derivatives. In the future, we will actively expand and enhance the Connect schemes through the inclusion of renminbi (RMB) counters in southbound trading and other measures.

As a vital capital intermediary, the Hong Kong market also connects with the world. The SFC is committed to strengthening ties with emerging Asian markets. In late May, Hong Kong welcomed the historic listing of the first Saudi government bond ETF, therefore elevating our cooperation with the Saudi ETF market from equities to fixed income. We are currently exploring even more opportunities for collaboration and innovation.

Third arrow: innovative technology

The third arrow is innovative technology. The SFC aims to promote responsible innovation in the financial market and industry by harnessing the transformative force of technology, in order to prepare them for future challenges and maintain their competitiveness over the long run. These efforts include digitalisation, blockchain technology and generative artificial intelligence.

One clear example is that we are actively fostering a virtual asset (VA) ecosystem. To enable investors to capitalise on emerging opportunities, this robust ecosystem must be compliant, risk-controlled and sustainable. We support the listing of VA spot ETFs and have expanded the scope of related products and services, such as our recent guidance to allow VA staking.

Another example is that we are encouraging the industry to deploy blockchain technology in the tokenisation of securities. Facilitating the convergence of traditional and decentralised finance is essential to build a more efficient and resilient financial system. In the long run, this will unlock vast business opportunities for the financial industry and enable instant transaction settlement, leading to cost savings and efficiency gains in cross-border payment and other use cases.

On initial public offerings, we have collaborated with HKEX to launch a dedicated Technology Enterprises Channel (TECH) earlier this year to further facilitate listings of specialist technology and biotech companies in Hong Kong. These companies are also allowed to submit confidential applications for listing, without the need to reveal their operational strategies and listing plans prematurely. We are confident that the new TECH channel will contribute to our Nation's strategic goal of technological self-dependence.

Conclusion

On a final note, I believe that with risks come opportunities in this new age of fragmentation and unilateralism. Under a multi-pronged strategy of defence and offence, we can build a brighter future for Hong Kong's capital markets by equipping ourselves with a shield and three arrows, as well as partnering with the financial industry. This strategy will also allow us to contribute to the invigoration of our Nation through science and education and its development as a financial powerhouse. Thank you.