Mastering a Regulatory Balance to Advance Hong Kong's Derivatives Market

Keynote speech at FOW Trading Asia 2025

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17 September 2025

Honourable guests, ladies and gentlemen, good morning. It is my pleasure to speak at FOW Trading Asia 2025.

I'm delighted that, after three years, FOW is taking its flagship event back to Hong Kong, which is truly the heart of Asian financial markets. The city's vibrant growth spans the stock market and the asset and wealth management sector, as showcased by the Government's recent report[1] and the Securities and Futures Commission's (SFC) survey[2].

Today, we gather here to chart the way forward for Asia's derivatives market. Research shows public perception of "derivatives" remains mixed, ranging from high-risk instruments to a game only for professionals. Indeed, memories remain afresh of how derivatives supposed to manage risks ended up amplifying them into a full-blown financial crisis. This irony of risk management unleashing even more risks calls upon all of us to rethink our strategies.

From a regulator's point of view, our drive for market growth must be firmly supported by robust risk management practices, which are crucial for ensuring the market's sustainable long-term development.

Asia's coming-of-age derivatives markets

So, now, I will first highlight the current state of the fast-growing derivatives market in Asia and Hong Kong, before outlining the SFC's balanced regulatory approach and ongoing market challenges.

Within the global derivatives market, Asia has been a major draw and is taking up a larger share. The region's market growth has been nothing short of remarkable: the data of the Futures Industry Association show that Asia's share of the global derivatives market advanced from 49% in 2021 to 82% in 2024, as the number of contracts traded surged 4.5 times to 169.2 billion in three years. In contrast, the market share of the other two major regions declined during the period.

1 Report on Hong Kong's Business Environment: Unique Strengths under "One Country, Two Systems" (July 2025).
2 Asset and Wealth Management Activities Survey 2024 (July 2025).

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

Asia's outperformance can be attributed to the swift growth of a few emerging markets in recent years such as India and the rising demand for derivatives as hedging tools, amongst other factors.

Hong Kong forging ahead as a risk management hub

Let me zoom in on Hong Kong, a vibrant derivatives market in itself. The past few decades have witnessed the stellar rise of its derivatives market to become not only an integral part of the city's financial system, but also a key growth area for the regional market. Over the past decade, Hong Kong's derivatives market has more than doubled in both volume and open interest, which are clear indications of market depth and liquidity. Just last year, Hong Kong's average daily volume of exchange-traded derivative contracts reached a record high.

The strong growth has been powered by the trading of the three flagship products, namely Hang Seng Index futures, Hang Seng China Enterprises Index futures and Hang Seng TECH Index Futures, and further boosted by the strong demand for individual stock options and CNH futures (ie, RMB foreign exchange futures). Together, these products have contributed about 90% of the volume growth for Hong Kong's derivatives market since 2015.

Another crucial driver is the continuous opening-up of the Mainland markets, which allows Hong Kong to strengthen its role as a super-connector between Mainland China and international markets.

As a Mainland gateway, Hong Kong has evolved over the years into a leading risk management centre for Mainland-bound investments and a key offshore RMB derivatives market, thanks to overseas investors' increasing participation in Mainland markets through the city. Notably, Hong Kong is amongst Asia's largest over-the-counter derivatives markets, particularly in RMB foreign exchange and interest rates derivatives.

While the growth in our derivatives trading volumes and product offerings is encouraging, let us not forget that derivatives are complex financial instruments which can be a double-edged sword. They can be effective hedging tools to manage financial risks on the one hand, and also potential risk amplifiers on the other. Many of us still vividly recall how complex derivatives contributed to a build-up of systemic risk during the 2008 Global Financial Crisis, which ultimately resulted in the collapse of major financial institutions.

For nearly two decades after the crisis, financial regulators around the world have worked tirelessly to implement reforms to fix what has gone totally awry, by ensuring derivatives market resilience and mitigating potential systemic threats.

SFC's well-balanced regulatory approach

Here in Hong Kong, we, too, place great emphasis on risk management and regulatory oversight. The SFC monitors the trading of securities, futures and options, and we work closely with stakeholders to drive market development.

Next up, I would like to outline the SFC's balanced approach to shape the regulatory landscape of Hong Kong's derivatives markets to pave the way for future growth. I will also touch on some recent enhancements and initiatives which aim to enhance our market resilience and competitiveness. As you will see, the SFC has implemented a range of measures to facilitate the growth and development of our derivatives markets.

Maintaining market resilience amid recent volatilities

Imagine our financial markets as an intricate network of underground infrastructures. Ideally, they are built to last and highly functional, providing essential connectivity for users. Most importantly, resilience is key to withstand everyday traffic and unexpected disruptions, enabling participants to navigate periods of volatility with confidence and stability.

The strong resilience of Hong Kong's financial markets has been tested throughout challenging times. Take the volatility on 7 April this year as an example. On that day, the Hang Seng Index recorded the largest single-day decline of 3,021 points, or 13%, since the Asian Financial Crisis in 1997.

Despite the high volatility, both the securities and derivatives markets operated in an orderly manner. Market participants settled intra-day margin calls on time, bid-ask spreads were tight, short-selling activities were normal without concentration — it was all business as usual, just like any other trading day. Such normality showcased how Hong Kong's sound risk management was capable of withstanding market volatilities just as designed.

Implementing investor identification regime for derivatives market

That said, the SFC remains committed to further enhancing market integrity, resilience and investor protection through robust risk management frameworks and effective market surveillance.

For example, back in 2023, we launched the Hong Kong Investor Identification Regime for the securities market to help maintain market integrity. To build on its success, we are now exploring the extension of similar measures to the exchange-traded derivatives market, which will provide us with more effective tools to safeguard investor interests.

Facilitating developments for both derivatives and broader markets

Besides prioritising market resilience, another strategic priority of the SFC is to facilitate development to enhance the global competitiveness and appeal of our capital markets. The two priorities work hand in hand in attracting global investors with not only the reliability of our markets but also the growth opportunities amidst global competition. This will help strengthen Hong Kong's position as an international financial centre and risk management hub, especially in the highly competitive and dynamic global derivatives market.

To this end, we have recently introduced a number of initiatives to relax position limits, reduce the cost of trading, and widen the scope of product and service offerings.

Increasing position limits for flagship derivatives products

Just in July this year, we increased the position limits for futures and options contracts based on Hong Kong's three flagship stock indices[3]. Our position limit regime dates back to 1999 following the Asian Financial Crisis. Over time, the regime has worked effectively to prevent the build-ups of large positions that may threaten the stability and orderliness of our financial markets.

That said, the SFC has strived to keep the position limits up-to-date in evolving times to drive sustainable derivatives market development. In July, we relaxed the limits for the three flagship products by about 40% to over 100%, after receiving strong market support. The

[3] The Hang Seng Index, Hang Seng China Enterprises Index and the Hang Seng TECH Index.

relaxation not only allows market participants to manage positions more flexibly, but also promotes the liquidity and efficiency of both the derivatives and broader markets.

Lowering cost of trading

Another important facet of derivative market development is to lower the cost of trading.

We understand that the interest rebates on cash collateral received by clearing participants in Hong Kong are much lower than global peers, implying higher funding cost of holding positions than other markets. To improve our competitiveness, the SFC and the Hong Kong Exchanges and Clearing Limited (HKEX) have been in discussions to review the interest rebates and accommodation charges.

As you may already be aware, HKEX announced early this month that, starting October, it will increase the interest payments on cash collateral and reduce the accommodation charges on non-cash collateral. We believe this will significantly bring down the cost of trading in our markets and bolster Hong Kong's competitiveness as an international financial centre.

Expanding margin collateral to Chinese Government Bonds

Furthermore, to improve investors' capital efficiency, we have been working closely with HKEX to offer more flexibility to market participants posting margin collateral. Starting this March, OTC Clear under HKEX accepts RMB Chinese Government Bonds and Policy Bank Bonds held under the Bond Connect scheme as eligible margin collateral for clearing all Swap Connect trades.

The expansion of eligible non-cash collateral allows market participants to make better use of RMB fixed income assets on hand and thereby reduce their funding costs. Moreover, this strengthens Hong Kong's RMB ecosystem as well as its role as a leading offshore RMB hub.

Swap Connect enhancements

Another pivotal development in our risk management toolkit is Swap Connect, which was a milestone in itself as the first Connect scheme for derivatives. With overseas investors' participation in the Mainland bond market growing steadily, Swap Connect debuted in May 2023 to allow investors better access to the onshore RMB interest rate swap (IRS) market.

As a new channel in Hong Kong for hedging risks to Mainland bond holdings, Swap Connect has seen impressive progress: as of the end of August 2025, trading volume reached an aggregate notional amount of over RMB8.1 trillion, representing a daily average of about RMB14.5 billion or about 10% of the turnover of the Mainland IRS market.

We have also enriched the product offerings this year by extending the maximum tenor of northbound swaps from 10 years to 30 years. This would provide a useful hedging tool for international investors to manage the risks of holding long-term RMB government bonds.

With our unwavering commitment to strengthen Hong Kong's roles as an efficient gateway to China and an offshore risk management hub, we will continue to work with Mainland authorities and HKEX to introduce further enhancements.

Challenges and opportunities for Asian markets

Challenges

Coming to the last part of my sharing, I would like to highlight some of my observations relating to the broader Asian derivatives markets. While regional markets have shown a great deal of promise in growth, we have little room to be complacent given persistent challenges in the region.

One of the most onerous challenges is the *region's fragmented regulatory landscape*. Jurisdictions within Asia maintain their own sets of rules and regulations that reflect local market needs and their varied stages of economic development. Such divergence creates a complex environment and formidable challenges for overseas investors. International participants often face uncertainties in navigating the different regulatory landscapes for trading. These hurdles can dilute Asia's appeal, hence impeding cross-border liquidity and the healthy flow of global capital.

Another constraint is on *product innovation*. Compared to Asian derivatives markets, the US and European markets have been traditional leaders in product innovation, with their exchanges and financial institutions at the forefront of incubating new derivatives products and pioneering innovation in areas like volatility products, digital assets, ESG[4] and sustainability-linked derivatives.

Asian exchanges have been fast catching up by broadening their product suites, but the region's markets remain relatively more concentrated on flagship products, primarily equity index and commodities products, which are more aligned with local market structure and investor demand.

Opportunities

That said, we do see abundant potential for innovation in Asia's derivatives market. Taking Chicago Mercantile Exchange's (CME) crypto futures contracts as an example, we noticed that a significant amount of trading comes from the Asia Pacific region.

Meanwhile, as we embrace innovation, we must stay vigilant in order to lay a solid foundation to drive market growth. Episodes of global market volatility in recent years serve as a stark reminder that the continuous introduction of new instruments must be matched by corresponding enhancements to risk controls, surveillance and market infrastructure. Unsurprisingly, markets that thrive are those that prioritise robust infrastructure and comprehensive risk management frameworks, so that they can weather turbulence more effectively, sustain liquidity and facilitate efficient price discovery.

Our philosophy is clear: market development and stability are no trade-off but mutually reinforcing. In today's globally competitive derivatives markets, maintaining this balance is crucial. By ensuring that new products are introduced within transparent, well-regulated frameworks, we can cultivate an ecosystem that welcomes diversity, but never at the cost of market stability.

Closing

Before I close my sharing today, I encourage all of you to see our capital market as *an automobile*, where derivatives simultaneously act as *the brake and the accelerator*, which are

[4] Environmental, social and governance.

powerful tools for both managing risks and driving returns. However, if used without the right balance and for speculation, risks and volatility are set to be amplified, leading to a bumpy and even dangerous ride for the passengers – this is where robust regulation and strong internal controls by firms come in to facilitate a safe ride. If harnessed well, derivatives can even become the steering wheel to send the market on a path of resilient growth and navigate the obstacles along the way.

On a final note, as we all brace for more volatility ahead from global macro uncertainties, we are fully confident that investors' demand for derivatives will continue to rise, and Hong Kong is well positioned to play a key role as a major international risk management centre. The SFC will remain committed to working together with all stakeholders to nurture sustainable growth for the derivatives market.

I wish today's forum a great success. Thank you.