

# Markets

To ensure orderly markets, we supervise and monitor exchanges, clearing houses, share registrars and automated trading services (ATS) in Hong Kong. We also introduce measures to improve market infrastructure and support Hong Kong's development as a premier risk management centre.

## Supervision of HKEX

We closely monitor the operations and infrastructure-related initiatives of Hong Kong Exchanges and Clearing Limited (HKEX). During the year, HKEX revamped its securities market gateway, providing exchange participants with faster and more robust access to the trading system. HKEX also upgraded the market data platform for the cash market to enhance its resilience and performance. In addition, it improved the data centre infrastructure and facilities by relocating its secondary data centre to a newly equipped premises.

## Investor identification and OTC securities transactions reporting

In August 2021, we concluded a consultation on the introduction of an investor identification regime and an over-the-counter securities transactions reporting regime (OTCR) in Hong Kong (see sidebar on page 77). Subject to the market's readiness, the regime will be implemented tentatively in the latter part of the fourth quarter of 2022 at the earliest.

In October 2021, we and HKEX co-hosted two industry webinars to explain the new regimes. We also published frequently asked questions and circulars to provide the industry with further guidance and issued a technical information paper with details about the submission portal for reporting under the OTCR. We worked with the Investor and Financial Education Council to promote investors' awareness and understanding of both regimes.



Mr Rico Leung, Executive Director of Supervision of Markets, at the SFC Regulatory Forum 2021

## Uncertificated securities market

In June 2021, the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 was enacted to enable the implementation of an uncertificated securities market in Hong Kong, whereby legal title to securities may be held and transferred electronically. We are working on subsidiary legislation which will cover the technical and operational details and provide for the regulation of persons engaged in securities registrar services.

## OTC derivatives regulatory regime

In line with the G20 commitments to reform the OTC derivatives market, an OTC derivatives regulatory regime is being implemented in phases in Hong Kong. As part of an annual review, we published an updated list of financial services providers under the Clearing Rules<sup>1</sup> for OTC derivative transactions in June 2021. The revised list came into effect in January 2022. In December 2021, we launched a joint consultation with the Hong Kong Monetary Authority on the addition of eight new calculation periods for the OTC derivatives clearing regime.

<sup>1</sup> The Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

## MSCI China A 50 Connect Index Futures

The MSCI China A 50 Connect Index Futures contract provides an additional risk management tool for global investors to hedge exposures to the Mainland's A-share market. Since its launch in October 2021, it has become the top index futures contract amongst HKEX's MSCI index derivatives products in terms of trading and open interest. Strong market interest in the contract shows Hong Kong's growing importance as a risk management centre.

## Stock Connect

Mainland-Hong Kong Stock Connect enables mutual market access and provides a unique opportunity for Hong Kong and Mainland investors to trade eligible stocks in each other's markets.

### Mainland-Hong Kong Stock Connect

**RMB 1,983.1 billion**

Southbound net inflows to Hong Kong since launch

As of 31 March 2022, Stock Connect covered 1,487 Mainland stocks and 547 Hong Kong stocks, representing about 80% of the two markets' combined market capitalisation. Since the programme's launch, net inflows reached RMB1,983.1 billion for southbound trading and RMB1,610.2 billion for northbound trading.

The share of Hong Kong market turnover attributable to Stock Connect remained large. On average, daily southbound trading accounted for 12% of total trading in the Hong Kong stock market during January to March 2022, compared to 13% in 2021 and 9% in 2020. Northbound trading was 5% of the Mainland market total during January to March 2022, compared to the 6% in 2021 and 5% in 2020.



An SFC-HKEX webinar introduces the investor identification and OTC regimes

## Bond Connect

Northbound Bond Connect, through which eligible foreign investors can trade on the China Interbank Bond Market, marked its fourth anniversary on 3 July 2021 and maintained strong growth during the year. Total trading volume reached RMB6.5 trillion, a 33.1% increase compared to 2020. The number of eligible foreign investors admitted for trading was up 37.5% to 3,223 from 2,352 as at end-2020.

In September 2021, MarketAxess joined Bond Connect as an overseas electronic trading platform for northbound trading, providing international investors with an additional gateway to access the China Interbank Bond Market. In the same month, southbound interbank Bond Connect was launched and 13 market makers were designated to facilitate southbound trading.

## New derivatives products

We approved five derivative contracts proposed by HKEX to meet the trading and hedging needs of market participants.

## Investor compensation

During the year, the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received 17 claims against the Investor Compensation Fund and processed 10 claims.

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### New derivatives products

	Trading commencement date
Hang Seng Index Futures Options Hang Seng China Enterprises Index Futures Options	23 Aug 2021
MSCI China A 50 Connect (USD) Index Futures	18 Oct 2021
MSCI China (USD) Index Futures MSCI China Net Total Return (USD) Index Futures	22 Nov 2021

### Investor compensation claims

	2021/22	2020/21	2019/20
Balance brought forward	30	15	12
Received	17	39	7
Processed	10	24	4
– Compensation payments made	0	0	0
– Rejected	10	21	0
– Withdrawn	0	3	4
– Reconsidered	0	0	0
Balance carried forward	37	30	15

### Net asset value of compensation funds

	As at 31.3.2022 (\$ million)	Change	As at 31.3.2021 (\$ million)	Change	As at 31.3.2020 (\$ million)
Unified Exchange Compensation Fund <sup>a</sup>	85.7	-0.5%	86.1	5%	82
Investor Compensation Fund <sup>b</sup>	2,454.9	0.4%	2,444.1	0.6%	2,428.5
Total	2,540.6	0.4%	2,530.2	0.8%	2,510.5

a See pages 152-165 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance (SFO) on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

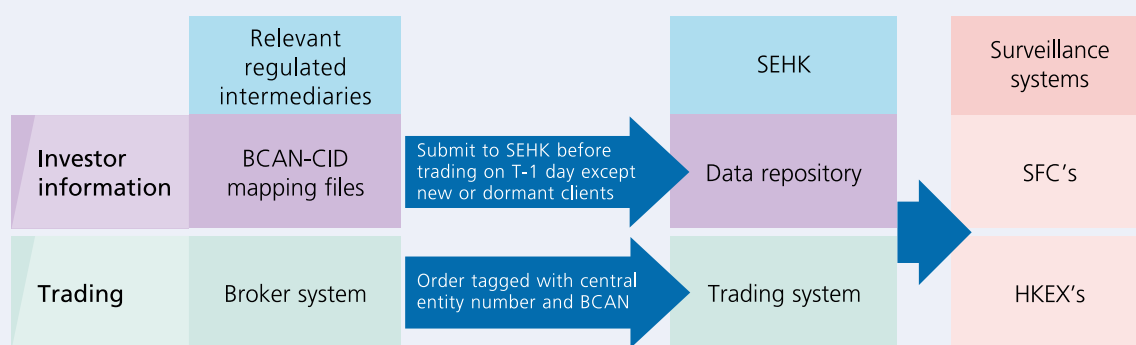
b See pages 139-151 for the financial statements of the ICF.

## Enhancing market surveillance with investor identification

As Hong Kong’s securities market has grown significantly larger in size and trading volume, the absence of readily available information about the investors placing securities orders has made market surveillance more challenging, and we have been working to implement trading-level investor identification to address this. We published the conclusions to our public consultation on a proposed investor identification regime in August 2021.

Under the regime, relevant intermediaries will need to assign a unique identification code—a “Broker-to-Client Assigned Number” (BCAN)—to their direct clients. Each BCAN must be mapped to the client’s identification information (CID), and the intermediaries will need to provide the BCAN-CID mapping files to the Stock Exchange of Hong Kong Limited (SEHK). The intermediary’s central entity number<sup>a</sup>, together with its client’s BCAN, will have to be tagged to every order to trade securities or report to SEHK of an off-exchange trade.

### How the regime works



▶ Data transmission

By identifying the underlying investors of orders and trades, the new regime would enhance our market surveillance function, help maintain market integrity and strengthen investor protection, thereby promoting long-term market development.

In collaboration with HKEX, we are making preparations for the regime’s implementation, including system development and industry education. Subject to market readiness, the regime is tentatively scheduled to be launched in the latter part of the fourth quarter of 2022 at the earliest.

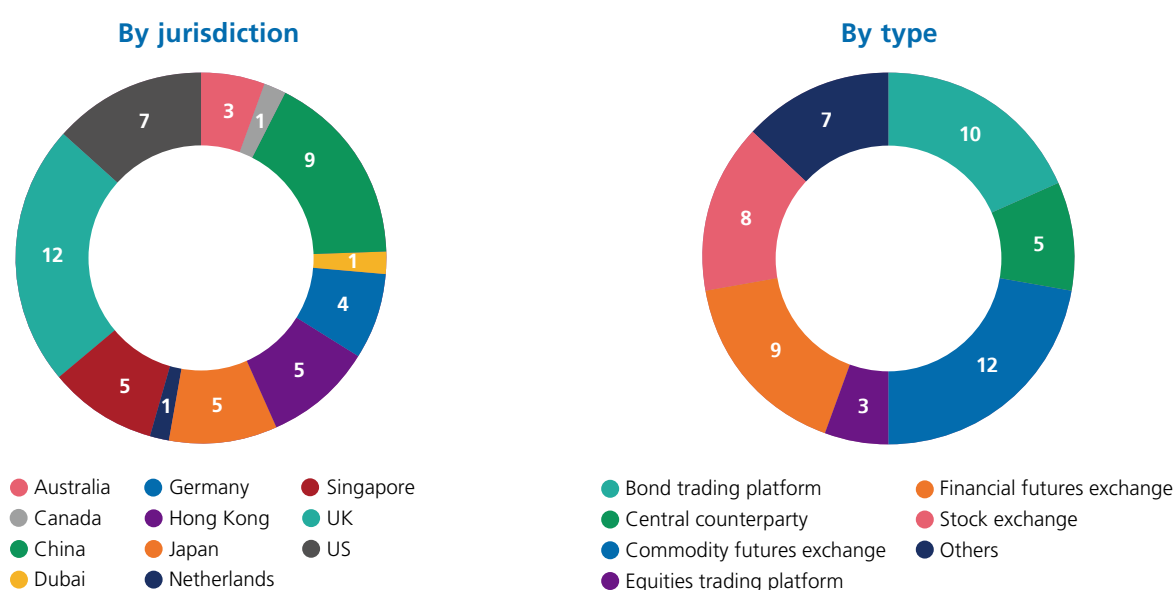
<sup>a</sup> A unique identifier assigned by the SFC.

## Markets

### Automated trading services

During the year, products traded or cleared through ATS<sup>2</sup> providers ranged from benchmark index futures and options, commodity futures, bonds and equities to exchange-traded funds and OTC derivatives. The average daily trading volume of futures contracts originating from Hong Kong was about 524,000 contracts for the 12 months ended 31 March 2022. We authorised three Part III applications during the year.

### ATS providers



Note: One ATS provider is both a financial futures exchange and a central counterparty.

### ATS providers

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Under Part III	53	51	54
Under Part V	25	24	25

### Short position reporting

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Market value of short positions as a percentage of market capitalisation of reported securities	1.34%	1.16%	1.24%

2 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.