

**Project Liquidity: Engineering the Market Plumbing that
Unlocks Capital Flows for Hong Kong**

**Keynote Address at ASIFMA's Future of Liquidity in Asia Pacific
Capital Markets Conference**

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Good morning, ladies and gentlemen. It is a great privilege to join you today at ASIFMA's very first conference dedicated to market liquidity.

Liquidity is the lifeblood of vibrant markets — just as coffee serves as the fuel that powers our mornings. It channels capital, sharpens price discovery, and gives investors the confidence to act. In Chinese, liquidity is often likened to water — it is nourishing, and always follows the path of least resistance. Today, I will share with you Hong Kong's journey of deepening liquidity in our markets.

A post-COVID necessity to enhance market infrastructure and drive liquidity

When we discuss the future of liquidity, attention is often drawn to the most glamorous achievements: headline initial public offering (IPO) numbers and innovation in financial products. These offerings and products may draw significant capital flows, but they are only as strong as the infrastructure behind them. For capital markets, infrastructure is the essential “engine room” that powers markets, often behind the scene. We must strengthen it to scale liquidity, and the glamour of success will follow.

This has been especially clear for Hong Kong. As we emerged from the pandemic more than three years ago, our markets suffered a liquidity dry spell. Daily stock market turnover fell below HK\$100 billion. To expand on my coffee analogy, I would say a coffee farmer in a drought cannot simply wait for rain, but must improve the irrigation system, clear the channels and direct every drop to where it matters most.

That necessity became the catalyst for a broad reform agenda to revitalise the Hong Kong market. The Task Force on Enhancing Stock Market Liquidity¹ was established in August 2023 to steer these efforts. Since then, the Securities and Futures Commission (SFC) has worked closely with Hong Kong Exchanges and Clearing Limited (HKEX) to drive a series of microstructure reforms, to reshape the plumbing, valves and filters of the market system.

¹ Appointed by the Chief Executive of the HKSAR and chaired by HKEX Chairman Mr Carlson Tong, the Task Force comprises official members from the HKSAR Government, Hong Kong Monetary Authority, SFC and HKEX, as well as non-official members from the financial services sector.

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

I am pleased to say that, together, these measures have delivered tangible results. So far in 2026, the average daily turnover for Hong Kong's stock market has exceeded HK\$270 billion², up 160% from 2023. Bid-ask spreads have tightened, execution time has shortened, and Hong Kong has become Asia's third largest exchange-traded product (ETP) market by turnover. The lesson is clear: when we remove friction at the right points, liquidity follows.

To advance this progress, let me share with you our efforts in three key areas: *driving capital efficiency, reforming market microstructure, and cultivating a liquidity ecosystem.*

Driving capital efficiency

First, we are making our collateral framework more efficient. The goal is to put every dollar of capital to work more effectively with sufficient safeguards.

To ease the pressure from higher funding costs when posting cash collateral, the SFC worked closely with HKEX to **increase the rebate on cash collateral and halve the charges on non-cash collateral**. As a result, for clearing participants, the interest rebate rate for Hong Kong dollar cash collateral has increased by 45% in the derivatives market; it has also increased eightfold in the cash market since the launch of this initiative in October 2025.

We also enhanced the client margin framework at HKEX's derivatives clearing houses. Earlier this year, the SFC approved a **lower minimum client margin requirement**, giving brokers greater flexibility to set margin requirements according to client profiles, product characteristics and market conditions. The first phase was implemented in September this year³.

Improving collateral efficiency is not just about lowering costs, but also about unlocking capital tied up in fixed income assets. Hong Kong achieved a key milestone in early 2025 when HKEX's OTC Clearing Hong Kong Limited began accepting **Bond Connect bonds as margin collateral**. As of August 2026, China government bonds and policy bank bonds had grown to about 18% of OTC Clear's total margin collateral. Building on this success, HKEX is working to extend the use of these Mainland bonds as eligible margin collateral at its largest futures and options clearing houses in November this year.

In addition, the SFC recognises that strong risk management and efficient collateral use reinforce each other. We therefore continue to support enhancements to HKEX's risk management framework. These include expanding the product range eligible for margin offset and refining stress scenarios to reduce unnecessary margin overcharging and collateral haircuts. The aim remains the same: to make every dollar work harder, while maintaining the resilience and integrity of the clearing system.

Going forward, one major next step is **cross-market margining**. Today, participants trading across various markets must post margin separately to different clearing houses, leading to the tie-up of collateral. The SFC is working with HKEX to develop margin offset across its clearing houses, to free up capital safely for more productive use. Another step is the **operational handling of non-cash collateral**. HKEX's OTC Clear will streamline its process by enabling same-day settlement for bond deposits and withdrawals. We are striving to launch the measure this year, which will make non-cash collateral a more attractive funding tool.

² This outpaced most major overseas markets, where trading grew by around 50% to 110% over the same period.

³ The lowering of minimum client margin requirement is being implemented in two phases through reducing the client margin multiplier (CMM). Phase 1, rolled out in September 2026, lowered the CMM from 1.33 to 1.2. Subject to regulatory approval, Phase 2 is targeted in March 2027 to further lower the CMM from 1.2 to 1.1.

Taken together, these measures will improve collateral utilisation, reduce funding costs and unlock capital — all without compromising our risk management standards.

Reforming market microstructure

Our second focus is to make trading easier and more cost-effective.

One example is **reducing minimum trading spreads**⁴. A spread is the gap every investor must cross before a trade becomes worthwhile. If that gap is too wide, activity slows. Following the Phase 1 launch for 300 stocks a year ago, their bid-ask spreads have narrowed by 38% and execution time improved by 26%. Early results of Phase 2 also show bid-ask spreads have narrowed by about 30%.

To carry this momentum forward, further initiatives are underway. One of these is the acceleration of **settlement cycle to T+1**. Shortening the cycle reduces various risks, improves capital efficiency, and brings Hong Kong more in line with major international markets. It also drives greater automation and operational discipline. HKEX will soon publish its consultation conclusions with the target implementation date. I encourage you all to review the document and gear up for this major enhancement.

Another key initiative is **board lot reform**. We are introducing eight standardised categories, setting a maximum board lot value of HK\$50,000 and reducing the minimum to HK\$1,000. The aim is to lower the entry barriers, broaden participation, and make stock trading more accessible. Phase 1 for new issuers was implemented this July and Phase 2 for existing issuers will take effect in November alongside Hong Kong's Uncertificated Securities Market regime.

Other measures being studied include **extending securities trading hours**, which will begin with the derivatives market. This will enable investors to respond to evolving global developments across time zones, and ensure Hong Kong remains competitive. Over time, longer trading access will be supported by innovations such as tokenised money and eHKD-enabled settlement possibilities. Together, these initiatives allow investors more room to adjust their positions and manage risks in response to new market information. When HKEX issues a discussion paper in the fourth quarter, I encourage you all to share your views on extending cash market hours.

Cultivating a liquidity ecosystem—the case of Hong Kong's ETP market

Third, let me turn to Hong Kong's ETP market, which is a powerful liquidity flywheel.

The city's daily ETP turnover has surged 3.6 times since 2023 and now accounts for nearly one-fifth of Main Board trading. Hong Kong has also risen to become the Asia's third-largest ETP market by turnover.

This journey of ETP expansion began in 2015, when stamp duty on ETP trading was waived. It was followed by a series of enhancements, including a new buy-in exemption to facilitate market-making in 2019, and the transition to a continuous quoting market making regime in 2020. These measures have helped narrow ETP spread by more than 40%.

⁴ Phase 1 was launched in August 2025, covering about 300 stocks priced between HK\$10 and HK\$50; Phase 2 covered 1,300 stocks priced between HK\$0.50 and HK\$10.

A second ingredient of success was **connectivity** which came two years later, starting with four Hong Kong-listed exchange-traded funds (ETFs) eligible for ETF Connect⁵. Today, the number has grown to 31, and southbound flow through ETF Connect is a robust driver, widening market access and the investor base. Since its launch, southbound flow has accounted for a meaningful share of total ETF trading. We expect this momentum to be sustained by Mainland insurance funds' investment in Hong Kong ETFs through Stock Connect after the supporting measure from the National Financial Regulatory Administration took effect last month.

The third ingredient is **product breadth and innovation**. Through ongoing innovation, Hong Kong now offers a wide range of products, such as active ETFs, covered call ETFs, virtual asset spot ETFs, as well as index-tracking and single-stock leveraged and inverse products. Each category serves distinct investor needs and creates fresh hedging demand, while opening up further market opportunities.

Furthermore, it is clear that liquidity begets liquidity, and we are seeking to strengthen this positive feedback loop. As ETP turnover grows, global market makers and liquidity providers have stronger incentives to commit technology, capital and talent to Hong Kong. This is evidenced by the rapid expansion of global liquidity providers which together account for over 30% of market turnover in recent months. Their active participation tightens spreads, deepens order books and improves execution quality. These in turn attract more industry participants with diverse trading strategies to the city.

Conclusion

Ladies and gentlemen, for a market as open to international flows as Hong Kong, liquidity is a function of macro and geoeconomic factors. But I would conclude by saying Hong Kong's experience also shows that *market liquidity comes by design, not by chance*. Even the best coffee beans will not yield a good harvest without water, fertile soil and proper tending; nor can they guarantee reliable distribution channels. Financial markets are no different: strong infrastructure determines whether liquidity can take hold and scale.

As markets evolve faster, yesterday's methods will fail to meet tomorrow's needs. Liquidity must be re-engineered and continually renewed, and there is further to go for Hong Kong. Through collaboration with all of you here today, I have every confidence that Hong Kong can develop future-ready infrastructure on today's foundations to thrive further as a global financial centre.

Finally, I wish today's conference a great success. Thank you.

⁵ ETF Connect was launched on 4 July 2022, allowing mutual market access for eligible ETFs listed in the Chinese Mainland and Hong Kong.