



SECURITIES AND
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證券及期貨事務監察委員會

Open University of Hong Kong

The Reform and Opening Up of Mainland China's Financial Market – the Role of Hong Kong

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Outline of remarks

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1. The early days



Hong Kong's role evolving with the Mainland's changing needs

- **1980s** Platform for FDI
- **1990s** Channel for fund raising by SOEs and inflow of foreign capital
- **Noughties** Capital raising by SOE banks and insurers, and “minyings”
- **Recently** Financial services for Mainland enterprises to invest outside the Mainland and avenue for developing international business
- **Next stage** Pilot RMB offshore centre; firmly enshrined in the “12th Five-year Plan”



2. An overview of Hong Kong's current securities market



Hong Kong: Third global financial centre

The Global Financial Index March 2011

Market	Rank	Rating
London	1	775
New York	2	769
Hong Kong	3	759
Singapore	4	722
Shanghai	5	694
Tokyo	5	694
Chicago	7	673
Zurich	8	665
Geneva	9	659
Sydney	10	658
Toronto	10	658

* Ratings are rounded to the nearest whole number for clarity

Source: *The Global Financial Centres Index 9 (GFC9)*

- Hong Kong is the **world's third global financial centre** according to Global Financial Centres Index
- Hong Kong has performed well in five key areas (people, business environment, market access, infrastructure and general competitiveness), ranking third in each
- Hong Kong was ranked the freest economy in the Index of Economic Freedom by the Heritage Foundation for the 17th straight year in 2011

Overview of Hong Kong's securities market

- **Stock market cap: US\$2,669 billion** as at end of February 2011
 - Third largest in Asia
 - Mainland companies accounted for 56% of the total market cap
- **1,421** companies listed on the Stock Exchange of Hong Kong as at the end of February 2011, **596 (42%)** of which were Mainland companies
- **Derivatives Market: 19.97 million** contracts traded in Jan-Feb 2011 (116.05 million contracts in 2010)
- **Major fund raising centre for Mainland enterprises**
 - During 2010, funds raised by Mainland companies through IPO amounted to **50%** of the total **US\$57.3 billion**
 - Since 1986, Mainland enterprises have raised a total of HK\$3,013.1 billion through IPO on the Hong Kong stock market (approx US\$387.3 billion)



Hong Kong – 7th largest stock market in the world

Top Ten Stock Markets in the World, by Market Capitalisation and Market Capitalisation as % of GDP (end February 2011)

	Market Capitalisation			Market Capitalisation as % of GDP		
	US\$ billion	Worldwide Ranking	Asia Ranking	%	Worldwide Ranking	Asia Ranking
NYSE Euronext (US)	14,460.4	1		102%	3	
NASDAQ OMX	4,072.0	2		29%	10	
Tokyo	4,019.7	3	1	79%	6	2
London SE Group	3,857.1	4		90%	5	
NYSE Euronext (Europe)	3,188.7	5		77%	7	
Shanghai	2,859.5	6	2	57%	8	3
Hong Kong	2,669.0	7	3	1268%	1	1
Toronto	2,348.8	8		176%	2	
Brazil	1,536.8	9		98%	4	
Germany	1,519.2	10		46%	9	

Remarks:

1. Market capitalisation includes common and preferred shares, but excludes investment funds, rights, warrants, convertibles and foreign companies (definition adopted from WFE).
2. Ranking is only for the top ten markets by market capitalisation.
3. The GDP figures were based on 2009 data.
4. London SE Group includes London Stock Exchange and Borsa Italiana.
5. NYSE Euronext (Europe) includes exchanges of Amsterdam, Brussels, Lisbon, and Paris.

Source: HKEx, WFE, IMF and SFC Research

Hong Kong : Major IPO fund raising centre

Top Ten Stock Markets in the World, by Equity Funds Raised through IPO (2010)

	Equity Funds Raised through IPO		
	US\$ billion	Worldwide Ranking	Asia-Pacific Ranking
Hong Kong	57.34	1	1
Shenzhen	44.28	2	2
NYSE Euronext	33.81	3	
Shanghai	29.23	4	3
Australia	24.29	5	4
London SE Group	20.11	6	
BME Spanish Exchanges	18.08	7	
India	9.45	8	5
Korea	8.50	9	6
NASDAQ	8.24	10	

Remarks:

1. Data is provisional for 2010 only.
2. London SE Group includes London Stock Exchange and Borsa Italiana.
3. BME Spanish Exchanges comprise Bolsa de Barcelona, Bolsa de Bilbao, Bolsa de Madrid and Bolsa de Valencia.

Source: WFE and HKEx

- **Hong Kong was the largest IPO fund raising centre in 2010**
 - During the period, the total amount of funds raised through IPO in Hong Kong was **US\$57.3 billion (HK\$445.9 billion) (US\$32 billion/HK\$248 billion in 2009)**
- **Apart from Mainland companies, more foreign companies were listed in Hong Kong and the amount of funds raised by them increased significantly. Countries include the US, the UK, France, Germany, Canada, Russia, Mongolia and Brazil. The IPO proceeds also grew substantially.**

Hong Kong as the major capital formation hub of Mainland enterprises

An overview of Mainland enterprises listed in Hong Kong

	Number of listed companies (end of Feb 2011)	Total market capitalisation (end of Feb 2011, HK\$ billion)	Market turnover (end Feb 2011, 12 months ending, HK\$ billion)
Mainland Enterprises	596	11,579.0	8,368.3
-H shares	163	5,156.0	4,663.4
-red chips	102	4,222.3	1,898.1
-Minying	331	2,200.7	1,806.8

Source: Hong Kong Exchanges and Clearing Limited

- **As of end-Feb 2011, a total of 1,421 companies were listed on HKEx**
 - **163** H-share companies (e.g., ICBC, PetroChina, China Life, etc)
 - **102** red chip companies (e.g., China Mobile, China Unicom, etc)
 - **331** Minying companies (e.g., Alibaba.com, Li Ning, etc)
- **Mainland companies accounted for:**
 - **42%** of total number of listed companies
 - **56%** of total market cap
 - **48%** of total market turnover
- **As of end-Feb 2011, a total of 66 companies issued both A- and H-shares**

Hong Kong's success in attracting Mainland listing

- **Hong Kong branding**
 - rule of law, strong institutions, robust regulatory framework, simple tax structure and professional talent
- **IFC status enshrined in Basic Law**
- **Proven track record**
- **Understanding of Mainland policies**

3. Mainland China's reform and opening up of the securities market and the continued role of Hong Kong

Test bed for Mainland capital market development

- **In early days of reform and market opening, Mainland China sought listing of its SOEs in Hong Kong**
 - To raise capital
 - Conscious and deliberate policy to expose and subject Mainland enterprises to Hong Kong standards and fast-track their transformation to world-class companies that meet international standards on governance and performance.
 - To enable PRC companies to interact with a truly open economy

Flagships of successful Mainland-HK cooperation

- **Red chips** – companies with business, assets, markets and ownership that have strong Mainland orientation, but incorporated outside China
- **H-shares** – enterprises incorporated in China that are listed in Hong Kong and traded in Hong Kong dollars
- **QDII** – scheme that allows Mainland financial institutions to invest overseas in stocks and bonds
- **Closer Economic Partnership Arrangement (CEPA)**
- **These flagships have created tremendous opportunities for both**
 - Mainland enterprises able to access Hong Kong and international capital through fund raising in Hong Kong's stock market
 - Mainland capital able to engage the services of intermediaries in Hong Kong to invest their funds in Hong Kong and overseas markets
 - Mainland enterprises, financial intermediaries, and investors to experience Hong Kong's open and international environment to prepare for future overseas ventures
 - As the platform for these activities, Hong Kong has benefited from facilitating the two-way flow of funds between the Mainland and the rest of the world



4. Internationalisation of RMB



Hong Kong's role in RMB internationalisation

- **Hong Kong has been a successful testing ground for the Mainland financial reforms – it is an important fund-raising platform for Mainland enterprises cum a channel for the outflow of Mainland capital**
- **Hong Kong can play a key role in promoting the wider use of RMB in the international market, whilst the Mainland keeps the capital account under control**
- **Hong Kong as an offshore RMB centre:**
 - Build up “liquidity pool” to attract inflow of RMB to Hong Kong from overseas and the Mainland
 - Develop various RMB related products and businesses in Hong Kong
 - Introduce appropriate rules and systems for better regulation of the RMB market
- **Hong Kong (an offshore RMB market) and Shanghai (an onshore RMB market) can complement each other in the process of RMB internationalisation**

Milestones in RMB internationalisation

Feb 2004	Personal RMB businesses started on a pilot basis in Hong Kong
Jul 2007	First RMB bond was issued in Hong Kong
Jul 2009	The pilot scheme of cross-border RMB trade settlement was launched
Feb 2010	HKMA issued a circular on the supervisory principles and the operational arrangements regarding RMB business
Jun 2010	PBoC announced the expanded Pilot Program of Cross-border RMB Trade Settlement Services
Jul 2010	HKMA and PBoC agreed to expand RMB businesses in Hong Kong
Aug 2010	PBoC introduced a pilot scheme for eligible institutions to invest in the Mainland's interbank bond market
Jan 2011	PBoC announced a pilot scheme for the settlement of overseas direct investments (ODI) in RMB

RMB bond issuance in Hong Kong

- Since the first RMB bond issued in 2007, total RMB bond issued in Hong Kong amounted to about RMB82 billion

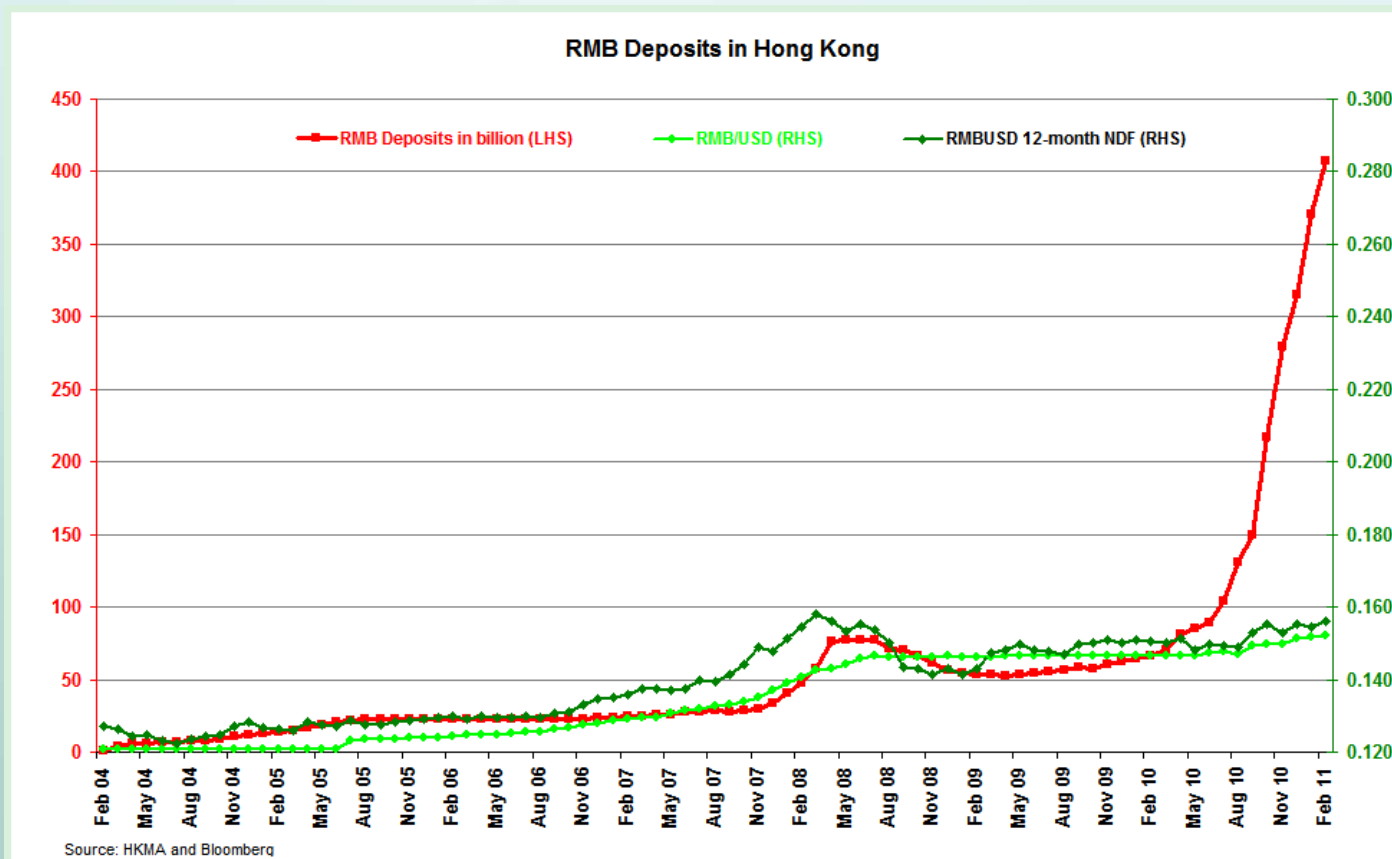
Year	Issuer	Funds Raised (RMB billion)
2007	<ul style="list-style-type: none"> Policy banks – China Development Bank, Export-Import bank of China Commercial banks – Bank of China 	10
2008	<ul style="list-style-type: none"> Policy Banks – Export-Import Bank of China Commercial Banks – Bank of Communications, China Construction Bank, Bank of China 	12
2009	<ul style="list-style-type: none"> Government – China Ministry of Finance Policy banks – China Development Bank Commercial banks – HSBC (China), Bank of East Asia (China) 	16
2010	<ul style="list-style-type: none"> Government – China Ministry of Finance Policy banks – Export-Import Bank of China, China Development Bank Supranational bodies – Asian Development Bank Commercial banks – Bank of China, Bank of Communications, China Construction Bank Companies outside the Mainland – Hopewell Highway Infrastructure, Sinotruk, China Resources Power Holdings, China Power International Development, China Merchants, Galaxy Entertainment Multinationals – McDonald's, Caterpillar, UBS, VTB Capital, ANZ Bank 	35.76
2011 (expected)	<ul style="list-style-type: none"> Policy banks – China Development Bank Supranational bodies – World Bank Mainland companies – China Lungyuan Power, BJ Capital Land, PCD Stores Hong Kong company – Road King Infrastructure Taiwan company – YFY Cayman 	>7*

Remark: * Total bond issued not yet finalised and subject to change
Sources: BOCHK Research, Goldman Sachs and various news reports



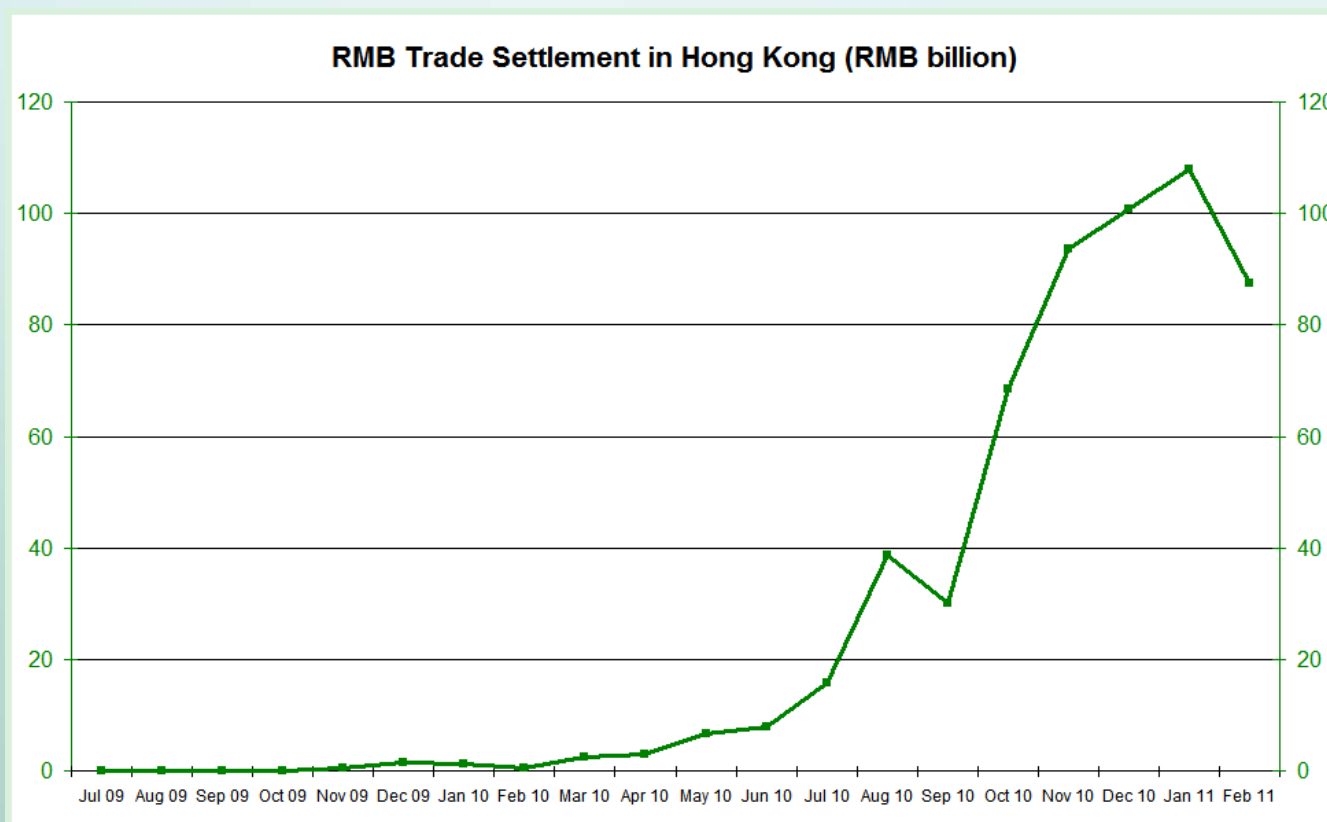
RMB deposits in Hong Kong grew to a new high

- RMB deposits launched in Hong Kong since Feb 2004
- RMB deposits in Hong Kong amounted to RMB407.7 billion as of end February 2011, nearly 7 times of the amount as end 2009 level
 - Previously, the growth in RMB deposits has been associated with RMB appreciation expectations. However, the growth in recent months has been driven by an increase in the use of RMB in trade settlement.



RMB as a trade settlement currency

- Hong Kong is the most active centre for RMB trade settlement (accounting for about 80% of total cross border RMB trade settlement)
- The pilot scheme of cross border RMB trade settlement was launched in July 2009. The cumulative amount of RMB trade settlement reached RMB566.5 billion by the end of February 2011



Challenges facing RMB offshore centre

- **RMB offshore centre is primarily set up to support trade settlement and transactions**
- **Volume of international trade settlements in RMB is minute compared with US\$ trade settlements**
- **Even with RMB raised in Hong Kong, there is no guarantee that proceeds can be remitted back to the Mainland for FDI**
- **ODI using Hong Kong is still in its early stage**
- **Hong Kong and the Mainland should encourage international companies to open RMB accounts in Hong Kong for trade settlement**

5. Forging continued cooperation in the years ahead



Securities markets in Hong Kong and the Mainland are yet to be fully integrated

- The two markets have characteristics reflecting different stages of development
- Hong Kong has long been ranked the world's "freest economy"
- Markets on the Mainland are not completely open
- Price differential on the same share in the A and H share markets
- FX controls remain on capital accounts on the Mainland
- RMB internationalisation through Hong Kong offshore RMB centre
- Hong Kong's value lies in serving as the launching pad for Mainland China's reforms for further integration with global markets

Working more closely with the Mainland

- **Remain a major overseas fund-raising centre for Mainland companies**
- **Build and expand on CEPA opportunities, including encouraging more Mainland financial institutions to set up branches in Hong Kong**
- **Strengthen its role for facilitating the “going-out” of Mainland capital as the Mainland integrates with global capital markets**
- **Continued cooperation with regulators and industry in the Mainland’s capacity building in human resources/talent, facilities and regulatory systems**
- **Collaborate with the Mainland as it integrates with global financial markets, e.g. in product and market development, e.g. ETFs and RMB related products**
- **Strengthen the financial linkages by enhancing the market infrastructure of the two markets**

Way forward for Hong Kong and the Mainland

- **One Country**
- **Two Systems**
- **Three Mutual Collaborations**
 - **Mutually Complementary**
 - **Mutually Assisting**
 - **Mutually Engaging**