



**HKEX EQUITY:
MARKET UPDATES 2020**

INTERACTIVE BROKERS WEBINAR

21 MAY 2020



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HKEX Group Business Continuity Management Update

Maintaining Robust Markets in Turbulent Times: ([Click Here](#))

HKEX Chief Executive, Charles Li

- The COVID-19 outbreak has caused worldwide economic and social disruption, and at times like these it is critical that global financial markets operators rise to the challenge and provide stable and transparent access to liquidity for issuers, market participants and investors. HKEX's goal, at this time when our community needs us the most, is to ensure that trading, clearing and risk management systems remain fully functional amid heightened volumes and volatility, providing efficiency, reliability, and transparency.

Business Continuity Management : COVID-19 Preparedness ([Click Here](#))

- HKEX has an established and comprehensive business continuity management (BCM) framework that seeks to ensure service resiliency, availability and stability across our platforms, during and around unforeseen events, crisis, or out-of-the-ordinary operating environments.
- In any company, organisation or infrastructure provider, BCM and response procedures consider various scenarios, seeking to minimise, and where possible, negate any impact on business services. HKEX's framework has modelled and anticipated a broad range of scenarios, including pandemics.
- With the outbreak of COVID-19 in late 2019 and early 2020, initially in China, then regionally and globally, the Group has enacted its BCM pandemic plan to address potential risks.
- The Group places the utmost importance on managing the health and safety of its staff and the wider community.
- The Group continues to monitor the evolving situation, including Government guidance and measures initiated, as part of the Preparedness and Response Plan. We also continue to liaise with industry bodies, regulators and experienced business continuity professionals.



What happened during Covid-19 pandemic?: Global Equity Indices

Indices		8 Apr closing	Δ% 1W	Δ% 1M	Δ% YTD	20D volatility	52W High	52W Low
Hong Kong	HSI	23,970	+3.8%	-8.3%	-15.4%	46.31	30,157	21,696
	HSCEI	9,682	+2.9%	-7.4%	-13.7%	48.86	11,849	8,560
	HSI - Finance	32,517	+1.8%	-8.9%	-17.2%	41.52	41,998	30,638
	HSI - Utilities	51,582	+9.7%	-8.4%	-9.5%	54.82	62,861	43,267
	HSI - Properties	33,066	+4.3%	-8.0%	-17.4%	53.00	45,822	28,712
	HSI - Commerce & Industry	14,236	+5.8%	-7.6%	-13.0%	55.76	17,444	12,189
Mainland China	CSI 300	3,780	+2.9%	-8.7%	-7.4%	31.27	4,207	2,965
	SSE 50	2,744	+2.3%	-7.5%	-10.4%	29.64	3,091	2,263
	Shanghai Composite	2,815	+3.0%	-7.2%	-7.4%	26.96	3,271	2,464
	SZSE 100	4,534	+3.4%	-10.3%	-2.0%	37.81	5,131	2,936
	CES 120	6,435	+2.2%	-6.8%	-10.5%	35.72	7,312	5,524
USA	S&P 500	2,750	+11.3%	-7.5%	-14.6%	89.62	3,386	2,237
	Nasdaq 100	8,091	+9.9%	-5.7%	-9.6%	87.25	9,817	6,193
	DJIA	23,434	+11.9%	-9.4%	-17.7%	97.05	29,551	18,592
	CBOE VIX	43.35	-24.0%	+3.4%	+192.5%	197.34	82.69	11.54
Asia	Nikkei 225 (Japan)	19,353.2	+7.1%	-6.7%	-18.2%	62.3	24,083.5	16,552.8
	KOSPI (Korea)	1,807.1	+7.2%	-11.4%	-17.8%	72.3	2,267.3	1,457.6
	TAIEX (Taiwan)	10,137.5	+4.9%	-10.5%	-15.9%	52.2	12,179.8	8,681.3
	STI (Singapore)	2,539	+4.1%	-14.2%	-21.2%	62.47	3,407	2,233
Europe	DAX (Germany)	10,333	+8.3%	-10.5%	-22.0%	62.44	13,789	8,442
	FTSE 100 (UK)	5,678	+4.1%	-12.1%	-25.2%	57.01	7,687	4,994
	CAC 40 (France)	4,443	+5.6%	-13.6%	-25.7%	63.30	6,111	3,755
	FTSE MIB (Italy)	17,381	+5.1%	-16.4%	-26.1%	56.07	25,478	14,894



What happened during Covid-19 pandemic?

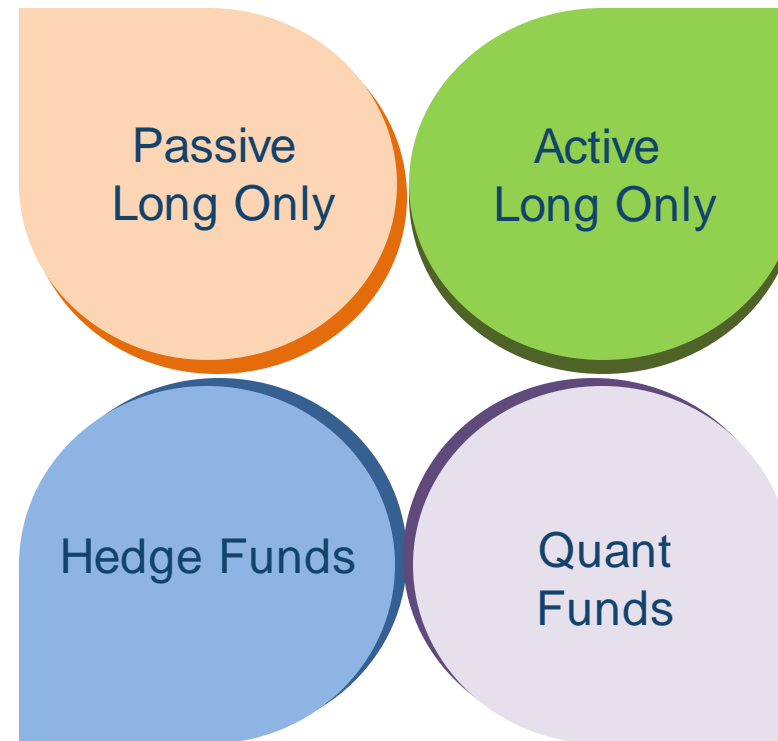
Market Participant Feedback

Key Observations Across Global Markets

- **Significant volatility in global scale** driven by COVID-19 and oil price decline
- **Uncertainty around market closures in certain markets** with some markets closing for unspecified periods
- **Circuit breakers / trading halts** repetitive triggering and changes to trigger thresholds in several markets
- **Short selling** has increased in some markets and been temporarily banned in others

Stock Connect Observations

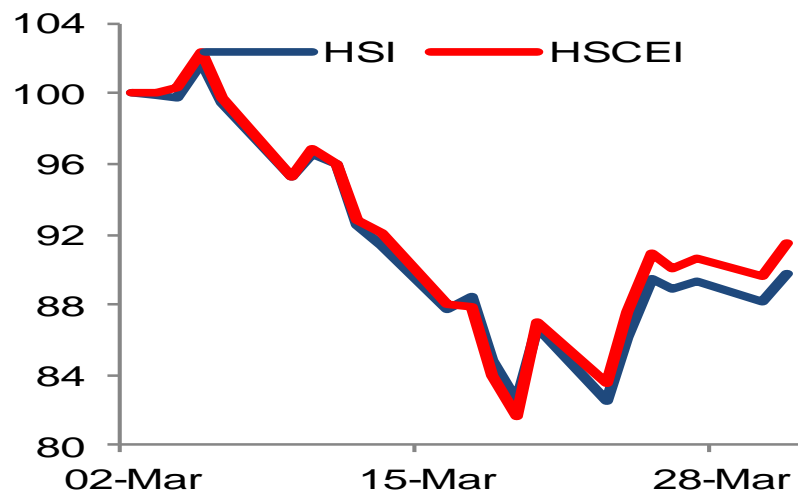
- Continue to add to investment
- March FTSE inclusion factor reduced, potential for more?
- Note that onshore stock suspensions remain low
- Stock Connect system capacity & BCP arrangements
- Risk off behaviour given macro volatility
- Stock Connect system capacity & BCP arrangements
- Continue to seek offshore hedging tools
- Note delayed implementation of QFII / RQFII reforms, specifically introduction of SBL



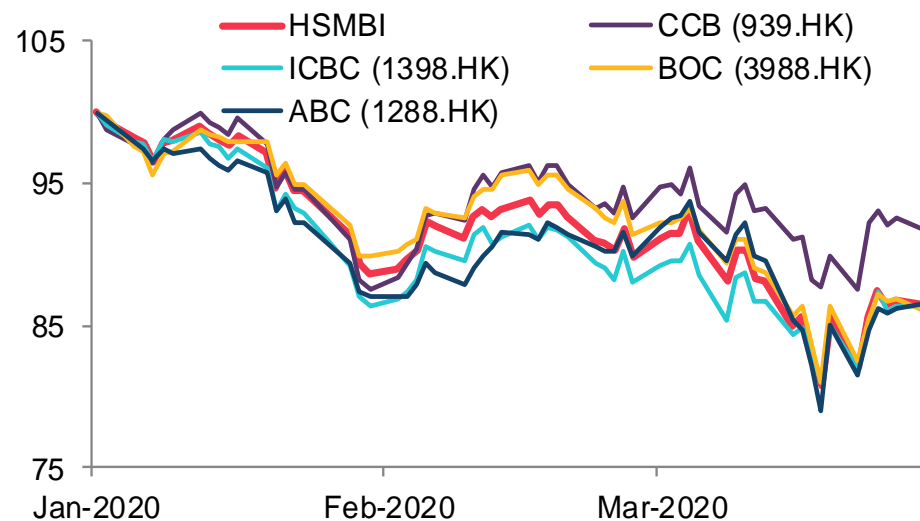
- Selectively adding as markets decline
- Stock Connect system capacity & BCP arrangements
- Seeking clarity on inclusion of WVR stocks with secondary listing in HK
- T0 settlement remains problematic
- Risk premia strategies dictate sells as markets decline
- Stock Connect system capacity & BCP arrangements
- Continue to seek alignment of market holidays
- Looking for expansion of eligible securities

What happened during Covid-19 pandemic?

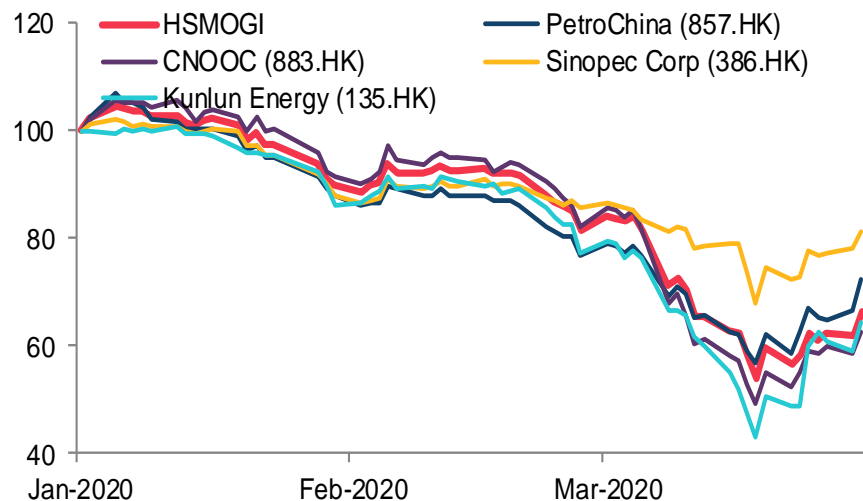
HSI vs HSCEI



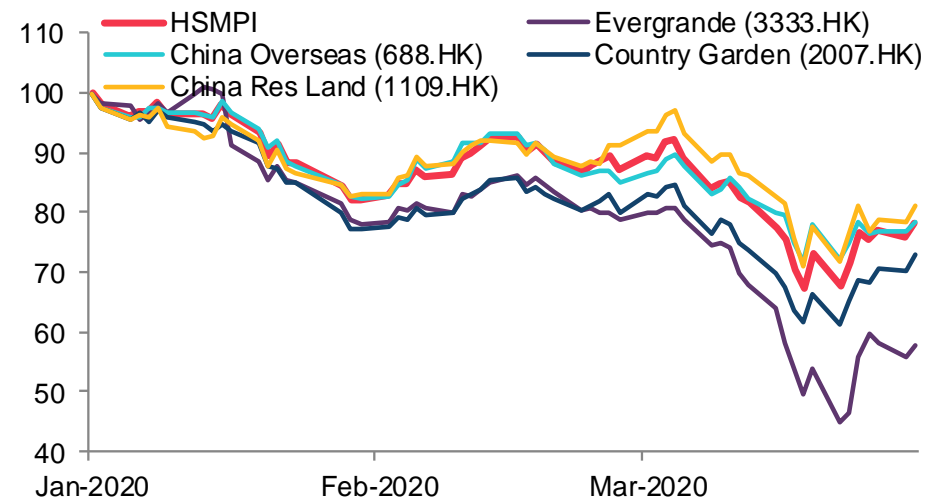
Mainland Bank Index & Constituents



Mainland Oil & Gas Index & Constituents



Mainland Properties Index & Constituents

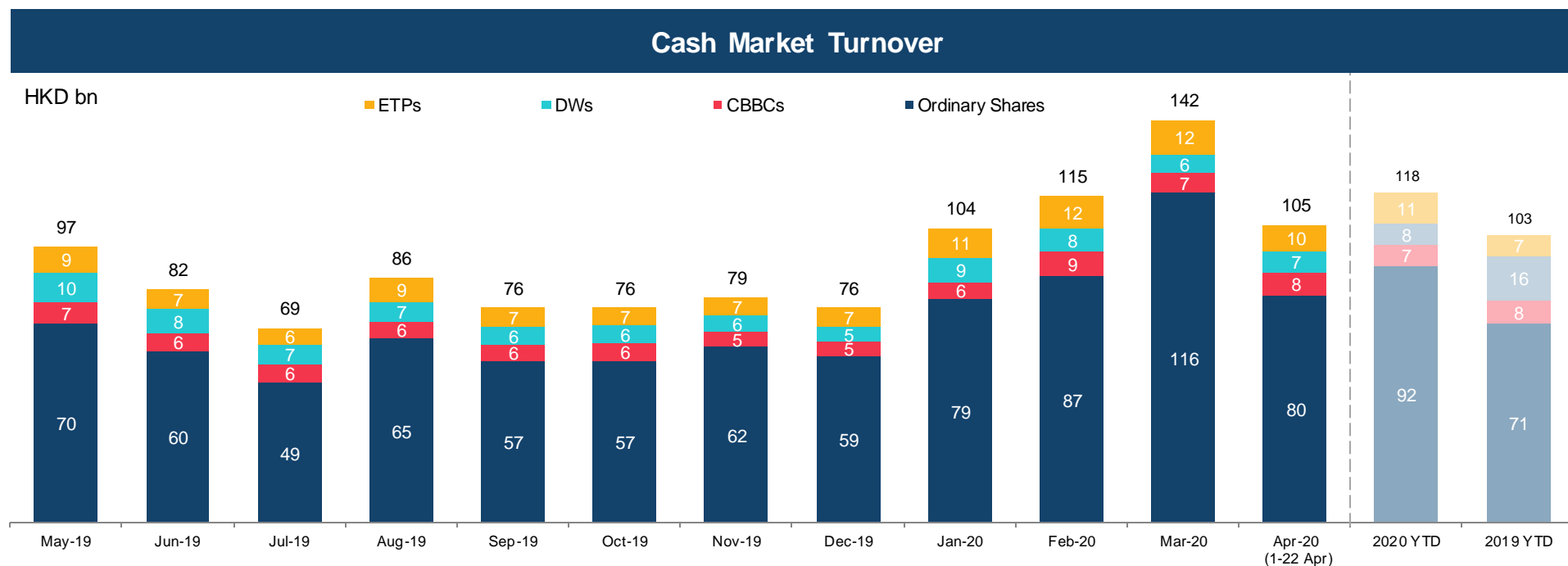


Source: Bloomberg and HKEX, Data as of 30 March 2020

* HSI: Hang Seng Index / HSCEI: Hang Seng China Enterprise Index / HSMOGI: Hang Seng Mainland Oil & Gas Index / HSMPI: Hang Seng Mainland Properties Index / HSMBI: Hang Seng Mainland Bank Index



What happened during Covid-19 pandemic?: HKEX Cash Market

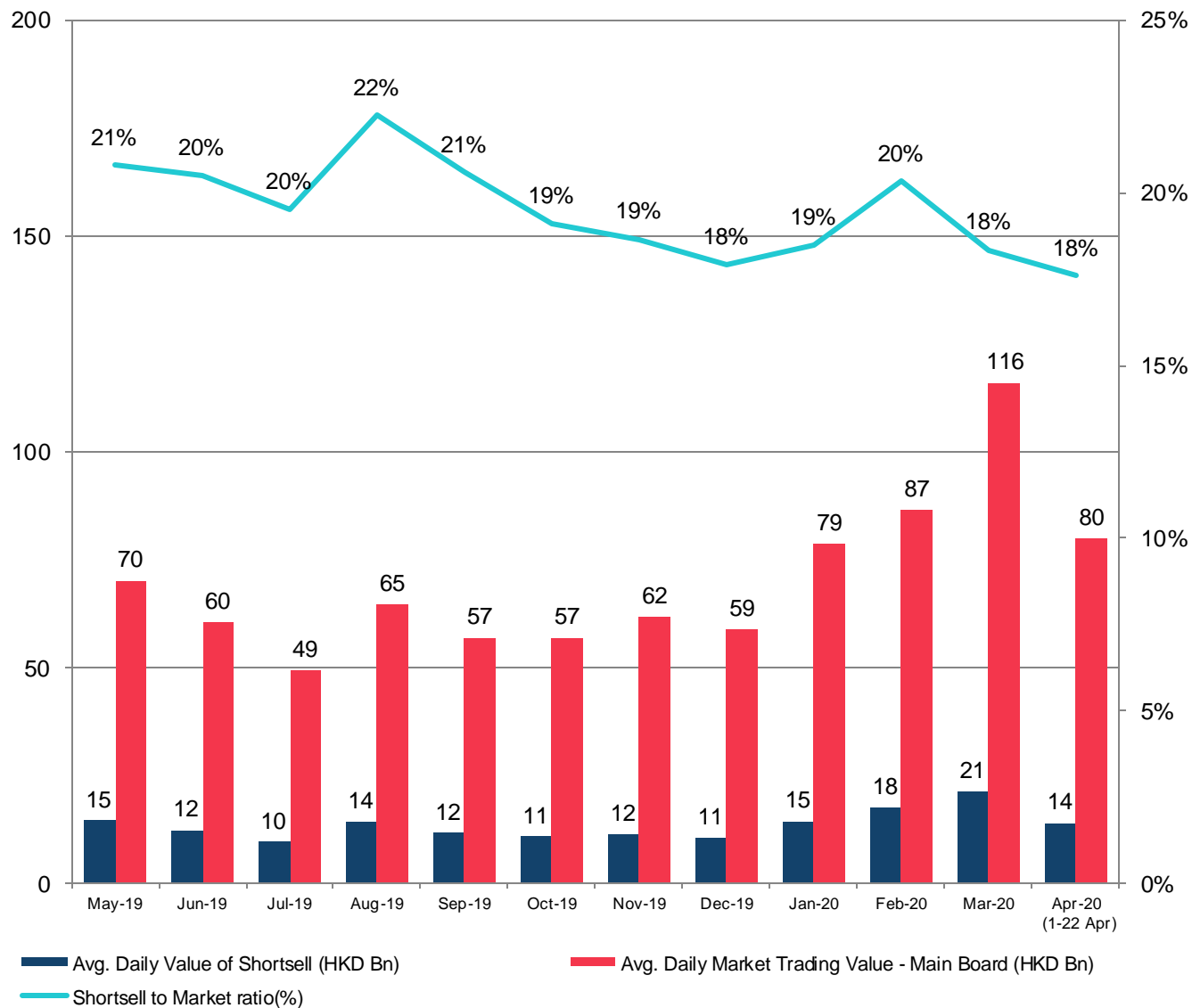


% of overall Cash Market Turnover			
ETPs	DWs	CBBCs	Ordinary Shares
9.1%	6.9%	7.8%	76.2%

Top ADT Contributors (1-22 Apr)					
	Name	ADT (HKD M)		Name	ADT (HKD M)
1	TENCENT	7,661	6	AIA	1,908
2	BABA-SW	3,475	7	CCB	1,645
3	PING AN	2,724	8	CHINA MOBILE	1,552
4	HSBC HOLDINGS	2,523	9	XIAOMI-W	1,413
5	MEITUAN-W	1,949	10	CHINA GAS HOLD	1,398



What happened during Covid-19 pandemic? HKEX Short-sell and Mainboard Turnover



Country	Announce Date	Action
Austria	18-Mar	Implements short selling ban
France	17-Mar	Implements short selling ban
	17-Mar	Extends short selling ban
	18-Mar	Further extends short selling ban
UK	13-Mar	Implements short selling ban
	17-Mar	Implements short selling ban
	18-Mar	Renews short selling ban
Belgium	17-Mar	Implements short selling ban
Greece	17-Mar	Implements short selling ban
Italy	12-Mar	Implements short selling ban
	16-Mar	Renews short selling ban
	17-Mar	Renews short selling ban
EU	16-Mar	Tightens notification thresholds of net short positions
Spain	12-Mar	Implements short selling ban
	16-Mar	Renews short selling ban
Turkey	28-Feb	Prohibits short selling transactions
	2-Mar	Renews short selling ban
Indonesia	2-Mar	Implements short selling ban
Korea	13-Mar	Implements short selling ban
Thailand	13-Mar	Tightens stock selling rule

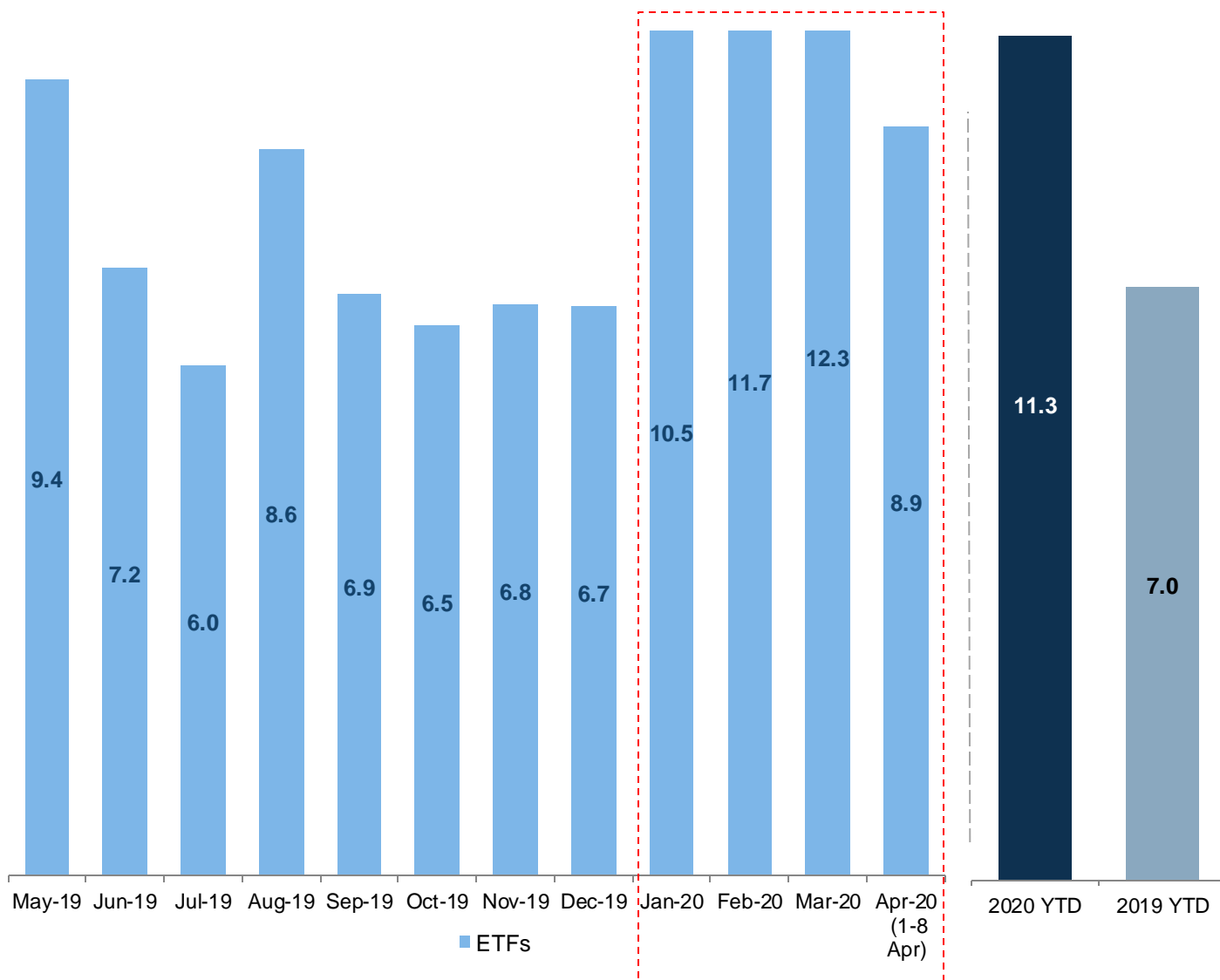
The list of securities eligible for short selling on HKEX can be found [here](#) and an overview of short selling requirements [here](#)

Source: Bloomberg and HKEX, Data as of 22 April 2020



What happened during Covid-19 pandemic?: Exchange Traded Products

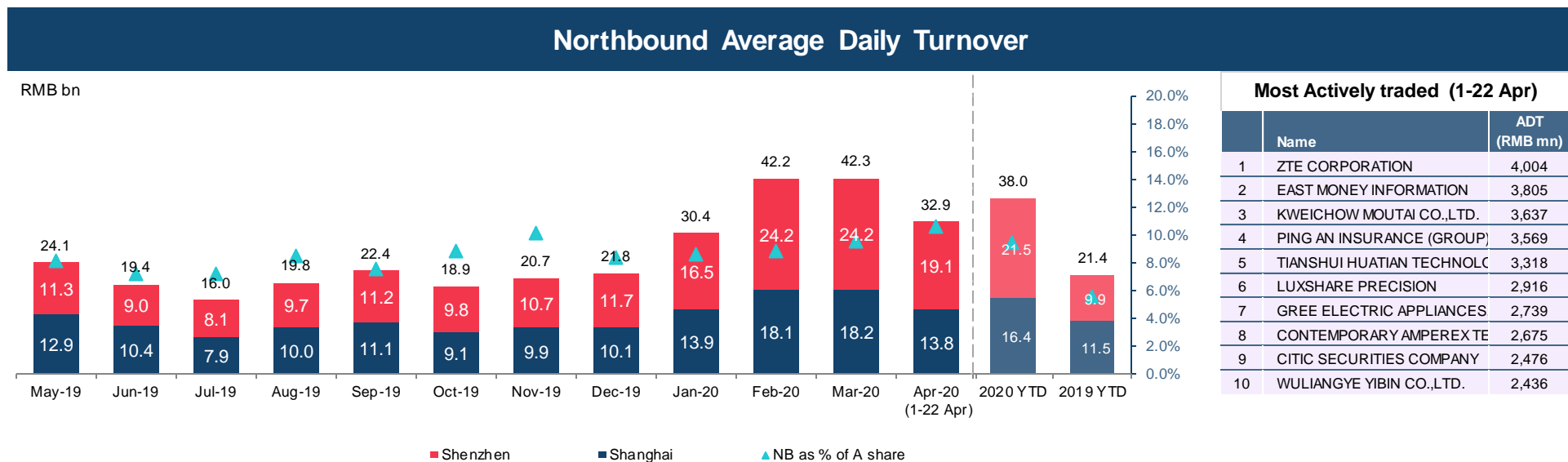
ETFs Average Daily Turnover (HKD bn)



Most Actively traded (1-8 Apr)			
	Code	Name	ADT (HKD mn)
1	2800	Tracker Fund of Hong Kong	1,548
2	3188 / 83188	ChinaAMC CSI 300 Index ETF	736
3	2822 / 82822	CSOP FTSE China A50 ETF	661
4	2828 / 82828	Hang Seng China Enterprises Index ETF	573
5	2823 / 82823	iShares FTSE A50 China Index ETF	566

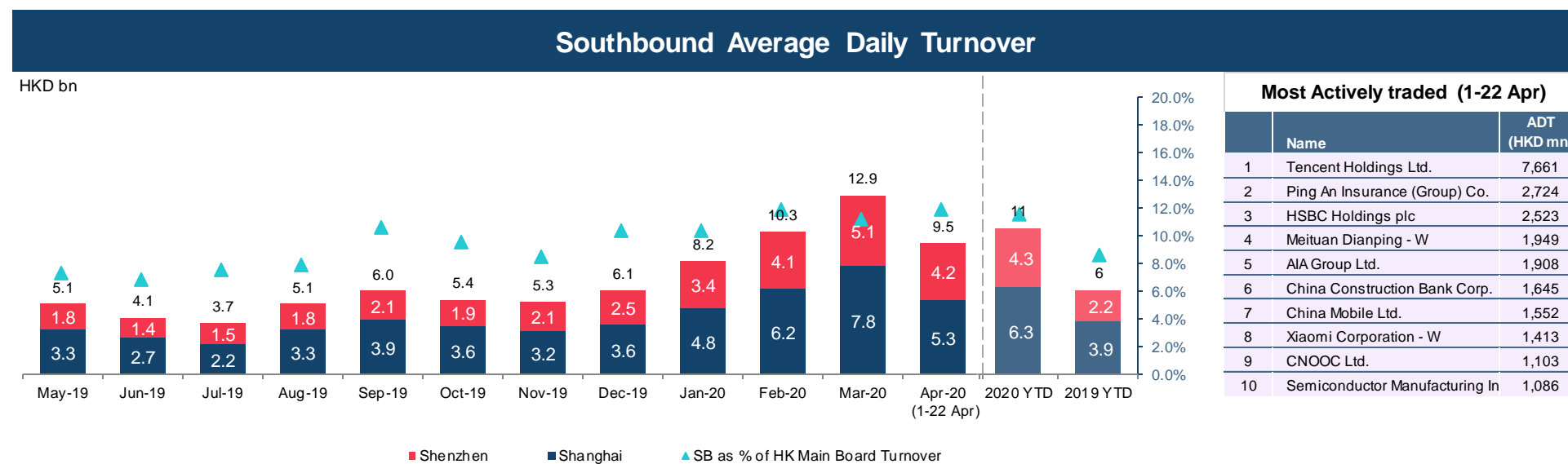


What happened during Covid-19 pandemic?: Stock Connect



Most Actively traded (1-22 Apr)

	Name	ADT (RMB mn)
1	ZTE CORPORATION	4,004
2	EAST MONEY INFORMATION	3,805
3	KWEICHOW MOUTAI CO.,LTD.	3,637
4	PING AN INSURANCE (GROUP)	3,569
5	TIANSHUI HUATIAN TECHNOLC	3,318
6	LUXSHARE PRECISION	2,916
7	GREE ELECTRIC APPLIANCES	2,739
8	CONTEMPORARY AMPEREX TE	2,675
9	CITIC SECURITIES COMPANY	2,476
10	WULIANGYE YIBIN CO.,LTD.	2,436



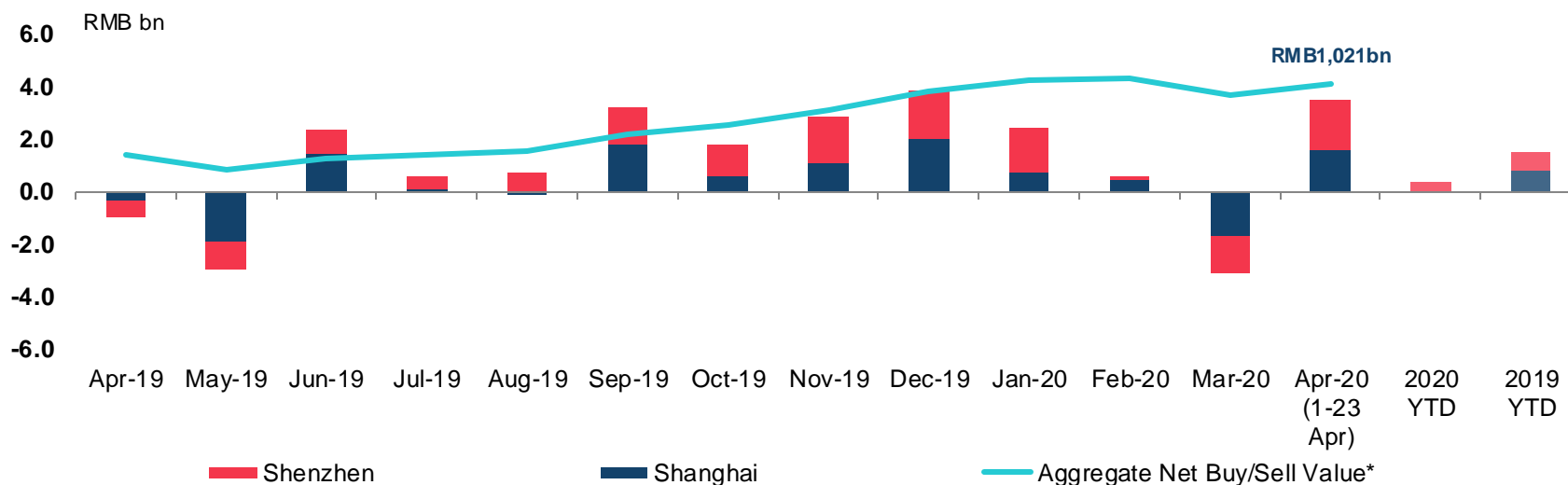
Most Actively traded (1-22 Apr)

	Name	ADT (HKD mn)
1	Tencent Holdings Ltd.	7,661
2	Ping An Insurance (Group) Co.	2,724
3	HSBC Holdings plc	2,523
4	Meituan Dianping - W	1,949
5	AIA Group Ltd.	1,908
6	China Construction Bank Corp.	1,645
7	China Mobile Ltd.	1,552
8	Xiaomi Corporation - W	1,413
9	CNOOC Ltd.	1,103
10	Semiconductor Manufacturing In	1,086



What happened during Covid-19 pandemic?: Stock Connect

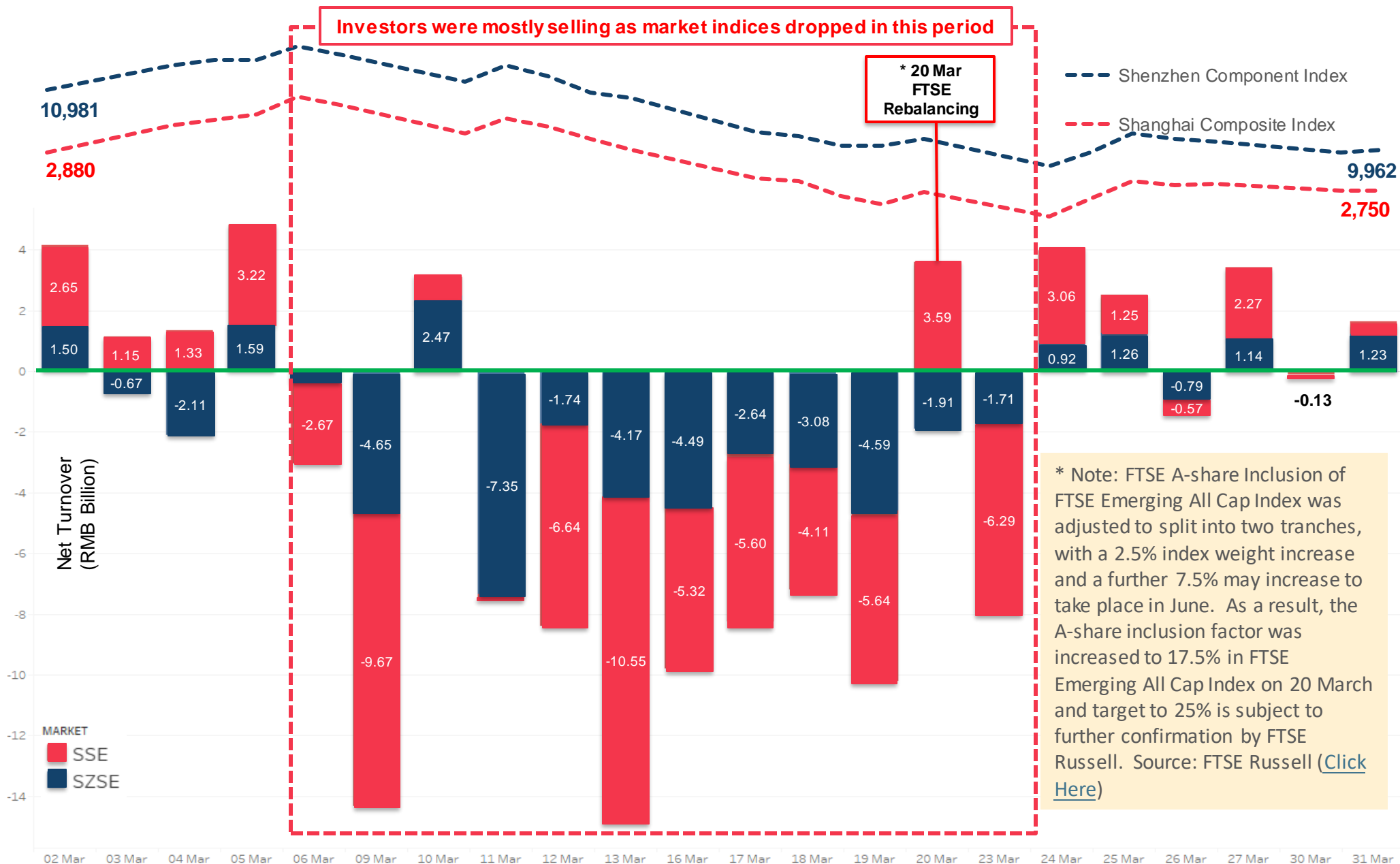
Northbound Average Daily Net Buy/Sell (Monthly Observation)



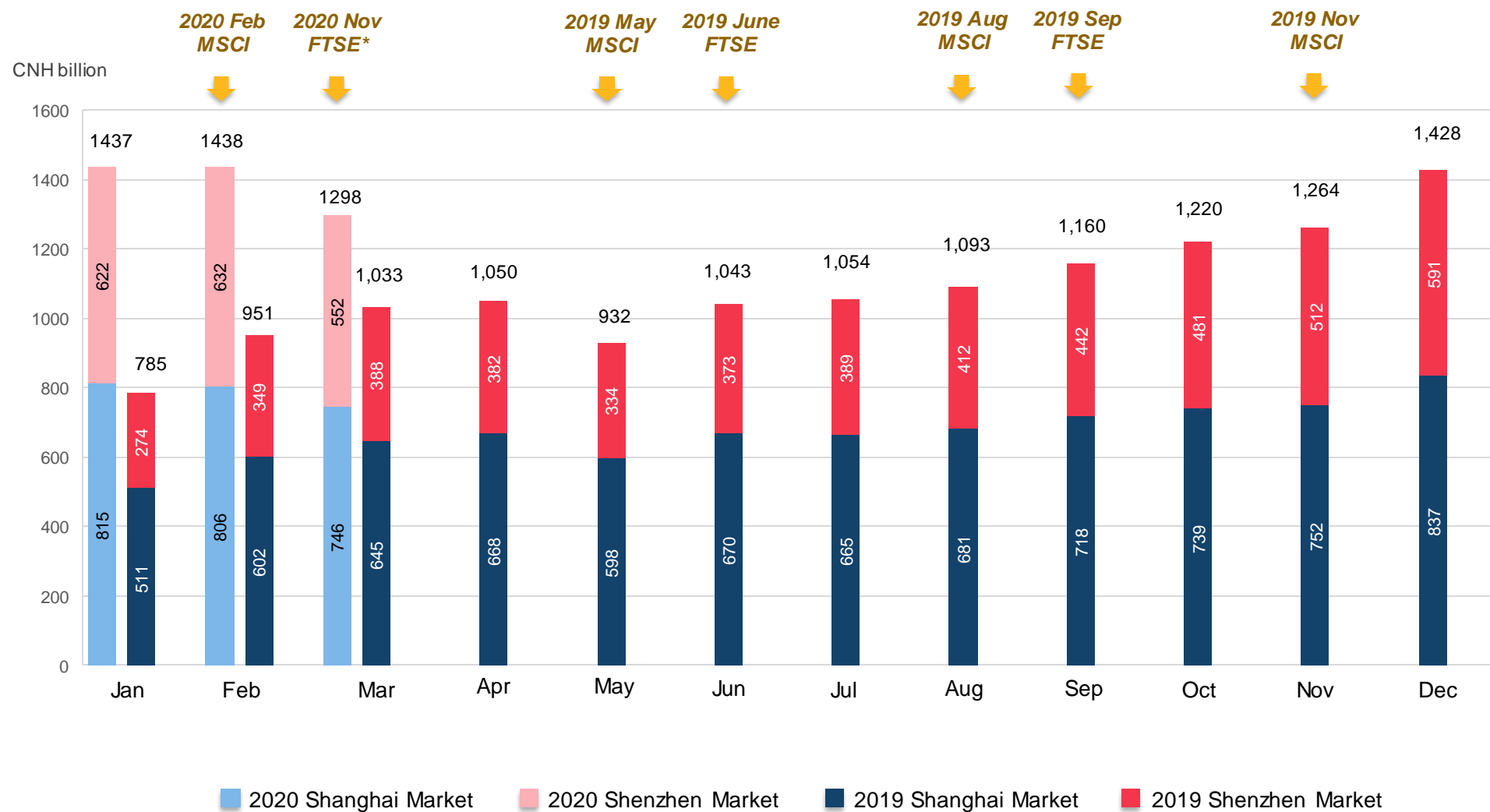
Southbound Average Daily Net Buy/Sell (Monthly Observation)



What happened during Covid-19 pandemic?: Stock Connect Net Buy/Sells



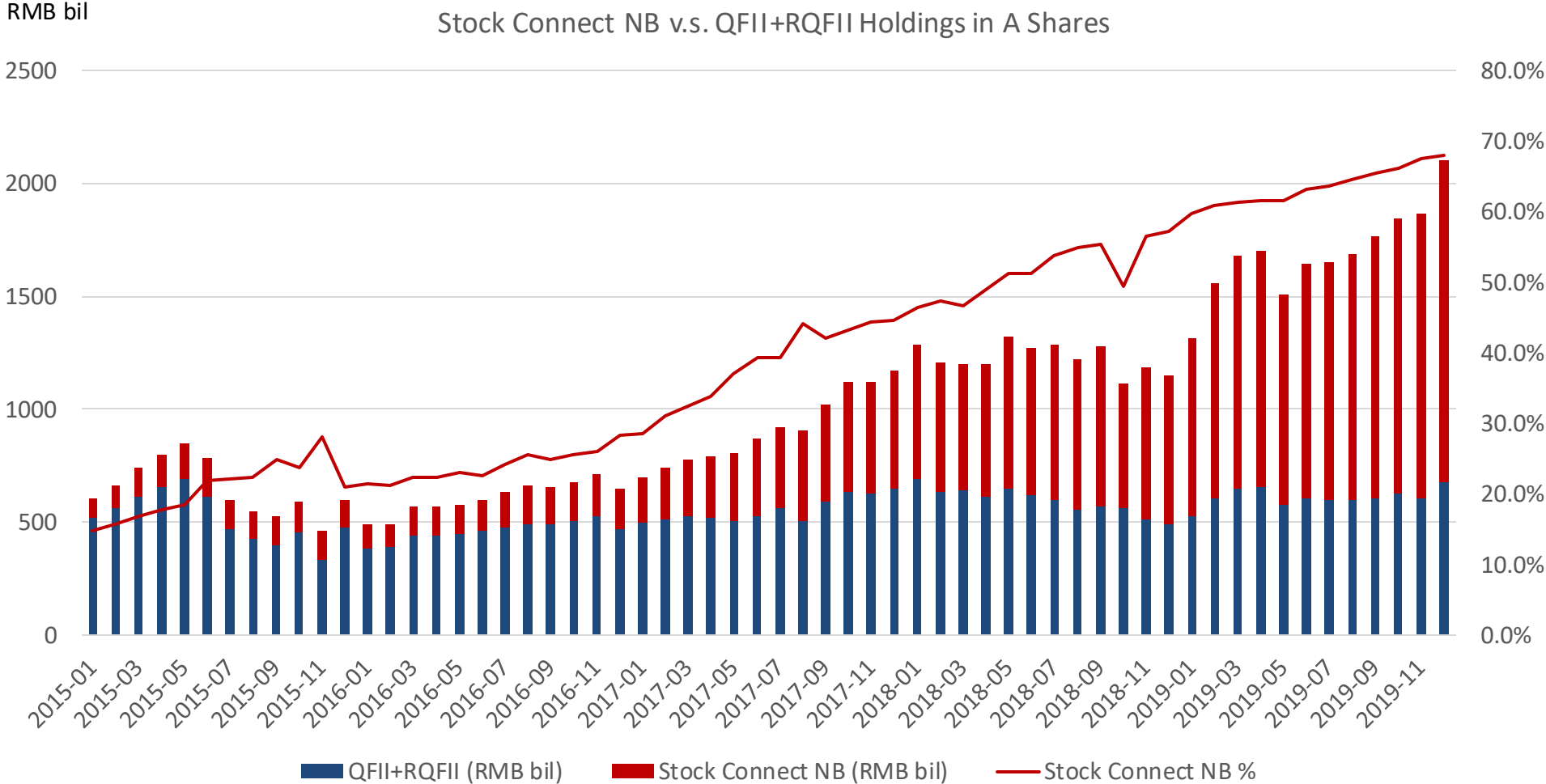
Stock Connect Northbound Depository Portfolio Value



Source: HKEX, Data as of 31 March 2020



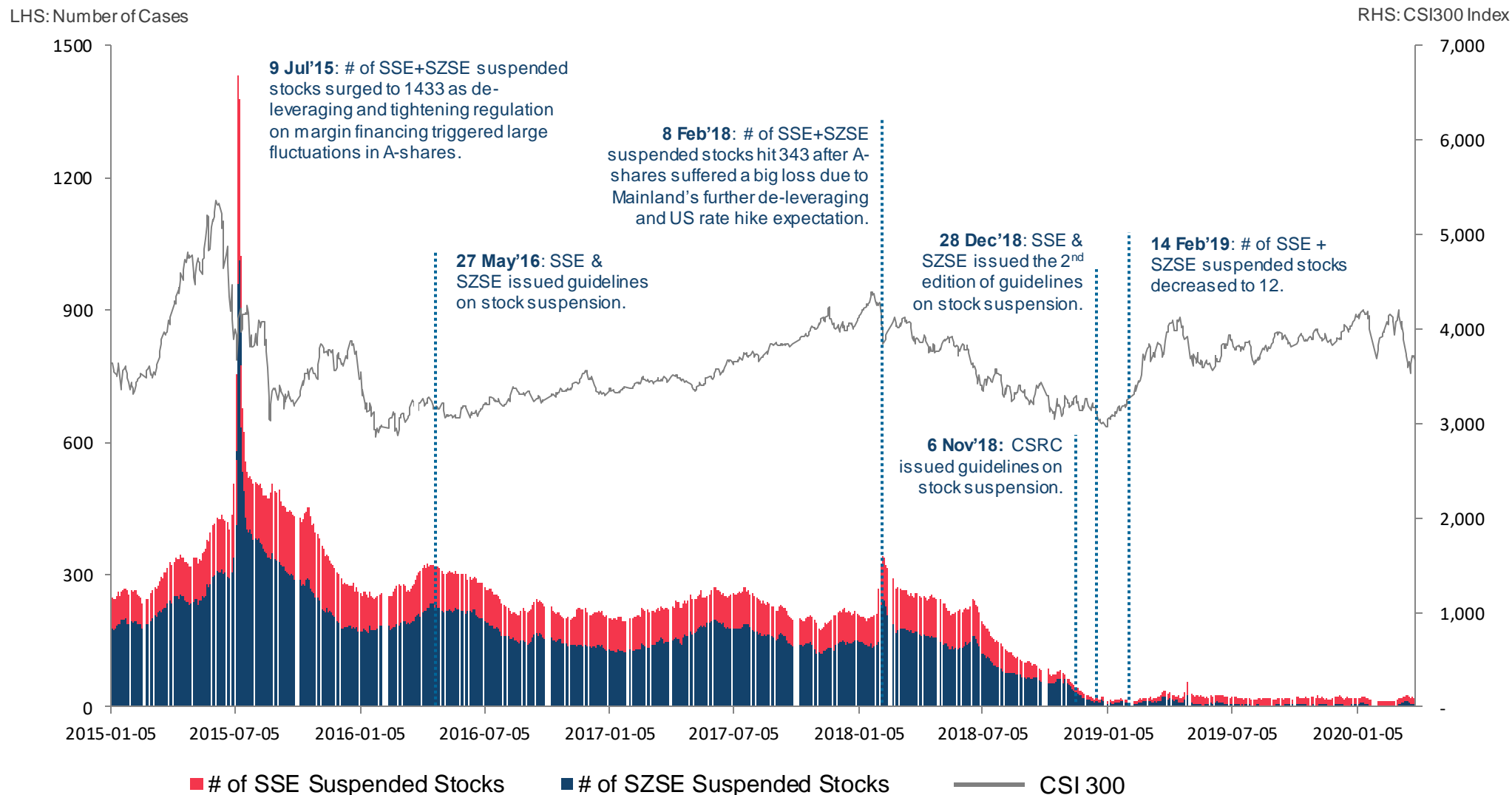
Foreign Ownership of China A-Shares



As at Dec 2019, foreign ownership of China A-Shares through Stock Connect was ~68% of total, a steady rise since the beginning of 2015

Source: HKEX, WIND, PBOC. PBOC, Data as of Dec 2019

Shanghai and Shenzhen Exchanges Stock Suspensions Statistics

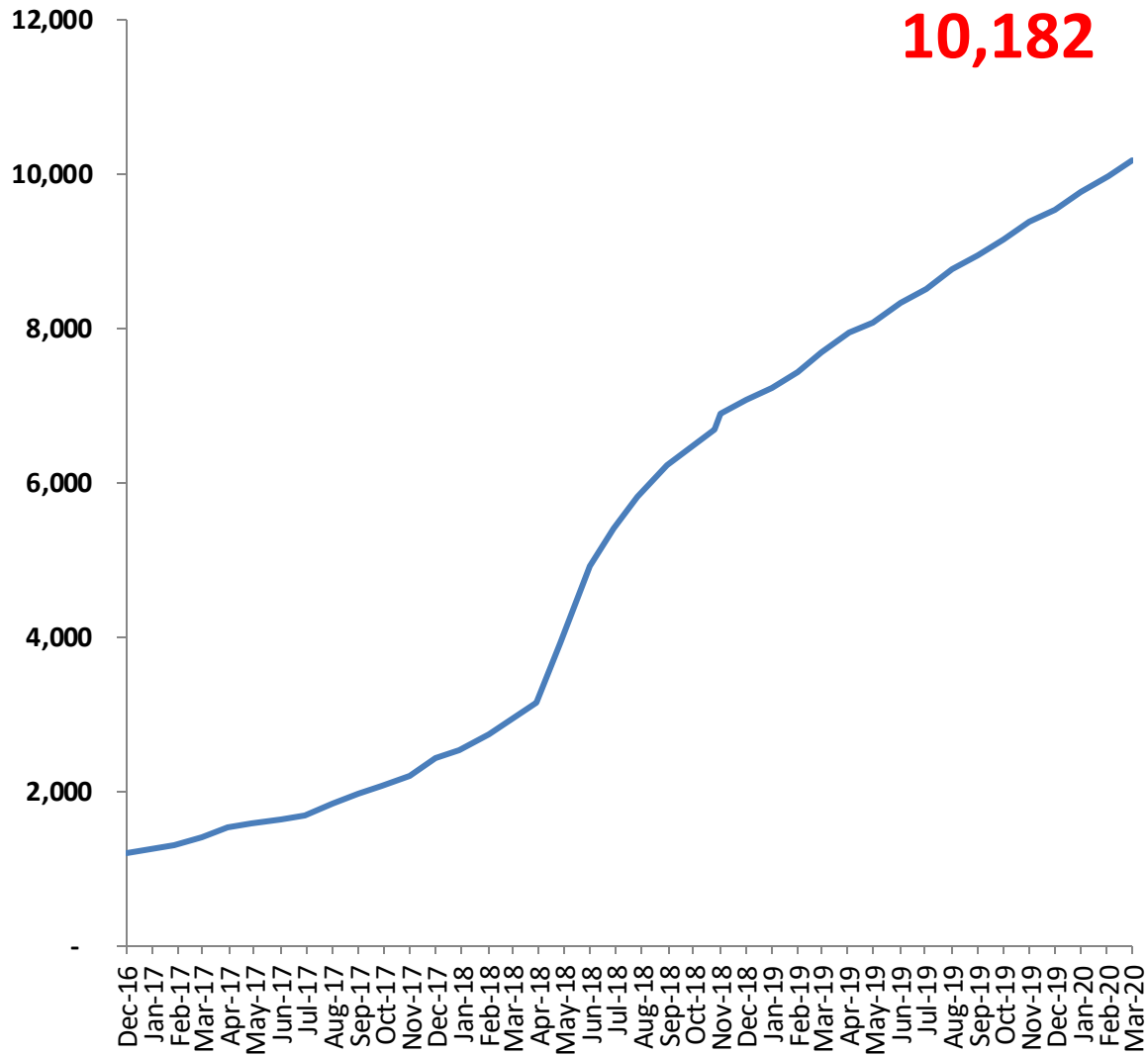


Stock Suspension numbers continues to be steady around 20 cases



Special Segregated Accounts (SPSA) Highlights

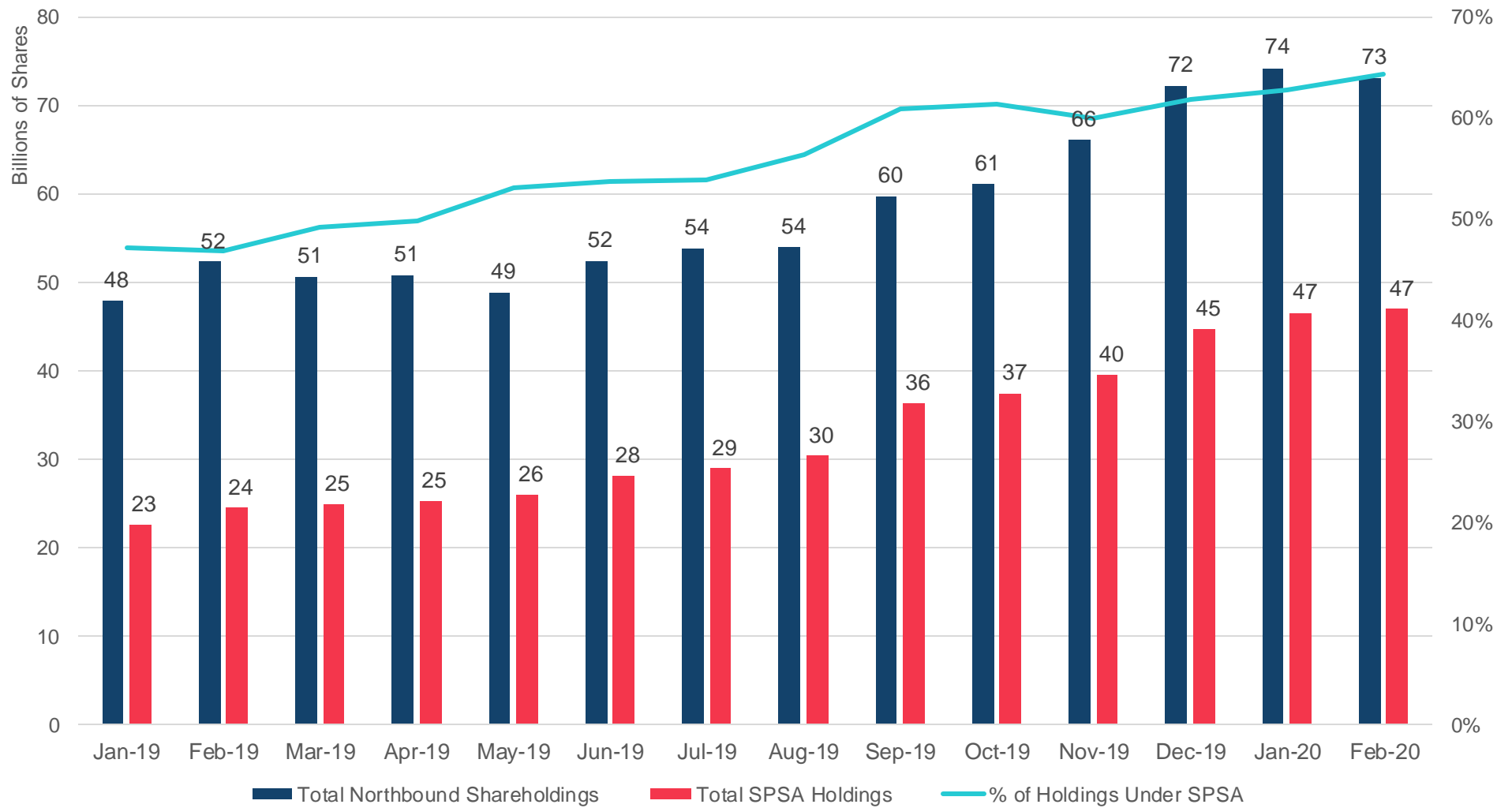
Total number of SPSA opened in CCASS



- SPSA accounts ~+300% Growth, additional 7,649 accounts since 1st of Jan 2018
- SPSA (Sub) Custody Banks: 20
- SPSA Brokers: 72
- Accelerated accounts opening around the two MSCI inclusions in 2018.

Stock Connect Northbound Shareholding

Total NB Shareholdings vs. SPSA



Source: HKEX, Data as of 28 February 2020



Stock Connect Enhancements

APR 2015	MAY 2015	APR 2016	AUG 2016	DEC 2016	NOV 2017	MAY 1 2018	AUG 20 / SEP 26 2018	TBD 2020	2020 onwards
SPECIAL SEGREGATED ACCOUNTS INTRODUCED	CSRC BENEFICIAL OWNERSHIP CLARIFIED	DELIVERY-VERSUS-PAYMENT (DVP) SETTLEMENT INTRODUCED*	AGGREGATE QUOTA ABOLISHED	SHENZHEN CONNECT COMMENCES	INTRODUCTION OF REAL-TIME DVP (RDVP)***	DAILY QUOTA EXPANSION**** (RDVP)***	SSE CLOSING CALL AUCTION^ INVESTOR ID MODEL*****	MASTER SPSA SERVICE TO Be INTRODUCED (Subject to Regulatory Approval)	IN PROGRESS TO REVIEW (Launch Subject to Regulatory Approval)
Multi-broker execution solution Pre-trade checking solution	CSRC FAQ HKSCC rules amended	Same day settlement finality on T+0 basis 100% growth of SPSA accounts since launch	Aggregate quota abolished Update on beneficial ownership (Oct 27)** SEHK and HKSCC rule amendments (Oct 24) Tax clarification announcement	Builds on solid foundation of Shanghai-Hong Kong Stock Connect At launch, 100 small cap stocks listed in HK available	Real-time settlement finality on T+0 basis in RMB, HKD and USD New 4.45pm Batch Settlement Run	4x daily quota expansion on each trading link (NB + SB) commencing May 1st 2018 Revised NB SZ and SH Daily Quota: RMB 52 billion each Revised SB SZ and SH Daily Quota: RMB 42 billion each	SSE launched Closing Auction on August 20th BCAN launches on Sept 26th Enable more efficient market close trading and improve HK-Mainland cross-border market surveillance	Enhance best execution with average pricing across multiple SPSAs for asset managers	Holiday trading Securities lending Short-selling Enhancements Distributed Ledger Technology (DLT) Settlement Enhancements Block trading CNY Settlement

Enhancements apply to both Shanghai and Shenzhen Connect

*Source: 26 Jan 2016 HKEX Circular http://www.hkex.com.hk/eng/market/partcir/hksc/2016/Documents/CE_020_2016.pdf **Source: CSRC Updated 27 October 2016, http://www.csrc.gov.cn/pub/csrc_en/laws/overRule/PolicyInterpretation/201610/t20161027_305087.html

Source: 7 July 2017 HKEX Circular https://www.hkex.com.hk/eng/market/partcir/hksc/2017/Documents/ce_015_2017.pdf *Source: 30 Nov 2017 HKEX Circular <http://www.hkex.com.hk/-/media/HKEX-Market/Services/Circulars-and-Notices/Participant-and-Members-Circulars/SEHK/2017/CT09717E.pdf> *****Source: 11 Apr 2018 <http://www.hkex.com.hk/-/media/hkex-market/services/circulars-and-notices/participant-and-members-circulars/sehk/2018/ct03818b.pdf?la=en>

^ Source: 8 Aug 2018 SSE (Simplified Chinese Only) http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c_20180806_4607055.shtml



Stock Connect Enhancement: Master SPSA – Best Execution For Asset Managers

MASTER SPSA

for fund managers to **aggregate sellable balances of individual SPSAs** for **pre-trade checking** in Northbound sell orders

▶ **Enhanced optional mechanism** under the existing stock connect framework for operational efficiencies

▶ Maintain the **same post-trade settlement processes** and risk management measures at the individual SPSA level

▶ **Solution to challenges in average price executions** and the need to split one aggregate sell order into multiple sell orders at the individual fund level



Eligibility

Master SPSA Service is provided to an entity which is a **fund manager, asset manager, investment manager and the like**:

- ✓ Agree on the terms and conditions as set by HKEX
- ✓ Has at least 2 SPSAs set-up already
- ✓ Has already had CCEP with fund manager level BCAN



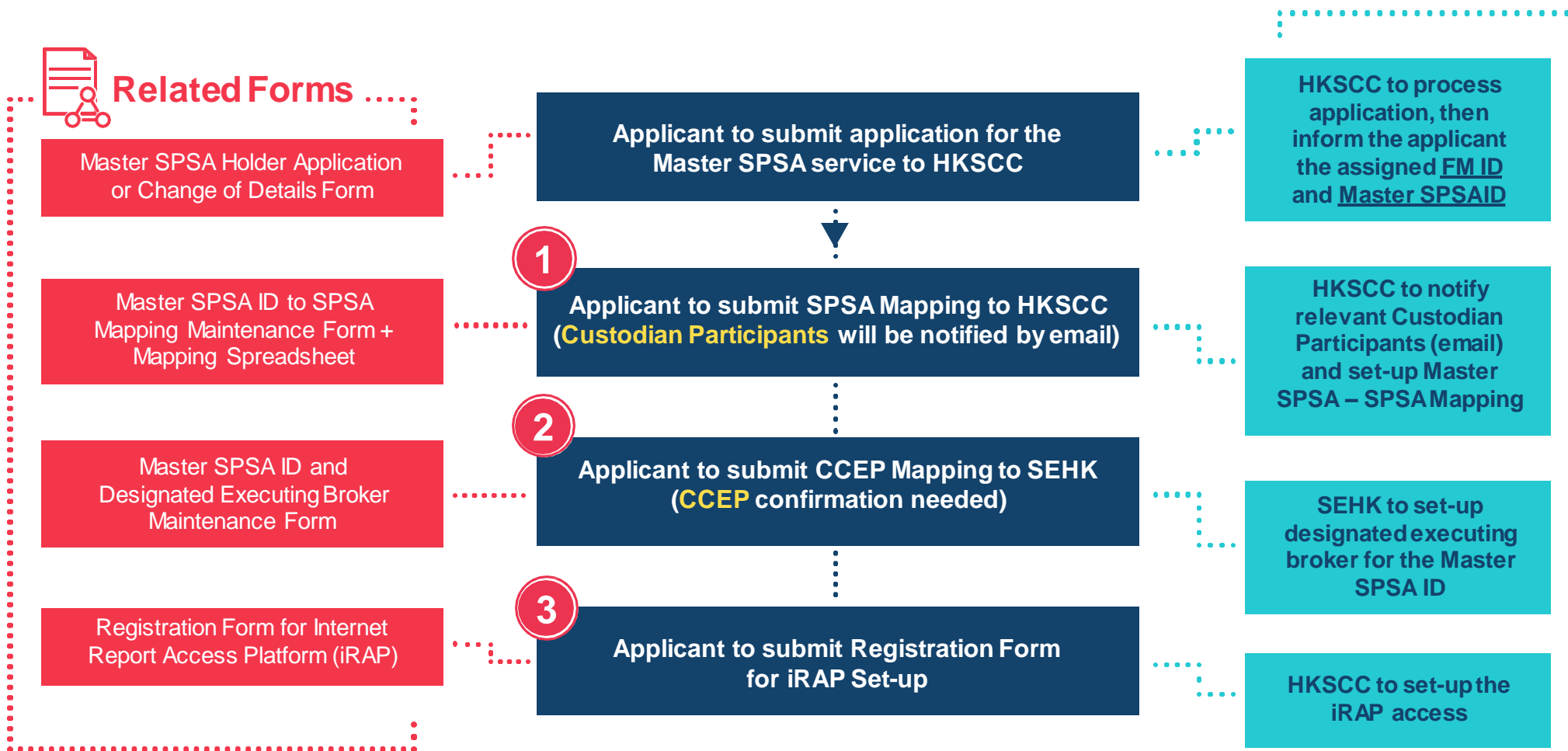
SPSA Mapping

A **6-digit Master SPSAID** will be assigned to each Master SPSA Holder

- ✓ At least 2 SPSAs (under different custodians) must be mapped to the 1 assigned Master SPSA ID
- ✓ Each SPSA can only be mapped to 1 Master SPSA ID
- ✓ No maximum of SPSAs mapping



Stock Connect Enhancement: Master SPSA – Application and Required Set-up



Master SPSA Launch Date will be announced subject to regulatory approval

1. Make sure all set-up are ready on the same effective date

Thank you!

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