

February 2019

# STRATEGIC PLAN 2019-2021

*The Global Markets Leader  
in the Asian Time Zone*

*Connecting China, Connecting the World*



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*Chief Executive, HKEX Group*

# Agenda

**1**

**What has been our journey so far?**

**2**

**What is our strategic vision?**

**3**

**What are the building blocks of our Strategic Plan 2019-2021?**

**4**

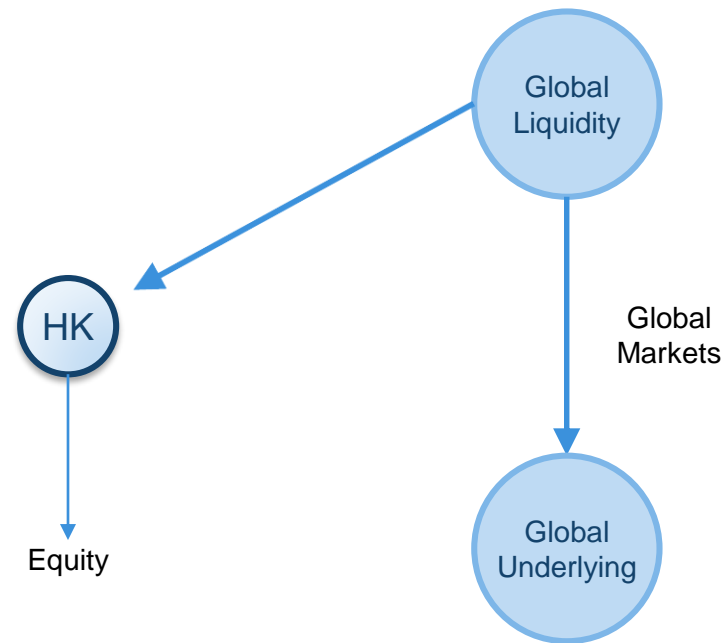
**What are the key initiatives to realise our strategic objectives?**

# Our Journey So Far



## Regional Equity Exchange

- Merger of four stock exchanges
- Debut of core products including HSI futures
- Growing participation from international investors but the Hong Kong market was not globally significant

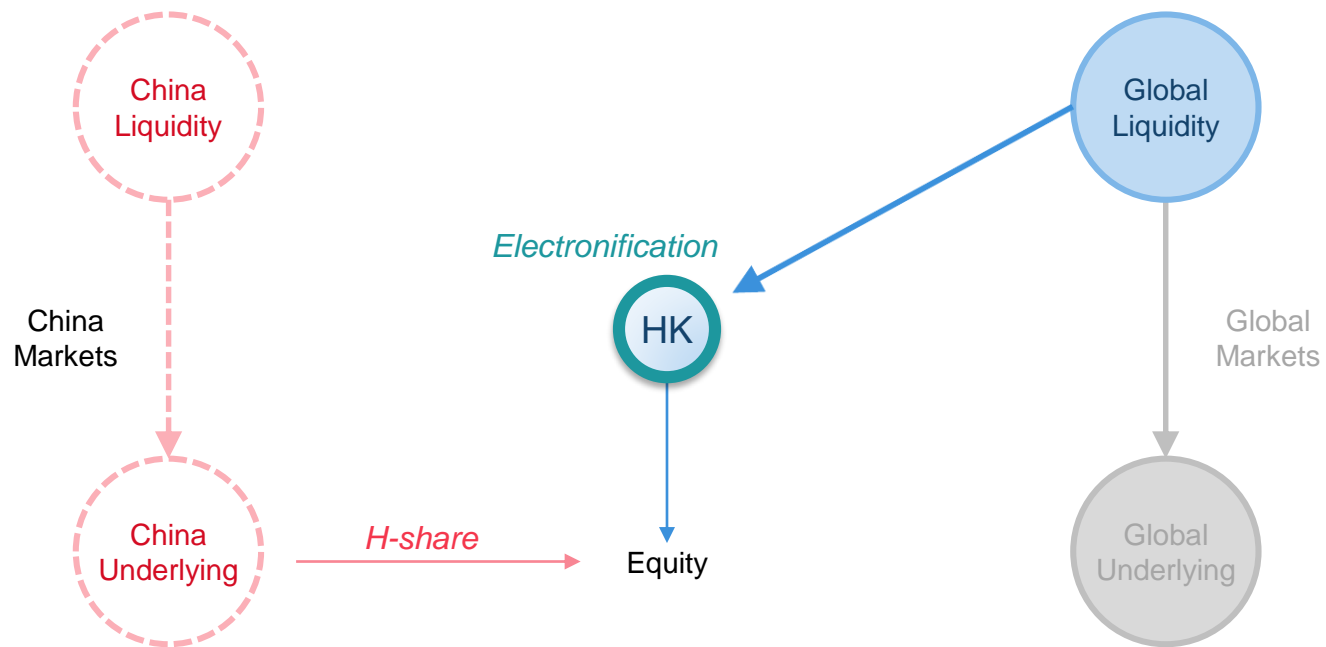


# Our Journey So Far



## China's Offshore Capital Raising Centre

- H-Share listings
- Electronification of trading
- Structured products expansion

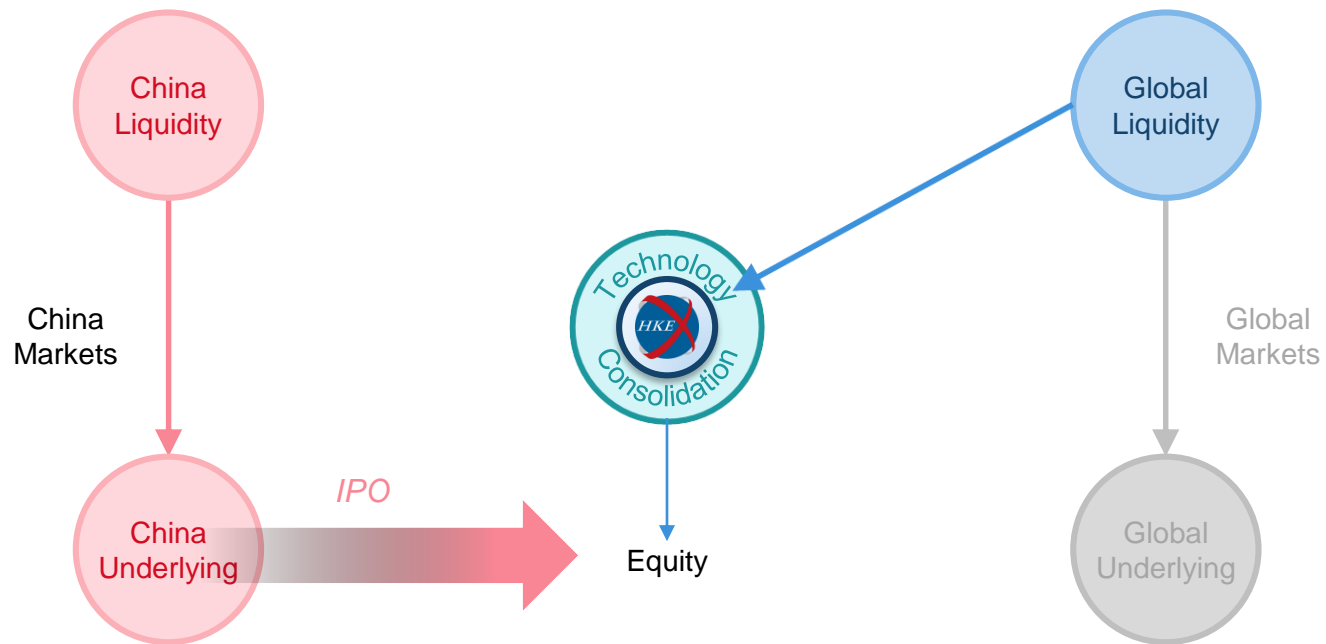


# Our Journey So Far



## Global Leader in IPOs

- Demutualisation
- Technology consolidation
- Major Chinese SOE and private enterprise IPOs

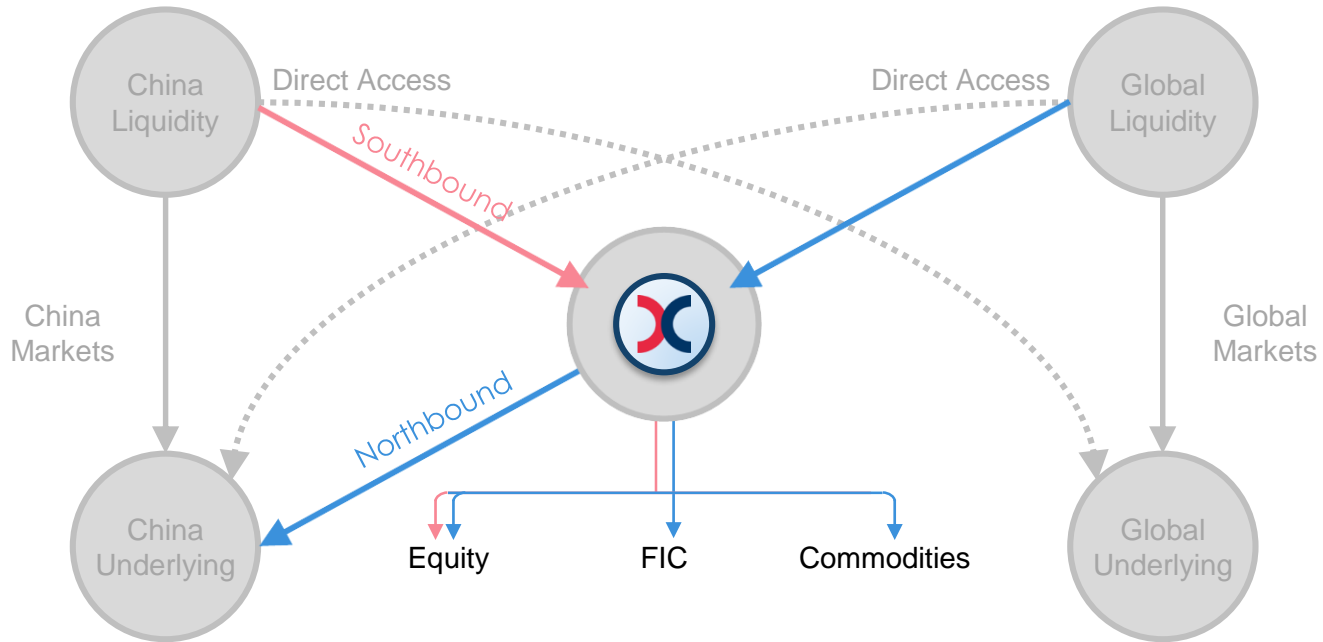


# Our Journey So Far



## Mutual Market Access & Asset Class Expansion

- China connectivity
- FICC expansion
- Listing reforms

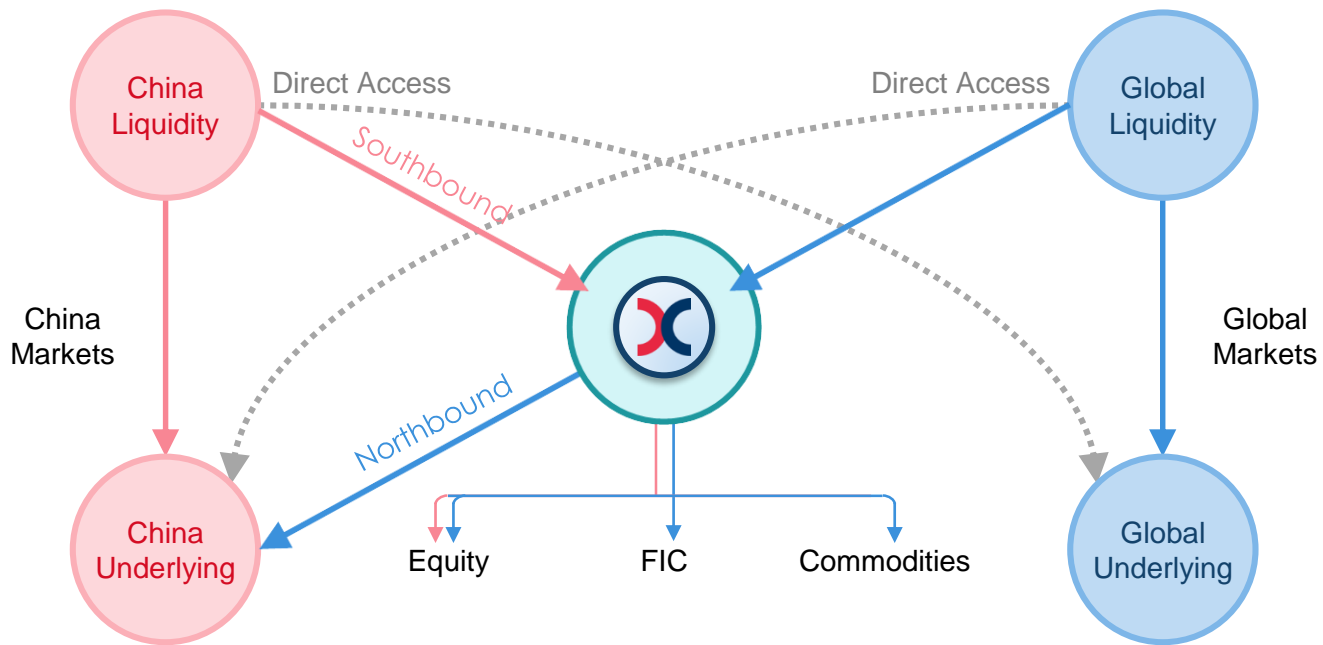


# Our Journey So Far



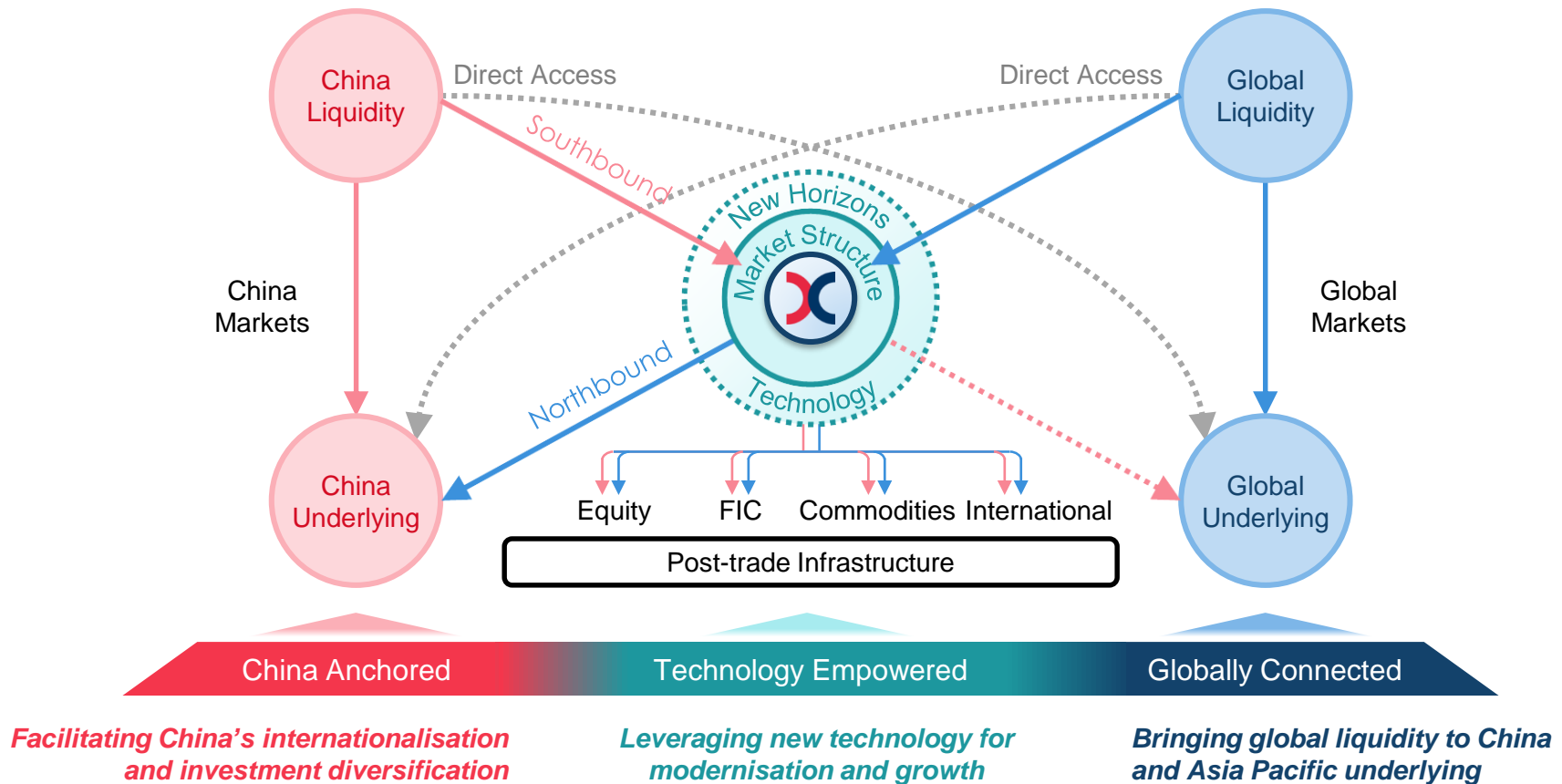
## Largest Listed Exchange Group in Asia Pacific

- #1 in IPO funds raised globally in 2018
- Pioneer in China connectivity
- Multi-asset class: Equities, FIC, Commodities



# Our 2019-2021 Strategic Vision

*The Global Markets Leader in the Asian Time Zone –  
Connecting China, Connecting the World*





# China Underlying

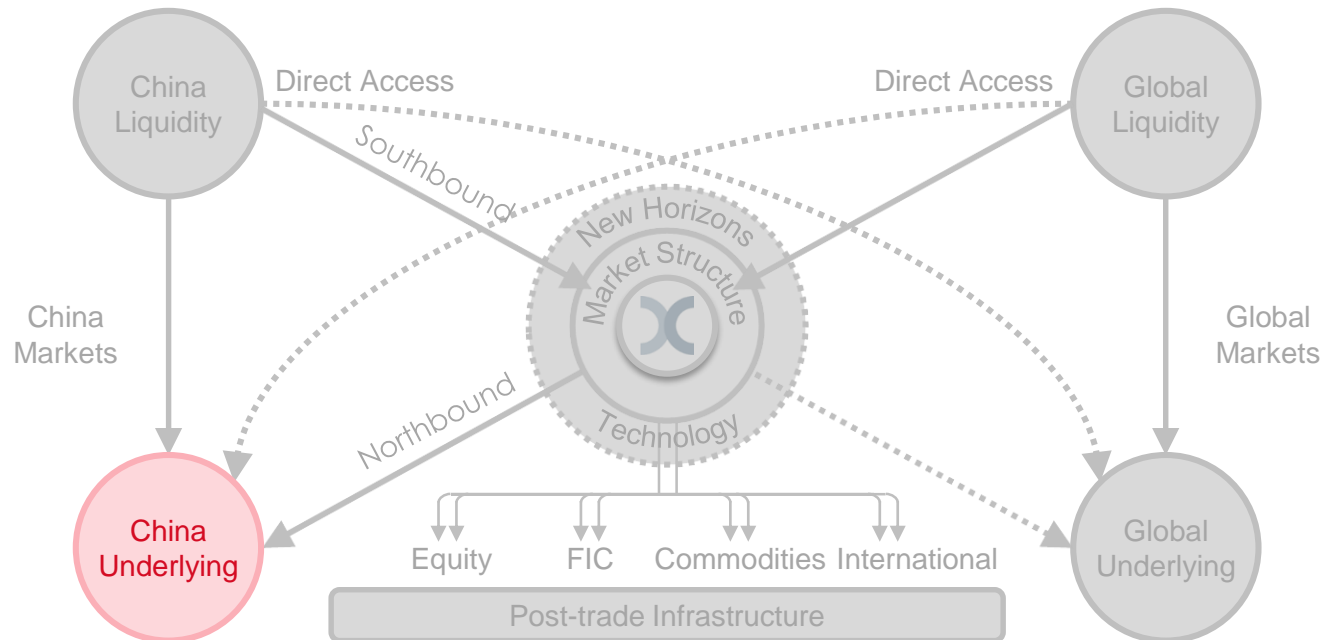
## Internationalisation of the RMB and domestic capital markets

### Current Status:

- **1990s** – Founding of Shanghai and Shenzhen Stock Exchanges
- **2000s** – Beginning to be accessible via QFII
- **2010s** – Accessible to increasing international capital through Connect and more is coming
- **Today** – Underlying underdiversified; but reforms advancing quickly – Shanghai Tech Board

### What's Next for HKEX:

- Facilitate increased weighting of onshore underlying in international benchmark indices
- Expand onshore products across asset classes
- Create offshore risk management tools on onshore underlying



# China Liquidity

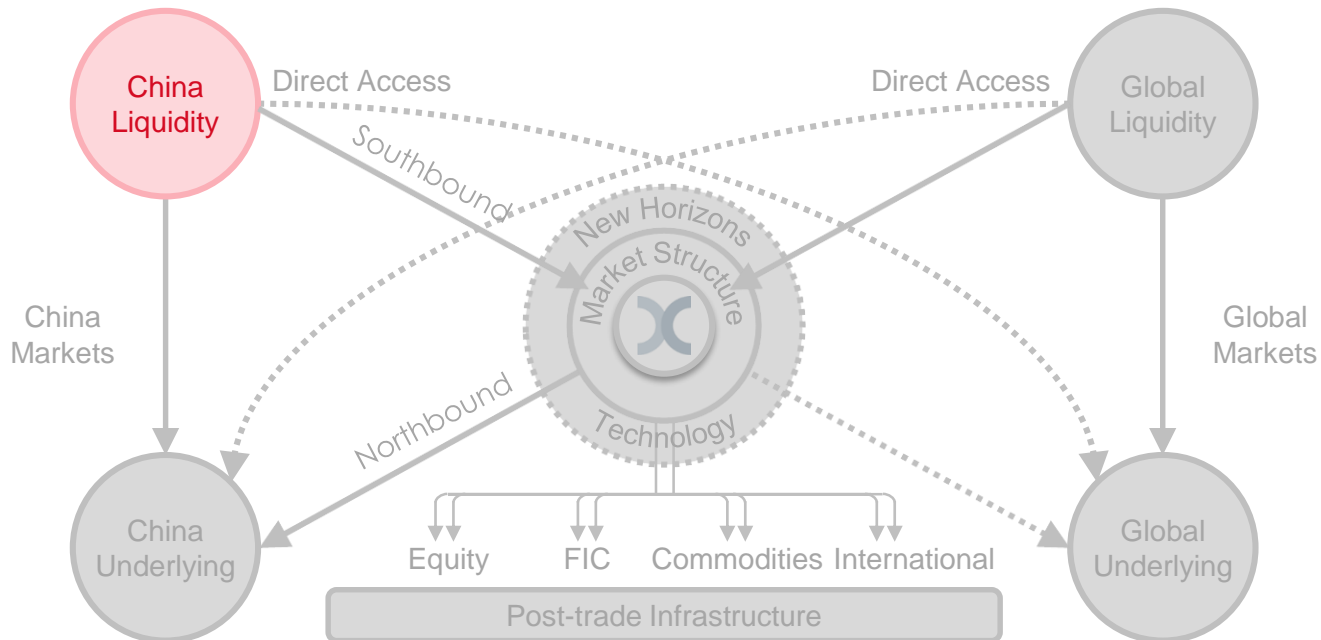
## Diversification of China's national wealth

### Current Status:

- Gradual liberalisation / internationalisation of Mainland's capital markets and liquidity flows since the 2000s
- Current focus on stabilising domestic market and attracting inbound investment
- Direction towards opening-up is still clear, while pace is uncertain

### What's Next for HKEX:

- Cater to increasing appetite to trade offshore
- Diversify both geographically and by asset class
- Develop risk management tools offshore



# Global Liquidity

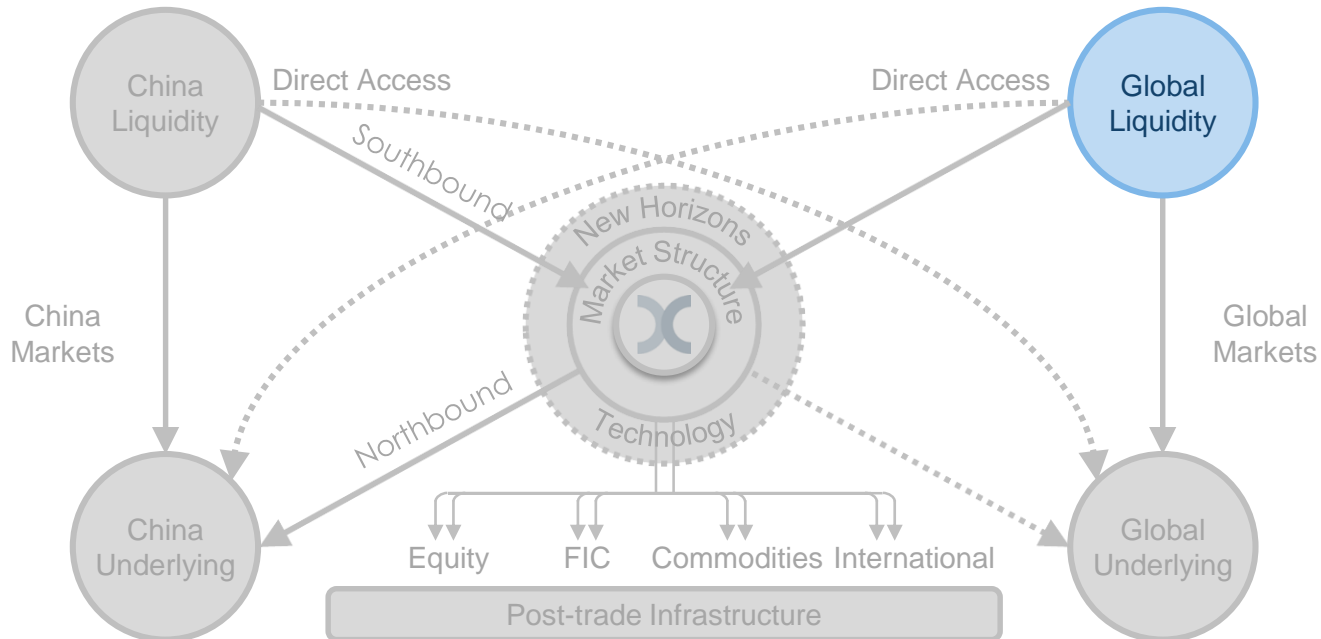
## Must attract more global liquidity to trade in Hong Kong

### Current Status:

- Hong Kong has evolved into a primary destination for China exposure among international investors since the 1990s
- Growing global capital allocation to emerging markets, particularly China
- Increasingly sophisticated and quantitative institutional investors
- Strong interest in the region but difficult to access due to fragmented markets

### What's Next for HKEX:

- Attract a broader client base, improve and expand current access channels
- Become a single touch point for Asia investments
- Expand HKEX's presence in major international financial centres to engage clients more directly



# Global Underlying

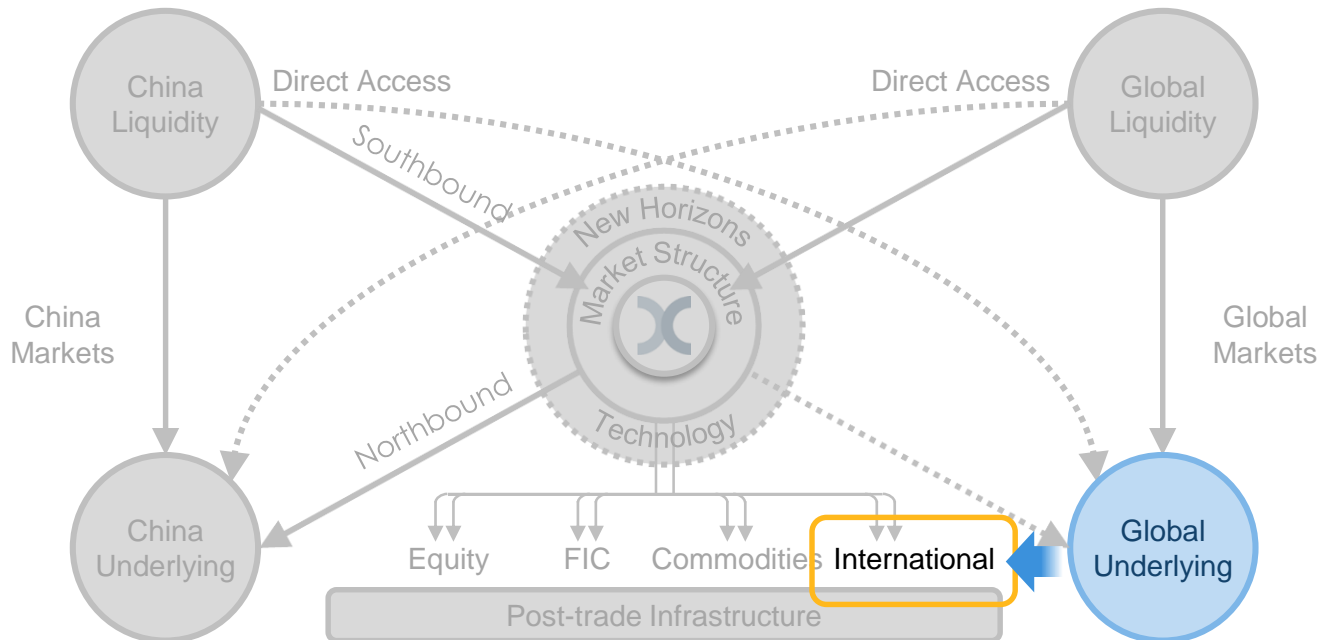
## Strategic opportunity to develop international product ecosystem in Hong Kong

### Current Status:

- Historically, Hong Kong is not a natural choice of listing for global issuers unless there is significant business exposure to China
- Connect programmes established a strong base of both Mainland and international investors in Hong Kong
- Potential to extend offering to include global / Asia Pacific underlying
- ETF will be the trend of the future

### What's Next for HKEX:

- Facilitate more international listings (highly attractive to global issuers if they can tap into China's liquidity – Primary Connect)
- Develop HKEX into a one-stop shop for China, Global and Asia Pacific exposures through listings and ETFs
- Facilitate access to the Hong Kong market by enabling Remote Participation



# HKEX Markets – Equity

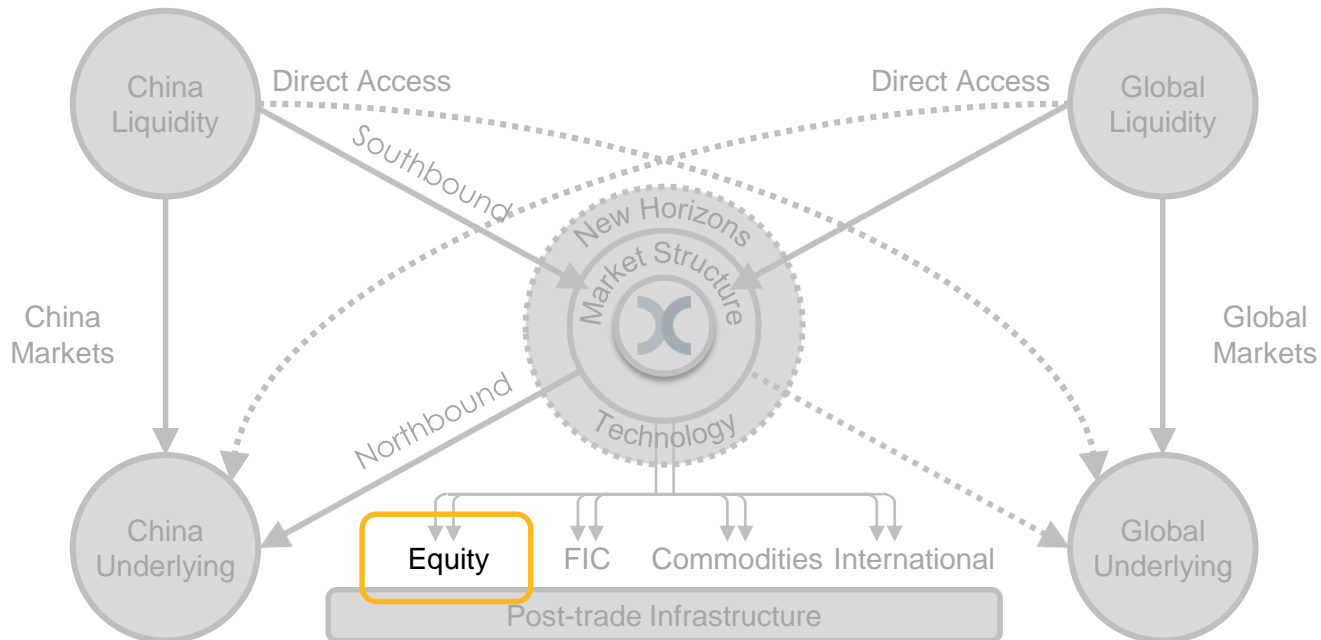
## Continue to reform and enhance

### Current Status:

- **1990s** – Hong Kong became the capital formation centre for Chinese companies (H-share IPOs)
- **2000s** – Major wave of Chinese SOE and private enterprise IPOs in Hong Kong
- **2010s** – Listing reforms to facilitate the listings of new economy issuers
- **Today** – #1 IPO venue but concentrated in Mainland issuers

### What's Next for HKEX:

- Streamline IPO process (shorten IPO cycle)
- Further expand equity derivatives product suite
- Continue product and asset class diversification



# HKEX Markets – FIC

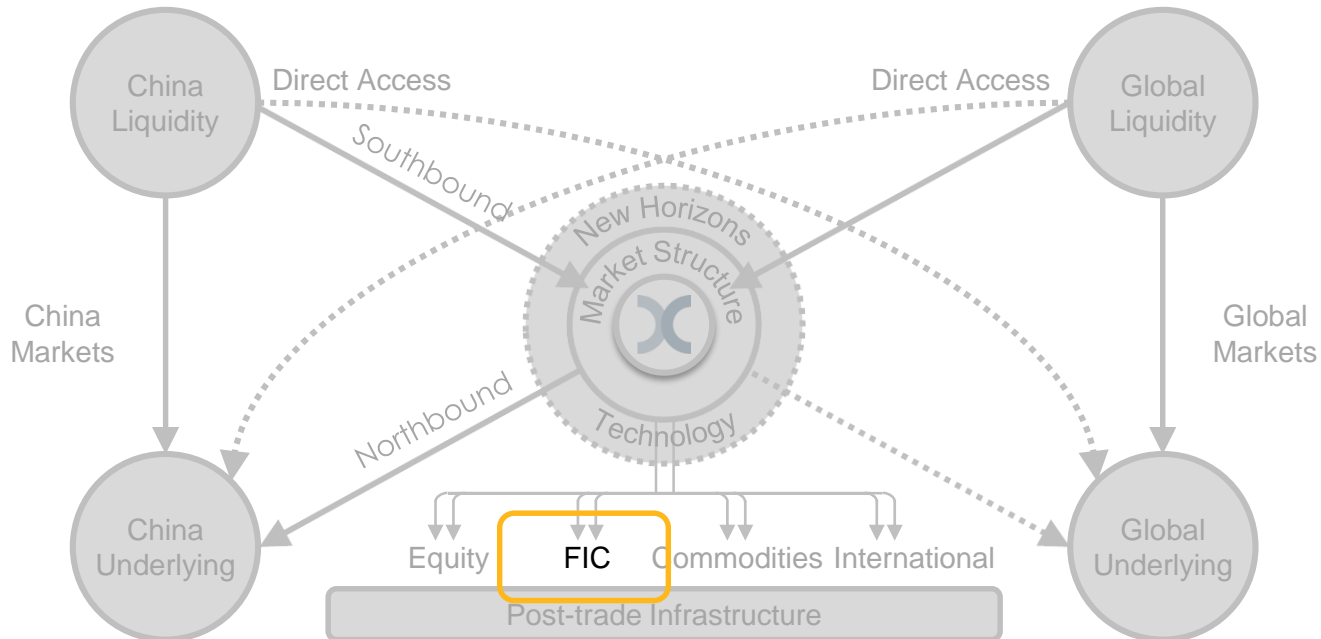
## Leverage internationalisation of RMB

### Current Status:

- **2000s** – Beginning of RMB internationalisation
- **2010s** – Further progress in liberalisation, with RMB emerging as a major global payment and reserve currency
- **Today** – Growing international role of RMB and foreign holdings in onshore securities drive demand for RMB risk management tools

### What's Next for HKEX:

- Opportunity to transform Hong Kong into a major global FIC centre
- Develop CNY-based derivatives market, launching additional products in rates, credit and currency
- Expand custody and collateral management solutions to improve capital efficiency



# HKEX Markets – Commodities (LME & QME)

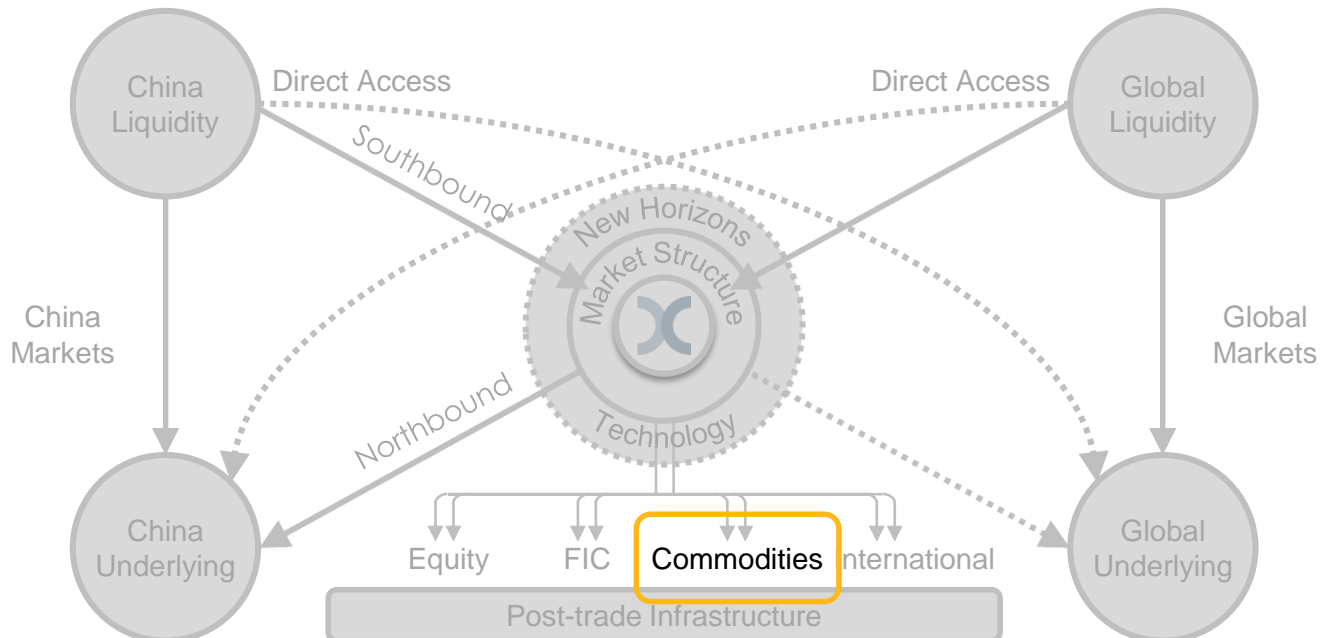
*Fully integrated today and must continue to push forward*

## Current Status:

- **2012** – LME acquisition marks a major expansion into FICC
- **2014** – Launch of LME Clear
- **2018** – Opening of QME
- **Today** – Global leader in base metals derivatives, but lack Mainland presence and direct participation
- Focus on derivatives with limited spot market presence

## What's Next for HKEX:

- Continue expansion into ferrous and precious
- Extend warehouse network into the Mainland to reduce frictional costs and risks for Mainland participants
- Extend value chain into spot market to offer better price discovery
- Develop connectivity between LME, QME, and Hong Kong commodities resources



# Mutual Market Access – Northbound

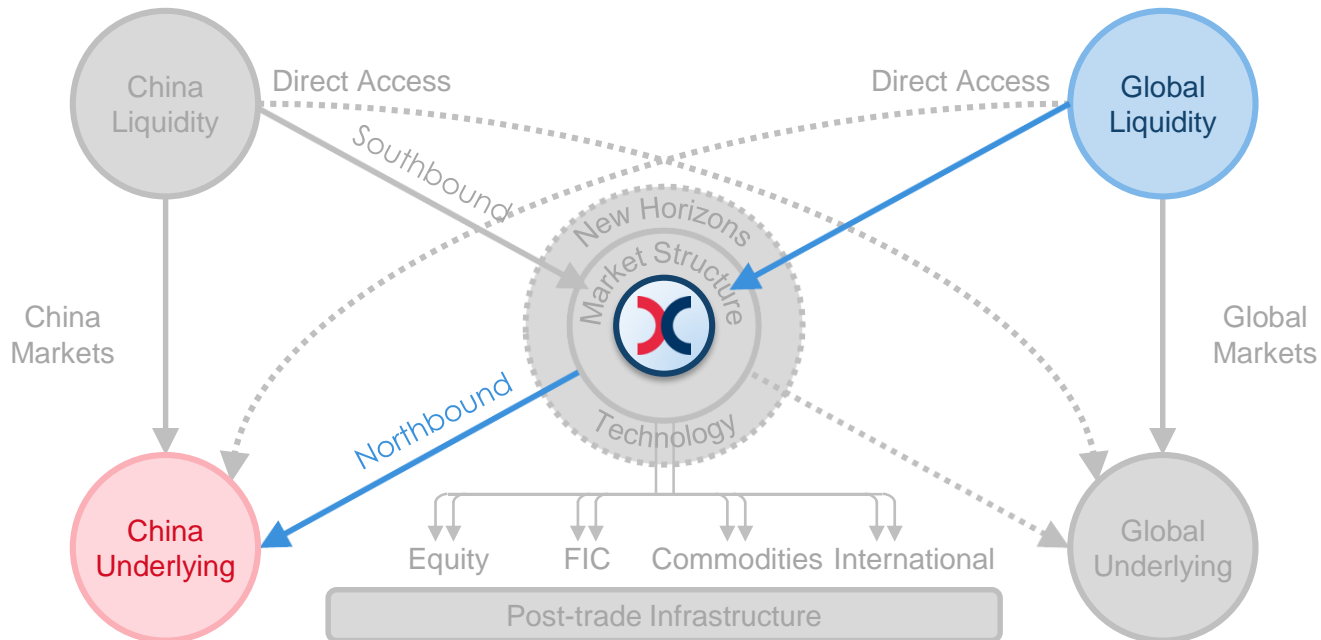
*Facilitate the internationalisation of China's capital markets*

## Current Status:

- **2014** – Shanghai-Hong Kong Stock Connect
- **2016** – Shenzhen-Hong Kong Stock Connect
- **2017** – Bond Connect (Northbound)
- **Today** – Stock Connect and Bond Connect are the primary reasons why the China markets are included in key global indices
- Lack offshore risk management tools for global investors' onshore exposure

## What's Next for HKEX:

- Northbound Stock Connect will benefit from ongoing reforms to diversify underlying – Shanghai Tech Board
- Launch risk management tools on onshore underlying – A-share derivatives, government bond derivatives
- Facilitate CNY FX solutions through developing infrastructure for close regulatory monitoring and transparency





# Mutual Market Access – Southbound

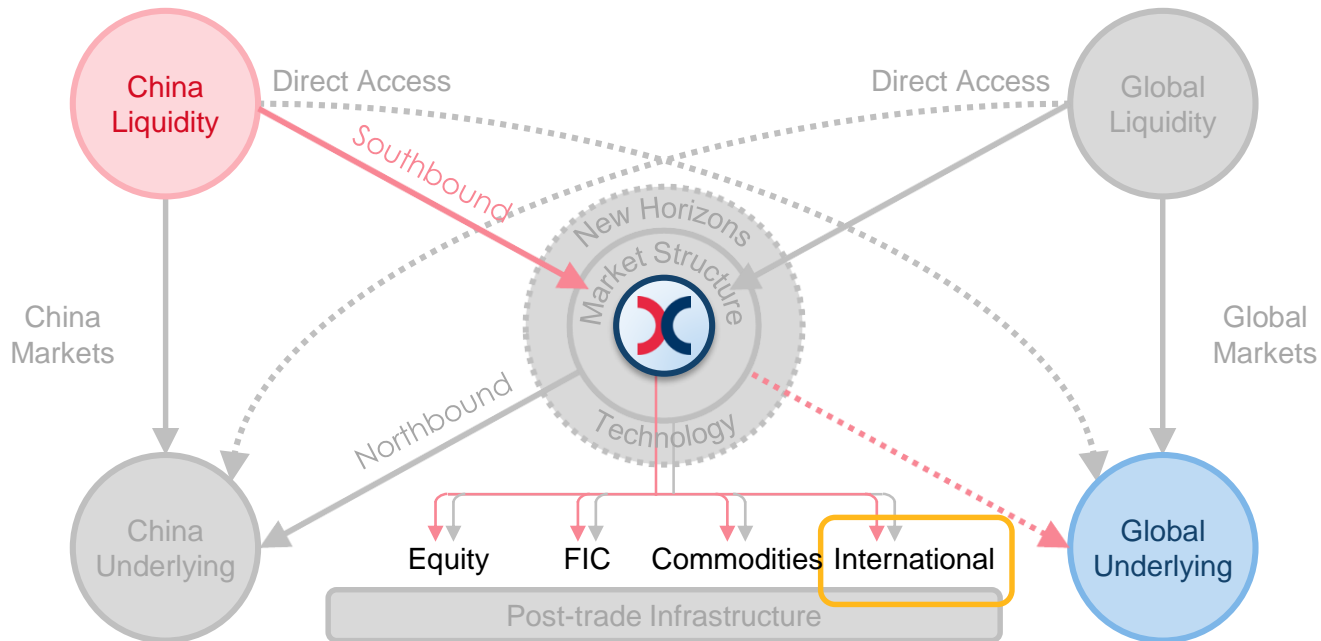
*Facilitate global asset allocation and diversification of China's domestic national wealth*

## Current Status:

- **2014** – Shanghai-Hong Kong Stock Connect
- **2016** – Shenzhen-Hong Kong Stock Connect
- **Today** – Established cross-border access platform for outbound securities investments via the Connect schemes, but largely limited to secondary equities and Mainland / Hong Kong underlying

## What's Next for HKEX:

- Offer gradual access to global underlying to enable Mainland capital's international diversification through secure and transparent channels
- Expand Connect schemes – ETFs, more stocks (including international companies), primary issues, London-Hong Kong Connect, Southbound Bond Connect, linkages to international exchanges
- Enhance capital efficiency of Southbound holdings



# Direct Market Access

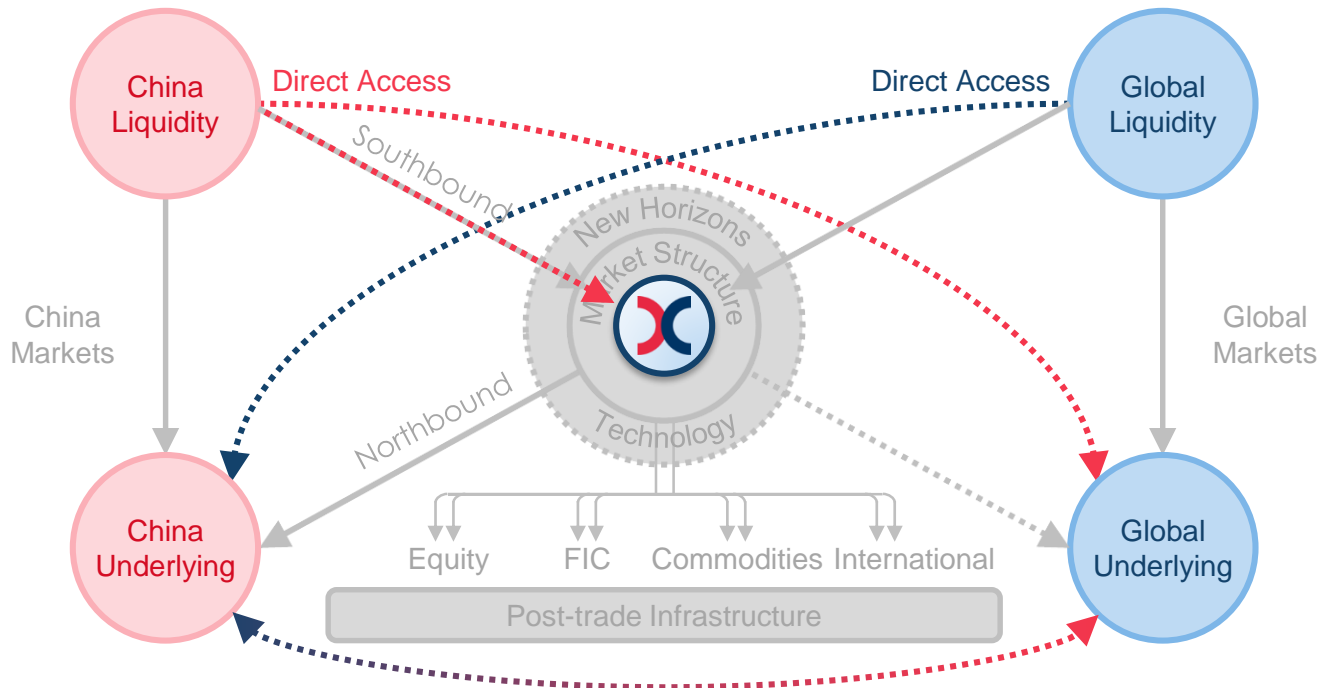
## Complementary to Connect programmes

### Current Status:

- **2000s** – Launch of direct access programmes – QFII, QDII
- **2010s** – Broadened access channels and ongoing reforms – RQFII, CIBM, QFII + RQFII merger
- **QFII:** Will continue to grow but must conform with unique onshore market structures and regulations
- **QDII:** Expected to grow but will continue to be subject to long-term capital control

### What's Next for HKEX:

- Accelerated development of direct access and the Connect programmes are mutually complementary and reinforcing
- Stock Connect / Bond Connect will continue to be important mainstream access channels that are secure, efficient and cost effective



# Modernisation and Exploration

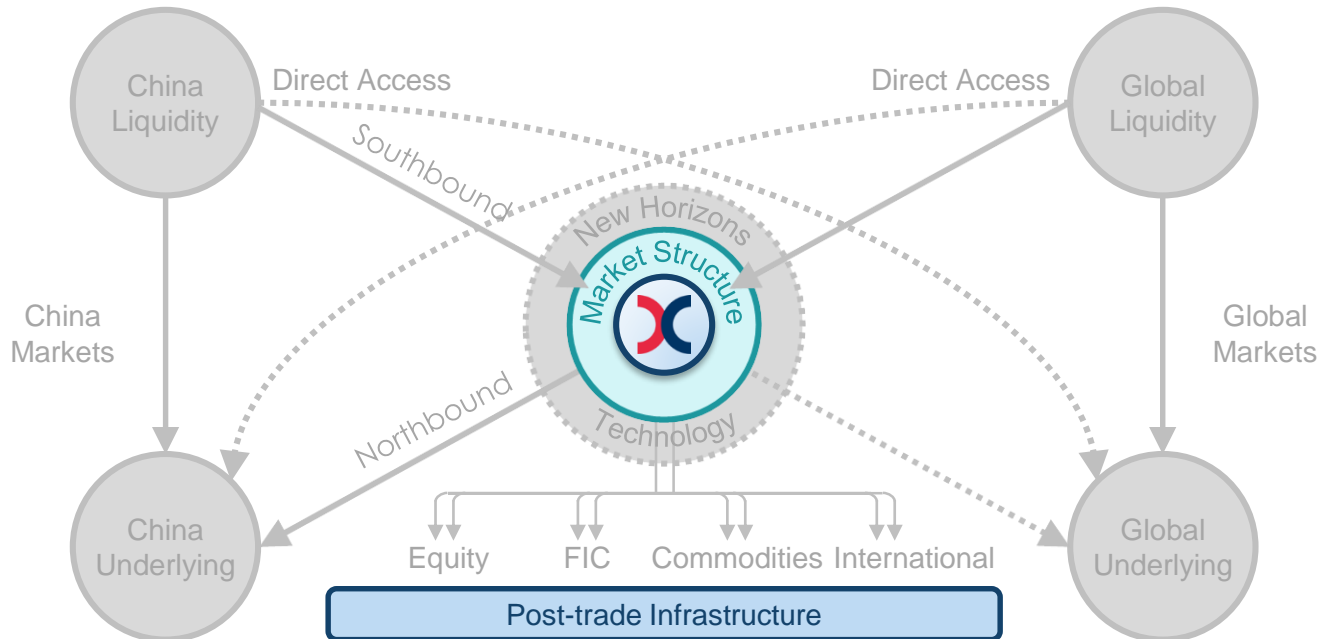
## Accelerate market microstructure reforms and develop post-trade infrastructures

### Current Status:

- Developed a strong base of global and regional institutional investors over time
- Flagship products (HSI futures) and mega IPOs continue to attract liquidity to Hong Kong
- Market structure inadequate for increasingly sophisticated and quantitative investor mix
- Liquidity concentrated in a small number of products and needs to be broadened

### What's Next for HKEX:

- Deepen liquidity across products and asset classes
- Improve our market microstructure to make our markets more competitive and accessible and reduce costs and trading frictions
- Expand post-trade infrastructure to address the cross-border custody and settlement needs of both Mainland and international investors



# Modernisation and Exploration

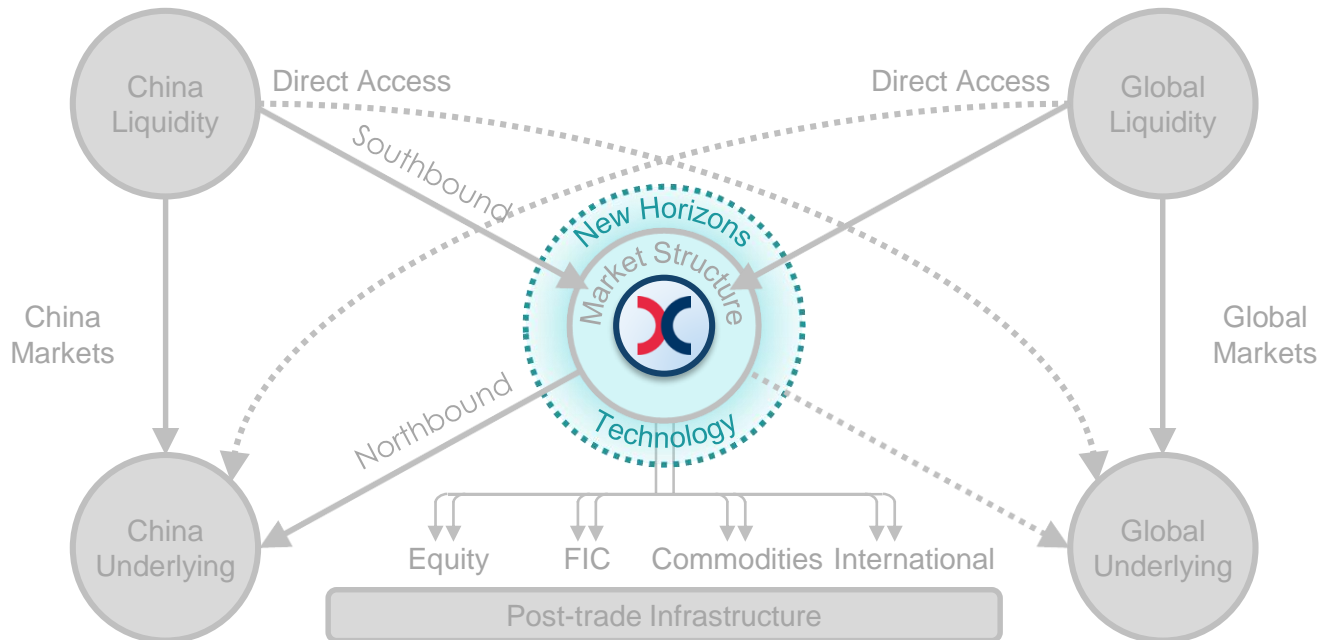
## Technology capability

### Current Status:

- Trading electronification in the 1990s and subsequent upgrades
- Strong track record of operational stability
- Lack culture of innovation amid accelerating technological change
- Disruptive technologies and business models begin to threaten incumbent market players

### What's Next for HKEX:

- Modernise core systems to enhance efficiency and improve client experience
- Expand technology resources through acquisitions or alliances with technology partners – majority investment in Kingdom JV
- Leverage new technologies to venture into growth opportunities and explore new horizons – FinTech and data



# Strategic Plan 2019-2021

## Key Initiatives

### CHINA ANCHORED

- 1 **Expand Northbound capital inflows** by broadening the availability of onshore products and underlying, and through delivering more risk management tools offshore
- 2 **Expand Southbound capital allocation** to facilitate Mainland investors' investment diversification by offering more global underlying
- 3 **Expand post-trade infrastructure** to position Hong Kong as the trusted and secure cross-border trading, settlement, clearing and custody centre, particularly in FICC, and address the capital efficiency needs of both Northbound and Southbound capital

### GLOBALLY CONNECTED

- 1 **Enhance our product ecosystem across asset classes**, providing global liquidity with more comprehensive access to Hong Kong-listed or traded Asia Pacific underlying in addition to our existing offering, and onshore Chinese products through the Connect programmes
- 2 **Improve our market microstructure** to make our markets more globally competitive, cost effective and accessible, in order to enhance overall market liquidity
- 3 **Expand our international footprint further** to broaden and deepen our global operations beyond LME

### TECHNOLOGY EMPOWERED

- 1 **Modernise our core systems** to enhance product and service offerings and improve market and operational efficiency
- 2 **Leverage new technology**, including artificial intelligence, Blockchain, cloud infrastructure, and data analytics, in an agile manner to optimise processes, strengthen client engagement, and engage different parts of our value chain to deliver cost-effective outcomes
- 3 **Expand our horizons** by leveraging our regulatory and market trust and partnering with China's technology leaders to explore and pioneer in completely new frontiers, particularly with respect to data as a new asset class for the financial markets



# Building the Right Organisation and Culture for a Market Leader

## Build the Right Culture

- Promote new group-wide HKEX values and create a shared set of expectations
- Enhance internal communications and employee engagement
- Create an HKEX standard of excellence

Develop a customer-centric and innovative culture

## Invest in Talent Development

- Dedicate further resources to continuous learning and leadership development
- Encourage greater employee mobility to foster 'all rounders'
- Promote a meritocracy that rewards contribution

Nurture the next generation of HKEX leaders

## Engage with External Stakeholders

- Strengthen engagement with government, regulators & international industry bodies
- Focus on CSR and ESG initiatives
- Build a broader global 'fan club' through proactive media and market outreach

Become an influential leader in global markets



## In Summary

*Our vision is to be...*

### ***The Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World***

1

#### **China Anchored**

Support international portfolio diversification by Mainland investors and facilitate further internationalisation of the domestic capital markets through secure, effective and transparent channels across asset classes

2

#### **Globally Connected**

Attract global liquidity to Hong Kong by providing broader and more effective access to Asia Pacific underlying, creating a comprehensive and competitive one-stop shop for China and Asian exposures

3

#### **Technology Empowered**

Leverage technology to modernise our core business and explore new frontiers through strategic partnerships with technology leaders

