STRATEGIC PLAN 2019-2021

The Global Markets Leader in the Asian Time Zone

Connecting China, Connecting the World

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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

1980s | 1990s | 2000s | 2010s | TODAY

Mutual Market Access & Asset Class Expansion

- China connectivity
- FICC expansion
- Listing reforms

Diagram:
- China Liquidity
- Global Liquidity
- China Markets
- Global Markets
- China Underlying
- Global Underlying
- Direct Access
- Southbound
- Northbound
- Equity
- FIC
- Commodities
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

Facilitating China's internationalisation and investment diversification

Leveraging new technology for modernisation and growth

Bringing global liquidity to China and Asia Pacific underlying

China Anchored

Technology Empowered

Globally Connected

China Liquidity

Direct Access

Southbound

Global Liquidity

Direct Access

Global Markets

China Markets

China Underlying

New Horizons

Market Structure

Technology

Equity

FIC

Commodities

International

Post-trade Infrastructure

Globally Connected

China Anchored

Technology Empowered

Bringing global liquidity to China and Asia Pacific underlying
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

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**Diagram Notes:**
- Direct Access
- Southbound
- Northbound
- Equity
- FIC
- Commodities
- International
- Post-trade Infrastructure
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 Participantship
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

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Continue to reform and enhance
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

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

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

Develop a customer-centric and innovative culture
Nurture the next generation of HKEX leaders
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