

*Fourth Round Table on Capital Market Reform in Asia*

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**Room Document 1**

**Securities and Futures Market Reform**

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## **Topic: Securities and Futures Market Reform**

### Brief description

***Reasons for reform.*** The global securities and futures industry is evolving rapidly and exchanges are facing increasing competition from each other and from independent trading systems which bypass traditional exchanges.

***Mergers of securities and derivatives markets.*** Against this background, exchanges worldwide are rethinking their strategies and operations to improve their services, reinforce their competitive position and optimise their performance. Overseas, markets are rapidly integrating vertically and horizontally and developing alliances with other exchanges. Consolidation is the order of the day.

***Market reform for Hong Kong.*** Hong Kong cannot be an exception and stand back from this global challenge. The market consensus was that the reform necessary for Hong Kong would best be achieved by demutualisation, merger and listing of the exchanges and the clearing houses under one single holding company, Hong Kong Exchanges and Clearing Limited (HKEx). This was achieved on 6 March 2000.

***Benefits of the reform.*** The benefits of the reform are many-fold. Internally, consolidation of the exchanges and clearing houses within a single entity brings economies of scale in terms of operational efficiency, savings in infrastructure investment, holistic development of products and services and facilitation of risk management. Externally, it increases the financial strength of HKEx to meet external competition so as to maintain and reinforce Hong Kong's lead as an international financial centre.

***Rationalised Market Regulation and Checks and Balances.*** Following the establishment of HKEx, the regulatory functions originally shared between the exchanges and the Securities and Futures Commission was reviewed with a view to rationalising the division of such functions. The regulatory framework for HKEx to ensure that HKEx's commercial objectives are balanced through effective self-regulation, prevention of monopolistic abuses, excellence in risk management, and shareholding limit.

***Commercial interest vs and public interest.*** Although HKEx is business driven, it recognises that it can best achieve its business objectives by upholding the quality of the markets through investor protection and acting in the best interests of the market users. In circumstances where conflict arises between that interest and the commercial interest of HKEx, the public interest must prevail.