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Plan for market trading during bad weather in HK 'faces real-world test'

By Oswald Chan in Hong Kong

People walk in front of Exchange Square, which houses the Hong Kong Stock Exchange, in Central, Hong Kong, on Jan 5, 2024. (SHAMIM ASHRAF / CHINA DAILY)

From today, the Hong Kong Stock Exchange will implement the market reform proposal to permit the trading of shares and derivative products during extreme weather, including typhoons and severe rainstorms.

It remains to be seen whether this new arrangement can be executed efficiently, and whether it will enhance the competitiveness of Hong Kong’s financial market in the ways that the Hong Kong Special Administrative Region government hopes.

execution of the new trading arrangement to be smooth, as global institutional investors — which contribute most of the Hong Kong stock market's turnover — already have technical experts and market infrastructure in place for computer systems, monitoring the electricity supply and conducting cybersecurity maintenance.

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Hong Kong's Financial Services and the Treasury Bureau estimates that there are currently over 500 exchange participants operating in the Hong Kong market, with some of them being small and medium-sized stock exchange brokerage firms.

Mak said he expects that the new stock market trading arrangement could affect these small and medium-sized stockbrokerage firms, since they have fewer technical employees and computer systems, which may not have been upgraded. "These brokerage firms may suffer further business losses if they prove unable to offer trading services during trading days in extreme weather."

Potential challenges

Mofiz Chan, chairman of the Hong Kong Securities and Futures Professionals Association, said the Hong Kong Stock Exchange should consider the issues of margin financing, information asymmetry, technical challenges and psychological factors in implementing the market reform.

When bank branches are closed for business during severe weather, Chan said, margin-trading investors may find it difficult to deposit funds in a timely manner. If this happens, they may suffer huge losses.

During severe weather, investor relations teams at listed companies may not respond swiftly to stock price fluctuations, creating information imbalances, Chan said. If investors do not have access to timely and accurate information, they may trade shares irrationally, which could increase market volatility.

During storms or typhoons, electronic trading systems may face technical challenges such as unstable networks and system failures that could lead to delays or failures in trading, Chan added. Adverse weather conditions may also impact investors' psychological state, leading to panic selling or excessive

“The fact that clients in the securities industry could execute buy and sell orders during the COVID-19 pandemic is not a predictor that the same scenario will happen under severe weather conditions, as electronic trading systems can face technical challenges,” Chan told China Daily.

“The previous market rehearsals were not conducted in severe weather conditions, so the effectiveness of the new measure remains to be seen,” Chan warned.

The administration announced the market reform in June, hoping it would enhance the competitiveness of the financial market in the city and boost the liquidity of the Hong Kong stock market. Following a two-month consultation and marketwide testing conducted by Hong Kong Exchanges and Clearing, the new initiative takes effect today. Since 2018, severe weather conditions have caused 11 market closures in Hong Kong, four of which occurred last year.

To facilitate this market reform, employers at large and small brokerage firms should make preparations with reference to the relevant codes of practice to ensure they have the right number of employees, suitable work arrangements, and support measures such as transportation, safety measures and insurance coverage in place, so they can operate during severe weather.

The HKEX will, until the end of the year, settle any outstanding payment obligations during severe-weather trading days on behalf of eligible brokerage firms; also, designated banks and settlement banks of relevant clearinghouses in Hong Kong will provide e-cheque clearing and electronic money transfer services.

Prospective benefits

As the implementation of the market reform will provide information transparency that can reduce uncertainty, and that facilitates trading arrangements, Mak said the new trading regime will benefit various stakeholders in the stock market.

“It will benefit listed companies if they want to conduct refinancing, after initial public offering. When more listed companies conduct refinancing, it should also bolster the business of investment banks. Institutional and retail investors’ welfare can also be enhanced when they can have more trading

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In addition to the market reform, Mak said, Hong Kong stock market liquidity can also be boosted through introducing digital holdings of equities in the domestic securities transactions clearance system, expanding the number of Hong Kong-listed stocks in the dual-currency trading counter, and allowing Chinese mainland investors to use renminbi to trade Hong Kong-listed securities through the Shanghai/Shenzhen-Hong Kong Stock Connect.

“The shrinking market liquidity of the Hong Kong equity market reflects geopolitical tensions and the policies of the US government since 2018, such as restricting American corporations and investors from investing in mainland technology shares,” Mak said. “The bulk of the Hong Kong stock market turnover mainly comes from American, Asian, European and mainland investors, accounting for approximately 60 to 70 percent of the total stock market turnover.”

Chan said, “If opening the stock market during bad weather conditions were equivalent to enhancing market liquidity, the broader implications would be overlooked.”

“It is well-known that the current Hong Kong stock market faces challenges due to geopolitical factors and overly stringent compliance policies from regulatory bodies over the past few years, related to margin financing, listing, and refinancing,” he added.

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