37th IOSCO Annual Conference –

# Presentation for Panel Four
## Regulation of Commodity Futures and Financial Derivatives


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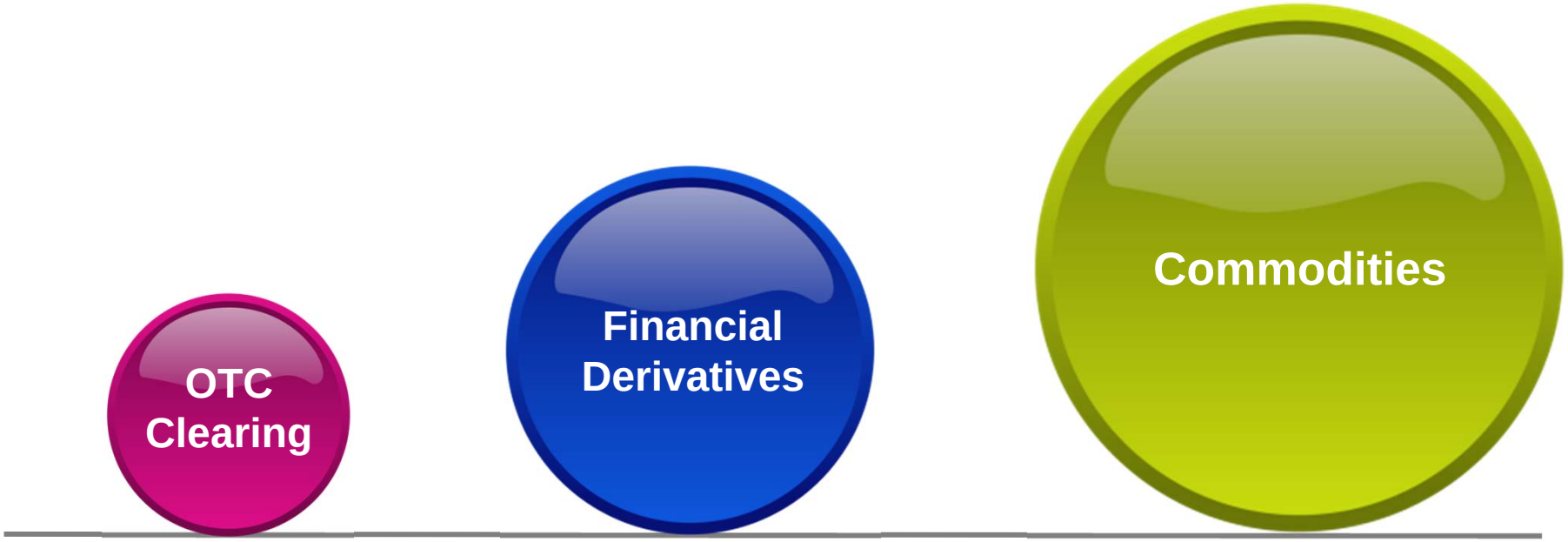
# HKEX's Strategic Vision of Developing Financial/Commodities Derivatives

- HKEx strives to be the China exchange of choice for global market participants and the international exchange of choice for Greater China market participants
- The rapid development of RMB Internationalisation gives HKEx the historic opportunity to move beyond equities

**Equities** → **Fixed Income & Currency** → **Commodities**

# Opportunities in Financial/Commodities Derivatives




***Offshore RMB will be the transformational driver***

# Hong Kong's OTC Clearing
## *Harmonize "Global" and "Local/Mainland" Needs*

- ✓ **Product Differentials** – RMB IRS/NDF
  - First mover on RMB denominated products to reinforce offshore RMB centre
- ✓ **Balanced Members** – Direct participation of international banks, Mainland banks, local and regional banks to level the playing field
- ✓ **Shareholder Structure** – Considering and inviting selected G16 & Mainland Banks as founding members
- ✓ **CPSS-IOSCO Compliance** – Risk management framework to align with global standards
- ✓ **Fee Structure** – Competitive pricing and rebates
- ✓ **Regulatory Regime** – Systemically important OTC derivatives to be cleared by a well-regulated domestic CCP

# Developing RMB Financial Derivatives

**Recent Development of Offshore RMB Products**

**Oct 2010**
Listing of the first RMB bond – Asian Development Bank

**Apr 2011**
Listing of the first RMB REIT – Hui Xian REIT (RMB10.5 bil)

**Aug 2011**
RQFII investment programme announced

**Jan 2012**
Launch of RMB Trading Support Facility (TSF)

**Feb 2012**
First RMB Gold ETF listed – Hang Seng RMB Gold ETF

**2011 2011 2012 . . .**

**Offshore RMB Financial Derivatives**

## RMB Currency Futures

- USD/CNY deliverable futures
- It will be an anchor for other offshore RMB products
  - ✓ Headging FX risk on RMB
  - ✓ New investment tools on RMB with leverage
  - ✓ Price transparency
  - ✓ Reduced counterparty risk
  - ✓ Facilitating clients without credit lines

**RMB FX Derivatives Products & Bond Index Product**

**FX Basket Index & Bond Products**

**Money Market Derivatives Products**

# Commodities Derivatives –
## *Hong Kong's Value Proposition*

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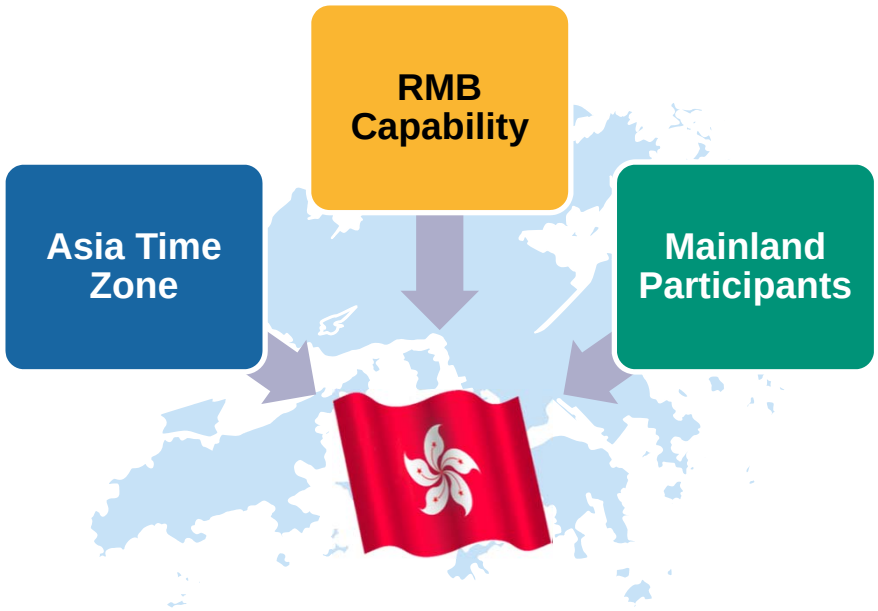
**Current Needs in Mainland Commodities Market**

- Mainland players not yet major participants of international exchanges
- Most offshore risk management done outside Asia
- No offshore RMB commodities futures trading or clearing
- Limited offshore liquidity during Asia trading hours

**Hong Kong's Value Proposition**



# HKEx's Recent Initiatives on Infrastructure –
## *Sound Infrastructure to Support Strategic Vision*

**Risk Management**

- **In response to 2008 financial crisis and global regulatory trend, HKEx reviewed and enhanced its clearing houses' risk management measures in 2011-2012**
- **Key Measures:**
  - **HKSCC: Introduce Margining and Dynamic Guarantee Fund and relevant credits**
  - **HKCC: Revise Reserve Fund collateral assumption and introduce HKCC Contingent Advance Capital**
  - **SEOCH: Revise Reserve Fund collateral assumption**

**Price Discovery**

- **Increasing number of cross market listings, especially for Mainland-related companies, calls for further alignment between the two markets**
- **Extended trading hours – Improving the price discovery function for Mainland-related securities by increasing the overlap of trading hours with the Mainland exchanges**

***HKEx strives to continue maintaining high standard of market quality by working closely with regulators and IOSCO***

# Thank You

**HKEx Website: www.hkex.com.hk**
**HKExnews Website: www.hkexnews.hk**

# Appendix: Clearing Houses Risk Management Reform

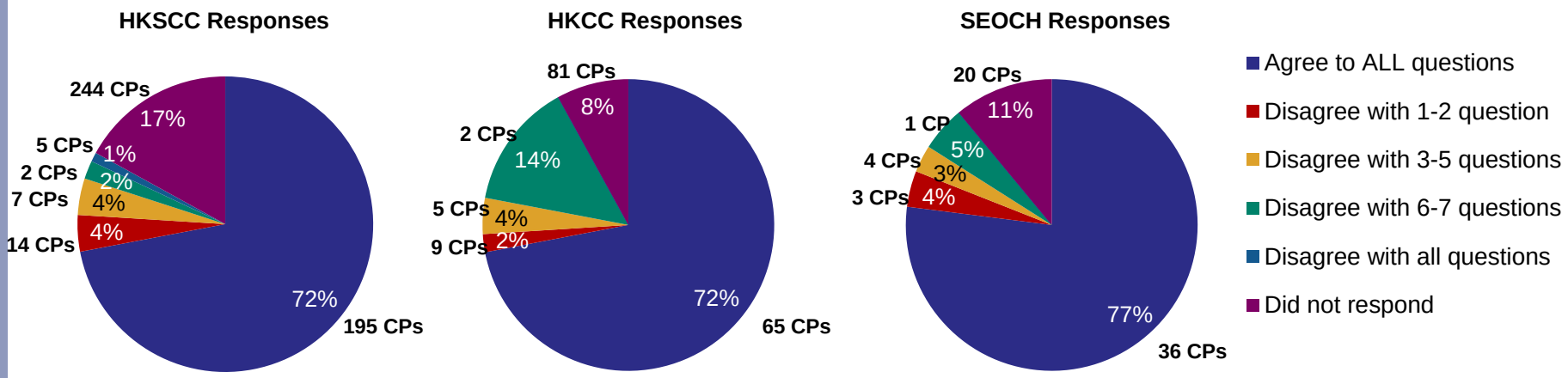
## Why

- 2008 global financial crisis
- Robustness of clearing houses crucial to stability and competitiveness of Hong Kong financial market
- A global trend to review and tighten risk management standards
- Enhancing IOSCO compliance and meeting evolving market conditions

## Key Proposals

- Revise clearing houses' stress testing assumptions
- HKSCC: Introduce Margining and Dynamic Guarantee Fund and relevant credits
- HKCC: Revise Reserve Fund collateral assumption and introduce HKCC Contingent Advance Capital
- SEOCH: Revise Reserve Fund collateral assumption

***Market Response by Market Share***




***Target to implement in Q2-Q3 2012***