Is the ETF ecosystem sophisticated enough to effectively respond to future challenges, such as the expected increase in demand and competition in a post ETF Connect market structure?

The technological landscape of the ETF market is a result of Hong Kong’s existing aversion to risk and change. Hong Kong has seen to be less competitive and innovative, and in some respects relies on the long-established setup, settlement and distribution systems.

This presents operational challenges and barriers to increase efficiencies within the ecosystem, although a number of these challenges are deemed to be beyond the control of issuers and investors. This includes the prevalent and continued reliance on faxes as the official recognized method for confirmation and authorization of transactions (particularly for ETF redemptions and subscriptions). This results in operational inefficiencies for ETF issuers and service providers alike, given the manual processes they have to accommodate within their internal technology advancement efforts. Additionally, the increased transaction processing lead time is seen as a challenge to market liquidity, hampering Hong Kong’s ability to efficiently respond to market demands.

There is a recognition by the market that Hong Kong cannot revolutionize its processes and platforms overnight; however, various market participants are taking steps to streamline and upgrade internal systems to enable a more efficient ecosystem. What role can the Securities and Futures Commission (SFC) and the Hong Kong Stock Exchange (HKEX) play to drive this change?

Other APAC markets are at the forefront of leveraging technology advancements to drive and enable market growth. In Australia, Blockchain is being explored as a settlement mechanism - this is expected to be a growth accelerator within the ecosystem, and should generate significant efficiencies in transactions through shortening execution time frame.

Closer to home, the rapid growth of FinTech fund management disruptors such as Alibaba and Tencent in Mainland China has significantly contributed to market growth and should serve as a wakeup call to the Hong Kong market, particularly with the expected connectivity of both markets through ETF Connect.

The expectation of Mainland Chinese investors on Hong Kong ETF managers and service providers in meeting the service quality and delivery timeline they are familiar with, may force rapid acceleration in technological advancements within the Hong Kong market.

The Hong Kong ETF market as an ecosystem will need to forego its aversion to change and leverage innovative technologies to upgrade its systems and processes in order to maximize benefits from the upcoming ETF Connect, effectively capture the projected increase in ETF demands and achieve its future growth expectations.
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