



恒生投資

HANG SENG INVESTMENT

Catalysing Growth:
Understanding Hong Kong's
ETF Market Landscape



JUNE 2025

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Foreword

“ The development of the Exchange-Traded Fund (ETF) market in Hong Kong is a subject of considerable interest. I commend Hang Seng Investment (HSVM) for their initiative in conducting research aimed at advancing the local ETF market, as the adviser of this ETF research for almost two years.

While Hong Kong has positioned itself as a key player in the Asia Pacific (APAC) region, the faster growth of ETF markets in other APAC markets relative to Hong Kong in recent years highlights the need for strategic reflection and action. By analysing the successful approach of other markets, we can glean insights that may brighten the future of Hong Kong's ETF ecosystem. HSVM's recommendations, which focus on optimising macro-policy, strengthening the micro-ETF ecosystem, and enhancing investor education and engagement, provide a thoughtful framework for realising the growth potential of Hong Kong's ETF market.

This paper serves as a valuable resource for stakeholders and encourages a collaborative effort to explore ways to enrich the ETF landscape in Hong Kong, ultimately contributing to its development and sustainability. This paper also provides good insights for the younger generation to better understand today's Hong Kong's ETF market.

”

Professor Kalok Chan

Chair Professor of Finance

City University of Hong Kong

Preface



As Hong Kong's leading ETF issuer, HSVM recognises both the opportunity and the responsibility to champion the long-term resilience and evolution of this vital ecosystem. This comprehensive market research underscores our steadfast commitment to reinforcing Hong Kong's status as a premier global financial hub – one that fosters a vibrant, inclusive, innovative, and sustainable ETF market for the future.

Hong Kong's unique role as the "super connector" bridging mainland China with global capital markets is foundational to this vision. By facilitating cross-border capital flows and accelerating the internationalisation of local ETF products, Hong Kong not only links regional opportunities with worldwide demand but also propels the entire APAC market forward. To ensure this gateway grows even stronger, we initiated this pivotal study – beginning with a deep assessment of Hong Kong's ETF landscape, expanding into comparative analyses of key APAC markets, and enriching our findings through structured dialogues with industry stakeholders.

Today, we proudly present this complete research report, culminating in actionable strategic recommendations. We believe these insights will meaningfully contribute to Hong Kong's ETF development, and amplify our city's capacity to connect East and West.

I extend my deepest gratitude to our dedicated team, whose expertise and unwavering commitment brought this ambitious project to fruition. Equally, we thank the numerous external stakeholders whose candid insights and collaborative spirit were indispensable to the depth and rigor of this work. This report stands as a testament to our collective dedication to excellence and our shared ambition for Hong Kong's future.

Together, we are not just observing the evolution of the ETF market – we are actively shaping its dynamic future.



Rosita Lee

Director and Chief Executive Officer
Hang Seng Investment

Introduction

Hang Seng Investment Management Limited (HSVM) is a wholly owned subsidiary of Hang Seng Bank, a bank founded in Hong Kong in 1933. As one of the largest home-grown asset management firms in Hong Kong, HSVM is a pioneer in indexing solutions with more than 30 years of portfolio management experience. Since 2022, HSVM has managed The Tracker Fund of Hong Kong (TraHK). Currently, HSVM is the largest ETF manager in Hong Kong, with a more than 35% market share by Assets Under Management (AUM)¹.

As the ETF market leader in Hong Kong, it is in HSVM's interest to align with the further development and growth of the ETF industry in this market. The aim is to draw insights from other APAC ETF markets to identify strategies and solutions that could enhance Hong Kong's ETF landscape going forward. This research will examine the characteristics of different APAC markets and the factors contributing to their success. The findings may provide valuable information for key ETF stakeholders, including policymakers, ETF issuers and market participants, to consider potential strategies for enhancing the Hong Kong ETF market ecosystem and capitalising on the emerging opportunities in this rapidly evolving market.

For ease of communication, a few assumptions are made in this research:

- The term "ETF" is used generically to refer to all types of Exchange-Traded Products (ETPs), including ETFs, and Leveraged and Inverse (L&I) products.
- "Indexing" investments refer to passive investments that aim to track the performance of underlying benchmarks as closely as possible in a systematic way, rather than outperform them, as is typical with active investments.
- Given that active ETFs currently represent a small segment of the overall ETF market in Hong Kong, ETFs are broadly categorised as indexing investments.

¹ Source: HSVM, as of 30 Apr 2025

Executive Summary

Research Goals

1. As the largest home-grown ETF manager in Hong Kong, HSVM has undertaken this research to examine the APAC ETF market. The aim is to identify strategies and solutions that could enhance Hong Kong's ETF landscape going forward.
2. While the global ETF market has witnessed a remarkable surge in popularity, with the APAC region growing fast and boasting a 10-year Compound Annual Growth Rate (CAGR) of 22%, Hong Kong's ETF market has shown a modest trajectory with a 5.3% CAGR. Japan remained the largest ETF market in APAC over the past decade, followed by mainland China. Markets such as India, mainland China, and Taiwan had particularly strong CAGRs of 46%, 33%, and 42%, respectively.

ETFs in Hong Kong

3. Hong Kong has carved a niche for itself as one of the prominent ETF markets in the APAC region, characterised by a diverse array of ETF products, deep liquidity, and its vital role as a "super-connector" to mainland China. The city's ETF ecosystem achieved record-breaking turnover, with average daily turnover (ADT) for ETFs reaching US\$3.5 billion for the year ended April 2025. However, Hong Kong's ETF AUM of US\$62 billion as of April 2025 represents merely 1.1% of the Main Board's market capitalisation, indicating significant growth potential.
4. Despite a steady growth in AUM over the past decade for Hong Kong's ETF market, its market share in the APAC ETF AUM has declined from 42% in December 2008 to 3.3% by April 2025. While the growth of other markets is primarily driving this trend rather than a decline in Hong Kong, it is important to examine the successes of other APAC Markets. This analysis can help identify ways to elevate the potential of Hong Kong's ETF market to the next level.

Key observations from comparative APAC market analysis

Liquidity & Trading Behaviour

5. Mainland China stands out as the most liquid market in the APAC region. The findings suggest investors from mainland China, Hong Kong, and Korea ("South Korea" referred to as "Korea" here and henceforth for simplicity) generally show a stronger preference for trading ETFs with a focus on short-term horizons, while investors from Japan, Taiwan, and Australia tend to adopt a buy-and-hold approach.

Ownership Structure

6. Retail investors account for more than half the asset ownership in the ETF markets of Taiwan and Australia, partly due to the presence of online financial influencers and thematic ETFs. In contrast, institutional investors play a dominant role in Hong Kong, Japan, and India, often supported by national or regional pension schemes. Research conducted by the Investor and Financial Education Council (IFEC) indicates that only 2% of retail investors in Hong Kong have experience investing in an ETF, highlighting limited knowledge and awareness.

Product Mix

- Equity ETFs are the predominant type in most APAC markets, typically tracking local indices of their respective markets. Taiwan is an exception, where nearly half (48%) of its ETF assets are held in fixed income, making it the largest bond ETF market in APAC. L&I products account for 5.5% of total ETF assets in Hong Kong and 5.2% in Korea.

ETF Policy Support

- The research notes various favourable policies towards ETFs across APAC. These include fee waivers and tax benefits in Korea and Taiwan; pension fund integration in India and Japan (previously through Bank of Japan (BOJ) purchases and currently via Nippon Individual Savings Account (NISA)); and, schemes such as Hong Kong's ETF Connect. Australia has implemented trading fee rebates for market makers and supportive legislation for providing retail advice. Mainland China has shown significant government support for ETFs, particularly those aligned with national strategic sectors.

Recommendations:

- A multi-faceted strategic approach is proposed to catalyse the next phase of growth in Hong Kong's ETF market, structured around three core pillars: A) Optimizing Macro-Support for Overall Market Development; B) Strengthening the Micro-Level ETF Ecosystem; and C) Investor Education and Engagement.

A. Optimising Macro-Support for Overall Market Development

Recommendation 1: Promoting ETFs on the Mandatory Provident Fund (MPF) system

- Promoting ETFs on the MPF system by increasing the proportion of indexing investments within the Default Investment Strategy (DIS) provides MPF members with more flexible, transparent, and cost-effective retirement solutions. Consider adding more lifecycle tiers to DIS as that would provide greater capacity to include a more diverse range of ETFs or indexing funds tailored to different age groups.

Recommendation 2: Enhancing the Tax-Deductible Programme by Adding Long-term ETF Investments

- Leverage Hong Kong's Tax-Deductible Programme, by adding long-term ETF investments to the existing Qualifying Deferred Annuity Policies (QDAP) and MPF Tax-Deductible Voluntary Contributions (TVC) quota. Consider doubling this quota to HK\$120,000 per year, as that would promote future investment and simultaneously boost the ETF market's AUM.

Recommendation 3: Expanding Cross-Border Connectivity

- Enlarge and deepen cross-border schemes, particularly ETF Connect with mainland China, as they are significant strategic assets for Hong Kong. The cross-listing of Hong Kong ETFs in Saudi Arabia shows there is potential to promote the city as a central and highly efficient node within the broader Asian financial ecosystem. Efforts to promote Hong Kong as an international hub for ETFs should be intensified.

B. Strengthening the Micro-Level ETF Ecosystem

Recommendation 4: Market-Making Enhancements

13. Review and refine market-making measures to ensure deep liquidity across a wide range of ETFs. As the ETF trading landscape in Hong Kong is highly concentrated, it is recommended that authorities explore a market-making incentive programme to enhance trading in thinly traded and newly launched ETFs.

Recommendation 5: Enabling Narrower Spreads

14. Consider enhancing market efficiency through measures that help to tighten bid-ask spreads. It is recommended to proceed with the planned reduction in minimum spreads for eligible securities² and rigorously assess its impact on trading costs and market quality, remaining open to further adjustments if deemed beneficial.

Recommendation 6: Digitising ETF Creation and Redemption

15. Expedite and fully implement the planned digitisation of the ETF creation and redemption process³. Digitisation is a crucial step to improve operational efficiency, reduce costs for market participants, and directly address a key challenge that has been identified in the broader Asian primary markets.

Recommendation 7: Improving Settlement Efficiency

16. Proactively explore initiatives to further improve settlement efficiency. This is important against a backdrop of potential global shifts toward shorter settlement cycles (e.g., T+1), and has been a significant concern for APAC markets due to time-zone differences and pre-funding requirements⁴.

C. Enhancing Investor Education and Engagement

Recommendation 8: Developing Comprehensive Financial Literacy Programmes

17. Develop and implement multi-channel, targeted ETF education campaigns, as a well-informed investor base is fundamental to a healthy and sustainable ETF market. Education and retail participation have been found to be directly correlated. These campaigns should be a collaborative effort involving the authorities, ETF issuers, and academic institutions.

Recommendation 9: Enhancing Clarity and Standardisation of ETF Product Information

18. Improve clarity and standardisation of ETF product information, ensuring ease of understanding and transparency in costs, including the differentiation between index and active investments, the Total Expense Ratios (TERs) and the Total Cost of Ownership (TCO). Providing clear product information and making decision-supporting tools accessible can significantly reduce information asymmetry between ETF providers and retail investors.

² Source: HKEX in 2024: Year in Review, as of Dec 2024

³ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

⁴ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

Recommendation 10: Fostering Continual Product Innovation

19. Foster further ETF product innovation aligned with global trends and Hong Kong's unique strengths, giving access to different asset classes and thematic ETFs, as well as an opportunity for international diversification. This can be achieved through active participation by ETF market stakeholders, including policymakers and issuers.

The Path Forward

20. It is anticipated that the successful implementation of these recommendations will create a virtuous cycle. That could not only propel the ETF market to new heights, but also enhance the breadth and depth of Hong Kong's market liquidity and efficiency, solidify its role as an International Financial Centre, support the wealth management industry, and contribute positively to the broader financial ecosystem and economic wellbeing of society.

Chapter 1:
An Overview of the APAC
ETF Market



1.1 Introduction

- 1.1.1. Over the past decade, indexing or passive investments with a specific focus on ETFs have witnessed a remarkable surge in popularity. ETFs have emerged as a vehicle offering exposure to diversified asset classes and investment strategies. Globally, the growth in AUM for ETFs has been nothing short of exponential. By April 2025, the total count of ETF listings worldwide had reached 14,013, or 2.5 times the number of global ETF listings in 2015⁵. Concurrently, the global ETF AUM has soared from approximately US\$3 trillion in 2015 to US\$15 trillion as of April 2025, an impressive five-fold⁶ growth.
- 1.1.2. Within the APAC region, the total count of ETF listings has reached 4,228, accounting for more than 30% of the global ETF issuance. AUM stood at US\$1.9 trillion as of April 2025, representing 13% of global AUM. Remarkably, the ETF growth in the APAC has surpassed the global market growth rate. The region's 10-year CAGR of 22% compares with 18% for the global market, highlighting the region's potential for further expansion as financial markets continue to mature.
- 1.1.3. Within APAC, Hong Kong has carved a niche for itself as a prominent ETF market. It boasts a diverse array of ETF products underpinned by deep liquidity, and has successfully attracted internationally renowned issuers, market makers, and investors. Serving as a vital gateway and a "super-connector" linking mainland China to the global financial landscape, Hong Kong has leveraged its favourable tax, legal, and regulatory frameworks to its advantage.
- 1.1.4. Hong Kong's ETF market stands as a dynamic and rapidly evolving segment of its broader financial services industry, following significant achievements in recent years. For five consecutive years leading into 2025, Hong Kong's ETF ecosystem posted record ADT, a testament to sustained industry efforts to create a conducive environment for greater liquidity and diverse investment opportunities⁷. For the year ended April 2025, the ADT for ETFs reached US\$3.5 billion, a 228% increase year-on-year⁸ increase. The number of ETFs listed on the Hong Kong stock exchange (HKEX) also saw significant growth, rising from 128 at the end of 2020 to 193 by April 2025. Yet, as of April 2025, the market capitalisation of ETFs listed in Hong Kong totaled US\$62 billion, merely 1.1% of that of the stock exchange's Main Board⁹.
- 1.1.5. While Hong Kong's ETF market development is underpinned by key strengths and well-established enablers that provide a solid foundation, it has further potential to grow and remain a leading regional hub for ETFs. The next section of this research report provides a comparative analysis of the APAC ETF market, serving as the foundational backdrop for our examination of Hong Kong's ETF market. This research aims to identify successful narratives from other APAC ETF markets, and provide a forward-looking analysis of the Hong Kong ETF market's prospects and potential trajectory.

⁵ Source: ETFGI, as of Apr 2025

⁶ Source: ETFGI, as of Apr 2025

⁷ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

⁸ Source: HKEX in 2024: Year in Review, as of Dec 2024

⁹ Source: HKEX, ETFGI, as of Mar 2025

1.2 Comparative Analysis of Leading Markets

This section provides a comparative analysis of ETFs in APAC's seven leading markets:

- Hong Kong
- Mainland China
- Japan
- Taiwan
- Australia
- Korea, and
- India

History

- 1.2.2. Setting the stage for a deep dive into the ETF market's development across these seven regional markets, a table listing the inaugural domestic ETF in each market is presented below. A look at the inception of ETFs in each market allows for a more comprehensive assessment of their growth trajectories.
- 1.2.3. Japan and Hong Kong were the first two markets to introduce ETFs in the APAC. A commonality between them was that ETFs were used as a tool to stabilise sentiment in both markets. The Nikkei 300 Stock Index ETF (TSE: 1319) made its debut during a period of market chaos. The Nikkei stock average had plummeted 60% from its peak of 38,915 points in 1989 to a low of 15,000 in 1992. Consequently, the ETF was introduced in 1995 to stabilise market sentiment and revitalise the subdued Japanese stock market.
- 1.2.4. Similarly, the Tracker Fund of Hong Kong (2800.HK) was launched in 1999 in response to the Asian Financial Crisis. Its purpose was to restore market confidence and stabilise the performance of the Hang Seng Index.
- 1.2.5. The successful introduction of ETFs in Japan and Hong Kong paved the way for widespread adoption across other APAC markets. Subsequently, ETFs were quickly launched in Australia (2001), India (2001), Korea (2002), Taiwan (2003) and mainland China (2004). This marked the beginning of the robust growth in their ETF assets over the following two decades.
- 1.2.6. It is worth noting that the world's first ETF was issued in Canada in 1990. The first domestic ETF in the US was issued in 1993, six years prior to the inaugural ETF issuance in Hong Kong.

Table 1.1: First Domestic ETF in Leading APAC Markets

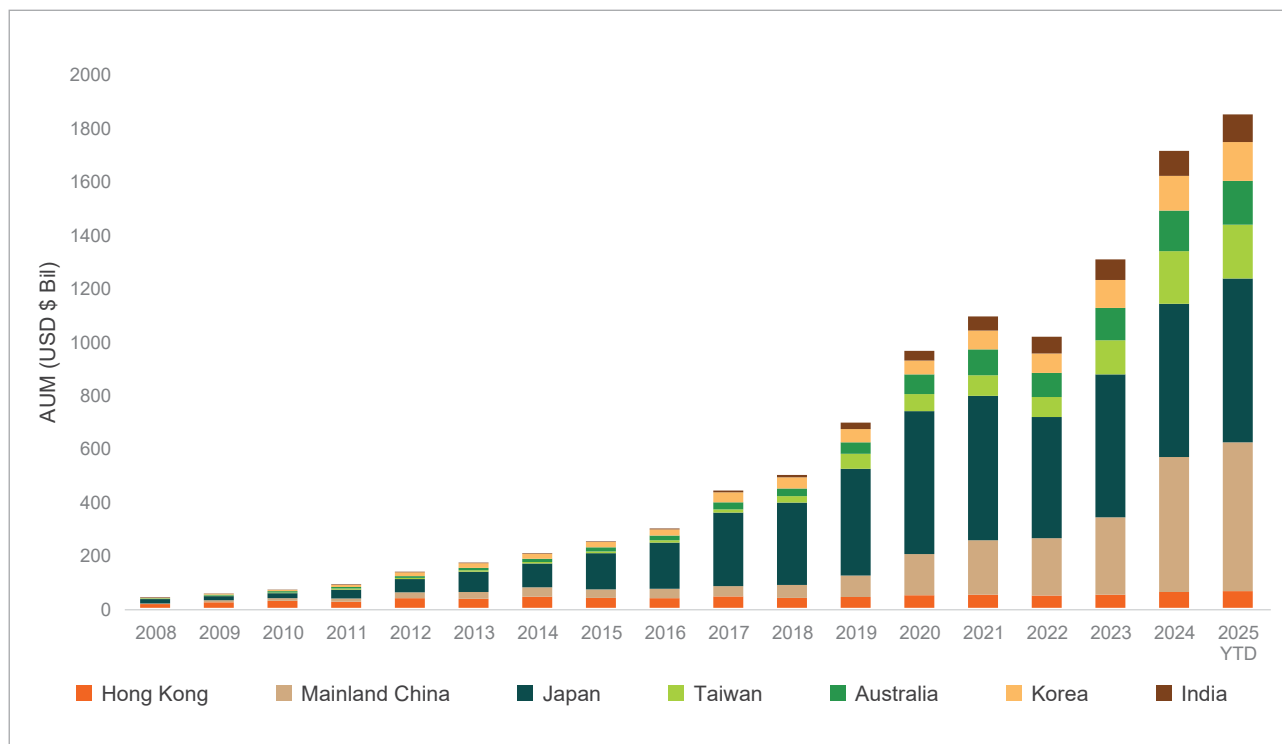
Listing Year of the ETF	Market	Name of the First Domestic ETF	Current Issuer / Fund Manager
APAC Markets			
1995	Japan	NEXT FUNDS Nikkei 300 ETF (Former: Nomura Nikkei 300 ETF)	Nomura Asset Management
1999	Hong Kong	The Tracker Fund of Hong Kong	Hang Seng Investment Management Limited
2001	Australia	SPDR S&P / ASX 200 Fund	State Street Global Advisors, Australia, Limited
2001	India	Nippon India ETF Nifty 50 Bees (Former: Nippon India ETF Nifty BeES)	Nippon India Mutual Fund
2002	Korea	Samsung KODEX 200 ETF	Samsung Asset Management
2003	Taiwan	Yuanta / P-shares Taiwan Top 50 ETF	Yuanta Securities Investment Trust Co., Ltd.
2004	Mainland China	ChinaAMC SSE 50 ETF	China Asset Management Co., Ltd.
Other Markets			
1990	Canada	iShares S&P/ TSX 60 Index ETF (Former: The Toronto 35 Index Participation Units)	BlackRock Asset Management Canada Limited
1993	United States	SPDR S&P 500 ETF (SPY)	State Street Global Advisors
2000	Europe & UK	iShares Stoxx Europe 50 UCITs ETF iShares Euro Stoxx 50 UCITs ETF	Blackrock Asset Management Ireland Limited

Source: HSVM, as of Apr 2025

Assets Under Management

1.2.7. As of April 2025, the seven markets – namely Hong Kong, mainland China, Japan, Taiwan, Australia, Korea, and India – collectively represented almost 99% of the AUM in the APAC. However, despite their significant presence in the ETF market, they accounted for a mere 5.7% of their combined market capitalisation. In the US, ETFs' AUM accounted for 18% of the overall market capitalisation. ETFs' smaller share of market capitalisation in these seven markets suggests there is still ample room for expansion. It also highlights the significant growth potential of the region as index investing continues to mature.

Chart 1.1: AUM of leading Asia Pacific ETF markets (2008-2025)



Source: ETFGI, as of Apr 2025.

1.2.8. Japan remained the largest ETF market in the APAC over the past decade, with an AUM of US\$614 billion as of April 2025. This was followed by mainland China, which has emerged as the region's second-largest ETF market, despite entering the market relatively late. As of April 2025, mainland China ETFs boasted an impressive AUM of US\$557 billion, representing 30% of the total AUM in the APAC ETF market.

1.2.9. The APAC ETF market had a remarkable CAGR of 22% over the past decade. India, mainland China, and Taiwan outperformed the overall APAC market growth, with CAGRs of 46%, 33% and 42% respectively. Hong Kong, one of the pioneering markets in the ETF industry, maintained a steady and stable growth trajectory, evidenced by a CAGR of 5.3% over the past 10 years. Its decline in market share, accounting for 3.3% of the APAC market as of April 2025 (compared to 42% in December 2008), was primarily a result of more robust growth in other markets, rather than a deterioration of its own growth rate. An analysis of the factors contributing to the strong growth in other APAC markets provides valuable insights into their success.

1.2.10. To gain a deeper understanding of investor preferences and ETF landscapes in various markets, it is essential to analyse the market share of their largest ETFs. The findings presented in the table below show that AUMs in Hong Kong and Japan have a higher concentration in the largest ETF in the respective markets, with market shares of 28% and 26%, respectively. In contrast, most other markets demonstrated a more diversified investing pattern, with only single-digit market shares for their largest ETFs.

Table 1.2: Market Share of Largest ETF by Markets

Market	Largest ETF	Largest ETF AUM (US\$ Mn)	ETF Market AUM (US\$ Mn)	Market Share
APAC Markets				
Hong Kong	Tracker Fund of Hong Kong	17,102	61,798	28%
Japan	NEXT FUNDS TOPIX Exchange Traded Fund	162,295	614,264	26%
India	SBI-ETF Nifty 50 - Acc	23,140	103,032	22%
Mainland China	Huatai-Pinebridge CSI 300 ETF	51,302	556,744	9.2%
Taiwan	Yuanta/P-shares Taiwan Top 50 ETF	15,699	200,776	7.8%
Australia	Vanguard Australian Shares Index ETF	12,347	164,353	7.5%
Korea	Samsung KODEX CD Rate Active ETF SYNTH	5,823	145,642	4.0%
Other Markets				
US	SPDR S&P 500 ETF Trust	608,446	10,458,045	5.8%
Europe & the UK	iShares Core S&P 500 UCITS ETF	109,034	2,496,958	4.4%

Source: ETFGI except Bloomberg for Japan, as of Apr 2025.

1.2.11. The table below provides additional insights into the concentration of ETF investment. The market share of the top 20 ETFs in these seven markets, based on AUM and ADT, ranged from 37% to 91%, and from 49% to 99% respectively. Japan, Hong Kong and India were amongst the highest concentration markets in terms of both AUM and ADT. The Korean market exhibited an interesting pattern, with its top 20 ETFs by AUM demonstrating a significant level of diversification, accounting for 37% of the market. However, in terms of ADT, the market appeared to be more concentrated, as the top 20 ETFs accounted for a 65% share.

1.2.12. One notable common characteristic was that both the inaugural domestic ETF and the largest ETF of most of these seven markets tracked a broad-based index relevant to the respective local stock markets. Mainland China and Korea have the most number of issued ETFs. The others, including Hong Kong, fall within the 200-400 ETFs range.

Table 1.3: Top 20 ETFs by AUM and ADT

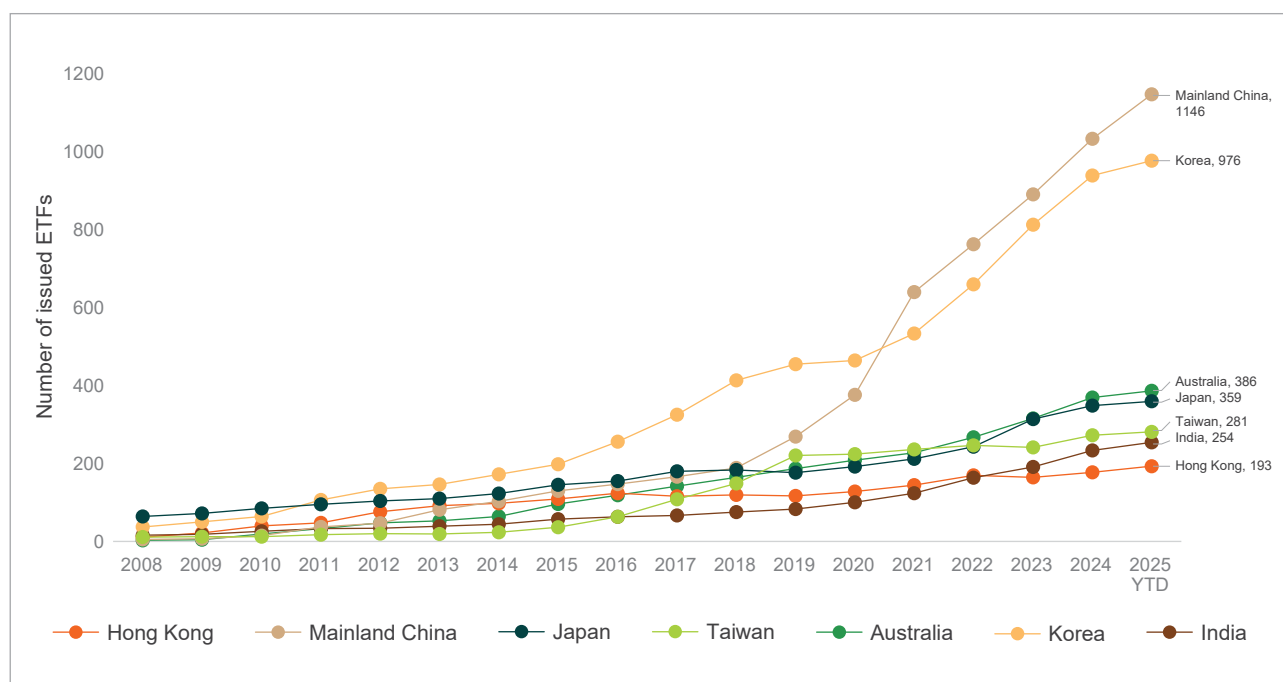
Markets	Market Total			By AUM		By ADT	
	Number of ETFs	AUM (US\$ Mn)	ADT (US\$ Mn)	Top 20 AUM (US\$ Mn)	% of market	Top 20 ADT (US\$ Mn)	% of market
Hong Kong	193	61,798	3,529	52,641	85%	3,489	99%
Mainland China	1,146	556,744	26,046	277,630	50%	12,914	50%
Japan	359	614,264	1,860	558,743	91%	1,638	88%
Taiwan	281	200,776	1,263	125,367	62%	781	62%
Australia	386	164,353	436	82,094	50%	213	49%
Korea	976	145,642	2,626	53,220	37%	1,697	65%
India	254	103,032	184	83,602	81%	143	78%

Source: ETFGI except Bloomberg for Japan, as of Apr 2025. ADT refers to one-year data.

The Number of ETFs

1.2.13. When examining the number of issued ETFs, mainland China dominated the APAC ETF market, offering 1,146 ETFs, or 27% of the total ETF offerings in the region as of April 2025. Korea ranked second, with 976 ETFs. These two markets have experienced significant growth over the past five years. In the case of Hong Kong, despite its pioneering position, the number of issued ETFs has largely plateaued, at 193.

Chart 1.2: Issued ETFs in Leading APAC Markets (2008-2025)



Source: ETFGI, as of Apr 2025.

1.2.14. Over the past decade, these seven leading markets in the APAC have collectively experienced a consistently upward trajectory in both AUM and the number of issued ETFs. Their growth illustrates the accelerated growth and the rapid evolution of the APAC ETF market over the years.

Trading Activities

1.2.15. To gauge the trading behaviour of ETF investors in APAC, the proportion of trading turnover relative to ETF AUM was analysed. This measure provides insights into the level of active trading by monetary value in the ETF market. Historical data revealed the measure spanned from 0.18% to 5.7%, with relatively higher trading activity observed in mainland China, Hong Kong, and Korea. In contrast, developed markets such as the US did not exhibit proportionately higher trading turnover, due to their larger AUM base. Notable differences were observed in investor participation and trading behaviour patterns across markets in the region.

Table 1.4: Total AUM and ADT for leading APAC ETF markets

Overall ETF Market			
Markets	ADT (US\$ Mn)	AUM (US\$ Mn)	ADT as a % of AUM
APAC Markets			
Hong Kong	3,529	61,798	5.70%
Mainland China	26,046	556,744	4.70%
Japan	1,860	614,264	0.30%
Taiwan	1,263	200,776	0.63%
Australia	436	164,353	0.27%
Korea	2,626	145,642	1.80%
India	184	103,032	0.18%
APAC	35,906	1,864,586	1.90%
Other Markets			
US	174,213	10,458,045	1.70%
Europe & the UK	4,217	2,469,958	0.17%
Global	217,957	15,318,359	1.40%

Source: ETFGI, as of Apr 2025. ADT refers to one-year data.

1.2.16. The information in the above tables shows APAC ETF markets enjoyed robust growth over the past decade. The AUM, number of ETFs, and trading activity data reveal insights into market penetration and investment patterns of ETF investors, which contributed to that growth.

Chapter 2: Key Observations



Chapter 2: Key Observations

2.1 Introduction

2.1.1. This chapter provides a more in-depth analysis of the market dynamics of the seven individual APAC ETF markets, namely Hong Kong, mainland China, Japan, Taiwan, Australia, Korea, and India. In particular, the research focuses on four aspects:

- 1) Market Liquidity
- 2) Ownership Structure
- 3) Product Mix
- 4) ETF Policy Support

2.1.2. These insights shed light on the successes of each market and serve as valuable references for approaches that could help to further enhance Hong Kong's prominence in the APAC region.

2.2 Market Liquidity

2.2.1. Mainland China has stood out as the most traded market in the APAC region, particularly since 2021. Investors from mainland China, Hong Kong, and Korea have generally shown a stronger preference for trading ETFs with a shorter-term focus than for a long-term capital appreciation investment strategy. On the other hand, investors from Japan, Taiwan, Australia, and India have tended to be less active in trading.

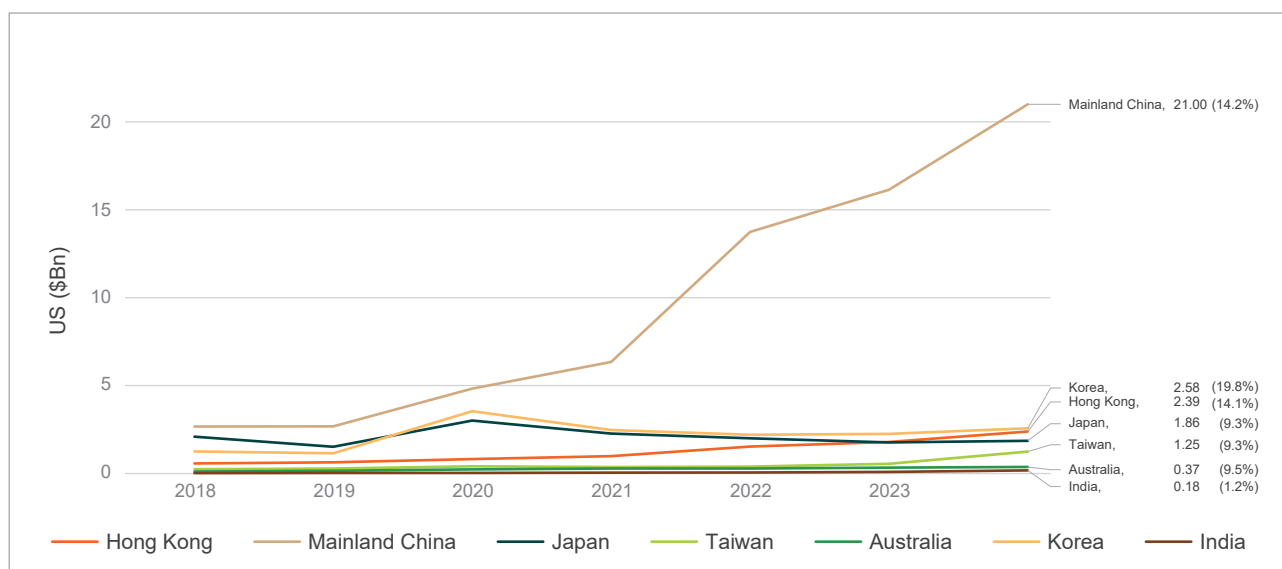
2.2.2. Market liquidity serves as a crucial indicator of a market's depth and efficiency, as well as the level of trading activity and investor participation. High market liquidity generally indicates an active market that allows investors to easily buy or sell ETF shares, without moving the price too much. On the other hand, low market liquidity may imply a higher cost of trading and difficulty in executing trades.

2.2.3. Liquidity can typically be assessed by ADT and turnover velocity.

Average Daily Turnover

2.2.4. ADT is the total ETF traded value of the year, divided by the number of trading days. The metric shows how actively ETFs are being bought and sold in the market, which helps investors gauge its liquidity.

Chart 2.1: ADT Across APAC ETF Markets



Brackets denote the market share of ETFs' ADT as a proportion of the total ADT of that market
 Source: ETFGI, relevant exchanges and Bloomberg, as of Dec 2024. ADT refers to one-year data.

- 2.2.5. Mainland China has consistently ranked as the most liquid ETF market in the APAC region since 2018. Its ADT has seen a seven-fold increase from US\$2.7 billion in 2018 to US\$21 billion as of 2024. In 2024, its ADT also accounted for 14.2% of the total equity market ADT, showing the strong trading momentum of ETFs. Following mainland China was Korea with ADT of US\$2.6 billion, Hong Kong with US\$2.4 billion, Japan with US\$1.9 billion, Taiwan with US\$1.3 billion, Australia with US\$0.37 billion, and India with US\$0.18 billion. These figures indicate the divergence in investing culture across APAC's ETF markets.
- 2.2.6. The notable spike in mainland China's ETF market liquidity since 2021 can be largely attributed to the active issuance of Chinese ETFs. The number of issued ETFs has more than doubled from 376 in 2020 to 1,032 as of 2024¹⁰. Additionally, the robust development in mainland China of High-Frequency Traders (HFT) - mainly comprising of Hedge Funds, Quant Funds, and Algorithmic Trading - has led to more frequent ETF trading in the secondary market. Market liquidity in mainland China has also benefited from an efficient primary market ecosystem, characterised by strong integration among key stakeholders. This has enhanced liquidity in the secondary market.
- 2.2.7. In Korea, it is important to note that while its ADT is relatively low, it has the highest percentage of the total equity market's ADT. This indicates that ETF trading constitutes a significant portion of the overall stock market ADT.
- 2.2.8. In India, ADT has remained consistently low. For example, the most liquid ETF in India, Nifty Bees, now has a daily turnover of about 5% of that of Reliance Industries, a large and highly liquid stock in India. This shows the ETF market still has plenty of room for improvement.
- 2.2.9. In Japan, it is recognised that the presence of diverse participants is crucial for the ETF market's development. The ADT has remained stable over the past few years. While the ETF market had previously been dominated by the BOJ's purchase activities since 2010, the BOJ transitioned to a "Net Seller" of ETFs in 2023¹¹. This has somewhat been counterbalanced by support from underlying stocks and an increase in secondary market buyers.

¹⁰ Source: ETFGI, as of Dec 2024

¹¹ Source: Nikkei Asia, as of Jan 2024

Turnover Velocity

2.2.10. Turnover Velocity is calculated by dividing the annual total turnover by an ETF's AUM. It provides an estimation of how frequently ETFs are traded relative to their assets. For example, an annualised turnover velocity of 10 indicates that each unit of the ETF is traded approximately 10 times per year. The significant differences in turnover velocity between regions can be attributed to variations in the investment style of investors.

Table 2.1: Turnover Velocity Across APAC ETF Markets

	Hong Kong	Mainland China	Taiwan	Japan	Korea	Australia	India
2018	3.5	8.8	2.8	1.3	8.7	0.9	0.5
2019	3.6	6.4	1.6	0.7	6.3	0.8	0.2
2020	4.0	7.0	1.6	1.0	18.3	1.0	0.2
2021	4.4	7.0	1.1	0.8	9.9	0.7	0.2
2022	7.7	14.4	1.3	1.0	8.7	0.9	0.2
2023	8.2	15.1	1.4	0.9	9.6	1.2	0.3
2024	9.0	9.4	1.6	1.0	5.3	0.6	1.1

Note: Turnover velocity refers to total annual turnover divided by year-end AUM

Source: Relevant exchanges (HKEX, SSE, JPX, KRX, ASX) except Taiwan and India from Bloomberg; Data as of 31 Dec 2024

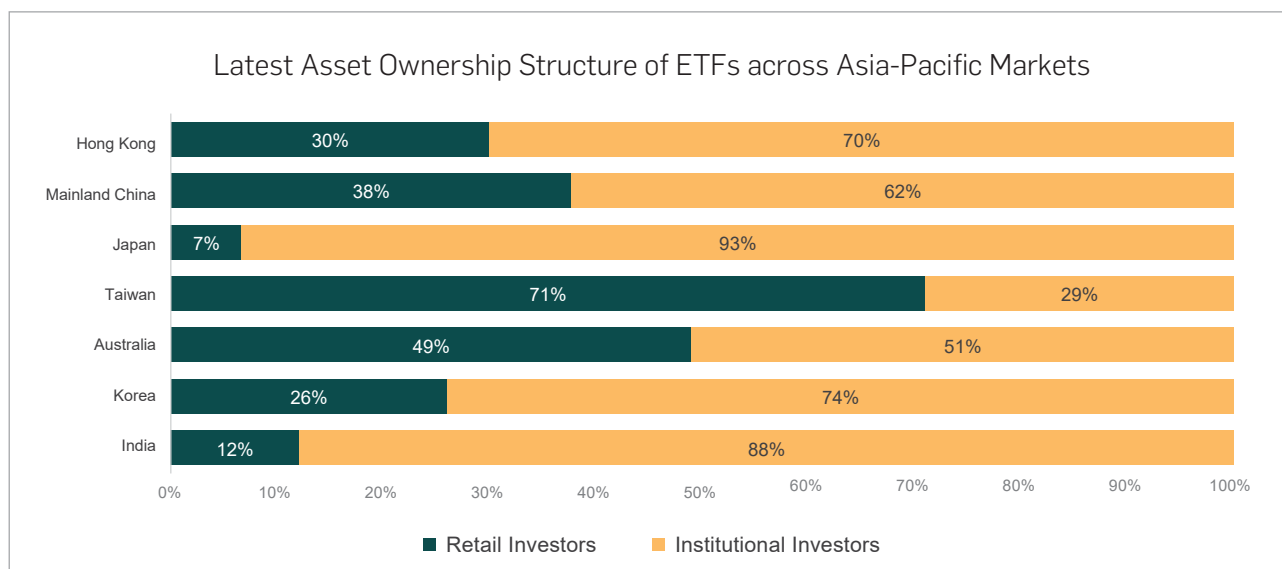
2.2.11. In Taiwan, Japan, Australia, and India, the turnover velocity figures are relatively lower, indicating that investors in those markets tend to follow a "buy-and-hold" investment strategy. On the other hand, mainland China, Korea, and Hong Kong tend to have higher turnover velocity figures, suggesting that investors in these markets have a stronger preference for trading ETFs to seek short-term profits, rather than pursuing long-term capital appreciation.

2.2.12. Additionally, the turnover velocity of HK-listed ETFs has surged since 2021, increasing from 4.4 times in 2021 to 9.0 times in 2024. This indicates a notable enhancement in market liquidity, influenced by the introduction of the ETF Connect in 2022. In Korea, turnover velocity had spiked in 2020, driven by increased trading in overseas and thematic ETFs, as well as heightened interest in L&I ETFs, but has normalised since then. The COVID pandemic further gave support to the rise of these products.

2.3 Ownership Structure

2.3.1. By analysing the ownership structure of ETF assets, market participants, regulators, and issuers can gain insights into investor preferences, market dynamics, and stability, as well as the overall health of the ETF market. Significant differences in the ownership structure of ETFs have been observed across the APAC.

Chart 2.2: Retail vs Institutional Investor Distribution



Source: Latest available data used; Cerulli as of Apr 2023; SZSE and SSE as of 30 Jun 2024; JPX as of 31 Jul 2024; KCMJ as of 31 Aug 2024; SFC (HK) and AMFI as of 31 Dec 2024

Taiwan and Australia dominated by retail investors

2.3.2. Retail adoption of ETFs has been particularly pervasive in Taiwan and Australia. This can be attributed to factors such as the wide retail distribution network and strong investor education. In Taiwan, ETFs have been actively promoted among independent online financial influencers, as there is a pervasive distribution network for ETFs. In Australia, investors have the option to purchase ETFs directly through public retirement pensions such as self-managed super funds (SMSF), retail banks, online brokerages, and independent financial advisers.

2.3.3. In Taiwan, the number of retail ETF accounts reached 13 million as of Dec 2024, suggesting massive retail participation, with over half of its population having an ETF account¹². This significant adoption can be attributed to the rise of online financial influencers, who have been recommending ETFs as suitable vehicles for long-term investing and wealth accumulation.

2.3.4. In Australia, retail investors dominate ETF holdings, following a significant increase in their popularity among retail investors in recent years.

Adoption of ETFs by institutional investors in Korea and mainland China

2.3.5. In Korea, mixed ownership structure is observed with more retail investors in foreign equity ETFs and leveraged & inverse products, while institutional investors dominate in other types of ETF¹³.

2.3.6. In mainland China, there has been a noticeable increase in institutional adoption of ETFs. This trend can be attributed to the national policy of encouraging long-term investments into the ETF markets¹⁴.

¹² Source: Taiwan Depository & Clearing Corporation, as of 31 Dec 2024

¹³ Source: Korea Capital Market Institution, Key Issues in the Asset Management Industry for 2025

¹⁴ Source: SSE, ETF投資交易白皮書 (Jun 2024) & SZSE, ETF投資交易白皮書 (Jun 2024)

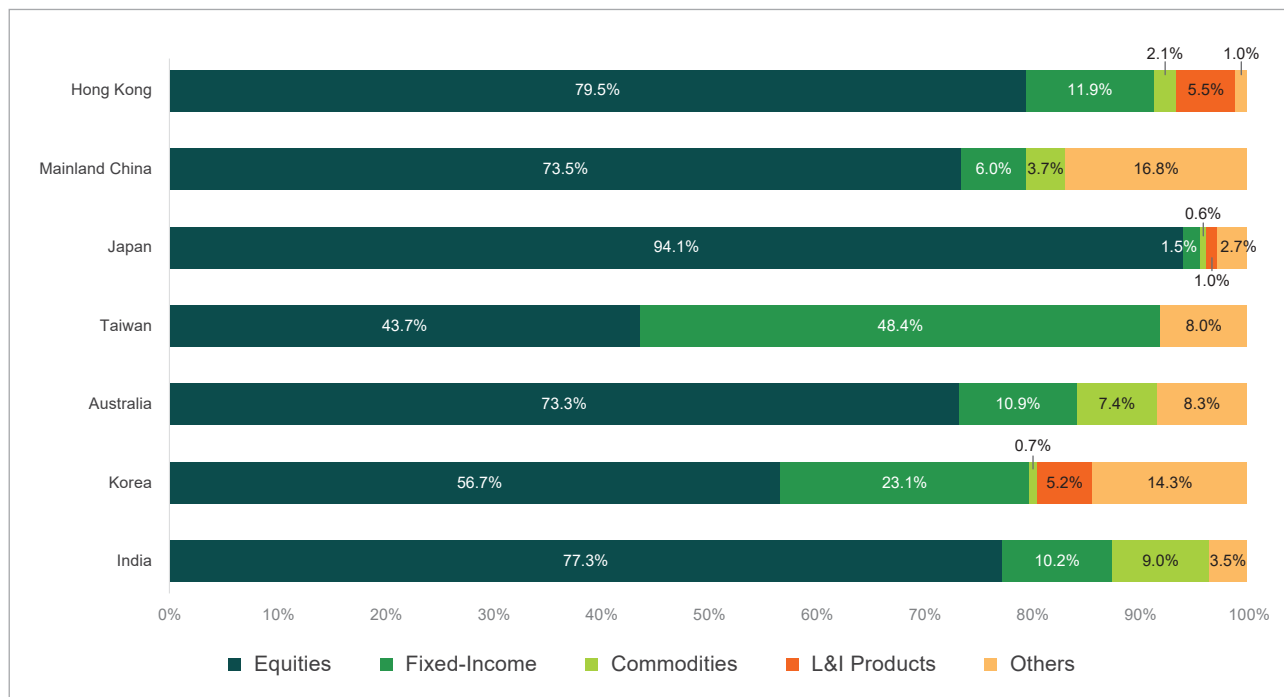
Hong Kong, Japan, and India mostly led by institutional investors

- 2.3.7. In Hong Kong, institutional investors dominate the ETF market. In India, insurance companies and public retirement saving schemes, such as Employees Provident Fund Organisation (EPFO), hold most ETF assets. In Japan, the central bank (BOJ), and government public pensions referred to as Government Pension Investment Funds (GPIF), have played a significant role in supporting the growth of ETF assets over the past decade.
- 2.3.8. One issue in these markets is the lack of awareness and education among investors, particularly retail investors. In Hong Kong, ETFs are not a widely popular investment instrument among retail investors. Research conducted by IFEC in 2023 shows that only 2% of retail investors in Hong Kong have experience investing in an ETF. This ownership rate falls significantly behind stocks (99%), mutual funds (24%) and bonds (18%).
- 2.3.9. These figures indicate the limited knowledge and awareness about ETFs. This is further compounded by limited marketing support given by primary retail wealth-distribution channels. Addressing these challenges and improving investor education and access to ETFs will be crucial for the continued development of the ETF market in Hong Kong.

2.4 Product Mix

2.4.1 APAC ETF markets are primarily dominated by equity ETFs, except for Taiwan.

Chart 2.2: Retail vs Institutional Investor Distribution



Source: Relevant exchanges except India data from Bloomberg and mainland China data from Wind; Latest available data used; JPX as of 31 Jul 2024, Bloomberg, KRX, TW SITCA, ASX, SFC HK as of 31 Dec 2024; Wind as of 15 Apr 2025

¹⁵ Source: IFEC 2023 Retail Investors Study, 2023

Dominated by Equity ETFs

- 2.4.2. Equity ETFs are the predominant type of ETF in most APAC markets. These ETFs typically track local indices in their respective markets. In Hong Kong, equity ETFs make up 80% of all ETFs, indicating their significant presence in the market. In mainland China, equity ETFs that track broad-based local indices, cross-border indices and narrow-based themes, account for 74% of assets¹⁶.
- 2.4.3. In Japan, equity ETFs that invest in Japan local equities have accounted for a significant majority (94%) of total ETF assets. This high concentration towards equity ETFs can be attributed to the extensive purchase of domestic ETFs by the BOJ since 2010. Currently, the BOJ still holds more than 80% of Japan's ETF market assets¹⁷. This situation highlights the lack of product diversification in the Japanese ETF market.
- 2.4.4. In Australia, domestic equity ETFs and foreign equity ETFs are both popular among Australian investors. Combined, these two categories represent almost 73% of ETF assets in Australia.

Strong presence in Fixed Income ETFs

- 2.4.5. Taiwan stands out in the APAC markets as an exceptional case where nearly half (48%)¹⁸ of its ETF assets are held in fixed income. In other words, Taiwan is the largest bond ETF market in the APAC. Regulatory authorities in Taiwan have allowed insurance companies to invest up to 10% of their portfolios in ETFs. This policy has attracted significant interest from Taiwanese pension funds, insurance companies, and banks to invest their excess cash in bond ETFs.

Leveraged & Inverse Products in APAC

- 2.4.6. L&I products are still a niche asset class in the APAC region. These products utilise derivative instruments such as futures and swaps to amplify returns or provide inverse exposure to index performance. In Korea, 5.2% of total ETF assets and a significant portion (33%)¹⁹ of ADT is attributed to them. Since 2023, the market size of foreign equity ETFs has grown significantly and lowered the relative proportion of L&I products in Korea.
- 2.4.7. In Hong Kong, L&I products account for 5.5% of total ETF assets. The approval of Virtual Assets (VA) Futures ETFs in 2022 and Spot VA ETFs in 2023 by the Securities and Futures Commission of Hong Kong (SFC) has boosted product diversity, while providing regulated exposure to cryptocurrencies such as Bitcoin and Ether. Similarly, Covered Call ETFs have gained interest, appealing to investors in volatile markets, due to their ability to generate a potential regular income stream from option premiums and offer partial downside protection.
- 2.4.8. However, in markets such as mainland China, India, Japan, and Australia, L&I products have not gained as much traction due to stringent regulations that limit their availability and usage. Consequently, the popularity of L&I products remains relatively subdued in these markets compared to Korea and Hong Kong.

¹⁶ Source: SSE, ETF投資交易白皮書, as of Jun 2024

¹⁷ Source: JPX ETF Beneficiary Survey, as of Jul 2024

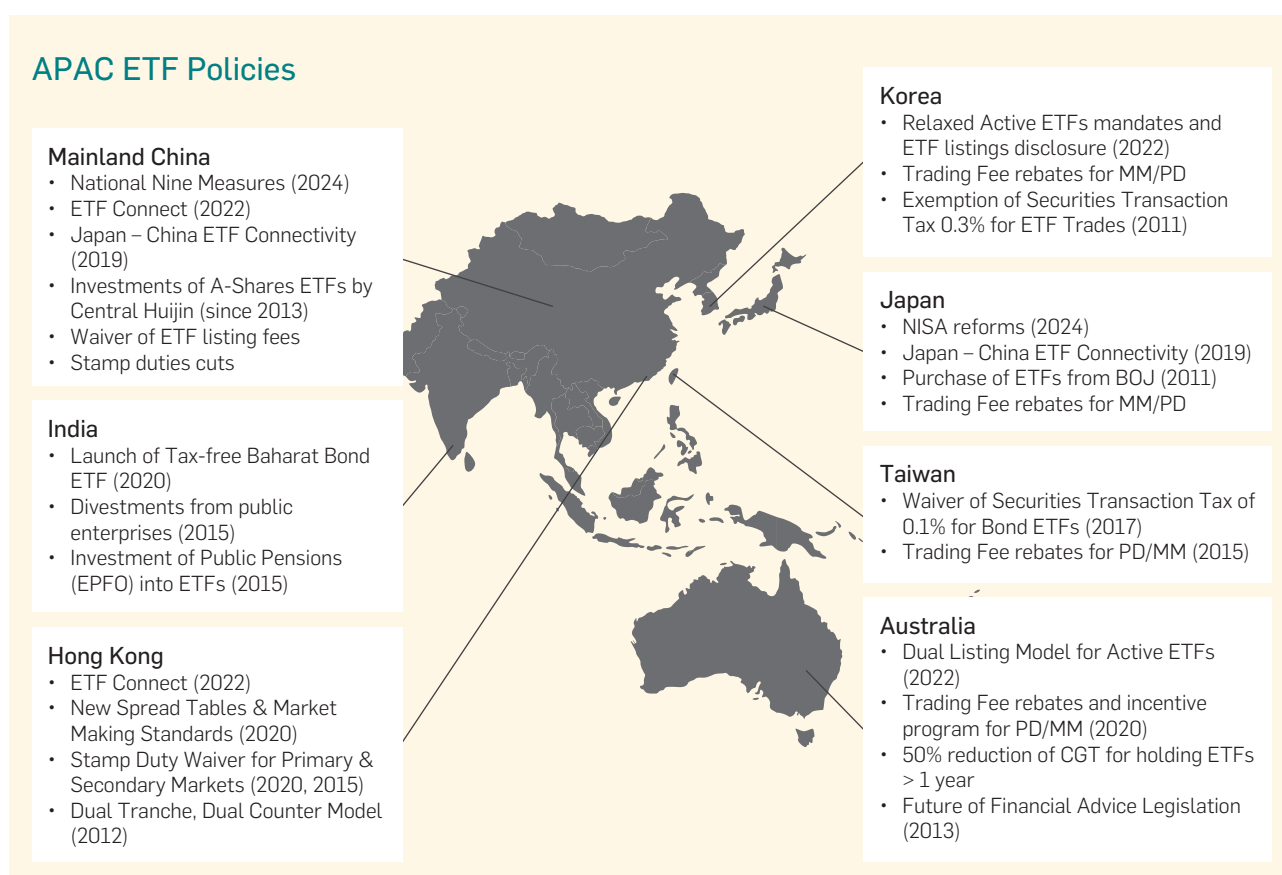
¹⁸ Source: SITCA Industry Overview Dec 2024

¹⁹ Source: KRX ETF/ETN Monthly Factsheet, as of Dec 2024

2.5 ETF Policies & Recent Developments

- 2.5.1. Over the past 10 years, several favourable policies have been introduced to encourage ETF investments. One common trend has been the reduction or waiver of ETF-related fees.
- 2.5.2. An array of favourable policies from various stock exchanges and local governments in the APAC region has been observed to support the development of ETFs in their respective markets.

Figure 2.1: Overview of APAC ETF Market Policies



Hong Kong

ETF Connect

- 2.5.3. In Hong Kong, the inception of the ETF Connect in 2022 enabled mainland investors to conveniently trade ETFs using their mainland brokerage accounts, via the Southbound Trading scheme²⁰. The share of ETFs traded has seen significant expansion, rising from less than 1% in November 2022 to more than 4.3% of the Southbound turnover as of March 2025²¹.
- 2.5.4. Meanwhile, Southbound ADT has grown from HK\$44 billion to HK\$119 billion²² during the same period. In terms of one-year ADT, it accounts for 12% of the total ETF market²³. These figures reflect ongoing efforts to deepen the mutual market access and the growing interest from onshore mainland investors to diversify their asset exposure offshore.

²⁰ Source: HKEX

²¹ Source: Bloomberg, HKEX, HSVM, as of 31 Mar 2025

²² Source: HSVM, as of 31 Mar 2025

²³ Source: HKEX, ETFGI as of 31 Mar 2025

- 2.5.5. In 2024, the Hong Kong ETF Connect relaxed its requirements, mainly by lowering the daily average AUM threshold for Southbound ETFs from HK\$1.7 billion to HK\$550 million, allowing more ETFs to qualify. The expansion also relaxed index weighting requirements, allowing a broader range of ETFs with different investment themes — such as ESG, tech, and high dividends — to be included. The number of eligible ETFs expanded significantly. Nine Hong Kong ETFs were added, bringing the totals to total 17 Southbound ETFs.
- 2.5.6. The successful inclusion of ETFs in the Stock Connect Scheme has played a significant role in promoting cross-border fund flows by broadening investment options for both global and mainland investors. Increased access to mainland capital and a larger investor base has incentivised more ETF issuances in Hong Kong. As a result, the use of ETFs as an investment vehicle has been encouraged among investors, aligning with the diversification needs of mainland investors for offshore assets. This, in turn, has helped to deepen the mutual market access and promote greater financial integration of the two regions.

Spreads and Stamp Duties

- 2.5.7. The introduction of new spread tables and the waiver of stamp duties for market makers in the ETF creation and redemption process in 2020 has significantly reduced the minimum achievable spreads (tick-size) of Hong Kong-listed ETFs, by at least 50%. This has encouraged market makers to provide greater market liquidity, leading to estimated cost savings of up to HK\$825 million for investors²⁴. These changes have improved the price efficiency of ETFs and enhanced the overall trading experience for investors in Hong Kong.

Dual Tranche, Dual Counter Model

- 2.5.8. The launch of Dual Tranche, Dual Counter Model with HKD and RMB counters initially in Hong Kong in 2012 has played a significant role in promoting the internationalisation of the RMB and strengthening connectivity with mainland China. This model allows foreign and mainland investors to invest in securities using RMB, encouraging its use and facilitating the external circulation of offshore RMB. These developments have further solidified Hong Kong's position as an offshore RMB hub and reinforced its unique role as a "Super Connector" between mainland China and the rest of the world.

Mainland China

- 2.5.9. The ETF markets in mainland China have received significant government support. Central Huijin Investment, a state-owned investment entity, has purchased ETFs to stabilise market sentiment amidst macroeconomic headwinds and market volatility.
- 2.5.10. ETFs in mainland China are considered crucial for channeling investors' capital towards high-quality companies in industries that align with mainland China's strategic economic direction, which is vital to national security interests. These industries include Electric Vehicles, Aerospace & Military, Artificial Intelligence, Renewable Energy, and Carbon Storage, among others, as outlined in the 13th and 14th Five-year Plans. Investing in ETFs is seen as an effective and transparent investment vehicle for Chinese investors to contribute to the acceleration of national transformation and economic development²⁵.

²⁴ Source: HKEX, ETF Spotlight – Assessing the Impact of HKEX's ETF Liquidity Enhancement, as of Dec 2020

²⁵ Source: SSE, 中國ETF市場發展白皮書, 2022

2.5.11. In 2024 and 2025, mainland China rolled out some key ETF policy enhancements under the new "國九條" (National Nine Measures)²⁶ guidelines. These guidelines are about enhancing market confidence, increasing liquidity, and making it easier for both local and international investors to access mainland China's ETF market. The main changes included:

- Expedited ETF approvals — It is now much faster and easier for new ETFs to launch, especially those focused on innovative sectors such as AI and New Energy.
- Relaxed eligibility for Stock Connect — ETFs can now include non-Connect stocks for up to 40% of their benchmark index, giving investors access to a broader range of international and thematic exposures.
- Encouraged long-term capital — State-owned insurers are required to allocate 30% of new premiums to equities, and mutual funds are being pushed to increase A-share holdings, to inject more long-term money into the market.
- Greater product diversity — Issuers have more room to innovate, supporting new strategies and more cross-border investment opportunities between mainland China and Hong Kong.

Japan

2.5.12. The BOJ's ETF purchases have had a significant impact on the growth of Japanese ETF assets. Since 2011, the total amount of ETF purchases by the BOJ reached JPY37 trillion (US\$250 billion) as of 2022²⁷. This purchase programme was implemented to inject liquidity into the market, revitalise market confidence, and stimulate the expansion of Japanese stocks' valuations.

2.5.13. Nevertheless, in 2023, BOJ transitioned to being a "net seller" of ETFs, with its sales of ETFs exceeding its purchases. In March 2024, the BOJ ended its 14-year ETF buying programme, as part of steps to shift away from more than a decade of dovish monetary policy, letting the ETF market to be driven gradually by its own force.

2.5.14. A major catalyst for increased retail participation has been the revamped Nippon Individual Savings Account (NISA) programme in 2024. This tax-free investment scheme has successfully mobilised significant household savings into the equity market, with younger generations of investors showing a particular interest in ETFs.

Taiwan and Korea

Taxation and Disclosures

2.5.15. Korean investors can benefit from a securities transaction tax exemption of 0.3% when trading ETFs listed on the Korea Exchange (KRX). In Taiwan, investors who purchase bond ETFs can enjoy a transaction tax waiver of 0.1%, reducing the trading cost associated with bond ETFs.

2.5.16. To promote greater active issuance of ETFs from Korean asset managers, KRX has streamlined and eliminated certain listing disclosures and requirements for ETFs in 2022. Additionally, there are plans to further relax regulations for active ETFs in Korea. This includes allowing active ETFs to have a 50% index tracking and 50% discretionary stock-picking approach²⁸, fostering the development of active ETFs in Korea, and providing asset managers with more flexibility in creating innovative investment strategies.

²⁶ Source: China's State Council on 12 Apr 2024

²⁷ Source: Investment Trust association of Japan, Bank of Japan, 2022

²⁸ Source: Korea Capital Market Institute, as of Mar 2023

Australia

Trading fee rebates

- 2.5.17. The Australian Securities Exchange (ASX) has implemented interesting policies to incentivise market makers and improve liquidity for ETFs. One notable policy is the offer of trading fee rebates to market makers who meet certain requirements, such as providing a sufficient depth of quotes and maintaining tight trading spreads monthly.
- 2.5.18. To qualify for these ETF fee rebates, which cover expenses such as securities transaction tax and the cost of futures/swaps hedging, market makers are encouraged to fulfill specific obligation²⁹. In return for fulfilling these obligations, participants receive incentives equivalent to the trading fees they would typically pay the ASX. This incentivises market makers to provide more liquidity and tighten spreads for ETFs listed on ASX.

Dual Access Model

- 2.5.19. The Dual Access Model was introduced to facilitate the transition of actively managed mutual funds to active ETFs listed on ASX in 2022, providing investors with a new investment option. This is in addition to the Australian government's legislation on financial advice in 2013, which played a significant role in promoting ETFs to retail investors. The legislation banned volume-based commissions for financial advisers and mandated them to act in the best interest of their clients. This regulatory change encouraged financial advisers to recommend ETFs as a transparent and cost-effective investment option to retail investors.
- 2.5.20. Another key feature of the Australian ETF landscape is the significant role played by superannuation funds (Australia's mandatory retirement savings system) as major investors in ETFs. Those funds provide a substantial and stable source of demand for ETF products.

India

- 2.5.21. Divestments from public enterprises through ETFs in 2015 and the introduction of the issuance of Sovereign Bond ETFs, the Bharat Bond ETF, in 2019, are considered important milestones in India³⁰. The 2015 divestment (such as the Central Public Sector Enterprises Exchange Traded Fund (CPSE ETF)) was mainly to help the government meet its disinvestment targets while minimising negative price impacts on individual stocks. By bundling multiple public-sector stocks into an ETF and then selling units, the government could offload its stake with less disruption, achieve better pricing, and attract more investors.
- 2.5.22. In 2015, the Employee Provident Fund Organisation, India's largest public retirement saving scheme, decided to invest in the stock market through ETFs. These measures by the Indian government have played a significant role in driving growth in the Indian ETF market.

What's next?

- 2.5.23. This chapter covered the results of an examination of market liquidity, ownership distribution, product mix, and ETF policy support for each APAC market, conducted to understand their unique characteristics, strengths, and limitations. In the next chapter, the study will delve deeper into these factors and propose potential strategies and solutions aimed at enhancing Hong Kong's ETF market.

²⁹ Source: ASX Market Maker Arrangement

³⁰ Source: CFA Society India Research, A Report on the Indian Exchange Traded Funds (ETF) Industry, as of 2020

Chapter 3: Strategic Recommendations



Chapter 3: Strategic Recommendations

- 3.1.1. To catalyse the next phase of growth in Hong Kong's ETF market and strengthen its standing as a premier regional hub, a multi-faceted strategic approach is suggested. The following three core pillars are aimed at fueling that growth:
- A. Optimising Macro-Support for ETF Market Development
 - B. Strengthening the Micro-Level ETF Ecosystem
 - C. Enhancing Investor Education and Engagement

A. Optimising Macro-Support for ETF Market Development

- 3.2.1. Sustained growth of the ETF market requires a conducive macro environment, shaped by forward-looking policies and adaptive regulations.
- 3.2.2. Hong Kong's MPF system represents a significant pool of long-term savings. The system is designed to help the Hong Kong workforce accumulate financial benefits for retirement through professional and diversified investment over the long term, usually decades. Scheme members can only withdraw funds from the MPF schemes after reaching the age of 65, unless specific circumstances are met.
- 3.2.3. Millions from the Hong Kong workforce have participated in the MPF system, taking the system's AUM to HK\$1.33 trillion by September 2024. Under the system, MPF scheme members' contributions are pooled into the constituent funds of different MPF schemes. The constituent funds make investments in eligible underlying funds that are approved by the Mandatory Provident Fund Authority (MPFA), and other permissible investments outlined in the MPF Schemes (General) Regulation. Investments are made through 379 constituent funds under 24 schemes operated by 12 trustees.
- 3.2.4. Despite the large number of constituent funds, available investment choices are mostly actively managed funds, which often charge investors relatively high management fees to pay the investment management teams for their potential to outperform the broad market. Currently, only 8.4% of MPF AUM is invested in indexing constituent funds.

Table 3.1: Active vs. Index-Tracking Constituent MPF Funds

In MPF	Active	Index tracking
Share by no. of constituent funds	90.8%	9.2%
Share by AUM	92.2%	8.4%
Average fund expense ratio (weighted by AUM)	1.41	0.83

Source: HSVM, MPFA, as of 31 Dec 2024.

¹⁵ Source: IFEC 2023 Retail Investors Study, 2023

- 3.2.5. MPF funds are structured as constituent fund feeders, with the underlying master funds consisting of ETFs or index-tracking funds approved by MPFA under the Index-Tracking Collective Investment Schemes (ITCIS), and active funds. However, ETFs tend to be more transparent and cost-effective as compared to active funds. Additionally, there are participants in the ETF ecosystem that facilitate investment flow for ETFs.
- 3.2.6. Based on the figures observed from MPFA's data platform, the average fund expense ratio of index tracking managed funds is considerably lower - roughly two-thirds that of actively managed funds. While the expense ratios for indexing tracking funds may not seem extremely low at first glance, it is worth noting that these figures encompass both management and administrative fees. Additionally, ongoing government initiatives like the eMPF platforms are expected to gradually reduce administrative costs, making these funds even more accessible in the future. In any case, strategically enhancing the role of ETFs within the MPF framework can provide a stable source of demand to relatively low-expense ratio funds and contribute to the growth of the local ETF market.
- 3.2.7. Benefits of indexing investments, such as feeder funds to ETFs, for retirement investment include:
- Cost Effectiveness: Indexing investments are usually associated with lower fund expenses than actively managed investments. The compounding effect of lower fund expenses helps MPF investors save a considerable amount of costs over the long run, ultimately enhancing net investment returns. When evaluating costs, investors should consider both explicit and implicit costs. Explicit costs are just the tip of the iceberg, while implicit costs encompass all hidden 'what if' scenarios associated with the product. For example, switching costs vary: for ETFs, the switching cost can be as little as one day, whereas for actively managed funds, it can take up to four days.
 - Diversification: Indexing investments are designed to track a certain index that is comprised of a basket of securities. As compared to individual securities, ETFs offer the benefit of lower risk through diversification.
 - Transparency: Holdings of indexing investments are transparent to investors, as they usually aim to replicate the underlying indexes that represent specific market regions or investment sectors. In addition, the underlying indexes of the indexing investments typically disclose all holdings daily, whereas actively managed funds tend to publish their top 10 holdings monthly.

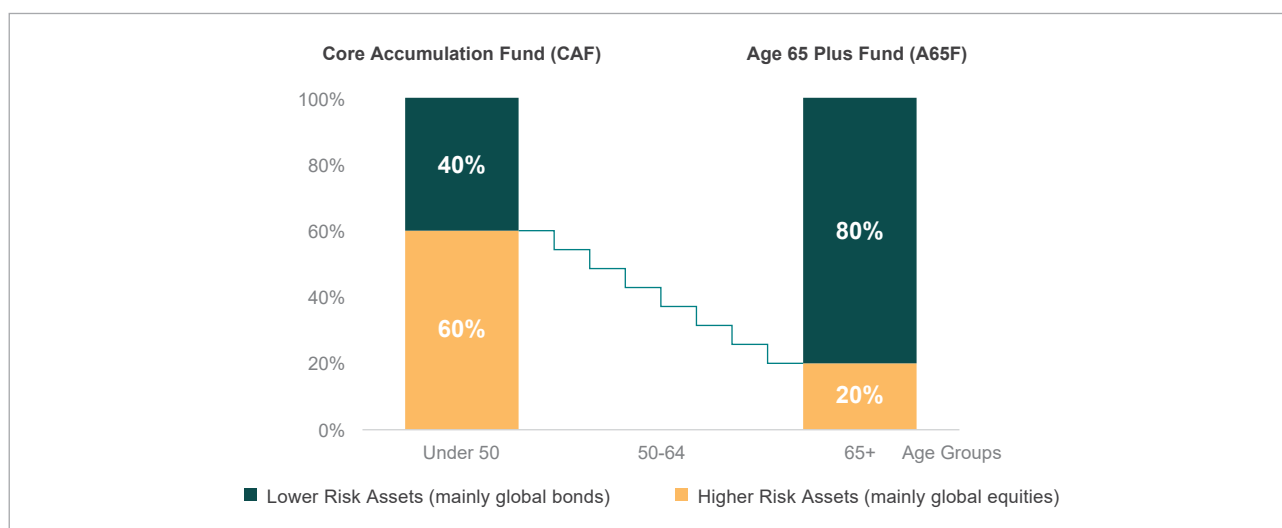
Recommendation 1: Promoting ETFs on the Mandatory Provident Fund (MPF) system

- 3.3.1. ***Promoting ETFs on the MPF system by increasing the proportion of indexing investments within the Default Investment Strategy (DIS) provides MPF members with more flexible, transparent, and cost-effective retirement solutions. Consider adding more lifecycle tiers to DIS as that would provide greater capacity to include a more diverse range of ETFs or indexing funds tailored to different age groups.***
- 3.3.2. If MPF scheme members do not specify a fund choice on their enrollment forms, their trustees will automatically invest their contributions according to the DIS. The DIS is a pre-selected investment solution comprising two mixed-asset funds: the Core Accumulation Fund (CAF) and the Age 65 Plus Fund (A65F). Both funds adopt a globally diversified investment approach, with the CAF investing 60% of its assets in higher-risk assets such as global equities and 40% in lower-risk assets such as global bonds and money-market instruments. The A65F has 20% of its assets invested in higher-risk assets, and 80% in lower-risk assets.

3.3.3. The DIS offers three key features:

- **Fee Caps:** Annual management fees for DIS funds are capped at 0.75% of Net Asset Value (NAV). Out-of-pocket expenses are capped at 0.2% annually. This rate is reduced to 0.1% once a MPF scheme is onboarded onto the eMPF Platform.
- **De-risking:** The DIS incorporates a de-risking feature. Contributions are invested in the CAF. After reaching age 50, investments are gradually shifted to the A65F, with a completion of transfer by age 64.
- **Globally diversified investment:** The DIS adopts a globally diversified investment approach. This means that both equities and bonds are broadly diversified across different geographic regions.

Chart 3.1: Current Default Investment Strategy (DIS) Allocation



Source: MPFA, HSVM, as of May 2025

3.3.4. While the DIS currently has a solid structure to accommodate scheme investors without specific investment preferences, there is still room for enhancement in two key areas:

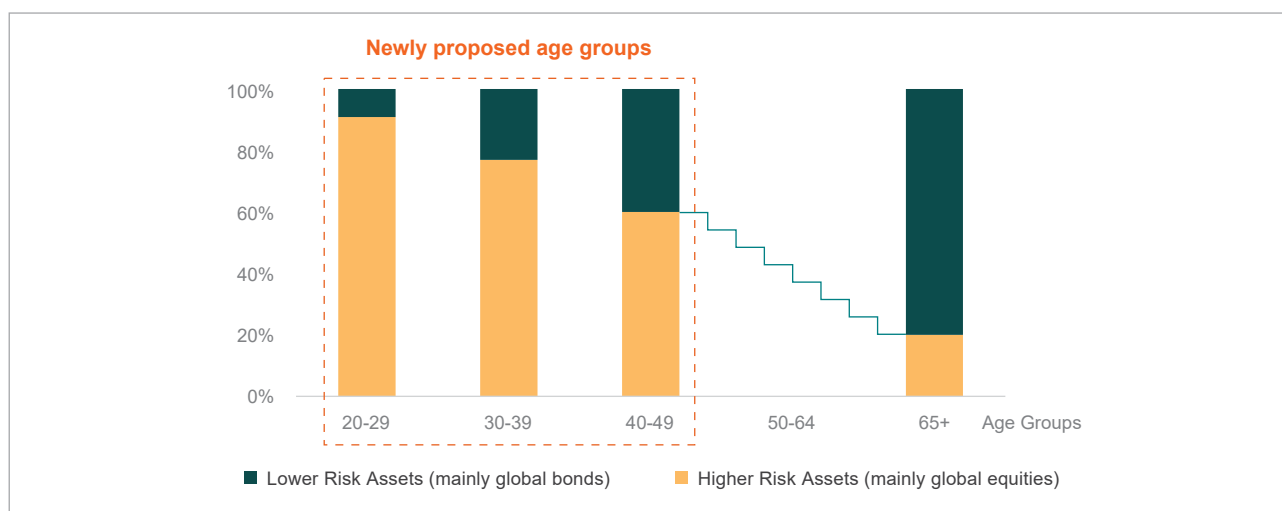
Increasing ETF exposure and indexing elements in CAF and A65F

3.3.5. Currently, these funds are multi-asset, with various underlying strategies employed by different scheme providers. By incorporating ETFs or indexing products as the building blocks for CAF and A65F, costs can be potentially reduced further.

Helping savers accumulate assets faster through additional DIS lifecycle tiers

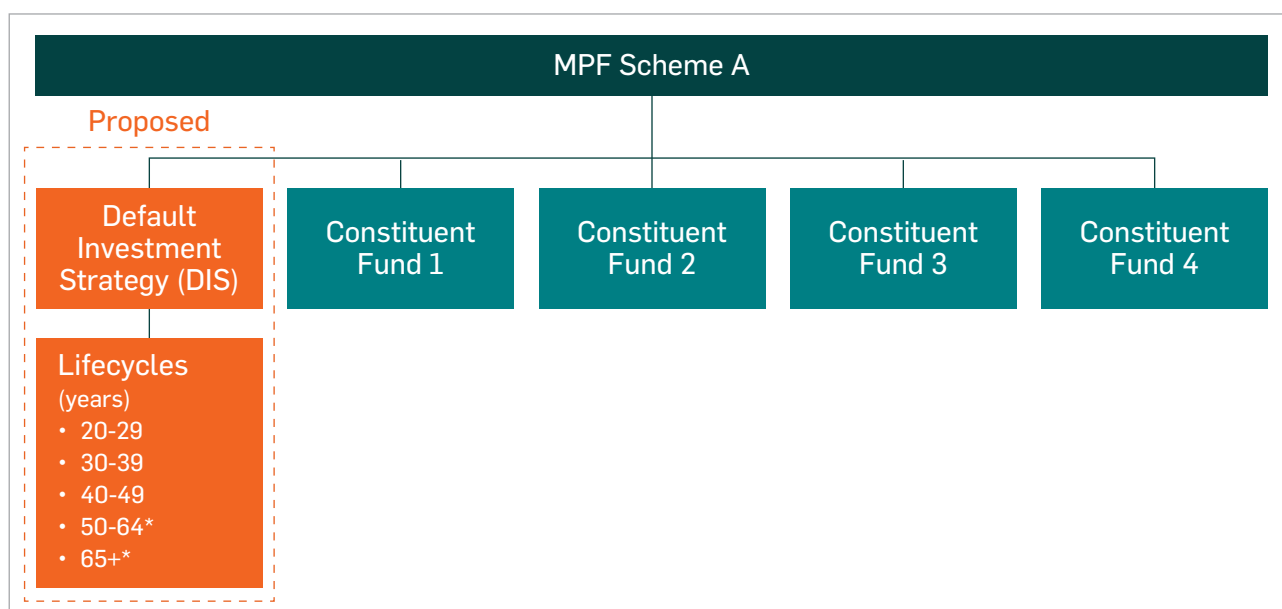
3.3.6. At present, there are three age group tiers: Under 50 years old, 50-64 years old, and 65 years or older. The "Under 50 years old" category includes individuals aged 20-50 years, who are typically in a wealth-accumulation phase with higher risk tolerance. Therefore, it is recommended to add more tiers to reflect lifecycle thresholds every 10 years, such as 20-29 years, 30-39 years and 40-49 years, incorporating generally higher-risk assets for the younger population. This expansion can provide greater capacity to include a more diverse range of ETFs or indexing funds tailored to different age groups.

Chart 3.2: DIS by Lifecycle Tiers (Proposed by HSVM)



Source: HSVM, as of May 2025

Chart 3.3: Illustration of the MPF Scheme (Proposed by HSVM)



* Current DIS Structure
Source: HSVM, as of 20 May 2025

- 3.3.7. In the interest of Hong Kong's ETF ecosystem, it is recommended **that investors' access to the ETFs from the ITCIS list be limited to ETFs that are listed and domiciled in Hong Kong**. By the end of 2024, the MPFA had 230 ITCIS as eligible underlying funds for MPF constituent funds. Among the ITCIS, 209 are ETFs, of which 64 are Hong Kong-listed and domiciled ETFs.
- 3.3.8. The cohort of Hong Kong-listed and domiciled ETFs is already sufficient to offer MPF scheme members a variety of low-cost investment choices to enable long-term retirement savings accumulation. With better transparency compared to mutual funds and operational convenience of Hong Kong-listed and domiciled ETFs, it is appropriate to have Hong Kong-listed and domiciled ETFs as a pilot. This will also help avoid potential tax issues arising from cross-border investments, promote Hong Kong's ETF ecosystem, and encourage more ETF issuances in the market.

Recommendation 2: Enhancing the Tax-Deductible Programme by Adding Long-term ETF Investments

- 3.4.1. ***Leverage Hong Kong's Tax-Deductible Programmes, by adding long-term ETF investments to Qualifying Deferred Annuity Policies (QDAP) and MPF Tax-Deductible Voluntary Contributions (TVC). Consider doubling this quota to HK\$120,000 per year, as that would promote future investment and simultaneously boost the ETF market's AUM and liquidity.***
- 3.4.2. Currently, individuals in Hong Kong generally have not made significant investments for the future. According to MPFA data as of December 2023, MPF AUM only accounts for approximately 3.7% of the total AUM in the asset management and fund advisory sector. In this context, Hong Kong has implemented a tax deduction programme for voluntary MPF contributions to encourage future savings.
- 3.4.3. Existing tax deductions for qualifying annuity premiums and tax-deductible voluntary contributions to MPFs only provide a shared quota for annuity insurance and personal pension investment.
- 3.4.4. Since the fiscal year 2019-2020, the Hong Kong government has set a maximum of HK\$60,000 as the annual tax deduction quota for taxpayers who purchase QDAP from insurers and make TVC contributions to their MPF accounts. The TVCs are independent of employee and employer voluntary contributions. Individuals who make voluntary contributions for tax deduction purposes must open TVC accounts separately. The deduction is applicable to salaries tax and personal assessment.

Table 3.2: Current Salary Tax Deduction Limits in Hong Kong

Salary Tax Deductions – Maximum Limits (HK\$) Year of Assessment	2023/24	2024/25
Expenses of Self-Education	100,000	100,000
Elderly Residential Care Expenses	100,000	100,000
Home Loan Interest: Basic	100,000	100,000
Home Loan Interest: Additional	-	20,000
Mandatory Contributions to Recognised Retirement Schemes	18,000	18,000
Qualifying Premiums Paid under Voluntary Health Insurance Scheme (VHIS) Policy	8,000	8,000
Qualifying Annuity Premiums ³² and Tax Deductible MPF Voluntary Contributions	60,000	60,000
Domestic Rents Deduction: Basic	100,000	100,000
Domestic Rents Deduction: Additional	-	20,000
Approved Charitable Donations [(Income – Allowable Expenses – Depreciation Allowances) x Percentage]	35%	35%

Source: Inland Revenue Department of Hong Kong, HSVM.

- 3.4.5. MPF TVCs have existed since 2019, and let taxpayers make extra MPF contributions with tax benefits. Ever since its launch, TVC has been gaining traction – by December 2024, there were more than 80,000 TVC accounts, marking a 12% year-on-year growth and a more than 80% jump since 2020. Despite its success, there is still room to fully unlock the potential for Hong Kong residents to accumulate long-term personal savings through indexing or ETF investments.
- 3.4.6. It is recommended to increase the quota limit for long-term ETF investments applicable to existing tax-deductible programmes.
- 3.4.7. An additional quota for long-term ETF investments could be added to the existing tax-deductible programme, raising the total to HK\$120,000. This additional quota, structured as MPF constituent funds, could be categorised within the same TVC account with a quota of HK\$60,000, while the QDAP accounts for the remaining HK\$60,000. The addition, alongside the current quota, would help Hong Kong residents prepare for their future more proactively and cost-efficiently. Concurrently, the resultant increase in ETF AUM and trading will benefit Hong Kong's financial ecosystem as a whole. Subject to the implementation of this recommendation, further potential to increase this tax-deductible quota may be explored.

- 3.4.8. It is also proposed to limit the additional tax-deductible programme to Hong Kong-listed and domiciled ETFs within the ITCISs list, as a starting point for providing a list of ETFs suitable for long-term investment.
- 3.4.9. The ETFs on the ITCIS list cover a wide range of asset classes, markets, and themes, offering investors a variety of low-cost investment choices that can be packaged as constituent funds. The indexing investments with different lifecycle tiers for the DIS structure, as recommended in 3.3.13. could also be categorised under the MPF TVC account as voluntary contributions. With the aim of promoting Hong Kong's ETF ecosystem with local capital, it could be considered to limit the programme only to Hong Kong-listed and domiciled ETFs at first. This will avoid potential tax issues arising from cross-border investments.

Table 3.3: Salary Tax Deduction Limits in Hong Kong (Proposed by HSVM)

Salary Tax Deductions – Maximum Limits (HK\$) Year of Assessment	2023/24	2024/25	Proposed
Expenses of Self-Education	100,000	100,000	100,000
Elderly Residential Care Expenses	100,000	100,000	100,000
Home Loan Interest: Basic	100,000	100,000	100,000
Home Loan Interest: Additional	-	20,000	20,000
Mandatory Contributions to Recognised Retirement Schemes	18,000	18,000	18,000
Qualifying Premiums Paid under Voluntary Health Insurance Scheme (VHIS) Policy	8,000	8,000	8,000
Qualifying Annuity Premiums ³² and Tax Deductible MPF Voluntary Contributions, and Qualifying Long Term ETF Investments (Proposed)	60,000	60,000	120,000 (refer to Table 3.4)
Domestic Rents Deduction: Basic	100,000	100,000	100,000
Domestic Rents Deduction: Additional	-	20,000	20,000
Approved Charitable Donations [(Income – Allowable Expenses – Depreciation Allowances) x Percentage]	35%	35%	35%

Source: Inland Revenue Department of Hong Kong, HSVM.

Table 3.4: Supplementary Note on QDAP and MPF TVC (Proposed by HSVM)

	Qualifying Deferred Annuity Policies (QDAP)	Tax-deductible Voluntary Contributions (MPF TVC)
Nature	Annuity insurance	Voluntary MPF contributions <ol style="list-style-type: none"> 1. ETF Investments (structured as constituent funds) listed and domiciled in Hong Kong based on ITCIS list 2. Lifecycle investments within the DIS Structure
Industry	Insurance	Asset management
Payment and period	Total premium payment (at least HK\$180,000) and period (at least five years) are pre-determined.	Flexible
Earliest withdrawal	At the age of 50 with a collection period as short as 10 years.	At the age of 65
Tax deductible amount per fiscal year	Maximum quota of HK\$60,000	Shared quota of a maximum of HK\$60,000

Source: Insurance Authority, MPFA, HSVM.

Benefits of promoting ETFs for tax-deductible long-term investments

3.4.10. The proposed new programme is expected to boost ETF AUM in Hong Kong. The annual incremental ETF AUM could reach HK\$11.7 billion, with cumulative investments over 10 years reaching HK\$116.6 billion, accounting for 24% of the Hong Kong ETF market.

3.4.11. This estimate is based on a 20% participation rate from Hong Kong's working population with annual incomes over HK\$400,000, similar to the participation rates observed in the existing QDAP and MPF TVC programmes (2023 statistics). If the participation rate increases to 30%, the incremental annual AUM to HK\$17.4 billion, with accumulated investments rising to HK\$175 billion in 10 years.

Table 3.5: Potential Impact of the New Tax-Deductible Programme

Participation rate scenarios	10%	15%	20%	25%	30%
Annual incremental Investment in ETFs (HK\$ bn)	5.8	8.7	11.7	14.6	17.4
Accumulated Investment for 10 years (HK\$ bn)	58.2	87.4	116.6	145.7	174.9

Source: HSVM, Census and Statistics Department of Hong Kong, Inland Revenue Department of Hong Kong as of year 2022-23, HKEX, KPMG, as of 31 December 2024.

Note:

Assumption: Hong Kong's total number of salary tax payers with annual income over HK\$400,000 is 971,486 (2023 statistics); If each individual who participates in the new programme utilises the full HK\$60,000 tax-deductible investment quota, total incremental investment in ETFs will be HK\$58 billion.

Utilising Untapped Potential of Tax-Deductible Programme

3.4.12. QDAP appears to be the more popular alternative under the current tax-deductible programme shared with MPF TVC probably due to higher flexibility in earliest withdrawal. A more flexible programme focusing on long-term ETF investment will encourage more residents to save for the future through fund investments.

Reducing Social Security Burden

3.4.13. Similar to the concept of MPFs, this tax-deductible programme aims to promote financial sustainability for Hong Kong residents without placing a burden on public finances. While planting seeds for the future, the impact of the proposed new tax-deductible programme now is expected to be fractional on government revenue. Assuming utilisation of the programme similar to the existing QDAP and MPF TVC and final tax rate as 2023 statistics, the amount of tax exemption is estimated to be only about HK\$1.5 billion, 0.25% of the estimated HK\$559.6 billion government revenue for the fiscal year 2024/2025.³⁴

Recommendation 3: Expanding Cross-Border Connectivity

3.5.1. ***Enlarge and deepen cross-border schemes, particularly ETF Connect with mainland China, as they are significant strategic assets for Hong Kong. The cross-listing of Hong Kong ETFs in Saudi Arabia shows there is potential to promote the city as a central and highly efficient node within the broader Asian financial ecosystem. Efforts to promote Hong Kong as an international hub for ETFs should be intensified.***

Broaden ETF Connect Scope

3.5.2. Actively work towards expanding the product scope of ETF Connect, for both Northbound and Southbound flows. This should involve gradually widening the range of asset classes (e.g. fixed income, commodities) and thematic ETFs (e.g. ESG, global technology).

3.5.3. Currently, Southbound ETF Connect provides mainland investors access to investment opportunities beyond domestic A-shares, including ETFs listed in Hong Kong, such as those tracking the Hang Seng Index, Hang Seng China Enterprises Index, and Hang Seng TECH Index. Hong Kong-listed ETFs that offer international investments as a means to improve overall risk-adjusted returns, can be positioned as long-term retirement savings investment solutions for mainland Chinese savers.

Explore New 'Connect' Schemes

3.5.4. Proactively explore the feasibility of establishing new ETF Connect-like schemes or mutual recognition arrangements, with other key markets in Asia and potentially other regions.

Promote Hong Kong as an international ETF hub

3.5.5. Intensify efforts to promote Hong Kong as the preferred hub for international ETFs seeking access to Asian investors (particularly from mainland China) and for Asian ETFs aiming to gain international visibility and distribution. Enhancing cross-border connectivity is not merely about increasing trading volumes, it is a strategic imperative to position Hong Kong as the indispensable financial bridge between mainland China and global markets.

³⁴ Source: HKSAR Budget 2025-26

B. Strengthening the Micro-Level ETF Ecosystem

- 3.6.1. A vibrant ETF market requires a robust and efficient underlying ecosystem, encompassing product innovation, market structure, distribution networks, and strong support for issuers.
- 3.6.2. In the ETF ecosystem, market makers play an essential role in offering liquidity to buy and sell ETF shares. They keep the bid-ask spreads at an optimal level through capital market operations. One key factor that determines the bid-ask spread is a market maker's cost of holding and hedging the underlying securities of an ETF. This bid-ask spread, in turn, determines indirect transaction costs for investors.
- 3.6.3. Liquidity, usually measured by trading value, trading volume, or bid-ask spreads, is among the most important factors to consider when trading an ETF. It indicates how timely and efficiently ETF shares can be bought and sold without significant deviation from the ETF's NAV, reflecting the true value of the basket of underlying securities. With an illiquid ETF, investors may have to purchase shares at a significant premium or sell at a significant discount to complete the trade, incurring additional trading costs indirectly.
- 3.6.4. Secondary market trading in Hong Kong's ETF market is very concentrated, or dominated by a few popular ETFs. The ADT of ETFs listed in Hong Kong was HK\$16 billion in 2024, with the ADT of top 5 most active ETFs at HK\$15 billion, representing about 90% of the ETF market's trading turnover.
- 3.6.5. Actively traded ETFs often have narrower bid-ask spreads. More trading facilitates market participants' order matching, incentivising market makers to quote prices closer to the NAV of the ETF. A narrower spread reduces trading costs for investors and attracts more trading activity, creating a virtuous cycle. In contrast, market makers usually post a wider bid-ask spread for ETFs with lower trading volume to compensate for their risk and the cost of holding an inventory of ETF shares. A wider spread increases trading costs indirectly, and thus discourages investors from ETF transactions.
- 3.6.6. The HKEX has made commendable progress in modernising its market structure, with initiatives such as the Orion Trading Platform; the International Central Securities Depository (ICSD) link for international settlement; changes to spread table; and the upcoming reduction in minimum spreads³⁵. However, the efficiency of primary market operations remains a challenge, as is the case across Asia more generally. Ensuring deep and consistent liquidity through effective market-making is also critical³⁶.

Recommendation 4: Market-Making Enhancements

- 3.7.1. ***Review and refine market-making measures to ensure deep liquidity across a wide range of ETFs. As the ETF trading landscape in Hong Kong is highly concentrated, it is recommended that authorities explore a market-making incentive programme to enhance trading in thinly traded and newly launched ETFs.***

³⁵ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

³⁶ Source: Research Paper on Hong Kong ETF Market and Topical Issues in the ETF Space, as of Jan 2018

- 3.7.2. Market-making enhancements could include incentives and obligations for market makers. The goal should be to ensure deep liquidity, paying particular attention to newer, thematic, or less-frequently traded products. HKEX's 2020 liquidity enhancement initiatives, which reportedly also improved spreads for over 80% of listed ETFs, are useful as references³⁷.
- 3.7.3. Currently, market makers in Hong Kong are obligated to meet specific commitments. For newly launched ETFs, issuers and market makers could agree on a fee or compensation structure to provide liquidity and support trading in those products, subject to regulatory approvals and best efforts to avoid conflicts of interest. Listing fees can also be used to motivate market makers. Incentives to the market makers of new ETFs could be in the form of cash stipend payments and rebates, in line with the practices in other global exchanges. Additionally, an enhanced incentive programme could standardise compensation payments to market makers, ensuring fairness among all ETF issuers. Management fees-sharing arrangements between issuers and market makers should also be standardised. To avoid conflicts of interest, these arrangements should be managed by a recognized, independent party.

Recommendation 5: Enabling Narrower Spreads

- 3.8.1. ***Consider enhancing market efficiency through measures that help to tighten bid-ask spreads. It is recommended to proceed with the planned reduction in minimum spreads for eligible securities³⁸ and rigorously assess its impact on trading costs and market quality, remaining open to further adjustments if deemed beneficial.***
- 3.8.2. A narrower spread indicates investors can trade ETFs closer to their fair market value. It is one of the prerequisites for the healthy development of the ETF market and lays the groundwork for investors and market makers to participate. Increased participation of investors and market makers eventually improves the overall liquidity and trading volume.
- 3.8.3. Narrower spreads bring other advantages. The stock exchange could benefit directly from the increase in trading and clearing fees revenue. Narrower spreads lower the trading costs for all investors and improve market efficiency. In addition, more trading activity also increases public awareness, attracts investors to trade ETFs and increases the demand for ETFs in the long term, benefitting all market participants.

Recommendation 6: Digitising ETF Creation and Redemption

- 3.9.1. ***Expedite and fully implement the planned digitisation of the ETF creation and redemption process³⁹. Digitisation is a crucial step to improve operational efficiency, reduce costs for market participants, and directly address a key challenge that has been identified in the broader Asian primary markets.***

³⁷ Source: HKEX, Assessing the Impact of ETF Liquidity Enhancements, as of Dec 2020

³⁸ Source: HKEX in 2024: Year in Review, as of Dec 2024

³⁹ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

- 3.9.2. Digitisation and modernisation can lower barriers for Participating Dealers (PDs) and issuers, potentially attracting more participants and improving the cost-competitiveness of Hong Kong-domiciled ETFs. At the same time, reducing manual paperwork can also lower transaction costs. Greater operational efficiency allows market makers to better manage their inventory and reduces creation and redemption costs, enabling them to offer narrower spreads.

Recommendation 7: Improving Settlement Efficiency

- 3.10.1. ***Proactively explore initiatives to further improve settlement efficiency. This is important against a backdrop of potential global shifts toward shorter settlement cycles (e.g., T+1), and has been a significant concern for APAC markets due to time-zone differences and pre-funding requirements⁴⁰.***
- 3.10.2. Currently, the Hong Kong market operates on a T+2 settlement cycle. Shortening this to T+1 would better align Hong Kong with other major markets. A shorter settlement cycle would also enhance investment efficiency, allowing investors to utilise their capital more effectively.

⁴⁰ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

C. Enhancing Investor Education and Engagement

3.11.1. Investor participation in Hong Kong's ETF market has been low compared to other APAC markets. To assess the level of investor participation in each market, the ratio of the ETF AUM as a share of the total stock market capitalisation in the local market is used. According to the data, Hong Kong's ratio is the lowest, followed by India's.

Table 3.6: ETF Capitalisation vs Market Capitalisation

Market	ETF AUM (US\$ mn)	Stock Market Cap (US\$ mn)	% of ETF AUM as a share of Total Stock Market Cap
US	10,347,686	61,985,129	16.7%
Australia	151,840	1,592,725	9.5%
Japan	572,782	6,404,561	8.9%
Korea	129,702	1,517,928	8.5%
Taiwan	196,584	2,490,599	7.9%
Mainland China	505,960	10,024,737	5.0%
India	94,428	4,891,741	1.9%
Hong Kong	58,695	5,577,418	1.1%

Source: HSVM, Bloomberg, ETFGI, as of 31 December 2024.

3.11.2. Current observations suggest a need for more targeted and impactful ETF education in Hong Kong, particularly to bridge the gap between product availability, and investor understanding and adoption⁴¹.

3.11.3. While the HKEX and the SFC provide valuable educational resources⁴², and the IFEC conducts broader financial literacy campaigns⁴³, there is an opportunity to launch more intensive and ETF-specific programmes. The SFC's strategic roadmap for virtual assets also underscores the critical importance of enhancing investor understanding, a principle that applies equally to the diverse range of ETFs⁴⁴.

3.11.4. A direct correlation exists between current limitations in deep ETF education and the observed lower retail participation rates, alongside AUM concentration in a few familiar products. By empowering investors with practical knowledge and skills, these educational programmes can foster the confidence needed to diversify beyond traditional holdings and embrace a wider array of ETF solutions. This, in turn, can lead to a more robust, diversified, and resilient market. Education is not merely about creating awareness, it is also about building investor capabilities and confidence so that they can use ETFs effectively to achieve their financial objectives.

⁴¹ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

⁴² Source: Education and Resources - HKEX, as of May 2025

⁴³ Source: IFEC research initiatives, as of May 2025

⁴⁴ Source: A-S-P-I-Re™ for a brighter future: SFC's regulatory roadmap for Hong Kong, as of Feb 2025

Recommendation 8: Developing Comprehensive Financial Literacy Programmes

3.12.1. ***Develop and implement multi-channel, targeted ETF education campaigns, as a well-informed investor base is fundamental to a healthy and sustainable ETF market. Education and retail participation have been found to be directly correlated. These campaigns should be a collaborative effort involving the authorities, ETF issuers, and academic institutions.***

3.12.2. These education campaigns should be a collaborative effort involving authorities, ETF issuers, and academic institutions. This can be done through a targeted approach towards the following:

Content Focus

3.12.3. Educational materials should extend beyond basic product features to cover practical applications, such as the role of ETFs in portfolio construction, diversification strategies, risk assessment (including understanding tracking difference and tracking error), and specific characteristics and risks of more complex ETF types (e.g., L&I products, active ETFs, thematic ETFs, and VA ETFs).

Delivery Channels

3.12.4. A mix of formats, including interactive seminars and workshops (both online and in-person), comprehensive online modules with assessments, engaging social media content, and easily accessible guides should be utilised. More social media campaigns and other educational programmes such as the Chin Family – an independent financial education platform – could help increase public awareness of the importance of asset allocation and how ETFs could be used for long-term investment.

Government-led Events

3.12.5. Government-sponsored financial events are usually more influential than industry events and could receive wider attention from media and the public. Take the Asian Financial Forum as an example. Global business leaders and policymakers are invited to join the forum every January. The Global Financial Leaders' Investment Summit in November also receives intensive media coverage. Setting up dedicated sessions will be helpful in focusing public attention on ETF investing and consolidating Hong Kong's image as an international financial hub.

Inspiration from Other Markets

3.12.6. Insights can be drawn from the investor education approaches of organisations such as the Financial Industry Regulatory Authority (FINRA) in the US⁴⁵ and the educational initiatives undertaken by ETF issuers in markets such as Australia to create practical, relevant, and engaging content. Particularly in mainland China, government policies and directions are widely covered by traditional and social media, and thus are often implemented effectively by authorities and industry participants.

3.12.7. In April 2024, mainland China published the new Nine Measures (新國九條), advocating for the establishment of a fast approval channel for ETFs and promoting the development of indexing investing. In January 2025, the China Securities Regulatory Commission (CSRC) released an action plan to significantly increase the scale and share of indexing investment.

⁴⁵ Source: Investor Education Resources | FINRA.org, as of May 2025

Recommendation 9: Enhancing Clarity and Standardisation of ETF Product Information

3.13.1. **Improve clarity and standardisation of ETF product information, ensuring ease of understanding and transparency in costs, including the differentiation between index and active investments, the Total Expense Ratios (TERs) and the Total Cost of Ownership (TCO). Providing clear product information and making decision-supporting tools accessible can significantly reduce information asymmetry between ETF providers and retail investors.**

3.13.2. The SFC's early measures regarding markers for synthetic ETFs⁴⁶ and the global trend towards standardised disclosures such as Key Information Documents (KIDs) in Europe⁴⁷, highlight the importance of transparent product information. This would foster greater trust in the market and empower investors to make more informed choices, ultimately leading to higher quality retail participation and reducing the potential for their investment in unsuitable products.

Disclosure to differentiate index and active investments

3.13.3. Such disclosures in investor materials (such as MPF brochures) could empower investors to make informed decisions by clearly understanding the difference between index and active investments. They could also increase awareness about indexing investments and enable investors to make effective apples-to-apples comparisons across different products.

Standardised format for better understanding

3.13.4. Mandate or strongly encourage the provision of standardised, plain-language risks-and-benefits summaries for all ETFs, particularly for complex products. These should complement, and perhaps be more prominently featured than, existing Key Facts Statements (KFS) for products, focusing on key decision-making factors for retail investors.

Interactive Tools

3.13.5. Develop and promote interactive online tools. Examples could include an enhanced version of HKEX's ETF Tax Calculator⁵⁸, portfolio construction simulators that allow investors to see how different ETFs might fit into a diversified strategy, and total cost of ownership comparison tools.

Transparency in Costs

3.13.6. Continue to promote transparency regarding Total Expense Ratios (TERs) and the Total Cost of Ownership (TCO), building upon HKEX's existing TCO primers and ensuring this information is easily accessible for all listed ETFs. Growth of online brokerage platforms, robo-advisers, and virtual banks that offer ETF investment options should be encouraged with transparent and competitive fee structures.

Recommendation 10: Fostering Continual Product Innovation

3.14.1. **Foster further ETF product innovation aligned with global trends and Hong Kong's unique strengths, giving access to different asset classes and thematic ETFs, as well as an opportunity for international diversification. This can be achieved through active participation by ETF market stakeholders, including policymakers and issuers.**

⁴⁶ Source: SFC, New measures to raise investors' awareness of synthetic ETFs, as of Nov 2010

⁴⁷ Source: MiFID II and PRIIPs EU Rules - A Guide For US Expat Investors, as of Jul 2024

3.14.2. Hong Kong has demonstrated a strong capacity for product innovation, with notable launches in areas like L&I products, spot VA ETFs, and covered call ETFs⁴⁸. Global trends indicate continued growth in active ETFs⁴⁹, a variety of thematic ETFs (including ESG, Crypto, AI⁵⁰), and the nascent field of Tokenised Assets⁵¹.

3.14.3. Product innovation offers an opportunity to align the ETF market's development with broader Hong Kong policy objectives. It has the potential to create a compelling narrative that extends beyond pure financial market growth, and could help to attract greater institutional and governmental support.

Active ETFs

3.14.4. Continue to support the development and listing of active ETFs. This could involve streamlining authorisation processes for established managers with strong track records. It could also involve considering adopting transparency and operational models from successful active ETF markets such as the US and Europe, while ensuring appropriate investor safeguards.

Thematic ETFs

3.14.5. Encourage the creation of more Thematic ETFs, with a particular focus on:

- ESG: Leveraging Hong Kong's ambitions as a green and sustainable finance hub.⁵²
- Technology: Including cutting-edge areas such as AI³⁸ and building on Hong Kong's position as a technology and innovation centre.

Digital Assets and Tokenisation

3.14.6. Further explore and support the ecosystem for Tokenised ETFs and other digital asset investment products, building on early successes such as the tokenised money market ETF³⁸. This must be accompanied by a robust regulatory framework that prioritises investor protection, drawing from the SFC's virtual asset roadmap⁵³.

Fixed Income ETFs

3.14.7. Promote the development of a broader and deeper range of fixed income ETFs. This asset class is currently less developed in Hong Kong as compared to global equity ETF offerings, and represents a significant growth opportunity, particularly in a changing interest rate environment⁵⁴.

International Diversification

3.14.8. Facilitate the listing of ETFs that offer broad international exposures to meet the diversification needs of investors from both Hong Kong and mainland China investors, accessing the market via the ETF Connect.

⁴⁸ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

⁴⁹ Source: www.hkex.com.hk, as of May 2025

⁵⁰ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

⁵¹ Source: Where will active ETFs go next? EY Luxembourg, as of Apr 2025

⁵² Source: www.hkex.com.hk, as of May 2025

⁵³ Source: A-S-P-I-Re" for a brighter future: SFC's regulatory roadmap for Hong Kong, as of Feb 2025

⁵⁴ Source: www.hkex.com.hk, as of May 2025

Chapter 4: The Path Forward



Chapter 4:

The Path Forward

- 4.1. The strategic development of Hong Kong's ETF market, guided by the recommendations in Chapter 3, aims to yield significant and multi-faceted benefits. These extend beyond the ETF segment itself. They positively impact the broader financial ecosystem, reinforcing Hong Kong's status as an International Financial Centre (IFC), and contributing to the society's economic wellbeing.

Strengthening Hong Kong's Role as an International Financial Centre

- 4.2. A thriving, innovative, and globally connected ETF market is a hallmark of a leading IFC. By expanding product diversity, enhancing market liquidity, and attracting a wider range of international issuers and investors, Hong Kong can further cement its position. The ability to offer investment tools such as ETFs enhances Hong Kong's attractiveness to global capital and financial talent. This, in turn, reinforces its reputation as a comprehensive, dynamic, and forward-looking financial hub.

Enhancing Market Depth, Liquidity, and Investor Choice

- 4.3. A deeper and more diverse ETF market provides a richer array of investment- and risk-management tools for all market participants, from large institutional investors to individual retail clients. The increased availability of ETFs, spanning various asset classes, geographies, and investment strategies, contributes to overall market liquidity and efficiency⁵⁵.
- 4.4. Greater product choice empowers investors to construct more tailored and diversified portfolios, better aligning their investments with their specific financial goals and risk appetites. This enhanced market vibrancy makes Hong Kong a more compelling venue for both domestic and international capital.

Contribution to Wealth Management and Capital Formation

- 4.5. ETFs are increasingly integral to modern wealth-management practices, offering cost-effective, transparent, and flexible building blocks for investment portfolios. A robust local ETF market directly supports the growth and sophistication of Hong Kong's wealth management industry, enabling advisers to offer a wider range of solutions to their clients.
- 4.6. Furthermore, by facilitating the flow of capital into various sectors and asset classes, ETFs contribute to more efficient capital formation within the economy. The development of innovative products further broadens the avenues for capital raising and investment, providing new opportunities for both issuers and investors⁵⁶.

⁵⁵ Source: Hong Kong's ETP Ecosystem: Creating the Conditions for Success - HKEX Group, as of Mar 2025

⁵⁶ Source: SCMP Special Report, How Hong Kong's new SFC rules could transform alternative asset investing, 17 Mar 2025

Broader Societal Benefits

- 4.7. The benefits of a well-developed ETF market extend to the broader society. Enhanced financial literacy, driven by targeted ETF education programmes, empowers individuals to make more informed financial decisions throughout their lives. Access to low-cost, transparent, and diversified investment options through ETFs can help citizens more effectively achieve their long-term financial goals, such as retirement planning, education funding, and wealth accumulation. This contributes to greater financial security and overall economic wellbeing for the population.
- 4.8. The successful implementation of the proposed recommendations is anticipated to create a virtuous cycle. Enhanced investor education can lead to greater and more informed retail participation. A stronger and more efficient ecosystem will attract a wider array of issuers and innovative products. Supportive and adaptive policies will ensure a competitive and well-regulated environment. This synergy will not only propel the ETF market to new heights but also strengthen the resilience, diversity, and competitiveness of Hong Kong's entire financial services sector.

Acknowledgements

Hang Seng Investment would like to express its sincere appreciation to Professor Kalok Chan, Chair Professor of Finance at City University of Hong Kong, for his invaluable role as an adviser throughout the course of this research. His expertise and encouragement have been instrumental in shaping this report.

Glossary

Term	Definition
Active Investing	Actively buying and selling investments with an objective of outperforming a benchmark.
Assets Under Management (AUM)	The total market value of investments managed by a fund or company on behalf of clients.
Average Daily Turnover (ADT)	The average value of securities traded daily on an exchange.
Bid-Ask Spreads	The difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask).
Compound Annual Growth Rate (CAGR)	The average annual growth rate of an investment over a specific time period, assuming profits are reinvested.
Covered Call	An options strategy where one owns the stock and sells a call option on it to generate premium income.
Default Investment Strategy (DIS)	A readymade Mandatory Provident Fund (MPF) investment option in Hong Kong for people who don't choose their own MPF funds.
ETF Connect	A cross-border investment scheme allowing mainland China and Hong Kong investors to trade eligible Exchange-Traded Funds (ETFs) listed on each other's exchanges through local securities houses. This programme started on 4 July 2022, as part of the Stock Connect framework.
Exchange Traded Funds (ETFs)	Funds that track indexes or sectors and trade on stock exchanges like individual stocks.
Exchange Traded Funds (ETPs)	A broader category that includes ETFs and other exchange-listed investment products such as Leverage and Inverse (L&I) products.
Equities	Shares of ownership in a company, commonly known as stocks.
Fixed Income	Investments such as bonds that pay regular, fixed interest.
Index-Tracking Collective Investment Schemes (ITCIS)	Collective investment schemes with an objective of tracking or replicating the performance of a benchmark. Certified by Hong Kong's Mandatory Provident Fund Authority (MPFA), ITCIS are available for investment from the constituent funds of MPF schemes.

Term	Definition
Individual Savings Account (ISA)	A tax-efficient account designed to encourage individuals making long-term saving and investing.
Institutional Investors	Professional organisations that invest large sums of money on behalf of others. Examples are insurers, pension funds, mutual funds and hedge funds.
Leveraged and Inverse (L&I) Products	Financial products designed to amplify gains (or losses) or move in the opposite direction of an index.
Market Capitalisation	The total value of a company's shares (share price × number of shares).
Market Liquidity	How easily assets can be bought or sold without affecting the price.
Market Makers	Firms or individuals that quote both buy and sell prices to provide liquidity in the market.
Mandatory Provident Fund (MPF)	Hong Kong's compulsory retirement savings scheme.
Index Investing	Investing in funds that track the performance of an index, usually passively.
Qualifying Deferred Annuity Policies (QDAP)	A type of insurance policy that offers tax reductions on premiums paid and provides a stable stream of income over a period of time. QDAP are certified by Hong Kong's Insurance Authority.
Retail Investors	Individual, non-professional investors.
Tax-Deductible MPF Voluntary Contributions (TVC)	Extra contributions to your MPF in Hong Kong that qualify for tax deductions.
Tokenisation	Turning real-world assets (such as property or stocks) into digital tokens on a blockchain.
Turnover Velocity	A measure of how quickly assets is bought and sold in a given period.
Virtual Assets	Digital assets like cryptocurrencies.

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