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Hang Seng Investment Publishes Research Paper That Calls for Collaborative Efforts to Enhance Hong Kong's ETF Market Landscape

Hong Kong is recognised as one of the prominent exchange-traded fund ('ETF') markets in Asia Pacific ('APAC'), known for its market liquidity, diverse product offerings, and critical role as a "super-connector" between mainland China and the global economy. While the APAC ETF market has experienced a strong 10-year compound annual growth rate ('CAGR') of 22%¹, Hong Kong's growth has been more moderate at a CAGR of 5%¹, highlighting opportunities for further expansion.

Hang Seng Investment Management Limited ('HSVM'), the largest ETF manager in Hong Kong² and the manager of the Tracker Fund of Hong Kong, is committed to supporting the continued development of the ETF industry in the city. To this end, HSVM has released a research paper* titled "Catalysing Growth: Understanding Hong Kong's ETF Market Landscape", which outlines strategies for key stakeholders to enhance the ETF market ecosystem. The recommendations focus on three key areas: 1. optimising macro support for market development; 2. strengthening the micro-ETF ecosystem; and 3. enhancing investor education and engagement.

Rosita Lee, Director and Chief Executive Officer at HSVM said, "Hong Kong's position as a 'super-connector' between mainland China and the global market, combined with its supportive tax, legal, and regulatory frameworks, as well as its diverse product range, create significant potential for the city to further establish itself as a leading ETF hub in Asia Pacific. We are committed to driving the development of Hong Kong's ETF market and expanding our range of index products to meet investor needs. We hope this research paper will contribute to shaping strategies that promote further growth in the industry."

Key Recommendations:

1. Optimising Macro Support for Market Development:

- To strengthen the role of indexing investments within the Mandatory Provident Fund ('MPF') System's Default Investment Strategy ('DIS'). Additional life cycle tiers can also be introduced to accommodate varying levels of risk appetite across different age groups.
- To introduce tax-deductible quotas for long-term ETF investments under the Qualifying Deferred Annuity Policies ('QDAP') and MPF Tax-Deductible Voluntary Contributions ('TVC'). Raising the total annual quota to HK\$120,000 could boost ETF assets under management ('AUM') by an estimated HK\$12 billion annually.

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- To enhance cross-boundary connectivity by expanding the product scope of ETF Connect for both Northbound and Southbound flows. New mutual recognition agreements with other key markets can also be explored.

2. Strengthening Micro ETF Ecosystem

- To implement an incentive scheme to promote market-making activities. This would help ensure deep liquidity and tighter bid-ask spreads, especially for newer or less frequently traded ETFs.
- To expedite the full implementation of digitised ETF creation and redemption processes to improve settlement efficiency and streamline operations.

3. Enhancing Investor Education and Engagement

- To develop comprehensive financial literacy programmes to boost investor education and awareness. The clarity and standardisation of ETF product information can also be improved to help investors make informed decisions. In addition, ongoing innovation should be encouraged to create products that better meet the evolving needs of investors.

Compiled by HSVM, with Professor Kalok Chan, Chair Professor of Finance at City University of Hong Kong being the adviser, this research paper explores strategies to enhance Hong Kong's ETF landscape, and spans nearly two years to draw on data and insights from various APAC markets. HSVM expects that the successful implementation of these recommendations will create a positive cycle of growth, further strengthening Hong Kong's ETF market while enhancing the resilience, diversity, and competitiveness of the city's financial services sector.

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Remarks:

¹ Source: ETFGI, as of Apr 2025.

² Based on AUM of Hong Kong listed and domiciled ETFs. Source: Hang Seng Investment, as of 17 Jun 2025.

* For the full report, please visit Hang Seng Investment Management Limited website (https://cms.hangsenginvestment.com/cms/ivp/hsvm/document/ETF_Research_Paper.pdf).



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About Hang Seng Investment

Established in 1993, Hang Seng Investment Management Limited ('Hang Seng Investment') is a wholly owned subsidiary of Hang Seng Bank Limited, and is Hong Kong's No. 1 exchange-traded fund ('ETF') manager in terms of assets under management. As a Hong Kong based asset management company specializing in managing funds related to mainland China and Hong Kong markets, Hang Seng Investment is committed to providing investors with comprehensive investment management services through investment managers with extensive experience in managing funds (including a series of ETFs and retail funds) and investment portfolios for institutional and private clients. As a leading home-grown asset manager in Hong Kong, Hang Seng Investment has more than 30 years of asset management experience.