Asian Brokerage in Transformation

A report by #theValueExchange

Ready for Next

INTRODUCTION

How is the Hong Kong brokerage industry transforming today? In an era of technological change, evolving investor behaviours, globalisation and regulation, what path are Hong Kong's leading firms taking in order to ensure their viability and success over the coming decade?

Drawing on feedback gained from nearly 200 investors and brokers in Hong Kong in May 2020, this "Asian Brokerage in Transformation" report sets out the challenges and the opportunities for brokers, providing actionable solutions and industry-wide best-practices that can help you to thrive.

We are very grateful for the support of Broadridge, Interactive Brokers and the numerous specialists whose views and expertise have shaped the insights contained in this report.

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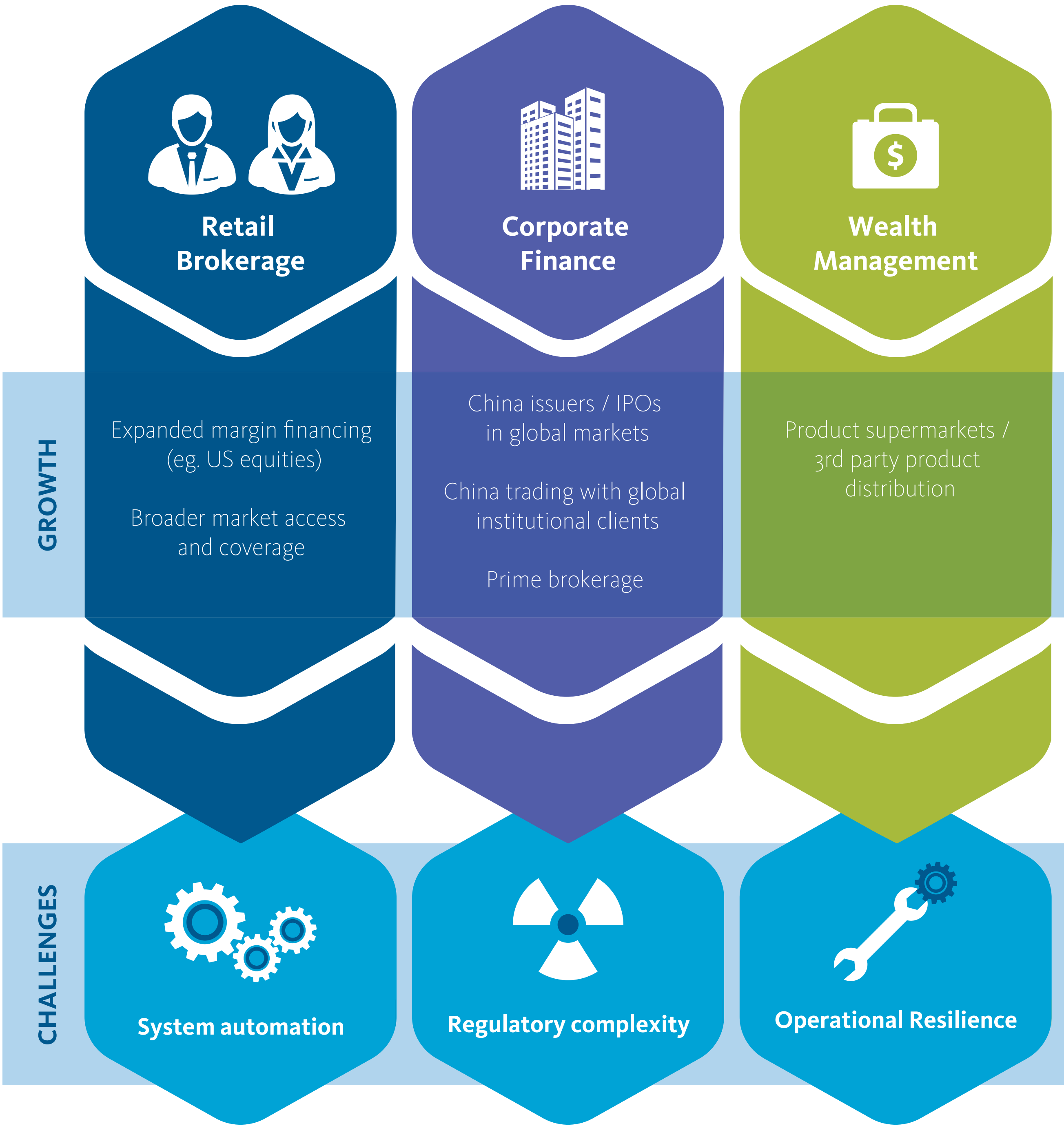
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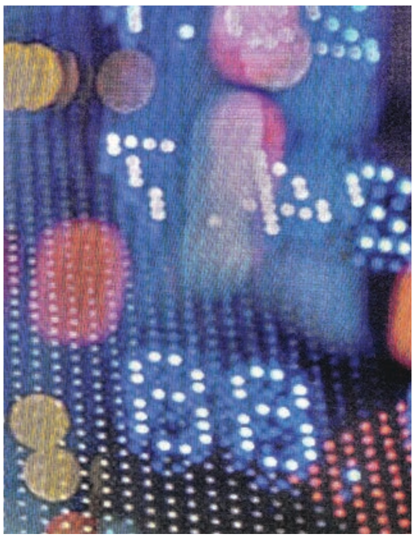
THE CASE FOR EXPANSION



Hong Kong's brokers face a unique range of opportunities and challenges. Their customer bases are growing at record rates – fuelled by the continuing promise of integration between mainland China and Hong Kong – and those customers are becoming ever-more sophisticated in their investment needs. Whilst global investments are not new to Hong Kong's investors, the roles of technology and market volatility are driving growth in a range of new platforms, markets and asset classes.

Against a backdrop of a highly manual home-market in Hong Kong, where physical documentation and exchange terminals are still prevalent, the question is how fast brokers can adapt to embrace a world of increasing, global complexity. A significant opportunity awaits brokers who have the flexibility to scale and service these new needs – whilst existential challenges await those who are unable to adapt quickly.

But what is driving this new set of needs? Why and where do brokers need to be eyeing expansion? And for whom?

HONG KONG INVESTORS: WHAT, WHERE AND WHEN?
Hong Kongers have been investing in a wide range of complex investment instruments, across many markets for decades.

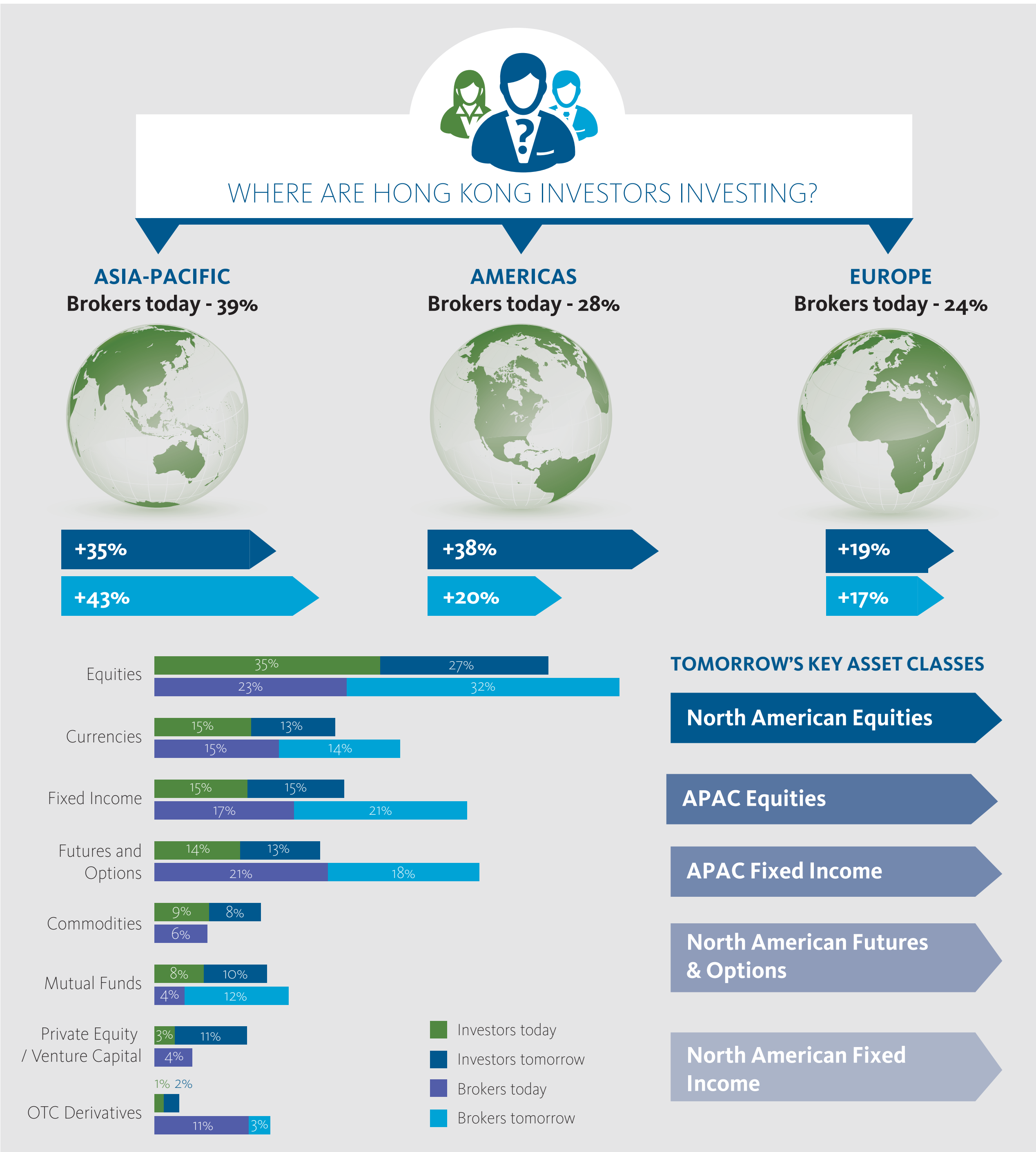
Today, North American markets are at the centre of their global outlook (with 56% of investors focused there), narrowly eclipsing Asian markets (at 54%) and relegating other markets in Europe, Africa and Latin America to niche roles. This regional allocation looks set to continue, with growth in America-bound investments set to outpace those into other regions – making US Equities the single mainstay of the Hong Kong investor's portfolio outside of Hong Kong.

Yet whilst the market-mix looks stable, the asset allocations of Hong Kong investors is anything but that. In the face of challenging economic conditions in Hong Kong and the growing need to diversify, the typical Hong Kong investor's portfolio is broadening rapidly into a range of new assets including fixed income (expanding at 15% year on year), futures and options (13%), currencies (13%), private equity (11%) and mutual funds (10%). The typical Hong Kong investor is evolving from Hong Kong stock picking to running a globally balanced portfolio that includes risk management tools and well-diversified exposures.

This expansion is not happening gradually. Hong Kong investors are making this transition right now (52% of investors are doing this in 2020) and so the urgent challenge for the brokers servicing these investors is how to cater for an unprecedented expansion of investments – within only weeks and months.

WHERE ARE HONG KONG INVESTORS INVESTING?

But the transformation of Hong Kong's brokerage industry is more fundamental than a broadening of investment destinations. A change in the entire brokerage business model is fuelling a costly expansion in many convergent directions – transforming the entire end-to-end operations of many Hong Kong players.



RETAIL BROKERAGE

Broker Huatai International brings zero fee trading to Hong Kong, piles pressure on smaller rivals already struggling with thin margins (South China Morning Post, 12 July 2020)

THE END OF BROKERAGE AS WE KNEW IT

Once the mainstay of Hong Kong's brokerage industry, Hong Kong securities trading is fast becoming a burden to many brokers as competition has intensified at record pace, in parallel with a technological transformation in customer needs.

Trading commissions have been racing towards zero for years – as Hong Kong's 400+ brokers scramble to grow their share of a HK$19.9 billion market. Huatai International's recent announcement of 'zero-commission' trading marks the end of this journey, accelerating 2019's 18% year-on-year decline in trading commissions. With a smaller pie being shared amongst more players, Hong Kong's brokers face an immediate and existential challenge of reducing unit costs and acquiring rapid scale, just to survive.

To make matters worse, the needs of Hong Kong investors are becoming increasingly institutional in their behaviours – prioritising high-quality market data and cross-asset hedging as core requirements, second only to trading costs. Functionally "investors are behaving like institutions now: they want one screen, one market and trading all hours of the day". For brokers this diversified, multi-asset approach means an accelerating investment path into new risk management tools, new markets and new asset classes as they seek to keep step with the smartphone-centric user experience.

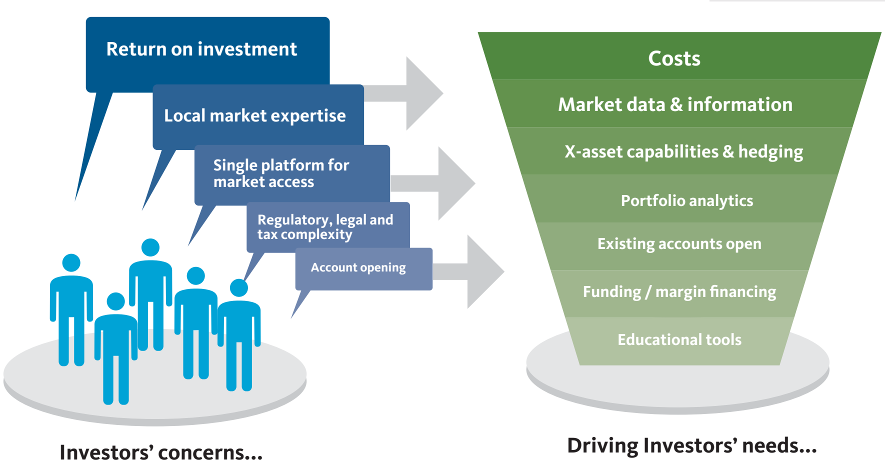
> *"Individuals are behaving like institutions now: they want one screen, one market and trading at all hours of the day"*
>
> DAVID FRIEDLAND, INTERACTIVE BROKERS

WHAT ARE HONG KONG INVESTORS LOOKING FOR IN A BROKER?

And so how to react? Unlike their US-peers, Hong Kong brokers have no ability to recycle their retail flows (by passing them into the wholesale market) and so their options are limited. First, they can broaden their offerings to include new asset classes (such as option overlays, bonds and mutual funds) or new capabilities (such as night-trading in the US market) – putting significant strain on existing broker platforms designed to run only for a single market and a single trading day. Or they can expand their margin lending revenues by broadening the range of assets that investors can leverage (into US equities, for example) – but that requires investment in new risk management tools for global securities. Either way, growth requires investment and short-term cost.

Whilst the renewed IPO momentum in Hong Kong this year has provided some respite for brokers, the longer-term equation for securities houses is inescapable: how to drive customer scale, reduce unit costs and expand quickly? The metaphor of changing the wheels of a car whilst driving 100 km/h seems extremely apt.

Where Expanding	Implications
Broader margin financing	Investments in new risk management tools for global securities
Broader market access and coverage	Investments in new market connectivity and in systems that can run 24/7



CORPORATE FINANCE

Hong Kong and Shanghai locked in tight race to be 2020's top IPO venues (South China Morning Post, 26th June 2020)

HONG KONG'S INVESTMENT BANKING COMES OF AGE

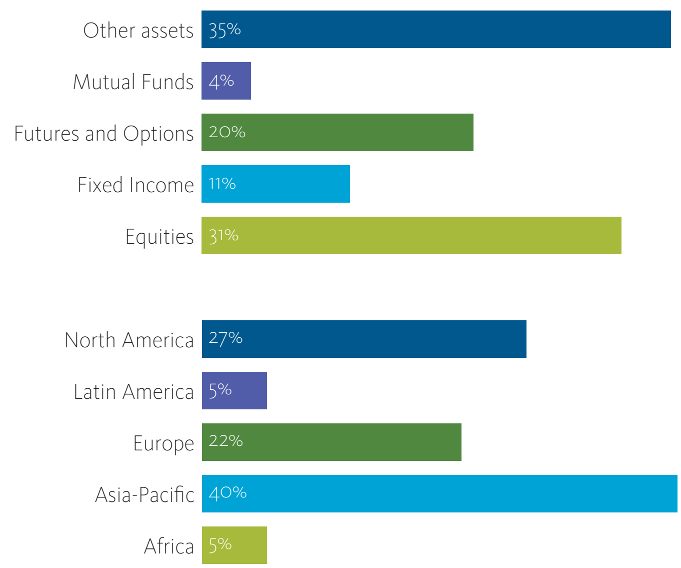
After a few lean years, the pipeline of bond issuance and IPOs into HK has never looked richer – thanks to a unique peak in both supply and demand. Whilst corporate issuers from China are tapping the global capital markets in historic numbers, global investor interest in China continues to accelerate.

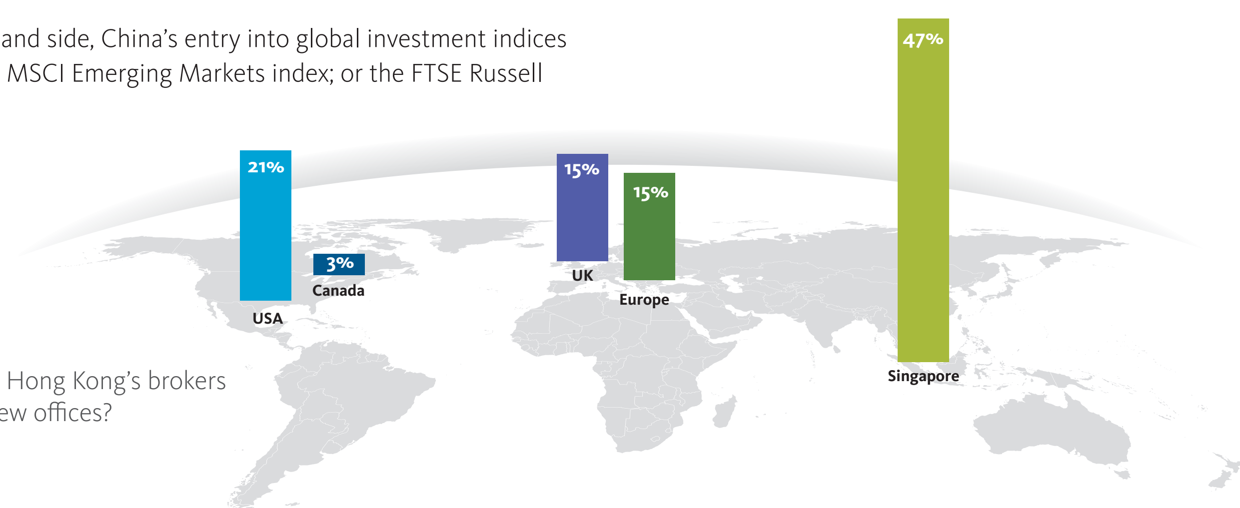
On the supply side, China's economic growth and liberalisation have created many opportunities for headline-grabbing listings in the last decade – but tapping into them has not been entirely easy for Hong Kong's brokers who aspire to be "the next Goldman Sachs". As major corporates have looked to the US (and UK) markets for listings in the last decade, many HK brokers have found these new listings out of their reach. Those brokers (such as CICC and GF Securities) that wanted to follow the flow of Chinese corporate issuance and listings have had to broaden their presence to include offices in Singapore, New York, London and other centres.

For those still centred only on Hong Kong, the return of Chinese issuers (such as JD.com and NetEase in 2020, for example) has driven USD6 billion of new IPO flows through Hong Kong – with increasing US-China trade tensions likely to drive this volume higher. Equally, bond issuance (particularly amongst popular BB-rated names, where tenors remain short and rollovers high) has risen from 50 deals in 2016 to 200 in 2020. The pie is undoubtedly growing.

On the demand side, China's entry into global investment indices (such as the MSCI Emerging Markets index; or the FTSE Russell World Government Bond index) has exponentially increased the addressable market size for those Hong Kong brokers that can offer issuance and research on China names – triggering a generational shift of over USD500 billion into China's capital markets. Whereas China stocks were once the domain of highly adventurous frontier market funds, Chinese A-shares and CIBM bonds now make up a substantial part of pension funds' holdings around the world, from Norway to Chile.

Where are Retail Brokers Expanding?





Where are Hong Kong's brokers opening new offices?

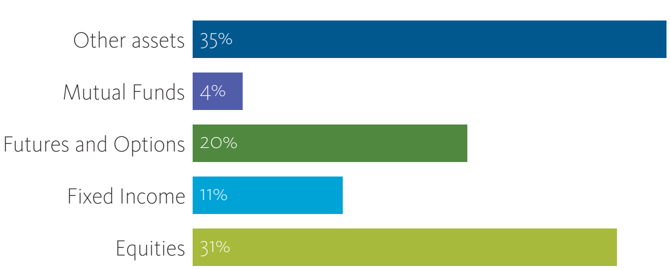
As a result, Hong Kong's investment banks (distributing and trading these securities) are now directly relevant to the world's largest investors. Whilst continuing to service local Hong Kong investors with higher yield bond issuance and local IPOs, they are now engaging directly with the likes of Blackrock or Franklin Templeton to track China names.

However, as Hong Kong's brokers seek to displace the major global investment banks with their China research and trading capabilities, they are stepping into a world of global complexity. In servicing global, institutional clients, they become subject to global regulations (such as MIFID, for example) and to exceedingly high levels of due diligence and oversight. Equally, institutional customers demand higher quality research, more tailored servicing and flexible data access every day – not to mention access to more sophisticated trading technology as order flows shift from voice-orders to low-touch or algorithmic trading. Whilst the market opportunity may be significant, the regulatory, human and technology costs of stepping into this arena are equally so.

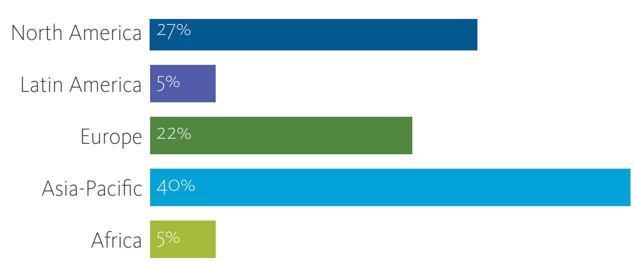
Early indications are that these factors mean that competing in the highly competitive China brokerage market is not a guaranteed win. Faced with intense pressures on research and fees, coupled with unprecedented market volatility, some established Chinese brokerages are now shifting their attention instead towards prime brokerage. By providing the 'full package' of capital introduction, leverage and trading to smaller investors, these brokers are aiming to secure valuable cash balances that provide a sustainable source of interest earnings (instead of fee trading fee income). But with funding comes risk and the ability to safely manage that risk: meaning that technology spend is again a pre-requisite for these dependable cash revenues.

That Guotai Junan Securities, China Construction Bank, Orient Securities and China Merchants Bank now all figure amongst the award-winning market-makers for the Hong Kong – China Bond Connect is evidence of the speed of transformation going on in the Hong Kong brokerage space. This is an expensive and challenging journey but one where Hong Kong's brokers are already succeeding.

Where Expanding	Implications
China issuers / IPOs in global markets	Investments in office expansion to the major capital market centres (New York, London, Singapore, etc.)
China trading with global institutional clients	Compliance with global regulation, service standards and relentless technological innovation
Prime brokerage	Risk management technology spend and balance sheet capacity



Growth of China index inclusions graphic



Where are Corporate Finance houses expanding ?

WEALTH MANAGEMENT

EVERYONE IS A WEALTH MANAGER NOW

Fee erosion in securities and market volatilities have created an existential problem for Hong Kong's non-institutional brokers. The last few years have shown Hong Kong's markets to be highly unpredictable in terms of volumes and valuations, with a feast-or-famine behaviour that has put extreme pressure on brokers' bottom lines. The solution? "We need to offer products that are negatively correlated with the HK market" (Kenny Wen, Everbright SHK) and move to a counter-cyclical business.

At the same time, Hong Kong's investors are demanding a similar degree of diversification at a portfolio-level as they seek balanced, risk-managed investment strategies.

Enter Wealth Management.

Hong Kong investors are well-known for embracing 'anything with good yield enhancement' (investing in assets such as leveraged notes, high yield bonds and CBBCs). But today's Hong Kongers, with their eyes on risk management, are equally keen to invest into insurance products, structured products, mutual funds or fixed income – creating a significant sales and distribution opportunity for whoever "owns the investor portfolio". If today Hong Kong brokers are selling Hong Kong IPOs, tomorrow they can be selling hedging solutions or securities financing to their investor clients.

> *"We need to offer products that are negatively correlated with the HK market"*
>
> **KENNY WEN, EVERBRIGHT SHK**

This alignment of interests between brokers and investors has led many providers into the wealth management space - scaling quickly to become "product supermarkets" that service an investor's entire portfolio from cash funding, to investments and to hedging. Given the tight control that Hong Kong's banks have historically exercised over insurance and fund distribution, brokers have quickly found themselves selling more products, at a higher margin (with high distributor fees and no manufacturing costs) to customers who continue to want more.

This demand extends even to areas unique to Hong Kong. Private Equity, for example (Pamela Yuen, CMB Securities), is "always appealing – demand far outstrips supply" even amongst high-net-worth investors. Equally, Hong Kong is one of the few markets where 'mass affluent' clients can increase their portfolio returns through securities lending.

Where Expanding	Implications
Product supermarkets / 3rd party product distribution	- Front office investment: to meet Product distribution rules - Customer management systems investment: to manage FATCA/CRS and Client Asset Segregation rules - Accounting systems investment: to manage FRR complexity - Investment to run 'open-architecture' platforms (including risk management)

"Up until 5 years ago, most brokers were HK equities only - but global asset classes are slowly becoming part of our DNA"

GEORGE WONG, GUOTAI JUNAN

But there is no free lunch. To build an 'open architecture' product platform requires a level of technical flexibility that few brokers in Hong Kong maintain. Equally, to be a wealth manager today is to be subjected to some of the strongest regulatory trends in the region since 2008: needing extreme agility in data management and highly robust front-office procedures.

Following the Lehman's mini-bonds scandal in 2008, Hong Kong's regulators have exercised extreme caution in the product distribution space – placing a significant burden on oversight and reporting on all intermediaries. The post-GFC era has seen the emergence not only of FATCA but also a global Common Reporting Standard, supporting global taxation in an increasing number of markets: all of which need to be stored and managed at a product distributor level. At a local level, regulators' focus on client asset segregation and anti-money laundering has led to a growing number of regulatory reviews – and highly visible sanctions for those who fall short of required standards. And a balance-sheet level, recent regulatory capital (FRR) changes have increased the complexity of trading and managing a diverse range of assets.

The operational and regulatory complexities of wealth management are a significant barrier to entry, but there is no doubt that this is a highly popular avenue for Hong Kong brokers and investment banks – so much so that pure securities trading now makes up less than 50% of brokers' revenues in Hong Kong.

But can these brokers scale to match the levels of experience and security of the global private banks?

CONVERGENCE AND SUPER-CHARGING

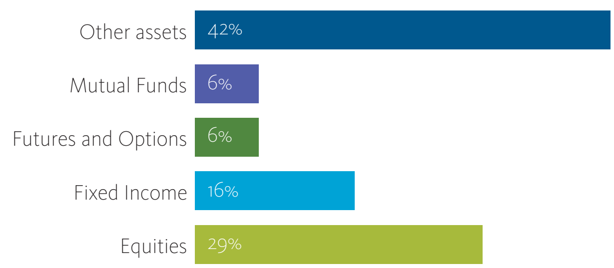
None of these dynamics are happening in isolation - they are all impacting Hong Kong's 100+ "Category B" (large to mid-sized) brokers at the same time, against an increasingly complex market backdrop.

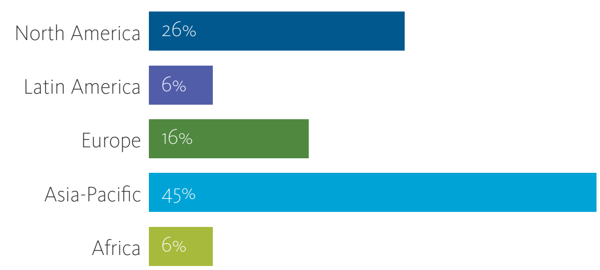
The closer integration of mainland China and Hong Kong's economies will super-charge all of these trends: although it is impossible to predict when today's trickle will turn into a flood.

Following on from China's QDII-2 initiative, the recently announced 'Wealth Connect' project is currently the most likely accelerator of capital flows from the mainland into Hong Kong. Aimed at bringing greater access and alignment of banking products to the 70 million residents of the Greater Bay Area in Guangdong, the project's framework and operational rules for this latest Connect remain vague - but early indications are that Hong Kong's brokers will not be able to benefit from the first stages of this initiative – limited as it will be to banks.

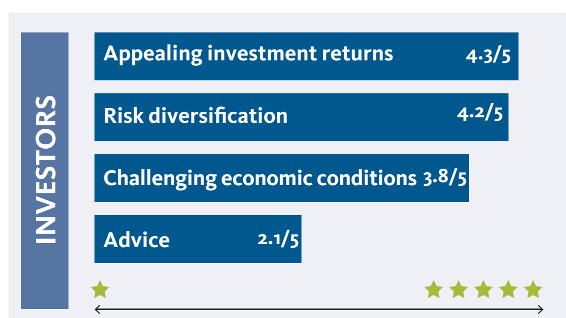
In the meantime, the advent of virtual banks in Hong Kong promises to be more transformational for the brokerage landscape. By dramatically reducing the barriers to entry for banks, Hong Kong's authorities have triggered a new wave of financial institutions who will benefit not only from low-cost funding but also from the newest technologies available – giving them lower unit costs and quicker scale than their bricks-and-mortar peers. For traditional brokers dependent on margin financing (or innovative brokers moving into prime brokerage), this challenge will be significant.

Where are Wealth Managers expanding?





What is driving Hong Kong brokers' expansion?

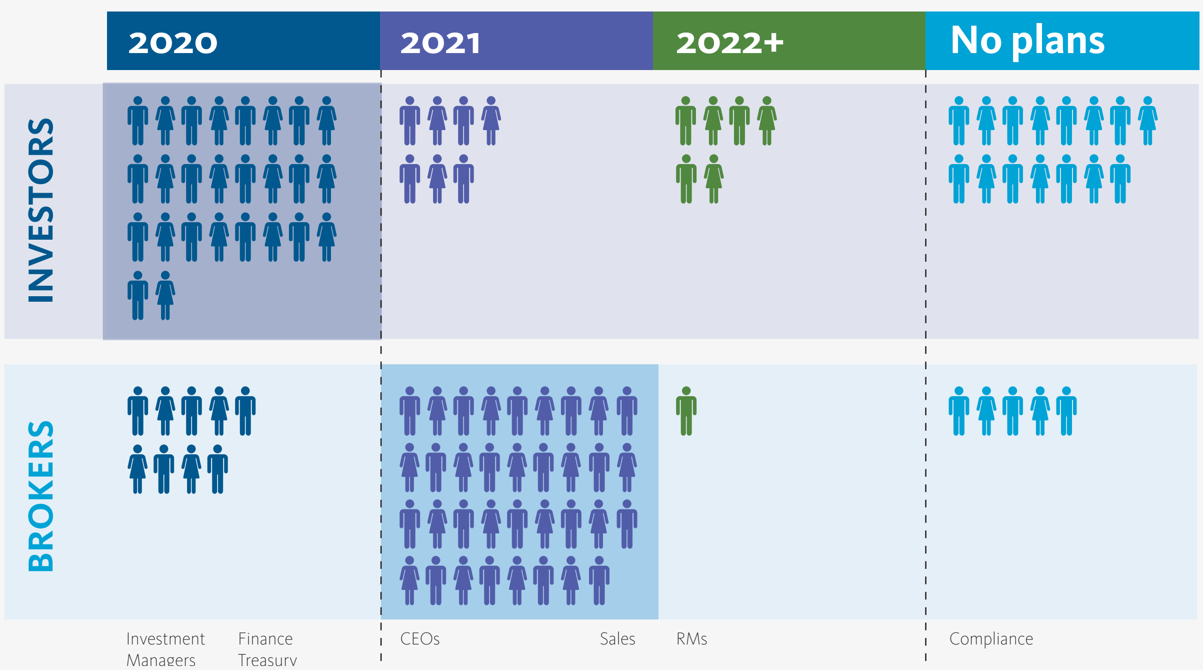


THE EXPANSION JOURNEY : KEY CHALLENGES AND CONSIDERATIONS

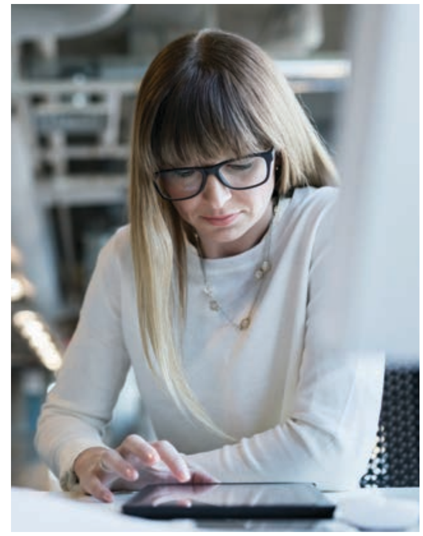
HOW READY ARE WE TO EXPAND?

Brokers are certainly reacting to these changes. 35% of Hong Kong brokers have funded expansion projects already underway today, with a further 48% still working to define exactly what their expansion strategy should be.

But as fast as Hong Kong's brokers may be reacting to these dynamics, they appear not to be moving as fast as their investor clients need. Despite a clear desire from investors to see their brokers broaden their capabilities, markets and products within 2020, the majority of brokers see their expansion plans as 2021-deliverables: lagging up to 12 months behind their customers.



When are investors expanding – and how are brokers keeping up?



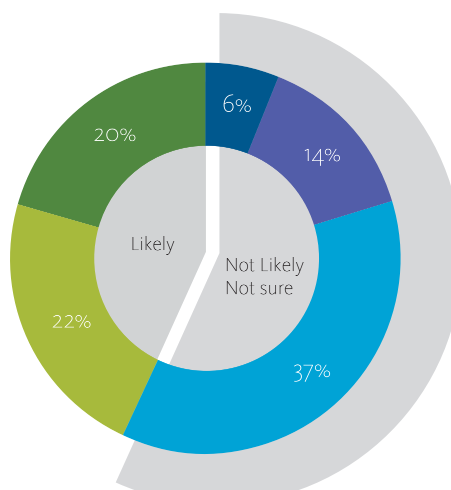
WHY IS THAT?

Five years ago, most Hong Kong brokers were running back offices that relied heavily on cheques, faxed instructions and manual trade data entry. Today, these same brokerages now seek to offer margin financing on US-stocks 24-hours-a-day, for example, alongside 20 other global markets. As they navigate through a mixture of opportunities and existential threats, the common theme for brokers is the significant burden these changes are putting on their technology infrastructures.

Yet only around 40% of Hong Kong brokers plan to use their existing technology platforms to support their near-term growth plans. Those running home-build platforms and those serving retail clients are even less confident – highlighting the need for a generational shift in front and back office systems amongst Hong Kong's brokers.

Change means transformation – and it appears that most brokers' systems aren't ready to scale.

> *"Systems are always at the centre of the conversation today"*
>
> **KURT ELDRIDGE, BROADRIDGE**



How likely are Asian brokers to to use their existing systems to support their future growth?

SYSTEM AUTOMATION:
THE CENTRE OF EVERY CONVERSATION TODAY

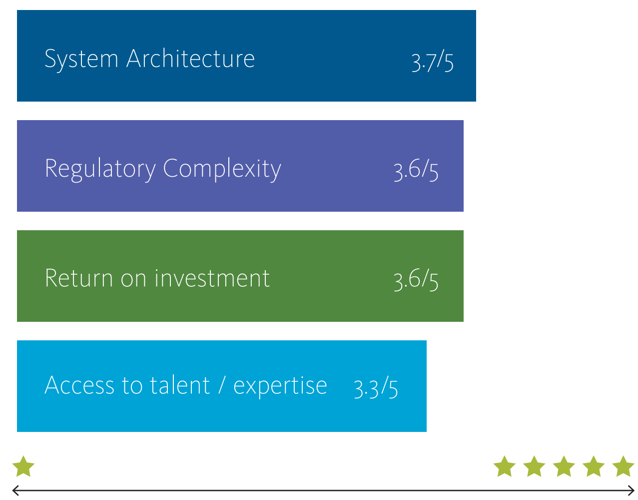
Today, system automation supersedes all other considerations as brokers look to expand and diversify their businesses (with an importance rating of 78%) – even ahead of profitability. With regulatory complexity coming in a close second (at 76%), Hong Kong brokers' historical focus on costs is clearly outdated and misleading in a world of risk management, regulatory oversight and changing customer needs. Of the brokers responding to our survey, only the Sales and Finance functions prioritised returns over these more practical considerations. For CEOs, COOs, Compliance and Operations the priority is building a sustainable business.

And where are these challenges?

Scaling from Hong Kong equities trading into multi-market, multi-asset, multi-activity brokerage requires much more than multi—currency reporting or the ability to process settlements in different markets. In a world of increasingly fragmented liquidity, global access means tapping and managing numerous trading venues in order to offer customers true value. From a risk management and funding perspective, every new asset class or market requires the ability not only to fund trades but also to monitor and track exposures across a highly diverse range of currencies, collateral classes and risk methodologies. From a post-trade perspective, every market and asset bring its own specificities: how can you manage an Australian Dividends Reinvestment Plan instruction, for example, if you have never seen one before?

Expansion in this context means managing operational risks on many fronts. In scaling, brokers must be sure to adapt to accommodate market specifics in every area – without missing any specific rules or requirements. They must accommodate and track an increasing number of diverse operating procedures across markets and products. And they must be ready to accommodate near-constant changes to those procedures as market rules and practices evolve across their clients' asset universes.

Many of these risks cannot be addressed through manual processes or by trying to grow systems that are not designed to scale. Given the very significant financial and reputational risks involved, Hong Kong's brokers need to be working with proven partners in global markets if they are to avoid downside from 'unknown unknowns'.



What are brokers key concerns as they look to expand?

"An HKD1 million loss from an overseas corporate action is not unusual for us"

HONG KONG BROKER

WHY IS SYSTEM AUTOMATION SO IMPORTANT? KEY DRIVERS

WHY IS SYSTEM AUTOMATION SO IMPORTANT?

KEY DRIVERS

CUSTOMER MANAGEMENT

- Client onboarding / KYC
- FATCA / CRS reporting
- Product distribution monitoring
- Client Asset Segregation
- Multi-currency P&L management, risk management and funding
- Customer limit monitoring
- Client reporting
- Data access and analytics

TRADING

- Integration to fragmented trading and liquidity venues
- 24-hour operational performance
- Multi-fund trading (for institutional clients) including block trading and automated, post-trade allocations

RISK MANAGEMENT

- Currency management
- Margin & Collateral management
- Counterparty exposures
- Asset valuations (for wealth management clients and for illiquid securities such as PE)

POST-TRADE

- Funding for clearing, settlements and corporate actions
- Settlement automation for T+0 markets (eg China)
- Corporate actions (specific market practices)
- Local taxation, disclosure and reporting rules
- Investor identification and limit monitoring (in Beneficial Ownership markets)

COMPLIANCE RISK AND REGULATION: PROTECTING AGAINST DOWNSIDE

Alongside operational risks, today's highly regulated financial markets make expansion in any direction (markets, asset classes or activities) highly complex – with very significant downside risks for those who fail to live up to required standards.

Take the example of a single transaction: a Hong Kong broker buying a UK government bond-future for a client that is US-passport holder. At home in Hong Kong, that single transaction could trigger a substantial change in a Hong Kong broker's regulatory capital (FRR) calculations and reporting – probably requiring professional advice to help interpret and operationalise the requirements. Simultaneously, the presence of a US citizen in the broker's accounts would mean that all client incomes need to be tracked and reported at an individual level in order to remain compliant with FATCA. And most worryingly for the broker, this single trade would also subject them immediately to a multitude of overseas regulations that they would never have encountered before, such as CRS, MIFID, CSD-R and others – each requiring reporting, monitoring and funding risks that would be entirely unknown to them.

The combination of (dynamic) domestic rules, foreign market rules and extra-territorial rules makes the regulatory landscape for Hong Kong's brokers almost infinitely complex. And given the fast-increasing amount of highly publicised, regulatory enforcement actions today, there is little scope for pleading ignorance in the event of a single failure.

Experience since the Global Financial Crisis of 2008 shows that this regulatory burden is becoming more dynamic, with markets increasingly interlinked across a network of divergent rules, many of which are still evolving. For Hong Kong brokers, this means that following their customers into new markets, activities and asset classes is a path loaded with risks – which can only be offset through continuing, reliable partnerships and scalable technologies.

There is simply too much to learn and to know.

OPERATIONAL RESILIENCE: THE POST-COVID ERA BEGINS

Hong Kong's operational resilience has traditionally been in its depth of people. The range of (largely manual) trade processing and reporting tasks that Hong Kong brokers face every day are fulfilled by an extensive range of managers and staff – each of whom brings the value of their experience and context.

Whilst the operational risks of this model have always been apparent (notably the cost and risk of human errors), the last 12 months have exposed Hong Kong brokers to additional concerns. How can an office that is highly reliant on its staff to manually process trades function when it has no people in the office?

> *"If you're following a rule in one place you're probably breaking it elsewhere"*
>
> **DAVID FRIEDLAND, INTERACTIVE BROKERS**

COVID-19's impact on the securities industry has been significant: with approximately 70% of Hong Kong brokers saying that it has a negative impact on their businesses and their future plans. What was previously a tenable (if risky) operating model is now simply no longer viable – even for those brokers that continue to focus only on Hong Kong stocks.

"During the worst of COVID-19 so far, we could only afford to let 30% of our staff work from home" as essential tasks had to be carried out and fulfilled onsite.

True, remote working is one option (i.e. do the same manual tasks but from a different location) – but industry attention is now fixed on automation (i.e. remove the need for anyone to do the task at all) in order to continue functioning in the event that even half of a team is unable to reach the office.

Client-level regulations	Home regulations (Hong Kong)	Global Market regulations	Customers' regulations
General Data Protection Regulation (GDPR)	Financial Resource Requirements (FRR)	Shareholder Rights Directive (SRD-II)	Undertakings for Collective Investment in Transferable Securities (UCITS V)
California Privacy Act (CCPA)	Client Asset Segregration (CAS)	Central Securities Depositories Regulation (CSDR)	Investment Companies Act (1940)
Common Reporting Standards (FATCA / CRS)	Product distribution rules	Uncleared Margin Rules (UMR)	Employee Retirement Income Security Act
"Brexit" (and differences with European Union rules)	Margin concentration risk (SFC Guideline for Securities Margin Lending activities)	Fund passporting / Mutual recognition schemes	Alternative Investments in Fund Managers Directive
Markets in Financial Instruments Directive (MIFID)	Short selling reporting	Market connects (Hong Kong – China; London – Shanghai, etc.)	
	SFC Code of Conduct	Securities Financing Transaction Reporting (SFTR)	
	SFC AML Guidelines/rules	Short-selling bans (e.g. Korea)	

The multi-dimensional web of home and global regulation

OPERATIONAL RESILIENCE IN THE COVID-19 ERA

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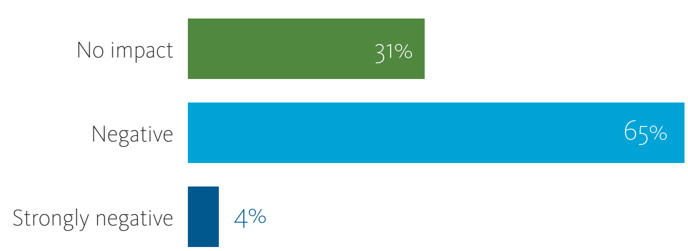

How has COVID-19 impacted brokers expansion plans?

THRIVING THROUGH EXPANSION: BEST PRACTICES

The opportunities and threats that Hong Kong' brokers face today are making expansion almost inevitable. Yet with expansion comes significant cost and downside risk. So how are tomorrow's leaders meant to navigate a clear path to sustainable growth in these circumstances? What should we be doing in order to prosper?

BROKERS' KEY BUYING CRITERIA AS THEY EXPAND

1 **COST**
Get the business case right: be sure to factor Operational Risk, Regulatory Risk and future requirements into your evaluation

2 **CUSTOMER SUPPORT / EXPERTISE**
Align with people that live and breathe the markets that you're expanding into today and tomorrow

3 **MARKET REPUTATION AND REFERENCES**
Partner with organisations that have a proven track record of delivering and explaining global change in a customer-specific context

4 **WORKFLOW AUTOMATION**
Be intolerant of manual processes. Could you manage it during COVID-19? Could you manage a 10x growth in volumes?"

5 **CUSTOMISATION AND ABILITY TO SOLUTION**
Make sure the platform fits with your processes – but avoid customising so much that you can't use the standard software version or global industry

6 **FEATURES AND TECHNICAL CAPABILITIES**
A system's strength is its future roadmap: choose a system that is going to keep growing

WHO IS THE TEAM?

Global scale and regulatory complexity have meant that 'systems' have been replaced by partnerships. Ten years ago, a system's value could be defined by its features and its cost. Today, its value is its ability to keep brokers one step ahead of their customers – whilst fully addressing operational and regulatory risks.

This means a significant mindset shift for many Hong Kong brokers. In building their 'expansion' team, it is crucial that they look past pure cost-considerations to surround themselves with expertise to help them manage, quantify and address future risks – as part of an ongoing discussion that removes the risk of 'unknown unknowns' from their business.

WHAT TO BUILD?

As complicated as multi-asset and multi-market expansion may be, the change-risk of a wholesale, overnight change make that option impracticable. Rather than "throwing everything in the bin" the ideal solution is to build a new foundation that underpins brokers' existing, daily activities whilst facilitating growth through new 'modules'. If Hong Kong equities are already functional then plug them into your new foundation layer and plug in Japan equities or US private funds as and when you need them.

HOW TO DEPLOY?

As part of the modular approach, fix one problem at a time and avoid overload on your change management. "Pick and agree on an area that needs change – and then add more pieces."

But always ensure that your systems adhere to industry-standards (such as FIX messaging, SWIFT, etc.) in order to ensure continued automation and evolution in line with global industry peers.

WHEN TO ACT? NOW.

Investors are expecting expansion to be happening right now. Any brokers that are not already acting are already falling behind.

CONCLUSION

The expansion challenge is very real. This year has seen a record number of brokers fail in Hong Kong (23 failures already, versus a previous record of 22 in 2019) and so the pace of consolidation is accelerating.

Faced with the need to expand, to drive scale and to optimise costs Hong Kong's brokers are faced with an existential choice. Either they choose to invest incrementally today – building a new foundation for their business that sets them on a path of scalable and secure growth – or they choose to be left behind.

For those that rise to the challenge, choice of partners is going to prove a key factor. As investments and exposures become global, so must brokers' partnerships: leveraging the expertise of globally experienced advisors to turn the complexity of international markets into a global growth opportunity. Far from the vendor-client relationship of yesterday, tomorrow's brokers need to rely on truly mutual partnerships to thrive.

As the trickle of China investments into Hong Kong looks ever more likely to turn into a flood, the rewards for Hong Kong's surviving brokers will be extensive – as the region evolves into what could be one of the largest derivatives trading centres on Earth – but for now there is no possibility for Hong Kong's brokers to stand still.

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