

Corporate Outlook

The collapse of the US mortgage market four years ago has led to a financial crisis that continues to have a profound effect on the global economy and an unprecedented regulatory response. The crisis laid bare sheer size and interconnectedness of the global financial system, as well as the interdependence between the “real” economy and a highly complex financial infrastructure – ranging from banks to brokers and exchanges. Examples of the considerable regulatory effect now underway include proposals to insulate customers of systematically important financial institutions from the effects of financial stress (addressing the “too big to fail” problem) as well as a multitude of other global regulatory initiatives aimed at ensuring greater financial stability and the reduction of systemic risk.

These developments are of direct relevance to Hong Kong’s development as an international financial centre (IFC), which functions as a location for fund raising and investing for local and, increasingly, overseas participants. This “hub” role underscores the importance of collaboration between Hong Kong regulators with their counterparts, regionally and around the world. Without this, it would be extremely difficult to regulate effectively the activities of large global firms as well as all other overseas participants in our markets.

The global regulatory agenda is packed, and risks impacting Hong Kong continue to have their epicenter outside the city.

Consequently, in the year ahead, we view Hong Kong’s interaction with the international regulatory community – within Asia and globally – as a key area of focus, concentrating on financial stability, the reduction of systemic risks and implementing associated global and local initiatives.

Closer to home, we are addressing two equally important issues. The first is to foster the continued growth of Hong Kong’s position as an IFC and to further develop the city as an a renminbi centre. The second is to implement a series of initiatives to enhance investor protection.

All of these objectives can only be achieved through close collaboration within the SFC itself across our internal divisions; to that end, we have formed a number of cross-divisional teams to work on key initiatives.

Focus 1: Hong Kong as an integral part of the global regulatory community

A large volume of the participants in Hong Kong’s financial markets – listed companies, brokerages, funds and other sources of capital and liquidity – is international. This means that it is important that Hong Kong is able to absorb external shocks and also effectively regulate its markets through close co-operation with regulatory counterparts worldwide.

Global regulatory co-operation is relatively mature in the area of enforcement against market misconduct and financial crimes. However, the global financial crisis and its aftermath – from the collapse of Lehman Brothers to the failure of MF Global in 2011 – exposed the critical fact that close cross-border regulatory co-operation must also extend to the policy, risk and supervisory areas.

Shape the global regulatory policy agenda

A large number of international groups are involved in responding to the crisis, including the Group of Twenty, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

Hong Kong’s objective is to contribute meaningfully to the international regulatory agenda and to implement global regulatory objectives in a manner that is aligned with the international consensus and also sensitive to market realities.

We will continue to play an active role in the global regulatory dialogue, participating through IOSCO, the global securities markets standard setter and policy forum, and contributing to initiatives under the FSB:

- **Assisting in IOSCO work:** The SFC is an active member of the seven IOSCO standing committees and of key IOSCO task forces. It chairs the Standing Committee on the Regulation of Market Intermediaries and co-chairs the working group on margining requirements for non centrally cleared derivatives, a collaborative working group led by the FSB and comprising the Basel Committee on Banking Supervision, IOSCO, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System.
- **Chairmanship in IOSCO:** Starting May 2013, the SFC will chair the Asia-Pacific Regional Committee of IOSCO, which is expected to take an increasingly proactive approach in the shaping of the global regulatory agenda.