

Conduct standards

Conscious of our role in promoting and maintaining public confidence in the SFC, we require the highest standards of integrity and conduct from our Board members and staff. All employees are required to comply with the requirements and relevant legal obligations regarding confidentiality, conflict of interests, personal investments, etc, as set out in our code of conduct for staff. A copy of the code is provided to all new staff members and is accessible on our Intranet. Failure to comply with the code may result in disciplinary action.

Accountability and transparency

To ensure that we act firmly, fairly and in a transparent manner, we have in place procedures and guidelines for making decisions and taking action in various aspects of our operation.

Financial control and reporting

- A set of financial control policies and procedures sets out the levels of authority and delegation of administration, financial and management functions. Matters covered include appointment of consultants, fee collection, investment, purchasing and budgeting process.
- We adopt the International Financial Reporting Standards promulgated by the International Accounting Standards Board for reporting and disclosure of financial statements.
- Our financial statements are audited by an external firm. The audited statements are then approved by the Board (upon recommendation by the Audit Committee) and signed by our chairman and CEO. We publish our financial statements every three months in our quarterly reports and a full-year account in our annual report.
- Each year, budgets are submitted to the FS for approval and tabled before the Legislative Council (LegCo) after consideration by the Budget Committee and the Board.

During the year, we attended meetings of the LegCo's Panel on Financial Affairs to explain to its members issues of public interest and policy initiatives. We also discussed draft legislation at meetings held by the designated bills committees and sub-committees.

Internal control review

To assess whether our systems of internal control set out in the various manuals are adhered to and to evaluate and enhance adequacy of these procedures, we appoint an external audit firm to conduct annual internal control reviews. The focus of the review has to be approved by the Audit Committee annually.

Handling of complaints and grievances

- Procedures are in place to ensure that complaints or grievances against the SFC, or an SFC employee, or those pertaining to public interest or discrimination are handled in an efficient and transparent way.
- Reports of improper practices of the SFC or our staff can be made to us under our public interest grievance procedures. These procedures are posted on the SFC site to assist individuals who are engaged by or work at the SFC to report cases in a constructive and confidential manner.
- Separate complaint handling procedures are established to handle dissatisfaction with the way the SFC or our staff have carried out their duties. The relevant procedures are also posted on the SFC Web site to give the public guidance.

Communication with stakeholders

We consult the public before introducing any regulatory changes as required by the relevant provisions of the SFO. Comments received, our responses to the comments, details of modifications to the draft rules and subsequent conclusions are published on the SFC Web site.

As part of our ongoing effort to keep our stakeholders and the public informed, we take the initiative of reporting our key regulatory and organisational activities as well as financials on a quarterly basis. We also report our latest regulatory actions through news releases and post updates on the SFC Web site.

Risk management

Aiming to establish a dedicated, central risk and strategy function, we launched in early March 2012 the Risk and Strategy Unit to formalise the development and implementation of our overall approach to risk and facilitate the development of the policies and strategies to manage the relevant risks.

In their respective areas, our operational units closely monitor and assess risks and report regularly to the Board their analysis and recommendations on managing such risks.

We have a market contingency plan, which details procedures for dealing with emergency situations that may affect Hong Kong's securities and futures markets. We also have in place our own business resumption plan, which covers readily identifiable risks, including technical problems, fires, nature disasters and other emergencies. The plan is updated annually.

We have a framework of control to manage our information security. During the year, we revised our information security policy to strengthen our level of security standards and to help staff observe security practices in their daily handling of information.

Independent checks and balances

We are subject to external checks and balances designed to ensure fairness in our decision making, observance of due process, and proper use of our regulatory powers. Other than scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Office of the Ombudsman.

- **Process Review Panel:** An independent panel established by the CE in 2000, the panel has a membership of representatives from various community segments, the SFC chairman and a representative from the Secretary for Justice, both in an ex-officio capacity.
- **Securities and Futures Appeals Tribunal:** This is chaired by a High Court judge appointed by the CE and comprises two other members drawn from a panel appointed by the FS under delegated authority.

Independent body	Function	Tasks handled
Process Review Panel	<ul style="list-style-type: none"> ■ Reviews and advises on the adequacy of our procedures and guidelines, including those on handling of complaints, licensing and listing applications, inspection of intermediaries, product authorization, disciplinary/enforcement action, etc 	<ul style="list-style-type: none"> ■ Reviewed 57 selected cases (covering the period from October 2010 to September 2011) ■ Concluded that the SFC has, in general, adhered to established internal procedures and operational guidelines in its actions and decisions ■ Published the 10th report in September 2011
Securities and Futures Appeals Tribunal	<ul style="list-style-type: none"> ■ Reviews specified decisions made by the SFC ■ Has power to confirm, vary or set aside SFC decisions, substitute any other decision it considers appropriate, or remit the matter to the SFC with directions 	<ul style="list-style-type: none"> ■ Received request to review five cases of SFC regulatory decisions ■ Brought forward three cases from 2009-10 and 2010-11 ■ Issued decisions on three cases, allowed five to be withdrawn
Office of the Ombudsman	<ul style="list-style-type: none"> ■ Handles public complaints against SFC actions and its staff in the discharge of their duties 	<ul style="list-style-type: none"> ■ Conducted 13 preliminary inquiries upon receipt of complaint referrals
Courts	<ul style="list-style-type: none"> ■ Handles judicial reviews of SFC decisions 	<ul style="list-style-type: none"> ■ Heard one application for judicial review