

Achievements and Work in Progress

Corporate Finance

39 executives and
15 non-executives

- Administer the Codes on Takeovers and Mergers and Share Repurchases
- Raise standards of investor protection and corporate governance
- Oversee the SEHK's listing-related functions and responsibilities
- Review and recommend changes to the Listing Rules
- Administer securities legislation relating to listed and unlisted companies
- Recommend changes to laws and regulations to facilitate the development of effective, fair and efficient capital markets
- Review prospectuses of unlisted issuers for authorisation under companies legislation and grant exemptions for prospectuses issued by listed and unlisted issuers
- Administer the Dual Filing regime under the SFO to enhance the quality of disclosure by listing applicants and listed companies

Intermediaries and Investment Products

103 executives and
32 non-executives

- Act as the gatekeeper of the industry, by licensing only those individuals and firms that are fit and proper to conduct regulated activities
- Monitor the financial positions of licensed firms and supervise their business conduct
- Raise the professional standards of intermediaries
- Impose authorisation requirements on the sale of investment products to the Hong Kong public and their advertisements in accordance with product codes and industry standards
- Monitor disclosures and ongoing compliance of investment products
- Carry out policy reforms to enhance investor protection and foster market development

Enforcement

71 executives and
20 non-executives

- Monitor trading of Hong Kong's stock and derivative markets and inquire into irregularities
- Inspect books and records of listed companies if impropriety is suspected
- Enforce laws relating to the securities and futures industry, leveraged foreign exchange trading, and collective investment schemes
- Discipline dishonest, incompetent and financially unstable regulated intermediaries
- Report suspected civil market misconduct to the Financial Secretary
- Suppress illegal or improper trading practices and irregularities relating to collective investment schemes and the provision of advice or other financial services
- Enforce disclosure of interests of substantial shareholders, directors and chief executives of listed companies
- Co-operate with domestic and overseas regulatory bodies in local and overseas investigations

Supervision of Markets

18 executives and
5 non-executives

- Facilitate the development of and encourage participation in the Hong Kong markets
- Strengthen market infrastructure
- Supervise and monitor activities of the exchange controller, exchanges and clearing houses
- Regulate approved share registrars
- Regulate authorised ATS
- Supervise and monitor activities of the independent Investor Compensation Company Limited
- Manage Hong Kong's investor compensation funds

Legal Services and Corporate Affairs*

61 executives and
42 non-executives

- Advise operational divisions on possible breaches of the securities laws
- Advise the Commission in relation to suspected insider dealing
- Advise on the applicability and interpretation of laws under the SFC's purview
- Assist with reform of the laws governing the securities and futures markets
- Prosecute in the Magistrates' Courts for a wide range of regulatory offences
- Handle civil litigation matters involving the SFC, including appeals
- Advise the Takeovers Executive and the Takeovers Panel
- Provide legal, finance, human resources, training, information technology, management and corporate services to the Commission
- Educate investors and handle complaints
- Communicate with stakeholders including the media

Numbers of executives/non-executives refer to permanent established posts.

* The Corporate Affairs Division includes the Chairman's Office, Commission Secretariat, China and International Policy, Finance and Administration, Human Resources, Training and Development, Information Technology, Investor Education and Communications, and Corporate Communications.

Achievements in 2004-2005

- Issued consultation conclusions jointly with HKEx on the regulation of sponsors and IFAs
- Worked with SEHK on its Code on Corporate Governance Practices and the Corporate Governance Report
- Implemented prospectus related amendments in the Companies (Amendment) Ordinance 2004
- Issued a consultation paper to review the Codes on Takeovers and Mergers and Share Repurchases
- Issued a consultation paper on proposed amendments to the Securities and Futures (Stock Market Listing) Rules and worked with the Government on giving statutory backing to major listing requirements
- Supported the Government regarding its proposals to establish a Financial Reporting Council
- Worked with SEHK on its proposal to review its decision-making structure arrangement for listing matters

- Managed down financial risks of the securities industry by requiring brokers to tighten their margin loan credit policy and increase their capital base
- Minimised the risks to the market of a few firms by imposing licensing conditions and/or obtaining undertakings
- Released a report on mis-selling practices of investment advisers
- Survey on fund trading practices, theme inspection and subsequent regulatory action
- Published the code on analyst conflicts of interest
- Secured a new fidelity insurance scheme for SEHK and HKFE participants
- Obtained public support for the proposals to address risks arising from securities margin financing
- Smooth migration of licensees to the SFO regime
- Facilitated the processing of UCITS III fund applications
- Proposed relaxation for overseas investments by SFC-authorized REITs

- Negotiated a record ex-gratia payment to investors of \$255 million by an investment adviser
- Reached a record \$30 million settlement with a sponsor
- First Dual Filing prosecution against a listed company and its director for providing false and misleading information
- Substantially concluded five cases before the Insider Dealing Tribunal
- Successfully prosecuted 76 entities for various offences, including a record high of nine market manipulators
- Concluded 99 disciplinary inquiries and took action against 88 licensees or concerned persons
- Referred 31 cases of fraud to the Police
- Concluded 553 investigations of which 394 were completed within 12 months

- Authorised three Automated Trading Services providers
- Completed the comprehensive review of HKEx's fees and charges
- Monitored the development and launch of advanced market infrastructure under SCEFI recommendations including DCASS and IP Account service
- Consulted the public on the level and the funding of the ICF and the operation of the investor compensation arrangements
- Consulted the public on the disclosure of interests regime
- Facilitated the launch of H-shares Index Options and the enhancement of the stock options market
- Revised the SFC Market Contingency Plan and assisted in the set up of a backup site for the SFC
- Participated in a successful market contingency rehearsal co-ordinated by the Government
- Commenced legislative drafting for enabling a scrippless market

- Worked with the Government on maintenance of the SFO and formulated amendments to its subsidiary legislation on statutory backing for listing requirements, disclosure of interests and other matters
- Conducted a significant number of successful prosecutions for a wide range of regulatory offences
- Successfully opposed an application for leave to apply for judicial review against the Commission
- Managed budget prudently and achieved a \$169 million surplus
- Established an off-site backup office
- Gained external recognition of human resources and training policies and procedures
- More secure and convenient remote connection solutions for office system access
- Introduced more application and network services for FinNet users
- New investor education TV and radio programmes, university credit courses
- Revamped the SFC website and the eIRC
- Active participation in community work and voluntary service

Work in Progress

- Consider proposals to modernise the public offering regime under the Companies Ordinance
- Consider responses to the Consultation Paper to amend the Takeovers Code
- Consider responses to the Consultation Paper to amend the SMLR and work with the Government on its proposals to make related amendments to the SFO

- Fine tune the licensing framework for industry practitioners
- Finalise the public consultation on margin financing reform and devise a balanced policy to enhance investor protection
- Conduct theme inspection to examine sponsors' compliance with recently revised Listing Rules and practice notes
- Review guidelines on retail hedge funds

- Target investigations on areas of corporate misgovernance, market crimes and serious misconduct by intermediaries
- Conduct inspections into listed companies and continue 14 listed companies inspections
- 112 cases subject to disciplinary proceedings, 10 cases awaiting hearing in the Courts and two before Insider Dealing Tribunal
- Strengthen domestic and international co-operation, especially against cross-border fraudulent activities

- Introduce legislation to enable a scrippless market and an operational model for consultation
- Work with HKEx to facilitate the introduction of new products and services, such as callable bull/bear contracts, and to review reduction of minimum spreads and position limits
- Monitor HKEx's work on its network consolidation project
- Introduce legislative amendments for a levy triggering mechanism for the ICF
- Monitor ICC's implementation of the claims handling procedures
- Follow up on the consultation conclusions on the disclosure of interests regime
- Further enhance the Market Contingency Plan, provide contingency information on website, and complete the Business Continuity Planning Guidelines

- Work on legislative initiatives to ensure policy aims are fulfilled and to address market needs and reforms
- Refine subsidiary legislation in the light of market developments
- Launch the new Staff Investment Recording System
- Introduce assessment tools for staff development and recruitment
- IT infrastructure upgrade related to email, application server and corporate database, and explore solutions for document management, interactive form submission and enterprise resource planning
- Investor education campaigns on mis-selling of financial products, analyst conflicts of interest and financial planning
- Further upgrade of websites including a text only version for visually impaired users
- New edition of the glossary of financial terms