

# Achievements and Work in Progress

## CORPORATE FINANCE

41 executives and  
15 non-executives

- Administer the Codes on Takeovers and Mergers and Share Repurchases
- Promote 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 and grant exemptions for prospectuses issued by listed and unlisted issuers under companies legislation
- Administer the Dual Filing regime under the SFO to enhance the quality of disclosure by listing applicants and listed companies

## INTERMEDIARIES AND INVESTMENT PRODUCTS

105 executives and  
32 non-executives

- Act as the gatekeeper 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 investment products offered to the public and their advertisements
- Monitor disclosures and ongoing compliance of authorised investment products
- Develop regulatory platform to facilitate market growth and innovation

## Achievements in 2005-06

- Revised the Codes on Takeovers and Mergers and Share Repurchases
  - Issued a consultation paper on possible reforms to the prospectus regime in the Companies Ordinance
  - Analysed responses to the consultation paper on amendments to the Securities and Futures (Stock Market Listing) Rules (SMLR) to give statutory backing to major listing requirements, worked with stakeholders on developing the proposals
  - Supported the Government's proposals to establish a Financial Reporting Council
  - Worked with the SEHK on its proposal to review its decision-making structure for listing matters
  - Reviewed and reported on the SEHK's performance in its regulation of listing matters
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- Enhanced Hong Kong's position as an asset management hub in Asia: authorised three REITs and Asia's first bond index-tracking ETFs
  - Approved nearly 90% of UCITS III fund applications received
  - Allowed SFC-authorized schemes to invest in listed REITs
  - Fine-tuned the SFO to allow licensed asset managers to provide advice on their own funds without an adviser licence
  - Revised the Hedge Fund Guidelines to increase transparency and recognise a greater scope of experience for fund manager personnel
  - Signed a MOU with the Insurance Authority to enhance regulatory co-operation of insurance-related investment products
  - Proposed measures to tighten regulation of sponsors and compliance advisers
  - Secured public support including that of the Panel on Financial Affairs of LegCo to reform securities margin financing regulation
  - Ring-fenced the operations and client assets of problem licensed firms
  - Revised anti-money laundering regulation to match new international standards

## Work in Progress

- Consider responses to the consultation paper on possible reforms to the prospectus regime in the Companies Ordinance
  - Work with the Government, SEHK and market stakeholders to finalise the proposal to give statutory backing to major listing requirements
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- Finalise the consultation conclusions on the securities margin financing regulation reform
  - Complete the consultation on the regulation of sponsors and compliance advisers
  - Work with the industry to address issues concerning selling practices of investment advisers
  - Keep in view the development of the REIT market in Hong Kong and elsewhere and improve regulations on SFC-authorized REITs
  - Review business continuity arrangement of intermediaries

## Achievements and Work in Progress

### ENFORCEMENT

73 executives and  
20 non-executives

- Monitor the trading of Hong Kong's stock and derivative markets and inquire into irregularities
- Monitor reporting of large open positions in futures and options
- 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
- Report suspected market misconduct to the Financial Secretary
- Enforce disclosure of interests of substantial shareholders, directors and chief executives of listed companies
- Discipline dishonest, incompetent and financially unstable regulated intermediaries
- 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 Hong Kong markets
- Strengthen market infrastructure
- Supervise and monitor activities of the exchange controller, exchanges and clearing houses
- Authorise Automated Trading Services providers
- Regulate approved share registrars
- Co-ordinate market contingency planning
- Supervise the Investor Compensation Company and manage investor compensation funds
- Conduct market research

### LEGAL SERVICES AND CORPORATE AFFAIRS

62 executives and  
42 non-executives

- Provide internal advice on possible breaches of the securities laws, including market misconduct
- 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
- Conduct prosecutions in the Magistrates' Courts for regulatory offences
- Handle civil litigation matters involving the SFC, including appeals
- Advise the Takeovers Executive and the Takeovers Panel
- Provide general in-house legal advice and support
- Provide finance, human resources, training, information technology, management and corporate services to the SFC
- Educate investors and handle complaints
- Communicate with stakeholders including the media
- Co-operate with other regulators

## Achievements in 2005-06

- Identified 18 cases of suspect warrants market activities for investigation
- Substantially concluded three cases before the Insider Dealing Tribunal
- Successfully prosecuted 72 companies and people for various offences
- Concluded 84 disciplinary inquiries and took action against 98 companies and people
- Excluded a sponsor from the listings market for 13 months
- Banned an analyst for five years for trading contrary to his research reports
- Assisted the Court in a successful ICAC prosecution of a high profile market manipulation case
- Referred 24 cases to the Police
- Concluded 570 cases of which 427 cases were completed within 12 months

- Approved HKEx rules to launch Callable Bull/Bear Contracts
- Formulated a Six-Point Plan on the derivative warrants market
- Approved HKEx rules to increase the position limits on stock options contracts and to reduce trading spreads
- Approved HKEx rule amendments for the migration of the Securities and Derivatives Network
- Co-ordinated market contingency planning for World Trade Organization's 6th Ministerial Conference and avian flu preparation
- Reviewed the Investor Compensation Fund levy
- Published research reports

- Formulated amendments to the SFO and its subsidiary legislation to address market developments
- Advised on possible breaches of the securities laws
- Conducted a significant number of successful prosecutions
- Organised more staff training and development activities
- Conducted staff opinion survey to enhance communications and improve workplace
- Established a preparatory working group to promote XBRL
- Launched new investor education TV and radio commercials, re-named the IE portal
- Launched text-only version of SFC website
- Won annual report and corporate governance disclosure awards
- Signed regulatory co-operative instruments with eight jurisdictions
- Hosted Joint Forum meeting and business continuity planning meeting for Asian regulators

## Work in Progress

- Continue surveillance work and provide expert testimony
- Continue the investigation of 224 cases including two cases of SFO s.214 proceedings and 18 cases on derivative warrants trading
- 20 cases awaiting hearings in the Courts including two market manipulation cases, eight cases before the Insider Dealing Tribunal and two cases eligible for Market Misconduct Tribunal hearings
- 122 cases subject to disciplinary proceedings including four sponsor cases and a number of mis-selling cases

- Enhance the market risk monitoring system and introduce its wider use internally
- Work with HKEx to facilitate the introduction of Callable Bull/Bear Contracts, etc
- Monitor HKEx's network consolidation project
- Work with HKEx to strengthen and enhance the derivative warrants market
- Update the market contingency plan and draft business continuity planning guidelines for market participants

- Work on legislative initiatives to ensure policy aims are fulfilled and to address market needs and reforms, and refine subsidiary legislation
- Make the SFC a better work place and increase training, especially to retain staff
- Review overall information and system architecture to align with new business initiatives and best industry practices
- Work with HKEx on SDNet-FinNet interconnection for CCASS/3 participants
- Explore IT solutions for document management and electronic submission
- Produce a new IE TV series
- Launch a focused IE campaign on pooling risk
- Conduct retail investor surveys on using investment advisers and investment in structured products
- Publish a new edition of the glossary of financial terms