

Corporate Affairs

Achievements

- 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
- 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

This Chapter Is About

- Financial highlights
- Staffing
- Information technology support
- Investor education and communications

- Reaching stakeholders

- Cross-border co-operation
 - SFC's involvement in IOSCO
 - Co-operative agreements
 - Enforcement related assistance
 - Co-operation with Mainland China
 - Promoting international standards

What We Do

- 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

This chapter covers the work of the departments of Finance and Administration, Human Resources, Training and Development, Information Technology, Investor Education and Communications, and Corporate Communications. Some of the activities are also covered in the chapter on Staffing of the Commission. This chapter concludes on our cross-border regulatory co-operation with other regulators.

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What We Did

Financial highlights

Benefiting from the economic recovery, total revenue for 2005-06 increased by 36% to \$852 million (\$625 million in 2004-05). Total expenditure was \$497 million (\$456 million).

As a result, the SFC achieved a surplus of \$355 million for the year 2005-06 as compared with the projected surplus of \$5 million for 2005-06 and the \$169 million surplus recorded in 2004-05. Our reserves at the end of March 2006 stood at \$1.2 billion, equivalent to 2.4 times of estimated expenditure (including depreciation) of \$508 million for 2005-06.

The Financial Secretary proposed a 20% transaction levy cut in his Budget Speech for 2006-07. We forecast an operating surplus of \$25 million in our 2006-07 budget, which was approved by the Financial Secretary under the delegated authority from the HKSAR Chief Executive in March 2006.

Staffing

As at 31 March 2006, there were 413 permanent established posts and eight temporary established posts. Separately, provision was made for 24 temporary staff and 14 Executive Trainees.

There were 441 staff, comprising 395 regular staff filling the permanent established posts and 46 temporary staff. Total staff number was 431 a year ago.

In accordance with the recommendations of the Hay Report issued in June 2002, the remuneration information of the top three tiers of our senior executives is disclosed as follows:

- Executive Directors are not entitled to any other benefits except for retirement benefits, medical and life insurance, and annual leave. All Executive Directors (including the Chairman) are required to obtain prior permission in writing from a committee, comprising all Executive Directors and Non-Executive Directors except the officer concerned, for an employment during a six-month post-termination period if the activities of the new employment have been the subject of any of the statutory functions of the SFC in the period of 12 months before and/or six months after departure.
- During the period 1 April 2005 to 30 September 2005, the annual remuneration package of the ex-Chairman comprises a fixed pay of \$6,750,000 and a performance-related variable pay of up to \$337,500. The fixed pay is constant throughout the contract period and the variable pay is awarded annually on performance basis. The ex-Chairman has voluntarily waived all his variable pay in his contract. His total emoluments (including retirement benefits) during the above period amounted to \$6,202,000.
- The current Chairman's annual remuneration package comprises a fixed pay of \$6,350,000 and a performance-related variable pay component. The fixed pay is constant throughout the contract period and the variable pay is awarded annually on performance basis. For the period 1 October 2005 to 31 March 2006, his total emoluments (including retirement benefits) amounted to \$3,200,000.
- The average of the total emoluments (including retirement benefits) of the four Executive Directors during the year amounted to \$4,028,000. This comprised average fixed pay of \$3,383,000, average performance-related variable pay of \$623,000, and average retirement benefits of \$22,000. The breakdown of total emoluments of individual Executive Directors is in the following table.

Executive Directors	Fixed pay (\$)	Variable pay (\$)	Retirement benefits (\$)	Total (\$)
Alexa Lam	4,000,000	1,000,000	50,000	5,050,000
Alan Linning	4,200,000	525,000	12,000	4,737,000
Peter Au-Yang	4,000,000	663,000	12,000	4,675,000
Martin Wheatley*	1,333,000	303,000	12,000	1,648,000

* as ED-SOM for the period from 6 June 2005 to 30 September 2005

- The average of the total emoluments (including retirement benefits) of the eight Senior Directorate Grade Staff during the year amounted to \$3,123,000. This comprised average fixed pay of \$2,570,000, average performance-related variable pay of \$503,000, and average retirement benefits of \$50,000.

Information technology support

We maintain and enforce the SFO, protect and educate investors, and interact with other regulators to strengthen Hong Kong's financial infrastructure, via the effective use of IT.

As part of "Takeovers Code-Documents on Display" project, an interface between SFC and HKEx websites was established to facilitate market participants to inquire takeovers information at one-stop to enhance transparency.

We enhanced the Licensing System in October to cope with rule amendments. We upgraded the surveillance system jointly used by HKEx and the SFC for better system administration, and acquired a new analysis tool for monitoring trading activities.

We installed a new email firewall to block SPAM, and implemented the latest version of corporate database management system to enable better Chinese language support and detailed audit trails.

We started to develop a new financial resources management system, which will be completed in the third quarter in 2006, to replace the existing accounting system. The system is the first building block towards the Commission-wide implementation of an enterprise resources planning system.

✓ XBRL

To strengthen Hong Kong's financial infrastructure, the SFC in April took the lead to establish a preparatory working group consisting of members from the private and public sector to promote XBRL (eXtensible Business Reporting Language). XBRL is an evolving global standard for faster and more accurate electronic communication of business and financial data. The preparatory working group has been developing an adoption roadmap and identifying pilot applications.

✓ FinNet

FinNet is a secure private business-to-business financial network to support the financial communities in Hong Kong in conducting electronic transactions and information delivery. Major users include financial regulators, HKEx, banks, and securities and derivative intermediaries.

In 2005-06, we upgraded our network and infrastructure to improve FinNet's functionality, performance, reliability and security. Fixed line connections grew from 55 to 144, mainly in banking sector. Hong Kong Monetary Authority enabled their secure email access for all authorised banking institutions via FinNet. Hong Kong Interbank Clearing Ltd launched Clearing File Transfer Service for batch payment information exchange with participating banks. The file transfer service will be extended to cheque image transfer in 2006.

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Investor education and communications

“Before you invest, ask the right questions” is our investor education (IE) theme in 2006. We encourage investors to ask the right questions about products and services, and advisers’ recommendations to make informed choices.

We designated January 2006 as the IE Month with various activities. We launched a new icon to highlight our IE role, re-named our IE portal, previously known as the Electronic Investor Resources Centre or eIRC, to InvestEd (www.InvestEd.hk). We also introduced lively flash animation videos to complement text information on InvestEd. The average daily hit rate of the revamped portal during January to March 2006 was 103% higher than that in December and was up 123% compared with the same period last year.

We ran new TV and radio commercials featuring a new “Mr Sheep” highlighting the importance of asking the right questions in buying warrants, opening a margin account and seeking investment advice.



“InvestEd” stands for “Investor Education”. Like a seedling which needs nutrients and sunlight to grow healthily, investors must also learn in order to be able to invest wisely.

No longer following the herd, Mr Sheep knows the importance of asking the right questions before investing.

For the first time, we invited the Radio Television Hong Kong (RTHK) and The Salvation Army to organise a competition inviting investors to share their investment experiences and lessons learnt. 100 contestants entered the “My Investment Story” competition. The 10 best stories were adapted into radio dramas and newspaper articles.

In September to November 2005, we conducted the Retail Investor Survey 2005 to study retail investors’ participation in and understanding of investment products. According to the survey, about 29% more people had invested in financial products during the past two years but their investment knowledge needed improvement. Over 90% of respondents agreed that the securities industry as a whole should do more investor education.

In early 2006, we conducted the first Warrant Investor Survey to ascertain retail investors’ investment attitude towards derivative warrants, their knowledge of the product and trading results. While most warrant investors considered derivative warrants risky and chose to take the risks, there is a need to enhance investor understanding of this product. We have stepped up our IE through different media, focusing on risk education, clarifying misconceptions and reminding investors to look beyond commercial promotion of warrants.

Other IE initiatives:

- With the RTHK, broadcast of “The Star Analysts’ Fans Family” radio drama series on analyst conflicts of interest
- Exhibition at the Financial World Expo 2005
- Wallet-sized card with key questions investors should ask when considering a financial product, and a leaflet on REITs
- Credit-based courses, guest lectures and “Meet-the-SFC” sessions, some jointly with universities. We organised with The Open University of Hong Kong (OUHK) 15 investor forums, with excerpts carried on Cable TV, TVB Pearl, OUHK website and Hong Kong Economic Journal

Alerting the public to financial scams remains a top priority. We posted 94 entities on the Alert List of unlicensed overseas companies, suspected boiler rooms and scam websites during the year, bringing the total to 332 entities. We enhanced the Alert List by adding a search function. We also presented Smart Investor Awards to six members of the public for reporting scams to us.

During the year, we published over 100 articles in local newspapers and magazines and organised 79 seminars, reaching nearly 8,000 participants.



Hundreds of people were attracted to an SFC-OUHK seminar in December.

✔ Investor enquiries and complaints handling

We received 4,811 investor enquiries (4,523 in 2004-05) and handled 1,091 complaints (1,214).

Following initial screening by the Investor Education & Communications Department, every complaint is tabled to the Complaints Control Committee to decide if further action is appropriate. During the year, the Committee referred 459 (701) cases to operational divisions for further assessment, while 145 cases (183) were investigated by the Enforcement Division.

Statistics of public complaints

Nature of complaints	2005-06	2004-05
Conduct of licensed intermediaries & registered institutions	255 (-33%)	381
Listing related matters & disclosure of interests	364 (-1%)	367
Market misconduct	185 (+14%)	162
Financial products	32 (-22%)	41
Other financial activities	240 (+5%)	228
Miscellaneous	15 (-57%)	35
Total	1,091 (-10%)	1,214

Reaching stakeholders

The SFC constantly engages stakeholders in the development of its regulatory policies and keeps them informed of its initiatives.

The mass media has been an important partner in communicating our work and policies to the stakeholders including the public. During the year, we issued 279 press releases (289 in 2004-05). Our executives gave 45 interviews (43) to local, Mainland and international news organisations. We held 12 press conferences or sharing sessions (13) to announce new policies and discuss our work. We handled 1,061 media enquiries (1,405).



We battled it out with journalists at a bowling tournament in September.

We received 3,836 public enquiries (3,673), of which 1,680 were made online (enquiry@sfc.hk). Full replies were given within four days in 95% of the email enquiries.

Last September, we released the findings of our first Public Perception Survey. Of the 1,375 people interviewed, most understood the SFC's overall responsibilities. The SFC's general performance in fulfilling its statutory objectives was rated 6.5 points out of 10. The survey establishes benchmarks against which we may assess future changes of the public's perceptions and views, and provides us with a background when considering how to more effectively get our messages across.

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The Annual Report 2004-05 won the Platinum Award (Public Sector/Not-for-profit Organisations category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2005, and the Gold Award and the Award for Citation for Achievement in Corporate Governance Disclosure (both in the Non-profit Making and Charitable Organisations category) in the Hong Kong Management Association's Best Annual Reports Awards.



Our regular publications are available online: the monthly SFC Enforcement Reporter and the bi-monthly newsletter SFC Alert inform the market of our enforcement actions and work in general; the Quarterly Report updates our regulatory work and financial position; and the Quarterly Bulletin researches on regulatory and market development.

We are updating the content of the English-Chinese Glossary of Securities, Futures and Financial Terms. Its fourth edition will soon be completed to provide investors, market practitioners and other interested parties with a more practical and useful tool.

Throughout the year, we continued to receive visitors from local, Mainland and overseas regulators, financial institutions and enterprises who want to know more about the SFC's work or to discuss specific subjects.

Cross-border regulatory co-operation

The SFC endeavours to contribute to global efforts in enhancing the quality and effectiveness of market regulation. We work closely with our counterparts worldwide and play an active role in the work of the International Organization of Securities Commissions (IOSCO). We have 36 bilateral or multilateral co-operation arrangements with regulatory bodies around the world.

✓ IOSCO

IOSCO is the pre-eminent forum for international co-operation among securities regulators and the international standard setter for the securities sector.

IOSCO has adopted a timetable for member regulators, which are not yet signatories to the IOSCO Multilateral Memorandum of Understanding (MMOU), to have become or committed to becoming a signatory by 1 January 2010. The IOSCO MMOU is an agreement that allows regulatory co-operation among signatory jurisdictions; Hong Kong is one of them. The SFC plays an active regional role in providing expert assistance through the IOSCO assistance programme to regulatory authority applicants with their applications to join the MMOU.

IOSCO has developed a methodology for jurisdictions to assess the extent to which they comply with the IOSCO Objectives and Principles of Securities Regulation. As part of an IOSCO pilot programme, we helped one jurisdiction to apply the self-assessment methodology.



Hong Kong will host the 31st IOSCO Annual Conference from 5 to 8 June 2006. During the first two days, IOSCO members will hold closed meetings. There will then be public panels where non-IOSCO members may join. The panels will discuss International Financial Reporting Standards (IFRS), regulation of hedge funds, transparency in the bond markets, and the challenges faced by emerging markets in implementing IOSCO standards.

✓ Standing Committees under the IOSCO Technical Committee

Our Corporate Finance Division participates in the Standing Committee on Multinational Disclosure and Accounting (SC1), which monitors and comments on international developments in accounting and auditing standards and drafts IOSCO standards relating to disclosure matters.

During the year, we continued to play an active role in SC1's Auditing Sub-committee and Accounting Sub-committee. We participated in the drafting of and responded to a survey on the provision by auditors of non-audit services to audit clients. We also commented on International Standards on Auditing issued by the International Auditing and Assurance Standards Board and on International Financial Reporting Standards issued by the International Accounting Standards Board. We also participated in the Technical Committee's Task Forces on Corporate Governance and Auditing, and responded to the IOSCO's survey on board independence.

Our Supervision of Markets Division participates in the Standing Committee on the Regulation of Secondary Markets (SC2). During the year, SC2 finalised its report on error trade policies adopted by exchanges and published a

consultation report on regulatory issues arising from exchange evolution. We provided inputs to these reports and also responded to a survey on multi-jurisdictional information sharing for market oversight.

Our Intermediaries and Investment Products Division participates in the Standing Committee 3 on Regulation of Market Intermediaries (SC3). We contributed to the conclusion of several SC3's initiatives, notably the Report on Compliance Function at Market Intermediaries. We also conducted a survey of certain local securities firms' policies and procedures in the area of securities offering as part of a SC3 survey initiative, and provided input to other emerging initiatives.

Our Enforcement Division participates in the Standing Committee on Enforcement and the Exchange of Information (SC4). SC4 promotes mutual assistance and the exchange of information among securities regulators. SC4 is working on enforcement issues relating to gaps in international co-operation, international asset freezing, cross-border boiler rooms and Internet frauds. SC4 made good progress in addressing co-operation issues with those jurisdictions whose ability or willingness to engage in enforcement co-operation has been uncertain. Steady progress was also made in international asset freezing.

Our Intermediaries and Investment Products Division participates in the Standing Committee on Investment Management (SC5). We responded to questionnaires by SC5 on hedge funds offered to retail investors, soft commissions and data collection exercise, and contributed our views on best practice standard for market timing, hedge funds offered to retail investors, and governance for

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collective investment schemes. We also discussed with SC5 members the top five priorities of each member jurisdiction and distribution related issues on collective investment schemes.

Public documents of the IOSCO are available at www.iosco.org.

✔ Co-operative agreements

During the year, the SFC signed a Letter of Intent (LOI) each with the Securities and Exchange Commission of Sri Lanka, the Securities and Exchange Board of India, the Financial Services Commission of Guernsey, Securities Commission, Malaysia, and Jersey Financial Services Commission.

Under each LOI, the two signatories agree to strengthen regulatory co-operation and work together with the objective of achieving the cross-border trading of mutually acceptable investment products in each other's markets.

We also signed a Statement of Intent concerning co-operation, consultation and the exchange of information with the Financial Services Agency of Japan, exchanged Side Letters with the Monetary Authority of Macau under an existing MOU to strengthen regulatory co-operation, and signed a MOU with the Israel Securities Authority to enhance enforcement co-operation.

✔ Enforcement related assistance

During the year, we received 71 requests for enforcement-related assistance: 18 were requests for investigatory assistance involving the SFC in the exercise of its statutory powers; and 53 were for information. We made 18 requests to overseas regulators.

In respect of licensing-related matters, we received 186 requests from overseas regulatory authorities and made 631 requests.

Requests for regulatory co-operation

	2005-06		2004-05		2003-04	
	In	Out	In	Out	In	Out
Enforcement-related requests for investigatory assistance	18	10	13	4	11	4
Enforcement-related requests for information	53	8	34	3	35	2
Licensing-related requests for information	186	631	140	668	103	383
Total	257	649	187	675	149	389

✔ Co-operation with Mainland China

Through the Memorandum of Regulatory Co-operation (MORC), the SFC, CSRC, HKEx and the Shanghai and Shenzhen stock exchanges meet regularly to discuss regulatory issues and policies. The SFC attended the 34th MORC meeting hosted by HKEx in Hong Kong in August 2005, and the 35th meeting in Shanghai in March 2006.

As part of the MORC meetings, divisional colleagues met their CSRC counterparts for in-depth discussions on regulatory developments in Hong Kong and the Mainland, surveillance, enforcement and other cross-border issues.

✔ Promoting international standards

The Group of Thirty (G30), a private and non-profit international group on key economic and monetary affairs, published the *Global Clearing and Settlement: A Plan of Action* in January 2003, to improve safety and efficiency of the global clearing and settlement process. To monitor and promote implementation of these recommendations in major financial markets, the G30 established a Global Monitoring Committee in early 2004.

The SFC Chairman has taken the role as the regional co-chair for the Asia-Pacific Monitoring Committee. Our Supervision of Markets Division has worked closely with Hong Kong Monetary Authority, HKEx and regulators in Australia, Japan and Singapore to review and assess the

implementation progress in the region. The Global Monitoring Committee will publish a final progress report in May 2006 and be then dissolved as planned. The SFC and the Asia-Pacific Monitoring Committee members have agreed to continue monitoring the implementation in the Asia-Pacific major markets.

In February 2006, we co-hosted a meeting in Hong Kong of the Joint Forum, which was established under the aegis of the Basel Committee on Banking Supervision, IOSCO, and the International Association of Insurance Supervisors, to deal with issues common to the banking, securities and insurance sectors, including the supervision of financial conglomerates.

We also hosted the first Business Continuity Planning Meeting for Asian Financial Regulators in February. About 40 financial regulators from 19 jurisdictions attended the roundtable discussion and shared their experiences and best practices. Speakers were from member organisations of the Joint Forum, Hong Kong Monetary Authority and the SFC. This meeting was held subsequent to the issue of the High-level Principles for Business Continuity paper in December 2005. The seven high-level principles are intended to support international standard setting organisations to improve the resilience of financial systems to major operational disruptions.