

Chairman's Statement



I became the first non-executive Chairman of the SFC on 20 October 2006 and I am very pleased to deliver this, my first, Chairman's Statement in our annual report.

I feel privileged to be chairman of an organisation which was rated by many of the participants, in our Stakeholder Survey last year¹, as the best securities regulator in Asia. At the same time, I also feel a tremendous responsibility, together with my fellow Board members, to ensure that our policies and direction continue to assist the development of Hong Kong as an international financial centre.

The non-executive Chairman position was created in June 2006 through the introduction of the Securities and Futures (Amendment) Ordinance 2006. This Government initiative to separate the executive and non-executive roles is consistent with the SFC's long-held policy of aspiring to the highest standards of corporate governance and leading by example. In this and other areas, we continue to enhance our internal governance and structure to ensure that we are both transparent and effective in the execution of our responsibilities.

The amendment ordinance provides for the separation of the role of the Chairman from the executive arm, which is now headed by the Chief Executive Officer (CEO) who has responsibility for the day-to-day running of the organisation. As Chairman I lead the Board in setting the overall direction, policies and strategy. Since my appointment, I have made efforts to strengthen communication among Board members and have been working to encourage all to fully participate in the affairs of the SFC.

The challenges ahead...

Globalisation has revolutionised the marketplace. The reform of Mainland China's financial market has focused world attention on investment opportunities in this part of the world.

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To maintain its competitive strengths, Hong Kong has to continuously assess its internal and external environment. Two main strength areas that Hong Kong must work on, in which the SFC has a significant role to play, are: first, to capitalise and build on the Mainland connection and on Hong Kong's unique ability to serve as a bridge between the Mainland and the rest of the world; and, second, to reinforce Hong Kong's competitive edge by constantly reviewing and enhancing the quality of the market.

Hong Kong's international characteristics enable it to serve as a bridge between the Mainland and the rest of the world, both in terms of raising capital and raising governance standards for Mainland enterprises. From a different perspective, the Mainland connection makes Hong Kong an attractive platform for international players to invest in the Mainland.

The SFC's role is to put in place world-class standards of regulation that will facilitate market development. The SFC is here not only to set the rules for the securities market and police against malpractices, but also to actively help enhance the market's quality and status. Our core mission is to provide a regulatory environment that is conducive to both market development and market regulation.

We also need to continue to develop closer regulatory co-operation with the Mainland authorities, in particular our counterpart, the China Securities Regulatory Commission (CSRC). We believe that this relationship is sound and gaining in strength, to the benefit of both regulatory bodies, and I was very pleased to have recently signed a side-letter to our memoranda of regulatory co-operation which will enhance our

ability to conduct inquiries into cross-border crime. We will continue to take every opportunity to enhance and strengthen the current levels of co-operation.

...and the opportunities

Earlier this year, the Government published a financial services Action Agenda in its Report on the Economic Summit on “China's 11th Five-Year Plan and the Development of Hong Kong”. The agenda proposes a wide range of projects for the development of the Hong Kong financial services market. The SFC, with others, is actively participating in a number of these initiatives: facilitating the listing of overseas companies; coordinating various issues relating to dual listing of H and A shares; and studying the potential of setting up a commodity futures market in Hong Kong, to name a few².

All these initiatives can only be achieved with the participation of the market as a whole. This is also true for our investor education work, as increasingly complex investment products have made a more elaborate and coordinated effort necessary. In this regard, with support from the other financial regulators, we are proposing to form a new investor education body so that more resources can be devoted to effective investor education.

All in all, it is essential for the SFC as a regulator to find the right balance between investor protection and facilitation of market development. This is possibly the biggest challenge for the SFC over the next few years. I shall work closely with my fellow Directors and other SFC colleagues, the Government, and, of course, our stakeholders in the financial community to ensure that we achieve this balance.

Finally, I would like to thank my fellow Directors and my other SFC colleagues for their contributions and dedication over the past year.



Eddy C Fong
Chairman

¹ See more on the Stakeholder Survey on page 50.

² See more on page 46.