

## Who We Are and What We Do



The continued success of our financial services market, a key and growing part of Hong Kong's economy, can be attributed to many factors including effective regulation. Effective regulation allows both local and international market participants to conduct their business in accordance with an accepted and transparent set of rules. This in turn provides investors with confidence when making their investment decisions and thus facilitates greater levels of market activity.

The financial services market in Hong Kong is made up of a number of different sectors including banking, insurance and securities and futures, together with the many businesses that provide services to these principal sectors. In Hong Kong, the regulation of the financial services sector is shared by a number of different regulators and we at the Securities and Futures Commission (SFC) are responsible for regulating the securities and futures markets.

The SFC is a statutory body, and its functions and powers are set out under Hong Kong law in the Securities and Futures Ordinance (SFO). However, whilst the SFC is accountable to the Government for the performance of its functions, it is an independent securities market regulator – it operates outside of the civil service. Funding is derived directly from levies on stock market transactions or fees charged to market participants and the SFC has made no claim for public funding for over 10 years.

The market participants and the activities they conduct, which are subject to regulation by the SFC fall into three main groups:

- intermediaries such as brokers, investment advisers and investment bankers who must first meet qualifications requirements, under a licensing regime, before dealing in securities or giving investment advice to clients. They must then conduct their business in compliance with ongoing conduct and financial position requirements;
- issuers of securities, including listed companies and investment funds, who are required to comply with certain disclosure and other regulations in order to be able to sell securities to the investing public; and
- market operators such as Hong Kong Exchanges and Clearing Ltd (HKEx) which is directly overseen by the SFC.

In certain areas the SFC shares its regulatory responsibility with other bodies; HKEx is responsible for oversight of certain non-statutory regulations governing listed companies and where licensed banks conduct securities activities the Hong Kong Monetary Authority oversees their ongoing compliance with SFO regulations.

The SFO sets out six statutory regulatory objectives for the SFC. They are:

- i) to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;

## Who We Are and What We Do

- ii) to promote understanding by the public of the operation and functioning of the securities and futures industry;
- iii) to provide protection for members of the public investing in or holding financial products;
- iv) to minimise crime and misconduct in the securities and futures industry;
- v) to reduce systemic risks in the securities and futures industry; and
- vi) to assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

We execute our responsibilities under the SFO through three inter-related activities:

### Regulation

In carrying out our regulatory responsibilities we adopt a philosophy of considering the interest of investors first. However, in establishing and maintaining the regulatory environment we aim to achieve an appropriate balance between facilitating the efficient functioning and continuing development of the securities and futures markets and at the same time providing adequate, but not absolute, protection to investors. In considering what regulations to put in place we also pay close attention to the rules and regulations in other international financial centres to ensure that our regulatory environment is of a similar standard.

In enforcing regulations it is not our aim to identify and prosecute all minor breaches but rather to encourage compliance and good business ethics through the selective sanctioning of malpractices and enforcement action. However, in the most serious cases of abuse or fraud we seek to remove participants from the industry in order to maintain overall market standards and to protect investors.

While we rigorously pursue those who defraud investors we have no legal powers to order an intermediary to pay compensation. However, a separate investor compensation fund exists to compensate investors in cases of broker default and we work closely with this fund to facilitate the processing of relevant claims.

We place considerable emphasis on market monitoring and analysis to detect prohibited trading activities utilising techniques and systems which are some of the most sophisticated in the world. Where insider dealing or other market misconduct is identified we will where appropriate refer cases for prosecution or to the Market Misconduct Tribunal which is an independent tribunal established by the Government and led by a Judge.

We review all applications made by companies seeking a listing on HKEx, to ensure there is full and proper disclosure. For companies that are already listed, we take action against the release of false or misleading information, transactions that harm minority shareholders' interests, or other misconduct involving the companies or their officers. Cases involving fraud are referred to the Police.

### Facilitation

We recognise the importance of effective regulation to the success of the financial markets and our role in supporting Hong Kong's continued development as an international financial centre. In the execution of our regulatory functions and in considering market developments and regulatory changes, we therefore aim to achieve a balance between innovation and appropriate levels of investor protection.

In considering the authorisation of new products, and especially structured products, we consider the interest of investors first. However, we also recognise that the provision of additional products can be to the advantage of investors and that it is not our role to create a risk-free market. Innovative investment products are therefore authorised for sale to retail investors provided that the managers and distributors make proper disclosure and have in place sound management and controls.

We also oversee the stock and futures exchanges' introduction of new products, including derivatives, where we are also concerned about the market's ability to handle large volumes, especially in times of volatility. We therefore work with the exchanges to consider the implications of new products for the stability of the market in times of stress and to ensure the adequacy of trading and clearing systems.

## Who We Are and What We Do

Each year we have many meetings to help individuals and businesses who want to start business in the financial sector, often in conjunction with other public bodies responsible for attracting investment into Hong Kong.

We actively participate in the international forum of securities regulators, the International Organization of Securities Commissions, which reviews standards and recommends global best practices, to ensure that Hong Kong continues to be recognised as a leading regulator and that we participate in the development of international regulatory standards. We also devote considerable resources to working with the Mainland regulatory authorities. Our efforts here are focused on sharing knowledge with our fellow regulators as well as ensuring that our securities and futures markets are well positioned to participate in the growth being generated by the Mainland economy.

### Education

Well-informed and financially literate investors are the first line of defence against fraud and malpractice. We conduct a variety of activities to advise the public of both their rights and responsibilities as investors in the securities and futures markets. We educate investors to allow them to make informed choices especially in the area of new products, structured

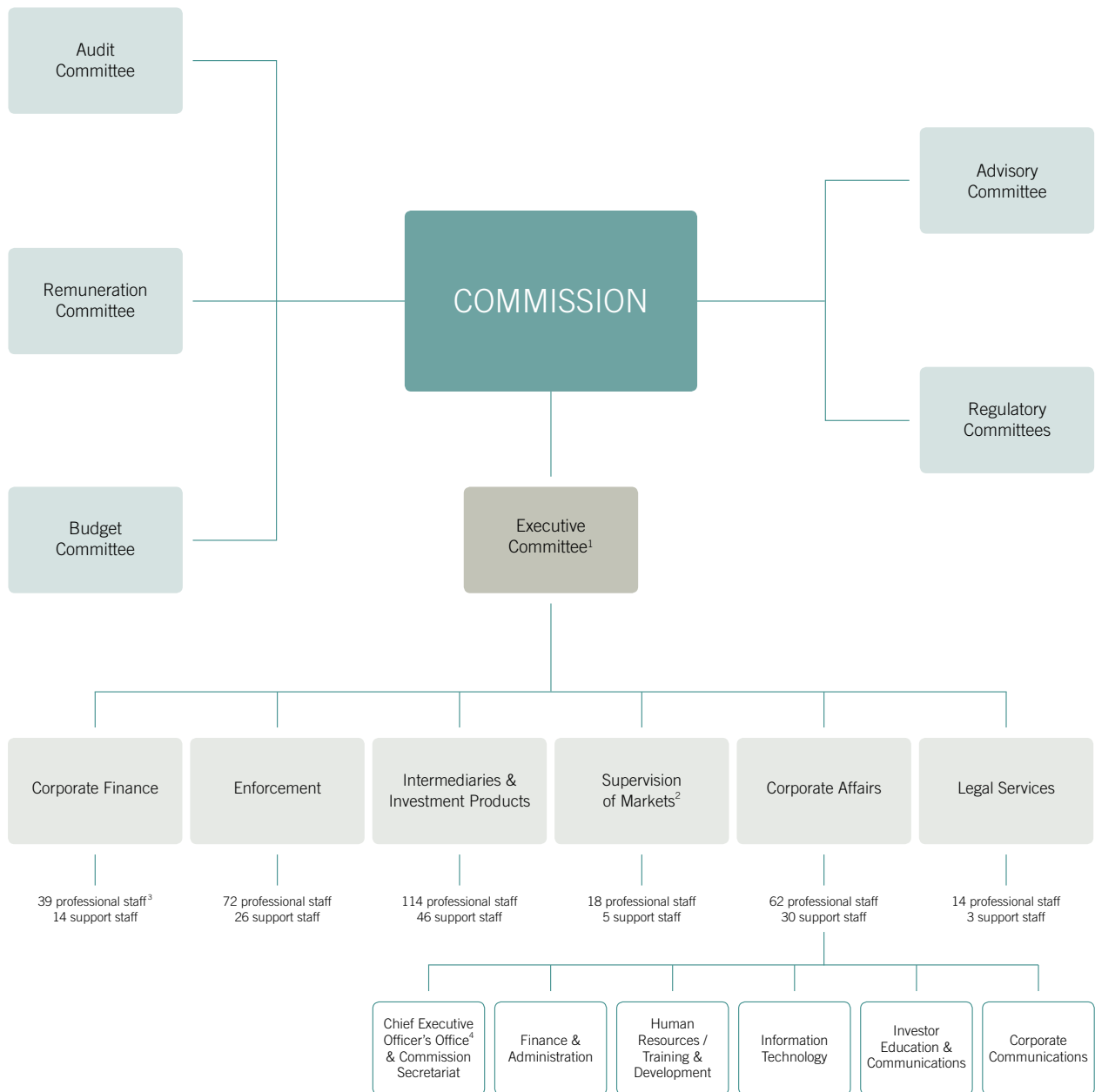
products or areas where potential abuses may occur. We also remind investors of their own responsibility for their investment decisions. In particular they should consider carefully how much risk they can manage and to select investments, from the choices available, that are most suitable for their own risk profile. We also ensure that market participants provide appropriate disclosure of product features and risks when selling to the public thus facilitating informed choices by investors.

Communication with investors is carried out in a variety of formats including our investor website ([www.InvestEd.hk](http://www.InvestEd.hk)), television and radio docudramas, presentations to different sectors of the community, newspaper articles and our own Dr Wise education column. We also collaborate with universities to educate the younger generation regarding responsible investment.

### How we are organised

The SFC is divided into four operational divisions: Corporate Finance, Enforcement, Intermediaries and Investment Products, and Supervision of Markets. These operating divisions are supported by the Legal Services and Corporate Affairs divisions. Our structure is outlined on the opposite page.

## Who We Are and What We Do



<sup>1</sup> Comprises all Executive Directors and the Chief Counsel, and is chaired by the Chief Executive Officer.

<sup>2</sup> Including Research Department.

<sup>3</sup> Total number of staff was previously split between executive and non-executive grades. For the current year, number of staff has been split between professional and support staff. We believe that the new basis of disclosure provides a more meaningful analysis of our resources. An analysis of total number of staff on these two bases is provided for comparison in footnote 5 under the chapter on Statistical Comparisons.

<sup>4</sup> Including China Affairs Team.