

## Who we are and what we do



Hong Kong's financial services market relies on efficiency, innovation and a level playing field to help it attract capital, fuel investor confidence, boost activity, maintain integrity and ultimately thrive. The Securities and Futures Commission plays a crucial role in this process as regulator of the Hong Kong securities and futures markets.

Armed with functions and powers under the Securities and Futures Ordinance (SFO), we operate as an independent statutory body. We are accountable to the Government for the performance of our functions, but operate outside of the civil service.

The SFC has been self-funded for more than a decade through market transaction levies and fees charged to participants.

### We regulate three main groups:

**Intermediaries** : Brokers, investment advisers, asset managers and investment bankers subject to a licensing regime. They must first satisfy our criteria before dealing in securities or futures or giving investment advice. Their business must then comply with conduct and financial position obligations.

**Issuers of securities** : Listed companies and investment funds who must meet disclosure and other rules to sell securities to the investing public. Offering documents and marketing materials of products offered to retail clients (other than for listed securities) are subject to SFC approval.

**Market operators** : Hong Kong Exchanges and Clearing Limited (HKEx), the holding company of the Stock Exchange of Hong Kong Limited (Stock Exchange), Hong Kong Futures Exchange Limited (Futures Exchange) and their related clearing houses, is directly overseen by the SFC.

The SFC shares some of its regulatory responsibilities with the Stock Exchange, which oversees non-statutory rules relating to listed companies. Where banks conduct securities and futures business, the Hong Kong Monetary Authority oversees their compliance with SFO regulations.

### Our objectives

The SFO sets out six regulatory goals:

- Keeping the securities and futures industry fair, efficient, competitive, transparent and orderly
- Helping the public understand how the industry operates
- Protecting the investing public
- Minimising crime and misconduct in the markets
- Reducing systemic risks in the industry
- Helping the Financial Secretary maintain financial stability in Hong Kong

## **We seek to achieve these objectives in three key areas:**

### **Regulation**

The SFC believes in putting investors first, while aiming to strike a balance between investor protection and the continuing needs of an efficient market. We are also mindful of keeping our regulatory framework in step with standards in other major financial centres.

The SFC aims to reduce crime and misconduct by fostering a culture of compliance and by raising standards of good conduct and probity. We do this through effective communication, education and where necessary through enforcement. Our enforcement programmes are directed to attack serious abuses threatening harm to investors and the integrity of the market.

Companies looking to list on the Stock Exchange will have their applications reviewed by both the Stock Exchange and the SFC to ensure full and proper disclosure. Companies already listed are subject to action by the SFC for false or misleading information, transactions detrimental to shareholder interests or other misconduct by companies or their officers. Cases involving fraud are referred to the Police. We also ensure that takeovers and mergers of public companies are conducted within a proper regulatory framework.

We keep a close eye on the activities of intermediaries as well as the trading and clearing systems to identify possible risks and make sure on-going regulatory requirements are complied with. The SFC conducts site visits and meets with management of licensed corporations to discuss issues of concern and detect potential misconduct.

Market monitoring and analysis receives considerable emphasis. We take action to combat dishonest market practices including insider dealing, manipulation and other market misconduct.

Criminal proceedings are launched against these abuses where there are good prospects of conviction and the prosecution is in the public interest. In appropriate cases, we will refer cases to the Financial Secretary to consider whether civil proceedings before the Market Misconduct Tribunal should be commenced. A licensee who breaches a non-statutory requirement such as a conduct code provision is subject to our disciplinary proceedings which may result in administrative penalties.

While we do not have legal powers to order an intermediary to pay compensation to victims of market misconduct or malpractices, we work closely with the Investor Compensation Fund which is established to compensate investors who suffer a loss due to the default of an intermediary.

### **Facilitation**

A flourishing financial market needs effective regulation and the SFC strives to support Hong Kong's continued development as an international financial centre and key financial market in China.

As a regulator alert to the evolving nature of markets, we aim to balance innovation with an appropriate level of investor protection.

When reviewing possible new products for sale to retail investors, particularly structured products, we will first consider how this affects investors' interests. However, we recognise that additional products can benefit investors and that it is not our role to create a risk-free market. Innovative retail investment products will therefore not normally be prohibited from being sold if managers and distributors adhere to proper disclosure and maintain sound management and controls.

## Who we are and what we do

We oversee the introduction of new products by the Stock Exchange and the Futures Exchange, including derivatives. Again, our objective here is to strike a proper balance in promoting market development, while maintaining investor protection and minimising systemic risks to our markets. We will also work with the two exchanges to consider the impact of new products on market stability in times of stress and ensure the adequacy of trading and clearing systems.

The SFC regularly meets people and firms looking to start business in the financial sector, often jointly with public bodies promoting investment in Hong Kong.

Our role involves taking an active part in the International Organization of Securities Commissions (IOSCO) forum, where industry standards are reviewed and global best practices are proposed. This helps us ensure Hong Kong receives recognition as a leading regulator and that we take part in the development of global regulatory standards.

We devote considerable resources to working with Mainland regulatory authorities. The SFC has focused on knowledge sharing with our regulatory peers and keeping Hong Kong's securities and futures markets well positioned to capitalise on and support national economic growth.

We have regular exchange meetings with our Mainland regulatory counterparts. Research co-operation spans across a number of policy, product and technical issues relating to the markets. The SFC also gives regular briefings to high-level officials during their visits from the Mainland.

The SFC takes a role in the promotion of Supplement IV to the Closer Economic Partnership Arrangement (CEPA) and sits on an expert committee which reviews applications for Qualified Domestic Institutional Investor Scheme (QDII) products. We handle facilitation work on the QDII and the entry of Mainland brokers into Hong Kong.

### Education

The SFC strives to keep investors educated, informed and alert to the risks of investing. It is part of our statutory mandate to promote investor education, and we vigorously exercise this role.

We work hard to help the public understand more about the markets, products and investment risks, encourage them to ask the right questions, read the relevant documents and become familiar with products before they invest in them.

It is our aim to help investors make informed choices, particularly as products become more complex. We also emphasise the risk factor when investing and point out other potential pitfalls.

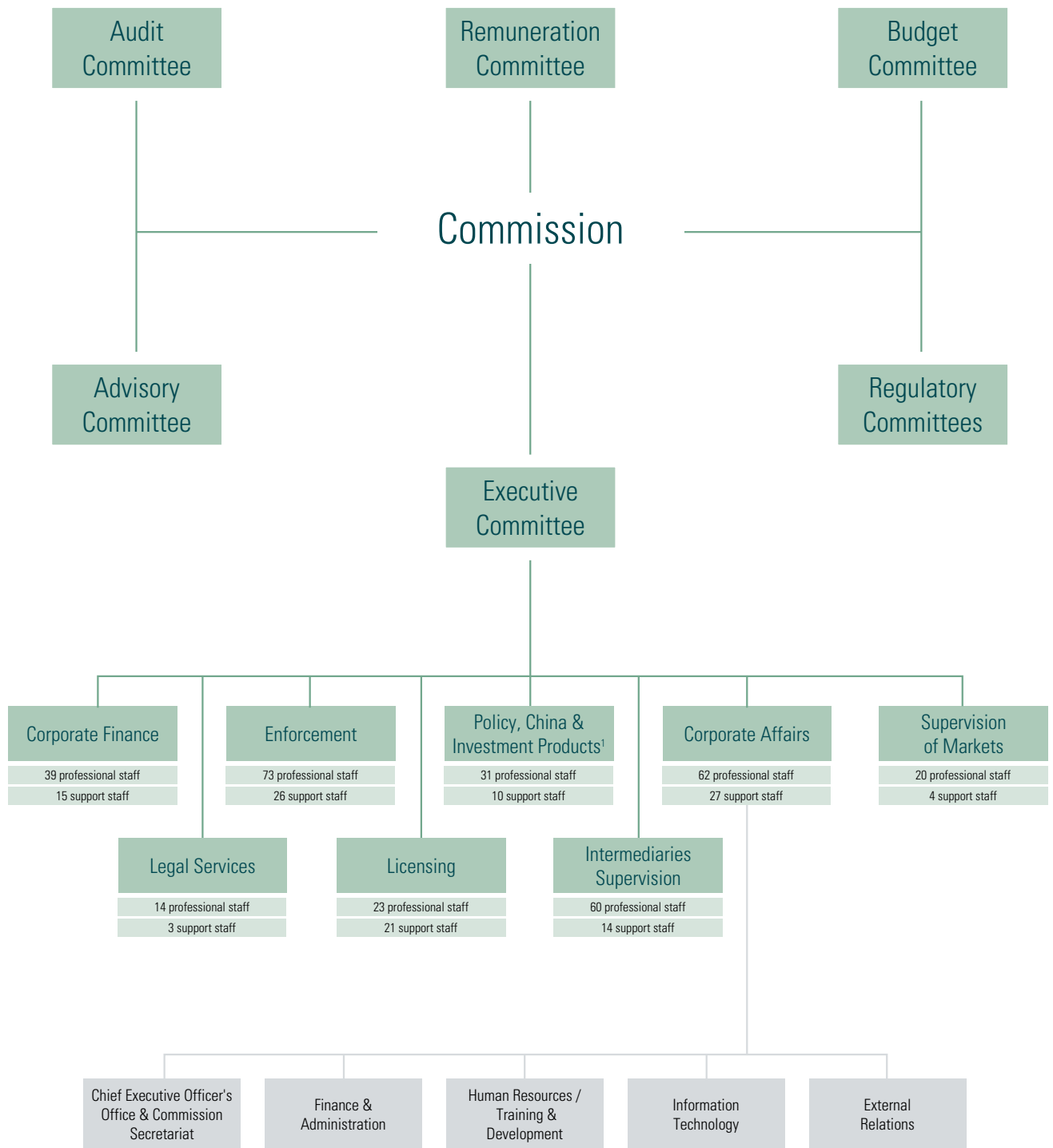
We regularly issue alerts when investment scams come to our attention. Although we cannot offer investment advice, we do answer queries on steps that can be taken to protect investors' interests.

A core part of our education role is to reach out to the community. We do this through multiple channels, including radio and television dramas, newspaper articles and our own Dr Wise education column.

The SFC's investor education portal, InvestEd ([www.InvestEd.hk](http://www.InvestEd.hk)), regularly posts new information to reflect investors' interests and market developments. In addition, InvestEd provides an online channel for investors to ask questions and lodge complaints on misconduct.

Our professional staff make regular presentations to the community and we work with universities to launch preventive programmes so as to cultivate a proper investment attitude among the younger population.

An important part of what we do is to try to measure public awareness about investment risks and the growing sophistication of products. Investor surveys are thus a vital tool to help us direct our educational efforts where they are most needed and we conduct them regularly.



<sup>1</sup> This new Division was created on 1 March 2008. The Investment Products Department, formerly under the Intermediaries and Investment Products Division, and China Affairs Team, formerly under the CEO's Office, are now part of this Division.

The Licensing Department and Intermediaries Supervision Department were both previously under the former Intermediaries and Investment Products Division.