

Chairman's Message



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In my message last year, I cautioned that it would be an “extremely challenging year” ahead. The challenges that have emerged are far beyond the expectation of financial markets and authorities worldwide. We witnessed a breakdown of normal financial market functions that have led to a synchronised global economic downturn. This is the most powerful demonstration of the forces of globalisation in today’s highly inter-connected and inter-dependent world.

Hong Kong was not spared the ripple effects of this financial tsunami. Investors especially have suffered losses not only from local investments but also from underlying assets overseas. But despite the turmoil in global financial markets, Hong Kong’s financial system has remained stable, its markets have continued to function normally, and its financial institutions are largely intact.

Having witnessed more than a few crises over the past three decades, I believe that the current melt-down of global financial systems will have a far-reaching impact on the financial landscape and regulatory structure globally. For Hong Kong, just as the stock market crash of October 1987 led to the founding of an independent securities and futures regulator in 1989, this financial tsunami has sparked calls and debate for regulatory reforms to meet challenges in a fast-changing global environment. We shall work closely with the Government and other stakeholders to consider appropriate reforms for Hong Kong.



It is generally recognised that what is required in regulatory reforms is not merely more but better regulation. Regulation itself is not sufficient to prevent future crises. Similarly, no financial regulatory regime – no matter how water-tight – can guarantee zero failure of markets and their participants.

For a regulatory system to work, three elements have to be present. First, rules must be drawn up to ensure order in the industry. Second, an infrastructure must be in place to create appropriate incentives for market participants and adequate rules and disciplinary tools to ensure compliance or to elicit the desired behaviour by intermediaries and investors. Third, investors must be sufficiently informed to make decisions. At the end of the day, all stakeholders have a role to play in maintaining a well-functioning and robust financial system, and this calls for the exercise of self-discipline, market discipline and regulatory discipline by all.

For years, the Securities and Futures Commission (SFC) has been focusing on industry regulation, market development and investor education to strike that critical balance. While the general inclination nowadays may be to put more weight on stricter regulation of the financial sector, we must take care not to lose sight of the other elements necessary to achieve a sound equation. I am pleased to report that despite having to do much trouble-shooting last year, we continued to reach out to foster market development. A major lesson to be learned from the current financial tsunami is this: we need to harness the benefits of globalisation without losing sight of the risks that it also brings. With the open nature of markets, it is all the more important that Hong Kong fine-tunes this approach.

An international financial centre is not simply a hub for financial services, investment activities and capital raising. It is where business connections are made. In terms of having the infrastructure to make global business connections, Hong Kong is well ahead of many centres in the region and internationally. Hong Kong can leverage its vast pool of international talent, its advanced technological structure, its long history of interaction with the outside world and its role as a gateway for capital flows to and from Mainland China.

It has been 20 years since the SFC was founded on 1 May 1989. Back then, the local capital market was dominated by a few conglomerates and some home-grown industrial enterprises. Today, it is the seventh largest in the world in terms of market capitalisation with a well-balanced investor profile of domestic and international investors, institutional and retail players. Throughout its history, the SFC has supported market development, especially regarding the Mainland.

Hong Kong has been acting as a bridge between the Mainland and the rest of the world, initially by attracting capital to support the hinterland in its manufacturing base and subsequently by raising capital for its enterprises through our stock exchange. It is now at the stage of facilitating Chinese enterprises for overseas expansion.

Our co-operation with the Mainland is in the context of “one country, two systems” and through collaborative efforts to attain objectives that are mutually complementary, mutually beneficial and mutually engaging for both Hong Kong and the Mainland. We look forward to continued collaboration in the years ahead.

Looking ahead, the SFC stands ready to make the necessary changes to ensure the relevance and effectiveness of its regulatory framework, support market development without compromising investor interests, continue to work closely with the Mainland to develop its capital market to integrate more fully with the international community.

Events of the past year have placed huge demands on staff and the Board. They have embraced the challenges and served with unquestionable dedication and professionalism. To them, I express my deepest appreciation and gratitude. With such an excellent team, I am confident that the SFC will continue to achieve its statutory objectives and contribute to Hong Kong’s success as an international financial centre.

Eddy C Fong
Chairman