

About Us

A sound financial regulatory regime is a key factor in maintaining Hong Kong's status as an international financial centre and a major financial market in Mainland China. We are the regulator charged with oversight of the securities and futures sectors of Hong Kong's financial markets and have three main functions: maintaining order in the marketplace, supporting market development and educating and protecting investors. We need to ensure these objectives are appropriately balanced and when necessary rebalanced, to match the constantly changing financial landscape.

We are an independent statutory body operating outside the civil service but held accountable to the Government. We were founded two decades ago in response to needs highlighted by the market crash of 1987. Following an in depth review of Hong Kong's needs, a new regulator and a new regulatory framework were put in place to allow our securities and futures markets to address both local needs as well as keep pace with global developments and standards. Following the Asian financial crisis in 1997, further changes were made to improve and consolidate this regulatory regime, resulting in the implementation of the Securities and Futures Ordinance (SFO) in 2003. This reform expanded our functions and powers and enabled us to further develop the scope and depth of our regulatory work.

During the past year, financial markets worldwide have witnessed unprecedented levels of disruption and downturn. As we and fellow regulators around the world examine issues highlighted by the current crisis, notably the increasing complexity of investment products, we anticipate yet another period of regulatory reform. As with previous reforms, we expect Hong Kong's regulatory infrastructure to emerge stronger, aligned with market developments and better suited to our current needs. However, we believe that no matter what changes are introduced, our fundamental objectives will remain the same: to encourage the orderly and healthy development of the securities and futures industry where participants are treated fairly and where investors are given the opportunity to make appropriate investment decisions.

Our Roles and Responsibilities

Our objectives

Under the SFO, we are given six regulatory objectives:

- Maintain a fair, efficient, competitive, transparent and orderly marketplace for the securities and futures industry;
- help the investing public understand how the industry works;
- protect the interest of investors in general;
- minimise crime and misconduct among market participants;
- reduce systemic risks in the industry; and
- help contribute to the financial stability of Hong Kong.



Who we regulate

We supervise these three main groups of market participants:

- Intermediaries (brokers, investment advisers, asset managers and investment bankers): Corporations engaged in these regulated activities must satisfy strict licensing criteria and comply with operational and financial resources requirements on an on-going basis. Individuals engaged in these activities must also satisfy certain licensing criteria before they are qualified to deal in securities or futures or give investment advice on securities and futures. Thereafter, they need to comply with regulatory standards of conduct in how they conduct their business.
- Issuers of securities (listed companies and investment funds): They must comply with disclosure and other requirements to offer securities to the investing public. Through an authorisation process, we examine offering documents and in some cases, marketing materials of products (other than listed securities) that are distributed to retail investors. Such a process ensures that adequate and unbiased information is available to permit informed investment decisions.
- Market operators (Hong Kong Exchanges and Clearing Ltd or HKEx): HKEx comes under our direct supervision. It is the holding company of The Stock Exchange of Hong Kong Ltd (SEHK), Hong Kong Futures Exchange Ltd (HKFE) and Hong Kong Securities Clearing Co, Ltd.

Funding

In keeping with our independent status, we have been self-funded through transaction levies and fees charged to market participants for the past 15 years. The SFC's share of the securities transaction levy has stood at 0.004% since 2006, significantly reduced from 0.0125% when the levy mechanism was first set up. As turnover increased, we accumulated significant reserves and we reduced the levy to 0.01% in 1993, 0.006% in 1994 and 0.004% in 1998. We raised the rate to 0.005% in 2000 following our contribution of \$330 million to the then Unified Exchange Compensation Fund but subsequently reduced it to the current level in 2006.

Areas of focus

Our operating framework is built on three pillars:

Regulation

Regulation is fundamental to an orderly market. We require those we regulate to meet obligations stated in the SFO as well as various codes and rules. Our goal in taking regulatory actions is to demonstrate that breaches of regulation are unacceptable, thereby encouraging voluntary compliance by all market participants.

We do not hesitate to initiate criminal proceedings in the public interest or commence civil proceedings before the Market Misconduct Tribunal. Wrongdoers convicted of serious abuses can be subject to imprisonment. Licensees who are in breach of codes and guidelines face disciplinary actions such as reprimands, licence suspension, life ban from the industry and monetary fines. More recently, where circumstances are appropriate, we have been giving offending licensed corporations a chance to rectify infractions, on condition that they also promise to implement remedial measures and good compliance practices.

We keep a close eye on intermediaries and trading systems to ensure orderly trading activities and to deter wrongdoing. On-site inspections and meetings with management of licensed corporations enable us to identify possible risks and discuss areas of concern. When serious misconduct is detected that poses a major threat to investor assets, we take decisive action to restrict or stop the violating firm's business.

We work closely with SEHK to ensure full and proper disclosure in listing applications. We also take action against listed companies found to have provided false or misleading information or to have conducted transactions harmful to shareholder interests. We also refer cases involving fraud to the police and oversee activities related to takeovers and mergers of listed companies.

While we are not empowered to order compensation, our subsidiary, the Investor Compensation Co, Ltd, manages the Investor Compensation Fund. This fund is established to provide statutory compensation, subject to a limit of \$150,000 per claimant, in qualifying cases of loss when a licensed intermediary or registered institution goes into default.

Our Roles and Responsibilities

Development

As the regulator of the securities and futures markets, we are conscious of the need for us to support Hong Kong's continued development as an international financial centre. However, as market regulators, we also recognise the need to balance the desire of industry participants for innovation and expansion with the need for trust and confidence in our markets and our role in educating and protecting investors.

Over the years, we have therefore encouraged appropriate development and technological advancement by relaxing restrictions but without compromising investor protection. We are also streamlining our own administrative procedures to simplify the compliance burden for the industry. However, in considering any regulatory amendments, we continue to follow our philosophy of only introducing significant changes after fully consulting all key stakeholders via public consultation.

We also oversee the launch of new products by SEHK and HKFE. In close collaboration with the exchanges, we monitor the impact of new products on market stability and the adequacy of trading and clearing systems to deal with these in times of volatility.

International participation is a key element to our role as a leading regulator and our ability to stay abreast of global developments relevant to Hong Kong. We actively take part in the International Organization of Securities Commissions forum to provide input to set global regulatory standards.

In recent years, we have significantly expanded contacts and cooperation with our Mainland counterparts. We share knowledge and market information through meetings and seminars and give briefings to high-level officials during their visits to Hong Kong. We also actively support the development of financial products for the Qualified Domestic Institutional Investor Scheme.

Education

We strongly believe that knowledge is the best protection for investors. We launch education initiatives, on a continual basis, to enhance investors' understanding of the markets, products and investment risks.

Nevertheless, it is not possible to create a risk-free market; nor is it part of our mission. All investments carry risk and an important part of investor education is to help individuals understand how to identify the risks in investments and the need to make a rational decision. We thus emphasize the need to ask the right questions before making investment decisions. In view of the increasingly complex nature of products, we also conduct proactive educational programmes to help investors better understand product features and associated risks.

We reach out to the general public via various channels. In the earlier years, we mainly used leaflets, newspaper articles as well as radio and television programmes. More recently, we have also introduced extensive advertising campaigns, short videos on buses, competitions and game shows. In addition, we regularly organise seminars for the community and run courses jointly with universities, which are designed to cultivate a proper investment attitude among the younger generation.

The SFC's investor website, InvestEd (www.InvestEd.hk), regularly posts up-to-date, practical information on products and market developments. It also provides an on-line channel for investors to ask questions and lodge complaints. Our monthly Dr Wise education column explains investment topics that are of interest to the public. We constantly encourage investors to make good use of our educational materials to raise their financial knowledge.

Also using our website, we issue alerts to investors about scams and malpractices that come to our attention. To help us focus our educational efforts on areas of greater need, we conduct surveys every two years to gauge public awareness of investment risks, the growing sophistication of products as well as the investment attitude of retail investors.