
about us

As a financial regulator, we must strike an appropriate balance in our work. On one hand, we strive to maintain order to ensure adequate investor protection and a level playing field for industry participants. On the other, we are keenly aware of the need to allow enough impetus for market growth and industry development. To achieve this, we adopt a partnership approach, collaborating with other financial regulators and working closely with the market.

The regulation of Hong Kong's sophisticated financial services sector is shared by four regulators. As the regulator overseeing the securities, futures and non-bank retail leveraged foreign exchange markets, we seek to ensure that both order and vitality are maintained in markets where the traditional lines between different products and distribution channels are becoming increasingly blurred and the products themselves are becoming increasingly complex and sophisticated. Meanwhile, we also strive to keep Hong Kong's securities and futures markets on par with international markets to maintain the city's standing as a major international financial centre.

Our mission

Under the Securities and Futures Ordinance (SFO), we have six regulatory goals:

- To keep the securities and futures markets fair, efficient, competitive, transparent and orderly;
- To help the public understand how the securities and futures industry works;
- To protect investors' interests;
- To minimise market crime and misconduct;
- To reduce systemic risks in the industry; and
- To help maintain the financial stability of Hong Kong.

To maintain independence, we operate outside the civil service as a statutory body but we are accountable to the Government for the accomplishment of the above objectives.

Our objectives

With the powers and functions conferred by the SFO, we attain our goals by focusing on three key areas: industry regulation, market development and investor education. We are committed to providing a regulatory environment that maintains market stability, encourages product development, promotes industry viability and offers appropriate safeguards for investors. These elements are inter-dependent and, in our view, are indispensable in a healthy financial market. Our work, therefore, is all about achieving a balance.

We strive for balance in setting standards for the securities and futures markets. For a well-functioning and orderly market, we need an appropriate regulatory framework backed up by monitoring of compliance and enforcement where required. However, no regulatory regime should unduly hinder industry participants' legitimate activities or market development.

A balance should also be struck between the needs of the market and those of investors. Broad and deep markets with a wide range of investment products attract capital, offer investment opportunities and choices for investors and support the growth of the industry. However, all investment carries risks. We therefore work to encourage innovation and progress and to maintain the competitiveness of our markets without raising systemic risks or compromising appropriate levels of investor protection.



Our work

Regulation

Regulation begins with setting ground rules, then progresses to monitoring the conduct of industry and market participants and rounds off with properly dealing with any misconduct (See chart). The ground rules apply not only to industry professionals but also investors who participate in the markets.

| Regulation | Development | Education |
|--|---|--|
| Licensing To ensure that intermediaries meet criteria | To keep abreast of international standards and trends To collaborate with China and overseas markets on industry issues To promote depth of markets and scope of products | To enhance investment knowledge To promote a proper investing attitude To remind investors of investment risks and their rights and responsibilities |
| Intermediaries supervision To monitor compliance with rules | | |
| Enforcement action To combat misconduct of licensees and market players | | |
| Supervision of markets To strengthen market infrastructure and supervise activities of exchanges and clearing houses | | |
| Oversight of listing matters To maintain quality of disclosure by listing applicants and listed companies, and oversee regulations governing takeovers and mergers of listed companies | | |

Intermediaries

We administer a licensing regime under which only properly-qualified intermediaries are permitted to conduct certain regulated activities.

We set operational and financial resources requirements for licensed corporations and standards of conduct for licensed individuals. For instance, we require intermediaries to adhere to specific standards in their "know your client" processes and, unless an exemption applies, to assess whether a product is suitable for a given individual investor. We conduct ongoing supervision, including off-site and on-site inspections, to ensure strict compliance.

To combat market misconduct, we have recourse to a full spectrum of powers mainly under the SFO. Licensees in breach of codes and guidelines are penalised by disciplinary actions ranging from reprimands to suspensions or revocations of licences to monetary fines. Those in breach of the SFO are subject to civil proceedings, including proceedings before the Market Misconduct Tribunal or may face criminal sanctions. Where we believe the circumstances warrant it, offending licensed corporations are given a chance to rectify mistakes and take remedial measures. Whilst it is important to maintain a strong deterrent effect, we also make sure that our enforcement actions are transparent, consistent and appropriate.



Investment products

SFC authorisation is required to be obtained before certain investment products or documents can be distributed to the public in Hong Kong. We have issued several product-specific codes and guidelines setting out detailed requirements for authorisation of these products and documents.

Market operators

Hong Kong Exchanges and Clearing Ltd (HKEx) comes under our direct supervision. It is the holding company of market operators, namely, The Stock Exchange of Hong Kong Ltd (SEHK), Hong Kong Futures Exchange Ltd and Hong Kong Securities Clearing Company Ltd. We monitor the performance of SEHK's listing-related duties and the activities of related clearing houses. In addition, we are responsible for authorizing automated trading services providers, including overseas exchanges operating in Hong Kong.

Listed companies

Under the dual filing system, we work closely with SEHK, the frontline regulator in relation to listing matters, to maintain the quality of disclosure by listing applicants and listed companies. Those who provide false or misleading information, or omit to provide relevant information, are liable to prosecution. We also oversee the regulations governing corporate activities related to takeovers, mergers and privatisations of listed companies.

Market development

We are an integral part of the Hong Kong financial system supporting the development of local markets. In this, we strive to strike a balance between fostering expansion and growth and an appropriate level of regulatory control. To achieve this balance, we:

- maintain close dialogues and collaborative relationships with relevant authorities on the Mainland and in other jurisdictions both in considering policy matters and industry standards and in exploring areas in which regulatory co-operation might provide opportunities for our markets and market participants;
- keep abreast of developments, both in the Hong Kong market and internationally, to ensure that our standards and rules accommodate changing circumstances and are appropriate for the market;
- encourage the availability of a broad range of investment products; and
- work to identify ways to improve efficiency in the industry and enhance transparency.

We seek to keep the market and the public informed of our activities and other developments through various means, such as our regular bilingual newsletters, reports, and special surveys and research papers.



Investor education

We are the only regulator in Hong Kong with a statutory mandate to educate investors. In fact, we have been active in this area for more than 15 years. We attach great importance to investor education as we believe that having knowledge of market operations and an understanding of the risks involved in investing not only helps investors protect themselves but also enhances their confidence in the financial system and their effectiveness in dealing with financial service providers.

We reach out to the general public with our investor education messages via multiple channels, using leaflets, seminars, multi-media advertising campaigns, competitions and game shows as well as newspaper articles and radio/television programmes. Our aim is to promote a responsible investment approach and increase financial literacy among investors from all walks of life.

On our InvestEd website (www.InvestEd.hk), we regularly post up-to-date information on investment products, the roles played by various operators in the market, general investment considerations and market developments. InvestEd's "star columnist", Dr Wise (a fictitious character), "writes" about current topics relating to investing in his monthly column and "answers" investor enquiries through our External Relations Department. Our Alert List serves to tell investors about suspicious operators and scam websites that come to our attention.

Funding source

In keeping with our independent status, we have been self-funded through transaction levies and fees charged to market participants for over 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 Unified Exchange Compensation Fund but subsequently reduced it to the current level in 2006. We are contemplating a further reduction of levies that will take effect towards the end of 2010, pending legislative approval.

Investor Compensation Co, Ltd

While the SFC is not empowered to order compensation, our subsidiary, the Investor Compensation Co, Ltd (www.hkicc.org.hk), manages the Investor Compensation Fund. This fund was established pursuant to the enactment of the SFO on 1 April 2003. The fund provides 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.