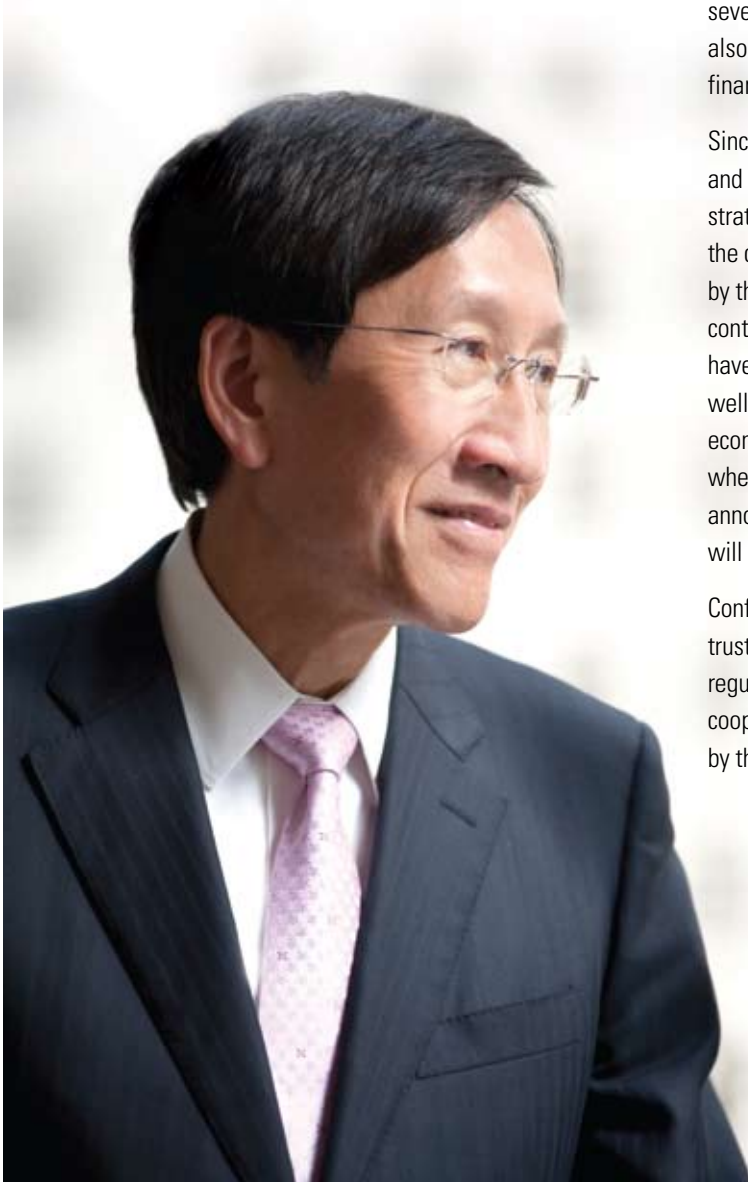

chairman's message

“The approach of the SFC is to manage the tension between regulation and market development and strike a proper balance to ensure that the effectiveness of regulation is not undermined by the introduction of new financial products or markets and that they do not pose a threat to the protection of investors or market stability. Regulation and market development is important for Hong Kong to continue to thrive as an international financial centre, and market participants have an important role to play in working with the SFC to maintain a healthy balance.”

Last year, as I wrote this message, the world was adjusting to the aftershock of the 2008 financial meltdown. The world has witnessed global efforts in stabilising financial markets on an unprecedented scale and in massive public spending to contain the severity of the recession. Leaders of the Group of Twenty (G-20) also committed to undertake the most comprehensive global financial reforms since the Second World War.

Since then, many economies have started on the road to recovery, and the focus of policymakers has been to ensure appropriate exit strategies so that recovery and growth can be sustained. This was the calm before the storm. Market confidence was jolted once again by the sovereign debt crisis in Greece in April. There were fears of contagion to other countries in Europe and the impact this would have on financial institution counterparties and market stability, as well as on the ability of governments to contain budget deficits if economic recovery is interrupted. At this stage, it remains uncertain whether the sovereign debt crisis has been contained with the announced financial support for Greece, or whether sovereign debt will become the flashpoint for financial markets ahead.

Confidence is the foundation of financial markets. To restore public trust and confidence in increasingly globalised financial markets, regulatory reform has become the centrepiece of international cooperation, and implementation of reforms is closely monitored by the G-20 and the Financial Stability Board (FSB).





Hong Kong's financial system withstood the global financial crisis, its markets continued to function and overall confidence was maintained. But for the SFC, there is no room for complacency, and vigilance continues to be the watchword, particularly as many challenges lie ahead in an uncertain world.

During the year, the SFC stepped up its review of the regulatory framework to ensure the relevance and effectiveness of regulations. In the aftermath of the failure of the Lehman Brothers group, investors suffered losses from their investments in retail structured products. To restore investor confidence and enhance investor protection, we launched a consultation to strengthen rules on selling practices and requirements for authorisation of product documentation. We also consulted the public on the introduction of a scripless market infrastructure and the reporting of short-selling positions for a better understanding of market dynamics.

On the international front, as a member of the FSB, Hong Kong along with other FSB and G-20 members, has committed to lead by example in the implementation of international standards on financial regulation. We represent Hong Kong in the FSB Standing Committee on Standards Implementation, which encourages adherence to international financial standards through peer reviews and monitors progress in implementation of these standards and other G-20 initiatives through an implementation monitoring network.

We will adopt and implement international standards, as appropriate, taking into consideration Hong Kong's market structure and local circumstances. We are committed to maintaining a robust regulatory framework that allows financial markets to thrive and serve the needs of investors, while at the same time ensuring that investor protection is not compromised and the stability of the securities market would not be threatened.

The approach of the SFC is to manage the tension between regulation and market development and strike a proper balance to ensure that the effectiveness of regulation is not undermined by the introduction of new financial products or markets and that they do not pose a threat to the protection of investors or market stability. Regulation and market development is important for Hong Kong to continue to thrive as an international financial centre, and market participants have an important role to play in working with the SFC to maintain a healthy balance.

Enforcement is an important pillar of our regulatory approach and we have achieved great success during the past year with some high-profile and breakthrough cases. Investor education is another pillar, and the SFC has worked closely with the Government and other financial regulators toward establishing an Investor Education Council, which will build on the SFC's investor education in the securities and futures industry to also include the banking and insurance sectors.

Co-operation with Mainland China continues to be a top priority. We are committed to working with the Mainland as it continues to integrate with global financial markets. China's choice of Hong Kong to issue the first offshore renminbi sovereign bond marked an important milestone for the city in the internationalisation of the renminbi last year. We stand ready to work with Mainland authorities, as well as the HKSAR Government and key market players, to support and facilitate China's smooth passage towards internationalising the renminbi, particularly in the securities markets.

Meanwhile, we continued to foster closer collaboration between Hong Kong and the Mainland. Under the Closer Economic Partnership Arrangement VI or CEPA VI, eligible Hong Kong securities companies and their Mainland counterparts may set up joint ventures to conduct securities investment advisory business in Guangdong.

The past year has been more challenging than ever for the SFC. Once again, our people rose to the occasion with uncomplaining dedication, perseverance and professionalism. I would like to thank our Board and staff members for their commitment and loyalty, and look forward to their continued support in helping the SFC meet successfully the challenges ahead and in maintaining Hong Kong as a financial centre of choice.

Dr Eddy C Fong

Chairman