

INTRODUCTION AND MOUs

The SFC has maintained its commitment to co-operate with regulatory authorities in other jurisdictions. Memoranda of Understanding were signed with the Commission des valeurs mobilières du Québec, the Finansinspektionen of Sweden and the Financial Services Board of South Africa. The SFC has now entered into 32 co-operative arrangements and 11 informal exchange of information arrangements with securities regulators around the world.

In addition to information sharing arrangements, the SFC continues to participate actively in the work of the International Organisation of Securities Commissions (IOSCO).

The SFC is also active on a regional basis in the IOSCO Asia Pacific Regional Committee (APRC). The APRC currently has 23 members from the region who meet regularly to discuss policy and operational issues.

ONGOING REGULATORY CO-OPERATION

During the year, the SFC received and processed 52 enforcement-related requests for information of which 20 were for non-public information. A further 244 licensing-related requests for information from overseas regulatory bodies were received. On the other hand, SFC made eight requests for enforcement-related information to overseas regulatory bodies and 662 requests for licensing-related information.

Regarding investigatory assistance, the SFC received 13 requests from overseas regulatory bodies and itself made 53 requests to overseas regulatory bodies. During the year, the SFC exercised its powers under S.59A of the Securities and Futures Commission Ordinance in response to three requests from the Australian Securities and

Investments Commission and its powers under S.63A of the Leveraged Foreign Exchange Trading Ordinance in response to three requests from the US Commodity Futures Trading Commission (US CFTC). The assistance provided in these cases included obtaining non-public records and documents, obtaining statements or affidavits from witnesses, arranging for the SFC's staff to give expert evidence, and serving notices relating to court action overseas.

The CSRC, Bundesaufsichtsamt für den Wertpapierhandel of Germany, US Securities and Exchange Commission and the Swiss Federal Banking Commission also assisted in SFC's investigations. The assistance sought included obtaining non-public records and statements and arranging interviews with witnesses overseas.

With regard to the checking of fitness and properness of dual registrants, the SFC received 16 requests from overseas regulators for information. Responses had been provided in accordance with the MOUs between the SFC and these overseas regulators.

In June 1998, the SFC participated in the third Technical Workshop jointly held with investment fund regulators from the Financial Services Authority of the UK and the SEC of the US in London. The workshop aimed to increase the understanding of the businesses of different international fund management groups with a view to strengthen the oversight of cross-border investment management activities and enhance international regulatory co-operation.

The SFC continues to maintain a close relationship with the CSRC.

THE INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS

IOSCO Working Party (WP1):

Multinational Disclosure and Accounting

The principal task of WP1 is to work with the International Accounting Standards Committee (IASC) to complete a core body of accounting standards that can provide a comprehensive financial reporting framework suitable for international equity offerings. By 31 March 1999 IASC had substantially completed the core accounting standards. WP1 is currently completing an assessment on whether these standards provide a comprehensive and operational body of accounting principles. WP1 is also discussing the status of International Standards on Auditing with the International Auditing Practices Committee.

IOSCO WP2: Regulation of Secondary Markets

WP2 has been involved in a number of important undertakings during the year. First, WP2 continued its work from the previous year in examining the problems and opportunities associated with the use of the Internet for securities and futures business. A paper titled "Internet: Its Characteristics and Implications for Securities Transactions" was recognised as final at the IOSCO meeting in September 1998.

A second ongoing undertaking of WP2 dealt with the Year 2000 computer problem. A second survey of IOSCO members was completed during the year. The survey indicated that significant developments were being made in many IOSCO jurisdictions. WP2 also completed a paper on contingency and continuity planning by securities regulators. The paper was presented to IOSCO's Joint Year 2000 Council in January 1999 and had been released as guidance for financial market authorities. Discussions are also underway within WP2 in respect of Year 2000 cross-border co-operation.

Third, a joint working group was formed between WP2 and the G-10 Central Bank Committee on Payment and Settlement Systems (CPSS), to study the worldwide development of securities lending and its implications for securities regulators and central banks. A paper has been drafted and will be finalised upon a limited consultation among industry practitioners in each WP2 member jurisdiction. Following incorporation of the comments received it is intended to present the final paper to the IOSCO Technical Committee in the second quarter of this year.

Fourth, following a recommendation from the Burgenstock meeting of derivatives regulators, the IOSCO Technical Committee requested WP2 to explore the issue of screen-based trading systems for derivative products. WP2 will study whether the new technology poses any additional challenges to regulators. A survey is being conducted on the current use of automated trading systems by organised exchanges as well as a survey on the current regulatory approach of WP2 member jurisdictions. Based on analysis of the surveys, WP2 will consider if it is necessary to expand upon the 1990 Report of the IOSCO Technical Committee which set out principles for the oversight of screen-based trading systems.

Amongst recent developments, in December 1998 a special Task Force was set up by the IOSCO Technical Committee to address regulatory issues relating to hedge funds and other highly leveraged financial institutions (HLI). WP2 has been mandated by the Task Force to examine some of the issues raised by the impact of HLI activities in the OTC markets and on organised exchanges. In particular, WP2 will examine the types of information about HLI trading activities that may be needed by the markets and/or market regulators. The objective is to advise the Task Force whether it is advisable and feasible to impose requirements directly on HLIs to disclose information regarding their activities to counterparties, the markets and/or market regulators.

IOSCO WP3: Supervision of Market Intermediaries

IOSCO/Basle Report

The report, which was published on 2 September 1988, is an update of the 1995 version. This is part of the continuing effort by IOSCO and the Basle Committee to monitor the trading and derivatives activities of banks and securities firms.

Public Disclosure of Trading and Derivatives Activities

WP3 has worked with the Transparency Sub-group of Basle to update and extend the recommendations regarding disclosure in published accounts by banks and securities firms of their trading and derivatives activities which have formed the basis of the four annual IOSCO/Basle reports published since 1995.

Methodologies for Determining Minimum Capital Standards for Internationally Active Securities Firms Which Permit the Use of Models Under Prescribed Conditions

This paper was published on 27 May 1998 and brings IOSCO closer to the methodologies favoured by the Basle Committee on Banking Supervision based on value at risk models. As a result, IOSCO expects to reduce market distortions.

Risk Management and Control Guidelines for Securities Firms and Their Supervisors

To promote domestic and international risk management and control structure awareness for securities firms and regulators, a paper was also published on 27 May 1998. The paper provides information to be considered by firms and supervisors, and describes elements of a risk management and control system.

This is the first time that IOSCO has provided guidance to supervisors in the area of risk management and controls applicable to the general management of a securities firm. The paper provides benchmarks by which both securities firms and their supervisors may assess risk management and control systems. It represents another positive step forward in the area of supervision of internationally active securities firms.

The New Mandate

Model Approval — This is intended to provide guidance to supervisors when dealing with requests to approve the use of a firm's internal model for the calculation of market risk regulatory capital. This is an item for an increasing number of regulators and significant progress has been made. The expectation is that a finished paper will be adopted by the Technical Committee shortly for publication.

Operational Risk — This is to position IOSCO to be able to respond in a timely and informed manner to evolving supervisory and industry techniques in the areas of risk and risk management that are crucial to the financial integrity of securities firms.

The Working Party concluded that current approaches to the management of operation risk by firms (and its regulation) are so varied and generally non-specific that proceeding by way of questionnaire is inappropriate. A more discursive approach to initial information gathering is being adopted.

Credit Risk — This is on those elements of credit risk that are emerging as being of particular importance to securities regulators. Work has begun on responding to a survey on current regulatory practices.

Risk Management and Controls — In response to the debate on HLI trading activities, WP3 was asked by the Technical Committee to develop specific recommendations for appropriate risk management and controls regarding HLI in securities firms that have exposures to HLI.

IOSCO WP4: Enforcement, Exchange of Information

WP4 has been working on two mandates. Pursuant to the first mandate on Investigating and Prosecuting Price Manipulation Issues, WP4 sought members' assistance in providing their practical experiences in combating price manipulation on stock markets in their respective jurisdictions. It is intended to prepare a report identifying measures that could be useful and effective in the detection, investigation and prosecution of manipulative activity.

The second mandate relates to Co-operation between Law Enforcement Agencies and Regulators. To this end, members were asked to respond to questionnaires drafted by the G-7 Experts Group and a consensus was reached in 1998 on the proposal to organise an international conference on the subject in 1999. A committee, comprising representatives from six member countries and the IOSCO Secretary General, has been set up to organise this conference. To facilitate future discussions, members (including the SFC) shared their experience on co-operation with law enforcement agencies in their respective jurisdictions.

In addition, WP4 has been represented as an observer at various meetings of the FATF. WP4 continued its support to the work of FATF on the issue of money laundering and provided FATF with IOSCO reports and papers on information sharing and mutual co-operation matters.

IOSCO WP5: Investment Management

WP5 completed two papers, namely, the "Summary Techniques for the Supervision of Collective Investment Schemes (CIS) Operators" and "CIS Activities on the Internet". These were presented to the IOSCO Technical Committee who agreed to the recommendations made by WP5.

During the period, the Working Party took on two new mandates, namely, "The Infrastructure for Decision Making in relation to CIS: The Relationship between Managers, Trustees, Custodians and Investors" and "Regulatory Approaches to the Valuation of CIS and Pricing of CIS Interests".

In November 1998, the Commission hosted an IOSCO WP5 meeting in Hong Kong during which staff of the Commission presented a paper on the second mandate. In addition to presenting the paper, Commission staff also shared their experience on the Malaysian crisis with members of the Working Party who agreed that the paper could not have been tabled at a more appropriate time. Members agreed that the paper would serve as a useful reference for regulators to draw on the experience of others in CIS valuation and pricing, the fairness of which would be indispensable for the continued growth of the international fund management industry.



Meeting of the Asia Pacific Regional Committee of the International Organisation of Securities Commissions. Hong Kong, 25 November 1998