

Our priorities in 2006

The SFC has set enforcement and investor education as its priorities in 2006.

SFC Chairman Mr Martin Wheatley said at a media briefing that the SFC had been working with HKEx to conclude five cases relating to sponsors' due diligence failures. The SFC would also conclude several cases relating to mis-selling by investment advisers in 2006. A thematic review on selling practices will also be conducted.



(From left) Executive Directors Mr Peter Au-Yang, Mrs Alexa Lam, Chairman Mr Martin Wheatley and Mr Alan Linning at the media briefing.

On investor education (IE), the SFC named January 2006 as IE Month with the launch of several initiatives (please see pages 5-6).

Other key work areas in 2006 include giving statutory backing to important listing requirements. The SFC is discussing with the Government and HKEx on this matter. We will strengthen sponsors regulation and hope to publish the conclusions to our proposals in the first half of 2006.

The SFC will further develop its relationship with its Mainland counterparts. This is important for maintaining Hong Kong's role as a major listing platform for PRC companies.

■ The SFC has released its Quarterly Report for October - December 2005. During the quarter, our total revenue and expenditure amounted to \$202 million and \$122 million respectively. A \$80 million surplus was recorded. For the three quarters ended 31 December, the SFC achieved a surplus of \$215 million.

For details, please see press releases issued on 13 and 14 February 2006 respectively, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/06PR19?openDocument> and <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/06PR20?openDocument>.

Message from SFC Chairman

Dear Reader,

In the first month of the Chinese New Year, I wish you a prosperous and healthy Year of the Dog.

When it comes to financial health, investors need to understand they must look after their own interests. The SFC has recently launched its investor education programme for 2006, and the theme is "Before you invest, ask the right questions".

We encourage investors to ask the right questions and get the answers in order to make informed investment decisions. We invite financial intermediaries to join us in enhancing the knowledge of investors.

To do our part, the SFC has renamed its investor education portal, created an IE icon, made new television and radio IE commercials, and planned other multi-channel IE initiatives. I look forward to your participation and comments.

Martin Wheatley

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On 10 January, the SFC rolled out its investor education programmes 2006 with a ceremony officiated by the Secretary for Financial Services and the Treasury, Mr Frederick Ma (right). Mr Ma and SFC Chairman, Mr Martin Wheatley, unveiled the new IE icon.



Senior management interview

Mr Leo Lee, Director of Finance and Administration

Can you describe your role?

I manage the finance of the SFC and investor compensation funds, and oversee internal administration.

What are the SFC's main income sources?

Transaction levies, service fees and charges, and an annual appropriation from the Government. Transaction levies are imposed on every transaction on the Exchanges. The SFC welcomes the Financial Secretary's proposed 20% reduction of the transaction levies for securities and futures trades on the exchanges. Fees are charged for our services in the areas of corporate finance, approval of investment products and intermediaries' licences, etc, based on the users-pay principle. However, we have not fully recovered the costs for providing such services. The SFC has not sought Government appropriation since 1993/94.

How to ensure the best use of resources?

The SFC uses its resources only when it is necessary for the discharge of its statutory regulatory duties. All expenditures are tightly controlled by an approved annual budget. The Budget Committee chaired by a Non-Executive Director (NED) examines and approves

the parameters and basis for the annual budget. After approval by the Board, the budget would be submitted to the Financial Secretary for approval and laid before LegCo.

Personnel expenses represent the largest portion of the SFC's expenditure. The Remuneration Committee, which comprises only NEDs, reviews the pay structure to ensure that the SFC's remuneration is in line with market benchmarks to attract and retain people.



Where is the SFC located?

The SFC moved to its present Chater House offices in Central in mid-2003. We occupy 4.5 floors. When identifying our office premises, we would consider the rental package and factors like proximity to the financial community. We were able to secure a very attractive rental package when we moved to Chater House because of the then rental market condition. The SFC is a key market regulator in an international financial centre and we need to ensure that the SFC's offices are convenient to our stakeholders and enable the SFC to discharge its functions efficiently.

Is Central the only office location?

A small backup office was established in October 2004 in Kowloon Bay as part of our Business Continuity Plan. It will be the first port of call if staff cannot access the Central office. Our plan ensures that our key operations shall remain uninterrupted in contingency situations. Computers and internet access are provided at the backup office. There are also conference facilities.

Personal bio

- Joined the SFC in July 1989
- FCPA, FCCA, FCPA (Australia), LLB, University of London, and MBA, University of Hong Kong
- Worked as Assessor, Investigation in the

Inland Revenue Department; previously Director of Licensing and Director of Corporate Planning of the SFC

- Enjoys reading, music, films, travelling and astronomy

In brief

- Certain definitions under **Schedule 5** to the Securities and Futures Ordinance have been amended to accommodate the latest development of the industry and the comments of market participants on the licensing regime. "Asset management" now includes management of real estate investment trusts. "Dealing in securities" excludes

dealings by approved money brokers where they represent authorised financial institutions. In addition, "advising on securities" and "advising on futures contracts" exclude licensed asset managers where they give advice on their own funds. The amendments came into effect on 6 January 2006.

- The SFC and the Insurance Authority (IA) have signed a **Memorandum of Understanding (MoU)** to enhance

co-operation, exchange of information and mutual assistance. Both parties agree to foster closer co-operation in the regulation of insurance-related investment products and the sharing of information of persons who are regulated under their respective supervisory regimes. Principal points of contact have been established by the SFC and the IA to ensure smooth operation of the MoU's arrangements.

Register for IOSCO Annual Conference 2006 !

Market practitioners and other interested parties are cordially invited to join the 31st Annual Conference of the International Organization of Securities Commissions (IOSCO) in Hong Kong in June. The conference will begin on 5 June with two days of members-only meetings. Non-IOSCO members can attend the public discussion panels on 7-8 June where distinguished speakers from around the world will talk about topical regulatory issues (see table).

Act now to enjoy 15% discount

You can either join as an Observer or a Day Observer. Observers will have full access to programmes held on 7-8 June, including two evening social programmes. Day Observers (applicable to participants from Mainland China, Hong Kong and Macao) may participate in the day-time programmes on the two days.

To enjoy a 15% discount off the standard registration fee, please register before 15 March 2006. Participants can register online at the conference website or print out the registration form and return it by post or fax.

IOSCO

Founded in 1983, IOSCO is one of the world's most influential international standard

Panel Discussion Topics

International Financial Reporting Standards (IFRS) - initial experiences

What has the effect been of the introduction of IFRS and why have some found it difficult to accept? Can we expect the IFRS to be endorsed globally within a foreseeable timeframe?

Hedge funds - how far is it necessary to regulate?

What are the key opportunities, challenges and commercial dynamics facing hedge funds? Is there a need to further regulate hedge fund activities? What is the basis for the continuing perception of the risks associated with hedge funds and the challenges they currently pose for securities regulators?

Bond markets - should their transparency be enhanced?

What form of regulation is the most appropriate for this sector? Should bond market transparency be enhanced?

Challenges related to the implementation of the IOSCO principles and of the IOSCO MOU in emerging securities markets

What are the specific challenges encountered with the implementation of the high-level regulatory standards? Why promoting the better practices in these markets will result in attracting both domestic and international investors?

setting bodies. It aims to promote better standards of securities regulation and to enhance co-operation among securities regulators. Members and leading market participants from around the world meet every year to discuss important issues related to the world's securities and futures markets, global trends in regulation, and challenges facing different markets.

The SFC is the host of this year's IOSCO Annual Conference. Preparation is now in full swing and detailed information about the conference venue, programmes, registration, hotels and rates can be found on the conference website at www.iosco2006.org.



Enquiries about registration, hotel registration and other logistical arrangements can be made to the Conference Secretariat, International Conference Consultants Limited (Tel: (852) 2559 9973 / Fax: (852) 2547 9528 / Email: iosco2006@icc.com.hk).



Circulars

The following recently published circulars are available on the SFC website under "Legislation & Regulatory Handbook" - "Regulatory Handbook" - "Codes, Guidelines and Circulars" at: <http://eapp01.sfc.hk/apps/cc/RegulatoryHandbook.nsf/eng/GenerateHTMLTB?openAgent>.

1. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing United Nations Sanctions (Democratic Republic of the Congo) Regulation 2005 (16.02.2006)
2. Circular to Licensed Corporations which are licensed for Type 9 regulated activity - Frequently Asked Questions on Financial Return Form 12 - Aggregate net value of assets under management (10.01.2006)
3. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing (1) US President's Executive Order 13224; (2) United Nations (Anti-Terrorism Measures) Ordinance; (3) United Nations Sanctions (Liberia) Regulation (06.01.2006)
4. Circular to Licensed Corporations and Associated Entities - Business Continuity Plan in light of the Possible Outbreak of Avian Influenza and Influenza Pandemic in Hong Kong (21.12.2005)

Joint Forum meeting in HK

Securities, banking and insurance regulators worldwide gathered in Hong Kong this week for a Joint Forum (JF) meeting and discussed issues relating to business continuity.

The meeting was co-hosted by the SFC and the Bank of International Settlements Representative Office on 20-21 February. It was attended by over 40 representatives from more than 30 regulators.

The meeting followed JF's publication of a consultation paper entitled "High-level principles for business continuity" in December 2005. Seven principles are directed at both financial industry participants and financial authorities globally, who are encouraged to give comments by 10 March.

For details about the consultation, please see press release issued on 22 December 2005, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/05PR307?openDocument>.



JF Chairman Mr Dirk Witteveen (right) and SFC Adviser to Chairman's Office Mr Ian Johnston, the immediately preceding JF Chairman, at the meeting.

Share margin financing

The SFC will proceed with a proposal to set a securities collateral re-pledging limit immediately, following the general support by members of the Legislative Council Panel on Financial Affairs. The proposal will afford greater protection to the over 1.3 million Hong Kong investors, and protect the reputation of the Hong Kong securities market.

At a Panel meeting in February, members

said that the matter had to be addressed as one of great importance and urgency.

The SFC will soon submit to the Government the consultation conclusions on the proposed measures to address risks arising from share margin financing, and the draft legislation.

The re-pledging limit will cap the amount of client collateral that a broker firm can re-pledge as security for its borrowings at a

percentage of the aggregate margin loans the firm lends to clients.

The SFC intends to implement a 180% re-pledging limit first and then reduce the limit to a level of between 130% and 150% after a period of 12 months. Only a limited number of firms will be affected.

For details, please see press release issued on 6 February 2006, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/06PR15?openDocument>

Business Activities Survey 2004/05

To better understand the developments in the securities industry, the SFC has been conducting annual Business Activities Surveys since 1996. The 2004/05 exercise was the second survey conducted under the new regime following the implementation of the Securities and Futures Ordinance. The response rate for the 2004/05 exercise improved to 71% (66% in 2003/04).

The survey showed that the securities industry had grown for two consecutive years. The improved market conditions contributed to an increase in gross operating income of securities dealers by 17% to \$32.9 billion. This was largely in line with the 12% increase in stock market turnover to \$3,836 billion. Yet, the number of active clients serviced by securities dealers slightly decreased by 4% to 586,589.

Although over 86% of securities dealers' clients were retail investors, institutional and high net-worth individual clients remained

the main income contributors (85%). The contribution of overseas clients (56%) to securities dealers' income surpassed that of local clients (44%).

Firms that carry on dealing in securities solely or with other securities activities recruited 29% more workforce in aggregate, from 14,998 employees in 2003/04 to 19,387 in 2004/05, to cope with additional workload. The distribution between frontline staff and backoffice support remained at 65% and 35% respectively. The result corresponded with the increase in the total number of individuals licensed by the SFC from 19,212 in 2003/04 to 21,494 in 2004/05.

Overall, the securities industry continued to record improved income, which triggered more recruitment. This trend continued in 2005 as the average daily stock market turnover for the nine months ended 31 December 2005 surged 17% to \$18.2 billion, as compared to that in 2004/05.

Securities Dealers		2004/05	2003/04
Total gross income		\$32.9 billion	\$28.1 billion (\$38.3 billion) ¹
Breakdown by clients	Retail	15%	16% (31%) ¹
	Institutional & high net-worth	85%	84% (69%) ¹
Breakdown by clients	Local	44%	54% (66%) ¹
	Overseas	56%	46% (34%) ¹
Total active clients		586,589	612,754
Breakdown by clients	Retail	86%	89%
	Institutional & high net-worth	14%	11%
Breakdown by clients	Local	85%	79%
	Overseas	15%	21%
Total workforce		19,387	14,998
Front office		65%	65%
Back office		35%	35%

¹ 2003/04 figures are adjusted due to mis-reporting by respondents (figures published last year in brackets). Some securities dealers mistakenly overstated their 2003/04 income as they had overlooked that all numbers were to be reported in units of one thousand (\$'000). The SFC relies on the monthly financial returns of securities dealers, instead of the data collected from this voluntary survey, for the purpose of regulating and risk monitoring in the industry.

Appointment

The SFC announces that Ms Alice Law, formerly Director of Intermediaries and Investment Products (IIP), has assumed the position of Director of Licensing since 1 February 2006, overseeing the operations of the Licensing Department. Ms Lucinda Wong, formerly Director of Licensing, has assumed the position of Director of IIP, overseeing the policy initiatives from the Division's perspective.

Mrs Alexa Lam, Executive Director of IIP, said: "Job rotation is a way to further staff development and enhance our deployment of resources. The rotation of Ms Law and Ms Wong is part of IIP's efforts to allow cross fertilisation among the different departments and functions of IIP, and to provide staff with a chance to broaden their perspectives."



FAQs

Q: I would like to invest in a product denominated in Sterling, and then pledge it as collateral to borrow in order to gear up my investment. Shall I get a loan based in another currency, such as Yen, that may attract a lower interest rate?

A: While the lower interest rate on the loan may reduce your interest costs, you are fully exposed to currency risk because of the different denominations of the loan and the collateral. If Yen sharply appreciates against Sterling, the lender may demand you to top up the collateral provided for the loan, potentially by a substantial amount.



Investor education programmes 2006

“Before you invest, ask the right questions” is the theme of the SFC’s investor education (IE) programmes in 2006. We wish to encourage investors to ask the right questions about products and services, and advisers’ recommendations so as to make informed choices. January 2006 was designated as the IE Month.

InvestEd, new IE icon and flash videos

To highlight its IE role, the SFC has unveiled a new icon (see above). The word “InvestEd” under the icon is a short form for “Investor Education”. The icon signifies that, like a seedling which needs nutrients and sunlight to grow healthily, investors must also learn to be able to invest wisely.

The SFC’s IE portal, previously known as the eIRC or the Electronic Investor Resources Centre, is now called the InvestEd website, which is easier to remember. The URL is **www.InvestEd.hk**. The hit rate of the InvestEd website in January was 43% higher than that of the eIRC website in December and was up 58% compared with the same period last year.

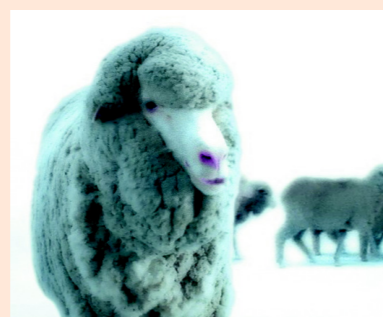
The InvestEd website will continue to make use of innovative and interactive means to educate investors online. Text educational information under the “Features & Dr Wise” section is now complemented by flash animation videos.



Prospecto, one of the flash video characters, teaches investors how to read IPO prospectuses.

TV and radio commercials

The SFC has produced TV and radio commercials featuring a new “Mr Sheep”. Unlike his predecessor in the SFC’s TV commercials some years ago, Mr Sheep knows the importance of protecting his own interests when investing.



Mr Sheep and his friends are getting smarter. They ask the right questions when buying warrants, opening a margin account or seeking investment advice.

We will also publish articles on newspapers and magazines to elaborate on the questions that investors should ask under different investment scenarios.

To explain the issues in the commercials, the SFC organised an **open quiz**. We have received 869 responses. Those who correctly answer the quiz are entitled to an IE souvenir.

Investor forums

In light of the overwhelming response to the public seminars offered jointly by the SFC and the Li Ka Shing Institute of Professional and Continuing Education of The Open University of Hong Kong in November and December 2005, the SFC organised two new investor forums in January 2006.



Well-known financial columnist Mr Cho Chi Ming spoke in one of the public seminars.

Market professionals explained how to evaluate stock and fund performance and build a personal investment portfolio.

More **workplace and school talks** which cover wide-ranging investment topics will be held.

For more details of the SFC IE initiatives this year, please see press release issued on 10 January 2006, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/kupNewsCode/06PR3?openDocument>.

Looking forward

The SFC has organised a “My Investment Story” competition inviting investors to share their personal experiences in investing and the lessons learnt. In March, we will adapt the 10 best stories from the competition into radio dramas for broadcast on Radio 5 of RTHK and publication in newspapers. We have received 100 submissions and will announce the results soon.

In the second quarter of 2006, the SFC will produce a **new TV series** on warrants and alternative investments, organise **train-the-trainer workshops** for secondary school and vocational education teachers, and begin a focused campaign on the risk arising from **share margin financing**.

Also, in the coming few months, we will release the findings of several **retail investor surveys**, which cover investors’ participation rates in different investment products, their level of financial understanding, investment behaviour of stock investors and experiences in using investment advisers. More initiatives for the second half will be announced later.



The following items of investor resources have been made available to the investing public or

updated recently. They can be found on the InvestEd website at the URLs provided.

Investor Alert Updates (<http://eapp01.sfc.hk/apps/ie/eIRCAAlertList.nsf/eng/alert?openpage>):

17 unlicensed companies have been added to the Alert List: “Transglobal Financial Ltd” (06.02.2006); “Riverton Financial Group”, “Swift Asset Management Ltd.”, “Tri Guard Holdings Limited” (01.02.2006); “Forex & Futures International Limited” (23.01.2006); “Argus International Limited”, “Edenville Consultancy Limited”, “General Traders”, “Hamilton, Gardiner & Associates”, “Nakamura Capital Group”, “TGF Management Services Inc.”, “Yamaichi Investments Ltd” (18.01.2006); “Irving Horowitz Mergers and Acquisitions”, “Magnusson Edward.”, “Olympia Corporate Services” (29.12.2005); “Schwartz Woodman”, “Zeus Enterprises” (21.12.2005). Information of two entities including “TGF Management Services Inc.” (06.02.2006); “China Union Group Limited” (01.02.2006) has been updated on the list.

Dr Wise’s Column (<http://www.invested.hk/invested/html/EN/features/index.htm>): “Before You Invest, Ask the Right Questions” (24.01.2006) and “Disclosure of Interests Enhances Transparency” (20.12.2005)



Other publications

The following publications have been published since the release of the last SFC Alert. They are available on the SFC website under “Speeches, Publications & Consultations” - “Publications” at: <http://www.sfc.hk/sfv/html/EN/speeches/public/public.html>.

1. SFC Enforcement Reporter - February 2006 (17.02.2006)
2. SFC Quarterly Report - October to December 2006 (14.02.2006)
3. SFC Enforcement Reporter - January 2006 (20.01.2006)



Recruitment

The following SFC positions are open. For application and details of the openings, please visit the SFC website at: <http://www.sfc.hk/sfc/html/EN/aboutsfc/employment/employment.html>.

- **Executive Director - Corporate Finance**
- **Executive Director - Enforcement**
- **Director - Intermediaries & Investment Products Division**



Subscription information

The bi-monthly SFC Alert forms part of our range of regular publications; others include the monthly SFC Enforcement Reporter, the Quarterly Report, the Quarterly Bulletin and the Annual Report. All these publications are posted on the SFC website.

Free subscription to the electronic version of the SFC Alert (and other publications) can be made to sfcalert@sfc.hk.



Feedback

Tell us what you think of the SFC Alert. Questions and comments can be sent to sfcalert@sfc.hk.

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