

# Corporate Social Responsibilities

As a statutory body, serving the public is the reason for our being. Apart from fulfilling our statutory obligations to foster orderly growth in the securities and futures markets, we also strive to be a good corporate citizen by adopting policies and practices that encourage a positive contribution to society.

Corporate social responsibility (CSR) is about two sides of a coin. First is accountability, which in our case, means being responsible for the impact of our actions and/or activities on our stakeholders, our employees, the community as well as the environment. Second is sustainable development. We believe that it is only through improving the quality of life of those we affect and benefiting our operating environment that we can reach a win-win situation.

To strengthen our efforts in this area, we recently formalised our CSR programme to evolve around the three pillars of corporate governance, people and the community as well as the environment. Each of these pillars is approached on the principle of developing a simple win-win proposition for both the organisation and the community.

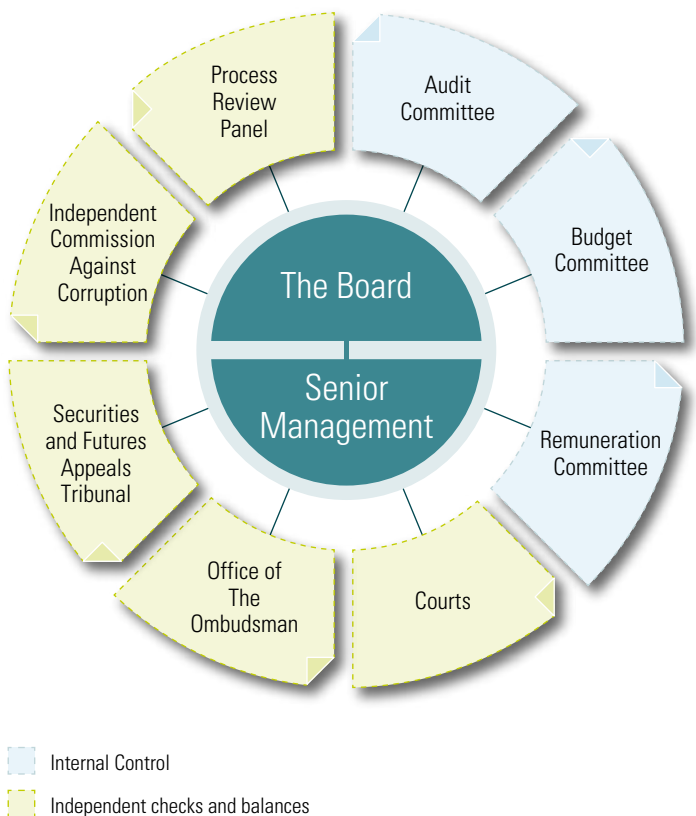
## Corporate Governance

As the regulator of the securities and futures markets, we aim to set a good example for both those that we regulate as well as the business community at large. We believe that sound corporate governance enhances the viability of an organisation, and in the context of securities markets, protects and enhances shareholder value.

In terms of policy, we adhere to the guidelines of the Hong Kong Institute of Chartered Public Accountants by addressing the four dimensions of personnel integrity, organisational structures and processes, management and controls, and transparency requirements to ensure proper governance.

### Framework of control

The SFC's corporate governance framework is made up of multiple control levels as well as checks and balances as depicted in the following diagram.



### Senior management and board of directors

Last year, Mr Eddy Fong continued to head the Board of Directors as its non-executive Chairman. The Board leads the organisation to meet statutory objectives, sets policies, provides strategic guidance to senior management and monitors the performance of executive functions carried out by the Executive Committee (ExCo). It meets at least once a month to approve matters under the Securities and Futures Ordinance (SFO) as well as important policies and issues. Last year, 15 Board meetings were held.



During the year, four Non-executive Directors (NEDs) from various fields were re-appointed to the Board by the Financial Secretary of the Hong Kong Special Administrative Region (HKSAR), keeping the number of NEDs at seven. Mrs Angelina Lee was re-appointed for two years from August 2008. Mr Kenneth Kwok, Professor Liu Pak-wai and Mr Shengman Zhang were re-appointed for two years from January 2009. As stipulated by the SFO, a majority of the Board members must be independent.

On 1 October 2008, Mr Martin Wheatley was re-appointed as Chief Executive Officer (CEO) to head ExCo for a three-year term. The ExCo, which comprises six Executive Directors (EDs), the Chief Counsel and two Senior Directors, operates as follows:

- Performs administrative, financial and management functions as delegated by the Board of Directors;
- considers policy issues for recommendation to the Board; and
- oversees functions delegated to EDs.

## Appendix

Meetings attended/held					
	Commission	Audit Committee	Remuneration Committee	Budget Committee	Executive Committee
<b>Chairman</b>					
Eddy C Fong	15/15		2/2		
<b>Executive Directors</b>					
Martin Wheatley	13/15			1/1	20/24
Alexa Lam	12/15			1/1	20/24
Brian Ho	14/15				22/24
Paul Kennedy	13/15			1/1	22/24
Keith Lui	14/15				23/24
Mark Steward	15/15				23/24
<b>Non-executive Directors</b>					
Chan Kam-lam	12/15		1/2		
Christopher W C Cheng	12/15		2/2	1/1	
Kenneth H W Kwok	11/15	2/2	2/2		
Angelina P L Lee	10/15	2/2	2/2	1/1	
York Liao	13/15		2/2		
Liu Pak Wai	10/15	2/2	2/2	1/1	
Shengman Zhang	12/15	1/2	1/2		
<b>Chief Counsel &amp; Senior Directors</b>					
Stephen Po					20/24
Stephen Tisdall					21/24
Andrew Young					23/24

## Internal control

During the year, key internal controls were overseen by the following committees.

The Audit Committee, comprising only NEDs and chaired by Mrs Angelina Lee, which met twice in the year to consider:

- audited interim results and financials for the full year;
- reports on internal controls;
- re-appointment of the external and internal auditors; and
- three complaints against staff, none of which was substantiated.

The Remuneration Committee, comprising only NEDs and chaired by Dr York Liao, met twice in the year to review overall remuneration policy in the context of market pay trends and advise on ED appointments and ED remuneration packages.

The Budget Committee chaired by NED Mr Christopher Cheng and comprising both NEDs and EDs, held one meeting mid-year to set the basis for next year's budget and review that of the current year.

## Independent checks and balances

On top of internal controls, various external and independent checks and balances are in place to ensure fairness, due process and the proper use of regulatory powers.

1. Process Review Panel (PRP): Established in November 2000 as the first such external review mechanism for securities regulators in the world, the PRP has been instrumental in reviewing and advising on the adequacy of the SFC's internal procedures and operational guidelines. It is empowered to review files of completed or discontinued cases relating to the performance of the SFC's regulatory functions to ensure consistency in application of its internal procedures.

With the addition of one member in February, the PRP now has 11 members, nine of whom are from the financial sector or academia, the legal profession or the accounting field. The two ex-officio members are a representative of the Secretary for Justice and the SFC Chairman.

The PRP's report published last September concluded, from a review of 60 cases conducted in 2007, that the SFC had in general adhered to established internal procedures in its decisions and actions. Last year, the PRP reviewed a further 55 completed cases, including the SFC's handling of complaints about enforcement actions, product authorisation and its licensing and inspection of intermediaries.

2. Securities and Futures Appeals Tribunal (SFAT): Chaired by a High Court judge and comprising two Government-appointed members, the SFAT can call new evidence, stay proceedings in the review, confirm, vary or set aside SFC decisions.

During the year, there were six appeals lodged with the SFAT. One was determined, three were withdrawn and two are in progress. Of the 15 cases carried forward from 2007/08, nine cases were determined, three were heard with determination reserved and three were withdrawn. Among the 10 determined cases, seven were upheld, and penalty was reduced in three cases.

3. Ombudsman: During the year, The Ombudsman received one new complaint from the public, which was not substantiated. No case was brought forward from 2007/08.
4. Judicial review: During the year, the SFC was the subject of four applications for judicial review, of which three were rejected by the courts and one was dismissed with the consent of the parties. Applicants in one of the cases, as well as one case brought forward from 2007/08, are appealing to the Court of Appeal.



## Standards of conduct

We believe that to win public confidence, our employees must maintain high standards of integrity and proper conduct at all times. They must abide by our Code of Conduct pertaining to confidentiality, conflict of interests, personal investments and bribery.

To deal with grievances in an efficient and transparent manner, we encourage open communication within the SFC and with the public. A set of Procedures for Handling Complaints Against SFC Staff is posted on our website to ensure that public grievances about the way SFC staff carry out their duties are dealt with promptly. Standard procedures are also in place to handle matters of public interest and discrimination. Confidential reports can be made by employees, or anyone on secondment, or even an independent consultant.

## Transparency

We act firmly, fairly and in a transparent and accountable manner when exercising our powers and carrying out our duties. We have in place policies and procedures to guide regulatory decisions and the use and management of financial resources.

We give a quarterly account of our operations to the Financial Secretary, the Secretary for Financial Services and the Treasury, and the Financial Services and the Treasury Bureau. We report publicly by voluntarily publishing quarterly reports. We also consult the Financial Secretary before exercising certain powers.

Our financial control procedures clearly set out the appointment of consultants, collection of fees, investment of surplus funds, and purchasing or disposal of fixed assets, etc.

Our proposed budget is submitted to the Financial Secretary for approval and tabled before the Legislative Council after consideration by the Board. The Director of Audit may also examine any books, accounts, vouchers, records or documents that we keep.

Through on-line quarterly and annual reports and other periodic publications as well as the mass media, we explain our work to our stakeholders and the general public. We also consult the public before making any change to rules and codes, be they statutory or otherwise. During the year, we launched three consultation papers.

External accountants are appointed to conduct annual internal control reviews. The focus of this review is approved annually by the Audit Committee and forms part of the SFC's overall annual internal control review programme.

## Risk management

We invest our income according to the investment guidelines approved by the Financial Secretary to achieve a level of return consistent with our investment objectives of capital protection and the maintenance of a specified level of liquidity. We closely monitor security of our information systems. Our business continuity plan is reviewed periodically to ensure it is up-to-date and practical. Our market contingency plan comprises procedures for dealing with emergency situations that may affect operations of the local securities and futures markets.

In addition, we have an internal contingency plan that handles emergency situations such as fires or a natural disaster. In any given year, exercises are conducted to test measures for recovering and resuming the business of all divisions during and after any emergencies. A drill on the use of short messaging system to notify key staff of urgent office closure, for instance, was completed successfully in late February 2009. These plans were also activated in response to the alert on Influenza A H1N1 (human swine flu) in late April 2009.

## Performance pledges

In fulfilling our regulatory roles, we pledge to be responsive to the public, market participants and intermediaries under our supervision.

		% of cases meeting the pledge in 2008-09	2007-08	2006-07
<b>Investor enquiries</b>				
Preliminary response to telephone enquiries	4 business days	100%	100%	100%
Preliminary response to written enquiries	2 weeks	99.6% <sup>1</sup>	99.4%	100%
<b>General enquiries</b>				
Preliminary response to public enquiries (excluding those from investors)	4 business days	99.6% <sup>1</sup>	99.6%	99.7%
<b>Public complaints</b>				
Preliminary response to verbal & written complaints	2 weeks	99.4% <sup>2</sup>	99.8%	99.8%
<b>Processing of licensing applications<sup>3</sup></b>				
Representatives (provisional licence)	7 business days	89% <sup>4</sup>	88%	90%
Representatives (normal licence)	8 weeks	86% <sup>4</sup>	83%	65%
Representatives (responsible officers)	10 weeks	95% <sup>4</sup>	94%	90%
Corporations	15 weeks	99% <sup>4</sup>	99%	97%
Transfer of accreditation	7 business days	73% <sup>4</sup>	65%	87%
<b>Applications for subordinated loan or modification/waiver of requirements under SFO</b>				
Acknowledgement of receipt upon receiving any application	2 business days	99.3% <sup>5</sup>	100%	100%
<b>Investment products authorisation</b>				
Take-up of applications upon receipt	2 business days	100%	100%	100%
Preliminary response to applicants after take-up for unit trusts, mutual funds, investment-linked assurance schemes and Mandatory Provident Fund pooled investment funds	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other schemes	14 business days	100%	100%	100%

<sup>1</sup> Some cases failed to meet the pledge because of exceptionally heavy workload when the enquiries were received.

<sup>2</sup> Due to the exceptionally heavy workload when the complaints were received, 61 cases failed to meet the pledge.

<sup>3</sup> Compliance with our performance pledges related to applications is measured only upon receipt of all required documentation from applicants in a comprehensive and efficient manner and in which no delays for which we have no responsibility occurs.

<sup>4</sup> Some cases failed to meet the pledges largely due to resource constraints and/or unexpected complications.

<sup>5</sup> One case failed to meet the pledge as we had to consider it together with another case from the same applicant.