Strategic Priorities

To fulfil our core mission of safeguarding Hong Kong's financial stability and maintaining fair and orderly securities and futures markets, we adopt a coordinated regulatory approach to promote market quality and protect investors. Our overarching priority is to deliver world-class regulation and bolster Hong Kong's status as a leading international financial centre.

We adopt a front-loaded, multidisciplinary approach which leverages our resources and pools our expertise to tackle the greatest threats and the most significant or systemic risks through early, targeted intervention. These efforts cut across nearly all of our regulatory work, from the "ICE"[1] working group and our interventions in the listed market to our risk-based approach to intermediary supervision and market surveillance.

To stay vigilant to emerging risks and global developments which may affect Hong Kong's markets, we deploy the latest technology and maintain close contact with local, Mainland and overseas regulators and law enforcement agencies.

Delivering on our objectives in a challenging environment requires that we remain flexible and stand ready to recalibrate our operations and priorities. We are introducing new initiatives and organisational changes which will enable us to become a more effective regulator and better prepare our markets for the future.

Current initiatives

Listing matters

Our front-loaded regulatory approach and targeted efforts to suppress improper market practices have driven improvements in market behaviour. Since early 2017, we have directly intervened in more than 150 cases involving initial public offerings (IPO) or listed companies through the actual or potential use of our powers under the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance.


Chairman Mr Tim Lui

These interventions and our coordinated policy actions with the Stock Exchange of Hong Kong Limited have made it more difficult for listed companies to be used as vehicles for improper market activities. The introduction of an enhanced delisting regime and new reverse takeover rules to discourage backdoor listings resulted in fewer shell company transactions and reverse takeover applications.

We closely monitor other misconduct which could jeopardise the interests of the investing public, including firms' alleged involvement in or wilful neglect of obvious concerns about problematic capital market activities. For example, some underwriters or placing brokers charge unusually high commissions in small IPOs and are suspected of providing rebates to finance nominees' IPO subscriptions. The nominees then sell the shares at a profit, causing the share prices of newly listed companies to plunge on their first day of trading. Through our cross-divisional working group "ICE" and working closely with other regulators and government authorities, we have been addressing these and other types of market and corporate misconduct[2].

1 ICE (Intermediaries, Corporate Finance, Enforcement) is a cross-divisional working group set up to tackle corporate misconduct.
2 See Enforcement section on page 8.

Intermediaries

During the year, intermediaries faced significant operational challenges arising from pandemic-related disruptions which tested the resilience of their information systems, personnel, facilities and relationships with third-party service providers and clients. Most firms' operations maintained "business as usual", although reconfigured staffing arrangements presented operational risks.

With pandemic disruptions likely to continue over the coming year, we have stepped up our monitoring of conduct and operational risks and carried out more frequent stress tests to assess licensed corporations' financial resilience. We will conduct a thematic review of the resilience of licensed corporations' business continuity plans during the pandemic, including the challenges of remote working, and share examples of good practices and lessons learned from the industry's pandemic planning and response.

Following our 2020 survey of the liquidity management practices of the controllers of selected brokers, we will engage with more brokers to understand their group liquidity profiles and identify potential problems for early supervisory action. In light of the financial difficulties of some parent groups, we stepped up supervision of their licensed affiliates to ensure that investors' interests are not adversely affected. We take proactive regulatory action where necessary to address any financial risks we identify.

The risks arising from the US sanctions against a number of Mainland and Hong Kong entities and individuals require a regulatory response[3]. We are collaborating proactively with other financial regulators to exchange information, conduct systemic risk analyses of the securities sector and collect market intelligence through ongoing discussions with industry participants.

Gatekeeping is an important part of our regulatory function. The next generation of our online licensing platform, which features web-based electronic forms and enables digital signatures and payments, will enhance the efficiency and transparency of gatekeeping and enable more efficient collection of data when it is fully operational later this year. It will also help better integrate our front-loaded, risk-based approach into our licensing function.

Later this year, we target to publish the conclusions to consultations on proposed conduct requirements for intermediaries conducting equity and debt capital raisings in Hong Kong and on amendments to align our anti-money laundering (AML) and counter-financing of terrorism guidelines with the latest international standards.

Asset and wealth management

Enhancements to our regulatory regime to facilitate the development of investment products, safeguard investors' interests and expand potential markets for public funds help strengthen Hong Kong's competitiveness as a global asset and wealth management centre.

We are working closely with the Government on legislative amendments to introduce a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong as open-ended fund companies (OFCs). Initiatives to refine the OFC regime in relation to winding-up procedures and AML and counter-financing of terrorism are underway. To attract more OFCs and real estate investment trusts (REITs) to Hong Kong, we administer the new grant scheme which provides subsidies for setting up OFCs and listing REITs.

We are actively involved in the Government's taskforce on providing tax concessions for carried interest distributed by locally managed private equity funds and other tax initiatives to increase Hong Kong's appeal as a preferred fund domicile.

To help us maintain an effective regulatory regime and achieve better investor outcomes, we are conducting a holistic review of investment-linked assurance schemes (ILAS) and will issue further guidance to the industry on ILAS product design and disclosures. We are also working on proposals to introduce a new regulated activity to bring the depositaries of SFC-authorised funds within our licensing, supervision and enforcement regime. We will issue a conclusions paper on the regulatory framework and launch a further consultation on the draft amendments to the subsidiary legislation and SFC codes and guidelines.

We plan to collect additional data on public funds' use of leverage to enhance our monitoring of these funds' activities and our understanding of developing trends in financial markets.

3 See the SFC press releases on 8 August and 12 November 2020.

Chief Executive Officer Mr Ashley Alder

To expand the market reach of our public funds, we are enhancing the existing mutual recognition of funds (MRF) arrangements and exploring similar arrangements with other jurisdictions. We are working with the China Securities Regulatory Commission (CSRC) to enhance the Mainland-Hong Kong MRF scheme, including to relax the sales limit and restrictions for overseas delegation to offer Mainland investors a more diversified pool of funds managed in Hong Kong.

To provide more investment opportunities for both local and overseas investors, we are working with the CSRC and stock exchanges to normalise the cross-listing of exchange-traded funds (ETF) on the Mainland and Hong Kong stock exchanges. We are also in discussions with local and Mainland authorities and working towards the implementation of ETF Connect.

The multi-party regulatory memorandum of understanding (MoU) we signed in January 2021 with six other Mainland, Hong Kong and Macau regulators[4] to facilitate the implementation of the Greater Bay Area Wealth Management Connect scheme will enable investors to gain access to wealth management products through bank distribution channels. We are collaborating with the other signatories on the operational details.

Markets

In view of the widespread impact of the pandemic and the increasing interconnectedness of global markets, we made changes to help us monitor cross-market activities more systematically. To ensure timely and comprehensive assessments, we are working with other financial regulators and industry participants to enhance the quality of the data reported under different regimes. This will help us identify potential risks and vulnerabilities as well as consider appropriate policy responses.

We regularly review and enhance our market contingency plans and consider the tools available to be deployed in emergency situations to maintain the orderly functioning of the markets and the overall stability of the financial system. The introduction of a market-wide circuit breaker is under active review.

Effective risk governance is an essential component of our supervision of Hong Kong Exchanges and Clearing Limited (HKEX). We are working with HKEX to ensure that its risk management and control functions, as well as HKEX group compliance, have sufficient authority, independence and resources, and that governance arrangements provide accountability.

Our December 2020 consultation set out proposals to implement an investor identification regime at the trading level for Hong Kong's securities market and introduce an OTC securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong Limited which aim to detect potential market misconduct in a more timely and efficient manner. Both regimes will strengthen our market supervision capabilities and promote investor confidence, which are essential for Hong Kong to thrive as a premier international financial centre.

Together with the Government, we are preparing legislative changes to implement the uncertificated securities market regime. We will work with HKEX and the Federation of Share Registrars Limited to develop the technical aspects of the model and target to consult the public on proposed subsidiary legislation by the end of this year.

4 The People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao.

Hong Kong's over-the-counter (OTC) derivatives regulatory regime is being implemented in phases and we are monitoring the development of global reform initiatives to assess their impact on the OTC derivatives market. We are working with the Government on legislative amendments to refine the scope of regulated activities under the OTC derivatives licensing regime.

We have reviewed HKEX's Fast Interface for New Issuance (FINI) initiative which targets to streamline and shorten the IPO settlement cycle and facilitate more efficient submission and processing of IPO applications on the proposed FINI platform. Following the publication of HKEX's FINI concept paper in November 2020, we are reviewing the revised proposal in light of market feedback.

Enforcement

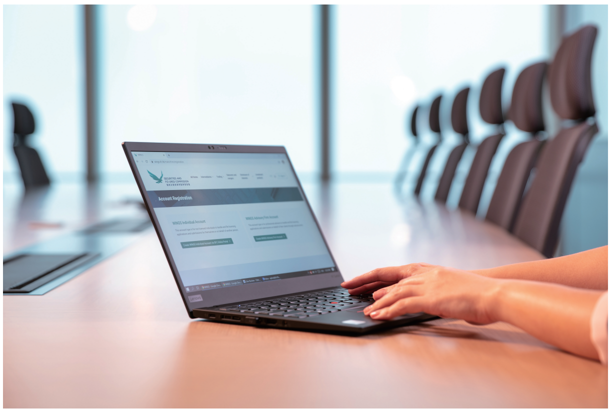
Our enforcement efforts focus on tackling the most serious types of misconduct. Notwithstanding challenging operating conditions during the pandemic, we remain firmly committed to taking resolute enforcement action and delivering strong deterrent messages to protect the investing public and uphold market integrity.

A top priority is to crack down on investment fraud and scams on online platforms. As "ramp-and-dump" market abuse cases proliferated, we acted swiftly to disrupt these activities, working jointly with the Police to conduct search operations, arrest suspected fraudsters and freeze assets. We also stepped up efforts to explain to the public how social media investment scams operate and provide tips for avoiding them. A joint SFC-Police campaign is underway to warn the public about the risks of falling victim to these scams.

As part of our ongoing effort to deter corporate fraud and improve the quality of our markets, we commenced legal proceedings against listed companies suspected of window-dressing their financial statements and entering into overpriced acquisitions as well as against directors who allegedly siphoned off the assets of their companies. Our aim is to prevent bad players from acting as directors of listed companies and protect shareholders from harm.

Intermediary misconduct is another enforcement priority. Taking enforcement action against breaches by sponsor firms helps raise standards for all new listings. Taking action against AML control failures prevents firms from being used as conduits for transferring suspicious funds into our capital markets, and we have sanctioned licensed firms and their responsible officers for regulatory breaches, such as failures to comply with requirements when handling third-party fund transfers, and imposed record fines on some firms.

We have taken up the role of Vice-Chair of the International Organization of Securities Commissions' (IOSCO) Committee on Enforcement and the Exchange of Information to help strengthen global securities law enforcement cooperation. To tackle cross-boundary securities crimes more effectively, we are strengthening our strategic cooperation with the CSRC.



Locally, our collaboration with the Financial Reporting Council was enhanced through a new MoU signed in February 2021. Working together, we aim to improve the overall quality of audits performed on Hong Kong listed companies by efficiently sharing our expertise and resources, including conducting joint investigations in cases of high importance.

We also maintain close cooperation with local regulatory partners. We work closely with the Hong Kong Monetary Authority (HKMA) to ensure that we adopt the same standards to assess compliance and that registered institutions meet our high regulatory expectations.

Green and sustainable finance

Climate change is an imminent threat which could severely disrupt economies and, together with other sustainability initiatives, it is increasingly a key focus for financial market authorities and the financial industry worldwide. Accordingly, we have been systematically implementing the goals set out in our *Strategic Framework for Green Finance* published in September 2018. We also participate in global policymaking and work with international counterparts to support the alignment of sustainability standards.

As climate change is increasingly recognised as a significant source of financial risk for businesses, a regulatory response is needed to enable the financial sector to respond. Taking reference from the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we proposed amendments to the Fund Manager Code of Conduct to require fund managers to consider climate-related risks in their investment management and risk management processes and make appropriate disclosures. A consultation ended in January 2021 and we plan to publish the consultation conclusions later this year. We are also updating our guidance on enhanced disclosures by management companies of green and environmental, social and governance funds authorised by us.

Hong Kong is well-positioned to become a green and sustainable finance hub in the region, including in the Greater Bay Area. The vast size of Hong Kong's capital markets provides an opportunity for us to have a leadership role in shaping regulatory policies and standards for green and sustainable finance in the region as well as globally.

As the Co-Chair of the Green and Sustainable Finance Cross-Agency Steering Group, we are working with the Government and other local financial regulators to align climate-related disclosure requirements with the TCFD recommendations before 2025. We also support the IFRS[5] Foundation's initiative to establish a new Sustainability Standards Board to develop and maintain a global, uniform set of sustainability reporting standards.

We welcome the Government's announcement of its goal to achieve carbon neutrality before 2050 and stand ready to work with it and other stakeholders to achieve this goal.

Communications

We are pursuing a more proactive, integrated external communication strategy to ensure that in an increasingly complex environment, our stance on key issues is articulated to the public effectively. This initiative will be led by a dedicated team using the full spectrum of communication channels, including social media. Disseminating our messages to the public in a consistent, compelling and proactive manner will heighten public understanding of our vital work and build the SFC's reputation as a globally respected and influential regulator.

Technology

Technology is a key component of our regulatory work. Under our information technology strategy, we adopt a cohesive approach to information sharing, digitalisation, process automation and risk detection.

5 International Financial Reporting Standards.

We regularly assess how the latest technological developments and innovative business practices can be effectively and securely adopted to further our regulatory objectives and enhance our internal operations. Adjusting our supervision of the conduct of intermediaries who now routinely use technology to deliver financial services remains a major focus.

For example, we are developing advanced internal data analytic and risk assessment platforms to enhance our ongoing supervision. Data collected from intermediaries, including through a revamped business and risk management questionnaire and the revised financial return form, will be consolidated into a single platform for the purpose of firm monitoring, inspection planning and management reporting.

In the second half of this year, we aim to launch an internal data analytics platform which automates our analysis of trading data submitted by large securities brokers to alert us to irregularities and potential non-compliance.

Regulatory cooperation

To support Hong Kong's status as an international financial centre, we foster close collaboration with our overseas counterparts and actively participate in the work of international standard-setting bodies. Our Chief Executive Officer Mr Ashley Alder serves as Chair of the IOSCO Board and is an ex-officio member of the Financial Stability Board (FSB) Plenary and Steering Committee. Our senior executives have taken up other leadership roles in IOSCO's and the FSB's committees and working groups.

The working relationship between IOSCO and FSB has strengthened following Mr Alder's involvement and the two organisations cooperate closely in the response to COVID-19-induced market stress and other regulatory initiatives which aim to ensure that global capital markets remain fair, orderly and resilient.

We jointly set up a working group with the Financial Services and the Treasury Bureau, HKMA, the Insurance Authority and HKEX to better and more strategically position Hong Kong as a leading international financial centre in the context of forward-looking opportunities and challenges. Through this mechanism, we are exploring how Hong Kong can enhance its role to complement the Mainland's economic and financial development whilst meeting the needs of international investors.

In light of greater market connectivity, our cooperation with Mainland regulators is increasingly important to safeguard market integrity and investors' interests. We will maintain close and effective communication with our Mainland counterparts both at a high level and through day-to-day interaction to enhance our regulatory cooperation and ensure the smooth implementation of market development initiatives, including all mutual market access schemes.

The development of the Greater Bay Area (GBA) is part of the key strategic plan in China's development blueprint. As the most open and international city in the area, Hong Kong can play an important role thanks to its deep pool of professional expertise, internationally recognised regulatory framework, sophisticated financial market with deep liquidity and solid financial infrastructure. We will work closely with Mainland authorities to implement the initiatives set out in the GBA Development Plan to support Hong Kong's securities sector.