

Operational Review

We strive to strengthen the integrity and soundness of the financial markets through our principal areas of work: corporates, intermediaries, products, markets and enforcement.

Highlights

Key figures for 2020-21

8,748

requests for trading and account records

204

cases initiated for investigation

179

individuals and corporations subject to ongoing civil proceedings

\$2.81 billion

in fines on licensees

5,575

new licence applications

As of 31 March 2021

47,178

licensees and registrants

including

3,159 licensed corporations

304

on-site inspections of intermediaries

132

press releases

65

circulars to the industry

77

Fintech-related enquiries

6,384

complaints against intermediaries and market activities

As of 31 March 2021

2,812

authorised collective investment schemes

including

835 Hong Kong-domiciled funds

257

listing applications received

469

takeovers-related transactions and applications

Highlights

Regulatory enhancements	
Competency framework	Proposed enhancements to the competency framework, including updating the entry requirements for corporations and individuals as well as the ongoing competency standards for individual practitioners.
Digital licensing process	Previewed new licensing functions on WINGS ¹ , our online platform for electronic forms and submissions, in preparation for the implementation of a fully digital licensing process later this year.
Equity and debt capital raisings	Launched a consultation on proposed conduct requirements for capital market transactions, including the standards of conduct expected of firms in bookbuilding, pricing, allocation and placing activities.
Investor identification	Consulted the public on the introduction of a trading-level investor identification regime for the Hong Kong securities market and an over-the-counter (OTC) securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong Limited (SEHK) to enhance our market surveillance.
Anti-money laundering	Began a consultation on proposed amendments to align our anti-money laundering and counter-financing of terrorism guidelines with international standards.
OTC derivatives regime	Concluded a consultation on refinements to the scope of regulated activities and competency requirements under the OTC derivatives licensing regime.
Open-ended fund companies	Removed all investment restrictions for private open-ended fund companies (OFC) and allowed eligible licensed or registered securities brokers to act as custodians for private OFCs.
	Concluded a consultation on customer due diligence requirements which will enhance the anti-money laundering and counter-financing of terrorism measures in respect of OFCs.
REITs Code	Amendments to the Code on Real Estate Investment Trusts (REITs) to provide Hong Kong REITs with more flexibility in making investments took effect in December 2020.
Pooled retirement funds	Proposed updates to the Code on Pooled Retirement Funds to strengthen investor protection by enhancing the requirements for fund operations and clarifying the obligations of key operators.

¹ Web-based INteGrated Service.

Market development	
Paperless securities market	Concluded a joint consultation with Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited on the operational model for an uncertificated, or paperless, securities market in Hong Kong to make securities-related transactions more efficient and cost-effective.
Mutual recognition of funds	Entered into a mutual recognition of funds arrangement with the Securities and Exchange Commission of Thailand which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process.
Mainland-Hong Kong ETF cross-listing	Together with the China Securities Regulatory Commission (CSRC), approved four ETFs under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets.
Swap-based L&I products	Authorised the first batch of swap-based leveraged and inverse (L&I) products tracking Mainland equity indices and the first gold futures leveraged product to provide investors with more short-term trading and hedging tools.
Grant scheme for OFCs and REITs	Began administering a three-year grant scheme to subsidise the formation of OFCs and listing of REITs in Hong Kong.
MSCI index derivatives	Approved 40 MSCI index futures and options contracts proposed by HKEX to expand its derivatives product line.
Greater Bay Area Wealth Management Connect	Entered into a memorandum of understanding (MoU) for information exchange and enforcement cooperation on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. ²
Virtual asset trading platforms	Granted the first licence to a virtual asset trading platform in Hong Kong, which will only serve professional investors.
Industry guidance	Published frequently asked questions to provide additional guidance on the implications of our licensing regime for both single and multi-family offices.
Annual licensing fee waiver	Waived the annual licensing fees for all intermediaries and licensed individuals for the 2021-22 financial year, saving them an estimated \$230 million in total.

² With 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.

Highlights

Supervision	
Listing applications	Received 257 listing applications, including from nine WVR ³ and 22 pre-profit biotech companies, and directly sought information from or expressed concerns with 27 listing applicants.
Takeovers matters	Supervised 469 takeovers-related transactions and applications.
Corporate conduct	As part of our front-loaded approach to preventing corporate misconduct, we issued section 179 directions to gather additional information in 61 cases and issued letters to listed issuers detailing our concerns in six cases.
Inspections	Conducted 304 on-site inspections of intermediaries and noted 1,350 incidents of breaches of our rules.
Cybersecurity	Summarised the key findings and observations of our cybersecurity thematic review and provided guidance on our expected standards in a report and circular.
Leveraged foreign exchange trading	Set out good practices and our expected regulatory standards in a report on licensed corporations' leveraged foreign exchange trading activities.

Enforcement	
Surveillance	Made 8,748 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements.
Investigations and prosecutions	Commenced 204 investigations and laid 29 criminal charges against nine persons and one corporation and secured convictions against seven persons and two corporations.
Notable disciplinary actions	Reprimanded and fined Goldman Sachs (Asia) L.L.C. US\$350 million (HK\$2.71 billion) for serious regulatory failures over 1Malaysia Development Berhad's bond offerings. Reprimanded and fined Guotai Junan Securities (Hong Kong) Limited \$25.2 million for multiple internal control failures and regulatory breaches.
Online investment scams	Conducted a joint operation with the Hong Kong Police Force against an active and sophisticated syndicate suspected of operating ramp and dump schemes.
Restriction notices	Issued restriction notices to 38 brokers prohibiting them from dealing with or processing assets, held in client accounts, related to suspected market manipulation and corporate misconduct.

³ Weighted voting rights.

Green and sustainable finance	
Steering Group	Initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group with the Hong Kong Monetary Authority (HKMA) to coordinate the management of climate and environmental risks to the financial sector.
Management of climate-related risks	Consulted on proposed conduct requirements for fund managers to take climate-related risks into consideration when managing collective investment schemes.
International	Joined the European Commission's International Platform on Sustainable Finance which encourages private capital to make environmentally sustainable investments.

Regulatory cooperation	
Hong Kong	Entered into separate MoUs with the Competition Commission, Insurance Authority and Financial Reporting Council to enhance cooperation.
Mainland	Held the seventh and eighth high-level meetings with the CSRC to discuss cross-boundary regulatory cooperation and market development initiatives.
International	Mr Ashley Alder, our Chief Executive Officer, was reappointed as Chairman of the Board of the International Organization of Securities Commissions. Signed an MoU with the Monetary Authority of Singapore to deepen our cooperation in the oversight of central counterparties which provide clearing services in both markets.

Stakeholders	
Compliance Forum	Discussed the latest regulatory developments with financial industry participants at the SFC Compliance Forum 2020.
Social media	Introduced our official Facebook page featuring updates on topics of interest to the general public.
Website	Redesigned our website to provide improved navigation, functionality and access to information.

Corporates

We oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, vetting of listing applications, disclosure requirements, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK). We review listing and takeovers policies to promote the development of a fair and orderly securities market in Hong Kong.

Listing policy

To strengthen Hong Kong's position as an international financial centre and enhance the quality of our market, we work with SEHK to regularly review listing-related policies. In May 2021, the SFC and SEHK issued a joint statement on misconduct related to initial public offerings (IPOs) and our regulatory approach to tackling these issues.

Following our recommendation, SEHK launched a two-month consultation in August 2020 on proposals to enhance its disciplinary powers and sanctions. The consultation conclusions were published in May 2021. The new rules, which will come into effect in July 2021, strengthen SEHK's ability to hold directors and other individuals accountable for misconduct and rule breaches.

In January 2020, SEHK launched a public consultation on whether corporate shareholders should be allowed to hold weighted voting rights (WVR) in Hong Kong listed companies. The proposals included safeguards similar to those provided under Chapter 8A¹ of the Main Board Listing Rules. However, the legal and regulatory complexities of allowing corporate WVR need to be addressed.

After considering the public's diverse views² and consulting us, SEHK decided in October 2020 to give more time for the market to develop a better understanding of Hong Kong's regulatory approach. We worked closely with SEHK throughout the consultation exercise to develop a consensus on the way forward.

Meanwhile, SEHK decided to extend the existing grandfathering arrangements to include qualifying Greater China corporate WVR issuers³ which meet



specified criteria and allow them to secondary list in Hong Kong without having to amend their existing corporate WVR structures.

Working with us, SEHK reviewed the current overseas listing regime with a view to facilitating "homecoming" migration by high-quality Greater China issuers seeking a secondary listing. In March 2021, SEHK published a consultation paper on proposals permitting secondary listings by large, high-quality Greater China issuers from traditional industries and normalising the requirements for all issuers without WVR structures.

In November 2020, SEHK published a consultation paper on increasing the minimum profit requirement for new listings on the Main Board. The consultation conclusions paper was issued in May 2021.

In a July 2020 report, we reviewed SEHK's performance in its regulation of listing matters during 2018. Our review focused on the management of potential conflicts of interest by Hong Kong Exchanges and Clearing Limited (HKEX), including the interaction between the Listing Department and HKEX's business units in pre-IPO enquiries, oversight of the Listing Department and the Listing Committee's supervisory role, SEHK's handling of share option schemes and complaints about listing applicants and issuers.

¹ Chapter 8A sets out rules, and modifications to existing rules, applicable to issuers with, or which are seeking, a listing with a WVR structure.

² There were wide-ranging public views on how the proposed corporate WVR regime would operate in practice and whether modifications were required for it to operate as intended.

³ Greater China issuers which are (a) controlled by corporate WVR beneficiaries as at 30 October 2020; and (b) primary listed on a qualifying exchange (the New York Stock Exchange, Nasdaq or the Main Market of the London Stock Exchange) on or before 30 October 2020.

New listing applications

	2020/21	2019/20	2018/19
Listing applications received ^a	257	303	394
Listing applications lapsed/withdrawn/rejected during the year	121	172	166
Listing applications returned ^b	1	3	0
New listings ^c	148	182	193

a Including applications for transfer from GEM to the Main Board (2020/21: 17; 2019/20: 29; 2018/19: 16).

b Listing applications were returned by SEHK because the application proofs or related documents were not substantially complete. The listing applicants can only submit a new listing application with a new application proof not less than eight weeks after the return.

c Including successful transfers from GEM to the Main Board (2020/21: 6; 2019/20: 16; 2018/19: 11).

Shareholders' meetings

Following the Government's regulation restricting the size of group gatherings amidst the COVID-19 outbreak, we issued a statement jointly with SEHK in April 2020 to provide guidance to listed companies on the timing and conduct of general meetings.

Debt market

Together with SEHK, we regularly review the debt capital market regime. SEHK published consultation conclusions in August 2020 on changes to the listing regime for debt issues to professional investors only⁴, including raising the net asset requirements for issuers and introducing the minimum issuance size.

IPO applications

We vet listing applications and raise enquiries to determine whether an application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing of securities based on one or more of the grounds set out in section 6(2)⁵ of the SMLR.

During the year, we vetted 257 new listing applications, including nine from companies with a WVR structure and 22 from pre-profit biotech companies. Twelve companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules⁶ during the year.



Exercising our powers under the SMLR, we issued seven letters of concern and 24 requisition letters directly to 27 listing applicants during the year. Amongst our concerns were the accuracy and completeness of the information submitted, legal and regulatory compliance issues, lack of sufficient public interest in the listing applicant's business and the genuineness of the financial information in the prospectus. Three of these listing applicants satisfactorily addressed our concerns, and were subsequently listed. As at 31 March 2021, 14 of these listing applicants had left our concerns unaddressed and not proceeded to listing.

⁴ Chapter 37 of the Main Board Rules: "Debt Issues to Professional Investors Only".

⁵ Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.

⁶ Chapter 19C sets out the additional requirements, modifications or exceptions for companies that have, or are seeking, a secondary listing.

Corporates

Takeovers activities

	2020/21	2019/20	2018/19
General and partial offers under Code on Takeovers and Mergers	38	41	55
Privatisations	31	15	6
Whitewash waiver applications	33	13	21
Other applications under Code on Takeovers and Mergers [^]	361	281	275
Off-market and general offer share buy-backs	5	7	9
Other applications under Code on Share Buy-backs [^]	1	2	7
Total	469	359	373

[^] Including stand-alone applications and those made during the course of a Code-related transaction.
Note: Also see Table 1 in Breakdown of SFC activity data on page 159 for more details.

Corporate conduct

As part of our front-loaded approach to preventing corporate misconduct, we conduct daily reviews of corporate announcements to identify “red flags” and irregularities. During the year, we issued section 179⁷ directions to gather additional information in 61 cases and wrote to listed issuers detailing our concerns in six cases where, for example, there were indications that a corporate action or transaction may be conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

The number of suspect transactions which appeared to warrant front-loaded intervention declined compared to the previous year. This suggests an encouraging improvement in corporate conduct following our active interventions in earlier years.

Takeovers

Despite the pandemic, we saw a surge in the number of takeovers with complex deal structures and difficult issues during the year. We remained vigilant in supervising and regulating takeovers activities in a manner consistent with the SFC’s front-loaded approach.

We identified a number of areas where we believe enhanced disclosure or clarification would help improve market integrity, efficiency and transparency in transactions to which the Codes on Takeovers and Mergers and Share Buy-backs apply. These improvements were communicated to the market via our quarterly *Takeovers Bulletin*.

⁷ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Investigations and enquiries are an integral part of our regulatory functions and we sanctioned a number of parties during the year:

- In June 2020, we publicly censured Fu Kwan, chairman of Macrolink Capital Holdings Limited, for acquiring shares in the company within six months after the close of an offer at above the offer price in breach of dealing restrictions under the Takeovers Code⁸.
- In the same month, CICC Financial Trading Limited and China International Capital Corporation Limited were publicly criticised for breaching the dealing disclosure requirements during the offers for Dalian Port (PDA) Company Limited and Maanshan Iron & Steel Company Limited in 2019.
- In September 2020, we commenced disciplinary proceedings before the Takeovers Panel against Ngai Lai Ha. Ngai acquired shares of International Housewares Retail Company Limited in 13 instances during March to May 2019, triggering a mandatory general offer obligation each time. The proceedings were discontinued when we censured and imposed an 18-month cold-shoulder order against Ngai in November 2020.
- In October 2020, we publicly censured So Yuk Kwan and imposed a 24-month cold shoulder order on him for breaching the mandatory general offer requirement which was triggered by his and his nominee's acquisition of shares in AV Concept Holdings Limited.

⁸ The Code on Takeovers and Mergers.

Intermediaries

Our gatekeeping functions include setting standards and qualifying criteria for corporations and individuals licensed to operate in our markets under the Securities and Futures Ordinance (SFO). As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations (LCs)¹ and explain our regulatory focus and concerns to the industry. We closely monitor market and technological developments and adapt our approach accordingly.

Licensing

As of 31 March 2021, the number of licensees and registrants remained steady at 47,178 as compared to last year, including the number of LCs which increased 2% to 3,159. During the year, we approved 177 new corporate licence applications. We received a total of 5,575 new licence applications, down 20% from the previous year.

Competency framework

In December 2020, we consulted the public on proposed enhancements to the competency framework, including updating the entry requirements for corporations and individuals as well as the ongoing competency and training standards for individual practitioners. The consultation period ended in February 2021 (see sidebar below).



Ms Julia Leung, Deputy Chief Executive Officer and Executive Director, Intermediaries, at the Asian Financial Forum 2021

Virtual assets

In December 2020, we granted the first licence to a virtual asset (VA) trading platform in Hong Kong. It only serves professional investors under our close supervision and is subject to tailor-made requirements which are comparable to those which apply to securities brokers and automated trading venues. We are considering other applications (see sidebar on page 49).

In May 2021, the Financial Services and the Treasury Bureau concluded a public consultation on a new legislative framework under which we would regulate all centralised VA exchanges, including those which only trade types of VAs which currently fall outside our jurisdiction.

Updating the competency framework

To ensure the competency framework keeps up with the changing regulatory landscape and the development of new financial products, we proposed updates and enhancements in a consultation launched in December 2020.

Key proposals included raising the minimum academic qualification requirements, recognising a broader range of qualifications, allowing applicants more flexibility for meeting the industry qualification and regulatory examination requirements and enhancing

the continuous professional training requirements. To address our concerns about the quality of work performed by some financial advisers on matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs, competence requirements would be upgraded for individuals who are to advise on these matters.

To adopt a balanced approach when formulating the proposals, we consulted stakeholders including the Academic and Accreditation Advisory Committee, the Hong Kong Monetary Authority (HKMA) and various industry associations.

¹ Broadly, LCs include securities brokers, futures dealers, leveraged forex traders, fund managers, investment advisers, sponsors and credit rating agencies.

Family offices

Further to a January 2020 circular which discussed how our licensing regime applies to family offices, we published a set of frequently asked questions (FAQs) in September 2020 to provide additional guidance on the implications of the licensing regime for both single and multi-family offices and also participated in industry seminars to clarify regulatory issues. We received a number of new licence applications and enquiries from operators of family offices.

Annual licensing fee waiver

In view of current market conditions, we waived the annual licensing fees for all intermediaries and licensed individuals for the 2021-22 financial year. This measure will help the industry save approximately \$230 million.

Prudential risks

Securities margin financing

Markets remained volatile over the past year as concerns grew about the economic impact of COVID-19. Share prices of some stocks, particularly those with small market capitalisation, plummeted within a short period of time. Our review of securities

margin financing risks indicated that, following the implementation of the new margin financing guidelines in October 2019, brokers were more aware of these risks and remained generally resilient even in times of extreme market volatility. We also performed stress tests to gauge the financial exposure of brokers, especially those engaged in securities margin financing, to assess their financial resilience and monitor their settlement status.

Liquidity risk management

We conducted inspections of selected public and private fund managers with a focus on whether their risk management frameworks could enable them to act as required to meet liquidity demands under unexpected or stressed market conditions, including their use of special liquidity management tools to deal with significant redemption requests arising from market fluctuations and liquidity crunches. We also reviewed how fund managers regularly monitor and assess funds' liquidity profiles, conduct stress testing and design stress scenarios.

Licensees

	Corporations [^]		Representatives		Responsible Officers			Total [^]	
	As at 31.3.2021	As at 31.3.2020	As at 31.3.2021	As at 31.3.2020	As at 31.3.2021	As at 31.3.2020	As at 31.3.2021	As at 31.3.2020	Change
Stock exchange participants	595	604	11,931	12,208	2,157	2,196	14,683	15,008	-2.2%
Futures exchange participants	108	113	839	870	192	200	1,139	1,183	-3.7%
Stock exchange and futures exchange participants	88	84	4,912	4,862	669	612	5,669	5,558	2%
Non-stock/non-futures exchange participants	2,368	2,308	16,973	16,934	6,231	6,064	25,572	25,306	1.1%
Total	3,159	3,109	34,655	34,874	9,249	9,072	47,063	47,055	-

[^] These figures exclude 115 registered institutions as at 31 March 2021 and 112 as at 31 March 2020.

Digitalised licensing process

In December 2020, we previewed new licensing functions on WINGS^a, our online platform for electronic forms and submission services. The new features include web-based licensing forms, upgraded administration capabilities and electronic signatures.

These functions provide greater convenience for the industry and allow us to better integrate our front-loaded, risk-based approach into our licensing work and prepare for the implementation of a fully digital licensing process later this year.

^a Web-based INteGrated Service.



We sought views from the industry when developing the new functions and organised three virtual workshops to introduce them to over 1,000

participants from LCs, banks, compliance advisory firms and law firms. Over 70% of intermediaries have activated their new portal accounts since the preview began in December 2020.

OTC derivatives

In June 2020, we released consultation conclusions on refinements to the regulatory scope of the over-the-counter (OTC) derivatives licensing regime as well as the competence and continuous professional training requirements under the regime. Legislative amendments to implement the refinements are in progress.

Variation margin requirements for non-centrally cleared OTC derivative transactions took effect on 1 September 2020. In view of the COVID-19 pandemic, we aligned the implementation of the initial margin requirements with the revised international timetable². They will now be phased in starting 1 September 2021.

We also deferred the effective date of margin requirements for non-centrally cleared single-stock options, equity basket options and equity index options by three years until 4 January 2024 to align with the European Union's timeline and prevent market fragmentation and regulatory arbitrage.

Conduct risks

Cybersecurity

In a September 2020 report and circular, we summarised the key findings and observations of our cybersecurity thematic review and provided guidance on our expected standards. The report highlighted deficiencies and instances of non-compliance in areas such as two-factor authentication and data encryption. It also included reminders of other requirements and good practices adopted by securities brokers.

In light of the need to introduce remote working arrangements during the pandemic, we issued a circular in April 2020 to remind LCs to assess their operational capabilities and implement appropriate measures to manage the cybersecurity risks associated with these arrangements.

Commodity futures brokers

In light of the extreme movements in the prices of crude oil futures, we issued a circular in April 2020 to remind commodity futures brokers to control their risk exposures and warn against opening new positions for clients who do not have sufficient financial capacity to bear the potential losses.

² The Basel Committee on Banking Supervision and the International Organization of Securities Commissions announced in April 2020 a one-year extension of the deadlines for completing the final implementation phases.

Leveraged foreign exchange trading

In April 2020, we issued a report summarising the findings of our survey of LCs' leveraged foreign exchange trading activities and setting out our expected standards of conduct and internal controls.

Spread charges

In a joint circular issued with the HKMA in May 2020, we announced a concurrent thematic review to assess intermediaries' spread charges and their compliance with requirements governing the disclosure of trading capacity and monetary benefits, with a focus on

the distribution of non-exchange traded investment products. We will consider the need to provide further guidance.

Corporate professional investors

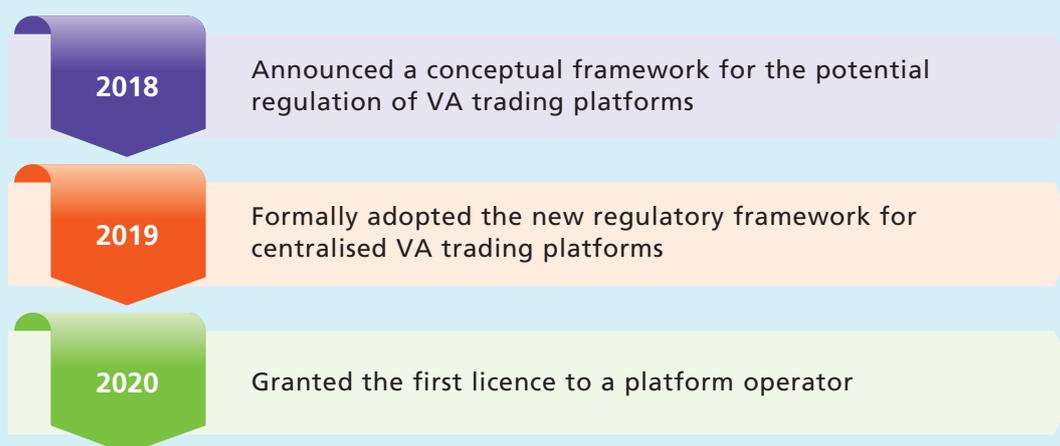
In September 2020, we issued a circular and updated FAQs to provide guidance on assessing the criteria for an intermediary to be exempted from certain Code of Conduct³ requirements when dealing with corporate professional investors, particularly investment vehicles which are owned by family trusts or offices and managed by professionals.

Regulation of VA trading platforms

We adopted a new regulatory framework for centralised VA trading platforms in November 2019 as part of our efforts to provide a clear, well-defined regulatory environment to support the development of the Fintech industry.

Licensed VA platforms are required to comply with existing regulatory requirements which are applicable to LCs, such as the competence requirements and fit and proper criteria.

They are also required to observe additional requirements to address specific risks associated with VAs, for example, safe custody of assets, anti-money laundering and prevention of market manipulation as well as criteria for the inclusion of VAs to be traded. Only clients with sufficient product knowledge may be allowed to trade.



³ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries



Suitability requirements for complex products

In December 2020, we issued a circular and updated FAQs to provide guidance on how to conduct suitability assessments, explain product risks to clients with different degrees of financial sophistication and comply with the Code of Conduct requirements governing the distribution of complex products.

Regulatory enhancements

Equity and debt capital raisings

We launched a consultation in February 2021 on proposed conduct requirements for equity and debt capital raisings in Hong Kong. The requirements would help clarify the roles played by intermediaries in these transactions and set out the standards of conduct expected of them in book building, pricing, allocation and placing activities. A separate “sponsor coupling” proposal would require that, for an initial public offering of shares, at least one head of syndicate also act as a sponsor which is independent of the issuer.

Anti-money laundering

In September 2020, we launched a three-month consultation on proposals to amend our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines to align with the latest international standards and provide guidance on applying AML/CFT

measures in a more risk-sensitive manner. The proposed amendments also address some areas for enhancement identified in the September 2019 Mutual Evaluation Report of Hong Kong published by the Financial Action Task Force.

In December 2020, we issued a circular to share the findings of our inspections of AML/CFT controls and compliance practices. The circular highlighted several areas to which firms should pay priority attention as well as the roles and responsibilities of their senior management in putting in place effective AML/CFT controls to manage risks effectively and ensure regulatory compliance.

External electronic data storage

We published FAQs in December 2020 to address industry comments about operational difficulties in implementing the requirements in our October 2019 circular on the use of external electronic data storage. For example, some firms had difficulty obtaining undertakings from overseas external electronic data storage providers. By allowing the use of a Manager-In-Charge undertaking as an alternative, the FAQs address the industry’s feedback without undermining our regulatory objectives and ensure our prompt access to electronic regulatory records stored outside of Hong Kong. The FAQs also facilitate the keeping of electronic regulatory records with overseas affiliates.

Supervisory approach

We adopt a front-loaded, risk-based approach focusing on the greatest threats and the most significant or systemic risks. Our supervision of LCs focuses on financial risks and how they conduct business. We also closely monitor the operation and risk management of LCs and conduct stress tests particularly in times of extreme market conditions. We provide timely guidance to intermediaries to help them comply with regulatory requirements.

On-site reviews

On-site reviews are a key supervisory tool for us to understand an LC's business operations, risk management and internal controls and gauge its compliance with legal and regulatory requirements. During the year, we conducted 304 risk-based on-site inspections, including those conducted remotely due to the pandemic, and noted more than 1,300 breaches of the SFC's rules.

925

on-site inspections in the past three years

This year's thematic inspections covered AML/CFT, asset managers' liquidity risk management, intermediary misconduct in listed markets, foreign exchange activities, remote booking and operational and data risk management.

Off-site monitoring

We conduct off-site monitoring by analysing the information in regulatory filings as well as intelligence from other sources. We maintain regular interaction with LCs to assess their financial strength, internal controls and risk management practices.

This year, we conducted a limited survey of selected brokerage groups to understand their liquidity profiles and risk management at the group level. This facilitates our supervision of the financial integrity of the LCs within these groups.

Breaches noted during on-site inspections

	2020/21	2019/20	2018/19
Internal control weaknesses ^a	515	451	443
Breach of Code of Conduct ^b	262	273	275
Non-compliance with anti-money laundering guidelines	208	331	201
Failure to safekeep client money	35	42	28
Failure to safekeep client securities	28	31	32
Others	302	361	257
Total	1,350	1,489	1,236

a Comprising deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trails for internal control purposes, among other weaknesses.

b Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

Note: See Table 4 in Breakdown of SFC activity data on page 162 for more details.

Intermediaries

+17%

New licensed corporations (2018-2021)

Financial returns

We updated the financial return form to collect additional financial and risk data to enhance our supervision of LCs. The effective date for the revised form will be 1 January 2022, after enhancements to WINGS are completed (see sidebar on page 48).

SFC-HKMA joint product survey

Jointly with the HKMA, we launched a new annual survey covering the sale of non-exchange traded investment products by intermediaries. The findings from the survey will help us better understand market trends, identify risks and coordinate responses to address areas of common concern. The survey began with the period from 1 January to 31 December 2020 and its findings will be published later this year.

Industry guidance

We maintain close communication with the industry and regularly provide guidance through circulars. In survey results and thematic reports, we highlight best practices and our regulatory concerns with actual cases. When introducing a significant regulatory measure, we hold seminars to explain and clarify our policies and expectations.

Client facilitation

To provide further guidance on the provision of facilitation services to clients in the execution of residual odd lots⁴, we issued FAQs in December 2020

which set out that LCs may pre-arrange standing agreements with clients under certain circumstances and be exempted from the requirement to obtain explicit client consent on a trade-by-trade basis prior to each client facilitation trade.

Client asset protection

FAQs issued in October 2020 provided guidance to intermediaries on the requirements for client asset acknowledgement letters. Intermediaries were reminded that they should perform due diligence to assess and ensure that client assets held outside Hong Kong are adequately protected by the rules and regulations in the overseas jurisdiction as those assets might fall outside the ambit of the Hong Kong account opening rules.

Compliance Forum

In October 2020, we organised the SFC Compliance Forum on a virtual platform for 1,200 registrants to exchange views with our senior executives and industry leaders on the risks and opportunities facing the securities industry and capital markets, the management of liquidity, prudential and market risks, AML/CFT, family offices, private wealth management and sustainable finance.



The SFC Compliance Forum 2020 was held virtually

⁴ See details in the circulars issued on 14 February 2018 and 14 May 2019.

Statistical information and financial position of the Hong Kong securities industry

	As at 31.12.2020	As at 31.12.2019	As at 31.12.2018
Securities dealers and securities margin financiers	1,391	1,379	1,312
Active clients	3,207,677	2,024,849	1,874,289
Total assets (\$ million)	1,812,475	1,322,911	1,226,532

(\$ million)	12 months to 31.12.2020	12 months to 31.12.2019	12 months to 31.12.2018
Total value of transactions [^]	129,651,195	85,831,384	89,678,389
Total operating profit	30,904	11,962	23,548

[^] Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing.

Note: Also see Table 8 in Breakdown of SFC activity data on page 166 for more details.

Products

We authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with regulatory requirements. Formulating policy initiatives to strengthen Hong Kong's position as a global asset and wealth management centre and a preferred fund domicile is also a priority.

Authorisations and market development

Authorisations

As of 31 March 2021, a total of 2,812 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 188 CIS, comprising 180 unit trusts and mutual funds (including 110 Hong Kong-domiciled funds), one investment-linked assurance scheme (ILAS) and seven mandatory provident fund (MPF) pooled investment funds.

We also authorised 146 unlisted structured investment products for public offering during the year.

ETFs and leveraged and inverse products

As of 31 March 2021, the number of SFC-authorized exchange-traded funds (ETFs) listed on the Stock Exchange of Hong Kong Limited (SEHK) was 148, including 26 leveraged and inverse (L&I) products, with total assets under management (AUM) of \$394.41 billion. The average daily turnover of these ETFs was \$7 billion in the preceding 12 months.

During the year, we and the China Securities Regulatory Commission (CSRC) approved four ETFs under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets (ETF Cross Listing). As of 31 March 2021, the total AUM of the four cross-listed ETFs was \$729.3 million.

Authorised CIS

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Unit trusts and mutual funds – Hong Kong-domiciled	835	762	789
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,382	1,373	1,427
ILAS	298	299	300
Pooled retirement funds	33	33	34
MPF schemes	27	29	31
MPF pooled investment funds	212	206	191
Others	25 [^]	26	25
Total	2,812	2,728	2,797

[^] Comprising 13 paper gold schemes and 12 real estate investment trusts (REITs).

Authorised unlisted structured investment products

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Unlisted structured investment products [#]	146	146	125

[#] On a "one product per key facts statement" basis, including equity-linked investments and deposits.

We authorised the first batch of swap-based L&I products tracking Mainland equity indices and the first gold futures leveraged product.

We also authorised the first feeder ETF under streamlined requirements which allow investment in eligible UCITS¹ master ETFs.

We worked with SEHK to further enhance the efficiency and liquidity of ETFs in the secondary market. A new spread table and a continuous quoting market making regime for ETFs were introduced in June 2020.

We also jointly published guidance and organised a webinar with SEHK for the ETF industry on matters commonly encountered by ETF managers, including the publication of announcements, suspension and resumption of primary market dealing and secondary market trading.

To mitigate mispricing risk, we collaborated with SEHK to impose price limits of 15% on ETFs during the pre-opening session of their first trading day.

Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type^a (US\$ million)

For the year ended 31 March 2021, Hong Kong-domiciled funds reported overall net inflows of US\$16,495 million, which was primarily attributed to bond funds and index funds.

	12 months to 31.3.2021			12 months to 31.3.2020		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond	24,575	16,204	8,371	19,020	14,125	4,895
Equity	23,741	21,339	2,402	14,220	16,959	(2,739)
Mixed	7,923	7,600	323	7,020	8,192	(1,172)
Money market	18,870	17,794	1,076	9,509	7,675	1,834
Fund of funds ^b	2,900	3,458	(558)	2,819	2,875	(56)
Index ^c	39,103	34,210	4,893	25,093	27,006	(1,913)
Guaranteed	0	12	(12)	1	11	(10)
Other specialised ^d	0	0	0	25	31	(6)
Total	117,112	100,617	16,495	77,707	76,874	833

a Based on data reported by funds domiciled in Hong Kong.

b Excluding feeder funds whose master funds are authorised by the SFC.

c Including ETFs and L&I products.

d Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

1 Undertakings for collective investment in transferable securities.

Products

Renminbi products

As of 31 March 2021, there were 53 SFC-authorized unlisted funds² and 39 ETFs³ primarily investing in the onshore Mainland securities markets⁴ or offshore renminbi bonds, fixed income instruments or other securities. The scope of renminbi products continued to expand with the introduction of ETF Cross Listing in August 2020 and the authorisation of the first set of renminbi-denominated L&I products in July 2020.

To encourage and facilitate the set-up of private OFCs, we removed all investment restrictions for private OFCs and allowed eligible licensed or registered securities brokers to act as custodians for private OFCs since September 2020.

We also concluded a further consultation in December 2020 on requiring OFCs to appoint a responsible person to carry out anti-money laundering and counter-financing of terrorism functions.

Open-ended fund companies

We registered 10 open-ended fund companies (OFC) during the year, including the first unlisted public OFC. We also approved the establishment of a number of OFC sub-funds, including five authorised ETFs.

SFC-authorized renminbi investment products

	As at 31.3.2021
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	53
Unlisted funds (non-renminbi denominated) with renminbi share classes	267
Paper gold schemes with renminbi features	1
Recognised Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds arrangement	50
Unlisted structured investment products issued in renminbi ^a	145
Listed products	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	39
ETFs (non-renminbi denominated) with renminbi trading counters	18
Renminbi L&I products	2
Renminbi gold ETFs ^b	1
Renminbi REITs	1

a The number is on a "one product per key facts statement" basis.

b Only includes gold ETF denominated in renminbi.

2 Excluding recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds.

3 Refers to unlisted funds or ETFs which are renminbi denominated.

4 Refers to onshore Mainland investment through the Qualified Foreign Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

Grant scheme for OFCs and REITs in Hong Kong

As one of our initiatives to strengthen the competitiveness of Hong Kong as a global asset and wealth management centre and a preferred fund domicile, we worked closely with the Government to introduce a three-year grant scheme to subsidise the formation of OFCs and listing of REITs in Hong Kong.

Effective 10 May 2021, the grant scheme covers 70% of eligible expenses incurred in setting up an OFC or listing a REIT in Hong Kong, subject to a cap of \$1 million per OFC and \$8 million per REIT.

Administered by the SFC, the scheme strengthens Hong Kong's asset and wealth management industry by encouraging the use of the OFC structure and broadening the REIT market.

Three-year grant scheme

	OFC	REIT
Subsidy (% of eligible expenses)	70%	
Cap	\$1 million	\$8 million

Mutual recognition of funds

We proactively promote cross-border offerings of eligible Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements. This helps to broaden the investor base for Hong Kong public funds, strengthen Hong Kong as a competitive global asset and wealth management centre and encourage the development of local investment expertise.

In January 2021, we signed a mutual recognition of funds (MRF) agreement with the Securities and Exchange Commission of Thailand which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process and expedites the approval process for local feeder funds investing in MRF-eligible master funds in the other market. We hosted a webinar in February 2021 to explain these new initiatives to the industry.

Under the Mainland-Hong Kong MRF regime, a total of four funds were approved during the year, bringing the total to 82. As of 31 March 2021, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB15.7 billion.

Greater Bay Area Wealth Management Connect

In January 2021, we entered into a memorandum of understanding (MoU) with 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 on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. The MoU provides a framework for the exchange of supervisory information and enforcement cooperation as well as a liaison mechanism for investor protection issues.

Products

Asset and wealth management activities

The *Asset and Wealth Management Activities Survey 2019*, released in August 2020, showed that Hong Kong's asset and wealth management business posted strong growth despite the challenges facing global markets, with AUM increasing by 20% year-on-year to \$28,769 billion as at 31 December 2019. Net fund inflows of \$1,668 billion⁵ were recorded in 2019.

Hong Kong's asset
and wealth management business

AUM increased to
\$28,769 billion

Regulatory enhancements

Real estate investment trusts

Following a two-month public consultation, amendments to the Code on Real Estate Investment Trusts took effect in December 2020 to provide Hong Kong REITs with more flexibility in making investments. Key enhancements include allowing investments in minority-owned properties, providing more flexibility to invest in property development projects, increasing the borrowing limit from 45% to 50% of gross asset value and broadly aligning the requirements for REIT's connected party transactions and notifiable transactions with the requirements for listed companies.

Pooled retirement funds

In view of the wide participation in Hong Kong by employers and employees of occupational retirement schemes which invest in pooled retirement funds, we launched a public consultation on proposals to update the Code on Pooled Retirement Funds in December 2020. Key proposals would strengthen investor protection by enhancing the requirements for fund operations and clarifying the obligations of key operators.



Ms Christina Choi, Executive Director, Investment Products, speaks at the Offshore China Fund Awards 2020

Electronic dissemination of investment product documents

With the use of electronic media increasing, we issued guidance to the industry to facilitate the dissemination of post-sale investment product documents in electronic form.

COVID-19 measures

In view of the volatility and uncertainty in local and international markets caused by the pandemic, our surveillance of locally domiciled high-yield bond funds remains heightened.

We reminded ETF managers to closely monitor the secondary market trading of ETFs and manage ETFs in the best interests of investors even under extreme market conditions. We also urged ETF market makers to have proper business contingency plans to deal with any potential operational disruptions.

To alleviate the administrative burden on fund managers due to the COVID-19 outbreak, we issued frequently asked questions in August 2020 to regularise the temporary relief measures provided for product-related applications, such as allowing document submissions in soft copy only and providing flexibility for fee payments.

⁵ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

Surveillance and monitoring

To monitor the risk exposure of Hong Kong-domiciled SFC-authorized funds, we require asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions.

We also closely monitor the liquidity of SFC-authorized funds through reports from asset managers on unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

Amidst geopolitical tensions, we monitor and assess the impact of measures imposed by foreign authorities on the operation of SFC-authorized funds. In particular, we closely monitor the impact on retail funds and structured products of the US executive order prohibiting investments in specific Mainland companies. We actively engaged with relevant managers, trustees and custodians and reminded them that any actions taken by them should be fair having regard to the best interests of investors.



Our senior executives engage with the industry on the REIT regime

In anticipation of the potential discontinuation of the London Interbank Offered Rate after the end of 2021, we conducted a survey of licensed management companies of Hong Kong-domiciled SFC-authorized funds to assess their readiness and reminded them to properly manage the associated risks.

We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into nine suspicious CIS cases during the year.

Message from Chairman and CEO

Strategic Priorities

Mission and Mandates

Corporate Governance

Our People

Operational Review

Corporate Developments

Corporate Social Responsibility

Financial Statements

Supplementary Information

Green and sustainable finance

Supporting the development of green and sustainable finance is a key focus for us. In keeping with the Government's pledge to achieve carbon neutrality before 2050, we are spearheading efforts to advance Hong Kong's position as a green and sustainable finance hub in the Asia-Pacific Region, including in the Guangdong-Hong Kong-Macao Greater Bay Area, and have made progress in achieving the priorities set out in our *Strategic Framework for Green Finance* published in September 2018.

We integrate green and sustainable finance into our policies and operations. Our Investment Committee enquires into how and to what extent external fund managers incorporate environmental, social and governance (ESG) principles into their investment and risk analysis processes to ensure that they discharge their obligations in accordance with the SFC's Principles of Responsible Ownership.

Asset managers

Our Climate Change Technical Expert Group is chaired by Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries, and includes industry representatives and other stakeholders. It provides views and support to the SFC in formulating regulatory policies and providing practical industry guidance. During the year, we met with the group to obtain insights into our proposed requirements for fund managers to incorporate climate-related risks into their investment and risk management processes and make appropriate disclosures.

We subsequently launched a consultation in October 2020 where we proposed amendments to the Fund Manager Code of Conduct to provide high-level principles along with guidance setting out the expected baseline requirements and enhanced standards to facilitate fund managers' compliance. To align with global green and sustainable finance trends, we made reference to the widely endorsed framework set out by the Task Force on Climate-related Financial Disclosures (TCFD) in developing the proposals. We plan to publish the consultation conclusions later this year.



Announcing the launch of the Green and Sustainable Finance Cross-Agency Steering Group's strategic plan

Green and ESG funds

We keep in view local and global market and regulatory developments concerning green and ESG investment products, and may provide further guidance or impose additional requirements for green and ESG funds where appropriate. We maintain a central database on our website of all SFC-authorized green and ESG funds which comply with the requirements set out in our April 2019 circular on enhanced disclosures by the management companies of these funds. There are now more than 40 SFC-authorized green or ESG funds.

Listed companies

We work closely with the Stock Exchange of Hong Kong Limited (SEHK) to enhance the ESG reporting framework for listed companies. Following our approval, amendments to the Listing Rules which include a new disclosure requirement for significant climate-related issues and mandatory disclosure of ESG governance structures came into effect for financial years commencing on or after 1 July 2020. We also support SEHK's efforts to educate the market, including its updated guidance letter for initial public offering applicants published on 24 July 2020, which highlighted the importance of incorporating corporate governance and ESG mechanisms into the listing process.

Regulatory collaboration

We collaborate with local and overseas counterparts¹ to drive efforts to reorient capital flows towards green and sustainable activities and embed sustainability practices in Hong Kong's financial sector.

In a major step in advancing the sustainable finance agenda for Hong Kong, we initiated the establishment of a Green and Sustainable Finance Cross-Agency Steering Group in May 2020 to coordinate the management of climate and environmental risks in the financial sector and support the Government's broader climate strategies. The steering group is co-chaired by our Chief Executive Officer Mr Ashley Alder and Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority (HKMA), and comprises representatives from the Government and other regulators².

In December 2020, the steering group jointly announced a long-term strategic plan with six focus areas and five near-term action points (see sidebar on page 62) to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future.

The SFC plays a key role in global efforts to address sustainability and climate change issues through our active involvement in the International Organization of Securities Commissions (IOSCO). During the year, Mr Ashley Alder participated in a roundtable with international regulators on climate reporting chaired by Mr Mark Carney, UN Special Envoy on Climate Action and Finance, to discuss IOSCO's global standard-setting efforts.

Ms Julia Leung serves as Vice Chair of the IOSCO Sustainable Finance Task Force and co-leads a

workstream on greenwashing and disclosures by asset managers. We also lead the IOSCO Asia-Pacific Regional Committee's green and sustainable finance working group to coordinate the regulation of sustainability and climate-related disclosures in the region.

In December 2020, we and the HKMA became members of the European Commission's International Platform on Sustainable Finance (IPSF) representing Hong Kong to encourage private capital to make environmentally sustainable investments. We actively participate in the Network of Central Banks and Supervisors for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group.

Raising investor awareness

We also work with other public bodies and industry associations to raise awareness. In collaboration with the Investor and Financial Education Council (IFEC)³, we launched initiatives to help investors understand green and sustainable finance and related investment topics. This year, the IFEC coordinated efforts by regulators and industry practitioners to promote wider green awareness amongst retail investors.

Our senior management spoke at local and international events to promote Hong Kong as a regional and global green and sustainable finance hub. In a keynote speech at Hong Kong's UN75 Dialogue⁴ in May 2020, our Chairman Mr Tim Lui discussed financial sector initiatives to manage climate change and promote sustainability. During the year, Mr Alder participated in climate-related discussions and shared his views on green finance at industry conferences and other global fora. We also used our new Facebook page to inform the public about our work in this area.

1 See Regulatory engagement on pages 78-81.

2 The Financial Services and the Treasury Bureau, Environment Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

3 The IFEC is an SFC subsidiary which is dedicated to improving financial literacy in Hong Kong.

4 A global conversation initiated by the United Nations to mark its 75th anniversary.

Hong Kong's strategy for green and sustainable finance

In December 2020, the Green and Sustainable Finance Cross-Agency Steering Group announced its six focus areas and five near-term action points to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future.

Focus areas

Strengthening climate-related financial risk management

Promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection

Enhancing capacity building for the financial services industry and raising public awareness

Encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes

Capitalising on Mainland opportunities to develop Hong Kong into a green finance centre in the Greater Bay Area

Strengthening regional and international collaboration

Action points

Make climate disclosures aligned with the TCFD recommendations^a mandatory by 2025

Adopt a Common Ground Taxonomy to be developed by the IPSF Working Group on Taxonomies^b

Support the IFRS Foundation's proposal to establish a new Sustainability Standards Board to develop a global, uniform set of sustainability reporting standards and other efforts to converge standards globally

Promote climate-focused scenario analysis to assess the impact on financial institutions under different climate pathways

Establish a platform for financial regulators, government agencies, industry stakeholders and academia to coordinate cross-sectoral capacity building



a The Financial Stability Board created the TCFD to improve the reporting of climate-related financial information. The TCFD recommendations are structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

b The taxonomy will provide a common reference point for the definition of investments which are considered as environmentally sustainable across IPSF jurisdictions.

Markets

We supervise and monitor exchanges, clearing houses, share registrars and automated trading services (ATS) in Hong Kong to ensure orderly markets. We introduce measures to improve market infrastructure and support Hong Kong's development as a premier risk management centre.

Supervision of HKEX

Volatility control mechanism

Following our approval, the Stock Exchange of Hong Kong Limited (SEHK) introduced initial enhancements to its volatility control mechanism to cover more securities in May 2020. Further enhancements, implemented in March 2021 after our approval, allow multiple triggers of the volatility control mechanism during a trading session. Separately, the introduction of a market-wide circuit breaker is still being studied.

Derivatives market suspension

We reviewed Hong Kong Exchanges and Clearing Limited's (HKEX) suspension of the derivatives market in September 2019 and requested that it take necessary measures to enhance system resilience and adopt our recommendations in areas such as prevention, system monitoring, mitigation and communication. We closely monitored how HKEX implemented the remedial measures and ensured that our recommendations were fully adopted. In December 2020, HKEX issued a report on the incident which included its response to our recommendations.

OTC derivatives

In line with the G20 commitments to reform the over-the-counter (OTC) derivatives market, an OTC derivatives regulatory regime is being implemented in phases in Hong Kong¹. We continue to work on improvements to the regime, such as enhancing data quality and promoting data harmonisation in trade reporting.

Investor identification

In December 2020, we launched a consultation on the introduction of a trading-level investor identification regime for the Hong Kong securities market and an OTC securities transactions reporting regime for shares listed on SEHK². The proposals aim to enhance our market surveillance function by facilitating the identification of investors placing securities orders and by collecting data on off-exchange securities transactions. This would help ensure market integrity and put us on par with developments in major overseas jurisdictions.



Uncertificated securities market

Following the conclusion in April 2020 of a joint consultation with HKEX and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated, or paperless, securities market, we worked with the Government to prepare the necessary legislative changes. This initiative will make securities-related transactions, including initial public offerings and corporate actions, more efficient and cost-effective.

¹ See more on the OTC derivatives licensing regime on page 48.

² The consultation closed in March 2021.

Markets

Stock Connect

Mainland-Hong Kong Stock Connect enables mutual market access and provides a unique opportunity for Hong Kong and Mainland investors to trade eligible stocks in each other's markets.

As of 31 March 2021, Stock Connect covered 1,472 Mainland stocks and 519 Hong Kong stocks, representing about 80% of the combined market capitalisation of the two markets. Net inflows since the programme's launch amounted to RMB1,835.4 billion for southbound trading and RMB1,302.2 billion for northbound trading.

The share of Hong Kong market turnover attributable to Stock Connect is significant and growing. On

Mainland-Hong Kong Stock Connect

RMB 1,835.4 billion

Southbound net inflows since launch

average, daily southbound trading was 14% of total trading in the Hong Kong stock market during January to March 2021, compared to 9% in 2020 and 6% in 2019.

Northbound trading was 7% of the Mainland market total in the first three months of 2021, 5% in 2020 and 4% in 2019.

Trends in Stock Connect

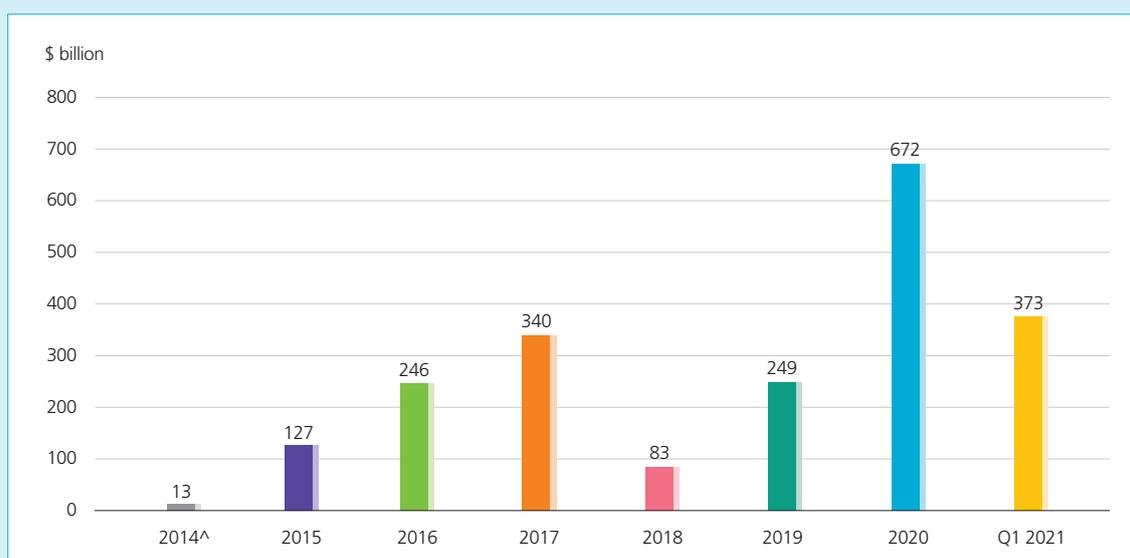
Since the launch of Stock Connect in November 2014, southbound trading has accounted for an increasing share of the Hong Kong market.

Southbound net inflows reached a total of \$672.1 billion for 2020. This was an annual record high and almost double the previous record in 2017.

Since March 2019, southbound net inflows were recorded for 24 consecutive months and southbound net buy remained positive.

For Mainland investors, Stock Connect provides a channel to broaden the scope of their investments and reduce risk through portfolio diversification. They have shown strong interest in buying large-cap stocks listed in Hong Kong and southbound inflows to leading technology stocks have been particularly significant.

Annual southbound net buy since the launch of Stock Connect



[^] Shanghai-Hong Kong Stock Connect launched on 17 November 2014.

Investor compensation

During the year, the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received 39 claims against the Investor Compensation Fund and processed 24 claims.

New derivatives products approved

Following our approval, HKEX launched 40 MSCI index futures and options contracts in July, August and September 2020 and March 2021. Referencing the performance of Asia and other emerging market indices, these contracts expand HKEX's derivatives product range and provide more trading and hedging tools for market participants.

We also approved HKEX's proposals for Hang Seng TECH Index futures and options contracts to meet the market's need for an exposure management tool covering the technology sector and the Mini USD/CNH

futures contract to enhance their currency product suite. The Hang Seng TECH Index futures and options contracts were launched in November 2020 and January 2021 respectively, while the Mini USD/CNH futures contract was launched in April 2021.

Bond Connect

Bond Connect, which facilitates northbound trading into the China Interbank Bond Market, recorded persistently strong growth in 2020. Total trading volume reached RMB4,810 billion, representing an 82.8% increase from 2019. The number of eligible foreign investors admitted for trading was up 46.9% to 2,352 from 1,601 as at end-2019. The Bond Connect Company Limited launched a new ePrime system to facilitate the primary market offering of offshore bonds (including Kungfu bonds and Dimsum bonds) in October 2020 after consulting us.

Investor compensation claims

	2020/21	2019/20	2018/19
Received	39	7	5
Processed	24	4	10
– Compensation payments made	0	0	0
– Rejected	21	0	7
– Withdrawn	3	4	2
– Reconsidered	0	0	1

Net asset value of compensation funds

	As at 31.3.2021 (\$ million)	Change	As at 31.3.2020 (\$ million)	Change	As at 31.3.2019 (\$ million)
Unified Exchange Compensation Fund ^a	86.1	5%	82	3.4%	79.3
Investor Compensation Fund ^b	2,444.1	0.65%	2,428.3	1.5%	2,391.5
Total	2,530.2	0.79%	2,510.3	1.6%	2,470.8

a See pages 145-158 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

b See pages 132-144 for the financial statements of the ICF.

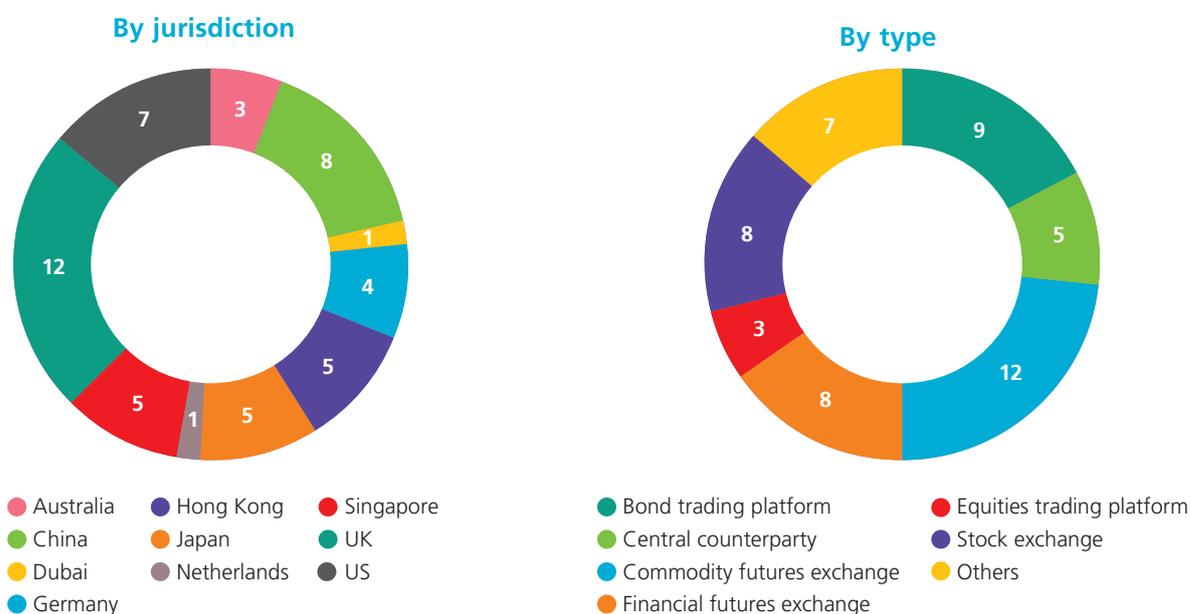
Markets

Automated trading services

Under the Securities and Futures Ordinance (SFO), two regimes regulate ATS providers. Generally, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide traditional dealer functions along with ATS as an added facility (eg, operating a dark pool or a pre-IPO trading platform) are expected to be licensed under Part V of the SFO.

Trades conducted on authorised trading venues were in products ranging from benchmark index futures and options, commodity futures, bonds, equities and exchange-traded funds offered by overseas exchanges. The average daily trading volume of futures contracts originating from Hong Kong was about 433,000 contracts for the 12 months ended 31 March 2021.

ATS providers under Part III



ATS providers

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Under Part III	51	54	50
Under Part V	24	25	24

Short position reporting

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Market value of short positions as a percentage of total market capitalisation	1.16%	1.24%	1.42%

Enforcement

We take proactive and resolute enforcement actions to protect investors, punish wrongdoers and safeguard the reputation and integrity of our markets. Our strategic focus on high-impact cases helps us address key risks in financial markets and send strong deterrent messages.

Our tools

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, administrative, compensatory and disciplinary actions.

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage.

We can discipline licensed intermediaries through reprimands, fines¹ and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

In dealing with market misconduct, such as insider dealing and market manipulation, we can institute criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT).

During the year, we commenced 204 investigations and laid 29 criminal charges against nine persons and one corporation and secured convictions against seven persons and two corporations.

We obtained disqualification orders against 26 persons. Civil actions seeking financial redress and other remedial orders against 179 persons and corporations in 36 cases are pending before the court.

Disciplinary action was taken against 13 persons and 18 corporations. In addition, we commenced proceedings before the MMT against one corporation and one person for allegedly overstating the corporation's sales revenue in its listing prospectus. We also issued 231 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.

Our work in figures



[^] The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

¹ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Market misconduct

Surveillance

On a daily basis, we monitor trading on the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance.

Our surveillance of untoward price and turnover movements resulted in 8,748 requests for trading and account records from intermediaries. We also received and assessed 288 notifications from intermediaries² regarding suspicious equity and derivative trading.

We posted 12 announcements on our website reminding the investing public to exercise caution

when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

Ramp and dump scams

In March 2021, we conducted a joint operation with the Hong Kong Police Force against an active and sophisticated syndicate suspected of operating ramp and dump schemes (see sidebar below). Twelve people, including those believed to be the ringleaders of the syndicate and their associates, were arrested during a joint search of 27 premises across Hong Kong by more than 160 officers of the SFC and the Police.

Before the operation, we issued 16 restriction notices and froze about \$860 million in assets in 63 securities accounts belonging to syndicate members which we believe hold proceeds of the schemes.

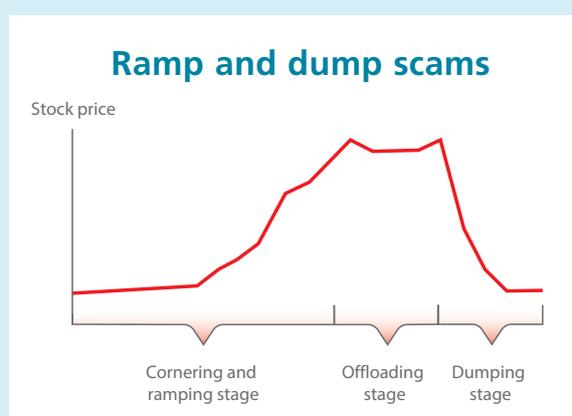
Cracking down on social media investment scams

A top enforcement priority is to curb “ramp and dump” schemes, a kind of market manipulation. In a typical scheme, the scammers choose a thinly-traded, small-cap stock, often with a small group of shareholders holding most of the shares^a, and use different means to “ramp” up the share price.

Investors are then approached on popular social media platforms—sometimes by an attractive member of the opposite sex—and urged to heed the advice of an experienced investment “teacher” or follow what appears to be the social media account of a well-known stock commentator. To gain a person’s confidence, the scammer may claim to have inside information and suggest buying a share whose price does rise as predicted.

After enough unwary investors buy the stock, the scammers “dump” their own shares at an artificially high price, causing the price to collapse. The victims will not be able to contact the fraudsters after the crash and most of the time will not know the true identities of the people who lured them into the trap.

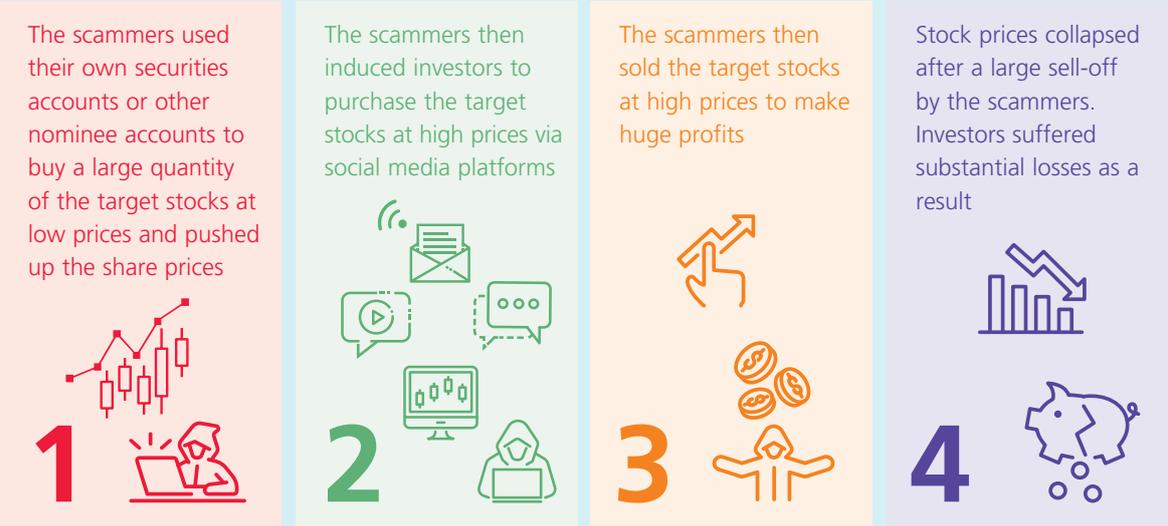
^a With a high shareholding concentration, the share price can fluctuate substantially even with a small number of trades.



An increasing number of retail investors have been lured into these schemes and some suffered significant financial losses. Ramp and dump cases now account for a significant percentage of our market manipulation investigations, which found that members of sophisticated and highly coordinated syndicates may be involved.

Where possible, we take immediate action to freeze securities accounts suspected of being part of these scams. During the year, we froze over \$0.9 billion involving more than 109 accounts.

² Intermediaries are required to report clients’ suspected market misconduct to the SFC.



We cooperated with other law enforcement agencies, including the Hong Kong Police Force under a memorandum of understanding, and conducted joint operations as part of our efforts to tackle ramp and dump schemes and related offences such as money laundering and fraud. We worked closely with the Investor and Financial Education Council and the Police's Anti-Deception Coordination Centre to urge investors

to be extremely careful about unsolicited online investment advice. To explain how the scams operate and provide tips for avoiding them, we published a leaflet and a special edition of our *Enforcement Reporter*. We also talked about how to avoid social media ramp and dump schemes in an interview on Radio Television Hong Kong, a video and live talk on Facebook.



Community event



Video explaining a typical scam

Enforcement



Press conference on joint operation with the Police against suspected ramp and dump schemes

Insider dealing and market manipulation

The MMT found that the following individuals engaged in insider dealing:

- Li Yik Shuen was banned from dealing in securities in Hong Kong for two years for insider dealing in the shares of Meadville Holdings Limited in 2009. The MMT also ordered her to disgorge her profit of \$546,817.43 and pay the SFC's investigation and legal costs as well as the costs of the MMT proceedings, and issued a cease and desist order for her not to engage in insider dealing in the future.
- Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, was found to have engaged in insider dealing in the shares of China Gas Holdings Limited in 2011 after a retrial. The sanctions against Cheng will be determined at a later date.
- Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited, were banned from dealing in securities in Hong Kong for three years for insider dealing in the company's shares. The MMT also ordered them to disgorge the losses of \$4.2 million they avoided and pay the

SFC's investigation and legal costs as well as the costs of the MMT proceedings. Yiu was disqualified from being a director or being involved in the management of a listed company for three years. The MMT recommended that The Hong Kong Institute of Chartered Secretaries take disciplinary action against Wong.

The Court of First Instance (CFI) upheld the jail sentences against Au-Yeung Siu Pang, former group finance manager of China CBM Group Company Limited, for insider dealing in the company's shares and allowed them to be served concurrently, shortening Au-Yeung's imprisonment from four to three months.

In the Eastern Magistrates' Court, Chow Chiu Chi, company secretary of China Automation Group Limited, was sentenced to 45 days of imprisonment and fined \$45,000 for insider dealing in the company's shares and Ke Wen Hua was fined \$30,000 for false trading in the shares of Carry Wealth Holdings Limited through six securities accounts under his control.

We also initiated criminal proceedings against five individuals³ for conspiring to carry out false trading in the shares of Ching Lee Holdings Limited in 2016.

³ Sit Yi Ki, Lam Wing Ki, Tam Cheuk Hang, Simon Suen Man and Ho Ming Hin.

Corporate fraud and related misbehaviour

We obtained disqualification and other orders under section 214⁴ of the SFO in the CFI against the following listed company and senior executives of listed companies:

- Three former directors⁵ of EganaGoldpfeil (Holdings) Limited were disqualified for six to nine years for their roles in the company's misapplication of funds.
- Seven former directors⁶ of Long Success International (Holdings) Limited were each disqualified for a period of two to five years for breaching their fiduciary and common law duties to act in the interest of the company or to exercise due and reasonable skill, care and diligence in the course of acting as the company's directors. Proceedings against other former directors of the company are ongoing.
- Two former senior executives⁷ of Far East Holdings International Limited were disqualified for four and three years for conducting the company's business in a manner involving misconduct and resulting in Far East's shareholders not being given all the information as they might reasonably expect.
- Shandong Molong Petroleum Machinery Company Limited was ordered to reconstitute its audit committee and appoint an independent external auditor to review its internal control and financial reporting procedures. Five former senior executives and two officers⁸ of the company were disqualified for seven to nine years for inflating the company's financial position in six results announcements.



We commenced legal proceedings to:

- wind up Combest Holdings Limited, appoint provisional liquidators over the company and disqualify the company's two executive directors⁹ and a suspected shadow director¹⁰ to protect the interests of the company's shareholders, creditors and the investing public, on the basis that those individuals allegedly caused the company and one of its subsidiaries to enter into two overpriced acquisitions and that the company allegedly overstated its revenue during various accounting periods between 2016 and 2019.
- seek disqualification and compensation orders against Zhou Ling, former chairman and executive director of New Ray Medicine International Holding Limited, and Dai Haidong, the company's former chief executive officer and executive director, for allegedly committing corporate misconduct and breaching their duties to the company.
- restore all public shareholders of Tianhe Chemicals Group Limited to the positions before their subscriptions or purchases of the company's shares. We also commenced MMT proceedings against the company and its executive director, Wei Xuan, for allegedly overstating its revenue by over RMB6.7 billion in its listing prospectus.

4 Under section 214, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for up to 15 years.

5 David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

6 Guo Wanda, Hu Dongguang, Victor Ng, Winfield Ng Kwok Chu, Robert Ng Chau Tung, Tse Ching Leung and Zhang Chi.

7 Duncan Chiu, former managing director and chief executive officer, was disqualified for four years and Michael Lui Hung Kwong, former company secretary and financial controller, was disqualified for three years.

8 Zhang Enrong, Zhang Yunsan, Yang Jin, Guo Huanran, Zhao Hongfeng, Ding Zhishui and Yang Junqiu.

9 Liu Tin Lap and Lee Man To.

10 Ng Kwok Fai.

Enforcement

Intermediary misconduct

During the year, we disciplined 18 corporations, three responsible officers and 10 licensed representatives, resulting in total fines of above \$2.81 billion. Key disciplinary actions included the following.

IPO sponsor failures

During the year, we took enforcement actions against two initial public offering (IPO) sponsor principals for deficiencies in their work:

- Lai Voon Wai, a former responsible officer of CCB International Capital Limited and BOCOM International (Asia) Limited, was banned from re-entering the industry for five years for failing to discharge his supervisory duties as a sponsor principal in two listing applications.
- Fabian Shin Yick, a former responsible officer and chief executive officer of Yi Shun Da Capital Limited, was prohibited from re-entering the industry for 20 months for failing to discharge his duties as a sponsor principal, a responsible officer and a member of the company's senior management in a listing application.

AML-related breaches

- We reprimanded and fined Goldman Sachs (Asia) L.L.C. US\$350 million (\$2.71 billion) for serious lapses and deficiencies in its management supervisory, risk, compliance and anti-money laundering (AML) controls in 1Malaysia Development Berhad's bond offerings (see sidebar on page 73 for details).

- We reprimanded and fined Guotai Junan Securities (Hong Kong) Limited \$25.2 million for multiple internal control failures and regulatory breaches concerning AML, third-party fund transfers, placing activities and the detection and reporting of wash trades.
- We reprimanded and fined Southwest Securities (HK) Brokerage Limited \$5 million for breaching AML and counter-terrorist financing (CFT) regulatory requirements.
- We banned Joanna Chu Lai Wa, former responsible officer, director and head of dealing of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 12 months for failing to discharge her duties which resulted in the firm's AML and CFT regulatory breaches¹¹.
- We reprimanded and fined Sino-Rich Securities & Futures Limited \$7.2 million for breaching AML and CFT regulatory requirements when handling cash deposits and third-party fund transfers.
- We reprimanded and fined Yardley Securities Limited \$5 million for breaching AML and CFT regulatory requirements when handling third-party fund transfers.

Deficient selling practices

- We reprimanded and fined Mega International Commercial Bank Co., Ltd. \$7 million for internal system and control failures in the sale of collective investment schemes.
- We reprimanded and fined Convoy Asset Management Limited \$6.4 million for internal control failures in soliciting or recommending bonds listed under Chapter 37 of the Listing Rules.

¹¹ We reprimanded and fined Guosen \$15.2 million in February 2019 for breaches of AML regulatory requirements with respect to third-party fund deposits.

Record fine for multiple serious rule breaches

In October 2020, we publicly reprimanded and fined Goldman Sachs (Asia) L.L.C.^a (GSA) US\$350 million, a record for SFC licensees, for multiple failures in its management supervisory, risk, compliance and anti-money laundering controls. These failings contributed to the misappropriation of billions of dollars that 1Malaysia Development Berhad (1MDB)^b raised in three bond offerings in 2012 and 2013 (see table below).

The 1MDB bond offerings were obtained for Goldman Sachs by Tim Leissner, a responsible officer of GSA, who admitted in August 2018 that he had conspired with others to pay bribes and kickbacks to Malaysian and Abu Dhabi officials^c.

Numerous red flags raised questions about the commercial rationale for the bond offering. The amount raised, US\$6.5 billion, far exceeded

1MDB's needs. Goldman Sachs did not critically examine or properly address these concerns before allowing the bond offerings to proceed, enabling Leissner and his co-conspirators to escape scrutiny.

Financial intermediaries involved in international transactions should have robust internal controls in place and take all reasonable steps to protect the integrity of their operations and their clients from fraud and other dishonest acts.

The disciplinary action followed a rigorous and independent investigation conducted by the SFC. Assessed solely with reference to the SFC's own fining framework, the record penalty reflects the gravity of GSA's failures.

1MDB bond offerings

Closing date	Size	Coupon rate	Maturity	Goldman Sachs' revenue
May 2012	US\$1.75 billion	5.99%	10 years	US\$193 million (11% of principal amount)
Oct 2012	US\$1.75 billion	5.75%	10 years	US\$188 million (10.7% of principal amount)
May 2013	US\$3 billion	4.44%	10 years	US\$186 million (6.2% of principal amount)
Total	US\$6.5 billion			US\$567 million (8.7% of principal amount)



US\$2.6 billion
misappropriated by Leissner and his co-conspirators

US\$210 million
(37% of Goldman Sachs' revenue) allocated to GSA



a GSA is licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.

b 1MDB is a strategic investment and development company wholly-owned and controlled by the Government of Malaysia.

c In July 2019, the SFC banned Leissner from re-entering the industry for life.

Enforcement

Other disciplinary actions

Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine	Date
Black Marble Securities Limited	Failed to put in place adequate internal controls and committed breaches of the SFC's Code of Conduct [^]	\$1.8 million	31.3.2021
Fulbright Securities Limited	Failed to detect and prevent short selling and to report short selling incidents to the SFC in a timely manner	\$3.6 million	23.12.2020
Credit Suisse Securities (Hong Kong) Limited	Committed regulatory breaches relating to failures in its electronic trading systems	\$2.1 million	9.11.2020
BOCOM International Securities Limited	Failed to properly handle third-party fund deposits or maintain and implement margin lending and margin call policies	\$19.6 million	20.4.2020

[^] The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Other regulatory breaches

Company/Name	Breaches	Action	Date
GEO Securities Limited	Committed regulatory breaches relating to the sale of unlisted bonds and breached its licensing conditions	Reprimanded and fined \$6.3 million	23.3.2021
Brilliance Asset Management Limited	Failed to ensure short position reports for collective investment schemes under its management were accurate and compliant with the Securities and Futures (Short Position Reporting) Rules	Reprimanded and fined \$3.15 million	22.2.2021
Yung Lap Hong	Misappropriated \$3.6 million from a customer's bank account	Banned from re-entering the industry for life	4.1.2021
China Everbright Securities (HK) Limited	Pledged clients' securities to banks without valid authorisation from the clients	Reprimanded and fined \$2.5 million	29.9.2020
The Bank of East Asia, Limited	Failed to segregate client securities from proprietary securities	Reprimanded and fined \$4.2 million	17.9.2020
Ts'o Jing	Falsely claimed that clients opening securities accounts had to pay an additional sum, pocketed the money and fabricated receipts	Banned from re-entering the industry for life	26.8.2020
Potomac Capital Limited	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$800,000	8.6.2020
HSBC Investment Funds (Hong Kong) Limited and HSBC Global Asset Management (Hong Kong) Limited	Failed to comply with regulatory requirements for cash management for SFC-authorized funds	Reprimanded and fined \$3.5 million	7.4.2020

Note: See Table 6 in Breakdown of SFC activity data on page 164 for details of the less significant disciplinary actions.

Other notable cases

The Appeal Committee of the Court of Final Appeal (CFA) dismissed the application of Andrew Left of Citron Research for leave to appeal to the CFA against the judgment of the Court of Appeal (CA). In August 2016, the MMT found Left culpable of disclosing false or misleading information inducing transactions¹² in a 2012 report on Evergrande Real Estate Group Limited¹³.

The Eastern Magistrates' Court convicted Lau Tin Yau of providing false and misleading information to the SFC in two licence applications and in his annual licensing return and of failing to notify us of his conviction for a criminal offence and that he was the subject of a related disciplinary action.

The following were convicted by the Eastern Magistrates' Court for unlicensed activities:

Company/Name	Unlicensed activity
Brilliance Capital Management Limited and Law Sai Hung ^a	Holding out as carrying on a business in advising on corporate finance
Simon Chan Ying Ming ^b and Chong Kin Ting ^c	Holding out as carrying on a business in dealing in futures contracts and asset management
Yau Ka Fai	Holding out as carrying on a business in asset management

a Director of Brilliance Capital Management Limited.

b Former officer of Wonderful Wealth Group Limited, which was dissolved in November 2017.

c Former director and shareholder of Wonderful Wealth Group Limited.

We commenced criminal proceedings against Zeng Lingxi for obstructing SFC employees in the execution of a search warrant.

Disclosure of inside information

The MMT found that CMBC Capital Holdings Limited and its six former directors¹⁴ failed to disclose inside information as soon as reasonably practicable and imposed a 15-month disqualification order and a fine of \$1.2 million against the company's former chief executive officer and company secretary Philip Suen Yick Lun. The company's former chairman, Paul Suen Cho Hung, was fined \$900,000. The MMT also ordered the six former directors to attend an SFC-approved training programme on the corporate disclosure regime, directors' duties and corporate governance.

The MMT fined Magic Holdings International Limited and five of its directors¹⁵ a total of \$6.5 million for the late disclosure of L'Oréal S.A.'s proposed acquisition of the company in 2013. The company failed to take all reasonable measures to monitor the confidentiality of the proposed acquisition and the disclosure was delayed for around three months. The five directors were also disqualified for eight to 24 months.

Restriction notices

During the year, we issued restriction notices to 38 brokers prohibiting them from dealing with or processing assets held in client accounts. These assets are related to suspected market manipulation in the shares of eight listed companies, some of which involved social media ramp and dump scams, and suspected corporate misconduct concerning another listed company. One of the brokers, Agg. Asset Management Limited, was prohibited from carrying on regulated activities for which it is licensed.

Use of technology

Through our organisation-wide Market Intelligence Programme, we use the latest technologies to identify risks in our markets, including potential misconduct by interconnected parties. Data collected from our operations and public sources is analysed to isolate patterns and connections among individuals, companies and transactions which may indicate conduct risks.

¹² Market misconduct within the meaning of section 277 of the SFO.

¹³ Left's appeal to the CA was dismissed in February 2019 and his application for leave to further appeal to the CFA was dismissed in July 2020.

¹⁴ Philip Suen Yick Lun, Paul Suen Cho Hung, Lau King Hang, Huang Zhencheng, Weng Yixiang and Wong Kwok Tai.

¹⁵ Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong and Sun Yan.

Enforcement

Enforcement cooperation with the CSRC

During the year, we maintained close enforcement cooperation with the China Securities Regulatory Commission (CSRC) despite disruptions caused by travel restrictions amid the COVID-19 pandemic.

Timely communication and coordination allowed us and the CSRC to fine-tune our enforcement cooperation mechanisms to overcome unforeseeable challenges and enable cooperation to proceed in an orderly manner. Investigatory requests for high-priority cases received prompt attention and assistance. In addition, the CSRC used innovative technologies to gather evidence for our investigations.

We exchanged views with the CSRC on the prevention of money laundering, the use of technology in enforcement work and the impact of the representative action mechanism to protect the collective interests of investors in securities disputes as set out under the Mainland's new Securities Law.

In December 2020, we held the tenth high-level meeting on cross-boundary enforcement cooperation with the CSRC together with a four-party meeting with the Enforcement Bureau of the CSRC, the Commercial Crime Bureau (CCB) of the Hong Kong Police Force and the Securities Crime Investigation Department (SCID) of the Mainland Ministry of Public Security to discuss collaboration in combating cross-boundary securities crime. The four authorities exchanged views on cooperation mechanisms and their respective legal environments.

Tenth Mainland and Hong Kong high-level meeting on enforcement cooperation and four-party meeting



CSRC Enforcement Bureau



SCID of Ministry of Public Security



SFC Enforcement Division



CCB of Hong Kong Police

2 December 2020

Enforcement activities

	2020/21	2019/20	2018/19
S179 ^a inquiries commenced	42	31	26
S181 ^b inquiries commenced (number of letters sent)	246 (8,748)	231 (8,767)	294 (9,074)
S182 ^c directions issued	189	187	231
Investigations started	204	197	238
Investigations completed	196	182	243
Individuals/corporations charged in criminal proceedings	10	7	5
Criminal charges laid ^d	29	10	42
Notices of Proposed Disciplinary Action ^e issued	27	35	22
Notices of Decisions ^f issued	35	46	34
Individuals/corporations subject to ongoing civil proceedings	179	158	101
Compliance advice letters issued	231	218	234
Cases with search warrants executed	28	17	30

a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

d The SFC brought a total of 29 criminal charges against nine individuals and one corporation.

e A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

f A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Note: Also see Table 7 in Breakdown of SFC activity data on page 165 for more details.

Regulatory engagement

We actively participate in global policymaking through our involvement in international standard-setting bodies and we collaborate closely with local, Mainland and overseas authorities on regulatory and market development initiatives.

International

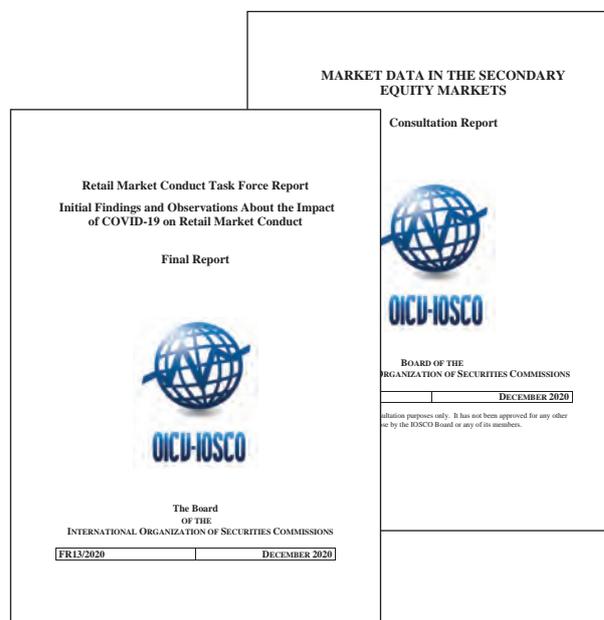
IOSCO

Our Chief Executive Officer (CEO) Mr Ashley Alder was reappointed as Chair of the Board of the International Organization of Securities Commissions¹ (IOSCO) in June 2020. During the COVID-19 pandemic, Mr Alder chaired regular calls and virtual meetings with the IOSCO Board to identify and address issues arising from the crisis and to share information about regulatory developments in capital markets.

We work closely with the IOSCO Secretariat and members to develop policy initiatives, facilitate collaboration between IOSCO and the Financial Stability Board (FSB), and promote interaction amongst members from emerging and developed economies. At the February 2021 Board meeting, IOSCO agreed to new priorities including financial stability and the systemic risks of non-bank financial intermediation activities as well as misconduct, fraud and the impact of COVID-19 on operational risks.

We participate in the IOSCO Financial Stability Engagement Group and its Steering Group to coordinate IOSCO's role in addressing financial stability risks with the FSB and providing technical analyses on issues arising from the pandemic.

Mr Alder co-chairs the CPMI²-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of financial market infrastructures, and we also participate in its Policy Standing Group and Implementation Monitoring Standing Group.



The SFC actively contributes to IOSCO publications

In March 2021, Mr Alder took part in the EU-Asia-Pacific Forum on Financial Regulation. Senior representatives from the European Commission (EC), European Securities and Markets Authority and Asia-Pacific regulators exchanged views on sustainable finance and cross-border regulatory developments.

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee and the Asia-Pacific Regional Committee (APRC).

- The SFC leads the APRC's working group on sustainable finance which aims to drive more consistent regulation in areas related to environmental, social and governance such as climate-related disclosures. Other APRC initiatives include enhancing regional supervisory cooperation and addressing cross-border regulation and market

¹ IOSCO is responsible for developing, implementing and promoting adherence to internationally recognised standards for securities regulation.
² The Committee on Payments and Market Infrastructures.

fragmentation. Our Chairman Mr Tim Lui and Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, participated in an APRC meeting in November 2020.

- Ms Julia Leung serves as Vice-Chair of the IOSCO Sustainable Finance Task Force and co-leads a workstream on sustainability-related disclosures for asset management.
- We are a member of the Retail Market Conduct Task Force which published an interim report in December 2020 on its preliminary findings and suggested measures which IOSCO members can take in response to the challenges presented by the COVID-19 epidemic. We also participate in the Follow-Up Group to deepen regulatory and supervisory cooperation, the Fintech Network, the Cyber Task Force and the Data Analytics Group.
- We are also a member of the Committee on Regulation of Secondary Markets, which published a consultation report in December 2020 on access to market data.
- Ms Christina Choi, Executive Director of Investment Products, serves as Vice-Chair of the Committee on Investment Management. We lead the committee's exchange-traded fund (ETF) workgroup and co-lead a joint workgroup which explores conduct-related issues in the leveraged loans and collateralised loan obligations markets. Within the committee's Financial Stability Engagement Group, we are a member of the core expert group examining the liquidity of open-ended funds.
- We act as Vice-Chair of the Committee on Enforcement and the Exchange of Information which helps strengthen global securities law enforcement cooperation.

- We participate in IOSCO's cross-committee outsourcing project which in May 2020 consulted on proposed updates to the Principles for Outsourcing in light of the increased risks associated with recent developments in markets and technology.

FSB

In his role as IOSCO Board Chair, Mr Alder participated in FSB meetings during the year, including those of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and Steering Committee Group on Non-bank Financial Intermediation to discuss financial stability and the implications of COVID-19 for asset management and sustainable finance.

We participate in the FSB Standing Committee on Standards Implementation, which oversees peer reviews and also evaluates reforms and monitors their implementation. We are a member of the FSB Regional Consultative Group for Asia. Its current policy focus is on the implications of the pandemic, the progress of benchmark transitions, financial stability and vulnerabilities affecting the region.

We are also a member of the FSB Cross-Border Crisis Management Group for Financial Market Infrastructures, which monitors and promotes the implementation of resolution regimes.

Mr Alder moderated an industry discussion on the impact of COVID-19 on the global financial system at the FSB Stakeholder Outreach Meeting in September 2020.

Regulatory engagement



The SFC-CSRC high-level meeting was held virtually in December 2020

Mainland China

To strengthen Hong Kong's unique position as the international financial centre connecting the Mainland and global financial markets, we proactively advance mutual cooperation initiatives with Mainland authorities and hold regular discussions with the China Securities Regulatory Commission (CSRC) to enhance cross-boundary regulatory and enforcement cooperation.

At the seventh and eighth biannual SFC-CSRC high-level meetings held virtually in June and December 2020, we discussed the potential risks arising from the pandemic and our regulatory responses, ways to reinforce Hong Kong's status as an international financial centre, cross-boundary market development and regulatory cooperation initiatives.

We maintain close, regular working-level communication with the CSRC through virtual conferences to exchange views on regulatory arrangements. These include the financial reporting of A+H share companies and the supervision of financial institutions. We explored ways to enhance Mainland-

Hong Kong mutual market access schemes, including expanding the number of eligible stocks under Stock Connect³, streamlining ETF cross-listing and enhancing the Mutual Recognition of Funds scheme. In addition, we engaged with Mainland exchanges and clearing houses to discuss their operations in Hong Kong and the further opening-up of the Mainland capital market.

We support the HKSAR⁴ Government in strengthening cooperative relationships with Mainland authorities to develop Hong Kong's financial services industry and gain greater access to the Mainland markets. To deepen financial integration within the Guangdong-Hong Kong-Macao Greater Bay Area, we are working closely with the Hong Kong Monetary Authority (HKMA) and other authorities to prepare for the launch of the Cross-boundary Wealth Management Connect Pilot Scheme. In January 2021, we entered into a memorandum of understanding (MoU) on the scheme with the People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, HKMA and the Monetary Authority of Macao.

Other engagement

To keep abreast of regulatory developments, we held virtual meetings and calls to discuss emerging regulatory developments with overseas regulators and other authorities, including the EC, Australian Securities and Investments Commission, New Zealand Financial Markets Authority, the Monetary Authority of Singapore (MAS), the US Securities and Exchange Commission and Commodity Futures Trading Commission, Autorité des marchés financiers of France, the UK Financial Conduct Authority and Japan's Financial Services Agency.

³ These include stocks listed on the Shanghai Stock Exchange STAR Market and Hong Kong-listed pre-revenue biotech stocks.

⁴ Hong Kong Special Administrative Region.

Regulatory engagement



(From left) Chairman Mr Tim Lui and CEO Mr Ashley Alder at an MoU signing ceremony with the Financial Reporting Council

We hosted the 12th Bilateral Regulatory Meeting between us and the Taiwan Financial Supervisory Commission in November 2020 to exchange views on regulators' use of technology, COVID-19 challenges and regulatory responses.

In November 2020, we signed an MoU with the MAS to deepen our cooperation in the oversight of central counterparties which provide clearing services in both Hong Kong and Singapore.

Locally, we entered into an MoU with the Competition Commission in April 2020 to enhance cooperation and the exchange of information. Following the introduction of a direct regulatory regime for insurance intermediaries, we signed an MoU with the Insurance Authority in September 2020 which covers information sharing, case referrals and joint inspections and investigations.

In February 2021, we concluded a new MoU with the Financial Reporting Council to strengthen the regulation of capital markets and foster closer cooperation in case referrals, joint investigations and information exchange.

Requests for regulatory cooperation

	2020/21		2019/20		2018/19	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	110	108	103	95	113	99
Licensing-related requests for assistance	128	3	143	18	121	597

Stakeholders

We proactively engage with a broad range of stakeholders to promote a wider understanding of our work and provide up-to-date regulatory information.

Industry

We maintain an open and productive dialogue with industry associations, professional bodies and other market participants. We organise regular meetings and briefings and from time to time contribute articles to industry association newsletters to keep market participants informed about regulatory developments.

The annual SFC Compliance Forum¹ was held in October 2020 and attracted 1,200 industry participants. We provided training to an industry association in the same month to share key observations from our cybersecurity thematic review and provide additional guidance for securities brokers.

We co-organised Hong Kong FinTech Week, where our senior management discussed our regulatory approach to virtual assets, in November 2020.

In November and December 2020, we organised three webinars to introduce new licensing-related features on WINGS², our online submission platform, with over 1,000 participants and two anti-money laundering webinars for 1,400 management and compliance personnel from licensed corporations³.

During the year, our senior executives took part in 60 speaking engagements on a wide range of topics within our remit, including listing regulation, asset management and climate finance. We supported 10 seminars or events organised by industry bodies.

Our Chief Executive Officer Mr Ashley Alder took part in a panel discussion on the impact of COVID-19 organised by the Asia Securities Industry & Financial Markets Association (ASIFMA) in May 2020 and presented a keynote address at the 7th EU-Asia Financial Services Dialogue event co-hosted by ASIFMA in March 2021.

When proposing rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation. We consult the public on proposed non-statutory codes and guidelines, as well as amendments to them. We issue consultation papers to detail our proposals and hold both formal and informal discussions to hear stakeholders' views as part of our consultation process.

After completing our analysis, we issue a consultation conclusions paper summarising the main comments received and setting out our conclusions. A total of eight consultation papers and six consultation conclusions were published in the year.



1 See Intermediaries on pages 46-53.

2 Web-based INteGrated Service.

3 See Intermediaries for more details.

Communicating on social media

Social media is now a big part of everyday life for many people in Hong Kong. In September 2020, we launched our official Facebook page as an additional platform to communicate with the public.

The page features the latest regulatory developments and updates, including highlights of publications and executive speeches and warnings to investors about market risks and unlicensed activity. We also share investor alerts and other content from the Investor and Financial Education Council, an SFC subsidiary.

To help us reach the local audience, our Facebook posts are in Chinese accompanied by eye-catching visuals. The page allows for instant and direct engagement, such as when we livestreamed our joint press conference with the Police in March 2021^a.

We also maintain an official SFC LinkedIn page featuring regular updates in English to keep the financial industry and other professionals informed of the latest developments of interest to them.



^a See the sidebar on ramp and dump schemes in Enforcement on pages 67-77.

Our publications aim to update the industry on our regulatory work, topical issues and other developments. This year, we issued 12 thematic publications, including newsletters, market reviews and surveys.

To help the industry better understand our regulatory requirements, we issue circulars and frequently-asked questions which we post on the SFC website. During the year, we published 65 circulars on various topics, including SFC-authorized real estate investment trusts, over-the-counter derivatives reporting, and the findings of our inspections of firms' anti-money laundering and counter-financing of terrorism measures.

We respond verbally or in writing to enquiries from the industry on topics related to our rules and regulations, including licensing, listings and takeovers matters, product authorisation and short position reporting. Designated e-mail addresses are provided to help us handle enquiries on specific topics more efficiently. The SFC Fintech Contact Point promotes communication

with businesses involved in the development and application of financial technology in the conduct of regulated activities in Hong Kong. We received 77 Fintech-related enquiries during the year.

Government

By attending Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, we provide legislators with details of our policy initiatives, explain the rationale behind our work and answer questions. We also respond to enquiries and complaints referred to us or raised by LegCo members and other government agencies.

In addition, we maintain close liaison with the Financial Services and the Treasury Bureau and provide updates on our regulatory initiatives through regular meetings and reports. We provide assistance and information to other government bureaux and departments on various issues.

Stakeholders

Regulatory counterparts

We maintain close contact with local, Mainland and overseas regulatory counterparts. During the year, we signed five memoranda of understanding (MoU) with other authorities and held 49 MoU meetings.

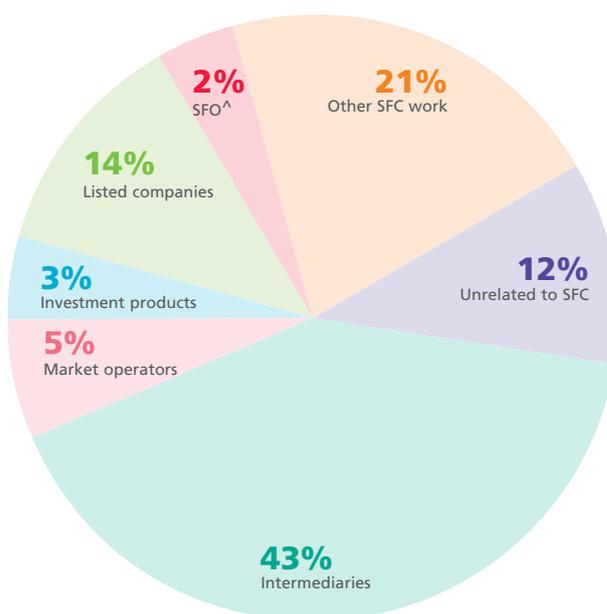
We are active in international regulatory cooperation and participate in both the International Organization of Securities Commissions and the Financial Stability Board⁴.

The public

We address public concerns and enquiries regarding the securities and futures markets. This year, we received 6,969 general enquiries by phone or in writing. We handled 6,384 complaints during the year.

Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, which comprises senior executives from across the organisation, and are allocated to responsible divisions for assessment where appropriate.

General enquiries



^ Securities and Futures Ordinance.

Publications and other communications

	2020/21	2019/20	2018/19
Press releases	132	123	128
Policy statements and announcements	8	8	3
Consultation papers	8	4	5
Consultation conclusions	6	4	11
Industry-related publications	12	15	15
Codes and guidelines ^a	6	5	14
Circulars to industry	65	73	90
Corporate website average daily page views ^b	33,834	42,816	64,947
General enquiries	6,969	6,037	6,709

a Includes updates to previous versions.

b The average number of webpages browsed per day during the reporting period.

⁴ See Regulatory engagement on pages 78-81.

Our senior executives gave media interviews to foster public understanding of Hong Kong's financial regulatory framework and our role in it. Mr Alder participated in a virtual dialogue with Bloomberg in June 2020 to share his views on the regulatory response to COVID-19. We issued 132 press releases to inform the public of the latest regulatory actions and other SFC news.

We also published eight policy statements and announcements explaining our regulatory approach to specific issues.

We released our *Annual Report 2019-20* and quarterly reports to help stakeholders understand our work. Our reporting efforts were recognised with a Gold Award in the Hong Kong Management Association's Best Annual Reports Awards 2020 and a Gold Award, public sector category, in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2020.



Mr Jimmy Tong, Director, Enforcement, at a Radio Television Hong Kong interview

On our corporate website, which we redesigned during the year, the public can easily obtain up-to-date information about our work and regulations.

Complaints against intermediaries and market activities

	2020/21	2019/20	2018/19
Conduct of licensees	802	583	453
Conduct of registered institutions	20	27	16
Listing-related matters and disclosure of interests	2,856	2,065	3,485
Market misconduct ^a	922	478	364
Product disclosure	85	14	8
Unlicensed activities	108	176	164
Breach of offers of investments	142	98	30
Boiler rooms and suspicious websites	600	486	378
Scams and frauds ^b	554	276	285
Other financial activities not regulated by SFC ^c	295	288	851
Total	6,384	4,491	6,034

a Primarily, alleged market manipulation and insider dealing.

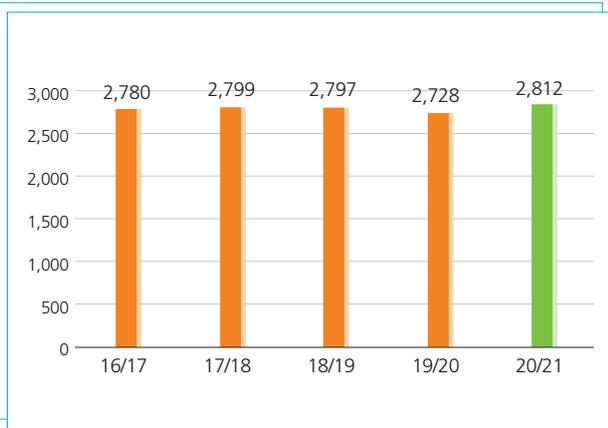
b Such as identity fraud and impersonation.

c For example, bullion trading and banking services.

SFC activity data

These charts are intended to show some top-line data at a glance. See Breakdown of SFC activity data on pages 159-166 for more details.

Authorised collective investment schemes

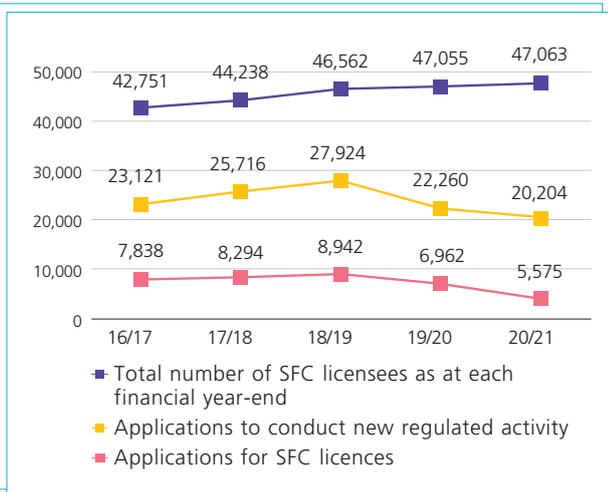


On-site inspections of intermediaries

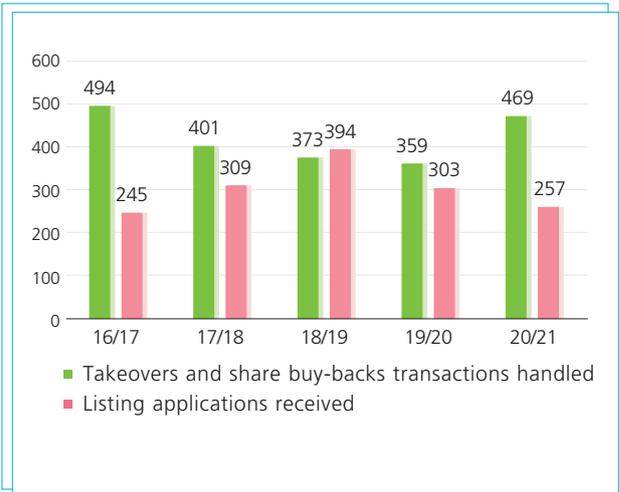


Note: Figures represent a snapshot view as at each financial year-end.

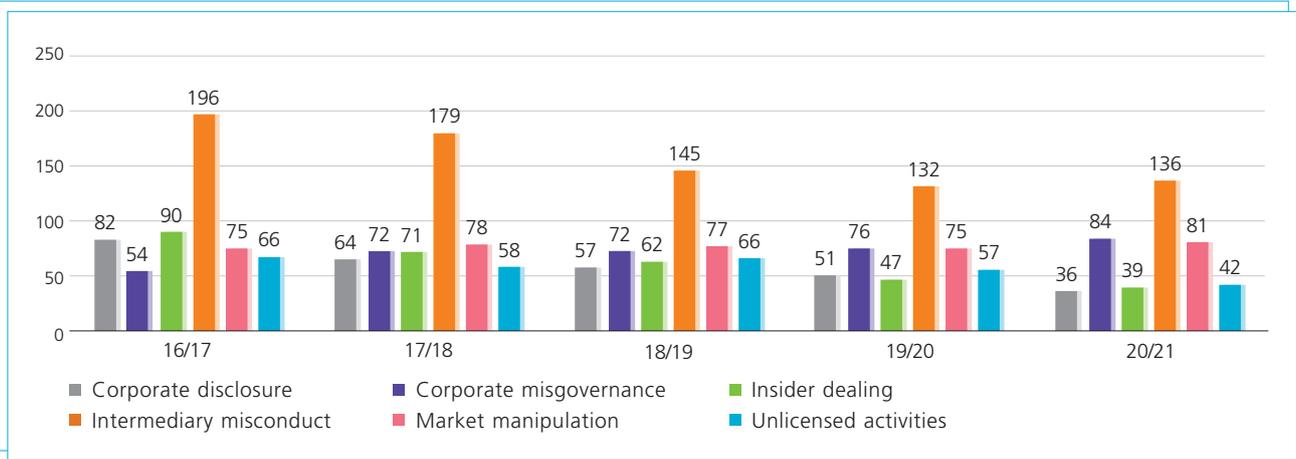
Licensing



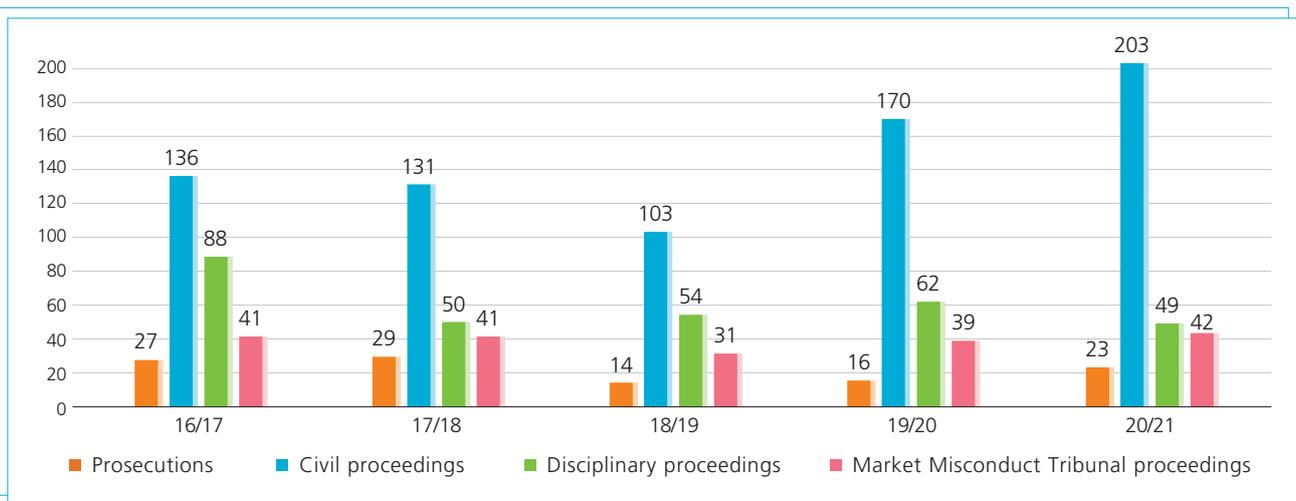
Takeovers and listing applications



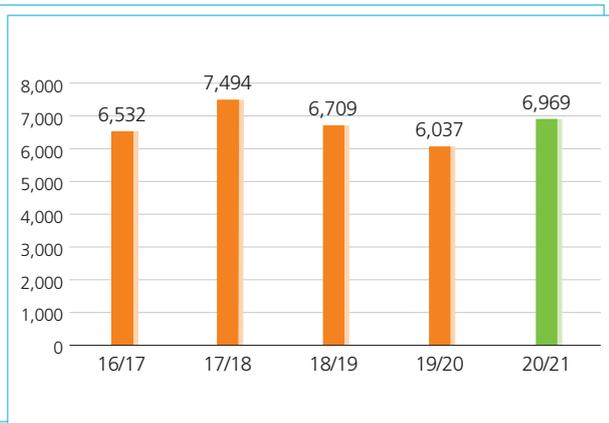
Investigations



Persons/corporations subject to enforcement action



General enquiries



Complaints against intermediaries and market activities

