

# Strategic Priorities

Our fundamental priorities are to foster market resilience, mitigate financial risks and protect investor interests. These goals remain critical to ensure Hong Kong's continued success as a vital part of the global financial system and an irreplaceable connector between markets on the Mainland and in the rest of the world.

We strive to promote high quality markets through close surveillance, early intervention and deterrent enforcement. More than ever, it is essential that we proactively collaborate with the industry and our local, international and Mainland counterparts—to ensure our regulation stays fit for purpose in the face of rapidly changing financial markets and evolving global standards.

Through challenging times during the pandemic, our regulatory approach allowed us to respond quickly so markets and the industry could operate normally in extraordinary circumstances. Maintaining the flexibility to adapt our regulation to new developments helps us keep our financial markets fair, maintain the operational resilience of market participants and lay the foundation for a greener, more sustainable financial system in the future.

## Listings

### Supporting the growth of a healthy market

Hong Kong's stature as an international financial centre (IFC) depends on a robust regulatory framework which upholds the quality of our listed market and provides comprehensive protection for investors. We work closely with the Stock Exchange of Hong Kong Limited (SEHK) to develop policies to broaden the range of companies which can tap Hong Kong's capital markets and give investors more options to allocate assets. We have worked with SEHK to formulate a regulatory framework for the new listing regime for specialist technology companies, which took effect on 31 March 2023.



SFC media stand-up on senior management's Beijing trip

Since we moved to a more front-loaded approach to listing regulation in 2017, we have directly intervened in about 180 cases involving initial public offerings and listed companies through the actual or potential use of our powers under the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance. This has equipped the SFC with stronger enforcement tools to combat corporate misconduct.

The amendments to the Listing Rules relating to share schemes which took effect in January 2023 allow issuers to flexibly structure their remuneration policies whilst managing the dilution of listed shares. We have recently launched a public consultation on amendments to the Codes on Takeovers and Mergers and Share Buy-backs to codify existing practice and keep up with market development.

## Intermediaries

### Vigilant supervision to protect investors' interests

The financial market environment continues to pose challenges to intermediaries. We stay vigilant in monitoring their long-term operational resilience to ensure they are prepared for unforeseen circumstances. The health of intermediaries and our financial sector as a whole is top priority and the key to delivering our investor protection mandate.

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Recent shocks in the financial and commodity futures markets underscore the challenges that futures brokers face in times of market volatility. To increase their operating resilience, we conducted a two-month public consultation on risk management guidelines for licensed futures brokers and will issue conclusions after analysing the responses.

Where warranted, we adapt our supervision without compromising our regulatory standards. In regulating all centralised virtual asset trading platforms in Hong Kong since our new licensing regime took effect on 1 June 2023, we abide by the principle of “same business, same risks, same rules” and impose regulatory requirements comparable to those for securities brokers and automated trading venues, but adapted to address the specific risks posed by virtual assets. The regime also includes robust measures to protect investors.

Along with rapid financial innovation, cybersecurity exposes intermediaries to systemic risks which must be managed. In 2023, we will conduct a thematic review on emerging cybersecurity risks and threats, covering the use of end-of-life software, vendor management and remote access. The lessons learnt and good practices found in the review will be shared with the industry. We will also revisit and update our current cybersecurity baseline requirements as appropriate.

The Cross-boundary Wealth Management Connect (WMC) Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has been operating smoothly since its launch in 2021 and provides investors in the region with a channel for cross-boundary investment. To enhance the scheme, we are working closely with the Hong Kong Monetary Authority (HKMA) and Mainland regulators to consider expanding the scope of investment products, allowing more eligible firms to participate and improving product distribution arrangements.

To support sustainable finance development in Hong Kong, we review the sustainability-related disclosures made by fund managers during our supervision to ensure compliance and address greenwashing concerns.

To support the Government’s initiative to develop an ecosystem for family offices in Hong Kong, we work closely with the authorities to promote the city as a hub for family offices and guide industry participants on our licensing requirements. In addition, to further cement Hong Kong’s status as an international asset and wealth management centre, we actively engage with representatives of the private equity industry to understand their views on our regulatory framework for private equity firms and provide them with clear guidelines on how our requirements are applied.



**Broadening Mainland market access, improving market infrastructure and enhancing our regulatory alignment with international standards are major priorities.**

## Asset and wealth management

### An expanding and diversifying hub

We strive to bolster Hong Kong’s competitiveness as a leading asset and wealth management centre and a preferred fund domicile. Broadening Mainland market access, improving market infrastructure and enhancing our regulatory alignment with international standards are major priorities.

Broadening the range and variety of quality fund products in our market benefits our investors—local, Mainland and global. Greater connectivity is key to achieve this goal. The launch of Exchange Traded Fund (ETF) Connect in July 2022 was a milestone in the expansion of Mainland-Hong Kong mutual market access, as it made fund products available for trading via Stock Connect for the first time. Since then, the volume of ETFs traded in both directions has grown significantly.



To underpin the growth of the city's asset management industry, we are working with our counterparts to enhance the WMC scheme by adding more eligible products and participating institutions. We also work closely with the China Securities Regulatory Commission (CSRC) on the Mainland-Hong Kong Mutual Recognition of Funds scheme and consider enhancements including the relaxation of sales limits and restrictions for overseas delegation.

We regularly review our regulations to stay in line with international developments. We are introducing a new regulated activity, RA 13, to bring depositaries of SFC-authorized funds under our direct supervision in October 2024 after an 18-month transition period.

With growing demand for products related to environmental, social and governance (ESG) from investors, the use of ESG ratings and data products by asset managers and funds has grown considerably. Through a fact-finding exercise and focus group meetings, we are analysing the business models of ESG ratings and data product providers as well as how the fund management industry uses these products. Based on our findings and the International Organization of Securities Commissions' (IOSCO) 2021 recommendations<sup>1</sup>, we will consider providing guidance to the asset management industry on engaging ESG service providers.

To reinforce the competitiveness of the Hong Kong real estate investment trust (REIT) market, we are working on legislative amendments to introduce a statutory compulsory acquisition regime and a scheme of arrangement mechanism for REITs. These will help facilitate takeovers and mergers of REITs and put them on a level playing field with other Hong Kong listed companies.

Interest in open-ended fund companies (OFCs), the corporate investment fund vehicle in Hong Kong, has grown significantly after the Government introduced a grant scheme for establishing OFCs and a regime for overseas corporate funds to re-domicile to Hong Kong.

OFCs are now eligible under the WMC scheme, Mainland-Hong Kong ETF cross-listing initiative and ETF Connect, and this will provide the impetus for continued growth. To further our efforts, we work closely with the Government to refine the OFC regime regarding winding-up procedures, register inspection, anti-money laundering and counter-financing of terrorism.



To promote the integrity and resilience of our asset management sector, we actively engage with the industry and other regulators. We closely monitor the potential risks posed by market developments such as the fallout from the Russia-Ukraine conflict and assess their impact on SFC-authorized funds. To bolster investor protection for investment-linked assurance schemes, we keep in close touch with the industry to ensure smooth implementation of the enhanced product design guidance. We also remind asset managers to act fairly in the best interests of investors, especially when handling asset disposals, valuations, redemptions, dealing suspensions and fund restructuring.

To streamline the application process for new investment products and other post-authorisation matters, we plan to launch a new, user-friendly online application system, e-IP, on the SFC's WINGS<sup>2</sup> portal in 2024. We will consult the industry on the system's workflow and functions.

<sup>1</sup> IOSCO's *Final Report on Environmental, Social and Governance Ratings and Data Products Providers* (November 2021).

<sup>2</sup> Web-based INteGrated Service.

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### Markets

#### Getting more connected


Promoting Mainland-Hong Kong mutual market access remains a top priority. We have been working with our local and Mainland partners and counterparts to develop Swap Connect, which enables Mainland and offshore investors to participate in the financial derivatives markets in Hong Kong and the Mainland through connected financial infrastructures. The scheme has begun with northbound access to the Mainland interest rate derivatives market and may be extended to southbound access or other derivatives products in the future.

To promote the use of renminbi (RMB) in offshore investments and provide broader choices for investors, we have joined the HKMA and Hong Kong Exchanges and Clearing Limited (HKEX) in a working group to prepare a dual-counter model for Hong Kong-listed securities, setting out measures for more efficient trading of RMB stocks and to promote their liquidity. This includes the proposed dual-counter market maker (DCMM) programme planned for launch in 2023. To pave the way, a stamp duty exemption for DCMM's eligible transactions took effect in January 2023. Together with Mainland authorities, we are also considering the inclusion of RMB counters in southbound Stock Connect trading to boost market liquidity.

We constantly seek to extend our surveillance to manage systemic risks. We established a monitoring framework to collect comprehensive market data to assess potential systemic risks, and we regularly enhance our ex-ante analytical tools to assess financial market vulnerabilities during high volatility and stay on top of macro changes. The investor identification regime that went live in March 2023 further strengthened our surveillance capabilities by giving us real-time information about investor identity for securities orders. These efforts have enabled us to better detect irregularities in specific market segments as well as signs of possible concentration or build-ups of positions by market participants, and would no doubt uphold market integrity and bolster investor confidence. We also collaborate with local and overseas regulators to identify potential risks in exchange-traded and over-the-counter derivatives markets.

Effective risk governance is essential to our supervision of HKEX. We work with HKEX to enhance its risk management, risk control and group compliance functions, to ensure they have sufficient authority, independence and resources to carry out their duties effectively. HKEX's risk governance processes have continued to improve.

Our policies for market supervision and infrastructure stand to benefit from public consultation. To better align the position limit regime with our policies and objectives for Hong Kong's derivatives market, we consulted on proposed changes to the requirements for listed futures and options contracts and target to make public our further conclusions in the second quarter of 2023. We also consulted the market on proposed subsidiary legislation for the uncertificated securities market regime and will further consult on amendments to related codes and guidelines.



**Beyond our focus on high-impact results locally, we remain committed to achieving justice across borders.**

### Enforcement

#### Standing resolute against misdeeds

Cracking down on investment fraud and social media ramp and dump scams remains our enforcement priority.

We took timely action to disrupt the operations of active ramp and dump syndicates last year through numerous joint search operations with the Hong Kong Police Force (Police) and the Independent Commission Against Corruption (ICAC). We arrested suspected fraudsters and froze fraud proceeds. We will continue our enforcement efforts and reinforce investor education to warn the public against these scams.



Our ongoing enforcement efforts to deter corporate fraud related to listed companies and protect investor interests focus on cases that can bring high-impact results locally. We plan to concentrate on protecting shareholders from harm and providing financial redress to them by holding the culprits accountable. One way to achieve this is to swiftly trace funds, freeze illicit proceeds and then obtain court orders to return the funds to victims. We will also seek to disqualify listed company directors responsible for investor harm to prevent their further misconduct.

Beyond our focus on high-impact results locally, we remain committed to achieving justice across borders. To better tackle Hong Kong-Mainland cross-boundary financial crimes, we are working to enhance our strategic partnership with the CSRC and consider options to hold accountable those individuals seeking to elude our jurisdictional reach.

We keep a close watch on possible misconduct by intermediaries, particularly internal control and system deficiencies which lead to improper safeguard or even the loss of client assets. We are committed to protecting investor interests through robust and transparent disciplinary actions against culpable individuals as well as their firms. Virtual-asset related misconduct is now another enforcement priority with the introduction of the new licensing regime for virtual asset service providers under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

To identify and combat financial crimes and misconduct more effectively, we will further strengthen our cooperation with other local law enforcement agencies and regulators. For example, we will mount more joint operations with the Police and the ICAC against ramp and dump scams and corporate fraud cases and also engage in joint capacity building exercises with them to develop one another's expertise and skills. Our collaboration with the HKMA, the Insurance Authority and the Accounting and Financial Reporting Council will facilitate the sharing of credible intelligence about misconduct and malpractice in the financial industry and thus more timely enforcement action.



Internationally, we promote effective enforcement cooperation amongst securities regulators worldwide through our active participation in IOSCO, particularly in our role as the Vice Chair of IOSCO Committee on Enforcement and the Exchange of Information.

### Sustainable finance

#### A regional and international centre

With well-developed capital markets and a unique ability to connect Mainland and international fund flows, Hong Kong is well-positioned as a regional and international sustainable finance hub. To advance this role, we strive to lead efforts to develop a comprehensive regulatory framework for sustainable finance.

Having achieved the goals we set out in our 2018 *Strategic Framework for Green Finance*, we published an *Agenda for Green and Sustainable Finance* in August 2022 to announce our next steps to support the development of sustainable finance and the transition to a greener economy. The three priority areas on the agenda are:

- enhancing corporate sustainability disclosures;
- promoting and monitoring the implementation of sustainable finance initiatives in key areas including asset management and ESG funds; and
- developing a regulatory framework for carbon markets.

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As Co-Chair of Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group<sup>3</sup>, we work closely with the Government and other local regulators to spearhead efforts to promote Hong Kong as an international sustainable finance hub. We also collaborate with other members and market participants to implement the Steering Group's strategic plan announced in 2020 and its 2023-25 priorities of world-class regulation, data and technology for transition, market opportunities and product innovation, and communication, capacity building and collaboration with Mainland, regional and global markets.

Climate change and other sustainability concerns are global in nature. We will continue to lead international policy discussions on sustainable finance, particularly corporate disclosures, with our Chief Executive Officer, Ms Julia Leung, serving as Vice-Chair of the IOSCO Sustainable Finance Task Force and the Co-Chair of its Corporate Reporting Workstream. In addition, we will continue to actively participate in the Financial Stability Board's (FSB) Working Group on Climate Risk, the Network of Central Banks and Supervisors for Greening the Financial System, the United Nations Sustainable Stock Exchanges Initiative and the International Platform on Sustainable Finance.



We have committed ourselves to achieving carbon neutrality before 2050 in line with the Government's *Hong Kong's Climate Action Plan 2050*, with an interim target to reduce 50% of total carbon emissions before 2030. In addition to implementing emissions reduction measures, we will introduce additional activities to raise staff awareness of climate change and sustainability.

## Communications

### Broad-based channels for effective communications

To enhance the public's understanding of our regulatory efforts in protecting investors, and to effectively engage the industry on the SFC's regulatory initiatives, we adopt proactive and integrated external communication strategies. These include regular dialogues with industry and professional bodies to discuss emerging issues and to provide guidance to facilitate compliance, as well as timely publication of the SFC's key policy messages via traditional channels and social media, and we leverage the media toolkits at our disposal.

We will also continue to collaborate with our subsidiary, the Investor and Financial Education Council, to strengthen financial literacy of the public and amplify the impact of our publicity campaigns.

## Technology

### Digitalisation promotes a greener market

The expansion of digital submissions and other paperless processes support more thorough and timely regulation and provide greater convenience for market participants.

<sup>3</sup> Steering Group members include the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, HKMA, SFC, HKEX, Insurance Authority and the Mandatory Provident Fund Schemes Authority.



Our digital submission hub, WINGS, will see further enhancements, including a comprehensive end-to-end capability for all investment product-related submissions. The range of submissions will also be broadened to support offsite monitoring, such as the expansion of the Business and Risk Management Questionnaire to collect anti-money laundering data. Enhancements will be made to facilitate the new licensing frameworks for the depositaries of SFC-authorized collective investment schemes (RA13) and virtual asset trading platforms.

Internally, SFC is paperless-ready with digitalised data submission, as was showcased during the pandemic when our staff worked from home collaboratively without interruption.

### Regulatory cooperation

#### In the age of globalisation

Fostering close collaboration with our overseas counterparts and actively participating in the work of international standard-setting bodies are essential for maintaining world-class regulation and providing timely

responses to changing market conditions. Our senior executives play an important role in shaping international policies through their leadership of FSB and IOSCO committees and working groups.

To consolidate Hong Kong's status as a leading international financial centre and its unique role as a connector between the Mainland and global financial markets, we work proactively with our Mainland counterpart to deepen mutual market access schemes and promote the coordinated development of our capital markets. We also hold regular discussions with the CSRC to enhance cross-boundary supervisory and enforcement cooperation.

We continue to support the HKSAR Government to strengthen Hong Kong's ties with the Mainland, particularly in the GBA development, amongst other regional initiatives.