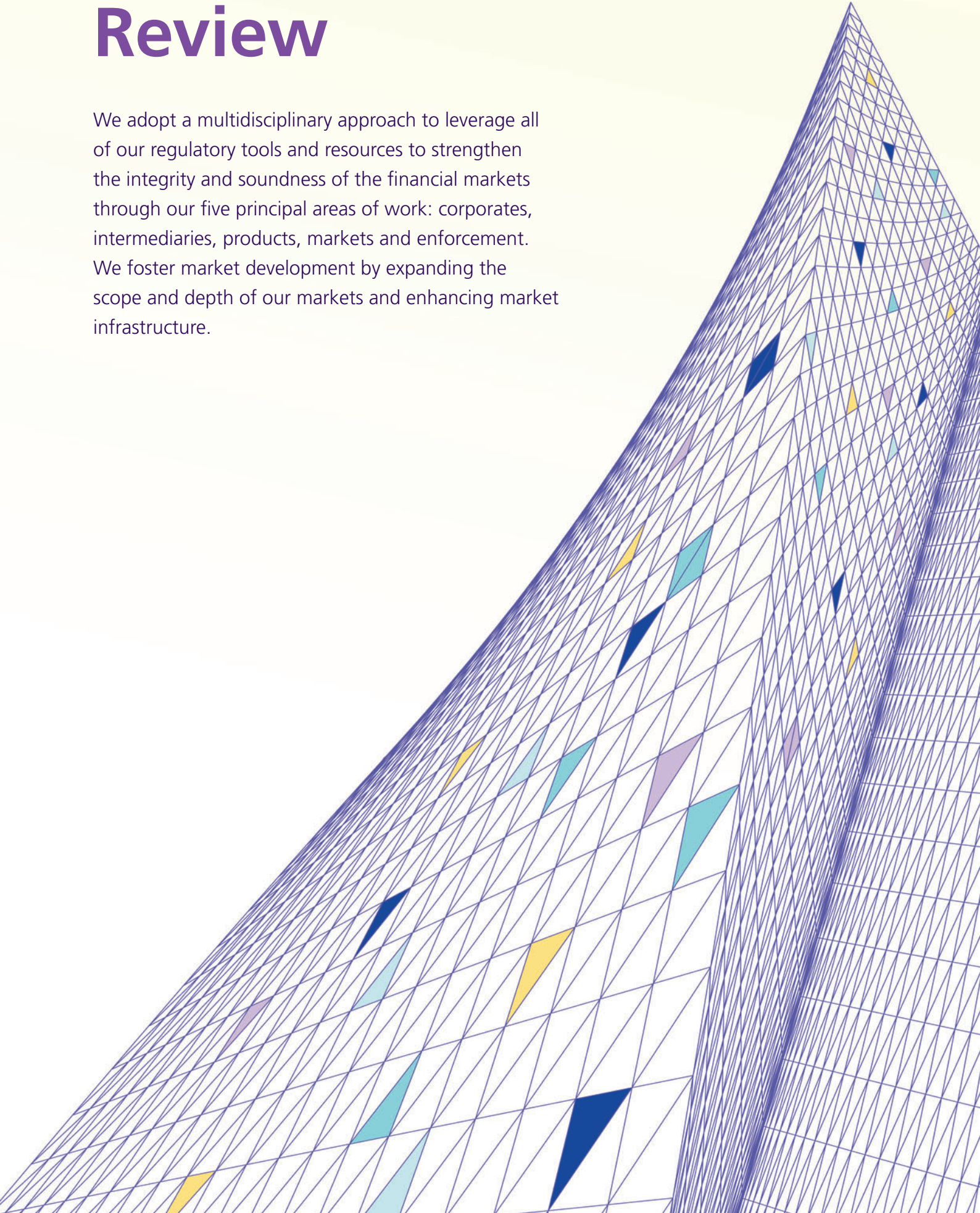


# Operational Review

We adopt a multidisciplinary approach to leverage all of our regulatory tools and resources to strengthen the integrity and soundness of the financial markets through our five principal areas of work: corporates, intermediaries, products, markets and enforcement. We foster market development by expanding the scope and depth of our markets and enhancing market infrastructure.



# 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 also review listing and takeovers policies to safeguard the interests of investors and promote the development of a fair and orderly securities market.

## New policies broaden Hong Kong's appeal as a listing platform

### Specialist technology companies

To further develop Hong Kong as a listing venue of choice, SEHK worked closely with the SFC on a new listing regime to facilitate the listing of specialist technology companies which may have limited or no revenue or profit track record. Following a two-month public consultation and the SFC's approval, SEHK published its consultation conclusions paper, together with the relevant Listing Rules amendments, on 24 March 2023. The new regime took effect on 31 March 2023.

### Share schemes

Subsequent to our review of SEHK's performance in its regulation of listing matters in 2019, SEHK consulted the market in 2021 on proposals to enhance the disclosure of share schemes and provide issuers with greater flexibility to grant share options and share awards whilst protecting shareholders from excessive dilution. The consultation conclusions were issued in July 2022 and the amended rules took effect on 1 January 2023.



1 Including 180 new listing applications and 175 cases brought forward from the previous reporting period.

2 For the 166 cleared cases of listing applications.

3 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.

4 A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

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



Mr Michael Duignan (left), Executive Director of Corporate Finance, at the Global Regulatory Forum 2022

### Paperless listing regime

We are working closely with SEHK to reduce the use of paper in listing applications and post-listing corporate communications. In December 2022, SEHK published a consultation paper on expanding the paperless listing regime. The consultation period ended on 28 February 2023.

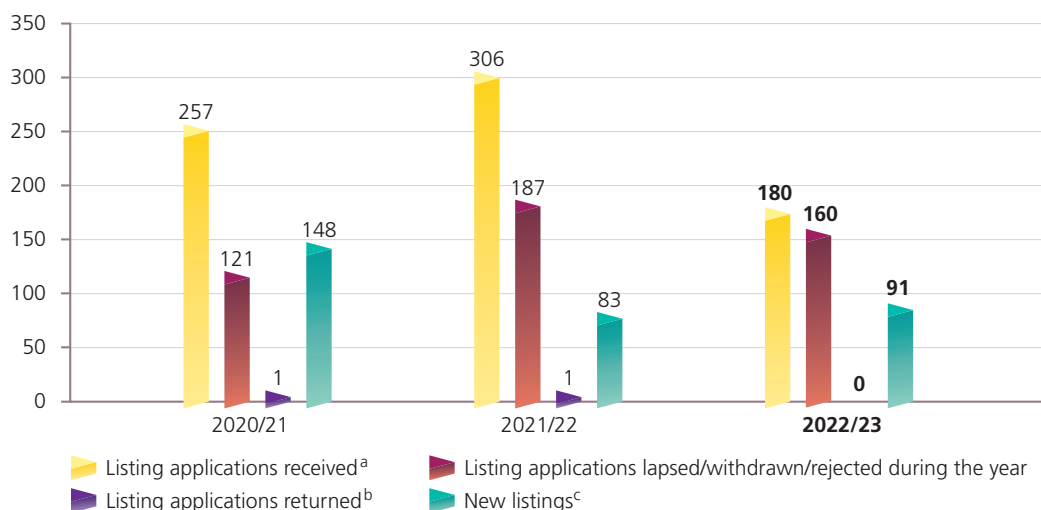
### Vetting IPO applications for quality listings

We vet listing applications and make enquiries to determine whether a listing 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)<sup>3</sup> of the SMLR.

We processed 355 listing applications during the year. This included 180 new listing applications, of which 19 were from pre-profit biotech companies and five from special purpose acquisition companies (SPACs)<sup>4</sup>. Three companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules<sup>5</sup> and seven overseas-listed companies achieved dual-primary listings on the Main Board. Four SPACs listed on the Main Board during the year.

Exercising our powers under SMLR, we issued requisition letters directly to seven listing applicants during the year (2021-22: 7). Amongst our concerns were the genuineness of the listing applicants' business and financial information

## New listing applications



a Including applications for transfer from GEM to the Main Board (2022/23: 3; 2021/22: 3; 2020/21: 17).

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 (2022/23: 0; 2021/22: 3; 2020/21: 6). The Hang Seng Index closed at 20,400 on 31 March 2023 (31 March 2022: 21,996; 31 March 2021: 28,378).

and the accuracy and completeness of their disclosures. As at 31 March 2023, one of these listing applicants had satisfactorily addressed our concerns, one had left our concerns unaddressed and not proceeded to listing, and the remaining five were still ongoing but they had yet to satisfactorily address our concerns.

## Addressing corporate misconduct

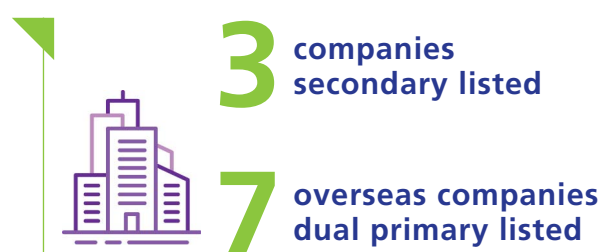
As part of our front-loaded approach to preventing corporate misconduct, we review corporate announcements daily to identify red flags and irregularities. During the year, we issued section 179<sup>6</sup> directions to gather additional information in 43 cases and wrote to listed companies detailing our concerns in two 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.

## Takeovers increasingly complex

The takeovers market in Hong Kong continues to mature with increasingly complex transaction structures, often involving novel issues. During the

year, the Takeovers and Mergers Panel met three times to consider novel, important or difficult points at issue and discuss policy matters relating to the Takeovers Code.

In August 2022, the Panel ruled that a special waiver from the general offer obligation may be granted to a company in a possible involuntary disposal of interest in Jinke Smart Services Group Company Limited which would lead to a change in the composition of the concert group.



<sup>6</sup> 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.

## Enhancing Hong Kong's status as a quality listing market

To enhance Hong Kong's competitiveness as a fund-raising platform, we worked with SEHK to introduce initiatives to attract listings of new economy companies and cement Hong Kong's status as a sustainable finance hub regionally and internationally.

### New economy companies

A major focus in recent years has been to provide a regulatory framework for high quality new economy companies to list in Hong Kong to give investors a broader range of choices whilst safeguarding their interests and maintaining high standards of corporate governance. Key initiatives included the introduction in 2018 of a regulatory framework for innovative companies with a weighted voting rights (WVR) structure<sup>a</sup>—making Hong Kong one of the first jurisdictions to regulate WVR listings—together with a new listing route for pre-revenue biotech companies.

Five years later, 22 WVR companies and 56 biotech companies have been primary or secondary listed in Hong Kong under the new listing regimes as of 31 March 2023, and these companies raised a total of \$506.6 billion, accounting for 35% of the total IPO funds raised during the period.

Following the 2018 reforms, SEHK introduced a new regime in 2023 to facilitate the listing of specialist technology companies in five industries<sup>b</sup> covering a wide range of sectors such as artificial intelligence, electric and autonomous vehicles, robotics and automation. This new regime caters to the growing fund-raising demand from quality technology companies which are still primarily engaged in research and development. Although



there may be substantial investor interest at IPO, these companies may have limited or no revenue or profit track record.

### Climate-related risks and sustainability

Globally, there is an increasing focus by issuers and investors on the potential risks and rewards associated with environmental, social and governance (ESG) issues and how they affect the values of companies. This has spurred demand for high-quality disclosure of ESG information.

In 2021, the International Sustainability Standards Board (ISSB) was formed to develop a comprehensive global baseline of corporate sustainability reporting standards. The ISSB is developing standards and guidance for how companies should report on climate-related risks and opportunities, including the potential impact on their business and financial performance.

To advance Hong Kong's position as a sustainable finance hub internationally and within the Asia-Pacific region, SEHK, working closely with us, launched a three-month public consultation in April 2023 on proposals, which make reference to the ISSB's exposure drafts, to mandate climate-related disclosures for listed companies in Hong Kong<sup>c</sup>.

a Including concessions for qualifying overseas listed companies.

b The five industries include (i) next-generation information technology, (ii) advanced hardware and software, (iii) advanced materials, (iv) new energy and environmental protection, and (v) new food and agriculture technologies. Acceptable sectors falling within these industries are set out in a guidance letter published by SEHK.

c See Sustainability on pages 91-100.

## Corporates

In a decision published in September 2022, the Panel ruled on the appropriate offer price for a mandatory general offer for Suncity Group Holdings Limited<sup>7</sup> which was triggered as a result of the transfer of a controlling stake in Suncity.

For potential breaches of the Takeovers Code, we take disciplinary actions where appropriate. In April 2022, we publicly criticised Gao Yunhong and Feng Xuelian for breaching the non-frustrating action rules under the Takeovers Code for disposing material assets of Steering Holdings Limited during an offer period.

In October 2022, we publicly criticised Gold Dragon Worldwide Asset Management Limited for failing to make dealing disclosures in accordance with the Takeovers Code for share dealings in Shanghai Dongzheng Automotive Finance Co., Limited during an offer period.

In March 2023, we publicly criticised Cheung Chi Shing for failing to obtain regulatory approval before triggering a mandatory general offer for Styland Holdings Limited through his share acquisitions.

### Takeovers activities

	2022/23	2021/22	2020/21
General and partial offers under Code on Takeovers and Mergers	33	45	38
Privatisations	11	21	31
Whitewash waiver applications	22	22	33
Other applications under Code on Takeovers and Mergers <sup>^</sup>	231	291	361
Off-market and general offer share buy-backs	7	5	5
Other applications under Code on Share Buy-backs <sup>^</sup>	1	1	1
<b>Total</b>	<b>305</b>	<b>385</b>	<b>469</b>

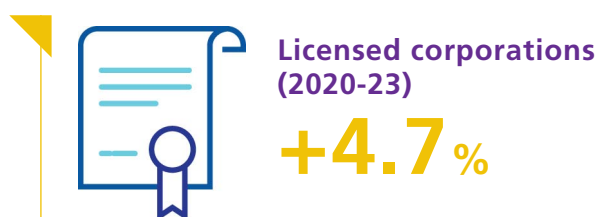
<sup>^</sup> Including stand-alone applications and those made during the course of a Code-related transaction.

Note: Also see Table 1 in Operational Data on page 176 for more details.

<sup>7</sup> Now known as LET Group Holdings Limited.

# Intermediaries

We set standards and qualifying criteria for corporations and individuals licensed to operate in our markets under the Securities and Futures Ordinance. As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations<sup>1</sup> (LCs) and explain our regulatory focus and concerns to the industry. We closely monitor market and technological developments and adapt our regulatory approach to ensure our gatekeeping and supervisory functions remain effective.



## Licensing corporations and individuals

As of 31 March 2023, the total number of licensed firms and individuals stood at about 48,200, which remained stable as compared with the same period of last year. With the advancement of financial technology, there were around 60 licensed firms carrying out regulated businesses in robo-advisory, virtual asset-related activities or automated trading services.

During the year, we received a total of around 7,300 new licence applications, up 3% from the previous year, comprising about 7,100 individuals and 200

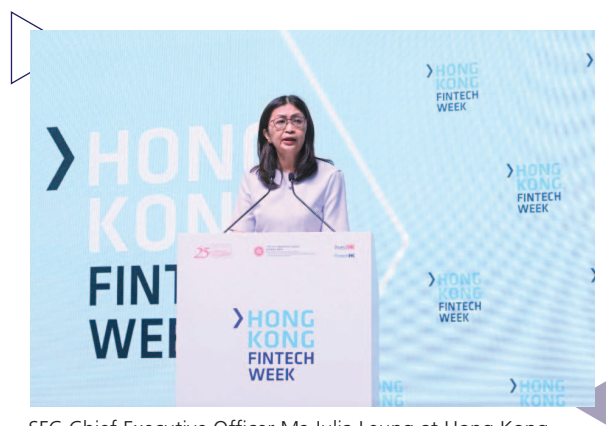
## Licensees

	Corporations <sup>^</sup>		Representatives		Responsible Officers		Total <sup>^</sup>		
	As at 31.3.2023	As at 31.3.2022	As at 31.3.2023	As at 31.3.2022	As at 31.3.2023	As at 31.3.2022	As at 31.3.2023	As at 31.3.2022	Change
Stock exchange participants	559	591	11,358	12,001	2,075	2,163	13,992	14,755	-5.2%
Futures exchange participants	91	99	737	827	143	178	971	1,104	-12%
Stock exchange and futures exchange participants	83	93	5,269	5,101	668	680	6,020	5,874	2.5%
Non-stock/non-futures exchange participants	2,521	2,448	18,080	17,730	6,598	6,379	27,199	26,557	2.4%
<b>Total</b>	<b>3,254</b>	<b>3,231</b>	<b>35,444</b>	<b>35,659</b>	<b>9,484</b>	<b>9,400</b>	<b>48,182</b>	<b>48,290</b>	<b>-0.2%</b>

<sup>^</sup> These figures exclude 112 registered institutions as at 31 March 2023 and 111 as at 31 March 2022.

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

<sup>2</sup> From 1 April 2023 to 31 March 2024.



SFC Chief Executive Officer Ms Julia Leung at Hong Kong FinTech Week 2022

corporations. We approved around 200 new corporate and 6,400 individual licence applications respectively. For the new licensed corporation applications approved during the year, Type 9 (asset management) regulated activity accounted for 44% and Type 4 (advising on securities) regulated activity for 35%. As of 31 March 2023, the number of firms licensed for Type 9 regulated activity (asset management) increased by 80 to almost 2,100.

## Licensing fee waiver

In light of market conditions, we waived the annual licensing fees for all intermediaries and licensed individuals for the 2023-24 financial year<sup>2</sup>. This measure will help the industry save approximately \$250 million.

## Intermediaries

### Enhancing our regulatory regime

#### Licensing virtual asset service providers

As of 31 March 2023, we granted two licences under the Securities and Futures Ordinance to virtual asset trading platform operators in Hong Kong.

In December 2022, the Legislative Council passed the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022, enabling the new licensing regime for virtual asset service providers to take effect on 1 June 2023. Under the new regime, all centralised virtual asset trading platforms carrying on business in Hong Kong or actively marketing to Hong Kong investors must be licensed by the SFC.

We consulted the public on the proposed regulatory requirements for virtual asset trading platforms in the first quarter of 2023. In line with our regulatory stance

since 2018<sup>3</sup>, the proposed requirements include robust measures to protect investors, following the “same business, same risks, same rules” principle. Our well-defined regulatory framework provides clarity and consistency to the market which helps foster innovation, market development and investor protection.

#### Risk management guidelines for futures dealing activities

In November 2022, we launched a two-month public consultation on proposed risk management guidelines for licensed persons dealing in futures contracts<sup>4</sup>. The proposed guidelines align with regulations in major jurisdictions and take account of the views of a wide spectrum of industry practitioners who were soft consulted earlier. The consultation closed in January 2023 and we are analysing the responses received.

### Financial position of the Hong Kong securities industry<sup>a</sup>

	As at 31.12.2022	As at 31.12.2021	As at 31.12.2020
Securities dealers and securities margin financiers	1,439	1,433	1,391
Active clients <sup>b</sup>	4,650,024	4,159,100	3,207,677
<b>Balance sheet</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Total assets	1,452,449	1,658,553	1,812,475
Total liabilities	969,051	1,130,341	1,346,418
Total shareholders' funds	483,398	528,212	466,057
	<b>12 months to 31.12.2022</b>	<b>12 months to 31.12.2021</b>	<b>12 months to 31.12.2020</b>
<b>Profit and loss</b>			
Total value of transactions <sup>c</sup>	126,014,719	160,931,088	129,651,195
Net securities commission income	20,210	31,329	28,374
Total operating income	187,385	217,469	198,026
Total overheads and interest expense	170,730	173,978	167,122
Total operating profit	16,655	43,491	30,904
Net profit on proprietary trading	6,211	21,397	16,649
Net profit	22,866	64,888	47,553

a 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.

b Active clients are clients for whom the LC is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

c The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Note: Also see Table 8 in Operational Data on page 182 for more details.

3 The SFC issued its *Statement on regulatory framework for virtual asset portfolios managers, fund distributors and trading platform operators* in November 2018.

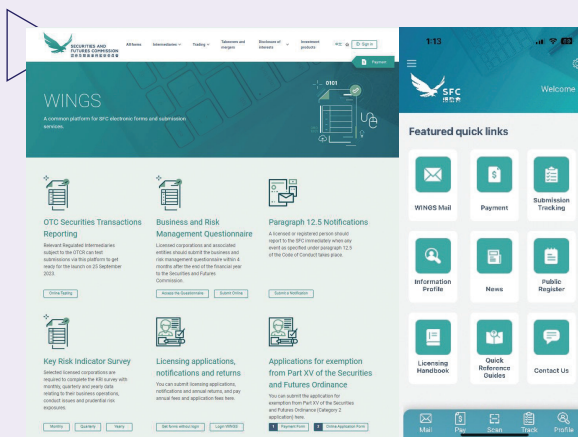
4 The consultation followed our 2021 fact-finding exercise which surveyed futures brokers' business and risk management practices.

## Fully digitalising the SFC licensing platform

The SFC has moved to a paperless licensing process and the online submission of corporate licence applications, notifications and regulatory filings via WINGS<sup>a</sup> has been mandatory since 1 April 2022.

This has shortened the average processing time<sup>b</sup> for granting in-principle approval<sup>c</sup> to a new corporate licence application<sup>d</sup> by 20% year-on-year, and reduced the number of long outstanding corporate applications by over 50% during the year.

Our fully digitalised licensing platform, WINGS 2.0, and its companion mobile application, WINGS Mobile, provide users with a secure, paperless system to sign and submit licensing applications and submissions electronically as well as an electronic system for the payment and settlement of application fees and a convenient communication channel to securely communicate with their case officers. These new features provide greater convenience to the industry and enhance the efficiency of the licensing process.



WINGS on the SFC’s website (left) and mobile app

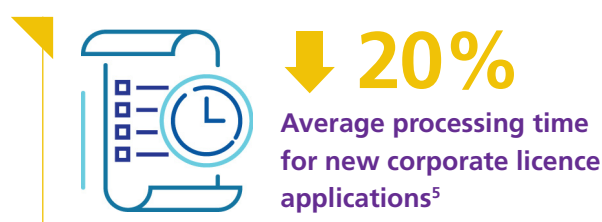
Industry participants quickly became familiar with the platform. As of 31 March 2023, 98% of LCs had activated their WINGS accounts and 66,000 WINGS accounts were in use. In addition, more than 208,000 applications, notifications and filings had been submitted via WINGS and over \$67 million was paid to the SFC electronically. Based on our estimate, at least 620,000 sheets of paper<sup>e</sup> were saved since the launch of WINGS 2.0.

- a Web-based INteGrated Service.
- b For this purpose, licence applicants which have complex business models or fitness and properness issues or are unresponsive to our requisitions are included in calculating the average processing time.
- c We grant an in-principle approval to a corporate applicant which has generally satisfied us with its fitness and properness to be licensed but still has to clear certain outstanding matters such as capital injection, onboarding of responsible officers, availability of office premises and bank accounts.
- d This covers corporate licence applications submitted via WINGS as electronic submission became mandatory from 1 April 2022.
- e About 60 trees.

We will carefully consider market feedback before finalising the guidelines and provide the industry with sufficient preparation time prior to implementation.

## Supervising licensed firms

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



## On-site reviews

On-site reviews are a key supervisory tool for us to understand LCs’ business operations, risk management and internal controls and to gauge their compliance with legal and regulatory requirements.

5 For granting an approval in principle, and change is on a year-on-year basis. The electronic submission via WINGS became mandatory from 1 April 2022.

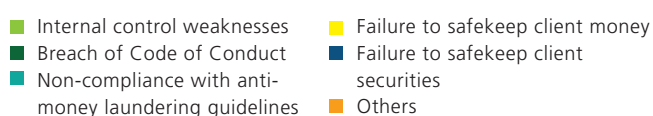
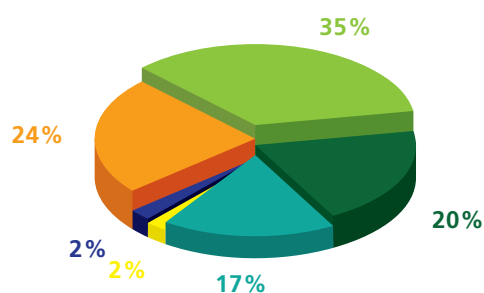


## Intermediaries



During the year, we carried out 226 risk-based on-site inspections, including those conducted remotely owing to the COVID-19 pandemic. We noted instances of breaches of our rules and regulations<sup>6</sup>, mainly the Code of Conduct<sup>7</sup>, Fund Manager Code of Conduct and Anti-Money Laundering Guidelines as well as internal control weaknesses.

**Breaches noted during 2022/23 on-site inspections**



This year's thematic inspections covered LCs' selling practices, anti-money laundering and counter-financing of terrorism (AML/CFT) measures and data standards for order life cycles.

### Off-site monitoring

We conduct off-site monitoring of LCs' operations by analysing the information in their regulatory filings and intelligence from other sources. We also interact regularly with LCs to assess their financial strength, internal controls and risk management practices.

### Assessing prudential and conduct risks

#### New conduct requirements for capital market transactions

We issued a set of frequently asked questions (FAQs) to provide guidance to intermediaries on the application of the requirements<sup>8</sup> for bookbuilding and placing activities in capital market transactions which took effect on 5 August 2022. The guidance covered, amongst other matters, requirements for orders placed on an omnibus basis, clarifications related to debt offerings with syndicates comprising members in Hong Kong and overseas jurisdictions, as well as transitional arrangements.

### Breaches noted during on-site inspections

	2022/23	2021/22	2020/21
Internal control weaknesses <sup>a</sup>	430	427	515
Breach of Code of Conduct <sup>b</sup>	243	265	262
Non-compliance with anti-money laundering guidelines	214	301	208
Failure to safekeep client money	26	35	35
Failure to safekeep client securities	27	23	28
Others	290	365	302
<b>Total</b>	<b>1,230</b>	<b>1,416</b>	<b>1,350</b>

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

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

Note: See Table 2 in Operational Data on page 177 for more details.

<sup>6</sup> See Table 2 of Operational Data on page 177 for details.

<sup>7</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

<sup>8</sup> Including the Amendments to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the Guideline to sponsors, underwriters and placing agents involved in the listing and placing of GEM stocks.

## Joint survey on the sale of non-exchange traded investment products

In September 2022, we and the Hong Kong Monetary Authority published a report on our annual joint survey on the sale of non-exchange traded investment products. The survey results help both regulators better understand market trends, identify risks and strengthen our supervisory work to protect investors.

The survey found that the number of investors who purchased investment products during 2021 increased 5% from the previous calendar year to 770,000. The total number of firms engaged in the sale of investment products also increased 5% to 390, amongst which 327 were LCs. Structured products continued to account for the largest share of the

## Reviewing online brokerage, distribution and advisory services

Technological advances have transformed the way investors behave and how they access financial services, with more and more LCs serving clients through online platforms. As a principles-based regulator, we adopt a technology-neutral approach to the rules which apply in a digital environment. We have provided guidance in a number of areas—such as non-face-to-face account opening, cybersecurity and online distribution and advisory platforms—to facilitate the industry's use of new technology in a secure and compliant manner.

In August 2022, we issued a circular and a report to highlight the key observations and findings from

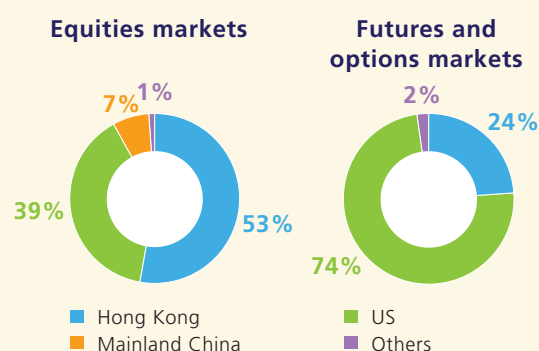
our review of 50 LCs providing online services, particularly their compliance with regulatory requirements when onboarding clients and distributing or advising on investment products online. We also reminded LCs of the regulatory standards expected of them when carrying out their business activities online.

With retail investors' increased use of online platforms, we urged LCs to review their systems, controls and procedures, having regard to the expected standards set out in our circular and report, and ensure that their online platforms are properly designed and operate in compliance with all applicable rules and regulations.

### Key observations:

- New accounts were predominantly opened online using non-face-to-face approaches.
- The most commonly-offered products were exchange-traded products such as equities, exchange-traded funds and futures and options contracts.
- Increasingly, online brokers also offered CIS (including money market funds for cash management purposes) and robo-advisory services.
- Hong Kong, Mainland China and the US were the major equities markets accessed through online platforms by clients of the surveyed firms. The major futures and options markets were those in the US and Hong Kong.
- Some firms invested heavily in their online platforms to enable technical stock analyses

and facilitate investors' own market research in a self-directed environment. This was accompanied by the use of popular social media platforms for marketing and communication purposes. Platforms which achieved economies of scale charged lower commission fees.



### Protecting client assets at LCs under cessation

We require LCs to put in place effective contingency planning to ensure business continuity. If an LC ceases, or intends to cease, its business owing to either commercial reasons or significant operational disruptions which it is unable to resolve, the LC should promptly execute its exit plan to secure an orderly closure of business and return all client assets to ensure that client interests are protected.

This process can be lengthy and costly, particularly if the LC holds client assets and has to apply for paying any unclaimed client assets to the court.

Following the issuance of our March 2022 circular which provided detailed guidance on business continuity planning, we noted that the industry's awareness of the need to meet these regulatory requirements has grown. We maintain close communication with LCs in the course of our supervision to ensure that they manage contingent situations in an efficient and timely manner.

aggregate transaction amount of \$5,015 billion, followed by collective investment schemes (CIS) and debt securities. The number of firms using online platforms for the distribution of investment products increased 21% to 70.

### Data standards for order life cycles

In December 2022, we issued a circular to summarise our key findings and observations from our recent thematic review of selected brokers' compliance with the data standards for order life cycles<sup>9</sup>. To help brokers understand and implement the standards, we amended some reporting requirements and provided examples for the data validation rules and additional FAQs. In addition, the circular strongly encouraged the industry to follow the standards and adopt appropriate technological tools to facilitate their in-house monitoring and surveillance of trading activities.

### Initial margin for OTC derivatives

Under our initial margin requirements for non-centrally cleared over-the-counter (OTC) derivative transactions, an LC may, upon our approval, use a quantitative portfolio margin model (ie, a model approach) in place of a standardised margin schedule to calculate the amount of initial margin to exchange (ie, to post and collect) with its counterparties. In assessing an application for approval of a model approach, we review the applicant's implementation of the model as well as its model governance framework and risk management controls. We are currently processing several applications.

### Thematic review of risk management practices

In March 2023, we published a report on our thematic review of selected LCs' practices for managing the operational and remote booking risks of trading



<sup>9</sup> The data standards for order life cycles prescribe the minimum content and presentation format of trading-related data to be submitted by licensed securities brokers to the SFC upon request.



The SFC's quick licensing guides

activities as well as data risks. The report provided an overview of the industry landscape and good practices with a view to facilitating LCs' ongoing refinement of their risk management processes. We also issued a circular to highlight our expected standards for LCs to manage the operational and remote booking risks of trading activities and a separate circular on the management of data risks.

## Guidance to the industry

### Quick reference guides on licensing requirements

To help the industry and the public better understand the SFC's licensing regime, we published quick reference guides which cover licensing topics of particular interest to market practitioners, such as licensing requirements and carve-outs for family offices, recognition of overseas industry experience and qualifications, and exemptions from examination requirements. The guides, on family offices, private equity firms, hedge fund managers, overseas and Mainland practitioners, are available on the SFC's website and WINGS mobile app.

## Anti-money laundering

To help the industry stay informed about the money laundering and terrorist financing risks in the securities sector, we issued a circular in July 2022 to draw LCs' attention to the results of the Government's newly updated *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report*, which concluded that the securities sector's money-laundering risk remains at medium level. Our circular also highlighted key updates related to the securities sector, including new money laundering threats and vulnerabilities such as the growing number of social media investment scams, increased use of nominee and dubious investment arrangements and online trading. We reminded LCs to take the findings into account when assessing their exposure to money laundering and terrorist financing risks.

We co-hosted two closed-door meetings with the Financial Services and the Treasury Bureau and InvestHK to update virtual asset industry representatives on the key considerations behind the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022. We explained our regulatory stance on virtual assets and the direction adopted by Hong Kong, and clarified the implementation details of the new licensing regime for virtual asset service providers. We held two similar meetings with industry participants to address common queries and misconceptions about security token offerings.

In December 2022, we hosted AML/CFT webinars for 1,800 management and compliance personnel from LCs to update them on major regulatory changes which took effect on 1 June 2023 as well as new money laundering threats and vulnerabilities in the securities sector. We shared our inspection and other supervisory observations, while external speakers<sup>10</sup> talked about terrorist financing and proliferation financing risks in Hong Kong and provided feedback on suspicious transaction reporting.

10 Including from the Commerce and Economic Development Bureau and the Hong Kong Police Force's Financial Intelligence and Investigation Bureau.

## Intermediaries

### Open dialogue with the industry

During the year, we delivered three virtual seminars to industry associations<sup>11</sup> to explain our recent initiatives. Key topics discussed included the digitalised licensing and financial returns submission functions on WINGS, the enhanced competency framework, business email compromise risk, anti-money laundering and the licence holders insurance scheme.

At the Hong Kong FinTech Week 2022, our Chief Executive Officer Ms Julia Leung delivered a keynote address on our latest policies on virtual assets, covering the new regime for the authorisation of exchange-traded funds with virtual asset futures as underlying assets and also security token offerings.

### Alert on spoofing SMS and tips on using the SFC's Public Register

We made use of online social media platforms to remind the public to stay alert of spoofing SMS messages and investment scams and to protect their personal information and property. We also provided

tips on how to make use of the SFC's Public Register of Licensed Persons and Registered Institutions to verify the licensing status of an entity, and if in doubt, recommended approaching the staff of an LC directly using the contact information shown on the Public Register.

### Warning against NFTs and virtual asset arrangements

In June 2022, we warned investors of the risks associated with non-fungible tokens (NFTs) and reminded the industry that where NFTs cross the boundary between a collectible and a financial asset, they may be subject to our regulation.

We issued a statement in December 2022 reminding investors of the risks associated with virtual asset platforms offering virtual asset "deposits", "savings", "earnings" or "staking" services to investors in Hong Kong. The statement also reminded the industry of potential legal requirements when these virtual asset arrangements are offered to investors.



Alert on spoofing SMS and tips on using the SFC's Public Register

11 Including the Hong Kong Securities Association in May 2022, and the Hong Kong Securities Professionals Association and the Hong Kong Securities & Futures Professionals Association in October 2022.

# Products

We formulate policy initiatives that enhance Hong Kong’s position as a global asset and wealth management centre and a preferred fund domicile and that provide investors with better protection and a wider variety of investment options. We authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with our regulatory requirements.



Ms Christina Choi, Executive Director of Investment Products, at the Hong Kong Investment Funds Association’s annual conference

## Product authorisations

As of 31 March 2023, a total of 2,939 SFC-authorized collective investment schemes (CIS) were offered to the public. During the year, we authorised 175 CIS, comprising 167 unit trusts and mutual funds (including 88 Hong Kong-domiciled funds), six investment-linked assurance schemes (ILAS) and two mandatory provident fund (MPF) pooled investment funds.

We also authorised 279 unlisted structured investment products for public offering during the year.

## OFC registrations

As of 31 March 2023, there were 131 open-ended fund companies (OFCs), of which 69 were registered during the year, including two re-domiciled OFCs.

## Hong Kong-domiciled funds

As of 31 March 2023, there were 913 Hong Kong-domiciled funds. Overall net inflows of US\$7,859 million were recorded during the year.



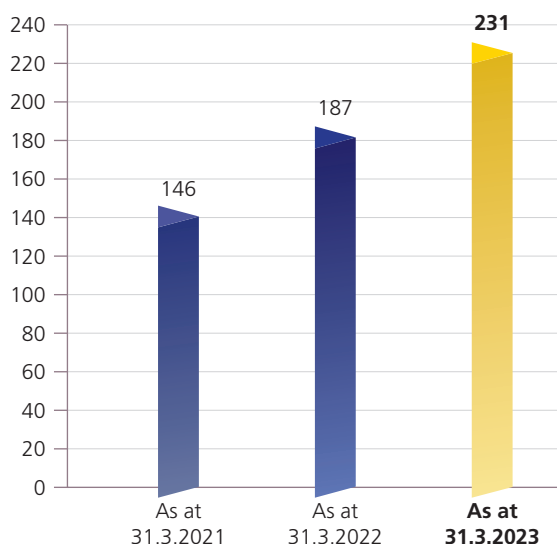
## Authorised CIS

	As at 31.3.2023	As at 31.3.2022	As at 31.3.2021
Unit trusts and mutual funds — Hong Kong-domiciled	913	866	835
Unit trusts and mutual funds — non-Hong Kong-domiciled	1,417	1,381	1,382
ILAS	305	300	298
Pooled retirement funds	32	32	33
MPF schemes	26	26	27
MPF pooled investment funds	221	219	212
Others <sup>^</sup>	25	25	25
<b>Total</b>	<b>2,939</b>	<b>2,849</b>	<b>2,812</b>

<sup>^</sup> Comprising 14 paper gold schemes and 11 real estate investment trusts (REITs).

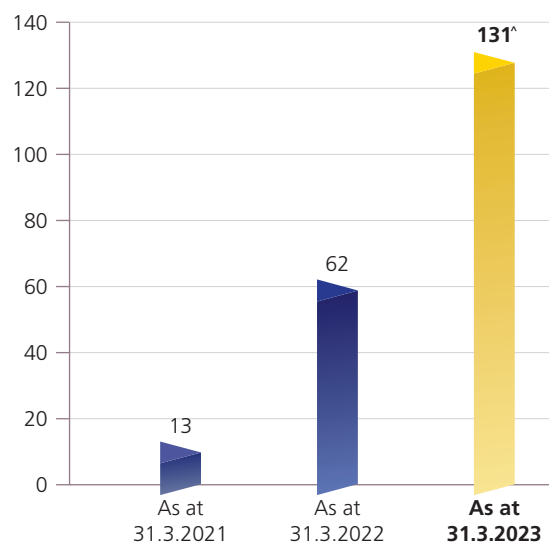
## Products

### Authorised unlisted structured investment products<sup>^</sup>



<sup>^</sup> On a "one product per key facts statement" basis, including equity-linked investments and deposits.

### Registered OFCs



<sup>^</sup> As of 31 March 2023, this figure includes 110 private OFCs.

### Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type<sup>a</sup> (US\$ million)

	12 months to 31.3.2023			12 months to 31.3.2022		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond	9,923	12,045	(2,122)	12,169	16,563	(4,394)
Equity	13,628	13,923	(295)	20,714	21,220	(506)
Mixed	7,313	8,831	(1,518)	12,774	9,619	3,155
Money market	33,293	26,634	6,659	19,290	18,842	448
Feeder funds <sup>b</sup>	3	4	(1)	3	2	1
Index <sup>c</sup>	65,412	60,285	5,127	49,752	36,054	13,698
Guaranteed	0	4	(4)	0	6	(6)
Other specialised <sup>d</sup>	78	65	13	0	0	0
<b>Total</b>	<b>129,650</b>	<b>121,791</b>	<b>7,859<sup>e</sup></b>	<b>114,702</b>	<b>102,306</b>	<b>12,396</b>

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

b The subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded from the fund flows figures under the "Feeder funds" category to better reflect the total fund flows.

c Including exchange-traded funds (ETFs) and leveraged and inverse (L&I) products.

d Including virtual asset futures ETFs.

e This figure includes net fund inflows of US\$113 million reported by retail approved pooled investment funds which MPFs may invest into and may also be offered to the public in Hong Kong.

## ETFs and L&I products

As of 31 March 2023, 172 SFC-authorized ETFs were listed on the Stock Exchange of Hong Kong Limited (SEHK), including 25 L&I products, with total market capitalisation of \$407.12 billion. During the year, net inflows of \$46.1 billion to these ETFs and L&I products were recorded. Their average daily turnover increased 55% year-on-year to \$12.9 billion.

We authorised the first green bond ETF tracking the Bloomberg MSCI Asia ex Japan USD Green Bond Index in July 2022.

We also worked with SEHK to enhance the ETF market infrastructure by including actively traded ETFs and L&I products under the volatility control mechanism<sup>1</sup> starting in May 2022.

## RMB products

As of 31 March 2023, there were 61 SFC-authorized unlisted funds<sup>2</sup> and 52 ETFs<sup>3</sup> primarily investing in the onshore Mainland securities markets<sup>4</sup> or offshore renminbi (RMB) bonds, fixed income instruments or other securities.

## SFC-authorized RMB investment products

	As at 31.3.2023
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	61
Unlisted funds (non-RMB denominated) with RMB share classes	388
Paper gold schemes with RMB features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	47
Unlisted structured investment products issued in RMB <sup>a</sup>	230
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	52
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	15
RMB L&I products	3
RMB gold ETFs <sup>b</sup>	1
RMB REITs	1

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

b Only includes gold ETF denominated in RMB.

1 The volatility control mechanism provides a temporary cooling-off period: when a security or futures contract experiences extreme price volatility, a price limit is set to confine trading within a specified price range.

2 Excluding recognised Mainland funds under Mainland-Hong Kong mutual recognition of funds (MRF) arrangement.

3 Refers to unlisted funds or ETFs which are denominated in RMB.

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



## Products

### Supporting market development

#### Wealth Management Connect

The Greater Bay Area Wealth Management Connect scheme helps asset managers in Hong Kong expand their investor base by making eligible SFC-authorized Hong Kong-domiciled funds available to Mainland investors in the Guangdong-Hong Kong-Macao Greater Bay Area.

Since the scheme's launch, both northbound and southbound investment showed a steady increase, with investor participation growing by 47,200 and an increase of around RMB3 billion in the total amount of cross-boundary remittance.

#### Mainland-Hong Kong MRF

Under the Mainland-Hong Kong MRF scheme, there were 47 Mainland funds authorized by the SFC and 37 Hong Kong funds approved by the China Securities Regulatory Commission (CSRC) as of 31 March 2023 and the aggregate net subscription for both Mainland and Hong Kong funds was about RMB15.7 billion.

An updated frequently asked question (FAQ) was issued in November 2022 to provide the industry with added clarity regarding the requirements for pooled investment funds authorized by the SFC for public offering in Hong Kong to apply for registration with the CSRC under the MRF regime.

#### Virtual asset futures ETFs

Following an October 2022 circular setting out our requirements for authorising ETFs which obtain exposure to virtual assets through futures, we authorised the first batch of virtual asset futures ETFs during the year. These ETFs primarily invest in virtual asset futures traded on the Chicago Mercantile Exchange and they include the world's first ether futures ETF and Asia's first bitcoin futures ETF. We worked closely with the Investor and Financial Education Council (IFEC) to produce investor education materials on the key features and risks of these novel ETFs.

### OFCs

During the year, we registered 69 OFCs with 126 sub-funds, including 37 SFC-authorized funds among which there were 10 ETFs with a total market capitalisation of over \$250 million. We registered the first re-domiciled private OFC in April 2022.

We administer the Government's grant scheme for OFCs, which has been well received by the asset management industry with the number of registered OFCs increasing by more than eight times since the grant scheme's introduction in May 2021.

### ESG funds

As of 31 March 2023, there were 188 SFC-authorized ESG<sup>5</sup> funds with total assets under management (AUM) of US\$151.7 billion (representing year-on-year increases of 55% and 6% respectively)<sup>6</sup>. During the year, we hosted workshops to provide guidance to the industry and worked with the IFEC to enhance investor awareness of ESG funds.

### Asset and wealth management business

In July 2022, we published the *Asset and Wealth Management Activities Survey 2021*, which showed that Hong Kong's asset and wealth management business recorded a 2% year-on-year increase in AUM to \$35,546 billion as at the end of 2021. Net fund inflows during the year reached \$2,152 billion, up 6% from 2020. The AUM of the asset management and fund advisory business increased 8% to \$25,888 billion. Assets held under trusts increased 5% to \$4,719 billion. The AUM of the private banking and private wealth management business decreased 6% to \$10,583 billion, mainly due to changes in the values of clients' investments.

### Enhancing regulations

#### ILAS

After the 18-month transition period for the implementation of the enhanced guidance on ILAS product design ended on 30 April 2023, all ILAS products offered to the Hong Kong public must comply with the enhanced requirements<sup>7</sup>, unless an extension has been granted by the SFC. To facilitate a smooth

<sup>5</sup> Environmental, social and governance.

<sup>6</sup> See Sustainability on pages 91-100.

<sup>7</sup> The enhancements foster better investor protection by requiring ILAS fees and charges to be commensurate with comparable alternative products and aligned with the insurance protection offered, as well as by reducing product complexity and enhancing disclosures relating to fees.



transition, we met with the industry and published additional FAQs to provide additional guidance. As of 31 March 2023, we authorised six ILAS under the enhanced requirements.

The enhanced ILAS authorisation process, introduced in November 2021, has significantly shortened approval time. As of 31 March 2023, the average processing time for new ILAS applications under the enhanced process decreased by 56%, from 4.8 months to 2.1 months. We also worked with the IFEC to promote the public’s understanding of ILAS.



### Depositaries of SFC-authorized funds

We engage the industry and work closely with the Hong Kong Monetary Authority to prepare for the introduction of the new Type 13 regulated activity (RA 13) which will bring depositaries of SFC-authorized CIS under the SFC’s direct supervision. In March 2023, we released the consultation conclusions on proposed amendments to subsidiary legislation and SFC codes and guidelines to implement the regime. We will provide guidance to the industry to facilitate the transition to the new regime. Following the completion of the legislative process, RA 13 will come into operation on 2 October 2024.

### Pooled retirement funds

The 12-month transitional period for existing pooled retirement funds and their underlying investment portfolios and key operators to comply with the revised Code on Pooled Retirement Funds ended on 30 November 2022. The revisions were made to strengthen investor protection and ensure the regulations for these funds are up-to-date and fit for purpose.

### Ensuring an orderly market

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, credit quality, currency exposure, use of leverage, and securities financing and borrowing transactions.

We stay abreast of market developments and tailor our monitoring programme in response to different market circumstances and stress events. We closely monitor the liquidity of SFC-authorized funds through reports from asset managers of unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

We perform surveillance of advertisements and handle complaints about property-related or other arrangements suspected to be CIS which may not be offered to the public in Hong Kong. To provide an early warning to investors, we also post unauthorised investment arrangements involving real estate and other investments suspected to be CIS to the Suspected Unauthorised CIS Alert List on the SFC’s website. During the year, 15 arrangements were published on the alert list.

Suspected Unauthorised CIS Alert List

Name / description search | Type search | Location search | Full List

Name / description:

Search tips: This is a keyword search based on exact phrases. To facilitate searching, please only enter the keywords "AAA" in the search field when searching for "AAA Property" or "AAA" Token

Submit Reset

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z | Chinese | Others |

All Year All Month

Name / description *	Location *	Type *	Add date *
DeFi Pool (New)	N/A	Digital token related	23 Mar 2023
East Mainland Pool (New)	N/A	Digital token related	23 Mar 2023
中環區 (Chinese name only)	Mainland China	Real property related	23 Feb 2023

Alerts against suspected unauthorised CIS



### ETF Connect takes off

ETF Connect allows Mainland and Hong Kong investors to trade eligible ETFs listed on each other's market through their local brokers. Launched on 4 July 2022, the scheme made fund products eligible for trading under Stock Connect for the first time, marking a key milestone in mutual market access.

ETF Connect quickly attracted wide interest from market participants and trading has risen consistently. As of 31 March 2023, the average daily turnover for southbound trading of Hong Kong ETFs was \$1.2 billion, representing about

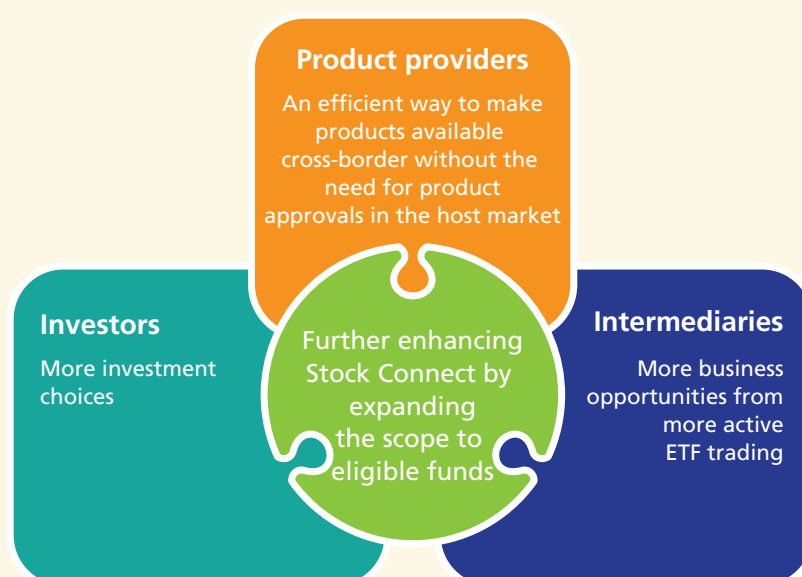
11.6% of the combined average daily turnover of these ETFs, with five Hong Kong ETFs eligible for southbound trading under the scheme and 98 Mainland ETFs (including 61 on the Shanghai Stock Exchange and 37 on the Shenzhen Stock Exchange) eligible for northbound trading. Together with the CSRC and the exchanges, we are exploring the feasibility of expanding the product scope.

By attracting more capital and liquidity, ETF Connect supports the growth of Hong Kong as an ETF hub in the Asia-Pacific region. It also consolidates Hong Kong's role as a unique platform connecting the Mainland markets with international investors.

#### Key figures

	Southbound trading (ETFs listed in Hong Kong)	Northbound trading (ETFs listed on Mainland)
Number of eligible ETFs	5	98
Average daily turnover since launch	\$1.2 billion	RMB0.1 billion
Share in the combined trading of these ETFs	11.6%	0.5%
Accumulated turnover since launch	\$206.4 billion	RMB21 billion

#### Key benefits



# Markets

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

## Supervising HKEX

### Infrastructure

We closely monitor and supervise the system operations and infrastructure-related initiatives of Hong Kong Exchanges and Clearing Limited (HKEX). During the year, HKEX relocated its cash market's clearing system to a new secondary data centre to enhance system integrity. It also expanded the coverage of the Volatility Control Mechanism to Hang Seng TECH Index futures contracts.

### On-site inspection

As part of our ongoing supervision of the non-listing-related operations of HKEX, we completed an on-site inspection of its information technology project management and system operations during the period from 1 January 2020 to 31 December 2021 and recommended improvements during the year.

### New trading fee structure and risk models for cash market

In October 2022, we approved HKEX's proposal to enhance its trading fee structure for the cash market. Effective January 2023, the previous trading tariff of \$0.50 payable on each trade was removed and the trading fee per side of a trade was adjusted to 0.00565% from the previous 0.005%.



**Hong Kong's stock exchange ranked seventh globally<sup>1</sup>**  
**Market capitalisation<sup>2</sup>: US\$4,700.9 billion**

1 In terms of market capitalisation (source: World Federation of Exchanges).

2 As of 31 March 2023.

3 Conducted by the International Monetary Fund, the Financial Sector Assessment Program provides an analysis of the resilience of a country's financial sector.

4 There were 10 holiday trading days from 1 April 2022 to 31 March 2023.

5 ETPs include exchange-traded funds and leveraged and inverse products.



Mr Rico Leung, Executive Director of Supervision of Markets, speaks in the video "Unlocking Investor ID" for the public

After our approval, HKEX implemented new risk models in June 2022 which strengthen the resilience of the cash market clearing house. The initial margin and default fund requirements for its clearing participants were more precisely sized based on a wide range of stress scenarios and to better align with international standards.

### Risk management of the futures market

To address a recommendation from the Financial Sector Assessment Program's<sup>3</sup> report and better align with international standards, we requested HKEX to revise its sizing methodology for the default fund of the futures market from covering risk exposures of "the first plus fifth largest clearing participants (CPs)" to "the first plus second largest CP Groups" (ie, Cover 2), which can provide more financial resources to support the clearing house and strengthen its resilience. The enhancement was implemented in April 2023.

### Holiday trading on derivatives market

Following our approval of exchange and clearing house rule amendments, holiday trading on the derivatives market commenced in May 2022. The market has been operating smoothly on holiday trading days<sup>4</sup>.

### New quotation rules for exchange-traded products

Under the new dual-limit quotation rules for trading exchange-traded products (ETPs)<sup>5</sup> which came into effect in March 2023, ETP orders inputted to the trading system of the Stock Exchange of Hong Kong

## Markets

Limited (SEHK) during the continuous trading session will be validated against the greater of the old 24-spread limit or a new spread which is 3.5% from the reference price. The new rules strengthen the pre-trade price controls for ETP market making orders while providing sufficient flexibility for ETP market makers to quote prices.

### New derivatives products

In November 2022, we approved the Hang Seng TECH Index Futures Options contract proposed by HKEX and it commenced trading in the same month. The contract expanded HKEX's Hang Seng TECH product suite and will help better meet the trading and hedging needs of market participants.

### Expanding mutual market access

#### Stock Connect

Introduced in November 2014, 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 2023, Stock Connect covered 2,526 Mainland stocks and 561 Hong Kong stocks, representing about 86% of the two markets' combined market capitalisation. Since the launch of the programme, net inflows reached RMB2,310 billion for southbound trading and RMB1,910.5 billion for northbound trading.

The share of Hong Kong market turnover attributable to Stock Connect remained large. On average, daily southbound trading accounted for nearly 15% of total trading in the Hong Kong stock market during January to March 2023, compared to some 13% in both 2022 and 2021. Northbound trading was 6% of the Mainland market total during January to March 2023, compared to the 5% in 2022 and 6% in 2021.

In August 2022, we jointly announced with the China Securities Regulatory Commission (CSRC) the in-principle approval of enhancements to the trading calendars for both northbound and southbound trading. Coming into effect on 24 April 2023, the adjustments enable Stock Connect trading on all days when both the Mainland and Hong Kong markets are open.



**Stock Connect  
net inflows since launch<sup>6</sup>**  
**Southbound:**  
**RMB2,310 billion**  
**Northbound:**  
**RMB1,910.5 billion**

To further strengthen mutual market access and provide additional market liquidity, we and the CSRC announced in December 2022 our in-principle approval for the expansion of eligible stocks for northbound and southbound trading such as including foreign companies primary-listed in Hong Kong that meet relevant criteria for southbound trading. The expansion was implemented on 13 March 2023 and since then stocks eligible for Stock Connect have accounted for more than 80% of the equity trading in each market.

#### Bond Connect

Bond Connect, a mutual bond market access programme, marked its fifth anniversary in July 2022. During the year, northbound Bond Connect maintained steady growth with total trading volume increasing to RMB8 trillion, an increase of about 19% compared to the year before. There were 784 approved foreign institutional investors admitted for trading as at end-2022.

In July 2022, northbound primary service was introduced to facilitate global investors to participate in the cross-border subscription of new bond issuances in the China Interbank Bond Market.

#### Swap Connect

The SFC, the People's Bank of China and the Hong Kong Monetary Authority (HKMA) jointly announced in July 2022 the development of Swap Connect, which was launched on 15 May 2023 with the commencement of northbound access at the initial stage. Through connections between the financial infrastructures in both places, northbound access enables offshore investors to execute interest rate derivatives transactions with onshore investors in Mainland China as a means to manage interest rate risks arising from investments in the Mainland bond market.

<sup>6</sup> As of 31 March 2023.

## Enhancing local market infrastructure

### Investor identification

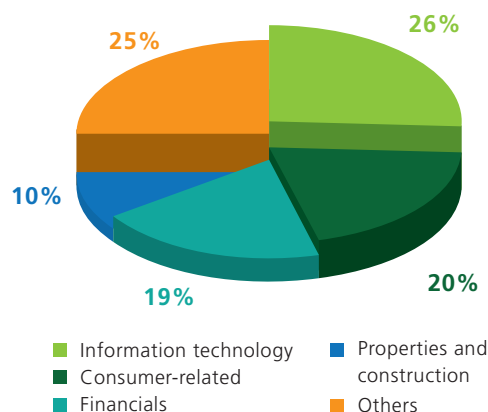
On 20 March 2023, we launched the investor identification regime for the Hong Kong securities market<sup>7</sup>. The over-the-counter (OTC) securities transactions reporting regime for shares listed on SEHK will be launched in September 2023. By enabling us to identify investors in a timely manner, the new regimes help facilitate more effective market surveillance. To support intermediaries in preparing for the new regimes, we closely monitored market readiness and arranged an end-to-end test and market rehearsals for intermediaries to test their system connectivity and readiness.

We commenced a multi-media publicity campaign<sup>8</sup> in August 2022 to raise the public's and the industry's awareness of the new regimes.

### Uncertificated securities market

We have been working with HKEX and the Federation of Share Registrars Limited (FSR) on developing the technical details and specifications of the operational model for implementing an uncertificated, or paperless, securities market in Hong Kong. In March 2023, we issued a consultation paper on the subsidiary legislation to support that model. (See sidebar on page 54.)

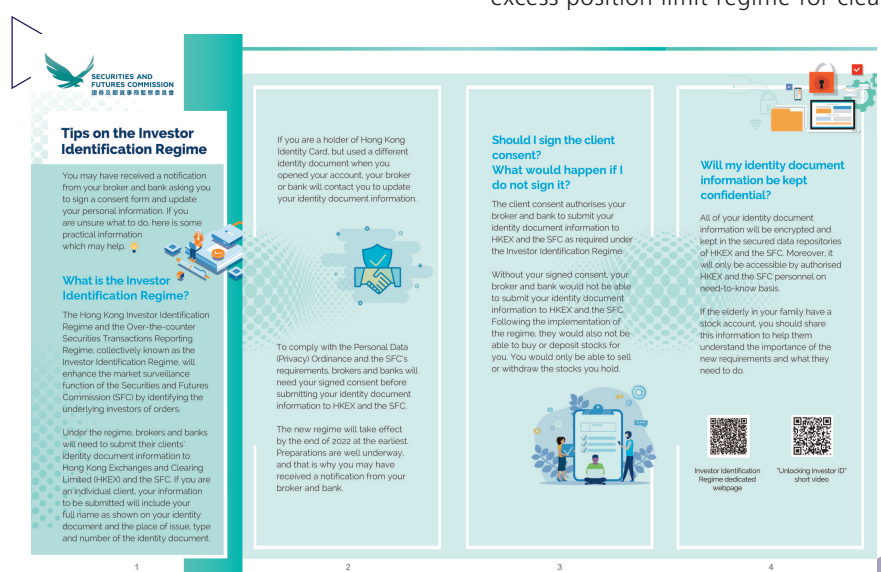
Distribution of Hong Kong stocks by sector in terms of market capitalisation as of end-2022



### Position limits

To help maintain market stability in light of recent developments in Hong Kong's derivatives market, we issued a consultation paper in April 2022 on proposed changes to the position limits regime for listed futures and options contracts. A key proposal is to set out how the statutory prescribed limits and reporting requirements should be applied to unit trusts and sub-funds under an umbrella fund.

After considering the market feedback, we concluded in November 2022 to proceed with some of the proposals, including expanding the list of specified contracts for excess position limits and introducing an excess position limit regime for clearing participants.



SFC pamphlet introduces the investor identification regime

<sup>7</sup> Under the investor identification regime, relevant intermediaries are required to assign a unique identification code—"Broker-to-Client Assigned Number" (BCAN)—to their direct clients and tag the BCAN to an on-exchange order or off-exchange trade reportable to SEHK. Each BCAN must be mapped to the client's identification information data (CID), and relevant intermediaries need to provide the BCAN-CID mapping files to SEHK.

<sup>8</sup> See Communications and Education on pages 70-75.

### A paperless securities market for the benefit of all

With a settlement efficiency rate of over 99.9%, the Hong Kong securities market is one of the world's most efficient. However, the law remains rooted in paper requirements and manual processes. The introduction of an uncertificated securities market seeks to remove these where possible and enable electronic alternatives, making the process of holding and transferring legal title to shares and certain other securities in investors' own names more convenient, efficient and environmentally friendly.

### How will the new initiative benefit investors and the market as a whole?

#### Investors

Currently, investors face a dilemma. They can hold and transfer shares in their own names, but in paper form. This provides better protection but is less efficient<sup>a</sup>. Alternatively, they can hold and transfer shares electronically within the Central Clearing and Settlement System (CCASS), but in the name of the central nominee, HKSCC Nominees Limited. This is much more efficient<sup>b</sup>. The introduction of an uncertificated securities market will help address this dilemma by giving investors the option to hold and transfer shares electronically *and* in their own names. They will thus be able to enjoy both better protection and greater efficiency.



- a This allows them to enjoy better shareholder rights and protection, but also requires them to deal with manual and paper processes, which can be cumbersome and inefficient.
- b This means investors hold only a beneficial interest in their shares, and hence need to rely on intermediaries to enjoy shareholder rights and protection. However, they do not need to deal with manual or paper processes as the process of holding and transferring shares through CCASS is electronic.

#### Intermediaries

The operational model for the uncertificated securities market retains the existing CCASS nominee structure, thus preserving existing settlement practices and leaving many of the current CCASS processes largely unchanged. As a result, the need for system enhancements will be limited, which also means the cost impact on intermediaries should not be substantial. Intermediaries may also benefit from cost savings as they will no longer need to physically deliver certificates and instruments of transfer to share registrars.

#### Issuers

As more investors opt to hold shares in their own names, issuers will benefit from greater shareholder transparency as well as improved communications and better relations with their investor base. The removal of paper documents and processes will also have cost benefits for issuers over the long term.

#### The wider market and society

On a broader scale, the move to a paperless market will enhance Hong Kong's financial market infrastructure and pave the way for greater integration with other markets. Using less paper and eliminating manual processes will also promote greener practices and reduce carbon footprints.

The move to an uncertificated securities market is planned for around mid-2025. Together with HKEX and the FSR, we will engage the industry and market participants to help them prepare for the new regime.

At the same time, we further consulted the public on additional amendments related to the application of position limits and reporting requirements for funds and changes to the position limits for some contracts, including stock futures and options. The further consultation ended in December 2022 and a conclusions paper will be published in due course.

## OTC derivatives

An OTC derivatives regulatory regime is being implemented in phases in Hong Kong to align with the G20 commitments to reform the OTC derivatives market. In March 2023, we launched a joint consultation with the HKMA on proposed changes to the types of transactions subject to clearing obligations under the Clearing Rules<sup>9</sup> for OTC derivatives. These changes would be in line with global interest rate

benchmark reform, particularly the transition from the use of interbank offered rates to alternative reference rates.

In December 2022, enhancements to the reporting templates for OTC derivatives were implemented to keep the OTC derivatives reporting regime relevant and appropriate. Additional calculation periods were added to the clearing rules in March 2023 to extend calculation periods which expired in 2022.

## Investor compensation

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

## Investor compensation claims

	2022/23	2021/22	2020/21
Balance brought forward	37	30	15
Received	9	17	39
Processed	7	10	24
– Compensation payments made	0	0	0
– Rejected	5	10	21
– Withdrawn	2	0	3
– Reconsidered	0	0	0
Balance carried forward	39	37	30

## Net asset value of compensation funds

	As at 31.3.2023 (\$ million)	Change	As at 31.3.2022 (\$ million)	Change	As at 31.3.2021 (\$ million)
Unified Exchange Compensation Fund <sup>a</sup>	85.8	0.1%	85.7	-0.5%	86.1
Investor Compensation Fund <sup>b</sup>	2,517	2.5%	2,454.9	0.4%	2,444.1
<b>Total</b>	<b>2,602.8</b>	<b>2.4%</b>	<b>2,540.6</b>	<b>0.4%</b>	<b>2,530.2</b>

a See pages 162-175 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance (SFO) 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 149-161 for the financial statements of the ICF.

<sup>9</sup> The Securities and Futures (OTC Derivative Transactions—Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

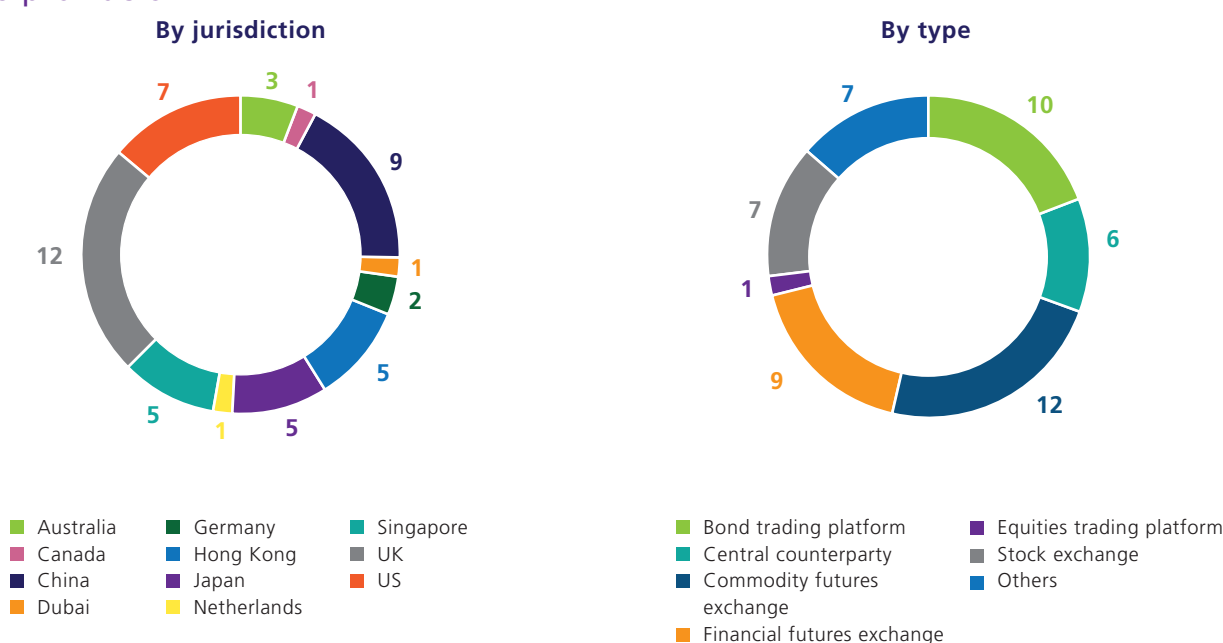


## Markets

### Automated trading services

During the year, products traded or cleared through ATS<sup>10</sup> providers ranged from benchmark index futures and options, commodity futures, bonds and equities to exchange-traded funds and OTC derivatives. The average daily trading volume of futures contracts originating from Hong Kong was about 586,000 contracts for the 12 months ended 31 March 2023. We authorised two Part III applications during the year.

### ATS providers



### ATS providers

	As at 31.3.2023	As at 31.3.2022	As at 31.3.2021
Under Part III	51	53	51
Under Part V	28	25	24

### Short position reporting

	As at 31.3.2023	As at 31.3.2022	As at 31.3.2021
Market value of short positions as a percentage of market capitalisation	1.23%	1.34%	1.16%

<sup>10</sup> Under the SFO, two regimes regulate ATS providers. Typically, 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 dealing services with ATS as an added facility are licensed under Part V of the SFO.

# Enforcement

Through firm and prompt enforcement action, we protect investors, punish wrongdoers and safeguard the integrity and reputation of our markets. Our strategic focus on high-impact cases helps us address key risks in financial markets and send strong deterrent messages to the market.

## Leveraging our regulatory 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, fines<sup>1</sup> and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

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

During the year, we commenced 135 investigations and laid 115 criminal charges against 25 persons. We secured convictions against five of them and the proceedings against the others are ongoing.

We obtained disqualification and compensation orders against six corporations and three persons. Civil actions seeking financial redress and other remedial orders against 180 persons and corporations in 32 cases are pending before the court.

Disciplinary action was taken against 18 persons and 13 corporations. We also issued 113 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.



<sup>^</sup> The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

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

## Enforcement

### Combating market misconduct

#### Surveillance

We monitor trading on the Stock Exchange of Hong Kong Limited (SEHK) and the Hong Kong Futures Exchange Limited on a daily basis 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 5,851 requests for trading and account records from intermediaries. We also received and assessed 256 notifications from intermediaries<sup>2</sup> regarding suspicious equity and derivative trading.

We posted four 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.

#### Insider dealing and market manipulation

The Eastern Magistrates' Court sentenced Fung Kwong Shing Danny, a former account executive of Fulbright Securities Limited, to two-and-a-half months' imprisonment following his conviction of the offences of engaging in fraud or deception in transactions involving securities under section 300<sup>3</sup> of the SFO.

We commenced proceedings in the MMT against a responsible officer of an asset management company for allegedly engaging in false trading in the shares of two Hong Kong-listed companies.

Following an earlier joint operation by the SFC and the Hong Kong Police Force against a sophisticated ramp and dump syndicate in March 2021, two suspected masterminds of the syndicate and 12 of their associates were brought before the Eastern Magistrates' Court charged with various criminal offences including those under section 300 of the SFO.

#### Joint operations with ICAC

We conducted two joint operations with the Independent Commission Against Corruption (ICAC) concerning suspected ramp and dump schemes involving the stocks of six Hong Kong-listed companies, other market misconduct and suspected corruption offences. A total of 13 people, including a suspected ringleader and other key members of a sophisticated ramp and dump syndicate, were arrested by the ICAC during the operations. Our investigations are ongoing.

#### Warning against ramp and dump scams

To raise public awareness of the common tactics seen in ramp and dump scams on social media, we held a two-day community outreach campaign jointly with the Hong Kong Police Force's Anti-Deception Coordination Centre in major shopping areas.

#### Tackling corporate fraud and related misbehaviour

The Court of First Instance (CFI) granted an order under section 214<sup>4</sup> of the SFO against Wen Yibo, chairman and executive director of Sound Global Ltd., to purchase shares held by the other shareholders of the company after he was found to have orchestrated a scheme to falsify the company's bank balances and fabricated relevant bank statements and balance confirmations. Wen was also disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for 12 years.

#### Joint operation with Hong Kong Police Force

During the year, we conducted a joint operation with the Hong Kong Police Force concerning suspected bogus transactions involving a company formerly listed on SEHK. Eight people, including the company's current and former executive directors and senior executives, were arrested by the Hong Kong Police Force for suspected fraud during the joint operation. Our investigation is ongoing.

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

3 Under section 300 of the SFO, it is an offence to engage in any act, practice or course of business which is fraudulent or deceptive in a transaction involving securities.

4 Under section 214 of the SFO, 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 or any other orders it considers appropriate.



## Redress for victims of fraudulent investment schemes

Protecting investors from falling victim to scams is one of our top priorities. During the year, we safeguarded investors' interest by obtaining orders from the CFI under section 213 of the SFO to compensate victims of two major fraudulent investment schemes.

### The DFRF global pyramid and Ponzi scheme

Between 2014 and 2015, Daniel Fernandes Rojo Filho operated a pyramid and Ponzi scheme<sup>a</sup> through two companies he founded with the name DFRF Enterprises and raised over US\$15 million from more than 1,400 investors worldwide.

As part of the Ponzi scheme, the fraudsters claimed that DFRF, whose main business was gold mining operations, would soon be listed in the US and persuaded a number of Hong Kong investors to acquire "membership units" for a monthly return of up to 15%. Around May 2015, the fraudsters claimed that DFRF had listed and offered investors the option to convert their "membership units" into preferred shares at a certain price. This was a scam and DFRF had never listed in the US.

In December 2016 and March 2017, we obtained interim injunctions to freeze assets in the fraudsters' bank accounts. In May 2022, the CFI appointed administrators to receive and distribute the remaining proceeds of the scheme, totalling \$2.8 million, to the investors on a pro rata basis.

### The Maxim Fund

Maxim Capital Limited (Maxim Capital) and Maxim Trader solicited over 260 investors to invest more than \$170 million in the Maxim Fund since 2013.

<sup>a</sup> A pyramid and Ponzi scheme is an investment fraud in which a fraudster purports to operate a business or an investment which offers promised returns to victims at a later date and victims are persuaded to recruit other people to participate in the business or the investment.



Over  
**1,600**  
victims



Over  
**\$26 million**  
of funds frozen for  
compensation

Investors were initially able to receive monthly returns on their investments, but the payments discontinued in July 2015 and Maxim Capital or Maxim Trader informed them that their investments had been converted into shares of a company which appeared to be worthless.

In November 2015, we obtained interim injunctions to freeze approximately \$23.5 million held by Maxim Capital with a licensed money service operator in Hong Kong. In June 2022, the CFI appointed administrators to receive, administer and distribute the frozen funds to the affected investors on a pro rata basis.

### Investors reminded to stay vigilant

The SFC is committed to protecting the interests of the investing public and seeking redress for investors who fall victim to these scams by deploying the whole suite of our regulatory tools. Nevertheless, investors should remain vigilant and exercise caution if they come across investment opportunities which promise lucrative returns that may sound too good to be true.

## Enforcement

### Taking firm action against intermediary misconduct

During the year, we disciplined 13 corporations and 18 individuals<sup>5</sup>, resulting in total fines of \$41.7 million. Key disciplinary actions included the following.

#### AML/CFT-related breaches

- We reprimanded and fined Rifa Futures Limited<sup>6</sup> \$9 million for failures in complying with know-your-client, anti-money laundering and counter-financing of terrorism (AML/CFT) and other regulatory requirements. Rifa failed to perform adequate due diligence on client-supplied systems used by clients for placing orders, conduct adequate ongoing monitoring of clients' fund movements and implement two-factor authentication for clients' internet trading accounts. We also suspended the licence of Tang Kai Shing for eight months for failure to discharge his duties as a responsible officer and a member of the senior management of Rifa.
- We reprimanded and fined Jinrui Futures (Hong Kong) Limited \$4.8 million for failures in complying with AML/CFT and other regulatory requirements. Jinrui failed to perform adequate due diligence on client-supplied systems used by clients for placing orders, conduct proper due diligence on clients before account opening and make adequate enquiries and sufficiently scrutinise clients' deposits which appeared unusual or suspicious and inconsistent with the clients' declared net worth. We also banned Shen Chun, Jinrui's former executive director and responsible officer, from re-entering the industry for six months, and suspended Jiang Xiaoqing, Jinrui's responsible officer, for five months, both for failure to discharge their duties as responsible officers and members of the senior management of Jinrui.
- We reprimanded and fined China Everbright Securities (HK) Limited \$3.8 million for failing to implement adequate and effective systems and controls to guard against and mitigate the risk of money laundering and terrorist financing associated with third party deposits.
- We reprimanded and fined City International Futures (Hong Kong) Limited<sup>7</sup> \$100,000 for failing to perform adequate due diligence on customer supplied systems for placing orders, to conduct proper enquiries into client deposits which were incommensurate with the clients' financial profiles and to put in place an ongoing monitoring system to detect suspicious trading patterns in client accounts in accordance with AML/CFT and other regulatory requirements.

### Other disciplinary actions

#### Mishandling client assets

Company/Name	Breaches	Action/Fine	Date
Guosen Securities (HK) Brokerage Company, Limited	Regulatory breaches relating to handling client assets and providing client account statements	Reprimanded and fined \$2.8 million	21.12.2022
RBC Investment Services (Asia) Limited	Failed to segregate client money and transferred client securities without standing authority from the clients	Reprimanded and fined \$7.7 million	20.7.2022
Ho Pak Hay	Misappropriated and misused clients' funds	Banned from re-entering the industry for life	19.5.2022

<sup>5</sup> Comprising six responsible officers/manager-in-charge, nine licensed representatives and three relevant individuals of a licensed bank in Hong Kong.

<sup>6</sup> Formerly known as iSTAR International Futures Co. Limited.

<sup>7</sup> Now known as VERCAP Financial Services Limited.

## Sponsor failures

Company/Name	Breaches	Action/Fine	Date
TC Capital International Limited	Failed to discharge its duties as the sponsor in the listing application of China Candy Holdings Limited	Reprimanded and fined \$3 million	1.8.2022
Wu Wen Guang Edward	Failed to discharge his duties as a responsible officer and sponsor principal of TC Capital International Limited in charge of China Candy's listing application	Suspended for seven months	1.8.2022

## Other regulatory breaches and criminal convictions

Company/Name	Breaches/Convictions	Action/Fine	Date
Philip John Shaw	Failed to discharge his duties as a responsible officer and a member of the senior management of Citigroup Global Markets Asia Limited, following the SFC's disciplinary action against the firm in January 2022	Banned from re-entering the industry for 10 years	6.3.2023
Wong Kwun Shing	Participated in a stock manipulation scheme and provided false or misleading information to the SFC	Banned from re-entering the industry for life	1.3.2023
Chan Wai Chun	Conviction for fraud	Banned from re-entering the industry for life	27.2.2023
Swiss-Asia Asset Management (HK) Limited	Internal control deficiencies and regulatory breaches relating to monitoring trading activities in discretionary accounts and record keeping	Reprimanded and fined \$3 million	8.11.2022
Asia Research & Capital Management Limited	Failed to comply with the European Union's short selling reporting requirements and promptly notify its material regulatory breaches to the SFC	Reprimanded and fined \$1.75 million	12.10.2022
KTF Capital Management Limited <sup>^</sup>	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$400,000	28.7.2022
Lam Ki Fung	Convictions of conspiracy to defraud	Banned from re-entering the industry for three years	18.7.2022
CES Capital International (Hong Kong) Co., Limited	Failed to discharge its duties as an investment manager of two funds	Reprimanded and fined \$3.2 million	27.6.2022
Poon Choi Yung	Effected transactions in clients' accounts without their authorisations and failed to take reasonable steps to establish clients' financial situations and investment experience during account opening	Banned from re-entering the industry for 20 months	12.4.2022

<sup>^</sup> Formerly known as Forchn International Asset Management Co. Limited and Rega Technologies Limited.

Note: See Table 6 in Operational Data on page 180 for details of the less significant disciplinary actions.

### Other notable cases

The CFI:

- granted an order under section 213 of the SFO against Hong Kong Wan Kiu Investment Company Limited (Wan Kiu), its sole director and shareholder, Sham Khi Rose Connie, and Sham & Partners Limited, a company owned by Connie's son, to compensate Wan Kiu's clients for misappropriating their assets; and
- dismissed a judicial review application brought against the SFC by Tam Sze Leung, Kong Chan and Lee Ka Lo and a second brought by Chen Wencan and Su Jiaqi, both of which sought to challenge restriction notices we issued to freeze their assets in various trading accounts held with certain licensed corporations. The restriction notices were issued in ongoing investigations into suspected ramp and dump schemes to preserve the assets in those accounts in the interest of the investing public.

The Eastern Magistrates' Court:

- sentenced Wong King Hoi to a two-week imprisonment following his conviction of obstructing the SFC in the execution of a search warrant;
- convicted Chan Siu Tai and her sister Janice Chan of illegal short selling in the securities of seven Hong Kong-listed companies, fined them \$114,000 and ordered them to pay the SFC's investigation costs; and
- convicted Lau Chi Ho of illegal short selling in the securities of two Hong Kong-listed companies, fined him \$20,000 and ordered him to pay the SFC's investigation costs.

The Securities and Futures Appeals Tribunal:

- affirmed our disciplinary decision to reprimand and fine Cardinalasia Consulting Limited \$1.5 million for failures in acting as a principal investment adviser to five private funds. The licence of the firm's responsible officer, Edward Lee Shiu Lun, was also suspended for nine months—two months more than we had proposed—for failures in managing the funds;



- affirmed our disciplinary decision and suspended Christopher James Aarons, responsible officer and chief executive officer of Trafalgar Capital Management (HK) Ltd., for two years for breaches of the Code of Conduct for Persons Licensed by or Registered with the SFC. Our disciplinary action followed administrative proceedings against Aarons in South Korea which found that he had breached Korean legislation by dealing in the shares of a company listed on the Korea Exchange based on material non-public information; and
- affirmed our disciplinary decision to reprimand and fine I-Access Investors Limited \$600,000 for breach of the Code of Conduct for Persons Licensed by or Registered with the SFC.

### Restriction notice

During the year, we issued a restriction notice to a securities brokerage company prohibiting it from disposing of or dealing with certain assets held in a client account that holds proceeds of suspected insider dealing. Our investigation is ongoing.

## Public consultation on law amendments

In June 2022, we began a two-month public consultation on proposals to amend the SFO to facilitate more effective enforcement action. We are reviewing the consultation responses and will further consider these proposals.

## Enforcement cooperation with the CSRC

During the year, we worked closely with the China Securities Regulatory Commission (CSRC) through multiple communication and cooperation channels to overcome disruptions and challenges posed by the ongoing pandemic and provided thorough investigatory assistance to one another including the highest level of support in major and urgent cases<sup>8</sup>.

## Enforcement activities

	2022/23	2021/22	2020/21
S179 <sup>a</sup> inquiries commenced	31	57	42
S181 <sup>b</sup> inquiries commenced (number of letters sent)	191 (5,851)	203 (7,308)	246 (8,748)
S182 <sup>c</sup> directions issued	130	214	189
Investigations started	135	220	204
Investigations completed	164	131	196
Individuals/corporations charged in criminal proceedings	25	4	10
Criminal charges laid <sup>d</sup>	115	28	29
Notices of Proposed Disciplinary Action <sup>e</sup> issued	26	37	27
Notices of Decisions <sup>f</sup> issued	29	43	35
Individuals/corporations subject to ongoing civil proceedings	180	168	179
Compliance advice letters issued	113	162	231
Cases with search warrants executed	35	37	28

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 98 criminal charges against 11 individuals. The Police brought a total of 17 criminal charges against 14 individuals for the investigations of the SFC.

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 Operational Data on page 181 for more details.

<sup>8</sup> See Regulatory Engagement on pages 64-69.



# Regulatory Engagement

We take an active part in international policymaking through our leadership in global standard-setting bodies and close collaboration with local and Mainland authorities on regulatory and market development initiatives to advance Hong Kong's position as a leading international financial centre.

## Leadership in global standard-setting bodies

Our Chief Executive Officer (CEO), Ms Julia Leung, has represented the SFC on the Board of the International Organization of Securities Commissions (IOSCO)<sup>1</sup> since 2016. During the year, Ms Leung was an active participant in regular calls and meetings of the IOSCO Board to identify and address emerging regulatory issues and share information about capital market developments, with a particular focus on crypto assets, non-bank financial intermediation (NBFI) and sustainable finance.

Ms Leung serves as Vice Chair of IOSCO's Sustainable Finance Task Force and co-leads its Corporate Reporting Workstream, under which she oversees IOSCO's assessment and evaluation of the International Sustainability Standards Board (ISSB) standards<sup>2</sup>. She is also a member of the Management Committee of the IOSCO Asia Pacific Hub, which delivers capacity building programmes for securities regulators in the region.

In November 2022, our then CEO Mr Ashley Alder completed his third and final term as IOSCO Board Chair. In this capacity, he co-chaired the CPMI<sup>3</sup>-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of central counterparties.

Mr Alder participated in Financial Stability Board (FSB) meetings between March and October 2022<sup>4</sup> to discuss financial stability, sustainable finance and crypto assets.



February 2023 IOSCO APRC meeting in Bangladesh

Other SFC senior executives play an active part in key IOSCO initiatives, holding leadership positions in the committees on investment management, and enforcement and the exchange of information.

Ms Christina Choi, our Executive Director of Investment Products, is serving her second term as Chair of the IOSCO Policy Committee on Investment Management. She also leads the committee's exchange-traded funds (ETFs) workgroup which conducted a public consultation on proposed good practices for ETFs in 2022, and issued a report in May 2023. The committee also undertook work on index providers, leverage measures and conduct risks in the leverage loan and collateralised loans markets during the year.

Ms Choi also co-chairs the Open-ended Funds Working Group under the FSB Standing Committee on Supervisory and Regulatory Cooperation, which is revising the 2017 FSB policy recommendations to address financial stability risks stemming from liquidity mismatches in open-ended funds.

<sup>1</sup> IOSCO is responsible for developing, implementing and promoting adherence to internationally recognised standards for securities regulation. IOSCO's membership regulates more than 95% of the world's securities markets in 130 jurisdictions.

<sup>2</sup> See Sustainability on pages 91-100.

<sup>3</sup> The Committee on Payments and Market Infrastructures.

<sup>4</sup> Mr Alder attended meetings of the FSB Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and the Steering Committee Group on NBFI.

Mr Kenneth Lai, Director of Enforcement, is Vice Chair of the IOSCO Committee on Enforcement and the Exchange of Information, which seeks to implement international enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

Mr Rico Leung, our Executive Director of Supervision of Markets, co-leads an FSB-IOSCO joint workstream on the analysis of systemic risks using trade repository data, where we shared our experience in identifying concentration risks and possible vulnerabilities arising from positions established in the over-the-counter market. During the year, the workstream developed common risk monitoring templates for member jurisdictions to conduct risk assessments under a harmonised framework.

Ms Christine Kung, our Senior Director and Head of International Affairs and Sustainable Finance, leads the Sustainable Finance Working Group of IOSCO's Asia-Pacific Regional Committee (APRC), which aims to drive consistent sustainable finance regulation across the region, including climate-related disclosures.

### Strengthening global regulatory cooperation

We work closely with the IOSCO Secretariat and our regulatory counterparts to develop global policy initiatives and promote cooperation and capacity building amongst IOSCO members.

Within IOSCO, we contribute to all of its task forces at the Board level, all eight IOSCO policy committees, the Committee on Emerging Risks, and the Assessment Committee, which includes reviewing the implementation of IOSCO's *Objectives and Principles of Securities Regulation*. At the regional level, we participate in the IOSCO APRC, which focuses on enhancing regional supervisory cooperation and addressing cross-border regulation and market fragmentation. The SFC became a signatory of the APRC Multilateral Memorandum of Understanding for Supervisory Cooperation during the year.



CPMI-IOSCO assessment report on financial market infrastructures' cyber resilience (November 2022)

The SFC participates in the CPMI-IOSCO Steering Group's Policy Standing Group and Implementation Monitoring Standing Group. In July 2022, CPMI and IOSCO issued guidance for the application of the Principles for Financial Market Infrastructures to stablecoin arrangements. We also took part in a joint CPMI-IOSCO exercise to assess the adoption of cyber resilience guidance at 37 financial market infrastructures in 29 jurisdictions and a report summarising the results of the assessment was published in November 2022.

In September 2022, we shared our experience in regulating Hong Kong's takeovers and mergers market with securities regulators from Brunei, Cambodia and Vietnam in an online workshop hosted by the IOSCO Asia Pacific Hub.

## Regulatory Engagement

### Sustainable finance

We are a member of all the IOSCO Sustainable Finance Task Force workstreams. The task force considers sustainability reporting for listed issuers and carbon markets, spearheads work on assurance and digital reporting of sustainability information, and promotes good practices relating to asset management and environmental, social, and governance (ESG) ratings and data products providers.

In March 2023, we participated in the annual EU-Asia Pacific Forum on Financial Regulation where we shared an overview of our initiatives related to climate-related corporate disclosures, disclosures by asset managers and ESG funds and the use of ESG ratings and data.

### Crypto assets and decentralised finance

We are part of IOSCO's Fintech Task Force and its Steering Group to consider regulatory policy responses to crypto and digital assets and decentralised finance as set out in the *IOSCO Crypto-Asset Roadmap for 2022-2023* published in July 2022.

We are also a member of the Retail Market Conduct Task Force, the Follow-Up Group on regulatory and supervisory cooperation and the Data Analytics Group.

### Financial stability

As a member of the IOSCO Financial Stability Engagement Group and its Steering Group, we coordinate IOSCO's role in addressing financial stability risks with the FSB, identify and address vulnerabilities associated with NBFIs and provide technical analyses on issues relating to COVID-19-induced market stresses. Ms Christina Choi leads the core experts group which supports the Financial Stability Engagement Group in international work related to open-ended funds and is developing enhanced guidance on the use of liquidity management tools.

We participate in the FSB Standing Committee on Standards Implementation, which oversees peer reviews and evaluates and monitors reforms. We are a member of the FSB Regional Consultative Group for Asia, which considered financial risks from climate change, financial stability and vulnerabilities affecting the region during the year. We are also a member of the FSB Cross-Border Crisis Management for Financial Market Infrastructures, which monitors and promotes the implementation of resolution regimes.

### Mainland-Hong Kong cooperation

To consolidate Hong Kong's position as a leading international financial centre and its unique role connecting the Mainland and global financial markets, we hold regular discussions and work proactively with the China Securities Regulatory Commission (CSRC) and other Mainland authorities to deepen mutual market access schemes and enhance cross-boundary supervisory and enforcement cooperation.

In March 2023, our Chairman Mr Tim Lui and CEO Ms Julia Leung met with CSRC Chairman Mr Yi Huiman in Beijing. Both regulators agreed to further deepen cooperation and promote the coordinated development of our capital markets. Our Chairman and CEO also met with People's Bank of China (PBoC) Governor, Mr Yi Gang, to exchange views on a range of issues, including financial cooperation between the Mainland and Hong Kong, renminbi internationalisation and the development of Hong Kong as an international financial centre. We also met with other Mainland authorities during the Beijing trip.





(From left to right) SFC CEO Ms Julia Leung, CSRC Chairman Mr Yi Huiman and SFC Chairman Mr Tim Lui



(From left to right) SFC Executive Director of Supervision of Markets, Mr Rico Leung, Chairman Mr Tim Lui, PBoC Governor Mr Yi Gang, CEO Ms Julia Leung and PBoC Deputy Governor Mr Xuan Changneng

### Collaboration with the CSRC

At the 11th and 12th biannual SFC-CSRC high-level meetings in June and December 2022, we discussed and reached consensus on a wide range of cross-boundary regulatory issues and market development initiatives, including enhancements to mutual market access schemes, collaboration on cross-boundary enforcement and intermediary supervision and how the two regulators would work together to consolidate Hong Kong's status as an international financial centre.

During the year, the two regulators jointly announced the expansion of eligible stocks and the inclusion of ETFs under Stock Connect, adjustments to the trading calendar for Stock Connect and an SFC-CSRC memorandum of understanding (MoU) with respect to the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies issued by the CSRC.

Despite the challenges posed by the COVID-19 pandemic, we and the CSRC continued to provide flexible, comprehensive investigatory assistance to one another in enforcement cases, including the highest level of support in major and urgent matters.

During the year, the regular high-level and working-level meetings held between our Enforcement Division and the CSRC's Enforcement Bureau strengthened our close cross-boundary enforcement cooperation to jointly combat cross-boundary market misconduct, protect investors' interests and safeguard the sound development of our capital markets.

Both regulators reached significant consensus on a number of areas. At the institutional level, we will build on our existing enforcement cooperation mechanism and enhance its depth and scope to ensure smooth cross-boundary enforcement collaboration and prompt responses in the face of challenges and emerging issues. At the working level, we will enhance the efficiency of our enforcement cooperation by strengthening our research and resolving outstanding issues. In addition, to deepen mutual understanding, we resumed our training and exchange programmes which were suspended owing to the pandemic.

## Regulatory Engagement

We engaged with other Mainland authorities on a number of cooperation initiatives. Together with the PBoC and the Hong Kong Monetary Authority (HKMA), we jointly announced in July 2022 the development of mutual access between the Hong Kong and Mainland interest rate swap markets (ie, Swap Connect), which was launched on 15 May 2023.

In March 2023, we entered into an MoU on matters relating to bonds and derivatives market with the PBoC and HKMA to enhance regulatory collaboration among the regulators. This facilitates the implementation of Swap Connect.

We provided support to the HKSAR Government on initiatives to strengthen Hong Kong's cooperative relationship with the Mainland, including the Cross-boundary Wealth Management Connect pilot scheme set out in the Guangdong-Hong Kong-Macao Greater Bay Area development plan.

### Advancing global regulatory dialogue

During the year, we responded to 118 requests for information and bilateral meetings from overseas regulators and industry bodies.

We held meetings and calls to discuss emerging regulatory developments with overseas regulators and authorities, including the European Securities and Markets Authority, US Securities and Exchange Commission, US Commodity Futures Trading Commission, UK Financial Conduct Authority, the Monetary Authority of Singapore and Japan's Financial Services Agency.

In December 2022, we reached an MoU with the Bank of England regarding mutual assistance in the supervision and oversight of cross-border regulated entities.

In June 2022, the SFC co-hosted the Asia Pacific Takeovers Regulators Conference with the Securities Commission Malaysia. More than 50 participants from 11 jurisdictions<sup>5</sup> met to discuss recent developments and experience in regulating takeovers activities, including managing takeovers activities during the pandemic, shareholder activism and the lessons learnt from takeovers breaches.



The 13th Mainland and Hong Kong High-level Meeting on Enforcement Cooperation held virtually by the CSRC's Enforcement Bureau (left) and our Enforcement Division

<sup>5</sup> Including Australia, Bangladesh, Cambodia, Hong Kong, Laos, Malaysia, New Zealand, the Philippines, Singapore, South Africa and Thailand.



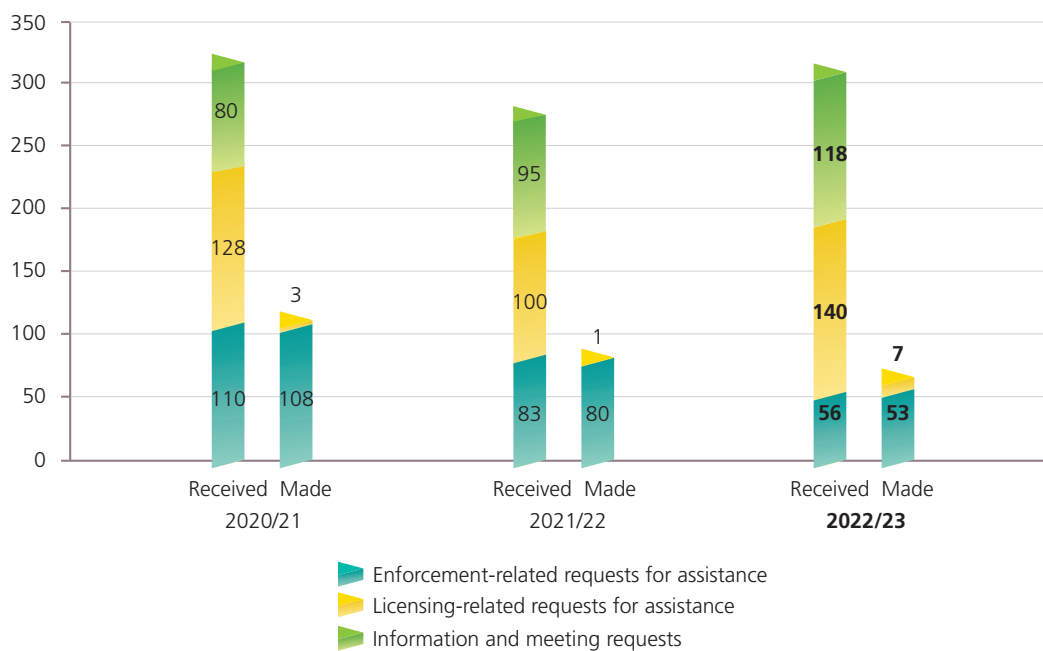
**Received**  
**196**  
**enforcement and**  
**licensing-related**  
**requests for assistance**

In December 2022, we held the 14th Bilateral Regulatory Meeting with the Financial Supervisory Commission of Taiwan, China, where we exchanged views on ESG disclosure and assurance requirements for listed companies, global developments in sustainability reporting, the adoption of ISSB standards and sustainable development strategies for the securities sector.

Also in June, we convened a meeting of the Crisis Management Group<sup>6</sup> for HKFE Clearing Corporation Limited (HKCC) with the French Autorité de Contrôle Prudentiel et de Résolution and the European Union Single Resolution Board to discuss the resolution plan for HKCC.

During the year, we engaged regularly with industry bodies and associations to discuss regulatory issues, including the International Swaps and Derivatives Association, International Capital Market Association, Asia Securities Industry & Financial Markets Association and the Hong Kong Green Finance Association.

### Requests for regulatory assistance



<sup>6</sup> The Crisis Management Group was created in 2018 following the designation of HKCC as systemically important in more than one jurisdiction.

# Communications and Education

To promote a wider understanding of our work and provide up-to-date regulatory information, we engage proactively with the industry and the public through a broad range of communication channels and education initiatives.

## Engaging the industry

### Events

We maintain an open and constructive dialogue with market participants. To keep the industry informed of regulatory developments, we organise regular meetings, briefing sessions and workshops and contribute articles to industry association newsletters.

In October 2022, we held the SFC Compliance Forum 2022 with the theme “International Financial Centre—A New Era”. Senior market participants discussed the development of Hong Kong as an international financial centre, opportunities and challenges for Hong Kong as an Asian equities hub, the role of Hong Kong as a sustainable finance centre, operational challenges and risk issues of online platforms, development and regulatory landscape of virtual assets and money laundering risks. The event was attended by more than 2,500 market participants.

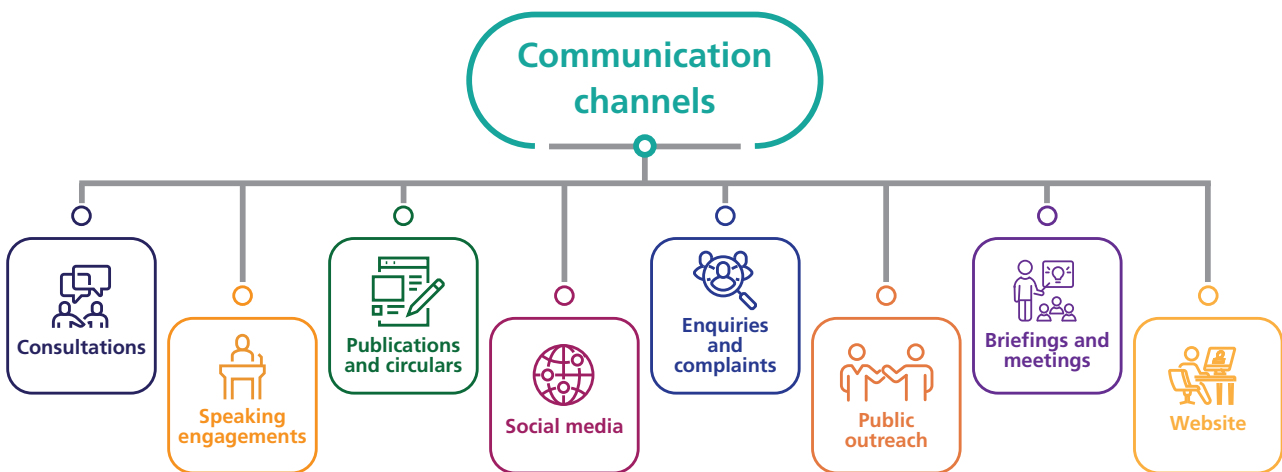
We co-organised Hong Kong FinTech Week 2022, which took place from 31 October to 4 November. Our Chief Executive Officer (CEO) Ms Julia Leung<sup>1</sup> gave a

keynote speech which provided an update on the SFC’s virtual asset-related policies, including security token offerings and the new regime for authorising exchange-traded funds with virtual asset futures as underlying assets.

During the year, we also organised seminars and briefing sessions for industry associations and other market participants on topical issues such as the new licensing regime for virtual asset service providers, anti-money laundering and our enhanced digitalised licensing and financial returns submission functions<sup>2</sup>.



Chairman Mr Tim Lui at a Chinese General Chamber of Commerce event



<sup>1</sup> Ms Julia Leung was the SFC’s Deputy CEO from March 2018 to December 2022. She was appointed CEO with effect from 1 January 2023.

<sup>2</sup> See Intermediaries on pages 37-44.



CEO Ms Julia Leung at the Boao Forum for Asia Annual Conference

### Speaking engagements

At over 100 local and international events during the year, our senior executives spoke on a wide range of topics within our regulatory remit, including asset management, financial technology and climate finance. We supported 15 seminars and events organised by industry bodies.

Our Chairman Mr Tim Lui discussed regulatory updates and market developments at major events and seminars. He also delivered keynote speeches on sustainable finance at industry conferences.

Our CEO Ms Julia Leung addressed regional and international audiences at major events. She also shared her views on virtual asset regulation and corporate sustainability reporting in industry newsletters.

Our senior executives attended the Global Financial Leaders' Investment Summit in November 2022. We also meet with industry associations regularly to exchange views on topical issues.

### Consulting on rule changes

When proposing rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation. We also consult on proposed non-statutory codes and guidelines as well as amendments to them.

We detail our proposals in consultation papers and hold both formal and informal discussions to hear stakeholders' views as part of our consultation process. After completing our analysis, we publish a consultation conclusions paper summarising the main comments received and setting out our conclusions. During the year, we published eight consultation papers and four consultation conclusions.



### Publications and enquiries

Our publications aim to update the industry on our regulatory work and other noteworthy developments. This year, we issued nine thematic publications, including newsletters, market reviews and surveys. We publish circulars and frequently asked questions (FAQs) on our website to help the industry better understand our regulatory requirements. During the year, 67 circulars provided guidance on a range of matters, including the preparations for implementing the investor identification regime, over-the-counter derivatives trade reporting and updates on anti-money laundering and counter-financing of terrorism.

We respond verbally or in writing to enquiries from the industry on topics related to our rules and regulations, including licensing, listings and takeovers, product authorisation and short position reporting. Designated email addresses are provided to help us handle enquiries on specific topics more efficiently, including mailboxes set up during the year specifically for enquiries related to family offices and private equity firms.

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 151 Fintech-related enquiries during the year.



## Communications and Education

### Government and LegCo

We attend Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, to 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. Maintaining close liaison with the Financial Services and the Treasury Bureau, we provide updates on our regulatory initiatives through regular meetings and reports. In addition, we provide assistance and information to other government bureaux and departments on various issues.

### Regulatory counterparts

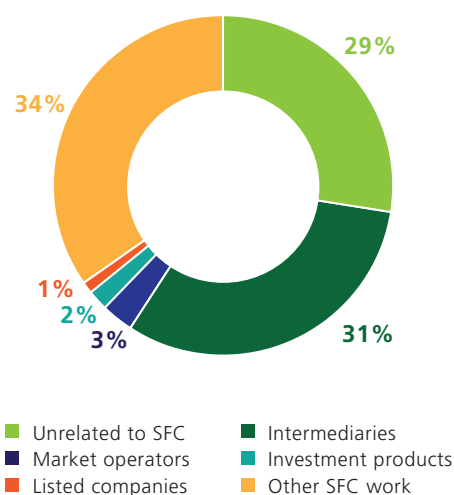
We collaborate closely with local, Mainland and overseas regulatory counterparts<sup>3</sup>, particularly with the China Securities Regulatory Commission. During the year, we held about 50 memoranda of understanding meetings with other authorities. To contribute to global policymaking which may have an impact on our markets, we take an active part in the global regulatory arena and participate in both the International Organization of Securities Commissions and the Financial Stability Board.

### Education and outreach to keep the public informed

We carry out education and outreach initiatives to increase public awareness of policy initiatives that have a direct impact on them. Our targeted publicity campaigns help alert the investing public of scams and financial risks.

To warn the public about online ramp and dump scams, we organised a community outreach event with the Anti-Deception Coordination Centre (ADCC) of the Hong Kong Police Force in December 2022. Leaflets and souvenirs were distributed to the public to provide information about these scams. In addition, the SFC's wholly-owned subsidiary, the Investor and Financial Education Council (IFEC), launched an online anti-financial scam game for the public and a new round of education programmes for seniors to reinforce our efforts to combat financial scams.

### General enquiries



We conducted an investor education campaign to raise public awareness of the investor identification regime through multiple channels. In addition, through circulars, FAQs and webinars, we provided guidance to intermediaries on the implementation of the new regime (see sidebar on page 74).

During the year, we worked closely with IFEC to keep the public abreast of the latest regulatory developments related to virtual assets, sustainable finance, ETF Connect and other topics of special relevance to investors such as key considerations when using online investment platforms. Our executives also contributed their expertise to investor education initiatives through online webinars, interviews and panel discussions targeting retail investors.

To commemorate its 10th anniversary, the IFEC launched a multi-media campaign in November 2022 to help the Hong Kong public cultivate good investment and financial management habits. Mr Tim Lui shared his personal investment and financial management experience at the IFEC 10th Anniversary Education Seminar cum Investor and Financial Education Award Presentation Ceremony attended by the awardees, stakeholder representatives and youngsters.

<sup>3</sup> See Regulatory Engagement on pages 64-69.



Community outreach with ADCC

Social media is used as an additional platform for us to communicate with the public. In August 2022, we introduced our official WeChat account which features updates on topics of interest to Mainland-oriented investors and industry professionals, such as mutual market access and sustainable finance, as well as investor alerts and other regulatory news. We also maintain an official Facebook page as well as a LinkedIn page.

During the year, we published 177 social media posts to inform the public and the industry of various regulatory updates.

### Our proactive approach to communications

We formulate and execute media strategies to enhance public understanding of our work by engaging the media and explaining our policies, initiatives and regulatory actions. We address public concerns and enquiries regarding the securities and futures markets.

This year, we received 2,947 general enquiries and 2,998 complaints. Our senior executives gave media interviews to foster public understanding of Hong Kong’s financial regulatory framework and the SFC’s role.

We issued 114 press releases to inform the public of the latest regulatory actions and other SFC news. We also published seven policy statements and announcements explaining our regulatory approach to specific issues.

We released our *Annual Report 2021-22* and quarterly reports to help our stakeholders and the public understand our key regulatory work and corporate developments. Our reporting efforts were recognised with Bronze Award and a Certificate of Excellence in Environmental, Social and Governance Reporting in the 2022 Hong Kong Management Association’s Best Annual Reports Awards. The report also won a Corporate Governance Award in the Hong Kong Institute of Certified Public Accountants’ Best Corporate Governance and ESG Awards 2022. On our corporate website, the public can easily obtain up-to-date information about our work and regulations.



Officiating guests at the IFEC 10th Anniversary Education Seminar cum Investor and Financial Education Award Presentation Ceremony



IFEC webinars featuring SFC executives

### Publicising the investor identification regime

To prepare for the implementation of the investor identification regime, we launched a publicity campaign using a wide range of activities to raise the public's awareness, including through public service announcements on a local radio network. We produced short films dramatising real-life examples and highlighting key points for retail investors, and made the videos available on our website on a dedicated webpage which features all our communications related to the regime in one place.

At a public outreach event in December 2022, we distributed leaflets and souvenirs to retail investors to remind them about the implementation of the regime. Posters and leaflets were also distributed to banks and brokers for their use in informing their clients. We also published news releases to explain the regime and promoted them on our website and social media platforms.



Leaflets and souvenirs are distributed to the public



## Publications and other communications

	2022/23	2021/22	2020/21
Press releases	114	111	132
Policy statements and announcements	7	3	8
Consultation papers	8	3	8
Consultation conclusions	4	8	6
Industry-related publications	9	13	12
Codes and guidelines <sup>a</sup>	4	5	6
Circulars to industry	67	85	65
Corporate website average daily page views <sup>b</sup>	62,191	35,415	33,834
General enquiries	2,947	4,207	6,969

a Includes updates to previous versions.

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

## Complaints against intermediaries and market activities

	2022/23	2021/22	2020/21
Conduct of licensees	712	725	802
Conduct of registered institutions	36	27	20
Listing-related matters and disclosure of interests	669	1,761	2,856
Market misconduct <sup>a</sup>	344	512	922
Product disclosure	12	17	85
Unlicensed activities	339	96	108
Breach of offers of investments	34	50	142
Boiler rooms and suspicious websites	258	374	600
Scams and frauds <sup>b</sup>	341	270	554
Other financial activities not regulated by SFC <sup>c</sup>	253	209	295
<b>Total</b>	<b>2,998</b>	<b>4,041</b>	<b>6,384</b>

a Primarily, alleged market manipulation and insider dealing.

b Such as identity fraud and impersonation.

c For example, bullion trading and banking services.