

# Environmental, Social and Governance

As a statutory regulator, we strive to meet high standards in the way we operate and deliver on our public mission, underpinned by our core values of integrity, transparency and public accountability. We maintain sound corporate governance to ensure effective delivery of our regulatory policies, and commit to social responsibility and sustainability. We take the lead in supporting local and global efforts by setting our own organisation target towards carbon neutrality.



# Corporate Governance

## Governance framework

As a statutory regulator, we are committed to maintaining an effective corporate governance framework comprising a well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures and independent checks and balances. This ensures that we carry out our work in an efficient, fair and ethical manner and is in line with best governance practices for public bodies, including those set out in *Corporate Governance for Public Bodies — A Basic Framework*<sup>1</sup>.

## Board

By supervising and directing our work, the SFC Board plays a key role in ensuring that we carry out our duties effectively. It sets the SFC's overall direction, provides strategic guidance on policy making and oversees the work of the Executive Committee (ExCo).

## Constitution

The constitution and proceedings of our Board are stipulated in the Securities and Futures Ordinance (SFO). Members are appointed for a fixed term by the

Chief Executive of the Hong Kong Special Administrative Region (HKSAR) or the Financial Secretary under delegated authority, and their appointment terms and conditions are determined by the HKSAR Government. Board members' emoluments for the year are detailed on page 134.

As of 31 March 2023, the Board comprised nine Non-Executive Directors (NEDs), including the Chairman; and five Executive Directors (EDs), including the Chief Executive Officer (CEO).

Coming from diverse backgrounds, our NEDs bring to the Board a wide range of experience and expertise as well as a variety of independent perspectives. Collectively, the Board contributes to the development of the SFC's policies by providing constructive strategic comments.

See pages 14-23 for the full list of Board members and their biographies.

## Key components of our governance framework

### Board committees

- Audit Committee
- Budget Committee
- Investment Committee
- Remuneration Committee

### External parties

- The public
- Industry
- Government and legislature
- Regulatory counterparts



### External committees

- Advisory Committee
- Regulatory committees

### Independent bodies

- Process Review Panel
- Securities and Futures Appeals Tribunal
- The Ombudsman
- Courts

<sup>1</sup> Published by the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance

## Chairman and CEO

The non-executive Chairman and the CEO have separate and distinct roles and responsibilities.

### Chairman

- Leading the Board in setting the SFC's policies, strategy and overall direction
- Monitoring the executive team's performance
- Counselling the CEO on how the organisation is run

### CEO

- Assuming executive responsibility for the SFC's day-to-day operations
- Developing strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board
- Assigning responsibilities to senior management and supervising their work
- Reporting regularly to the Board

## Executive Directors and Non-Executive Directors

Our EDs and NEDs have different but complementary roles. The EDs are responsible for the SFC's daily operations and each has executive duties in key functions including listings, takeovers and corporate conduct, licensing and supervision of intermediaries, market infrastructure, investment products and enforcement. The NEDs provide guidance on and monitor the performance of the organisation's functions.

## Governance practices

We uphold high standards of corporate governance. Our clear and proper policies and processes facilitate the working of an efficient and accountable Board. The practices we adopt include:

- arranging for the Board to hold monthly meetings, quarterly policy meetings and special meetings as needed as well as an annual off-site meeting
- providing Board members with papers and relevant information sufficiently in advance to enable thorough consideration of agenda items

- circulating draft minutes of Board meetings to members for comment
- furnishing Board members with information regarding our operations and financial condition on a monthly basis
- keeping the Board apprised of our policies and operations as appropriate
- requiring Board members to observe policies regarding conflicts of interest
- providing induction sessions and briefings on various topics to enable the NEDs to better understand the organisation and their responsibilities

In addition to regular Board meetings, we provide Board members with information updates from time to time to keep them informed of the SFC's work, its impact on the markets and our interactions with stakeholders.

The Commission Secretariat is tasked with ensuring effective corporate governance. The Secretariat ensures the effective delivery of strategic governance and oversees organisation-wide initiatives, assisting the Board and the CEO in directing work processes to enable good governance, enhance efficiency and manage changes. It also acts as the central relationship point with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies. The Commission Secretary, as head of the Secretariat, serves as the secretary to the Board, ExCo and Advisory Committee. In addition, the Commission Secretary heads the External Relations Office which has oversight of the SFC's overall stakeholder relationship management. He is also the Data Privacy Officer of the SFC who is responsible for ensuring the SFC's compliance with the data privacy rules and standards.

## Board evaluation

The Board constantly seeks ways to improve its effectiveness. As part of a self-assessment it conducts every other year, each board member is invited to complete a questionnaire, on an anonymous basis, on how well the Board is functioning in some key areas of its responsibilities. An analysis of the findings is presented to the Board at its off-site meeting to consider areas for improvement.

### Board appointments

During the year, Ms Julia Leung Fung-yee succeeded Mr Ashley Alder as the CEO. She was appointed for a three-year term effective 1 January 2023.

Dr James C Lin and Mr Victor Dawes, SC were reappointed as NEDs for two years with effect from 1 August 2022. Mr Michael Wong Yick-kam and Mr Nicky Lo Kar-chun were reappointed as NEDs for two years, effective 1 April 2023 and 24 April 2023, respectively. Ms Christina Choi Fung-yee and Mr Rico Leung Chung-yin were reappointed as EDs for three years, effective 1 August 2022 and 28 August 2022, respectively. Mr Michael Duignan and Mr Christopher Wilson were appointed as EDs for three-year terms, effective 1 November 2022.

Mr Edward Cheng Wai-sun stepped down as NED and Mr Thomas Atkinson stepped down as ED.

### Board meetings

In addition to monthly meetings, the Board meets from time to time to conduct in-depth discussions of policy issues and convenes special meetings as needed. An annual off-site meeting is also held which sets out strategic objectives and management priorities.

Last year, 12 Board meetings were held with an average attendance rate of 96%.

### New Non-Executive Director

We welcomed Mr Chew Fook-aun to our Board in January 2023. A veteran professional accountant, Mr Chew has been active in public service and his previous experience working with the Financial Reporting Council<sup>^</sup>, Independent Commission Against Corruption and Hong Kong Institute of Certified Public Accountants will be helpful in his new role as an SFC NED.

Mr Chew had always considered the SFC as an organisation with the highest standards of governance and transparency, and after joining our Board he found this view confirmed from the inside. As the statutory body overseeing the Stock Exchange of Hong Kong, all listed entities and listing policies, the SFC must uphold the highest standards of governance and transparency, so that global and local investors will have full confidence in our market. This will translate into success in getting more financial services firms to set up and operate, as well as companies to list, in our market, he added.

Looking ahead, Mr Chew expects that the Board will work together to help the SFC carry out its key role in enhancing Hong Kong's status as an



Mr Chew Fook-aun

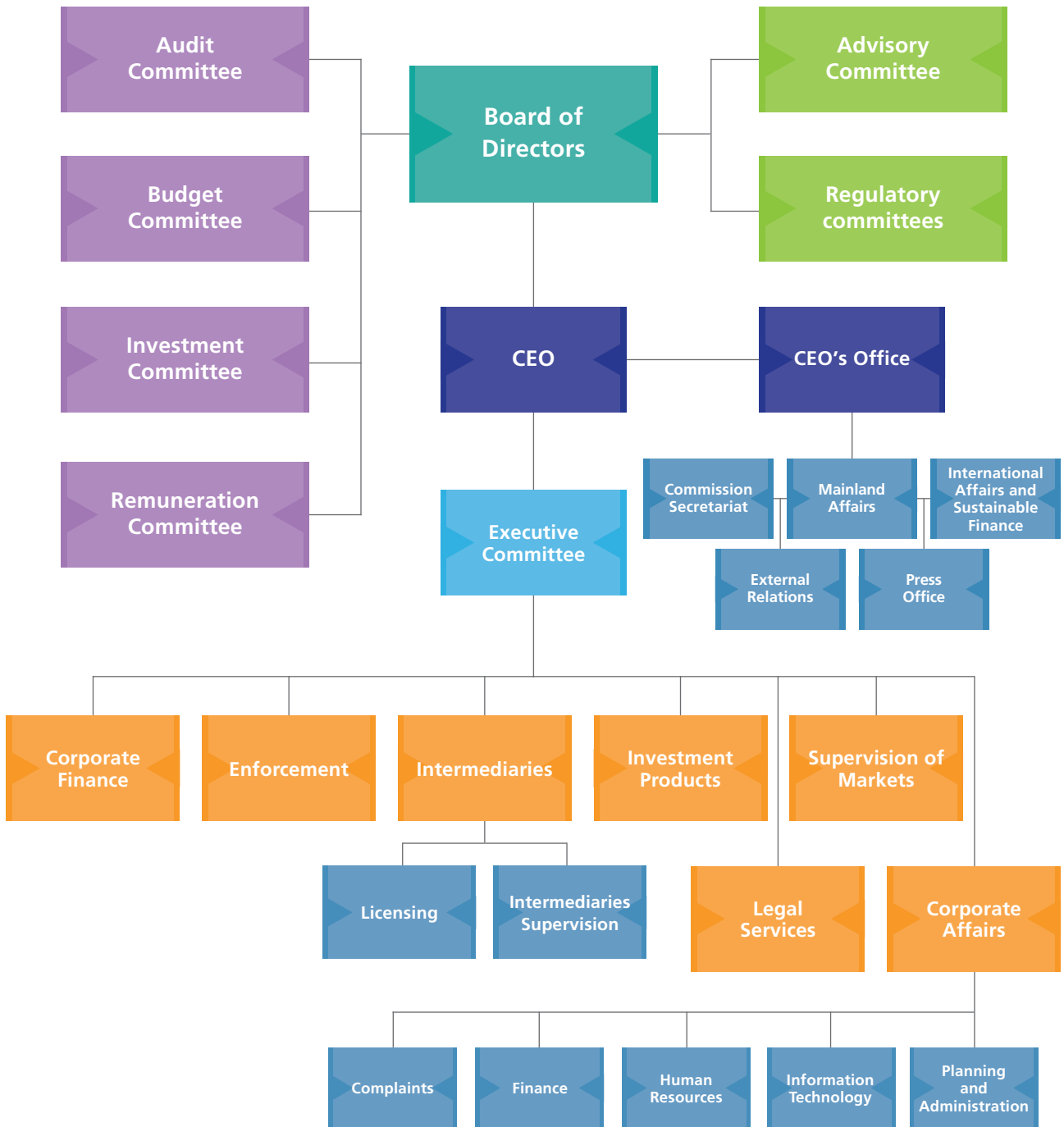
*The key challenges for the corporate governance of public bodies like the SFC is that we must be seen to be upholding the highest levels of governance as well as transparency in the work that we do.*

*Chew Fook-aun*

international financial centre as well as its core mission to regulate the Hong Kong securities and futures markets in a fair and transparent manner and strengthen the governance of intermediaries and listed companies.

<sup>^</sup> Now known as the Accounting and Financial Reporting Council.

Organisational structure



Board committees
  External committees

## Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
<b>Chairman</b>						
Tim Lui Tim-leung	12/12	2/2	–	2/2	2/3	–
<b>Executive Directors</b>						
Ashley Alder <sup>1</sup>	8/8	–	1/1	1/2	–	10/11
Julia Leung Fung-yee <sup>2</sup>	12/12	–	1/1	2/2	–	15/15
Thomas Atkinson <sup>3</sup>	0/0	–	–	–	–	0/1
Christina Choi Fung-yee	11/12	–	–	–	–	15/15
Michael Duignan <sup>4</sup>	4/5	–	–	–	–	4/6
Rico Leung Chung-yin	12/12	–	–	–	–	15/15
Christopher Wilson <sup>5</sup>	5/5	–	–	–	–	5/6
<b>Non-Executive Directors</b>						
Agnes Chan Sui-kuen	12/12	2/2	1/1	2/2	2/3	–
Edward Cheng Wai-sun <sup>6</sup>	8/8	–	0/1	–	1/1	–
Chew Fook-aun <sup>7</sup>	4/4	–	–	–	2/2	–
Victor Dawes	10/12	1/2	–	–	3/3	–
Johnson Kong	12/12	–	–	–	3/3	–
Dr James C Lin	11/12	2/2	1/1	2/2	3/3	–
Nicky Lo Kar-chun	12/12	–	1/1	2/2	3/3	–
Michael Wong Yick-kam	10/12	–	–	–	3/3	–
Dieter Yih	12/12	–	–	–	3/3	–
<b>Senior Director and Chief Counsel</b>						
Andrew Wan Chi-yiu	–	–	–	2/2	–	14/15
Andrew Young <sup>8</sup>	–	–	–	–	–	7/7
<b>Interim Head, Corporate Finance</b>						
Megan Tang Siau-feng <sup>9</sup>	–	–	–	–	–	0/0
<b>Interim Head, Intermediaries</b>						
Keith Choy Chung-fai <sup>10</sup>	–	–	–	–	–	2/4

1 Appointment expired on 31 December 2022.

2 Appointed as Chief Executive Officer effective on 1 January 2023.

3 Appointment expired on 2 May 2022.

4 Appointed as a member of the Board and Executive Committee effective on 1 November 2022.

5 Appointed as a member of the Board and Executive Committee effective on 1 November 2022.

6 Appointment expired on 31 December 2022.

7 Appointed as a member of the Board and Remuneration Committee effective on 1 January 2023.

8 Appointment expired on 30 September 2022.

9 Appointment expired on 31 October 2022.

10 Appointed as Interim Head, Intermediaries and a member of the Executive Committee effective on 1 January 2023.

## SFC committees

### Board committees

We have four board committees, each of which focuses on clearly-defined areas of the SFC's operations and is chaired by an NED. The presence and active participation of the NEDs provide effective checks and balances for our management decisions.

Committee	Membership	Responsibilities	Meetings
Audit Committee	Four NEDs	<ul style="list-style-type: none"> <li>Reviews annual financial statements</li> <li>Recommends the appointment of external auditors</li> <li>Coordinates the scope of the external audit and reviews audit findings</li> <li>Examines management procedures to ensure effective financial and internal controls</li> </ul>	2
Budget Committee	Three NEDs and one ED <sup>^</sup>	<ul style="list-style-type: none"> <li>Examines and approves the parameters and bases used in the annual budget</li> <li>Conducts the mid-year budget review</li> <li>Reviews the annual budget and makes recommendations to the Board</li> </ul>	1
Investment Committee	Four NEDs, one ED and a Senior Director <sup>^</sup>	<ul style="list-style-type: none"> <li>Advises on the SFC's fund management policies, strategies and investment guidelines</li> <li>Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines</li> <li>Advises on investment risk management and asset allocation and monitors the performance of investments</li> </ul>	2
Remuneration Committee	Nine NEDs	<ul style="list-style-type: none"> <li>Reviews the structure and level of staff remuneration</li> <li>Reviews trends in remuneration packages and recommends adjustments</li> <li>Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment</li> </ul>	3

<sup>^</sup> In a non-voting capacity.

## New Executive Directors

Mr Michael Duignan and Mr Christopher Wilson joined our Board in November 2022. They reflect on their new roles.

### A global perspective on corporate finance

Prior to his appointment as ED of Corporate Finance, Mr Duignan worked with the SFC for eight years in both the Corporate Finance Division and Enforcement Division. He has extensive experience with overseas financial regulators including those in the UK, Ireland and Malta.

Mr Duignan's new role presents many novel scenarios which raise fascinating issues and problems to solve. Establishing credible deterrence for those who might be tempted to commit corporate crimes is high on the agenda for the Corporate Finance Division, as is changing the public's impression about the SFC's approach to market development and innovation. These are important in ensuring the healthy and sustainable development of Hong Kong as an international financial centre amidst the increasingly complex markets, he added.

The SFC is approachable and willing to respond positively to change and innovation, Mr Duignan stressed. When Mr Duignan participated in the negotiation of the EU legislation with other member states before he came to Hong Kong, he found the most successful approach to achieving mutually satisfactory outcomes was to put himself in their shoes and understand the issue from their perspective. His experience is that regulators are always happy to respond to well thought through and reasonable arguments.

### A commitment to market fairness

After 25 years as a lawyer in private practice and in-house counsel for financial institutions, Mr Wilson joined the SFC as ED of Enforcement. He has had an over-developed sense of fairness since he was a kid, he related, and in the course of his career he has seen some egregious misconduct across the financial markets. He looks forward to taking an active role in keeping Hong Kong's financial markets safe and fair in his new role as securities regulator.



Mr Michael Duignan (left) and Mr Christopher Wilson

*One of our top priorities is to maintain a balance between providing service to the industry in a proportionate, prompt and open manner, and ensuring a high level of investor protection.*

*Michael Duignan*

*The most practical way to tackle increasingly complex, cross-border market misconduct in the financial markets is through close coordination and cooperation with other regulators.*

*Christopher Wilson*

Hong Kong's role connecting markets and investors from the Mainland and overseas is growing in importance, but at the same time we are constantly exposed to offshore misconduct which hurts the city's investors and markets, Mr Wilson remarked. However, he was pleasantly surprised to see how strong the SFC's relationships are with its counterparts when it comes to enforcement cooperation, particularly with the China Securities Regulatory Commission.

Looking ahead, Mr Wilson would continue the SFC's recent enforcement priorities to address corporate fraud and overall market misconduct, but he will pursue more immediate results. In addition to focusing our resources on the right priorities, it is crucial—and critical—to work closely with other regulators and enforcement bodies to quickly conclude investigations and take swift subsequent enforcement action.





### External committees

External committees are set up under the SFO and comprise a large number of members outside the SFC who reflect the diverse views of market participants. These committees play an important role in the governance of the SFC.

The Advisory Committee offers insight and advice on policy matters related to the performance of the SFC's functions. The majority of members are external representatives appointed by the Financial Secretary under authority delegated by the Chief Executive of the HKSAR. The Committee is headed by the Chairman and its members include the CEO and not more than two other EDs.

Each regulatory committee specialises in specific areas such as investment products, shareholders' rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2023.

See pages 183-192 for the responsibilities and membership lists of the external committees.

### Executive Committee

As the highest executive body within the organisation, ExCo performs administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. ExCo is chaired by the CEO and includes all other EDs, the Chief Counsel, and the Chief Financial Officer and Senior Director of Corporate Affairs.

ExCo meets regularly to consider policy and operational proposals and expense requests from different divisions of the organisation. During the year, 15 ExCo meetings were held with an average attendance rate of 92%.

### Standards of conduct

To promote and maintain public confidence, a high standard of integrity and conduct is required of our staff. In addition to complying with their legal obligations, staff are obligated to adhere to our code of conduct which spells out our standards in detail and covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Failure to comply with the code may result in disciplinary action.

In July 2022, we amended our staff dealing policy to strengthen our ability to mitigate conflicts of interest. Each staff member is required to attend training to ensure they understand the latest requirements.

### Accountability and transparency

We have stringent policies and procedures in place to ensure that we act with credibility, fairness and transparency.

### Delegation of authority

A system of delegation of authority clearly delineates the authority of the Board and different levels of the executive management. The Board delegates regulatory powers and functions to EDs, with power to sub-delegate to staff in their respective divisions, as permitted under the SFO, to facilitate the discharge of their duties in our daily operations.

### Budgeting

We follow a disciplined approach in preparing our budget to maintain effective fiscal control and plan for the coming year and beyond. Under our policy of tightly controlling expenditures, we make prudent assumptions, exercise robust financial control and identify areas where resources could be deployed to meet the SFC's strategic objectives, priorities and operational needs. During the budget process, divisions' expense requests for the following year are critically reviewed and assessed.





The annual budget, after consideration by the Budget Committee and approval by the Board, is submitted to the Financial Secretary for approval and then tabled before LegCo. We also present our budget each year to LegCo's Panel on Financial Affairs.

### Investment

We aim to achieve long-term financial sustainability and attach great importance to the prudent and safe management of our reserves, which are managed according to the investment guidelines approved by the Financial Secretary.

We have delegated responsibility for the selection and management of our investments to external investment managers. We require them to comply with and regularly review their compliance with the investment guidelines. The external investment managers have confirmed that they adopt the Principles of Responsible Ownership<sup>2</sup> in their undertakings to manage these investments. The Investment Committee monitors the performance of investments and advises on asset allocation and risk management.

### Financial control and reporting

To uphold a high standard of integrity and exercise vigorous controls over the use of public funds, we engage an independent external professional firm to conduct an annual review of our financial control policies and procedures to ensure that they are practical and robust.

We voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports, and we adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information.

In addition, we follow good market practice to ensure our financial reports are transparent and informative.

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration
- Seeking the Board's approval of quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Providing regular reports to the Government

### Handling complaints and grievances

We extend our principles of accountability and transparency to our complaints handling procedures. Reports of improper practices of the SFC or our staff can be made under our procedures for handling complaints against the SFC or its employees. These cover dissatisfaction with the manner in which the SFC or our staff carried out or failed to carry out our duties. Detailed procedures for members of the public to lodge a complaint with us are available on our website.

<sup>2</sup> Issued by the SFC in March 2016, these voluntary principles aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies.

## Corporate Governance

### Efficient use of resources

We regularly review our corporate resources to ensure that we operate efficiently, identify our needs and strategic priorities and allocate resources accordingly.

The cost savings resulting from the office relocation in 2020 have enhanced our long-term sustainability and support our plan to eventually purchase our own office premises. Since 2021, we transfer the annual rental savings of approximately \$125 million to our reserve set aside for the acquisition of office premises. We plan to transfer this amount to the property acquisition reserve each year across the rest of the lease term.

We configure resources across the organisation to align with our priorities to deliver robust supervision and enforcement. To formulate effective regulatory responses in rapidly-evolving and increasingly complex and interconnected markets, we set up cross-divisional project teams to work on policies or initiatives related to the functions of multiple divisions.

### External communication

We engage with a broad range of society including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a timely and effective manner<sup>3</sup>.

Before implementing a rule change, we conduct public consultations and publish consultation conclusions. We also engage with the industry when formulating potential policy and rule changes.

Our statements and announcements inform the market about our policies while industry-related publications, reports and surveys discuss more specialised topics. Annual and quarterly reports keep the public informed of our key regulatory work and finances.

Press releases announce our latest regulatory actions and other SFC news. Our Facebook page features updates on topics of interest to the general public and information of interest to the financial industry and other professionals is provided on our LinkedIn page. During the year, we introduced our official WeChat account which features content relevant to Mainland-oriented investors and industry professionals. We respond to public enquiries orally and in writing while striving to meet our performance pledges.

We reach out to the industry and the public to explain our work and policies. We host workshops and seminars to help the industry comply with our rules and policies and discuss specific regulatory issues at other events. We attend meetings at LegCo, including meetings of the Panel on Financial Affairs, to present our budget and explain policy initiatives and other issues of public interest. We also conduct publicity campaigns from time to time to publicise our work, for example, to warn the public of ramp and dump schemes and social media scams, and to educate them about the Hong Kong investor identification regime.

We adopt an open approach to disclosing information subject to the secrecy provisions of the SFO. Timely, easily accessible public and industry information is available on our corporate website ([www.sfc.hk](http://www.sfc.hk)), which we frequently review and update.

Effective communication within the organisation is important. Apart from utilising our intranet and internal circulars, we organise regular CEO sharing sessions and briefings by senior executives to keep our staff apprised of the latest developments and current work priorities.

In November 2022, two staff members from the Complaints Team of the Corporate Affairs Division received The Ombudsman's Awards 2022 for Officers of Public Organisations<sup>4</sup>.

<sup>3</sup> See Communications and Education on pages 70-75.

<sup>4</sup> See Corporate Developments on pages 110-115.

## Risk management

To perform our regulatory functions effectively in a dynamic market environment, it is important for us to identify, assess and manage external and internal risks in a timely and systematic manner.

### External risks

Our market contingency plan sets out measures for dealing with emergency situations which may affect Hong Kong's securities and futures markets. Rehearsing the plan on a regular basis helps us react promptly, appropriately and in a coordinated manner in cases where crises arise.

We adopt a forward-looking approach to identify current and emerging risks and assess the potential implications for the Hong Kong market. A comprehensive framework is in place to monitor a broad array of asset classes and detect possible vulnerabilities. We have developed our own indicators to monitor market trends, trading patterns and signs of any build-up or concentration of positions across different market segments. We stepped up our monitoring efforts in times of high market volatility during the year, requesting more information and more frequent reporting from major market participants to enable us to assess risks in the stock and derivatives markets in a more timely manner. We also keep in close contact with the Government and other financial regulators to share intelligence about market conditions and systemic concerns to ensure the market functions smoothly.

We adopt a comprehensive, structured approach to assessing risk using new regulatory technologies to collect and analyse large volumes of data and information as markets become more complex and interconnected. We may use artificial intelligence to assist in background research and identify relationships between companies and individuals mentioned in listing documents. We also enhanced our market surveillance system to detect more types of risks and identify abnormal price movements.

The cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a comprehensive manner. The group regularly reports to ExCo and the Board.

### Internal risks and control

We have internal control measures in place to address possible risks associated with our operations, including financial risks and threats to our information and office security.

Our policies and procedures for financial control help us uphold a high standard of integrity and exercise rigorous controls on the use of public funds.

In addition to appointing an external auditor, we engage an independent external firm to conduct internal audits to assess the effectiveness of our controls and identify the key risks of all our business processes. The scope of each review is approved by the Audit Committee and may include banking and investment, finance, procurement, human resources and information technology. The findings, together with recommendations, are reported back to the Audit Committee. Enhancements to related policies and procedures are then made where necessary.

To facilitate compliance with the Personal Data (Privacy) Ordinance, we provide staff with a data privacy manual and a quick guide comprising frequently asked questions and illustrative examples.

The following measures provide for safe and smooth operations:

- A regularly updated business resumption plan addresses readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The scope of the plan covers office premises, communications and computer services.
- An information security policy provides guidance on how to protect the confidentiality and integrity of information. The policy is revised from time to time to keep up with technological and other changes in the way we operate.

## Corporate Governance

- Access controls protect our information and systems from unauthorised access, use or modification and office access controls safeguard against unauthorised entry to our premises. Access rights are properly assigned and closely managed.

Staff are required to complete periodic online training which aims to raise their awareness of cyber-security. During the year, we enhanced our digitalisation, process automation and risk detection capacity and boosted our operational efficiency with the use of artificial intelligence<sup>5</sup>.

Following the outbreak of the COVID-19 pandemic, we reconfigured our staffing arrangements to ensure the continued delivery of our public services as usual and

keep any interruptions or delays to a minimum. Our expanded remote access capacity enables all staff to work from home in a secure and efficient manner.

### Independent checks and balances

Independent bodies provide external checks and balances on our operational work to ensure fairness in our decision making, observance of due process and proper use of our regulatory powers. In addition to scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Relevant functions	SFC-related tasks handled
<p><b>Process Review Panel</b></p> <ul style="list-style-type: none"> <li>■ An independent panel established by the Chief Executive of the HKSAR in 2000</li> <li>■ Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints and licensing applications, inspection of intermediaries, product authorisation, corporate finance transactions and the exercise of investigation and disciplinary powers</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviewed 51 cases and published its annual report in December 2022</li> </ul>
<p><b>Securities and Futures Appeals Tribunal</b></p> <ul style="list-style-type: none"> <li>■ Chaired by current or former judges appointed by the Chief Executive of the HKSAR and comprising two other members drawn from a panel appointed by the Financial Secretary under delegated authority</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviews specified decisions made by the SFC or the Investor Compensation Company Limited</li> <li>■ Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions</li> </ul>	<ul style="list-style-type: none"> <li>■ Received a request to review one new case</li> <li>■ Decided on three cases brought forward from 2020-21 and received in 2021-22</li> <li>■ Allowed three cases received in 2021-22 and 2022-23 to be withdrawn</li> <li>■ Allowed three applications for extension to file an appeal but all of them failed to file the appeal by the extended deadline</li> </ul>
<p><b>The Ombudsman</b></p>	<ul style="list-style-type: none"> <li>■ Handles public complaints against the SFC and its staff for alleged maladministration</li> </ul>	<ul style="list-style-type: none"> <li>■ Commenced two preliminary inquiries</li> </ul>
<p><b>Courts</b></p>	<ul style="list-style-type: none"> <li>■ Handle judicial reviews of SFC decisions</li> </ul>	<ul style="list-style-type: none"> <li>■ Handled eight judicial review cases</li> </ul>

<sup>5</sup> See Corporate Developments on pages 110-115.

## Performance pledges

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

		Cases meeting the pledge		
		2022/23	2021/22	2020/21
<b>Applications for subordinated loan or modification/ waiver of requirements under SFO</b>				
Commence review of application upon receipt	2 business days	100%	98%	97%
<b>Authorisation/registration of investment products</b>				
Take-up of applications upon receipt	5 or 2 business days <sup>1</sup>	100%	100%	100%
Preliminary response to applications after take-up for paper gold schemes, private open-ended fund companies, Thai domiciled funds under the Thailand-Hong Kong Mutual Recognition of Funds (MRF) and Hong Kong-domiciled feeder funds each investing in a single Thai-domiciled master fund that meets the requirements under the MRF scheme	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
<b>General enquiries</b>				
Preliminary replies	5 business days	100%	100%	100%
<b>Processing of licensing applications<sup>2</sup></b>				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	99% <sup>3</sup>	99%	99%
Representatives (normal licences)	8 weeks	99% <sup>3</sup>	99%	99%
Representatives (responsible officers)	10 weeks	99% <sup>3</sup>	99%	99%
Transfer of accreditation	7 business days	99% <sup>3</sup>	99%	99%
<b>Complaints against intermediaries and market activities</b>				
Preliminary response	2 weeks	99.9% <sup>4</sup>	99.8%	99.7%

1 The pledge of five business days is applicable to the authorisation of the following products:

- Unit trusts and mutual funds
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds
- Real estate investment trusts
- Investment-linked assurance schemes (effective from 1 November 2021)

The pledge of two business days is applicable to the authorisation of other products (which include investment-linked assurance schemes (prior to 1 November 2021) and paper gold schemes) and the registration of private open-ended fund companies.

2 During the year, we processed 13,617 applications that were subject to performance pledges, 11,902 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,715 applications was delayed for reasons beyond our control. For example:

- unresolved fitness and properness issues;
- outstanding vetting requests;
- outstanding material information from applicants; and
- requests by applicants that we delay finalising their applications.

To more accurately reflect our performance, these applications are not included in the percentages stated.

3 The delay was usually short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

4 Two cases failed to meet the pledge.

## Corporate Governance

During the year, 99.89% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response time are listed in the following table.

<b>Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)</b>	
<b><i>Applications for rulings and consultations with the Takeovers Executive</i></b>	
– All ruling applications and consultations under the Codes (except for those set out below)	5 business days <sup>5</sup>
– Applications for rulings that are conditional on obtaining shareholders' approval in a general meeting	Normally within 5 business days before the relevant general meeting
– Fast track EFM/EPT applications and EFM/EPT annual confirmations <sup>6</sup>	10 business days
– All other EFM/EPT applications	21 business days
<b>Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code</b>	
<b><i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i></b>	
– No complex Code issues involved	2 business days
– Complex Code issues involved	3 business days <sup>7</sup>
<b><i>All other announcements (including revised drafts)</i></b>	
– No complex Code issues involved	1 business day
– Complex Code issues involved	3 business days <sup>7</sup>
<b><i>All drafts of shareholders' documents<sup>8</sup></i></b>	5 business days

5 If the subject matter involves complex Code issues, the time limit will be extended to 21 business days and the applicants will be informed of this.

6 EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

7 The parties will be informed of the longer time needed.

8 Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.

# Sustainability



## Sustainability at the SFC

The table below summarises the SFC’s sustainability efforts, structured around the Task Force on Climate-Related Financial Disclosures (TCFD)<sup>1</sup> Recommendations, and details how we incorporate climate and sustainability considerations in developing our regulatory initiatives and managing our organisation’s activities.

<p><b>Governance</b></p>  <p>Board and management’s role</p>	<p>We have a well-defined management structure for corporate governance relating to climate and sustainability. Our Board and senior management regularly receive reports from and provide guidance to staff on developing regulatory policies, coordinating local and international engagement on sustainable finance, and implementing internal decarbonisation efforts.</p>
<p><b>Strategy</b></p>  <p>The risks and opportunities we identified and their impact on our regulatory initiatives and operational activities</p>	<p>Climate change presents multiple risks affecting both the real economy and the entire financial ecosystem, including physical, transition and greenwashing risks. Regulators play a major role in supporting the management of such risks and facilitating capital allocation for a low-carbon transition.</p> <p>We adopt a comprehensive sustainable finance policy framework with a climate-first approach to promote transparent markets and ensure investor protection by developing regulatory policies which are in line with our <i>Agenda for Green and Sustainable Finance</i>. Our focus areas include corporate disclosures, enhancing existing measures, and carbon markets.</p> <p>Climate and sustainability are cross-border and cross-sectoral in nature. We contribute to local initiatives on building a sustainable finance ecosystem, including capacity building and talent development. We also lead international standard-setting work, particularly in the development of standards for corporate sustainability disclosures, which will have implications for Hong Kong’s policy development.</p>
<p><b>Risk management</b></p>  <p>Our processes for identifying, assessing and managing risks</p>	<p>Our cross-divisional Risk Review Group identifies and monitors potential and emerging risks faced by the SFC, including those relating to climate and sustainability, and reports to the Board and senior management periodically.</p> <p>To inform our identification, assessment, and management of climate and sustainability-related risks, we monitor our carbon emissions footprint and adopt measures to decarbonise our operations, participate in local and international stakeholder engagement activities, and implement regulatory measures to combat greenwashing and build capacity and awareness.</p>
<p><b>Metrics and targets</b></p>  <p>Our emissions, metrics for assessing risks, and targets</p>	<p>We support the HKSAR Government’s climate strategies and have committed to achieving carbon neutrality before 2050. We are closely monitoring our carbon footprint to meet an interim target of reducing 50% of our total carbon emissions by 2030. Our Scope 1, 2, and 3 emissions, and decarbonisation strategies are disclosed in this report.</p>

<sup>1</sup> The TCFD was established in 2015 to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. The final TCFD Recommendations, issued in June 2017, cover four core areas: governance, strategy, risk management, and metrics and targets. Under these four core areas are 11 recommended disclosures.



**This section outlines how we incorporate climate and sustainability considerations in developing our regulatory initiatives and our organisation’s activities. It also provides details about our emissions footprint and carbon reduction measures, and is structured around the TCFD Recommendations.**

We take the lead in advancing Hong Kong’s position as an international sustainable finance hub and developing an effective regulatory framework to transition the financial system to carbon neutrality.

We actively integrate climate and sustainability into our internal policies and take steps to manage sustainability-related risks in our day-to-day operations. We support the HKSAR Government’s climate strategies and have committed to achieving carbon neutrality before 2050, with an interim target of a 50% reduction in our total carbon emissions by 2030.

## Governance: Comprehensive framework for sustainability

As a statutory financial regulator, we have a sound framework for corporate governance around climate and sustainability-related risks and opportunities<sup>2</sup>.

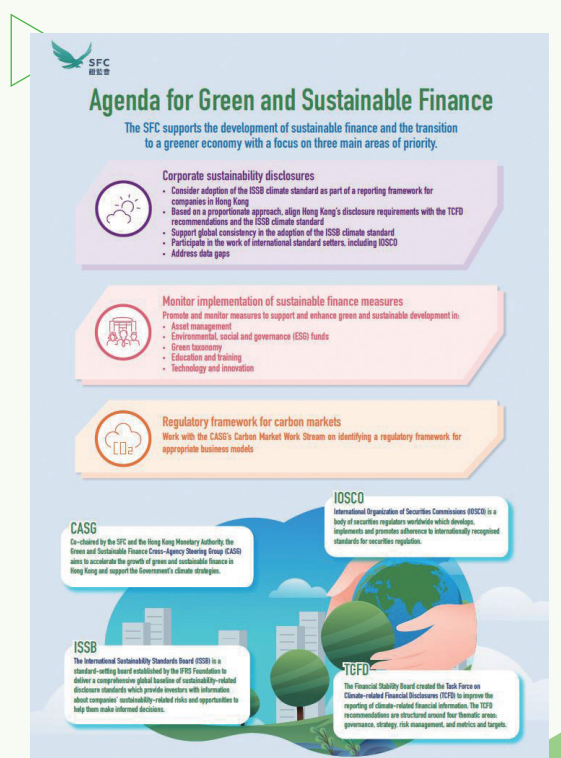
During the year, our Board and Executive Committee (ExCo) reviewed and agreed on our strategy to achieve carbon neutrality before 2050. They also provided guidance on the SFC’s *Agenda for Green and Sustainable Finance*, international standard setting and alignment with international and domestic standards, as well as the development of a carbon market in Hong Kong.

The SFC’s Investment Committee enquires into how and to what extent our external fund managers incorporate environmental, social and governance (ESG) principles into their investment and risk analysis processes. To ensure that they comply with the SFC’s

Principles of Responsible Ownership, we regularly communicate with them and engaged an independent consultant to oversee and assess their ESG commitments and practices.

Our International Affairs and Sustainable Finance team<sup>3</sup> is responsible for coordinating our sustainable finance efforts at the local, regional and global levels. The team advises the Board, ExCo and senior management on strategies to promote sustainable finance and coordinates with the HKSAR Government, other regulatory agencies and industry bodies to formulate and implement related initiatives.

Our cross-divisional Sustainable Finance Working Group, comprising members from across the organisation, coordinates policy initiatives and our organisation’s activities in line with our overall strategy for sustainable finance and reports to the Board and ExCo periodically.



The SFC’s *Agenda for Green and Sustainable Finance*

2 The Board is responsible for setting the overall direction and providing strategic guidance on policymaking, whilst the Executive Committee is responsible for considering policy and operational proposals. See Corporate Governance on pages 77-90.  
3 Ms Christine Kung, Head of International Affairs and Sustainable Finance, reports directly to our Chief Executive Officer, Ms Julia Leung.

## Strategy: Maintain transparent markets and protect investors

Our key priorities are to advance Hong Kong's position as a sustainable finance hub internationally and within the Asia-Pacific region, including in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), and to implement measures which enhance financial market transparency and ensure investor protection.

### A climate-first approach

Climate change presents multiple risks affecting both the real economy and the entire financial system. These include risks related to the physical impact of climate change and the transition to a lower-carbon economy, which could affect the operations of not only the firms we regulate but also the SFC.

Addressing the risks arising from climate change will require significant financial resources. As an international financial centre, Hong Kong has long served as a bridge for capital flows between international investors and Mainland China. It has a sound legal and regulatory system, deep and liquid capital markets and a diverse product mix. Building on these unique strengths, local regulators including the SFC have been developing an ecosystem to support capital allocation for a low-carbon transition.

### Our key sustainability initiatives



Greenwashing is a growing concern given the exponential growth of sustainable finance. This may weaken confidence in and dilute efforts towards an orderly and effective green transition and pose investor protection risks. Gatekeeping against greenwashing remains a top priority, and we are monitoring the latest developments and have taken measures to combat greenwashing.

### A comprehensive regulatory framework

Under our comprehensive sustainable finance policy framework, we support building the local sustainable finance ecosystem and actively contribute to international standard setting by taking a lead at the International Organization of Securities Commissions (IOSCO).

We have achieved the goals set out in our 2018 *Strategic Framework for Green Finance*<sup>4</sup> and published in August 2022 our strategic roadmap, *Agenda for Green and Sustainable Finance*, to set out the next steps. We will focus on corporate sustainability disclosures, enhancing sustainable finance measures<sup>5</sup> and developing a regulatory framework for carbon markets (see sidebar on page 97). In October 2022, we launched a dedicated sustainable finance section on our website containing information about these initiatives.

4 The goals set out in the *Strategic Framework for Green Finance* included: (i) enhancing climate-related corporate disclosures in line with the TCFD recommendations; (ii) developing policies and guidance for asset managers' disclosures and combating greenwashing; (iii) facilitating the development of green-related investments; (iv) supporting investor awareness of and capacity building in green finance; and (v) participating in international sustainability initiatives with a view to promoting Hong Kong as an international green finance centre. These goals have been largely completed and, in some cases, further expanded.

5 Including measures for ESG funds, asset managers, green taxonomies, education and training, technology and innovation.

## Sustainability

Our robust regulatory framework cover listed companies, asset managers and ESG funds. We also provide information and guidance to the industry and enhance investor awareness about how climate and sustainability may affect investments.

### Listed companies

We have been working closely with the Stock Exchange of Hong Kong Limited to develop draft climate-related reporting requirements for listed companies in Hong Kong referencing the expected International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards to be issued by the International Sustainability Standards Board (ISSB)<sup>6</sup>, and to assess these companies' capabilities and readiness to keep pace with emerging international standards, with a view to enhancing the quality of climate-related disclosures in Hong Kong<sup>7</sup>.

As Hong Kong's financial markets host many businesses with sizable Mainland operations and value chain exposures, we have been engaging with the China Securities Regulatory Commission to ensure that our approach considers the pace of regulatory developments on the Mainland.

### Asset managers

Fully effective on 20 November 2022, the SFC's new code of conduct for fund managers requires them to systematically assess climate-related risks associated with their investment strategies and portfolios and to provide investors with appropriate disclosures. We are closely monitoring the implementation of the new requirements, which aim to meet investors' growing need for consistent and comparable climate-related information to make informed investment decisions and help them understand the impact of climate change on their investments.

The use of ESG ratings and data products by asset managers and funds has increased considerably owing to investors' increasing demand for ESG products. We are conducting a fact-finding exercise and focus group meetings to help us analyse the business models of ESG ratings and data products providers and how their products are used in the fund management industry<sup>8</sup>.

### ESG funds

We manage a central database for all SFC-authorized ESG funds on our website. To enhance transparency, the database lists these funds' main features, including their key investment themes and strategies. There were more than 180 SFC-authorized ESG funds as of 31 March 2023.

We closely monitor ESG funds' compliance with our enhanced requirements for disclosures and annual assessments<sup>9</sup>, which aim to help investors understand the features of these funds and determine whether they meet their investment needs.

We also keep abreast of global developments in this area, including regulatory requirements in other jurisdictions, the use of third-party ESG ratings and data products as well as the adoption of the Common Ground Taxonomy. We will develop additional policies to align with international market and regulatory developments.

### Enhancing investor education

We work with the Investor and Financial Education Council (IFEC), an SFC subsidiary dedicated to improving financial literacy in Hong Kong, to raise public awareness and understanding of sustainable finance through mass communication and public outreach initiatives.

6 The ISSB was formed by the Trustees of the IFRS Foundation in November 2021. The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

7 Currently, the Listing Rules require listed companies to disclose certain ESG information on a mandatory basis, including their governance structure, reporting principles and reporting boundary, and other ESG information such as environmental key performance indicators or metrics on a comply-or-explain basis.

8 See Strategic Priorities on pages 7-13.

9 See our 29 June 2021 Circular to management companies of SFC-authorized unit trusts and mutual funds - ESG funds.





Speaking in an episode of RTHK's Hong Kong Connection

Ms Christine Kung, Senior Director and Head of International Affairs and Sustainable Finance, introduced to the public local and international initiatives to promote global standards and combat greenwashing in an episode of Hong Kong Connection, a Radio Television Hong Kong (RTHK) programme.

The IFEC launched a number of sustainable finance initiatives during the year:

- IFEC General Manager Ms Dora Li discussed ESG investment opportunities in Hong Kong in an interview with the *Hong Kong Economic Times* published in June 2022.
- An IFEC blog article and social media posts explained the Government Green Bond Programme, including the inaugural retail green bond, in April 2022.
- A media alert in April 2022 promoted awareness of sustainable finance and investment products through the findings of the IFEC's *Retail Investor Study 2021* and introduced additional education resources.

The IFEC also published blog articles and social media posts about green bonds and carbon neutrality to support World Investor Week 2022, which featured sustainable finance as a key theme.



IFEC initiatives to promote investors' awareness and understanding of green and sustainable investment

## A leading voice in the international regulatory community

Climate change and other sustainability concerns are global in nature. A coordinated approach is essential to effectively understand and address climate and sustainability-related risks and opportunities, and mitigate any potential risks of regulatory fragmentation and arbitrage. International standards and policy recommendations play an important role in informing our domestic policy agenda, which we seek to align with international best practices with a view to demonstrating a pathway for developing sustainable finance regulations in the region.

We keep in view both the urgency of the climate crisis and the challenges faced by emerging economies. Our international priority is to ensure global regulatory approaches and requirements are interoperable and adopted across jurisdictions. In particular, we exert a positive influence on the development of international sustainability reporting standards through our leading role in IOSCO's Sustainable Finance Task Force (STF) which our Chief Executive Officer (CEO), Ms Julia Leung, is Vice Chair and Co-Chair of its Corporate Reporting Workstream (see sidebar on page 96).

We also contributed to the work of two other IOSCO STF workstreams on promoting good practices for asset management and ESG ratings and data products providers, and carbon markets.

Ms Christine Kung leads the Sustainable Finance Working Group of the IOSCO Asia Pacific Regional Committee (APRC). To drive consistent sustainable finance regulation across the region, this group surveyed its members on their latest regulatory developments during the year to inform its 2023-24 workplan.

In addition, we represent IOSCO in the Financial Stability Board's Working Group on Climate Risk, and are an observer in the Network of Central Banks and Supervisors for Greening the Financial System and the Climate Disclosure Advisory Group of the United Nations Sustainable Stock Exchanges Initiative. We are also a supporter of the TCFD Recommendations and a member of the International Platform on Sustainable Finance.

### Support for global sustainability standards

The availability of consistent and comparable corporate information about the impact of climate- and sustainability-related risks and opportunities on business operations and strategies is essential for informed pricing of assets. It can also drive increased investment in sustainable products and activities and help investors make more informed decisions.

The SFC was an early supporter of the ISSB's efforts to develop global baseline sustainability standards, which seek to meet investors' information needs by facilitating high-quality disclosures. Through our

involvement in IOSCO, we play an active part in developing these standards, which are expected to be finalised by mid-2023.

The IOSCO STF Corporate Reporting Workstream spearheads IOSCO's review of the IFRS Sustainability Disclosure Standards to be issued by the ISSB, with an eye to its potential endorsement which would pave the way for potential global adoption by more than 130 IOSCO member jurisdictions. During the year, the workstream regularly engaged with the ISSB to provide detailed feedback on its proposed standards, considered issues relating to the digital reporting of sustainability information, and carried out work to support the development of a sustainability-related assurance framework.

### An enabling local ecosystem

Sustainability considerations are not only cross-border but also cross-sectoral in nature. Recognising the need to strengthen local coordination, we initiated and co-lead Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group<sup>10</sup>, which aims to coordinate the management of climate and environmental risks, accelerate the growth of green and sustainable finance and support the HKSAR Government's climate strategies.

During the year, the Steering Group made progress towards implementing its 2020 *Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future*. It launched:

- the Green and Sustainable Finance Training Information Repository, which facilitates access to information about local and international training and qualifications;
- the Green and Sustainable Finance Internship Opportunities Repository, an information platform for university students seeking to gain related work experience;

- the Green and Sustainable Finance Data Source Repository, which helps the financial sector locate data sources for climate risk management as well as analysis and research; and
- the Sustainable Finance Internship Initiative, which we and other financial regulators encouraged our regulatees to join via a joint letter.

The Steering Group also works with the Government on administering the Pilot Green and Sustainable Finance Capacity Building Support Scheme, which was announced by the Financial Secretary of the HKSAR in the 2022-23 Budget and launched in December 2022.

To enhance data availability and promote capacity building, we are leading the Steering Group's efforts to create a free and publicly accessible greenhouse gas emissions estimation tool, with clearly-disclosed methodologies, for companies to use as an alternative source of information.

<sup>10</sup> Established in May 2020, the Steering Group is co-chaired by the SFC and the Hong Kong Monetary Authority, and also includes the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.



The Steering Group also launched a new website to promote Hong Kong's strengths as a sustainable finance hub and outline its 2023-25 priorities for world-class regulation, data and technology for

transition, market opportunities and product innovation as well as communication, capacity building and collaboration with the Mainland, regional and global markets.

## Carbon market opportunities for Hong Kong

Carbon trading is a key tool to mobilise finance for the transition to a low carbon economy. Hong Kong can add value to global carbon markets by leveraging its close links with Mainland China and facilitating global capital flows into the Mainland's carbon markets.

In March 2022, the Steering Group's Carbon Market Workstream, which we co-chair with Hong Kong Exchanges and Clearing Limited (HKEX), published its *Preliminary Feasibility Assessment of Carbon Market Opportunities for Hong Kong*. The report outlines the next steps to develop Hong Kong into a global, high-quality voluntary carbon market in cooperation with the GBA and other Mainland authorities, and it paved the way for HKEX's October 2022 launch of Core Climate, a new international carbon marketplace for the trading of voluntary carbon credits and instruments.

In line with the report's recommendations, HKEX will continue to work with relevant authorities on carbon market opportunities as part of its cooperation with the Mainland, including the GBA. We will focus on identifying the appropriate regulatory framework for the proposed business models, taking into account ongoing global initiatives in standard setting with respect to product integrity and the legitimate use of carbon credits.

As a member of the Carbon Markets Workstream under the IOSCO STF, we contributed to IOSCO's consultative documents on compliance and voluntary carbon markets, which were published during the 27th United Nations Climate Change Conference of the Parties in November 2022.



*Preliminary Feasibility Assessment of Carbon Market Opportunities for Hong Kong*

### Nurturing sustainable finance talent

To familiarise young people with regulatory and market developments in sustainable finance, we organised a training module, *Hong Kong's Global Approach to Sustainable Finance*, for more than 100 university students in January 2023. The training introduced participants to local and global regulatory initiatives for asset management, corporate disclosures, investment products, stress testing and taxonomies, and featured keynote addresses from Professor Elvis Au, former Deputy Director at the Environmental Protection Department, and Ms Teresa Ko, Vice Chair of the Trustees of the IFRS Foundation.

In December 2022, we introduced our Sustainable Finance Internship Programme to contribute towards Hong Kong's overall ESG capacity building and professional skills development efforts. This

structured programme provides university students with exposure to setting and implementing sustainable finance policies during a 3-8 week internship.



*Hong Kong's Global Approach to Sustainable Finance* training module

### Risk management: Monitoring sustainability risks

We take active steps to identify, assess and manage climate and sustainability-related risks to our regulatees and the SFC. Our cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a comprehensive manner, including macro financial risks and operational risks relating to climate and sustainability. The group reports to the Board and ExCo regularly.

#### Risks to regulatory initiatives

Our local and international engagements inform our identification and assessment of climate and sustainability-related risks. We are a member of the IOSCO Committee on Emerging Risks, which focuses on the identification and assessment of regulatory issues across securities markets and informs the IOSCO Board in determining key priorities. Addressing new risks in sustainability is a key priority area for IOSCO for 2023-24. We also held meetings and calls with regulatory bodies and the industry<sup>11</sup> on the latest developments and risks associated with climate and sustainable finance.

To support the financial sector's consideration and management of climate and sustainability risks, we have introduced a number of regulatory requirements and guidance, and worked with regulators and stakeholders to promote the adoption of global standards.

#### Risks to operational activities

To assess the impact of climate on our operations, we engaged an external consultant to conduct a corporate emissions footprint assessment and monitor our emissions on a regular basis (see the next section for details).

We manage climate-related risks to our operations and office premises in our business resumption plan, which we regularly update to mitigate business continuity risks. The plan covers our office premises, communications and computer services, and considers risks including climate-related physical risks, technical problems, fires, natural disasters and other emergencies. We also conduct regular simulation exercises and have established emergency response teams for critical crisis management to ensure that we maintain operational capabilities in the event of major incidents.

<sup>11</sup> Including with overseas regulators and other authorities, local and international industry associations, professional bodies and other market participants.

## Metrics and targets: Taking stock of our climate impact

As a responsible organisation, we are committed to addressing the full range of risks arising from climate change and sustainability. In April 2023, we announced our commitment and strategy towards achieving carbon neutrality before 2050, in line with the HKSAR Government's *Hong Kong's Climate Action Plan 2050*. We set an interim target of reducing 50% of our total carbon emissions by 2030, and will periodically disclose the status of our carbon reduction efforts.

### Our carbon emissions footprint

We engaged an external consultant to assess our organisation's emissions footprint covering categories under scopes 1 (direct emissions), 2 (indirect emissions), and 3 (value chain and investments)

emissions under the Greenhouse Gas Protocol. The assessment found that our main sources of emissions were electricity (scope 2), purchased goods and services (scope 3), and investments (scope 3).

Based on this assessment and the consultant's recommendations, we adopted the 2021-22 financial year as the base year for our carbon neutrality commitment for investments, and the 2018-19 financial year as the base year for other categories, taking into account the availability of relevant data and the factors which contributed to significant variations in our total emissions during these years, such as the prolonged periods when staff worked from home during the COVID-19 pandemic.

The table below shows the Scope 1, 2 and 3 emissions for our baseline and the 2022-23 financial year.

### The SFC's Scope 1, 2 and 3 emissions<sup>a</sup>

(tCO <sub>2</sub> e <sup>b</sup> )	2022/23	Baseline
<b>Scope 1</b>		
Fuel	14.6	14.1
<b>Scope 2</b>		
Electricity	2,118.6	3,270
<b>Scope 3</b>		
Air travel	149.6	639.1
Investments	59,904.8 <sup>c</sup>	95,024.3
Purchased goods and services	8,319.6	9,139.1
Others <sup>d</sup>	88.9	157.5
<b>Total</b>	<b>70,596.1</b>	<b>108,244.1</b>

a The emission figures listed in the table were computed by the SFC's consultant based on available data, and in some cases are subject to estimation.

b Tonnes of carbon dioxide equivalent.

c The decrease in financed emissions was mainly attributable to certain bond maturities being repositioned into greener sectors, underlying reductions in the carbon footprint of existing holdings and corporate activity of investee companies. Estimates were applied by the consultant where appropriate.

d Including electricity transmission and distribution, hotel accommodation, car rentals and waste.



## Sustainability



Electricity and waste management are the main sources of our operational emissions. Our landlord, Swire Properties, has established 1.5°C-aligned Science-Based Targets to pave the way towards net-zero emissions by 2050. We were the first cohort of companies to participate in its Green Performance Pledge, an action-oriented programme that provides tools and support for tenants to improve their performance on energy, water and waste reduction. In 2022, our premises received an energy audit to identify potential energy saving opportunities and we were awarded the Silver rating overall. We will continue working with Swire Properties under the programme with a view to reducing our consumption further.

To meet our carbon neutrality targets, we will need to reduce our portfolio's financed emissions. We closely monitor our investment portfolio and engage with our fund managers to relay our targets, understand our financed emissions, request disclosures of emissions metrics as appropriate and consider greener investment options.

We will review the allocation of assets in our investment portfolio in the coming financial year and develop a more holistic investment strategy which considers the external consultant's assessment and recommendations. This review will consider our internal investment guidelines and procedures for climate-related risks, and take into account industry best practices and emerging regulatory requirements.

To achieve our sustainability goals, building a culture of sustainability within our organisation is essential. In selecting our current office premises in Quarry Bay, we took into consideration green factors such as the quality of the energy-efficient, low-carbon building, which received a Building Environment Assessment Method rating of Platinum, the highest rating available. We also considered the building management's environmental-friendly measures—from energy efficiency and water conservation to indoor air quality and waste management.

We have also introduced initiatives to increase staff awareness of the need to decarbonise and reduce our carbon footprint<sup>12</sup> and enhanced our internal staff training curriculum to support the development of our sustainable finance regulatory initiatives.

12 See Corporate Social Responsibility on pages 101-107.

# Corporate Social Responsibility

Our corporate social responsibility (CSR) initiatives focus on caring for the community, supporting sustainability, protecting the environment and promoting staff wellness.

## A socially responsible organisation

As a regulator in an international financial centre, we are committed to acting as a socially responsible organisation and incorporating CSR principles into our daily operational decisions and practices.

Reporting directly to the SFC’s Executive Committee, the CSR Committee plans and coordinates our CSR efforts. It is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs, and its members include representatives from units across the organisation.

The committee is responsible for:

- formulating and developing our CSR vision, principles, framework and policies;

- organising and promoting CSR activities; and
- setting objectives, targets and key performance indicators to measure the effectiveness of our CSR efforts.

The three working groups under the CSR Committee—the Commission Volunteers Group (CVG), Green Working Group and Wellness Group—are tasked with planning and implementing initiatives under specific themes.

We explain our CSR goals, principles and activities on our corporate website and intranet, and circulate a quarterly e-newsletter to update staff about our CSR initiatives. The newsletter is also a platform for participants to share first-hand accounts of our CSR activities and for staff to provide feedback.

Our CSR efforts were recognised by the Hong Kong Council of Social Service which has named us a “Caring Organisation” since 2006.

## CSR working groups and themes



## Corporate Social Responsibility

### Fostering a greener marketplace

As a regulator of Hong Kong's financial markets, we adopt measures to enhance industry-wide operational efficiency and conserve energy. We also promote environmentally-responsible practices.

### Supporting a more efficient financial industry

Our fully digitalised licensing platform WINGS<sup>1</sup> 2.0, together with a companion mobile application WINGS Mobile, provides a one-stop, comprehensive service for users to electronically sign and submit licensing applications and other documents and communicate more efficiently with us. As of end-March 2023, about 98% of licensed corporations have activated their WINGS accounts and 208,000 applications and regulation filings have been electronically signed and submitted via the platform, while about \$67 million in fees were paid to the SFC electronically. We no longer accept licensing applications in paper form and over 620,000 sheets of paper have been saved since the launch of WINGS 2.0.



### Community

We provide our staff with volunteering and engagement opportunities to make a positive change in the community and offer volunteering leave to encourage staff participation in community service. This year, 99 SFC staff spent a total of 409 hours volunteering which covered elderly caring, youth development, society inclusion, animal protection and environmental conservation.



Our staff support community services through donations and participating in fund-raising events. This year, we raised a total of \$80,156 through our Christmas charity sale and four Community Chest events: Green Low Carbon Day, Dress Casual Day, Love Teeth Day and Skip Lunch Day.

Donating used items to charities helps people in need and reduces waste in landfills. This year, we donated 127 desktop computers to the needy through the Caritas Computer Workshop and collected 12 cartons of toys, clothing and books for the Salvation Army Recycling Programme. To promote a sharing culture and circulate resources, we encouraged staff to join events organised by Swire Properties including the Mooncake Sharing Programme, Books For Love@\$10 charity book sale and Noodles For Love matching donation scheme.



Making hygiene kits from recycled soap for the homeless

<sup>1</sup> Web-based INTeGrated Service.



Computer donation



Shoreline cleanup

We partnered with Soap Cycling to prepare 100 hygiene kits containing recycled soap for the homeless and street cleaners in Hong Kong. In addition, we donated 16,400 surgical masks to the Hong Kong Women Workers' Association. We also collaborated with Fu Hong Society and the Hong Kong Society for Rehabilitation to sell groceries and items made by their members at our in-house Christmas charity sale, where additional funds were raised from the sale of items handmade by our staff.

We joined hands with Neighbourhood Advice-Action Council to launch a one-year "Phone call support to elderly" programme in August 2022. As part of the programme, 14 staff volunteers made phone calls to elderly persons in 28 households at least twice a month to help them feel connected and cared for as well as to check on their health, find out what they need and refer cases to social workers when necessary.

### Environment

We strive to manage our consumption and minimise our carbon footprint<sup>2</sup>. An internal protocol, *A Guide to Working "Green" at the SFC*, sets out guidance for staff to protect the environment at the workplace.

Energy-conserving features in our office include motion and daylight sensor lighting. The office layout was designed to allow more natural light. Recycling bins collecting a range of materials are available at convenient locations across the office.

We use electronic processes for internal procedures to reduce our paper consumption. Meeting materials are shared on tablet computers. To encourage eco-friendly printing habits, we explain to staff the environmental impact of colour printing and remind them to consider the environment before pushing print. Starting from last year, our annual report is only published online as a digital version.

### Contributions

	2022/23	2021/22	2020/21
Number of staff participating in volunteering activities	99	39	20
Total volunteering hours	409	120	40
Funds raised for community causes	\$80,156	\$86,922	\$47,739
Corporate sponsorships for community causes <sup>^</sup>	\$24,185	\$2,000	N/A

<sup>^</sup> Including donations in lieu of corporate gifts made in the names of guest speakers invited to our in-house training seminars.

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

# Corporate Social Responsibility

## Volunteering events

Month	Activity	Purpose	Outcome
June 2022	Soap recycling session with Soap Cycling	To improve the personal hygiene of the less privileged and promote a greener lifestyle	22 staff volunteers helped reprocess soap discarded from hotels and prepared 100 hygiene kits for the homeless and street cleaners
August 2022- August 2023	Phone call support to the elderly with Neighbourhood Advice-Action Council	To provide emotional support to the elderly	14 staff volunteers were paired with elderly individuals and checked in on them over the phone at least twice a month
August 2022	Computer donation to Caritas Computer Workshop	To give away items to those in need and reduce electronic waste in landfills	Donated 127 desktop computers
August 2022	Shoreline cleanup at Bayside Beach	To raise awareness of plastic pollution in oceans	15 staff volunteers participated in the beach cleanup
November 2022, February 2023	Care for abandoned animals at Hong Kong Dog Rescue (HKDR)	To raise awareness about abandoned animals' welfare and promote kindness to animals	20 staff volunteers visited HKDR's homing centre and raised \$3,050 for the charity
December 2022	Christmas charity series	To raise funds and spread Christmas joy to the underprivileged	Six staff volunteers made pastries and handicrafts for the charity sale
January 2023	Storytelling with kindergarteners with the Tung Wah Group of Hospitals	To help kindergarten children develop a good reading foundation	28 colleagues and their family members spent a morning with 25 kindergarteners reading story books and decorating cookies at a bakery operated by a social enterprise
March 2023	Surgical masks donation to Hong Kong Women Workers' Association	To help frontline workers stay safe and healthy	Donated 16,400 surgical masks



Storytelling with kindergarteners



Care for abandoned animals



Rooftop farming

Other green practices adopted in our workplace to use resources more efficiently include:

- sharing recycling tips and information with staff;
- recycling coffee grounds;
- reusing stationery by providing stationery refills;
- automatically turning off desktop computers every weekend;
- setting black and white printing as the default for all staff; and
- reducing the number of rubbish bins in common areas.

We organise activities for our staff and their family members to raise environmental awareness and promote a low-carbon, sustainable lifestyle. We partnered with the Conservancy Association to organise a guided eco-heritage tour of Tai Tam Country Park for our staff. In August 2022, 15 staff and their family members joined the Shoreline Clean-up Day at Bayside Beach, Sai Kung, where the participants gained a better understanding of marine protection from the representatives of the Environmental Protection Department.

A total of 128 staff participated in green workshops on urban farming, microgreens and kitchen herbs organised by Swire Properties. We also held a Kokedama workshop for staff to learn a Japanese method for growing indoor plants. To reduce waste and help protect the environment, staff recycled used red packets in support of Greeners Action's campaign and encouraged staff to donate mooncake boxes, old books and clothing.

We support the World Wide Fund for Nature's global warming prevention and environmental conservation causes.

- No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve shark fins at any SFC event.
- Earth Hour 2023: We took part in this annual energy conservation event for over 20 years. We encouraged staff to switch off lights for one hour and made a pledge as a corporate supporter.

To raise awareness of global warming and promote wise use of air conditioning, we supported Green Sense's No Air Con Night, which called on households to switch off their air conditioning for 12 hours.



**Our staff volunteering activities are a great way to give back to the community and I get to spend quality time with my two daughters while offering a helping hand to others.**

**Henry To**  
Senior Manager,  
Supervision of Markets

# Corporate Social Responsibility

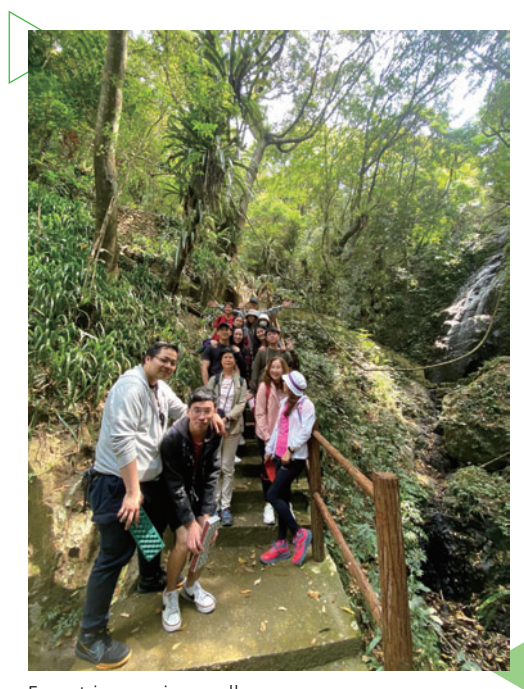
## Consumption and recycling

	2022/23	2021/22	2020/21
<b>Consumption</b>			
Paper (pieces/head)	5,429	5,421	7,321
Electricity (kWh)	2,924,902	3,322,576	3,055,590
<b>Recycling</b>			
Paper (kg)	25,095	19,669	66,464
Toner and printer ink cartridges	637	715	897

## Wellness

We are dedicated to creating positive mental health for our staff and the wider community as well as promoting best practices for corporate policies. In April 2022, we introduced a flexible wellness benefit in our staff medical insurance plans which entitles staff and their family members to a yearly maximum of \$2,500 to be used to help maintain a healthy work-life balance. Clinical psychology and counselling services for staff and their immediate family members are offered as part of our Employee Assistance Programme. We organise yoga classes and encourage staff to try out a range of wellness activities in our office.

As a founding member of the City Mental Health Alliance Hong Kong (CMHA HK), we actively participate in its activities. During the year, we took part in the CMHA HK Mental Health in the Workplace Surveys to help better address and support mental health and wellbeing in the business community.



Forest immersion walk

We also promoted free webinars and articles offered by CMHA HK and Mind Hong Kong to provide staff with more resources for maintaining both physical and mental health and organised a talk with Family Development Foundation on how to relieve stress and maintain a positive parenting style. To support both World Mental Health Day and World Suicide Prevention Day, we promoted related events via email and shared useful links and information.

Other activities were organised during the year to promote physical and mental health:

- two nutrition talks introduced the Keto diet and intermittent fasting, and shared tips on boosting immune systems and post COVID recovery respectively;
- a "Drink Healthy and Walk for Wellness" initiative encouraged staff to exercise more and consume more vegetables every day;
- a mental health talk promoted positive parenting styles, shared tips to relieve stress and maintain a balance between work and home;
- a home organising and decluttering workshop helped discourage hoarding;
- an online skincare talk shared tips on addressing common skin problems during the pandemic;
- a forest immersion walk provided staff and their family members with an opportunity to connect with nature; and
- a Zentangle art workshop provided staff a relaxing time experiencing the mesmerising and creative art form.

### A sense of purpose

The job of organising our staff CSR activities involves more than choosing a cause and taking care of logistics. Leane Ma, a member of the CSR Committee which oversees our CSR efforts, and Jenny Chak, CVG co-chairperson, explained that activities must align with our corporate culture and be suitable for our staff as well as their family members.

During the pandemic, social distancing measures created uncertainty and posed additional challenges. In response, "we simply changed for the change," said Jenny. They were deeply touched by how much colleagues were willing to give back to society throughout the crisis. "At the most critical times, the overwhelming response to our fund-raising and donation initiatives was particularly encouraging and drove us to expand our charity efforts," Leane added.

More fundamentally, organising activities that connected colleagues and made a positive impact on the wider community was highly rewarding to both of them personally. "We definitely felt a sense of purpose," they agreed.



Leane Ma (left), CSR Committee member  
Jenny Chak, CVG co-chairperson