

# 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

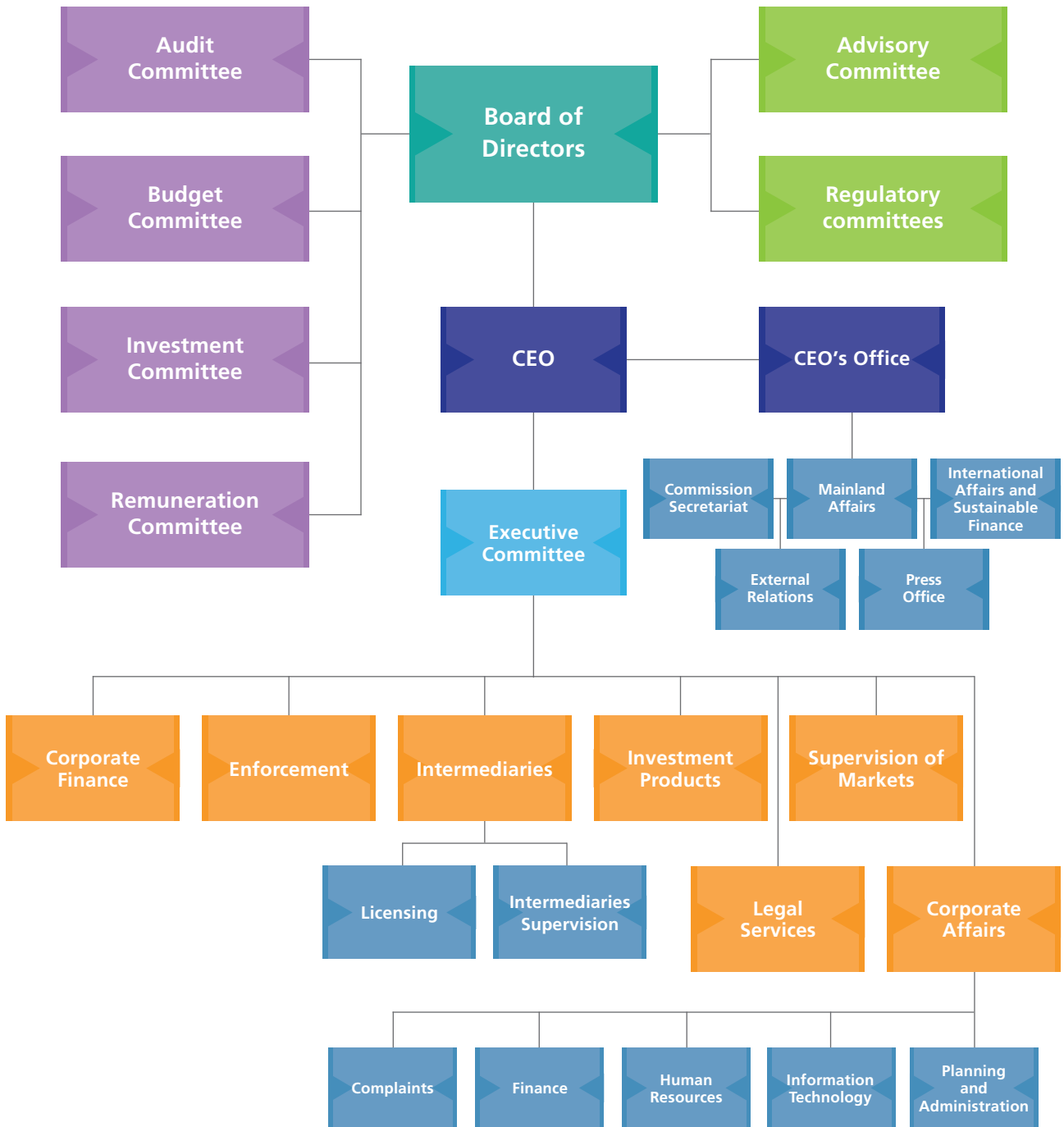
*The key challenges for the corporate governance of public bodies like the SFC is that we must be seen to be upholding the highest levels of governance as well as transparency in the work that we do.*

*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.

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### 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.

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- 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.