

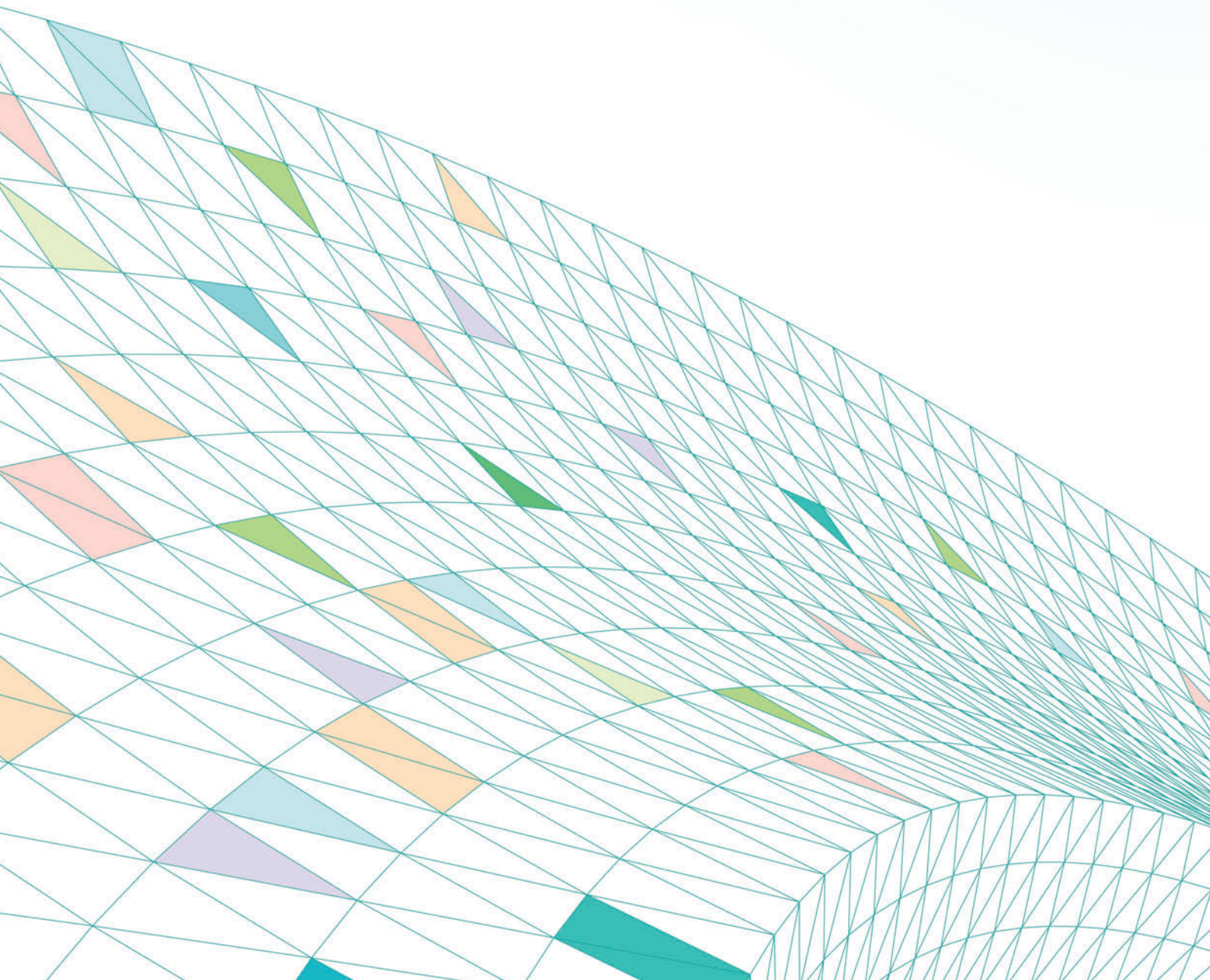


**SECURITIES AND
FUTURES COMMISSION**
證券及期貨事務監察委員會



Annual Report **2022-23**

Hong Kong plays a unique role intermediating global capital between China and the rest of the world. The Securities and Futures Commission strives to maintain the integrity and transparency of the markets it regulates and to protect the interests of the investing public.



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Mission and Mandates

The Securities and Futures Commission (SFC) is an independent statutory body set up in 1989 to regulate Hong Kong's securities and futures markets.

Mission statement

As a financial regulator in one of the world's leading international financial centres, the SFC strives to strengthen and protect the integrity, orderliness and competitiveness of the securities and futures markets in Hong Kong for the benefit of the industry, investing public and Hong Kong's society as a whole.

Mandates

Our work is defined and governed by the Securities and Futures Ordinance (SFO), which sets out our powers, roles and responsibilities.

Our statutory objectives

Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry

Help the public understand the workings of the industry

Provide protection for the investing public

Minimise crime and misconduct in the industry

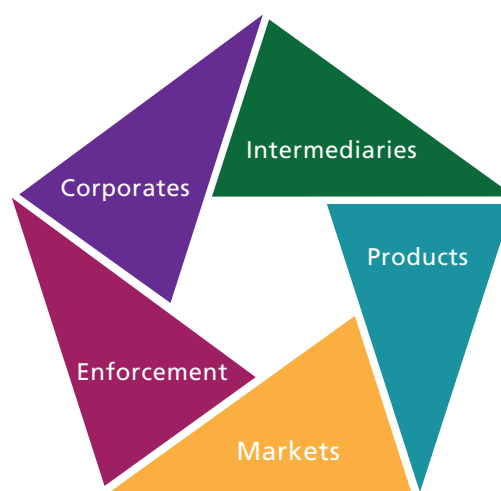
Reduce systemic risks in the industry

Maintain Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. Since then, our education function has been delegated to a subsidiary, the Investor and Financial Education Council (IFEC), fully funded by us, which is dedicated to promote and deliver free and impartial investor and financial education resources and programmes to help improve the financial literacy level of the people in Hong Kong.

The Investor Compensation Company Limited, another subsidiary, was established in 2003 to manage and administer claims against the Investor Compensation Fund. It provides a measure of protection for investors in cases of broker default.

Regulatory functions



Our work can be divided into five principal areas. We adopt a multidisciplinary approach under a "one SFC" ethos to leverage all of our regulatory tools and pool our expertise to achieve our objectives.

Corporates

We oversee listing and takeovers matters in Hong Kong, including the vetting of listing applications, disclosure requirements for listed companies, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK).

Empowered by the Securities and Futures (Stock Market Listing) Rules and more generally under the SFO, we intervene in corporate cases at an early stage when we have reason to believe that a proposal may be harmful to investors or the broader public interest. We may raise objections to listing applications and transactions proposed by listed companies, or direct SEHK to suspend trading in a listed company's shares.

On a daily basis, we monitor company announcements to identify misconduct or irregularities. We facilitate the fair treatment of investors in corporate activities such as mergers, takeovers, privatisations and share buy-backs.

Intermediaries

We set standards and qualifying criteria for corporations and individuals operating in our markets under the SFO. To protect the investing public, we allow only “fit and proper” persons to be licensed or registered.

We supervise licensed intermediaries to ensure financial soundness and compliance with business conduct requirements through off-site monitoring and on-site inspections. Our approach aims to detect risks early and through timely intervention prevent them from spreading. We promote the industry’s awareness of emerging issues and encourage proper market conduct by providing appropriate guidance.

We work closely with local and overseas regulatory counterparts and participate in international supervisory fora to enhance cooperation and coordination.

Products

To develop Hong Kong as a full-service international asset and wealth management centre and preferred fund domicile, we formulate policies and support initiatives for the regulation of the asset and wealth management industry.

We maintain robust regulations for investment products offered to the public in Hong Kong under the SFO. We act as gate-keeper in authorising investment products and monitoring their compliance with disclosure and other requirements.

We require offering documents for retail investment products to be accurate and to provide adequate information for investors to make informed decisions.

Markets

We formulate policies to facilitate the development of market infrastructure and boost links with Mainland and international markets. To help reduce systemic risks, we monitor and collect quantitative information about the financial markets.

We also supervise market operators including exchanges, clearing houses, share registrars and alternative trading platforms.

Enforcement

To maintain market integrity and protect the investing public, we combat crime and misconduct in the Hong Kong securities and futures markets through our

surveillance, investigative and disciplinary work. Where appropriate, we take action to remedy the effects of market misconduct by applying to the court for injunctive and remedial orders.

We work with other law enforcement agencies as well as Mainland and overseas regulatory bodies on investigations where required.

Our major enforcement actions include criminal prosecution and civil, disciplinary and market misconduct proceedings.

Market development

To maintain Hong Kong’s status as a leading international financial centre, we endeavour to expand the breadth and depth of our financial markets and enhance our market infrastructure to provide an environment to nurture the healthy and sustainable growth of participants and businesses, without compromising investors’ interests. We also welcome innovation and constantly review our perimeters to ensure our regulatory framework is clear, robust and accommodates technological advances.

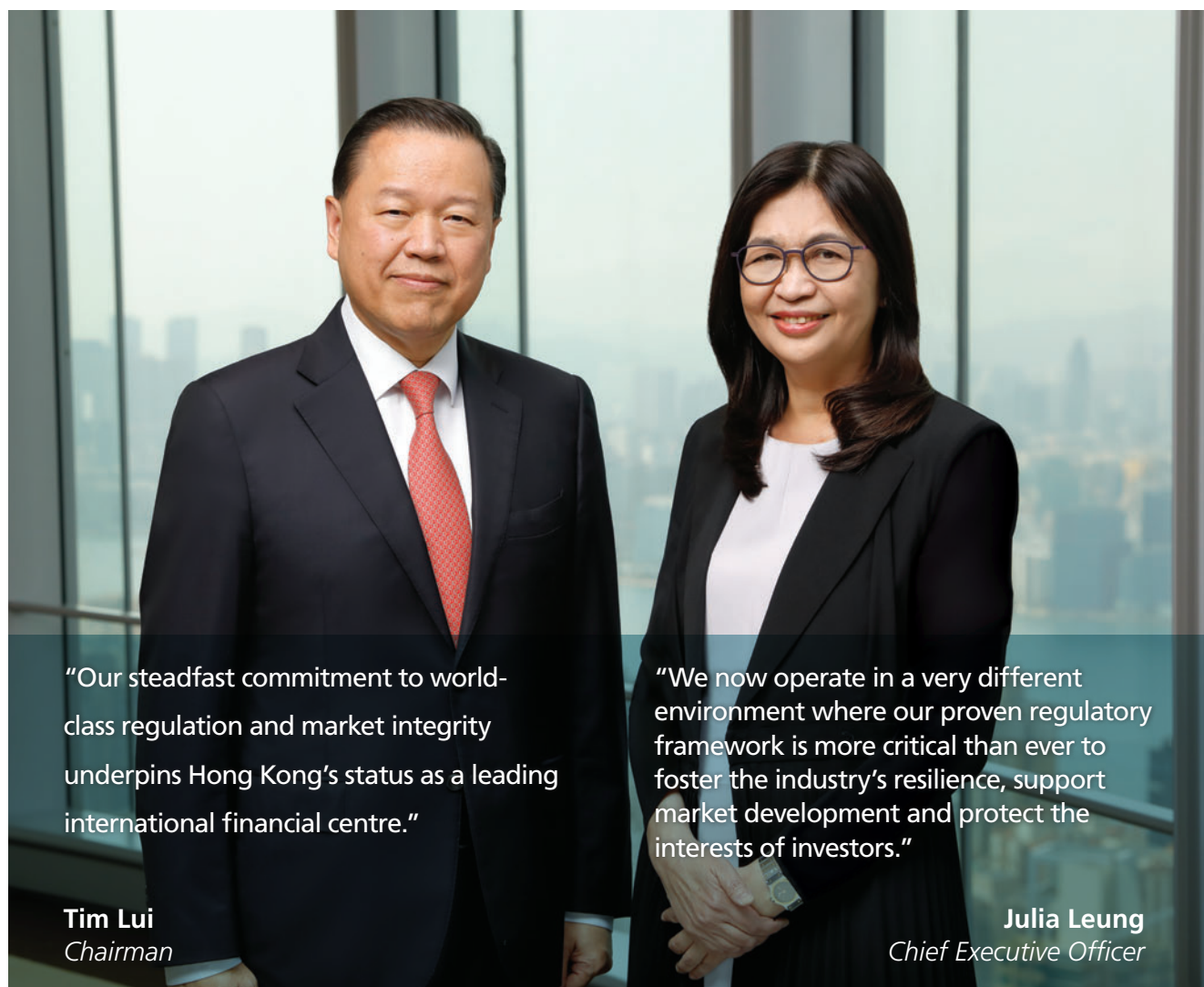
Regulatory collaboration

To ensure our regulatory framework aligns with global standards, we actively participate in the International Organization of Securities Commissions and other global rule-setting bodies. We work closely with local and Mainland authorities on regulatory and market development initiatives to support Hong Kong’s long-term strategic development amidst the opening of Mainland financial markets.

Communications and education

We maintain close communication with the industry and investment community to promote a better understanding of our work and the rationale behind our initiatives. We reach out to the industry and the public frequently to explain our functions and policies as well as specific issues to promote and facilitate compliance. When formulating policy or rule changes, we engage the industry and the public at an early stage through a variety of channels to explain our rationale as well as to listen to the perspectives of those who may be affected, before conducting public consultations on proposed rule changes. We promote investor education to help the public understand the workings of the industry, working closely with our wholly owned subsidiary, the IFEC.

Message from Chairman and CEO



“Our steadfast commitment to world-class regulation and market integrity underpins Hong Kong’s status as a leading international financial centre.”

Tim Lui
Chairman

“We now operate in a very different environment where our proven regulatory framework is more critical than ever to foster the industry’s resilience, support market development and protect the interests of investors.”

Julia Leung
Chief Executive Officer

The past year posed major challenges, from global inflation, interest rate hikes and market volatility to geopolitical tensions and the lingering impact of the pandemic. Our markets have stayed resilient and operated smoothly throughout, demonstrating that the risk management and liquidity buffers of our market infrastructure and financial intermediaries have been robust.

Our commitment to the resilience, fairness and integrity of our financial markets is as firm as ever and we strive to uphold Hong Kong’s world-class regulation as a key pillar of its status as an international financial centre. This means ensuring the financial industry is well prepared for any challenges that may arise and providing new opportunities for our markets to develop and grow.

Nurturing quality market growth

The development of quality financial markets to support the sustainable growth of the real economy has always been a top priority. Safeguarding investor interests and managing financial risks through robust regulation, vigilant supervision and relentless enforcement actions are essential to maintain long-term, sustainable market growth which benefits the whole of society.

New initiatives introduced to spur high-quality market growth have given a wider range of companies access to our markets, while enhancements to current programmes such as Stock Connect provide investors with more choice and convenience.

Transparency is key to attract businesses and capital to our markets. We will continue to provide more regulatory guidance to support firms and other market participants seeking to operate in Hong Kong, such as our recent guidance for family offices, private equity firms and hedge fund managers.

In recent years, our efforts to combat ramp and dump scams and corporate misconduct have borne fruit, and they will continue. We will upgrade our market surveillance capabilities to stay ahead of misconduct, using the investor identification regime and other new tools to boost our supervisory capabilities. A sharper focus on cybersecurity is also important for firms to safeguard client funds.

Education and public outreach are core to our effort to maintain market quality. We work closely with our subsidiary, the Investor and Financial Education Council, to monitor trends in investor behaviour and coordinate our outreach to the investing public.

China's global financial centre

As a global financial centre and the premier gateway to the vast Mainland markets, Hong Kong plays a pivotal role in China's financial market opening-up. The various mutual market access schemes, from the debut of Stock Connect in 2014 to Bond, ETF and Swap Connects, have enlarged the investor base for markets in both Hong Kong and the Mainland, and these programmes will be expanded further.

The Greater Bay Area Wealth Management Connect scheme provides investors with a new channel where they can tap into cross-boundary wealth management products and is a big step forward in integrating the Mainland and Hong Kong markets. Another priority is to expand Hong Kong's role as the leading offshore renminbi (RMB) centre, such as by enabling a more diverse array of RMB products and expanding the number of RMB-denominated securities.

Our Mainland counterpart, the China Securities Regulatory Commission (CSRC), has been highly supportive of the expansion of cross-boundary market links. The CSRC collaborates closely with us in enforcement and supervision and we are working together to review our cooperation mechanism to ensure its continued effectiveness.

Embracing innovation and technology

We must nurture new growth in the financial markets by embracing innovation. The success of the biotech listing regime, which helped make Hong Kong Asia's largest biotech listing hub, is testament to our efforts to guide capital to serve real economy needs. The new listing regime for specialist technology companies will take this effort further.

We welcome and support the fintech community. The fintech ecosystem, as well as the blockchain and Web3 technologies which support it, have the potential to benefit investors if implemented properly, and we must be prepared for more innovation. Through our regulatory approach to virtual asset trading platforms, we seek to ensure new financial technology is used in a responsible, compliant and secure manner.

To facilitate our regulatory work, we adopt the latest technology to improve efficiency both for ourselves and those we regulate by digitalising our licensing and fund authorisation processes and deploying supervisory technology and data analytics in our monitoring and investigations. Our ongoing efforts to automate and streamline processes and introduce artificial intelligence will make it easier for the industry to interact with us and comply with our requirements.

Message from Chairman and CEO

Towards a greener future

We will keep up our proactive efforts to combat climate change and foster a sustainable future for financial markets. Our climate disclosure requirements for fund managers have now taken effect, helping ensure Hong Kong stays at the forefront of global efforts to green the asset management industry.

At the same time, we play an active part in the International Sustainability Standards Board's work to develop global corporate climate disclosure standards. Locally, we take the lead in setting climate reporting requirements consistent with international standards and are collaborating with Hong Kong Exchanges and Clearing Limited (HKEX) to consider how to incorporate these standards into reporting requirements for Hong Kong-listed companies.

Mainland companies account for the bulk of Hong Kong's stock market by market capitalisation and HKEX's requirements may have a significant impact on them. Therefore, our approach to global standard adoption has to be gradual and proportionate, while maintaining consistency and ambition. As the Mainland has pledged carbon neutrality before 2060, we can leverage the large footprint of Hong Kong's financial markets to contribute to the nation's carbon neutral ambition.

Professional expertise will be essential if markets are to have a sustainable future, and we join forces with the Government and other regulators to nurture the next generation of sustainable finance talent through training and internship programmes. As an organisation, the SFC has also committed to significantly reducing its carbon footprint and set out a clear roadmap towards carbon neutrality.

Preparing for challenges ahead

As the environment in which we operate continues to evolve, we will build on our solid regulatory foundation to ensure a bright future for Hong Kong as the premier international financial centre to intermediate capital flows between China's opening economy and the rest of the world in the post-COVID era.

Our staff stand ready to advance our key regulatory objectives and deliver our supervisory and enforcement priorities. We applaud their perseverance in trying times, which has helped us achieve significant milestones and strengthen investor safeguards, market confidence and financial market resilience.

We would like to thank Mr Ashley Alder, who stepped down as Chief Executive Officer last December after an 11-year tenure. Our gratitude also goes to our Board members for their dedication and sound advice. The SFC will remain steadfast in discharging its statutory functions set out in the Securities and Futures Ordinance to maintain and consolidate Hong Kong's status as an international financial centre.

Tim Lui
Chairman

Julia Leung
Chief Executive Officer



Strategic Priorities

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

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

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

Listings

Supporting the growth of a healthy market

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



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

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

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

Intermediaries

Vigilant supervision to protect investors' interests

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

Strategic Priorities

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

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

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

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

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

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

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

Asset and wealth management

An expanding and diversifying hub

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

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



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

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

With growing demand for products related to environmental, social and governance (ESG) from investors, the use of ESG ratings and data products by asset managers and funds has grown considerably. Through a fact-finding exercise and focus group meetings, we are analysing the business models of ESG ratings and data product providers as well as how the fund management industry uses these products. Based on our findings and the International Organization of Securities Commissions' (IOSCO) 2021 recommendations¹, we will consider providing guidance to the asset management industry on engaging ESG service providers.

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

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

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



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

To streamline the application process for new investment products and other post-authorisation matters, we plan to launch a new, user-friendly online application system, e-IP, on the SFC's WINGS² portal in 2024. We will consult the industry on the system's workflow and functions.

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

² Web-based INteGrated Service.

Strategic Priorities

Markets

Getting more connected


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

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

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

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

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



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

Enforcement

Standing resolute against misdeeds

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

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



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

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

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

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



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

Sustainable finance

A regional and international centre

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

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

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

Strategic Priorities

As Co-Chair of Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group³, we work closely with the Government and other local regulators to spearhead efforts to promote Hong Kong as an international sustainable finance hub. We also collaborate with other members and market participants to implement the Steering Group's strategic plan announced in 2020 and its 2023-25 priorities of world-class regulation, data and technology for transition, market opportunities and product innovation, and communication, capacity building and collaboration with Mainland, regional and global markets.

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



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

Communications

Broad-based channels for effective communications

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

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

Technology

Digitalisation promotes a greener market

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

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



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

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

Regulatory cooperation

In the age of globalisation

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

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

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

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

Our Board



1. Tim LUI Tim-leung 2. Agnes CHAN Sui-kuen 3. Nicky LO Kar-chun 4. Johnson KONG
5. Rico LEUNG Chung-yin 6. James C LIN 7. Michael DUIGNAN



8. Julia LEUNG Fung-yee 9. Victor DAWES 10. Christina CHOI Fung-yee 11. Dieter YIH
12. Michael WONG Yick-kam 13. Christopher WILSON 14. CHEW Fook-aun

Our Board

Board members



Tim LUI
Tim-leung SBS, JP

Chairman

From 20 October 2018
Current appointment to
19 October 2024

Other SFC-related positions

- Chairman: Investment Committee and Advisory Committee
- Member: Audit Committee and Remuneration Committee
- Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee
- Member, Process Review Panel for the Securities and Futures Commission

Current offices, public service and professional affiliations

- Chairman, University Grants Committee
- Member: Banking Advisory Committee and Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Public Service Commission, the HKSAR Government
- Director, Hong Kong Academy of Finance
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Member, Institute of Chartered Accountants in England and Wales

Past offices and public service

- Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- President, Hong Kong Institute of Certified Public Accountants (1996-1997)
- Chairman, Education Commission (2015-2022)
- Chairman, Committee on Self-financing Post-secondary Education (2012-2017)
- Chairman, Self-financing Post-secondary Education Fund Steering Committee (2011-2017)
- Chairman, Standing Commission on Directorate Salaries and Conditions of Service (2009-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2001-2007)
- Chairman, Joint Committee on Student Finance (1999-2005)



Julia LEUNG
Fung-yee SBS, JP

Chief Executive Officer

From 1 January 2023
Current appointment to
31 December 2025

Other SFC-related positions

- Member: Budget Committee and Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

Past offices and public service

- Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research (2019-2023)
- Julius Fellow, International Economics, Chatham House (2014)
- Under Secretary for Financial Services and the Treasury, the HKSAR Government (2008-2013)
- Executive Director, Hong Kong Monetary Authority (2000-2008)

Past SFC positions

- Deputy Chief Executive Officer (2018-2022)
- Executive Director, Intermediaries (2016-2022)
- Executive Director, Investment Products (2015-2016)

Publication

- *The Tides of Capital* (London: OMFIF Press, 2015)





**Agnes CHAN
Sui-kuen**

Non-Executive Director

From 20 October 2018
Current appointment to
19 October 2024

Other SFC-related positions

- Chairman: Audit Committee and Budget Committee
- Member: Investment Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices, public service and professional affiliations

- Senior Advisor of Chairman's Office, Greater China, Ernst & Young
- Member, The 14th National Committee of the Chinese People's Political Consultative Conference
- Hong Kong General Chamber of Commerce: Deputy Chairman, General Committee; Chairman, Investment Committee; Chairman, Membership Committee
- Hong Kong Monetary Authority: Member, Exchange Fund Advisory Committee; Member, Audit Sub-Committee; Member, Governance Sub-Committee
- Member, Public Service Commission, the HKSAR Government
- Member, Election Committee, Accountancy Subsector, the HKSAR Government
- Member, Users' Committee, Inland Revenue Department, the HKSAR Government
- Member, Advisory Panel on BEPS 2.0, the HKSAR Government
- Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute
- Accounting Advisor (Hong Kong), Ministry of Finance, People's Republic of China
- Hong Kong SAR Delegate, All-China Women's Federation
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Fellow Member and Honorary Advisor, Chartered Accountants Australia and New Zealand
- Fellow Member, Taxation Institute of Hong Kong
- Honorary Advisor, Hong Kong Public Sector Accountants Association

Past offices and public service

- Managing Partner, Hong Kong and Macau, Ernst & Young (2009-2022)
- Competition Commission: Member; Chairperson of Finance and Administration Committee (2013-2018)
- Member, Mandatory Provident Fund Schemes Appeal Board (2011-2017)
- Member, Environment and Conservation Fund Committee (2012-2016)
- Member, Telecommunications Users and Consumers Advisory Committee, Office of the Communications Authority (2012-2016)

Our Board



CHEW Fook-aun

Non-Executive Director

From 1 January 2023
Current appointment to
31 December 2024

Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices, public service and professional affiliations

- Deputy Chairman and Non-Executive Director, Lai Sun Garment (International) Limited
- Deputy Chairman and Non-Executive Director, Lai Sun Development Company Limited
- Deputy Chairman and Non-Executive Director, Lai Fung Holdings Limited
- Independent Non-Executive Director, Karex Berhad
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Fellow Member, The Institute of Chartered Accountants in England and Wales
- Fellow Member, The Hong Kong Institute of Directors
- Member, Hong Kong Judiciary Barristers Disciplinary Tribunal Panel
- Vice Chairman, Hong Kong Sports Institute Limited
- Council Member, The Hong Kong Polytechnic University
- Director, Asian Youth Orchestra
- Vice President, Hong Kong Football Club
- Deputy Chairman, Malaysian Chamber of Commerce

Past SFC-related position

- Member, Advisory Committee (2007-2013)

Past public service

- Hong Kong Institute of Certified Public Accountants: Vice President (2010), Council Member (2003-2010)
- Financial Reporting Council (now known as Accounting and Financial Reporting Council): Council Member (2009-2015); Member, Investigation and Compliance Committee (2019-2021); Member, Independent Audit Oversight Reform Committee (2015-2019)
- Member, Standing Committee on Company Law Reform, Companies Registry (2009-2015)
- Independent Commission Against Corruption: Member, Operations Review Committee (2015-2020); Member, Corruption Prevention Advisory Committee (2009-2014); Member, Citizens Advisory Committee on Community Relations (2007-2008)

Past offices

- Executive Director and Group Chief Financial Officer, Esprit Holdings Limited (2009-2012)
- Executive Director and Chief Financial Officer, The Link Management Limited (2007-2009)
- Executive Director, Kyard Limited (a private family office) (2004-2007)
- Director of Corporate Finance, Kerry Holdings Limited (1998-2004)
- Chief Financial Officer, Kerry Properties Limited (1996-2004)

Other SFC-related positions

- Chairman: Committee on Real Estate Investment Trusts and Products Advisory Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

Current public service

- Chairman, Committee on Investment Management, International Organization of Securities Commissions
- Member: Asian Financial Forum Steering Committee and Financial Services Advisory Committee, Hong Kong Trade Development Council

Past SFC position

- Senior Director, Investment Products (2012-2016)

Past offices

- Partner, Clifford Chance (2001-2004)



Christina CHOI Fung-ye

Executive Director,
Investment Products

From 1 August 2016
Current appointment to
31 July 2025





Victor DAWES SC

Non-Executive Director

From 1 August 2020
Current appointment to
31 July 2024

Other SFC-related positions

- Chairman, Investor and Financial Education Council
- Member: Audit Committee and Remuneration Committee
- Member: Nominations Committee, SFC (HKEC Listing) Appeals Committee and Disciplinary Chair Committee

Current offices and public service

- Senior Counsel, Temple Chambers
- Recorder, High Court
- Chairman, Hong Kong Bar Association
- Member, Proceedings Committee, Hong Kong International Arbitration Centre
- Member, Advisory Body appointed under Part 10A of the Arbitration Ordinance



Michael DUIGNAN

Executive Director,
Corporate Finance

From 1 November 2022
Current appointment to
31 October 2025

Other SFC-related positions

- Chairman, Public Shareholders Group
- Member: Committee on Real Estate Investment Trusts and Nominations Committee

Current public service

- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited

Past SFC positions

- Senior Director, Enforcement (2019-2022)
- Senior Director, Corporate Finance (2014-2018)

Past offices

- Director of Securities and Markets Supervision, Malta Financial Services Authority (2012-2014)
- Head of Market Supervision, Irish Stock Exchange (2008-2011)
- Manager, UK Financial Services Authority (2000-2008)

Our Board



Johnson KONG

Non-Executive Director

From 15 November 2021

Current appointment to
14 November 2023

Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices, public service and professional affiliations

- Managing Director, BDO Limited
- Fellow, Hong Kong Institute of Certified Public Accountants (HKICPA)
- Fellow, Institute of Chartered Accountants in England and Wales
- Fellow, CPA Australia
- Fellow, The Hong Kong Chartered Governance Institute
- Member, Hong Kong Academy of Finance
- Accounting Advisor (Hong Kong), Ministry of Finance, People's Republic of China
- Member, Election Committee, the HKSAR Government
- Member, Operations Review Committee, Independent Commission Against Corruption
- Member, Panel of the Witness Protection Review Board
- International Federation of Accountants: Chairman, Small and Medium Practices Business Support Task Force; Deputy Chair, Small and Medium Practices Advisory Group
- Council Member, Association of Hong Kong Accounting Advisors
- Alternate Director, Hong Kong Association of Registered Public Interest Entity Auditors
- Deputy Chair, Governance Committee, HKICPA
- Member, Audit Committee, University of Hong Kong
- President, St. Stephen's College Alumni Association

Past public service

- HKICPA: President (2020); Council Member (2015-2021); Chairman, Professional Conduct Committee (2017-2019); Inaugural Chair, Restructuring and Insolvency Faculty (2008-2012)
- President, Hong Kong Institute of Accredited Accounting Technicians (2009-2012)
- Member, Securities and Futures Appeals Tribunal (2017-2021)
- Member, Appeal Panel (Housing) (2012-2018)
- Member, Advisory Group on Modernisation of Corporate Insolvency Law (2012-2016)
- Member, Board of Review Panel (Inland Revenue Ordinance) (2010-2016)
- Member, Standing Committee on Company Law Reform (2009-2015)
- Member, Appeal Board Panel (Town Planning) (2009-2015)
- Executive Board Member, INSOL International (2005-2010)





**Rico LEUNG
Chung-yin**

Executive Director,
Supervision of Markets

From 28 August 2019
Current appointment to
27 August 2025

Other SFC-related positions

- Chairman: Investor Compensation Fund Committee and Securities Compensation Fund Committee
- Director, Investor Compensation Company Limited
- Member: Advisory Committee and SFC (HKEC Listing) Committee

Current public service

- Member, Risk Management Committee, Hong Kong Exchanges and Clearing Limited
- Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research

Past SFC position

- Senior Director, Supervision of Markets (2008-2019)

Past offices

- Chief Operations Officer, HKFE Clearing Corporation Limited (1994-2000)



Dr James C LIN

Non-Executive Director

From 1 August 2018
Current appointment to
31 July 2024

Other SFC-related positions

- Chairman, Investor Compensation Company Limited
- Deputy Chairman: Audit Committee, Investment Committee and Remuneration Committee
- Member: SFC (HKEC Listing) Appeals Committee, Investor Compensation Fund Committee and Securities Compensation Fund Committee

Current offices and public service

- Senior Partner, Davis Polk & Wardwell LLP
- Member, Process Review Panel for the Insurance Authority
- Member, Process Review Panel for the Mandatory Provident Fund Schemes Authority
- Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants
- Harvard Law School: Visiting Lecturer on Law; Member, Dean's Asia Leadership Council
- Overseer, Morningside College, The Chinese University of Hong Kong
- Trustee, Asia Society Hong Kong Center

Past public service

- Member, Appeal Panel (Housing) (2012-2018)
- Member, Securities and Futures Appeals Tribunal (2011-2017)

Our Board



Nicky LO
Kar-chun SBS, JP

Non-Executive Director

From 24 April 2019
Current appointment to
23 April 2025

Other SFC-related positions

- Chairman, Remuneration Committee
- Member: Budget Committee and Investment Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Director, Italade Technology Holdings
- Hong Kong Monetary Authority: Chairman, Governance Sub-committee; Member, Exchange Fund Advisory Committee

Past public service

- Chairman, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR (2013-2019)
- Member, Advisory Committee on Post-service Employment of Civil Servants (2009-2013)
- Chairman, Standing Commission on Civil Service Salaries and Conditions of Service (2006-2012)
- Member, Public Service Commission, the HKSAR Government (2006-2012)
- Member, Standing Commission on Directorate Salaries and Conditions of Service (2006-2012)
- Member, Standing Commission on Disciplined Services Salaries and Conditions of Service (2001-2006)

Past offices

- President and Chief Executive Officer, Synnex Distributions (China) Ltd (1987-2013)
- President and Chief Executive Officer, Synnex Technology International (HK) Ltd (1987-2013)
- Principal Assistant Secretary and Deputy Secretary for Trade and Industry, the Trade and Industry Branch of the Government Secretariat (1985-1987)
- Administrative Officer, the Hong Kong Government (1974-1987)



Christopher WILSON

Executive Director,
Enforcement

From 1 November 2022
Current appointment to
31 October 2025

Past offices

- Deputy General Counsel, Asia Global Banking and Markets, HSBC (2016-2022)
- Deputy General Counsel, Citizens Bank (2015-2016)
- Managing Director of Legal, JPMorgan Hong Kong (2004-2015)
- Associate Counsel, Simpson Thacher & Bartlett (1998-2004)

Past public service

- Board Member, Board of Directors, Hong Kong Association of Corporate Counsel (2019-2022)





Michael WONG
Yick-kam SBS, MH, JP

Non-Executive Director

From 1 April 2021
Current appointment to
31 March 2025

Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Member, Estate Agents Authority
- Member, Land and Development Advisory Committee
- Member, Board of Trustees of New Asia College, The Chinese University of Hong Kong
- Member, Executive Committee, Hong Kong Youth Hostels Association

Past offices and public service

- Sun Hung Kai Properties Group: Non-Executive Director (2013-2015); Non-Executive Director and Group Principal Advisor (2009-2013); Executive Director (1996-2009)
- Chairman, Hong Kong Youth Hostels Association (2005-2014)
- Member, Steering Committee on the Child Development Fund (2008-2016)
- Member, Social Welfare Advisory Committee (2009-2015)
- Member, Social Innovation and Entrepreneurship Development Fund Task Force (2013-2020)
- Chairman, Council of the Hong Kong Metropolitan University (2016-2022)
- Non-Executive Director, Urban Renewal Authority (2016-2022)



Dieter YIH JP

Non-Executive Director

From 15 November 2021
Current appointment to
14 November 2023

Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Partner, Kwok Yih & Chan, Solicitors
- Non-Executive Director, eMPF Platform Company Limited
- Chairman, Financial Dispute Resolution Centre
- Member, University Grants Committee
- Member, Standing Committee on Legal Education and Training
- Quality Education Fund Steering Committee: Member; Chairman, Dissemination and Promotion Sub-committee
- Member, Registration and Practising Committee, Hong Kong Institute of Certified Public Accountants

Past public service

- President, The Law Society of Hong Kong (2012-2013)
- Deputy Chairman, Council of the Education University of Hong Kong (2016-2022)
- Convenor, Investigation Panel (Panel A), Hong Kong Institute of Certified Public Accountants (2014-2021)
- Member, Banking Review Tribunal (2016-2022)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2016-2021)
- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2017-2021)

Notes: Except for the Chairman and CEO, other board members are listed in alphabetical order.

During the year, Mr Ashley Alder served on the Board as CEO until 31 December 2022. Mr Thomas Atkinson served on the Board as ED until 2 May 2022. Mr Edward Cheng Wai-sun served on the Board as NED until 31 December 2022.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 183-192 for information about SFC external committees.

Highlights

Key figures for 2022-23



Corporates

180

new listing applications received

91

new listings

305

takeovers-related transactions and applications reviewed



Enforcement

5,851

requests for trading and account records

135

cases initiated for investigation

180

individuals and corporations subject to ongoing civil proceedings

\$41.7 million

in fines imposed on licensees



Communications

121

press releases, statements and announcements

67

circulars to the industry

177

social media posts

100+

executive speaking engagements

2,947

general enquiries

2,998

complaints against intermediaries and market activities



Intermediaries

7,384

new licence applications, comprising

7,141

individuals

243

and corporations

As of 31 March 2023

48,294

licensees and registrants, including

3,254

licensed corporations

44,928

licensed individuals

226

on-site inspections of licensed corporations and associated entities



Products

175

new authorised funds

69

new open-ended fund companies registered

As of 31 March 2023

2,939

authorised collective investment schemes, including

913

Hong Kong-domiciled funds





Regulatory enhancements

Investor identification regime

Launched an investor identification regime for the Hong Kong securities market on 20 March 2023

Virtual assets

Consulted the public on proposed regulatory requirements for virtual asset trading platforms as part of Hong Kong's new licensing regime for these platforms¹

Uncertificated securities market

Began a consultation on the subsidiary legislation for the implementation of an uncertificated securities market in Hong Kong

Depositaries of SFC-authorized funds

Concluded a consultation on proposed amendments to subsidiary legislation and SFC codes and guidelines to implement Type 13 regulated activity, a new regime to regulate depositaries of SFC-authorized collective investment schemes

Enforcement powers

Launched a consultation on proposals to amend the Securities and Futures Ordinance (SFO) to facilitate more effective enforcement action

Dealing in futures contracts

Began a consultation on the proposed risk management guidelines for licensed persons dealing in futures contracts with an aim to provide guidance for futures brokers to help them better manage business-related risks

Position limits

Conducted a consultation on proposed changes to the position limits regime for listed futures and options contracts and further consulted the public on additional amendments related to funds and some contracts

OTC derivatives

Together with the Hong Kong Monetary Authority (HKMA), consulted the public on proposed changes to the types of transactions subject to clearing obligations under the Clearing Rules² for over-the-counter (OTC) derivatives

¹ The Legislative Council passed the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022, with the new licensing regime for virtual asset service providers commencing on 1 June 2023.

² The Securities and Futures (OTC Derivative Transactions — Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.



Market development

Specialist technology companies

A new regime to facilitate the listing of specialist technology companies which may have limited or no revenue or profit track record took effect on 31 March 2023 following the Stock Exchange of Hong Kong Limited's (SEHK) consultation and the SFC's approval

Mainland-Hong Kong mutual recognition of funds (MRF) scheme

47 Mainland funds were authorised by the SFC and 37 Hong Kong funds were approved by the China Securities Regulatory Commission (CSRC) as of 31 March 2023 and the aggregate net subscription was about RMB15.7 billion

Stock Connect

Stock Connect covered 2,526 Mainland stocks and 561 Hong Kong stocks, representing about 86% of the two markets' combined market capitalisation as of 31 March 2023

Eligible stocks under Stock Connect were expanded on 13 March 2023 to include, for instance, foreign companies primary-listed in Hong Kong that meet relevant criteria for southbound trading

Announced enhancements to the trading calendars for both northbound and southbound trading, which took effect on 24 April 2023

Trading of exchange-traded funds (ETFs) under Mainland-Hong Kong Stock Connect commenced on 4 July 2022, with five Hong Kong ETFs eligible for southbound trading and 98 Mainland ETFs eligible for northbound trading as of 31 March 2023

Bond Connect

Northbound primary service was introduced to help global investors participate in the cross-border subscription of new bond issuances in the China Interbank Bond Market

Swap Connect

Jointly announced with the People's Bank of China and the HKMA the development of Swap Connect with the commencement of northbound access at the initial stage, which was launched on 15 May 2023

Hong Kong-domiciled retail funds

The assets under management (AUM) of Hong Kong-domiciled public funds recorded US\$174.5 billion as of 31 March 2023 and net fund inflows of about US\$7.9 billion were recorded during the year

Hong Kong-listed ETFs

Authorised three virtual asset futures ETFs and the first green bond ETF in Hong Kong

Asset and Wealth Management Activities Survey

The AUM of Hong Kong's asset and wealth management business³ reached \$35,546 billion as of 31 December 2021 and net fund inflows in 2021 reached \$2,152 billion, up 6% from the previous year. The AUM of the asset management and fund advisory business recorded a year-on-year increase of 8% to \$25,888 billion

Licensing

Published quick reference guides for family offices, private equity firms, hedge fund managers and overseas and Mainland practitioners to help the industry and the public better understand our licensing regime

Moved to a paperless licensing process, with the online submission of corporate licence applications, notifications and regulatory filings via our fully-digitalised licensing platform, WINGS⁴, becoming mandatory since April 2022

³ Source: The *Asset and Wealth Management Activities Survey 2021* published by the SFC in July 2022.

⁴ Web-based INTeGrated Service.





Supervision

Listing applications

Processed 355 listing applications⁵, including 180 new listing applications, of which 19 were from pre-profit biotech companies and five from special purpose acquisition companies

Takeovers matters

Reviewed 305 takeovers-related transactions and applications

Corporate conduct

As part of our front-loaded approach to preventing corporate misconduct, we issued section 179⁶ directions to gather additional information in 43 cases and issued letters to listed companies detailing our concerns in two cases

Inspections

Conducted 226 on-site inspections of licensed corporations and associated entities to review their compliance with regulatory requirements and noted 1,230 breaches⁷ of our rules and regulations

Bookbuilding and placing activities

Provided guidance to intermediaries on the application of the new requirements which took effect in August 2022, including the requirements for orders placed on an omnibus basis, clarifications related to debt offerings with syndicates comprising members in Hong Kong and overseas jurisdictions, as well as transitional arrangements

Online financial services

Issued a circular with a report to highlight the key observations and findings from our review of licensed corporations providing online brokerage, distribution and advisory services and remind them of our regulatory expectations when they carry out business activities online

Data Standards for Order Life Cycles (DS-OL)

Published the key findings and observations of our thematic review of DS-OL

Non-exchange traded investment products

Published a report on the joint SFC-HKMA annual survey on the sale of non-exchange traded investment products⁸ during 2021, which showed a 5% year-on-year increase in both the number of firms engaged in the sale of investment products and the number of investors who purchased them

Virtual assets

Issued a statement to alert investors about the risks associated with virtual asset platforms offering virtual asset “deposits”, “savings”, “earnings” or “staking” services and to remind the industry of the potential legal requirements when offering these arrangements to investors in Hong Kong

Warned investors of the risks associated with non-fungible tokens and reminded the industry that these tokens may be subject to our regulation if they cross the boundary between a collectible and a financial asset

Risk management

Issued two circulars and a report to share key observations from a thematic review of licensed corporations’ management of the operational and remote booking risks of trading activities as well as data risks, and set out our expected standards for these risk management practices

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

6 Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company.

7 See Table 2 in Operational Data on page 177 for details.

8 Such as collective investment schemes, structured products and debt securities.



Enforcement

Surveillance

Made 5,851 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements

Investigations and prosecutions

Commenced 135 investigations and laid 115 criminal charges against 25 persons, of which 14 individuals were charged for suspected market misconduct and money laundering offences for indictment prosecution. We secured convictions against five of them

Notable disciplinary actions

Reprimanded and fined Rifa Futures Limited⁹ \$9 million for failures in complying with know-your-client, anti-money laundering and counter-terrorist financing and other regulatory requirements

Reprimanded and fined RBC Investment Services (Asia) Limited \$7.7 million for failing to segregate client money and transferring client securities without clients' standing authority

Joint law enforcement operations

Conducted two joint operations with the Independent Commission Against Corruption concerning suspected ramp and dump schemes involving the stocks of six Hong Kong-listed companies, other market misconduct and suspected corruption offences

Conducted a joint operation with the Hong Kong Police Force concerning suspected bogus transactions involving a company formerly listed on SEHK



Sustainability

New agenda

Published our *Agenda for Green and Sustainable Finance* to set out further steps to support Hong Kong's role as an international sustainable finance centre, focusing on corporate disclosures, asset management and environmental, social and governance (ESG) funds, and carbon markets

Cross-Agency Steering Group¹⁰

The Steering Group's new website outlines its 2023-2025 priorities and promotes Hong Kong's strengths as the world's sustainable finance hub

Asset managers

New requirements for fund managers to consider climate-related risks in their governance, investment and risk management processes and make related disclosures took full effect in November 2022

Talent development

Commenced our Sustainable Finance Internship Programme to help nurture sustainable finance professionals and organised a training session for more than 100 university students

⁹ Formerly known as iSTAR International Futures Co. Limited.

¹⁰ Co-chaired by the SFC and the HKMA, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group comprises the Financial Services and the Treasury Bureau, the Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.





Regulatory engagement

Mainland

Our Chairman Mr Tim Lui and Chief Executive Officer Ms Julia Leung met with CSRC Chairman Mr Yi Huiman to discuss cooperation between the Mainland and Hong Kong capital markets and how to promote coordinated market development

Mr Tim Lui and Ms Julia Leung met with the People's Bank of China's Governor Mr Yi Gang to exchange views on a range of issues including financial cooperation between the Mainland and Hong Kong and renminbi internationalisation

Held the 11th and 12th SFC-CSRC high-level meetings to discuss cross-boundary regulatory issues and market development initiatives

Signed a memorandum of understanding (MoU) with the CSRC with respect to the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies issued by the CSRC

Held the 13th high-level meeting on enforcement cooperation to enhance cross-boundary supervisory and enforcement collaboration

International

Reached an MoU with the Bank of England regarding mutual assistance in the supervision and oversight of cross-border regulated entities

Co-hosted the Asia Pacific Takeovers Regulators Conference with the Securities Commission Malaysia for participants from 11 jurisdictions to discuss recent developments and experience in regulating takeovers activities

Became a signatory of the IOSCO¹¹ Asia-Pacific Regional Committee's Multilateral MoU for Supervisory Cooperation

Responded to 118 requests for information and bilateral meetings from overseas regulators and industry bodies



Outreach

Compliance Forum

Hosted the SFC Compliance Forum 2022 for senior market participants to discuss the future of Hong Kong as an international financial centre and other topical issues

Industry outreach

Organised webinars, virtual training and meetings for industry participants on various topics including new digitalised licensing functions, the enhanced competency framework and the regulation of virtual asset-related activities

Publicity campaign

Launched a multi-media publicity campaign to help the public understand the new investor identification regime through videos, posters, radio announcements and social media

Community outreach

Organised a community outreach event with the Hong Kong Police Force's Anti-Deception Coordination Centre to raise public awareness about online ramp and dump scams

Social media

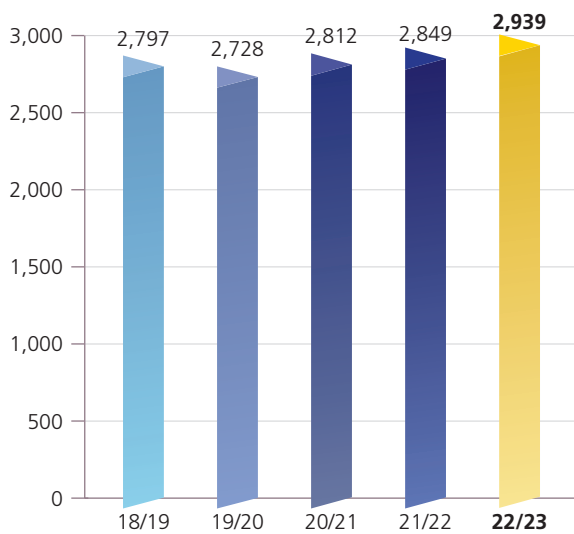
Introduced our official WeChat account which features updates on topics of interest to Mainland-oriented investors and industry professionals

¹¹ International Organization of Securities Commissions.

Highlights

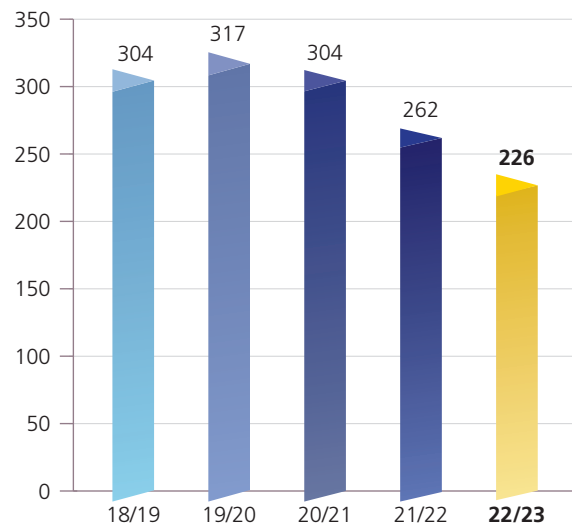
These charts are intended to show some top-line data at a glance. See Operational Data on pages 176-182 for more details.

Authorised collective investment schemes

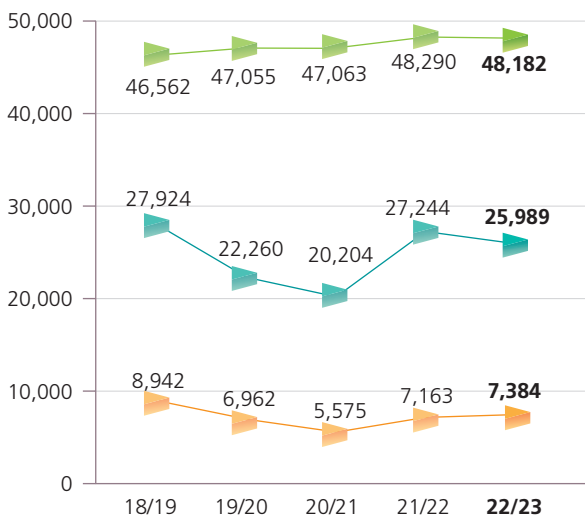


Note: Figures represent a snapshot view as at each financial year-end.

On-site inspections of licensed corporations and associated entities

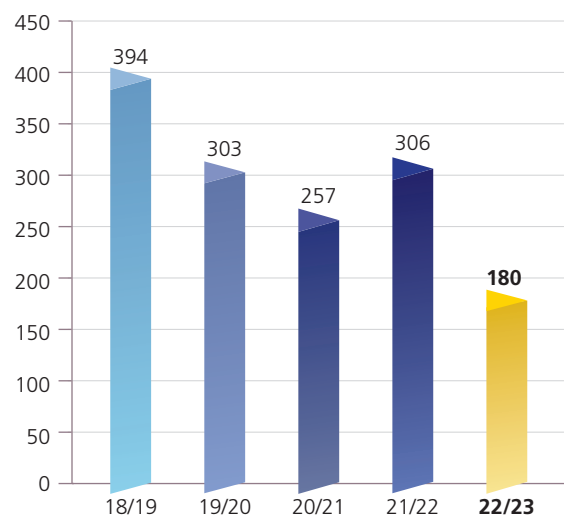


Licensing

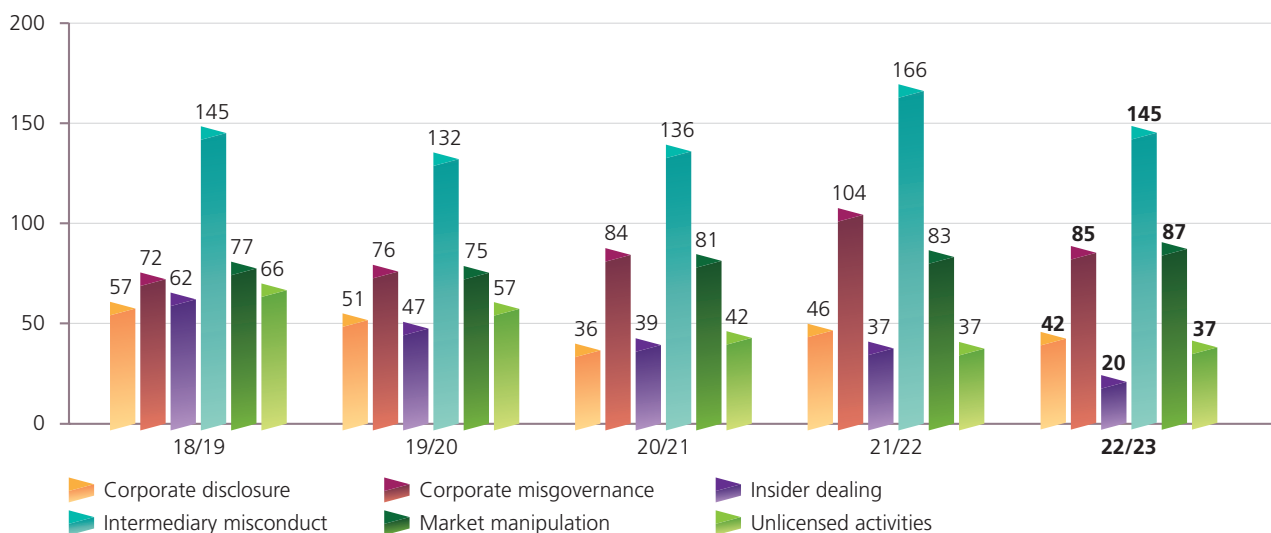


- ▶ Total number of SFC licensees as at each financial year-end
- ▶ Applications to conduct new regulated activity
- ▶ Applications for SFC licences

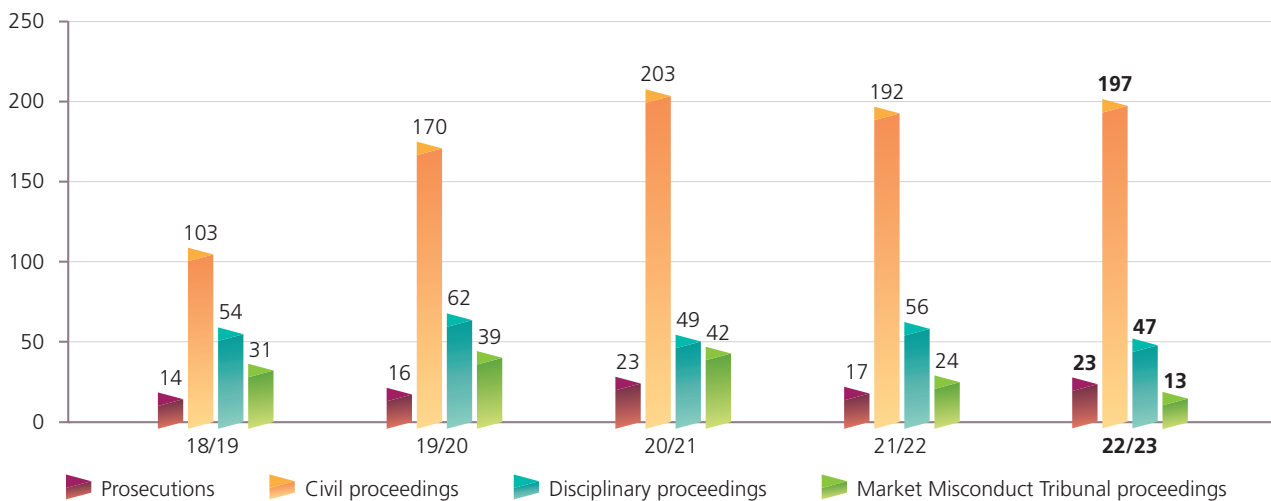
New listing applications



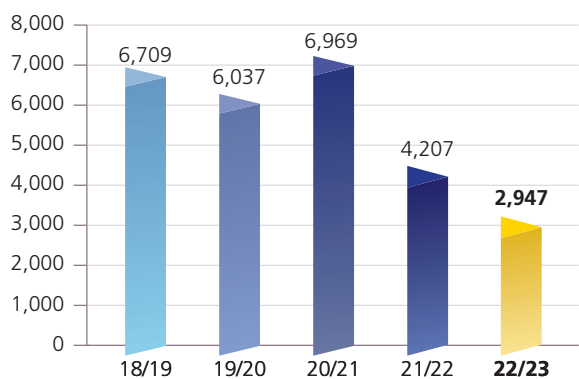
Investigations



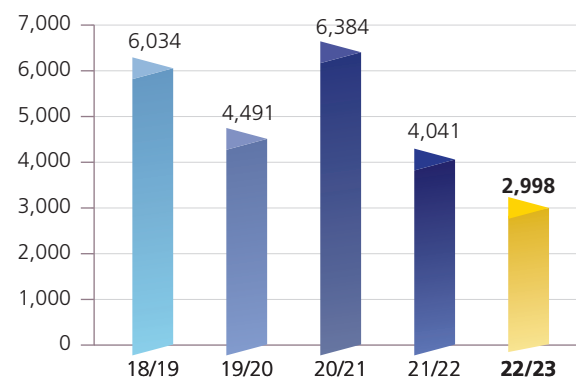
Persons/corporations subject to enforcement action



General enquiries

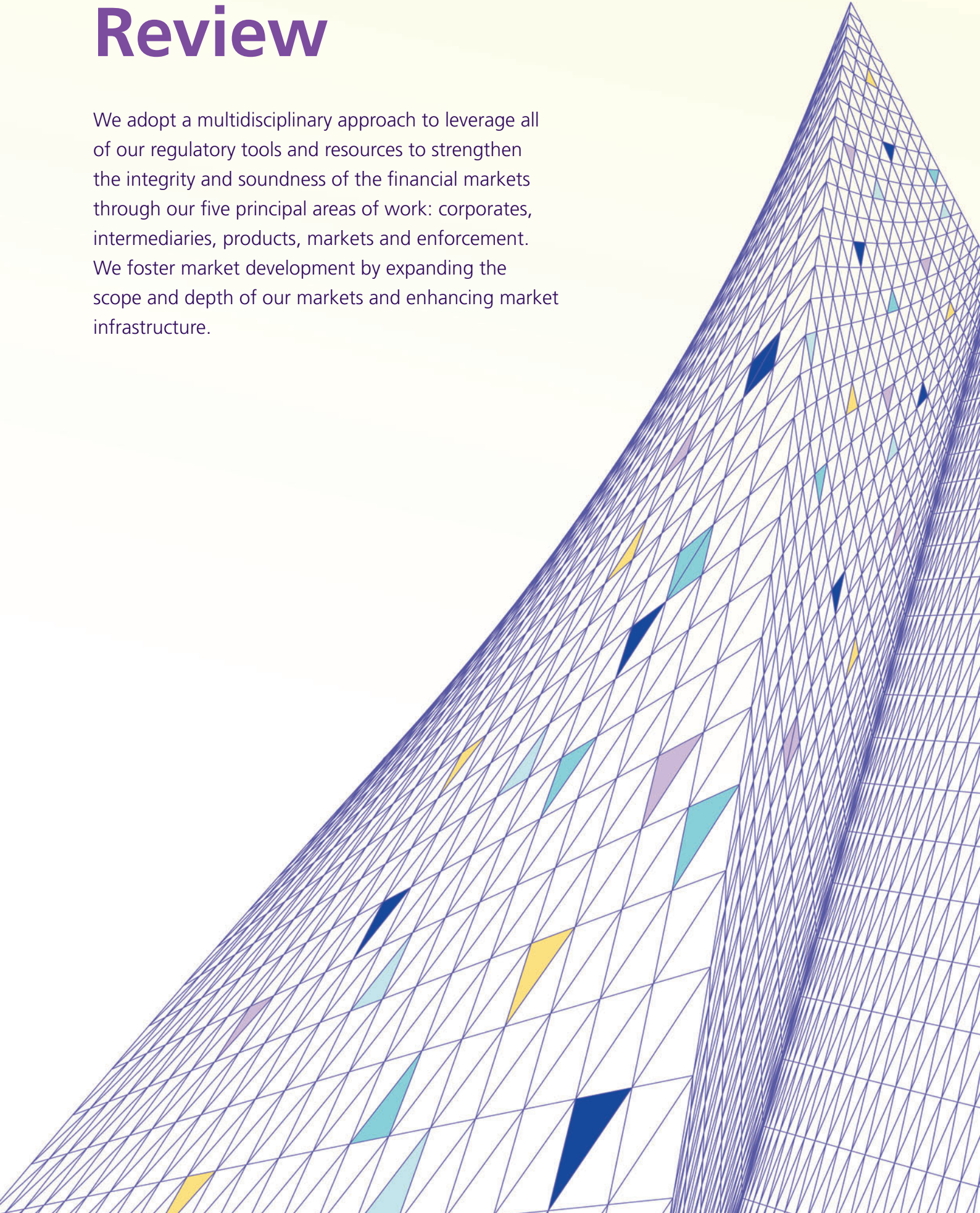


Complaints against intermediaries and market activities



Operational Review

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



Corporates

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

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

Specialist technology companies

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

Share schemes

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



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

2 For the 166 cleared cases of listing applications.

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

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

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



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

Paperless listing regime

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

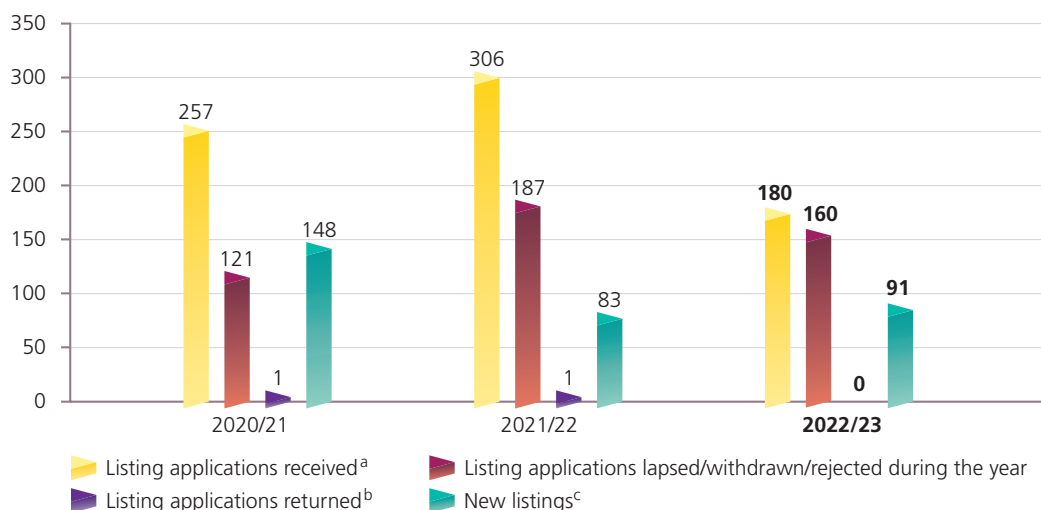
Vetting IPO applications for quality listings

We vet listing applications and make enquiries to determine whether a listing application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing of securities based on one or more of the grounds set out in section 6(2)³ of the SMLR.

We processed 355 listing applications during the year. This included 180 new listing applications, of which 19 were from pre-profit biotech companies and five from special purpose acquisition companies (SPACs)⁴. Three companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules⁵ and seven overseas-listed companies achieved dual-primary listings on the Main Board. Four SPACs listed on the Main Board during the year.

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

New listing applications



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

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

c Including successful transfers from GEM to the Main Board (2022/23: 0; 2021/22: 3; 2020/21: 6). The Hang Seng Index closed at 20,400 on 31 March 2023 (31 March 2022: 21,996; 31 March 2021: 28,378).

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

Addressing corporate misconduct

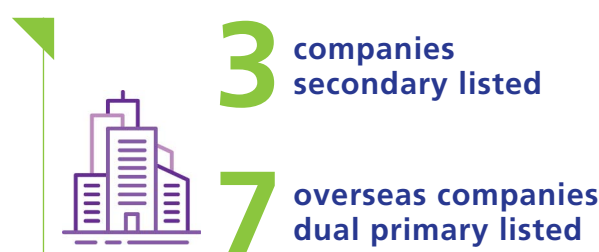
As part of our front-loaded approach to preventing corporate misconduct, we review corporate announcements daily to identify red flags and irregularities. During the year, we issued section 179⁶ directions to gather additional information in 43 cases and wrote to listed companies detailing our concerns in two cases where, for example, there were indications that a corporate action or transaction may be conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Takeovers increasingly complex

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

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

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



⁶ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Enhancing Hong Kong's status as a quality listing market

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

New economy companies

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

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

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



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

Climate-related risks and sustainability

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

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

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

a Including concessions for qualifying overseas listed companies.

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

c See Sustainability on pages 91-100.

Corporates

In a decision published in September 2022, the Panel ruled on the appropriate offer price for a mandatory general offer for Suncity Group Holdings Limited⁷ which was triggered as a result of the transfer of a controlling stake in Suncity.

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

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

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

Takeovers activities

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

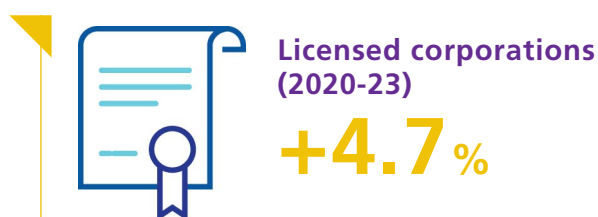
[^] Including stand-alone applications and those made during the course of a Code-related transaction.

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

⁷ Now known as LET Group Holdings Limited.

Intermediaries

We set standards and qualifying criteria for corporations and individuals licensed to operate in our markets under the Securities and Futures Ordinance. As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations¹ (LCs) and explain our regulatory focus and concerns to the industry. We closely monitor market and technological developments and adapt our regulatory approach to ensure our gatekeeping and supervisory functions remain effective.



Licensing corporations and individuals

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

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

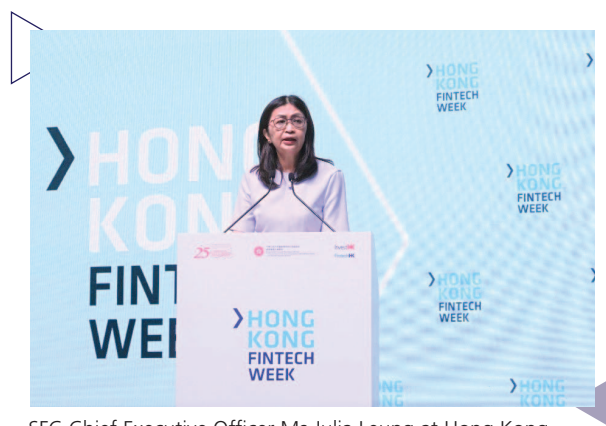
Licensees

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

[^] These figures exclude 112 registered institutions as at 31 March 2023 and 111 as at 31 March 2022.

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

² From 1 April 2023 to 31 March 2024.



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

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

Licensing fee waiver

In light of market conditions, we waived the annual licensing fees for all intermediaries and licensed individuals for the 2023-24 financial year². This measure will help the industry save approximately \$250 million.

Intermediaries

Enhancing our regulatory regime

Licensing virtual asset service providers

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

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

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

since 2018³, the proposed requirements include robust measures to protect investors, following the “same business, same risks, same rules” principle. Our well-defined regulatory framework provides clarity and consistency to the market which helps foster innovation, market development and investor protection.

Risk management guidelines for futures dealing activities

In November 2022, we launched a two-month public consultation on proposed risk management guidelines for licensed persons dealing in futures contracts⁴. The proposed guidelines align with regulations in major jurisdictions and take account of the views of a wide spectrum of industry practitioners who were soft consulted earlier. The consultation closed in January 2023 and we are analysing the responses received.

Financial position of the Hong Kong securities industry^a

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

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

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

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

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

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

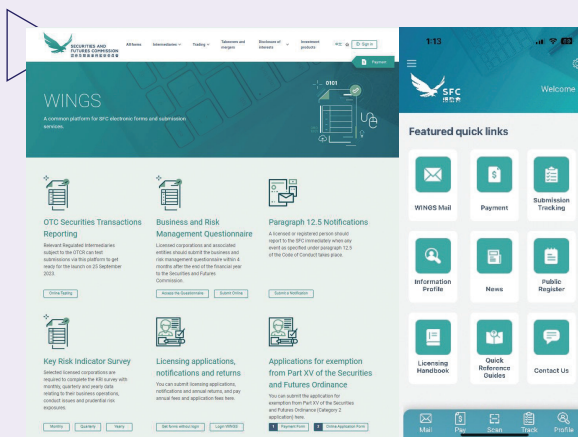
4 The consultation followed our 2021 fact-finding exercise which surveyed futures brokers' business and risk management practices.

Fully digitalising the SFC licensing platform

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

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

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



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

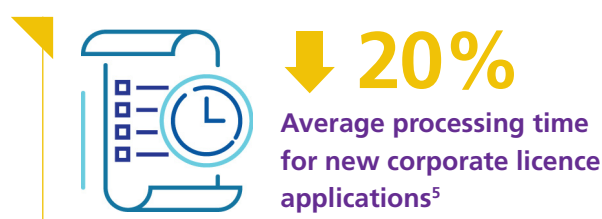
Industry participants quickly became familiar with the platform. As of 31 March 2023, 98% of LCs had activated their WINGS accounts and 66,000 WINGS accounts were in use. In addition, more than 208,000 applications, notifications and filings had been submitted via WINGS and over \$67 million was paid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

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

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

Supervising licensed firms

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



On-site reviews

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

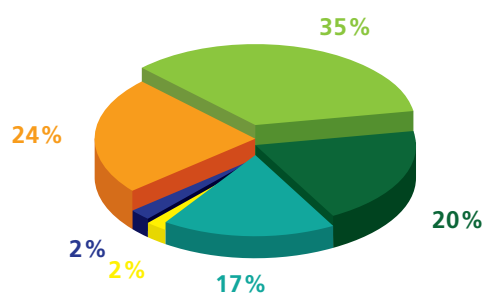
5 For granting an approval in principle, and change is on a year-on-year basis. The electronic submission via WINGS became mandatory from 1 April 2022.

Intermediaries



During the year, we carried out 226 risk-based on-site inspections, including those conducted remotely owing to the COVID-19 pandemic. We noted instances of breaches of our rules and regulations⁶, mainly the Code of Conduct⁷, Fund Manager Code of Conduct and Anti-Money Laundering Guidelines as well as internal control weaknesses.

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



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

Off-site monitoring

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

Assessing prudential and conduct risks

New conduct requirements for capital market transactions

We issued a set of frequently asked questions (FAQs) to provide guidance to intermediaries on the application of the requirements⁸ for bookbuilding and placing activities in capital market transactions which took effect on 5 August 2022. The guidance covered, amongst other matters, requirements for orders placed on an omnibus basis, clarifications related to debt offerings with syndicates comprising members in Hong Kong and overseas jurisdictions, as well as transitional arrangements.

Breaches noted during on-site inspections

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

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

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

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

⁶ See Table 2 of Operational Data on page 177 for details.

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

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

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

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

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

Reviewing online brokerage, distribution and advisory services

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

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

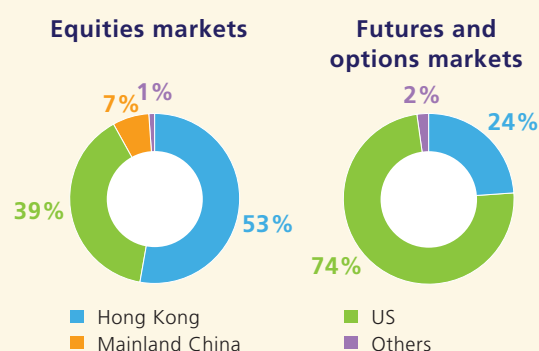
our review of 50 LCs providing online services, particularly their compliance with regulatory requirements when onboarding clients and distributing or advising on investment products online. We also reminded LCs of the regulatory standards expected of them when carrying out their business activities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

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

Key observations:

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

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



Protecting client assets at LCs under cessation

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

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

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

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

Data standards for order life cycles

In December 2022, we issued a circular to summarise our key findings and observations from our recent thematic review of selected brokers' compliance with the data standards for order life cycles⁹. To help brokers understand and implement the standards, we amended some reporting requirements and provided examples for the data validation rules and additional FAQs. In addition, the circular strongly encouraged the industry to follow the standards and adopt appropriate technological tools to facilitate their in-house monitoring and surveillance of trading activities.

Initial margin for OTC derivatives

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

Thematic review of risk management practices

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



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



The SFC's quick licensing guides

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

Guidance to the industry

Quick reference guides on licensing requirements

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

Anti-money laundering

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

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

In December 2022, we hosted AML/CFT webinars for 1,800 management and compliance personnel from LCs to update them on major regulatory changes which took effect on 1 June 2023 as well as new money laundering threats and vulnerabilities in the securities sector. We shared our inspection and other supervisory observations, while external speakers¹⁰ talked about terrorist financing and proliferation financing risks in Hong Kong and provided feedback on suspicious transaction reporting.

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

Intermediaries

Open dialogue with the industry

During the year, we delivered three virtual seminars to industry associations¹¹ to explain our recent initiatives. Key topics discussed included the digitalised licensing and financial returns submission functions on WINGS, the enhanced competency framework, business email compromise risk, anti-money laundering and the licence holders insurance scheme.

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

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

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

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

Warning against NFTs and virtual asset arrangements

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

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



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

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

Products

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



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

Product authorisations

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

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

OFC registrations

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

Hong Kong-domiciled funds

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



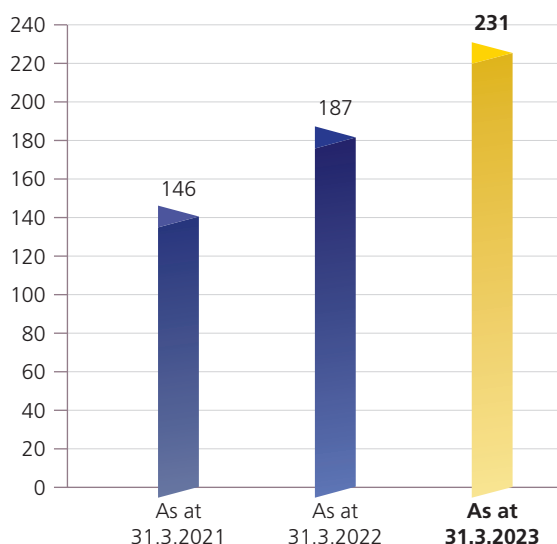
Authorised CIS

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

[^] Comprising 14 paper gold schemes and 11 real estate investment trusts (REITs).

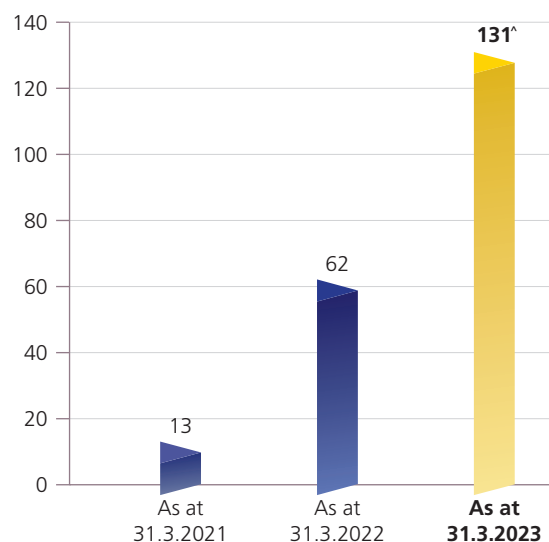
Products

Authorised unlisted structured investment products[^]



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

Registered OFCs



[^] As of 31 March 2023, this figure includes 110 private OFCs.

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

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

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

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

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

d Including virtual asset futures ETFs.

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

ETFs and L&I products

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

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

We also worked with SEHK to enhance the ETF market infrastructure by including actively traded ETFs and L&I products under the volatility control mechanism¹ starting in May 2022.

RMB products

As of 31 March 2023, there were 61 SFC-authorized unlisted funds² and 52 ETFs³ primarily investing in the onshore Mainland securities markets⁴ or offshore renminbi (RMB) bonds, fixed income instruments or other securities.

SFC-authorized RMB investment products

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

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

b Only includes gold ETF denominated in RMB.

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

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

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

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

Products

Supporting market development

Wealth Management Connect

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

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

Mainland-Hong Kong MRF

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

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

Virtual asset futures ETFs

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

OFCs

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

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

ESG funds

As of 31 March 2023, there were 188 SFC-authorized ESG⁵ funds with total assets under management (AUM) of US\$151.7 billion (representing year-on-year increases of 55% and 6% respectively)⁶. During the year, we hosted workshops to provide guidance to the industry and worked with the IFEC to enhance investor awareness of ESG funds.

Asset and wealth management business

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

Enhancing regulations

ILAS

After the 18-month transition period for the implementation of the enhanced guidance on ILAS product design ended on 30 April 2023, all ILAS products offered to the Hong Kong public must comply with the enhanced requirements⁷, unless an extension has been granted by the SFC. To facilitate a smooth

⁵ Environmental, social and governance.

⁶ See Sustainability on pages 91-100.

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



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

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



Depositories of SFC-authorized funds

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

Pooled retirement funds

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

Ensuring an orderly market

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

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

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

Suspected Unauthorised CIS Alert List

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

Name / description:

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

Submit Reset

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

All Year All Month

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

Alerts against suspected unauthorised CIS



ETF Connect takes off

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

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

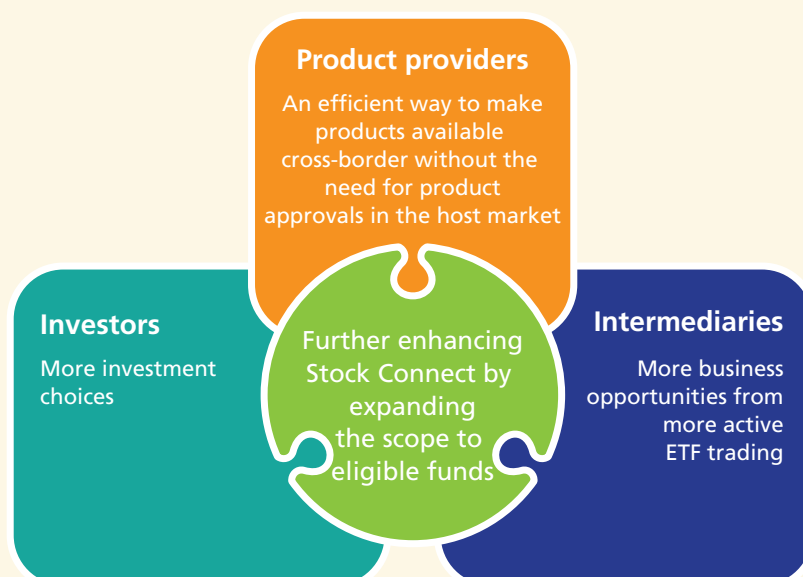
11.6% of the combined average daily turnover of these ETFs, with five Hong Kong ETFs eligible for southbound trading under the scheme and 98 Mainland ETFs (including 61 on the Shanghai Stock Exchange and 37 on the Shenzhen Stock Exchange) eligible for northbound trading. Together with the CSRC and the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

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

Key figures

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

Key benefits



Markets

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

Supervising HKEX

Infrastructure

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

On-site inspection

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

New trading fee structure and risk models for cash market

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



Hong Kong's stock exchange ranked seventh globally¹
Market capitalisation²: US\$4,700.9 billion

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

2 As of 31 March 2023.

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

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

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



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

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

Risk management of the futures market

To address a recommendation from the Financial Sector Assessment Program's³ report and better align with international standards, we requested HKEX to revise its sizing methodology for the default fund of the futures market from covering risk exposures of "the first plus fifth largest clearing participants (CPs)" to "the first plus second largest CP Groups" (ie, Cover 2), which can provide more financial resources to support the clearing house and strengthen its resilience. The enhancement was implemented in April 2023.

Holiday trading on derivatives market

Following our approval of exchange and clearing house rule amendments, holiday trading on the derivatives market commenced in May 2022. The market has been operating smoothly on holiday trading days⁴.

New quotation rules for exchange-traded products

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

Markets

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

New derivatives products

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

Expanding mutual market access

Stock Connect

Introduced in November 2014, Mainland-Hong Kong Stock Connect enables mutual market access and provides a unique opportunity for Hong Kong and Mainland investors to trade eligible stocks in each other's markets.

As of 31 March 2023, Stock Connect covered 2,526 Mainland stocks and 561 Hong Kong stocks, representing about 86% of the two markets' combined market capitalisation. Since the launch of the programme, net inflows reached RMB2,310 billion for southbound trading and RMB1,910.5 billion for northbound trading.

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

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



Stock Connect net inflows since launch⁶

Southbound:

RMB2,310 billion

Northbound:

RMB1,910.5 billion

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

Bond Connect

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

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

Swap Connect

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

⁶ As of 31 March 2023.

Enhancing local market infrastructure

Investor identification

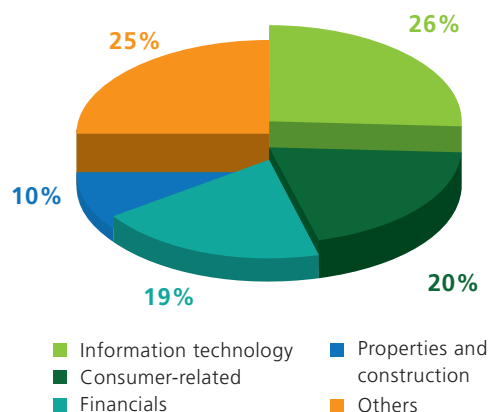
On 20 March 2023, we launched the investor identification regime for the Hong Kong securities market⁷. The over-the-counter (OTC) securities transactions reporting regime for shares listed on SEHK will be launched in September 2023. By enabling us to identify investors in a timely manner, the new regimes help facilitate more effective market surveillance. To support intermediaries in preparing for the new regimes, we closely monitored market readiness and arranged an end-to-end test and market rehearsals for intermediaries to test their system connectivity and readiness.

We commenced a multi-media publicity campaign⁸ in August 2022 to raise the public's and the industry's awareness of the new regimes.

Uncertificated securities market

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

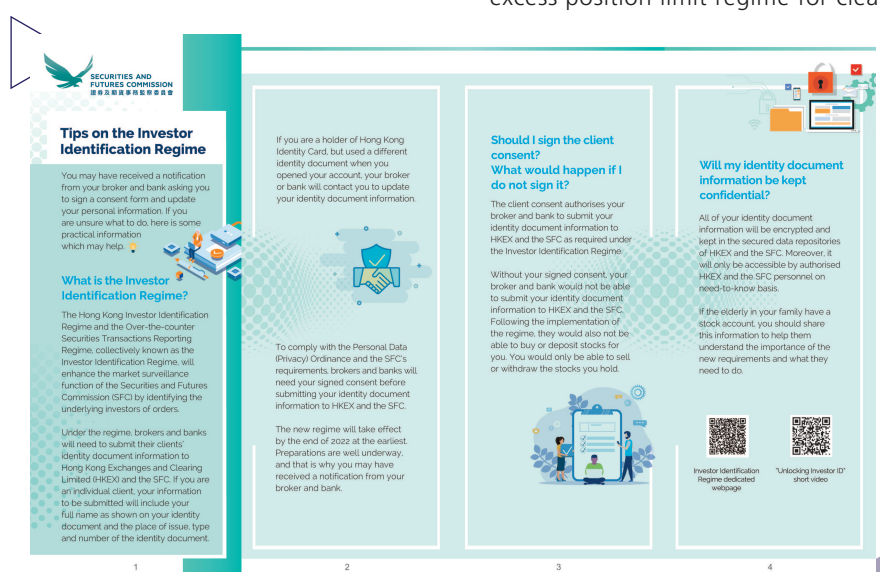
Distribution of Hong Kong stocks by sector in terms of market capitalisation as of end-2022



Position limits

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

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



SFC pamphlet introduces the investor identification regime

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

⁸ See Communications and Education on pages 70-75.

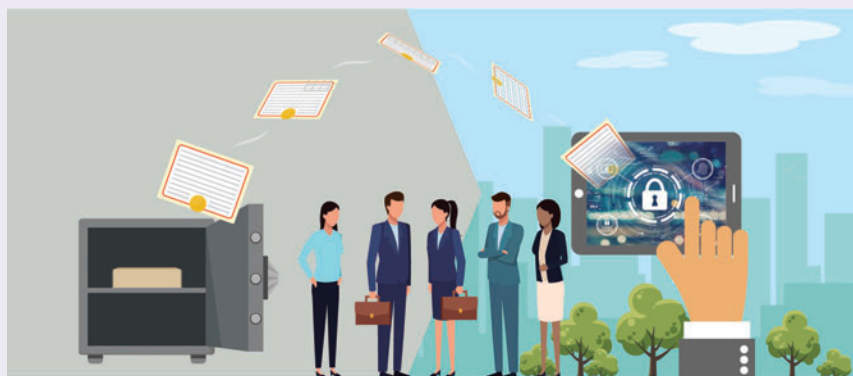
A paperless securities market for the benefit of all

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

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

Investors

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



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

Intermediaries

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

Issuers

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

The wider market and society

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

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

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

OTC derivatives

An OTC derivatives regulatory regime is being implemented in phases in Hong Kong to align with the G20 commitments to reform the OTC derivatives market. In March 2023, we launched a joint consultation with the HKMA on proposed changes to the types of transactions subject to clearing obligations under the Clearing Rules⁹ for OTC derivatives. These changes would be in line with global interest rate

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

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

Investor compensation

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

Investor compensation claims

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

Net asset value of compensation funds

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

a See pages 162-175 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance (SFO) on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

b See pages 149-161 for the financial statements of the ICF.

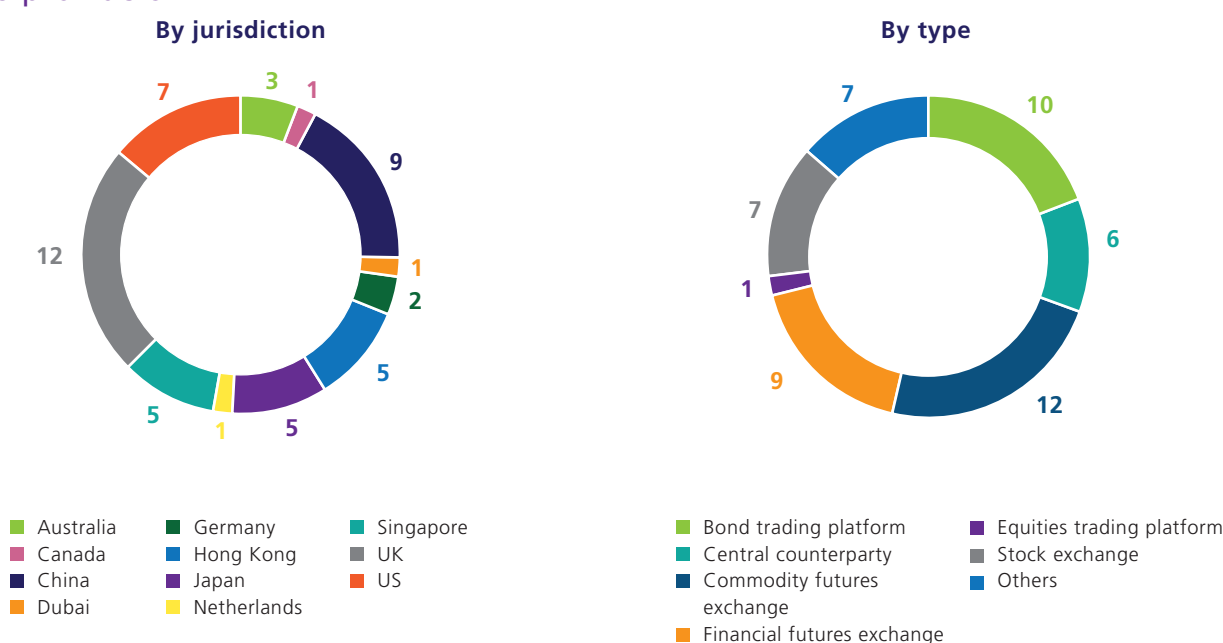
⁹ The Securities and Futures (OTC Derivative Transactions—Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

Markets

Automated trading services

During the year, products traded or cleared through ATS¹⁰ providers ranged from benchmark index futures and options, commodity futures, bonds and equities to exchange-traded funds and OTC derivatives. The average daily trading volume of futures contracts originating from Hong Kong was about 586,000 contracts for the 12 months ended 31 March 2023. We authorised two Part III applications during the year.

ATS providers



ATS providers

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

Short position reporting

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

¹⁰ Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

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

Leveraging our regulatory tools

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

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

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

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

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

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

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



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

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

Enforcement

Combating market misconduct

Surveillance

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

Our surveillance of untoward price and turnover movements resulted in 5,851 requests for trading and account records from intermediaries. We also received and assessed 256 notifications from intermediaries² regarding suspicious equity and derivative trading.

We posted four announcements on our website reminding the investing public to exercise caution when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

Insider dealing and market manipulation

The Eastern Magistrates' Court sentenced Fung Kwong Shing Danny, a former account executive of Fulbright Securities Limited, to two-and-a-half months' imprisonment following his conviction of the offences of engaging in fraud or deception in transactions involving securities under section 300³ of the SFO.

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

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

Joint operations with ICAC

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

Warning against ramp and dump scams

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

Tackling corporate fraud and related misbehaviour

The Court of First Instance (CFI) granted an order under section 214⁴ of the SFO against Wen Yibo, chairman and executive director of Sound Global Ltd., to purchase shares held by the other shareholders of the company after he was found to have orchestrated a scheme to falsify the company's bank balances and fabricated relevant bank statements and balance confirmations. Wen was also disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for 12 years.

Joint operation with Hong Kong Police Force

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

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

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

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



Redress for victims of fraudulent investment schemes

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

The DFRF global pyramid and Ponzi scheme

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

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

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

The Maxim Fund

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

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



Over
1,600
victims



Over
\$26 million
of funds frozen for
compensation

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

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

Investors reminded to stay vigilant

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

Enforcement

Taking firm action against intermediary misconduct

During the year, we disciplined 13 corporations and 18 individuals⁵, resulting in total fines of \$41.7 million. Key disciplinary actions included the following.

AML/CFT-related breaches

- We reprimanded and fined Rifa Futures Limited⁶ \$9 million for failures in complying with know-your-client, anti-money laundering and counter-financing of terrorism (AML/CFT) and other regulatory requirements. Rifa failed to perform adequate due diligence on client-supplied systems used by clients for placing orders, conduct adequate ongoing monitoring of clients' fund movements and implement two-factor authentication for clients' internet trading accounts. We also suspended the licence of Tang Kai Shing for eight months for failure to discharge his duties as a responsible officer and a member of the senior management of Rifa.
- We reprimanded and fined Jinrui Futures (Hong Kong) Limited \$4.8 million for failures in complying with AML/CFT and other regulatory requirements. Jinrui failed to perform adequate due diligence on client-supplied systems used by clients for placing orders, conduct proper due diligence on clients before account opening and make adequate enquiries and sufficiently scrutinise clients' deposits which appeared unusual or suspicious and inconsistent with the clients' declared net worth. We also banned Shen Chun, Jinrui's former executive director and responsible officer, from re-entering the industry for six months, and suspended Jiang Xiaoqing, Jinrui's responsible officer, for five months, both for failure to discharge their duties as responsible officers and members of the senior management of Jinrui.
- We reprimanded and fined China Everbright Securities (HK) Limited \$3.8 million for failing to implement adequate and effective systems and controls to guard against and mitigate the risk of money laundering and terrorist financing associated with third party deposits.
- We reprimanded and fined City International Futures (Hong Kong) Limited⁷ \$100,000 for failing to perform adequate due diligence on customer supplied systems for placing orders, to conduct proper enquiries into client deposits which were incommensurate with the clients' financial profiles and to put in place an ongoing monitoring system to detect suspicious trading patterns in client accounts in accordance with AML/CFT and other regulatory requirements.

Other disciplinary actions

Mishandling client assets

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

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

⁶ Formerly known as iSTAR International Futures Co. Limited.

⁷ Now known as VERCAP Financial Services Limited.



Sponsor failures

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

Other regulatory breaches and criminal convictions

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

[^] Formerly known as Forchn International Asset Management Co. Limited and Rega Technologies Limited.

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

Other notable cases

The CFI:

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

The Eastern Magistrates' Court:

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

The Securities and Futures Appeals Tribunal:

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



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

Restriction notice

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

Public consultation on law amendments

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

Enforcement cooperation with the CSRC

During the year, we worked closely with the China Securities Regulatory Commission (CSRC) through multiple communication and cooperation channels to overcome disruptions and challenges posed by the ongoing pandemic and provided thorough investigatory assistance to one another including the highest level of support in major and urgent cases⁸.

Enforcement activities

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

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

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

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

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

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

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

Note: Also see Table 7 in Operational Data on page 181 for more details.

⁸ See Regulatory Engagement on pages 64-69.

Regulatory Engagement

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

Leadership in global standard-setting bodies

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

Ms Leung serves as Vice Chair of IOSCO's Sustainable Finance Task Force and co-leads its Corporate Reporting Workstream, under which she oversees IOSCO's assessment and evaluation of the International Sustainability Standards Board (ISSB) standards². She is also a member of the Management Committee of the IOSCO Asia Pacific Hub, which delivers capacity building programmes for securities regulators in the region.

In November 2022, our then CEO Mr Ashley Alder completed his third and final term as IOSCO Board Chair. In this capacity, he co-chaired the CPMI³-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of central counterparties.

Mr Alder participated in Financial Stability Board (FSB) meetings between March and October 2022⁴ to discuss financial stability, sustainable finance and crypto assets.



February 2023 IOSCO APRC meeting in Bangladesh

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

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

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

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

2 See Sustainability on pages 91-100.

3 The Committee on Payments and Market Infrastructures.

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

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

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

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

Strengthening global regulatory cooperation

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

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



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

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

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

Regulatory Engagement

Sustainable finance

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

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

Crypto assets and decentralised finance

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

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

Financial stability

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

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

Mainland-Hong Kong cooperation

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

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





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



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

Collaboration with the CSRC

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

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

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

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

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

Regulatory Engagement

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

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

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

Advancing global regulatory dialogue

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

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

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

In June 2022, the SFC co-hosted the Asia Pacific Takeovers Regulators Conference with the Securities Commission Malaysia. More than 50 participants from 11 jurisdictions⁵ met to discuss recent developments and experience in regulating takeovers activities, including managing takeovers activities during the pandemic, shareholder activism and the lessons learnt from takeovers breaches.



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

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



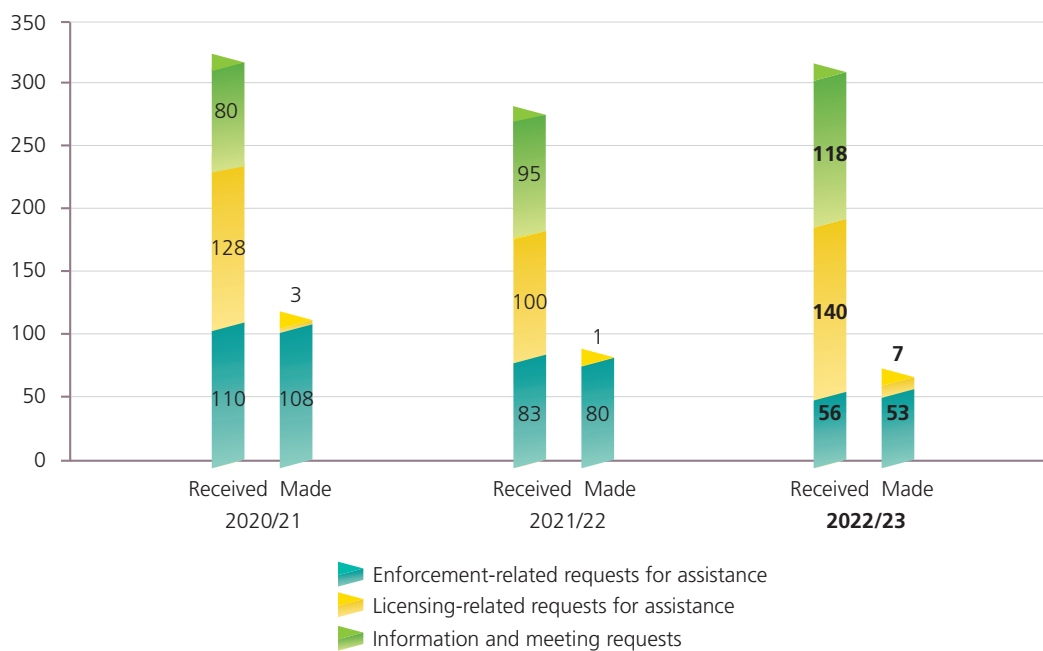
Received
196
enforcement and
licensing-related
requests for assistance

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

Also in June, we convened a meeting of the Crisis Management Group⁶ for HKFE Clearing Corporation Limited (HKCC) with the French Autorité de Contrôle Prudentiel et de Résolution and the European Union Single Resolution Board to discuss the resolution plan for HKCC.

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

Requests for regulatory assistance



Operational Review

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

Communications and Education

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

Engaging the industry

Events

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

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

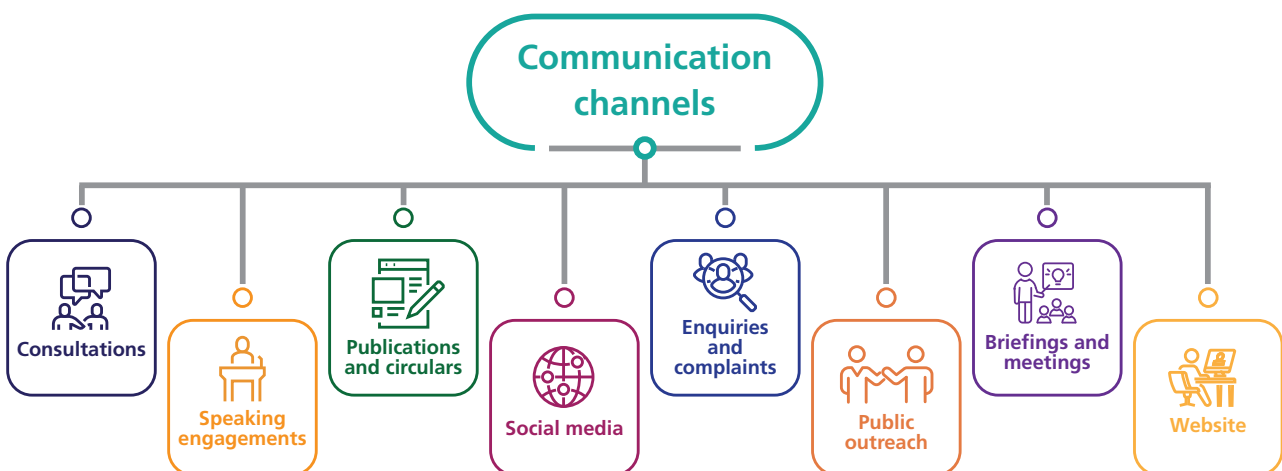
We co-organised Hong Kong FinTech Week 2022, which took place from 31 October to 4 November. Our Chief Executive Officer (CEO) Ms Julia Leung¹ gave a

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

During the year, we also organised seminars and briefing sessions for industry associations and other market participants on topical issues such as the new licensing regime for virtual asset service providers, anti-money laundering and our enhanced digitalised licensing and financial returns submission functions².



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



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

² See Intermediaries on pages 37-44.



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

Speaking engagements

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

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

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

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

Consulting on rule changes

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

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



Publications and enquiries

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

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

The SFC Fintech Contact Point promotes communication with businesses involved in the development and application of financial technology in the conduct of regulated activities in Hong Kong. We received 151 Fintech-related enquiries during the year.

Communications and Education

Government and LegCo

We attend Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, to provide legislators with details of our policy initiatives, explain the rationale behind our work and answer questions. We also respond to enquiries and complaints referred to us or raised by LegCo members and other government agencies. Maintaining close liaison with the Financial Services and the Treasury Bureau, we provide updates on our regulatory initiatives through regular meetings and reports. In addition, we provide assistance and information to other government bureaux and departments on various issues.

Regulatory counterparts

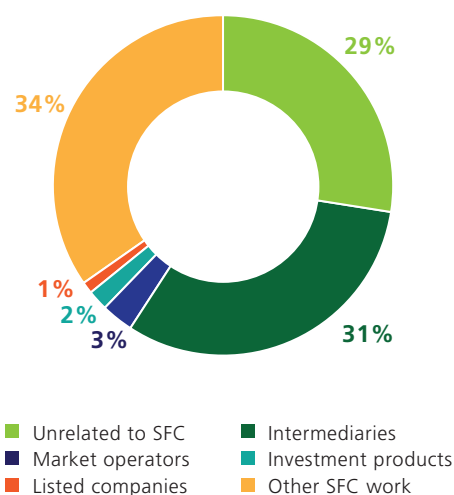
We collaborate closely with local, Mainland and overseas regulatory counterparts³, particularly with the China Securities Regulatory Commission. During the year, we held about 50 memoranda of understanding meetings with other authorities. To contribute to global policymaking which may have an impact on our markets, we take an active part in the global regulatory arena and participate in both the International Organization of Securities Commissions and the Financial Stability Board.

Education and outreach to keep the public informed

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

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

General enquiries



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

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

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

³ See Regulatory Engagement on pages 64-69.



Community outreach with ADCC

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

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

Our proactive approach to communications

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

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

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

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



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



IFEC webinars featuring SFC executives

Publicising the investor identification regime

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

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



Leaflets and souvenirs are distributed to the public



Publications and other communications

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

a Includes updates to previous versions.

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

Complaints against intermediaries and market activities

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

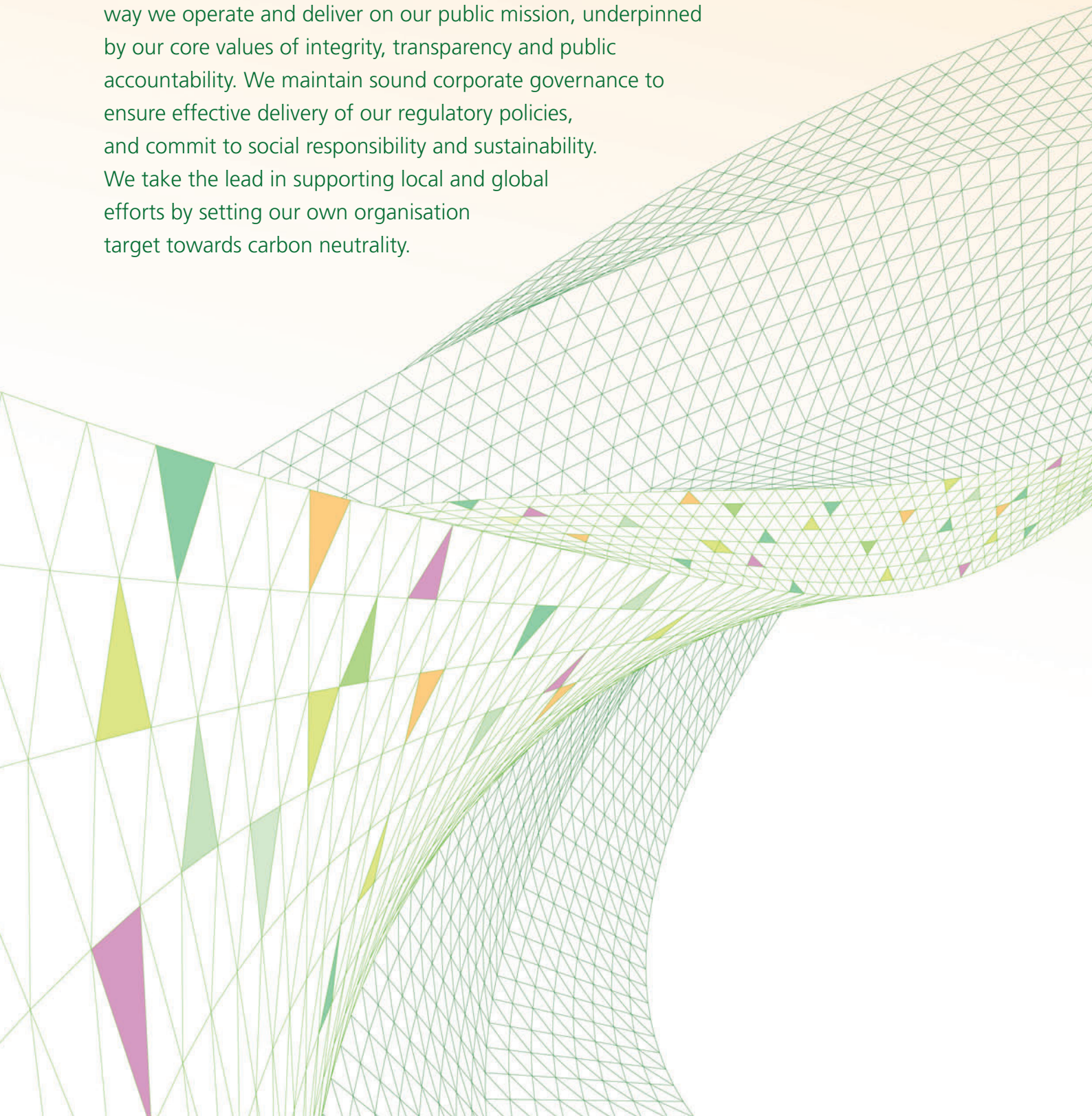
a Primarily, alleged market manipulation and insider dealing.

b Such as identity fraud and impersonation.

c For example, bullion trading and banking services.

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*¹.

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

¹ 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[^], 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

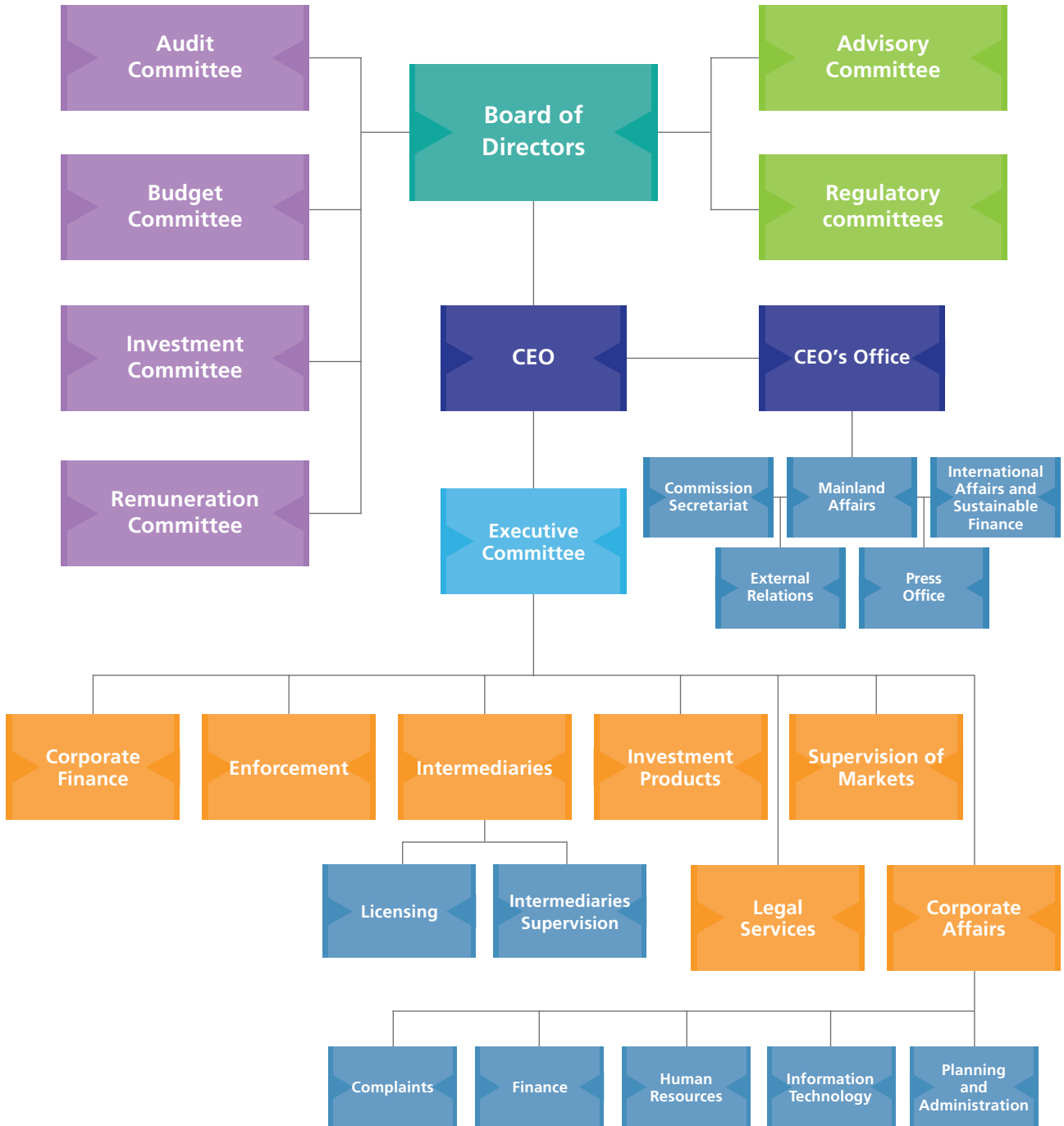
The key challenges for the corporate governance of public bodies like the SFC is that we must be seen to be upholding the highest levels of governance as well as transparency in the work that we do.

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.

[^] 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
Chairman						
Tim Lui Tim-leung	12/12	2/2	–	2/2	2/3	–
Executive Directors						
Ashley Alder ¹	8/8	–	1/1	1/2	–	10/11
Julia Leung Fung-yee ²	12/12	–	1/1	2/2	–	15/15
Thomas Atkinson ³	0/0	–	–	–	–	0/1
Christina Choi Fung-yee	11/12	–	–	–	–	15/15
Michael Duignan ⁴	4/5	–	–	–	–	4/6
Rico Leung Chung-yin	12/12	–	–	–	–	15/15
Christopher Wilson ⁵	5/5	–	–	–	–	5/6
Non-Executive Directors						
Agnes Chan Sui-kuen	12/12	2/2	1/1	2/2	2/3	–
Edward Cheng Wai-sun ⁶	8/8	–	0/1	–	1/1	–
Chew Fook-aun ⁷	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	–
Senior Director and Chief Counsel						
Andrew Wan Chi-yiu	–	–	–	2/2	–	14/15
Andrew Young ⁸	–	–	–	–	–	7/7
Interim Head, Corporate Finance						
Megan Tang Siau-feng ⁹	–	–	–	–	–	0/0
Interim Head, Intermediaries						
Keith Choy Chung-fai ¹⁰	–	–	–	–	–	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"> Reviews annual financial statements Recommends the appointment of external auditors Coordinates the scope of the external audit and reviews audit findings Examines management procedures to ensure effective financial and internal controls 	2
Budget Committee	Three NEDs and one ED [^]	<ul style="list-style-type: none"> Examines and approves the parameters and bases used in the annual budget Conducts the mid-year budget review Reviews the annual budget and makes recommendations to the Board 	1
Investment Committee	Four NEDs, one ED and a Senior Director [^]	<ul style="list-style-type: none"> Advises on the SFC's fund management policies, strategies and investment guidelines Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines Advises on investment risk management and asset allocation and monitors the performance of investments 	2
Remuneration Committee	Nine NEDs	<ul style="list-style-type: none"> Reviews the structure and level of staff remuneration Reviews trends in remuneration packages and recommends adjustments Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment 	3

[^] 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 Ownership² 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.

² 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 manner³.

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), 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 Organisations⁴.

³ See Communications and Education on pages 70-75.

⁴ 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 intelligence⁵.

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>Process Review Panel</p> <ul style="list-style-type: none"> ■ An independent panel established by the Chief Executive of the HKSAR in 2000 ■ Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ Reviewed 51 cases and published its annual report in December 2022
<p>Securities and Futures Appeals Tribunal</p> <ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ Reviews specified decisions made by the SFC or the Investor Compensation Company Limited ■ 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 	<ul style="list-style-type: none"> ■ Received a request to review one new case ■ Decided on three cases brought forward from 2020-21 and received in 2021-22 ■ Allowed three cases received in 2021-22 and 2022-23 to be withdrawn ■ Allowed three applications for extension to file an appeal but all of them failed to file the appeal by the extended deadline
<p>The Ombudsman</p>	<ul style="list-style-type: none"> ■ Handles public complaints against the SFC and its staff for alleged maladministration 	<ul style="list-style-type: none"> ■ Commenced two preliminary inquiries
<p>Courts</p>	<ul style="list-style-type: none"> ■ Handle judicial reviews of SFC decisions 	<ul style="list-style-type: none"> ■ Handled eight judicial review cases

⁵ 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
Applications for subordinated loan or modification/ waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	100%	98%	97%
Authorisation/registration of investment products				
Take-up of applications upon receipt	5 or 2 business days ¹	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%
General enquiries				
Preliminary replies	5 business days	100%	100%	100%
Processing of licensing applications²				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	99% ³	99%	99%
Representatives (normal licences)	8 weeks	99% ³	99%	99%
Representatives (responsible officers)	10 weeks	99% ³	99%	99%
Transfer of accreditation	7 business days	99% ³	99%	99%
Complaints against intermediaries and market activities				
Preliminary response	2 weeks	99.9% ⁴	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.

Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)	
<i>Applications for rulings and consultations with the Takeovers Executive</i>	
– All ruling applications and consultations under the Codes (except for those set out below)	5 business days ⁵
– 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 ⁶	10 business days
– All other EFM/EPT applications	21 business days
Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code	
<i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i>	
– No complex Code issues involved	2 business days
– Complex Code issues involved	3 business days ⁷
<i>All other announcements (including revised drafts)</i>	
– No complex Code issues involved	1 business day
– Complex Code issues involved	3 business days ⁷
<i>All drafts of shareholders' documents⁸</i>	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)¹ Recommendations, and details how we incorporate climate and sustainability considerations in developing our regulatory initiatives and managing our organisation’s activities.

<p>Governance</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>Strategy</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>Risk management</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>Metrics and targets</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>

¹ 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 opportunities².

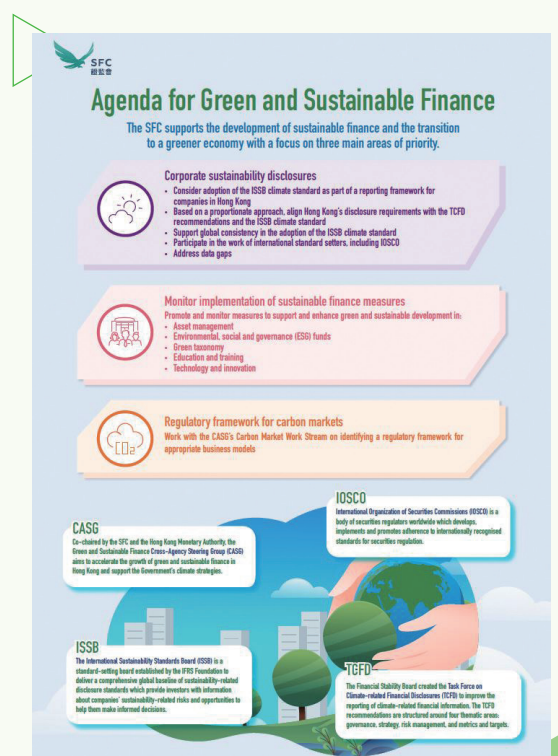
During the year, our Board and Executive Committee (ExCo) reviewed and agreed on our strategy to achieve carbon neutrality before 2050. They also provided guidance on the SFC’s *Agenda for Green and Sustainable Finance*, international standard setting and alignment with international and domestic standards, 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 team³ 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*⁴ 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 measures⁵ 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)⁶, 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 Kong⁷.

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 industry⁸.

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 assessments⁹, 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 Group¹⁰, 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.

¹⁰ 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.

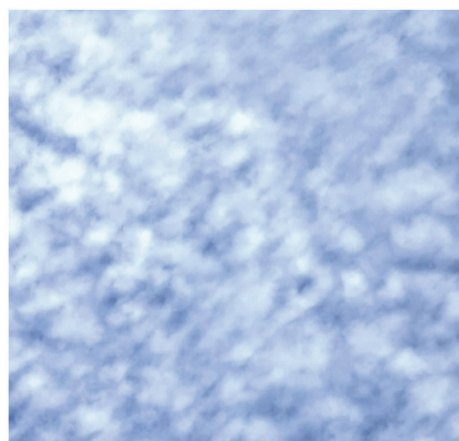
Carbon market opportunities for Hong Kong

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.



Carbon Market Opportunities for Hong Kong Preliminary Feasibility Assessment

March 2022

Green and Sustainable Finance Cross-Agency Steering Group
Carbon Market Workstream

Co-Chairs:



Members:



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 industry¹¹ 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.

¹¹ 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^a

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

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 footprint¹² 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 WINGS¹ 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

¹ 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 footprint². 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 [^]	\$24,185	\$2,000	N/A

[^] Including donations in lieu of corporate gifts made in the names of guest speakers invited to our in-house training seminars.

² 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.



Corporate Social Responsibility

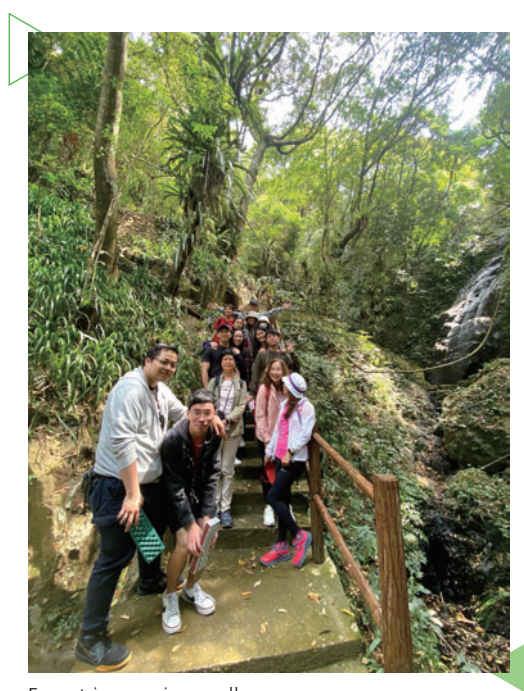
Consumption and recycling

	2022/23	2021/22	2020/21
Consumption			
Paper (pieces/head)	5,429	5,421	7,321
Electricity (kWh)	2,924,902	3,322,576	3,055,590
Recycling			
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

Meet Our People

Our people talk about what makes them proud to work at the SFC and carry out our mission to maintain sound capital markets and advance Hong Kong's position as a global financial hub.

The SFC's statutory mission to safeguard the interests of the investing public has been a motivating force for Nelson Siu since he joined the SFC seven years ago. As part of his work, he was recently involved in successfully defending judicial review proceedings brought against the SFC. "It felt great being part of the team that secured the Court's dismissal of the challenge to one of the SFC's fundamental powers," he said.

Public service gives another dimension of meaning to our work.



Nelson Siu
Counsel,
Legal Services

Our team provides strong assistance to the SFC to strengthen cross-boundary enforcement cooperation.



Peixia Li
Chief Advisor,
Enforcement

Peixia Li is proud to be the super-connector who bolsters enforcement cooperation between the SFC and China Securities Regulatory Commission (CSRC). It is an honour to spearhead the establishment of a normalised enforcement cooperation mechanism between the two regulators and lead her team to coordinate efforts to resolve critical policy issues and major enforcement cases. She emphasised that this collaboration must deepen to combat increasingly complex market misconduct. In 2019, her team received high recognition from the leaders of the SFC, CSRC and Ministry of Finance for facilitating the milestone tripartite memorandum of understanding on audit working papers.

When Ken Yeung joined the SFC from the financial sector three years ago, the broad range of responsibilities in the anti-money laundering team and the need to adjust to new perspectives as a regulator were both very challenging and motivating for him. "It is a never-ending learning process to keep myself abreast of international standards as well as market developments to help swiftly identify money laundering trends in the securities and virtual asset sectors." He added that his thought-provoking policy discussions with senior executives have been particularly rewarding.

Working at the SFC, I have learnt to think holistically and consider policy initiatives from broader perspectives.



Ken Yeung
Manager,
Intermediaries Supervision

Our licensing work is the first line of gatekeeping and the key to investor confidence.



Grace Lau
Associate Director,
Licensing

Grace Lau was pleased to play a part in the initiative to fully digitalise the SFC's licensing platform and contribute to the development of this major gatekeeping tool. "The digitalised platform streamlines the licensing process and makes it more efficient and eco-friendly for both the SFC and intermediaries," she related. "Integrating the risk assessment functions also raises our work effectiveness." She learnt that the success of any project depends primarily on communication and collaboration.



Andrew Wan leads the Corporate Affairs Division which plays a crucial role to ensure the smooth functioning of the SFC. He also takes pride in his decade-long service on the board of the Investor and Financial Education Council since setting it up in 2012 and believes its work contributes to improving the public's financial literacy. Another rewarding experience came from his leading role in the interior design of the SFC's new office in Quarry Bay, creating an avant-garde yet professional workspace for colleagues. "The affairs of the SFC are connected through the good work of Corporate Affairs."

Eunice Cheng was a key member of the team managing the introduction of the Hong Kong investor identification regime. "The regime is a much-needed enhancement to our market monitoring which helps improve surveillance, stem misconduct and facilitate enforcement action," she said. Rounds of stakeholder engagement were followed by a multimedia publicity campaign, and she believes all of these were essential to the project's successful implementation.



"As a new staff member, I realised on day one that the SFC is dedicated to the accuracy and clarity of its messages for both the financial industry and the public," said Gerald Cheung, who joined the SFC from the financial sector in 2022. It is important for him to ensure the SFC's external communications are unambiguous as their impact can be wide-ranging. He added that comprehensive considerations of market integrity and public interest are "baked" into all our communications, however routine they may be.

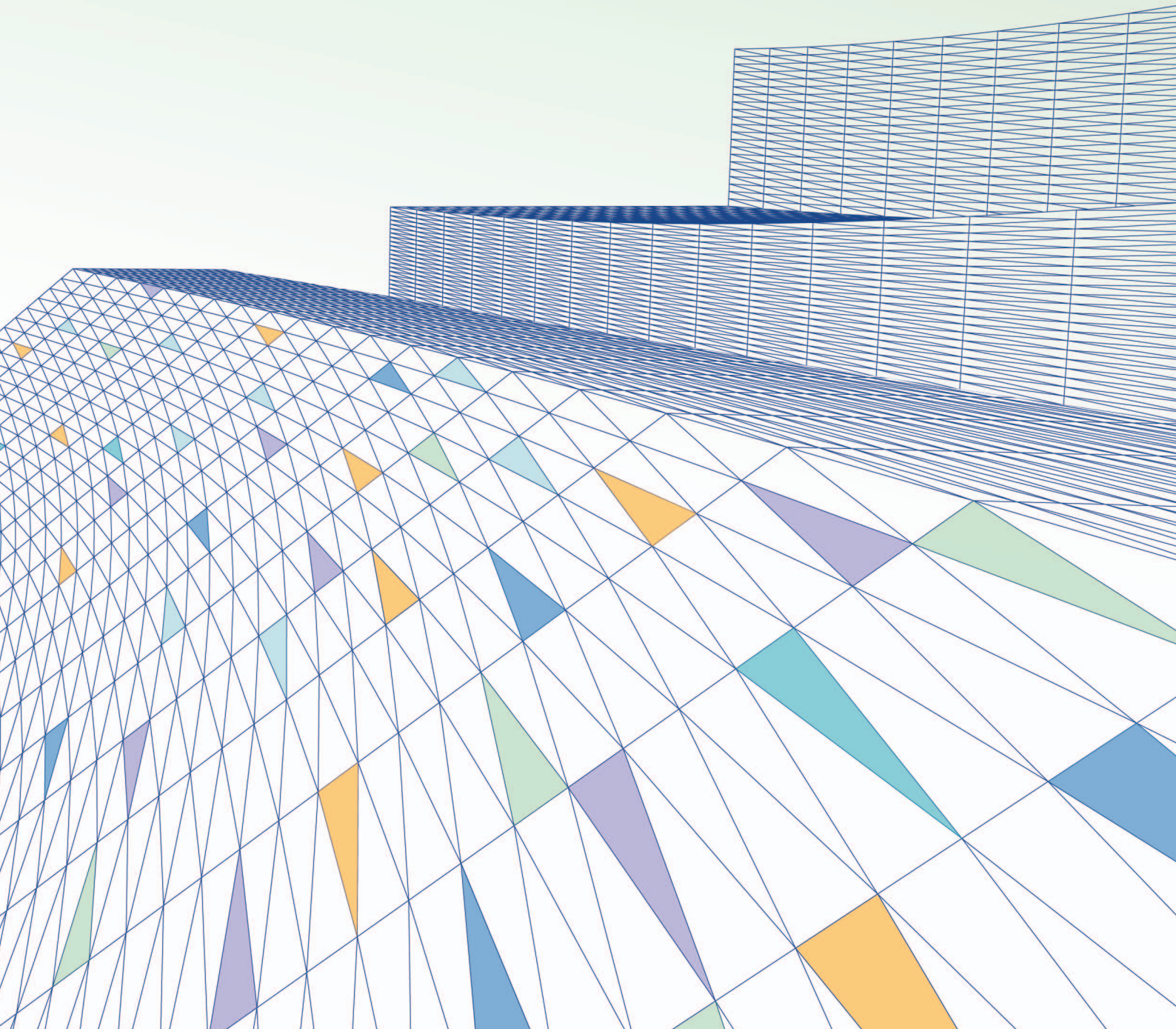
Being closely involved in the policy work relating to the Fast Interface for New Issuance (FINI) system was a source of tremendous job satisfaction for Joan Ng. "By modernising and shortening the initial public offering settlement process, including the associated regulatory processes, FINI will help cement Hong Kong's status as a world-class capital raising hub without compromising regulatory standards," she explained. Given the large number of stakeholders involved, the project required her to think about not only regulatory considerations but also market efficiency and information integrity.



For Raymond Hung, contributing to policy work that drives a better industry provides a strong sense of achievement. As one of the SFC's representatives in an international project on liquidity risk management of investment funds—a top priority for authorities worldwide—he found it challenging to balance different views among working group members and achieve proportionate policy outcomes. "I had extensive discussions with different authorities to understand their concerns and needs so we could reconcile our core interests to reach a consensus," he related.

Corporate Developments

Fostering a positive and supportive workplace culture with an emphasis on staff's wellbeing helps make our workforce engaged and productive. To ensure our regulatory effectiveness, we use our resources prudently and regularly upgrade our technology infrastructure to keep in step with market developments.



Corporate Developments

People

We are committed to making the SFC an employer of choice. For the 17th consecutive year, the SFC was named a “Caring Organisation” by the Hong Kong Council of Social Service. The Employees Retraining Board (ERB) also recognised our efforts to promote staff learning and development with the “ERB Manpower Developer” award for the 10th consecutive year.

Professional development

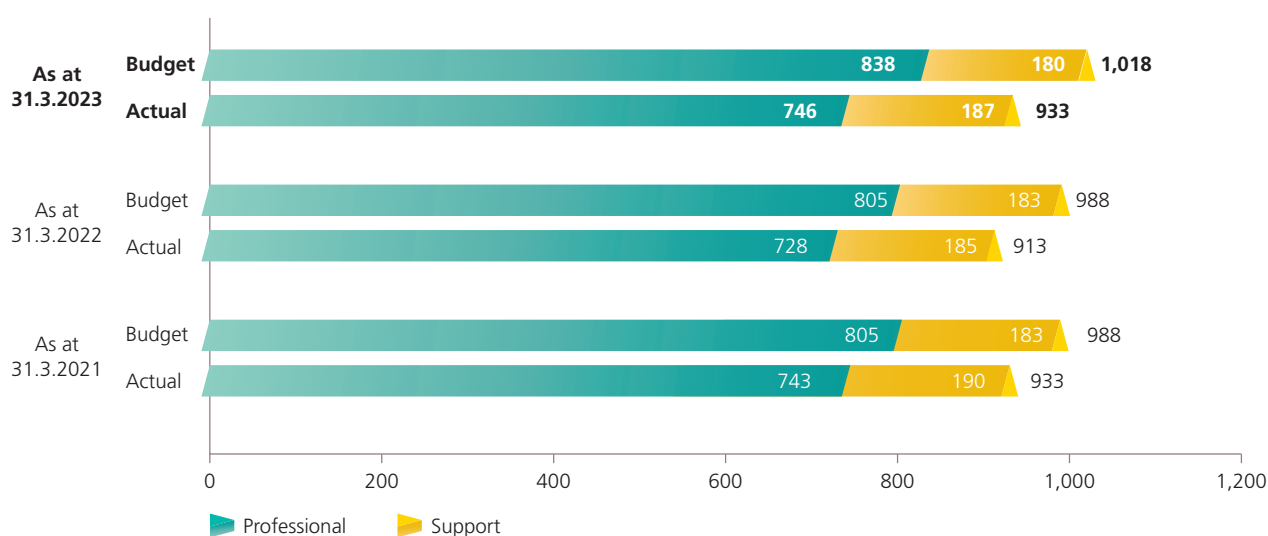
Our Chief Executive Officer (CEO) communicates important organisational matters and regulatory developments and addresses questions from staff at CEO sharing sessions. We also arrange internal Commission Connection sessions to update our staff on new policy initiatives.

We strive to provide staff with career development opportunities and regularly fine-tune our merit-based human resources policies to better align our people and culture with the SFC’s regulatory objectives.

Recognising the benefits of broader professional exposure, we offer short-term internal secondments for staff through a cross-divisional exchange programme. External secondment opportunities are also offered such as those with the Financial Services and the Treasury Bureau and the China Securities Regulatory Commission (CSRC). This year, two CSRC counterparts were seconded to us under the SFC-CSRC memorandum of understanding.

We invited local and overseas regulators and industry professionals to share their views with us on a wide range of topics including financial products, trading strategies and the latest developments in overseas markets.

Employee statistics



	As at 31.3.2023	As at 31.3.2022	As at 31.3.2021
Male	328	310	315
Female	605	603	618
Average years of service	9.6	9.5	9.3
Female staff at Senior Manager grade or above	60%	59%	60%

Training

	2022/23	2021/22	2020/21
Percentage of employees who participated in internal training [^]	98%	99%	94%
Average hours of internal training per employee [^]	30.7	29	18.8

[^] Including lectures, workshops, seminars, webinars and e-learning.

During the year, our employees spent an average of 30.7 hours on structured learning courses, which included workshops, seminars and training programmes.

A total of 56 summer, winter and full-year interns were placed across our various divisions this year. These included nine who joined the new Sustainable Finance Internship Programme that we introduced as part of the SFC Agenda for Green and Sustainable Finance to develop a talent pipeline of university students with work experience and training in this area.

Engaged workforce

We strive to cultivate a supportive culture and a positive working environment as our core values.

With the phased removal of COVID-related restrictions in Hong Kong, we gradually resumed normal office operations and face-to-face training sessions and workshops.

During the year, we conducted an employee engagement survey to better understand the needs and expectations of our employees as well as the current level of their engagement. This helped us make the SFC a better place to work in.

The SFC Women's Network helps advance women's professional growth and foster an inclusive work culture. We were the first statutory body in Hong Kong to set up a women's group for staff. During the year, our Women's Network organised talks to engage and support female colleagues and encourage them to develop their leadership potential. To commemorate the International Women's Day, the Women's Network distributed a piece of non-fungible token (NFT) artwork to our staff.

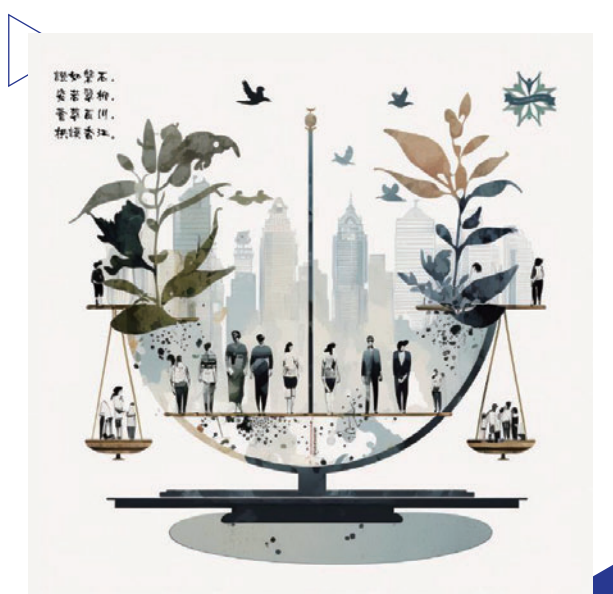
Quality workplace

Our office in Quarry Bay provides a green working environment which is conducive to both work efficiency and staff well-being. When sufficient daylight is available or a room is not in use, lights are automatically turned off or dimmed through sensors. Bins for recycling paper, plastic, metal and glass are conveniently placed around the office.

To safeguard the health of staff and improve productivity, all workstations are equipped with height-adjustable desks. Wellness rooms and communal areas are designed with facilities to cater to staff's needs. An air quality treatment system also helps ensure a healthy working environment. Spacious multi-function rooms provide venues for larger-scale staff training as well as leisure activities.

Legal support

Our Legal Services Division handles criminal cases and manages civil litigation and Market Misconduct Tribunal cases initiated by the SFC. It also defends judicial reviews and other cases brought against the SFC.



NFT artwork by Women's Network to commemorate International Women's Day

The division supports our day-to-day work by providing advice and guidance on legislative drafting and regulatory matters such as licensing issues, supervision of risky brokers, front-loaded regulation of listing matters, takeovers activities, investor compensation and enforcement investigations, as well as on administrative affairs including employment, data privacy and procurement contracts.

Technology

We implemented new IT initiatives during the year under the strategic themes of digitisation, process automation and augmenting risk detection capabilities through information intelligence.

Jointly with Hong Kong Exchanges and Clearing Limited (HKEX), we developed multiple systems to support the Hong Kong investor identification regime

which was introduced in the first quarter of 2023. We also launched a scalable secured delegated authentication infrastructure for granting regulated intermediaries access to log in to HKEX's electronic communication platform using their WINGS¹ accounts.

Other initiatives included boosting operational efficiency with artificial intelligence (AI). New applications for AI-assisted process automation help streamline case evidence reviews. Bank statements can now be securely submitted to the SFC via the WINGS transfer feature which automates information standardisation and extraction, and the information is then processed by a new intelligent platform which identifies and visualises suspicious fund flow patterns. In addition, our AI-powered, automated transcription of voice recording evidence substantially reduces manual work and raises efficiency.

At the front line of complaint resolution

Rebecca Wong, Manager, was one of the two staff members in the Complaints Team, Corporate Affairs, who were honoured with The Ombudsman's Awards 2022 for Officers of Public Organisations. This was in recognition of their outstanding work in handling complaints from the public.

Wong joined the SFC just after the Global Financial Crisis 14 years ago and her experience handling complaints related to Lehman minibonds quickly sped up her learning curve, she said. Earlier in Wong's career, a client-facing role in banking equipped her with transferable people skills, but she believes processing complaints is different. Positivity, patience and empathy are critical, she emphasised. To help meaningfully, she must stay calm and show empathy to complainants who may have lost a big part of their savings.

A major challenge in her work is that a sea of complaint emails could rush in on the back of a high-profile market event. But Wong is often at the front line of detecting capital-market misconduct,

and she wastes no time to escalate suspected market irregularities to our operating divisions. In her career at the SFC, one particular complaint case related to ramp and dump scams left an imprint on her mind, as human lives, not just capital, were jeopardised.

Helping complainants and improving the public's understanding of the SFC's work is very gratifying, Wong related, and the award motivates her to keep up her efforts.



Rebecca Wong, Manager, Complaints Team, Corporate Affairs

¹ Web-based INTeGrated Service.

Corporate Developments

Finance

As a publicly funded organisation, we follow a disciplined approach to drawing up our annual budget. An independent professional services firm conducts an internal audit for us annually to evaluate and improve the effectiveness of our controls, risk management and governance processes. We appoint external investment managers to manage our surplus reserves according to the investment guidelines approved by the Financial Secretary.

Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is substantially lower than the original rate of 0.0125% set in 1989. We have not revised our fees and charges since 1994, and have offered annual licensing fee waivers 10 times since 2009². A full waiver was granted for 2022-23 and is extended for another year beginning 1 April 2023.

Income

Total income for the year was \$1,942 million, down 14% from \$2,247 million last year. As the average securities market turnover was lower during the year, our levy income decreased 19% from last year to \$1,725 million, and income from fees and charges also decreased 30% from \$151 million to \$106 million. Our investments recorded a net gain of \$103 million for the year, compared to a net loss of \$52 million last year, with the variance stemming mainly from the performance of our investments in pooled funds and higher interest income from fixed deposits.

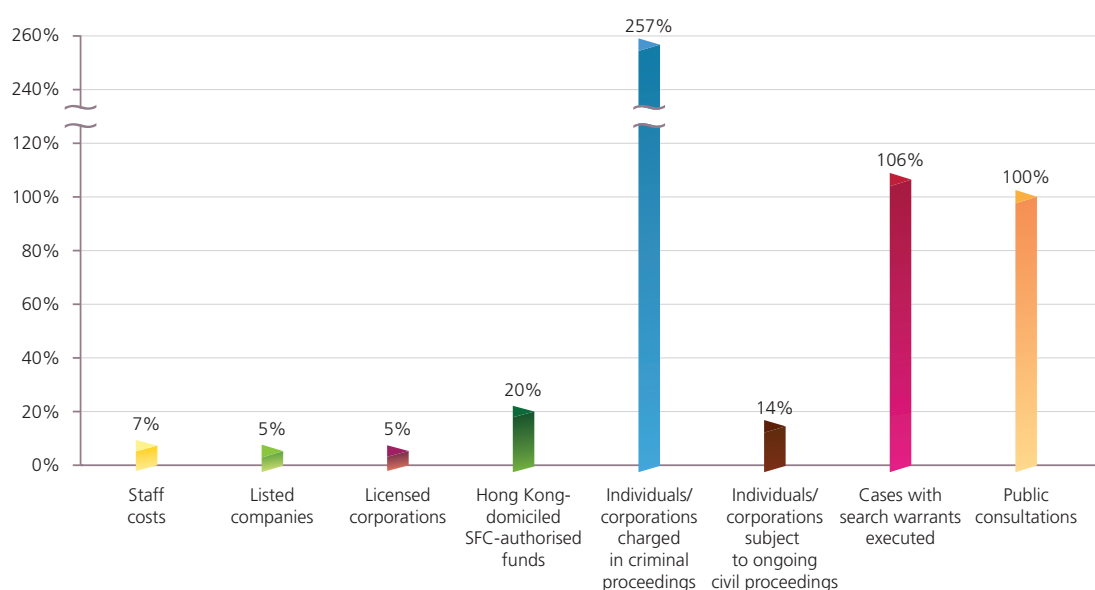
Expenditure

The costs of our operations totalled \$2,043 million, \$316 million below our budget of \$2,359 million.

Over the past three years, our staff costs increased 7% and total expenses increased 4%, while our regulatory work increased in volume and complexity. The ratio of average expenses to income stood at 83% for the past three years.

We recorded a deficit of \$101 million for the year, compared to a surplus of \$341 million last year. As of 31 March 2023, our reserves stood at \$7.9 billion, of which \$3.4 billion is set aside for a future potential office premises acquisition.

Three-year change in staff costs vs market statistics (2019/20-2022/23)



² Full waivers were given in 2009-10, 2012-19 and 2020-23 (extended to 2023-24), and a 50% discount was provided for 2019-20.

Income breakdown

	2022/23	2021/22	2020/21
Levies	88.8%	95.3%	75.7%
Fees and charges	5.5%	6.7%	6%
Net investment income/(loss) and others [^]	5.7%	(2%)	18.3%

[^] Net investment income/(loss) and others included foreign exchange gain or loss.

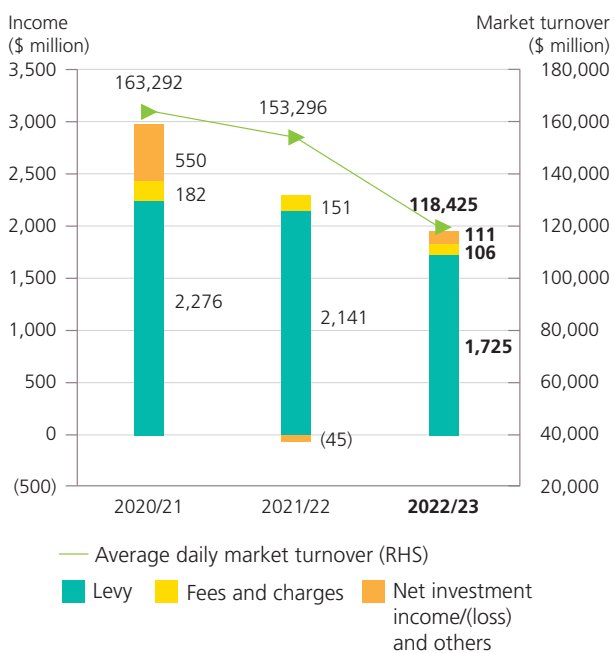
Expenditure breakdown

	2022/23	2021/22	2020/21
Staff costs	74.5%	75.7%	73.2%
Premises and related expenses	1.7%	1.8%	2.5%
Other expenses	11.3%	9.9%	8.7%
Depreciation	12.5%	12.6%	15.6%

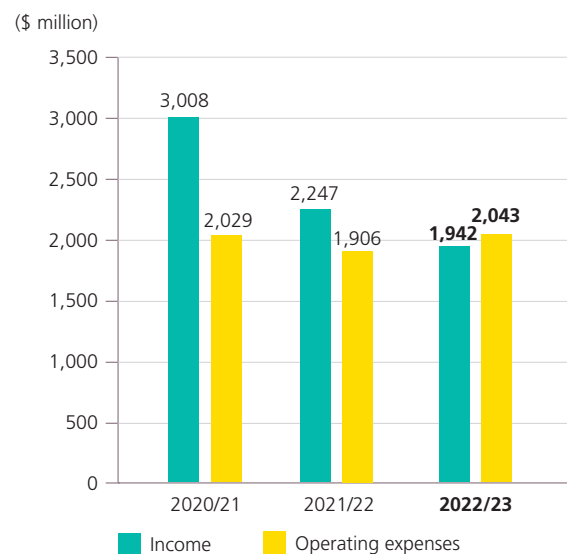
Finance

(\$ million)	2022/23	2021/22	2020/21
Income	1,942	2,247	3,008
Expenses including depreciation	2,043	1,906	2,029
(Deficit)/Surplus	(101)	341	979

Income vs market turnover
(2020/21-2022/23)



Income and operating expenses
(2020/21-2022/23)



Securities and Futures Commission

Independent auditor's report To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Opinion

What we have audited

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group), which are set out on pages 120 to 148, comprise:

- the consolidated statement of financial position as at 31 March 2023;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is the valuation of investments carried at fair value through profit or loss.

Valuation of investments carried at fair value through profit or loss

The aggregate carrying value of the Group's investment portfolio carried at fair value through profit and loss was HK\$1,449 million, which represented 16% of consolidated total assets as at 31 March 2023 and is comprised of debt securities and pooled funds (equity instruments).

The Group's debt and equity instruments at fair value through profit or loss are categorised as Level 1 and Level 2 in the fair value hierarchy based on prices quoted in active markets or valued based on market observable inputs.

We identified valuation of investments carried at fair value through profit or loss as a key audit matter because of the size of these items in the consolidated financial statements, the impact of changes in valuation on the profit and loss and the management judgments and assumptions used in the valuation of these assets.

Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Key audit matters (continued)

How our audit addressed the key audit matter

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis.
- For Level 2 financial instruments, we involved our internal valuation specialists to carry out independent valuations by developing valuation methods, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group on a sample basis.

Based on the procedures we performed, we found that the valuation of investments to be supported by available evidence and the models, key parameters, judgments and assumptions adopted by management were considered acceptable.

Notes 3(h), 10 and 22(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, a detailed breakdown of these investments and the respective fair value hierarchy disclosures.

Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period

and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Amy Y.K. Yeung.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 May 2023

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Income			
Levies	2(a)	1,725,174	2,141,281
Fees and charges	2(b)	106,185	150,767
Net Investment income/(loss)			
Investment income/(loss)	5	100,841	(76,218)
Less: custody and advisory expenses		(10,394)	(11,535)
Recoveries from the Investor Compensation Fund		6,238	5,668
Exchange gain		12,708	35,276
Other income	6	1,759	1,506
		1,942,511	2,246,745
Expenses			
Staff costs and directors' emoluments	7	1,522,663	1,443,015
Depreciation			
Fixed assets	11	108,457	96,711
Right-of-use assets	12	146,178	144,087
Other premises expenses		35,677	33,608
Finance costs	12	6,708	7,855
Other expenses	8	223,718	180,734
		2,043,401	1,906,010
(Deficit)/surplus and total comprehensive income for the year		(100,890)	340,735

The notes on pages 125 to 148 form part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Non-current assets			
Fixed assets	11	216,366	263,235
Right-of-use assets	12	700,776	846,508
Deposits for leases		37,609	38,118
Financial assets at amortised cost – debt securities	9	2,903,608	3,007,591
		3,858,359	4,155,452
Current assets			
Financial assets at amortised cost – debt securities	9	381,528	184,105
Financial assets at fair value through profit or loss			
Debt securities	10	403,649	403,442
Pooled funds	10	1,045,571	891,958
Debtors, deposits and prepayments	15	283,492	310,861
Fixed deposits with banks	13	2,845,253	3,015,832
Cash held for Grant Scheme	14	124,205	69,296
Cash at bank and in hand	13	66,647	157,790
		5,150,345	5,033,284
Current liabilities			
Fees received in advance		8,378	7,689
Creditors and accrued charges	16	274,732	235,589
Lease liabilities	12	141,385	119,326
Provisions for reinstatement cost	17	873	–
		425,368	362,604
Net current assets		4,724,977	4,670,680
Total assets less current liabilities		8,583,336	8,826,132

Consolidated statement of financial position (continued)

As at 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Non-current liabilities			
Lease liabilities	12	581,156	722,189
Provisions for reinstatement cost	17	88,047	88,920
		669,203	811,109
Net assets			
		7,914,133	8,015,023
Funding and reserves			
Initial funding by Government	18	42,840	42,840
Reserve for property acquisition	24	3,375,000	3,250,000
Accumulated surplus		4,496,293	4,722,183
		7,914,133	8,015,023

Approved and authorised for issue by the Securities and Futures Commission on 29 May 2023 and signed on its behalf by

Tim Lui
Chairman

Julia Leung
Chief Executive Officer

The notes on pages 125 to 148 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2021	42,840	3,125,000	4,506,448	7,674,288
Surplus and total comprehensive income for the year	–	–	340,735	340,735
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
Balance at 31 March 2022 and 1 April 2022	42,840	3,250,000	4,722,183	8,015,023
Deficit and total comprehensive income for the year	–	–	(100,890)	(100,890)
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
Balance at 31 March 2023	42,840	3,375,000	4,496,293	7,914,133

The notes on pages 125 to 148 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
(Deficit)/surplus for the year		(100,890)	340,735
Adjustments for:			
Depreciation – Fixed assets		108,457	96,711
Depreciation – Right-of-use assets		146,178	144,087
Finance costs		6,708	7,855
Interest income on deposits for leases		(289)	(286)
Investment (income)/loss		(100,841)	76,218
Exchange gain		(12,885)	(35,333)
Loss/(gain) on disposal of fixed assets		4	(58)
		46,442	629,929
Increase in right-of-use assets		(4)	(1)
Decrease in debtors, deposits and prepayments		71,911	27,812
Increase in cash held for Grant Scheme		(54,909)	(69,296)
Increase/(decrease) in fees received in advance		689	(509)
Decrease in creditors and accrued charges		41,438	70,350
Net cash generated from operating activities		105,567	658,285
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(302,860)	(347,047)
Interest received		137,067	102,526
Debt securities at fair value through profit or loss purchased		(251,749)	(494,364)
Debt securities at fair value through profit or loss sold or redeemed		237,846	494,691
Pooled funds purchased		(195,123)	–
Pooled funds sold		4,977	6,188
Debt securities at amortised cost purchased		(300,223)	(173,769)
Debt securities at amortised cost redeemed at maturity		189,259	108,124
Fixed assets purchased		(63,896)	(89,619)
Proceeds from fixed assets disposal		9	58
Net cash used in investing activities		(544,693)	(393,212)
Cash flows from financing activities			
Principal element of lease payments		(119,416)	(139,166)
Interest element of lease payments		(6,708)	(7,855)
Net cash used in financing activities		(126,124)	(147,021)
Net (decrease)/increase in cash and cash equivalents		(565,250)	118,052
Cash and cash equivalents at the beginning of the year		973,151	855,099
Cash and cash equivalents at the end of the year	13	407,901	973,151

Analysis of the balance of cash and cash equivalents

	2023 \$'000	2022 \$'000
Fixed deposits with banks	341,254	815,361
Cash at bank and in hand	66,647	157,790
	407,901	973,151

The notes on pages 125 to 148 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

2. Income

Details of the SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the exchanges at rates specified by the Chief Executive in Council.
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the SFC and its subsidiaries (together, the Group or we) are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Except as described in note 3(q), these developments have no material effect on how the Group's results and financial position for the current or prior periods are prepared and presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(b) Basis of preparation

We have prepared these consolidated financial statements using the historical cost as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the group entities.

We prepare the consolidated financial statements in conformity with HKFRSs which require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The classification of debt securities requires judgments. In making this judgments, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgments to select the appropriate method for fair value measurement (see note 3(h)).

(c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

Inter-company transactions and balances between group companies are eliminated.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

(d) Recognition of income

We recognise income in the consolidated statement of profit or loss and other comprehensive income when or as it satisfies a performance obligation by transferring promised services to the customers in an amount to which the Group expects to be entitled in exchange for these services. We record our income as follows:

(i) Levies

We recognise levies from SEHK and HKFE as income on a trade date basis.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(d) Recognition of income (continued)

(ii) Fees and charges

We recognise annual fees as income on a straight-line basis over the periods to which they relate as the services are performed over time. We record other fees and charges as income when the performance obligation is satisfied. We record other fees and charges received in advance as a liability.

For interest income, we record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities measured at amortised cost; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

For net gain/loss on financial assets at fair value through profit or loss, the change in fair value or disposal of financial assets are recognised in profit or loss as they arise.

(e) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are

initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(f) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the consolidated statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the consolidated statement of profit or loss and other comprehensive income on the date of retirement or disposal.

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses are recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(h) Financial assets (continued)

(iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Investments in debt securities and pooled funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets are included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the consolidated statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss and other comprehensive income.

FVPL:

Changes on fair value of investments in debt securities and pooled funds that are subsequently measured at FVPL are recognised in the consolidated statement of profit or loss and other comprehensive income and presented net within investment income/loss in the period in which they arise.

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. The fair value is determined based on the Group's share of the net assets of the pooled funds as determined by the custodian.

(iv) Impairment

We assess on a forward looking basis the expected credit losses (ECL) associated with our financial instruments carried at amortised cost. We perform impairment assessment using 12-month ECL, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(i) Related parties

For the purpose of these consolidated financial statements, we consider that the following are related parties of the Group:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region (the Government) under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 Related party disclosures.

(j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates prevailing at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the closing rate at the end of the reporting period. We recognise exchange gains and losses on translation in the consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(k) Debtors, deposits and other receivables

We state debtors, deposits and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the balance with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See note 3(h)(iv) for further information about the Group's accounting policy for impairment.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

(m) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Separate financial statements

We state investment in a subsidiary at cost less any impairment losses in the statement of financial position of the SFC.

(o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the consolidated statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

(p) Provisions and contingent liabilities

We recognise a provision in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(q) Recent developments in HKFRSs

Interest Rate Benchmark Reform — Phase 2 — amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16

The Group has certain debt securities at amortised cost that are referenced to the 3-month USD London Interbank Offered Rate (LIBOR). These exposures will remain outstanding until the Interbank Offered Rate (IBOR) ceases and will therefore transit in future. The Group has assessed the impact and there was no significant effect on the consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate.

As at 31 March 2023, the carrying amounts of debt securities at amortised cost that are referenced to USD LIBOR and have yet to be transitioned to an alternate benchmark was \$116,105,000 (2022: \$121,436,000). The total notional contract amount was \$115,967,000 (2022: \$121,728,000).

4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

5. Investment income/(loss)

	2023 \$'000	2022 \$'000
Interest income from bank deposits	76,051	7,699
Interest income from debt securities at amortised cost	71,412	61,642
Net loss on financial assets at FVPL – pooled funds	(39,969)	(127,140)
Net loss on financial assets at FVPL – debt securities	(6,653)	(18,419)
	100,841	(76,218)

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

6. Other income

	2023 \$'000	2022 \$'000
Investigation costs awarded	1,381	936
Sale of SFC publications	73	72
Others	305	498
	1,759	1,506

7. Staff costs and directors' emoluments

	2023 \$'000	2022 \$'000
Salaries and allowances	1,380,752	1,304,719
Retirement scheme contributions	90,050	86,356
Medical and life insurance	45,107	45,927
Staff functions	1,072	778
Recruitment	3,870	3,288
Registration and membership fees	1,812	1,947
	1,522,663	1,443,015

The total number of staff as at 31 March 2023 was 959 (933 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2022: the total number of staff was 938, comprising 913 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (continued)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2023 Total \$'000	2022 Total \$'000
Chief Executive Officer²						
Ashley Alder, SBS, JP (retired 31 December 2022)	-	5,399	-	536	5,935	10,076
Julia Leung Fung-ye, SBS, JP (appointed 1 January 2023) ³	-	6,470	1,675	565	8,710	7,237
Executive Directors²						
Thomas Atkinson (retired 2 May 2022)	-	411	78	41	530	6,211
Christina Choi Fung-ye	-	4,548	1,182	454	6,184	6,083
Michael Duignan (appointed 1 November 2022)	-	1,833	477	184	2,494	-
Brian Ho Yin-tung (retired 27 August 2021)	-	-	-	-	-	3,385
Rico Leung Chung-yin	-	4,462	1,160	446	6,068	5,980
Christopher Wilson (appointed 1 November 2022)	-	1,877	469	187	2,533	-
	-	25,000	5,041	2,413	32,454	38,972
Non-executive Chairman						
Tim Lui Tim-leung, SBS, JP	1,255	-	-	-	1,255	1,255
Non-executive Directors						
Agnes Chan Sui-kuen	314	-	-	-	314	314
Clement Chan Kam-wing, MH, JP (retired 26 July 2021)	-	-	-	-	-	101
Edward Cheng Wai-sun, GBS, JP (retired 31 December 2022)	235	-	-	-	235	314
Chew Fook-aun (appointed 1 January 2023)	79	-	-	-	79	-
Victor Dawes, SC	314	-	-	-	314	314
Johnson Kong (appointed 15 November 2021)	314	-	-	-	314	118
Lester Garson Huang, SBS, JP (retired 14 November 2021)	-	-	-	-	-	195
Dr James C Lin	314	-	-	-	314	314
Nicky Lo Kar-chun, SBS, JP	314	-	-	-	314	314
Michael Wong Yick-kam, SBS, MH, JP	314	-	-	-	314	314
Dieter Yih, JP (appointed 15 November 2021)	314	-	-	-	314	118
	3,767	-	-	-	3,767	3,671
Total directors' emoluments	3,767	25,000	5,041	2,413	36,221	42,643

¹ This represents net contribution expenses accrued during the year ended 31 March 2023 in accordance with the accounting policy set out in note 3(f). The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2023 was \$2,078,000 (as at 31 March 2022: \$2,397,000).

² Directors' emoluments to Chief Executive Officer and Executive Directors are for services in connection with the management of the affairs of the SFC.

³ Ms Julia Leung was appointed as Chief Executive Officer (CEO), effective 1 January 2023. Prior to the CEO appointment, she acted as an Executive Director (ED). For the year ended 31 March 2023, the total emoluments represented her appointment as a CEO and an ED. Prior year balance represented the total emoluments as an ED.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (continued)

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$32,894,000 (2022: \$35,886,000) with the breakdown as follows:

	2023 \$'000	2022 \$'000
Salaries and allowances	24,540	25,928
Discretionary pay	5,990	7,365
Retirement scheme contributions	2,364	2,593
	32,894	35,886

Their emoluments are within the following bands:

	2023 No. of individuals	2022 No. of individuals
\$5,500,001 to \$6,000,000	2	0
\$6,000,001 to \$6,500,000	2	3
\$7,000,001 to \$7,500,000	0	1
\$8,500,001 to \$9,000,000	1	0
\$10,000,001 to \$10,500,000	0	1

Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (continued)

Employee benefits (continued)

(a) ORSO Scheme

(i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2022: nil).

(ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$6,306,000 (2022: \$7,873,000) and the amount so forfeited available at the end of the reporting period was \$238,000 (2022: \$1,281,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

(b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

8. Other expenses

	2023 \$'000	2022 \$'000
Information and systems services	93,486	93,831
Legal and professional services and others	68,183	29,441
Investor and other education programme costs to the Investor and Financial Education Council	36,604	39,892
General office and insurance	11,523	9,272
Learning and development	6,667	3,678
Overseas travelling, regulatory meeting expenses and others	5,484	2,950
Auditor's remuneration	986	948
Funding for the International Financial Reporting Standards Foundation	781	780
Loss/(gain) on disposal of fixed assets	4	(58)
	223,718	180,734

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

9. Financial assets at amortised cost – debt securities

	2023 \$'000	2022 \$'000
(a) Amortised cost		
Listed – outside Hong Kong	1,782,349	1,743,577
Listed – in Hong Kong	1,439,399	1,342,634
Unlisted	63,388	105,485
	3,285,136	3,191,696
(b) Fair value		
Listed – outside Hong Kong	1,684,588	1,678,704
Listed – in Hong Kong	1,320,107	1,275,449
Unlisted	62,201	103,283
	3,066,896	3,057,436
(c) Maturity profile		
Within one year	381,528	184,105
After one year but within two years	808,991	384,179
After two years but within five years	1,300,075	1,825,476
After five years	794,542	797,936
	3,285,136	3,191,696

As at 31 March 2023, the weighted average yield to maturity of the debt securities was 4.9% p.a. (2022: 3.1% p.a.).

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

10. Financial assets at fair value through profit or loss

	2023 \$'000	2022 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	317,906	241,230
Listed – in Hong Kong	7,735	5,851
Unlisted	78,008	156,361
	403,649	403,442
(ii) Maturity profile		
Within one year	28,757	30,743
After one year but within two years	58,584	20,368
After two years but within five years	162,470	218,625
After five years	153,838	133,706
	403,649	403,442
	2023 \$'000	2022 \$'000
(b) Pooled funds – unlisted	1,045,571	891,958

The pooled funds comprised of listed equity securities as well as cash and other receivables to be used for re-investment purposes.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

11. Fixed assets

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2022	191,845	22,419	395,816	195,474	3,225	808,779
Additions	658	209	53,674	6,064	996	61,601
Disposals	(182)	(228)	–	(1,488)	(610)	(2,508)
At 31 March 2023	192,321	22,400	449,490	200,050	3,611	867,872
Accumulated depreciation						
At 1 April 2022	71,469	9,325	296,779	165,680	2,291	545,544
Charge for the year	37,723	3,997	46,775	19,382	580	108,457
Written back on disposals	(182)	(215)	–	(1,488)	(610)	(2,495)
At 31 March 2023	109,010	13,107	343,554	183,574	2,261	651,506
Net book value						
At 31 March 2023	83,311	9,293	105,936	16,476	1,350	216,366
Cost						
At 1 April 2021	185,783	22,204	349,982	180,385	3,621	741,975
Additions	6,128	464	45,834	15,421	604	68,451
Disposals	(66)	(249)	–	(332)	(1,000)	(1,647)
At 31 March 2022	191,845	22,419	395,816	195,474	3,225	808,779
Accumulated depreciation						
At 1 April 2021	33,264	5,576	263,742	144,954	2,943	450,479
Charge for the year	38,271	3,997	33,037	21,058	348	96,711
Written back on disposals	(66)	(248)	–	(332)	(1,000)	(1,646)
At 31 March 2022	71,469	9,325	296,779	165,680	2,291	545,544
Net book value						
At 31 March 2022	120,376	13,094	99,037	29,794	934	263,235

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

12. Leases

As at 31 March 2023 and 2022, the Group had right-of-use assets and lease liabilities as follows:

	2023 \$'000	2022 \$'000
Right-of-use assets		
Premises	698,829	843,682
Office equipment	1,947	2,826
	700,776	846,508
Lease liabilities		
Current	141,385	119,326
Non-current	581,156	722,189
	722,541	841,515

- (a) During the year, the Group did not enter new leases and there was no addition of right-of-use assets. The Group entered new leases for premises and recognised additional right-of-use assets of \$12,333,000 during the year ended 31 March 2022.
- (b) For the year ended 31 March 2023, the Group recognised depreciation expense for the right-of-use assets for premises of \$145,300,000 (2022: \$143,209,000) and office equipment of \$878,000 (2022: \$878,000). The interest expense on lease liabilities was \$6,708,000 (2022: \$7,855,000). The total cash outflow for leases during the year was \$126,124,000 (2022: \$147,021,000).

13. Bank deposits and cash at bank

As at 31 March 2023, the effective interest rate on bank deposits ranged from 1.8% p.a. to 5.2% p.a. (2022: 0.16% p.a. to 1.25% p.a.). These balances mature within one year as at both 31 March 2023 and 2022.

Reconciliation to cash and cash equivalents:

	2023 \$'000	2022 \$'000
Cash at bank and in hand	66,647	157,790
Fixed deposits with banks	2,845,253	3,015,832
Amounts shown in the consolidated statement of financial position	2,911,900	3,173,622
Less: Amounts with an original maturity beyond three months	(2,503,999)	(2,200,471)
Cash and cash equivalents in the consolidated statement of cash flows	407,901	973,151

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

14. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in creditors and accrued charges.

15. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$243,796,000 of receivables (2022: \$267,186,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2023 and 2022.

16. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2023 and 2022.

17. Provisions for reinstatement cost

Provisions represent reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

18. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

19. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$53,004,000 (2022: \$67,428,000).

20. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 March 2023, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2022: \$0.2). The balance is too small to present on the statement of financial position of the SFC which is expressed in thousands of dollars.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

21. Related party transactions

We have related party relationships with the Investor Compensation Fund (ICF), the Unified Exchange Compensation Fund (UECF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD) and Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD). In addition to the related party relationships disclosed in note 23, we have the following related party transactions and balances.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$6,238,000 was recovered from the ICF for the ICC's expenses (2022: \$5,668,000). As at 31 March 2023, ICC had an amount due from the ICF of \$208,000 (2022: amount due to the ICF of \$106,000).

(b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

(c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services amounted to \$88,000 (2022: \$700,000) for the year under normal commercial terms and conditions.

22. Financial risk management and fair value

Financial instruments of the Group mainly comprise debt securities and units in pooled

funds. The underlying investments of the pooled funds comprised of listed equity securities and cash and other receivables to be used for re-investment purposes.

The main financial risks of the Group arise from its investments in debt securities and units in pooled funds. The Group appoints external investment managers to manage the Group's investments and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The external investment managers report thereon to the Group on a regular basis.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

As at 31 March 2023 and 2022, the Group invested in debt securities rated A or above and bank balances are placed with licensed banks in Hong Kong rated P-1 by Moody's or A-1 or above by Standard and Poor's. Investment in pooled funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group performed impairment assessment using 12-month ECL as there is no financial assets with significant increase in credit risk.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

22. Financial risk management and fair value (continued)

(b) Interest rate risk

The Group's interest bearing assets mainly comprise debt securities, fixed deposits with banks and bank balances. As majority of these financial assets bears fixed interest rates, the Group is exposed to limited cash flow interest rate risk.

The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). As at 31 March 2023, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$32,268,000 (2022: \$30,962,000). This sensitivity analysis is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2022.

The Group is also subject to fair value interest rate risk in relation to debt securities at FVPL. Changes in interest rates may have an impact on the price of debt securities. As at 31 March 2023, the average duration of the Group's debt securities at FVPL was 3.72 years (2022: 4.13 years). It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gain on revaluation and the accumulated surplus by approximately \$15,018,000 (2022: \$16,681,000).

The Group manages interest rate risk of its debt securities by imposing different levels of concentration and maturity limits to the investments.

(c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. See note 24 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for lease liabilities. As at 31 March 2023 and 2022, the contractual undiscounted cash flows for financial liabilities were as follows:

	Carrying amount \$'000	Contractual undiscounted cash flows				
		Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000	After five years \$'000
<u>2023</u>						
Creditors and accrued charges	274,732	274,732	274,732	-	-	-
Lease liabilities	722,541	738,913	147,091	144,870	446,952	-
	997,273	1,013,645	421,823	144,870	446,952	-
<u>2022</u>						
Creditors and accrued charges	235,589	235,589	235,589	-	-	-
Lease liabilities	841,515	864,596	126,035	146,877	442,769	148,915
	1,077,104	1,100,185	361,624	146,877	442,769	148,915

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

22. Financial risk management and fair value (continued)

(d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2023 and 2022, the exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.

As at 31 March 2023, the Group had USD denominated financial assets of \$5,060,270,000 (2022: \$4,828,391,000) and the USD/HKD exchange rate was 7.84995 (2022: 7.83140). Holding all other variables constant, movement in USD/HKD exchange rate to the upper bound of the Convertibility Zone would increase the Group's surplus and accumulated surplus by approximately \$32,000 (2022: \$11,468,000); while movement in USD/HKD exchange rate to the lower bound of the Convertibility Zone would decrease the Group's surplus and accumulated surplus by approximately \$64,430,000 (2022: \$50,187,000).

(e) Market risk

The Group's investment activities also expose to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and pooled funds. Such risks will be reflected in the price and the carrying value of the financial assets concerned.

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. The Group invests in units of pooled funds, which comprised of listed equity securities and cash and other receivables to be used for re-investment purposes, the performance of which is measured against the results of benchmark indices, MSCI AC Asia ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average volatilities of these benchmark indices in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 20.5% (2022: 18.2%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$223,667,000 (2022: \$166,469,000).

The sensitivity analysis above indicates the instantaneous change in the Group's accumulated surplus that would arise assuming that the changes in the benchmark indices had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair value of the Group's investment in pooled funds would change in accordance with the historical correlation with the relevant benchmark indices since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

22. Financial risk management and fair value (continued)

(f) Fair value measurement

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>2023</u>				
Debt securities				
– Listed	–	325,641	–	325,641
– Unlisted	–	78,008	–	78,008
Pooled funds – unlisted	1,045,571	–	–	1,045,571
	1,045,571	403,649	–	1,449,220
<u>2022</u>				
Debt securities				
– Listed	–	247,081	–	247,081
– Unlisted	–	156,361	–	156,361
Pooled funds – unlisted	891,958	–	–	891,958
	891,958	403,442	–	1,295,400

The fair value of debt securities is based on evaluated prices at the end of the reporting period using current bid prices without any deduction for transaction costs.

The fair value of the investment in the unlisted pooled funds is determined based on the net asset values of the pooled funds which are publicly available in the active market. The underlying investments of the pooled funds comprised of listed equity securities and cash and other receivables to be used for re-investment purposes.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

22. Financial risk management and fair value (continued)

(f) Fair value measurement (continued)

(i) Financial assets measured at fair value (continued)

Changes in market conditions could materially affect fair value estimates. Any increase or decrease in the fair value of financial instruments would affect profit or loss in future years.

During both years, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2023 and 2022 except for the following financial instruments, for which their carrying amount, fair value and the level of fair value hierarchy were disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>2023</u>					
Financial assets at amortised cost					
– debt securities	3,285,136	3,066,896	–	3,066,896	–
<u>2022</u>					
Financial assets at amortised cost					
– debt securities	3,191,696	3,057,436	–	3,057,436	–

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

23. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD and CDD as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2023, the ICF's maximum liability in respect of claims received was \$5,824,000 (2022: \$5,434,000) and the net asset value was \$2.5 billion (2022: \$2.5 billion).

The SFC is also responsible for the administration and management of the UECF, SDD and CDD under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2023, the UECF's maximum liability in respect of claims received was \$10,261,000 (2022: \$10,245,000) and the net asset value was \$85,839,000 (2022: \$85,725,000). There were no outstanding claims against the SDD and CDD as at 31 March 2023 (2022: nil). Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2022: nil). The related party relationships with these entities are disclosed in note 21.

24. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 18, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3.375 billion (2022: \$3.25 billion) from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

Notes to the consolidated financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

25. Statement of financial position of the SFC

	2023 \$'000	2022 \$'000
Non-current assets		
Fixed assets	216,272	263,092
Right-of-use assets	700,735	846,448
Deposits for leases	37,609	38,118
Financial assets at amortised cost – debt securities	2,903,608	3,007,591
	3,858,224	4,155,249
Current assets		
Financial assets at amortised cost – debt securities	381,528	184,105
Financial assets at fair value through profit or loss		
Debt securities	403,649	403,442
Pooled funds	1,045,571	891,958
Debtors, deposits and prepayments	282,579	316,389
Fixed deposits with banks	2,845,253	3,015,832
Cash held for Grant Scheme	124,205	69,296
Cash at bank and in hand	60,265	138,338
	5,143,050	5,019,360
Current liabilities		
Fees received in advance	8,378	7,689
Creditors and accrued charges	267,345	221,521
Lease liabilities	141,365	119,308
Provisions for reinstatement cost	873	–
	417,961	348,518
Net current assets	4,725,089	4,670,842
Total assets less current liabilities	8,583,313	8,826,091
Non-current liabilities		
Lease liabilities	581,133	722,148
Provisions for reinstatement cost	88,047	88,920
	669,180	811,068
Net assets	7,914,133	8,015,023
Funding and reserves		
Initial funding by Government	42,840	42,840
Reserve for property acquisition	3,375,000	3,250,000
Accumulated surplus	4,496,293	4,722,183
	7,914,133	8,015,023

Approved and authorised for issue by the Securities and Futures Commission on 29 May 2023 and signed on its behalf by

Tim Lui
Chairman

Julia Leung
Chief Executive Officer

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2023.

Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

Financial statements

The financial performance of the Fund for the year ended 31 March 2023 and the financial position of the Fund as at that date are set out in the financial statements on pages 152 to 161.

Members of the Committee

The members of the Committee during the year and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Dr Lin, James C.
Ms Kwok Hom Siu Sally
Mr Wan Chi Yiu, Andrew

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditors of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

29 May 2023

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance, which are set out on pages 152 to 161, comprise:

- the statement of financial position as at 31 March 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued) To the Securities and Futures Commission

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 May 2023

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Income			
Interest income		65,264	6,646
Exchange gain		3,304	9,941
Recoveries		–	119
		68,568	16,706
Expenses			
Investor Compensation Company Limited expenses	6	6,238	5,668
Auditor's remuneration		186	186
		6,424	5,854
Surplus and total comprehensive income for the year		62,144	10,852

The notes on pages 156 to 161 form part of these financial statements.

Statement of financial position

As at 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Current assets			
Interest receivable		47,392	1,689
Amount due from the Investor Compensation Company Limited		–	106
Fixed deposits with banks	7	2,472,685	2,455,431
Cash at bank	7	847	1,346
		2,520,924	2,458,572
Current liabilities			
Provision for compensation	8	3,394	3,394
Creditors and accrued charges		274	274
Amount due to the Investor Compensation Company Limited		208	–
		3,876	3,668
Net current assets			
		2,517,048	2,454,904
Net assets			
		2,517,048	2,454,904
Representing:			
Compensation fund		2,517,048	2,454,904

Approved and authorised for issue by the Securities and Futures Commission on 29 May 2023 and signed on its behalf by

Tim Lui
Chairman of the SFC

Julia Leung
Chief Executive Officer of the SFC

The notes on pages 156 to 161 form part of these financial statements.

Investor Compensation Fund

Statement of changes in equity

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Contributions from the Unified Exchange Compensation Fund (note 9) \$'000	Contributions from the Commodity Exchange Compensation Fund (note 9) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2021	994,718	108,923	1,340,411	2,444,052
Surplus and total comprehensive income for the year	–	–	10,852	10,852
Balance at 31 March 2022 and 1 April 2022	994,718	108,923	1,351,263	2,454,904
Surplus and total comprehensive income for the year	–	–	62,144	62,144
Balance at 31 March 2023	994,718	108,923	1,413,407	2,517,048

The notes on pages 156 to 161 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Surplus for the year		62,144	10,852
Adjustments for:			
Interest income		(65,264)	(6,646)
Exchange gain		(3,304)	(9,941)
		(6,424)	(5,735)
Change in amount due from/to the Investor Compensation Company Limited		314	136
Net cash used in operating activities		(6,110)	(5,599)
Cash flows from investing activities			
Increase in fixed deposits other than cash and cash equivalents		(300,430)	(197,149)
Interest received		19,617	7,137
Net cash used in investing activities		(280,813)	(190,012)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		451,903	647,514
Cash and cash equivalents at the end of the year	7	164,980	451,903

Analysis of the balance of cash and cash equivalents

	2023 \$'000	2022 \$'000
Fixed deposits with banks	164,133	450,557
Cash at bank	847	1,346
	164,980	451,903

The notes on pages 156 to 161 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

1. Purpose and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation – Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund in the coming year any remaining balance in the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO.

Other sources of money for the Fund include the levies chargeable on securities traded on the Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 5), and returns earned on any investment of the Fund.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(a) Statement of compliance (continued)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have a material effect on how the Fund's results and financial position for the current or prior periods are prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Sections 87 and 243 of the SFO as income to the Fund. We record recoveries received when and only when we can be virtually certain that the recoveries will be received.

(d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates prevailing at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the closing rate at the end of the reporting period. We record exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

(e) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost. The Fund performs impairment assessment using 12-month ECL, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(g) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(e)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(h) Provisions for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation – Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

As the Fund is continually updating information in respect of the claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

(i) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(j) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(k) Related parties (continued)

- (b) An entity is related to the Fund if any of the following conditions applies:
- (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong profits tax under Section 14 of the Inland Revenue Ordinance.

5. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and reinstatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion.

Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2019 which came into effect on 1 January 2020, the Fund is entitled to a levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on HKFE and Stock Connect Securities. In addition, the trigger levels for levy suspension and reinstatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005. The changes in trigger levels do not affect the levy suspension in effect.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

6. ICC expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2023, the ICC incurred costs of \$6,238,000 for its operations (2022: \$5,668,000).

7. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2023 ranged from 2.19% p.a. to 5.49% p.a. (2022: 0.22% p.a. to 1.25% p.a.). The deposit balances at both 31 March 2023 and 2022 mature within one year.

Reconciliation to cash and cash equivalents

	2023 \$'000	2022 \$'000
Cash at bank	847	1,346
Fixed deposits with banks	2,472,685	2,455,431
Amounts shown in the statement of financial position	2,473,532	2,456,777
Less: Amounts with an original maturity beyond three months	(2,308,552)	(2,004,874)
Cash and cash equivalents in the statement of cash flows	164,980	451,903

8. Provision for compensation

The provision of compensation as at 31 March 2023 was \$3,394,000, which was related to a number of claims received in respect of a default case (2022: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision is expected to be paid within one year.

9. Contributions from the UECF and the CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2023, the SFC had \$994,718,000 (2022: \$994,718,000) and \$108,923,000 (2022: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

10. Related party transactions

The Fund has related party relationships with the SFC, the ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2023 and 2022 (refer to notes 6 and 9).

11. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or reprice in the short term, as a result of which the Fund is exposed to limited interest rate risk. As at 31 March 2023, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$24,727,000 (2022: \$24,554,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

The Fund's credit risk is primarily attributable to amounts at bank. As at 31 March 2023 and 2022, the bank balances are placed with licensed banks in Hong Kong rated P-1 by Moody's or A-1 or above by Standard and Poor's. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities are due within one year or payable on demand.

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2023 and 2022, the Fund's exchange gain was mainly driven by the revaluation of USD denominated financial assets.

As at 31 March 2023, the Fund had USD denominated financial assets of \$1,409,707,000 (2022: \$1,367,647,000) and the USD/HKD exchange rate was 7.84995 (2022: 7.83140). Holding all other variables constant, a movement in USD/HKD exchange rate to the upper bound of the Convertibility Zone would increase the Fund's surplus and accumulated surplus by approximately \$9,000 (2022: \$3,248,000); while a movement in USD/HKD exchange rate to the lower bound of the Convertibility Zone would decrease the Fund's surplus and accumulated surplus by approximately \$17,949,000 (2022: \$14,215,000).

12. Contingent liabilities

In addition to the provision for compensation made as described in note 8, there were 14 outstanding claims as at 31 March 2023 (2022: 12 outstanding claims). The maximum liability in respect of these claims in aggregate was \$2,430,000 (2022: \$1,875,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 3(h)) or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2023.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 March 2023, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The financial performance of the Fund for the year ended 31 March 2023 and the financial position of the Fund as at that date are set out in the financial statements on pages 165 to 175.

Members of the Committee

The members of the Committee during the year and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Dr Lin, James C.
Mr Yiu Ka Yan Wilfred
Ms Kwok Hom Siu Sally
Mr Wan Chi Yiu, Andrew

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditors of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

10 May 2023

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance, which are set out on pages 165 to 175, comprise:

- the statement of financial position as at 31 March 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report (continued) To the Securities and Futures Commission

Responsibilities of directors of the SFC for the financial statements (continued)

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 May 2023

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	2023 \$'000	2022 \$'000
Income		
Interest income	2,372	189
Expenses		
Recoveries re-distributed	22	–
Auditor's remuneration	86	86
	108	86
Surplus and total comprehensive income for the year	2,264	103

The notes on pages 169 to 175 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of financial position

As at 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Current assets			
Interest receivable		454	34
Fixed deposits with banks	6	96,869	97,670
Cash at bank	6	491	180
		97,814	97,884
Current liabilities			
Creditors and accrued charges	7	10,325	10,309
Relinquished trading rights payable to SEHK	8	1,650	1,850
		11,975	12,159
Net current assets		85,839	85,725
Net assets		85,839	85,725
Representing:			
Compensation fund		85,839	85,725

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 10 May 2023 and signed on its behalf by

Rico Leung
Chairman

Wilfred Yiu
Committee Member

The notes on pages 169 to 175 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to the ICF (note 12) \$'000	Total \$'000
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072
Net contributions to SEHK	(450)	-	-	-	-	-	(450)
Surplus and total comprehensive income for the year	-	-	-	-	103	-	103
Balance at 31 March 2022 and 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725
Net contributions to SEHK	(2,150)	-	-	-	-	-	(2,150)
Surplus and total comprehensive income for the year	-	-	-	-	2,264	-	2,264
Balance at 31 March 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839

The notes on pages 169 to 175 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of cash flows

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Surplus for the year		2,264	103
Adjustment for:			
Interest income		(2,372)	(189)
		(108)	(86)
Increase in creditors and accrued charges		16	–
(Decrease)/Increase in relinquished trading rights payable to SEHK		(200)	350
Net cash (used in)/generated from operating activities		(292)	264
Cash flows from investing activities			
(Increase)/Decrease in fixed deposits other than cash and cash equivalents		(1,612)	18,585
Interest received		1,952	182
Net cash generated from investing activities		340	18,767
Cash flows from financing activities			
Net trading rights deposits refunded to SEHK		(2,150)	(450)
Net cash used in financing activities		(2,150)	(450)
Net (decrease)/increase in cash and cash equivalents		(2,102)	18,581
Cash and cash equivalents at the beginning of the year		71,486	52,905
Cash and cash equivalents at the end of the year	6	69,384	71,486

Analysis of the balance of cash and cash equivalents

	2023 \$'000	2022 \$'000
Fixed deposits with banks	68,893	71,306
Cash at bank	491	180
	69,384	71,486

The notes on pages 169 to 175 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

1. Purpose and principal activity

The Unified Exchange Compensation Fund (the Fund) provides compensation to investors who suffer a loss due to the default of an exchange participant of the Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF.

Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

SEHK is required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make any such payment as the total of the compensation payments exceeded the deposits received from SEHK (2022: nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9; other contributions detailed in note 11; and replenishments from SEHK detailed in note 15.

The Fund defines "capital" as including all elements of the Fund, as disclosed in the statement of changes in equity less contributions from SEHK (trading rights deposits from SEHK detailed in note 8) and contributions to the ICF (note 12).

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have a material effect on how the Fund's results and financial position for the current or prior periods are prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(c) Recognition of income (continued)

(iii) Replenishments from SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

(d) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost. The Fund performs impairment assessment using 12-month ECL, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(g) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the

obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

3. Significant accounting policies (continued)

(h) Related parties (continued)

- (b) An entity is related to the Fund if any of the following conditions applies: (continued)
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. Equity securities received under subrogation

As at 31 March 2023, the equity securities received under subrogation amounted to \$30 (2022: \$68). The balances as at 31 March 2023 and 2022 are too small to present on the statement of financial position which is expressed in thousands of dollars.

5. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong profits tax under Section 14 of the Inland Revenue Ordinance.

6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2023 ranged from 3.05% p.a. to 4.25% p.a. (2022: 0.15% p.a. to 0.80% p.a.). The deposit balances at both 31 March 2023 and 2022 mature within one year.

Reconciliation to cash and cash equivalents

	2023 \$'000	2022 \$'000
Cash at bank	491	180
Fixed deposits with banks	96,869	97,670
Amounts shown in the statement of financial position	97,360	97,850
Less: Amounts with an original maturity beyond three months	(27,976)	(26,364)
Cash and cash equivalents in the statement of cash flows	69,384	71,486

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than six months from the cheque issuing date and accrued auditor's remuneration. They are due on demand or within one year and are unsecured.

8. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the year, deposits of \$350,000 in respect of 7 new trading rights were received from SEHK and deposits of \$2,700,000 in respect of 54 relinquished trading rights were refunded to SEHK. As at 31 March 2023, 33 trading rights totalling \$1,650,000 were relinquished but not yet refunded (2022: 37 trading rights totalling \$1,850,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

	2023 \$'000	2022 \$'000
Balance at the beginning of the year	54,300	54,750
Add: new trading rights issued	350	1,000
Less: relinquished trading rights refunded	(2,700)	(1,100)
Adjustment for: net decrease/(increase) in relinquished trading rights payable to SEHK	200	(350)
Balance at the end of the year	52,150	54,300

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years from 1998 to 2001. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

12. Contributions to the ICF

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF from the Fund up to 31 March 2023 amounted to \$994,718,000 (2022: \$994,718,000), no further contributions have been made to the ICF since 1 April 2005.

13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2023 and 2022.

14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or reprice in the short term, as a result of which the Fund is exposed to limited interest rate risk. As at 31 March 2023, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$969,000 (2022: \$977,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. As at 31 March 2023 and 2022, the bank balances are placed with licensed banks in Hong Kong rated P-1 by Moody's or A-1 or above by Standard and Poor's. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Notes to the financial statements

For the year ended 31 March 2023 (Expressed in Hong Kong dollars)

15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2023, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,798,000 to the Fund as follows:

	2023 \$'000	2022 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: recoveries received for compensation paid up to \$8 million	(29,986)	(29,986)
Add: recoveries re-distributed to claimants	16,407	16,385
Less: replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,798	70,776

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need to request replenishment from SEHK in the near future.

Operational Data

Table 1 Takeovers activities

	2022/23	2021/22	2020/21
Codes on Takeovers and Mergers and Share Buy-backs			
General and partial offers under Code on Takeovers and Mergers	33	45	38
Privatisations	11	21	31
Whitewash waiver applications	22	22	33
Other applications under Code on Takeovers and Mergers ¹	231	291	361
Off-market and general offer share buy-backs	7	5	5
Other applications under Code on Share Buy-backs ¹	1	1	1
Total	305	385	469
Executive Statements			
Sanctions imposed with parties' agreement ²	3	3	4
Takeovers and Mergers Panel			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	1	1	0
Hearings before the Panel (disciplinary and non-disciplinary)	2	0	0
Statements issued by the Panel ³	2	0	0

1 Including stand-alone applications and those made during the course of a code-related transaction.

2 Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

3 Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 2 Breaches noted during on-site inspections

	2022/23	2021/22	2020/21
Failure to comply with Securities and Futures (Financial Resources) Rules	8	10	4
Failure to safekeep client securities	27	23	28
Failure to maintain proper books and records	20	20	20
Failure to safekeep client money	26	35	35
Unlicensed dealing and other registration issues	10	12	9
Breach of licensing conditions	6	0	1
Breach of requirements of contract notes/statements of account/receipts	46	53	28
Failure to make filing/notification	3	1	3
Breach of margin requirements	3	6	3
Marketing malpractices	0	3	0
Dealing malpractices	0	3	4
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	243	265	262
Breach of Corporate Finance Adviser Code of Conduct	16	11	6
Breach of Fund Manager Code of Conduct	88	135	142
Breach of regulation of online trading	7	12	3
Non-compliance with anti-money laundering guidelines	214	301	208
Breach of other rules and regulations of the Exchanges ²	2	9	3
Internal control weaknesses ³	430	427	515
Others	81	90	76
Total	1,230	1,416	1,350

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

2 The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

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

Table 3 Hong Kong domiciled authorised funds

By type	As at 31.3.2023		As at 31.3.2022	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	173 (22.7%)	26,396 (15.1%)	174 (24.1%)	30,925 (17.3%)
Equity	206 (27.1%)	50,530 (29%)	199 (27.5%)	55,601 (31.1%)
Mixed	112 (14.7%)	28,384 (16.3%)	110 (15.2%)	33,402 (18.7%)
Money market	49 (6.4%)	16,542 (9.5%)	37 (5.1%)	9,548 (5.3%)
Feeder funds ¹	48 (6.3%)	20 (0%)	41 (5.7%)	23 (0%)
Index ²	169 (22.2%)	52,578 (30.1%)	161 (22.3%)	49,102 (27.5%)
Guaranteed	1 (0.1%)	34 (0%)	1 (0.1%)	41 (0%)
Other specialised ³	3 (0.4%)	44 (0%)	0 (0%)	0 (0%)
Sub-total	761 (100%) ⁴	174,527 ⁴ (100%)	723 (100%)	178,642 (100%) ⁴
Umbrella structures	152		143	
Total	913		866	

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

- 1 The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total asset under management.
- 2 Including exchange-traded funds and leveraged and inverse products.
- 3 Including virtual asset futures exchange-traded funds.
- 4 Figures may not add up to total due to rounding.

Table 4 Non-Hong Kong domiciled authorised funds

a) By origin	As at 31.3.2023						As at 31.3.2022				
	Umbrella funds	Sub-funds	Single funds	Total		Total NAV (US\$ million)		Total		Total NAV (US\$ million)	
Luxembourg	55	1,007	1	1,063	(75%)	1,119,869	(74.9%)	1,033	(74.8%)	1,319,312	(75.5%)
Ireland	25	223	2	250	(17.6%)	222,462	(14.9%)	242	(17.5%)	249,259	(14.3%)
United Kingdom	3	8	18	29	(2%)	65,319	(4.4%)	29	(2.1%)	75,548	(4.3%)
Mainland China	2	2	45	49	(3.5%)	22,786	(1.5%)	49	(3.5%)	27,853	(1.6%)
Bermuda	0	0	1	1	(0.1%)	116	(0%)	1	(0.1%)	135	(0%)
Cayman Islands	3	13	4	20	(1.4%)	1,446	(0.1%)	22	(1.6%)	2,048	(0.1%)
Others	0	0	5	5	(0.4%)	63,634	(4.3%)	5	(0.4%)	73,155	(4.2%)
Total	88	1,253	76	1,417	(100%)	1,495,633¹	(100%)¹	1,381	(100%)	1,747,310	(100%)

1 Figures may not add up to total due to rounding.

b) By type	As at 31.3.2023				As at 31.3.2022			
	Number		Total NAV (US\$ million)		Number		Total NAV (US\$ million)	
Bond	358	(26.9%)	432,041	(28.9%)	358	(27.5%)	523,431	(30%)
Equity	774	(58.2%)	791,354	(52.9%)	757	(58.2%)	918,428	(52.6%)
Mixed	155	(11.7%)	156,729	(10.5%)	142	(10.9%)	182,033	(10.4%)
Money market	12	(0.9%)	9,724	(0.7%)	14	(1.1%)	9,039	(0.5%)
Feeder funds ¹	3	(0.2%)	0	(0%)	3	(0.2%)	0	(0%)
Index ²	26	(2%)	105,669	(7.1%)	25	(1.9%)	114,244	(6.5%)
Hedge	1	(0.1%)	116	(0%)	1	(0.1%)	135	(0%)
Sub-total	1,329	(100%)	1,495,633	(100%) ³	1,300	(100%) ³	1,747,310	(100%)
Umbrella structures	88				81			
Total	1,417				1,381			

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total assets under management.

2 Including exchange-traded funds.

3 Figures may not add up to total due to rounding.

Table 5 Successful prosecutions

Defendant	Date of conviction	Fine/Penalty	Investigation costs awarded
Market manipulation			
FUNG Kwong Shing Danny	27.10.2022	Two-and-a-half-months' imprisonment	–
Short selling			
LAU Chi Ho	27.10.2022	\$20,000	\$36,056
CHAN Siu Tai	18.8.2022	\$48,000	\$36,056
CHAN Janice	18.8.2022	\$66,000	\$36,056
Obstruction			
WONG King Hoi	27.10.2022	Two weeks' imprisonment	\$38,809

Note: Cases with fines below \$10,000 are not shown in this table.

Table 6 Other public disciplinary actions

Name	Date	Breach	Action
SUN Yiding	19.12.2022	Breached her former employer's employee trading policy	Banned from re-entering the industry for eight months
CHUNG Tung Sau	15.12.2022	Failed to avoid his conflicts of interest with a client in trading shares	Suspended for seven months and fined \$60,000
WANG Pei Yi	5.12.2022	Made false declarations in the account opening forms of three corporate clients	Suspended for 10 months
TANG Shiyi	31.10.2022	Breached her former employer's staff dealing policy	Banned from re-entering the industry for 10 months
WONG Yim Chi Billy	12.10.2022	Failed to discharge his duties as a Manager-In-Charge (Compliance) and a member of senior management of Asia Research & Capital Management Limited	Banned from re-entering the industry for two months
CHAN Ka Hey	28.7.2022	Falsified a customer's signature in a bank document	Banned from re-entering the industry for six months

Table 7 Other enforcement activities

	2022/23	2021/22	2020/21
S179 ¹ inquiries commenced	31	57	42
S181 ² inquiries commenced (number of letters sent)	191 (5,851)	203 (7,308)	246 (8,748)
S182 ³ directions issued	130	214	189
Rule 8 directions ⁴ issued	0	0	0
Show cause letters ⁴ issued	0	0	0
Cases with search warrants executed	35	37	28
Compliance advice letters issued	113	162	231
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	0 (0)	0 (0)	1 (1)
Individuals/corporations involved in ongoing civil proceedings	8	8	11
Individuals/corporations involved in ongoing MMT proceedings	2	2	3
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	1 (25)	0 (0)	6 (6)
Individuals/corporations involved in ongoing civil proceedings	18	18	18
Individuals/corporations involved in ongoing MMT proceedings	1	0	0
(c) Others			
Individuals/corporations summonsed (summons laid)	10 (73)	4 (28)	3 (21)
Individuals/corporations involved in ongoing civil proceedings	154	142	150
Individuals/corporations involved in ongoing MMT proceedings	11	11	20
Individuals charged for suspected market misconduct and money laundering offences for indictment prosecution ⁵	14	0	0
Disciplinary enquiry			
Notices of Proposed Disciplinary Action ⁶ issued	26	37	27
Notices of Decision ⁷ issued (including S201 ⁸ agreement)	29	43	35
SFAT hearings			
Applications to SFAT	1	8	6
Applications/hearings completed/withdrawn/abandoned	9	2	4

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

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

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

4 A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

5 Six individuals were charged with the offences of conspiracy to defraud and conspiracy to employ a scheme with intent to defraud or deceive in transactions involving securities under common law, section 300 of the SFO and section 159A and 159C of the Crimes Ordinance. Among them, three faced additional charges with eight other individuals with the offence of dealing with property known or believed to represent proceeds of indictable offence under section 25 of the Organized and Serious Crimes Ordinance.

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

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

8 Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

Table 8 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2022	As at 31.12.2021	As at 31.12.2020
Securities dealers and securities margin financiers	1,439	1,433	1,391
Active cash clients ²	2,203,172	1,939,379	1,737,281
Active margin clients ²	2,446,852	2,219,721	1,470,396
Active clients	4,650,024	4,159,100	3,207,677
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	678,480	694,492	640,379
Amounts receivable from margin clients ⁴	152,062	218,436	201,916
Amounts receivable from clients and other dealers arising from dealing in securities	179,132	211,398	333,878
Proprietary positions	70,834	148,661	212,763
Other assets	371,941	385,566	423,539
Total assets	1,452,449	1,658,553	1,812,475
Amounts payable to clients and other dealers arising from dealing in securities	697,055	770,952	877,314
Total borrowings from financial institutions	72,890	98,429	156,267
Short positions held for own account	7,183	16,718	78,572
Other liabilities	191,923	244,242	234,265
Total shareholders' funds	483,398	528,212	466,057
Total liabilities and shareholders' funds	1,452,449	1,658,553	1,812,475
	12 months to 31.12.2022 (\$ million)	12 months to 31.12.2021 (\$ million)	12 months to 31.12.2020 (\$ million)
Profit and loss			
Total value of transactions ⁵	126,014,719	160,931,088	129,651,195
Net securities commission income	20,210	31,329	28,374
Gross interest income	23,044	19,394	19,493
Other income ⁶	144,131	166,746	150,159
Total operating income	187,385	217,469	198,026
Total overheads and interest expense	170,730	173,978	167,122
Total operating profit	16,655	43,491	30,904
Net profit on proprietary trading	6,211	21,397	16,649
Net profit for the period	22,866	64,888	47,553

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

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

3 Cash in hand and at bank include trust monies held on behalf of clients which totalled \$399,988 million (31.12.2021: \$452,407 million).

4 As at 31.12.2022, the average collateral coverage was 4.2 times (as at 31.12.2021: 4.2 times). It represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis.

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

6 Comprises asset management fee income, corporate finance income, inter-company management fee income and others.

Committees, Panels and Tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see Corporate Governance on pages 77-90.

SFC Committees

Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
LUI Tim Leung Tim, SBS, JP	
Members	
ALDER Ashley Ian, SBS, JP (to 31.12.2022)	NG Siu Mui Fion
LEUNG Fung Yee Julia, SBS, JP (Ex-officio member) (from 1.1.2023)	PUN Wing Nin Winnie
Prof CHAN Ka Lok, MH	TAI Chi Kin Calvin (to 28.11.2022)
CHAN Yuk Sing Freeman	Dr TAN Yue Heng, JP
CHOI Fung Yee Christina	TSE Yung Hoi, BBS
KUNG Yeung Yun Chi Ann, BBS, JP	WONG Wai Man June
LEUNG Chung Yin (from 16.1.2023)	YIEN Yu Yu Catherine
LI Tong	YIM Lok Kui
Number of meetings: 2	Average attendance rate: 73%

Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training (CPT), advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met once to consider a number of matters including the proposed licensing regimes for depositaries of SFC-authorized collective investment schemes and virtual asset service providers as well as enhancements to online examination arrangements proposed by the Hong Kong Securities and Investment Institute.

Chairperson	
CHOY Chung Fai Keith (from 1.1.2023)	LEUNG Fung Yee Julia, SBS, JP (to 31.12.2022)
Members	
Prof CAO Jie Jay (from 1.4.2022)	LO Wai Shun Wilson
Dr CHAN Fung Cheung Wilson	PONG Po Lam Paul
Dr CHAN Wing Ho Alex	WONG Pui Ling Pauline (from 1.4.2022)
CHEUNG Wai Kwok Gary	WONG Wing Fai Joseph
Prof LEUNG Siu Fai (to 31.3.2023)	
Secretary	
MAN Hoi Yee Holly	
Number of meetings: 1	Average attendance rate: 91%

Committees, Panels and Tribunal

Committee on Real Estate Investment Trusts

Advises the SFC on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

There was no meeting during the year.

Chairperson	
CHOI Fung Yee Christina	
Members	
CHAN Duen Grace	NG Yiu Fai (Curtis NG)
Dr CHAN Ho Wah Terence	TANG Siau Feng Megan (to 31.10.2022)
CHAN Wing Hing Barry	WONG Chi Ming Sally
CHIANG Sui Fook Lilian	WONG Sing Ming (Rita WONG)
DUIGNAN Michael (from 1.11.2022)	WU Thomas Jefferson, JP
HO Edmund	YEONG Wei Ming Alexandra
Prof HUI Chi Man, MH, JP	YUEN Ka Fai (Frank YUEN)
LAU Ka Shi Betsy, BBS	
Secretary	
LAU Tin Mei	
Number of meetings: 0	Average attendance rate: N/A

Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

Members	
JAT Sew Tong, SC, JP	MAURELLET José-Antonio, SC (from 21.7.2022)
LAM Douglas Tak Yip, SC (to 11.7.2022)	SHIEH Wing Tai Paul, SC
MAN Bernard, SC (from 21.7.2022)	WONG Man Kit Anson, SC

Fintech Advisory Group

The Group aims to broaden the SFC's understanding of the opportunities, risks and regulatory implications of the latest Fintech trends and developments.

During the year, the Group met twice to discuss a range of topics such as the international regulatory landscape for virtual assets, decentralised finance and blockchain applications.

Chairperson	
LEUNG Fung Yee Julia, SBS, JP (to 31.12.2022)	CHOY Chung Fai Keith (from 1.1.2023)
Ex-officio member	
WONG Lok Yan Elizabeth	
Members	
ARSLANIAN Henri (to 28.2.2023)	LEWIS Antony (to 28.2.2023)
AU Alex (from 1.3.2023)	LI Shu Pui
AUYANG Evan (from 1.3.2023)	Prof LIN Chen
CHIU Clara (from 1.3.2023)	MA Henry
FOK James (from 1.3.2023)	Prof POON Jack (to 28.2.2023)
GAZMARARIAN Lucy (from 1.3.2023)	Dr SPIEGL Florian (to 28.2.2023)
KIEW-SMITH Christopher (to 28.2.2023)	TAN Jessica
LEI Kelvin (to 28.2.2023)	
Number of meetings: 2	Average attendance rate: 75%

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and deal with other administrative matters.

Chairman	
LEUNG Chung Yin Rico	
Members	
Dr LIN James C. KWOK Hom Siu (Sally KWOK)	WAN Chi Yiu Andrew
Number of meetings: 1	Average attendance rate: 100%

Committees, Panels and Tribunal

Investor Compensation Company Limited Claims Committee

Reviews and determines investors' claims for compensation from the Investor Compensation Fund.

Chairman	
Dr LIN James C.	
Members	
CHAN Lui (Clara CHAN) CHUI Ming Wai (Vivian CHUI) KWOK Hom Siu (Sally KWOK) LEE Jor Hung (Dannis LEE) LEUNG Chung Yin Rico	MONG Yee Wai (Lavina MONG) (to 23.2.2023) MUKADAM Thrity Homi SO Kang Wong (Pierre SO) (from 24.2.2023) TSUI Kam Yip (Alison TSUI) WAN Chi Yiu Andrew
Number of meetings: 0	Average attendance rate: N/A

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the above-mentioned panel and committees.

Chairman (ex-officio member)	
LEUNG Fung Yee Julia, SBS, JP (from 1.1.2023)	ALDER Ashley Ian, SBS, JP (to 31.12.2022)
Members	
LUI Tim Leung Tim, SBS, JP DAWES Victor, SC Ex-officio members CHAN Yuk Sing Freeman Alternate members to CHAN Yuk Sing Freeman CLARK Stephen Edward KO Teresa Yuk Yin, JP LAM Chor Lai Celia MAGUIRE John Martin	DUIGNAN Michael (from 1.11.2022) TANG Siau Feng Megan (to 31.10.2022) SCHWILLE Mark Andrew WEBB David Michael YU Ka Po Benita
Number of meetings: 1	Average attendance rate: 80%

Products Advisory Committee

The SFC may consult the Committee on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds as well as the overall market environment, industry practices and novel product features.

During the year, the Committee held a meeting to discuss a proposal to introduce exchange-traded funds providing exposure to virtual assets in Hong Kong.

Chairman	
CHOI Fung Yee Christina	
Members	
ABRAT Katherine Anna CHAN Duen Grace CHO Yee Kee Amy (from 7.10.2022) CHOW Kin Hung (Nelson CHOW) (to 7.10.2022) FUNG Ka Shing Bernard GREEN Damien Allen (from 30.5.2022 to 7.10.2022) HUI Mei Ying (Carol HUI) KENNEDY Glenn Ronald LAW Lai Wah Andrew LEE Chi Kee Trevor LEE Pui Shan (Rosita LEE) LI Tzy Lan Orchis (to 30.5.2022) LIAN Shaodong (Doris LIAN)	LIN Christine Dr MAK Sui Choi Billy NOYES Keith Samuel PAN San Kong Terry PANG Wai Sau Queenie SHEN Hua SMITH Paul Henry TAM Sau Ngor Vera TSUI Chi Kin Ellick (from 7.10.2022) TSUI Wai Yu (Fion TSUI) YEE Gar Bo Gabriella YEONG Wei Ming Alexandra
Secretary POON Wing Yee Loreen	
Number of meetings: 1	Average attendance rate: 87%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met twice and discussed listing policies including climate-related initiatives and the proposed listing regime for specialist technology companies.

Chairman	
TANG Siau Feng Megan (to 31.10.2022)	DUIGNAN Michael (from 1.11.2022)
Members	
CHAN Kwok King Kingsley CHAN Wai Yan Ronald (from 14.2.2023) FOONG Leonie (from 21.7.2022) GILL Amar Singh LI Lin Lincoln MA Sean (to 4.7.2022) MEYER Phillip Michael (from 14.2.2023) MO Yuen Man Anita	SCHLABBERS Manuel TYE Philip Andrew WANG Fang WEI Zhen WONG Chi Ming Sally WONG David Nicholas WONG Yu Tsang Alex
Number of meetings: 2	Average attendance rate: 73%

Committees, Panels and Tribunal

Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and deal with other administrative matters.

Chairman	
LEUNG Chung Yin Rico	
Members	
KWOK Hom Siu (Sally Kwok) Dr LIN James C.	WAN Chi Yiu Andrew YIU Ka Yan Wilfred
Number of meetings: 1	Average attendance rate: 100%

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of the Stock Exchange of Hong Kong Limited (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (HKEX) and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
ALDER Ashley Ian, SBS, JP (to 31.12.2022) ATKINSON Thomas Allan (to 2.5.2022) CHAN Yuk Sing Freeman CHOI Fung Yee Christina CHOY Chung Fai Keith (from 1.1.2023) EMSLEY Matthew Calvert LEE Yuen Man Virginia	LEUNG Chung Yin Rico LEUNG Fung Yee Julia, SBS, JP LEUNG Po Wah Pauline PHADNIS Dhananjay Shrikrishna WILSON Christopher (from 1.11.2022) YOUNG Andrew John (to 30.9.2022)
Number of meetings: 0	Average attendance rate: N/A

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEX and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
CHAN Sui Kuen Agnes CHENG Wai Sun Edward, GBS, JP (to 31.12.2022) CHEW Fook Aun (from 1.1.2023) DAWES Victor, SC KONG Johnson	Dr LIN James C. LO Kar Chun Nicky, SBS, JP LUI Tim Leung Tim, SBS, JP WONG Yick Kam Michael, SBS, MH, JP YIH Dieter, JP
Number of meetings: 0	Average attendance rate: N/A

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
CHIU Jeckle	
Deputy Chairman	
CHAN Henry	
Members	
CHUI Ming Wai (Vivian CHUI) FOOTMAN Michael Henry Charles LAM Hui Yip (Clement LAM)	LEE Virginia Yuen Man TSUI Kam Yip Alison WONG Man Yee (Fanny WONG)
Number of meetings: 0	Average attendance rate: N/A

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consist of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

There were no circumstances which called for a meeting of the Committee during the year.

Committees, Panels and Tribunal

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive¹ at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met once to discuss takeovers-related policy matters and twice on non-disciplinary matters.

Chairman	
CHAN Yuk Sing Freeman	
Deputy Chairpersons	
CLARK Stephen Edward KO Teresa Yuk Yin, JP LAM Chor Lai Celia MAGUIRE John Martin	SCHWILLE Mark Andrew WEBB David Michael YU Ka Po Benita
Members	
BIDLAKE Alexandra BROWN Melissa (to 7.7.2022) CHAN Che Chung (Conrad CHAN) CHARLTON Julia Frances CHENG Wai Sun Edward, GBS, JP (to 31.12.2022) CLARK Stephen John IP Koon Wing Ernest LEE Kam Hung Lawrence, BBS, JP LEUNG Po Wah Pauline LIU Yun Bonn (Bonn LIU) NORMAN David Michael NORRIS Nicholas Andrew PARK Yoo Kyung	SABINE Martin Nevil SHAH Asit Sudhir TYE Philip Andrew VAS CHAU Lai Kun Judy WINTER Richard David WOLHARDT Julian Juul WONG Richard WONG Wai Ming WONG Yu Tsang Alex WOO Ka Biu Jackson YIH Dieter, JP (from 1.1.2023) YUEN Ka Fai (Frank YUEN)
Number of policy meetings: 1 Number of non-disciplinary hearings: 2 Number of disciplinary hearings: 0	Average attendance rate: 68% Average attendance rate: N/A² Average attendance rate: N/A

¹ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

² The Chairman will appoint not less than four panel members to participate in hearings, and the attendance of the other members is not required.

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

Members	
BIDLAKE Alexandra	PARK Yoo Kyung
BROWN Melissa (to 7.7.2022)	SABINE Martin Nevil
CHAN Che Chung (Conrad CHAN)	SCHWILLE Mark Andrew
CHAN Yuk Sing Freeman	SHAH Asit Sudhir
CHARLTON Julia Frances	TYE Philip Andrew
CHENG Wai Sun Edward, GBS, JP (to 31.12.2022)	VAS CHAU Lai Kun Judy
CLARK Stephen Edward	WEBB David Michael
CLARK Stephen John	WINTER Richard David
IP Koon Wing Ernest	WOLHARDT Julian Juul
KO Teresa Yuk Yin, JP	WONG Richard
LAM Chor Lai Celia	WONG Wai Ming
LEE Kam Hung Lawrence, BBS, JP	WONG Yu Tsang Alex
LEUNG Po Wah Pauline	WOO Ka Biu Jackson
LIU Yun Bonn (Bonn LIU)	YIH Dieter, JP (from 1.1.2023)
MAGUIRE John Martin	YU Ka Po Benita
NORMAN David Michael	YUEN Ka Fai (Frank YUEN)
NORRIS Nicholas Andrew	
Number of meetings: 0	Average attendance rate: N/A

Independent Panels and Tribunal

Leveraged Foreign Exchange Trading Arbitration Panel

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman	
LEE Pui Shan Rosita	
Deputy Chairman	
CHAN Siu Ping Chordio	
Members	
FUNG Kit Ming Veronica	LEUNG Tak Lap
LEUNG Bon Yuen Eviana	

Committees, Panels and Tribunal

Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, investment products authorisation, exercise of investigation and disciplinary action, and corporate finance transactions (including the administration of listing rules).

Chairman	
LEE Kam Hung Lawrence, BBS, JP	
Members	
Prof CHAN Ka Lok, MH (from 1.11.2022)	KWOK Tun Ho Chester (to 31.10.2022)
CHAN Lap Tak Jeffrey	LAI Hin Wing Henry
CHAN Lena (to 31.10.2022)	LI Man Bun, Brian David, JP (from 1.11.2022)
CHAU Suet Fung Dilys	LIN Xiaodong Charles (from 1.11.2022)
CHING Kim Wai Kerry	Dr MAK Sui Choi Billy (to 31.10.2022)
CHUA Suk Lin Ivy	TSANG Sui Cheong Frederick (to 31.10.2022)
CHUI Yik Chiu Vincent	Dr WANG Lei Levin (from 1.11.2022)
KWAN Wing Han Margaret	ZEE Helen (to 31.10.2022)
KWOK Pui Fong Miranda, JP (from 1.11.2022)	
Ex-officio members	
LUI Tim Leung Tim, SBS, JP	YUNG Lap Yan

Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

Chairmen	
HARTMANN Michael John, GBS	MCWALTERS Ian Charles, GBS, JP
LUNN Michael Victor, GBS	
Members	
CHAN Chun Hung Vincent	Prof LEUNG Siu Fai
Prof CHAN Ka Lok	MAK Kwong Fai
Prof CHAN Koon Hung	SHIH Edith
CHAN Mei Bo Mabel	TANG Hamilton Ty
CHAN Siu Ping Chordio	Dr TO Wing Christopher
CHAN Yuen Shan Florence	WONG Hin Wing Simon
CHEN Xin Lorna	WONG Kwok Ching Jamee
CHEUNG Wai Kwok Gary	YAU Yu Xin Amelia
CHING Kim Wai Kerry	YIP Chai Tuck
HUI Ming Ming Cindi	YUEN Miu Ling Wendy
LAM Chi Yuen Nelson (to 30.6.2022)	YUEN Siu Bun Edward
LEUNG Ming Hym Peter	

Glossary and Abbreviations

Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter derivatives.

Depositaries

Top-level trustees and custodians of SFC-authorised collective investment schemes.

Exchange participant

A company with rights to trade on or through the Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

GEM

A stock market operated by Hong Kong Exchanges and Clearing Limited to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements. Formerly known as the Growth Enterprise Market.

Green and Sustainable Finance Cross-Agency Steering Group

A group co-chaired by the SFC and the Hong Kong Monetary Authority with participation from the Environment and Ecology Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and Mandatory Provident Fund Schemes Authority to coordinate the management of climate and environmental risks in the financial sector, accelerate the growth of green and sustainable finance and support Hong Kong's climate strategies.

Greenwashing

A false or unsubstantiated claim that certain activities or practices are sustainable or environmentally-friendly, such as when asset managers market themselves as "green" or "sustainable" but do not fully integrate these factors into their investment processes.

International Organization of Securities Commissions (IOSCO)

A body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation. Its membership regulates more than 95% of the world's securities markets in 130 jurisdictions.

International Sustainability Standards Board (ISSB)

An independent standard-setting body set up by the IFRS¹ Foundation to develop a high-quality, comprehensive global baseline for corporate sustainability disclosures focused on the needs of investors and the financial markets.

Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements which provides both insurance protection and investment options, usually through funds.

Investor and Financial Education Council (IFEC)

An SFC subsidiary dedicated to improving financial literacy in Hong Kong by providing consumer education through mass communication and stakeholder engagement initiatives.

Leveraged and inverse products

Products structured as exchange-traded funds for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index.

¹ International Financial Reporting Standards.

Glossary and Abbreviations

Mandatory general offer

A general offer to buy the remaining shares in a company when a person or a group of persons acting together acquires 30% or more of the company's voting rights, or if the person or group already holds between 30% and 50% of the voting rights, when that holding increases by more than 2% in any 12-month period.

Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance which imposes civil sanctions against those it determines to be guilty of market misconduct.

Open-ended fund companies (OFC)

Collective investment schemes structured in corporate form with limited liability and variable share capital.

Over-the-counter (OTC) derivatives

Financial instruments which are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from those of underlying assets.

Pooled retirement fund

A collective investment scheme which enables multiple occupational retirement schemes to gain exposure to underlying investment portfolios.

Ramp and dump scheme

A form of stock market manipulation. Fraudsters "ramp" up the price of a stock and use social media to lure unwary investors to buy at an artificially high price. The fraudsters then sell or "dump" the stock to take profits causing the price to collapse.

Real estate investment trust (REIT)

A collective investment scheme constituted as a trust which invests primarily in real estate with the aim to provide returns derived from rental income.

Securities and Futures Appeals Tribunal (SFAT)

A body established under the Securities and Futures Ordinance to review specified decisions made by the SFC, the Hong Kong Monetary Authority or a recognised investor compensation company.

Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products, the securities and futures market and industry, as well as to their regulation and other matters including investor protection.

Task Force on Climate-related Financial Disclosures (TCFD)

A task force set up by the Financial Stability Board to improve and increase reporting of climate-related financial information.

Unit trust

A collective investment scheme constituted in trust form.

Virtual assets

Digital representations of value, also known as cryptocurrencies, crypto-assets or digital tokens.

Whitewash waiver

A waiver of a party's obligation to make a mandatory offer to other shareholders under the Takeovers Code.



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