

# Operational Review

## Corporates

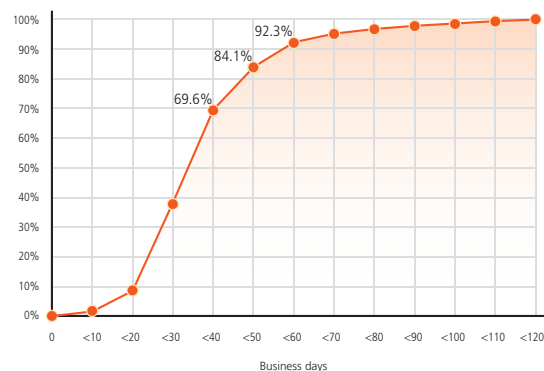
### Gatekeeping listing applications

During the quarter, we cleared 52 listing applications out of a total of 147 which we processed. The processed applications included 39 new listing applications, of which one was from a special purpose acquisition company (SPAC)<sup>1</sup>, one from a company with a weighted voting rights structure seeking a listing by way of a de-SPAC transaction, and four from pre-profit biotech companies.

### Vetting time of listing applications

During the three years ended 30 September 2023, we cleared 378 cases, and 92% of these were cleared in less than 60 business days. The average processing time for the 52 cleared listing applications was 89 business days<sup>2</sup>.

SFC vetting time (October 2020 to September 2023)



Note: In the chart, “SFC vetting time” refers to the total number of business days we spent to process and clear a listing application, which includes a number of rounds of comments. The figure excludes the response time of the listing applicants or their advisers.

<sup>1</sup> 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.

<sup>2</sup> Including SFC vetting time and response time by the listing applicants or their advisers.

## Corporates

### Reviewing SEHK's performance in listing regulation

In July, we published a report on our review of the performance of the Stock Exchange of Hong Kong Limited (SEHK) in its regulation of listing matters during 2021 and identified areas for SEHK to enhance its performance. The report examined SEHK's performance in reviewing business valuations for large acquisitions and disposals, its administration of the Placing Guidelines for initial public offerings (IPO) and its review of IPO placee lists. We also looked into the processes of the Listing Operation Governance Committee, the Listing Compliance function, as well as the management of conflicts of interest for listing committee members and other staff.

### Reviewing GEM listing regime

Following discussion with the SFC, SEHK launched in September a consultation on proposals to address key issues about GEM listings identified during its engagement with stakeholders. The proposals included introducing a new listing route for companies heavily engaged in research and development, removing the mandatory quarterly reporting requirement and streamlining the process for qualifying GEM issuers to transfer to the Main Board.

### Tackling corporate misconduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179 directions<sup>4</sup> to request information in five cases.



147

listing applications processed<sup>3</sup>



Average processing time:

89

business days

### Takeovers and share buy-backs

In September, we published our consultation conclusions on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs. The revised codes took effect on 29 September and consequential changes were made to a number of Practice Notes.

The amendments mainly codified existing practices of the Takeovers Executive<sup>5</sup> and clarified the codes where necessary. These included revisions of important terms, streamlining of processes and introduction of green initiatives. They were well received by the market and all were adopted with minor modifications.

### Listing applications and takeovers activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Listing applications	39	89	98	-9.2
Takeovers and share buy-backs transactions	112	178	160	11.3

<sup>3</sup> Including 39 new listing applications and 108 cases brought forward from the previous reporting period.

<sup>4</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

<sup>5</sup> This refers to the Executive Director of the SFC's Corporate Finance Division or any delegate of the Executive Director.

# Intermediaries

## Growth in licensed corporations and individuals

In the quarter, we received 2,017 licence applications<sup>1</sup>, comprising 1,972 individuals and 45 corporations, a 13% increase from the previous quarter and up 6% from the same quarter last year.

As at 30 September, there were 48,362 licensees and registrants, of which 3,236 were licensed corporations and 112 were registered institutions. During the quarter, the number of new licensees and registrants totalled 3,094<sup>2</sup>, amongst which 3,061 were individuals and 33 were licensed corporations and registered institutions. Among the 33 corporate licences granted during the quarter, Type 9 (asset management) regulated activity<sup>3</sup> (RA) accounted for 44% and Type 4 (advising on securities) for 36%. The number of SFC licence applications increased 11.3% year-on-year<sup>4</sup>.



Applications for SFC licences

▲ 11.3%

## Virtual assets: platform licensing, warning and information dissemination

During the quarter, we approved two SFC-licensed virtual asset trading platforms (VATPs) to provide services to retail investors. We also addressed the public on virtual asset-related matters through different channels.

### VATP lists

We published several lists of VATPs on our website to disseminate related information in a clear, transparent and timely manner in response to a suspected large-scale fraudulent scheme involving active marketing of virtual asset services without an SFC licence. These include lists of VATP applicants, closing-down VATPs and a dedicated list of suspicious VATPs.

## Statements and press release

In August, we issued a statement to warn VATPs of the legal and regulatory consequences of misrepresenting their SFC licence application status and launching services and products not compliant with our requirements for licensed VATPs. We repeatedly alerted investors to the risks of trading on unregulated VATPs.

Subsequently, to warn the public about a number of suspicious practices of an unregulated VATP, social media influencers or key opinion leaders and over-the-counter virtual asset money changers, we issued another statement in September. We made it clear that none of the entities within the unregulated VATP group were licensed by the SFC or had made any licence applications to the SFC to operate a VATP in Hong Kong.

We also issued a press release in September to communicate our plans and measures to reinforce information dissemination and investor education in light of recent public concerns about unregulated VATPs.

## Press conference and media briefing

In September, we held a joint press conference with the Hong Kong Police Force and an SFC media briefing to update the public on the SFC's work relating to an unregulated VATP, as well as information dissemination and investor education on unregulated platforms and fraud.

We continue to make efforts to disseminate information to the public effectively and enhance investor education on the risks associated with virtual assets and potential fraud.

<sup>1</sup> The figure does not include applications for provisional licences under the Securities and Futures Ordinance, but includes applications under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

<sup>2</sup> The figure includes provisional licensed representatives.

<sup>3</sup> Each licensed corporation may have multiple RA licences.

<sup>4</sup> Change from 30 September 2022 to 30 September 2023. This does not include applications for provisional licences.

## Intermediaries

### Promoting fintech

Together with the Hong Kong Monetary Authority (HKMA) and Insurance Authority, the SFC published a new Fintech Promotion Roadmap in August to further drive fintech adoption in the financial services sector. The roadmap sets out a series of initiatives to be undertaken by the three regulators over the next 12 months, including regular showcase events, roundtables, seminars, practical guidelines, as well as a new Fintech Knowledge Hub.

### Regulating depositaries of SFC- authorised CISs

In July, we began to accept applications for carrying on Type 13 RA under a new regime which will bring top-level trustees and custodians (ie, depositaries) of SFC-  
authorised collective investment schemes (CISs) under our direct supervision. The new regime will take effect on 2 October 2024. Depositaries operating in Hong Kong are expected to apply on or before 30 November 2023.

Also in July, we issued a circular to provide the industry with additional guidance on the scope and transitional arrangements of the new regime.

### Suitability obligations for dealing with sophisticated professional investors

We issued a joint circular with the HKMA in July to provide guidance for applying a streamlined approach to comply with the suitability obligations when dealing with sophisticated professional investors. The approach seeks to front-load intermediaries' know-your-client measures when onboarding clients or during regular reviews to ascertain a client's financial situation, investment experience, investment objectives and risk tolerance. For clients who exhibit the degree of sophistication, loss absorption ability and risk profile of a sophisticated professional investor, they would be allowed to specify the types of product and amount they wish to trade without going through the intermediaries' routine assessment and disclosure processes.



63

on-site inspections

This streamlined approach makes it more flexible and efficient for these investors to invest within acceptable parameters. To provide an appropriate degree of investor protection, intermediaries are required to establish and maintain effective systems and controls to ensure the streamlined approach operates properly within predefined parameters, and that the Code of Conduct<sup>5</sup> requirements continue to apply in full force when dealing with a sophisticated professional investor.

### Risk management guidelines for dealing in futures contracts

In August, we published the consultation conclusions on risk management guidelines for licensed persons dealing in futures contracts. The guidelines set out a comprehensive risk management framework for futures brokers and include requirements for funding liquidity risk management, safeguarding client assets, trading in futures markets outside Hong Kong and stress testing. Futures brokers have a transitional period of six months to comply with the guidelines, which will become effective on 25 February 2024.

### Cybersecurity review

In September, we issued a circular to inform the industry that we will commence a cybersecurity review of selected licensed corporations. As part of the review, we will conduct a survey of these corporations with follow-up discussions and meetings, and perform on-site inspections for a deep-dive review and compliance assessment of their information technology and related management controls. The review will cover cybersecurity management and incident reporting, cloud security controls and governance, vendor risk management and remote access controls, amongst others. The findings of the cybersecurity review will form the basis for us to issue further industry guidance.

<sup>5</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Intermediaries

### Joint product survey with HKMA

In September, we and the HKMA published a report on our annual joint survey on the sale of non-exchange traded investment products. We surveyed 371 licensed corporations and registered institutions which engaged in the sale of investment products in 2022, with the participation of over 800,000 clients. The report aims to help both regulators better understand market trends, identify potential risks and address areas of common concern.

The survey showed that the total transaction amount declined by 24% year-on-year to \$3,799 billion, largely in

line with the decrease in turnover observed in other major stock markets. However, the overall manpower deployed by firms to conduct selling activities remained stable. For CISs, there was a noticeable shift in transactions from bond funds and equity funds to money market funds, the proportion amount of which jumped to 61% from 33% in 2021. On debt securities, investors shifted their interest to sovereign bonds, such as the HKSAR Government bonds (including Green Bonds and Silver Bonds). Sovereign bonds accounted for 29% of total debt securities sold, up from 15% in 2021. The number of firms distributing investment products online increased 19% year-on-year to 83.

### Licensees and registrants

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Licensed corporations	3,236	3,254	-0.6	3,274	-1.2
Registered institutions	112	112	0.0	111	0.9
Licensed individuals	45,014	44,928	0.2	45,584	-1.3
<b>Total</b>	<b>48,362</b>	<b>48,294</b>	<b>0.1</b>	<b>48,969</b>	<b>-1.2</b>

### Licensing applications

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Applications to conduct new regulated activity	7,753	13,974	13,439	4.0
Applications for SFC licences <sup>^</sup>	2,017	3,801	3,414	11.3

<sup>^</sup> Figures do not include applications for provisional licences but include applications under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance. During the quarter, we received 1,235 provisional licence applications compared with 1,350 in the same quarter last year.

### Inspections of licensed corporations

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
On-site inspections commenced <sup>^</sup>	63	114	113	0.9

<sup>^</sup> Including inspections conducted remotely in light of the COVID-19 pandemic.

# Products

## Cross-boundary Wealth Management Connect (WMC) scheme

To deepen financial market connectivity in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), financial regulators of the Mainland, Hong Kong and Macao jointly announced enhancements to the scheme in September. Measures include expansion of the scope of eligible investment products, allowing eligible brokers to operate the scheme, enhancing promotion and sales arrangements, as well as initiatives to increase individual investor quota and support greater participation by GBA residents. Implementation details and operational guidance will be issued later.

## Asset and Wealth Management Activities Survey

The *Asset and Wealth Management Activities Survey for 2022*, released in August 2023, showed that the total assets under management (AUM) of Hong Kong's asset and wealth management business amounted to \$30,541 billion (US\$3,912 billion) as at end-2022 and net fund inflows of \$88 billion (US\$11 billion) were recorded.

The AUM saw a 14% year-on-year decrease, which was similar to the 15% drop for the AUM of worldwide regulated funds and slightly outran major market indices.

## ETFs

As at 30 September, 175 SFC-authorized exchange-traded funds (ETFs) were listed on the Stock Exchange of Hong Kong Limited (SEHK), including 25 leveraged and inverse products, and had a total market capitalisation of \$369.5 billion (US\$47.2 billion). During the quarter, net inflows of \$16.2 billion (US\$2.1 billion) to these ETFs were recorded. Their average daily turnover increased 12% quarter-on-quarter to \$14.8 billion (US\$1.9 billion).

As at 30 September, six ETFs are eligible for southbound trading. During the quarter, southbound ETF trading had an average daily turnover of \$3,586.5 million (US\$458 million) and contributed 15% of the eligible Hong Kong ETFs' turnover during the period.

## Mutual Recognition of Funds (MRF)

Under the Mainland-Hong Kong MRF scheme, we had authorised a total of 44 Mainland funds as at 30 September, whilst the China Securities Regulatory Commission had approved 38 Hong Kong funds.

The cumulative net subscription amounted to about RMB1.06 billion for Mainland funds and about RMB16.45 billion for Hong Kong funds as at 30 September. During the quarter, Mainland funds and Hong Kong funds recorded net redemptions of about RMB16.45 million and net subscriptions of about RMB1.34 billion respectively.

## Authorisations

During the quarter, we authorised 29 unit trusts and mutual funds (including 19 Hong Kong-domiciled funds) and 122 unlisted structured investment products for public offering in Hong Kong.

## OFC registrations

As at 30 September, there were 187 registered open-ended fund companies (OFCs), of which 36<sup>1</sup> were new OFCs registered during the quarter.

## ETF Connect – Southbound trading and fund flow of eligible Hong Kong ETFs<sup>a</sup>

Six months ended	Number of eligible Hong Kong ETFs as at period end	Market capitalisation as at period end (\$ million)	Southbound trading turnover (\$ million)	As % of the eligible ETFs' total turnover (%)	Fund inflow/ (outflow) (\$ million)
30.9.2023	6	203,005	3,217	14.0	13,777
31.3.2023	5	203,835	1,561	7.0	17,231
30.9.2022 <sup>b</sup>	4	154,064	433	3.0	23,540

<sup>a</sup> Based on data from Hong Kong Exchanges and Clearing Limited.

<sup>b</sup> ETF Connect was launched on 4 July 2022.

<sup>1</sup> The figure includes 33 private OFCs.

## Products

### Hong Kong-domiciled funds

As at 30 September, the AUM of Hong Kong-domiciled funds decreased 3% from the previous quarter to \$1,299.8 billion (US\$166 billion). Net fund inflows of about \$11.7 billion (US\$1.5 billion) were recorded.

### ESG funds

As at 30 September, there were 209 SFC-authorized ESG<sup>2</sup> funds with total AUM of \$1,247.3 billion (US\$159.3 billion), representing quarter-on-quarter increases of 7.2% and 1.8%, respectively.

### Authorised collective investment schemes

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	923 <sup>a</sup>	913	1.1	882	4.6
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,416	1,417	-0.1	1,393	1.7
ILAS	314	305	3.0	301	4.3
Pooled retirement funds	32	32	0.0	32	0.0
MPF schemes	26	26	0.0	26	0.0
MPF pooled investment funds	191	221	-13.6	219	-12.8
Others	25 <sup>b</sup>	25	0.0	25	0.0
<b>Total</b>	<b>2,927</b>	<b>2,939</b>	<b>-0.4</b>	<b>2,878</b>	<b>1.7</b>

<sup>a</sup> This figure includes 113 approved pooled investment funds (retail APIFs) which MPFs may invest in and may also be offered to the public in Hong Kong.

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

### Registered OFCs

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
OFCs	187 <sup>^</sup>	131	42.7	100	87.0

<sup>^</sup> This figure includes 163 private OFCs.

### Authorised unlisted structured investment products

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Unlisted structured investment products <sup>^</sup>	277	231	19.9	234	18.4

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

<sup>2</sup> Environmental, social and governance.



## Products

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

For the six months ended 30 September, Hong Kong-domiciled funds reported overall net inflows of \$23.5 billion (US\$3 billion), which was primarily attributed to index funds and money market funds.

	Six months ended 30.9.2023			Six months ended 31.3.2023			Six months ended 30.9.2022		
	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>
Bond	5,649	5,722	(73)	6,389	5,538	850	3,534	6,507	(2,973)
Equity	6,275	8,640	(2,364)	7,124	6,220	904	6,504	7,703	(1,199)
Mixed	2,542	4,335	(1,792)	2,534	3,085	(551)	4,779	5,746	(967)
Money market	24,775	21,771	3,003	22,072	17,206	4,866	11,221	9,428	1,793
Feeder funds <sup>c</sup>	0	0	0	1	3	(3)	2	1	2
Index <sup>d</sup>	35,565	31,355	4,211	36,276	34,911	1,365	29,136	25,374	3,763
Guaranteed	0	3	(3)	0	2	(2)	0	2	(2)
Other specialised <sup>e</sup>	3	15	(12)	78	65	12	0	0	0
<b>Total<sup>b</sup></b>	<b>74,809</b>	<b>71,840</b>	<b>2,969<sup>f</sup></b>	<b>74,474</b>	<b>67,033</b>	<b>7,442</b>	<b>55,176</b>	<b>54,760</b>	<b>416</b>

<sup>a</sup> Based on data reported by funds domiciled in Hong Kong.

<sup>b</sup> Figures may not add up to total due to rounding.

<sup>c</sup> The subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded to better reflect the total fund flows.

<sup>d</sup> Including ETFs and leveraged and inverse products.

<sup>e</sup> Including virtual asset futures ETFs.

<sup>f</sup> This figure includes net outflows of \$24 billion (US\$3.1 billion) reported by retail approved pooled investment funds which MPFs may invest in and may also be offered to the public in Hong Kong.

### Mainland-Hong Kong MRF scheme – fund flows<sup>a</sup> (RMB million)

	Six months ended 30.9.2023			Six months ended 31.3.2023			Six months ended 30.9.2022		
	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>
Mainland funds	201	202	(1)	182	165	16	296	333	(37)
Hong Kong funds	5,984	4,201	1,782	7,360	4,146	3,215	2,047	2,790	(743)

<sup>a</sup> Based on data from the State Administration of Foreign Exchange.

<sup>b</sup> Figures may not add up to total due to rounding.



## Products

### SFC-authorised renminbi (RMB) investment products

	As at 30.9.2023
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	58
Unlisted funds (non-RMB denominated) with RMB share classes	405
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	44
Unlisted structured investment products issued in RMB <sup>b</sup>	276
ILAS with policy currency in RMB	6
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	53
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	18
RMB leveraged and inverse products	3
RMB gold ETFs <sup>c</sup>	1
RMB REITs	1

<sup>a</sup> Refers to onshore Mainland investments through the Qualified Foreign Investor scheme, Stock Connect, Bond Connect and the China Interbank Bond Market.

<sup>b</sup> The number is on a "one product per key facts statement" basis.

<sup>c</sup> Only includes gold ETFs denominated in RMB.



# Markets

## Further enhancing Stock Connect

We have reached a consensus with the China Securities Regulatory Commission to introduce block trading (manual trades) under Stock Connect, on which we issued a joint announcement in August. This initiative will further enhance trading efficiency and promote the mutual development of the Mainland and Hong Kong capital markets.

Once implemented, offshore investors will be able to conduct block trades on the Shanghai Stock Exchange and Shenzhen Stock Exchange through the northbound trading link, whilst Mainland investors can use the southbound trading link to conduct manual trades on the Stock Exchange of Hong Kong Limited. The exchanges and clearing houses on both sides are working together on the implementation details. The official launch date will be announced in due course.

## Amending rules for position limit regime

Following our further consultation conclusions on proposed changes to the position limit regime for the derivatives market published in June, we are working on legislative amendments to the Securities and Futures (Contracts Limits and Reportable Positions) Rules. We expect the amended rules to take effect in December 2023, subject to the legislative process.

## OTC derivatives

### Consultation conclusions on clearing rules

We concluded a joint consultation with the Hong Kong Monetary Authority in August on proposed amendments to the Clearing Rules<sup>1</sup> for over-the-counter (OTC) derivative transactions. The proposals are in line with the global interest rate benchmark reform, particularly the transition from the use of interbank offered rates to alternative reference rates. We received broad support for our proposals. Subject to the legislative process, we aim to implement the proposed changes in July 2024.

### Implementation of Transactions Reporting Regime

The OTC Securities Transactions Reporting Regime became effective on 25 September. We issued a circular in August to remind Relevant Regulated Intermediaries<sup>2</sup> about the testing and preparation work for reporting under the new regime.

### Automated trading services

As of 30 September, there were 53 automated trading services (ATS) providers<sup>3</sup> authorised under Part III of the Securities and Futures Ordinance (SFO), while 29 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

## ATS providers

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Under Part III	53	51	3.9	51	3.9
Under Part V	29	28	3.6	27	7.4

<sup>1</sup> The Securities and Futures (OTC Derivative Transactions—Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

<sup>2</sup> These refer to SFC-licensed corporations and registered institutions subject to the OTC Securities Transactions Reporting Regime under paragraph 5.7 of the Code of Conduct for Persons Licensed by or Registered with the SFC.

<sup>3</sup> Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

# Enforcement

## Combatting market misconduct

### Surveillance

Our surveillance of untoward price and turnover movements resulted in 1,036 requests for trading and account records from intermediaries during the quarter. We also received and assessed 71 notifications from intermediaries<sup>1</sup> regarding suspicious equity and derivative trading.

### Market manipulation

Two suspected core members of a large-scale and sophisticated ramp and dump syndicate suspected of market manipulation were charged at the Eastern Magistracy with the offence of conspiracy to defraud or deceive in transactions involving securities. This is contrary to section 300 of the Securities and Futures Ordinance (SFO) and sections 159A and 159C of the Crimes Ordinance.

A case was transferred from the Eastern Magistracy to the District Court for trial after four suspects were charged with fraud under section 16A of the Theft Ordinance and alternative offences of illegal short selling under section 170 of the SFO in June. The case stemmed from an earlier joint operation with the Hong Kong Police Force to combat ramp and dump scams on social media.

## Corporate fraud and related misbehaviour

We obtained an interim-interim notification injunction at the Court of First Instance (CFI) against Leung Anita Fung Yee Maria, former chief executive officer and executive director of SMI Culture & Travel Group Holdings Limited, requiring her to inform us of any sale of her specified properties in Hong Kong and Canada, in order to preserve assets for a compensation order which may be imposed under section 214 of the SFO. Subsequently, she notified us of the sale of her two properties and, upon our further application for injunction, provided a voluntary undertaking to the court not to complete the sale pending the substantive determination of the injunction application.

## Acting against intermediary misconduct

During the quarter, we disciplined five corporations and five individuals and these actions resulted in total fines<sup>2</sup> of \$28.9 million. Key disciplinary actions are shown in the following tables.

## Sponsor failures

Company/Name	Breaches	Action/Fine
Changjiang Corporate Finance (HK) Limited	Failed in discharging its duties as the sponsor in six applications to list on the Stock Exchange of Hong Kong Limited (SEHK)	Reprimanded and fined \$20 million  Licence partially suspended to act as a sponsor for listing applications on SEHK for one year, or until we are satisfied with controls and procedures of its sponsor-related business, whichever is later
Tsang Kwong Fai	Failed to discharge his duties as a sponsor principal, responsible officer (RO) and senior management member of RaffAello Capital Limited	Banned from re-entering the industry for two years

<sup>1</sup> Intermediaries are required to report clients' suspected market misconduct to the SFC.

<sup>2</sup> Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.



## Enforcement

### Internal control deficiencies

Company/Name	Breaches	Action/Fine
Chee Tak Securities Limited (Chee Tak)	Internal control deficiencies and regulatory breaches	Reprimanded and fined \$2 million
Kevin Chiu Koon Yu	Failed to discharge his duties as an RO and a member of the senior management of Chee Tak	Suspended for 10 months
China Industrial Securities International Brokerage Limited	Internal control failures relating to the monitoring of suspicious trading activities and recording of client order instructions	Reprimanded and fined \$3.5 million
Changjiang Asset Management (HK) Limited	Regulatory breaches and internal control failures in relation to segregation of client money and provision of account statements to clients	Reprimanded and fined \$3.4 million

### Other regulatory breaches

Company/Name	Breaches	Action
Lo Wai Ming	Failed to comply with the firm's internal procedures when placing clients' orders and to maintain proper records of clients' order instructions	Banned from re-entering the industry for seven months
Axial Capital Management Limited (Axial)	Repeated failures to comply with the SFO, the Securities and Futures (Financial Resources) Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct)	Revoked licence
Eugene Chung	Failed to discharge his duties as an RO and a member of the senior management of Axial	Suspended for five years

### Other notable cases

The Securities and Futures Appeals Tribunal affirmed our decision to ban Calvin Choi Chi Kin, a former managing director of UBS AG, from re-entering the industry for two years for breaching the Code of Conduct and the Corporate Finance Adviser Code of Conduct.

We obtained an order from the CFI to appoint two administrators to administer the property of Vantage New Generation Securities Limited<sup>3</sup> and that held by the firm on behalf of its clients or third parties, as well as to manage the affairs of the firm.

Mayer Holdings Limited and nine of its former senior executives were found by the Market Misconduct Tribunal (MMT) to be late in disclosing inside information as required under the SFO. The case had been remitted to the MMT for re-hearing following an appeal allowed by the Court of Appeal against the MMT's earlier determination.

### Unlicensed activities

The Eastern Magistrates' Court convicted:

- Ben Ngai Ping Kuen for holding himself out as performing a regulated function in relation to dealing in securities without a licence from the SFC under section 114(3)(b) of the SFO. He was fined \$6,000 and ordered to pay our investigation costs.
- Cheung Wing Hung for holding himself out as performing a regulated function in relation to dealing in securities as an agent of entities not licensed by the SFC under section 114(3)(b) of the SFO. He was fined \$6,000 and ordered to pay our investigation costs.

<sup>3</sup> Formerly known as Global Group Securities Limited, a corporation licensed under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. For Type 4 regulated activity, licensees should only provide services to professional investors.

## Enforcement

### Cooperation with ICAC and AFRC

#### ICAC

We conducted a joint operation with the Independent Commission Against Corruption (ICAC) in a case of suspected market manipulation involving the shares of two Hong Kong-listed companies. During the joint operation, 14 premises were searched and the ICAC arrested one core member of the suspected syndicate. We also issued restriction notices to six brokers to freeze assets held in eight trading accounts related to suspected market manipulation of the shares of one of the two listed companies.

#### AFRC

In July, we issued the first joint statement with the Accounting and Financial Reporting Council (AFRC) as part of our enhanced collaboration in the regulation of the securities and futures markets in Hong Kong.

The joint statement addresses an observable increase in cases of listed issuers channelling a company's funds to third parties as "loans" in dubious circumstances. These loans were often approved without sufficient commercial rationale or appropriate documentation. Listed issuers suffered significant losses when these loans became unrecoverable. The joint statement also provides our observations on listed issuers granting dubious loans and sets out the conduct standards and practices that listed issuers, their directors, audit committees and auditors should follow in relation to loans and similar arrangements.

We will continue to work with the AFRC to maintain the integrity of Hong Kong's capital market and protect the interests of the investing public.

### Enhancing our powers to curb misconduct

In August, we published the consultation conclusions on proposed amendments to enforcement-related provisions of the SFO. If approved by the Legislative Council, the changes will broaden the SFO's scope to cover insider dealing perpetrated in Hong Kong related to overseas-listed securities or their derivatives, as well as insider dealing perpetrated outside of Hong Kong which involves Hong Kong-listed securities or their derivatives. Considering the complex implementation issues raised by the respondents to the consultation, we concluded that, pending further review, we will put on hold the other two proposed amendments, which concern the professional investor exemption and injunctions and other orders. We will continue to monitor market developments and consider a full range of options to enhance investor protection as necessary.



## Enforcement

### Enforcement activities

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
S179 <sup>a</sup> inquiries commenced	13	22	17	29.4
S181 <sup>b</sup> inquiries commenced (number of letters sent)	54 (1,036)	97 (2,263)	86 (3,321)	-31.9
S182 <sup>c</sup> directions issued	53	93	63	47.6
Investigations started	54	94	67	40.3
Investigations completed	49	82	83	-1.2
Individuals and corporations charged in criminal proceedings	4	19	7	171.4
Criminal charges laid	6	45	80	-43.8
Notices of Proposed Disciplinary Action <sup>d</sup> issued	7	14	12	16.7
Notices of Decision <sup>e</sup> issued	8	15	12	25.0
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	193	193	173	11.6
Compliance advice letters issued	37	76	43	76.7
Cases with search warrants executed	8	12	20	-40.0

<sup>a</sup> 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.

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

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

<sup>d</sup> 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.

<sup>e</sup> A notice which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

<sup>f</sup> As of the last day of the period.

# Sustainability

We lead efforts to advance Hong Kong's position as an international sustainable finance hub and develop an effective regulatory framework to support transition and sustainable finance.

## Spearheading international work

At the International Organization of Securities Commissions (IOSCO), our Chief Executive Officer (CEO) Ms Julia Leung is a vice-chair of the Sustainable Finance Task Force (STF) and co-chairs its Corporate Reporting Workstream. The workstream led IOSCO's continuous discussions with the International Sustainability Standards Board (ISSB) for over two years and spearheaded the review of the ISSB's IFRS Sustainability Disclosure Standards, which informed IOSCO's endorsement of those standards in July.

As a member of other IOSCO STF workstreams, we are active in discussions about assurance and digital reporting of sustainability information, and promoting good practices on asset management and environmental, social, and governance (ESG) ratings and data products providers. We also contributed to the final report on compliance carbon markets published in July.

We lead the Sustainable Finance Working Group<sup>1</sup> of the IOSCO Asia Pacific Regional Committee. This group seeks to promote alignment of regulatory approaches, knowledge sharing and capacity building in corporate sustainability disclosures and carbon markets in the region.

During the quarter, we continued to participate actively in other international initiatives on sustainable finance<sup>2</sup>.

## Local policy initiatives

In August, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)<sup>3</sup>, co-chaired by the SFC and the Hong Kong Monetary Authority, announced its key priorities. These include establishing world-class regulation through alignment with global standards, exploring opportunities for public-private partnerships to promote the development of technology-driven solutions, developing a Hong Kong green fintech map, and exploring ways to further support financial institutions and corporates in their transition planning and reporting.

The Steering Group established a working group on sustainability disclosures, co-chaired by the Financial Services and the Treasury Bureau and the SFC. The aim is to advance the development of a comprehensive roadmap on adopting the IFRS Sustainability Disclosure Standards, taking into account Hong Kong's position on the global green finance map, local regulatory expectations and circumstances.

## Climate-related disclosures

The Stock Exchange of Hong Kong Limited's (SEHK) consultation on proposed climate-related disclosure requirements for listed companies in Hong Kong ended in mid-July. SEHK is formulating the next steps in light of the responses received, the final ISSB standards and the adoption guide to be issued by the ISSB.

<sup>1</sup> Our Senior Director and Head of International Affairs and Sustainable Finance, Ms Christine Kung, leads this working group.

<sup>2</sup> We represent IOSCO in the Financial Stability Board's Working Group on Climate Risk. We are a supporter of the Task Force on Climate-Related Financial Disclosures Recommendations and a member of the International Platform on Sustainable Finance. We also participate in the Advisory Group on Carbon Markets of the United Nations Sustainable Stock Exchanges Initiative.

<sup>3</sup> The Steering Group was established in May 2020. Other members include the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and Mandatory Provident Fund Schemes Authority.





# Regulatory Engagement

## Strengthening global regulatory collaboration

We maintain a close working relationship with our regulatory counterparts to develop global policy initiatives and promote international cooperation and capacity building.

### IOSCO and FSB

We contribute to all eight policy committees of the International Organization of Securities Commissions (IOSCO) and hold leadership positions in the Committee on Investment Management and the Committee on Enforcement and the Exchange of Information<sup>1</sup>. During the quarter, we participated in meetings of the Committee on Emerging Risks, the Assessment Committee, Fintech Task Force, Sustainable Finance Task Force, and the Financial Stability Engagement Group.

In September, our Chief Executive Officer Ms Julia Leung and senior executives participated in a meeting of the IOSCO Board to discuss decentralised finance and private finance. In the same month, we hosted the IOSCO Assessment Committee meeting which discussed the importance of implementation monitoring in areas such as sustainability reporting and crypto assets. The Committee also progressed its current reviews about the technological challenges related to effective market surveillance and IOSCO's core Principles 6 and 7, which focus on identifying, monitoring, mitigating and managing systemic risks, as well as reviewing the regulatory perimeter.



IOSCO Assessment Committee meeting in Hong Kong

Ms Christina Choi, our Executive Director of Investment Products, is serving a second term as Chair of the IOSCO's Committee on Investment Management. She also leads the committee's core experts group and co-chairs the Financial Stability Board (FSB) Open-Ended Funds Working Group. During the quarter, IOSCO published a consultation report on proposed guidance for anti-dilution liquidity management tools. FSB also published a consultation report on revisions to its 2017 policy recommendations to address structural vulnerabilities from liquidity mismatch in open-ended funds. In July, IOSCO and FSB jointly organised a launch event for these reports, which was attended by over 300 market participants from around the world.

During the quarter, Mr Rico Leung, our Executive Director of Supervision of Markets, and other SFC representatives participated in a meeting of the FSB Standing Committee on Standards Implementation to discuss its 2024 work priorities.

### Other work

In July, we hosted a visit by the representatives of the Takeovers Regulation Panel of South Africa. During the visit, the two sides shared experiences and exchanged views on supervising takeovers in the two jurisdictions.

## Advancing Mainland-Hong Kong cooperation

During the quarter, we continued to work closely with our Mainland counterparts and relevant authorities to push forward various cooperation initiatives.

In July, we visited China Securities Regulatory Commission (CSRC), People's Bank of China, National Administration of Financial Regulation (NAFR) and State Administration of Foreign Exchange in Beijing to discuss further development of various mutual market access schemes, including ETF<sup>2</sup> Connect expansion, inclusion of REITs<sup>3</sup> under Stock Connect, and enhancements to the Mutual Recognition of Funds arrangement and the Cross-boundary Wealth Management Connect (WMC) pilot scheme.

<sup>1</sup> Mr Kenneth Lai, Director of Enforcement, is Vice-Chair.

<sup>2</sup> Exchange-traded funds.

<sup>3</sup> Real estate investment trusts.

## Regulatory Engagement

In September, enhancements to the WMC pilot scheme<sup>4</sup> were jointly announced by relevant authorities and financial regulators of the Mainland, Hong Kong and Macao. Implementation details are being formulated to roll out the enhancements as soon as practicable.

We also visited Guangzhou, Shenzhen and Shanghai to meet with the local bureaux of the CSRC, stock exchanges, futures exchanges and clearing houses there to discuss cross-boundary regulatory cooperation and market development initiatives.

In addition, we received delegations of the Shenzhen Stock Exchange, Beijing Stock Exchange, Guangzhou Futures Exchange and China Association for Public Companies, who discussed with us the coordinated development of Mainland and Hong Kong securities and futures markets.

In July, we had bilateral meetings with the CSRC and NAFR to exchange supervisory information of licensed firms whose parents are regulated by the CSRC or NAFR.

During the quarter, our Enforcement Division continued to maintain close cooperation with the Enforcement Bureau of the CSRC. In addition to providing mutual assistance in significant cases, the two enforcement units actively discussed and formulated the operating mechanism for cross-boundary enforcement cooperation. This is pursuant to the memorandum of understanding signed in February 2023 regarding the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (MoU). The implementation of the MoU provisions will improve the efficiency of information exchange in enforcement cooperation and reinforce our joint efforts to combat cross-boundary securities violations.

We also actively discussed and comprehensively optimised some key processes in handling requests for investigatory assistance. Significant improvement is expected in the accuracy and efficiency of handling requests from investigators in both enforcement units.



CEO visit to Shenzhen Stock Exchange  
(left: President of Shenzhen Stock Exchange  
Ms Sha Yan)



CEO visit to Shanghai Stock  
Exchange (left: President of Shanghai  
Stock Exchange Mr Cai Jianchun)

<sup>4</sup> See Products on pages 12-15.

# Communications and Education

## Industry outreach

We are proactive in explaining our policy initiatives through industry events and other engagements. During the quarter, our senior executives spoke at over 15 local and international events on topics ranging from virtual assets to asset management and mutual market access. We were a supporting organisation for two industry events.

At a July forum on doing business in Hong Kong organised by the Law Society of Hong Kong, our Chairman Mr Tim Lui highlighted the significance of our agile regulatory approach in supporting market developments and keeping pace with new market trends.



Chairman Mr Tim Lui speaks at the Law Society of Hong Kong's forum

Also in July, when speaking at a Hong Kong Securities and Investment Institute regulatory roundtable luncheon, our Chief Executive Officer Ms Julia Leung emphasised the need to maintain a healthy ecosystem for small-cap stocks and highlighted the problems prevalent in the small and medium enterprise segment of the listing market. She also elaborated the SFC's efforts to tackle market manipulation and other misconduct particularly in that segment. In the same month, Ms Leung discussed the importance of adopting global sustainability standards in Hong Kong and taking a steady and proportionate approach relevant to local circumstances, as she spoke

at the CPA Congress hosted by the Hong Kong Institute of Certified Public Accountants. In addition, she spoke on how the Mainland and Hong Kong can navigate a challenging global environment by expanding mutual market access and deepening cross-boundary financial collaboration at the 2023 Bund Summit held in Shanghai in September.

In a July interview with the official publication of the Hong Kong Securities Association, Ms Leung shared the SFC's priorities and approach to addressing emerging issues, including licensing of virtual asset trading platforms (VATPs), security tokens and risk management controls for futures brokers.

Our other senior executives also shared their views on specific topics on various occasions in the period. Executive Director of Investment Products Ms Christina Choi explained the SFC's approach to enabling innovation in the asset management industry at the Bloomberg Buy-Side Forum Hong Kong 2023. At the ISDA Derivatives Trading Forum, Executive Director of Supervision of Markets Mr Rico Leung spoke about how Mainland-Hong Kong mutual market access schemes supported the growth of the city's derivatives market. At the Directors' Symposium 2023 organised by the Hong Kong Institute of Directors, Mr Christopher Wilson, Executive Director of Enforcement, highlighted company directors' duties in promoting effective corporate governance and a management culture that reduces misconduct. Mr Wilson also elaborated the SFC's holistic strategy to combat market misconduct in an interview with the official publication of the Law Society of Hong Kong.



Industry publication interviews

## Communications and Education

### Other publications and communications

We provide stakeholders with regulatory updates and explain our work through a variety of publications. During the quarter, we released the SFC's *April-June 2023 Quarterly Report* which summarised our key regulatory work, corporate developments and financial information. In August, we published the report on our annual *Asset and Wealth Management Activities Survey*, which found that Hong Kong's asset and wealth management business remained resilient in 2022 amid the challenges faced by the industry globally. In our *Half-yearly Review of the Global and Local Securities Markets* published in August, we provided reviews of global and local securities market performances during the first half of 2023 and an update on trading activity and short positions in Hong Kong. We also published in September the *Financial Review of the Securities Industry* for the first half of 2023 and the quarterly *Takeovers Bulletin*.

We published 55 posts on the SFC's social media platforms to promote awareness and bring the public's attention to a range of matters, including unregulated and suspicious VATPs, sustainable finance and mutual market access initiatives.

### Explaining VATP regulation

To help market participants understand the new licensing regime for VATPs which took effect on 1 June 2023, we keep up our outreach and investor education efforts to inform stakeholders of the regulatory requirements under the new regime and remind the public of the risks of trading on unregulated platforms.

We participated in a wide range of conferences and seminars to engage with local and international industry participants including those at the events organised by the Hong Kong Financial Services Development Council, InvestHK and the Hong Kong Economic and Trade Office in Seoul. We also met with industry associations to explain our requirements.

In a televised interview by Phoenix TV in August, we explained the investor guardrails embedded in the new regime. Through a media briefing and an accompanying press release in September, we communicated our plans and measures to reinforce information dissemination and investor education to further raise awareness about unregulated VATPs.

### Publications and other communications

	Quarter ended 30.9.2023	Six months ended 30.9.2023
Press releases	41	85
Policy statements and announcements	5	5
Consultation papers	0	2
Consultation conclusions	4	7
Industry-related publications	7	8
Codes and guidelines <sup>a</sup>	3	10
Circulars to industry	13	23
Corporate website average daily page views <sup>b</sup>	64,769	65,060
General enquiries	1,021	1,786

<sup>a</sup> Includes updates to previous versions.

<sup>b</sup> The average number of webpages browsed per day during the reporting period.

