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

SFC Regulatory Forum 2021

Summary of discussions

SFC Regulatory Forum 2021

The SFC Regulatory Forum 2021 was held at the Hong Kong Convention and Exhibition Centre on 25 November. This year, more than 1,100 leaders from the financial industry, listed companies, professional services firms and industry associations attended the full-day event in person and online.

This year's Forum focused on the role of regulation and the SFC's strategies to address emerging challenges arising from Hong Kong's development as a leading asset management and risk management centre. Forum participants also exchanged views on the latest trends in corporate regulation, intermediary supervision and enforcement.

About the SFC

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

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

There are six statutory objectives that underpin the execution of our regulatory work.

- Maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the 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
- Assist the Government in maintaining Hong Kong's financial stability

In carrying out our duties, we strive to strengthen Hong Kong's standing as an international financial centre.

SFC Regulatory Forum 2021

Opening remarks

Mr Tim Lui, SBS, JP, Chairman, SFC

The Financial Secretary, Mr Paul Chan, distinguished guests, ladies and gentlemen, good morning.

It's my great pleasure to welcome you to the SFC Regulatory Forum.

To start with, I want to thank the Financial Secretary for taking the time to join us today and deliver the keynote address. I also want to thank everyone who is taking part in today's event, whether here at the convention centre or watching online.

I know some of you will remember our first Regulatory Forum, in 2014. The response was very positive, and we decided to make it a regular event.

We originally planned to hold a forum early last year, but for obvious reasons, it had to be postponed. That means the last time we held a public event like this was nearly four years ago.

So we have a lot of catching up to do. We are very glad to finally have a chance to come together with the industry and other key stakeholders for what I hope is an honest exchange of views.

Now to say that a lot has happened in our markets over the past few years would be a bit of an understatement. The global financial landscape has changed dramatically in the space of a very short time. Hong Kong's markets have also gone through some significant changes. By any measure, they are now larger, deeper and more connected with the Mainland as well as with the rest of the world.

At the same time, the financial institutions we regulate have become more complex and sophisticated, and we have seen a steady stream of new, innovative financial products coming on the market.

Hong Kong's future and the regulatory agenda

Today will be an opportunity to take stock of these changes and focus on some of the most important areas on our regulatory agenda. As will become clear throughout the course of the day, the main theme running through all of these discussions is Hong Kong's future as China's international financial centre.

I want to be very clear about this right from the start. Hong Kong's status as a leading global financial centre is here to stay.

Today, Hong Kong is even better placed than before to attract more Mainland firms looking to diversify their sources of capital and to be the hub for a range of investment flows between China and overseas markets.

Since the launch of Stock Connect seven years ago, one of our key priorities has been to provide the leading platform for overseas investors to access Mainland markets. We have made great progress, in large part thanks to our close and productive relationships with our Mainland counterparts, especially with the China Securities Regulatory Commission (CSRC).

We and the CSRC share a common goal of getting ahead of risks in both markets, safeguarding investors and upholding market integrity. And of course, this forms a strong basis for the expansion of mutual market access and further market integration in the Greater Bay Area.

The rapid development of the Greater Bay Area will present abundant opportunities for the financial sector. And the Nation's 14th Five Year Plan also shows the way for us to build on our strengths and enhance Hong Kong's unique role in the global economy. Most recently, the strong response to the new A-shares futures contracts is another example of where we are breaking new ground.

This is part of our work to build up Hong Kong as a risk management centre, providing international investors with ways to manage their Mainland exposures and hedge the attendant risks. We look forward to telling you more about ETF Connect, Wealth Management Connect and other new developments we are working on.

Enhancing our competitiveness

In our capital markets, the introduction of the new listing regime for pre-profit biotech companies and weighted voting rights structures opened up whole new areas for companies and investors, and the results have been encouraging. We can already see the fruits of our efforts to attract a wider variety of companies to list on our market. Hong Kong is now Asia's leading hub for biotech fundraising.

Another trend working in our favour is the Greater China issuers seeking secondary listings or "coming home" to Hong Kong. So while Hong Kong has for many years now been one of the top IPO markets, we now have a far more diverse range of listed companies. Since the last Forum was held in 2018, market capitalisation on the Stock Exchange of Hong Kong has increased 50% and the number of listed companies has grown to more than 2,500.

Enhancing Hong Kong's competitiveness as a global asset and wealth management centre is a top regulatory priority as well. Despite a volatile market and geopolitical tensions, net fund inflows in Hong Kong have stayed positive and the asset and wealth management sector has seen strong growth.

And that's not to mention the huge potential for Hong Kong to develop as a hub for green and sustainable finance, another area where Hong Kong has a strong future.

Strength and resilience

These are uncertain times. The business landscape is rapidly changing, not only as a result of innovation and new technology, but also because of the pandemic and geopolitical frictions.

Another challenge has been the increasing interaction between technology and the financial services industry which has given rise to new kinds of fraud and misconduct. You may have heard of the "ramp and dump" scams on social media. So today we will also discuss how our investigations and enforcement efforts have become more complex and challenging. We will also talk about some of our initiatives to maintain the quality of our markets and safeguard the interests of investors.

Throughout the past few years, we have been working closely with the financial industry to help them stay ahead of potential problems and manage operational, financial and regulatory risks. This allowed our markets to stay open and operate normally despite unexpected, and unprecedented, challenges.

Let me once again express my thanks to everyone who has played a part in keeping our markets and our financial industry on a solid footing these past few years. As always, we are grateful for your support. And as a final word, let me assure you that you can expect more great things to come.

Now, it is my great privilege to introduce our next speaker. Mr Paul Chan was appointed Financial Secretary in January 2017. Prior to that, he served as Secretary for Development and held a number of public service positions, including as a member of the Legislative Council. Let's have a warm welcome for the Financial Secretary.

Keynote Address

The Honourable Paul Chan Mo-po, GBM, GBS, MH, JP

Tim, Ashley, distinguished guests, ladies and gentlemen,

Good morning. I'm delighted to be here for today's SFC Regulatory Forum, pleased to see so many friendly and familiar faces everywhere I look. This hybrid, in-house and online forum, gets us that much closer to seeing all the promise of the post-pandemic economy.

Our business, social and personal lives have been sorely affected by the pandemic. And yet, despite the daunting circumstances that have plagued us for nearly two years now, our financial system remains stable and remarkably resilient.

Let me count the ways, starting with IPOs. IPO funds raised in Hong Kong reached HK$400 billion last year, up a cheering 27% over 2019. As of September, total funds raised through IPOs exceeded HK$280 billion.

Consider, too, the role of financial services in our GDP. In 2019, the sector contributed more than 21%, surpassing trading and logistics, and making it the undisputed engine of the Hong Kong economy. The world is taking note. In September, Hong Kong reclaimed third place in the Global Financial Centres Index, only behind New York and London.

And the World Investment Report, published in June by the United Nations Conference on Trade and Development, ranked Hong Kong the world's third largest recipient of foreign direct investment (FDI) last year, trailing only the United States and the Mainland—and up from fifth place in 2019. The UN report attributed Hong Kong's strong FDI to, and I quote, "the resolution of conflicts arising from the implementation of the National Security Law," amongst others.

That echoes the Report on Hong Kong's Business Environment, published by the Hong Kong SAR Government in September. The report offers a considered analysis of the severe challenges we have faced, and overcome, in the past two years. No less important, it serves as a guide to where we're going as an economy and a community. The answer, by the way, is more than implied in the Report's subtitle: "A Place with Unique Advantages and Unlimited Opportunities."

Today's Forum offers me a welcome opportunity to share some of my thoughts on how we can tap into those unlimited opportunities.

The promising prospect of unlimited opportunities was given to Hong Kong in the National 14th Five-Year Plan. The Plan supports our continuing growth as an international financial centre and our deepening integration in the Mainland's economic blueprint.

The SFC has a critical role to play in realising that promise.

Consider the mutual-access schemes, Stock Connect and Bond Connect. Stock Connect's average daily turnover more than doubled last year, with northbound traffic arising about 120% and southbound soaring almost 130%.

The numbers are equally encouraging for Bond Connect, with northbound turnover climbing 82% in 2020, and another year-on-year growth of 34% this year up to August.

Southbound Bond Connect began operation in September, and marks another milestone in mutual access between the capital markets of Hong Kong and the Mainland.

Hong Kong's role as a bridge, allowing international investors to access the Mainland market and Mainland funds to flow out to the international market, will be all the more significant.

Looking ahead, our listing policies and regulatory procedures should keep track of market changes. That can boost the competitiveness of Hong Kong listings, reinforcing our status as a premier capital-formation centre.

Hong Kong Exchanges and Clearing Limited (HKEX) has the Government's full support in enhancing our listing regime. I'm sure some of you took part in the recent consultation by the HKEX on the establishment of a listing regime for special-purpose-acquisition companies, or SPACs. With consultation now concluded, our regulators are making concerted efforts to work out a SPAC listing regime that aims to strike that fine balance between market development and investor protection.

HKEX has also concluded its review on our secondary listing regime. Starting from 1 January next year, Greater China issuers without a weighted voting rights structure can secondary list with a lower minimum market capitalisation at listing and without the need to demonstrate that they are "innovative companies".

Hong Kong's asset- and wealth-management business will find a concerted forum spotlight later this morning. The good news is that Hong Kong's fund-management business grew 21%, year on year, to almost HK$35 trillion at the end of 2020. And I'm determined to create more opportunity for the business and its players.

As you know, the SFC created the open-ended fund company structure some three years ago. Last year, the limited partnership fund regime was introduced. Since then, more than 350 funds have set up here in Hong Kong.

Tax concessions are part of the plan. The latest is exempting carried interest payable by private-equity funds operating in Hong Kong from taxation.

We're offering financial incentives, as well. Subsidies of up to HK$1 million are available to each qualifying, open-ended fund company, and as much as HK$8 million for each real estate investment trust.

We're also encouraging foreign funds to establish a presence in Hong Kong. On November 1, we introduced a set of new fund redomiciliation mechanisms designed to attract foreign funds to relocate their registration and operation to this city.

The family office business is also a priority, and InvestHK and regulators now offer one-stop support services to family offices looking to establish, or expand, in Hong Kong. Tax concessions for such offices are also under serious consideration.

Then there's the Guangdong-Hong Kong-Macao Greater Bay Area Wealth Management Connect. It is, ladies and gentlemen, nothing less than a milestone for our asset- and wealth-management sector.

Certainly, our position as the world's largest offshore Renminbi business hub will grow with the expansion of the two-way, cross-boundary fund flow. We count the largest pool of Renminbi liquidity outside the Mainland, and about 70% of offshore Renminbi payments are handled by the banks right here in Hong Kong.

Rest assured, we'll continue to expand channels for the two-way flow of Renminbi funds. Amongst other initiatives, we are looking to allow stocks traded via Stock Connect southbound to be denominated in Renminbi.

We will also continue to enable the issuance of offshore Renminbi bonds. In September, the Ministry of Finance announced its plan to issue in Hong Kong this year Renminbi sovereign bonds totalling RMB20 billion. The Shenzhen Municipal People's Government also issued offshore Renminbi municipal government bonds here in October. These issuances showcase Hong Kong as the premier gateway for international capital to access the Mainland.

There's more on the bonds. I am leading a steering group intent on promoting the diversified development of Hong Kong's bond market. I am confident that we can boost Hong Kong's current position as Asia's third-largest bond market, outside Japan, in total bond issuances.

We value our connectivity with international markets. Beyond the Mainland, Hong Kong has formalised mutual recognition of funds' arrangements with Switzerland, France, the United Kingdom, Luxembourg, the Netherlands and Thailand. That, of course, enlarges our fund industry's distribution network. And the SFC is working to continue to expand that network.

Green and sustainable finance shows great promise as well. Earlier this month, Ashley spoke at the Green Horizon Summit@COP26 in his role as Chair of the IOSCO (International Organization of Securities Commissions) Board. Here in Hong Kong, the Green and Sustainable Finance Cross Agency Steering Group, co-chaired by Ashley and the Hong Kong Monetary Authority, will bolster our reputation as a leader in this region in green and sustainable finance. It will also help move our financial sector in the direction of carbon neutrality before 2050.

Back in January, the HKSAR Government completed our issuance of green bonds worth US$2.5 billion. The offering, in three tranches, featured tenors up to 30 years—the first such issuance amongst Asian governments. Demand from international investors was strong, with the 30-year tranche attracting orders more than seven times its issuance size.

Just last Thursday (November 18), we have completed the successful offering of another US$3 billion worth of green bonds denominated in US dollars and euro. That is the Hong Kong SAR Government's inaugural offering of euro-denominated bonds, with a 20-year tranche being the longest issued by an Asian government to date, allowing us to reach out to a new group of investors while setting an important new benchmark for potential issuers in Hong Kong and in the region.

We will soon follow up with a retail tranche that the public can participate in as well.

And we will continue with our Green and Sustainable Finance Grant Scheme to encourage more issuers to take advantage of this outstanding service platform of Hong Kong.

Green bond issuance aside, we have been promoting green finance in three other directions. First, on the regulatory front, our regulators have introduced regulatory measures on climate risk management and disclosure. We are working towards adopting the Common Ground Taxonomy developed by the Mainland and the European Union, with the aim of providing a unified standard amongst the financial sector.

Second, on green finance infrastructure, we have launched the Centre for Green and Sustainable Finance to support the industry in areas such as capacity building, data collection and analysis. Thirdly, on enriching public awareness on green finance, apart from creating more green business opportunities for the financial sector, we are leading by example by engaging our Exchange Fund in responsible investment and expanding its green portfolio.

Apart from market development, it is equally important that we continue to uphold, and review, our regulatory mechanisms to ensure the smooth functioning of our financial system and the overall financial stability of Hong Kong. And in pursuit of that, I look forward to today's forum discussions, to your insight and inspiration.

Certainly, it has always been a difficult balance to strike between promoting market development and preserving market integrity. And the SFC, in its ongoing review of the regulatory regime for virtual assets service providers, will, no doubt, give that the painstaking consideration it deserves.

For that, and for today's Forum, I'm grateful to the SFC.

Ladies and gentlemen, I know you will enjoy the Forum's panel discussions and the prominent speakers and moderators who, I am sure, will leave us with a lot of food for thought. I wish you all the best of business, health and regulation in the new year.

Thank you.

Panel 1: Perspectives on the Future of Hong Kong as an International Financial Centre

Moderator:

- **Mr Tim Lui, SBS, JP**
  Chairman, SFC

Panellists:

- **Mr Ashley Alder, SBS, JP**
  Chief Executive Officer, SFC

- **Mr Nicolas Aguzin**
  Chief Executive Officer, Hong Kong Exchanges and Clearing Limited (HKEX)

- **Mr Gokul Laroia**
  Co-Head of Global Equities and Co-CEO of Asia Pacific, Morgan Stanley

- **Mr Charles Lin**
  Vice Chairman, CLSA Group

- **Ms Rachel Lord**
  Chair and Head of Asia Pacific, BlackRock

- **Mr Shen Bing**
  Director-General of the Department of International Affairs, China Securities Regulatory Commission (CSRC)

The panel brought regulators and industry leaders together for a discussion of Hong Kong's future role as a financial centre in light of recent market developments, ongoing geopolitical tensions and closer cooperation between Mainland and Hong Kong regulators.

Hong Kong's strategic position

Hong Kong has unique advantages as a bridge for financial flows between the Mainland and the rest of the world and would continue to play a crucial part in the nation's development, began Mr Tim Lui. Looking ahead, there would be more opportunities for the further opening up of the Mainland market, the development of the Greater Bay Area and the expansion of mutual market access schemes.

Stock Connect had been a game changer for global investors and Mainland markets since it was introduced, noted Mr Gokul Laroia. This trend was not reversible and would only grow as Mainland assets became more attractive. Index inclusion meant that not owning these assets was not an option. Hong Kong's advantages—including its stable, predictable regulatory framework, human capital and physical infrastructure—would not be disintermediated in the immediate future, Mr Laroia added. Accessing Mainland markets directly and accessing them through Hong Kong would always coexist.

Mr Shen Bing said that Hong Kong's unique role as a financial gateway to and from the Mainland would only grow stronger in the foreseeable future and the Mainland's enormous demand for capital raising, investment and financial services would preserve and strengthen Hong Kong's unique advantage as a financial centre. Mr Shen explained that under the Mainland's dual circulation strategy, Hong Kong had a special role in facilitating international circulation, including helping Mainland firms to allocate resources globally and helping international capital to allocate investments to Mainland assets. Mr Shen also explained that the purpose of Mainland authorities' recent measures was to promote the orderly, sustainable development of relevant industries and gradually enhance social equality.

Mr Charles Lin noted that so far in 2021, more than US$100 billion in equities and bonds was raised in Hong Kong, more than Singapore and Tokyo combined. Daily trading volume through Stock Connect had climbed and Bond Connect allowed international investors to invest in the Mainland's onshore bond market. Hong Kong's regulatory and legal environment and open economy were attractive to investors, and its deep pool of financial industry talent, low corporate tax rate and top global universities would support it as a global financial centre in the future.

Hong Kong is uniquely positioned in asset management in Asia, said Ms Rachel Lord, who maintains an optimistic view of Hong Kong's future role. The structural drivers which underpin Hong Kong's position include a transparent and predictable regulatory regime, its geographic position facing Asia, and the growth opportunities presented by the opening of the Mainland economy. Ms Lord highlighted that foreign investors' familiarity with Hong Kong and connectivity with the growing Mainland capital markets are likely to prove important.

Ms Lord added that other jurisdictions in Asia also have the potential to be regional asset management hubs. Hong Kong will therefore need to stay at the forefront of trends shaping the asset management industry, such as sustainable investing, for example by building on the SFC's work on the disclosure of climate-related risks by fund managers. Digitalisation and technology to promote better standards and prudent risk management will also be key, in addition to continuing to attract talent.

Mr Ashley Alder said the success of some of the most important regulatory developments in Hong Kong were based on constructing frameworks which limit risk and establish certainty, but also enabled the market to thrive. A good example was the framework for biotech, which originated with a proposal for a third board for a wide range of pre-revenue companies. The SFC suggested focusing on the Main Board and working out what types of pre-revenue companies would be suitable for public listing, and that resulted in the new biotech chapter in the Listing Rules.

Mr Nicolas Aguzin related that more than $200 billion had been raised for biotech companies using this chapter, and about half of that was raised for companies which did not yet have revenue but were creating treatments and medicines for the most serious diseases. This was an example of how HKEX connected capital with great ideas and the financial markets with the real economy.

The Mainland economy would double and potentially triple over the next ten years, Mr Aguzin continued. This was a clear opportunity for capital markets but the right ecosystem and infrastructure needed to be created. The recent introduction of MSCI A50 index futures was an example of how to provide instruments which facilitated market growth. Mr Alder also noted that the success of these futures contracts showed that Hong Kong was growing in importance as a place to manage Mainland risk.

Geopolitical dynamics

Mr Alder remarked that the US government was pursuing policies around decoupling some aspects of capital flow, such as possibly delisting Mainland companies. This was likely to happen, Mr Alder said, but the issues were

manageable. Inbound capital flows would remain important under the dual circulation strategy as the Mainland economy rebalanced, while global investors, including from the US, continued to see Hong Kong as a key channel for access to the Mainland.

Mr Shen said that the delisting of Mainland firms from the US would not be good for the companies, for global investors or for China-US relations. The CSRC was working hard to resolve the auditing issue with its US counterparts and prevent delisting from happening. Mr Shen also said that the CSRC was open to companies' own choice of listing venue, and supported their choice of Hong Kong as a primary listing venue.

Mr Alder concurred that it would be a bad outcome if China and the US could not agree on the question of audit oversight. Moreover, he noted that the views expressed by the private sector, including global investment banks and fund managers who saw Hong Kong and China as a whole as a huge opportunity, were very different from the attitudes of US officials, which were not conducive to a better outcome. Similar issues had been resolved successfully in Hong Kong, Mr Alder noted. For example, the SFC was able to access audit working papers through a tripartite memorandum of understanding between the SFC, CSRC and Ministry of Finance.

Mr Aguzin said that despite US-China tensions, Hong Kong was going through a very strong period with average daily turnover on the Stock Exchange doubling from $87 billion in 2019 to around $170 billion in 2021. Sitting at the intersection between East and West, HKEX's role is to promote connectivity between companies, countries and markets at this critical time, he added. And Hong Kong, with a system that global investors are familiar with, remained well-positioned to welcome companies from across the region. In particular, homecoming IPOs attracted about $300 billion from international and regional investors supporting Mainland companies in Hong Kong as well as in the US, and more companies were using the dual primary listing regime to list here.

Many companies were reconsidering where to list and homecoming would be relatively positive for Hong Kong, said Mr Lin, but there were other challenges for market participants. For example, as a result of the sanctions imposed by the US, investment banks advising Mainland companies which operate globally needed to beef up controls in terms of client onboarding and due diligence. Mainland firms remained very interested in the US market, but would be more cautious about expanding there.

Mr Laroia commented that geopolitics, along with regulatory changes, would generate more interest in owning a broader cross-section of diverse equity, which the Mainland markets offered, and globally investors expressed a preference for access to these markets through Hong Kong.

Regulatory cooperation

Ms Lord said that global investors struggle with the complexity of the different channels for investing in the Mainland, each of which had its own requirements. Hong Kong can help by advocating for harmonising the rules across different channels to make them easier for investors to understand.

Ms Lord added that Hong Kong can play a pivotal, unique role by serving as a bridge of communication between China and global investors. Long-distance observers do not always understand China's positions. Hong Kong, with its proximity to the Mainland and its pool of talent who have a good understanding of the China market, can facilitate the monitoring of developments on the Mainland and provide insightful analysis and research for global investors.

As the Mainland opens up, financial institutions are able to establish a wholly or majority-owned presence onshore, but data controls add complexity. Here, Hong Kong can act as a risk management centre, providing oversight and a centre of excellence in specific business operational areas to support the onshore business eg, threshold reporting, data integrity checks and investment platform support. However, it is important to note that much of the regulatory reporting would require cross-border data transfers.

Complexity was a challenge, Mr Laroia agreed. However, the relationship between the Mainland and Hong Kong capital markets was highly symbiotic because Hong Kong provided access to the global institutional capital the Mainland needed. Stock Connect had been so successful because it provided a fairly straightforward, easy-to-access mechanism to achieve this. There was an opportunity for Hong Kong to provide alternatives which were easy for the industry to understand and accept, he added.

Mr Shen said the extensive, effective cooperation between the Mainland and Hong Kong, particularly between the regulators, had not only helped the Mainland's equity market grow into the world's second largest, but also helped make regulation in the domestic market more transparent and predictable. This cooperation would be strengthened in the future and it was very important for the two sides to work closer together to mitigate the geopolitical and other risks they faced. Together with Hong Kong's stronger role as a financial gateway, this was the best example of the benefits of One Country, Two Systems, he said.

Mr Alder described the SFC's frequent interaction with the CSRC, highlighting the degree to which they understood one another's point of view and worked hard to ensure that market access structures were based on cross-border regulatory understandings to manage cross-border risk. Hong Kong's unique position vis-à-vis global capital and the Mainland allowed it to construct the regulatory underpinnings for all of the global and Mainland financial activity in its markets, and this could not be replicated elsewhere.

Mr Lui noted the panellists' comments that Hong Kong's sound fundamentals and robust regulatory framework helped shore up investor confidence and he stressed the importance for Hong Kong of staying ahead of the changes reshaping capital markets around the world.

Panel 2: Hong Kong's position as an international asset and wealth management centre

Moderator:

- **Ms Christina Choi**
  Executive Director of Investment Products, SFC

Panellists:

- **Ms Doris Lian**
  Chairperson, Chinese Asset Management Association of Hong Kong (HKCAMA) and Acting Chief Executive Officer, Bosera Asset Management (International) Co., Ltd

- **Mr Ming Lu**
  Partner and Head of KKR Asia Pacific

- **Mr Dan Watkins**
  Chief Executive Officer, Asia Pacific, J.P. Morgan Asset Management

- **Mr Ivan Wong**
  Managing Director, Co-Head, North Asia at HSBC Global Private Banking

The panel discussed the priorities, challenges and opportunities for the asset and wealth management industry in Hong Kong in light of various mutual market access schemes with mainland China and emerging industry trends including environmental, social and governance (ESG), new fund structures and digitalisation.

Top priorities for the industry

Ms Christina Choi set the scene by providing an overview of the state of Hong Kong's asset and wealth management industry, which had enjoyed robust growth in terms of net inflows and assets under management (AUM) amidst unprecedented challenges, including the COVID-19 pandemic, geopolitical tensions and the recent structural and policy reforms in mainland China.

Asked to identify the top issues which would affect their business, all four panellists considered that connectivity with mainland China was a top priority. China was the number one strategic growth plan for Mr Dan Watkins' company, and he saw Hong Kong as a gateway to the opportunities brought about by Wealth Management Connect, Mutual Recognition of Funds and other cross-border schemes. Ms Doris Lian said that Hong Kong's position as a cross-border investment centre had been consolidated by these schemes and she expected wealth management demand in the Greater Bay Area (GBA) to fuel Hong Kong's asset management industry.

Mr Ivan Wong added that Hong Kong, as part of China, had also been open and well-connected to international markets, making it well-positioned to add value by assisting the newly-created wealth in China to invest globally while helping global investors tap the investment opportunities in the world's second-largest economy.

Mr Ming Lu remarked that Hong Kong's proximity to the Mainland was a natural advantage, but as the industry witnessed digitalisation bridging distances, it was crucial for Hong Kong to promote connectivity amongst businesses and people and enhance coordination amongst regulators, which remained key differentiating factors. Hong Kong had excelled in implementing various market access schemes and promoting the development of physical infrastructure to better connect with the Mainland. Hong Kong could build on this position of strength to encourage innovation while also providing a sound and dependable market for the financial services industry to conduct business.

Others agreed that digitalisation was a core priority, as it reshaped asset managers' money management, client engagement and business operations, said Mr Watkins. It also changed the distribution landscape as new digital entrants entered the market. Mr Wong attributed the digitalisation trend to the pandemic and the growing number of clients who were more tech-savvy and expected greater convenience, flexibility, simplicity and personalisation. Mr Lu advised that the industry monitor, learn and in many cases adopt new innovations to address fintech disruptions, which span cyber, consumer data, blockchain and tokenisation, amongst others, each of which may play a role in fundraising and in product and asset distribution in the future.

ESG was an important area and Mr Watkins believed sustainable investing would have a fundamental strategic impact and change every aspect of the asset management industry. Ms Lian noted that ESG had become the new normal in investing. She observed that institutional investors were raising the bar for ESG while asset owners and fund managers had begun to divert resources and capital towards sustainable income.

In response to an audience question about ESG challenges and opportunities, Mr Lu said that ESG considerations presented both long-term investment and value-creation strategies for his company as well as a key risk-mitigation tool. He noted that, in practice, considerable efforts were needed to collect data, track performance, measure outcomes and report results. It was clear that asset allocation trends and capital flows were gravitating towards opportunities where ESG considerations were thoughtfully managed. For the private wealth management business, ESG had also become a core, indispensable theme, said Mr Wong. He added that China's pledge to become carbon neutral by 2060 would trigger a tremendous transformation across many industries.

Talent was also a key priority and in a people business like asset and wealth management, Mr Wong viewed talent development as one of the most critical factors for Hong Kong to remain a major financial centre and wealth management hub. Mr Lu agreed, adding that the industry was undergoing a transformative sea change, and Hong Kong should consider appealing to broader categories of professionals, including those with digital and data scientist backgrounds and cybersecurity and blockchain expertise, to ensure that appropriate human capital infrastructure was in place to support the industry in the future.

Ms Lian acknowledged that renminbi internationalisation was a long-term goal of the Chinese Government. She expected a boost in the demand for renminbi-denominated products in Hong Kong.

Mainland connectivity and access

Asked about Hong Kong as a platform to leverage Mainland opportunities, Ms Lian highlighted Hong Kong's sound, stable policy environment and its professional talent. However, the local mutual fund industry was somewhat underdeveloped as a relatively large proportion of funds were from overseas. There was room to enhance the value chain, she said.

Ms Lian further commented that Hong Kong might find it difficult to meet Mainland investors' requirements at present, while Mainland asset managers would thrive under Wealth Management Connect as they were more well-known and had a better understanding of Mainland investors' investment habits and demands. She would expect Hong Kong to continue to improve distribution infrastructure, reinforce industry standards and maintain a healthy competitive environment.

Ms Choi remarked that Hong Kong might not be as advanced in connecting digitally with Mainland investors as the industry traditionally focused on providing personal services. The Mainland's investor base, culture and their expectations and the way they invest were also very different.

Mr Wong viewed Wealth Management Connect as a very important step towards further economic integration amongst the GBA cities and added that it represented a growth engine for Hong Kong's financial services industry. He was optimistic that subsequent phases of the scheme would relax the aggregate and personal quotas and provide greater flexibility for product offerings. He also believed there would be greater harmonisation of the selling process and regulations across the GBA.

Hong Kong's role and opportunities

The panel next turned to the role of Hong Kong in the lifecycle of panellists' investments and businesses. Mr Lu remarked that Hong Kong was well positioned to support private market transactions from start to end—beginning with due diligence to financing, operational support and exit—considering its full suite of financial market capabilities and professional services. Firms were able to fully leverage Hong Kong's stable and mature regulatory environment to develop bespoke financing, capital structuring and other capital market solutions.

Ms Lian commented that the Government-led fund structures and tax initiatives would contribute to the industry's development. In particular, the open-ended fund companies (OFC) structure gave funds managers a new choice and involved only a single jurisdiction, offering advantages over overseas structures in terms of compliance. OFCs came with lower operational costs and could also benefit from Hong Kong's profit tax exemptions in most transactions.

On the new limited partnership fund (LPF) structure, Mr Lu noted that taxation was a key consideration, particularly with regard to the dual taxation of some beneficiaries. While Hong Kong had a favourable and simplified tax regime, it could enhance its positioning by entering into more bilateral tax treaties with more jurisdictions. A secondary consideration was operational costs and professional services networks, which Hong Kong managed well.

Moving on to family offices, Mr Wong stated that a lot of good work had been done to attract more of these offices to establish their presence in Hong Kong. LPFs were especially welcomed by prospective family offices because they could use this private fund structure to hold their investments here, he said.

Lastly, Ms Choi asked what advice the panel would give to asset managers who were looking to have a presence on the Mainland. Mr Watkins responded that they needed to have a clear long-term strategy, stay focused and avoid being taken off-course by short-term distractions. After years of operating in the global market, there were aspects they would have to unlearn and then relearn for the Mainland asset management market. Asset managers had a huge role to play in supporting the development of China's financial market, he concluded.

Panel 3: Deepening market connect schemes

Moderator:

- **Ms Julia Leung, SBS, JP**
  Deputy Chief Executive Officer and Executive Director of Intermediaries, SFC

Panellists:

- **Mr Filippo Gori**
  Chief Executive Officer, Asia Pacific, J.P. Morgan

- **Dr Huang Haizhou**
  Managing Director and Member of Management Committee, China International Capital Corporation Limited

- **Mr Rico Leung**
  Executive Director of Supervision of Markets, SFC

- **Ms Angel Ng**
  Chief Executive Officer, Citi Hong Kong and Macau

The panel examined the role of market connect schemes in bridging capital between the Mainland and other parts of the world as well as Hong Kong's development as a risk management hub. Speakers also discussed the industry's strategies and outlook as the Mainland's financial markets continued to open up.

Ms Julia Leung set the scene by providing an overview of the market reception to the Mainland-Hong Kong mutual market access schemes. Stock and Bond Connect, along with the newest Wealth Management Connect, were the first of their kind to connect the Mainland capital market to the rest of the world. Since Stock Connect was introduced in 2014, the accumulated A-share net buy through the programme surpassed RMB1.5 trillion and northbound net buy of bonds recorded a similar amount. Southbound stock trading by mainland investors surged 300% since 2019 and it regularly accounted for about 13% of the Hong Kong market's daily turnover. These trends showed increasing coupling in terms of more international capital going to the Mainland and more Mainland investors investing overseas.

Hong Kong's advantages

Ms Leung pointed out that for more than 20 years, global investment banks were allowed up to 33% ownership of securities firms on the Mainland, but this rule had been changed and authorities speeded up the Mainland's opening by approving wholly foreign-owned securities and asset management firms, prompting big investment plans. She invited the panel to talk about their high-level China strategies and what they mean for Hong Kong as an international financial centre.

Mr Filippo Gori emphasised that the relationship between the Mainland and Hong Kong markets is symbiotic, and there is an opportunity to grow in both at the same time. There is clearly strong demand on the Mainland for financial services, including securities and asset management, and firms have an opportunity to grow in both markets at the same time. He added that J.P. Morgan had set up wholly-owned Mainland entities and had received approval for full ownership of a securities venture and a futures venture onshore. Hong Kong would remain its headquarters from a holistic perspective for its businesses in Asia Pacific. As an international financial centre, Hong Kong provided a unique ecosystem offering legal certainty, experienced professionals, products accessible by Mainland investors and, most importantly, a solid regulatory framework.

Ms Angel Ng pointed out that as a world-class hub, Hong Kong would continue to be the gateway to the Mainland, not only to help channel foreign investments but also to allow Mainland corporations to expand globally through Hong Kong. Rather than have one strategy for the Mainland and another for Hong Kong, her firm adopted a Greater China strategy which considered Hong Kong's unique position, although it was implemented differently in the two places. Hong Kong remained important where both the wealth management and institutional businesses generated good returns and her firm was doubling down in its investments in the market. Hong Kong's mature infrastructure and regulatory system were key to protecting investors' interests, she added.

Dr Huang Haizhou said that Hong Kong played a major part in bridging international and Mainland capital flows through Stock Connect and other mutual access schemes. The Mainland capital market still had a lot of room to grow, providing potential for investment banking and other services to develop. He added that China's success was built on the opening up of its financial markets, which would create new opportunities for Hong Kong, and supporting Hong Kong as an international financial centre was vitally important for his firm's business.

Emerging opportunities

Ms Leung noted the panellists' comments that Hong Kong offers the right environment and regulatory system to support business, but added that it could not be complacent. Most recently, the instant success of the MSCI A50 Index Futures launched in Hong Kong helped solidify its position as a risk management centre to hedge foreign institutional investors' exposures to Chinese assets.

Mr Rico Leung highlighted that the growth of northbound trading under Stock Connect (representing 62% of Hong Kong stock market turnover during January to October 2021) provided a lot of potential for the development of the Hong Kong financial market. He commented that the positive market response to the MSCI A50 index futures demonstrated the strong demand from global investors for hedging tools. Hong Kong was well-placed to act as a risk management centre for the Mainland market, providing synergy for market

participants as it played a unique role as an international financial centre connecting the Mainland market with international investors.

Another initiative now underway was the promotion of renminbi counters, Mr Leung continued. There were currently no regulatory barriers to raising funds in renminbi or setting up a renminbi counter for secondary market trading, but market interest remained low. It would be worthwhile to consider initiatives which help develop an active renminbi counter market to strengthen Hong Kong as a leading offshore renminbi centre and facilitate renminbi internationalisation.

Dr Huang shared the view that Hong Kong had key advantages in developing its renminbi businesses, given its sizable liquidity pool and the flexibility allowed for financial institutions to develop hedging instruments.

Asked whether Hong Kong's super-connector role was sustainable as China continued to allow direct foreign participation, Mr Gori considered that direct access was feasible but remained complicated. Amongst the available options to access the onshore capital markets, firms showed a clear preference for trading through the Connect schemes as they were the easiest to understand and execute. He noted that multinational companies had an edge in offering services to support cross-border flows, especially for investments coming into the Mainland via Hong Kong. Amongst retail businesses, expanding onshore asset management was a recent focus.

In Ms Ng's view, Wealth Management Connect served an added purpose compared with other cross-border trading programmes. It helped Mainland investors diversify asset allocation away from the present over-concentration on properties and stocks. When trading through Hong Kong, investors enjoyed a wide choice of products, professional advisory services and a high degree of confidence provided by thorough product due diligence. She also noted that investor education for the newly launched Wealth Management Connect was a priority for financial institutions.

Potential risks

Turning to the other side of business operations, Ms Leung pointed out that opportunities came along with risks, particularly with the COVID-induced extreme market volatility and operational risks in the past few years, as well as geopolitical risks, sanctions, regulatory risks and the risks of losing staff. She asked the panel about the major risks to expect in the coming year.

While some saw policy changes as a risk which needed to be mitigated, Dr Huang countered that government intervention was necessary to tackle monopolies and address issues involving privacy and data protection. The key was to alert market participants ahead of time about potential changes. Ensuring the availability of hedging tools was also important, he noted. He added that concerns about the Mainland's slowing economic growth and US inflation were both diminishing.

Ms Ng recognised that the essence of risk control was a people-first operating principle focused on the interests of staff and clients and maintaining transparent communication with them. She considered it important to maintain effective stakeholder management and stay apolitical as a business.

In addition to the uncertainties around the pandemic and social stability, Mr Gori viewed market fragmentation as a potential risk in the coming years. If markets became more fragmented due to lockout rules and regulations, it would be difficult for any place to operate as a hub. He also mentioned data localisation, talent retention and inflation as emerging risks to monitor.

Mr Leung acknowledged that geopolitics was a key risk area, which would require increasing preparations to tackle. He urged financial institutions to properly assess their own business risks and prepare for different scenarios, and wrapped up by reiterating the importance of developing a comprehensive contingency plan.

Panel 4: Fostering a high-quality listing market in Hong Kong

Moderator:

- **Ms Megan Tang**
  Senior Director of Corporate Finance, SFC

Panellists:

- **Ms Bonnie Y Chan**
  Head of Listing, Hong Kong Exchanges and Clearing Limited (HKEX)

- **Ms Ding Chen, MH**
  Chief Executive Officer, CSOP Asset Management Limited; Permanent Honorary Chairperson of HKCAMA and Director of Financial Services Development Council and Mainland Opportunities Committee Convenor

- **Ms Catherine Leung**
  Chairperson, Chamber of Hong Kong Listed Companies and Co-Founder and Partner, MizMaa Ventures Ltd

- **Mr David Wong**
  Senior Investment Strategist, Head – Asia Business Development, Equities, Co-Chair – Responsible Investing Steering Committee, Asia-Pacific, AllianceBernstein Hong Kong Limited

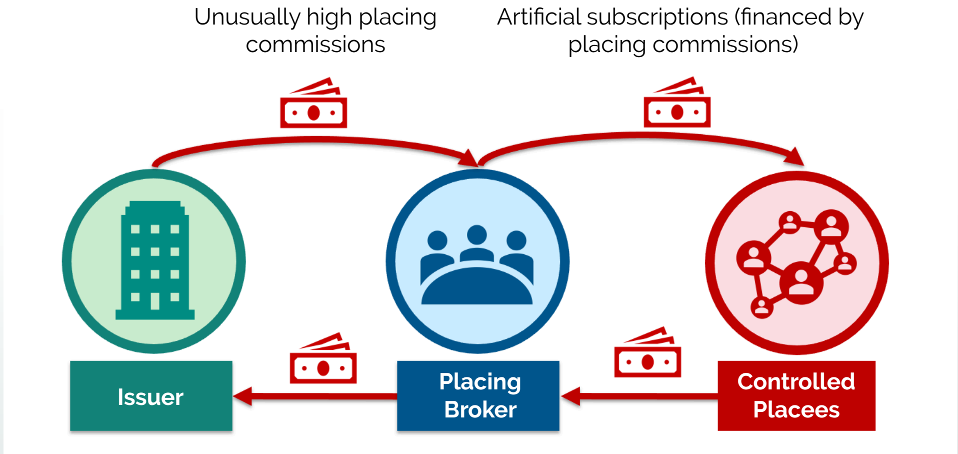
Panellists discussed how Hong Kong's listed market had changed in recent years and what could be done to enhance the listing regime. They also examined the essential attributes of a quality fund-raising platform.

Evolving market trends

When the SFC held its last forum in 2018, it dealt with conduct issues and problems such as backdoor listings, shell manufacturing, suspect valuations, extreme price swings on GEM and fake subscriptions which exaggerate investor interest, Ms Megan Tang said in her opening remarks. Working with the Stock Exchange, the SFC had introduced policy measures to combat these issues, including revising the GEM rules and imposing restrictions on highly dilutive capital raising.

Following the success of these measures, perpetrators changed their strategies and red flags appeared in new areas, she explained. For example, unusually high underwriting commissions were paid to fund artificial subscriptions to help meet the minimum listing requirements.

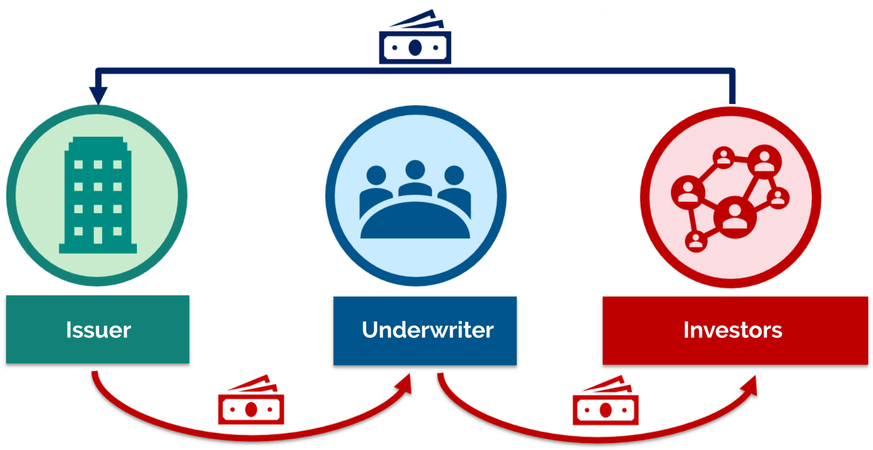
Artificial IPO Subscriptions



IPO subscription monies to the issuer

Inflated IPO Price – Rebates to Investors

Subscribing for shares at the stated offer price, eg, $0.25 per share



Unusually high commissions

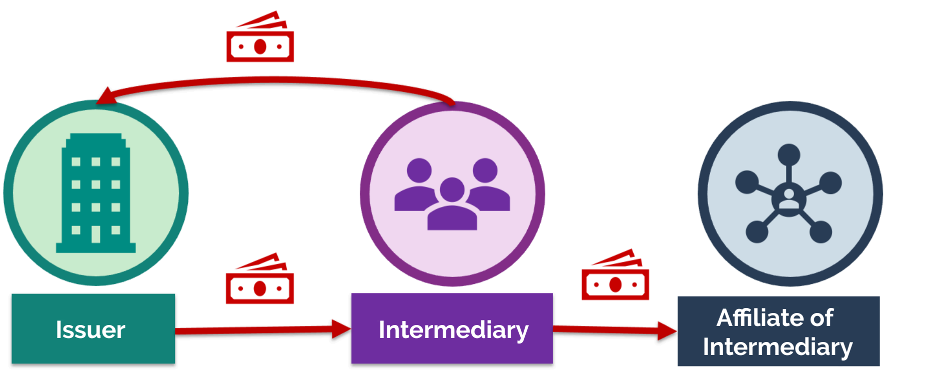
Rebates to investors (eg, $0.10 per share), ie, actual share price paid only $0.15

In other cases, some of the underwriting commissions were paid to the IPO subscribers, in effect giving them rebates on the IPO offer price. These arrangements distorted the price discovery process and artificially inflated the offer price, Ms Tang said.

Ms Tang described another new strategy which involved the use of newly-raised IPO proceeds to make short-term investments in questionable assets as a means for the listed company to redirect funds to schemes which distort the price discovery and placing process.

"Investments" using IPO Proceeds

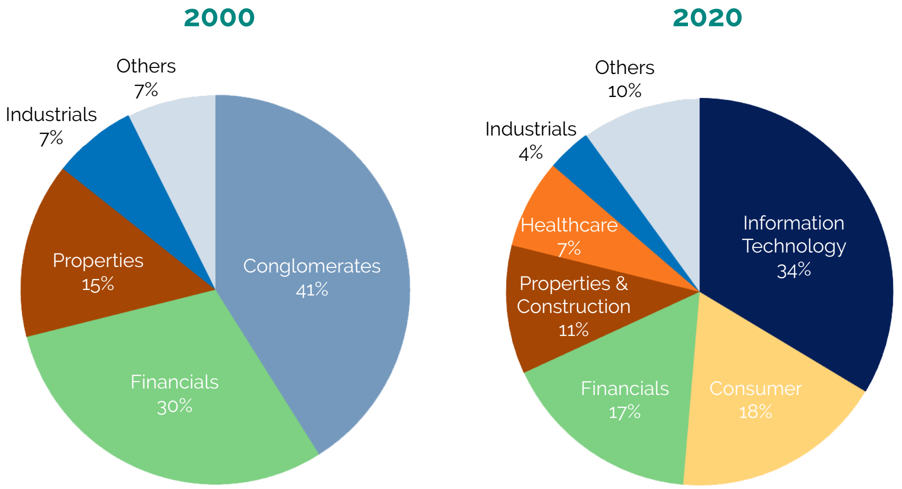
IPO subscription monies from placees



Investment of comparable amount in financial products issued by the intermediary's affiliate

Market Transformation over 20 Years

Market capitalisation by industry sectors



Source: HKEX and SFC analysis

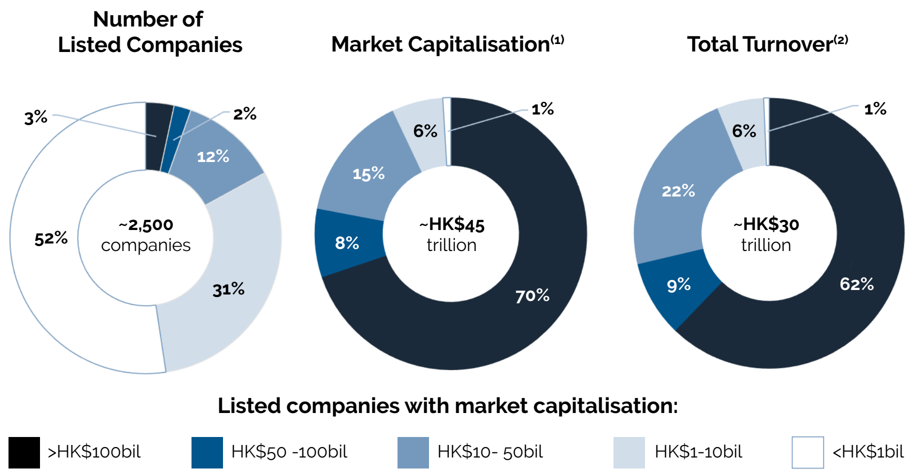
Cross-border enforcement posed a greater challenge to the Hong Kong market because most listed companies were located offshore. Therefore, a greater onus was placed on the front end of the regulatory process, from vetting and rule-making to other interventions to protect the market and investors.

Meanwhile, Ms Tang continued, the wrongdoers who were looking to abuse the market and take advantage of investors were well-resourced and constantly updated their strategies. Protecting Hong Kong's reputation as an international financial centre was essential to be able to pursue new market opportunities and expand the listing platform.

While the financial sector and conglomerates had produced Hong Kong's largest listed companies in the last 20 years, there had been a shift to the information technology and consumer sectors, as was evident in other markets.

Ms Tang noted that more than half of the listed companies in Hong Kong had a market capitalisation of $1 billion or less, but these accounted for only 1% of market turnover. However, companies with a market capitalisation of more than $100 billion contributed 60% of market turnover, even though they made up only 3% of all listed companies. In the last five years, more than 75% of the SFC's regulatory actions against corporates were related to the smaller companies, she said.

Market Composition by Size of Companies



(1) Market capitalisation as of 29 Oct 2021
(2) Total turnover during Jan – Oct 2021
Source: HKEX and Bloomberg

New directions

Ms Catherine Leung noted that there was a lot of capital in the system but finding good investments was difficult. The time may be ripe for Hong Kong to have a Nasdaq equivalent to help home-grown technology companies drive future economic growth, not only for Hong Kong but also for the Mainland. Public equity increasingly looked to invest in high-quality startups at an early stage and, despite the risks, institutional investors were keen to invest early for potentially higher returns.

Mr David Wong agreed that there was a need to create a framework to allow the earlier listing of companies which were investing for growth and may be unable to meet the profit test[1]. Global asset managers would also like to see greater capital alignment, such as more Mainland capital in the Hong Kong market through continued southbound flows through Stock Connect. Improving governance standards would help Hong Kong maintain its attractiveness for international capital.

Ms Ding Chen pointed out that institutional investors invested RMB1.5 trillion into the Mainland through Stock Connect in the seven years since it was launched. Much of this went into holdings that can also be traded in Hong Kong, suggesting that investors pay a premium for liquidity. Although liquidity in Hong Kong had increased over the past 10 years, there was still room to improve.

When deciding whether to list in Hong Kong, Ms Ding continued, companies mainly look for a desirable valuation and consider the time to gain listing approval. More could be done to broadcast Hong Hong's advantages, attract more investors and invite more market makers—who accounted for 30% of A-share trading in China and played a key role in the US. Apart from promoting H-shares, which provide long-term dividend yields, Hong Kong should review the RMB500,000 threshold for individual investors from mainland China under Stock Connect, Ms Ding added. Also, settlement could also be made more efficient, such as by reducing the number of central counterparties. In response, Ms Bonnie Y. Chan said that the Stock Exchange was shortening the settlement cycle with project FINI[2].

1 Companies had to make an aggregate profit of $50 million for three years to pass the profit test, which was increased to $80 million from 1 January 2022.
2 Fast Interface for New Issuance.

Ms Chan also stressed that the cornerstone for making Hong Kong a quality listing market is upholding market integrity. To capture the opportunities, the key is to match people who have capital with people who need it, in an orderly manner. The rules and regulatory regime need to be fit for purpose and keep up with changes in the investor and issuer profiles over time. Otherwise, there may be a lack of attractive investment opportunities. The listing of development-stage mining companies in 2009 and the introduction of the regime for pre-revenue biotech companies in 2018 had been breakthroughs, and the next step was to consider artificial intelligence, autonomous driving and other innovative companies.

Ms Leung said that when thinking about introducing another platform for new types of companies to obtain financing, a main consideration should be whether quality institutional investors want to participate in it. The platform should be more focused on institutional investors in the beginning and opened to retail investors later, Ms Leung said.

Mr Wong said that the participation of retail investors should be encouraged as their participation in the market would add to liquidity. Newer companies can often offer significant opportunities for returns, and anyone who invests in equities understands that they are taking on some amount of risk, he added.

Ms Chan echoed his comment that the profile of retail investors had changed significantly over the last few years and they now understood the risks better thanks to the ready availability of information and discussions on social media.

Mr Wong added that the SFC has provided an excellent regulatory and supervisory environment which has allowed Hong Kong to remain the foremost institutional market for investors in Asia. There was also a need to keep improving governance standards in Hong Kong so that it remained attractive for international capital, he said, noting that Hong Kong's strong GDP growth provided tailwinds for higher profits and revenues, but earnings per share growth had not matched the US market over a 25-year period.

Hong Kong was a unique market in many ways, Ms Chan concluded, and it should not just copy other jurisdiction's regulatory regimes. In fact, Hong Kong had a successful track record creating its own version of the rules based on what is best for the market here.

Panel 5: How law enforcement agencies are responding to shifts in the financial landscape

Moderator:

- **Mr William Hallatt**
  Partner, Co-Chair of Global Financial Regulatory Group, Gibson Dunn

Panellists:

- **Mr Thomas Atkinson**
  Executive Director of Enforcement, SFC

- **Mr Marek Grabowski**
  Chief Executive Officer, Executive Director, Financial Reporting Council

- **Mr Sean Lam**
  Senior Managing Director, FTI Consulting

- **Mr Jon Witts**
  Head of Enforcement, Listing Division, Hong Kong Exchanges and Clearing Limited (HKEX)

- **Mr Wong Chi-kwong**
  Chief Superintendent of Police (Commercial Crime Bureau), Hong Kong Police Force

Corporate fraud and individual accountability were the key issues in the final panel's discussion of how regulators and law enforcement agencies were adapting to changes in the financial services industry. The rapid transformation of the global information economy gave rise to new types of misconduct and made criminal investigations more complex, posing challenges for enforcement work.

Corporate fraud

Mr William Hallatt noted that a trend in Hong Kong over the past few years was the rise of networks where culprits worked together to extract value from minority shareholders using organised schemes such as highly dilutive fundraisings. More recently, fictitious loan schemes were being used to syphon off the cash reserves of listed companies, effectively leaving minority shareholders with an empty shell with no real value.

Mr Jon Witts agreed that corporate fraud was a concern in the Hong Kong securities market, adding that the answer to combat these activities was prevention rather than cure. The Listing Rules are intended to ensure that appropriate protection and safeguards are in place. These include requirements on issuers to disclose accurate information on a timely basis, and on directors to apply appropriate oversight. Good corporate governance is critical, and directors, whether executive or non-executive, need to ensure that a robust and effective control and risk management framework is implemented and they pay sufficient attention to the company's affairs.

Financial investigations and corporate fraud were key priorities for the Hong Kong Police Force, Mr Wong Chi-kwong stressed. However, in many cases targets were not based in Hong Kong and accounting records were located elsewhere. The free flow of money across boundaries and the volume of digital evidence also posed challenges. The Police adopted technology to address these issues, setting up a dedicated unit to deal with digital evidence and creating an automated analytical tool to deal with the voluminous data acquired in its daily operations.

Mr Thomas Atkinson emphasised that the SFC had made it clear to the market that it is looking at conduct issues from a much broader perspective with its other regulatory partners. The SFC conducted over 300 searches of premises and personal residences since 2017, gathering a huge volume of data. Significant assets related to "ramp and dump" schemes had been frozen. He also explained that the market intelligence programme developed by the SFC to digitise and integrate its internal data with external data has allowed it to

visualise relationships and draw connections between people and events in a way which could not be done efficiently using manual processes. This made investigations more efficient and effective.

Speaking as a forensic investigator in private practice, Mr Sean Lam noted that the private sector could help the enforcement agencies by contributing different skill sets and providing a commercial perspective on transactions. The private sector could also analyse a huge volume of data and provide potential solutions in the form of investigative technologies and tools.

Mr Marek Grabowski noted that misconduct by auditors varied enormously from minor breaches to significant ones which called into question the validity or reliability of the auditors' report. In rarer cases, auditors might even collude with perpetrators to cover up or even take part in fraud.

Individual accountability

Individual accountability had become a particular regulatory concern since the global financial crisis, Mr Hallatt observed. Securities-related crime and misconduct had been perpetrated with a degree of facilitation by licensed intermediaries and professional advisors, and that was why auditors had come into focus. The SFC was a leader in that Hong Kong was one of the first major markets globally to introduce a comprehensive regime for senior management accountability, the Manager-In-Charge (MIC) regime, he added.

When asked whether fines alone could be sufficient to change culture and behaviour, Mr Atkinson remarked that, for example, in initial public offering sponsor cases, the SFC suspended firms from operating in addition to imposing fines, and the licences of key individuals were suspended in over one-third of these cases. Positive changes had been seen at the senior levels of large firms under the new sponsor regime, he added, and although the MIC regime was not an enforcement tool, it had helped firms better understand their internal controls and accountability frameworks. Criminal deterrence might be most effective, but it was also the hardest to achieve and took the longest time, Mr Atkinson said.

To drive meaningful changes in behaviour, Mr Witts said, HKEX's focus was on the people who decide what companies do and these are the directors and senior management. From January to late November 2021, HKEX announced more than 30 sanctions involving 20 companies and over 160 individuals.

Mr Grabowski commented that the responsibilities of firms, auditors and individuals should be balanced, and a number of individuals have been held accountable as a result of the Financial Reporting Council's (FRC) investigations. In different cases, these individuals were responsible for the quality control system within an audit firm or were assigned by the firm to carry out a quality review of the audit work before the audit report was issued. Whistleblowers helped the FRC get good intelligence about improper behaviour, though it could be difficult to get at the level of individual responsibility.

In response to a question about auditors' responsibility for financial reporting fraud, Mr Grabowski noted that there was a gap between what auditors thought their responsibilities were and what the public expected of them. This issue was being looked at again by international standards setters, and more clarity might help narrow this expectation gap. In the short term, auditors needed to focus on their responsibilities under current auditing standards and have proper controls in place to ensure that evidence collected from third parties is reliable.

It was difficult for the Police to identify persons who were culpable in large organisations, added Mr Wong. Information sharing and joint efforts amongst enforcement agencies and regulators were therefore crucial. For instance, the Police set up a Fraud and Money Laundering Intelligence Taskforce to work jointly with the banking sector. It obtained new information and specific intelligence which was useful for investigations, in particular in complex fraud cases.

Mr Wong added that whistle blowers could sometimes provide admissible evidence regarding specific individuals and give pointers for the Police to take investigations further. Nonetheless, Police investigators would still need to diligently examine other sources of information such as the minutes of board meetings and records of interviews with auditors.

Mr Lam observed that fraudulent activities were becoming more complex, particularly in cases involving networks of companies. More public domain data was being collected which could be analysed using technology and artificial intelligence to identify trends and relationships.

In the coming year, Mr Witts expected that HKEX's enforcement would remain very active and there would likely be more cases involving newly-listed companies. Mr Lam concurred, saying that enforcement cases would increase, particularly financial reporting fraud. Mr Grabowski noted that the number of complaints received by the FRC which turned into enforcement cases had more than doubled since early 2021, and this trend was continuing.

Mr Atkinson said that the three key priorities for the SFC were ramp and dump schemes, which caused an increasing number of retail investors to suffer significant financial losses; corporate loan cases, where directors gave fictitious loans which were later written off; and intermediaries which facilitated misconduct such as securities fraud and money laundering by turning a blind eye or through internal control failures.

Closer regulatory collaboration

From an enforcement perspective, the biggest change since the 2018 SFC Regulatory Forum was the much closer collaboration amongst Hong Kong law enforcement agencies in combating market misconduct, Mr Atkinson said. The SFC's regulatory partners have tools which it does not have, making joint operations particularly useful. Outside Hong Kong, the SFC met regularly with its most important regulatory partner, the China Securities Regulatory Commission, to enhance cooperation in tackling cross-boundary fraud and misconduct.

Mr Wong also emphasised that joint efforts amongst financial regulators and enforcement agencies were crucial. They all had to pull in resources and expertise to help each other because no single agency can handle highly complex enforcement cases.

Mr Grabowski noted that the FRC collaborated with other enforcement agencies and regulators to take rapid action to obtain evidence in suspected cases and recently conducted its first search operation with the Independent Commission Against Corruption.

Publisher Securities and Futures Commission

Office 54/F, One Island East
18 Westlands Road, Quarry Bay
Hong Kong
Telephone : (852) 2231 1222
Facsimile : (852) 2521 7836
Website : www.sfc.hk