

Advancing Hong Kong's position as an international financial centre Bloomberg Policy Series with SFC CEO

**Ms Julia Leung
Chief Executive Officer**

27 April 2023

In a one-on-one discussion hosted by Bloomberg on 27 April 2023, Chief Executive Officer (CEO) Ms Julia Leung related the Securities and Futures Commission's (SFC) key regulatory priorities and ongoing initiatives to maintain resilient and orderly markets, promote investor protection, foster responsible innovation and, more importantly, enhance Hong Kong's competitiveness as an international financial centre (IFC) and a gateway to Mainland China.

Fostering resilience and market integrity

Four months into her new role as CEO, Ms Leung outlined the SFC's priorities at a time when Hong Kong is progressing along a path to normalcy.

First, she said it is in the DNA of the SFC as a financial regulator to maintain resilient and orderly capital markets in Hong Kong; both our financial infrastructure and participating intermediaries have shown resilience throughout a period of unprecedented challenges. The SFC remains vigilant in market surveillance and the monitoring of licensed corporations to ensure they have sufficient capital and liquidity buffers as well as sound risk management, she emphasised. One recent initiative is the Investor Identification Regime implemented in March 2023, which allows the SFC to monitor investor behaviour and adds to its toolkit to monitor concentration of positions. The SFC also looks very closely into the risk management measures of intermediaries and stress-tests them from time to time, and continues to do so. She pointed out the regulator will soon conclude its risk management measures for futures contracts and continue to enhance risk management.

Another priority is to keep up the quality and integrity of Hong Kong's financial markets. Ms Leung stressed that investor protection is the SFC's core mandate. This requires the effective and targeted use of regulatory tools in order to mitigate the risk of market misconduct. The SFC adopts a steadfast "zero tolerance" approach to combatting crime and market misconduct in the securities and futures markets, Ms Leung continued. The SFC has recently issued restriction notices on 10 brokers to freeze accounts which are linked to social media ramp and dump schemes. The regulator takes firm and prompt enforcement action, against market manipulation activities, social media ramp and dump schemes, abusive behaviour in listings, intermediary misconduct and virtual-asset-related misconduct. The amended Anti-Money Laundering Ordinance (AMLO) will give the SFC new power to combat these scams.

Enhancing Hong Kong's competitiveness as an IFC

Describing what the regulator has been doing to help make Hong Kong successful, Ms Leung pointed out that the SFC's priorities are both pertinent and critical to promoting high-quality markets. These in turn strengthen Hong Kong's position as an IFC and an essential gateway to Mainland China. On top of this, more effort could be taken to make Hong Kong

more attractive, more competitive, and more sticky for international and Mainland capital, and to create more business opportunities for the industry, particularly in relation to the Mainland's opening-up, she reflected.

A key thrust of the SFC's strategy is to expand and enhance the many mutual market access schemes by providing diverse products, services and currencies, Ms Leung said. The expansion of Stock Connect, further relaxation of the Mutual Recognition of Funds scheme and the move towards the next phase of Wealth Management Connect are now on the SFC's agenda. She observed from her recent trips to Beijing that the SFC's Mainland counterparts were keen to see more cross-border flows from international markets to the Mainland and they are highly supportive of Hong Kong's role as an international financial centre, hoping to "couple more". She expects Hong Kong's role in connecting China and the rest of the world to be expanded.

Besides greater connectivity with the Mainland, Ms Leung noted that the SFC has moved with the times, adapted its regulation and introduced new initiatives to maintain effective regulation as well as to address emerging challenges to anchor Hong Kong's continued success in its capital markets.

In face of geopolitical tensions, it is crucial for Hong Kong to diversify the sources of listings and the sources of capital that come to Hong Kong (eg, Middle East, Southeast Asia), she added. To enhance Hong Kong's position, the way the SFC regulates will not change and remain principle-based, predictable and rooted in the Securities and Futures Ordinance. Meanwhile, Ms Leung emphasised the SFC must also move with the times and identify new growth areas to tap into. The listing regime has been adjusted to facilitate listing of biotech, weighted-voting rights companies and, more recently, specialist tech companies. Together, the new economy sector has become the biggest sector, accounting for 40% of total market capitalisation.

Embracing sustainability and innovation

Ms Leung then highlighted both the virtual asset trading platform (VATP) regime and sustainable finance as the SFC's priorities and key emerging trends which transcend borders and require a global and coordinated response.

The SFC has received more than 150 responses to the consultation on the proposed regulatory requirements for licensed VATP operators and will issue the conclusions and final guidelines in May before the new regime takes effect on 1 June 2023. Ms Leung viewed this initiative as an important linchpin in the Web3 ecology and reiterated the SFC's support for the underlying distributed ledger technology and responsible innovation in relation to it. Whilst she believes they will bring enormous benefits to the financial industry in terms of efficiency, robustness and user experience, she warned of associated risks and the need to manage them properly. Ms Leung said the SFC is discussing with the Insurance Authority on addressing the costs of insuring client assets.

On the global front, the SFC has taken the lead in key international work both at the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board. The SFC participates in the crypto and digital assets and decentralised finance

workstreams under IOSCO's Board-level Fintech Task Force¹. In order to mitigate regulatory arbitrage, the SFC is working with global counterparts to set baseline standards to regulate centralised virtual asset exchanges for adoption in major markets.

The SFC is also actively involved in sustainable finance efforts on local, regional and global levels, Ms Leung continued, as Hong Kong could play a pivotal role in driving investments towards more sustainable decision-making, providing investors with consistent, comparable and decision-useful corporate information, and combatting greenwashing. In particular, Hong Kong Exchanges and Clearing Limited's April 2023 consultation on climate-related corporate reporting requirements for listed companies was a major step towards aligning Hong Kong with the global baseline for climate-related reporting standards to be published by the International Sustainability Standards Board (ISSB) by June this year. With 80% of the Hong Kong-listed companies being Mainland firms, she emphasised the new standards should allow for scalability and flexibility without losing sight of ambition. The SFC is also helping to build industry capacity for sustainable finance talents and working with the industry to issue guidelines on selecting ESG data providers.

Regarding the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), the SFC is cooperating with GBA officials in the area of sustainable finance, such as in the area of data availability, Ms Leung said. She also noted more work will be done to enhance the GBA Wealth Management Connect scheme.

Locally, the SFC initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group² in May 2020, in support of the HKSAR Government's climate strategies and carbon neutrality goal. Ms Leung also announced the SFC's own goal of achieving carbon neutrality before 2050 and an interim target of reducing its total emissions by 50% by 2030.

In closing, Ms Leung suggested that capital market players should "go tech, go green and stay resilient".

¹ The Fintech Task Force is tasked with developing, overseeing, delivering, and implementing IOSCO's regulatory agenda with respect to Fintech and virtual assets, as well as coordinating IOSCO's engagement with other standard-setting bodies on related matters.

² Co-chaired by the SFC and the Hong Kong Monetary Authority, the Steering Group comprises the Financial Services and the Treasury Bureau, the Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.