

## **Evolving Enforcement Strategies to Combat Financial Crime**

### **ALB Pan Asian Regulatory and Anti-Corruption Compliance Summit 2024**

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Good morning and thank you to Thomson Reuters and Asian Legal Business (ALB) for inviting me to address the Pan Asian Regulatory and Anti-Corruption Compliance Summit this year. I am grateful for this opportunity to discuss some of the strategies the Securities and Futures Commission (SFC) has implemented to combat financial crime and misconduct.

Recently, it feels as if a cornucopia of tools straight from science fiction movies is conspiring to make the most vigilant of us fall prey to increasingly sophisticated scams.

The elaborate plot of a Hollywood movie such as “Ocean’s Eleven” featuring conmen trying to scam a Vegas casino owner may take two hours to unfold, but today this would take only 15 minutes in real life using deepfake technology and a Zoom call. And that would cost much less than a cast including George Clooney and Julia Roberts.

As the methods and tools available to fraudsters are continuously upgraded with each new wave of technological disruption, we must ensure that we adapt our strategies to those new threats.

Alone, regulators cannot successfully tackle those new challenges. We need the help of the entire financial community to collaborate to safeguard our financial system and guarantee a level playing field for every market participant.

Today, I will first discuss the threats we are facing, which have grown in quantity, complexity, and magnitude. Then, I’ll move onto how we at the SFC use technology and public engagement to protect investors and maintain market integrity.

As fraudulent schemes expand their reach globally, I will also share how we collaborate with other regulators to address cross-border investigation challenges and highlight some of our recent enforcement actions.

#### **Growing sophistication of financial misconduct**

First, it is abundantly clear to us that financial crimes are getting “bigger” – in terms of quantity and complexity.

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<sup>1</sup> This is the text of the speech as drafted, which may differ from the delivered version.



We receive referrals and intelligence from a variety of sources: self-reports submitted by our financial intermediaries, complaints from the public, our in-house market surveillance team, and referrals from other agencies including the Hong Kong Police Force (Police).

In 2023, the SFC's complaint team handled more than 400 fraud-related complaints, up by 60% from 2022. Bear in mind that a typical complaint case can involve multiple parties from Hong Kong, Mainland China and anywhere in the world.

The ramp and dump schemes that comprised the bulk of our work in the past few years have evolved through multiple iterations into highly organised and sophisticated cross-border operations.

With growing interests in virtual assets, we are also seeing new vectors through which financial misconduct can spread far and wide. Today, scammers have a wealth of ways to easily reach and influence their victims through social media platforms, influencers, or private chat groups on instant messaging apps. The operators, the promoters, the fund-receiving agents, along with the victims, are scattered all over the world. This poses enormous challenges to enforcement work.

## **Technology**

So here comes my second point.

To address this increasing complexity, we are turning to a new arsenal of tools. We must innovate. And we must adapt.

The exponential growth of digital and technological innovations has improved connectivity in our markets, created new asset classes, and broadened investors' access to investment products. However, these advancements have also enabled criminals to capitalise on emerging technologies, scale their schemes and make them more sophisticated.

It's against this backdrop that we have taken a closer look at how to better deploy technology. Our focus is to maximise the efficiency of our investigations, so that we can detect, disrupt, and deliver better and quicker enforcement outcomes.

The SFC has embarked on a robust data strategy to harness the vast array of data sets at our disposal. These include data generated from trading activities and investigatory processes, as well as those collected by our proprietary intelligence database. The objective is to identify novel market abuse patterns, highlight the areas requiring intervention, and anticipate the impact of regulatory policy changes. As part of our data-driven initiatives, we are consolidating risk data across SFC divisions that cover major players in the Hong Kong securities market to fight syndicate crimes.

The rise of online scams has led us to speed up the adoption of artificial intelligence (AI) for monitoring social media platforms and flagging potential risk content. We can now intervene at an early stage.

Operational efficiency is another key area for us. We continue to look at how AI-assisted automation can make a difference. By automating repetitive but necessary tasks throughout the investigation cycle, our staff can dedicate their time to developing strategies in higher-impact cases that deliver the strongest deterrence.



## Engagement

We all know that prevention is far better than cure. So my third point is about investor engagement.

An effective investor education program is essential to tackle financial crimes and complement the work of regulators. We must better equip the investing public with the skill and knowledge to make informed financial decisions.

The SFC's subsidiary, Investor and Financial Education Council or IFEC, runs the annual Retail Investor Studies, which provides valuable insights into our investors' investment mindset and habits. From the 2023 study, we learned that social media has emerged as the primary information source for many stock investors, with 72% of respondents acknowledging its influence. Also, from my own detailed longitudinal study of two teen kids at home, I can confirm that social media is by and large their primary information source. They are less willing, though, to acknowledge its influence.

Additionally, the study highlighted a growing interest in virtual assets, particularly among the younger demographic. Notably, the majority of virtual asset investors are driven by potential or perceived short-term gains. This highlights the importance of our education campaigns and the vigilant monitoring of social media scams.

We have put in place a series of measures to reinforce information dissemination and investor education on virtual asset-related activities. These include issuing a dedicated alert list of suspicious virtual asset trading platforms on the SFC's website, publicising every new posting by a press release and a social media post, and launching publicity campaigns to warn the public about the common tactics of financial fraudsters.

After a hiatus, we renewed our collaboration with Radio Television Hong Kong and launched the fourth season of the TV drama "SFC in Action" in January this year. This true-to-life drama illustrates prevalent investment scams and other forms of market misconduct to help prevent the public from falling victim to these scams.

## Collaboration

That brings me to my next point about the importance of collaboration, which is key to our fight against financial misconduct. We continue to forge strong working relationships with other regulatory authorities and law enforcement agencies.

Last year, we executed the first tripartite search operation jointly with the Independent Commission Against Corruption and the Accounting and Financial Reporting Council (AFRC) against two listed companies on suspected fictitious corporate transactions. Together, we successfully apprehended three individuals on suspected offences under the Prevention of Bribery Ordinance.

We also issued a joint statement with the AFRC to address the increase in cases of listed issuers providing dubious loans. And just two weeks ago, we announced our coordinated investigation with the Stock Exchange of Hong Kong Limited that led to disciplinary actions against two former directors of a listed company for misappropriating company funds.



Our enforcement work also requires us to maintain highly effective enforcement cooperation with regulators in all key financial markets around the world to prevent regulatory and jurisdictional arbitrage by bad actors.

In November last year, we met with senior representatives from the China Securities Regulatory Commission, the Economic Crime Investigation Department of the Mainland Ministry of Public Security and the Commercial Crime Bureau of the Police, to explore innovative approaches in addressing the jurisdictional challenges in cross-boundary investigations.

## **Enforcement actions**

Our team has been busy this past year and I'd like to highlight some of the significant enforcement actions we've taken during this period.

We obtained an interim injunction order against a pair of individuals suspected of insider dealing. The duo made away with a profit of over HK\$4 million and attempted to remove all their assets out of Hong Kong.

To underscore our enforcement priority to combat all forms of market misconduct regardless of the scale, we have also secured an insider dealing conviction against a personal assistant to a listed company's chairman. The individual made a profit of about HK\$20,000 and was sentenced to 240 hours of community service, along with a fine of HK\$25,000.

In another on-going case of suspected corporate fraud, after we received intelligence indicating a real risk of asset dissipation, we quickly obtained an interim injunction against the Executive Director of a listed company to preserve assets that can now be used to compensate investors at the conclusion of the proceeding.

We are also leading the proceedings against the core members of a sophisticated ramp and dump syndicate. This is the first time that such a case is proceeding at the District Court, meaning that substantially higher penalties can be applied. This is an encouraging development. We hope that this trend continues, and similar cases will also receive a higher level of judicial scrutiny.

As for virtual assets, with growing public interest in this space, related misconduct is now an additional focal point for us. We have formed a dedicated working group with the Police to bolster collaboration in monitoring and investigating suspicious platforms. At the SFC's request, the Police will block access to websites of suspicious virtual asset trading platforms and take down the relevant social media pages.

## **Closing**

Ladies and gentlemen, before I finish, let me reiterate that the financial crimes we face today are more complex and challenging, so it's imperative that we stay nimble and willing to innovate our regulatory approach. No single entity or jurisdiction alone can tackle the challenges they face.



Each one of us in this room is a stakeholder in upholding financial market integrity and fairness. By joining forces, we can share intelligence, close regulatory gaps, address potential vulnerabilities and always stay one step ahead of the bad actors.

Thank you again to Thomson Reuters and ALB for having me here.

I wish you all a very successful summit today.