

**A New Enforcement Philosophy:
Less Trodden Pathways to Better Outcomes**
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Good morning, everyone. Thank you for having me.

It is a pleasure to be here for this gathering of the region's corporate and securities law community. Conferences like this give us all a valuable opportunity to compare notes on what is working, and what needs to change.

When I took up the role of Executive Director of Enforcement at the Securities and Futures Commission (SFC) late last year one thing that surprised me was the level of interest outside the SFC in my enforcement priorities. Personally, I think it would have been supremely arrogant to take over the Enforcement Division and then immediately say that I knew what it had been doing wrong up to then and what it needed to do differently. In any event, if a case is worth pursuing, we would never reject it simply because it was not on the list of pre-determined priorities. I have never looked at a clearly suspicious insider dealing case and thought we'd better not do it because market manipulation is our stated priority for this year.

Some firms here may disagree, but anybody who suggests that the recent judgements reflect the SFC's current priorities is clearly mistaken. If they tell you anything at all, it will be about the priorities of several years ago. At best.

As time passed, I started to re-frame the question of priorities as a question of my regulatory philosophy. Put simply: we should pursue any lawful, workable approach that gets good outcomes fast and efficiently.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

Philosophies are easy to state but hard to live up to. Anyone can say enforcement should be faster and smarter. The real test is whether it holds up in the midst of a complex case, with incomplete facts, competing priorities, and a clock that doesn't stop ticking. So let me show you how such a philosophy can actually play out in real life.

The Philosophy: Acting Before the Case Even Begins

Before going into the specifics, let me be clear on one point: enforcement action can be a blunt tool. Sometimes the smartest and fastest enforcement action is the one we never have to take because we have already told the market what *not* to do.

Circular to Licensed Corporations Carrying Out Sponsor Work

Take the SFC's circular published in January aimed at licensed corporations carrying out sponsor work, for example¹.

2025 was a robust year for Hong Kong IPOs. Proceeds rose more than 200% year-on-year², with Hong Kong back at the top of the global listing table. But when volume spikes at such pace, quality has a habit of quietly slipping out the back door.

In the circular, we clearly set out our concerns about what we'd seen and our expectations of sponsors: What we didn't like were listing documents that read like a checklist exercise rather than the product of genuine due diligence; principals stretched across far more live deals than any person could reasonably manage; and, in some cases, sign-offs from people not qualified to do so.

We did not stop at just describing the problem. We went further and drew a bright line. Any principal supervising six or more live deals at once earns a label we do not hand out lightly: a "Strained Principal." Firms had one week to flag unqualified staff on live deals, and two weeks to report their full principal-to-deal ratios.

Firms flagged as "concerning" had three months to complete an internal review and submit a rectification plan, signed off by their Manager-in-Charge. Separately, we raised the bar on competency itself, tightening the licensing exam required before anyone can take on sponsor work at all.

¹ [Circular](#) to licensed corporations carrying out sponsor work dated 30 January 2026.

² SFC's *Annual Report 2025-26* for the year ended 31 March 2026.

So why go into so much detail in a circular, rather than waiting for problems to surface case by case? Because this is exactly the “fast and efficient” philosophy I mentioned, just applied upstream.

Our review of live deals told us that overstretched principals and thin diligence generally produced weak listing documents, and issuers with weak listing documents often become enforcement cases in time.

Waiting for that cycle to run its course before acting is neither fast nor efficient. It is slower and less fair to the market because real harm may already be done by the time we act. That is the whole logic of a circular: fix the structural drivers of misconduct — capacity, competency, and incentives — before they produce a case at all. And put the expectations in writing well in advance, so that nobody is surprised when we do take action. We are simply enforcing what we have already said we would.

Resolving Persistent Intermediary Misconduct: A Case Example

Let me turn to a case example. I can speak only in general terms as the case is not yet public.

Picture a small, local brokerage with serious structural weaknesses. Client monies were not properly segregated. Statements of account were not reliable. There was no meaningful separation of duties, no real safeguard against conflicts of interest, and no supervision of discretionary trading accounts- the sole proprietor was trading for themselves as well as the firm’s clients. This was clearly not a firm with one isolated weakness. Although no tangible harm had been caused to the clients (yet), this was also clearly a firm with little hope of improving its operations to an acceptable standard.

Here is how it played out in the end:

- Our Intermediaries Division detected these issues during a routine inspection. They issued a management letter setting out the deficiencies, followed by a letter of mindedness, then hard licensing conditions.
- In parallel, Enforcement also launched a full investigation into the firm’s conduct, and the fitness and properness of its senior management, which confirmed the internal control deficiencies observed by the Intermediaries Division were continuing.
- Our disciplinary team proposed a public reprimand, a significant fine, and a suspension of the Responsible Officer’s licence.

- But disciplinary sanctions would not solve the firm's persistent control deficiencies. So, with the disciplinary proceedings hanging over their heads, we explored whether the firm and its responsible officer and sole shareholder, who was basically managing the firm single-handedly, might voluntarily surrender their licences instead of proceeding through the full disciplinary process, with Intermediaries Division then supervising an orderly wind-down of the business.

Why does this matter? The conventional route would have meant grinding through potentially months or even years of proceedings, appeals and hearings, to arrive eventually at a punishment for a firm that probably needed to stop operating some time before.

Enforcement action is sometimes taken in order to send a message to the market. But a question worth asking at this point is: what would be the best outcome in this situation? We wanted this firm to stop operating. Protecting the market from a firm like this is a key consideration in deciding how we should exercise our regulatory discretion in this case.

The real threat of enforcement action, together with the hard licensing conditions that were already in place, brought home to the firm that it was best for it to voluntarily agree to stop operating.

That is not a lesser outcome because it skipped the theatre of a full hearing. That is enforcement working the way it is supposed to: cross-divisional, multi-angled, and focused on the result, not the ritual.

Serving Minority Shareholders: Two Cases

Let us move from intermediaries to corporate misconduct, and specifically, the interests of minority shareholders, who are so often the last people anyone thinks about until it is far too late.

PricewaterhouseCoopers Hong Kong

Many of you will already be familiar with this case. China Evergrande Group (China Evergrande) was, at its peak, one of the largest property developers in the Chinese Mainland, until it collapsed under a mountain of debt, defaulted, and took a great many minority shareholders' savings down with it.

Our findings showed that the company had overstated its revenue for years prior to its eventual demise. The case came to our attention not because of the collapse itself, but because of what

came before it: financial accounts that, on the whole, gave investors the impression matters were less dire than feared – until they proved otherwise.

The settlement I want to discuss concerns PricewaterhouseCoopers Hong Kong (PwC HK), China Evergrande's auditor³. The matter is currently the subject of judicial review proceedings, so I shall confine my remarks to public information. Now, the obvious question is: why pursue the auditor when it was apparently the company that falsified its own books? In the SFC's view, the auditor had failed in a number of respects:

- It failed to maintain auditor independence during the audits of China Evergrande's financial statements for the fiscal years 2019 and 2020;
- It failed to exercise adequate professional scepticism in audit planning, in carrying out audit procedures, and in handling audit irregularities;
- It failed to design and perform effective site inspections to ascertain the construction and delivery status of properties for proper revenue recognition;
- More troubling still, it actively acquiesced to manipulation by China Evergrande's management of audit samples and site inspections which facilitated the concealment of premature revenue recognition; and
- Finally, it failed to sufficiently verify the authenticity of the supporting documents and records.

Taken together, these failures matter because auditors sit at the centre of market trust – they are the independent check investors rely on when they cannot verify a company's books themselves, and when that check fails, the harm falls squarely on independent minority shareholders who had no way of knowing better.

We could have pursued proceedings before the Market Misconduct Tribunal, or through the courts, seeking compensation down a long and uncertain road. Or we could consider a settlement with the auditor directly, and secure immediate redress for those affected – independent minority shareholders.

We chose the latter path. PwC HK agreed to pay \$1 billion to compensate independent minority shareholders as part of a package of remedial measures, without admitting liability. The SFC

³ See SFC [press release](#) dated 23 April 2026 on the settlement with PwC HK.

will take no further action against PwC HK **on the basis that** PwC HK fulfils the terms of the settlement agreement.

This approach, novel at least for Hong Kong, has since been challenged in court. The liquidators of China Evergrande have argued that the SFC lacked the power to enter into this kind of out of court settlement, and that doing so disturbed the ordinary priority of claims in a liquidation.

Our position, as we put to the court in August, is that this settlement was a voluntary agreement with PwC HK, entered into under our general contracting powers, and that the court-supervised process under section 213 of the Securities and Futures Ordinance only applies once we actually commence proceedings under it, which we did not do here. The settlement does not disturb the priority of claims among China Evergrande's creditors, because the \$1 billion in question belongs to PwC HK, not to China Evergrande's estate, and was never part of the assets available to satisfy claims against the company.

On that basis, the arrangement sits outside the liquidation process, and the statutory priority of distribution the liquidators say was bypassed was never actually engaged. Those arguments are now before the Court. Judgment is expected around the end of October.

What this also illustrates is a broader point: any new approach, however well-intentioned, carries an element of risk. That risk is a real factor to weigh, but it is not the only one. No regulatory decision is ever universally welcomed, but the key question is whether the public interest is best served by the course being taken.

One further point, for those of you advising licensed corporations: some have asked whether a licensed corporation could settle a disciplinary matter *without* accepting liability, on the same basis as PwC HK. The answer is *no*, and the reason is structural. When we bring disciplinary proceedings against a licensed corporation, we have already made a determination that a breach occurred.

In a sense, we are the standard-setter and the decision-maker in that process, which is one of the reasons why there has to be an external appeal body to hear the facts afresh. Litigation against a third party like an auditor is a different exercise entirely, and a no-admission settlement there allows us to secure compensation for investors faster than years of contested proceedings would have allowed. Whether no-admission is appropriate will always depend on the facts of the case, the evidence, and practical considerations on both sides. That was the

calculus for PwC HK, one that does not carry over to our own disciplinary framework, where a breach has already been found.

Giordano International Limited

Let me give you one more example from the takeovers context. This was not a case handled by the Enforcement Division, but I signed the agreement as my last act as head of the Corporate Finance Division.

Under the Code on Takeovers and Mergers (Takeovers Code), there is a simple but fundamental principle: when a person, together with parties acting in concert, crosses 30% of a listed company's voting rights, a mandatory offer follows. This gives every other shareholder the same opportunity to exit as the new controlling group has effectively given itself. It is not just a technical rule—it protects minority shareholders when control is acquired or consolidated.

The company involved here was Giordano International Limited (Giordano), a well-known Hong Kong fashion retailer⁴.

The names behind the case would also be familiar to many in this region: the relevant vehicles sat within the Chow Tai Fook Nominee Limited group, associated with the Cheng family, one of Hong Kong's best-known business families.

According to public disclosures, the group had held shares in Giordano through Sino Wealth International Limited since 2011, but its disclosed shareholding had consistently stayed below 30%.

The problem was what the market could not see. In the public disclosures, the Chow Tai Fook Nominee Limited group appeared to remain below 30%.

But after investigating Giordano's shareholding structure, the Takeovers Executive considered that two other shareholders, Best Sincere Limited and Firstrate Enterprises Limited, had been acting in concert with the group.

Once those holdings were counted, two things followed. First, the 30% threshold had been crossed in May 2016, requiring a mandatory offer at \$3.60 per share. Second, the 2022 voluntary offer at \$1.88 per share should have become unconditional, rather than being allowed to lapse.

⁴ See SFC [press release](#) dated 16 February 2026 on the settlement relating to Giordano.

This was not simply a paperwork failure. The alleged non-disclosure of the concert party relationship went to the heart of two core protections under the Takeovers Code: first, the right of shareholders to receive a mandatory offer once control crosses 30%; and second, the assurance that, once an offer is announced, it must proceed unless a stated condition has *genuinely* failed. These rules go to the integrity of the takeover regime itself, without which shareholders could not trust that control changes are disclosed or that offers will be honoured.

Under normal circumstances, such a breach might be addressed by requiring a fresh takeover offer. But here, the alleged breaches occurred too long ago for that to be a sensible remedy. An offer to the current shareholders would have rewarded an entirely different group from those affected by the apparent breaches of the Code.

The settlement outcome was therefore significant. It required cash payments to independent shareholders who held Giordano shares on the relevant breach dates.

It is always difficult to be precise about which shareholders will ultimately receive what compensation, but the maximum total payment could reach as much as \$1.5 billion.

This is also where the case fits the broader theme of today's remarks. We could have taken the matter through a contested hearing before the Takeovers and Mergers Panel. That route remains important, and in some cases it is necessary.

But it would also have involved time, cost, and uncertainty. Here, the Takeovers Executive weighed those factors and concluded that settlement best served the interest of the investing public. One might argue this was, in some sense, rough justice – but attempting to rewrite history is always going to be an imprecise exercise.

This is the same pragmatic instinct behind the PwC HK outcome: where the regulatory objective is clear, and where investor redress can be achieved sooner, a carefully structured settlement can deliver more for investors than a longer fight ever would.

And if you are wondering why I have walked you through these examples together, it is because they are not really separate stories.

Together with the sponsor circular, they represent the same philosophy in different forms: a circular that tells the market what not to do, a voluntary licence surrender instead of a drawn-out disciplinary process, a settlement instead of years in a tribunal or court. The tools differ,

but the logic underneath is the same – give people fair notice, then act decisively and efficiently once the moment calls for it.

Suspending Trading: Acting Before Harm Compounds

Let me address one more tool directly: our power, under the Securities and Futures (Stock Market Listing) Rules (SMLR), to direct the Stock Exchange of Hong Kong Limited to suspend trading in a listed company's shares.

This is not a specific Enforcement power, but it often arises as a result of investigations carried out by the Enforcement Division. Generally we would prefer that shareholders and investors have the opportunity to trade.

So we recognise that a suspension of trading is a significant step. It limits shareholders' ability to trade and, particularly where a suspension is prolonged, can have serious practical consequences for investors. These effects should not be understated. That is precisely why the decision must be considered carefully in light of the circumstances of each case.

Some commentators make the point that retail shareholders can be “trapped” when trading is suspended. Of course this would be equally true when the trading is suspended by the Exchange or by the Company, which is much more frequently the case. But let's stick with suspensions directed by the SFC for now, as these mostly arise due to concerns about inaccurate, misleading – whether by omission or commission - or downright false statements.

My main point is that the commentators rarely go on to ask the harder questions: if the market is not a properly informed market and trading continued as normal, who would these shareholders actually be selling to?

And at what price, when the very information needed to price those shares properly is in serious doubt? There are no easy answers to those questions.

Allowing trading to continue does not solve the problem; it simply transfers it to the next unsuspecting buyer. The suspension itself does not undo the loss that has already occurred. But it is often the first step towards a genuine remedy. In many cases, we go on to take action through the courts to require those responsible for the misconduct to buy back the shares at an appropriate price.

It may be an imperfect and delayed solution. But it seems preferable to the alternative of allowing other, unsuspecting retail investors to buy those same shares, while we already have serious concerns about the company's true financial position.

The purpose behind a suspension is not to punish the company or its shareholders. It is a protective measure intended to preserve an orderly and informed market where the available information may no longer provide a reliable basis for trading.

We must consider the interests of not only those shareholders who wish to sell, but also those who continue to hold the shares and those who may buy without knowing the full picture.

These are not always easy calls. The choice is rarely between an option that causes harm and one that does not. The question is whether, in the particular circumstances and on the information available, the risks of continued trading outweigh the consequences of temporarily restricting it.

It can however be regarded as a blunt tool for dealing with information deficits. That was one reason for proposing changes to the SMLR in our consultation paper published in March 2025. The proposals included the ability to impose conditions, as an alternative to suspension of trading. We expect such conditions will often involve additional disclosures. These proposals have received broad support and constructive feedback, which is all being taken into account as part of the drafting process for the necessary legislative amendments. That process is ongoing.

All of which brings me to the final thoughts I would like to leave with you.

Closing: Going the Less Trodden Path

None of what I have described today is an argument against process. It is an argument against treating one *particular* process as the only legitimate route to a good outcome, regardless of the specific needs of the case.

The conventional route will always matter – investigation, notice, hearing, tribunal. But it is not the only way through, and defaulting to it in every case carries its own cost: slower outcomes, delayed redress, and sometimes leaving real harm unaddressed longer than necessary.

Sometimes, the faster, and frankly better, route is the settlement, the early circular, or the voluntary resolution that fixes a problem before it becomes a multi-year set of proceedings.

I hope that those of you in the room advising people who find themselves on the other side of the desk from the SFC, can agree with that premise. And I look forward to constructive discussions designed to achieve that more effective outcome. A more collaborative approach should achieve a better outcome for those affected by the identified misconduct.

It will also release resources for the SFC to focus on the very worst actors, who do nothing to improve the reputation of the Hong Kong market, who cause untold misery to many and as a direct result of their actions increases the costs for everyone in this room. Surely every rightminded person would want us to be focussed on such cheats.

I hope you found my ramblings of at least some interest and I am sure that there will be much more of interest over the next two days. Thank you very much for your attention.