

Highlights

Key figures for 2019-20

8,767
requests for trading and
account records 

197
cases initiated for investigation

158
individuals and corporations subject
to ongoing civil proceedings

\$479 million
in fines on licensees

6,962
new licence applications 

As of 31 March 2020
47,167
licensees and registrants
including
3,109
licensed corporations

317
on-site inspections of intermediaries

73
industry circulars

136
Fintech-related enquiries 

103
senior executives' speaking
engagements

4,491
complaints against intermediaries
and market activities

303
listing applications
received 

359
takeovers-related transactions and
applications

As of 31 March 2020
2,728 
authorised collective investment
schemes
including
762 Hong Kong-
domiciled funds

Highlights

The following tables highlight our work during 2019-20. More details are provided in subsequent chapters.

Regulatory enhancements	
Online account opening	Amendments to the Code of Conduct ¹ and a new approach to onboarding overseas individual clients allow firms to adapt their practices as business activities are increasingly conducted online
Securities margin financing	New guidelines took effect to enhance brokers' risk management of securities margin financing activities
Listed companies	In response to the SFC's recommendation, The Stock Exchange of Hong Kong Limited (SEHK) introduced a trading suspension requirement for listed companies with a disclaimer or adverse audit opinion on their financial statements Following the SFC's approval, SEHK amended rules for listed companies' environmental, social and governance (ESG) disclosure and introduced new rules to tackle problems associated with backdoor listings and shell activities
Virtual assets	Announced a regulatory framework for licensing virtual asset trading platforms under the SFC's existing powers
Investor compensation	Enhancements to the investor compensation regime took effect, raising the compensation limit to \$500,000 per investor per default and extending coverage to include northbound trading under Mainland-Hong Kong Stock Connect
Investor identification	An investor identification regime was implemented for southbound trading under Mainland-Hong Kong Stock Connect
Open-ended fund companies	Consulted the public on proposed enhancements to the open-ended fund companies (OFC) regime to encourage private funds to set up in Hong Kong
Trustees and custodians of public funds	Consulted the public on proposals to regulate depositaries ² of SFC-authorized collective investment schemes (CIS)
OTC derivatives	Concluded a consultation on margin requirements for non-centrally cleared over-the-counter (OTC) derivative transactions Together with the Hong Kong Monetary Authority (HKMA), consulted the public on implementing unique trade identifiers and mandating their use in transactions to be submitted to the Hong Kong Trade Repository

1 The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

2 Depositaries are trustees for SFC-authorized CIS in unit trust form, and custodians for CIS in other forms.

Supervision	
Listing applications	Received 303 listing applications including two companies with weighted voting rights structures and 10 pre-profit biotech companies, and directly sought information or expressed our concerns about 35 applications
Takeovers matters	Supervised 359 takeovers-related transactions and applications The Takeovers Panel met twice during the year to consider novel, important or difficult points at issue
Corporate conduct	Published statements on misconduct in corporate acquisitions and disposals and to remind listed companies that announcements and documents must not include false or incomplete information about their counterparties Issued joint statements with SEHK on listed companies' reporting deadlines and general meetings for shareholders in light of the COVID-19 outbreak As part of our review of corporate disclosure, issued section 179 directions to gather additional information in 76 cases and wrote to detail our concerns in 20 transactions
Licensing	Revamped our licensing processes and made the use of new licensing forms mandatory to enhance efficiency and transparency Provided guidance for private equity firms and family offices on our licensing regime
Inspections	Conducted 317 on-site inspections of intermediaries and noted 1,489 incidents of breaches of our rules Completed an on-site inspection of Hong Kong Exchanges and Clearing Limited's (HKEX) futures trading and clearing operations covering July 2016 to June 2018 and recommended improvements
Asset managers	Issued guidance on the conduct expected of asset managers when considering dubious private fund and discretionary account arrangements or transactions requested by investors Published a report on our survey on integrating ESG factors and climate risks in asset management Released the <i>Asset and Wealth Management Activities Survey</i> for 2018 to provide a comprehensive overview of the industry in Hong Kong
Third-party deposits and payments	Issued a circular setting out our expected standards and providing examples of effective measures for firms to prevent the misappropriation of client assets, money laundering and other financial crimes associated with third-party deposits and payments
Complex financing arrangements	Issued a joint circular with the HKMA on complex, opaque financial transactions within financial groups which may conceal embedded financial risks
Prime brokerage business	Published a circular and a report setting our expected standards of conduct and internal controls on prime brokers in Hong Kong, and sharing examples of good industry practices
Industry guidance	Organised the SFC Compliance Forum 2019 to exchange views with the industry on recent regulatory guidance, expected standards of conduct and topical issues Issued 73 circulars to the industry on a wide range of topics including fund liquidity risk, client facilitation, protection of client assets, private equity firms and family offices Created a dedicated webpage to provide the latest regulatory information during the COVID-19 outbreak

Highlights

Market development

Paperless securities market	Concluded a joint consultation with HKEX and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated securities market
Mutual recognition of funds	Signed a mutual recognition of funds (MRF) agreement with the Netherlands Authority for the Financial Markets, allowing eligible Dutch and Hong Kong funds to be distributed in the other market through a streamlined process ³
Funds	Authorised 126 CIS for sale to the public in Hong Kong
OFC	The first authorised exchange-traded fund (ETF) structured as a public OFC was listed and two private OFCs were registered
ETF	Worked with SEHK to introduce a new buy-in exemption to cover short positions associated with ETF market-making activities Authorised the world's first iron ore futures ETF
Derivative products	Approved 12 derivative contracts proposed by HKEX

Enforcement

Surveillance	Made 8,767 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements
Investigations and prosecutions	Commenced 197 investigations and laid 10 criminal charges against six individuals and one corporation and secured convictions against three persons
Notable disciplinary actions	Reprimanded and fined one firm \$400 million for overcharging clients over a 10-year period through post-trade spread increases, excess fees and internal control failures Reprimanded and fined one firm \$27 million for failures as an initial public offering sponsor Disciplined three individuals and one firm for failures in complying with anti-money laundering and counter-terrorist financing requirements Banned four individuals from re-entering the industry for life for conviction of bribery or theft

Regulatory cooperation

Hong Kong	Entered into a memorandum of understanding (MoU) with the Independent Commission Against Corruption to formalise our cooperation in combating financial crime
Mainland	Held two high-level meetings with the China Securities Regulatory Commission (CSRC) to discuss supervisory and regulatory cooperation Entered into an MoU with the Ministry of Finance and the CSRC on access to audit working papers for Hong Kong-listed Mainland companies

³ Overseas MRF arrangements have also been established between Hong Kong and Australia, France, Luxembourg, Malaysia, Switzerland, Taiwan and the United Kingdom.