

## Opening remarks at SFC media luncheon

**Mr Ashley Alder**  
**Chief Executive Officer**

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Thank you for joining us today. We always welcome informed press coverage of our work, and we recognise the importance of reporting all views whether they are supportive or critical of what we do.

Now to state the obvious, it is clear that Hong Kong's capital markets are larger and far more complex than ever before.

As a result of this, both we and our Mainland counterpart – the China Securities Regulatory Commission (CSRC) – are especially focussed on the opportunities but also the risks associated with far greater cross-boundary market connectivity and the associated capital flows.

I have spoken on other occasions about the need for us to work closely with the CSRC to manage some of these cross boundary risks – and I should say here that the level of cooperation is now even better than ever.

But today I would like to say a word about how we are making big changes to the way in which the Securities and Futures Commission (SFC) itself tackles market risks across all of our operations. Our chairman Mr Carlson Tong has called this new approach “real time” or “front loaded” regulation.

Recent problems in the equity markets have been particularly well reported in the press. Just in the past week there has been renewed coverage of bubble stocks – an issue we first highlighted a couple of years ago. Serious misconduct, governance shortfalls or bad practice only involve a minority of listed companies and financial services firms, but we all know what can happen if there are too many bad apples.

So we have worked to establish new ways to combine the legal tools available to us across all SFC divisions to nip problems in the bud. We are increasingly doing this through early, targeted intervention to minimise damage to our markets and to stem irreparable harm to affected investors. And where we have no choice but to resort to enforcement action, we will do so as fast as fairness allows, ensuring that we devote our resources to the cases that imply the greatest threat to market integrity.

I can illustrate this approach with the recent action we took to tackle problematic Growth Enterprise Market (GEM) Initial Public Offerings (IPOs), which as many commentaries have acknowledged were becoming dysfunctional and were harming Hong Kong's reputation.

Our Intermediaries, Corporate Finance and Enforcement teams got together earlier this year to decide on a coordinated plan of action. This resulted in the publication of our own guidance about the serious responsibilities corporate finance houses have to uphold open



and fair markets, as well as a related statement made with the Stock Exchange aimed at the directors of companies wanting to list on GEM. We also sent a clear message that we will not hesitate to take enforcement action if our expectations were ignored.

The resulting behavioural change in firms was immediate. IPO share placings became more balanced, some sub-par listing plans were withdrawn and most IPOs started to include public offers. Investors and the markets therefore benefitted straight away. We know that this didn't solve all the problems in GEM at a stroke, but it certainly had a big impact.

And it's important to understand that in doing this we were using our own statutory listing rules, which carry legal force. These rules exist alongside the Exchange's own non-statutory rules. They enable us to intervene directly as a market gatekeeper when a matter is sufficiently serious or systemic to warrant early SFC action, recognising that enforcement often only comes into play after irreparable harm has been done to investors.

And we will continue to deploy this front loaded approach in other aspects of listing regulation. We recently issued guidance on how we would look to apply these statutory listing rules to encourage IPOs of suitable "One Belt, One Road" companies. We also hope shortly to tackle a long standing problem of unrealistic valuations used to support suspicious asset disposals or acquisitions by listed companies.

A similar, upfront approach is also being taken outside listing regulation. So, for example, the division that inspects brokers and other firms licensed by us will increasingly concentrate on thematic reviews of the higher risk areas alongside the more usual inspections. An important part of this is to flag publicly our areas of concern early on: when firms already know what we are interested in, it's more likely that they will have fixed big failings before we arrive in their offices to do an inspection. We have recently done this in the areas of cybersecurity and anti-money laundering, using workshops and other intensive communications with industry. It's all about proactive regulation to prompt fast behavioural changes.

Time is too short to give you more examples. But the main point is that we will be far more direct, upfront and transparent in how we regulate as a gatekeeper and as a market supervisor. And of course back-end enforcement will always remain a critical part of what we do: deterrence and remediation are an essential part of our armoury. Neither gatekeeping nor enforcement is sufficient in themselves – they must operate together.

And I'll end by saying that this way of doing things is entirely consistent with the need to develop Hong Kong as an international financial centre. A quality market is an essential precondition if we are to succeed with projects such as transforming Hong Kong into Asia's leading asset management hub, the further expansion of the stock connect programme, the smooth launch of bond connect and the growth of online platforms through which the public can safely access a larger range of financial products.