

Strategic Priorities

Our overarching priority is to deliver world-class regulation. A sharp focus on this core mission will remain fundamental in the face of a rapidly evolving business environment. Upholding market integrity, ensuring investor protection and building public confidence in our regulatory system will be more crucial than ever to strengthen Hong Kong's status as a leading international financial centre and bolster its unique position as the bridge for capital flows between mainland China and the rest of the world.

Events over the last few years have proven the value of our proactive, risk-based regulatory approach. We strive to stay atop a fast-changing market and ensure our operations and priorities are timely and pragmatic. Throughout our authorisation, supervision, surveillance and enforcement work, we orientate ourselves towards early, targeted intervention in areas which pose systemic risks. We introduce new initiatives to adapt our regulation to maintain our effectiveness and manage emerging challenges in our markets.

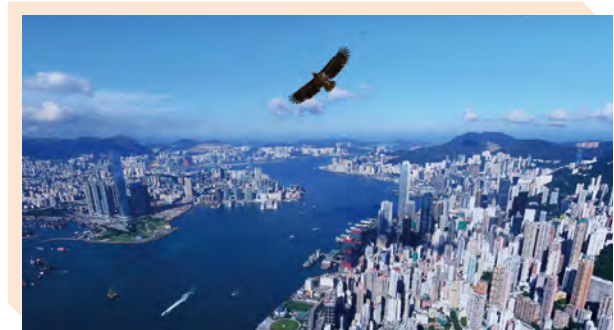
Increasingly interconnected and cross-disciplinary market activities demand a holistic regulatory approach. We collaborate closely with counterparts to safeguard investors' interests and foster market development. Internally, we deliver on our mission as "One SFC" to effectively utilise the tools and expertise available to us.

Current initiatives

Listing

The front-loaded, proactive regulatory approach we have adopted since 2017 has resulted in our direct intervention in about 170 cases involving initial public offerings (IPO) or listed companies through the actual or potential use of our powers under the Securities and Futures (Stock Market Listing) Rules (SMLR) and more generally the Securities and Futures Ordinance.

To tackle misconduct related to new listings, we look closely at arrangements commonly used for improper purposes, including the warehousing of shares, where actual control is disguised through the use of nominees, and grants of unusually high commissions to underwriters of problematic IPOs. Our May 2021 joint statement with the Stock Exchange of Hong Kong Limited (SEHK) has alerted the market to expect heightened scrutiny of listing applications with red flags indicating a lack of genuine



investor interest. In cases which exhibit features of problematic IPOs, we take early action by imposing listing conditions using our powers under the SMLR.

We work closely with SEHK on initiatives to support the development of the listing market. Following our recommendation to enhance SEHK's disciplinary powers and sanctions, new rules are now in effect which strengthen SEHK's ability to hold directors and other individuals accountable for misconduct and rule breaches.

Another key focus is ensuring that the listing regime recently introduced for special purpose acquisition companies (SPACs), which aims to provide an alternative listing route for companies, delivers on its ambition to ensure appropriate investor protection along with the flexibility and incentives needed for the development of a high-quality SPAC market.

Intermediaries

Intermediaries face significant operational challenges arising from pandemic-related disruptions and their resilience has been tested by the duration of the pandemic outbreak, widespread COVID-19 infections and stringent control measures. Most firms have maintained "business as usual", but against the backdrop of extreme market volatility and sector-specific distress, we need to remain vigilant about financial risks and uphold investors' interests.

Hong Kong is the regional hub for many global financial institutions' equities and prime brokerage businesses. Given the sizeable equity portfolios and material risks managed by prime brokers in Hong Kong, we have stepped up our supervision to maintain an orderly, resilient market.

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Chairman Mr Tim Lui

As part of this effort, we monitor untoward build-ups of risks and stand ready to update our approach to detect systemic risks arising from prime brokerage activities. We now incorporate over-the-counter (OTC) derivatives data reported to the Hong Kong Trade Repository into our monitoring of potential concentrated exposures of prime brokers and their counterparties. We are also conducting a review of Hong Kong's OTC derivatives market through questionnaires to selected global institutions enquiring about their risk and control frameworks and business models.

We also monitor financial risks through stress tests, including those we recently conducted on licensed corporations to assess their risk exposures to the Mainland property sector and take appropriate risk mitigation measures when needed.

To help us understand market trends, identify risks and coordinate supervisory responses, we join hands with other regulators to address areas of common concern, such as through joint annual surveys with the Hong Kong Monetary Authority (HKMA) on the sale of non-exchange traded investment products.

Maintaining an efficient price discovery process and high conduct standards for intermediaries are vital to support Hong Kong's status as a leading capital raising centre. Our new conduct requirements for bookbuilding and placing activities take effect in August 2022 and will help ensure the fairness, transparency and orderliness of these activities.

Another priority is to provide the regulatory support needed to mobilise finance for the transition to a low carbon economy. As part of our efforts to enable the financial sector to respond to climate change, our new requirements which expect fund managers managing collective investment schemes to consider climate-related risks in their investment and risk management processes and provide appropriate disclosures will be implemented in phases starting from 20 August 2022.

A new, fully-digitalised licensing platform has modernised our licensing work by making our data collection processes more efficient and effective. Essential information for identifying major risks is collected upfront on the platform, which significantly enhances our gatekeeping and other regulatory functions. Since 1 April 2022, we require all applications and regulatory filings to be submitted electronically.

We strive to provide a clear, well-defined environment to support the development of Fintech, including the rapidly growing field of virtual assets. We are providing input to the Government to prepare legislative changes to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance for a new licensing regime for centralised virtual asset exchanges trading non-security tokens to be licensed and regulated by the SFC. The draft bill is targeted to be introduced into the Legislative Council in the second quarter of 2022.

Asset and wealth management

Strengthening Hong Kong's competitiveness as a leading asset and wealth management centre and preferred fund domicile is a top priority. We are committed to fostering product innovation, broadening potential markets for Hong Kong public funds and enhancing our regulations to align with international standards.

The Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) is a major initiative. We are cooperating closely with the HKMA and Mainland regulators to explore enhancements such as increasing quotas, expanding the scope of eligible investment products, inviting more participating firms and improving distribution arrangements.

To enhance Hong Kong's attractiveness as a hub for family offices, we are involved in the Government's taskforce on providing tax concessions for eligible family-owned investment holding vehicles managed by single family offices.

We regularly review our rules and regulations to keep them in step with market developments. The supplementary product design guidance we introduced for investment-linked assurance schemes (ILAS) helps achieve better investor protection. In addition, facilitative measures to enhance the ILAS authorisation process allow us to maintain an effective regulatory regime. We are working closely with the industry and other stakeholders to implement the new guidance.

Depositaries of SFC-authorized funds (ie, top-level trustees and custodians) have important obligations to safeguard scheme assets and conduct independent oversight. To enhance the regulation of public funds in Hong Kong, a new regulated activity, RA 13, will be introduced to bring depositaries under our direct supervision. We are now working on the detailed draft legislative and code amendments.

Interest in open-ended fund companies (OFCs), the corporate fund vehicle in Hong Kong, has increased substantially following the launch of the Government's grant scheme for OFCs to set up in Hong Kong and in light of their eligibility under the Wealth Management Connect scheme and exchange-traded funds (ETFs) cross-listing initiative. The new re-domiciliation regime facilitates the migration of overseas corporate funds to Hong Kong with enhanced legal and tax certainty, supporting OFCs' further growth. Hong Kong real estate investment trusts (REITs) also have more options following the listing of the first logistics REIT.

To provide more investment opportunities for local and overseas investors, we have been working with Mainland and Hong Kong exchanges and clearing houses to include eligible ETFs in Stock Connect, which is expected later this year.

As part of our efforts to expand market access for our public funds, we work with the China Securities Regulatory Commission (CSRC) to enhance the Mainland-Hong Kong Mutual Recognition of Funds scheme, including relaxing the sales limit and restrictions for overseas delegation, and offer Mainland investors a more diversified pool of funds managed in Hong Kong.

We closely monitor developments such as recent episodes where Mainland property developers faced distress and actively engage with asset managers to monitor the exposure and assess the impact on SFC-authorized funds. We also remind them to act fairly in the best interests of investors, especially when handling asset disposals, valuations and redemptions.

Markets

Regular enhancements to our monitoring mechanisms allow us to assess possible vulnerabilities affecting the stability of Hong Kong's financial markets. We develop ex-ante analytical tools and collaborate with local and overseas regulatory bodies to identify systemic risk and assess other potential risks in exchange-traded and OTC derivatives markets to stay on top of changing conditions.

Effective risk governance is an essential component of our supervision of Hong Kong Exchanges and Clearing Limited (HKEX). We are working with HKEX to enhance its risk management and control functions as well as to enhance its group compliance functions to ensure that they have sufficient authority, independence and resources to carry out their functions effectively.

Another priority is to provide risk management tools for global investors to hedge exposures in the A-share market. The MSCI China A 50 Connect Index Futures contract, launched in October 2021, strengthens Hong Kong's position as an internationally significant financial risk management centre and gateway to the Mainland market.

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Chief Executive Officer Mr Ashley Alder

To promote the use of RMB in offshore investments and provide investors with more choice, we have set up a working group with HKMA and HKEX to conduct a study of the feasibility of issuing and trading RMB-denominated securities in Hong Kong and explore the inclusion of RMB counters in southbound trading under Stock Connect to enhance market liquidity. We are now working with Mainland authorities on the operational details for this project.

As the OTC derivatives regulatory regime is being implemented in phases in Hong Kong, we monitor the development of global reform initiatives to assess their impact on the OTC derivatives market. We are consulting on proposed amendments to the OTC derivatives reporting rules as part of the preparations for the implementation of the RA 13 regime for public funds depositaries.

The new investor identification system for the Hong Kong securities market and the OTC securities transactions reporting regime for shares listed on SEHK will enable far more effective and timely market surveillance. At the earliest, investor identification will be implemented by the end of 2022 and the reporting regime for OTC securities transactions will be introduced by the end of the second quarter of 2023, subject to market readiness.

The Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 sets out the framework for implementing an uncertificated, or paperless, securities market, which will make IPOs, corporate actions and other securities-related transactions more efficient and cost-effective. Later this year, we will begin consulting on subsidiary legislation which will set out the technical and operational details of the regime and provide for the regulation of share registrars.

Enforcement

Tackling investment fraud and scams on online platforms remains an enforcement priority. We trace the operators of ramp and dump schemes and dissolve their nominee networks through timely search operations and freezing assets which we believe to be the proceeds of fraud. Investor education also forms an important part of the overall strategy. Regularly informing the public of the latest trends we observe helps them avoid falling victim to these scams.

We will double up on our efforts against misappropriation of listed companies' assets, such as by siphoning off a company's cash reserves through dubious loans to associates and nominees. We will also focus on combatting IPO-related fraud, in particular those involving other serious white-collar crimes such as bribery, forgery, false accounting and conspiracy to defraud. We aim to seek redress for harmed investors where appropriate and keep wrongdoers from acting as directors of listed companies.

We keep intermediaries' misconduct on close watch, including internal control deficiencies, sponsors' due diligence failures and mis-selling of financial products. We aim to maximise the impact of our disciplinary actions by imposing fines with the strongest possible deterrent effect commensurate with the gravity of the misconduct. To change corporate culture and behaviour more effectively, we will make active use of the Manager-In-Charge regime to identify culpable individuals, particularly in large organisations with complex management structures.



As financial crimes become more complex, we plan to further strengthen our collaboration with other local regulators and law enforcement agencies, including the Hong Kong Police Force, Independent Commission Against Corruption, Financial Reporting Council, HKMA and Insurance Authority. Joint operations will become more frequent and collaboration will complement our enforcement powers and expertise to produce faster and more effective enforcement outcomes. To better tackle cross-boundary financial crime, we will continue to enhance our strategic cooperation with the CSRC, our closest regulatory partner on the Mainland.

Internationally, we take a proactive role in fostering enforcement cooperation amongst global securities regulators. We serve as Vice Chair of the International Organization of Securities Commissions' (IOSCO) Committee on Enforcement and the Exchange of Information and are actively steering a number of initiatives to strengthen international enforcement cooperation.

Green and sustainable finance

The global effort to finance the de-carbonisation of the international economy as part of the response to address the existential threat of climate change has led to a surge of investment into sustainability-related products.

We actively participate in global policy discussions on green and sustainable finance. Our Deputy Chief Executive Officer and Executive Director of Intermediaries, Ms Julia Leung, is the Vice Chair of the IOSCO Sustainable

Finance Task Force, which is involved in evaluating the investor-focused sustainability disclosures proposed by the International Sustainability Standards Board (ISSB). We work with international counterparts to support the alignment of sustainability reporting standards to provide investors with consistent, comparable information.

Hong Kong is well-positioned to become a green and sustainable finance hub for the GBA and the wider Asian region. Hong Kong's vast capital market and its unique ability to connect Mainland and international fund flows provide us with an opportunity to take on a leadership role in shaping regulatory policies and standards regionally and globally.

As the Co-Chair of the Green and Sustainable Finance Cross-Agency Steering Group, we work closely with the Government and local regulators to implement the steering group's strategy, including building on the Centre for Green and Sustainable Finance and the preliminary feasibility assessment of carbon market opportunities. We support Hong Kong's Climate Action Plan 2050 to achieve carbon neutrality and combat climate change.

We will evaluate and potentially implement the ISSB sustainability reporting standards in Hong Kong, work towards operationalising the Common Ground Taxonomy¹ and explore ways to develop Hong Kong into a regional carbon trading centre, promote capacity building and meet climate-related data gaps and needs. Other ongoing initiatives include working alongside SEHK to promote corporate climate reporting and incorporating international standards, especially ISSB's, into local requirements to enhance listed companies' climate disclosures.

Communications

We adopt a proactive, fully integrated external communication strategy to articulate to our stakeholders increasingly complex and impactful regulatory initiatives and policies and promote public understanding of our vital work. We disseminate our messages in a consistent, compelling and timely manner using cross-communication platforms and the media toolkits at our disposal to enhance the SFC's reputation as a globally respected and world-class regulator.

¹ A report resulting from an in-depth comparison exercise which puts forward areas of commonality between the Mainland and the European Union's taxonomies.

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Technology

Process automation and digital transformation help bolster our internal processes' effectiveness and efficiency and provide greater convenience to our external stakeholders, even when working remotely.

The recently launched licensing functions on WINGS, the SFC's integrated online platform, enable all licensing submissions, communications and payments to be carried out securely. It is also integrated with our internal platforms which generate business intelligence using online analytics and a highly-automated, risk-based workflow to boost overall effectiveness.

More submissions are available digitally, such as a new process for handling bank records for enforcement investigations. Using a scalable risk pattern identification process, enabled by digital submission and artificial intelligence, greatly improves efficiency. Updated functions for financial returns on WINGS integrate with a new internal platform with risk alerts, which facilitates our front-loaded, risk-based regulatory approach.

The wide range of technologies adopted allow us to efficiently analyse a large volume of trade data collected from diverse sources. We are also developing a new back-end data analytic platform to help us assess brokers' compliance more effectively.

Regulatory collaboration

To support Hong Kong's development as an international financial centre, we foster close collaboration with our overseas counterparts and actively participate in the work of international standard-setting bodies. Mr Ashley Alder is serving his third term as Chair of the IOSCO Board and ex-officio member of the Financial Stability Board (FSB) Plenary and Steering Committee. Our other senior executives have taken up leadership roles in IOSCO's and the FSB's committees and working groups.

Mr Alder has focused on strengthening the working relationship between IOSCO and the FSB, including cooperation on responses to COVID-19-induced market stress and other regulatory issues, such as climate-related initiatives, digital finance and non-bank financial intermediation, with an aim to ensure that international capital markets remain fair, orderly and resilient and maintain global financial stability.

Locally, we work with the Government and other regulators to consolidate Hong Kong's positioning as a leading international financial centre amidst opportunities brought by the National 14th Five-year Plan and explore ways for Hong Kong to respond to the Mainland's financial reform and market opening-up whilst meeting the needs of international investors.

In a complex landscape combining geopolitical tensions and the Mainland's evolving industry policies and regulatory environment, cross-boundary cooperation with Mainland regulators remains of critical importance to safeguard market integrity and protect investors' interests. We maintain close and effective communication with our Mainland counterparts and consult one another when formulating policies which require coordinated regulatory arrangements, such as the CSRC's proposed filing regime for Mainland companies seeking overseas listings, to ensure the smooth implementation of market development initiatives.

We also work closely with Mainland authorities to implement the initiatives set out in the GBA development plan and explore new business opportunities for Hong Kong's securities sector.