

# Operational Review

We strive to strengthen the integrity and soundness of the financial markets through our principal areas of work: corporates, intermediaries, products, markets and enforcement.

# Highlights

## Key figures for 2021-22

**7,308**

requests for trading and account records

**220**

cases initiated for investigation

**168**

individuals and corporations subject to ongoing civil proceedings

**\$410.1 million**

in fines imposed on licensees

**7,163**

new licence applications

As of 31 March 2022:

**48,401**

licensees and registrants

including

**3,231** licensed corporations

**262**

on-site inspections of intermediaries

**111**

press releases

**85**

circulars to the industry

**67**

Fintech-related enquiries

**4,041**

complaints against intermediaries and market activities

As of 31 March 2022:

**2,849**

authorised collective investment schemes

including

**866** Hong Kong-domiciled funds

**306**

listing applications received

**385**

takeovers-related transactions and applications

## Highlights

Regulatory enhancements	
<b>Capital market transactions</b>	Released consultation conclusions on conduct requirements for bookbuilding and placing activities in capital market transactions in Hong Kong to clarify intermediaries' roles and set out expected standards
<b>Competency requirements</b>	Concluded a consultation on proposals to update the competency framework for intermediaries and individual practitioners
<b>Depositaries of SFC-authorized funds</b>	Concluded a consultation on proposals to introduce a new regulated activity (RA 13) for depositaries of SFC-authorized collective investment schemes (CIS) and further consulted on the approach to defining RA 13 and amendments to subsidiary legislation and SFC codes and guidelines
<b>Investment-linked assurance schemes (ILAS)</b>	Conducted a holistic review of ILAS in collaboration with the Insurance Authority and consultations with other stakeholders and issued a circular to provide enhanced guidance on ILAS product design
<b>Investor identification</b>	Issued consultation conclusions on implementing an investor identification regime at the trading level for the securities market in Hong Kong and an over-the-counter (OTC) securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong Limited (SEHK)
<b>Anti-money laundering</b>	Released consultation conclusions on proposed amendments to the SFC's anti-money laundering and counter-financing of terrorism guidelines to align them with the Financial Action Task Force's standards and provide additional guidance for the implementation of risk-based measures
<b>OTC derivatives clearing regime</b>	Launched a joint consultation with the Hong Kong Monetary Authority (HKMA) on the addition of new calculation periods for the regime  Published a joint consultation conclusions paper with the HKMA on the annual update to the list of financial services providers
<b>Pooled retirement funds</b>	Concluded a consultation on amendments to the Code on Pooled Retirement Funds which took effect in December 2021

Market development	
<b>Special purpose acquisition companies (SPACs)<sup>1</sup></b>	Listing Rules amendments to implement the new regime took effect on 1 January 2022 and as at 31 March, 11 SPACs had filed listing applications and one was listed
<b>A-share index futures</b>	Launched in October 2021, the MSCI China A 50 Connect Index Futures contract provides an additional risk management tool for hedging exposures to the Mainland's A-share market
<b>Exchange-traded funds (ETFs)</b>	ETFs were cross-listed on SEHK and the Shanghai Stock Exchange for the first time  Mainland and Hong Kong exchanges and clearing houses jointly announced their agreement on arrangements to include eligible ETFs in Stock Connect  Authorised the first three ETFs tracking the MSCI China A 50 Connect Index  Authorised the first carbon emission allowances futures <sup>2</sup> ETF in Hong Kong
<b>Uncertificated securities market</b>	The Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 was enacted to enable the implementation of an uncertificated securities market in Hong Kong
<b>Wealth Management Connect</b>	The Cross-boundary Wealth Management Connect Pilot Scheme commenced in October 2021 with 19 banks in Hong Kong initially eligible to provide related services
<b>Mutual Recognition of Funds (MRF)</b>	The Hong Kong-Thailand MRF arrangement came into effect in June 2021, allowing eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process
<b>Equity-linked investments (ELIs)</b>	Authorised the first retail ELIs linked to eligible US-listed stocks
<b>Leveraged and inverse (L&amp;I) products</b>	Authorised the first batch of L&I products tracking Taiwan's equity indices, the first crude oil futures inverse product and the first gold futures inverse product
<b>Grant scheme</b>	The Government's grant scheme was launched to subsidise the setting up of open-ended fund companies (OFCs) and listing of real estate investment trusts in Hong Kong

1 A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.  
2 Commonly known as carbon futures.

## Highlights

Market development	
<b>OFC</b>	Introduced a statutory re-domiciliation mechanism and registered the first private Cayman Islands corporate fund as a re-domiciled private OFC in Hong Kong
<b>Virtual assets</b>	<p>The Government concluded a consultation on a legislative proposal for the SFC to regulate centralised virtual asset exchanges under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance</p> <p>Issued a joint SFC-HKMA circular to provide guidance for intermediaries who wish to distribute virtual asset-related products and engage in virtual asset dealing and advisory services</p>
<b>Digitalised licensing platform</b>	Launched the next generation, fully-digitalised licensing platform and mandated that all licensing applications, notifications and regulatory filings be submitted via WINGS <sup>3</sup>
<b>Annual licensing fee waiver</b>	Waived the annual licensing fees for over 48,000 intermediaries and licensed individuals for the 2022-23 financial year, saving them an estimated \$240 million

Supervision	
<b>Listing applications</b>	Received 306 listing applications including from 14 weighted voting rights companies and 33 pre-profit biotech companies
<b>Takeovers matters</b>	Supervised 385 takeovers-related transactions and applications
<b>Corporate conduct</b>	<p>Published a joint statement with SEHK in May 2021 on our joint efforts to combat misconduct and improper behaviour in new listings</p> <p>As part of our front-loaded approach to preventing corporate misconduct, we issued section 179<sup>4</sup> directions to gather additional information in 53 cases and issued letters to listed companies detailing our concerns in four cases</p>
<b>Review of SEHK's work</b>	Published a report on our review of SEHK's performance in its regulation of listing matters during 2019 and 2020
<b>Inspections</b>	Conducted 262 on-site inspections of intermediaries and noted more than 1,400 breaches of our rules

<sup>3</sup> A web-based platform for SFC electronic forms and online submission services launched in January 2019.

<sup>4</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Supervision	
<b>COVID-related risks and operational resilience</b>	Issued a circular with a report to set out regulatory standards and measures for preventing and responding to operational disruptions and managing the risks of remote working as well as other circulars to encourage licensed corporations to consider vaccination as a critical part of operational risk management and remind them to review their business continuity plans
<b>Financial distress and staff availability</b>	Provided detailed guidance on mitigating the risks and impact on investors of financial distress and the sudden unavailability of key staff as well as the need to plan for an orderly business closure
<b>Spread charges</b>	Shared key observations from a thematic review <sup>5</sup> of intermediaries' spread charges and related practices and their disclosure of transaction-related information
<b>Non-exchange traded investment products</b>	Published a report of the first joint SFC-HKMA annual survey on the sale of non-exchange traded investment products <sup>6</sup>
<b>Foreign exchange activities</b>	Issued a joint circular with the Australian Securities and Investments Commission on our collaborative thematic review of global financial institutions' foreign exchange business and operations in Hong Kong and Australia
<b>Asset and wealth management</b>	Released the Asset and Wealth Management Activities Survey for 2020 to provide a comprehensive overview of the industry in Hong Kong

Enforcement	
<b>Surveillance</b>	Made 7,308 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements
<b>Investigations and prosecutions</b>	Commenced 220 investigations and laid 28 criminal charges against three persons and one corporation and secured convictions against them
<b>Notable disciplinary actions</b>	Reprimanded and fined Citigroup Global Markets Asia Limited \$348.25 million for serious regulatory breaches over client facilitation activities
	Reprimanded and fined UBS AG and UBS Securities Asia Limited \$11.55 million for multiple regulatory breaches
<b>Online investment scams</b>	Conducted a joint operation with the Hong Kong Police Force, the Monetary Authority of Singapore and the Singapore Police Force against a syndicate suspected of operating cross-border ramp and dump manipulation schemes
<b>Unregulated virtual asset platforms</b>	Issued a statement to clarify that no entity in the Binance group is licensed or registered to conduct regulated activities in Hong Kong and warned investors against investing in stock tokens offered on unregulated platforms

5 The thematic review was carried out concurrently by the SFC and the HKMA in 2020-21.

6 Such as CIS, debt securities, structured products, swaps and repos.

## Highlights

### Green and sustainable finance

<b>Cross-Agency Steering Group<sup>7</sup></b>	A preliminary feasibility assessment of carbon market opportunities for Hong Kong was published along with an announcement of the next steps to transition the financial ecosystem towards carbon neutrality
<b>Management of climate-related risks by asset managers</b>	Concluded a consultation on amendments to the Fund Manager Code of Conduct to require fund managers managing CIS to consider climate-related risks in their investment and risk management processes and provide investors with appropriate disclosures
<b>Environmental, social and governance (ESG) funds</b>	Published a circular with enhanced requirements for disclosures and annual assessments of ESG funds, especially those with a climate-related focus
<b>Global summit on climate change</b>	At the 26th UN Climate Change Conference of the Parties, Mr Ashley Alder, our Chief Executive Officer, spoke about sustainability disclosure and the significance of establishing the International Sustainability Standards Board

### Regulatory cooperation

<b>Hong Kong</b>	Conducted separate joint operations involving listed companies with the Hong Kong Police Force and the Independent Commission Against Corruption
<b>Mainland</b>	Held the ninth and tenth high-level meetings with the China Securities Regulatory Commission to discuss cross-boundary regulatory cooperation and market development initiatives
<b>International</b>	Mr Alder chaired virtual meetings of the Board of IOSCO <sup>8</sup> which discussed the response to the COVID-19 pandemic, non-bank financial intermediation, sustainable finance, crypto-assets and outsourcing
	Responded to 95 requests for information and bilateral meetings from overseas regulators and industry bodies

### Stakeholders

<b>Regulatory Forum</b>	Hosted the fourth SFC Regulatory Forum on 25 November 2021 for senior regulators and industry leaders to share insights on the future of Hong Kong's unique role as China's international financial centre and other regulatory and topical issues
<b>New alert list</b>	Introduced a new feature on our website to warn the public about unauthorised investment arrangements suspected to be CIS, which may not be offered to the public in Hong Kong

<sup>7</sup> Co-chaired by the SFC and the HKMA, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group also includes the Financial Services and the Treasury Bureau, the Environment Bureau, Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

<sup>8</sup> International Organization of Securities Commissions.

# Corporates

To safeguard the interests of investors, we oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, vetting of listing applications, disclosure requirements, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK). We also review listing and takeovers policies to promote the development of a fair and orderly securities market.

## Listing regulation

In collaboration with SEHK, we regularly review listing policies to strengthen Hong Kong's position as an international financial centre.

## Main Board profit requirement

In May 2021, SEHK published consultation conclusions on increasing the minimum profit requirement by 60% and amending the profit spread for new listings on the Main Board. The new profit thresholds took effect on 1 January 2022.

## Listings of overseas issuers

SEHK published consultation conclusions in November 2021 on enhancements to the listing regime for overseas issuers. The reforms aim to broaden the type of companies eligible to secondary list in Hong Kong and maintain high standards of shareholder protection. The Listing Rules amendments took effect on 1 January 2022, except for those subject to transitional arrangements.

## Special purpose acquisition companies (SPACs)<sup>1</sup>

Working closely with us, SEHK formulated a SPAC framework which aims to provide appropriate investor protection along with the flexibility and incentives needed for the development of a high-quality SPAC market in Hong Kong. In September, SEHK launched a public consultation on proposals to introduce a listing regime for SPACs and issued the consultation conclusions paper in December 2021. Listing Rules amendments to implement the new regime took effect on 1 January 2022. As at 31 March 2022, 11 SPACs had filed listing applications and one was listed.

<sup>1</sup> A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

<sup>2</sup> In a de-SPAC transaction, the application of Rule 26.1 of the Takeovers Code, which would result in the owners of the de-SPAC target obtaining 30% or more of the voting rights in a successor company, should normally be waived.



Ms Megan Tang, Senior Director of Corporate Finance, at the SFC Regulatory Forum 2021

After discussing with the Takeovers and Mergers Panel, we introduced a new Practice Note 23 in December 2021 to provide guidance on the application process for waiving the application of Rule 26.1<sup>2</sup> of the Takeovers Code for de-SPAC transactions.

## Misconduct related to new listings

In May 2021, we published a joint statement with SEHK on our efforts to combat misconduct and improper behaviour in new listings through heightened scrutiny of listing applications with red flags which indicate a lack of genuine investor interest. We shared our observations and regulatory concerns in the joint statement and identified features of problematic initial public offerings (IPOs) which may lead to enquiries by regulators (see sidebar on page 59).

## SEHK's disciplinary powers

Following our recommendation, SEHK consulted on proposals to enhance its disciplinary powers and sanctions to enhance market quality and protect investors' interests. The consultation conclusions were published in May 2021. Effective July 2021, the new rules strengthened SEHK's ability to hold directors and other individuals accountable for misconduct and breaches of the Listing Rules.

## Share schemes

Following the observations in our 2019 review of SEHK's listing function, SEHK reviewed the Listing Rules and consulted the market in October 2021 on proposals to improve the disclosure of share schemes and provide issuers with greater flexibility to grant share options and share awards whilst protecting shareholders from excessive dilution. The consultation period ended on 31 December 2021.

**306**  
new listing applications

## Review of SEHK's work

In December 2021, we published a report on our review of SEHK's performance in its regulation of listing matters during 2019 and 2020. The review covered SEHK's hearings for non-disciplinary matters under the new review regime, its monitoring of newly-listed issuers' disclosures of the use of IPO proceeds and its handling of reverse takeover transactions under the amended rule.

## New listing applications

	2021/22	2020/21	2019/20
Listing applications received <sup>a</sup>	<b>306</b>	257	303
Listing applications lapsed/withdrawn/rejected during the year	<b>187</b>	121	172
Listing applications returned <sup>b</sup>	<b>1</b>	1	3
New listings <sup>c</sup>	<b>83</b>	148	182

a Including applications for transfer from GEM to the Main Board (2021/22: 3; 2020/21: 17; 2019/20: 29).

b Listing applications were returned by SEHK because the application proofs or related documents were not substantially complete. The listing applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

c Including successful transfers from GEM to the Main Board (2021/22: 3; 2020/21: 6; 2019/20: 16). The Hang Seng Index closed at 21,996 on 31 March 2022 (31 March 2021: 28,378; 31 March 2020: 23,603).

## IPO applications

We vet listing applications and make enquiries to determine whether an application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing of securities based on one or more of the grounds set out in section 6(2)<sup>3</sup> of the SMLR.

During the year, we vetted 306 new listing applications, including 14 from companies with a weighted voting rights structure, 33 from pre-profit biotech companies and 11 SPACs. Three companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules<sup>4</sup> and one SPAC listed on the Main Board during the year.

Exercising our powers under the SMLR, we issued one letter of mindedness to impose conditions on a listing application, in line with our approach set out in the May 2021 joint SFC-SEHK statement on IPO-related misconduct.

We issued requisition letters directly to seven listing applicants during the year (2020/21: 27). Amongst our concerns were the credibility of the sponsor's submission, the sufficiency of independent due diligence, the genuineness of the listing applicant's financial information and the accuracy and completeness of the information submitted.

<sup>3</sup> Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.

<sup>4</sup> Chapter 19C sets out the additional requirements, modifications or exceptions for companies which have, or are seeking, a secondary listing.

As at 31 March 2022, three of these listing applicants had left our concerns unaddressed and not proceeded to listing, whilst four of these applicants' applications are still ongoing but they have yet to satisfactorily address our concerns.

## Corporate conduct

As part of our front-loaded approach to preventing corporate misconduct, we conduct daily reviews of corporate announcements to identify red flags and

irregularities. During the year, we issued section 179<sup>5</sup> directions to gather additional information in 53 cases and wrote to listed companies detailing our concerns in four cases where, for example, there were indications that a corporate action or transaction may be conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

### Tackling misconduct and improper behaviour in new listings

Our investigations identified suspected misconduct and improper behaviour in a number of recent new listings. In some cases, suspicious arrangements were made to artificially satisfy the initial listing requirements. For instance, shares were allocated to controlled places at an inflated IPO price to meet the minimum Main Board market capitalisation requirement of \$500 million.

Other questionable arrangements were apparently designed to enable market manipulation of the shares of listed companies at a later date, including through ramp and dump schemes. The SFC and SEHK are concerned that these issues may affect the quality and integrity of Hong Kong's capital market and its reputation as an international financial centre.

The May 2021 joint statement sets out the SFC and SEHK's general approach to issues noted in recent IPOs which suggested a lack of genuine investor interest and called into doubt the existence of an open, orderly and fair market. A number of red flags were identified, including:

- the market capitalisation upon listing barely meeting the minimum threshold of

\$500 million under the Main Board Listing Rules or \$150 million under the GEM Listing Rules;

- very high price-to-earnings ratios compared to listed peers;
- unusually high underwriting commissions or other listing expenses; and
- a high concentration of shareholding.

As part of our regulatory response to address improper behaviour related to new listings, problematic listing applications with red flags are now subject to heightened scrutiny. Where necessary, we and SEHK will use our regulatory powers<sup>a</sup> to object to or reject an application, or impose conditions on the listing applicant. In addition, we will not hesitate to use our statutory powers, including our investigation powers, in relation to issuers, senior management, major shareholders and intermediaries suspected of misconduct.

Generally, we have seen a moderate decrease in listing applications with red flags since the issue of the joint statement and increase in the Main Board profit requirements. We work closely with SEHK to monitor new listing applications and address any improper behaviour.

<sup>a</sup> For instance, the SFC may exercise its powers under the Securities and Futures Ordinance and the SMLR.

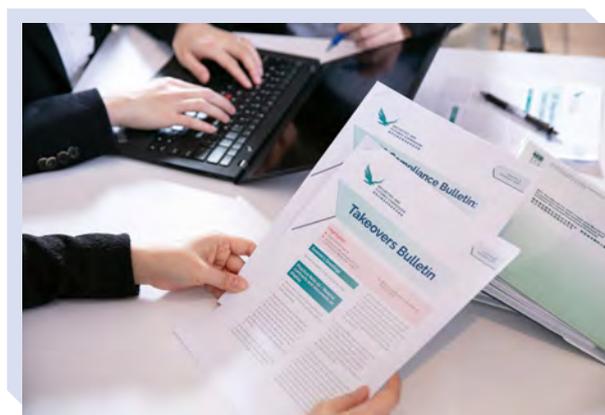
<sup>5</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

## Takeovers

Hong Kong’s takeovers market remained active during the ongoing pandemic. During the year, we maintained our performance pledges and remained committed to promoting a fair and orderly market for companies affected by takeovers, mergers and share buy-backs. Breaches of the Codes on Takeovers and Mergers and Share Buy-backs were a core focus of our investigation work. We will also engage the market to ensure that our regulation of takeovers activities in Hong Kong keeps up with changing circumstances.

In July 2021, we publicly censured BIT Mining Limited<sup>6</sup> for breaching the rules on special deals when it issued new shares to its director and shareholder, Man San Law, who was also a shareholder of Loto Interactive Limited, during its general offer for Loto. The issue of shares to Law constituted special deals under the Takeovers Code and they were completed without the consent of the Takeovers Executive<sup>7</sup>.

In the same month, whilst handling a ruling application, we uncovered a breach by an executive director of Zhuguang Holdings Group Company, Chu Hing Tsung, in 2012 when he and his concert parties consolidated control in the controlling shareholder



of Zhuguang without making a general offer. This resulted in a public censure and a 12-month cold shoulder order against Chu.

In March 2022, we publicly censured Wonderful Sky Financial Group Holdings Limited and Liu Tianni and publicly criticised Liu Kiki Ching Tung. Wonderful Sky failed to obtain approval from the Takeovers Executive and its disinterested shareholders to buy back shares in a pre-arranged and pre-agreed block trade in March 2020, in breach of the Code on Share Buy-Backs. Both Liu Tianni and Liu Kiki Ching Tung held senior positions in Wonderful Sky.

## Takeovers activities

	2021/22	2020/21	2019/20
General and partial offers under Code on Takeovers and Mergers	45	38	41
Privatisations	21	31	15
Whitewash waiver applications	22	33	13
Other applications under Code on Takeovers and Mergers <sup>^</sup>	291	361	281
Off-market and general offer share buy-backs	5	5	7
Other applications under Code on Share Buy-backs <sup>^</sup>	1	1	2
<b>Total</b>	<b>385</b>	<b>469</b>	<b>359</b>

<sup>^</sup> Including stand-alone applications and those made during the course of a Code-related transaction.

Note: Also see Table 1 in Breakdown of SFC activity data on page 166 for more details.

<sup>6</sup> Formerly known as 500.com Limited.

<sup>7</sup> The Executive Director of the SFC’s Corporate Finance Division or its delegate.

# Intermediaries

We set standards and qualifying criteria for corporations and individuals licensed to operate in our markets under the Securities and Futures Ordinance. As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations (LCs)<sup>1</sup> and explain our regulatory focus and concerns to the industry. We also closely monitor market and technological developments and adapt our approach accordingly.

## Licensing

As of 31 March 2022, the number of licensees and registrants totalled 48,401, up 2.6% from last year, including the number of LCs which increased 2.3% to 3,231. During the year, we approved 171 new corporate licence applications. We received a total of 7,163 new licence applications, up 28.5% from the previous year.

Licensed individuals (2019-2022)

**+3.3%**

## Competency framework

In June 2021, we concluded a consultation on updates to the competency framework for intermediaries and individual practitioners. The enhancements included recognising post-graduate diplomas and certificates in designated fields and accepting management experience acquired in the financial industry by responsible officer and executive officer applicants. We also raised the eligibility criteria for individuals advising on matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs. In addition, environmental, social and governance (ESG) was included as a relevant topic for continuous professional training purposes.



Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries, speaks at the Hong Kong Investment Funds Association Annual Conference 2021

The enhanced competency framework, including the revised Guidelines on Competence, Guidelines on Continuous Professional Training and Fit and Proper Guidelines, took effect on 1 January 2022.

## Virtual assets

We issued a warning statement in July 2021 to caution against trading stock tokens on unregulated platforms. We also reminded investors of the risks of trading virtual assets on unregulated platforms. In January 2022, we issued a joint circular with the Hong Kong Monetary Authority (HKMA) to provide guidance to intermediaries on distributing virtual asset-related products and engaging in virtual asset dealing and advisory services.

## Over-the-counter derivatives regime

In response to market feedback, we clarified the scope of regulated activities under the over-the-counter derivatives licensing regime and carved out activities which are not intended to be covered. The change was enacted in June 2021 under the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021.

<sup>1</sup> Broadly, LCs include securities brokers, futures dealers, leveraged forex traders, fund managers, investment advisers, sponsors and credit rating agencies.

## Intermediaries

### Licensees

	Corporations <sup>^</sup>		Representatives		Responsible Officers		Total <sup>^</sup>		Change
	As at 31.3.2022	As at 31.3.2021	As at 31.3.2022	As at 31.3.2021	As at 31.3.2022	As at 31.3.2021	As at 31.3.2022	As at 31.3.2021	
Stock exchange participants	591	595	12,001	11,931	2,163	2,157	14,755	14,683	0.5%
Futures exchange participants	99	108	827	839	178	192	1,104	1,139	-3.1%
Stock exchange and futures exchange participants	93	88	5,101	4,912	680	669	5,874	5,669	3.6%
Non-stock/non-futures exchange participants	2,448	2,368	17,730	16,973	6,379	6,231	26,557	25,572	3.9%
<b>Total</b>	<b>3,231</b>	<b>3,159</b>	<b>35,659</b>	<b>34,655</b>	<b>9,400</b>	<b>9,249</b>	<b>48,290</b>	<b>47,063</b>	<b>2.6%</b>

<sup>^</sup> These figures exclude 111 registered institutions as at 31 March 2022 and 115 as at 31 March 2021.

### Digitalised licensing platform

In January 2022, we launched the next generation licensing platform on WINGS<sup>2</sup> together with a companion mobile application, WINGS Mobile App. The fully digitalised platform provides a one-stop, comprehensive service for users to prepare, electronically sign and submit licensing forms, track the progress of applications, pay licensing fees and communicate directly with the SFC. Online submission of all licensing applications, notifications and regulatory filings via WINGS became mandatory from 1 April 2022.



Video introducing new licensing functions on WINGS

Number of licensing submissions processed via WINGS

**38,000**

### Annual licensing fee waiver

In view of market conditions, we waived the annual licensing fees for over 48,000 intermediaries and licensed individuals for the 2022-23 financial year. This measure will help the industry save approximately \$240 million.

### Prudential risks

#### Data standards for order life cycles

Starting 30 April 2021, brokers whose annual trading turnover on the Stock Exchange of Hong Kong reaches or exceeds 2% of that year's total market trading volume are required to comply with the data standards for order life cycles, which prescribe the minimum content and presentation format of trading-related data submitted by them to the SFC upon request. We are developing test cases and a platform for automating our analysis of trading data submitted by these brokers to alert us to irregular activities and potential non-compliance. Further guidance on the data standards will be provided to the industry based on our findings.

<sup>2</sup> WINGS is a web-based platform for SFC electronic forms and online submission services launched in January 2019.

## Operation of bank accounts

In a June 2021 circular, we reminded LCs of the need to implement effective policies, procedures and internal controls for bank accounts operations, including our expectations regarding bank account signatory arrangements. The controls should ensure the proper safeguard of client money, prompt discharge of liabilities, availability of financial resources and compliance with the regulatory financial resources requirements.

## Regulatory enhancements

### Management and disclosure of climate-related risks

In August 2021, we released consultation conclusions on amendments to the Fund Manager Code of Conduct (FMCC) to require fund managers managing collective investment schemes (CIS) to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures. We also issued a circular setting out the expected standards for compliance with the amended FMCC. The requirements will be implemented in phases starting from 20 August 2022.

## Regulators join forces

To enhance the regulation of intermediaries, we worked together with the HKMA to carry out thematic reviews and surveys and jointly publish circulars and reports on a wide range of topics during the year.

## Non-exchange traded investment products

In October 2021, we and the HKMA published the report of our first annual joint survey of the sale of non-exchange traded investment products.

A total of 308 LCs and 64 registered institutions reported selling investment products with an aggregate transaction amount of \$5,700 billion during 2020, with the participation of over 700,000 investors. Structured products accounted for the largest share of the aggregate transaction amount, followed by CIS and debt securities. The findings enable us to better understand market trends, identify risks and coordinate responses to address areas of common concern.



## Spread charges

The SFC and the HKMA carried out a concurrent thematic review of intermediaries' spread charges and related practices as well as their disclosure of transaction-related information. In an October 2021 circular, we shared key observations noted from the review and set out expected standards of conduct for handling price improvements.

## Virtual assets

A January 2022 joint circular provided guidance for intermediaries which wish to distribute virtual asset-related products and engage in virtual asset dealing and advisory services.

### Conduct standards in capital market transactions

In October 2021, we concluded a consultation on conduct requirements for capital market transactions in Hong Kong to clarify the roles of intermediaries and set out the standards expected of them in bookbuilding, pricing, allocation and placing activities to enhance the transparency of the price discovery process and balance the interests of issuers and investors. The new requirements<sup>3</sup> will take effect on 5 August 2022.

### Anti-money laundering

We issued consultation conclusions in September 2021 on proposed amendments to our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines to align them with the Financial Action Task Force's standards and provide additional guidance for the implementation of risk-based measures. The revised guidelines came into effect on 30 September 2021, except for new requirements for cross-border correspondent relationships, which became effective on 30 March 2022.

### Supervisory approach

We adopt a front-loaded, risk-based supervisory approach focusing on the greatest threats and the most significant or systemic risks. Our supervision of LCs focuses on financial risks and how they conduct business and we closely monitor their operations and risk management. The stress tests we conduct are particularly important in times of extreme market conditions, and we provide timely guidance to help intermediaries comply with regulatory requirements.

### On-site reviews

On-site reviews are a key supervisory tool for us to understand LCs' business operations, risk management and internal controls and gauge their compliance with legal and regulatory requirements. During the year, we carried out 262 risk-based on-site inspections, including those conducted due to the pandemic, and noted more than 1,400 breaches of the SFC's rules.

# 883

on-site inspections in the past three years

This year's thematic inspections covered intermediary misconduct in listed markets, foreign exchange activities, remote booking, operational and data risk management and asset managers' liquidity risk management.

### Off-site monitoring

We conduct off-site monitoring by analysing the information in regulatory filings and intelligence from other sources. We also maintain regular interaction to assess LCs' financial strength, internal controls and risk management practices.

### Mainland property developers' credit events

Given the financial distress faced by some Mainland property developers during the year, we conducted stress tests to assess LCs' risk exposures to the sector and the potential financial impact. We also made enquiries to understand LCs' exposures to shares and bonds related to these developers and requested LCs under Mainland property developer groups to take risk mitigation measures. In a coordinated enquiry with the HKMA, we obtained information from intermediaries about their clients' outstanding positions in, and selling practices concerning, a major developer's bonds.

### Business email compromise

In March 2022, we issued a circular to summarise our observations of control deficiencies in instances of business email compromise schemes<sup>4</sup> and provide our expected standards. The circular highlighted the importance for LCs to verify clients' identities before acting on their instructions and establish procedures to identify and follow up on red flags.

<sup>3</sup> Amendments to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the Guideline to sponsors, underwriters and placing agents involved in the listing and placing of GEM stocks.

<sup>4</sup> A type of cyber fraud where fraudsters posing as known business contacts dupe unwary staff into sending them money or sensitive information.

## Breaches noted during on-site inspections

	2021/22	2020/21	2019/20
Internal control weaknesses <sup>a</sup>	427	515	451
Breach of Code of Conduct <sup>b</sup>	265	262	273
Non-compliance with anti-money laundering guidelines	301	208	331
Failure to safekeep client money	35	35	42
Failure to safekeep client securities	23	28	31
Others	365	302	361
<b>Total</b>	<b>1,416</b>	<b>1,350</b>	<b>1,489</b>

a Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

b Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

Note: See Table 2 in Breakdown of SFC activity data on page 167 for more details.

## Foreign exchange activities

We and the Australian Securities and Investments Commission issued a joint circular in January 2022 on our collaborative thematic review of the foreign exchange (FX) business and operations, including governance and controls, of global financial institutions in Hong Kong and Australia. The circular provided an overview of the FX market landscape in Australia and Hong Kong and shared observations and industry practices noted from the review.

## Hedge funds

We conducted a survey of hedge fund managers in conjunction with an initiative of the International Organization of Securities Commissions (IOSCO) to collect data on investment funds. Our data was integrated into the *IOSCO Investment Fund Statistics Report* published in January 2022. More than 640 SFC-licensed hedge fund managers responded to the survey, providing us with an updated profile of the hedge fund industry in Hong Kong.

## Industry guidance

We maintain close communication with the industry and regularly provide guidance through circulars. We hold seminars to explain and clarify our policies and expectations when introducing significant measures and regulatory enhancements.

## Asset managers' climate-related risks management and disclosure

To help LCs comply with the new climate-related risks management and disclosure requirements in the FMCC, we issued a circular in August 2021 which provides sample industry practices for climate-related risks management and a decision flowchart for determining the applicability of the requirements. We also conducted two Facebook live training sessions to introduce the new requirements to the industry.



Facebook live training sessions on management and disclosure of climate-related risks by fund managers

## Intermediaries

### Anti-money laundering

In December 2021, we organised an AML/CFT webinar jointly with the Joint Financial Intelligence Unit to update 1,600 management and compliance personnel from LCs on major AML/CFT regulatory developments, share our inspection findings and other supervisory observations and provide feedback on suspicious transaction reporting.

We updated the frequently asked questions in September and October 2021 to elaborate some provisions in the AML/CFT guidelines to facilitate firms' compliance with the new requirements. In addition, the AML/CFT self-assessment checklist, which provides a structured framework for LCs and associated entities to assess their compliance with the key requirements, was updated in January 2022 to reflect the latest AML/CFT guidelines.

### Financial distress and unavailability of key staff

To help the industry better prepare for contingent events caused by financial distress and the unavailability of key staff, we issued a circular in March 2022 to provide guidance on our regulatory approach and expected standards for LCs to mitigate the associated risks and the impact on investors and, if necessary, secure an orderly closure of business.

### Complaint handling

In March 2022, we issued a circular to remind LCs about our regulatory requirements for complaint handling and provide suggested controls and examples of good practices to assist their compliance with the requirements.

### COVID-19 response

We closely monitor the COVID-19 situation and take proactive steps to ensure our markets operate in an orderly manner when conditions change.

To help intermediaries maintain a high degree of operational resilience in the face of the pandemic and other disruptions, we issued a circular and a report in October 2021 to set out regulatory standards and measures for preventing and responding to operational disruptions and managing the risks of remote working.

Another circular strongly encouraged LCs to consider vaccination as a critical part of operational risk management. We urged LCs to review their business continuity plans, identify functions which are critical to their business operations and client interests and encourage staff performing these functions to get vaccinated. Amidst the acute situation of the fifth wave of COVID-19 infections in March 2022, we again reminded LCs to review and update their

business continuity plans. Specifically, LCs should critically assess the impact of sudden disruptions such as temporary staff shortages or reductions in services provided by essential vendors or other providers.

Following the suspension of the Hong Kong Securities and Investment Institute's in-person regulatory examinations, we announced that extensions would be allowed for individuals to take the exams and to fulfil continuous professional training requirements.



## Statistical information and financial position of the Hong Kong securities industry

	As at 31.12.2021	As at 31.12.2020	As at 31.12.2019
Securities dealers and securities margin financiers	1,433	1,391	1,379
Active clients	4,159,100	3,207,677	2,024,849
Total assets (\$ million)	1,658,553	1,812,475	1,322,911

(\$ million)	12 months to 31.12.2021	12 months to 31.12.2020	12 months to 31.12.2019
Total value of transactions <sup>^</sup>	160,931,088	129,651,195	85,831,384
Total operating profit	43,491	30,904	11,962

<sup>^</sup> Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.

Note: Also see Table 8 in Breakdown of SFC activity data on page 172 for more details.

# Products

We authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with regulatory requirements. We also formulate policy initiatives to strengthen Hong Kong's position as a global asset and wealth management centre and a preferred fund domicile.

## Product authorisation

### Authorisations

As of 31 March 2022, a total of 2,849 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 166 CIS, comprising 152 unit trusts and mutual funds (including 75 Hong Kong-domiciled funds), two investment-linked assurance schemes (ILAS), one real estate investment trust (REIT), one paper gold scheme and 10 mandatory provident fund (MPF) pooled investment funds. We also authorised 187 unlisted structured investment products for public offering.



Ms Christina Choi, Executive Director of Investment Products, at the SFC Regulatory Forum 2021

### Authorised CIS

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Unit trusts and mutual funds – Hong Kong-domiciled	866	835	762
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,381	1,382	1,373
ILAS	300	298	299
Pooled retirement funds	32	33	33
MPF schemes	26	27	29
MPF pooled investment funds	219	212	206
Others	25 <sup>^</sup>	25	26
<b>Total</b>	<b>2,849</b>	<b>2,812</b>	<b>2,728</b>

<sup>^</sup> Comprising 14 paper gold schemes and 11 REITs.

### Authorised unlisted structured investment products

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Unlisted structured investment products <sup>^</sup>	187	146	146

<sup>^</sup> On a "one product per key facts statement" basis, including equity-linked investments and deposits.

### Open-ended fund companies (OFCs)

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Registered OFCs	62 <sup>^</sup>	13	3

<sup>^</sup> This figure includes 53 private OFCs.

## ETFs and L&I products

As of 31 March 2022, 160 SFC-authorized exchange-traded funds (ETFs) were listed on the Stock Exchange of Hong Kong Limited (SEHK), including 28 leveraged and inverse (L&I) products, with total market capitalisation of \$429.89 billion. The average daily turnover of these ETFs was \$8 billion in the preceding 12 months.

Following the first cross-listings of Hong Kong ETFs on the Shenzhen Stock Exchange in October 2020, we worked with the China Securities Regulatory Commission (CSRC) to expand the cross-listing scheme to the Shanghai Stock Exchange (SSE). The first batch of ETFs were cross-listed on SEHK and SSE in June 2021. As of 31 March 2022, the total market capitalisation of the six cross-listed ETFs was \$6.55 billion.

During the year, we authorised the first three ETFs tracking the MSCI China A 50 Connect Index—the underlying index of the first A-share futures contract traded in Hong Kong. We also authorised the first batch of L&I products tracking Taiwan's equity indices, the first crude oil futures inverse product and the first gold futures inverse product.

In addition, we authorised the first carbon emission allowances futures<sup>1</sup> ETF in Hong Kong. Tracking the ICE EUA Carbon Futures Index, the ETF was listed in March 2022 and provides retail investors with access to the carbon market.

We worked with SEHK to enhance the efficiency and liquidity of ETFs in the secondary market. Effective May 2021, the trading tariff and minimum stock settlement fees are waived for fixed income and money market ETFs. In addition, different trading fee exemptions

## Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type<sup>a</sup> (US\$ million)

For the year ended 31 March 2022, Hong Kong-domiciled funds reported overall net inflows of US\$12,396 million.

	12 months to 31.3.2022			12 months to 31.3.2021		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond <sup>b</sup>	12,169	16,563	(4,394)	24,805	16,411	8,394
Equity <sup>b</sup>	20,714	21,220	(506)	24,441	22,083	2,358
Mixed <sup>b</sup>	12,774	9,619	3,155	9,867	10,105	(238)
Money market	19,290	18,842	448	18,870	17,794	1,076
Feeder funds <sup>c</sup>	3	2	1	26	2	24
Index <sup>d</sup>	49,752	36,054	13,698	39,103	34,210	4,893
Guaranteed	0	6	(6)	0	12	(12)
Total	114,702	102,306	12,396 <sup>e</sup>	117,112	100,617	16,495

a Based on data reported by funds domiciled in Hong Kong.

b From 31 March 2021, fund of funds (excluding feeder funds) have been re-categorised into other types of funds based on the underlying exposure of their investment strategies. For comparison purposes, similar adjustments have been made to the fund flows figures of certain fund types for the 12 months ended 31 March 2021.

c From 31 March 2021, feeder funds have been separated from the previous "Fund of funds" category. For comparison purposes, similar adjustments have been made to the fund flows figures for feeder funds for the 12 months ended 31 March 2021. In addition, the subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded from the fund flows figures under the "Feeder funds" category to better reflect the total fund flows.

d Including ETFs and leveraged and inverse products.

e This figure includes net fund outflows of US\$930 million reported by retail approved pooled investment funds which MPFs may invest into and may also be offered to the public in Hong Kong.

1 Commonly known as carbon futures.

## Products

for securities market maker transactions now apply to ETFs and L&I products based on their liquidity and investment exposures. As part of enhancements to the ETF market infrastructure, actively traded ETFs and L&I products were included under the volatility control mechanism starting in May 2022.

In February 2022, we issued a revised circular on streamlined requirements for eligible ETFs adopting a master-feeder structure to relax the fund size and track record requirements for overseas-listed master ETFs, with a view to offering more investment choice to investors and facilitating the growth of Hong Kong's ETF market.

### Retail unlisted ELLs

We authorised the first retail equity-linked investments (ELLs) linked to eligible US-listed stocks in August 2021, making a wider range of ELI products available to Hong Kong's investing public. To facilitate the industry's introduction of these ELLs, we also published frequently asked questions (FAQs) to provide guidance on the eligibility requirements for these stocks as reference assets for SFC-authorized unlisted structured investment products.

### SFC-authorized RMB investment products

	As at 31.3.2022
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	<b>54</b>
Unlisted funds (non-RMB denominated) with RMB share classes	<b>339</b>
Paper gold schemes with RMB features	<b>1</b>
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangement	<b>47</b>
Unlisted structured investment products issued in RMB <sup>a</sup>	<b>186</b>
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	<b>50</b>
ETFs (non-RMB denominated) with RMB trading counters	<b>11</b>
RMB L&I products	<b>2</b>
RMB gold ETFs <sup>b</sup>	<b>1</b>
RMB REITs	<b>1</b>

a The number is on a "one product per key facts statement" basis.

b Only includes gold ETF denominated in RMB.

2 Excluding recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangements.

3 This refers to unlisted funds or ETFs which are denominated in RMB.

4 This refers to onshore Mainland investments through a Qualified Foreign Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

### Open-ended fund companies

During the year, we registered 49 new open-ended fund companies (OFCs) and approved 87 OFC sub-funds, including 15 authorised ETFs. The Government's grant scheme for OFCs launched in May 2021 was welcomed by the asset management industry and the total number of registered OFCs has more than quadrupled since its introduction.

To facilitate the re-domiciliation of overseas corporate funds to Hong Kong using the OFC structure, we introduced a statutory re-domiciliation mechanism which took effect on 1 November 2021. The new regime helps provide legal and tax certainty to overseas corporate funds which migrate to Hong Kong as OFCs. In April 2022, we registered the first private Cayman Islands corporate fund as a re-domiciled private OFC in Hong Kong.

### RMB products

As of 31 March 2022, there were 54 SFC-authorized unlisted funds<sup>2</sup> and 50 ETFs<sup>3</sup> primarily investing in onshore Mainland securities markets<sup>4</sup> or offshore renminbi (RMB) bonds, fixed income instruments or other securities.

## Market development

### Greater Bay Area Wealth Management Connect

In September 2021, the People’s Bank of China (PBoC), Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao announced the launch of Greater Bay Area Wealth Management Connect. A pilot scheme commenced in October with 19 banks in Hong Kong initially eligible to provide related services.

The number of eligible Hong Kong banks was later increased to 24 (see sidebar below).

We worked closely with the PBoC, HKMA and other authorities on the pilot scheme, contributing to the scheme’s design and operations, including the product scope and conduct-related matters. In December 2021, we provided input to HKMA’s FAQs on the scheme’s enhancements to clarify that lists of eligible products may be provided upon investors’ request and explain the permissible promotional activities.

#### Wealth Management Connect

The launch of Wealth Management Connect presents new opportunities for cross-boundary retail investment and addresses the demand for wealth management solutions in Hong Kong from the massive investor base in the Guangdong-Hong Kong-Macao Greater Bay Area, one of the most affluent regions in China with a population of more than 70 million and US\$1.6 trillion in gross domestic product.

At the scheme’s launch in October 2021, more than 100 SFC-authorized HK-domiciled funds managed by over 30 asset managers were available to Mainland investors via participating Hong Kong banks. Participation in both directions has steadily increased.

The scheme strengthens Hong Kong’s unique role in intermediating global capital between mainland China and the rest of the world.

#### Key features



Enables cross-boundary investments by GBA residents



Closed-loop cross-boundary remittance



Subject to aggregate quota and individual quota



Governed by local laws and regulations



Ms Christina Choi at the Wealth Management Connect and Southbound Bond Connect Conference

We work closely with the Mainland authorities, HKMA and other stakeholders to review the scheme and consider enhancements such as increasing quotas, expanding the scope of eligible investment products, inviting more participating organisations and improving distribution arrangements.

	As of 31 March 2022
Aggregate remittance	RMB829 million
Northbound investors	16,726
Southbound investors	9,110
Number of participating Hong Kong banks	24
Number of participating Mainland banks	27
Number of SFC-authorized funds available under the scheme	125

## Products

### ETF Connect

In December, the Mainland and Hong Kong exchanges and clearing houses jointly announced their agreement on arrangements to include eligible ETFs in Stock Connect. We are working closely with the CSRC, Mainland stock exchanges, Hong Kong Exchanges and Clearing Limited and other stakeholders on the operational details, including the business and technical preparations.

### Mutual recognition of funds

We promote cross-border offerings of eligible Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements. This broadens the investor base for Hong Kong public funds, strengthens Hong Kong's position as a competitive global asset and wealth management centre and supports the development of local investment expertise.

The Hong Kong-Thailand Mutual Recognition of Funds (MRF) arrangement came into effect in June 2021, allowing eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process.

Under the Mainland-Hong Kong MRF regime, a total of six funds were approved during the year, bringing the total to 85. As of 31 March 2022, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB13.3 billion.

### Asset and wealth management activities

In July 2021, we published the *Asset and Wealth Management Activities Survey 2020*, which showed that Hong Kong's asset management, fund advisory, private banking and private wealth management businesses posted strong growth, with net fund inflows of \$2,035 billion in 2020.

As at the end of 2020, the AUM of Hong Kong's asset and wealth management business recorded a 21% year-on-year increase to \$34,931 billion. The AUM of the asset management and fund advisory business increased 20% to \$24,038 billion and that of the private banking and private wealth management business grew 25% to \$11,316 billion.

Hong Kong's asset and  
wealth management business

**AUM increased to  
\$34,931 billion**

### Grant scheme for OFCs and REITs

In May 2021, we announced the implementation of the Government's three-year grant scheme to encourage a broader range of investment vehicles by providing subsidies for qualified OFCs and REITs to set up in Hong Kong. The scheme covers 70% of eligible expenses paid to Hong Kong-based service providers, subject to a cap of \$1 million per OFC and \$8 million per REIT. We issued a press release to set out the details, including the eligibility criteria and application process, and published a set of FAQs to provide guidance to the industry.

### Regulatory enhancements

#### ILAS

Following a holistic review of ILAS conducted in collaboration with the Insurance Authority (IA) and consultations with other stakeholders, we issued a circular in November 2021 to provide enhanced guidance on ILAS product design. The enhancements will foster better investor protection by requiring ILAS fees and charges to be commensurate with comparable alternative products and aligned with the insurance protection offered, as well as by reducing product complexity and enhancing disclosures relating to fees. An 18-month transition period will be allowed for existing products. Separately, the IA issued further guidance on ILAS in December 2021 to enhance their requirements for ILAS product design and point-of-sale information disclosure. We also enhanced the ILAS authorisation process to reduce the approval time for simpler and more standard applications.

We published new FAQs and held a workshop for the industry to facilitate the implementation of the enhanced requirements.

## ESG funds

In view of the rapid growth of environmental, social and governance (ESG) funds and global regulatory developments<sup>5</sup> and to reduce greenwashing risk, we published a circular in June 2021 which set out enhanced requirements for disclosures and annual assessments of ESG funds, especially those with a climate-related focus. We also hosted briefing sessions to explain the requirements to the industry.

As of 31 March 2022, there were 121 SFC-authorized ESG funds with a total AUM of US\$142.7 billion.

## Depositaries of SFC-authorized funds

In February 2022, we released consultation conclusions on a proposed framework for the new Type 13 regulated activity (RA 13) which will enable the SFC to directly supervise depositaries of SFC-authorized CIS. We also began a further consultation on the approach to defining RA 13 and proposed amendments to subsidiary legislation and SFC codes and guidelines to implement the RA 13 regime.

## Pooled retirement funds

We concluded a public consultation in October 2021 on proposed amendments to the Code on Pooled Retirement Funds<sup>6</sup> (PRF Code). Key amendments included enhancing the requirements for the operation of PRFs and clarifying the obligations of key operators to strengthen investor protection and ensure that our regulations are up-to-date and fit for purpose. The amendments took effect in December 2021. A 12-month transition period was provided for existing PRFs to comply.

## COVID-19 measures

In view of the COVID-19 pandemic and an increase in the number of firms adopting work-from-home arrangements, we issued a circular in February 2022 to

remind issuers of SFC-authorized investment products to review and maintain up-to-date and effective business continuity plans to ensure the continuous operations of SFC-authorized investment products.

## Surveillance and monitoring

To monitor the risk exposure of Hong Kong-domiciled SFC-authorized funds, we require asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions. During the year, we enlarged the scope of the fund data we collect to include the use of leverage, credit quality and currency exposure as a means to strengthen our monitoring of fund activities and better understand developing trends in financial markets.

We stay abreast of market developments and tailor our monitoring programme in response to different market circumstances and stress events. We closely monitor the liquidity of SFC-authorized funds through reports from asset managers of unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

We also perform routine surveillance of advertisements and handle complaints about property-related or other arrangements suspected to be CIS which may not be offered to the public in Hong Kong.

## New unauthorised CIS alert list

To enhance investor protection, we launched a new alert list on our website in August 2021 to warn the public about unauthorised investment arrangements involving overseas properties and other investments suspected to be CIS. We liaised with the Consumer Council and Estate Agents Authority and also worked with the Investor and Financial Education Council to raise awareness and publicise the risks of investing in unauthorised CIS.

<sup>5</sup> See Green and Sustainable Finance on pages 36-39.

<sup>6</sup> Pooled retirement funds are only available to occupational retirement schemes in Hong Kong as defined under the Occupational Retirement Schemes Ordinance.

# Markets

To ensure orderly markets, we supervise and monitor exchanges, clearing houses, share registrars and automated trading services (ATS) in Hong Kong. We also introduce measures to improve market infrastructure and support Hong Kong's development as a premier risk management centre.

## Supervision of HKEX

We closely monitor the operations and infrastructure-related initiatives of Hong Kong Exchanges and Clearing Limited (HKEX). During the year, HKEX revamped its securities market gateway, providing exchange participants with faster and more robust access to the trading system. HKEX also upgraded the market data platform for the cash market to enhance its resilience and performance. In addition, it improved the data centre infrastructure and facilities by relocating its secondary data centre to a newly equipped premises.

## Investor identification and OTC securities transactions reporting

In August 2021, we concluded a consultation on the introduction of an investor identification regime and an over-the-counter securities transactions reporting regime (OTCR) in Hong Kong (see sidebar on page 77). Subject to the market's readiness, the regime will be implemented tentatively in the latter part of the fourth quarter of 2022 at the earliest.

In October 2021, we and HKEX co-hosted two industry webinars to explain the new regimes. We also published frequently asked questions and circulars to provide the industry with further guidance and issued a technical information paper with details about the submission portal for reporting under the OTCR. We worked with the Investor and Financial Education Council to promote investors' awareness and understanding of both regimes.



Mr Rico Leung, Executive Director of Supervision of Markets, at the SFC Regulatory Forum 2021

## Uncertificated securities market

In June 2021, the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021 was enacted to enable the implementation of an uncertificated securities market in Hong Kong, whereby legal title to securities may be held and transferred electronically. We are working on subsidiary legislation which will cover the technical and operational details and provide for the regulation of persons engaged in securities registrar services.

## OTC derivatives regulatory regime

In line with the G20 commitments to reform the OTC derivatives market, an OTC derivatives regulatory regime is being implemented in phases in Hong Kong. As part of an annual review, we published an updated list of financial services providers under the Clearing Rules<sup>1</sup> for OTC derivative transactions in June 2021. The revised list came into effect in January 2022. In December 2021, we launched a joint consultation with the Hong Kong Monetary Authority on the addition of eight new calculation periods for the OTC derivatives clearing regime.

<sup>1</sup> The Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

## MSCI China A 50 Connect Index Futures

The MSCI China A 50 Connect Index Futures contract provides an additional risk management tool for global investors to hedge exposures to the Mainland's A-share market. Since its launch in October 2021, it has become the top index futures contract amongst HKEX's MSCI index derivatives products in terms of trading and open interest. Strong market interest in the contract shows Hong Kong's growing importance as a risk management centre.

## Stock Connect

Mainland-Hong Kong Stock Connect enables mutual market access and provides a unique opportunity for Hong Kong and Mainland investors to trade eligible stocks in each other's markets.

### Mainland-Hong Kong Stock Connect

**RMB 1,983.1 billion**

Southbound net inflows to Hong Kong since launch

As of 31 March 2022, Stock Connect covered 1,487 Mainland stocks and 547 Hong Kong stocks, representing about 80% of the two markets' combined market capitalisation. Since the programme's launch, net inflows reached RMB1,983.1 billion for southbound trading and RMB1,610.2 billion for northbound trading.

The share of Hong Kong market turnover attributable to Stock Connect remained large. On average, daily southbound trading accounted for 12% of total trading in the Hong Kong stock market during January to March 2022, compared to 13% in 2021 and 9% in 2020. Northbound trading was 5% of the Mainland market total during January to March 2022, compared to the 6% in 2021 and 5% in 2020.



An SFC-HKEX webinar introduces the investor identification and OTC regimes

## Bond Connect

Northbound Bond Connect, through which eligible foreign investors can trade on the China Interbank Bond Market, marked its fourth anniversary on 3 July 2021 and maintained strong growth during the year. Total trading volume reached RMB6.5 trillion, a 33.1% increase compared to 2020. The number of eligible foreign investors admitted for trading was up 37.5% to 3,223 from 2,352 as at end-2020.

In September 2021, MarketAxess joined Bond Connect as an overseas electronic trading platform for northbound trading, providing international investors with an additional gateway to access the China Interbank Bond Market. In the same month, southbound interbank Bond Connect was launched and 13 market makers were designated to facilitate southbound trading.

## New derivatives products

We approved five derivative contracts proposed by HKEX to meet the trading and hedging needs of market participants.

## Investor compensation

During the year, the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received 17 claims against the Investor Compensation Fund and processed 10 claims.

## Markets

### New derivatives products

	Trading commencement date
Hang Seng Index Futures Options Hang Seng China Enterprises Index Futures Options	23 Aug 2021
MSCI China A 50 Connect (USD) Index Futures	18 Oct 2021
MSCI China (USD) Index Futures MSCI China Net Total Return (USD) Index Futures	22 Nov 2021

### Investor compensation claims

	2021/22	2020/21	2019/20
Balance brought forward	30	15	12
Received	17	39	7
Processed	10	24	4
– Compensation payments made	0	0	0
– Rejected	10	21	0
– Withdrawn	0	3	4
– Reconsidered	0	0	0
Balance carried forward	37	30	15

### Net asset value of compensation funds

	As at 31.3.2022 (\$ million)	Change	As at 31.3.2021 (\$ million)	Change	As at 31.3.2020 (\$ million)
Unified Exchange Compensation Fund <sup>a</sup>	85.7	-0.5%	86.1	5%	82
Investor Compensation Fund <sup>b</sup>	2,454.9	0.4%	2,444.1	0.6%	2,428.5
Total	2,540.6	0.4%	2,530.2	0.8%	2,510.5

a See pages 152-165 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance (SFO) on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

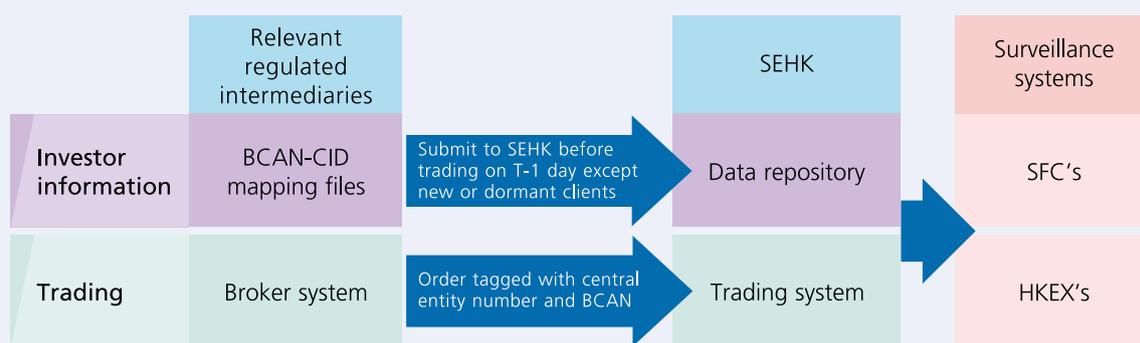
b See pages 139-151 for the financial statements of the ICF.

## Enhancing market surveillance with investor identification

As Hong Kong’s securities market has grown significantly larger in size and trading volume, the absence of readily available information about the investors placing securities orders has made market surveillance more challenging, and we have been working to implement trading-level investor identification to address this. We published the conclusions to our public consultation on a proposed investor identification regime in August 2021.

Under the regime, relevant intermediaries will need to assign a unique identification code—a “Broker-to-Client Assigned Number” (BCAN)—to their direct clients. Each BCAN must be mapped to the client’s identification information (CID), and the intermediaries will need to provide the BCAN-CID mapping files to the Stock Exchange of Hong Kong Limited (SEHK). The intermediary’s central entity number<sup>a</sup>, together with its client’s BCAN, will have to be tagged to every order to trade securities or report to SEHK of an off-exchange trade.

### How the regime works



▶ Data transmission

By identifying the underlying investors of orders and trades, the new regime would enhance our market surveillance function, help maintain market integrity and strengthen investor protection, thereby promoting long-term market development.

In collaboration with HKEX, we are making preparations for the regime’s implementation, including system development and industry education. Subject to market readiness, the regime is tentatively scheduled to be launched in the latter part of the fourth quarter of 2022 at the earliest.

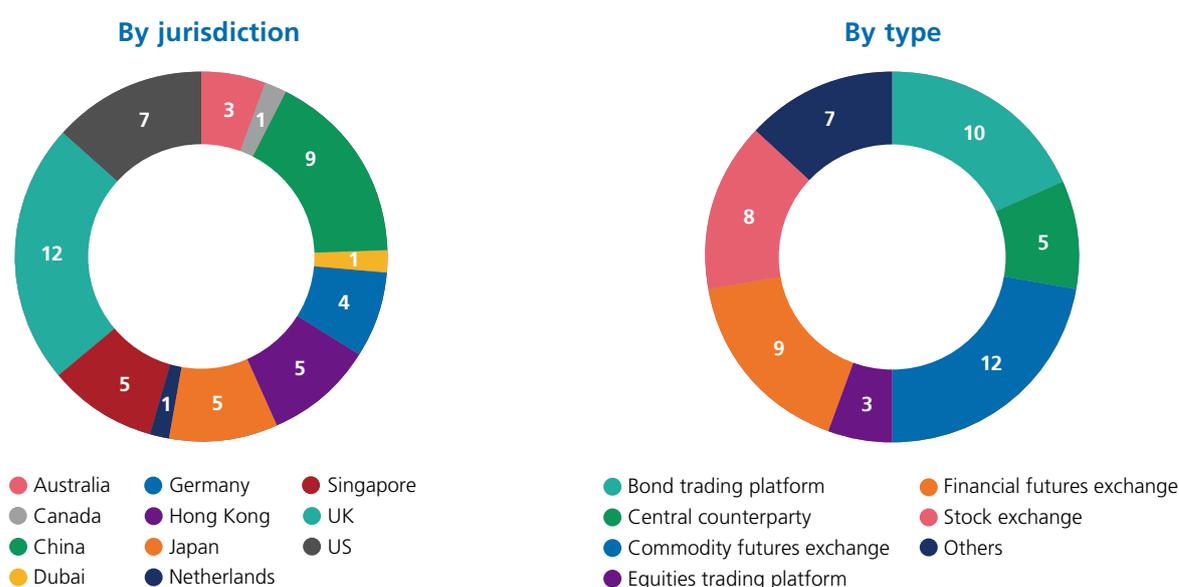
<sup>a</sup> A unique identifier assigned by the SFC.

## Markets

### Automated trading services

During the year, products traded or cleared through ATS<sup>2</sup> providers ranged from benchmark index futures and options, commodity futures, bonds and equities to exchange-traded funds and OTC derivatives. The average daily trading volume of futures contracts originating from Hong Kong was about 524,000 contracts for the 12 months ended 31 March 2022. We authorised three Part III applications during the year.

### ATS providers



### ATS providers

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Under Part III	53	51	54
Under Part V	25	24	25

### Short position reporting

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Market value of short positions as a percentage of market capitalisation of reported securities	1.34%	1.16%	1.24%

2 Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

# Enforcement

We focus on high-impact cases to address key risks in our markets and help maintain market fairness. Through our proactive and dissuasive enforcement actions, we aim to protect investors, prevent misconduct and uphold the integrity and reputation of our markets.

## Our tools

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, administrative, compensatory and disciplinary actions.

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage.

We can discipline licensed intermediaries through reprimands, fines<sup>1</sup> and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

To tackle market misconduct, such as insider dealing and market manipulation, we institute criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT).

During the year, we commenced 220 investigations and laid 28 criminal charges against three persons and one corporation and secured convictions against them.

We obtained disqualification and compensation orders against three corporations and nine persons. Civil actions seeking financial redress and other remedial orders against 168 persons and corporations in 32 cases are pending before the court.

Disciplinary action was taken against 19 persons and 17 corporations. In addition, the MMT found one corporation and nine persons culpable for insider dealing or late disclosure of inside information. We also issued 162 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.

## Our work in figures



<sup>^</sup> The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

1 Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

## Market misconduct

### Surveillance

We monitor trading on the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited on a daily basis and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance.

Our surveillance of untoward price and turnover movements resulted in 7,308 requests for trading and account records from intermediaries. We also received and assessed 241 notifications from intermediaries<sup>2</sup> regarding suspicious equity and derivative trading.

We posted 10 announcements on our website reminding the investing public to exercise caution when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

### Warning against ramp and dump scams

We concluded an online campaign in May 2021 which simulated the experience of being drawn into ramp and dump scams<sup>3</sup> on social media platforms. During the campaign, we posted web banners featuring language commonly used to lure potential victims to join scam-related online chat groups and directed viewers to warnings about these scams on our website.



Online campaign alerting against ramp and dump scams

We urged investors to carefully consider and verify the information they read online before they invest. Over 24,000 viewers clicked on the web banners.

We also organised three community outreach events with the Anti-Deception Coordination Centre (ADCC) of the Hong Kong Police Force (Hong Kong Police) to raise public awareness of ramp and dump scams and our executives explained how these scams work and warned of red flags at interviews and industry conferences.

In June 2021, we issued a circular to our licensed intermediaries to remind them of their obligation under the Code of Conduct<sup>4</sup> to notify us of suspected ramp and dump scams.



Community outreach and interviews

- 2 Intermediaries are required to report clients' suspected market misconduct to the SFC.
- 3 A form of market manipulation where fraudsters use different means to "ramp" up the share price of a listed company and then "dump" the shares to other investors at an artificially high price. Fraudsters often use social media platforms to lure unsuspecting investors to buy the shares while they offload for profit, leaving victims with substantial financial losses.
- 4 The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Beware of unregulated virtual asset trading platforms

Some unlicensed virtual asset trading platforms have offered stock tokens to Hong Kong investors. Stock tokens are virtual assets represented to be backed by depository portfolios of overseas listed stocks. Their prices closely track the stocks' performance.

In Hong Kong, stock tokens are likely to be "securities" under the SFO. If so, they are subject to our regulatory remit. Marketing or distributing them in Hong Kong or to Hong Kong investors constitutes a "regulated activity" and requires a licence from us, unless an exemption applies, and it may be an offence for any person to offer them to the Hong Kong public without our authorisation or registration.

Investors are urged to be extremely careful if they plan to invest in stock tokens offered on unregulated trading platforms. Without oversight by an independent third party, there may be no way to confirm that stock tokens are actually



backed by an equivalent depository portfolio of the underlying shares. In addition, the rights attached to the stock tokens might not be fully disclosed to investors.

We have received complaints from investors who had difficulty withdrawing fiat currencies or virtual assets from accounts opened with unregulated platforms. Where appropriate, we will not hesitate to take enforcement action against unlicensed platform operators.

## Insider dealing and market manipulation

The MMT found the following individuals engaged in insider dealing:

- Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, was found to have engaged in insider dealing in the shares of China Gas Holdings Limited following a retrial. He was disqualified from being a director or taking part in the management of a listed corporation and banned from dealing in securities in Hong Kong for 54 months. The MMT also ordered Cheng to disgorge his profit of \$2.95 million gained from the insider dealing and that the MMT reports be referred to the Hong Kong Institute of Certified Public Accountants with a recommendation to take disciplinary action against Cheng.

- Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited<sup>5</sup>, were banned from dealing in securities in Hong Kong for three years for insider dealing in the company's shares and were ordered to disgorge the losses avoided totalling \$4.2 million. The MMT also disqualified Yiu from acting as a director for three years and recommended the Hong Kong Institute of Chartered Secretaries<sup>6</sup> take disciplinary action against Wong.

The Court of First Instance (CFI) found Yik Fong Fong, Wei Juan and Huang Yi engaged in insider dealing in the shares of TeleEye Holdings Limited. The CFI ordered that the illicit profits of \$12.9 million made by Wei and Huang be paid to 63 affected investors.

The Eastern Magistrates' Court acquitted Leung Pak Keung, a practising solicitor, of five charges of insider dealing in the shares of CASH Financial Services Group Limited.

<sup>5</sup> Now known as Yunfeng Financial Group Limited.

<sup>6</sup> Now known as the Hong Kong Chartered Governance Institute.

### Corporate fraud and related misbehaviour

We obtained disqualification and compensation orders under section 214<sup>7</sup> of the SFO against the following listed companies and senior executives:

- The Court of Appeal granted compensation orders against three former directors<sup>8</sup> of EganaGoldpfeil (Holdings) Limited following an appeal against the lower court's decision. They were ordered to pay \$622 million to the company for its loss of funds as a result of their misconduct and failure to act in the best interests of the company.
- The CFI granted a disqualification order against Lin Supeng, former executive director of Anxin-China Holdings Limited, from serving as a director or taking part in the management of any corporation in Hong Kong for eight years for failing to discharge his duties in ascertaining the company's financial position.
- The CFI granted disqualification orders against Chan Wai Chuen and Yun Lok Ming, former directors of DBA Telecommunication (Asia) Holdings Limited, for their involvement in the company's misstatements in its 2010 to 2012 financial statements and results announcement. They were disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for six years and 18 months respectively.

The MMT found Tianhe Chemicals Group Limited and its executive director, Wei Xuan, culpable of market misconduct by issuing false or misleading initial public offering (IPO) prospectuses to overstate the company's revenue by over RMB6.7 billion. The company and Wei were ordered not to perpetrate any market misconduct and Wei was disqualified from being a director for four years.

### Intermediary misconduct

During the year, we disciplined 17 corporations and 19 individuals<sup>9</sup>, resulting in total fines of \$410.1 million. Key disciplinary actions included the following.

### Internal control deficiencies

- We reprimanded and fined Citigroup Global Markets Asia Limited \$348.25 million for serious regulatory breaches in relation to the issuance of indications of interest and client facilitation activities by its cash equities business.
- We reprimanded and fined UBS AG and UBS Securities Asia Limited \$11.55 million in total for failures concerning disclosures of interests in listed securities covered in UBS' research reports, telephone recording of client instructions, know-your-client (KYC) requirements in assessing clients' derivatives knowledge and product risk disclosure in the sale of a structured note.
- We reprimanded and fined HSBC Securities Brokers (Asia) Limited \$6.3 million for regulatory breaches concerning errors in the assignment of Broker-to-Client Assigned Numbers to its clients, overselling 100 China Connect Securities and erroneously self-matching 370 warrant orders.
- We reprimanded and fined Fulbright Securities Limited \$3.3 million for deficiencies in its placing activities and recording of client order instructions. We also suspended the licence of Eric Liu Chi Ming for six months for failing to discharge his duties as the firm's responsible officer, director, deputy general manager and Manager-In-Charge (Overall Management Oversight and Key Business Line).

### IPO sponsor failures

- We reprimanded and fined Ample Capital Limited \$5.5 million for failing to discharge its duties as the sponsor in the listing application of COCCI International Limited. We also suspended the licence of Howard Tang Ho Wai for 17 months for failing to discharge his duties as a responsible officer and a sponsor principal of the firm in COCCI's listing application.
- We reprimanded and fined Yi Shun Da Capital Limited \$3 million for failing to discharge sponsor duties in the listing application of Imperial Sierra Group Holdings Limited as affirmed by the Securities and Futures Appeals Tribunal (SFAT).

<sup>7</sup> Under section 214 of the SFO, the SFC may seek disqualification, compensation and other orders for breaches of duty by current and former directors of listed corporations.

<sup>8</sup> David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

<sup>9</sup> Comprising eight responsible officers, nine licensed representatives and two persons involved in the management of the business of a licensed corporation.

## AML-related breaches

- We reprimanded and fined Grand International Futures Co., Limited \$8 million for failures in complying with anti-money laundering and counter-terrorist financing (AML/CFT) and other regulatory requirements. We also suspended the licence of Liang Benyou for eight months for failing to discharge his duties as a responsible officer and a member of the firm's senior management.
- We reprimanded and fined Emperor Securities Limited and Emperor Futures Limited \$5.4 million for failures in complying with AML/CFT regulatory requirements in connection with third party deposits and payments.
- We reprimanded and fined Zhonghui International Futures Company Limited \$5 million for failures in complying with KYC, AML/CFT and other regulatory requirements. We also banned Chu Chun Wai from re-entering the industry for seven months for failing to discharge his duties as a responsible officer and a member of the firm's senior management.
- We reprimanded and fined South China Commodities Limited \$4.8 million for failures in complying with AML/CFT and other regulatory requirements.
- We reprimanded and fined Mason Securities Limited<sup>10</sup> \$3.6 million for failing to ensure proper certification of client identities for account opening and put in place controls to identify third-party deposits, contrary to AML/CFT regulatory requirements.

## Other disciplinary actions

### Other regulatory breaches and criminal convictions

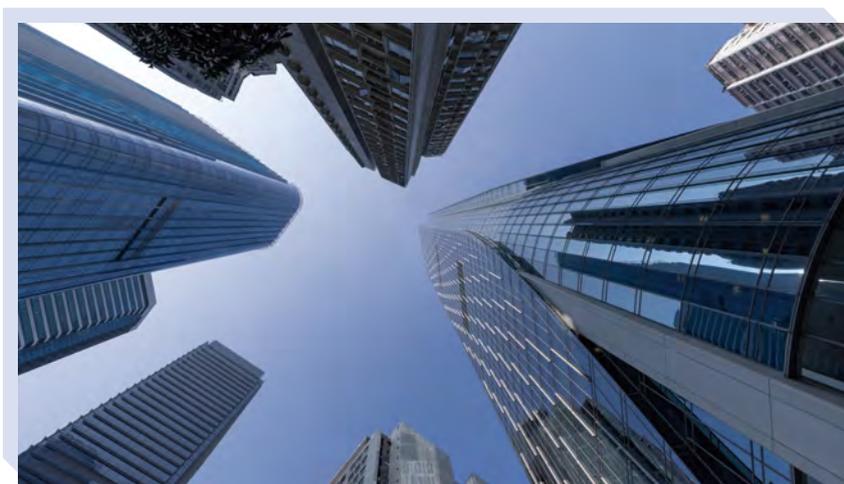
Company/Name	Breaches/Convictions	Action	Date
Leung Siu Lun	Convictions under the Prevention of Bribery Ordinance in September 2018	Banned from re-entering the industry for life	1.3.2022
Poon Chun Hing	Misappropriated client funds for his personal use	Banned from re-entering the industry for life	2.12.2021
Wang Yu Ching	Misrepresented academic qualifications to her former employers	Banned from re-entering the industry for 10 years	1.12.2021
Lau Tin Yau	Convictions under the Prevention of Bribery Ordinance in May 2018 and the SFO in September 2020	Banned from re-entering the industry for life	26.10.2021
Deutsche Securities Asia Limited	Issued incorrect statements to its prime brokerage clients and delayed reporting its failures to us	Reprimanded and fined \$2.45 million	24.6.2021
Ewarton Securities Limited	Failed to diligently supervise its licensed representative, detect and prevent unauthorised activities and ensure that client orders were given priority over its employees' orders	Reprimanded and fined \$1.5 million	27.5.2021
IDS Forex HK Limited	Conviction of its sole shareholder, Kim Sunghun, in Korea for illegal fundraising and fraud	Revoked licence	22.4.2021
Chung Wooman and Ki Bonggan	Responsible for IDS Forex HK Limited's misconduct and lack of reliability and integrity	Banned from re-entering the industry for life	22.4.2021
Optimas Capital Limited	Failed to ensure that short position reports were accurate and compliant with the requirements under the Securities and Futures (Short Position Reporting) Rules	Reprimanded and fined \$1.05 million	15.4.2021

Note: See Table 6 in Breakdown of SFC activity data on page 170 for details of the less significant disciplinary actions.

<sup>10</sup> Formerly known as GuocoCapital Limited.

### Other notable cases

- The MMT fined China Medical & HealthCare Group Limited<sup>11</sup> and six of its former and current directors<sup>12</sup> a total of \$4.2 million for failing to disclose inside information as soon as reasonably practicable. Two of the directors were disqualified from being a listed company director for six or eight months. The company and the six directors were ordered to pay our investigation and legal costs as well as the costs of the MMT proceedings, and the directors were ordered to attend an SFC-approved training programme on the corporate disclosure regime, directors' duties and corporate governance.
- We obtained compensation orders from the CFI under section 213<sup>13</sup> of the SFO against three boiler room fraudsters<sup>14</sup> purportedly based in and operating from Hong Kong. The Court appointed administrators to distribute approximately \$4.3 million remaining in six bank accounts frozen by us to 75 investors.
- The Eastern Magistrates' Court convicted Wai Chun Holdings Group Limited and its director, Lam Ching Kui, of failing to make timely disclosures of the acquisition of their interests in Chinese Strategic Holdings Limited, contravening Part XV of the SFO. They were fined and ordered to pay the SFC's investigation costs.
- The Eastern Magistrates' Court issued a warrant to arrest Zeng Lingxi for her failure to appear in court to answer two charges of obstructing our search operation. Zeng is allegedly a member of a syndicate suspected of operating ramp and dump scams involving the manipulation of the shares of a Hong Kong-listed company.
- The SFAT allowed the application for review by Cai Hongping, former Executive Officer and Managing Director of UBS AG, against our decision to ban him from re-entering the industry for five years for failing to discharge his supervisory duties as the principal in the listing application of China Metal Recycling Holdings Limited.



11 Formerly known as COL Capital Limited.

12 Wong Peng Chong, Kong Muk Yin, Chong Sok Un, Zhang Jian, Ma Wah Yan and Lau Siu Ki.

13 Section 213 of the SFO empowers the court to make a broad range of orders including injunctive relief and other civil remedies on the application of the SFC.

14 Broadspan Securities, Shepherds Hill Partners, Hong Kong and Rich Futures (HK) Limited.



Press conference on joint operation with the Police against suspected cross-border ramp and dump schemes

## Restriction notices

During the year, we issued a restriction notice to HF Asset Management Limited prohibiting it from carrying on any business which constitutes SFC-licensed regulated activities because of doubts about the firm's fitness and properness. We also issued restriction notices to two brokers, prohibiting them from dealing with or processing certain assets held in 17 trading accounts related to a suspected ramp and dump scam. Our investigations are ongoing.

## Joint operations

### Hong Kong Police

During the year, we conducted three joint operations with the Hong Kong Police, searching the premises of listed companies and their executives as part of investigations related to market manipulation, corporate fraud and other misconduct (see sidebar on page 86). One case involved simultaneous searches conducted overseas by authorities in Singapore. In total, 16 persons were arrested during these three operations, including senior executives of Hong Kong-listed companies. Our investigations are ongoing.

## ICAC

We conducted joint operations with the Independent Commission Against Corruption (ICAC) in two separate investigations where we searched the offices of listed companies and the premises of their related parties. One case involved a suspected ramp and dump market manipulation scheme and the other was related to suspicious money lending activities and possible misconduct by the company's management. The ICAC arrested six persons for suspected corruption offences during these operations.

Following our joint operation with the ICAC in 2017, four people, including two former executive directors of Convoy Global Holdings Limited, were charged by the ICAC and convicted of conspiracy to defraud at the District Court. The defendants were jailed for between four and seven months. The two former executive directors were also disqualified from being company directors for two to three years.

## Enforcement technology

Through our organisation-wide Market Intelligence Programme, we use the latest technologies to identify risks in our markets, including potential misconduct by interconnected parties. Data collected from our operations and public sources is analysed to isolate patterns and connections amongst individuals, companies and transactions which may indicate conduct risks.

## Enforcement

### Cooperation with the Police

Our active collaboration with the Hong Kong Police includes case referrals, information exchanges, joint investigations and enforcement assistance under the framework of a memorandum of understanding we entered into in 2017. During the year, we leveraged our collective powers and expertise to conduct major joint operations which demonstrated our determination to tackle complex financial crime through close collaboration with local and overseas law enforcement agencies and regulators.

- In April 2021, a joint operation targeted a syndicate suspected of operating ramp and dump market manipulation schemes and committing fraud.
- A joint search operation was conducted in August 2021 against a listed company and its former senior executives for suspected corporate fraud involving a total of \$450 million.



Meeting with the Police's Commercial Crime Bureau



Training workshop for investigators

- In December 2021, we took part in a joint operation with the Hong Kong Police, the Monetary Authority of Singapore and the Singapore Police Force against a syndicate suspected of operating cross-border ramp and dump market manipulation schemes in Hong Kong and Singapore.

We also hold regular meetings with the Hong Kong Police to discuss both case-specific and strategic matters and work with its ADCC to raise public awareness about the risks of falling victims to social media ramp and dump scams.

In December 2021, we hosted a training workshop for investigators from the Hong Kong Police and other local regulators to share our experience investigating serious financial crime. We also gave presentations for other Hong Kong Police training sessions.

## Enforcement cooperation with CSRC

Throughout the extraordinary period of the global COVID-19 pandemic, we worked closely with the China Securities and Regulatory Commission (CSRC) through multiple communication channels to overcome disruptions and challenges and ensure smooth and efficient cross-boundary enforcement cooperation, enabling us to tackle emerging issues together in a timely and effective manner.

We provided thorough investigatory assistance to one another including the highest level of support in major, sensitive and urgent cases. Our ongoing cooperation and joint efforts in combating cross-boundary market misconduct helped safeguard the sound development of capital markets and protect the interests of investors in both jurisdictions.

At two high-level video conferences on enforcement cooperation and other working-level meetings held with the CSRC, we reached consensus in areas

including enhancing and optimising our enforcement cooperation mechanism, improving the cooperation arrangements for major and urgent cross-boundary cases, promoting interaction and exchanges amongst enforcement officers and organising joint training workshops.

In November 2021, we held a joint enforcement training course with the CSRC. Conducted virtually for the first time, around 550 officers from both regulators attended the three-day course, where they learned about the differences in the two markets' enforcement practices and shared enforcement approaches and experience.

The close and diverse collaboration we have established with the CSRC over the years has provided for effective cross-boundary enforcement outcomes. Both regulators look forward to expanding our partnership.



Mission and Mandates

Message from Chairman and CEO

Strategic Priorities

Environmental, Social and Governance

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Corporate Developments

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Supplementary Information

## Enforcement

### Enforcement activities

	2021/22	2020/21	2019/20
S179 <sup>a</sup> inquiries commenced	57	42	31
S181 <sup>b</sup> inquiries commenced (number of letters sent)	203 (7,308)	246 (8,748)	231 (8,767)
S182 <sup>c</sup> directions issued	214	189	187
Investigations started	220	204	197
Investigations completed	131	196	182
Individuals/corporations charged in criminal proceedings	4	10	7
Criminal charges laid <sup>d</sup>	28	29	10
Notices of Proposed Disciplinary Action <sup>e</sup> issued	37	27	35
Notices of Decisions <sup>f</sup> issued	43	35	46
Individuals/corporations subject to ongoing civil proceedings	168	179	158
Compliance advice letters issued	162	231	218
Cases with search warrants executed	37	28	17

a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

d The SFC brought a total of 28 criminal charges against three individuals and one corporation.

e A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

f A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Note: Also see Table 7 in Breakdown of SFC activity data on page 171 for more details.

# Regulatory Engagement

We are active in international policy making through our participation in global standard-setting bodies and collaborate closely with local and Mainland authorities on regulatory and market development initiatives.

## International

### IOSCO

Our Chief Executive Officer (CEO) Mr Ashley Alder is the Chair of the Board of the International Organization of Securities Commissions (IOSCO)<sup>1</sup>. During the year, Mr Alder chaired regular calls and virtual meetings of the IOSCO Board to identify and address emerging regulatory issues and share information about developments in capital markets. Areas of focus included the continuing response to the pandemic, geopolitical events, non-bank financial intermediation (NBFI), sustainable finance and crypto assets.

We work closely with the IOSCO Secretariat to develop policy initiatives, facilitate collaboration between IOSCO and the Financial Stability Board (FSB) and promote interaction and cooperation amongst members from emerging and developed economies.

We participate in the IOSCO Financial Stability Engagement Group (FSEG) and its Steering Group to coordinate IOSCO's role in addressing financial stability risks with the FSB, identify and address vulnerabilities associated with NBFI and provide technical analyses on issues arising from COVID-19.

Mr Alder co-chairs the CPMI<sup>2</sup>-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of central counterparties, and we also participate in its Policy Standing Group and Implementation Monitoring Standing Group. In October 2021, CPMI and IOSCO issued a consultation report with guidance on the application of the Principles for Financial Market Infrastructures to stablecoin arrangements.

At the annual EU-Asia Pacific Forum on Financial Regulation in March 2022, the SFC presented recent sustainable finance developments within IOSCO and in Hong Kong. Mr Alder emphasised the importance of international cooperation in operational resilience, sustainable finance and digital assets.

We participate in all eight IOSCO policy committees as well as the Asia-Pacific Regional Committee (APRC), Assessment Committee, Committee on Emerging Risks, and the Sustainable Finance Task Force (STF).

- The SFC leads the APRC's working group on sustainable finance which aims to drive consistent regulation within the region on areas related to environmental, social and governance (ESG) including climate-related disclosures. Other APRC initiatives include enhancing regional supervisory cooperation and addressing cross-border regulation and market fragmentation. Mr Tim Lui, our Chairman, and Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, participated in an APRC meeting in March 2022 and shared their perspectives on sustainable finance and digital assets.
- Ms Julia Leung serves as a Vice-chair of the STF and co-leads its Corporate Reporting Workstream which oversees the work of the International Sustainability Standards Board (ISSB) Technical Review Coordination Group and spearheads work on assurance. We are a member of the STF's other workstreams on industry and supervisory good practices and carbon markets. In 2021, Ms Leung co-led the STF workstream on sustainability-related disclosures for asset management which issued a report in November 2021 with recommendations to address greenwashing concerns. We also contributed to the STF's work on sustainability-related issuer disclosures and ESG ratings and data products providers during the year.
- Ms Christina Choi, our Executive Director of Investment Products, chairs the Committee on Investment Management and its core expert group which supports FSEG in relation to open-ended funds. She also leads the committee's exchange-traded funds (ETF) workgroup which in August 2021 issued a thematic note on ETF behaviour during COVID-19-induced market stresses as well as a consultation report in April 2022 on good practices for ETFs.

1 IOSCO is responsible for developing, implementing and promoting adherence to internationally recognised standards for securities regulation.

2 The Committee on Payments and Market Infrastructures.

## Regulatory Engagement

- Mr Rico Leung, our Executive Director of Supervision of Markets, co-leads an FSB-IOSCO joint workstream on the analysis of systemic risks using data from trade repositories. As part of the workstream's activities, the SFC has shared its experience using trade repository data to identify concentration risks and possible vulnerabilities arising from positions established in the over-the-counter (OTC) market.
- We co-chair an IOSCO cross-committee work group which is exploring potential conduct-related issues in the leveraged loans and collateralised loan obligations markets and their impact on investor protection, market integrity and financial stability.
- As a member of the IOSCO Assessment Committee, we participate in the review team assessing the implementation of the recommendations for liquidity risk management for collective investment schemes published by IOSCO in 2018.
- We act as Vice-Chair of the Committee on Enforcement and the Exchange of Information which helps strengthen global securities law enforcement cooperation.
- We are a member of the IOSCO Retail Market Conduct Task Force, the Follow-Up Group on regulatory and supervisory cooperation, the Fintech Task Force and the Data Analytics Group. We are also a member of the Operational Resilience Group, which aims to identify lessons learnt from operational disruptions caused by the COVID-19 pandemic. We participated in a cross-committee workgroup which published a final report on the Principles for Outsourcing in October 2021.

### FSB

In his role as IOSCO Board Chair, Mr Alder participated in FSB meetings during the year, including those of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and Steering Committee Group on NBF, to discuss issues including financial stability, sustainable finance and crypto assets.

We participate in the FSB Standing Committee on Standards Implementation, which oversees peer reviews and also evaluates reforms and monitors their implementation. In addition, we are a member of the

FSB Regional Consultative Group for Asia, which during the year considered the implications of the pandemic, outsourcing and third-party relationships, financial stability and vulnerabilities affecting the region, and a member of the FSB Cross-Border Crisis Management Group for Financial Market Infrastructures, which monitors and promotes the implementation of resolution regimes.

Under the FSB Standing Committee on Supervisory and Regulatory Cooperation, Ms Christina Choi co-chairs a workstream conducting an assessment of the effectiveness of the 2017 FSB policy recommendations to address financial stability risks stemming from liquidity mismatches in open-ended funds.

### Mainland China

To strengthen Hong Kong's unique role as a connector between the Mainland and global financial markets, we work proactively to deepen mutual market access schemes and hold regular discussions with the China Securities Regulatory Commission (CSRC) to enhance cross-boundary supervisory and enforcement cooperation (see sidebar on pages 92-93).

At the ninth and tenth biannual SFC-CSRC high-level meetings held virtually in June 2021 and January 2022, we reached consensus on a number of cross-boundary regulatory issues and market development initiatives as well as how the two regulators could work together to consolidate Hong Kong's status as an international financial centre.

We maintain close and frequent working-level communication with the CSRC to discuss technical challenges and the implementation of a wide range of regulatory arrangements, including those related to Hong Kong-listed Mainland enterprises, the launch of MSCI A-share index futures in Hong Kong, mutual market access schemes and the supervision of financial institutions with Mainland backgrounds. During the year, we shared with Mainland regulators Hong Kong's experience in vetting initial public offering applications, regulating issuers and supervising OTC transactions. In December 2021, the Mainland and Hong Kong exchanges and clearing houses reached an agreement on arrangements for including eligible ETFs in Stock Connect in accordance with an earlier joint announcement by the SFC and the CSRC.

We support the Government of the Hong Kong Special Administrative Region (HKSAR) in strengthening cooperative relationships with Mainland authorities to develop Hong Kong's financial services industry and help it gain greater access to Mainland markets. We also work closely with Mainland authorities to implement initiatives set out in the Greater Bay Area development plan, including the official launch of the Cross-boundary Wealth Management Connect Scheme in September 2021. We attended the first Guangdong-Hong Kong Financial Cooperation Seminar co-chaired by the Vice-Governor of Guangdong Province, Mr Zhang Xin, and the Financial Secretary, Mr Paul Chan, in September 2021.

## Other engagement

During the year, we responded to 95 requests for information and bilateral meetings from overseas regulators and industry bodies.

We held virtual meetings and calls to discuss emerging regulatory developments with overseas regulators and other authorities, including the European Securities and Markets Authority, the US Securities and Exchange Commission and Commodity Futures Trading Commission, the Autorité des marchés financiers of France, the UK Financial Conduct Authority, Japan's Financial Services Agency and Italy's Commissione Nazionale per le Società e la Borsa.

Mr Alder engaged with industry associations to discuss regulatory issues, including the International Swaps and Derivatives Association, Investment Company Institute, International Capital Market Association, Asia Securities Industry and Financial Markets Association and Official Monetary and Financial Institutions Forum.

We held the 13th Bilateral Regulatory Meeting with the Taiwan Financial Supervisory Commission in December 2021 to exchange views on regulatory reforms in the two markets, sustainable finance and enforcement actions against social media investment scams.

To deepen financial integration within the Greater Bay Area, we are working closely with the Hong Kong Monetary Authority (HKMA) and the Mainland authorities to implement the pilot Cross-boundary Wealth Management Connect Scheme. We will also work with the authorities to explore potential enhancements to the scheme.

We held a meeting with the HKMA under our memorandum of understanding to exchange views on licensing matters, new regulated activities, the development of Wealth Management Connect, virtual assets, selling practices, thematic reviews and other regulatory issues.

In February 2022, the crisis management group for HKFE Clearing Corporation Limited completed a cross-border cooperation agreement. Created in 2018 following the designation of HKFE Clearing Corporation Limited as systemically important in more than one jurisdiction, the group consists of the SFC, French Autorité de contrôle prudentiel et de résolution and European Union Single Resolution Board.

We introduced the Hong Kong takeovers regime to South African market practitioners at a webinar hosted by the Takeover Regulation Panel of South Africa in September 2021.

## Requests for regulatory assistance

	2021/22		2020/21		2019/20	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests	83	80	110	108	103	95
Licensing-related requests	100	1	128	3	143	18

## Regulatory Engagement

### Cooperation with our Mainland counterpart

With the expansion of cross-boundary capital flows, Hong Kong's capital market is increasingly integrated with the Mainland's and the changing global financial landscape has provided opportunities as well as challenges for markets and regulators in both jurisdictions.

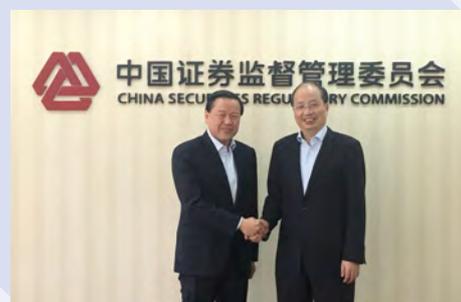
The SFC and the CSRC share a common goal of safeguarding the interests of investors and upholding the integrity of the securities and futures markets, and the close cooperative relationship they have established over the years is now more important than ever.

#### SFC-CSRC cooperation



#### Regulatory collaboration

We have established collaborative regulatory arrangements with the CSRC in key areas such as the listing of Mainland enterprises in Hong Kong, mutual recognition of funds, supervision of intermediaries, investigatory assistance and information exchanges as well as investor education. In addition, we have signed more than 20 memoranda of understanding and cooperative arrangements with the CSRC in recent years. These facilitate our supervisory and enforcement cooperation and help us promote the healthy development of mutual market access schemes.



SFC Chairman Mr Tim Lui (left) meets CSRC Chairman Mr Yi Huiman

We also worked with the CSRC to develop a series of sophisticated market surveillance and information exchange mechanisms. For example, the investor identification regime under Stock Connect trading helps the two regulators monitor their markets more effectively.

In enforcement and investigatory cooperation, we have formed a strong, reliable partnership to ensure a timely response to challenges arising from increasingly serious and complex cross-boundary corporate fraud and other market misconduct to protect investors and maintain the sound operation of both markets.

#### Market development

Robust regulatory cooperation and a high degree of mutual trust have been essential as we worked with the CSRC to introduce a number of pilot projects to develop Hong Kong as an offshore platform to facilitate the Mainland's financial reform and opening-up.

Mutual market access schemes between the Mainland and Hong Kong, in particular Stock Connect, have been game changers, providing a convenient way for investors to directly access securities in one another's markets without having to change major trading conventions. Cross-boundary fund flows between the Mainland and Hong Kong have proceeded smoothly in a closed-loop system, with the overall risks under the monitoring and control of the authorities.



SFC CEO Mr Ashley Alder (left) with CSRC Vice Chairman Mr Fang Xinghai

More recently, we cooperated with the CSRC to promote Hong Kong’s development as a leading risk management centre, providing international investors with additional channels to manage their Mainland-related risk exposures. The newly-launched MSCI A-share index futures contract demonstrated the growing importance of Hong Kong as a place to hedge Mainland equity risk.

### Hong Kong’s IFC strategy

In light of the strategic opportunities for Hong Kong presented by the National 14th Five-year Plan<sup>a</sup> and the development of the Greater Bay Area, we set up a working group with the HKSAR Government and other regulators to explore ways to consolidate Hong Kong’s status as a leading international financial centre (IFC) and complement the Mainland’s economic and

financial development. Throughout this process, we maintained close communication with the CSRC, whose insights helped us consider the broad picture from a national strategic perspective and align our planning with the nation’s market development and financial reform.

### Close communication

The SFC has a dedicated Mainland Affairs team to serve as the main contact point for cross-boundary cooperation with the CSRC and other Mainland counterparts. The team provides insights and advice on cooperation initiatives and develops strategies and priorities to enhance the competitiveness of Hong Kong as an IFC. To strengthen mutual trust and understanding and promote smooth, effective regulatory cooperation, we organise high-level talks and working-level meetings and training programmes between the two regulators on a regular basis.



The SFC and CSRC hold biannual high-level meetings

<sup>a</sup> The National 14th Five-year Plan supports Hong Kong’s continuing growth as an international financial centre and its deepening integration with the Mainland market.

# Stakeholders

To promote a wider understanding of our work and provide up-to-date regulatory information, we engage with a broad range of stakeholders in an accessible and proactive manner through multiple channels.

## Industry

We maintain an open and productive dialogue with industry associations, professional bodies and other market participants. We organise regular meetings, briefing sessions and workshops and contribute articles to industry association newsletters to keep market participants informed about regulatory developments.

The fourth SFC Regulatory Forum held in November 2021 attracted more than 1,100 industry participants (see sidebar on pages 97-98). In the same month, we co-organised the Hong Kong FinTech Week 2021, where Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, spoke on the SFC’s approach to the regulation of financial technology and the latest developments.

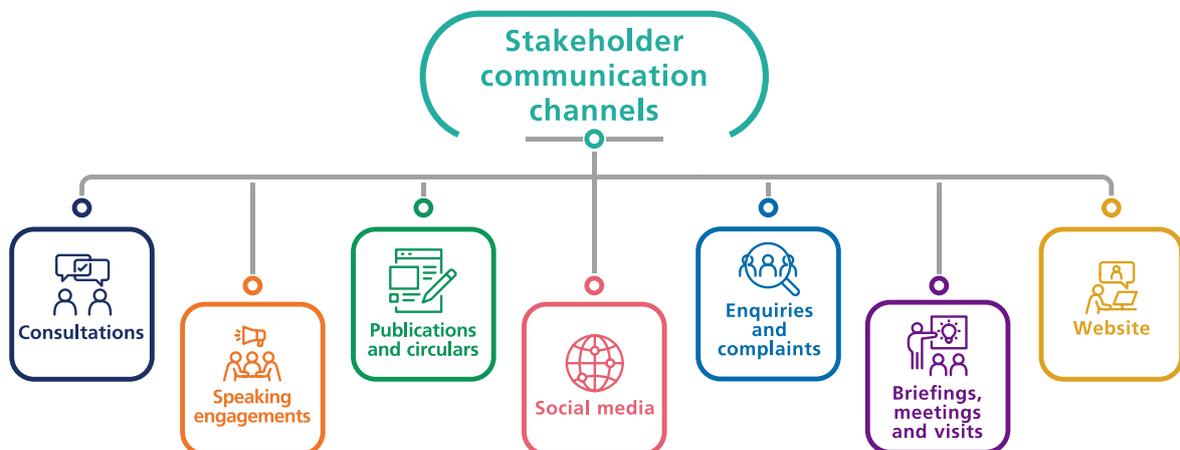
To introduce new climate-related risks management and disclosure requirements under the Fund Manager Code of Conduct, we organised two Facebook Live training sessions in October 2021 which were attended by around 1,000 participants. Together with the Joint Financial Intelligence Unit, we hosted a joint webinar in December on anti-money laundering and counter-terrorist financing for 1,600 management and compliance personnel from licensed corporations.



Mr Tim Lui, Chairman, at a CPA Australia event

During the year, our senior executives spoke at 98 local and international events on a wide range of topics within our remit, including financial regulation, asset management and climate finance. We supported 22 seminars and events organised by industry bodies.

In keynote speeches delivered in November 2021, our Chairman Mr Tim Lui discussed Hong Kong’s unique position to develop as the regional green finance hub at a summit co-hosted by the World Green Organisation and the United Nations Economic and Social Commission for Asia and the Pacific and an industry conference on ESG<sup>1</sup> technology and data.



1 Environmental, social and governance.



CEO Mr Ashley Alder at the HKEX Green Asia Summit 2021 (Photo: HKEX)

Also in November, our CEO Mr Ashley Alder attended the 26th United Nations Climate Change Conference of the Parties<sup>2</sup> in Glasgow, Scotland, where he spoke about sustainability disclosure and the significance of the establishment of the International Sustainability Standards Board. He also gave a keynote speech at the Green Horizon Summit on pathways to achieving net zero targets.

When proposing rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation. We also consult the public on proposed non-statutory codes and guidelines as well as amendments to them. By issuing consultation papers, we detail our proposals and hold both formal and informal discussions to hear stakeholders' views as part of our consultation process. After completing our analysis, we publish a consultation conclusions paper summarising the main comments received and setting out our conclusions. During the year, we published three consultation papers and eight consultation conclusions.

Our publications aim to update the industry on our regulatory work, topical issues and other developments. This year, we issued 13 thematic publications, including newsletters, market reviews and surveys.

We issue circulars and publish frequently asked questions on our website to help the industry better understand our regulatory requirements. During the year, 85 circulars provided guidance on a range of

matters, including the disclosure of funds' ESG-related features, over-the-counter derivatives trade reporting, business continuity planning under the COVID-19 pandemic and updates on anti-money laundering and counter-terrorist financing.

We respond verbally or in writing to enquiries from the industry on topics related to our rules and regulations, including licensing, listings and takeovers, product authorisation and short position reporting. Designated e-mail addresses are provided to help us handle enquiries on specific topics more efficiently.

The SFC Fintech Contact Point promotes communication with businesses involved in the development and application of financial technology in the conduct of regulated activities in Hong Kong. We received 67 Fintech-related enquiries during the year.

## Government

We attend Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, to provide legislators with details of our policy initiatives, explain the rationale behind our work and answer questions. We also respond to enquiries and complaints referred to us or raised by LegCo members and other government agencies.

Maintaining close liaison with the Financial Services and the Treasury Bureau, we provide updates on our regulatory initiatives through regular meetings and reports. In addition, we provide assistance and information to other government bureaux and departments on various issues.

## Regulatory counterparts

We collaborate closely with local, Mainland and overseas regulatory counterparts<sup>3</sup>, particularly with the China Securities Regulatory Commission. During the year, we held more than 60 memoranda of understanding meetings with other authorities.

To contribute to global policymaking which may have an impact on our markets, we take an active part in the global regulatory arena and participate in both the International Organization of Securities Commissions and the Financial Stability Board.

<sup>2</sup> See Green and Sustainable Finance on page 37.

<sup>3</sup> See Regulatory Engagement on pages 89-93.

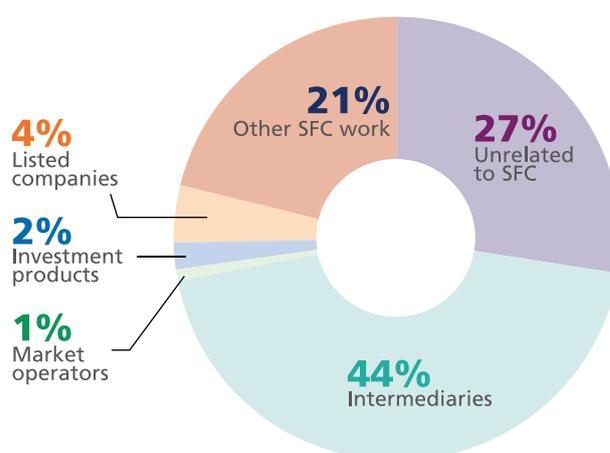
## Stakeholders



Ms Julia Leung, Deputy CEO and Executive Director of Intermediaries, at the Hong Kong FinTech Week 2021

with Bloomberg and CNBC, Mr Alder discussed green and sustainable finance, including the importance of establishing global standards around company sustainability reporting.

### General enquiries



### The public

We formulate and execute media strategies to enhance public understanding of our work by proactively engaging the media and explaining our policies, initiatives and regulatory actions.

We address public concerns and enquiries regarding the securities and futures markets. This year, we received 4,207 general enquiries and 4,041 complaints.

Our senior executives gave media interviews to foster public understanding of Hong Kong's financial regulatory framework and the SFC's role. In interviews

We issued 111 press releases to inform the public of the latest regulatory actions and other SFC news. We also published three policy statements and announcements explaining our regulatory approach to specific issues, including a statement with the Stock Exchange of Hong Kong Limited in May 2021 on our joint efforts to combat misconduct and improper behaviour in new listings.

### Complaints against intermediaries and market activities

	2021/22	2020/21	2019/20
Conduct of licensees	725	802	583
Conduct of registered institutions	27	20	27
Listing-related matters and disclosure of interests	1,761	2,856	2,065
Market misconduct <sup>a</sup>	512	922	478
Product disclosure	17	85	14
Unlicensed activities	96	108	176
Breach of offers of investments	50	142	98
Boiler rooms and suspicious websites	374	600	486
Scams and frauds <sup>b</sup>	270	554	276
Other financial activities not regulated by SFC <sup>c</sup>	209	295	288
<b>Total</b>	<b>4,041</b>	<b>6,384</b>	<b>4,491</b>

a Primarily, alleged market manipulation and insider dealing.

b Such as identity fraud and impersonation.

c For example, bullion trading and banking services.

## Publications and other communications

	2021/22	2020/21	2019/20
Press releases	111	132	123
Policy statements and announcements	3	8	8
Consultation papers	3	8	4
Consultation conclusions	8	6	4
Industry-related publications	13	12	15
Codes and guidelines <sup>a</sup>	5	6	5
Circulars to industry	85	65	73
Corporate website average daily page views <sup>b</sup>	35,415	33,834	42,816
General enquiries	4,207	6,969	6,037

a Includes updates to previous versions.

b The average number of webpages browsed per day during the reporting period.

We released our *Annual Report 2020-21* and quarterly reports to help our stakeholders and the public understand our key regulatory work and corporate developments. Our reporting efforts were recognised with a Gold Award and an Excellence Award in Environmental, Social and Governance Reporting in the Hong Kong Management Association's Best Annual Reports Awards 2021. The report also

won a Corporate Governance Award in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance and ESG Awards 2021.

On our corporate website, the public can easily obtain up-to-date information about our work and regulations.

### SFC Regulatory Forum 2021

The fourth SFC Regulatory Forum, held on 25 November 2021, focused on the future of Hong Kong's unique role as China's international financial centre. The event opened with remarks from Chairman Mr Tim Lui, who emphasised that Hong Kong is now even better placed than before to be the hub for a range of investment flows between China and the rest of the world.

In the keynote address, Mr Paul Chan Mo-po, Financial Secretary of the Hong Kong Special Administrative Region, said that Hong Kong's financial system has remained stable and resilient, and he emphasised the importance of reviewing our regulatory mechanisms to ensure the smooth functioning of Hong Kong's financial system and overall stability.

Leaders of global firms joined Mainland and Hong Kong regulators for a panel discussion on Hong Kong's evolving role as the global financial industry gains greater access to the Mainland, capital flows remain strong and geopolitical tensions persist. CEO Mr Ashley Alder remarked that Hong Kong's unique position allowed it to construct the regulatory underpinnings for all of the global and Mainland financial activities in its markets, and this could not be replicated elsewhere.

**"The relationship between the Mainland and Hong Kong capital markets is highly symbiotic because Hong Kong provides access to the global institutional capital the Mainland needs."**

*Mr Gokul Laroia, Co-Head of Global Equities and CEO of Asia Pacific, Morgan Stanley*

## Stakeholders



**“As an international financial centre, Hong Kong provides a unique ecosystem offering legal certainty, experienced professionals, products accessible by Mainland investors and, most importantly, a solid regulatory framework.”**

*Mr Filippo Gori, Chief Executive Officer, Asia Pacific, J.P. Morgan*

The second panel of the day focused on the challenges and opportunities facing the asset and wealth management industry in Hong Kong in the context of mutual market access schemes and emerging industry trends including ESG, new fund structures and digitalisation. Panellists noted that talent is a key priority and asset managers can play a significant role in supporting the development of China’s financial market.

During a panel discussion on the opportunities arising from the expansion of Mainland-Hong Kong mutual market access and market integration in the Greater Bay Area, speakers discussed the outlook for the industry and the need for firms to manage greater regulatory, operational and geopolitical risks. Misconduct and other issues with listed companies and initial

**“Sustainable investing will have a fundamental strategic impact and change every aspect of the asset management industry.”**

*Mr Dan Watkins, Chief Executive Officer, Asia Pacific, J.P. Morgan Asset Management*



**“There is a need to keep improving governance standards in Hong Kong so that it remains attractive for international capital.”**

*Mr David Wong, Senior Investment Strategist, Head – Asia Business Development, Equities, Co-Chair – Responsible Investing Steering Committee, Asia Pacific, AllianceBernstein Hong Kong*

public offerings was the topic of another panel, which considered what could be done to enhance the listing regime and examined the essential attributes of a quality fund-raising platform.

The final panel, comprising local law enforcement representatives and experts, discussed how the increasing interaction between technology and financial services has given rise to new kinds of fraud and misconduct which have made investigations and enforcement efforts more complex and challenging.

More than 1,100 senior representatives from the financial industry, listed companies, professional services firms and industry associations attended the full-day event in person or online. Videos of the proceedings and a summary of discussions were posted on the SFC website.

**“Information sharing and joint efforts amongst enforcement agencies and regulators are crucial because no single agency can handle highly complex enforcement cases.”**

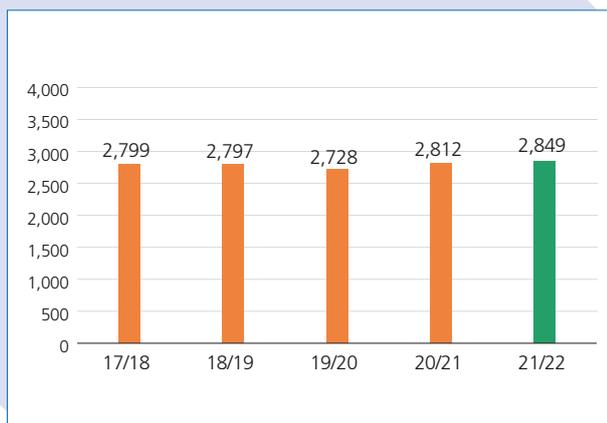
*Mr Wong Chi-kwong, Chief Superintendent of Police (Commercial Crime Bureau), Hong Kong Police Force*



# SFC Activity Data

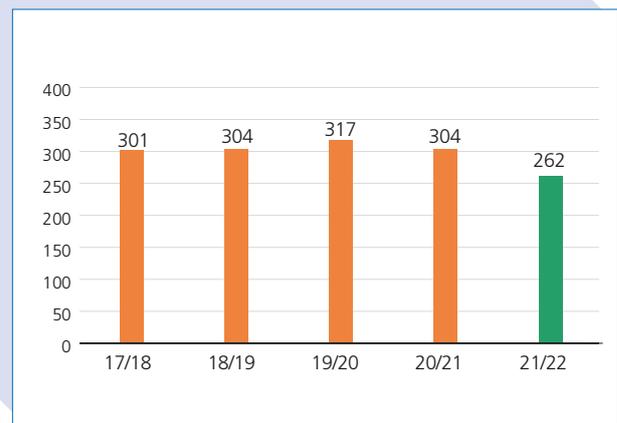
These charts are intended to show some top-line data at a glance. See Breakdown of SFC activity data on pages 166-172 for more details.

## Authorised collective investment schemes

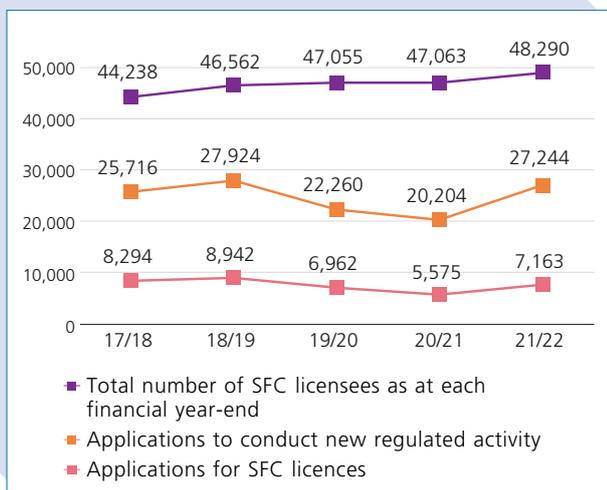


Note: Figures represent a snapshot view as at each financial year-end.

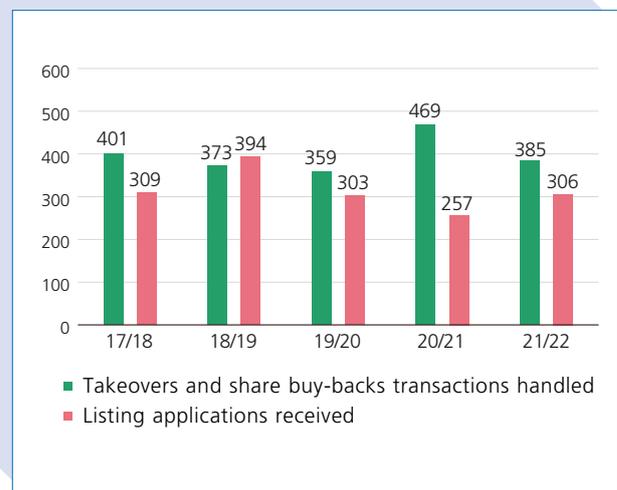
## On-site inspections of intermediaries



## Licensing

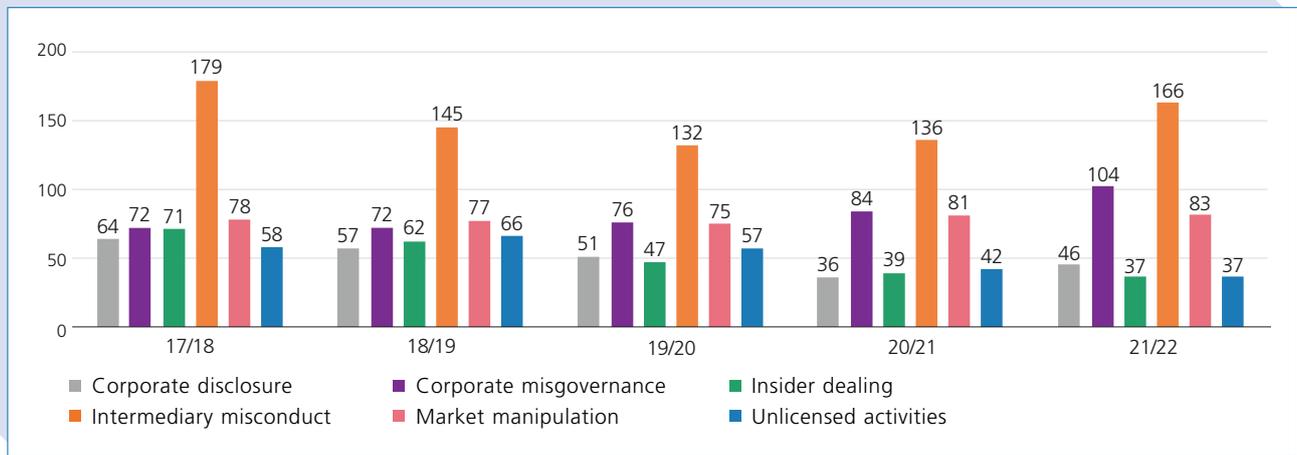


## Takeovers and listing applications

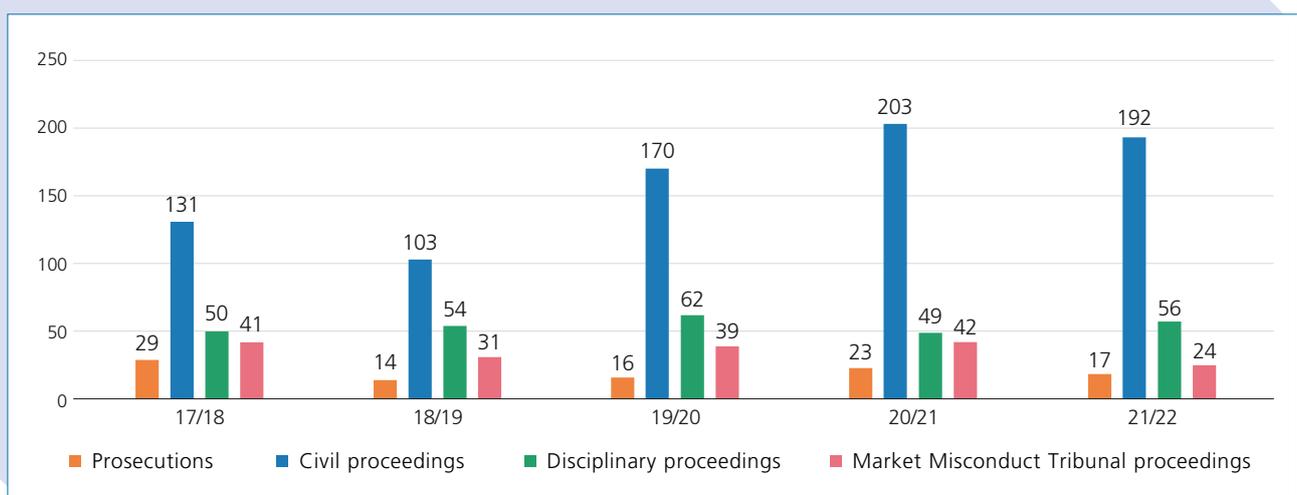


## SFC Activity Data

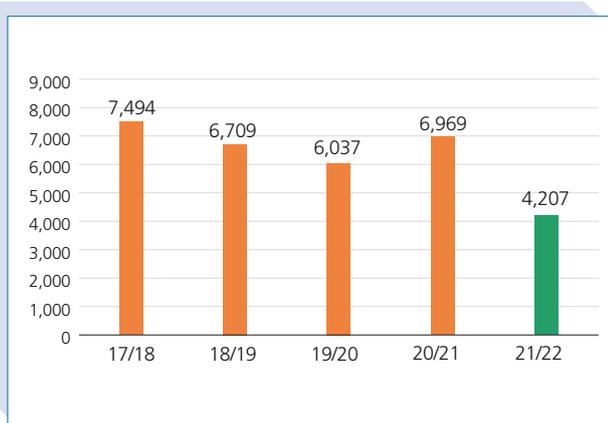
### Investigations



### Persons/corporations subject to enforcement action



### General enquiries



### Complaints against intermediaries and market activities

