

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)¹. 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 CPMI²-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.

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- 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 NBFIs, 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^a 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

^a 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.