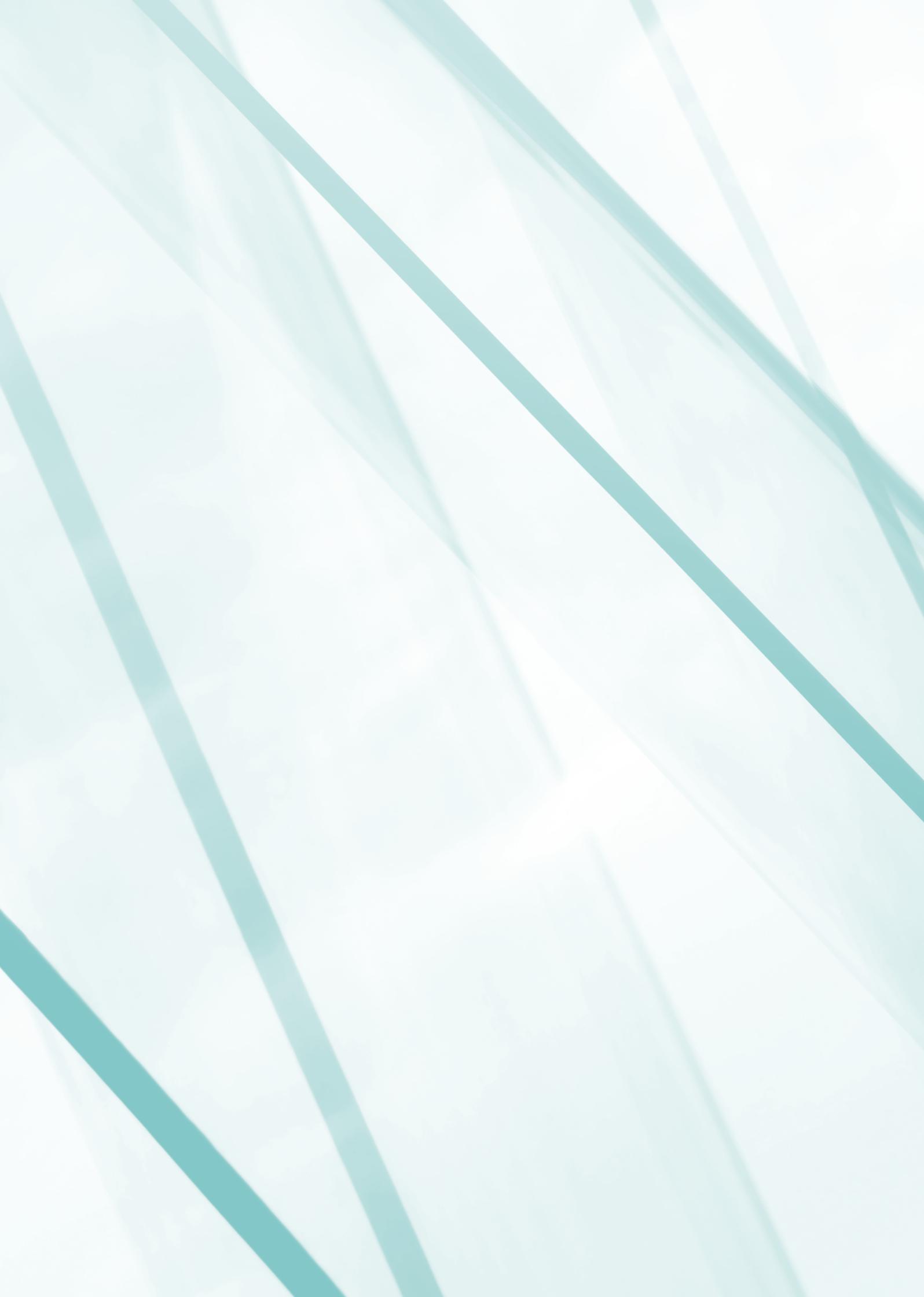




**SECURITIES AND  
FUTURES COMMISSION**  
證券及期貨事務監察委員會

# **Annual Report** **2021-22**



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# Mission and Mandates

## Mission statement

As a financial regulator in an international financial centre, the Securities and Futures Commission (SFC) strives to strengthen and protect the integrity and soundness of the securities and futures markets in Hong Kong for the benefit of investors and the industry.

## Mandates

Our work is defined and governed by the Securities and Futures Ordinance (SFO), which sets out our powers, roles and responsibilities.

## Our statutory objectives

Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry

Help the public understand the workings of the industry

Provide protection for the investing public

Minimise crime and misconduct in the industry

Reduce systemic risks in the industry

Assist the Government in maintaining Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. Since then, our education function has been delegated to a subsidiary, the Investor and Financial Education Council, which provides financial consumer education and information to help raise financial literacy in Hong Kong.

The Investor Compensation Company Limited, another subsidiary, was established in 2003 to manage and administer claims against the Investor Compensation Fund. It provides a measure of protection for investors in cases of broker default.

## Regulatory functions

Our work can be divided into five principal areas. We adopt a multidisciplinary approach under a "one SFC" ethos to leverage all of our regulatory tools and pool our expertise to achieve our objectives.

### Corporates

We oversee listing and takeovers matters in Hong Kong, including the vetting of listing applications, disclosure requirements for listed companies, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK).

Empowered by the Securities and Futures (Stock Market Listing) Rules and more generally under the SFO, we intervene in corporate cases at an early stage when we have reason to believe that a proposal may be harmful to investors or the broader public interest. We may raise objections to listing applications and transactions proposed by listed companies, or direct SEHK to suspend trading in a listed company's shares.

On a daily basis, we monitor company announcements to identify misconduct or irregularities. We facilitate the fair treatment of investors in corporate activities such as mergers, takeovers, privatisations and share buy-backs.

### Intermediaries

We set standards and qualifying criteria for corporations and individuals operating in our markets under the SFO. To protect the investing public, we allow only "fit and proper" persons to be licensed or registered.

We supervise licensed intermediaries to ensure financial soundness and compliance with business conduct requirements through off-site monitoring and on-site inspections. Our approach aims to detect risks early and through timely intervention prevent them from spreading. We promote the industry's awareness of emerging issues and encourage proper market conduct by providing appropriate guidance.

We work closely with local and overseas regulatory counterparts and participate in international supervisory fora to enhance cooperation and coordination.

## Products

To develop Hong Kong as a full-service international asset and wealth management centre and preferred fund domicile, we formulate policies and support initiatives for the regulation of the asset and wealth management industry.

We maintain robust regulations for investment products offered to the public in Hong Kong under the SFO. We perform gate-keeping functions in authorising investment products and monitor their compliance with disclosure and other requirements.

We require offering documents of retail investment products to be accurate and to provide adequate information for investors to make informed decisions.

## Markets

We formulate policies to facilitate the development of market infrastructure and boost links with Mainland and international markets. We also collect quantitative information about the financial markets as a means to help reduce systemic risks.

We conduct day-to-day supervision and monitoring of exchanges, clearing houses and authorised automated trading services providers and we regulate share registrars.

## Enforcement

We combat crime and misconduct in the securities and futures markets through our surveillance, investigative and disciplinary work. Where appropriate, we take action to remedy the effects of market misconduct by applying to the court for injunctive and remedial orders.

We work with other law enforcement agencies as well as Mainland and overseas regulatory bodies on investigations where required.

Our major enforcement actions include criminal prosecution and civil, disciplinary and market misconduct proceedings.

## Regulatory collaboration

To ensure our regulatory framework aligns with global standards, we actively participate in the International Organization of Securities Commissions and other global rule-setting bodies. We work closely with local and Mainland authorities to support Hong Kong's long-term strategic development amidst the opening of Mainland financial markets.

## Stakeholders

We maintain close communication with stakeholders to help them understand our work and the rationale behind it. When formulating policies, we consult the industry and the public through a variety of channels.



# Message from Chairman and CEO



**Tim Lui**  
Chairman

**“Hong Kong will remain an essential gateway for global firms and investors to access the Mainland.”**

In everything we do, we are ever mindful of the need to uphold our reputation for integrity, impartiality and accountability. No matter how complex our operating environment becomes, we remain acutely aware of the critical importance of public confidence in our work and strive to carry out our duties objectively, independently and transparently.

## Steadfast in times of change

“Business as usual” regulation is at the heart of all of our efforts, day in and day out, in the face of varied and at times extraordinary challenges. Above all else, this means ensuring that we act in a consistent and principled manner, whilst keeping a laser focus on the areas of greatest risk where our work must have the greatest impact.

A top priority is to ensure that the market as a whole remains open and operates in an orderly fashion with integrity, particularly amidst disruptions and uncertainty. Staying vigilant and adaptive has allowed us to respond quickly to rapidly changing market conditions.

For example, we further stepped up our efforts to encourage firms to maintain robust business continuity plans to manage the disruptions brought by the prolonged COVID-19 pandemic. This has led to market volatility and presented major operational challenges associated with special work arrangements and other emergency measures

across the financial industry. We adopted a pragmatic approach whilst ensuring market integrity and investor interests were not compromised, deferring regulatory timetables to ease pressure on stretched resources across a range of regulated firms and allowing more flexibility in licensing matters. We also promptly clarified the requirements for listed companies’ general meetings and the filing of audited financial statements.

## Building on the fundamentals

The proactive, risk-based approach we have pursued over the past few years helps us maintain our effectiveness when operating in an uncertain and always fast-changing environment. We are now oriented around a few key areas.

To maintain a quality listing market, we have doubled down on our “front-loaded” approach to tackle misconduct related to initial public offerings (IPOs) and post-IPO activities. We closely scrutinise problematic listing applications and use our power to take early action to impose listing conditions where necessary. When changes to the listing rules are contemplated, such as the recently introduced framework for special purpose acquisition companies, we work hard to ensure they are suitable for the unique characteristics of the Hong Kong market.

## Message from Chairman and CEO

**“We are acutely aware of the critical importance of public confidence and strive to carry out our duties objectively, independently and transparently.”**

**Ashley Alder**  
Chief Executive Officer



In our policy work, we aim to construct frameworks which limit risk, establish certainty and enable markets to thrive. For example, the SFC was amongst the first regulators who set out a defined licensing path for virtual asset (or crypto) trading platforms.

At the same time, we are pursuing multiple initiatives to maintain Hong Kong’s distinctive status, develop its unique advantages and establish a sound foundation for the future. To ensure we address the most important threats as they emerge, we maintain a determined focus on managing risks in firms, including through stress tests and enhanced conduct and licensing requirements. Updates to our rules, such as requirements for fund managers to consider climate-related risks and new guidance for investment-linked assurance schemes, help us stay on top of emerging risks and protect investors’ interests.

Expanding Hong Kong’s role as a risk management centre is a top priority. We will build on the recent success of MSCI China A 50 Connect Index Futures to introduce other risk management products. These initiatives offer global investors the tools necessary to hedge exposures in the Mainland markets. We will also support offshore renminbi (RMB) initiatives such as the introduction of RMB-denominated securities in Hong Kong and RMB counters for Stock Connect southbound trading.

As markets become more complex and interconnected, our work is increasingly multidisciplinary and cross-jurisdictional. High-profile, collaborative operations with other law enforcement agencies and regional counterparts to tackle online ramp and dump schemes

and other misconduct help make our enforcement efforts more targeted and timely. Internally, we pull together as “One SFC” to leverage our resources and tackle issues holistically. We embrace the benefits of innovative technology for investors as well as for our own supervisory and investigation work.

### Connecting China and the world

Hong Kong will remain an essential gateway for global firms and investors to access the Mainland as it continues to deepen financial reforms and build more connections with other markets. The further expansion of mutual market access schemes, including through Wealth Management Connect and the inclusion of exchange-traded funds in Stock Connect, and the rapid development of the Greater Bay Area will provide significant new opportunities for investors and the industry.

To enhance Hong Kong’s unique position vis-à-vis the Mainland, we foster an ever more collaborative relationship with our key counterpart, the China Securities Regulatory Commission, both in market development and enforcement efforts, ensuring market access structures are based on sound regulatory understandings which allow us to manage cross-boundary risks.

Through our involvement in key leadership roles in the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board, we are active in international standard setting and promote Hong Kong’s position as an international financial centre.

## Message from Chairman and CEO

### Acting on climate change

Hong Kong is extremely well-placed to take on a leading role in the global effort to transition the financial system to address the threat of climate change; we play an active part in sustainable finance initiatives both locally and internationally.

We co-lead Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group, which has made it a priority to support the effort to embed emerging international standards for corporate disclosures to address climate-related risks and to pursue carbon market opportunities for Hong Kong.

Through our leadership of IOSCO, we also contribute to global initiatives to coordinate the efforts of securities regulators to support sustainable finance policies and address the problem of greenwashing. The sustainability disclosures proposed by the new International Sustainability Standards Board, and to be evaluated by IOSCO, are a major step forward and we are now examining how to incorporate them in Hong Kong.

### Looking ahead

Our markets have demonstrated strong resilience throughout unprecedented challenges. We are confident Hong Kong's status as a leading global financial centre is secure.

In trying times, we are exceptionally grateful to our staff for their hard work to deliver important outcomes. They demonstrate perseverance and adaptability in the face of rapid change and remain committed to carrying out our mission up to exacting standards and beyond. The daily work we do to maintain the building blocks of our regulatory system and instil market trust and public confidence will remain a key ingredient of Hong Kong's success.

We are also thankful to our Board members for their continuous guidance and support.

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer

# Strategic Priorities

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

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

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

## Current initiatives

### Listing

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

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



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

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

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

### Intermediaries

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

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

## Strategic Priorities



Chairman Mr Tim Lui

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

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

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

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

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

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

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

### Asset and wealth management

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

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

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

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

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

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

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

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

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

### Markets

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

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

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

## Strategic Priorities



Chief Executive Officer Mr Ashley Alder

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

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

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

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

### Enforcement

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

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

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



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

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

### Green and sustainable finance

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

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

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

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

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

We will evaluate and potentially implement the ISSB sustainability reporting standards in Hong Kong, work towards operationalising the Common Ground Taxonomy<sup>1</sup> and explore ways to develop Hong Kong into a regional carbon trading centre, promote capacity building and meet climate-related data gaps and needs. Other ongoing initiatives include working alongside SEHK to promote corporate climate reporting and incorporating international standards, especially ISSB's, into local requirements to enhance listed companies' climate disclosures.

### Communications

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

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

## Strategic Priorities

### Technology

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

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

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

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

### Regulatory collaboration

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

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

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

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

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

# Environmental, Social and Governance

As a statutory regulator, we strive to meet high standards in the way we operate and carry out our work, underpinned by our core values of integrity, transparency and public accountability and a strong commitment to sound corporate governance, social responsibility and sustainability.

# Corporate Governance

## Governance framework

We are committed to maintaining an effective corporate governance framework comprising a well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures and independent checks and balances. This framework is in line with best governance practices for public bodies, including those set out in *Corporate Governance for Public Bodies – A Basic Framework*<sup>1</sup>.

## Board

By supervising and directing our work, the SFC Board plays a key role in ensuring that we carry out our duties effectively. It is responsible for setting the SFC's overall direction, providing strategic guidance on policy making and overseeing the work of the Executive Committee (ExCo).

## Constitution

The Securities and Futures Ordinance (SFO) stipulates the constitution and proceedings of our Board. Members are appointed for a fixed term by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) or the Financial Secretary under delegated authority, and their appointment terms and conditions are determined by the HKSAR Government. Board members' emoluments for the year are detailed on page 124.

As of 31 March 2022, the Board comprised nine Non-Executive Directors (NEDs), including the Chairman; and five Executive Directors (EDs), including the Chief Executive Officer (CEO). A global recruitment exercise has commenced for the position of Executive Director, Corporate Finance.

Our NEDs have diverse backgrounds and bring to the Board a wide range of experience and expertise as well as a variety of independent perspectives. Collectively, the Board contributes to the development of the SFC's policies by providing constructive strategic comments.

See pages 16-24 for the full list of Board members and their biographies.

## Chairman and CEO

The roles and responsibilities of the non-executive Chairman and the CEO are separate and distinct.

### Chairman

- Leading the Board in setting the SFC's policies, strategy and overall direction
- Monitoring the executive team's performance
- Counselling the CEO on how the organisation is run

### CEO

- Assuming executive responsibility for the SFC's day-to-day operations
- Developing strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board
- Assigning responsibilities to senior management and supervising their work
- Reporting regularly to the Board

## Executive Directors and Non-Executive Directors

Our EDs and NEDs have different but complementary roles. The EDs are responsible for the daily operations of the SFC and each has executive duties in key functions including listings, takeovers and corporate conduct, licensing and supervision of intermediaries, market infrastructure, investment products and enforcement. The NEDs provide guidance on and monitor the performance of the organisation's functions.

## Governance practices

We uphold high standards of corporate governance. We also put in place clear and proper policies and processes to facilitate the working of an efficient and accountable Board. We adopt the following practices:

- arranging for the Board to hold monthly meetings, quarterly policy meetings and special meetings as needed as well as an annual off-site meeting
- providing Board members with papers and relevant information sufficiently in advance to enable thorough consideration of agenda items

<sup>1</sup> Published by the Hong Kong Institute of Certified Public Accountants.

## Key components of our governance framework



- circulating draft minutes of Board meetings to members for comment
- furnishing Board members with information regarding our operations and financial condition on a monthly basis
- keeping the Board apprised of our policies and operations as appropriate
- requiring Board members to observe policies regarding conflicts of interest
- providing induction sessions and briefings on various topics to enable the NEDs to better understand the organisation and their responsibilities

In addition to regular Board meetings, we provide information updates from time to time to keep Board members informed of the SFC’s work, its impact on the markets and our interaction with stakeholders.

The Commission Secretariat is tasked with ensuring effective corporate governance. It supports the Board and senior management and facilitates Board proceedings according to relevant policies and procedures. It also assists the CEO with strategic tasks and in overseeing organisation-wide initiatives. In addition to interacting with Board members and organising their meetings, the Secretariat also acts as the central contact point with the Government, the Legislative Council (LegCo) and its members, fellow

regulators and other public bodies. The Secretariat is headed by the Commission Secretary who serves as the secretary to the Board, ExCo and Advisory Committee.

### Board evaluation

The Board constantly seeks ways to improve its effectiveness. As part of a self-assessment it conducts every other year, each board member is invited to complete a questionnaire, on an anonymous basis, on how well the Board is functioning in some key areas of its responsibilities. An analysis of the findings is presented to the Board at its off-site meeting to consider areas for improvement.

### Board appointments

During the year, Mr Tim Lui Tim-leung was reappointed as Chairman for another three-year term, effective 20 October 2021.

Mr Michael Wong Yick-kam was appointed as NED for a two-year term with effect from 1 April 2021. Mr Johnson Kong and Mr Dieter Yih were appointed NEDs for two-year terms with effect from 15 November 2021. Mr Nicky Lo Kar-chun was reappointed NED for two years with effect from 24 April 2021.

Mr Lester Garson Huang and Mr Clement Chan Kam-wing stepped down as NEDs. Mr Brian Ho Yin-tung stepped down as ED, Corporate Finance.

### Board members



**Tim LUI**  
**Tim-leung SBS, JP**

Chairman

From 20 October 2018  
Current appointment to  
19 October 2024

#### Other SFC-related positions

- Chairman: Investment Committee and Advisory Committee
- Member: Audit Committee and Remuneration Committee
- Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee
- Member, Process Review Panel for the Securities and Futures Commission

#### Current offices, public service and professional affiliations

- Chairman, Education Commission
- Member, Financial Leaders Forum, the HKSAR Government
- Member: Banking Advisory Committee and Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Public Service Commission, the HKSAR Government
- Director, Hong Kong Academy of Finance
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Member, Institute of Chartered Accountants in England and Wales

#### Past offices and public service

- Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- President, Hong Kong Institute of Certified Public Accountants (1996-1997)
- Chairman, Committee on Self-financing Post-secondary Education (2012-2017)
- Chairman, Self-financing Post-secondary Education Fund Steering Committee (2011-2017)
- Chairman, Standing Commission on Directorate Salaries and Conditions of Service (2009-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2001-2007)
- Chairman, Joint Committee on Student Finance (1999-2005)
- Member, University Grants Committee (2008-2019)



**Ashley ALDER** SBS, JP

Chief Executive Officer

From 1 October 2011  
Current appointment to  
30 September 2023

#### Other SFC-related positions

- Chairman, Nominations Committee
- Member: Budget Committee and Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

#### Public service

- Board of International Organization of Securities Commissions: Chairman (since 2016); Vice-Chairman (2015-2016)
- Member, Plenary and Steering Committee, Financial Stability Board
- Member, Financial Leaders Forum, the HKSAR Government
- Council Member, Treasury Markets Association
- Vice President, The Hong Kong Institute of Bankers

#### Past SFC position

- Executive Director, Corporate Finance (2001-2004)

#### Past offices

- Herbert Smith: Partner and Head of Asia (2004-2011); Partner (1994-2001); Associate (1986-1994)



**Julia LEUNG Fung-ye SBS, JP**

Deputy Chief Executive Officer and Executive Director, Intermediaries

From 2 March 2015  
Current appointment to 1 March 2024

**Other SFC-related positions**

- Chairman, Academic and Accreditation Advisory Committee
- Chairman, Fintech Advisory Group
- Member: Budget Committee and Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

**Current public service**

- Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research

**Past offices and public service**

- Julius Fellow, International Economics, Chatham House (2014)
- Under Secretary for Financial Services and the Treasury, the HKSAR Government (2008-2013)
- Executive Director, Hong Kong Monetary Authority (2000-2008)

**Past SFC position**

- Executive Director, Investment Products (2015-2016)

**Publication**

- *The Tides of Capital* (London: OMFIF Press, 2015)



**Thomas ATKINSON**

Executive Director, Enforcement

From 3 May 2016  
Current appointment to 2 May 2022

**Other SFC-related positions**

- Member: Investor Compensation Fund Committee and Securities Compensation Fund Committee

**Past offices**

- Director of Enforcement, Ontario Securities Commission (2009-2016)
- President and CEO, Market Regulation Services Inc. (2001-2007)
- Vice President, Regulation Services, Toronto Stock Exchange (1996-2001)
- Assistant Crown Attorney, Ontario Court of Justice (1993-1996)

Notes: Except for the Chairman, CEO and Deputy CEO, other board members are listed in alphabetical order.

During the year, Mr Clement Chan Kam-wing and Mr Lester Garson Huang served on the Board as NEDs until 27 July 2021 and 14 November 2021 respectively. Mr Brian Ho Yin-tung served on the Board as ED until 27 August 2021.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 173-182 for information about SFC external committees.



**Agnes CHAN Sui-kuen**

Non-Executive Director

From 20 Oct 2018

Current appointment to  
19 Oct 2022

### Other SFC-related positions

- Chairman: Audit Committee and Budget Committee
- Member: Investment Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

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### Current offices and public service

- Managing Partner, Hong Kong and Macau, Ernst & Young
- Hong Kong General Chamber of Commerce: Chairman, Audit Committee; Member, General Committee
- Member, Public Service Commission, the HKSAR Government
- Member, Election Committee, Accountancy Subsector, the HKSAR Government
- Member, Users' Committee, Inland Revenue Department, the HKSAR Government
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Advisory Panel on BEPS 2.0, the HKSAR Government
- Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute
- Accounting Advisor (Hong Kong), Ministry of Finance, People's Republic of China
- Hong Kong SAR Delegate, All-China Women's Federation

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### Past public service

- Competition Commission: Member; Chairperson of Finance and Administration Committee (2013-2018)
- Member, Mandatory Provident Fund Schemes Appeal Board (2011-2017)
- Member, Environment and Conservation Fund Committee (2012-2016)
- Member, Telecommunications Users and Consumers Advisory Committee, Office of the Communications Authority (2012-2016)



**Edward CHENG  
Wai-sun GBS, JP**

Non-Executive Director

From 1 January 2017  
Current appointment to  
31 December 2022

#### Other SFC-related positions

- Member: Budget Committee and Remuneration Committee
- Member: SFC (HKEC Listing) Appeals Committee, Takeovers and Mergers Panel and Takeovers Appeal Committee

#### Current offices and public service

- Deputy Chairman and Chief Executive, Wing Tai Properties Limited
- Chairman, Lanson Place Hospitality Management Limited
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited
- Member, Chief Executive's Council of Advisers on Innovation and Strategic Development, the HKSAR Government
- Chairman, Council of Hong Kong Academy for Performing Arts

#### Past SFC-related positions

- Member: Takeovers and Mergers Panel and Takeovers Appeal Committee (1994-2005)

#### Past offices and public service

- Chairman, University Grants Committee (2011-2015)
- Chairman, Urban Renewal Authority (2004-2007)
- Member, Commission on Strategic Development (2013-2017)
- Board Member, Airport Authority Hong Kong (2011-2017)
- Council Member, Hong Kong Polytechnic University (2006-2009)
- Member, Advisory Committee on Corruption (2004-2009) and Operations Review Committee (1997-2003), Independent Commission Against Corruption
- Member, Steering Committee on Innovation and Technology (2004-2008)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)
- Co-chairman, SUNDAY Communications Limited (1999-2005)
- Member, Executive Committee, Hong Kong Housing Society (2000-2004)
- Council Member, Education University of Hong Kong (formerly known as The Hong Kong Institute of Education) (2000-2002)



**Christina CHOI  
Fung-ye**

Executive Director,  
Investment Products

From 1 August 2016  
Current appointment to  
31 July 2022

### Other SFC-related positions

- Chairman: Committee on Real Estate Investment Trusts and Products Advisory Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

### Public service

- Chairman, Committee on Investment Management, International Organization of Securities Commissions
- Member: Asian Financial Forum Steering Committee and Financial Services Advisory Committee, Hong Kong Trade Development Council

### Past SFC position

- Senior Director, Investment Products (2012-2016)

### Past offices

- Partner, Clifford Chance (2001-2004)



**Victor DAWES sc**

Non-Executive Director

From 1 August 2020  
Current appointment to  
31 July 2022

### Other SFC-related positions

- Chairman, Investor and Financial Education Council
- Member: Audit Committee and Remuneration Committee
- Member: Nominations Committee, SFC (HKEC Listing) Appeals Committee and Disciplinary Chair Committee

### Current offices and public service

- Senior Counsel, Temple Chambers
- Recorder, High Court
- Chairman, Hong Kong Bar Association
- Member, Proceedings Committee, Hong Kong International Arbitration Centre
- Member, Advisory Body appointed under Part 10A of the Arbitration Ordinance



## Johnson KONG

Non-Executive Director

From 15 November 2021  
Current appointment to  
14 November 2023

### Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

### Current offices, public service and professional affiliations

- Managing Director, BDO Limited
- Fellow, Hong Kong Institute of Certified Public Accountants (HKICPA)
- Fellow, Institute of Chartered Accountants in England and Wales
- Fellow, CPA Australia
- Member, Election Committee, the HKSAR Government
- Member, Hong Kong Academy of Finance
- Independent Commission Against Corruption: Member, Operations Review Committee; Member, Panel of the Witness Protection Review Board
- International Federation of Accountants: Chairman, Small and Medium Practices Business Support Task Force; Deputy Chair, Small and Medium Practices Advisory Group
- Deputy Chair, Governance Committee, HKICPA
- Council Member, Association of Hong Kong Accounting Advisors
- Alternate Director, Hong Kong Association of Registered Public Interest Entity Auditors
- Member, Audit Committee, University of Hong Kong
- Accounting Advisor (Hong Kong), Ministry of Finance, People's Republic of China

### Past public service

- HKICPA: President (2020); Council Member (2015-2021); Chairman, Professional Conduct Committee (2017-2019); Inaugural Chair, Restructuring and Insolvency Faculty (2008-2012)
- Member, Securities and Futures Appeals Tribunal (2017-2021)
- Member, Appeal Panel (Housing) (2012-2018)
- Member, Advisory Group on Modernisation of Corporate Insolvency Law (2012-2016)
- Member, Board of Review (Inland Revenue Ordinance) (2010-2016)
- Member, Standing Committee on Company Law Reform (2009-2015)
- Member, Appeal Board Panel (Town Planning) (2009-2015)
- President, Hong Kong Institute of Accredited Accounting Technicians (2009-2012)
- Executive Board Member, INSOL International (2005-2010)



### **Rico LEUNG Chung-yin**

Executive Director,  
Supervision of Markets

From 28 August 2019  
Current appointment to  
27 August 2022

#### **Other SFC-related positions**

- Chairman: Investor Compensation Fund Committee and Securities Compensation Fund Committee
- Director: Investor Compensation Company Limited
- Member: SFC (HKEC Listing) Committee

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#### **Public service**

- Member, Risk Management Committee, Hong Kong Exchanges and Clearing Limited

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#### **Past SFC position**

- Senior Director, Supervision of Markets (2008-2019)

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#### **Past offices**

- Chief Operations Officer, HKFE Clearing Corporation Limited (1994-2000)



### **Dr James C LIN**

Non-Executive Director

From 1 August 2018  
Current appointment to  
31 July 2022

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#### **Other SFC-related positions**

- Chairman: Investor Compensation Company Limited
- Deputy Chairman: Audit Committee, Investment Committee and Remuneration Committee
- Member: SFC (HKEC Listing) Appeals Committee, Investor Compensation Fund Committee and Securities Compensation Fund Committee

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#### **Current offices and public service**

- Senior Partner, Davis Polk & Wardwell LLP
- Member, Process Review Panel for the Insurance Authority
- Member, Process Review Panel for Regulation of Mandatory Provident Fund Intermediaries
- Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants
- Harvard Law School: Visiting Lecturer on Law; Member, Dean's Asia Leadership Council

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#### **Past public service**

- Member, Appeal Panel (Housing) (2012-2018)
- Member, Securities and Futures Appeals Tribunal (2011-2017)



**Nicky LO**  
**Kar-Chun SBS, JP**

Non-Executive Director

From 24 April 2019  
Current appointment to  
23 April 2023

#### Other SFC-related positions

- Chairman, Remuneration Committee
- Member: Budget Committee and Investment Committee
- Member, SFC (HKEC Listing) Appeals Committee

#### Current offices and public service

- Director, Italade Technology Holdings
- Hong Kong Monetary Authority: Chairman, Governance Sub-committee; Member, Exchange Fund Advisory Committee

#### Past public service

- Chairman, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR (2013-2019)
- Member, Advisory Committee on Post-service Employment of Civil Servants (2009-2013)
- Chairman, Standing Commission on Civil Service Salaries and Conditions of Service (2006-2012)
- Member, Public Service Commission, the HKSAR Government (2006-2012)
- Member, Standing Commission on Directorate Salaries and Conditions of Service (2006-2012)
- Member, Standing Commission on Disciplined Services Salaries and Conditions of Service (2001-2006)

#### Past offices

- President and Chief Executive Officer, Synnex Distributions (China) Ltd (1987-2013)
- President and Chief Executive Officer, Synnex Technology International (HK) Ltd (1987-2013)
- Principal Assistant Secretary and Deputy Secretary for Trade and Industry, the Trade and Industry Branch of the Government Secretariat (1985-1987)
- Administrative Officer, the HKSAR Government (1974-1987)



**Michael WONG**  
**Yick-kam MH, JP**

Non-Executive Director

From 1 April 2021

Current appointment to  
31 Mar 2023

### Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

### Current offices and public service

- Chairman, Council of the Hong Kong Metropolitan University
- Non-Executive Director, Urban Renewal Authority
- Member, Board of Trustees of New Asia College, The Chinese University of Hong Kong
- Member, Land and Development Advisory Committee
- Member, Executive Committee, Hong Kong Youth Hostels Association

### Past offices and public service

- Sun Hung Kai Properties Group: Non-Executive Director (2013-2015); Non-Executive Director and Group Principal Advisor (2009-2013); Executive Director (1996-2009)
- Chairman, Hong Kong Youth Hostels Association (2005-2014)
- Member, Social Innovation and Entrepreneurship Development Fund Task Force (2013-2020)
- Member, Steering Committee on the Child Development Fund (2008-2016)
- Member, Social Welfare Advisory Committee (2009-2015)



**Dieter YIH JP**

Non-Executive Director

From 15 November 2021

Current appointment to  
14 November 2023

### Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

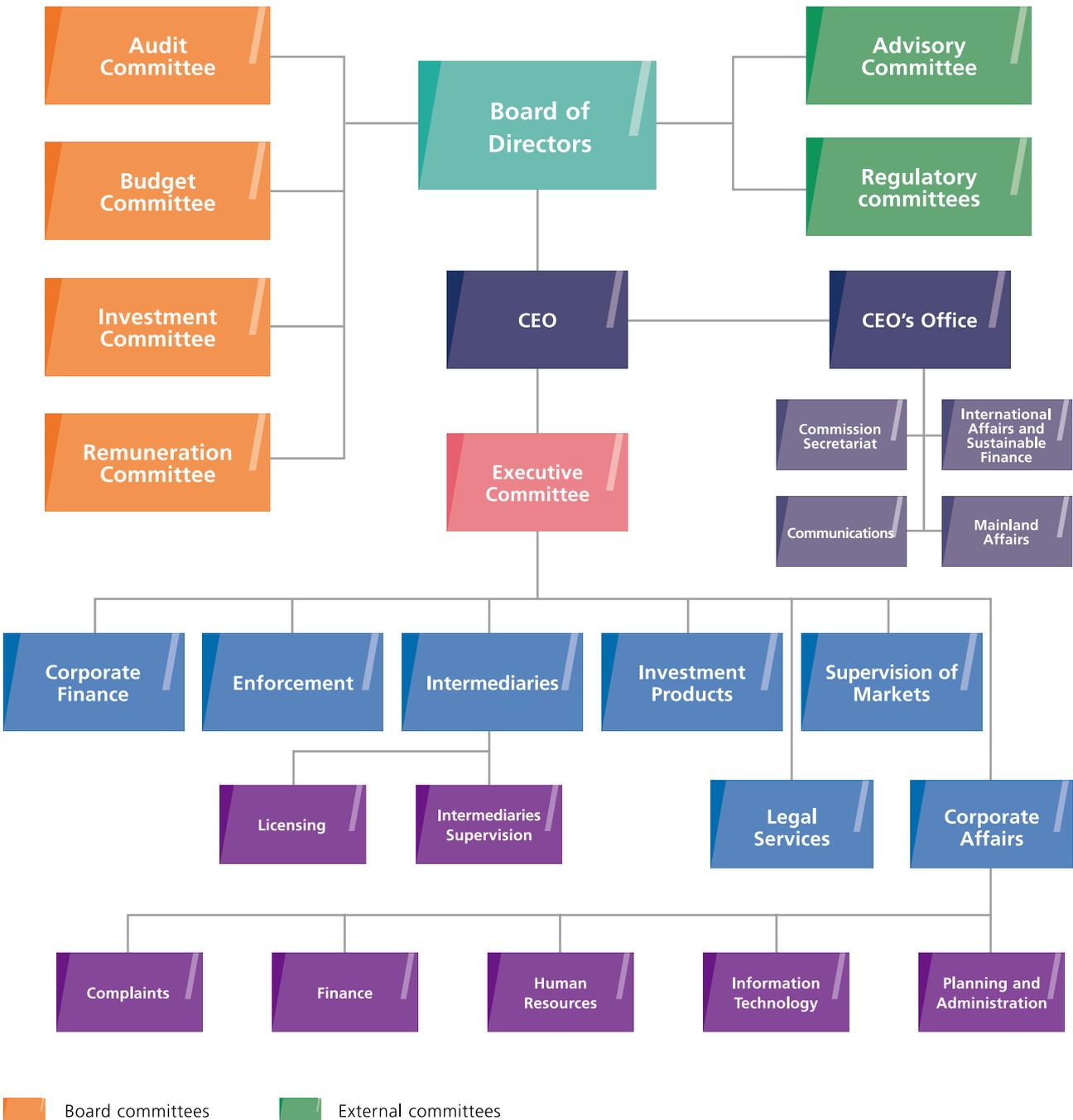
### Current offices and public service

- Partner, Kwok Yih & Chan, Solicitors
- Non-Executive Director, eMPF Platform Company Limited
- Chairman, Financial Dispute Resolution Centre
- Member, Education Commission
- Member, University Grants Committee
- Member, Standing Committee on Legal Education and Training
- Quality Education Fund Steering Committee: Member; Chairman, Dissemination and Promotion Sub-committee
- Hong Kong Institute of Certified Public Accountants: Member, Registration and Practising Committee; Member, Regulatory Oversight Board

### Past public service

- President, The Law Society of Hong Kong (2012-2013)
- Deputy Chairman, Council of the Education University of Hong Kong (2016-2022)
- Convenor, Investigation Panel (Panel A), Hong Kong Institute of Certified Public Accountants (2014-2021)
- Member, Banking Review Tribunal (2016-2022)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2016-2021)
- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2017-2021)

Organisational structure



Mission and Mandates  
 Message from Chairman and CEO  
 Strategic Priorities  
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## Corporate Governance

### Board meetings

In addition to monthly meetings, the Board also meets from time to time to conduct in-depth discussions of policy issues and convenes special meetings as needed. An annual off-site meeting is also held which sets out strategic objectives and management priorities.

Last year, 13 Board meetings Board meetings were held with an average attendance rate of 99%.

### Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
<b>Chairman</b>						
Tim Lui Tim-leung	13/13	1/2	–	1/1	4/4	–
<b>Executive Directors</b>						
Ashley Alder	13/13	–	1/1	1/1	–	25/25
Julia Leung Fung-yee	13/13	–	1/1	1/1	–	24/25
Thomas Atkinson	12/13	–	–	–	–	22/25
Christina Choi Fung-yee	13/13	–	–	–	–	23/25
Brian Ho Yin-tung <sup>1</sup>	6/6	–	–	–	–	12/12
Rico Leung Chung-yin	13/13	–	–	–	–	25/25
<b>Non-Executive Directors</b>						
Agnes Chan Sui-kuen	13/13	2/2	1/1	1/1	3/4	–
Clement Chan Kam-wing <sup>2</sup>	5/5	1/1	–	–	3/3	–
Edward Cheng Wai-sun	13/13	–	1/1	–	4/4	–
Lester Garson Huang <sup>3</sup>	8/8	–	–	–	3/3	–
Johnson Kong <sup>4</sup>	5/5	–	–	–	1/1	–
Dr James C Lin	13/13	2/2 <sup>5</sup>	1/1 <sup>6</sup>	1/1	4/4 <sup>7</sup>	–
Nicky Lo Kar-chun	13/13	–	1/1	1/1	4/4 <sup>8</sup>	–
Victor Dawes, SC	12/13	1/2	–	–	3/4	–
Michael Wong Yick-kam <sup>9</sup>	13/13	–	–	–	4/4	–
Dieter Yih <sup>10</sup>	5/5	–	–	–	1/1	–
<b>Senior Director and Chief Counsel</b>						
Andrew Wan Chi-yiu	–	–	–	1/1	–	22/25
Andrew Young	–	–	–	–	–	23/25
<b>Interim Head, Corporate Finance</b>						
Megan Tang Siau-feng <sup>11</sup>	–	–	–	–	–	13/13

1 Appointment expired on 27 August 2021.

2 Appointment expired on 27 July 2021.

3 Appointment expired on 14 November 2021.

4 Appointed as a member of the Board and Remuneration Committee effective on 15 November 2021.

5 Appointed as Deputy Chairman of Audit Committee effective on 28 July 2021.

6 Appointed as Deputy Chairman of Budget Committee effective on 15 November 2021.

7 Appointed as Deputy Chairman of Remuneration Committee effective on 15 November 2021.

8 Appointed as Chairman of Remuneration Committee effective on 15 November 2021.

9 Appointed as a member of the Board and Remuneration Committee effective on 1 April 2021.

10 Appointed as a member of the Board and Remuneration Committee effective on 15 November 2021.

11 Appointed as Interim Head, Corporate Finance and a member of the Executive Committee effective 28 August 2021.

## SFC committees

### Board committees

Each of our four board committees focuses on clearly-defined areas of the SFC’s operations and is chaired by an NED. The presence and active participation of the NEDs provide effective checks and balances for our management decisions.

Committee	Membership	Responsibilities	Meetings
Audit Committee	Four NEDs	<ul style="list-style-type: none"> <li>Reviews annual financial statements</li> <li>Recommends the appointment of external auditors</li> <li>Coordinates the scope of the external audit and reviews audit findings</li> <li>Examines management procedures to ensure effective financial and internal controls</li> </ul>	2
Budget Committee	Four NEDs and two EDs <sup>^</sup>	<ul style="list-style-type: none"> <li>Examines and approves the parameters and bases used in the annual budget</li> <li>Conducts the mid-year budget review</li> <li>Reviews the annual budget and makes recommendations to the Board</li> </ul>	1
Investment Committee	Four NEDs, two EDs and a Senior Director <sup>^</sup>	<ul style="list-style-type: none"> <li>Advises on the SFC’s fund management policies, strategies and investment guidelines</li> <li>Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines</li> <li>Advises on investment risk management and asset allocation and monitors the performance of investments</li> </ul>	1
Remuneration Committee	Nine NEDs	<ul style="list-style-type: none"> <li>Reviews the structure and level of staff remuneration</li> <li>Reviews trends in remuneration packages and recommends adjustments</li> <li>Considers other matters as required, including recommendations to the Government on EDs’ remuneration and re-appointment</li> </ul>	4

<sup>^</sup> In a non-voting capacity.

### External committees

External committees are set up under the SFO and comprise a large number of members outside the SFC who reflect the diverse views of market participants. These committees play an important role in the governance of the SFC.

The Advisory Committee offers insight and advice on policy matters related to the performance of the SFC’s functions. The majority of members are external representatives appointed by the Financial Secretary under authority delegated by the Chief Executive of the HKSAR. The Committee is headed by the Chairman and its members include the CEO and not more than two other EDs.

Each regulatory committee specialises in specific areas such as investment products, shareholders’ rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2022.

See pages 173-182 for the responsibilities and membership lists of the external committees.

## Corporate Governance

### Executive Committee

As the highest executive body within the organisation, ExCo performs administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. ExCo is chaired by the CEO and includes all other EDs, the Chief Counsel, and the Chief Financial Officer and Senior Director of Corporate Affairs.

ExCo meets regularly to consider policy and operational proposals and expense requests from different divisions of the organisation. During the year, 25 ExCo meetings were held with an average attendance rate of 95%.

### Standards of conduct

To promote and maintain public confidence, a high standard of integrity and conduct is required of our staff. In addition to complying with relevant legal obligations, staff are required to adhere to our code of conduct which spells out our standards in detail and covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Each staff member is given a copy of the code and must attend mandatory training. Failure to comply with the code may result in disciplinary action.

### Accountability and transparency

Stringent policies and procedures are in place to ensure that we act with credibility, fairness and transparency.

### Delegation of authority

A system of delegation of authority clearly delineates the authority of the Board and different levels of the executive management. The Board delegates regulatory powers and functions to EDs, with power to sub-delegate to staff in their respective divisions, as permitted under the SFO, to facilitate the discharge of their duties in our daily operations.

### Budgeting

We follow a disciplined approach in preparing our budget to maintain effective fiscal control and plan for the coming year and beyond. Under our policy



of tightly controlling expenditures, we make prudent assumptions, exercise robust financial control and identify areas where resources could be deployed to meet the SFC's strategic objectives, priorities and operational needs. During the budget process, divisions' expense requests for the following year are critically assessed.

The annual budget, after consideration by the Budget Committee and approval by the Board, is submitted to the Financial Secretary for approval and then tabled before LegCo. We also appear before LegCo's Panel on Financial Affairs to present our budget each year.

### Investment

We aim to achieve long-term financial sustainability and attach great importance to the prudent management of our reserves, which are managed according to the investment guidelines approved by the Financial Secretary.

We have delegated responsibility for the selection, retention and management of the investments of our Reserve Fund and the Investor Compensation Fund to external investment managers. We regularly review their compliance with the investment guidelines. The external investment managers have confirmed that they adopt the Principles of Responsible Ownership<sup>2</sup> in their undertakings to manage these investments. The Investment Committee monitors the performance of investments and advises on asset allocation and risk management.

<sup>2</sup> Issued by the SFC in March 2016, these voluntary principles aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies.

## New Non-Executive Directors

During the year, Mr Johnson Kong, Mr Michael Wong Yick-kam and Mr Dieter Yih joined the SFC Board as NEDs.

Mr Kong, a former president of the Hong Kong Institute of Certified Public Accountants, is active in public service related to finance and compliance. His professional background has been instrumental in enabling him to ease into his new role and deal with the more technically demanding parts of the SFC's work, he explained.

Since joining the Board, Mr Kong has observed that it functions in an extremely well-organised and professional manner. He has also been impressed by the professionalism and active participation of the other NEDs.



*The SFC has extensive responsibilities and it plays a pivotal role in regulating the local securities and futures markets and also in the international arena.*

### Johnson Kong

Mr Yih is an experienced solicitor and a past president of the Law Society of Hong Kong. In his new role as an NED, Mr Yih sees his main responsibility as to independently oversee and constructively challenge the management team, whilst contributing an external dimension and market information to discussions.

Although he joined the Board only recently, Mr Yih appreciated the opportunities he has had to learn more about the broad range of our work. He also recognised that our senior executives actively engage with the Board and take time to explain and provide analyses to the NEDs.



*The SFC plays an active role in building the reputation of Hong Kong's financial markets as well as supporting market development initiatives, and I look forward to contributing to this work.*

### Dieter Yih

Mr Wong's background in leadership positions in listed companies and public bodies helped him prepare for his new duties as an NED. In addition, his experience in financial investment has given him a solid understanding of the operations of Hong Kong's capital market.

Since joining the Board, Mr Wong has developed a deeper understanding of the functions of the SFC. He also found that our NEDs are involved in approving a considerable amount of decisions which have significant implications for the securities and futures markets.



*Members of the public should have a good understanding of the SFC's important role in enhancing Hong Kong's status as an international financial centre, upholding the integrity and order of the financial markets and protecting investors' interests.*

### Michael Wong

## Corporate Governance

### Financial control and reporting

To uphold a high standard of integrity and exercise vigorous controls over the use of public funds, we engage an independent external professional firm to conduct an annual review of our financial control policies and procedures to ensure that they are practical and robust.

We voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports, and we adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information.

In addition, we follow good market practice to ensure our financial reports are transparent and informative.

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration
- Seeking the Board's approval of quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Providing regular reports to the Government

### Handling complaints and grievances

We extend our principles of accountability and transparency to our complaints handling procedures. Reports of improper practices of the SFC or our staff can be made under our procedures for handling complaints against the SFC or its employees. These cover dissatisfaction with the manner in which the SFC or our staff carried out or failed to carry out our duties. Detailed procedures for members of the public to lodge a complaint with us are available on our website.

### Efficient use of resources

We regularly review our corporate resources, including space and accommodation requirements, to ensure that we operate efficiently, identify our needs and strategic priorities and allocate resources accordingly.

We relocated our office from Central to Quarry Bay last year. The cost savings resulting from the office relocation have enhanced our long-term sustainability and support our plan to eventually purchase our own office premises. Last year, we began transferring the rental savings of around \$125 million to our reserve set aside for the acquisition of office premises. We will transfer this amount to the property acquisition reserve each year across the rest of the lease term.

To formulate effective regulatory responses in rapidly-evolving and increasingly complex markets, we set up cross-divisional project teams to work on policies or initiatives related to the functions of multiple divisions. This allows more efficient use of our resources across the organisation.

## Stakeholder communication

We engage with a wide range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a timely and effective manner<sup>3</sup>.

Before implementing a rule change, we conduct public consultations and publish consultation conclusions. We issue statements and announcements to inform the market about our policies as well as industry-related publications, reports and surveys on more specialised topics. Annual and quarterly reports keep the public informed of our key regulatory work and finances.

Press releases announce our latest regulatory actions and other SFC news. Our Facebook page features updates on topics of interest to the general public. Information of interest to the financial industry and other professionals is provided on our LinkedIn page. We respond to public enquiries promptly, striving to meet our performance pledges.

In addition, we reach out to stakeholders to explain our work and policies and we discuss specific regulatory issues at seminars or other events. We attend meetings at LegCo, including meetings of the Panel on Financial Affairs, to present our budget, explain policy initiatives and other issues of public interest.

We adopt an open approach to disclosing information subject to the secrecy provisions of the SFO. Our corporate website ([www.sfc.hk](http://www.sfc.hk)) provides up-to-date, easily accessible public and industry information, which is constantly reviewed and enriched.

Internally, we emphasise effective communication within the organisation. Apart from utilising our intranet and internal circulars, we organise regular CEO sharing sessions and briefings by senior executives on the work of various divisions to keep our staff apprised of the latest developments and current priorities.

In November 2021, one staff member from the Complaints Team of the Corporate Affairs Division and one from the Investment Products Division received The Ombudsman's Awards 2021 for Officers of Public Organisations<sup>4</sup>.

<sup>3</sup> See Stakeholders on pages 94-98.

<sup>4</sup> See page 104.

## Risk management

To perform our regulatory functions effectively in a dynamic market environment, it is important for us to identify, assess and manage external and internal risks in a timely and systematic manner.

### External risks

Our market contingency plan sets out measures for dealing with emergency situations which may affect Hong Kong's securities and futures markets. Rehearsing the plan on a regular basis helps us react promptly, appropriately and in a coordinated manner in cases where crises arise.

We adopt a forward-looking approach to identify current and emerging risks and assess the potential implications for the Hong Kong market. A comprehensive framework is in place to monitor a broad array of asset classes and detect possible vulnerabilities. We have developed our own indicators to monitor market trends, trading patterns and signs of any build up or concentration of positions across different market segments. We keep in close contact with other financial regulators to share intelligence about market conditions and systemic concerns.

We adopt a comprehensive, structured approach to assessing risk using new regulatory technologies to collect and analyse large volumes of data and information as markets become more complex and interconnected. We use artificial intelligence to analyse information from prospectuses about the roles of companies and individuals to detect conflicts of interest in initial public offerings. We also enhanced our market surveillance system to detect more types of risks and identify abnormal price movements.

The cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a comprehensive manner. The group regularly reports to ExCo and the Board.

Amidst the COVID-19 outbreak, we urged licensed corporations to implement facilitative measures for their staff to get vaccinated. We also advised licensees and other market participants to contact us if they encountered difficulties in relation to their regulatory obligations.

## Corporate Governance

### Internal risks and control

We have internal control measures in place to address possible risks associated with our operations, including financial risks and threats to our information and office security.

Our policies and procedures for financial control help us uphold a high standard of integrity and exercise rigorous controls on the use of public funds.

In addition to appointing an external auditor, we engage an independent external firm to conduct internal audits to assess the effectiveness of our controls and identify the key risks of all our business processes. The scope of each review is approved by the Audit Committee and may include banking and investment, finance, procurement, human resources and information technology. The findings, together with recommendations, are reported back to the Audit Committee. Enhancements to related policies and procedures are then made where necessary.

To facilitate compliance with the Personal Data (Privacy) Ordinance, we provide staff with a data privacy manual and a quick guide comprising frequently asked questions and illustrative examples.

We put the following measures in place to provide for safe and smooth operations:

- A regularly updated business resumption plan addresses readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The scope of the plan covers office premises, communications and computer services.
- An information security policy provides guidance on how to protect the confidentiality and integrity of information. The policy is revised from time to time to keep up with technological and other changes in the way we operate.
- Access controls protect our information and systems from unauthorised access, use or modification and office access controls safeguard against unauthorised entry to our premises. Access rights are properly assigned and closely managed.

During the year, we reconfigured our staffing arrangements to ensure the continued delivery of our public services as usual during the COVID-19 pandemic and keep any interruptions or delays to a minimum. We have been highly supportive of the Government's effort to encourage COVID-19 vaccinations and a very high percentage of our staff have been vaccinated. We expanded our remote access capacity and provided access to system applications to enable all staff to work from home, if necessary, in a secure and efficient manner.



## Independent checks and balances

Independent bodies provide external checks and balances on our operational work to ensure fairness in our decision making, observance of due process and proper use of our regulatory powers. Apart from scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Relevant functions	SFC-related tasks handled
<b>Process Review Panel</b> <ul style="list-style-type: none"> <li>An independent panel established by the Chief Executive of the HKSAR in 2000</li> <li>Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice</li> </ul>	<ul style="list-style-type: none"> <li>Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints and licensing applications, inspection of intermediaries, product authorisation, corporate finance transactions and the exercise of investigation and disciplinary powers</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed 60 cases and published its annual report in December 2021</li> </ul>
<b>Securities and Futures Appeals Tribunal</b> <ul style="list-style-type: none"> <li>Chaired by current or former judges appointed by the Chief Executive of the HKSAR and comprising two other members drawn from a panel appointed by the Financial Secretary under delegated authority</li> </ul>	<ul style="list-style-type: none"> <li>Reviews specified decisions made by the SFC or the Investor Compensation Company Limited</li> <li>Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions</li> </ul>	<ul style="list-style-type: none"> <li>Received requests to review eight new cases</li> <li>Decided on two cases received in 2021-22</li> </ul>
<b>The Ombudsman</b>	<ul style="list-style-type: none"> <li>Handles public complaints against the SFC and its staff for alleged maladministration</li> </ul>	<ul style="list-style-type: none"> <li>Commenced four preliminary inquiries</li> </ul>
<b>Courts</b>	<ul style="list-style-type: none"> <li>Handle judicial reviews of SFC decisions</li> </ul>	<ul style="list-style-type: none"> <li>Handled six judicial review cases</li> </ul>

## Performance pledges

In fulfilling our regulatory roles, we pledge to be responsive to the public, market participants and the intermediaries under our supervision.

		Cases meeting the pledge		
		2021/22	2020/21	2019/20
<b>Applications for subordinated loan or modification/ waiver of requirements under SFO</b>				
Commence review of application upon receipt	2 business days	<b>98%<sup>1</sup></b>	97%	100%
<b>Authorisation/registration of investment products</b>				
Take-up of applications upon receipt	5 or 2 business days <sup>2</sup>	<b>100%</b>	100%	100%
Preliminary response to applications after take-up for paper gold schemes, private open-ended fund companies, Thai domiciled funds under the Thailand-Hong Kong Mutual Recognition of Funds (MRF) and Hong Kong-domiciled feeder funds each investing in a single Thai-domiciled master fund that meets the requirements under the MRF scheme	7 business days	<b>100%</b>	100%	100%
Preliminary response to applications after take-up for other products	14 business days	<b>100%</b>	100%	100%
<b>General enquiries</b>				
Preliminary replies	5 business days	<b>100%</b>	100%	100%
<b>Processing of licensing applications<sup>3</sup></b>				
Corporations	15 weeks	<b>100%</b>	100%	100%
Representatives (provisional licences)	7 business days	<b>99%<sup>4</sup></b>	99%	99%
Representatives (normal licences)	8 weeks	<b>99%<sup>4</sup></b>	99%	99%
Representatives (responsible officers)	10 weeks	<b>99%<sup>4</sup></b>	99%	99%
Transfer of accreditation	7 business days	<b>99%<sup>4</sup></b>	99%	99%
<b>Complaints against intermediaries and market activities</b>				
Preliminary response	2 weeks	<b>99.8%<sup>5</sup></b>	99.7%	99.8%

1 One case failed to meet the pledge.

2 The pledge of five business days is applicable to the authorisation of the following products:

- Unit trusts and mutual funds
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds
- Real estate investment trusts
- Investment-linked assurance schemes

The pledge of two business days is applicable to the authorisation of other products (which include paper gold schemes) and the registration of private open-ended fund companies.

3 During the year, we processed 16,232 applications that were subject to performance pledges, 14,296 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,936 applications was delayed for reasons beyond our control. For example:

- unresolved fitness and propriety issues;
- outstanding vetting requests;
- outstanding material information from applicants; and
- requests by applicants that we delay finalising their applications.

To more accurately reflect our performance, these applications are not included in the percentages stated.

4 The delay was usually short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

5 Seven cases failed to meet the pledge.

During the year, 99.91% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response time are listed in the following table.

<b>Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)</b>	
<b><i>Applications for rulings and consultations with the Takeovers Executive</i></b>	
– All ruling applications and consultations under the Codes (except for those set out below)	5 business days <sup>6</sup>
– Applications for rulings that are conditional on obtaining shareholders' approval in a general meeting	Normally within 5 business days before the relevant general meeting
– Fast track EFM/EPT applications and EFM/EPT annual confirmations <sup>7</sup>	10 business days
– All other EFM/EPT applications	21 business days
<b>Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code</b>	
<b><i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i></b>	
– No complex Code issues involved	2 business days
– Complex Code issues involved	3 business days <sup>8</sup>
<b><i>All other announcements (including revised drafts)</i></b>	
– No complex Code issues involved	1 business day
– Complex Code issues involved	3 business days <sup>8</sup>
<b><i>All drafts of shareholders' documents<sup>9</sup></i></b>	5 business days

<sup>6</sup> If the subject matter involves complex Code issues, the time limit will be extended to 21 business days and the applicants will be informed of this.

<sup>7</sup> EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

<sup>8</sup> The parties will be informed of the longer time needed.

<sup>9</sup> Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.

# Green and Sustainable Finance

The SFC has been at the forefront of the global effort to green the financial system and one of our key priorities is to contribute to advancing Hong Kong's position as a green and sustainable finance hub in the Asia-Pacific Region, including in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). We have made significant progress in achieving the objectives set out in our *Strategic Framework for Green Finance* published in September 2018.

We collaborate with local and overseas counterparts to drive efforts to retool the financial system to support capital allocation decisions which take climate and sustainability risks into consideration by embedding sustainability practices in Hong Kong's financial sector.

We work closely with the Government and other financial regulators via the Green and Sustainable Finance Cross-Agency Steering Group (CASG)<sup>1</sup>, which our Chief Executive Officer (CEO) Mr Ashley Alder co-chairs with Mr Eddie Yue, the Chief Executive of the Hong Kong Monetary Authority (HKMA). In December 2021, the CASG announced the progress made in efforts to advance Hong Kong's position as a leader in green and sustainable finance and the way forward to help the financial ecosystem's transition towards carbon neutrality (see sidebar on page 39).

## Carbon market opportunities

Carbon markets are expected to significantly scale and grow in importance in the transition to a green, low-emission and climate-resilient economy. As an international financial centre, Hong Kong is in a unique position to play a strategic role as China's international gateway and mobiliser of capital to facilitate the national carbon neutrality goal.

The SFC recognises the strategic value Hong Kong can add in the development of carbon markets both regionally and globally. We co-chair the CASG's Carbon Market Workstream<sup>2</sup>, which during the year engaged with Mainland financial and environmental authorities as well as market stakeholders to assess carbon market opportunities for Hong Kong. In March 2022, the CASG announced its next steps to



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

support the development of Hong Kong as a regional carbon trading centre following the release of a preliminary feasibility assessment. These steps include developing a global, high-quality voluntary carbon market in Hong Kong and working with regional authorities on carbon market opportunities as part of GBA cooperation.

## Regulatory collaboration

The SFC plays a key role in global regulatory efforts to address sustainability and climate change. In speeches and events throughout the year, including at the 26th United Nations Climate Change Conference of the Parties (COP26) in Glasgow, Scotland in November 2021, Mr Alder shared his views on the importance of sustainability disclosures and urged support for the establishment of the International Sustainability Standards Board (ISSB) (see sidebar on page 37).

We actively participate in key international initiatives to enhance the regulatory development of green and sustainable finance, particularly within the International Organization of Securities Commissions' (IOSCO) Sustainable Finance Task Force (STF), where we contribute to its initiatives for sustainability-related disclosures, carbon markets and promotion of good practices. Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, serves as STF Vice Chair and Co-Chair of the STF Workstream on Corporate Reporting.

<sup>1</sup> CASG members include the Environment Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited (HKEX), HKMA, Insurance Authority, Mandatory Provident Fund Schemes Authority and the SFC.

<sup>2</sup> The Carbon Market Workstream is co-chaired by the SFC and HKEX, and its members include the Environment Bureau, Financial Services and the Treasury Bureau and the HKMA.

## Global action to address climate change

In November 2021, Mr Ashley Alder, our CEO and Chair of the Board of IOSCO, joined leaders from more than 200 countries at COP26 in Glasgow, Scotland. He also took part in the Green Horizon Summit held in conjunction with the conference.

Mr Alder shared with COP26 participants the important role IOSCO and securities regulators play in building investors' trust in the markets. He stressed that, whilst dealing with the climate emergency is mainly a matter for governments, the development of global baseline standards for corporate sustainability disclosures can make a significant difference in combating climate change.

Investors need reliable data to make informed investment decisions and channel private financing into greening the international economy, but the current corporate reporting landscape is fragmented, incomplete and inconsistent across jurisdictions, industries and companies, with many competing standards, Mr Alder told the conference. However, the global standards developed by the ISSB will address fundamental challenges which lead to concerns around mispricing of assets, misallocation of capital and the risk of greenwashing. They will also help build investor

a International Financial Reporting Standards.



Mr Ashley Alder at COP26

trust, encourage essential financial flows into sustainable investments and hold companies accountable for their net zero claims.

IOSCO considers that the IFRS<sup>a</sup> Foundation is the organisation best suited to launch an international standard-setting board because it can provide quality governance and due process with public oversight, Mr Alder emphasised. The new board will focus on enterprise value creation and a "climate first" approach to the development of sustainability disclosure standards. IOSCO will review the ISSB's proposed standards with a view to endorsing them for use by its members before the end of 2022.

Hong Kong's potential adoption of these standards has global significance, as Hong Kong is uniquely positioned to connect vast amounts of global capital with leading mainland China businesses, Mr Alder added.

## Listed companies

As a member of IOSCO's STF Technical Experts Group, we provided comments on the Climate-related Disclosures Prototype published in November 2021 by the IFRS Foundation's Technical Readiness Working Group. The ISSB used the prototype as the basis for developing its climate standards, which will serve as a global baseline for companies to report consistent and comparable information about climate-related risks and opportunities. We also work closely with the Stock Exchange of Hong Kong to develop a framework for climate-related reporting by listed companies in Hong Kong.

We also lead the Sustainable Finance Working Group of the IOSCO Asia-Pacific Regional Committee and represent IOSCO in the Financial Stability Board's Working Group on Climate Risk. In addition, we participate in the International Platform on Sustainable Finance, the Network of Central Banks and Supervisors for Greening the Financial System and the Sustainable Stock Exchanges Initiative.

## Green and Sustainable Finance



Ms Julia Leung, Deputy CEO and Executive Director, Intermediaries at the European Chamber of Commerce's Green Forum

### Asset managers

In August 2021, we concluded a consultation on amendments to the Fund Manager Code of Conduct to require fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures. To assist fund managers in complying with the new requirements, we also issued a circular to set out the expected standards and provide examples of industry practices for the management of climate-related risks. The new requirements will be effective from 20 August 2022.

In setting these requirements, we took into account international regulatory developments and initiatives such as the approach adopted by the European Union and the Task Force on Climate-related Financial Disclosures. We also took on board recommendations that the requirements align with global green and sustainable finance trends and reduce licensed corporations' compliance burden.

To provide further guidance to the industry, we held two webinars via the SFC official Facebook page and explained the new requirements at the events of local associations during the year.

### ESG funds

In view of the rapid growth of environmental, social and governance (ESG) funds and international regulatory developments, we published a circular in June 2021<sup>3</sup> setting out enhanced requirements for

disclosures and annual assessments for ESG funds, especially those with a climate-related focus. We also hosted industry briefings to explain the requirements.

We maintain a central database on our website of all SFC-authorized ESG funds. Since 1 January 2022, the database has also included the key features of these funds to enhance their transparency. There were more than 120 SFC-authorized ESG funds as of 31 March 2022.

### Raising investor awareness

We work with the Investor and Financial Education Council (IFEC)<sup>4</sup> to raise public awareness and understanding of green and sustainable finance through its mass communication and stakeholder collaboration initiatives. Sustainable finance education was featured during the IOSCO-led World Investor Week 2021, a global campaign held in Hong Kong. The IFEC also integrated ESG information into its mass media campaign "What You Need to Know about Investing", which included short videos and blogs.

During the year, our senior executives spoke to local and international audiences about the development of green and sustainable finance. Our Chairman Mr Tim Lui discussed Hong Kong's unique position to emerge as the regional green finance hub in keynote speeches delivered in November 2021 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 technology and data.

### Practising sustainability

Internally, we integrate green and sustainable finance into our policies and operations. Our Investment Committee enquires into how and to what extent external fund managers incorporate ESG principles into their investment and risk analysis processes to ensure that they discharge their obligations in accordance with the SFC's Principles of Responsible Ownership.

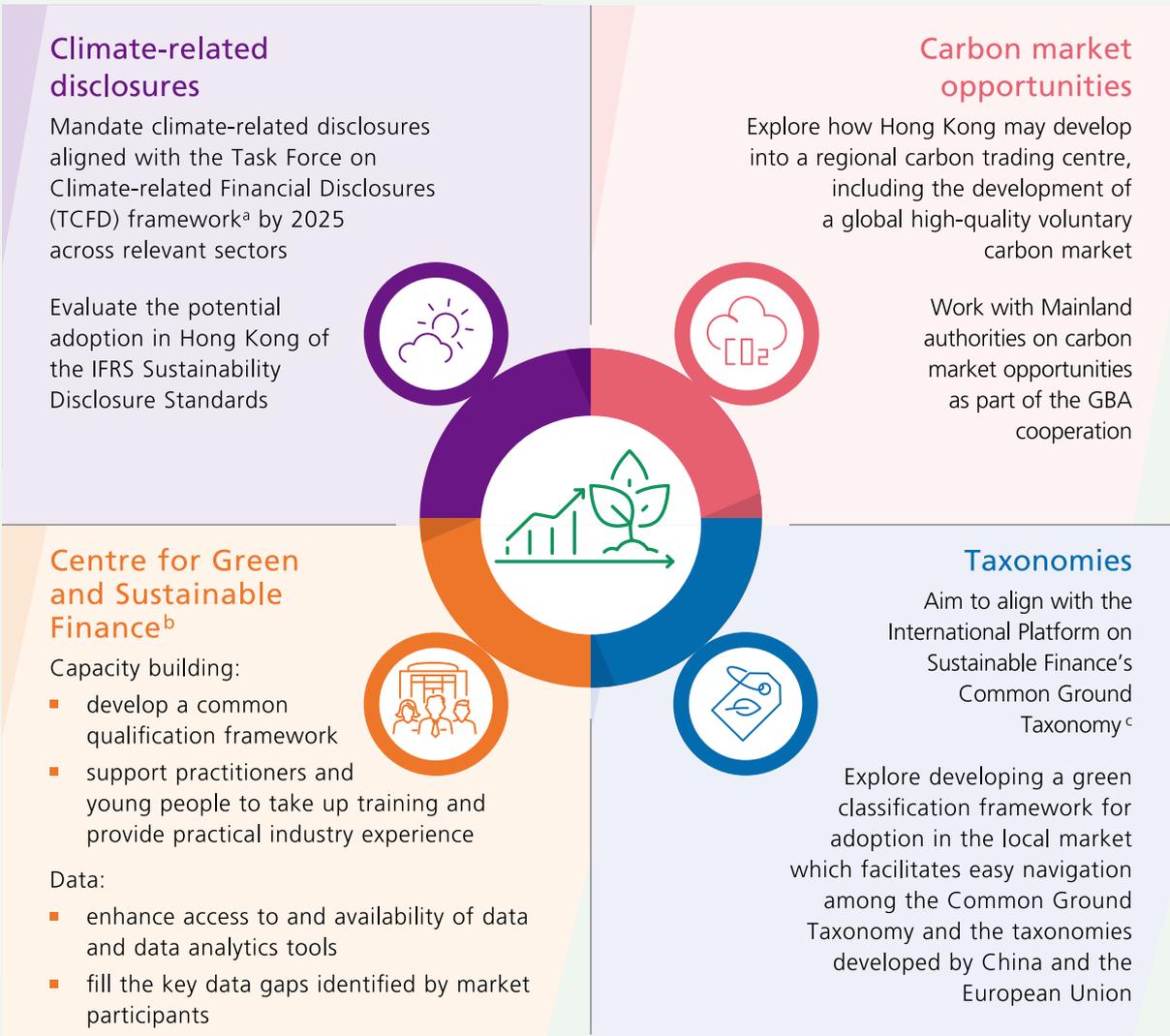
We joined a landlord-tenant sustainable development programme where there will be an energy audit of the SFC premises to understand our energy usage for air conditioning, water and electricity. Suggestions for energy reduction will be provided.

<sup>3</sup> This circular supersedes a previous version issued in April 2019.

<sup>4</sup> The IFEC is an SFC subsidiary which is dedicated to improving financial literacy in Hong Kong.

## Advancing Hong Kong's green and sustainable finance development

In December 2021, the CASG announced the progress it had made and the way forward to advance Hong Kong's position as a leader in green and sustainable finance and help the financial ecosystem's transition towards carbon neutrality. The CASG will focus on four areas.



a The TCFD framework is structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

b Launched by the CASG, the Centre for Green and Sustainable Finance is a cross-sector platform which coordinates the efforts of financial regulators, government agencies, industry stakeholders and academia in capacity building, thought leadership and policy development.

c The taxonomy will provide a common reference point for the definition of investments which are considered as environmentally sustainable.

# Corporate Social Responsibility

Our corporate social responsibility (CSR) initiatives focus on supporting sustainability, protecting the environment, caring for the community and promoting staff wellness.

## A socially responsible organisation

The COVID-19 pandemic has presented unprecedented challenges to society. More than ever, it is essential for both the public and private sectors to contribute positively to the community, the environment and the public interest. As a regulator in an international financial centre, we are committed to acting as a socially responsible organisation and incorporating CSR principles into our daily operational decisions and practices.

Reporting directly to the SFC’s Executive Committee, the CSR Committee plans and coordinates our CSR efforts. It is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs, and its members include representatives from units across the organisation.

The committee is responsible for:

- formulating and developing our CSR vision, principles, framework and policies;
- organising and promoting CSR activities; and
- setting objectives, targets and key performance indicators to measure the effectiveness of our CSR efforts.

The three working groups under the CSR Committee—the Commission Volunteers Group, Green Working Group and Wellness Group—are charged with planning and implementing initiatives under specific themes.

We explain our CSR goals, principles and activities on our corporate website and intranet, and circulate a quarterly e-newsletter to update staff about our CSR initiatives. The newsletter is also a platform for participants to share first-hand accounts of our CSR activities and for staff to provide feedback.

Our CSR efforts were recognised by the Hong Kong Council of Social Service which has named us a “Caring Organisation” since 2006 and last year awarded us the “15 Consecutive Years Logo”.

## Marketplace support

As a regulator of Hong Kong’s financial markets, we adopt measures to enhance industry-wide operational efficiency and minimise resource consumption by both the SFC and industry participants. We also promote environmentally-responsible practices.

## Industry-wide operational efficiency

To reduce the industry’s compliance burden and paper consumption, we ceased to issue printed licences<sup>1</sup> to licensed individuals in 2015. Details of licensed individuals are only available on our online Public Register of Licensed Persons and Registered

## CSR working groups and themes

	Focus	2021/22	2022/23
<b>Commission Volunteers Group</b> 	Community	Make a difference	Spread the kindness
<b>Green Working Group</b> 	Environment	Build a greener SFC	Make the world a better place
<b>Wellness Group</b> 	People	Stay healthy, stay happy	Stay well, do everything well

<sup>1</sup> We continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and these must be exhibited prominently at their places of business.



Mid-autumn volunteering with Po Leung Kuk



Hiking trail clean-up

Institutions. Extending the mandatory online submission of annual returns and notifications to cover all intermediaries starting April 2019 also saves paper.

Our new, fully-digitalised licensing platform<sup>2</sup> has replaced all paper-based processes and will provide greater efficiency for the industry. New functions were also introduced on WINGS<sup>3</sup>, a one-stop platform for making electronic submissions to the SFC, to facilitate more straight-through processing. Documents on display under the Takeovers Code are now required to be submitted electronically on WINGS, and an online system is available to streamline the submission and posting of Rule 22<sup>4</sup> dealing disclosures.

### Sustainable finance

Supporting Hong Kong's development as a green and sustainable finance hub within the Greater Bay Area and internationally is a key priority for the SFC. We drive and coordinate green efforts locally and internationally, including through the Green and Sustainable Finance Cross-Agency Steering Group, which we co-chair with the Hong Kong Monetary Authority, and the International Organization of Securities Commissions, whose board we chair. We also collaborate with stakeholders to promote sustainable finance initiatives and investor awareness of them<sup>5</sup>.

### Professional competence and financial literacy

Our continuous professional training (CPT) requirements<sup>6</sup> help enhance the competence of licensees. We upgraded the CPT requirements in January 2022 to align with market developments and the rapidly evolving regulatory landscape. For instance, environmental, social and governance (ESG) is now included as a relevant topic for CPT purposes. In addition, we announced special extensions to allow more flexibility for SFC licensees to meet the CPT requirements during the pandemic.

We provide funding to the IFRS Foundation<sup>7</sup> to support its work. We also fund our subsidiary, the Investor and Financial Education Council, which is dedicated to improving financial literacy in Hong Kong.

### Community

We provide our staff with volunteering and engagement opportunities to make a positive change in the community and offer volunteering leave to encourage staff participation in community service. This year, 39 SFC staff spent a total of 120 hours volunteering to help the underprivileged and elderly.

<sup>2</sup> See Intermediaries on pages 61-67.

<sup>3</sup> Web-based INteGrated Service.

<sup>4</sup> Required disclosures during an offer period under the Takeovers Code.

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

<sup>6</sup> Under the SFC's Guidelines on Continuous Professional Training, licensees are required to complete a minimum of five CPT hours per calendar year for each type of regulated activity.

<sup>7</sup> The IFRS Foundation is a not-for-profit organisation established to develop, promote and facilitate the adoption of the International Financial Reporting Standards.

## Corporate Social Responsibility



Christmas charity sale

Our staff support community services through donations and participating in fundraising events. This year, we raised a total of \$86,922 through our Christmas charity sale, donations for rapid test kits and four Community Chest events: Green Low Carbon Day, Dress Casual Day, Love Teeth Day and Skip Lunch Day.

Donating used items to charities helps people in need and reduces waste. This year, we donated used monitor arms and unused gifts to the Salvation Army's recycling programme. To share the festive spirit with needy families, we encouraged staff to join the Mooncake Sharing Programme in partnership with Food Angel.

We partnered with Po Leung Kuk to prepare and distribute gift packs with daily and anti-epidemic

supplies for grassroots families and elderly persons who live alone. We also engaged with Fu Hong Society and the Hong Kong Society for Rehabilitation to sell groceries and items made by their members at our in-house Christmas charity sale, where additional funds were raised from the sale of items made by our staff.

During the year, a record surge in the number of COVID-19 infections led to a huge demand for early detection. In March 2022, we partnered with the Neighbourhood Advice-Action Council to prepare for emergency distribution of rapid test kits to help ease the burden and worries of the elderly. Within three days, we collected donations of \$33,700 from 95 staff and distributed 1,124 rapid test kits to the homes of the elderly.



Donations to the Salvation Army and Feeding Hong Kong

## Volunteering in the time of COVID-19

Social distancing measures and pandemic restrictions have changed the way our staff participate in volunteering efforts. We continue to organise volunteering activities as part of our commitment to the community, but some events have shifted from face-to-face engagement to virtual or phone interaction to keep our volunteers and those they engage with safe.

For instance, we collaborated with the Po Leung Kuk Vicwood K.T Chong Neighbourhood Elderly Centre to host an online event in June 2021. Our staff and the elderly interacted virtually in a games session and did simple stretching exercises together. The event helped offer emotional support and showed our care to the elderly during the pandemic, which has been a cause of considerable stress for them.



During the year, we also organised a phone call support programme in collaboration with Hong Kong Christian Service. Fifteen colleagues were each paired with an elderly person and checked in on them over the phone at least once a week for over a month. Some of the elderly persons had no access to smartphones or lived alone, and the programme provided opportunities for interaction.

## Volunteering events

Month	Activity	Purpose	Outcome
June 2021	Online volunteering with Po Leung Kuk	To provide emotional support to and social interaction with the elderly during the pandemic	Seven staff volunteers interacted virtually with the elderly, playing games and doing stretching exercises
September 2021	Office furniture donation	To donate office furniture to those in need	250 monitor arms were donated to the Salvation Army Recycling Programme
September 2021	Mid-autumn volunteering with Po Leung Kuk	To connect with grassroots families and the elderly who live alone	17 staff volunteers prepared and distributed gift packs with anti-pandemic and daily supplies at Po Leung Kuk Tin Ka Ping Harmony Land for Families
October 2021	Donation of food and anti-pandemic supplies	To help people living in poverty who struggle to afford nutritious meals	Staff donated items to Feeding Hong Kong
December 2021	Hike and clean-up Hong Kong trail	To help rid trails of increasing pollution and waste	15 volunteers gathered at Devil's Peak to clean up the hiking trail and deliver the message of "leave no trace" to hikers
December 2021	Christmas charity series	To raise funds and spread Christmas joy to the underprivileged	Donated seven boxes of unused gifts to the Salvation Army and raised funds from the sale of items prepared by Fu Hong Society and the Hong Kong Society for Rehabilitation's members and our staff volunteers
March 2022	Fundraising for rapid test kits distribution	To ease the burden and worries of the elderly during the epidemic	Collected \$33,700 from 95 staff and distributed 1,124 rapid test kits to the elderly

## Contributions

	2021/22	2020/21	2019/20
Number of staff participating in volunteering activities	39	20	74
Total volunteering hours	120	40	263
Funds raised for community causes	\$86,922	\$47,739	\$82,246
Corporate sponsorships for community causes <sup>^</sup>	\$2,000	N/A	\$31,535

<sup>^</sup> Including donations in lieu of corporate gifts made in the names of guest speakers invited to our in-house training seminars.

## Environment

We strive to manage our consumption and minimise our carbon footprint. An internal protocol, *A Guide to Working "Green" at the SFC*, sets out guidance for staff to protect the environment at the workplace.

Energy-conserving features were introduced in our new office, including motion and daylight sensor lighting. The office layout was designed to allow more natural light. Recycling bins are conveniently available at multiple locations across the office.

We joined Swire Properties' Green Performance Pledge (GPP), its landlord-tenant sustainable development programme. Swire will perform an energy audit of the SFC's office premises at One Island East to understand our energy usage and provide suggestions for reducing energy consumption.

Following our relocation to the new office, some furniture and fixtures from our old office were sold to staff to recycle. The proceeds were donated to our Commission Volunteers Group fund.

To reduce paper consumption, we use electronic processes for internal procedures. Meeting materials are shared on tablet computers and paperless diaries are available. For the first time, this year's annual report was only published as a digital version online to save paper.

Other green practices adopted in our workplace to use resources more efficiently include:

- sharing recycling tips and information with staff;
- recycling coffee grounds;
- reusing stationery by providing stationery refills;
- automatically turning off desktop computers every weekend; and
- setting black and white printing as the default for all staff.



Staff are provided with tips on using our office recycling bins (Source: Environmental Protection Department)



Screensaver created by our CSR committee

We organise activities for our staff and their family members to raise environmental awareness. To promote an eco-friendly lifestyle, we arranged webinars on climate change and organised green hikes during the year. In collaboration with Po Leung Kuk, we introduced Green@Community—a community recycling network launched by the Environmental Protection Department—via a webinar and encouraged staff to make good use of the recycling facilities in our offices. We arranged a hiking trail clean-up at Devil’s Peak to promote the concept of “leave no trace”. We also recycled used red packets in support of Greeners Action’s campaign and encouraged staff to donate mooncake boxes and old books to help protect the environment.

We support the World Wide Fund for Nature’s global warming prevention and environmental conservation causes.

- No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve shark fins at any SFC event.
- Earth Hour 2022: We took part in this annual energy conservation event for the twelfth year. We encouraged staff to switch off lights for one hour and made a pledge as a corporate supporter.

To raise awareness of global warming and promote wise use of air conditioning, we supported Green Sense’s No Air Con Night, which called on households to switch off their air conditioning for 12 hours.

## Workplace

We attach high importance to staff’s wellbeing and strive to maintain both their physical and mental health.

Height-adjustable desks are installed at all regular workstations in our new office for improved ergonomics. To cater to the needs of working mothers, well-equipped wellness rooms are designed specifically for lactation.

We also organised activities to encourage healthier lifestyles and promote health awareness during the year:

- staff were encouraged to submit healthy lifestyle tips and the best five entries were shared with all staff;
- a tea therapy talk introduced the therapeutic benefits of tea and a webinar discussed healthy eating;
- a crystal singing bowl meditation session demonstrated how to calm the body and mind through sound vibration;
- a yoga session was held virtually for colleagues to do exercise at home;
- an anger management talk highlighted ways to deal with emotions;



Earth Hour 2022



No Air Con Night

## Consumption and recycling

	2021/22	2020/21	2019/20
<b>Consumption</b>			
Paper (pieces/head)	5,421	7,321	8,712
Electricity (kWh)	3,323,495	3,055,590	4,188,211
<b>Recycling</b>			
Paper (kg)	19,669	66,464	35,897
Toner and printer ink cartridges	715	897	949

- stretching and resistance band workshops were presented by a registered physiotherapist; and
- a nutrition talk shared tips and recipes for an easy and healthy diet.

We are dedicated to creating positive mental health for our staff and the wider community as well as promoting best practices for corporate policies. Clinical psychology and counselling services are offered as part of our Employee Assistance Programme for staff and their immediate family members. As a founding member of the City Mental Health Alliance Hong Kong (CMHA HK), we actively participate in its activities.

We took part in the CMHA HK Mental Health in the Workplace Surveys to help better address and support mental health and wellbeing in the business community.

This year, we supported and organised an event for C-suite executives hosted by CMHA HK titled “Mental Health as a Key Element of Operational Resiliency in the Hong Kong Finance Industry”. The event brought together industry leaders and a counsellor to share personal mental health stories. The panellists also discussed practical ways organisations are addressing mental health-related challenges in the workplace.



Stretching and resistance band workshop

## Supporting mental health at work

To address mental health issues and provide a healthier working environment under the current pandemic, the SFC has stepped up its mental wellbeing strategy to provide more support for staff.

During the year, we shared free webinars and articles provided by CMHA HK and Mind Hong Kong and held meditation sessions to provide staff with more resources for maintaining good mental health and work-life balance. We also organised a talk about anger management with the Mental Health Association of Hong Kong.

To support World Mental Health Day, World Suicide Prevention Day, and the “Move it for Mental Health” campaign<sup>a</sup> organised by Mind Hong Kong, we promoted related events via email and shared useful links and information.

To raise mental health awareness, we circulated four weekly articles on the themes of depression, anxiety and the use of online social media platforms, bipolar disorder and substance abuse and the fear of missing out. A total of 77 staff



(Photo: Mind Hong Kong)

members participated in our weekly quizzes to test their knowledge of mental health issues.

In April 2021, Ms Julia Leung, our Deputy Chief Executive Officer and Executive Director of Intermediaries, joined the Wellbeing at Work Asia Summit, a virtual senior leader panel organised by CMHA HK. Ms Leung acknowledged that coping with stress both at work and at home was tough for many, and senior management should prioritise work to focus on critical functions during difficult times to relieve anxiety on the part of staff.

<sup>a</sup> The campaign aims to highlight the importance of exercising regularly to maintain mental and physical health. Participants were encouraged to complete 280,000 or more steps in February 2022.

# Meet Our People

At the SFC, professionals in the early stages of their careers have opportunities to contribute to initiatives which have a significant impact on the markets, the financial industry and the wider world. Our people talk about what motivates them and the satisfaction of being part of our work to protect investors, safeguard markets and advance Hong Kong's position as an international financial centre.

## Making connections

Shelley Huang witnessed the launch of Shanghai-Hong Kong Stock Connect, the first mutual market access scheme between the Mainland and Hong Kong<sup>1</sup>, and is proud to have played a role in this milestone in Hong Kong's financial development. "This was one of the highlights of my career at the SFC and I was inspired by the dedication, diligence and professionalism of the senior leaders and working staff from both the Hong Kong and Mainland regulators," she reflected. She not only cemented close friendships with her Mainland counterparts and gained a deeper understanding of the Mainland's policies and regulatory environment, she also strengthened her communication and management skills as a result of collaborating with people from different authorities.

Contributing to the development of Shanghai-Hong Kong Stock Connect was a memorable experience for Sophia Wang, who also worked on other important milestones such as the later launch of the Shenzhen link and the introduction of A-share index futures in Hong Kong.

These experiences helped her develop the habit of embracing different views and finding common ground when handling challenging issues, she related. "It was a valuable experience working on these projects, and I am fortunate to be part of them."

## Tackling climate change

Samuel Kwan helps develop global policy recommendations for sustainable finance and contributes to local initiatives to advance Hong Kong's position as a green finance hub within the Greater Bay Area and internationally<sup>2</sup>. "It has been a challenge to develop effective regulatory frameworks for green and sustainable finance, considering the jurisdictional and sectoral differences and the need to move quickly to address the urgent issue of climate change," he said. "This is an invaluable opportunity for me to play a big part in the green transition and help protect the planet."

When Kenneth Chan was assigned to develop the SFC's first guidelines for disclosures by environmental, social and governance (ESG) funds, he faced a steep learning curve. Not only was it a new area for him, at the time there was little precedent for a regulator to issue this kind of guidance. "This was highly motivating and a great learning experience," he said. "It has been inspiring to see the improvement in these disclosures after our guidance was issued, and very satisfying to see other regulators in the region make reference to it."



Kenneth Chan, Senior Manager, Investment Products  
Ammon Lee, Associate Director, Information Technology, Corporate Affairs  
Shelley Huang, Manager, Mainland Affairs, CEO's Office



Kelly Mak, Manager, Enforcement  
William Chung, Associate Director, Information Technology, Corporate Affairs  
Tim Kwok, Assistant Manager, Enforcement

1 Mutual market access between Hong Kong and Shanghai was launched in November 2014 and expanded with Shenzhen-Hong Kong Stock Connect in December 2016.

2 See Green and Sustainable Finance on pages 36-39.

### Cracking down on scammers

As a member of the SFC's frontline investigation team, Kelly Mak's top priority is combating ramp and dump schemes<sup>3</sup>, which are often conducted by sophisticated syndicates operating across different jurisdictions.

Tracking down the "masterminds behind the scenes" can be a huge challenge, she explained, and close cooperation with local and overseas regulators and law enforcement agencies is essential. "Curbing these scam syndicates has helped preserve the integrity of our markets and protect investors," she added.

Tim Kwok agreed, adding that the most rewarding aspect for him was knowing he has helped raise public awareness so investors would be less likely to fall for these schemes. "This reminds me that what we do in all of our work is to protect the interests of investors and uphold the reputation of Hong Kong as an international financial centre," he concluded.

### Innovation for the future

The introduction of our new digitalised licensing platform on WINGS<sup>4</sup> was a proud moment for Emily Tse, who took part in the project from the very beginning. "The new platform helps the industry manage licensing matters in a more flexible, seamless manner while streamlining the SFC's work and providing transparency," she explained.

William Chung, who was responsible for delivering the external interface, added that "this new system will help thousands of our licensees, and that is the most rewarding thing to me."



Emily Tse, Manager, Licensing, Intermediaries



Sophia Wang, Associate Director, Supervision of Markets



Alpha Lau, Manager, Intermediaries Supervision, Intermediaries  
Erica Lai, Manager, Licensing, Intermediaries  
Samuel Kwan, Assistant Manager, International Affairs and Sustainable Finance, CEO's Office  
Lewis Wong, Senior Manager, Information Technology, Corporate Affairs

Alpha Lau explained that our licensing and intermediaries supervision functions are crucial for gatekeeping and monitoring Hong Kong's securities and futures markets. Cooperating with colleagues from other parts of the organisation taught him a lot, and this has helped his career development. "The challenges I faced motivated me to learn more," he said.

Erica Lai stressed that the rollout of the new system came just at the right time to enable us to handle all our licensing work remotely when staff could not come to the office. "Though the project was challenging, I was excited to see all our hard work pay off when I saw how well the system worked," she said. "And it was most rewarding to hear the positive feedback from the industry, including my former colleagues who told me how convenient the new features are."

For Ammon Lee, the project's technical lead, the greatest challenge was keeping up the team's spirit under the adverse conditions during the pandemic. "We managed to overcome unprecedented difficulties with excellent teamwork, and this gave us a great sense of achievement."

Reflecting our people's sense of mission and dedication, Lewis Wong related that the team was very happy when the project was delivered according to plan, knowing that it provided a foundation for future innovations. In the words of Kelly Mak, "the most fulfilling thing is knowing that our work has a positive impact."

<sup>3</sup> See Enforcement on pages 79-88.

<sup>4</sup> See Intermediaries on pages 61-67.

# 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.

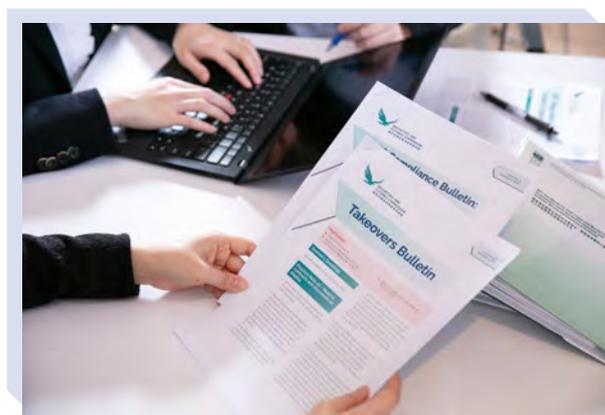
<sup>5</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

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

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.

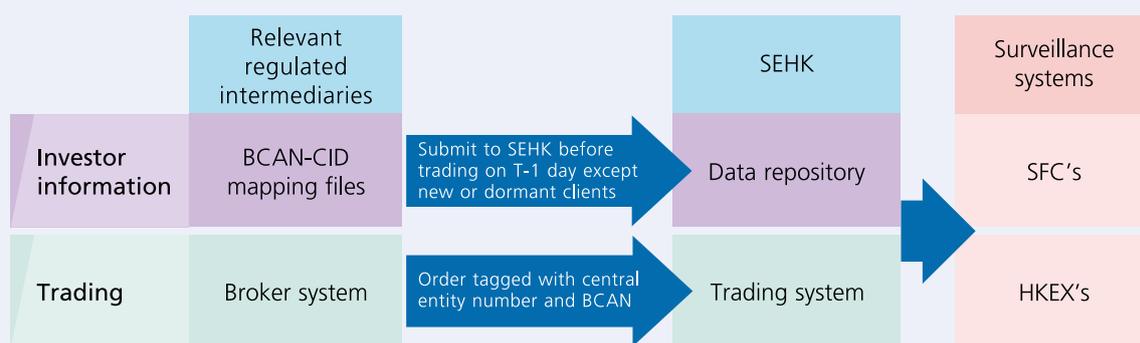
b See pages 139-151 for the financial statements of the ICF.

## 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.

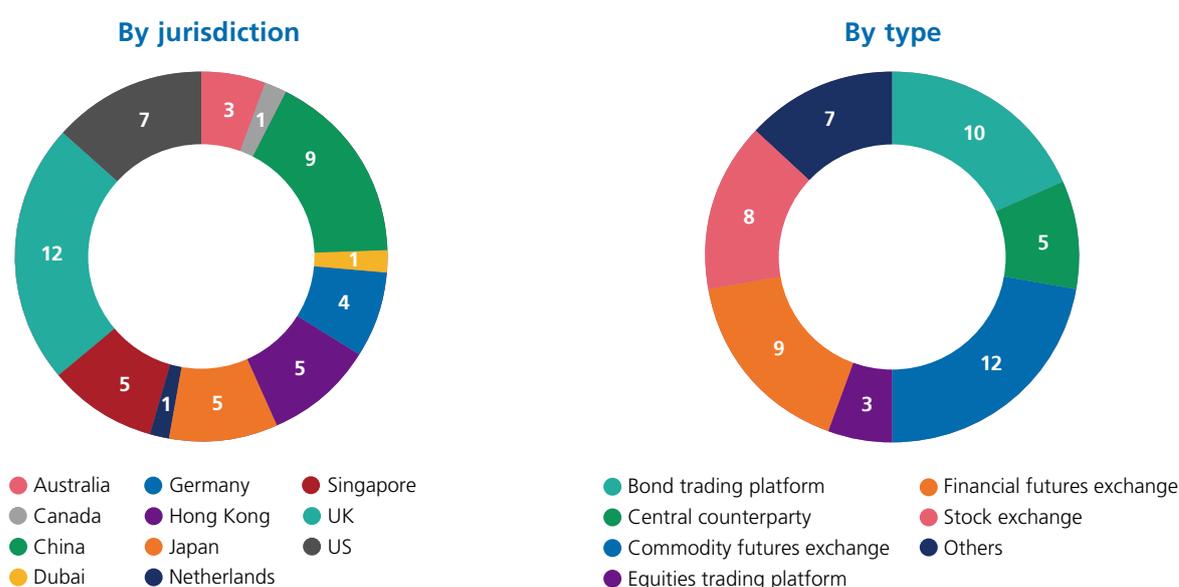
<sup>a</sup> A unique identifier assigned by the SFC.

## 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



Note: One ATS provider is both a financial futures exchange and a central counterparty.

### 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

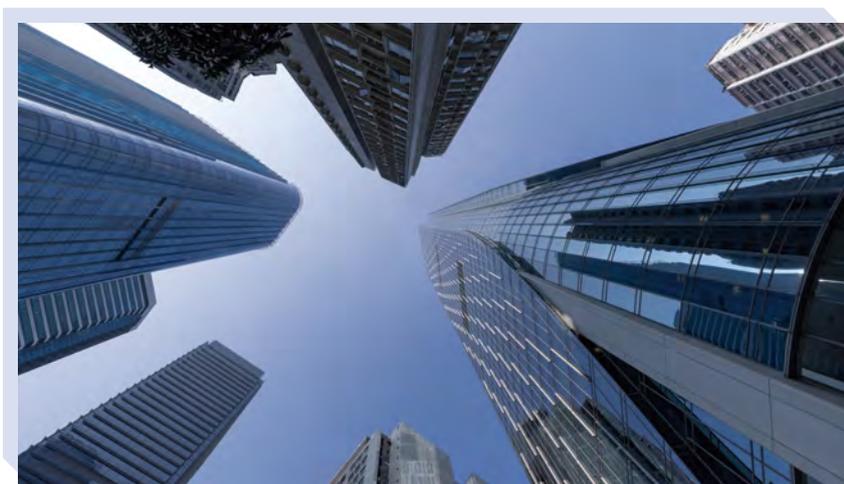
Company/Name	Breaches/Convictions	Action	Date
Leung Siu Lun	Convictions under the Prevention of Bribery Ordinance in September 2018	Banned from re-entering the industry for life	1.3.2022
Poon Chun Hing	Misappropriated client funds for his personal use	Banned from re-entering the industry for life	2.12.2021
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

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Environmental, Social and Governance

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Financial Statements

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.

## 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

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.

## 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.

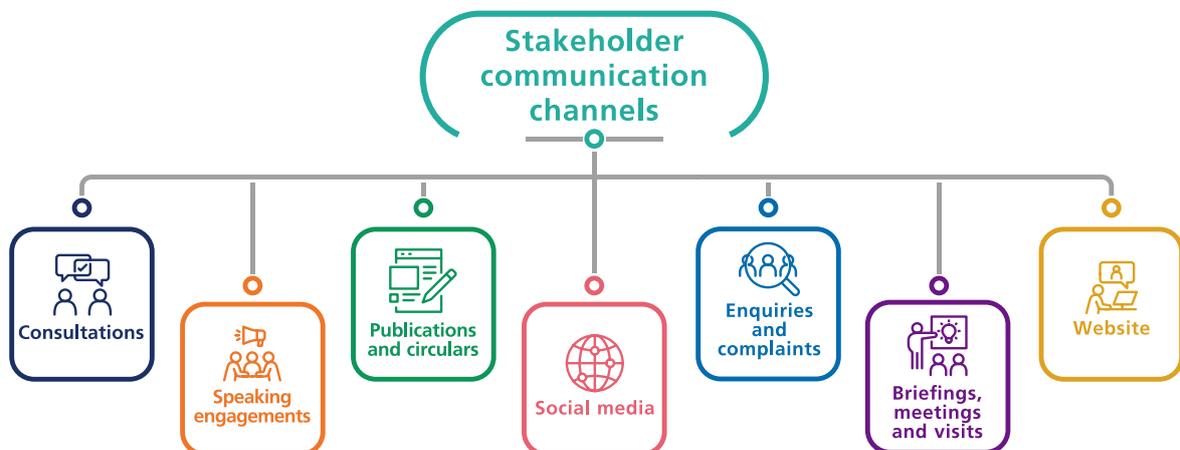
To introduce new climate-related risks management and disclosure requirements under the Fund Manager Code of Conduct, we organised two Facebook Live training sessions in October 2021 which were attended by around 1,000 participants. Together with the Joint Financial Intelligence Unit, we hosted a joint 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.

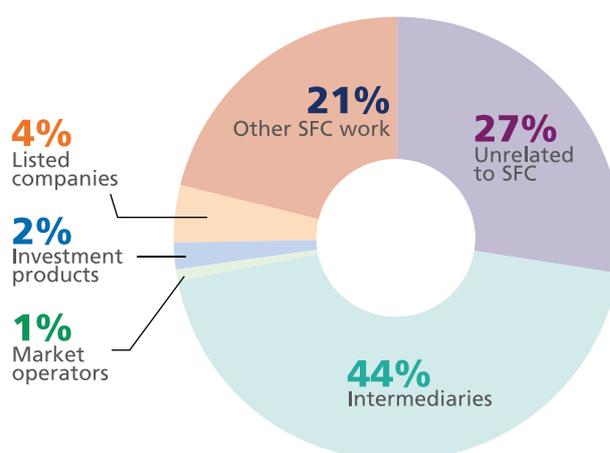
## Stakeholders



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.”**

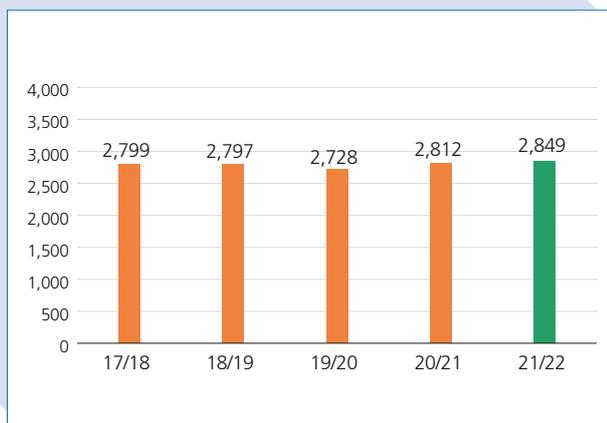
*Mr Wong Chi-kwong, Chief Superintendent of Police (Commercial Crime Bureau), Hong Kong Police Force*



# SFC Activity Data

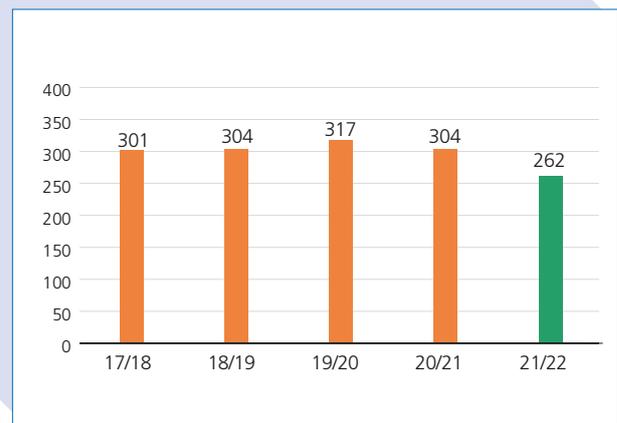
These charts are intended to show some top-line data at a glance. See Breakdown of SFC activity data on pages 166-172 for more details.

## Authorised collective investment schemes

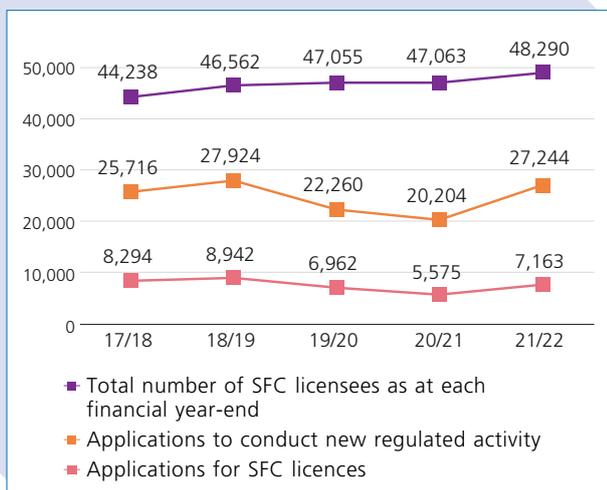


Note: Figures represent a snapshot view as at each financial year-end.

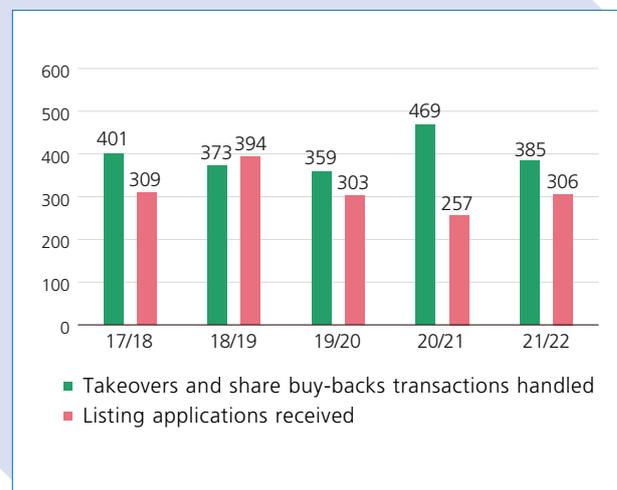
## On-site inspections of intermediaries



## Licensing

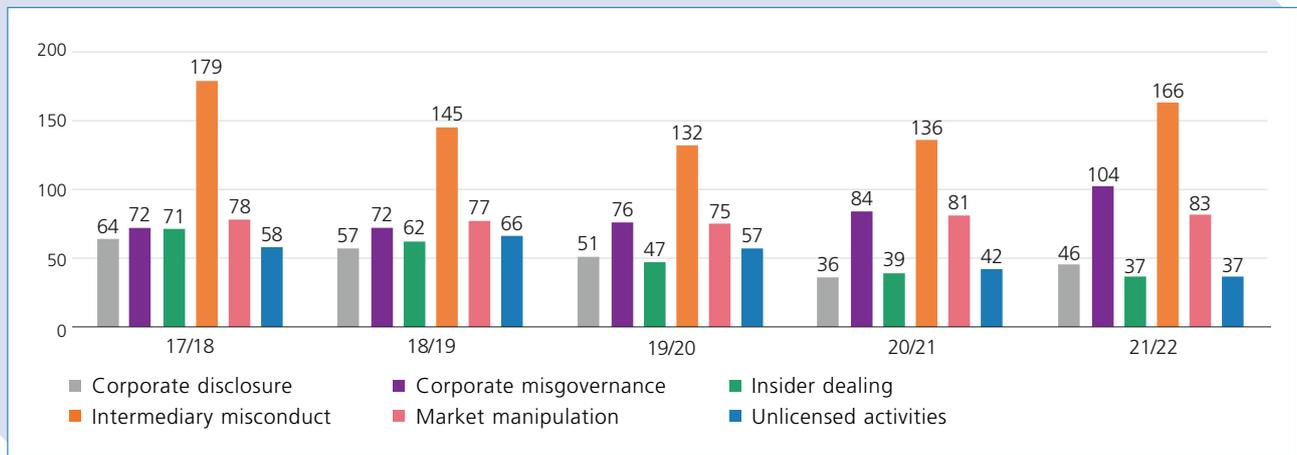


## Takeovers and listing applications

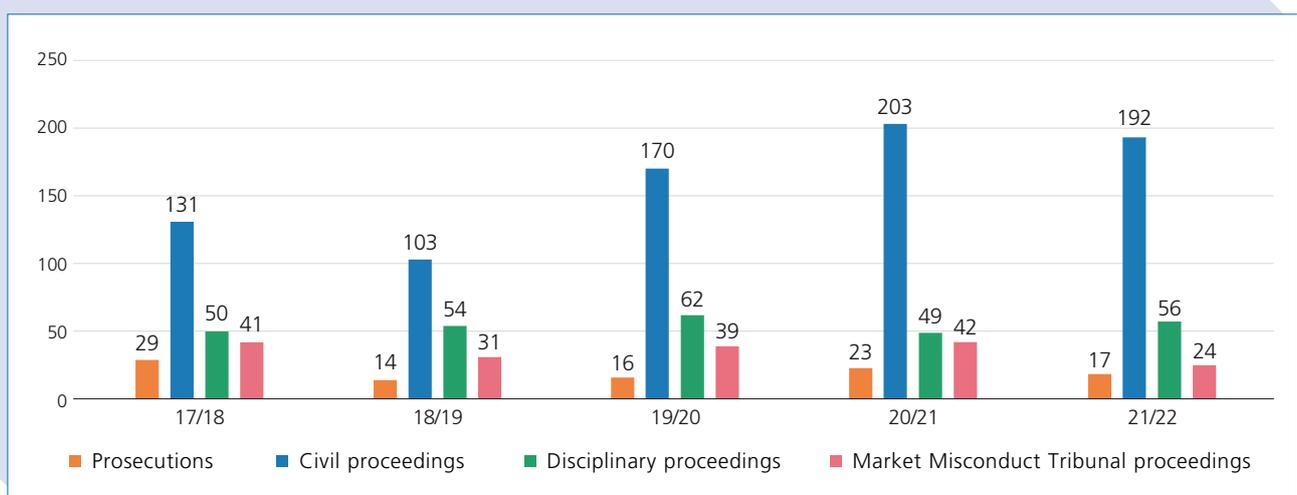


## SFC Activity Data

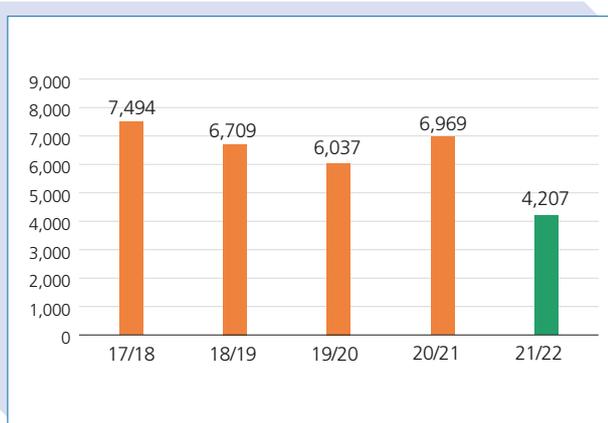
### Investigations



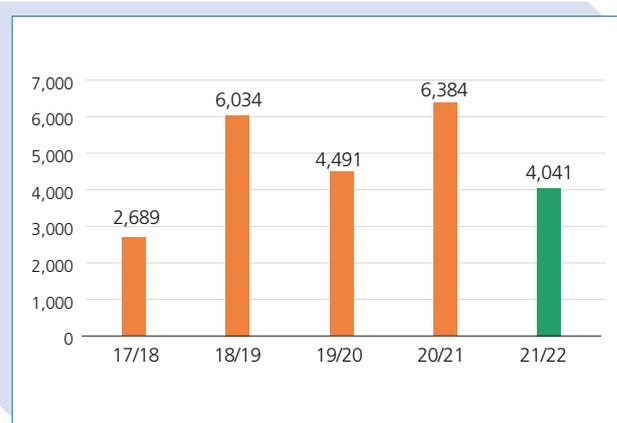
### Persons/corporations subject to enforcement action



### General enquiries



### Complaints against intermediaries and market activities



# Corporate Developments

We foster a positive and supportive workplace culture with an emphasis on staff's wellbeing to help make our workforce more engaged and productive. To ensure our regulatory effectiveness, we use our resources prudently and regularly upgrade our systems and technology infrastructure to keep in step with market developments.

## Corporate Developments

### People

We are committed to making the SFC an employer of choice. For the 16th consecutive year, the SFC was named a “Caring Organisation” by the Hong Kong Council of Social Service. In addition, the Employees Retraining Board (ERB) recognised our efforts to promote staff learning and development with an award as an “ERB Manpower Developer” for the ninth consecutive year.

### Talent management

To help retain talent and expertise, we reassessed our retirement policy and the timetable to gradually raise our retirement age to 65 was moved forward from 2027 to 2024.

We participated in the Government’s Job Creation Scheme and opened an additional 30 temporary positions for external applicants during the year. We will also provide more stable fixed-term contract opportunities for staff supporting new and ongoing projects and policy initiatives.

### Professional development

Our Chief Executive Officer (CEO) communicates important organisational matters and regulatory developments and addresses questions from staff during regular CEO sharing sessions. We also arrange internal Commission Connection sessions to update our staff on new policy initiatives.

We strive to provide staff with career development opportunities and refine our merit-based human resources policies to better align our people and culture with the SFC’s regulatory objectives.

Recognising the benefits of broader professional exposure, we offer short-term internal secondments for staff through a cross-divisional exchange programme. External secondment opportunities are also provided, such as those with the Financial Services and Treasury Bureau and the China Securities Regulatory Commission (CSRC). This year, two CSRC counterparts were seconded to us under an SFC-CSRC memorandum of understanding.

Locally, we held joint training workshops with participants from the Hong Kong Monetary Authority, Hong Kong Police Force and Immigration Department. We also invited local and overseas regulators and industry professionals to share their views on a wide range of topics including listing regulation, financial products and the latest developments in overseas markets.

During the year, our employees spent an average of 29 hours on structured learning courses, which included workshops, seminars and training programmes.

A total of 53 summer and winter interns were placed across our various divisions this year.

### Employee statistics

	As at 31.3.2022		As at 31.3.2021		As at 31.3.2020	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	728	805	743	805	736	805
Support	185	183	190	183	185	183
<b>Total</b>	<b>913</b>	<b>988</b>	933	988	921	988

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Male	310	315	312
Female	603	618	609
Average years of service	9.5	9.3	8.8
Female staff at Senior Manager grade or above	59%	60%	60%



SFC Women's Network workshop

### Engaged workforce

We strive to cultivate a supportive culture and a positive working environment as part of our core values.

To help staff navigate the pandemic, we organised webinars and workshops and shared reference materials to provide staff with ways to maintain good mental health and holistic wellbeing under the new normal both at home and at work.

To keep our operations sufficiently resourced at all times while safeguarding the health of our staff, we implemented temporary split-team arrangements for staff to work remotely on a rotating basis. This arrangement was a result of our risk assessments, employee feedback and a consideration of our operational needs. In support of Hong Kong's drive to encourage COVID-19 vaccinations, we offered vaccination leave for all staff.

Considering the global trend towards flexible and remote working during the ongoing pandemic and the positive impact of these progressive practices, we introduced a Work From Home policy.

The SFC Women's Network helps advance women's professional growth and development in leadership. We were the first statutory body in Hong Kong to set up a women's group for staff. During the year, our Women's Network organised talks and published

### Training

	2021/22	2020/21	2019/20
Percentage of employees who participated in internal training <sup>^</sup>	99%	94%	93%
Average hours of internal training per employee <sup>^</sup>	29	18.8	24.3

<sup>^</sup> Including lectures, workshops, seminars, webinars and e-learning.

newsletters to engage and support female colleagues at work and encourage career development for all.

### Quality workplace

The new office in use since 2020 provides an open layout which allows more efficient use of space and a greener working environment.

Height-adjustable desks are installed at all workstations to safeguard the health of staff and improve productivity. Well-equipped wellness rooms and communal areas are specifically designed to cater to staff's needs.

An air quality treatment system helps ensure a healthy working environment. Sensors are installed to automatically turn off or dim lights when sufficient daylight is available or the room is not in use. Bins for recycling paper, plastic, metal and glass are conveniently placed around the office.

Our recommended work practices and other measures help staff maintain social distancing in the workplace in conformity with the Government's pandemic control measures. Face masks and rapid test kits are provided to staff in the office and the workplace is disinfected frequently.

### Legal support

Our Legal Services Division handles criminal cases and manages civil litigation and Market Misconduct Tribunal cases initiated by the SFC. It also defends judicial reviews and other cases brought against the SFC.

The division supports our day-to-day work by providing advice and guidance on legislative drafting and regulatory matters such as licensing issues, supervision of risky brokers, front-loaded regulation of listing matters, takeovers activities, investor compensation and enforcement investigations as well as on administrative affairs including employment, data privacy and procurement contracts.

## Corporate Developments

### Technology

Our information technology strategy focuses on digitalisation, information sharing and risk-detection capabilities.

#### Digitalised workflow

In January 2022, a new licensing system was introduced on WINGS<sup>1</sup> to enable a fully digitalised licensing process. The secured paperless system offers greater convenience for the industry. Its new business intelligence and data analytics capabilities also significantly aid in our daily work.

In addition, a new feature was added on WINGS for the online submission of bank records required for investigations under the Securities and Futures Ordinance, providing central audit trails which conveniently track submission status. This secured submission system will be expanded to all the member banks of the Hong Kong Association of Banks.

We also enhanced other technology platforms to ensure they remain effective for market participants, including the investment-linked assurance scheme authorisation system. Internally, we expanded system capacity to facilitate remote working for all staff.

### Recognition for public service

Two SFC staff members received the Ombudsman's Awards 2021 in recognition of excellence in handling public complaints. The awardees, Hazel Law, Associate Director, Investment Products and Vincent Ng, Manager, Complaints Team, Corporate Affairs, both joined the SFC in 2008.

Law has more than 14 years of experience handling complaints related to investment products. Her background as a senior derivatives and structured finance lawyer at an international law firm helps her navigate the legal and regulatory context and critically analyse these cases. The most important thing, Law believes, is to step into complainants' shoes, show empathy and take prompt action to address their problems professionally and in an impartial manner.

As a CFA charterholder, Ng has a solid understanding of the financial market's operations. This helps him explain complicated concepts to the general public in layman's terms. Many investors filed complaints with the SFC because they suffered losses or were treated unfairly, he related, and some may be very upset or even hostile. To facilitate communication, it is



Hazel Law, Associate Director, Investment Products

important to remain patient and listen attentively to their grievances and concerns.

The awardees were encouraged by the recognition and said it would motivate them to strive for continuous improvement and provide quality service to the public.

<sup>1</sup> Web-based INteGrated Service.



Internal sharing session

## Risk detection and monitoring

To make our monitoring of market risk more effective, we introduced a new platform during the year which integrates data from electronic submissions of Financial Resources Rules (FRR) returns, replacing manual data collection processes. The platform also generates analytics reports and instant alerts and facilitates ad-hoc FRR submissions for financial stress testing. By streamlining the extraction and consolidation of data from isolated systems, the platform provides for more timely supervision.

We deploy advanced technology in our regulatory work for greater effectiveness. During the year, AI<sup>2</sup>-assisted data search technologies were adopted in vetting listing applications. For more comprehensive and accurate entity risk assessment, we also utilised AI-assisted technology to analyse connections among firms and consolidate information from a wide range of data sources.

## Finance

As a publicly-funded organisation, we follow a disciplined approach to drawing up our budget. We appoint external investment managers to manage our reserves according to investment guidelines approved by the Financial Secretary. An independent external firm conducts an internal audit to assess the effectiveness of our controls and identify the key risks of our business processes each year<sup>3</sup>.

<sup>2</sup> Artificial intelligence.

<sup>3</sup> See Corporate Governance on pages 14-35.

<sup>4</sup> Full waivers covered 2009-10, 2012-14, 2014-16, 2016-18, 2018-19, 2020-21, 2021-22 and 2022-23, and a 50% discount was provided for 2019-20.

## Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is significantly lower than the initial rate of 0.0125% set in 1989. We have not revised our fees and charges since 1994. We have offered waivers for annual licensing fees nine times since 2009<sup>4</sup>. A full waiver was granted for 2021-22 and extended for another year beginning 1 April 2022.

## Income

Total income for the year was \$2,247 million, down 25% from \$3,008 million last year. Owing to the lower securities market turnover in the current year, our levy income decreased 6% from last year to \$2,141 million. Our income from fees and charges decreased 17% from \$181 million to \$151 million. Our investments recorded a loss of \$88 million for the year, compared to a gain of \$528 million last year mainly contributed by the performance of our pooled fund investments.

## Expenditure

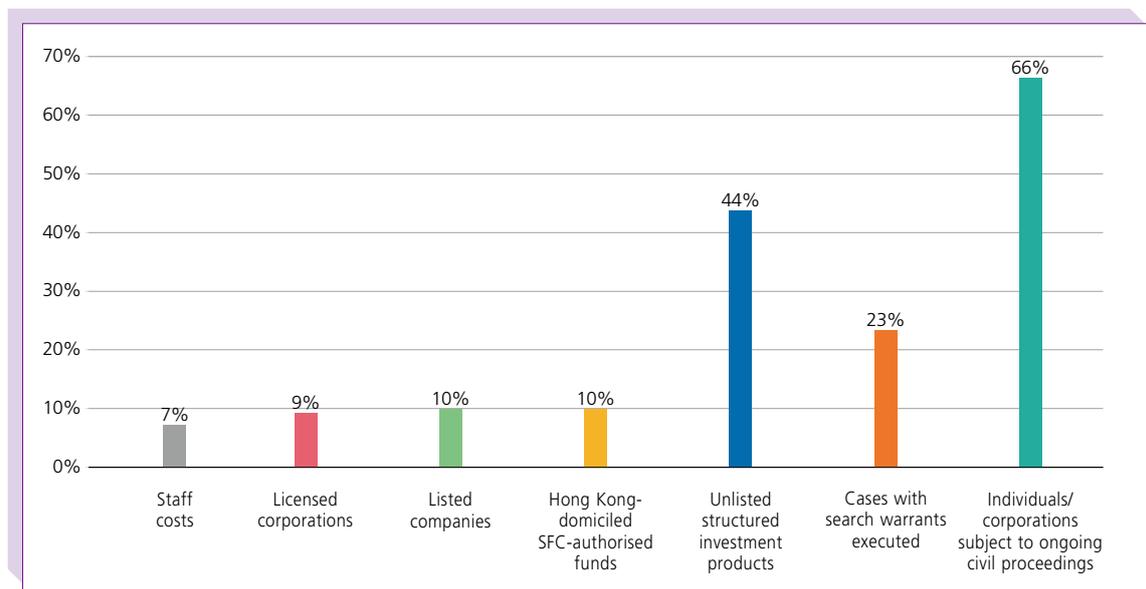
The costs of our operations totalled \$1,906 million, \$314 million below our original budget of \$2,220 million.

Over the past three years, our staff costs increased 7% while our regulatory work increased in both volume and complexity. The ratio of average expenses to income for the past three years was 86%. In the same period, the average increases in expenses and income were 1% and 18%, respectively.

We recorded a surplus of \$341 million for the year, compared to a surplus of \$979 million last year. As of 31 March 2022, our reserves stood at \$8 billion, of which \$3.3 billion was set aside for possible future acquisition of office premises.

## Corporate Developments

### Three-year change in staff costs and market statistics (2018/19-2021/22)



### Income breakdown

	2021/22	2020/21	2019/20
Levies	95.3%	75.7%	90%
Fees and charges	6.7%	6%	10.2%
Net investment (loss)/income and others <sup>^</sup>	(2%)	18.3%	(0.2%)

<sup>^</sup> Net investment (loss)/income and others included foreign exchange gain or loss.

### Expenditure breakdown

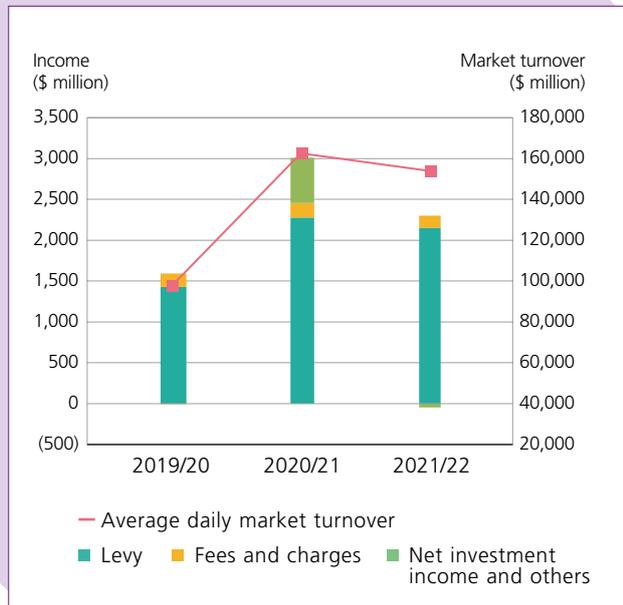
	2021/22	2020/21	2019/20
Staff costs	75.7%	73.2%	72.2%
Premises and related expenses <sup>^</sup>	1.8%	2.5%	2.3%
Other expenses	9.9%	8.7%	12.1%
Depreciation <sup>^</sup>	12.6%	15.6%	13.4%

<sup>^</sup> Operating lease expenses were recorded as depreciation from 2019/20 onwards due to a change in accounting policy.

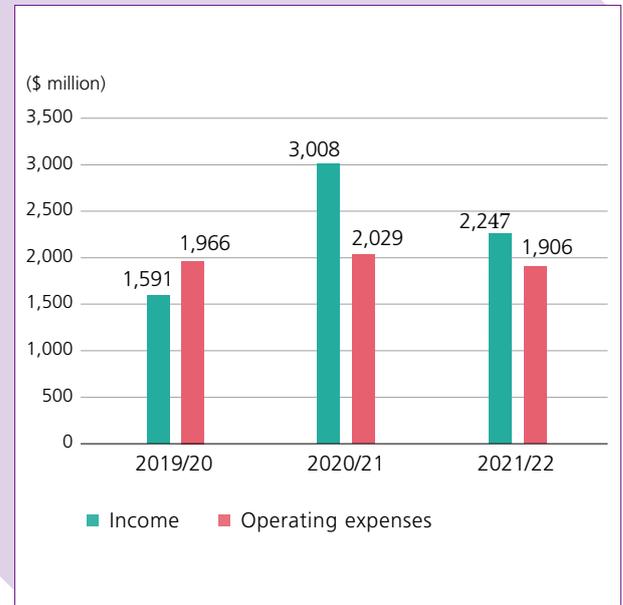
### Finance

(\$ million)	2021/22	2020/21	2019/20
Income	2,247	3,008	1,591
Expenses including depreciation	1,906	2,029	1,966
Surplus/(Deficit)	341	979	(375)

**Income vs market turnover  
(2019/20-2021/22)**



**Income and operating expenses  
(2019/20-2021/22)**



# Securities and Futures Commission

## Independent auditor's report To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Opinion

#### *What we have audited*

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group), which are set out on pages 112 to 138, comprise:

- the consolidated statement of financial position as at 31 March 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

#### *Basis for opinion*

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is the valuation of investments carried at fair value through profit or loss.

#### *Valuation of investments carried at fair value through profit or loss*

The aggregate carrying value of the Group's investment portfolio carried at fair value through profit or loss was HK\$1,295 million, which represented 14% of consolidated total assets as at 31 March 2022 and is comprised of debt securities and pooled funds (equity instruments).

The Group's debt and equity instruments at fair value through profit or loss are categorised as Level 1 and 2 in the fair value hierarchy based on prices quoted in active markets or valued based on market observable inputs.

We identified valuation of investments as a key audit matter because of the size of these items in the consolidated financial statements, the impact of changes in valuation on the profit and loss and the management judgements and assumptions used in the valuation of these assets.

## Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Key audit matters (continued)

#### *How our audit addressed the Key audit matter*

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis.
- For Level 2 financial instruments, we involved our internal valuation specialists to carry out independent valuations by developing valuation models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group on a sample basis.

Based on the procedures we performed, we found that the valuation of investments to be supported by available evidence and the models, key parameters, judgements and assumptions adopted by management were considered acceptable.

Notes 3(h), 10 and 22(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, a detailed breakdown of these investments and the respective fair value hierarchy disclosures.

### Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Independent auditor’s report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Auditor’s responsibilities for the audit of the consolidated financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Peter Po-ting Li.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 25 May 2022

## Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Income</b>			
Levies	2(a)	2,141,281	2,276,152
Fees and charges	2(b)	150,767	181,444
Net Investment (loss)/income			
Investment (loss)/income	5	(76,218)	538,489
Less: custody and advisory expenses		(11,535)	(10,563)
Recoveries from the Investor Compensation Fund		5,668	6,011
Exchange gain		35,276	14,458
Other income	6	1,506	1,752
		2,246,745	3,007,743
<b>Expenses</b>			
Staff costs and directors' emoluments	7	1,443,015	1,485,446
Depreciation			
Fixed assets	11	96,711	85,216
Right-of-use assets	12	144,087	230,232
Other premises expenses		33,608	51,592
Finance costs	12	7,855	9,154
Other expenses	8	180,734	166,735
		1,906,010	2,028,375
<b>Surplus and total comprehensive income for the year</b>		<b>340,735</b>	<b>979,368</b>

The notes on pages 117 to 138 form part of these consolidated financial statements.

## Consolidated statement of financial position

As at 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Non-current assets</b>			
Fixed assets	11	263,235	291,496
Right-of-use assets	12	846,508	978,261
Deposits for leases		38,118	37,656
Financial assets at amortised costs – debt securities	9	3,007,591	3,023,857
		4,155,452	4,331,270
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	9	184,105	107,673
Financial assets at fair value through profit or loss			
Debt securities	10	403,442	425,610
Pooled funds	10	891,958	1,018,610
Debtors, deposits and prepayments	18	310,861	336,704
Fixed deposits with banks	13	3,015,832	2,641,008
Cash held for Grant Scheme	14	69,296	–
Cash at bank and in hand	13	157,790	65,287
		5,033,284	4,594,892
<b>Current liabilities</b>			
Fees received in advance		7,689	8,198
Creditors and accrued charges	16	235,589	186,408
Lease liabilities	12	119,326	137,461
Provisions for reinstatement cost	17	–	574
		362,604	332,641
<b>Net current assets</b>		4,670,680	4,262,251
<b>Total assets less current liabilities</b>		8,826,132	8,593,521

## Consolidated statement of financial position (continued)

As at 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Non-current liabilities</b>			
Lease liabilities	12	722,189	830,887
Provisions for reinstatement cost	17	88,920	88,346
		811,109	919,233
<b>Net assets</b>			
		8,015,023	7,674,288
<b>Funding and reserves</b>			
Initial funding by Government	19	42,840	42,840
Reserve for property acquisition	24	3,250,000	3,125,000
Accumulated surplus		4,722,183	4,506,448
		8,015,023	7,674,288

Approved and authorised for issue by the SFC on 25 May 2022 and signed on its behalf by

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer

The notes on pages 117 to 138 form part of these consolidated financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the year	–	–	979,368	979,368
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
Balance at 31 March 2021 and 1 April 2021	<b>42,840</b>	<b>3,125,000</b>	<b>4,506,448</b>	<b>7,674,288</b>
Surplus and total comprehensive income for the year	–	–	<b>340,735</b>	<b>340,735</b>
Transfer to reserve for property acquisition	–	<b>125,000</b>	<b>(125,000)</b>	–
Balance at 31 March 2022	<b>42,840</b>	<b>3,250,000</b>	<b>4,722,183</b>	<b>8,015,023</b>

The notes on pages 117 to 138 form part of these consolidated financial statements.

## Consolidated statement of cash flows

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the year		340,735	979,368
Adjustments for:			
Depreciation – Fixed assets		96,711	85,216
Depreciation – Right-of-use assets		144,087	230,232
Reversal of provisions for reinstatement cost		–	(21,976)
Finance costs		7,855	9,154
Interest income on deposits for leases		(286)	(284)
Investment loss/(income)		76,218	(538,489)
Exchange gain		(35,333)	(14,574)
(Gain)/loss on disposal of fixed assets		(58)	4,889
		629,929	733,536
Increase in right-of-use assets		(1)	(50)
Increase in deposits for leases		(176)	(5,143)
Decrease/(increase) in debtors, deposits and prepayments		27,988	(79,297)
Increase in cash held for Grant Scheme		(69,296)	–
Decrease in fees received in advance		(509)	(38,899)
Increase/(decrease) in creditors and accrued charges		70,350	(3,223)
Decrease in provisions for reinstatement cost		–	(44,556)
Net cash generated from operating activities		658,285	562,368
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(347,047)	280,413
Interest received		102,526	119,761
Debt securities at fair value through profit or loss purchased		(494,364)	(199,107)
Debt securities at fair value through profit or loss sold or redeemed		494,691	192,697
Pooled funds sold		6,188	80,978
Debt securities at amortised cost purchased		(173,769)	(1,542,688)
Debt securities at amortised cost redeemed at maturity		108,124	984,463
Fixed assets purchased		(89,619)	(218,840)
Proceeds from fixed assets disposal		58	2
Net cash used in investing activities		(393,212)	(302,321)
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(139,166)	(149,200)
Interest element of lease payments		(7,855)	(9,154)
Net cash used in financing activities		(147,021)	(158,354)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		855,099	753,406
<b>Cash and cash equivalents at the end of the year</b>	13	973,151	855,099

### Analysis of the balance of cash and cash equivalents

	2022 \$'000	2021 \$'000
Fixed deposits with banks	815,361	789,812
Cash at bank and in hand	157,790	65,287
	973,151	855,099

The notes on pages 117 to 138 form part of these consolidated financial statements.  
SFC Annual Report 2021-22

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

### 2. Income

Details of the SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council.
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

### 3. Significant accounting policies

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the SFC and its subsidiaries (together, the Group or We) are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Except as described in note 3(q), these developments have no material effect on how the Group's results and financial position for the current or prior periods are prepared and presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (b) Basis of preparation

We have prepared these consolidated financial statements using the historical cost as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the group entities.

We prepare the consolidated financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

Inter-company transactions and balances between group companies are eliminated.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

#### (d) Recognition of income

We recognise income in the consolidated statement of profit or loss and other comprehensive income when or as it satisfies a performance obligation by transferring promised services to the customers in an amount to which the Group expects to be entitled in exchange for these services. We record our income as follows:

##### (i) Levies

We recognise levies from SEHK and HKFE as income on a trade date basis.

##### (ii) Fees and charges

We recognise annual fees as income on a straight-line basis over the periods to which they relate as the services are performed over time. We record other fees and charges as income when the performance obligation is satisfied. We record other fees and charges received in advance as a liability.

For interest income, we record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities measured at amortised cost; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

For net gain/loss on financial assets at fair value through profit or loss, the change in fair value or disposal of financial assets are recognised in profit or loss as they arise.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (e) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

#### (f) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

#### (g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the consolidated statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the consolidated statement of profit or loss and other comprehensive income on the date of retirement or disposal.

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (h) Financial assets

##### (i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses are recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Investments in debt securities and pooled funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

##### Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the consolidated statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss and other comprehensive income.

##### FVPL:

Changes on fair value of investments in debt securities and pooled funds that are subsequently measured at FVPL are recognised in the consolidated statement of profit or loss and other comprehensive income and presented net within investment income/loss in the period in which they arise.

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. The fair value is determined based on the Group's share of the net assets of the pooled funds as determined by the custodian.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (h) Financial assets (continued)

##### (iv) Impairment

We assess on a forward looking basis the expected credit losses (ECL) associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

##### (i) Related parties

For the purpose of these consolidated financial statements, we consider that the following are related parties of the Group:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 Related party disclosures.

##### (j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the consolidated statement of profit or loss and other comprehensive income.

##### (k) Debtors, deposits and other receivables

We state debtors, deposits and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the balance with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See note 3(h)(iv) for further information about the Group's accounting policy for impairment.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

#### (m) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be material, in which case they are stated at cost.

#### (n) Separate financial statements

We state investment in a subsidiary at cost less any impairment losses in the statement of financial position of the SFC.

#### (o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the consolidated statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

#### (p) Provisions and contingent liabilities

We recognise a provision in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (q) Recent developments in HKFRSs

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

##### Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16

Based on latest developments of Interbank Offered Rates (IBOR) reforms, all LIBOR referenced rates will either cease to be provided or no longer be representative. The Group has certain debt securities at amortised cost that are referenced to the 3-month USD LIBOR. These exposures will remain outstanding until the IBOR ceases and will therefore transit in future. The Group has assessed the impact and there was no significant effect on the consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate, including announcements made by the relevant IBOR regulators.

As at 31 March 2022, the carrying amount of debt securities at amortised cost that are referenced to USD LIBOR and have yet to be transitioned to an alternate benchmark was \$121,436,000. The notional contract amount was \$121,728,000.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

### 5. Investment (loss)/income

	2022 \$'000	2021 \$'000
Interest income from bank deposits	7,699	25,513
Interest income from debt securities at amortised cost	61,642	58,634
Net (loss)/gain on financial assets at FVPL – pooled funds	(127,140)	447,985
Net (loss)/gain on financial assets at FVPL – debt securities	(18,419)	6,357
	<b>(76,218)</b>	<b>538,489</b>

### 6. Other income

	2022 \$'000	2021 \$'000
Investigation costs awarded	936	1,349
Sale of SFC publications	72	114
Others	498	289
	<b>1,506</b>	<b>1,752</b>

### 7. Staff costs and directors' emoluments

	2022 \$'000	2021 \$'000
Salaries and allowances	1,304,719	1,345,042
Retirement benefits	86,356	91,299
Medical and life insurance	45,927	44,692
Staff functions	778	1,058
Recruitment	3,288	2,379
Registration and membership fees	1,947	976
	<b>1,443,015</b>	<b>1,485,446</b>

The total number of staff as at 31 March 2022 was 938 (913 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2021: the total number of staff was 959 comprising 933 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

## 7. Staff costs and directors' emoluments (continued)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions <sup>1</sup> \$'000	2022 Total \$'000	2021 Total \$'000
<b>Chief Executive Officer<sup>2</sup></b>						
Ashley Alder, SBS, JP	-	7,146	2,215	715	10,076	10,005
<b>Executive Directors<sup>2</sup></b>						
Julia Leung Fung-yee, SBS	-	5,169	1,551	517	7,237	7,210
Thomas Atkinson	-	4,635	1,112	464	6,211	6,210
Christina Choi Fung-yee	-	4,473	1,163	447	6,083	6,083
Brian Ho Yin-tung (retired 27 August 2021 <sup>3</sup> )	-	2,680	504	201	3,385	6,748
Rico Leung Chung-yin	-	4,397	1,143	440	5,980	5,980
	-	28,500	7,688	2,784	38,972	42,236
<b>Non-executive Chairman</b>						
Tim Lui Tim-leung, SBS, JP	1,255	-	-	-	1,255	1,255
<b>Non-executive Directors</b>						
Agnes Chan Sui-kuen	314	-	-	-	314	314
Clement Chan Kam-wing, MH, JP (retired 26 July 2021 <sup>4</sup> )	101	-	-	-	101	314
Edward Cheng Wai-sun, GBS, JP	314	-	-	-	314	314
Victor Dawes, SC (appointed 1 August 2020)	314	-	-	-	314	209
Johnson Kong (appointed 15 November 2021)	118	-	-	-	118	-
Lester Garson Huang, SBS, JP (retired 14 November 2021 <sup>5</sup> )	195	-	-	-	195	314
Dr James C Lin	314	-	-	-	314	314
Nicky Lo Kar-chun, SBS, JP	314	-	-	-	314	314
Michael Wong Yick-kam, MH, JP (appointed 1 April 2021)	314	-	-	-	314	-
Dr William Wong Ming-fung, SC, JP (retired 31 July 2020 <sup>5</sup> )	-	-	-	-	-	105
Dieter Yih, JP (appointed 15 November 2021)	118	-	-	-	118	-
	3,671	-	-	-	3,671	3,453
<b>Total directors' emoluments</b>	<b>3,671</b>	<b>28,500</b>	<b>7,688</b>	<b>2,784</b>	<b>42,643</b>	<b>45,689</b>

<sup>1</sup> This represents net contribution expenses accrued during the year ended 31 March 2022 in accordance with the accounting policy set out in note 3(f) on page 119. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2022 was \$2,397,000 (as at 31 March 2021: \$2,521,000).

<sup>2</sup> Directors' emoluments to Chief Executive Officer and Executive Directors are for services in connection with the management of the affairs of the SFC.

<sup>3</sup> Retired having completed appointment period.

<sup>4</sup> Retired having completed appointment period of two years two months.

<sup>5</sup> Retired having completed appointment period of six years.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (continued)

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$35,886,000 (2021: \$36,403,000) with the breakdown as follows:

	2022 \$'000	2021 \$'000
Salaries and allowances	25,928	26,387
Discretionary pay	7,365	7,377
Retirement scheme contributions	2,593	2,639
	<b>35,886</b>	<b>36,403</b>

Their emoluments are within the following bands:

	2022 No. of individuals	2021 No. of individuals
\$6,000,001 to \$6,500,000	3	2
\$6,500,001 to \$7,000,000	0	1
\$7,000,001 to \$7,500,000	1	1
\$10,000,001 to \$10,500,000	1	1

### Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (continued)

#### Employee benefits (continued)

##### (a) ORSO Scheme

##### (i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2021: nil).

##### (ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$7,873,000 (2021: \$3,323,000) and the amount so forfeited available at the end of the reporting period was \$1,281,000 (2021: \$658,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

##### (b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

### 8. Other expenses

	2022 \$'000	2021 \$'000
Learning and development	3,678	2,426
Legal and professional services and others	29,441	47,805
Information and systems services	93,831	88,050
Auditor's remuneration	948	932
Funding for the International Financial Reporting Standards Foundation	780	(394)
General office and insurance	9,272	9,481
Investor and other education programme costs to the Investor and Financial Education Council	39,892	33,423
Overseas travelling, regulatory meeting expenses and others	2,950	2,099
(Gain)/loss on disposal of fixed assets	(58)	4,889
Reversal of provisions for reinstatement cost	–	(21,976)
	<b>180,734</b>	<b>166,735</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 9. Financial assets at amortised cost – debt securities

	2022 \$'000	2021 \$'000
(a) Amortised costs		
Listed – outside Hong Kong	1,743,577	1,653,827
Listed – in Hong Kong	1,342,634	1,360,340
Unlisted	105,485	117,363
	<b>3,191,696</b>	<b>3,131,530</b>
(b) Fair values		
Listed – outside Hong Kong	1,678,704	1,676,171
Listed – in Hong Kong	1,275,449	1,362,707
Unlisted	103,283	120,556
	<b>3,057,436</b>	<b>3,159,434</b>
(c) Maturity profile		
Within one year	184,105	107,673
After one year but within two years	384,179	185,288
After two years but within five years	1,825,476	1,677,369
After five years	797,936	1,161,200
	<b>3,191,696</b>	<b>3,131,530</b>

The weighted average yield to maturity of the debt securities was 3.1% p.a. as at 31 March 2022 (2021: 1.6% p.a.).

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 10. Financial assets at fair value through profit or loss

	2022 \$'000	2021 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	241,230	287,787
Listed – in Hong Kong	5,851	12,414
Unlisted	156,361	125,409
	403,442	425,610
(ii) Maturity profile		
Within one year	30,743	34,269
After one year but within two years	20,368	54,087
After two years but within five years	218,625	189,244
After five years	133,706	148,010
	403,442	425,610
	2022 \$'000	2021 \$'000
(b) Pooled funds – unlisted	891,958	1,018,610

The pooled funds comprised of listed equity securities as well as cash and other receivables to be used for re-investment purposes.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 11. Fixed assets

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>						
At 1 April 2021	185,783	22,204	349,982	180,385	3,621	741,975
Additions	6,128	464	45,834	15,421	604	68,451
Disposals	(66)	(249)	–	(332)	(1,000)	(1,647)
At 31 March 2022	191,845	22,419	395,816	195,474	3,225	808,779
<b>Accumulated depreciation</b>						
At 1 April 2021	33,264	5,576	263,742	144,954	2,943	450,479
Charge for the year	38,271	3,997	33,037	21,058	348	96,711
Written back on disposals	(66)	(248)	–	(332)	(1,000)	(1,646)
At 31 March 2022	71,469	9,325	296,779	165,680	2,291	545,544
<b>Net book value</b>						
At 31 March 2022	120,376	13,094	99,037	29,794	934	263,235
<b>Cost</b>						
At 1 April 2020	155,166	11,024	308,570	159,253	2,735	636,748
Additions	154,076	19,148	41,551	30,230	886	245,891
Disposals	(123,459)	(7,968)	(139)	(9,098)	–	(140,664)
At 31 March 2021	185,783	22,204	349,982	180,385	3,621	741,975
<b>Accumulated depreciation</b>						
At 1 April 2020	121,596	10,183	234,506	132,110	2,641	501,036
Charge for the year	30,638	2,960	29,375	21,941	302	85,216
Written back on disposals	(118,970)	(7,567)	(139)	(9,097)	–	(135,773)
At 31 March 2021	33,264	5,576	263,742	144,954	2,943	450,479
<b>Net book value</b>						
At 31 March 2021	152,519	16,628	86,240	35,431	678	291,496

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 12. Leases

As at 31 March 2022 and 2021, the Group had right-of-use assets and lease liabilities as follows:

	2022 \$'000	2021 \$'000
Right-of-use assets		
Premises	843,682	974,557
Office equipment	2,826	3,704
	846,508	978,261
Lease liabilities		
Current	119,326	137,461
Non-current	722,189	830,887
	841,515	968,348

- (i) During the year, the Group entered new leases for premises and recognised additional right-of-use assets of \$12,333,000 (2021: \$884,453,000 for premises and office equipment).
- (ii) For the year ended 31 March 2022, the Group recognised depreciation expense for the right-of-use assets for premises of \$143,209,000 (2021: \$229,546,000) and office equipment of \$878,000 (2021: \$686,000). The interest expense on lease liabilities was \$7,855,000 (2021: \$9,154,000). The total cash outflow for leases during the year was \$147,021,000 (2021: \$158,354,000).

### 13. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2022 ranged from 0.16% p.a. to 1.25% p.a. (2021: 0.07% p.a. to 0.68% p.a.). These balances mature within one year as at both 31 March 2022 and 2021.

Reconciliation to cash and cash equivalents:

	2022 \$'000	2021 \$'000
Cash at bank and in hand	157,790	65,287
Fixed deposits with banks	3,015,832	2,641,008
Amounts shown in the consolidated statement of financial position	3,173,622	2,706,295
Less: Amounts with an original maturity beyond three months	(2,200,471)	(1,851,196)
Cash and cash equivalents in the consolidated statement of cash flows	973,151	855,099

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 14. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in the creditors and accrued charges.

### 15. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 March 2022, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2021: \$0.2). The balance is too small to appear on the statement of financial position of the SFC which is expressed in thousands of dollars.

### 16. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2022 and 2021.

### 17. Provisions for reinstatement cost

Provisions represent reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

### 18. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$267,186,000 of receivables (2021: \$294,199,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2022 and 2021.

### 19. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

### 20. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$67,428,000 (2021: \$84,468,000).

### Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

#### 21. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD) and Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD). In addition to the related parties relationship disclosed in note 23 in these consolidated financial statements, we have the following significant related party transactions and balances.

##### (a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$5,668,000 was recovered from the ICF for the ICC's expenses (2021: \$6,011,000). As at 31 March 2022, the amount due to the ICF from the ICC was \$106,000 (2021: \$242,000).

##### (b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

##### (c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services amounted to \$700,000 (2021: \$1,211,000) for the year under normal commercial terms and conditions.

#### 22. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in pooled funds. The underlying investments of the pooled funds comprised of listed equity securities and cash and other receivables to be used for re-investment purposes.

The main financial risks of the Group arise from its investments in debt securities and units in pooled funds. The Group appoints external investment managers to manage the Group's investments and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The external investment managers report thereon to the Group on a regular basis.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

##### (a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in dated securities rated A or above and bank deposits with licensed banks rated P-1 by Moody's or A-1 or above by S&P. Investment in pooled funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group performed impairment assessment using 12-month ECL as there is no financial assets with significant increase in credit risk.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 22. Financial risk management and fair values (continued)

#### (b) Interest rate risk

The Group's interest bearing assets mainly comprise debt securities, fixed deposits with banks and bank balances. As majority of these financial assets bears fixed interest rates, the Group is exposed to limited cash flow interest rate risk.

The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). As at 31 March 2022, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$30,962,000 (2021: \$26,824,000). This sensitivity analysis is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2021.

The Group is also subject to fair value interest rate risk in relation to debt securities at fair value through profit or loss. Changes in interest rates may have an impact on the price of debt securities. As at 31 March 2022, the average duration of the Group's debt securities at fair value through profit or loss was 4.13 years (2021: 3.96 years). It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gain on revaluation and the accumulated surplus by approximately \$16,681,000 (2021: \$16,856,000).

The Group manages interest rate risk of its debt securities by imposing different levels of concentration and maturity limits to the investments.

#### (c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. See note 24 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for lease liabilities. As at 31 March 2022 and 2021, the contractual undiscounted cash flows for financial liabilities were as follows:

	Carrying amount \$'000	Contractual undiscounted cash flows				
		Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000	After five years \$'000
<u>2022</u>						
Creditors and accrued charges	235,589	235,589	235,589	–	–	–
Lease liabilities	841,515	864,596	126,035	146,877	442,769	148,915
	1,077,104	1,100,185	361,624	146,877	442,769	148,915
<u>2021</u>						
Creditors and accrued charges	186,408	186,408	186,408	–	–	–
Lease liabilities	968,348	999,284	145,317	121,925	434,212	297,830
	1,154,756	1,185,692	331,725	121,925	434,212	297,830

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 22. Financial risk management and fair values (continued)

#### (d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2022 and 2021, the exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2022, the Group had financial assets denominated in USD of \$4,828,391,000 (2021: \$4,887,901,000) and the USD/HKD exchange rate was 7.8314 (2021: 7.7745). Holding all other variables constant, movement in USD/HKD exchange rate to the upper bound of the Convertibility Zone would increase the Group's surplus and accumulated surplus by approximately \$11,468,000 (2021: \$47,499,000); while movement in USD/HKD exchange rate to the lower bound of the Convertibility Zone would decrease the Group's surplus and accumulated surplus by approximately \$50,187,000 (2021: \$15,372,000).

#### (e) Market risk

The Group's investment activities also expose to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and pooled funds. Such risks will be reflected in the price and the carrying value of the financial assets concerned.

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. The Group invests in units of pooled funds, which comprised of listed equity securities and cash and other receivables to be used for re-investment purposes, the performance of which is measured against the results of benchmark indices, MSCI AC Asia ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average volatilities of these benchmark indices in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 18.2% (2021: 21.5%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$166,469,000 (2021: \$214,104,000).

The sensitivity analysis above indicates the instantaneous change in the Group's accumulated surplus that would arise assuming that the changes in the benchmark indices had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's investment in pooled funds would change in accordance with the historical correlation with the relevant benchmark indices since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 22. Financial risk management and fair values (continued)

#### (f) Fair value measurement

##### (i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2022</b>				
Debt securities				
– Listed	–	247,081	–	247,081
– Unlisted	–	156,361	–	156,361
Pooled funds – unlisted	891,958	–	–	891,958
	891,958	403,442	–	1,295,400
<b>2021</b>				
Debt securities				
– Listed	–	300,201	–	300,201
– Unlisted	–	125,409	–	125,409
Pooled funds – unlisted	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220

The fair value of the investment in the unlisted pooled funds is determined based on the net asset values of the pooled funds which is publicly available in the active market. The underlying investments of the pooled funds comprised of listed equity securities and cash and other receivables to be used for re-investment purposes.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

During the year, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 22. Financial risk management and fair values (continued)

#### (f) Fair value measurement (continued)

##### (ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2022 and 2021 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>2022</u>					
Financial assets at amortised costs					
– debt securities	3,191,696	3,057,436	–	3,057,436	–
<u>2021</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair value for unlisted debt investments are based on third-party quotes.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 23. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD and CDD as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2) (b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2022, the ICF's maximum liability in respect of claims received was \$5,434,000 (2021: \$4,969,000) and the net asset value was \$2.5 billion (2021: \$2.4 billion).

The SFC is also responsible for the administration and management of the UECF, SDD and CDD under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2022, the UECF's maximum liability in respect of claims received was \$10,245,000 (2021: \$10,245,000) and the net asset value was \$85,725,000 (2021: \$86,072,000). There were no outstanding claims against the SDD and CDD as at 31 March 2022 (2021: nil). Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2021: nil). The related party relationships with these entities are disclosed in note 21 of these consolidated financial statements.

### 24. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 19, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3.25 billion (2021: \$3.125 billion) from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

## Notes to the consolidated financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 25. Statement of financial position of the SFC

	2022 \$'000	2021 \$'000
<b>Non-current assets</b>		
Fixed assets	263,092	291,289
Right-of-use assets	846,448	978,183
Deposits for leases	38,118	37,656
Financial assets at amortised costs – debt securities	3,007,591	3,023,857
	4,155,249	4,330,985
<b>Current assets</b>		
Financial assets at amortised costs – debt securities	184,105	107,673
Financial assets at fair value through profit or loss		
Debt securities	403,442	425,610
Pooled funds	891,958	1,018,610
Debtors, deposits and prepayments	316,389	344,809
Fixed deposits with banks	3,015,832	2,641,008
Cash held for Grant Scheme	69,296	–
Cash at bank and in hand	138,338	42,179
	5,019,360	4,579,889
<b>Current liabilities</b>		
Fees received in advance	7,689	8,198
Creditors and accrued charges	221,521	171,198
Lease liabilities	119,308	137,443
Provisions for reinstatement cost	–	574
	348,518	317,413
<b>Net current assets</b>	4,670,842	4,262,476
<b>Total assets less current liabilities</b>	8,826,091	8,593,461
<b>Non-current liabilities</b>		
Lease liabilities	722,148	830,827
Provisions for reinstatement cost	88,920	88,346
	811,068	919,173
<b>Net assets</b>	8,015,023	7,674,288
<b>Funding and reserves</b>		
Initial funding by Government	42,840	42,840
Reserve for property acquisition	3,250,000	3,125,000
Accumulated surplus	4,722,183	4,506,448
	8,015,023	7,674,288

Approved and authorised for issue by the SFC on 25 May 2022 and signed on its behalf by

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2022.

### Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

### Financial statements

The financial performance of the Fund for the financial year ended 31 March 2022 and the financial position of the Fund as at that date are set out in the financial statements on pages 142 to 151.

### Members of the Committee

The members of the Committee during the year ended 31 March 2022 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	
Mr Thomas Allan Atkinson	(retired on 31 March 2022)
Dr Lin, James C.	
Mr Kok Ka Keung Kenneth	(retired on 31 December 2021)
Ms Kwok Hom Siu Sally	(appointed on 1 April 2022)
Mr Wan Chi Yiu, Andrew	(appointed on 1 April 2022)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

### Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

**Rico Leung**

Chairman

23 May 2022

# Independent auditor's report To the Securities and Futures Commission

## Opinion

### *What we have audited*

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance, which are set out on pages 142 to 151, comprise:

- the statement of financial position as at 31 March 2022;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

### **Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of directors of the SFC for the financial statements**

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

## Independent auditor's report (continued) To the Securities and Futures Commission

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.

- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 May 2022

## Investor Compensation Fund

### Statement of profit or loss and other comprehensive income

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Income</b>			
Interest income		6,646	21,279
Exchange gain		9,941	4,100
Recoveries		119	–
		16,706	25,379
<b>Expenses</b>			
Investor Compensation Company Limited expenses	6	5,668	6,011
Auditor's remuneration		186	186
Compensation expenses	8	–	3,394
		5,854	9,591
<b>Surplus and total comprehensive income for the year</b>		<b>10,852</b>	<b>15,788</b>

The notes on pages 146 to 151 form part of these financial statements.

## Statement of financial position

As at 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Current assets</b>			
Interest receivable		1,689	2,174
Due from Investor Compensation Company Limited		106	242
Fixed deposits with banks	7	2,455,431	2,444,671
Cash at bank	7	1,346	633
		<b>2,458,572</b>	<b>2,447,720</b>
<b>Current liabilities</b>			
Provision for compensation	8	3,394	3,394
Creditors and accrued charges		274	274
		<b>3,668</b>	<b>3,668</b>
<b>Net current assets</b>			
		<b>2,454,904</b>	<b>2,444,052</b>
<b>Net assets</b>			
		<b>2,454,904</b>	<b>2,444,052</b>
Representing:			
<b>Compensation fund</b>		<b>2,454,904</b>	<b>2,444,052</b>

Approved and authorised for issue by the Securities and Futures Commission on 23 May 2022 and signed on its behalf by

**Tim Lui**  
Chairman of the SFC

**Ashley Alder**  
Chief Executive Officer of the SFC

The notes on pages 146 to 151 form part of these financial statements.

## Investor Compensation Fund

### Statement of changes in equity

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 9) \$'000	Contributions from Commodity Exchange Compensation Fund (note 9) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the year	–	–	15,788	15,788
Balance at 31 March 2021 and 1 April 2021	<b>994,718</b>	<b>108,923</b>	<b>1,340,411</b>	<b>2,444,052</b>
Surplus and total comprehensive income for the year	–	–	<b>10,852</b>	<b>10,852</b>
Balance at 31 March 2022	<b>994,718</b>	<b>108,923</b>	<b>1,351,263</b>	<b>2,454,904</b>

The notes on pages 146 to 151 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the year		10,852	15,788
Adjustments for:			
Interest income		(6,646)	(21,279)
Exchange gain		(9,941)	(4,100)
		(5,735)	(9,591)
Decrease/(increase) in amount due from Investor Compensation Company Limited		136	(104)
Increase in provision for compensation		–	3,394
Increase in creditors and accrued charges		–	6
Net cash used in operating activities		(5,599)	(6,295)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(197,149)	(459,146)
Interest received		7,137	26,293
Net cash used in investing activities		(190,012)	(432,853)
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		647,514	1,086,662
<b>Cash and cash equivalents at the end of the year</b>	7	<b>451,903</b>	647,514

### Analysis of the balance of cash and cash equivalents

	2022 \$'000	2021 \$'000
Fixed deposits with banks	450,557	646,881
Cash at bank	1,346	633
	<b>451,903</b>	647,514

The notes on pages 146 to 151 form part of these financial statements.

## Investor Compensation Fund

### Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

#### 1. Purpose and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation – Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

#### 2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on The Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 5), and returns earned on any investment of the Fund.

#### 3. Significant accounting policies

##### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (a) Statement of compliance (continued)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have a material effect on how the Fund's results and financial position for the current or prior periods are prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Recognition of income

##### (i) Interest income

We record interest income as it accrues using the effective interest method.

##### (ii) Recoveries

We recognise recoveries pursuant to Sections 87 and 243 of the SFO as income to the Fund. We record recoveries received when and only when we can be virtually certain that the recoveries will be received.

#### (d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

#### (e) Impairment of financial assets

The Fund assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

#### (f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

#### (g) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(e)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

#### (h) Provisions for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation – Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

#### 3. Significant accounting policies (continued)

##### (h) Provisions for compensation (continued)

The maximum liability of the Fund to claims is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

As the Fund is continually updating information in respect of the claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

##### (i) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

##### (j) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

##### (k) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (k) Related parties (continued)

- (b) An entity is related to the Fund if any of the following conditions applies: (continued)
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong profits tax under Section 14 of the Inland Revenue Ordinance.

### 5. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and reinstatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion.

Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2019 which came into effect on 1 January 2020, the Fund is entitled to a levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on HKFE and Stock Connect Securities. In addition, the trigger levels for levy suspension and reinstatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005. The changes in trigger levels do not affect the levy suspension in effect.

### 6. ICC expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2022, the ICC incurred costs of \$5,668,000 for its operations (2021: \$6,011,000) which were reimbursed by the Fund.

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 7. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2022 ranged from 0.22% p.a. to 1.25% p.a. (2021: 0.07% p.a. to 1.98% p.a.). The deposit balances at both 31 March 2022 and 31 March 2021 mature within one year.

#### Reconciliation to cash and cash equivalents

	2022 \$'000	2021 \$'000
Cash at bank	1,346	633
Fixed deposits with banks	2,455,431	2,444,671
Amounts shown in the statement of financial position	2,456,777	2,445,304
Less: Amounts with an original maturity beyond three months	(2,004,874)	(1,797,790)
Cash and cash equivalents in the statement of cash flows	451,903	647,514

### 8. Provision for compensation

	2022 \$'000	2021 \$'000
Balance at the beginning of the year	3,394	–
Add: Compensation expenses	–	3,394
Balance at the end of the year	3,394	3,394

As at 31 March 2022 and 2021, the provision for compensation relates to a number of claims received in respect of a default case. The maximum liability of the Fund to these claims is \$150,000 per claimant. The provision was expected to be paid within one year.

### 9. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2022, the SFC had \$994,718,000 (2021: \$994,718,000) and \$108,923,000 (2021: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines “capital” as including contributions from the UECF and the CECF and the accumulated surplus.

### 10. Related party transactions

The Fund has related party relationships with the SFC, the ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2022 and 2021 (refer to notes 6 and 9).

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 11. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. As at 31 March 2022, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$24,554,000 (2021: \$24,447,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 by Moody's or A-1 or above by S&P. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities are due within one year or payable on demand.

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. As at 31 March 2022, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2022 and 2021, the Fund's exchange gain was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2022, the Fund had financial assets denominated in USD of \$1,367,647,000 (2021: \$1,353,810,000) and the USD/HKD exchange rate was 7.8314 (2021: 7.7745). Holding all other variables constant, a movement in USD/HKD exchange rate to the upper bound of the Convertibility Zone would increase the Fund's surplus and accumulated surplus by approximately \$3,248,000 (2021: \$13,156,000); while a movement in USD/HKD exchange rate to the lower bound of the Convertibility Zone would decrease the Fund's surplus and accumulated surplus by approximately \$14,215,000 (2021: \$4,258,000).

### 12. Contingent liabilities

In addition to the provision for compensation made as described in note 8, there are 11 outstanding claims as at the date of this report (10 outstanding claims as at the date of the report of 31 March 2021). The maximum liability in respect of these claims in aggregate is \$1,780,000 (31 March 2021: \$1,575,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 3(h)) or the amount claimed.

# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2022.

### Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 March 2022, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

### Financial statements

The financial performance of the Fund for the financial year ended 31 March 2022 and the financial position of the Fund as at that date are set out in the financial statements on pages 155 to 165.

### Members of the Committee

The members of the Committee during the year ended 31 March 2022 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	
Mr Thomas Allan Atkinson	(retired on 31 March 2022)
Dr Lin, James C.	
Mr Yiu Ka Yan Wilfred	
Ms Kwok Hom Siu Sally	
Mr Wan Chi Yiu Andrew	(appointed on 1 April 2022)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

### Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

**Rico Leung**  
Chairman

13 May 2022

## Independent auditor's report To the Securities and Futures Commission

### Opinion

#### *What we have audited*

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance, which are set out on pages 155 to 165, comprise:

- the statement of financial position as at 31 March 2022;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

#### **Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

### Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of directors of the SFC for the financial statements**

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Independent auditor's report (continued) To the Securities and Futures Commission

#### Responsibilities of directors of the SFC for the financial statements (continued)

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 13 May 2022

## Statement of profit or loss and other comprehensive income

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Income</b>			
Interest income		189	744
Recoveries	4	–	4,069
		189	4,813
<b>Expense</b>			
Auditor's remuneration		86	86
<b>Surplus and total comprehensive income for the year</b>		<b>103</b>	<b>4,727</b>

The notes on pages 159 to 165 form part of these financial statements.

## Unified Exchange Compensation Fund

### Statement of financial position

As at 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Current assets</b>			
Interest receivable		34	27
Fixed deposits with banks	6	97,670	97,518
Cash at bank	6	180	336
		<b>97,884</b>	97,881
<b>Current liabilities</b>			
Creditors and accrued charges	7	10,309	10,309
Relinquished trading rights payable to SEHK	8	1,850	1,500
		<b>12,159</b>	11,809
<b>Net current assets</b>			
		<b>85,725</b>	86,072
<b>Net assets</b>			
		<b>85,725</b>	86,072
Representing:			
<b>Compensation fund</b>		<b>85,725</b>	86,072

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 13 May 2022 and signed on its behalf by

**Rico Leung**

Chairman

**Wilfred Yiu**

Committee Member

The notes on pages 159 to 165 form part of these financial statements.

## Statement of changes in equity

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to the ICF (note 12) \$'000	Total \$'000
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(700)	-	-	-	-	-	(700)
Surplus and total comprehensive income for the year	-	-	-	-	4,727	-	4,727
Balance at 31 March 2021 and 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072
Net contributions to SEHK	(450)	-	-	-	-	-	(450)
Surplus and total comprehensive income for the year	-	-	-	-	103	-	103
Balance at 31 March 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725

The notes on pages 159 to 165 form part of these financial statements.

## Unified Exchange Compensation Fund

### Statement of cash flows

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the year		103	4,727
Adjustment for:			
Interest income		(189)	(744)
		(86)	3,983
Decrease in accounts receivable		–	9
Increase in creditors and accrued charges		–	3
Increase in relinquished trading rights payable to SEHK		350	250
Net cash generated from operating activities		264	4,245
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		18,585	16,401
Interest received		182	960
Net cash generated from investing activities		18,767	17,361
<b>Cash flows from financing activities</b>			
Net trading rights deposits refunded to SEHK		(450)	(700)
Net cash used in financing activities		(450)	(700)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		52,905	31,999
<b>Cash and cash equivalents at the end of the year</b>	6	<b>71,486</b>	52,905

### Analysis of the balance of cash and cash equivalents

	2022 \$'000	2021 \$'000
Fixed deposits with banks	71,306	52,569
Cash at bank	180	336
	<b>71,486</b>	52,905

The notes on pages 159 to 165 form part of these financial statements.

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 1. Purpose and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of The Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31

March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

### 2. Money constituting the Fund

SEHK is required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make any such payment as the total of the compensation payments exceeded the deposits received from SEHK (2021: nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries detailed in note 4; excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9; other contributions detailed in note 11; and replenishments from SEHK detailed in note 15.

The Fund defines "capital" as including all elements of the Fund, as disclosed in the statement of changes in equity less contributions from SEHK (trading rights deposits from SEHK detailed in note 8) and contributions to the ICF (note 12).

## Unified Exchange Compensation Fund

### Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

#### 3. Significant accounting policies

##### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have a material effect on how the Fund's results and financial position for the current or prior periods are prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

##### (b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### (c) Recognition of income

###### (i) Interest income

We record interest income as it accrues using the effective interest method.

###### (ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (continued)

#### (c) Recognition of income (continued)

##### (iii) Replenishments from SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

#### (d) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

#### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

#### (f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (g) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the

obligation as a contingent liability, unless the probability of an outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of an outflow of economic benefits is remote.

#### (h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).

## Unified Exchange Compensation Fund

### Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

#### 3. Significant accounting policies (continued)

##### (h) Related parties (continued)

- (b) An entity is related to the Fund if any of the following conditions applies: (continued)
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### 6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2022 ranged from 0.15% p.a. to 0.80% p.a. (2021: 0.08% p.a. to 0.40% p.a.). The deposit balances at both 31 March 2022 and 31 March 2021 mature within one year.

#### Reconciliation to cash and cash equivalents

	2022 \$'000	2021 \$'000
Cash at bank	180	336
Fixed deposits with banks	97,670	97,518
Amounts shown in the statement of financial position	97,850	97,854
Less: Amounts with an original maturity beyond three months	(26,364)	(44,949)
Cash and cash equivalents in the statement of cash flows	71,486	52,905

#### 4. Recoveries/Equity securities received under subrogation

There was no recovery recorded for the year ended 31 March 2022. For the year ended 31 March 2021, the Fund received \$4,069,000 from certain liquidators which was recognised as recoveries.

As at 31 March 2022, the equity securities received under subrogation amounted to \$68 (as at 31 March 2021: \$150). The balances as at 31 March 2022 and 31 March 2021 are too small to appear on the statement of financial position which is expressed in thousands of dollars.

#### 5. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong profits tax under Section 14 of the Inland Revenue Ordinance.

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than six months from the cheque issuing date and accrued auditor's remuneration. They are due on demand or within one year and are unsecured.

### 8. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the year, deposits of \$1,000,000 in respect of 20 new trading rights were received from SEHK and deposits of \$1,100,000 in respect of 22 relinquished trading rights were refunded to SEHK. As at 31 March 2022, 37 trading rights totalling \$1,850,000 were relinquished but not yet refunded (2021: 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

	2022 \$'000	2021 \$'000
Balance at the beginning of the year	54,750	55,450
Add: new trading rights issued	1,000	350
Less: relinquished trading rights refunded	(1,100)	(800)
Adjustment for: net increase in relinquished trading rights payable to SEHK	(350)	(250)
Balance at the end of the year	54,300	54,750

### 9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

### 10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years from 1998 to 2001. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

## Unified Exchange Compensation Fund

### Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

#### 11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

#### 12. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF from the Fund up to 31 March 2022 amounted to \$994,718,000 (2021: \$994,718,000), no further contributions have been made to the ICF since 1 April 2005.

#### 13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2022 and 2021.

#### 14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. At 31 March 2022, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$977,000 (2021: \$975,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 by Moody's or A-1 or above by S&P. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

## Notes to the financial statements

For the year ended 31 March 2022 (Expressed in Hong Kong dollars)

### 15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2022, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,776,000 to the Fund as follows:

	2022 \$'000	2021 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: recoveries received for compensation paid up to \$8 million	(29,986)	(29,986)
Add: recoveries re-distributed to claimants	16,385	16,385
Less: replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,776	70,776

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need to request replenishment from SEHK in the near future.

## Breakdown of SFC Activity Data

Table 1 Takeovers activities

	2021/22	2020/21	2019/20
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>			
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>1</sup>	291	361	281
Off-market and general offer share buy-backs	5	5	7
Other applications under Code on Share Buy-backs <sup>1</sup>	1	1	2
<b>Total</b>	<b>385</b>	<b>469</b>	<b>359</b>
<b>Executive Statements</b>			
Sanctions imposed with parties' agreement <sup>2</sup>	3	4	3
<b>Takeovers and Mergers Panel</b>			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	1	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	0	2
Statements issued by the Panel <sup>3</sup>	0	0	2

1 Including stand-alone applications and those made during the course of a code-related transaction.

2 Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

3 Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Table 2 Breaches noted during on-site inspections

	2021/22	2020/21	2019/20
Failure to comply with Securities and Futures (Financial Resources) Rules	10	4	9
Failure to safekeep client securities	23	28	31
Failure to maintain proper books and records	20	20	19
Failure to safekeep client money	35	35	42
Unlicensed dealing and other registration issues	12	9	14
Breach of licensing conditions	0	1	3
Breach of requirements of contract notes/statements of account/receipts	53	28	33
Failure to make filing/notification	1	3	5
Breach of margin requirements	6	3	5
Marketing malpractices	3	0	0
Dealing malpractices	3	4	5
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>1</sup>	265	262	273
Breach of Corporate Finance Adviser Code of Conduct	11	6	7
Breach of Fund Manager Code of Conduct	135	142	79
Breach of regulation of online trading	12	3	7
Non-compliance with anti-money laundering guidelines	301	208	331
Breach of other rules and regulations of the Exchanges <sup>2</sup>	9	3	11
Internal control weaknesses <sup>3</sup>	427	515	451
Others	90	76	164
<b>Total</b>	<b>1,416</b>	<b>1,350</b>	<b>1,489</b>

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

2 The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

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

## Breakdown of SFC Activity Data

**Table 3 Hong Kong domiciled authorised funds**

By type	As at 31.3.2022		As at 31.3.2021	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond <sup>1</sup>	174 (24.1%)	30,925 (17.3%)	165 (24%)	39,395 (20.6%)
Equity <sup>1</sup>	199 (27.5%)	55,601 (31.1%)	201 (29.2%)	64,255 (33.7%)
Mixed <sup>1</sup>	110 (15.2%)	33,402 (18.7%)	109 (15.8%)	33,030 (17.3%)
Money market	37 (5.1%)	9,548 (5.3%)	33 (4.8%)	8,424 (4.4%)
Feeder funds <sup>2</sup>	41 (5.7%)	23 (0%)	37 (5.4%)	28 (0%)
Index <sup>3</sup>	161 (22.3%)	49,102 (27.5%)	142 (20.6%)	45,727 (24%)
Guaranteed	1 (0.1%)	41 (0%)	1 (0.1%)	52 (0%)
Sub-total	723 (100%)	178,642 (100%) <sup>4</sup>	688 (100%) <sup>4</sup>	190,909 <sup>4</sup> (100%)
Umbrella structures	143		147	
<b>Total</b>	<b>866</b>		<b>835</b>	

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

- 1 From 31 December 2021, funds 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 number of funds and the total NAV figure of certain fund types as at 31 March 2021.
- 2 From 31 December 2021, feeder funds have been separated from the previous "Fund of funds" category. For comparison purposes, similar adjustments have been made to the number and the total NAV figure for feeder funds as at 31 March 2021. In addition, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total assets under management.
- 3 Including exchange-traded funds and leveraged and inverse products.
- 4 Figures do not add up to total due to rounding.

Table 4 Non-Hong Kong domiciled authorised funds

a) By origin	As at 31.3.2022				As at 31.3.2021						
	Umbrella funds	Sub-funds	Single funds	Total	Total NAV (US\$ million)		Total	Total NAV (US\$ million)			
Luxembourg	50	982	1	1,033	(74.8%)	1,319,312	(75.5%)	1,035	(74.9%)	1,399,343	(76%)
Ireland	23	217	2	242	(17.5%)	249,259	(14.3%)	238	(17.2%)	275,782	(15%)
United Kingdom	3	8	18	29	(2.1%)	75,548	(4.3%)	30	(2.2%)	75,015	(4.1%)
Mainland China	2	2	45	49	(3.5%)	27,853	(1.6%)	51	(3.7%)	25,234	(1.4%)
Bermuda	0	0	1	1	(0.1%)	135	(0%)	1	(0.1%)	128	(0%)
Cayman Islands	3	15	4	22	(1.6%)	2,048	(0.1%)	22	(1.6%)	4,358	(0.2%)
Others	0	0	5	5	(0.4%)	73,155	(4.2%)	5	(0.4%)	61,049	(3.3%)
<b>Total</b>	<b>81</b>	<b>1,224</b>	<b>76</b>	<b>1,381</b>	<b>(100%)</b>	<b>1,747,310</b>	<b>(100%)</b>	<b>1,382</b>	<b>(100%)<sup>1</sup></b>	<b>1,840,909</b>	<b>(100%)</b>

1 Figures do not add up to total due to rounding.

b) By type	As at 31.3.2022		As at 31.3.2021					
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)				
Bond <sup>1</sup>	358	(27.5%)	523,431	(30%)	348	(26.7%)	609,603	(33.1%)
Equity <sup>1</sup>	757	(58.2%)	918,428	(52.6%)	754	(58%)	941,707	(51.2%)
Mixed <sup>1</sup>	142	(10.9%)	182,033	(10.4%)	137	(10.5%)	162,558	(8.8%)
Money market	14	(1.1%)	9,039	(0.5%)	16	(1.2%)	11,375	(0.6%)
Feeder funds <sup>2</sup>	3	(0.2%)	0	(0%)	3	(0.2%)	0	(0%)
Index <sup>3</sup>	25	(1.9%)	114,244	(6.5%)	42	(3.2%)	115,538	(6.3%)
Hedge	1	(0.1%)	135	(0%)	1	(0.1%)	128	(0%)
Sub-total	1,300	(100%) <sup>4</sup>	1,747,310	(100%)	1,301	(100%) <sup>4</sup>	1,840,909	(100%)
Umbrella structures	81				81			
<b>Total</b>	<b>1,381</b>				<b>1,382</b>			

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

- 1 From 31 December 2021, funds 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 number of funds and the total NAV figure of certain fund types as at 31 March 2021.
- 2 From 31 December 2021, feeder funds have been separated from the previous "Fund of funds" category. For comparison purposes, similar adjustments have been made to the number and the total NAV figure for feeder funds as at 31 March 2021. In addition, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total assets under management.
- 3 Including exchange-traded funds.
- 4 Figures do not add up to total due to rounding.

## Breakdown of SFC Activity Data

**Table 5 Successful prosecutions**

Defendant	Date of conviction	Fine	Investigation costs awarded
<b>Disclosure of interests</b>			
GAO Yuan	20.4.2021	\$18,000	\$6,326
LAM Ching Kui	30.12.2021	\$10,000	\$10,814
Wai Chun Holdings Group Limited	30.12.2021	\$10,000	\$10,814

Note: Cases with fines below \$10,000 are not shown in this table.

**Table 6 Other public disciplinary actions**

Name	Date	Breaches	Action
KIM Bum Suk	29.3.2022	Operated client accounts in a discretionary manner without obtaining written authorisation	Banned from re-entering the industry for 27 months
MA Kwok Ho	9.11.2021	Effected discretionary trades in client accounts without obtaining written authorisation	Banned from re-entering the industry for two years
GEE King Yip	9.11.2021	Traded stocks jointly with a client in the client's accounts without separately recording and clearly identifying the transactions as the firm's employee's	Banned from re-entering the industry for 16 months
CHEUNG Man Chit	30.8.2021	Submitted false client documents and information to his employers, transferred client money through his related bank accounts and conducted trades in a client's account without his employer's knowledge	Suspended for two years
BUDIHardJO Wilhelm Soeharsono and SHING Yan	19.7.2021	Failed to discharge their duties as responsible officers and members of senior management which contributed to their firm's breaches of anti-money laundering and counter-financing of terrorism (AML/CFT) regulatory requirements	Suspended for 10 months (BUDIHardJO) and seven months (SHING)
LEUNG Tak Shing, Raymond	5.7.2021	Failed to discharge his duties as a member of senior management which contributed to his firm's breaches of AML/CFT regulatory requirements	Reprimanded and fined \$400,000
LAU Kwo	5.7.2021	Made false representations in client account opening documents and conducted trades in client accounts without his employer's knowledge	Banned from re-entering the industry for 12 months
LUN Sheung Nim	10.6.2021	Failed to discharge his duties as a responsible officer and a member of senior management which contributed to his firm's breaches of licensing conditions and failures in its sale of unlisted bonds	Suspended for 7.2 months

Table 7 Other enforcement activities

	2021/22	2020/21	2019/20
S179 <sup>1</sup> inquiries commenced	57	42	31
S181 <sup>2</sup> inquiries commenced (number of letters sent)	203 (7,308)	246 (8,748)	231 (8,767)
S182 <sup>3</sup> directions issued	214	189	187
Rule 8 directions <sup>4</sup> issued	0	0	1
Show cause letters <sup>4</sup> issued	0	0	0
Cases with search warrants executed	37	28	17
Compliance advice letters issued	162	231	218
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	0 (0)	1 (1)	1 (2)
Individuals/corporations involved in ongoing civil proceedings	8	11	11
Individuals/corporations involved in ongoing MMT proceedings	2	3	7
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	0 (0)	6 (6)	1 (3)
Individuals/corporations involved in ongoing civil proceedings	18	18	18
Individuals/corporations involved in ongoing MMT proceedings	0	0	0
(c) Others			
Individuals/corporations summonsed (summons laid)	4 (28)	3 (21)	5 (5)
Individuals/corporations involved in ongoing civil proceedings	142	150	129
Individuals/corporations involved in ongoing MMT proceedings	11	20	27
Disciplinary enquiry			
Notices of Proposed Disciplinary Action <sup>5</sup> issued	37	27	35
Notices of Decision <sup>6</sup> issued (including S201 <sup>7</sup> agreement)	43	35	46
Securities and Futures Appeals Tribunal (SFAT) hearings			
Applications to SFAT	8	6	3
Applications/hearings completed or withdrawn	2	4	2

1 Section 179 of the Securities and Futures Ordinance (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.

2 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.

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

4 A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing the Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

5 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.

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

7 Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

## Breakdown of SFC Activity Data

**Table 8 Statistical information and financial position of the Hong Kong securities industry<sup>1</sup>**

	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 cash clients <sup>2</sup>	1,939,379	1,737,281	1,423,007
Active margin clients <sup>2</sup>	2,219,721	1,470,396	601,842
Active clients	4,159,100	3,207,677	2,024,849
<b>Balance sheet</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Cash in hand and at bank <sup>3</sup>	694,492	640,379	505,627
Amounts receivable from margin clients <sup>4</sup>	218,436	201,916	165,919
Amounts receivable from clients and other dealers arising from dealing in securities	211,398	333,878	186,361
Proprietary positions	148,661	212,763	133,663
Other assets	385,566	423,539	331,341
Total assets	1,658,553	1,812,475	1,322,911
Amounts payable to clients and other dealers arising from dealing in securities	770,952	877,314	580,610
Total borrowings from financial institutions	98,429	156,267	119,934
Short positions held for own account	16,718	78,572	47,175
Other liabilities	244,242	234,265	159,784
Total shareholders' funds	528,212	466,057	415,408
Total liabilities and shareholders' funds	1,658,553	1,812,475	1,322,911
	12 months to 31.12.2021 (\$ million)	12 months to 31.12.2020 (\$ million)	12 months to 31.12.2019 (\$ million)
<b>Profit and loss</b>			
Total value of transactions <sup>5</sup>	160,931,088	129,651,195	85,831,384
Net securities commission income	31,329	28,374	19,901
Gross interest income	19,394	19,493	23,172
Other income <sup>6</sup>	166,746	150,159	118,809
Total operating income	217,469	198,026	161,882
Total overheads and interest expense	173,978	167,122	149,920
Total operating profit	43,491	30,904	11,962
Net profit on proprietary trading	21,397	16,649	13,201
Net profit for the period	64,888	47,553	25,163

1 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.

2 Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

3 Cash in hand and at bank include trust monies held on behalf of clients which totalled \$452,407 million (31.12.2020: 437,280 million).

4 As at 31.12.2021, the average collateral coverage was 4.2 times (as at 31.12.2020: 4.6 times). It represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis.

5 The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

6 Comprises fund management fee income, corporate finance income, inter-company management fee income and others.

# Committees, Panels and Tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see Corporate Governance on pages 14-35.

## SFC Committees

### Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
LUI Tim Leung, Tim, SBS, JP	
Members	
ALDER Ashley Ian, SBS, JP	LI Tong (from 1.6.2021)
Prof CHAN Ka-lok	NG Siu-mui Fion (from 1.6.2021)
CHAN Lap-tak Jeffrey (to 31.5.2021)	PUN Wing-nin Winnie
CHAN Yuk Sing Freeman	TAI Chi-kin Calvin (from 1.6.2021)
CHOI Fung-yee Christina (from 1.6.2021)	Dr TAN Yue-heng, JP
DING Chen (to 31.5.2021)	TSE Yung-hoi, BBS (from 1.6.2021)
GRAHAM David (to 31.5.2021)	WONG Wai-man June
HO Yin Tung Brian (to 31.5.2021)	YIEN Yu-yu Catherine
KUNG Yeung Ann Yun-Chi, JP	YIM Lok-kui
LEUNG Chung Yin Rico (to 31.5.2021)	YIN Ke (to 31.5.2021)
LEUNG Fung-yee Julia, SBS, JP (from 1.6.2021)	
<b>Number of meetings: 4</b>	<b>Average attendance rate: 85%</b>

### Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met once to consider a number of matters, including the progress of the public consultation on the enhanced competency framework, the scope of the new licensing examination Paper 17 on "Regulation of Takeovers and Share Buy-backs" and the overseas licensing examination arrangements made by the Hong Kong Securities and Investment Institute.

Chairperson	
LEUNG Fung-yee Julia, SBS, JP	
Members	
Dr CHAN Fung Cheung Wilson	LO Wai Shun Wilson
Dr CHAN Wing Ho Alex	PAN San Kong Terry
Prof CHENG Wui Wing Joseph	PONG Po Lam Paul
CHEUNG Wai Kwok Gary	WONG Wing Fai Joseph
Prof LEUNG Siu Fai	
<b>Secretary</b>	
MAN Hoi Yee Holly	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 70%</b>

## Committees, Panels and Tribunal

### Committee on Real Estate Investment Trusts

Advises the SFC on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

There was no meeting during the year.

#### Chairperson

CHOI Fung-yea Christina

#### Members

CHAN Duen Grace  
Dr CHAN Ho Wah Terence  
CHAN Wing Hing Barry  
CHIANG Sui Fook Lilian  
HO Edmund  
HO Yin Tung Brian (to 27.8.2021)  
Prof HUI Chi Man, MH  
LAU Ka Shi Betsy, BBS

#### Secretary

LAU Tin Mei

NG Yiu Fai (Curtis NG)  
TANG Siau Feng, Megan (from 28.8.2021)  
WONG Chi Ming Sally  
WONG Sing Ming (Rita WONG)  
WU Thomas Jefferson, JP  
YEONG Wei Ming Alexandra  
YUEN Ka Fai (Frank YUEN)

**Number of meetings: 0**

**Average attendance rate: N/A**

### Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

#### Members

DAWES Victor, SC  
JAT Sew Tong, SC, JP  
LAM Douglas Tak Yip, SC

SHIEH Wing Tai Paul, SC  
WONG Man Kit Anson, SC

### Fintech Advisory Group

The Group aims to broaden the SFC’s understanding of the opportunities, risks and regulatory implications of the latest Fintech trends and developments.

During the year, the Group met twice to discuss a range of topics, such as digital wealth management, opportunities in environmental, social and governance (ESG) and international developments in the virtual asset landscape.

<b>Chairperson</b>	
LEUNG Julia Fung-ye, SBS, JP	
<b>Ex-officio members</b>	
CHIU Ka Lai Clara (to 31.10.2021)	WONG Elizabeth Lok Yan (from 18.10.2021)
<b>Members</b>	
ARSLANIAN Henri KIEW-SMITH Christopher LEI Kelvin LEWIS Antony LI Shu Pui	Prof LIN Chen MA Henry Prof POON Jack Dr SPIEGL Florian TAN Jessica
<b>Number of meetings: 2</b>	<b>Average attendance rate: 100%</b>

### Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and deal with other administrative matters.

<b>Chairman</b>	
LEUNG Chung Yin Rico	
<b>Members</b>	
ATKINSON Thomas Allan Dr LIN James C.	KOK Ka Keung (Kenneth KOK) (to 31.12.2021)
<b>Number of meetings: 1</b>	<b>Average attendance rate: 100%</b>

## Committees, Panels and Tribunal

### Investor Compensation Company Limited Claims Committee

Reviews and determines investors' claims for compensation from the Investor Compensation Fund.

<b>Chairman</b>	
Dr LIN James C.	
<b>Members</b>	
CHAN Lui (Clara CHAN) CHUI Ming Wai (Vivian CHUI) (from 8.8.2021) Kwok Hom Siu (Sally KWOK) LEE Jor Hung (Dannis LEE) LEUNG Chung Yin Rico	MONG Yee Wai (Lavina MONG) MUKADAM Thrity Homi TSO Pui Sze (Teresa TSO) (to 7.8.2021) TSUI Kam Yip (Alison TSUI) WAN Chi Yiu Andrew
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

### Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the above-mentioned panel and committees.

<b>Chairman (ex-officio member)</b>	
ALDER Ashley Ian, SBS, JP	
<b>Members</b>	
LUI Tim Leung, Tim, SBS, JP <b>Ex-officio members</b> CHAN Yuk Sing Freeman HO Yin Tung Brian (to 27.8.2021) <b>Alternate members to CHAN Yuk Sing Freeman</b> CLARK Stephen Edward KO Teresa Yuk Yin, JP LAM Chor Lai, Celia MAGUIRE John Martin	DAWES Victor, SC  TANG Siau Feng, Megan (from 28.8.2021)  SCHWILLE Mark Andrew WEBB David Michael YU Ka Po Benita
<b>Number of meetings: 1</b>	<b>Average attendance rate: 100%</b>

### Products Advisory Committee

The SFC may consult the Committee on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features.

During the year, the Committee held a meeting to discuss the key product developments and issues related to ESG funds, implementation of the enhanced guidance for investment-linked assurance schemes (ILAS) product design and liquidity risk management of open-ended funds.

#### Chairman

CHOI Fung-yee Christina

#### Members

ABRAT Katherine Anna	MONCREIFFE Edward Charles Lawrence (to 18.6.2021)
CHAN Duen Grace	NOYES Keith Samuel
CHAN Siu-ping Chordio	PAN San Kong Terry
CHOW Kin Hung (Nelson CHOW)	PANG Wai Sau Queenie
FUNG Ka Shing Bernard	SHEN Hua
HUI Mei Ying (Carol HUI)	SHIPMAN Mark Graham
KENNEDY Glenn Ronald	SMITH Paul Henry
KIM Suyi	TAM Sau Ngor Vera
LEE Chi Kee Trevor	TSUI Wai Yu (Fion TSUI)
LI Tzy Lan Orchis (from 18.6.2021)	TZATZAKIS Costa (Con TZATZAKIS)
LIU Yun Bonn (Bonn LIU)	WONG Pui Ling Pauline
LYU Hong (Sandra LU)	YEE Gar Bo Gabriella
Dr MAK Sui Choi Billy	YEONG Wei Ming Alexandra

#### Secretary

POON Wing Yee Loreen

**Number of meetings: 1**

**Average attendance rate: 81%**

### Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed various policy subjects, such as Special Purpose Acquisition Companies, climate-related issues and the Hong Kong listing market.

#### Chairman

HO Yin Tung Brian (to 27.8.2021)

TANG Siau Feng Megan (from 28.8.2021)

#### Members

CHAN Kwok King Kingsley	TYE Philip Andrew
GILL Amar Singh	WANG Fang
LI Lin, Lincoln	WEI Zhen
MA Sean	WONG Chi Ming Sally
MO Yuen Man Anita	WONG David Nicholas
SCHLABBERS Manuel	WONG Yu Tsang Alex

**Number of meetings: 3**

**Average attendance rate: 86%**

## Committees, Panels and Tribunal

### Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and deal with other administrative matters.

#### Chairman

LEUNG Chung Yin Rico

#### Members

ATKINSON Thomas Allan  
KWOK Hom Siu (Sally KWOK)

Dr LIN James C.  
YIU Ka Yan Wilfred

**Number of meetings: 1**

**Average attendance rate: 100%**

### SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of the Stock Exchange of Hong Kong Limited (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (HKEX) and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

#### Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

#### Members

ALDER Ashley Ian, SBS, JP  
ATKINSON Thomas Allan  
CHAN Yuk Sing Freeman  
CHOI Fung-ye Christina  
EMSLEY Matthew Calvert  
LEUNG Chung Yin Rico

LEUNG Fung-ye Julia, SBS, JP  
LEUNG Po Wah Pauline  
PHADNIS Dhananjay Shrikrishna  
WONG David Nicholas  
YOUNG Andrew John

**Number of meetings: 0**

**Average attendance rate: N/A**

### SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEX and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

#### Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

#### Members

CHAN Kam Wing Clement, MH, JP (to 27.07.2021)	Dr LIN James C.
CHAN Sui Kuen Agnes	LO Kar Chun Nicky, SBS, JP
CHENG Wai Sun Edward, GBS, JP	LUI Tim Leung Tim, SBS, JP
DAWES Victor, SC	WONG Yick Kam Michael, MH, JP
HUANG Lester Garson, SBS, JP (to 14.11.2021)	YIH Dieter, JP (from 15.11.2021)
KONG Johnson (from 15.11.2021)	

**Number of meetings: 0**

**Average attendance rate: N/A**

### Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There were no circumstances which called for a meeting of the Committee during the year.

#### Chairman

CHIU Jeckle

#### Deputy Chairman

CHAN Henry

#### Members

CHUI Ming Wai (Vivian CHUI)	LEE Virginia Yuen Man
FOOTMAN Michael Henry Charles	TSUI Kam Yip, Alison
LAM Hui Yip (Clement LAM)	WONG Man Yee (Fanny WONG)

**Number of meetings: 0**

**Average attendance rate: N/A**

### Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

There were no circumstances which called for a meeting of the Committee during the year.

## Committees, Panels and Tribunal

### Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive<sup>1</sup> at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met once to discuss takeovers-related policy matters.

#### Chairman

CHAN Yuk Sing Freeman

#### Deputy Chairpersons

CLARK Stephen Edward  
KO Teresa Yuk Yin, JP  
LAM Chor Lai, Celia  
MAGUIRE John Martin

SCHWILLE Mark Andrew  
WEBB David Michael  
YU Ka Po Benita

#### Members

BIDLAKE Alexandra  
BROWN Melissa  
CHAN Che Chung (Conrad CHAN)  
CHARLTON Julia Frances  
CHENG Wai Sun, Edward, GBS, JP  
CLARK Stephen John  
IP Koon Wing Ernest  
LEE Kam Hung Lawrence, BBS, JP  
LEUNG Po Wah, Pauline  
LIU Yun Bonn (Bonn LIU)  
LLOYD Victoria Sally Tina (to 3.8.2021)  
NORMAN David Michael  
NORRIS Nicholas Andrew

PARK Yoo Kyung  
SABINE Martin Nevil  
SHAH Asit Sudhir  
STEINERT Timothy A. (to 3.8.2021)  
TYE Philip Andrew  
VAS CHAU Lai Kun Judy  
WINTER Richard David  
WOLHARDT Julian Juul  
WONG Richard  
WONG Wai Ming  
WONG Yu Tsang, Alex  
Woo Ka Biu, Jackson  
YUEN Ka Fai (Frank YUEN)

**Number of policy meeting: 1**

**Number of non-disciplinary hearings: 0**

**Number of disciplinary hearings: 0**

**Average attendance rate: 88%**

**Average attendance rate: N/A**

**Average attendance rate: N/A**

<sup>1</sup> The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

## Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

### Members

BIDLAKE Alexandra	NORRIS Nicholas Andrew
BROWN Melissa	PARK Yoo Kyung
CHAN Che Chung (Conrad CHAN)	SABINE Martin Nevil
CHAN Yuk Sing Freeman	SCHWILLE Mark Andrew
CHARLTON Julia Frances	SHAH Asit Sudhir
CHENG Wai Sun, Edward, GBS, JP	STEINERT Timothy A. (to 3.8.2021)
CLARK Stephen Edward	TYE Philip Andrew
CLARK Stephen John	VAS CHAU Lai Kun Judy
IP Koon Wing Ernest	WEBB David Michael
KO Teresa Yuk Yin, JP	WINTER Richard David
LAM Chor Lai, Celia	WOLHARDT Julian Juul
LEE Kam Hung Lawrence, BBS, JP	WONG Richard
LEUNG Po Wah, Pauline	WONG Wai Ming
LIU Yun Bonn (Bonn LIU)	WONG Yu Tsang, Alex
LLOYD Victoria Sally Tina (to 3.8.2021)	Woo Ka Biu Jackson
MAGUIRE John Martin	YU Ka Po Benita
NORMAN David Michael	YUEN Ka Fai (Frank YUEN)

**Number of meetings: 0**

**Average attendance rate: N/A**

## Independent Panels and Tribunal

### Leveraged Foreign Exchange Trading Arbitration Panel

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

### Chairman

LEE Pui Shan Rosita

### Deputy Chairman

CHAN Siu-ping Chordio

### Members

FUNG Kit-ming, Veronica	LEUNG Tak-lap
LEUNG Bon-yuen, Eviana	

## Committees, Panels and Tribunal

### Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, investment products authorisation, exercise of investigation and disciplinary action and corporate finance transactions (including the administration of listing rules).

#### Chairman

LEE Kam Hung Lawrence, BBS, JP

#### Members

CHAN Lap-tak Jeffrey  
CHAN Lena  
CHAU Suet-fung Dilys  
CHING Kim-wai Kerry  
CHUA Suk-lin Ivy  
CHUI Yik-chiu Vincent

#### Ex-officio members

LUI Tim Leung, Tim, SBS, JP

KWAN Wing-han Margaret  
KWOK Tun Ho Chester  
LAI Hin-wing Henry  
Dr MAK Sui Choi Billy  
TSANG Sui-cheong Frederick  
ZEE Helen

YUNG Lap-yan

### Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

#### Chairmen

HARTMANN Michael John, GBS  
KWOK Hing-Wai Kenneth, SBS, SC, JP

LUNN Michael Victor, GBS  
MCWALTERS Ian Charles, GBS, JP (from 1.10.2021)

#### Members

CHAN Chun-hung Vincent  
Prof CHAN Ka-lok  
Prof CHAN Koon-hung  
CHAN Mei-bo Mabel  
CHAN Siu-ping Chordio  
CHENG Wai-sum Yvonne (to 1.2022)  
CHAN Yuen-shan Florence  
CHEN Xin Lorna  
CHEUNG Wai-ki Gary  
CHING Kim-wai Kerry  
HUI Ming-ming Cindi  
KONG Chi-how Johnson (to 11.2021)  
LAM Chi-yuen Nelson

LEUNG Ming-hym Peter  
Prof LEUNG Siu-fai  
MAK Kwong-fai  
SHIH Edith  
TANG Hamilton Ty  
Dr TO Wing Christopher  
WONG Hin-wing Simon  
WONG Kwok-ching Jamee  
YAU Yu-xin Amelia  
YIP Chai-tuck  
YUEN Miu-ling Wendy  
YUEN Siu-bun Edward

# Glossary and Abbreviations

## Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter derivatives.

## Circuit breaker

A mechanism which halts trading when triggered by significant price movements. It may be imposed on individual stocks or the market as a whole.

## Dark pool

An electronic system which allows crossing or matching of orders anonymously outside traditional exchanges without any pre-trade transparency. Also known as alternative liquidity pool or alternative trading system.

## Exchange participant

A company with rights to trade on or through the Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

## Financial Action Task Force (FATF)

An inter-governmental body established to set standards and promote measures to combat money laundering, terrorist financing and related threats to the integrity of the international financial system.

## Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

## GEM

A stock market operated by Hong Kong Exchanges and Clearing Limited to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements. Formerly known as the Growth Enterprise Market.

## Green and Sustainable Finance Cross-Agency Steering Group

A group co-chaired by the SFC and the Hong Kong Monetary Authority with participation from the Environment Bureau, Financial Services and the Treasury Bureau and other financial regulators to coordinate the management of climate and environmental risks in the financial sector, accelerate the growth of green and sustainable finance and support Hong Kong's climate strategies.

## Greenwashing

A false or unsubstantiated claim that certain activities, products or practices are sustainable or environmentally-friendly, such as when asset managers market themselves as "green" or "sustainable" but do not fully integrate these factors into their investment processes.

## International Organization of Securities Commissions (IOSCO)

A body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation.

## Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements which provides both insurance protection and investment options, usually through funds.

## Leveraged and inverse products

Products structured as exchange-traded funds for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index.

## Glossary and Abbreviations

### Mandatory general offer

A general offer to buy the remaining shares in a company when a person or a group of persons acting together acquires 30% or more of the company's voting rights, or if the person or group already holds between 30% and 50% of the voting rights, when that holding increases by more than 2% in any 12-month period.

### Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance which imposes civil sanctions against those it determines to be guilty of market misconduct.

### Occupational retirement scheme

A voluntary scheme set up by employers in Hong Kong to provide retirement benefits for their employees.

### Open-ended fund companies (OFC)

Collective investment schemes structured in corporate form with limited liability and variable share capital.

### Over-the-counter (OTC) derivatives

Financial instruments which are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from those of underlying assets.

### Pooled retirement fund

A collective investment scheme which enables multiple occupational retirement schemes to gain exposure to underlying investment portfolios.

### Ramp and dump scheme

A form of stock market manipulation. Fraudsters "ramp" up the price of a stock and use social media to lure unwary investors to buy at an artificially high price. The fraudsters then sell or "dump" the stock to take profits causing the price to collapse.

### Real estate investment trust (REIT)

A collective investment scheme constituted as a trust which invests primarily in real estate with the aim to provide returns derived from rental income.

### Securities and Exchange Commission of Thailand

The authority that regulates the securities market in Thailand.

### Securities and Futures Appeals Tribunal (SFAT)

A body established under the Securities and Futures Ordinance to review specified decisions made by the SFC, the Hong Kong Monetary Authority or a recognised investor compensation company.

### Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products, the securities and futures market and industry, as well as to their regulation and other matters including investor protection.

### Unit trust

A collective investment scheme constituted in trust form.

### Virtual assets

Digital representations of value, also known as cryptocurrencies, crypto-assets or digital tokens.

### Whitewash waiver

A waiver of a party's obligation to make a mandatory offer to other shareholders under the Takeovers Code.

**Contact  
information**

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**Auditor**

PricewaterhouseCoopers

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