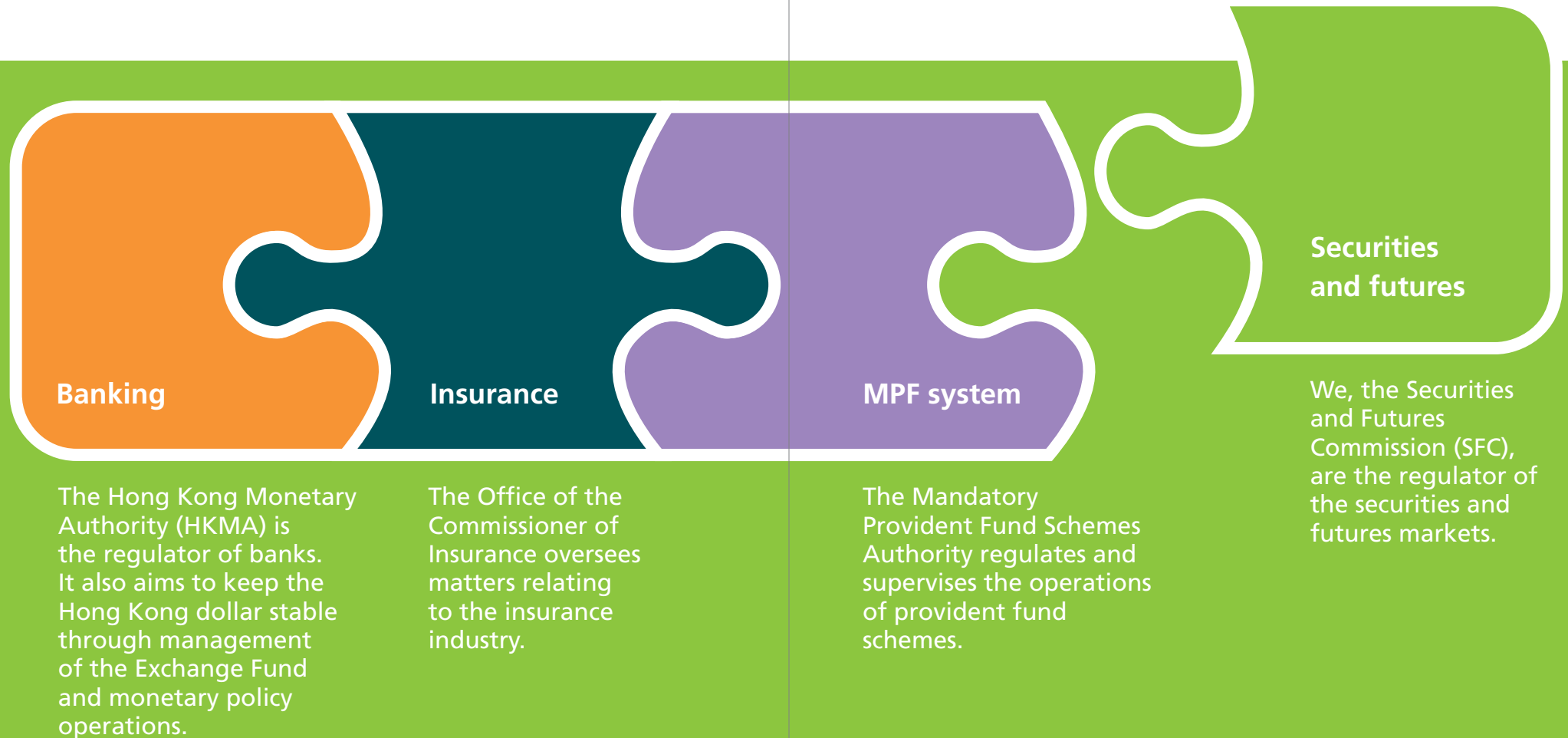


# SFC

Who we are  
What we do

## Who regulates the Hong Kong markets?

As an international financial centre, Hong Kong's markets are large and complex. To meet the markets' sophisticated needs, several regulatory authorities keep a watchful eye on the money business.



## SFC's origin and mission

The SFC was created in 1989 in response to the stock market crash of October 1987.

Following the Asian financial crisis of 1997, the regulatory framework was further improved. A comprehensive Securities and Futures Ordinance (SFO) was implemented in 2003, which expanded our regulatory functions and powers.

Under the mandate of the SFO, we work to foster orderly securities and futures markets and to protect investors. We also help promote Hong Kong as an international financial centre and a key financial market in China.

### Did you know?

- The SFC is an independent statutory body whose powers derive from the SFO.
- We are funded by levies on transactions conducted on the Stock Exchange of Hong Kong (SEHK) and the Hong Kong Futures Exchange (HKFE), as well as fees charged to market participants.

We aim to maintain market order and protect investors by:

Setting and enforcing market regulations

Licensing and supervising market participants such as brokers, investment advisers and fund managers

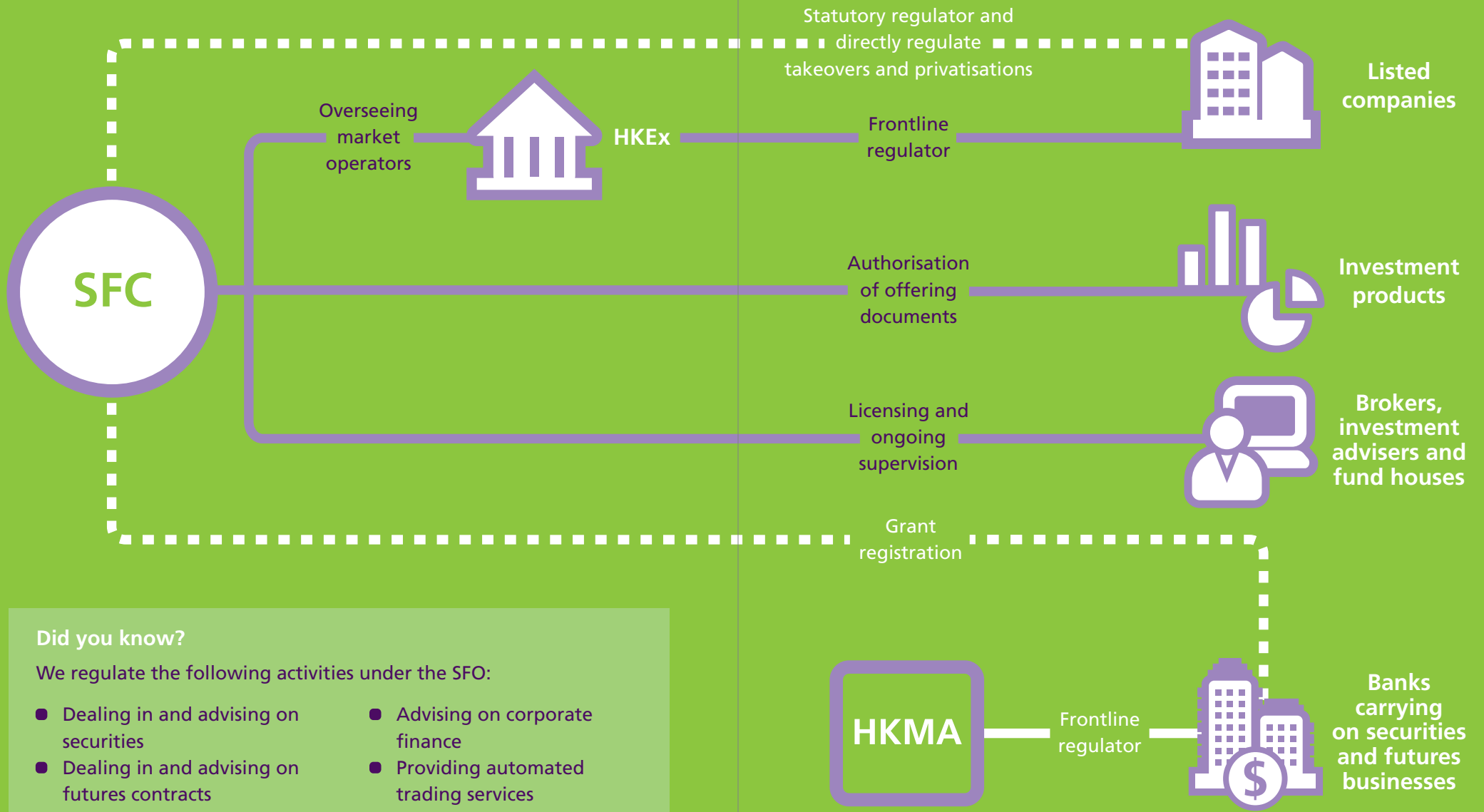
Supervising market operators including exchanges, automated trading services and clearing houses

Authorising offering documents of investment products to be offered to the public

Overseeing corporate activities of listed companies under the Codes on Takeovers and Mergers and Share Repurchases

Educating investors on markets, investment products and their risks

# Who and what we regulate – At a glance



## Did you know?

We regulate the following activities under the SFO:

- Dealing in and advising on securities
- Dealing in and advising on futures contracts
- Leveraged foreign exchange trading
- Advising on corporate finance
- Providing automated trading services
- Securities margin financing
- Asset management

## Who and what we regulate – Taking a closer look



### Investment products

The SFC reviews and authorises offering documents of retail investment products, pursuant to the SFO or the Companies Ordinance. We check, based on information provided by issuers, whether product features and risks are properly disclosed. However, we do not approve the products themselves.



### Brokers, investment advisers and fund houses

The SFC administers the licensing requirements and conducts ongoing supervision of licensed intermediaries.

We set the standards of conduct for intermediaries, including, among others, the requirement that recommendations made are suitable for their prospective clients.



### Hong Kong Exchanges and Clearing Limited

The SFC oversees HKEx, which is also a listed company, to ensure the markets are orderly, informed and fair.



### Listed companies

SEHK is the frontline regulator of listing matters, such as approving listing applications and overseeing listed companies' continuing obligations.

The SFC as the statutory regulator helps maintain the quality of disclosure by listing applicants and listed companies under a dual filing system.

We oversee the regulations governing takeovers and mergers of public companies.



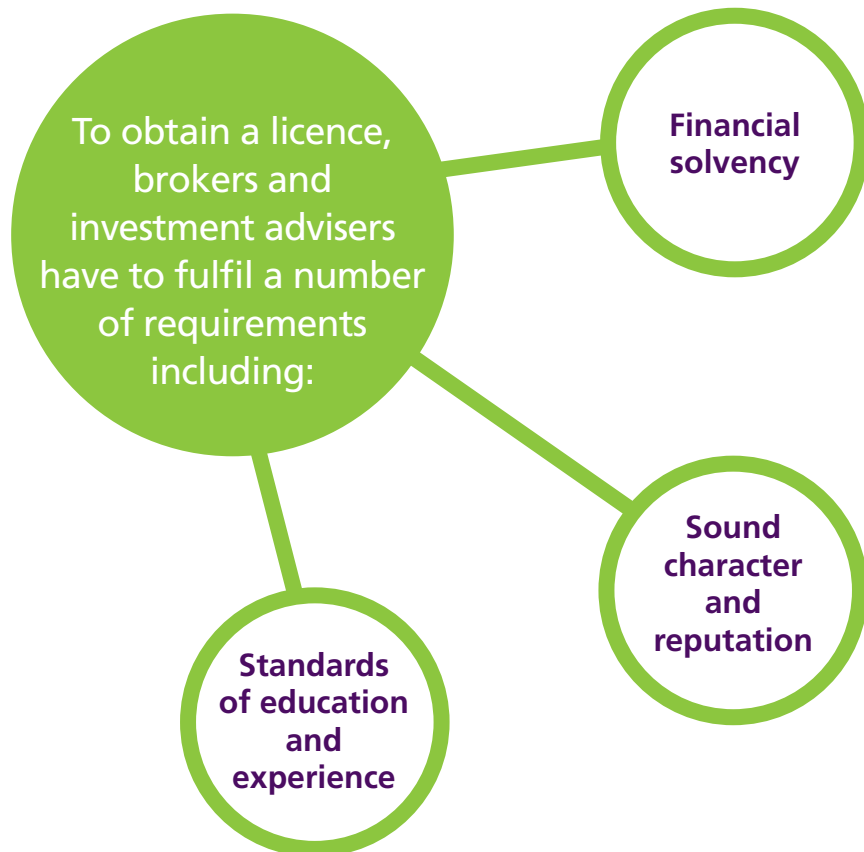
### Banks

Banks that conduct securities and futures activities also have to follow the standards of conduct set by the SFC. Where material breaches of these standards occur the SFC is also responsible for taking enforcement action.

The HKMA is the frontline regulator of banks and directly supervises bank staff engaging in securities and futures businesses.

## What we do – License intermediaries

Investors entrust their money to middlemen – brokers and investment advisers – to invest. Many also seek the advice of investment advisers before investing. We set and administer the licensing requirements for these intermediaries to ensure that they are properly qualified and regulated.



## What we do – Supervise after licensing

Having granted the licences, we continue to monitor and supervise licensed intermediaries to ensure their compliance with SFC rules and regulations. Some of the things we look at are:

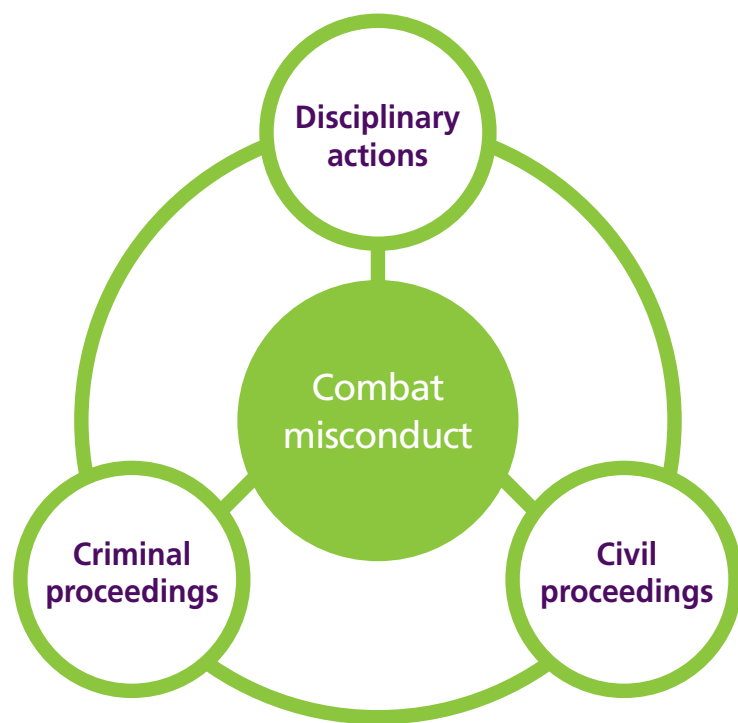
- Whether an intermediary has taken reasonable steps to ensure recommendations made to clients are suitable.
- Whether a licensed company continues to meet the required levels of financial resources and its internal controls are proper and adequate.
- Whether a licensed company handles client assets properly – records are maintained and clients' money is held in separate trust accounts, etc.

license

## What we do – Enforce rules and regulations

The law grants the SFC enforcement powers to combat market misconduct, such as insider dealing and market manipulation.

We possess statutory powers to discipline licensed intermediaries by actions like reprimand, revocation or suspension of licences and imposing fines.



# enforce

Criminal proceedings can be launched against offenders who breach criminal laws and regulations.

Civil proceedings may involve seeking orders to freeze the proceeds of suspected insider dealing, seeking the disqualification of listed company directors, or referring market misconduct cases to the Financial Secretary for hearing before the Market Misconduct Tribunal.

### Did you know?

- Maximum penalty for insider dealing and market manipulation is a fine of \$10 million and a prison term of ten years.
- Our wholly-owned subsidiary Investor Compensation Company Limited manages the Investor Compensation Fund (ICF). The ICF is set up to compensate investors who suffer losses due to default of a licensed intermediary in relation to trading of products on SEHK and HKFE. The maximum compensation per investor is \$150,000 for securities and futures contracts respectively.

## What we do – Authorise offering documents

Before an investment product is offered to the Hong Kong public, we review and authorise the product's offering document to check whether there is sufficient disclosure about the product for investors to make informed decisions.



This is supplemented by the “know your client” requirement, under which intermediaries must ensure they are recommending or selling products suitable to each client.

Intermediaries should not recommend or sell products which they do not understand. They should not rely solely on the offering documents, but rather make their own enquiries and obtain further information from product issuers as necessary.

An offering document must contain certain key information, including issuer information, key product features and significant risks, such as liquidity risks, credit risks and counterparty risks.

SFC authorisation of a product's offering document means that it meets the disclosure requirements of the SFO or the Companies Ordinance. However, we do not recommend or endorse any product as being suitable for individual investors.

Assessment of whether a recommendation is suitable for an individual investor must be done by the selling intermediary at the point of sale, taking into consideration the investor's personal circumstances including his or her investment objectives and risk appetite.

authorise



## What we do – Educate investors

We believe that equipping investors with financial and investment knowledge is an important part of investor protection. Our investor education initiatives aim to enhance investors' understanding of the markets, investment products and their risks.

We encourage investors to ask the right questions before deciding where to put their money.

We remind investors not to sign their rights away when investing or using investment advisory services.

We enhance investors' investment knowledge to help them make informed choices.

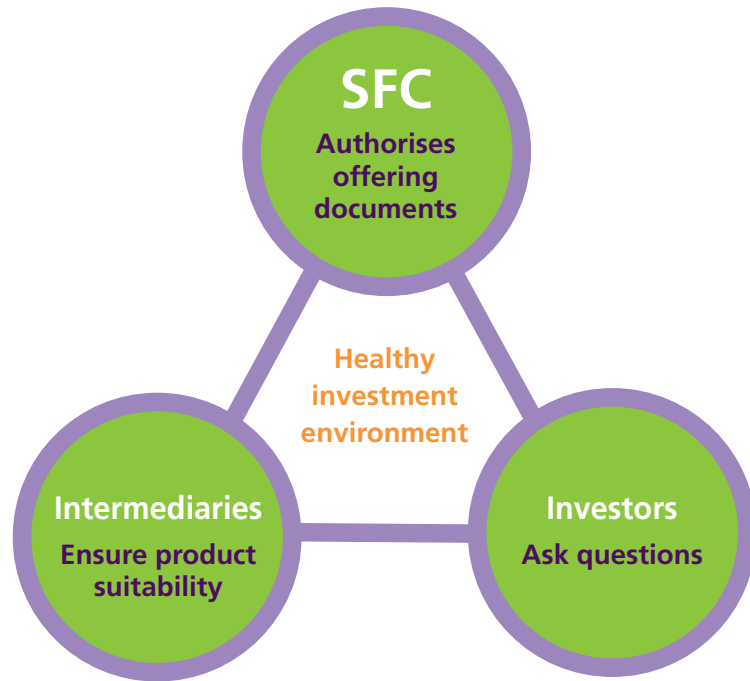
We alert investors to fraud and malpractices.

We explain to investors their rights and responsibilities in the investment process.

educate

## Protection of investors

Investors, intermediaries and regulators can all contribute to a healthy investment environment.



### An intermediary should:

- Explain the features and risks of a product
- Explain why a recommendation is suitable for an investor given his or her personal circumstances

### An investor should:

- Ask questions to clarify doubts
- Check out the offering document, in particular, the product features and risks
- NOT take any advice at face value
- Evaluate advice received against their own investment objectives

## Useful resources

### InvestEd website ([www.InvestEd.hk](http://www.InvestEd.hk))

Where you can learn about the dos and don'ts of investing:

- Alert list – for alerts about scams and unlicensed companies
- List of investment products – for authorisation status and offering documents
- Dr Wise column – Dr Wise, a fictitious character, shares his thoughts on investing and regulatory issues
- Monthly Focus – An investor e-newsletter on topical issues, alert updates and regulatory news

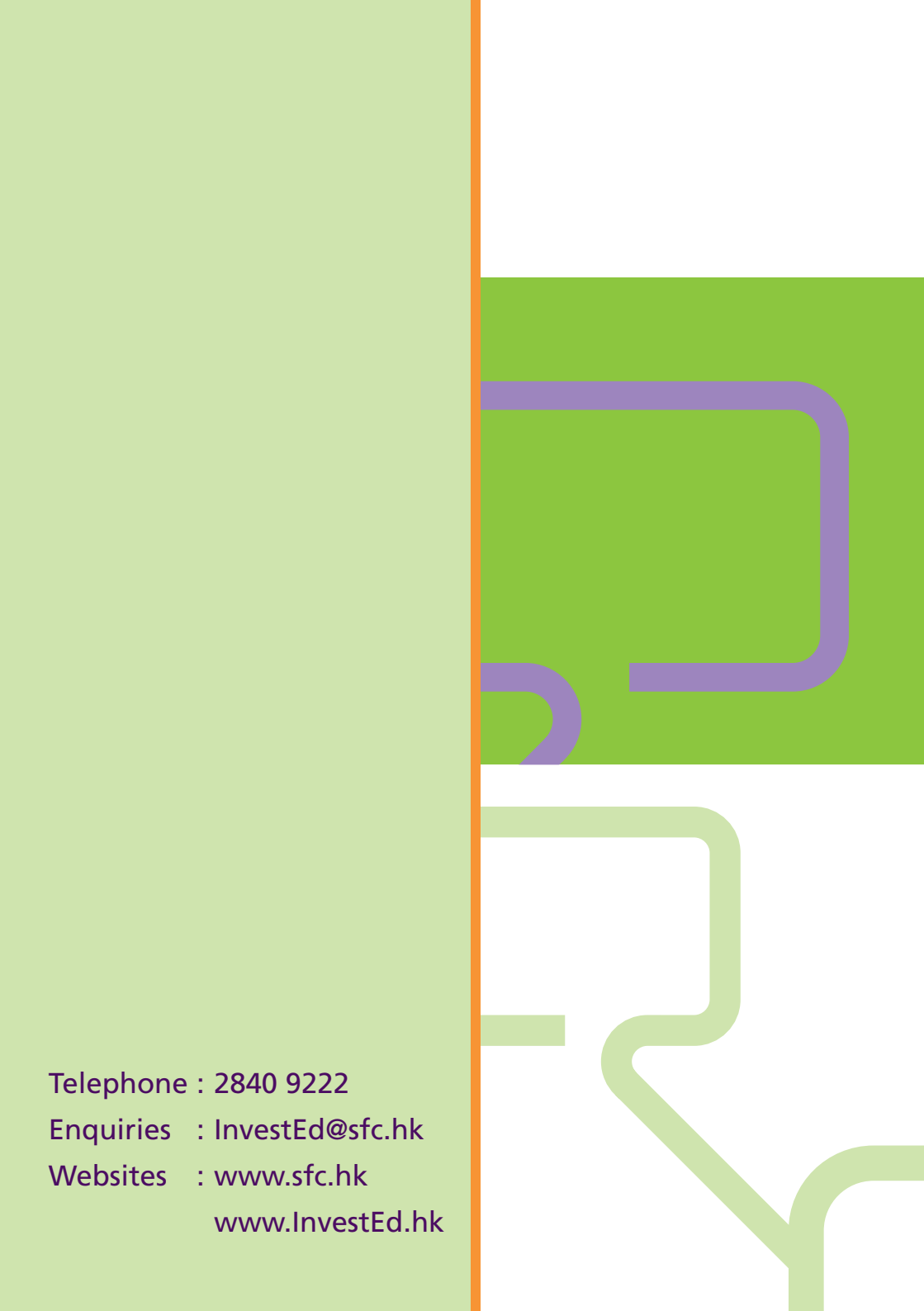
### SFC website ([www.sfc.hk](http://www.sfc.hk))

Where you can learn more about the regulatory work of the SFC:

- Public register of licensed persons and registered institutions
- SFC general and enforcement news



This booklet is designed to provide a general overview of the key regulatory functions of the SFC. It is not a comprehensive treatment of the subject matter covered and is not intended to provide legal or financial advice. Readers should seek such advice if deemed necessary.



Telephone : 2840 9222

Enquiries : [InvestEd@sfc.hk](mailto:InvestEd@sfc.hk)

Websites : [www.sfc.hk](http://www.sfc.hk)

[www.InvestEd.hk](http://www.InvestEd.hk)