



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

SFC Stakeholder Survey 2006

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Securities and Futures Commission Stakeholder Survey 2006

Part 1. Introduction

In 2006, the Securities and Futures Commission (SFC) engaged Chant Link and Associates Pty Ltd (Chant Link), an Australian market research firm, to carry out a survey of stakeholders¹ to identify key changes in their perceptions as compared with the last survey that was conducted in 2001 by Chant Link.

The survey was conducted in two stages. The first stage involved face-to-face interviews with 49 senior executives from 35 different organisations. The second stage consisted of telephone interviews with 306 senior executives across 18 stakeholder groups using a questionnaire, which sought performance scores in a number of key areas.

This report, which has been endorsed by Chant Link, summarises the main findings from the survey.

Part 2. Overall Conclusions

Overall, Chant Link found that stakeholders:

- regard the SFC highly and believe that its programmes have had a positive impact on both the market and their firms in Hong Kong;
- believe that the SFC is approachable, responsive and easy to deal with, and most view the SFC as the best securities regulator in Asia;
- consider that the SFC's performance in the area of enforcement has improved considerably; but
- believe that the SFC still has room for improvement.

Part 3. Survey Objectives

The survey sought to gather the qualitative and quantitative perceptions and attitudes of various SFC stakeholders about:

- awareness and understanding of the role of the SFC;
- perceptions of the SFC's efficiency and degree of customer satisfaction felt by those who deal with the SFC;
- perceptions of the effectiveness of the SFC's regulatory activities in terms of the degree to which it is perceived to be meeting its own goals.

¹ These include securities or futures brokers, financial advisers, asset or fund managers, insurance companies, investment banks, banks, listed companies, accounting firms, law firms, Hong Kong Exchanges and Clearing (HKEx), private investors/investor advocates, financial media, Legislative Council aides, Hong Kong Monetary Authority, Registrar of Companies, Police/Enforcement Bodies, and Financial Services and the Treasury Bureau

- suggestions as to areas in which the SFC could (and should) improve its performance or change its activities, programmes or priorities; and
- the degree to which change had occurred as compared to the 2001 survey.

Part 4. Qualitative Results

In the first stage of the survey, Chant Link interviewed 49 people from 35 different organisations in in-depth, face-to-face interviews. The sample profile of the interviewees is provided in the Appendix. It should be noted that market research of this kind (i.e. qualitative research) measures behaviour, attitudes and perceptions of those in the sample, which may not perfectly correlate with the views of the population as a whole.

As in the 2001 survey, the SFC is well regarded overall.

- The SFC is seen as a better and tighter regulator than other regulators in Asia.
- It is considered to be more approachable and easier to deal with than other Asian regulators, and thus more attractive to international financial markets than other parts of Asia.
- The majority of the qualitative sample view the SFC as fair and impartial in its dealings with the market.
- There is general agreement that the SFC is substantially meeting its goals.

However, there was a view that the SFC is constrained in achieving its objectives because it was perceived as insufficiently resourced, and not sufficiently empowered. In addition, there was a perception that the market for retail investors is difficult to address due to investors being poorly educated about investments, and risk taking in their behaviour.

The key areas that stakeholders view that the SFC should do more.

- Fill senior positions.
- Ensure the quality of listings, particularly from the Mainland.
- Support Hong Kong's competitiveness in a global market: SFC should be more proactive in developing Hong Kong as a major financial centre and be less conservative in its approach to the introduction of new products.
- Exercise its powers to take on large enforcement cases and in the administration of dual filing.
- Address the high turnover of middle and junior level staff and the need to have more experienced/market familiar staff at these levels.
- Improve clarity of rules, speed of response and consistency of decisions.
- Reduce the need for unnecessary documentation.

Part 5. Quantitative Results

In the second stage, 306 senior executives across 18 stakeholder groups were interviewed using a telephone-administered questionnaire. Those who had direct interaction with the SFC in specific areas were asked more detailed questions on the performance of the SFC in these areas. The main sample characteristics of the

stakeholders are provided in the Appendix. Readers should be mindful that the overall assessment scores are influenced by the weight of numbers in each stakeholder segment and that all sampling results in a degree of statistical error. However, the size of the sample means that in aggregate the level of error is small.

a. The overall effectiveness of the SFC

Chant Link found that the perception of the SFC's overall effectiveness was driven by perceptions of the SFC having an appropriate regulatory approach and having an appropriate orientation towards the market place.

Furthermore, stakeholders who felt that they had a good understanding of the SFC and its activities and programmes tended to give a higher assessment of the SFC's performance across all programmes and for its effectiveness and reputation across all measures, compared to those with a lower understanding of the SFC.

The overall effectiveness of the SFC in 2006 was given a marginally higher average score of 6.7 (on a zero to 10 scale) compared to 6.6 in 2001. Stakeholder segments which scored the SFC's effectiveness higher than in 2001 included: investors, the financial media, asset or fund managers, banks, insurance companies, securities and futures brokers, investment banks and LegCo.

However, in respect of lawyers, accountants and the HKEx, the perceived effectiveness had diminished, although law firms continued to score the SFC higher than the mean score for the total sample.

b. The activities and programmes of the SFC

Stakeholders were asked to give a score on the performance of the SFC in eight areas regardless of whether they (or their firm) had personally been involved with the SFC. The areas were: incorporating industry feedback into policy, law reform input, information on how to comply with regulatory requirements, enforcement, alerting retail investors to investment traps, supervising HKEx, licensing and regulating intermediaries, and authorising collective investment schemes.

There was a small improvement in the overall perception of the performance of the SFC in 2006 compared with 2001.

Licensing and regulating intermediaries retained the highest score. Stakeholder perception of enforcement improved, moving the score from third place in 2001 to share the top spot with licensing and regulating intermediaries in 2006.

However, the survey also indicated that there was room for improvement. As in 2001, stakeholders identified incorporating industry feedback into policy as the area with the most room for improvement. This was followed by provision of information on how to comply with regulatory requirements, and alerting retail investors to investment traps.

c. The reputation and effectiveness of the SFC

Chant Link asked questions to gauge perceptions of the reputation and effectiveness of the SFC.

As in 2001, the SFC was perceived as *focussing on relevant issues* (see Chart 1). The areas that stakeholders had viewed that the SFC could improve on in 2001 showed improved scores in 2006. These included: the SFC supporting the development of Hong Kong as a financial market; conveying a clear message about its role and activities through the media; reducing the incidence of insider trading and market manipulation; and keeping abreast of emerging issues. However, accessibility of SFC senior staff received a lower score compared to 2001 and, as in 2001, the score was less favourable in respect of the cost of compliance being suitably low, although this area received a marginally higher score in 2006.

Chart 1. Reputation and effectiveness of the SFC



In 2006, Chant Link designed 11 additional questions (see Chart 2). The new questions showed that the SFC was perceived as *sufficiently independent* and *sufficiently empowered as a regulator*. In addition, stakeholders viewed that the SFC *conducts regulatory activities impartially*, and *is effectively enforcing the Hong Kong market*.

On the other hand, stakeholders believed that there was room for improvement in the SFC's understanding of the market place, its flexibility in dealing with its stakeholders, and in its understanding of new products in the market.

**Chart 2. Reputation and effectiveness of the SFC
(new questions for 2006)**



d. Interactions between stakeholders and the SFC

Stakeholders were asked to give a score for the importance of the SFC's various activities. The survey also sought to establish the work areas where stakeholders had the most interaction with the SFC in the past two years and to give a score for the performance of the SFC in these areas.

The highest incidence of interaction between stakeholders and the SFC for both the 2001 and 2006 samples were in the area of licensing and registration matters. A moderately high incidence of involvement with liaison activities (whether direct or indirect via professional/industry bodies) regarding SFC policy changes and/or legislative changes, interactions regarding the development of industry codes of practice, and intermediaries inspection occurred in a large number of stakeholder segments. Intermediaries inspection, which was the fifth most frequent type of interaction in 2001, came third this time.

In terms of importance of interaction, licensing and registration was considered as the most important category in both 2001 and 2006 followed by inspection of intermediaries, which was rated as significantly more important than was the case for 2001.

In terms of performance, licensing and registration was again ranked as the area that the SFC performed best followed by intermediaries inspection and takeovers, with collective investment schemes regulation, development of industry codes of practice and investigatory processes having the same scores for performance (see column A in Table 1 for the scores in six key areas). The performance of the SFC in investigatory processes was rated as significantly more effective in 2006 as compared to 2001.

The scores for importance and performance were quite close, with the difference between them ranging from 0.5 to 1.8, indicating that the SFC was matching the relative performance expectations of its stakeholders. The strong correlation between performance and relative importance as ranked by stakeholders gives reassurance that resources are being appropriately utilised by the SFC across the various activities undertaken.

e. The market impact of the SFC's programmes

Stakeholders were also asked to give scores on the impact of the SFC's regulatory activity on the market and on the stakeholders' firm in those areas where they had the most direct interaction with the SFC (and were therefore able to comment most knowledgeably). An overwhelming majority of these stakeholders believed that the work of the SFC had a positive impact on the overall market (see columns B and C in Table 1). Many also believed that the SFC's programmes had a positive impact on their firms. In general, the degree of positive regulatory impact in 2006 was equal to or greater than 2001.

Table 1. Views on areas of interaction

Regulatory Interactions With the SFC	A. Overall Performance Score (0-10)		B. % Believing the SFC has Positive Impact on the Market		C. % Believing the SFC has Positive Impact on their Firm	
	2006	2001	2006	2001	2006	2001
Intermediaries Licensing & (Inspections)*	7.2 (6.9)	6.9 (6.7)	92	82	72	63
Regulating Takeovers	6.9	6.6	85	88	64	58
Collective Investment Schemes Regulation	6.7	6.9	92	86	68	65
Investigatory Processes & Disciplinary Actions	6.7	6.0	86	74	72	55
Development of industry codes of practice	6.7	6.8	82	82	70	60
Supervision of HKEx	6.5	6.2	83	88	n/a	n/a

* Score for Inspection of Intermediaries is in brackets. For the impact on the market and firm, the assessment for Licensing and Inspection of Intermediaries was combined.

f. Detailed Evaluation of the SFC's regulatory processes and policies

Stakeholders were asked to give a detailed evaluation of those aspects of the SFC's regulatory processes and policies in which they had the most direct interaction. A summary of the evaluation for the six key regulatory areas follows:

Licensing and inspection of intermediaries

- As in 2001, the licensing and registration processes are perceived to be fairly efficient.
- Staff professionalism and consistency of application of licensing criteria continue to receive the highest scores.
- The scores for all work processes in the inspection of intermediaries are higher in 2006. The highest scores are for the relevance of information requested and the SFC staff's professionalism and attitude.
- The areas for improvement are the level of SFC staff knowledge about practical industry issues and the balance between matters of substance and trivia.

Takeovers Code transactions and rulings

- The scores for all aspects are higher than 2001.
- Timeliness on clearance of announcement/documents, appropriateness of rulings, and targeting the right matters for compliance and enforcement action receive the highest scores.
- The area for improvement is getting the balance between substance and trivia.

Authorisation of collective investment products

- The scores for various aspects of the SFC's handling of applications for product authorisation are higher than 2001.
- The approachability of the SFC staff prior to submission of product application, the SFC's willingness to facilitate offering of new investment products and the appropriateness and helpfulness of its feedback receive the highest scores.
- The areas for improvement are level of staff knowledge about practical industry issues and balance between matters of substance and trivia.

Investigation and disciplinary actions

- The 2006 scores for enforcement work are consistently higher in all aspects than the 2001 scores.
- The areas of highest performance include professionalism and attitude of the SFC's senior management in enforcement; professionalism and attitude of the SFC investigation staff; interviewing skills and competence of SFC investigation teams; publicity regarding disciplinary actions and outcomes; and co-operation with local and overseas law enforcement agencies.
- Areas for improvement include appropriateness of time taken to complete the investigation, and adequacy of signalling of the end of the investigation process.

Development of industry codes of practice

- The highest scores are for the SFC's contribution to the review and/or approval of codes of practice; and for targeting relevant matters.
- The areas in most need for improvement are SFC staff knowledge and SFC feedback on industry submissions.

Supervision of HKEx

- The scores for various aspects of the SFC's supervision of HKEx show some variance within specific areas but overall are similar to 2001.
- The highest score is for the willingness of the SFC staff to understand operations and issues of exchange and clearinghouses, and the openness of the SFC to take industry issues into account when formulating regulatory policies relating to HKEx.
- The areas for improvement are the responsiveness and effectiveness of the turnaround process for rule changes and new products, and providing support for systems development and specific functions.

Stage 1 : Qualitative Survey
Face to Face Depth Interview Sample Structure

Type of organisation	Number of interviews
Large investment bank/fund manager	6
Stockbroker & financial adviser	1
Legal firm	6
Intermediary	3
Accounting firm	2
HKEx	2
Share registration company	1
Large listed company	3
Police/enforcement body	3
LegCo (member)	3
Financial journalist/editor	2
Investor advocate	1
HKMA	1
Financial Services & Treasury Bureau	1
Total	35

Stage 2 : Quantitative Survey
Main Sample Characteristics of Stakeholders

Category	No.	%	Category	No.	%
By Type:			By Position:		
Securities or futures broker	93	30	Dealer	7	2
Financial adviser	18	6	Investment adviser	2	1
Asset or fund manager	30	10	Director or partner	138	45
Insurance company	6	2	Company secretary	13	4
Investment bank	33	11	CFO or senior financial officer	14	5
Bank	12	4	Business development manager	9	3
Listed company	18	6	Fund manager	1	0
Accounting firm	7	2	Chief counsel, or other legal role	25	8
Law firm	19	6	Head of compliance or other compliance role	31	10
HKEx	16	5	Audit Manager or Senior Audit Manager	2	1
Private investor/investor advocate	1	0	LegCo employee	9	3
Financial media	23	8	HKEx employee	5	2
LegCo	9	3	HK Police employee	3	1
HKMA	1	0	Editor	11	4
Share registration company	3	1	Journalist \ reporter	7	2
HK Police	3	1	Manager	13	4
Trust company	3	1	Vice-President	11	4
Unclassified	11	4	Others	5	1
Total	306	100	Total	306	100