

SFC STAKEHOLDER SURVEY 2001

INTRODUCTION

Earlier this year, the Securities and Futures Commission (SFC) engaged Chant Link and Associates Pty Ltd (Chant Link), an Australian market research firm, to design and carry out a survey of stakeholders¹ to find out their views about the SFC's performance and the reasons behind those views. This report, which has been endorsed by Chant Link, summarises the main findings from the survey.

EXECUTIVE SUMMARY

Overall, Chant Link found that stakeholders:

- regard the SFC highly and believe that it has had a positive impact on Hong Kong's securities and futures markets;
- believe that the SFC is approachable and easy to deal with and, overall, one of the best securities regulators in Asia; but
- believe that the SFC has room for improvement in some areas.

SURVEY OBJECTIVES

The survey sought to identify stakeholder perceptions of the SFC's performance, where they believe the SFC should apply more focus, and the key drivers of their perceptions.

¹ These include: securities/futures brokers, financial advisers, asset/fund managers, insurance companies, investment banks, banks, listed companies, accounting firms, law firms, Hong Kong Exchanges and Clearing (HKEx), investor advocates, financial media, LegCo aides and share registrars.

THE FIRST STAGE

In the first stage of the survey, Chant Link interviewed 42 senior executives from 35 different organisations in in-depth, face-to-face interviews. It found that:

- many dealt with only one or two SFC divisions and many of those dealings were infrequent;
- most tended to judge the SFC on what they had seen and, to varying degrees, on what they had heard from industry peers, professional advisers, or on what they had read in the press;
- most regarded the SFC highly and believed that it had improved in recent years by tightening up regulation of intermediaries and adopting a more open, consultative approach to regulation;
- most regarded the SFC's current approach as generally "heading in the right direction"; and
- many saw the SFC as more approachable and easier to deal with, and overall a better and tighter regulator, than other regulators in Asia.

Many stakeholders wanted the SFC to:

- be more transparent in how it decides on policy positions following public consultation;
- increase dialogue with stakeholders and make better use of existing channels to pass on its regulatory messages;
- enhance standards of corporate governance in Hong Kong;
- enhance enforcement;
- reduce compliance costs in a number of areas; and
- focus on training staff to meet the demands of a changing market and implementing a succession plan for senior executives.

THE SECOND STAGE

In the second stage, 303 senior executives were interviewed using a telephone-administered questionnaire.

The SFC's overall effectiveness

The overall stakeholder sample rated the SFC “moderate” to “moderately good” for its overall effectiveness, indicating that they believe there is room for improvement. Accounting firms, law firms and Hong Kong Exchanges and Clearing (HKEx) executives rated the SFC’s effectiveness higher than the mean score for the overall sample. LegCo aides, listed companies and insurance companies scored the SFC lower than the mean. Securities and futures brokers, financial advisers and asset managers were no different to the overall sample mean.

There were no significant differences in the perceived SFC effectiveness between organisations of various sizes, or between Cantonese speakers and English speakers. Those with experience of Hong Kong and other Asian regulators scored the SFC higher than those who had only experienced other Hong Kong regulators and those who had experienced regulators in other major international financial centres (such as USA/UK).

The SFC's activities and programmes

Eight key activities and programme areas were assessed. Overall, stakeholders felt the SFC was performing best (but still had room for improvement) in licensing and regulating intermediaries, providing information on how to comply with regulatory requirements, enforcement and participating in the law reform process.

Stakeholders believed there was most room for improvement in incorporating industry feedback into regulatory policy development, ensuring retail investors are alerted to investment traps and scams, and supervising HKEx to ensure an orderly and fair market in its exchange-traded products.

The SFC's reputation and effectiveness

Stakeholders gave the SFC highest scores for focusing on the right regulatory issues, senior staff of the SFC being accessible to industry, and paying appropriate attention to e-commerce issues in its regulatory programmes.

Stakeholders gave less favourable scores for the degree to which the SFC regulates in a manner in which costs of compliance are suitably low compared with the benefits of being able to operate in Hong Kong, and producing regulatory policies within an acceptable timeframe.

The stakeholder sample also perceived room for SFC improvement in helping to support the development of the Hong Kong financial markets, 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 market issues.

The effect of level of understanding on perception of the SFC

Less than half of the sample felt that they had a high understanding of the SFC's activities and policies overall. Significantly, these stakeholders evaluated the SFC's overall effectiveness more favourably than those with a lower understanding of the SFC. On almost every subsequent measure of the SFC's performance, those with a higher level of understanding of the SFC assessed the SFC more favourably than those with lower understanding.

Interactions between stakeholders and the SFC

Most interviewees had dealt with the SFC in relation to licensing and registration matters (more than two-thirds of the sample had interacted with the SFC in this area in the last two years). The other main interactions were (in descending order) policy liaison directly with the SFC, codes of practice-related liaison, policy liaison with the SFC via an industry or professional body, intermediary inspections, investigatory processes, HKEx supervision, collective investment schemes authorisation and approvals, and Takeovers regulation.

The overall sample regarded licensing and registration interactions as the most important. The remaining eight interaction categories were all perceived as very important for the SFC to perform well.

The interaction categories in which it was felt the SFC had performed best, included (in descending order) policy liaison (direct and indirect), collective investment schemes regulation, codes of practice, intermediary inspections and Takeovers dealings.

The market impact of the SFC's programmes

An overwhelming majority of the sample believed that the SFC had a positive impact on the overall market. Many of those also believed that the SFC's programmes had a positive impact on their firms.

Evaluation of the SFC's programmes

Development of industry codes of practice

Stakeholders perceived that the SFC could improve staff knowledge about practical industry issues, and the degree to which it explained its views about the industry's submissions and its own rationale for framing final codes.

Licensing and inspections of intermediaries

Stakeholders gave the professionalism and attitude of SFC staff the highest score. They perceived that the efficiency of the licensing and registration process, SFC staff knowledge of practical industry issues during routine and theme inspections and degree of balance between matters of substance and trivia could be improved.

Collective investment scheme authorisation and approval of scheme modifications and advertisements

Stakeholders gave the highest scores for the approachability of SFC staff, but perceived that the SFC could improve on its willingness to take practical issues into consideration when formulating policies, and on the balance between matters of substance and trivia.

Supervision of HKEx processes

The SFC scored highly for staff attitude and professionalism, supporting specific functions (such as the Risk Management Committee and the Guarantee Funds) and staff knowledge of Exchange operations and issues. Stakeholders perceived room for improvement in knowledge of clearing house operations and issues.

Takeovers Code transactions and offer document clearance

On lodging applications for Takeover rulings, the SFC scored highest for the approachability of its staff during the application process. There was perceived to be room for improvement in the level of consistency of advice in relation to requirements over time and, to a lesser extent, the appropriateness of the SFC's rulings.

In relation to compliance and enforcement actions relating to takeovers, the SFC scored highest for staff industry knowledge. Room for improvement was perceived in the balance between matters of substance and trivia, and appropriateness and helpfulness of SFC feedback.

SFC investigatory processes and disciplinary actions

Stakeholders believe that enforcement is an important area. Overall, enforcement senior executives and investigation staff were perceived as professional and scored highly in this regard. Stakeholders felt that the SFC could perhaps use the press more effectively to send out its regulatory messages in relation to disciplinary actions and their outcomes. Some wanted investigations to be quicker. Some wanted the SFC to focus more on "the right matters" for investigation, and others raised concerns about the manner in which investigations are sometimes conducted.

APPENDIX 1: SURVEY DESIGN

The research was conducted in two stages. The first stage involved collecting opinions and perceptions in qualitative in-depth, face-to-face interviews with 42 senior personnel in 35 stakeholder organisations. Interviews generally lasted about 60 minutes, although several were longer.

The insights gathered during the first stage were used by Chant Link to develop a questionnaire, which was administered to a wider sample of stakeholders (303 in total) in telephone interviews.

Second stage: sample structure

| Category (by type) | No. | %* | Category (by position) | No. | %* |
|-------------------------------------|------------|-------------|----------------------------------|------------|-------------|
| Securities or futures broker | 99 | 33 | Dealer | 40 | 13 |
| Financial adviser | 19 | 6 | Investment adviser | 11 | 4 |
| Asset or fund manager | 36 | 12 | Director or partner | 118 | 36 |
| Insurance company | 13 | 4 | Company secretary | 10 | 3 |
| Investment bank | 39 | 13 | CFO or senior financial officer | 4 | 1 |
| Bank | 11 | 3 | Business development manager | 21 | 7 |
| Listed company | 12 | 3 | Fund manager | 4 | 1 |
| Accounting firm | 3 | 1 | Chief counsel/other legal | 15 | 5 |
| Law firm | 11 | 3 | Compliance head/other compliance | 31 | 10 |
| HKEx | 20 | 6 | LegCo aides | 3 | 1 |
| Investor/investor advocate/academic | 4 | 1 | HKEx employee | 16 | 5 |
| Financial media | 22 | 7 | Financial reporter or editor | 22 | 7 |
| LegCo | 5 | 2 | Other | 8 | 3 |
| Share registrar | 3 | 1 | | | |
| Other | 6 | 2 | | | |
| TOTAL | 303 | 100% | TOTAL | 303 | 100% |

* may not add up to 100 due to rounding

APPENDIX 2: PRINCIPAL SECOND STAGE SCORES

In the second stage of the survey, stakeholders were asked to give the SFC scores from zero (very poor) to ten (excellent) in a number of areas. This appendix summarises some of the main scores.

Overall effectiveness

The overall sample of stakeholders scored the SFC's overall effectiveness at 6.6, indicating that they felt there was room for improvement.

Stakeholders with experience of dealing with Hong Kong and other Asian regulators rated the SFC more highly (6.9) than those who had only dealt with Hong Kong regulators (6.4) and those who had dealt with regulators in other major financial centres, such as the USA and UK (6.6).

Perceptions are affected by the level of understanding of the SFC's activities

Stakeholders who had a high understanding of the SFC's activities evaluated the SFC's overall effectiveness more favourably (6.9) than those with a lower understanding of the SFC (6.1).

Key SFC programmes: performance scores and perceptions about their impact

| SFC Programmes | Overall performance score (0 to 10) | % Believing Positive SFC Impact on the Market | % Believing Positive SFC Impact on their Firm |
|--|--|--|--|
| Development of industry codes of practice | 6.8 | 82 | 60 |
| Intermediaries licensing & inspections | 6.9 | 82 | 63 |
| Collective investment schemes regulation | 6.9 | 86 | 65 |
| Supervision of HKEx | 6.2 | 88 | 88 |
| Regulating Takeovers | 6.6 | 82 | 58 |
| Investigatory processes & disciplinary actions | 6.0 | 74 | 55 |