

# Corporate Governance

We strive to promote transparency, accountability and integrity. Sound corporate governance is essential to ensure we carry out our regulatory functions properly and effectively.

## 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*, published by the Hong Kong Institute of Certified Public Accountants.

## Board

The SFC Board plays a key role in ensuring that we carry out our duties effectively by supervising and directing our work. It sets the SFC's overall direction, provides strategic guidance on policy making and oversees 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 113.

As of 31 March 2018, the Board comprised eight Non-Executive Directors (NEDs), including the Chairman; and six Executive Directors (EDs), including the Chief Executive Officer (CEO).

Coming from diverse backgrounds, NEDs bring to the Board a wide range of experience and expertise as well as a variety of independent perspectives.

See pages 16-23 for the full list of Board members and their biographies.

## Key components of our governance framework



### Chairman and CEO

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

#### 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 day-to-day operations of the SFC
- 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 play 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 and takeovers, corporate conduct, intermediaries, market infrastructure and operators, investment products and enforcement. The NEDs provide guidance on and monitor the performance of the organisation’s functions.

## Corporate Governance

### Governance practices

We strive to uphold high standards of corporate governance and establish clear and proper policies and processes to facilitate the working of an efficient and accountable Board through the following practices.

- Arrange for the Board to hold monthly meetings and quarterly policy meetings as well as special and off-site meetings.
- Provide Board members with relevant information before meetings to enable thorough consideration of agenda items.
- Circulate draft minutes of the Board meetings to members for comment.
- Furnish Board members with information regarding our operations and financial condition on a monthly basis.
- Keep the Board apprised of our policies and operations as appropriate.
- Require Board members to observe policies regarding conflicts of interest.

- Provide induction briefings as well as ongoing training on various topics to enable the NEDs to better understand the organisation and their responsibilities.

The Board regularly conducts a self-assessment exercise to improve its effectiveness. The exercise examines basic board responsibilities and assesses the performance of individual members. The findings, reported to the Board on an anonymous basis, are discussed by the Board.

The Commission Secretariat is tasked with ensuring good corporate governance. It supports the Board and senior management, assists them in dealing with organisation-wide policies and initiatives and facilitates Board proceedings according to relevant policies and procedures. It also liaises with Board members, organises their meetings and acts as the central contact point with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies. The Commission Secretary serves as the secretary to the Board, ExCo and Advisory Committee.

### Behind the scenes

The Commission Secretariat plays an essential but often invisible role in maintaining good corporate governance at the SFC.

As the bridge between the Board and the rest of the organisation, it ensures that the Board's decisions are effectively communicated to our staff for execution. The Board discusses strategic priorities, policy directions and other matters at its regular meetings and annual offsite retreat. Maintaining proper records of these discussions is an indispensable part of the Commission Secretariat's work.

Proper procedures are a prerequisite for effective governance, and another major duty of the Commission Secretariat is to serve as gatekeeper for our internal processes and ensure we operate within our remit as set out in the SFO. It handles complaints against the SFC or its staff and assists the Commission Secretary, who serves as the data privacy officer, in administering the SFC's data privacy policy.



It also follows up on our responses to the annual review reports of the Process Review Panel<sup>a</sup>.

More broadly, the Commission Secretariat keeps an eye on emerging and sensitive issues, providing advice and proposing appropriate responses to the Chairman and the CEO. In managing our communications with the Government and LegCo, it is on the frontline of our efforts to align our priorities with the development of Hong Kong as a leading international financial centre.

<sup>a</sup> See Committees, panels and tribunal on pages 170-178.

## Board appointments

During the year, Mr Ashley Alder was re-appointed as the CEO for a three-year term with effect from 1 October 2017. Ms Julia Leung was re-appointed as ED of Intermediaries with an additional role of Deputy Chief Executive Officer for three years effective 2 March 2018.

Three NEDs were re-appointed for two-year terms: Mr Albert Au (from 26 May 2017), Ms Mary Ma and Mr Lester Huang (both from 15 November 2017).

## Board meetings

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

Last year, 16 Board meetings were held with an average attendance rate of 84%.

## Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
<b>Chairman</b>						
Carlson Tong	16/16	–	–	4/4	2/3	–
<b>Executive Directors</b>						
Ashley Alder	13/16	–	1/1	1/4	–	21/22
Thomas Atkinson	13/16	–	–	–	–	19/22
Christina Choi	14/16	–	–	–	–	20/22
Brian Ho	15/16	–	–	–	–	18/22
Julia Leung	15/16	–	1/1	–	–	20/22
Keith Lui	15/16	–	–	3/4	–	22/22
<b>Non-Executive Directors</b>						
Albert Au	11/16	2/2	1/1	3/4	2/3	–
Edward Cheng	13/16	–	–	–	2/3	–
Lester Huang	15/16	–	1/1	–	3/3	–
Teresa Ko	10/16	2/2	1/1	–	2/3	–
Mary Ma	13/16	2/2	1/1	4/4	3/3	–
Kelvin Wong	14/16	2/2	–	4/4	2/3	–
William Wong	12/16	2/2	–	–	3/3	–
<b>Senior Director and Chief Counsel</b>						
Andrew Wan	–	–	–	4/4	–	21/22
Andrew Young	–	–	–	–	–	19/22

### Board members

#### Carlson TONG SBS, JP

Chairman



From 20 October 2012  
Current appointment expires  
on 19 October 2018

#### Other SFC-related positions

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

#### Current offices and public service

- Chairman, University Grants Committee
- Member, Financial Leaders Forum, the HKSAR Government
- Board Member, Airport Authority Hong Kong
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Banking Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR

#### Past offices and public service

- Chairman, Hong Kong Sports Institute Limited (2012-2017)
- Chairman, English Schools Foundation (2011-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2007-2013)
- KPMG: Chairman, KPMG China (2007-2011); Chairman, KPMG Asia Pacific and Member, KPMG Global Board (2009-2011)
- Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited: Chairman (2006-2008), Member (2002-2006)

#### Ashley ALDER JP

Chief Executive Officer



From 1 October 2011  
Current appointment expires  
on 30 September 2020

#### 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 May 2016); Vice-Chairman (Dec 2015-May 2016)
- 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)

Notes: Except for the Chairman, CEO and Deputy CEO, other board members are listed in alphabetical order. The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 170-178 for information about SFC external committees.

**Julia LEUNG SBS**

Deputy Chief Executive Officer and Executive Director, Intermediaries



From 2 March 2015  
Current appointment expires on 1 March 2021

**Other SFC-related positions**

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

**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)

**Publication**

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

**Thomas ATKINSON**

Executive Director, Enforcement



From 3 May 2016  
Current appointment expires on 2 May 2019

**Other SFC-related positions**

- Member: Securities Compensation Fund Committee, Investor Compensation Fund Committee and SFC (HKEC Listing) 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)

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### Albert AU BBS

Non-Executive Director



From 26 May 2015  
Current appointment expires  
on 25 May 2019

#### Other SFC-related positions

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

#### Current offices and public service

- Special Advisor, BDO Limited
- Chairman, Professional Services Advisory Committee, Hong Kong Trade Development Council
- Café de Coral Holdings Limited: Independent Non-Executive Director and Chairman of Audit Committee
- Independent Non-Executive Director, Hong Kong International Theme Parks Limited
- Independent Non-Executive Director, AAC Technologies Holdings Inc.

#### Past public service

- Vice Chairman (2012-2018); Board Director & Hon. Treasury (2008-2012), Hong Kong Coalition of Professional Services Limited
- Corruption Prevention Advisory Committee, Independent Commission Against Corruption: Chairman (2012-2017) and Member (2007-2011)
- Member, Advisory Committee on Corruption, Independent Commission Against Corruption (2012-2017)
- Member, Hong Kong Housing Authority (2011-2017)
- Hong Kong Productivity Council: Council Member and Chairman of Audit Committee (2010-2015)
- Member, Air Transport Licensing Authority (2007-2013)
- Member, General Committee, Federation of Hong Kong Industries (2007-2013)
- President, Hong Kong Institute of Certified Public Accountants (2008)



**Edward CHENG** SBS, JP

Non-Executive Director



From 1 January 2017  
Current appointment expires  
on 31 December 2018

**Other SFC-related positions**

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

**Current offices and public service**

- Deputy Chairman and Chief Executive, Wing Tai Properties Limited
- Chairman, Lanson Place Hospitality Management Limited
- Member, Chief Executive's Council of Advisers on Innovation and Strategic Development
- Independent Non-Executive Director, Orient Overseas (International) Limited
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited

**Past SFC-related positions**

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

**Past 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, Operations Review Committee, Independent Commission Against Corruption (1997-2013)
- Member, Advisory Committee on Corruption, Independent Commission Against Corruption (2004-2009)
- Member, Steering Committee on Innovation and Technology (2004-2008)
- 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)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)

**Christina CHOI**Executive Director,  
Investment Products

From 1 August 2016  
Current appointment expires  
on 31 July 2019

**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**

- Member, Financial Services Advisory Committee, Hong Kong Trade Development Council
- Member, Asian Financial Forum Steering Committee, Hong Kong Trade Development Council

**Past SFC position**

- Senior Director, Investment Products (2012-2016)

**Past offices**

- Partner, Clifford Chance (2001-2004)



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### Brian HO

Executive Director,  
Corporate Finance



From 28 August 2006  
Current appointment expires  
on 27 August 2018

#### Other SFC-related positions

- Chairman, Public Shareholders Group
- Member: Committee on Real Estate Investment Trusts and Nominations Committee

#### Public service

- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited

#### Past SFC position

- Senior Director, Corporate Finance (2000-2006)

### Lester HUANG JP

Non-Executive Director



From 15 November 2015  
Current appointment expires  
on 14 November 2019

#### Other SFC-related positions

- Deputy Chairman, Remuneration Committee
- Member, Budget Committee
- Member, SFC (HKEC Listing) Appeals Committee

#### Current offices and public service

- P.C. Woo & Co: Managing Partner and Co-Chairman
- Member, Hospital Authority
- President, The Hong Kong Federation of Youth Groups
- Fellow, Hong Kong Institute of Directors
- Chairman, Council of the City University of Hong Kong
- Chairman, Standing Committee on Language Education and Research

#### Past public service

- Chairman, Board of Advisors of Radio Television Hong Kong (2010-2016)
- Non-Executive Director, Urban Renewal Authority Board (2013-2016)
- Director, The Hong Kong Mortgage Corporation Limited (2009-2016)
- President, The Law Society of Hong Kong (2007-2009)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2010-2015)

**Teresa KO JP**

Non-Executive Director



From 1 August 2012  
Current appointment expires  
on 31 July 2018

**Other SFC-related positions**

- Deputy Chairman, Takeovers and Mergers Panel
- Member: Audit Committee, Budget Committee and Remuneration Committee
- Member: Investor Compensation Fund Committee, Nominations Committee, Securities Compensation Fund Committee, SFC (HKEC Listing) Appeals Committee and Takeovers Appeal Committee
- Chairman, Investor Compensation Company Limited

**Current offices and public service**

- Freshfields Bruckhaus Deringer: China Chairman and Partner
- Chairman, Standing Committee on Disciplined Services Salaries and Conditions of Service
- Trustee, IFRS Foundation

**Past public service**

- Council Member, The Hong Kong University of Science and Technology (2013-2016)
- Member, Expert Advisory Committee for Mergers and Acquisitions, China Securities Regulatory Commission (2012-2016)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Disciplined Services Salaries and Conditions of Services (2011-2013)
- Listing Committee, The Stock Exchange of Hong Kong Limited: Chairman (2009-2012); Deputy Chairman (2006-2009)
- Member, Standing Committee on Company Law Reform (2005-2011)
- Independent Director, Travel Industry Council of Hong Kong (2005-2010)

**Keith LUI**

Executive Director,  
Supervision of Markets



From 28 August 2006  
Current appointment expires  
on 27 August 2018

**Other SFC-related positions**

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

**Public service**

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

**Past SFC positions**

- Senior Director, Supervision of Markets (2004-2006)
- Senior Director, Corporate Affairs (2002-2004)
- Commission Secretary (2001-2004)

### Mary MA

Non-Executive Director



From 15 November 2013  
Current appointment expires  
on 14 November 2019

#### Other SFC-related positions

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

#### Current offices

- Managing Partner, Boyu Capital
- Independent Non-Executive Director, Lenovo Group Limited
- Non-Executive Director: Unilever PLC and Unilever N.V.

#### Past offices and public service

- Non-Executive Director, Stelux Holdings International Limited (2012-2016)
- Non-Executive Director, Wumart Stores (2010-2014)
- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2009-2013)
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited (2004-2013)
- Non-Executive Director, Daphne International Holdings Limited (2009-2011)
- Partner, TPG Capital and Co-Chairman, TPG China (2007-2011)
- Director, Shenzhen Development Bank (2007-2010)
- Member, Dean's Council of the Kennedy School of Harvard University (2002-2007)
- Senior Vice President and Chief Financial Officer, Lenovo Group Limited (1990-2007)
- Director, Bureau of International Co-operation, Chinese Academy of Sciences (1978-1990)

### Dr Kelvin WONG JP

Non-Executive Director



From 20 October 2012  
Current appointment expires  
on 19 October 2018

#### Other SFC-related positions

- Deputy Chairman: Audit Committee and Investment Committee
- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee
- Chairman, Investor Education Centre

#### Current offices and public service

- COSCO SHIPPING Ports Limited: Executive Director and Deputy Managing Director
- Immediate Past Council Chairman, The Hong Kong Institute of Directors
- Member, Financial Reporting Council
- Member, Operations Review Committee, Independent Commission Against Corruption

#### Past offices and public service

- Council Chairman, The Hong Kong Institute of Directors (2009-2014)
- Convenor-cum-Member, Financial Reporting Review Panel (2013-2016)
- Member, Standing Committee on Company Law Reform (2010-2016)
- Member, Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited (2007-2013)

**Dr William WONG sc**

Non-Executive Director



From 1 August 2014  
Current appointment expires  
on 31 July 2018

**Other SFC-related positions**

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

**Current offices and public service**

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Deputy Chairman, Private Columbaria Appeal Board
- Deputy Chairman, Municipal Services Appeal Board
- Deputy Chairman, The Board of Review (Inland Revenue Ordinance)
- Panel Member, Insurance Appeals Tribunal
- Chairman, Hong Kong Bar Association Special Committee on Arbitration
- Chairman, Hong Kong Bar Association Special Committee on International Law
- Vice Chairman, Hong Kong Bar Association Special Committee on China Practice Development
- Vice Chairman, Hong Kong Bar Association Special Committee on Barristers Qualification Examination
- Member, Hong Kong Bar Association Special Committee on Greater China Affairs
- Trustee, Board of Trustees, United College, The Chinese University of Hong Kong
- Director, The Hong Kong Middle Temple Society

**Past public service**

- Member, Hong Kong Bar Association Special Committee on Solicitors' Rights of Audience (1998-2000)

## Corporate Governance

### SFC committees

#### Board committees

We have four board committees, each chaired by an NED and with a focus on clearly-defined areas of the SFC's operations. The presence and active participation of the NEDs provide an effective check and balance on the SFC's management decisions.

Committee	Membership	Responsibilities	Meetings
Audit Committee	Five 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>	4
Remuneration Committee	Eight 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>	3

<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 organisation who reflect the diverse views of market participants. They play important roles 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 a specific area such as market supervision, investment products, shareholders' rights and interests, listings, takeovers and mergers, and the compensation fund. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 15 regulatory committees as at the end of March 2018.

See pages 170-178 for the external committees' responsibilities and membership lists.

## Executive Committee

ExCo is the highest executive body within the organisation. It 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 funding requests from different divisions of the organisation. During the year, 22 ExCo meetings were held with an average attendance rate of 91%.

## Standards of conduct

As a regulator, we require a high standard of integrity and conduct from our staff to promote and maintain public confidence. 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. 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

We have a system of delegation of authority to clearly delineate the authority of the Board and different levels of the executive management. The Board delegates certain 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

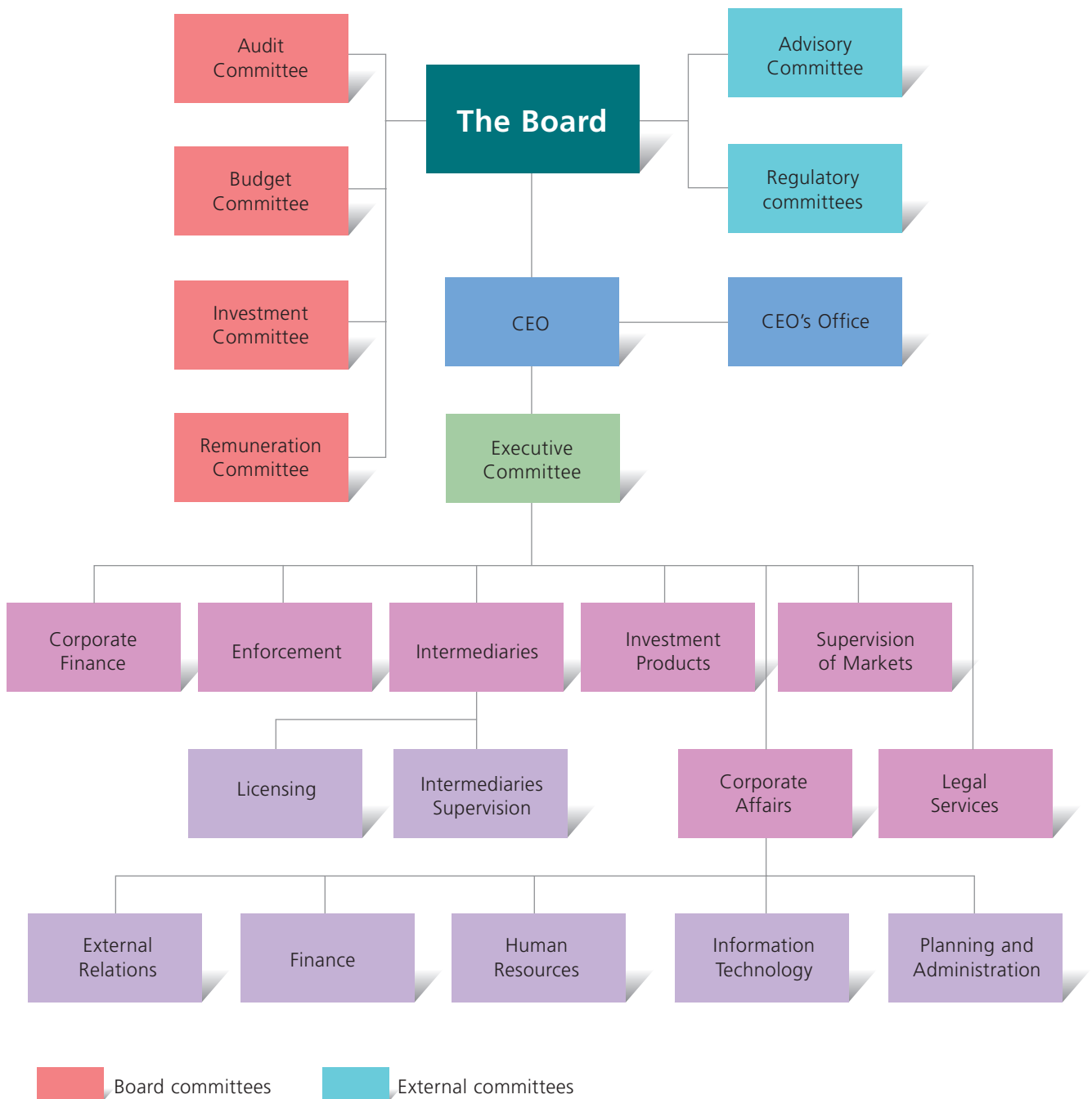
To maintain effective fiscal control and to plan for the coming year and beyond, we follow a disciplined approach in preparing our budget, which is based on a policy of tightly controlling expenditures. We make prudent assumptions, exercise robust financial control and identify areas where resources could be deployed to meet the SFC's strategic objectives, priorities and operational needs. Divisions' spending requests for the following year are critically assessed during the budget process. 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 the 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 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 performance including their compliance with the investment guidelines. The external managers have confirmed that they adopt the Principles of Responsible Ownership<sup>1</sup> in their undertakings to manage these investments.

<sup>1</sup> Issued by the SFC in March 2016, these principles, which are voluntary, aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies.

Organisational structure



Note: CEO's Office includes four units, namely the Commission Secretariat, International Affairs, Mainland Affairs and Press Office.



## Financial control and reporting

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

We voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports, and adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information. We follow good market practice to ensure that 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
- Attending meetings at LegCo, including meetings of the Panel on Financial Affairs, to explain policy initiatives and other issues of public interest

## 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 and space requirements to ensure that we operate efficiently, identify our needs and strategic priorities, and allocate resources accordingly.

To formulate effective regulatory responses in the context of rapidly-evolving markets, we set up cross-divisional project teams to work on policies or initiatives related to the work of multiple divisions.

## Stakeholder communication

We engage a wide range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a proactive, timely and effective manner<sup>2</sup>.

We respond to public enquiries orally and in writing while striving to meet our performance pledges. We conduct public consultations and publish consultation conclusions before implementing a rule change. Annual and quarterly reports keep the public informed of our key regulatory work and finances. We issue industry-related publications, reports and surveys to address more specialised topics. Press releases announce our regulatory actions and other SFC news.

We also reach out to stakeholders to explain and clarify our policies and procedures and we discuss specific regulatory issues at seminars and other events.

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.

<sup>2</sup> See Stakeholder communication on pages 73-79.

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We emphasise effective internal communication within the organisation. Besides 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 informed of the latest developments and current priorities.

In October 2017, a staff member from External Relations, Corporate Affairs received The Ombudsman's Awards 2017 for Officers of Public Organisations<sup>3</sup>.

### Risks

In a dynamic market environment, it is paramount for us to timely and systematically identify, assess and manage external and internal risks to perform our regulatory functions effectively.

#### 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 when a crisis arises.

A cross-divisional Risk Review Group was set up during the year to establish a structured process to monitor potential and emerging risks facing the SFC and gather market intelligence<sup>4</sup>. The group regularly reports to ExCo, and in turn to the Board.

#### Internal risks and control

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

Our financial control policies and procedures define the scope and responsibility of the administrative, financial and management functions, including the appointment of consultants, fee collection, investments, expenditures

and budgeting. These policies and procedures are designed to ensure accountability and transparency and to conform to rigorous controls on the use of public funds. Periodically, we conduct a holistic review to ensure they are current, practical and robust.

In addition, an annual financial control review conducted by an independent external firm includes a risk-based review of our internal controls to assess our adherence to them and to evaluate and enhance their adequacy. The scope of each review is approved by the Audit Committee and the findings, together with recommendations, are submitted to ExCo for consideration and reported back to the Audit Committee. This year, the review covered specific areas including banking and investment procedures as well as information technology security, financial reporting and staff benefits, and led to subsequent revisions to related policies and procedures.

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.
- Office access controls safeguard against unauthorised entry to our premises.
- A data privacy policy to facilitate staff's compliance with the Personal Data (Privacy) Ordinance.

<sup>3</sup> See Stakeholder communication on pages 73-79.

<sup>4</sup> See Risk assessment on page 68.

## 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
<p><b>Process Review Panel</b></p> <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 62 cases and published its annual report in October 2017</li> </ul>
<p><b>Securities and Futures Appeals Tribunal</b></p> <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</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 four new cases</li> <li>Decided on one case brought forward from 2015-16</li> <li>Allowed two cases received in 2017-18 to be withdrawn</li> </ul>
<p><b>The Ombudsman</b></p>	<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 eight preliminary inquiries</li> </ul>
<p><b>Courts</b></p>	<ul style="list-style-type: none"> <li>Handle judicial reviews of SFC decisions</li> </ul>	<ul style="list-style-type: none"> <li>Handled seven judicial review cases</li> </ul>

## Performance pledges

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

		Cases meeting the pledge		
		2017/18	2016/17	2015/16
<b>Applications for subordinated loan or modification/waiver of requirements under SFO</b>				
Commence review of application upon receipt	2 business days	100%	100%	95%
<b>Authorisation of investment products<sup>1</sup></b>				
Take-up of applications upon receipt	5 or 2 business days <sup>2</sup>	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes (ILAS) and paper gold schemes	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
<b>Enquiries</b>				
Preliminary replies	5 business days	100%	100%	100%
<b>Processing of licensing applications<sup>3</sup></b>				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	100%	100%	100%
Representatives (normal licences)	8 weeks	100%	100%	100%
Representatives (responsible officers)	10 weeks	99% <sup>4</sup>	100%	99%
Transfer of accreditation	7 business days	97% <sup>4</sup>	97%	98%
<b>Complaints against intermediaries and market activities</b>				
Preliminary response	2 weeks	99.8% <sup>5</sup>	99.7%	99.9%

<sup>1</sup> Different performance pledges were applicable before the implementation of the revamped fund authorisation process on 9 November 2015.

<sup>2</sup> The pledge of five business days is applicable to the following products:

- Unit trusts and mutual funds (including eligible Mainland funds seeking authorisation under the Mutual Recognition of Funds (MRF) arrangement between the Mainland and Hong Kong with effect from 9 May 2016)
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds

The pledge of two business days is applicable to other products including MRF funds (prior to 9 May 2016), ILAS, paper gold schemes and real estate investment trusts.

<sup>3</sup> During the year, we processed 15,913 applications that were subject to performance pledges, 13,602 of which were processed within the applicable period. The completion of the vast majority of the remaining 2,311 applications was delayed for reasons beyond our control (eg, unresolved fitness and properness issues, outstanding vetting requests, applicants failing to provide essential information, requests by applicants that we delay finalising their applications). To more accurately reflect our performance, these applications are not included in the percentages stated.

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

<sup>5</sup> Five cases failed to meet the pledge.

Since 2017, performance pledges for our work on takeovers and mergers matters are published on our corporate website. During the year, 99.9% 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>	
<i>Applications for rulings and consultations with the Executive</i>	
– 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>	
<i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i>	
– No complex Code issues involved	2 business days
– Complex Code issues involved	3 business days <sup>8</sup>
<i>All other announcements (including revised drafts)</i>	
– No complex Code issues involved	1 business day
– Complex Code issues involved	3 business days <sup>8</sup>
<i>All drafts of shareholders' documents<sup>9</sup></i>	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.