

Global regulatory engagement

We actively participate in global regulatory policymaking through our involvement in international standard-setting bodies and our engagement with overseas counterparts.

IOSCO

We play an active role in the International Organization of Securities Commissions (IOSCO) which develops, implements and promotes adherence to internationally-recognised standards for securities regulation. Since our Chief Executive Officer Mr Ashley Alder was appointed as Chairman of the IOSCO Board¹ in May 2016, we worked closely with the IOSCO Secretariat to enhance the relevance of IOSCO's work to the Board and the wider membership as well as to coordinate the policy work of IOSCO and the Financial Stability Board (FSB).

This year, the IOSCO Board discussed a wide range of issues including market conduct, initial coin offerings (ICOs), cybersecurity, financial technologies (Fintech), sustainability reporting, the European Union (EU) Data Privacy Regulation, asset management and the use of behavioural insights in retail investor protection. In May 2018, Mr Alder was reappointed as Chairman of the IOSCO Board for a two-year term.

- In June 2017, the IOSCO Task Force on Market Conduct, also chaired by Mr Alder, issued its final report on the tools and approaches used by IOSCO members to discourage, identify, prevent and sanction misconduct by individuals in wholesale markets.
- In January 2018, the IOSCO Board issued a public statement highlighting the risks related to ICOs. We also participated in IOSCO's ICO Consultation Network and the IOSCO Working Group on Data Analytics.

The SFC is represented in all eight IOSCO policy committees, the Assessment Committee, the Committee on Emerging Risks and all key task forces and working groups.

- During the year, a Director of Intermediaries Supervision joined the Committee on Regulation



IOSCO Board meeting in Madrid

of Market Intermediaries which discussed retail over-the-counter (OTC) leveraged products and conflicts of interest during the capital-raising process.

- As a member of the Committee on Investment Management, we take part in initiatives including formulating and publishing IOSCO's recommendations and good practices to improve liquidity risk management for collective investment schemes. We also chair a new workstream on exchange-traded funds to identify key issues and risks which may require IOSCO's further oversight or action.
- We actively participate in the Committee on Enforcement and the Exchange of Information and the Multilateral Memorandum of Understanding Screening Group, which aims to prevent and detect breaches of securities laws and regulations in global financial markets. We also undertake a number of initiatives to support the implementation of the Enhanced MMoU² to foster greater cross-border enforcement cooperation and assistance among securities regulators.

Mr Alder co-chairs the Committee on Payments and Market Infrastructures (CPMI) – IOSCO Steering Group, which coordinates regulatory policy work, including oversight and supervision, related to central counterparties and the monitoring of the implementation of the Principles for Financial Market Infrastructures³.

¹ IOSCO's governing and standard-setting body.

² The Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, established in 2017, provides a mechanism for sharing investigative material and providing assistance with respect to alleged misconduct.

³ These are the international standards issued by IOSCO and the CPMI for financial market infrastructures to strengthen financial stability.

Global regulatory engagement

Financial Stability Board

As an active participant in the work of the FSB, we maintain close collaboration with the Hong Kong Monetary Authority, Insurance Authority and the Government of the Hong Kong Special Administrative Region (HKSAR) on FSB initiatives related to the securities sector.

- As Chairman of the IOSCO Board, Mr Alder is a member of the FSB's Plenary and its Steering Committee, which focus on monitoring the progress of the Group of Twenty (G20) reforms including those related to cybersecurity, misconduct risks and market-based finance. We also sit on the FSB's Standing Committee on Standards Implementation (SCSI) and participate in its Implementation Monitoring Network, which considers the effects of the G20 reforms.
- To ensure the views of Asian markets and securities regulators are reflected in policy recommendations, we are a member of the FSB Regional Consultative Group for Asia, to which we contribute views on policy from Hong Kong's perspective.
- During the year, we participated in various FSB workstreams and exercises, including the *Global Shadow Banking Monitoring Report 2017* and surveys on financial stability and cybersecurity and crypto-assets. We took part in the FSB Working Group on Governance Frameworks which focuses on mapping the responsibilities of senior management to mitigate misconduct risk. We also participated in the FSB Cyber Lexicon Working Group to foster a common understanding of cybersecurity terminology across the financial sector.
- We are a member of the FSB's Workstream on Other Shadow Banking Entities, contributing to the implementation of the FSB's January 2017 recommendations to address vulnerabilities in asset management activities, including liquidity mismatches between fund investments and the redemption terms and conditions for open-ended fund units, and leverage within investment funds.
- Together with the HKSAR Government and other Hong Kong financial regulators, we responded to a peer review conducted by the SCSI covering Hong Kong's implementation of OTC derivatives market reforms and its resolution framework for financial institutions. Published in February 2018, the peer review noted that Hong Kong made good progress in both areas.

Mainland China

We work closely with Mainland authorities to support Hong Kong's long-term strategic development as Mainland financial markets continue to open up. We regularly hold high-level discussions with the China Securities Regulatory Commission (CSRC) on Stock Connect, cross-boundary enforcement and supervisory cooperation. Working groups were established to follow up on various cooperation initiatives. We also discussed regulatory updates and supervisory cooperation with the China Banking Regulatory Commission⁴.

In November 2017, together with the Financial Secretary Mr Paul Chan and Secretary for Financial Services and the Treasury Bureau Mr James Lau, our Chairman Mr Carlson Tong met with CSRC Chairman Mr Liu Shiyu in Beijing to discuss the development of Hong Kong's financial markets and regulatory cooperation with the Mainland.



High-level meeting with the CSRC in September 2017

⁴ The China Banking Regulatory Commission and the China Insurance Regulatory Commission were merged in April 2018 to form the China Banking and Insurance Regulatory Commission.

In the same month, we reached an agreement with the CSRC on proposals to introduce an investor identification regime for northbound trading under Stock Connect. We entered into a memorandum of understanding (MoU) in December 2017 on supervisory and enforcement cooperation on matters concerning futures. We also met with the CSRC to exchange information on Hong Kong brokers' preparedness to trade products listed on the Shanghai International Energy Exchange.

This year saw the launch of Bond Connect, the increase of the daily quotas under Stock Connect⁵ and the expansion of Hong Kong's Renminbi Qualified Foreign Institutional Investor investment quota⁶ following our high-level discussions with Mainland authorities.



SFC-CSRC enforcement cooperation meeting

Enforcement cooperation with the Mainland

We strengthened our collaboration with the CSRC following the introduction of new programmes providing for mutual market access between Hong Kong and the Mainland. Prior to the launch of Shanghai-Hong Kong Stock Connect, we established an enforcement cooperation mechanism^a which enables the exchange of information and intelligence with Mainland regulators. Since then, we collaborated extensively with the CSRC on cross-boundary enforcement to ensure orderly market operations and investor protection in both markets.

In December 2017, we held the fifth regular SFC-CSRC high-level meeting on enforcement cooperation, including investigations of major cases, as well as ways to enhance the implementation of the Stock Connect MoU and make cross-boundary enforcement cooperation more efficient. Other topics on the agenda were information notifications, evidence handling, staff exchanges and joint training.

^a In October 2014, the SFC and the CSRC signed an MoU on strengthening cross-boundary regulatory and enforcement cooperation under Shanghai-Hong Kong Stock Connect.

We engaged in discussions with Mainland authorities to formulate new Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) measures⁷ relating to the securities sector. These included enhancing the mechanism for closer financial cooperation and cross-boundary renminbi fund flows, expanding the scope of eligible securities under Stock Connect, assessing the progress of the Mainland-Hong Kong Mutual Recognition of Funds scheme as well as supporting the development of offshore risk management business. During the year, the CSRC granted approval for two Hong Kong financial institutions to set up multi-licensed joint venture securities companies on the Mainland.

We actively support the HKSAR Government in strengthening Hong Kong's cooperative relationship with Guangdong, Beijing, Shanghai and other regions to facilitate access to the Mainland market by Hong Kong's financial services sector.

We organised five training programmes and seminars for senior executives from Mainland authorities and organisations to enhance their understanding of our regulatory work. In December 2017, the SFC and the CSRC co-organised a case study training session in Xiamen where both regulators and the US Securities and Exchange Commission shared their experience in investigating breaches of disclosure rules, fraudulent offerings and market manipulation.

⁵ The new daily quotas are RMB52 billion for each of the northbound trading links and RMB42 billion for each of the southbound trading links with effect from 1 May 2018.

⁶ The quota was increased from RMB270 billion to RMB500 billion on 4 July 2017.

⁷ Two new CEPA agreements – the Investment Agreement and the Agreement on Economic and Technical Cooperation – were signed between the HKSAR Government and the Mainland's Ministry of Commerce on 28 June 2017 and implemented on 1 January 2018.

Global regulatory engagement



Fintech cooperation agreement with FINMA

Bilateral agreements

We collaborate with overseas counterparts to keep abreast of emerging regulatory issues. During the year, we signed separate Fintech cooperation agreements with the UK Financial Conduct Authority (FCA), Australian Securities and Investments Commission, Dubai Financial Services Authority, Securities Commission Malaysia and the Swiss Financial Market Supervisory Authority (FINMA).

In July 2017, we entered into an MoU with the UK FCA providing for consultation, cooperation and information exchange in the supervision of regulated entities which operate on a cross-border basis in Hong Kong and the UK.

We signed an MoU with Autorité des Marchés Financiers in the same month to allow eligible French and Hong Kong public funds to be distributed in each other's market through a streamlined vetting process.

In November 2017, we attended the ninth MoU meeting with the Taiwan Financial Supervisory Commission to discuss topics including anti-money laundering and Fintech regulation.

Other engagement

In December 2017, we hosted the second EU-Asia Pacific Forum on Financial Regulation, co-chaired by Mr Alder, in Hong Kong. Regulators from the EU and the Asia-Pacific region discussed the cross-border regulatory implications of EU regulations, sustainable finance, Fintech, asset management and fund passporting.

Effective 18 August 2017, Mr Tong and Mr Alder were appointed members of the Financial Leaders Forum for a two-year term. Set up by the HKSAR Government, the forum provides a platform to discuss strategic and forward-looking proposals to strengthen Hong Kong's position as an international financial centre.

We maintained regular dialogues with overseas regulators including the Swiss FINMA and the US Federal Reserve to share intelligence and updates on the supervision of global financial institutions. We also participated in regional supervisory colleges to discuss the oversight of global investment banks with our regulatory counterparts.

In August 2017, we entered into an MoU with the Hong Kong Police to formalise and strengthen cooperation in combating financial crime. The MoU covers case referrals, joint investigations, investigative assistance and the exchange and use of information, and establishes a framework for closer collaboration on policy, operational and training issues.

We handle investigatory requests from and send requests to overseas regulators under various cooperative arrangements⁸.

Requests for regulatory cooperation

	2017/18		2016/17		2015/16	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	136	104	155	112	92	160
Licensing-related requests for assistance	112	1,178	125	1,101	124	1,104

⁸ Including the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information which was established in 2002.