

Corporate Governance

As a statutory regulator, we strive to demonstrate the importance of transparency, integrity and public accountability in everything we do. Sound corporate governance helps ensure we deliver on our public mission in an efficient, fair and ethical manner.



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

By supervising and directing our work, the SFC Board plays a key role in ensuring that we carry out our duties effectively. 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 116.

As of 31 March 2020, 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, our NEDs bring to the Board a wide range of experience and expertise as well as a variety of independent perspectives. Collectively, the Board contributes to the development of the SFC's policies by providing constructive strategic comments.

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

Chairman and CEO

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

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 the SFC's day-to-day operations
- 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 and Non-Executive Directors

The roles of our EDs and NEDs are different but complementary. 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, supervision of intermediaries, licensing, market infrastructure, investment products and enforcement. The NEDs provide guidance on and monitor the performance of the organisation's functions.

Governance practices

We uphold high standards of corporate governance and put in place clear and proper policies and processes to facilitate the working of an efficient and accountable Board. We adopt the following practices:

- Arrange for the Board to hold monthly meetings and annual off-site meeting as well as special and policy meetings

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- Provide Board members with papers and relevant information sufficiently in advance to enable thorough consideration of agenda items
- Circulate draft minutes of 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 sessions and briefings on various topics to enable the NEDs to better understand the organisation and their responsibilities

In addition to regular Board meetings, we provided regular information updates during the year to keep Board members informed of the SFC's work, its impact on the markets and our interaction with stakeholders.

The Board regularly conducts a self-assessment exercise which 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 and help improve its effectiveness.

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.

Board appointments

During the year, Mr Rico Leung Chung-yin was appointed as ED for a three-year term effective from 28 August 2019. He succeeded Mr Keith Lui Kei-kwong.

Mr Nicky Lo Kar-chun and Mr Clement Chan Kam-wing were appointed as NEDs for two-year terms effective from 24 April 2019 and 26 May 2019 respectively.

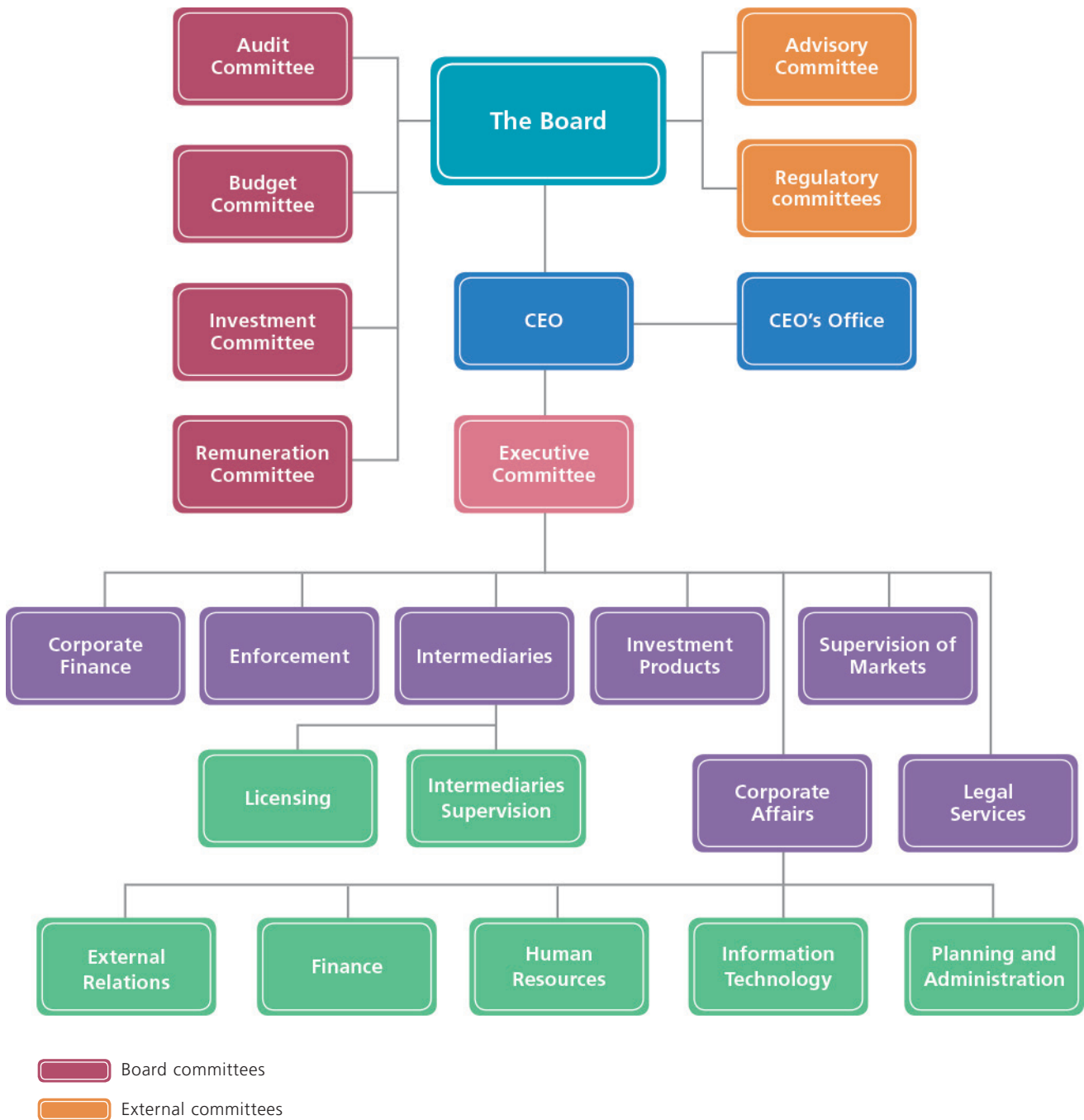
Mr Lester Garson Huang was reappointed as NED for two years, effective from 15 November 2019. Mr Thomas Atkinson and Ms Christina Choi Fung-ye were reappointed as EDs for three years effective from 3 May 2019 and 1 August 2019 respectively.

Ms Mary Ma Xuezheng and Mr Albert Au Siu-cheung stepped down as NEDs.

Key components of our governance framework



Organisational structure



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

Board members



Tim LUI Tim-leung SBS, JP
Chairman

From 20 October 2018
Current appointment to
19 October 2021

Other SFC-related positions

- Chairman: Investment Committee and Advisory Committee
- Deputy Chairman, Audit 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, Education Commission
- Member, Financial Leaders Forum, the HKSAR Government
- Member: Banking Advisory Committee and Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Public Service Commission
- Director, Academy of Finance
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Member, Institute of Chartered Accountants in England and Wales

Past offices and public service

- Member, University Grants Committee (2008-2019)
- Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- Chairman, Committee on Self-financing Post-secondary Education (2012-2017)
- Chairman, Self-financing Post-secondary Education Fund Steering Committee (2011-2017)
- Chairman, Standing Commission on Directorate Salaries and Conditions of Service (2009-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2001-2007)
- Chairman, Joint Committee on Student Finance (1995-2005)
- President, Hong Kong Institute of Certified Public Accountants (1996-1997)



Ashley ALDER JP
Chief Executive Officer

From 1 October 2011
Current appointment to
30 September 2023

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 2016); Vice-Chairman (2015-2016)
- Member, Plenary and Steering Committee, Financial Stability Board
- 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)



**Julia LEUNG
Fung-yee SBS**

Deputy Chief Executive
Officer and Executive Director,
Intermediaries

From 2 March 2015
Current appointment to
1 March 2021

Other SFC-related positions

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

Current public service

- Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research
- Member, Advisory Committee, City Mental Health Alliance Hong Kong

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 to
2 May 2022

Other SFC-related positions

- Member: Investor Compensation Fund Committee and Securities Compensation Fund 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)

Notes: Except for the Chairman, CEO and Deputy CEO, other board members are listed in alphabetical order.

During the year, Ms Mary Ma Xuezheng and Mr Albert Au Siu-cheung served on the Board as NEDs until 23 April 2019 and 25 May 2019, respectively.



Agnes CHAN Sui-kuen
Non-Executive Director

From 20 Oct 2018
Current appointment to
19 Oct 2020

Other SFC-related positions

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

Current offices and public service

- Managing Partner, Hong Kong and Macau, Ernst & Young
- Hong Kong General Chamber of Commerce: Chairman, Financial and Treasury Services Committee; Member, General Committee
- Member, Users' Committee, Inland Revenue Department, the HKSAR Government
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute

Past public service

- Competition Commission: Member; Chairperson of Finance and Administration Committee (2013-2018)
- Member, Mandatory Provident Fund Schemes Appeal Board (2011-2017)
- Member, Environment and Conservation Fund Committee (2012-2016)
- Member, Telecommunications Users and Consumers Advisory Committee, Office of the Communications Authority (2012-2016)



**Clement CHAN
Kam-wing MH**
Non-Executive Director

From 26 May 2019
Current appointment to
25 May 2021

Other SFC-related positions

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

Current offices and public service

- Managing Director of Assurance, BDO Limited
- Non-Executive Director, Hong Kong Mortgage Corporation Limited
- Non-Executive Director, Zhuzhou CRRC Times Electric Co., Ltd.
- Financial Reporting Council: Honorary Advisor; Member, Corporate Communications Committee and Independent Audit Oversight Reform Committee
- Member, Audit Committee, Consumer Council
- Member, Audit Profession Reform Working Group, Hong Kong Institute of Certified Public Accountants
- Member, Independent Police Complaints Council
- Member, Solicitors Disciplinary Tribunal Panel
- Member, Audit Committee, Western Kowloon Cultural District Authority

Past public service

- Hong Kong Institute of Certified Public Accountants: President (2014); Chairman, Financial Reporting Standards Committee (2010-2014)
- Chairman, Australian Chamber of Commerce in Hong Kong (2007-2010)



**Edward CHENG
Wai-sun GBS, JP**

Non-Executive Director

From 1 January 2017

Current appointment to
31 December 2020

Other SFC-related positions

- Member: Budget Committee and Remuneration Committee
- Member: SFC (HKEX Listing) Appeals Committee, Takeovers and Mergers Panel and Takeovers Appeal Committee

Current offices and public service

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

Past SFC-related positions

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

Past offices and public service

- Chairman, University Grants Committee (2011-2015)
- Chairman, Urban Renewal Authority (2004-2007)
- Independent Non-Executive Director, Orient Overseas (International) Limited (2009-2018)
- Member, Commission on Strategic Development (2013-2017)
- Board Member, Airport Authority Hong Kong (2011-2017)
- Council Member, Hong Kong Polytechnic University (2006-2009)
- Independent Commission Against Corruption: Member, Advisory Committee on Corruption (2004-2009) and Operations Review Committee (1997-2003)
- Member, Steering Committee on Innovation and Technology (2004-2008)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)
- Co-chairman, SUNDAY Communications Limited (1999-2005)
- 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)

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Christina CHOI Fung-ye

Executive Director,
Investment Products

From 1 August 2016

Current appointment to
31 July 2022

Other SFC-related positions

- Chairman: Committee on Real Estate Investment Trusts and Products Advisory Committee
- Member: SFC (HKEC Listing) Committee

Public service

- Member: Financial Services Advisory Committee and 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)



Brian HO Yin-tung

Executive Director,
Corporate Finance

From 28 August 2006

Current appointment to
27 August 2021

Other SFC-related positions

- Chairman, Public Shareholders Group
- Member: Advisory Committee, 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 Garson
HUANG SBS, JP**

Non-Executive Director

From 15 November 2015
Current appointment to
14 November 2021

Other SFC-related positions

- Chairman, Investor and Financial Education Council
- Deputy Chairman: Budget Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Managing Partner and Co-Chairman, P. C. Woo & Co
- Ex-officio Member, Education Commission
- Chairman, Council of the City University of Hong Kong
- Chairman, Standing Committee on Language Education and Research
- Chairman, Social Welfare Advisory Committee
- Fellow, The Hong Kong Institute of Directors

Past public service

- President, The Hong Kong Federation of Youth Groups (2014-2018)
- Member, Hospital Authority (2012-2018)
- 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)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2010-2015)
- President, The Law Society of Hong Kong (2007-2009)



**Rico LEUNG
Chung-yin**

Executive Director,
Supervision of Markets

From 28 August 2019
Current appointment to
27 August 2022

Other SFC-related positions

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

Public service

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

Past SFC position

- Senior Director, Supervision of Markets (2008-2019)

Past offices

- Chief Operations Officer, HKFE Clearing Corporation Limited (1994-2000)

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Dr James C LIN
Non-Executive Director

From 1 August 2018
Current appointment to
31 July 2020

Other SFC-related positions

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

Current offices and public service

- Senior Partner, Davis Polk & Wardwell LLP
- Member, Process Review Panel, Insurance Authority
- Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants
- Member, Process Review Panel for Regulation of Mandatory Provident Fund Intermediaries
- Harvard Law School: Visiting Lecturer on Law; Member, Dean's Asia Leadership Council

Past public service

- Member, Appeal Panel (Housing) (2012-2018)
- Member, Securities and Futures Appeals Tribunal (2011-2017)



**Nicky LO
Kar-Chun SBS, JP**
Non-Executive Director

From 24 April 2019
Current appointment to
23 April 2021

Other SFC-related positions

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

Current offices and public service

- Director, Italade Technology Holdings
- Chairman, Governance Sub-committee, Hong Kong Monetary Authority
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority

Past public service

- Chairman, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR (2013-2019)
- Member, Advisory Committee on Post-service Employment of Civil Servants (2009-2013)
- Chairman, Standing Commission on Civil Service Salaries and Conditions of Service (2006-2012)
- Member, Public Service Commission (2006-2012)
- Member, Standing Commission on Directorate Salaries and Conditions of Service (2006-2012)
- Member, Standing Commission on Disciplined Services Salaries and Conditions of Service (2001-2006)

Past offices

- Chief Executive Officer, Synnex Distributions (China) Ltd (1987-2013)
- Chief Executive Officer, Synnex Technology International (HK) Ltd (1987-2013)
- Principal Assistant Secretary and Deputy Secretary for Trade and Industry, the Trade and Industry Branch of the Government Secretariat (1985-1987)
- Administrative Officer, the HKSAR Government (1974-1987)



**Dr William WONG
Ming-fung SC, JP**
Non-Executive Director

From 1 August 2014
Current appointment to
31 July 2020

Other SFC-related positions

- Chairman, Investor Compensation Company Limited
- Chairman, Remuneration Committee
- Member, Audit Committee
- Member: Investor Compensation Fund Committee, Securities Compensation Fund Committee and SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Hong Kong Bar Association: Chairman, Arbitration Committee; Vice Chairman, Special Committee on Barristers Qualification Examination
- Deputy Chairman, Private Columbaria Appeal Board
- Deputy Chairman, Municipal Services Appeals Board
- Deputy Chairman, The Board of Review (Inland Revenue Ordinance)
- Member, Advisory Committee on Promotion of Arbitration, Department of Justice
- Member, Criminal and Law Enforcement Injuries Compensation Board
- Member, Appeal Tribunal, Hong Kong Federation of Insurers
- Trustee, United College, The Chinese University of Hong Kong
- Director, Hong Kong Middle Temple Society

Note: The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 166-174 for information about SFC external committees.

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Board meetings

Regular Board meetings are held monthly. The Board also meets from time to time to conduct in-depth discussions of policy issues and convenes special meetings as needed. In addition, there is an annual off-site meeting which sets out strategic objectives and management priorities.

Last year, 14 Board meetings were held with an average attendance rate of 85%.

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Tim Lui Tim-leung	14/14	2/2 ¹	–	2/2	2/2	–
Executive Directors						
Ashley Alder	10/14	–	1/1	2/2	–	15/16
Julia Leung Fung-yee	14/14	–	0/1	1/1 ²	–	16/16
Thomas Atkinson	11/14	–	–	–	–	15/16
Christina Choi Fung-yee	12/14	–	–	–	–	15/16
Brian Ho Yin-tung	12/14	–	–	–	–	14/16
Rico Leung Chung-yin ³	8/8	–	–	–	–	10/10
Keith Lui Kei-kwong ⁴	6/6	–	–	1/1	–	6/6
Non-Executive Directors						
Albert Au Siu-cheung ⁵	2/3	1/1	–	–	–	–
Agnes Chan Sui-kuen	12/14	2/2 ⁶	1/1 ⁷	2/2	2/2	–
Clement Chan Kam-wing ⁸	10/11	1/1	–	–	2/2	–
Edward Cheng Wai-sun	11/14	–	1/1	–	1/2	–
Lester Garson Huang	12/14	–	1/1 ⁹	–	2/2	–
James C Lin	11/14	1/2	–	2/2 ¹⁰	0/2	–
Nicky Lo Kar-chun ¹¹	11/13	–	1/1	2/2	2/2	–
Mary Ma Xuezheng ¹²	1/1	–	–	–	–	–
William Wong Ming-fung, SC	9/14	1/2	–	–	2/2	–
Senior Director and Chief Counsel						
Andrew Wan Chi-yiu	–	–	–	2/2	–	14/16
Andrew Young	–	–	–	–	–	14/16

1 Appointed as Deputy Chairman of Audit Committee effective on 24 April 2019.

2 Appointed as a member of Investment Committee effective on 10 September 2019.

3 Appointed as a member of the Board and Executive Committee effective on 28 August 2019.

4 Appointment expired on 27 August 2019.

5 Appointment expired on 25 May 2019.

6 Appointed as Chairman of Audit Committee effective on 26 May 2019.

7 Appointed as Chairman of Budget Committee effective on 24 April 2019.

8 Appointed as a member of the Board, Audit Committee and Remuneration Committee effective on 26 May 2019.

9 Appointed as Deputy Chairman of Budget Committee effective on 26 May 2019.

10 Appointed as Deputy Chairman of Investment Committee effective on 24 April 2019.

11 Appointed as a member of the Board, Budget Committee, Investment Committee and Remuneration Committee effective on 24 April 2019.

12 Appointment expired on 23 April 2019.

SFC committees

Board committees

Each of our four board committees focuses on clearly-defined areas of the SFC's operations and is chaired by an NED. The presence and active participation of the NEDs provide effective checks and balances for our management decisions.

Committee	Membership	Responsibilities	Meetings
Audit Committee	Five NEDs	<ul style="list-style-type: none"> Reviews annual financial statements Recommends the appointment of external auditors Coordinates the scope of the external audit and reviews audit findings Examines management procedures to ensure effective financial and internal controls 	2
Budget Committee	Four NEDs and two EDs [^]	<ul style="list-style-type: none"> Examines and approves the parameters and bases used in the annual budget Conducts the mid-year budget review Reviews the annual budget and makes recommendations to the Board 	1
Investment Committee	Four NEDs, two EDs and a Senior Director [^]	<ul style="list-style-type: none"> Advises on the SFC's fund management policies, strategies and investment guidelines Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines Advises on investment risk management and asset allocation and monitors the performance of investments 	2
Remuneration Committee	Eight NEDs	<ul style="list-style-type: none"> Reviews the structure and level of staff remuneration Reviews trends in remuneration packages and recommends adjustments Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment 	2

[^] In a non-voting capacity.

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External committees

External committees are set up under the SFO and comprise a large number of members outside the SFC who reflect the diverse views of market participants. These committees play an important role 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 specific areas such as investment products, shareholders' rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2020.

See pages 166-174 for the responsibilities and membership lists of the external committees.

New Non-Executive Directors

Mr Clement Chan Kam-wing and Mr Nicky Lo Kar-Chun joined our Board as NEDs during the year. They reflect on their new roles.



Mr Clement Chan (left) and Mr Nicky Lo

Fairness and transparency

Mr Chan brings to the Board the specialised expertise he earned over more than three decades as an accounting professional. A former president of the Hong Kong Institute of Certified Public Accountants, he has been active in industry governance and standard setting both locally and internationally.

Mr Chan's experiences complement what he sees as our Board's most important function: the maintenance of open, fair and transparent markets. To achieve this requires the highest standards of integrity and ethics, and the Board's governance practices are as robust and rigorous as he expected, Mr Chan related.

Stakeholders play different roles in the market and may have conflicting interests, he added. To be regarded as fair and impartial, it is vital to clearly communicate the rationale for new policies and major decisions and give all stakeholders adequate opportunities to express their views.

The key to good corporate governance is to have a transparent decision process, particularly for policy making.

Clement Chan

Serving the community at large

Mr Lo's diverse experience in leadership positions in business and government helped prepare him for the challenges of his new role. Throughout his career, he was required to set key goals for organisations and achieve them within a good corporate governance framework.

After joining our Board, he found our work to be a lot more complex than he expected. He now has a better understanding of the wide scope of our responsibilities and the complexities of regulating a market where cross-border trading has grown in importance.

The Board not only deals with high-level policies, it also handles highly technical matters, he said. It has to set appropriate priorities and make the best use of finite resources. It also needs to listen to all stakeholders to serve the interests of investors and the community at large.

We have to take the needs of stakeholders into account to serve the best interests of the community.

Nicky Lo

Executive Committee

The highest executive body within the organisation, ExCo 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 expense requests from different divisions of the organisation. During the year, 16 ExCo meetings were held with an average attendance rate of 93%.

Standards of conduct

To promote and maintain public confidence, a high standard of integrity and conduct is required of our staff. In addition to complying with relevant legal obligations, staff are obligated 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

A system of delegation of authority clearly delineates the authority of the Board and different levels of the executive management. The Board delegates 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. Under our 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. During the budget process, divisions' expense requests for the following year are critically assessed.

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 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 compliance with the investment guidelines. The external investment managers have confirmed that they adopt the Principles of Responsible Ownership¹ in their undertakings to manage these investments. The Investment Committee monitors the performance of investments and advises on asset allocation and risk management.

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

New Executive Director

The newest addition to the SFC Board, Mr Rico Leung, ED of Supervision of Markets, has worked at the SFC for two decades. He joined us in 2000 from HKFE Clearing Corporation*, where he was Chief Operations Officer overseeing futures market clearing operations.

Mr Leung's top priority in his new role is to improve and strengthen financial market infrastructure, taking into account international best practices and the Hong Kong market's unique structure and characteristics. "Markets are only as good as the infrastructure that supports them," he said. "I look forward to working with market participants and other stakeholders to ensure the resilience of this critical component of our financial market."

Another priority is to enhance the SFC's ability to address systemic and emerging risks. Mr Leung was instrumental in the implementation of our risk monitoring framework.

* A subsidiary of Hong Kong Futures Exchange Limited.



So far, his service on the Board has given him new insight into the checks and balances embedded in our corporate governance structure. His fellow Board members have a diverse mix of skills and experience, he explained, and this allows the SFC to consider regulatory issues from different perspectives.

The tremendous development of Hong Kong's stock and derivatives markets has been underpinned by our robust and efficient financial market infrastructure.

Rico Leung

Financial control and reporting

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

We voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports, and we adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information.

In addition, we follow good market practice to ensure 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

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

This year, we entered into an eight-year lease for a new office in Quarry Bay. Rental expenses, one of our major expenditures, will be approximately half of our previous lease in Central. The cost savings will enhance our long-term sustainability and support our plan to eventually purchase our own office premises. For the time being, we will transfer the rental savings of around \$125 million per year to our reserve set aside for the acquisition of office premises.

To formulate effective regulatory responses in rapidly-evolving and increasingly complex markets, we set up cross-divisional project teams to work on policies or initiatives related to the functions of multiple divisions. This allows more efficient use of our resources across the organisation.

Stakeholder communication

We engage with 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 manner².

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 statements and announcements to inform the market about our policies as well as industry-related publications, reports and surveys on more specialised topics. Press releases announce our latest regulatory actions and other SFC news.

We also reach out to stakeholders to explain our work and policies and we discuss specific regulatory issues at seminars or other events. We attend meetings at LegCo, including meetings of the Panel on Financial Affairs, to present our budget, explain policy initiatives and other issues of public interest.

We adopt an open approach to disclosing information subject to the secrecy provisions of the SFO. Our corporate website (www.sfc.hk) provides up-to-date, easily accessible public and industry information, which is constantly reviewed and enriched.

Internally, we emphasise effective communication within the organisation. In addition to 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 apprised of the latest developments and current priorities.

In November 2019, a staff member from the External Relations Department of our Corporate Affairs Division received The Ombudsman's Awards 2019 for Officers of Public Organisations³.

² See Stakeholders on pages 76-79.

³ See Corporate Developments on pages 82-89.

Risk management

To perform our regulatory functions effectively in a dynamic market environment, it is important for us to identify, assess and manage external and internal risks in a timely and systematic manner.

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 crises arise.

We adopt a comprehensive, structured approach to assessing risk using new regulatory technologies to collect and analyse large volumes of data and information as markets become more complex and interconnected. This year, we further enhanced the monitoring framework which captured comprehensive market data to monitor and assess potential systemic risks.

The cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a holistic manner. The group regularly reports to ExCo and the Board.

In light of the COVID-19 situation, we reconfigured our staffing arrangements to ensure the continued delivery of our public services as usual and keep any interruptions or delays to a minimum. We also advised licensees and other market participants to contact us if they encountered difficulties in relation to their regulatory obligations.

Internal risks and control

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

Our policies and procedures for financial control help us uphold a high standard of integrity and exercise rigorous controls on the use of public funds.

In addition to appointing an external auditor, we engage an independent external firm to conduct internal audits to assess the effectiveness of our controls and identify the key risks of all our business processes. The scope of each review is approved by the Audit Committee and may include banking and investment, finance, procurement, human resources and information technology. The findings, together with recommendations, are reported back to the Audit Committee. Enhancements to related policies and procedures are then made where necessary.

To facilitate compliance with the Personal Data (Privacy) Ordinance (PDPO), we provide staff with a data privacy manual and a quick guide comprising frequently asked questions and illustrative examples. In January 2020, we launched an online course on the PDPO which is mandatory for all full-time staff.

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 and office access controls safeguard against unauthorised entry to our premises. Access rights are properly assigned and closely managed.

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
Process Review Panel <ul style="list-style-type: none"> An independent panel established by the Chief Executive of the HKSAR in 2000 Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Reviewed 60 cases and published its annual report in January 2020
Securities and Futures Appeals Tribunal <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Reviews specified decisions made by the SFC or the Investor Compensation Company Limited 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 	<ul style="list-style-type: none"> Received requests to review three new cases Decided on one case brought forward from 2018-19 Allowed one case received in 2019-20 to be withdrawn
The Ombudsman	<ul style="list-style-type: none"> Handles public complaints against the SFC and its staff for alleged maladministration 	<ul style="list-style-type: none"> Commenced two preliminary inquiries
Courts	<ul style="list-style-type: none"> Handle judicial reviews of SFC decisions 	<ul style="list-style-type: none"> Handled three judicial review cases

Performance pledges

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

		Cases meeting the pledge		
		2019/20	2018/19	2017/18
Applications for subordinated loan or modification/waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	100%	100%	100%
Authorisation/registration of investment products				
Take-up of applications upon receipt	5 or 2 business days ¹	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes, paper gold schemes and private open-ended fund companies	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
General enquiries				
Preliminary replies	5 business days	100%	100%	100%
Processing of licensing applications²				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	99% ³	99%	100%
Representatives (normal licences)	8 weeks	99% ³	99%	100%
Representatives (responsible officers)	10 weeks	99% ³	99%	99%
Transfer of accreditation	7 business days	99% ³	99%	97%
Complaints against intermediaries and market activities				
Preliminary response	2 weeks	99.8% ⁴	99.8%	99.8%

1 The pledge of five business days is applicable to the authorisation of the following products:

- Unit trusts and mutual funds
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds
- Real estate investment trusts

The pledge of two business days is applicable to the authorisation of other products (which include investment-linked assurance schemes and paper gold schemes), and the registration of private open-ended fund companies.

2 During the year, we processed 14,172 applications that were subject to performance pledges, 12,173 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,999 applications was delayed for reasons beyond our control. For example:

- unresolved fitness and properness issues;
- outstanding vetting requests;
- outstanding material information from applicants; and
- requests by applicants that we delay finalising their applications.

To more accurately reflect our performance, these applications are not included in the percentages stated.

3 The delay was usually short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

4 Nine cases failed to meet the pledge.

During the year, 100% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response time are listed in the following table.

Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)	
<i>Applications for rulings and consultations with the Takeovers Executive</i>	
All ruling applications and consultations under the Codes (except for those set out below)	5 business days ⁵
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 ⁶	10 business days
All other EFM/EPT applications	21 business days
Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code	
<i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i>	
No complex issues involved	2 business days
Complex issues involved	3 business days ⁷
<i>All other announcements (including revised drafts)</i>	
No complex issues involved	1 business day
Complex issues involved	3 business days ⁷
<i>All drafts of shareholders' documents⁸</i>	5 business days

5 If the subject matter involves complex issues in relation to the Codes, the time limit will be extended to 21 business days and the applicants will be informed of this.

6 EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

7 The parties will be informed of the longer time needed.

8 Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.