

## Message from Chairman and CEO



**Tim Lui**  
Chairman

“We remain steadfast in our commitment to world-class regulation to ensure the competitiveness of Hong Kong as an international financial centre.”

This year, the Securities and Futures Commission (SFC) marks its thirtieth anniversary. Markets are very different today than they were when the SFC was founded. More than ever, it is crucial for us to stay ahead of emerging regulatory challenges, including rapid technological innovation and other structural developments in the financial services industry.

We remain steadfast in our commitment to world-class regulation to ensure the competitiveness of Hong Kong as an international financial centre. Our new corporate identity signifies our determination to be vigilant, bold and impartial.

We would like to thank Mr Carlson Tong, who stepped down as Chairman in October 2018, for his six years of dedicated leadership. We wish him well in his future public service.

### **Institutionalising a new approach to regulation**

In recent years, the SFC has substantially reengineered its organisational structure and pursued a multi-disciplinary approach to better leverage all of its regulatory tools and pool its expertise to deal with threats which can harm investors and damage market integrity. We now place a much stronger emphasis on how we devote our resources to deal with the more serious risks in our markets and, in doing so, have further embedded transparency, fair processes

and accountability in the way we carry out our work. The focus now will be on further institutionalising the changes we have made.

These changes have already had an impact on behaviour, resulting in improved outcomes for investors. Our “front-loaded” regulation of listing applications and listed companies is now well established and we are increasingly active in cracking down on corporate misconduct.

Following our policy review of listing regulation, we have frequently used our investigative powers under the Securities and Futures Ordinance (SFO) and our powers to object to a listing or a corporate transaction, or impose a suspension of trading of securities. We seek to do so as early as possible when we become aware of potentially serious disclosure, conduct or public interest issues in listing applications and with listed companies. We rarely used these powers in this manner in the past, but under the new policy have done so to intervene more than 80 times since 2017.

One result was that the average first-day price change of newly-listed GEM stocks fell dramatically after our direct interventions and coordinated policy actions with the Stock Exchange (see chart on page 58). This front-end approach also complements our traditional back-end enforcement targeting misconduct. For example, we now use restriction notices to freeze accounts at brokers to help avoid the dissipation of assets which may be relevant to an investigation.

**Directly targeting the greatest threats has already made an impact on behaviour and resulted in improved outcomes for investors.**



**Ashley Alder**  
Chief Executive Officer

Moreover, our enforcement work now concentrates on the key risks which can harm Hong Kong's market integrity and reputation as a world-class financial centre. For instance, we very recently disciplined eight IPO sponsor firms and three IPO sponsor principals, imposing record fines as well as suspension of licences to operate in our markets, for failing to carry out due diligence properly on the companies they were bringing to market. Other major disciplinary actions involving deficient selling practices and anti-money laundering breaches will also promote better conduct.

We also now deploy a range of new tools in our licensing and intermediary supervision work to get ahead of potential problems. We have conducted a thorough review of our licensing system, a key element of our gatekeeping function, making changes to improve its efficiency and effectiveness. In our supervision of intermediaries we have been especially focused on providing early guidance to explain what we are doing and why. We use traditional supervisory tools such as notices to restrict the activities of intermediaries, as well as licensing conditions, in new ways in order to contain risks as early as possible.

We recognise that technology has transformed the financial landscape. Data, and how it is used, are now in the forefront of policymaking. Internally, we dedicate more resources to upgrade our information technology systems and adopt new technologies, including advanced data analysis, for supervisory purposes.

### Developing Hong Kong as a leading financial centre

To strengthen Hong Kong's position as a premier international financial centre, we strive to enhance its competitiveness as a capital-raising hub for a more diverse range of quality listings. We also contribute to the development of Hong Kong as a full-service asset and wealth management centre by enhancing the local regulatory framework for funds, asset managers and service providers whilst expanding the potential overseas and mainland China markets for funds domiciled and managed in Hong Kong.

In addition, we see an opportunity for Hong Kong to take on a larger role in the management of financial risks for international investors with exposures to the Mainland markets, and for Mainland investors with exposures in Hong Kong and globally. This can ensure the needs of investors are met amidst the Mainland's emergence as the world's second-largest economy and further integration with global capital markets.

With its unique relationship with the Mainland, Hong Kong clearly stands to benefit from greater cross-border connectivity and two-way capital flows. The reciprocal agreements we have established with our Mainland counterparts already provide unique and strong regulatory underpinnings within the framework of the two systems for the future broadening of international and Mainland cross-border investment channels through Hong Kong.

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Our extensive and reciprocal regulatory cooperation with the China Securities Regulatory Commission (CSRC) on cross-boundary supervision and enforcement has enabled us to manage risks which cross-border activity can pose to both the Hong Kong and Mainland markets. A recent example was our agreement with the CSRC to implement an investor identification regime for northbound trading in Mainland markets under Stock Connect, which will shortly be followed by a similar regime covering southbound trading into Hong Kong's markets.

Cooperation will be even more vital as the scope of mutual market access programmes enlarges and Mainland-based intermediaries and investors become more active in Hong Kong.

We are also seeking to advance Hong Kong's leadership in green finance. The Mainland is contributing significantly to the global effort to develop sustainable finance and Hong Kong is ideally positioned to align with this initiative, bringing China together with other international leaders in this area such as the European Union.

Strengthening Hong Kong's role as a global financial centre is a task we share with local partners including the Government of the Hong Kong Special Administrative Region and our fellow regulators. We will build on the success we have had working closely with the Hong Kong Monetary Authority in the supervision of intermediaries and with the Hong Kong Police and the Independent Commission Against Corruption on enforcement cases.

On the international front, we actively contribute to global policymaking which may have an impact on Hong Kong through the chairmanship of the IOSCO<sup>1</sup> Board and our participation in the G20's Financial Stability Board.

### The path forward

We continue to update and adapt our rules to keep ahead of market developments as well as evolving international standards. The next chapter discusses initiatives to address emerging risks to financial stability and market integrity, facilitate the industry's adoption of new business models and provide investors with more choice and stronger protection.

We maintain robust financial controls and prudent resource allocation. Our upcoming office relocation will result in considerable savings.

Finally, we would like to thank the Board and our staff for their dedication, support and professionalism. We are confident that together, we are well placed to meet the challenges ahead and build on the successes of the past three decades.

**Tim Lui**

Chairman

**Ashley Alder**

Chief Executive Officer

<sup>1</sup> International Organization of Securities Commissions.