

Regulatory engagement

We actively participate in international policymaking through our involvement in global standard setting bodies. We collaborate with Mainland authorities on regulatory and market development initiatives and maintain close contact with our local regulatory counterparts.

International 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. We work closely with the IOSCO Secretariat to develop policy initiatives, facilitate collaboration between IOSCO and the G20's Financial Stability Board (FSB) and promote interaction between members from emerging and developed economies.

Since his re-appointment as Chairman of the IOSCO Board in May 2018, our Chief Executive Officer Mr Ashley Alder pushed forward IOSCO's response to the European Union (EU) data privacy regulation and initiatives related to sustainable finance, cyber resilience, structural vulnerabilities in asset management, market fragmentation and financial technologies (Fintech), including risks associated with crypto-assets.

In May 2018, the SFC became one of the first signatories to the IOSCO Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) for cross-border enforcement cooperation. The EMMoU provides signatories with additional tools to combat financial misconduct in the global financial markets.

With other members of IOSCO, the FSB, the Committee on Payments and Market Infrastructures (CPMI) and the Basel Committee on Banking Supervision, we participated in the Derivatives Assessment Team study of the impact of the G20 financial regulatory reforms on the incentives to centrally clear over-the-counter (OTC) derivatives.

Mr Alder co-chairs the CPMI-IOSCO Steering Group which coordinates the regulatory policy work addressing risks in derivatives markets following the



IOSCO Board meeting in Madrid, Spain

Photo: IOSCO General Secretariat

global financial crisis, including the supervision of central counterparties and the monitoring of the implementation of the Principles for Financial Market Infrastructures (FMI)¹. The SFC hosted the October 2018 CPMI-IOSCO Steering Group meeting.

Mr Alder participated in the second EU-Asia Pacific Forum in October 2018. Securities regulators representing the EU and the IOSCO Asia-Pacific Regional Committee discussed the implementation of EU regulations which have an impact on Hong Kong and the region, crypto-assets, sustainable finance and other capital market developments.

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee, Fintech Network, Sustainable Finance Network and key task forces and working groups.

- As a member of IOSCO's Committee on Investment Management, we chaired the Committee's workstream studying the major risks associated with exchange-traded funds (ETFs) and contributed to a consultation paper on measuring leverage in investment funds.
- We participated in the Committee on Derivatives which published an Update to Survey on the Principles for the Regulation and Supervision of Commodity Derivatives Markets in October 2018 and a report on commodity storage and delivery infrastructures in February 2019.

¹ International standards for financial market infrastructures issued by IOSCO and the CPMI to strengthen financial stability.

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FSB

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 G20 reforms and financial vulnerabilities in the global financial system. Mr Alder also participates in the FSB Standing Committee on Supervisory and Regulatory Cooperation.

We are a member of the FSB Standing Committee on Standards Implementation and contribute to its Implementation Monitoring Network, which considers the effects of the G20 reforms and conducts thematic monitoring and peer reviews.

We are also a member of the FSB Regional Consultative Group for Asia, to which we contribute views on regulatory policies, and the FSB Cross-Border Crisis Management Group, which monitors the implementation of resolution regimes for FMIs such as central counterparties.

We worked with the Hong Kong Monetary Authority (HKMA), the Insurance Authority (IA) and the Financial Services and the Treasury Bureau (FSTB) on the FSB's annual exercise to monitor the implementation of the G20 reforms.

We participated in the FSB's OTC Derivatives Working Group which published the *OTC Derivatives Market Reforms – 13th Progress Report on Implementation* in November 2018.

Financial Action Task Force

We contributed to the *Risk-based Approach Guidance for the Securities Sector* published by the Financial Action Task Force (FATF) in October 2018.

Last year, we worked closely with the FSTB, fellow financial regulators and law enforcement agencies to complete a comprehensive self-assessment of the effectiveness of Hong Kong's anti-money laundering and counter-financing of terrorism regime and its compliance with the FATF recommendations as part of the FATF's mutual evaluation² of Hong Kong. An on-site review was carried out by the FATF assessment team in November 2018.

² See footnote 1 on page 7.



SFC Chairman Mr Tim Lui (left) meets CSRC Chairman Mr Yi Huiman in Beijing

Other engagement

During the year, we maintained regular dialogue with overseas regulators to share intelligence and updates on the supervision of global financial institutions. In March 2018, we co-hosted the third Asia-Pacific Regional Supervisory College with the Australian Securities and Investments Commission in Australia. We hosted a supervisory college in Hong Kong jointly with the US Federal Reserve Bank in October 2018 and also took part in other supervisory colleges held in Japan, Switzerland and the UK.

We participated in the Global Financial Innovation Network and became a member of its Coordination Group which sets its overall direction and strategy. The network, which is led by the UK Financial Conduct Authority and consists of financial regulators and related organisations, aims to create a global regulatory sandbox for firms to conduct cross-border testing of Fintech.

Mainland China

To advance Hong Kong's unique position as the international financial centre connecting Mainland and international capital flows, we take an active part in Mainland-Hong Kong cooperation programmes and hold regular high-level discussions with the China Securities Regulatory Commission (CSRC) on supervision, enforcement and market development initiatives. We also organise high-level meetings with other Mainland authorities to exchange regulatory information and strengthen cooperation.

Regulatory engagement



High-level meeting with the CSRC in December 2018

In March 2019, our Chairman Mr Tim Lui met with the CSRC Chairman Mr Yi Huiman to discuss cooperation between the Hong Kong and Mainland capital markets.

In December 2018, the fourth half-yearly SFC-CSRC high-level meeting was held to discuss major initiatives, including supervisory and enforcement cooperation, investor identification for southbound trading under Stock Connect, ETF Connect, enhancements to Mainland-Hong Kong Mutual Recognition of Funds and full circulation of H shares. We also held two regular high-level enforcement meetings to exchange views on cross-border enforcement cooperation, market surveillance workflows and the progress of high-priority investigations.

We support the Government of the Hong Kong Special Administrative Region (HKSAR) in strengthening cooperative relationships with Mainland authorities to develop Hong Kong's financial services sector and access to Mainland markets. We actively participated in the research and policy formulation for the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area announced in February 2019. We will work closely with Mainland authorities to implement the initiatives set out in the plan, including further enhancements to the Mainland-Hong Kong mutual market access schemes.

We met with the State Administration of Foreign Exchange and received delegates from the People's Bank of China to discuss the development of offshore renminbi business in Hong Kong and other cooperation initiatives. We also engaged with Mainland exchanges and clearing houses to discuss their operations in Hong Kong and the opening-up of the Mainland futures market.

To strengthen cooperation with our fellow regulators and facilitate knowledge sharing, we co-organised a joint enforcement training programme with the CSRC on digital forensics in Shenzhen in November 2018. Over 120 enforcement officers from both organisations participated. Experts from the Economic Crime Investigation Department of the Ministry of Public Security, the Hong Kong Police and the Independent Commission Against Corruption (ICAC) also provided their insights on current trends.

Our in-house legal team maintains regular contact with the CSRC and conducts joint seminars to share experience on legal topics. The third annual seminar took place in Shenzhen in March 2019.



SFC-CSRC joint enforcement training in Shenzhen

30 Years

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Local

We maintain close contact with the HKSAR Government and local counterparts to keep abreast of emerging issues and regulatory developments. We attended a meeting with the HKMA, IA and China Banking and Insurance Regulatory Commission (CBIRC) in January 2019 where we agreed to strengthen cooperation in monitoring the cross-boundary and cross-sectoral activities of regulated financial institutions.

During the year, we held workshops and training sessions with the ICAC to share best practices in investigation techniques, digital forensics and market surveillance as well as handling corporate fraud, market misconduct and disciplinary cases. The ICAC provided their training facilities for our staff to conduct mock searches and court proceedings. We partnered with the ICAC and the Police to conduct multiple large-scale search operations. We also hosted investigation workshops for officers from the ICAC, the Police and the HKMA.

Bilateral agreements

In June 2018, we signed an MoU with the German Federal Financial Supervisory Authority providing for consultation, cooperation and exchange of information in the supervision of cross-border regulated financial



Mock court hearing at ICAC training facilities

institutions in Hong Kong and Germany. We also entered into a cooperation agreement with the Abu Dhabi Global Market Financial Services Regulatory Authority to establish a framework for cooperation on Fintech.

We entered into an MoU for supervisory cooperation with the CBIRC in June 2018 and with the CSRC in November 2018. The MoUs facilitate cooperation and exchanges of information in the supervision of regulated financial institutions in the Mainland and Hong Kong.

Requests for regulatory cooperation

| | 2018/19 | | 2017/18 | | 2016/17 | |
|---|----------|------|----------|-------|----------|-------|
| | Received | Made | Received | Made | Received | Made |
| Enforcement-related requests for assistance | 113 | 99 | 136 | 104 | 155 | 112 |
| Licensing-related requests for assistance | 121 | 597 | 112 | 1,178 | 125 | 1,101 |