

Operational Review

Corporates

Disclosure of actual counterparties

In November, we issued a statement to remind listed companies that their announcements and other documents must not include false, incomplete or misleading information about their counterparties in a transaction. The statement sets out examples where companies may be required to disclose the identities of a counterparty's actual controllers or beneficial owners.

Climate-related disclosure

As part of our strategic framework for sustainable finance¹, we work closely with The Stock Exchange of Hong Kong Limited (SEHK) to enhance listed companies' environmental disclosure, with a focus

on climate-related issues. In December, SEHK issued consultation conclusions on proposed changes to its environmental, social and governance reporting framework. Most respondents supported the proposals, which were adopted with a few modifications. Following our approval, the rule amendments will come into effect for financial years commencing on or after 1 July 2020.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 51 new listing applications.

We received two listing applications from pre-profit biotech companies in the quarter.

¹ See the SFC's *Strategic Framework for Green Finance* published in September 2018.

Listing applications and takeovers activities

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Listing applications	51	242	310	-21.9
Takeovers and share buy-backs transactions	84	276	285	-3.2

Corporate conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we issued section 179² directions to gather additional information in 14 cases and wrote to detail our concerns in six transactions. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Takeovers matters

In October, the Takeovers and Mergers Panel ruled that Bradford Global Limited was not allowed to deduct the final dividend approved by shareholders of Dalian Port (PDA) Company Limited from its offer price

in a possible mandatory offer. The panel considered that readers of the announcement would have expected Dalian Port’s shareholders to receive the full offer price.

In December, we publicly censured CLSA Limited, CITIC Securities Brokerage (HK) Limited, Beijing Enterprises Holdings Limited and their representatives for breaching the Code on Share Buy-backs. CLSA and CITIC Securities executed on-market trades in the shares of Beijing Enterprises Holdings Limited in 2016. Since these trades were pre-arranged and pre-agreed, they were in substance off-market share buy-backs which required the approval of the Takeovers Executive³ and Beijing Enterprises’ independent shareholders.

² Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

³ The Executive Director of the SFC’s Corporate Finance Division or his delegate.

Intermediaries

Licence applications

As at 31 December 2019, the number of licensees and registrants totalled 47,437, up 2.3% from last year, and the number of licensed corporations grew 6.2% to 3,084.

In the quarter, we received 1,499 licence applications¹, down 27.2% from the last quarter and 23.3% year-on-year. The number of corporate applications decreased 39.7% from the last quarter to 44, down 30.2% year-on-year.

Licensing fee waiver

We announced in December that annual licensing fees for the financial year 2020-21 will be waived in view of the current challenging market environment.

External electronic data storage

In an October circular, we set out requirements for keeping regulatory records exclusively with external electronic data storage providers. We also reminded licensed corporations about their obligations to ensure information security.

Virtual assets

In November, we published a position paper setting out a regulatory framework for licensing virtual asset trading platforms under our existing powers. We also issued a statement warning investors about the risks associated with virtual asset futures contracts and setting out our view that platforms offering these contracts may be in breach of the laws of Hong Kong.

We published a proforma set of terms and conditions for licensed corporations managing portfolios which invest in virtual assets in October. These terms and conditions will be imposed on all licensed virtual asset portfolio managers subject to minor variations depending on individual managers' circumstances.

Dubious private fund and discretionary account arrangements

In November, we issued a circular to provide guidance for asset managers considering private fund and discretionary account arrangements or transactions. We reminded them that if they fail to detect dubious arrangements or transactions proposed or directed by investors, or facilitate illegal or improper conduct due to inadequacies in their procedures and controls, we would take regulatory action against them and their senior management.

Licensees and registrants

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Licensed corporations	3,084	2,960	4.2	2,905	6.2
Registered institutions	114	116	-1.7	117	-2.6
Licensed individuals	44,239	43,602	1.5	43,349	2.1
Total	47,437	46,678	1.6	46,371	2.3

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 7 for details.

Intermediaries

Margin requirements for OTC derivatives

In December, we released the conclusions to a consultation on proposals to impose margin requirements for non-centrally cleared over-the-counter (OTC) derivatives to reduce systemic market risks. The requirements will be phased in starting from 1 September 2020.

Sustainable finance

We published a report in December on our survey on integrating environmental, social and governance factors and climate risks in asset management. The report also set out next steps to more closely align our regulatory regime with global standards.

SFC-HKMA joint product survey

A December circular announced the first product survey conducted jointly by the SFC and the Hong Kong Monetary Authority (HKMA). Covering the sale of non-exchange traded investment products by intermediaries, the survey will enable us to better understand market trends, identify risks associated with selling activities and coordinate our responses to address areas of common concern. The survey will be conducted on an annual basis beginning with the period from 1 January to 31 December 2020.

Anti-money laundering

We conducted three seminars in November to provide updates on anti-money laundering for around 800 executives of licensed corporations.

Licensing applications

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Applications to conduct new regulated activity	4,352	15,848	18,731	-15.4
Applications for SFC licences [#]	1,499	5,315	6,337	-16.1

[#] Figures do not include applications for provisional licences. During the quarter, we received 788 provisional licence applications compared with 1,054 in the same quarter last year.

Intermediary inspections

	Quarter ended 31.12.2019	Quarter ended 30.9.2019	Change (%)	Quarter ended 31.12.2018	YoY change (%)
On-site inspections conducted	76	106	-28.3	72	5.6

Products

Authorisations and registrations

As of 31 December, 2,761 collective investment schemes were authorised by us for public offering. During the quarter, we authorised 50 unit trusts and mutual funds, one paper gold scheme, one real estate investment trust and 18 unlisted structured investment products.

Mutual Recognition of Funds

Under the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, as of 31 December, we had authorised a total of 50 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission had approved 23 Hong Kong funds.

As of 31 December, the cumulative net subscription for Mainland funds was about RMB264.2 million and for Hong Kong funds it was about RMB16.18 billion. Mainland funds recorded a net redemption of about RMB6.73 million this quarter whilst Hong Kong funds recorded a net redemption of about RMB479.44 million.

Enhancements to OFC regime

To encourage more private funds to set up in Hong Kong, we launched a consultation in December on proposed enhancements to the open-ended fund companies (OFC) regime. The changes would allow licensed or registered securities brokers to act as custodians for private OFCs and expand the investment scope for private OFCs to include loans as well as shares and debentures of Hong Kong private companies. We also proposed to introduce a statutory mechanism for the re-domiciliation of overseas

corporate funds to Hong Kong and require OFCs to keep a register of beneficial shareholders to enhance anti-money laundering and counter-terrorist financing measures.

Revised UT Code

The 12-month transition period for the implementation of the revised Code on Unit Trusts and Mutual Funds (UT Code) ended on 31 December 2019. Changes included setting a clear limit for derivative usage by plain vanilla funds (ie, non-derivative funds). To provide transparency, SFC-authorized funds are now listed as derivative or non-derivative funds on the SFC website. As at 31 December, there were 1,777 non-derivative funds and 114 derivative funds.

Master-feeder ETF requirements

In December, we issued a circular on streamlined requirements which allow an SFC-authorized feeder exchange-traded fund (ETF) to invest in a non-SFC authorized overseas master ETF, subject to conditions, on a case-by-case basis. This will make the development of ETF products more cost-effective and provide investors with more investment choices.

Green and ESG funds

In December, we launched a central database to improve the transparency and visibility of SFC-authorized green and environmental, social and governance (ESG) funds. As at the end of the quarter, 21 funds complied with the enhanced disclosure guidance for green and ESG funds which we announced in April 2019.

Products

Authorised and registered collective investment schemes^a

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Unit trusts and mutual funds	2,165	2,216	-2.3	2,195	-1.4
Investment-linked assurance schemes	299	300	-0.3	300	-0.3
Pooled retirement funds	33	34	-3	34	-3
Mandatory provident fund (MPF) schemes	29	31	-6	31	-6
MPF pooled investment funds	206	191	8	195	6
Private OFCs	2	0	N/A	0	N/A
Others	27 ^b	25	8	25	8
Total	2,761	2,797	-1	2,780	-0.7

^a Excluding unlisted structured investment products.

^b Comprising 15 paper gold schemes and 12 real estate investment trusts (REITs).

Unlisted structured investment products

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
Unlisted structured investment products ^a	18	116	98	18.4
Authorisations granted under section 105 of the Securities and Futures Ordinance ^b	11	79	68	16

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, most of which were equity-linked investments and deposits.

^b Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Products

SFC-authorized renminbi investment products

	As at 31.12.2019
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	60
Unlisted funds (non-renminbi denominated) with renminbi share classes	229
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	50
Unlisted structured investment products issued in renminbi ^b	146
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	28
ETFs (non-renminbi denominated) with renminbi trading counters	20
Renminbi gold ETFs ^c	1
Renminbi REITs	1

^a Refers to onshore Mainland investments through the Renminbi Qualified Foreign Institutional Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

^b The number is on a "one product per key facts statement" basis.

^c Only includes gold ETF denominated in renminbi.

Markets

Investor identification

As a further step in the enhancement of Mainland-Hong Kong Stock Connect, we worked with the China Securities Regulatory Commission to launch an investor identification regime for southbound trading on 13 January 2020. The regime will facilitate our regulation and the orderly operation of the Stock Connect programme.

Investor compensation

Following a consultation concluded in October, enhancements to the investor compensation regime to raise the compensation limit from \$150,000 to \$500,000 per investor per default and cover northbound trading under Mainland-Hong Kong Stock Connect came into effect on 1 January 2020.

ATS providers

	As at 31.12.2019	As at 31.3.2019	Change (%)	As at 31.12.2018	YoY change (%)
Under Part III	51	48 [#]	6.3	48 [#]	6.3
Under Part V	25	24	4.2	24	4.2

[#] The number of ATS providers, some of which have more than one authorisation. In previous reports, the number given indicated the number of authorisations.

HKEX

In October, we approved Hong Kong Exchanges and Clearing Limited's (HKEX) proposal to allow banks to become general clearing participants in the derivatives markets. This is in line with the existing arrangement in the stock market.

We provided input to the review by the Financial Services Agency of Japan of OTC Clear's application for a licence to clear derivatives trades for Japanese institutions, which was approved in December.

Automated trading services

As of 31 December, the number of automated trading services (ATS)¹ providers authorised under Part III of the Securities and Futures Ordinance (SFO) was 51, while 25 corporations, including 15 dark pool operators, were licensed under Part V of the SFO to provide ATS.

¹ Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

Court proceedings

- We obtained a compensation order under section 214¹ of the Securities and Futures Ordinance (SFO) in the Court of First Instance (CFI) against Chin Jong Hwa, the former chairman and executive director of Minth Group Limited, ordering him to compensate the group's wholly-owned subsidiary RMB20.3 million for losses due to his misconduct. Chin and three other former executive directors were disqualified from being directors or being involved in the management of any listed or unlisted corporation in Hong Kong for three to six years.
- We obtained disqualification orders in the CFI against the former chairman and three other former executive directors of Inno-Tech Holdings Limited. All were disqualified for three years for failing to exercise due and reasonable skill, care and diligence in the company's acquisition of three hotels.
- The Eastern Magistrates' Court convicted Ken Yiu Ka Lun, a former senior regulatory affairs manager of Hong Kong Television Network Limited, for insider dealing in the company's shares. He was sentenced to two and a half months' imprisonment and ordered to pay a fine of \$165,000.
- We commenced proceedings to seek compensation and disqualification orders under section 214 of the SFO against Cheng Wai Tak, the chairman and executive director of Perfect Optronics Limited, and its five directors for alleged breach of fiduciary duties.

Market Misconduct Tribunal

During the quarter, we commenced proceedings in the Market Misconduct Tribunal against China Medical & HealthCare Group Limited² for allegedly failing to disclose information in relation to its significant gains in securities trading and its profit figures as soon as reasonably practicable, and against six of the company's directors for their reckless or negligent conduct causing the alleged breach.

Disciplinary actions

We disciplined five licensed corporations and five individuals during the quarter, resulting in total fines³ of \$413.3 million.

Internal control deficiencies

- We reprimanded and fined UBS AG \$400 million for overcharging its clients over a ten-year period through post-trade spread increases and excess charges, and for related serious internal control failures. The overcharges affected about 5,000 Hong Kong-managed client accounts and involved about 28,700 transactions.
- We reprimanded and fined China Rise Securities Asset Management Company Limited⁴ \$6.3 million for internal control failures and regulatory breaches related to short selling orders, cross trades and record keeping.
- We reprimanded and fined Adamas Asset Management (HK) Limited \$2.5 million for failing to implement adequate measures to ensure proper disclosure of notifiable interests in the shares of Hong Kong-listed companies in client portfolios.

¹ Under section 214, the SFC may seek disqualification, compensation and other orders for breaches of duty by current or former directors of listed corporations.

² Formerly known as COL Capital Limited.

³ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

⁴ Formerly known as China Rise Securities Company Limited.

Enforcement

Unauthorised transactions

- We banned Vincent Ng Lok Kan, a former licensed representative of Sun Hung Kai Investment Services Limited, from re-entering the industry for 30 months for effecting unauthorised transactions through a client's account to push up a warrant's price when selling his personal holdings.
- We banned Song Baojun, a former relationship manager of The Hongkong and Shanghai Banking Corporation Limited, for 12 months for not obtaining a client's specific authorisation before conducting unit trust transactions and failing to advise the client to adopt a lower cost option for other transactions.

Other regulatory breaches

- We reprimanded and fined FIL Investment Management (Hong Kong) Limited \$3.5 million for regulatory breaches including unlicensed dealing in futures contracts.
- We reprimanded and fined SEAVI Advent Ocean Private Equity Limited \$1 million for breach of the Code of Conduct⁵ in allowing its director and an investment manager, who were not licensed, to carry out regulated activities.
- We banned Ma Sin Chi, a former responsible officer of Deutsche Securities Asia Limited, from re-entering the industry for life following his conviction of accepting bribes of around \$6.4 million from a client.

- We banned Ang Wing Fung, former chairman of W. Falcon Asset Management (Asia) Limited, and Chan Kam Wah, former chief financial officer and company secretary, from re-entering the industry for life and three years respectively in connection with their roles in window-dressing the company's liquid capital. We revoked the company's licence in February 2019 for this and other failures.

Restriction notice

We issued a restriction notice to Hong Kong Wan Kiu Investment Company Limited prohibiting it from carrying on regulated activities for which it is licensed and dealing with client assets. Our investigation is ongoing.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,345 requests for trading and account records from intermediaries in the quarter. In addition, we published three high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

⁵ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Enforcement

Enforcement activities

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY change (%)
S179 ^a inquiries commenced	5	26	19	36.8
S181 ^b inquiries commenced (number of letters sent)	58 (2,345)	186 (7,415)	225 (6,734)	10.1
S182 ^c directions issued	31	151	179	-15.6
Investigations started	32	158	180	-12.2
Investigations completed	55	145	191	-24.1
Individuals and corporations charged in criminal proceedings	0	5	4	25
Criminal charges laid	0	8	37	-78.4
Notices of Proposed Disciplinary Action ^d issued	9	26	13	100
Notices of Decision ^e issued	11	37	27	37
Individuals and corporations subject to ongoing civil proceedings ^f	158	158	98	61.2
Compliance advice letters issued	45	178	182	-2.2
Cases with search warrants executed	6	14	24	-41.7

^a Section 179 of the Securities and Futures Ordinance (SFO) gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

^b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including information identifying the ultimate clients, the particulars and instructions relating to the transactions.

^c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

^d A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

^e A notice which sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

^f As of the last day of the reporting period.

Regulatory engagement

IOSCO

Mr Ashley Alder, our Chief Executive Officer, chairs the Board of the International Organization of Securities Commissions (IOSCO). In October, he chaired the IOSCO Board meeting and co-chaired the meeting of the CPMI¹-IOSCO Steering Group, which coordinates regulatory policy work for the supervision of central counterparties.

In the same month, Mr Alder participated in the EU-Asia Pacific Forum on Financial Regulation to discuss cross-border regulatory issues arising from EU regulations.

Mr Tim Lui, our Chairman, attended the Asia Pacific Regional Committee (APRC) meeting to discuss market conduct issues, sustainable finance and regional supervisory cooperation. Following the meeting, the APRC set up a Green and Sustainable Finance Working Group led by the SFC.

FSB

As the IOSCO Board Chair, Mr Alder participates in the work of various committees of the Financial Stability Board (FSB). During the quarter, Mr Alder attended the FSB Plenary meeting to discuss vulnerabilities in the global financial system and financial technology. He also took part in the Steering Committee meeting, the plenary conference call and the Standing Committee on Supervisory and Regulatory Cooperation conference call, which discussed stablecoins, market fragmentation and asset management.

Green and sustainable finance

We engage with local and global stakeholders on our work in green and sustainable finance. We actively participate in the IOSCO Sustainable Finance Network and the Central Banks and Supervisors Network for Greening the Financial System.

In the quarter, Mr Tim Lui gave opening remarks at the Climate Finance and Sustainable Investing Conference organised by the United Nations Economic and Social Commission for Asia and the Pacific. Mr Alder spoke on climate-related financial risks at a roundtable hosted by the Bank of England as well as at the United Nations Climate Change Summit.

¹ The Committee on Payments and Market Infrastructures.

² The China Securities Regulatory Commission.

Mainland China

In November, the sixth SFC-CSRC² high-level meeting held in Shenzhen discussed risk control, market development and cross-boundary supervisory and enforcement cooperation.



The sixth SFC-CSRC high-level meeting

We worked with the CSRC on the expansion of the full circulation of H-shares to a wider range of Hong Kong listed companies. We also contributed to the formation of cooperation initiatives in the securities and futures sector under the Amendments to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) signed in November.

During the quarter, we received visitors from the Dalian Commodity Exchange to discuss the opening-up of the Mainland futures market and introduced our enforcement work to the People's Court of Shanghai. We also met with the Shenzhen Municipal Financial Regulatory Bureau to explore market development opportunities.

Other regulatory engagement

To keep abreast of emerging regulatory developments, we met with overseas regulators and government representatives from Australia, the UK, the US, the European Commission and other jurisdictions during the quarter.

In November, we held our 11th bilateral regulatory meeting with the Taiwan Financial Supervisory Commission to exchange views on the regulation of virtual assets, bond exchange traded funds and other topics.

Stakeholders

We engage with stakeholders to help them understand our work and provide them with up-to-date regulatory information.

During the quarter, we supported seven industry events. Our senior executives spoke at 27 local and international conferences and we posted four of their speeches on our website to reach a wider audience. We met with various industry associations to understand their views on regulatory issues.

We were a regulatory partner of the Hong Kong FinTech Week 2019 Main Conference held on 6-7 November. Our Chief Executive Officer Mr Ashley Alder delivered a keynote speech and the Head of our Fintech unit gave a presentation on regulatory issues related to the development of financial technology.

We released the following publications in the quarter:

- The findings of the *Survey on Integrating Environmental, Social and Governance Factors and Climate Risks in Asset Management* provided an overview of industry practices as a reference for formulating future policies.
- The December issue of the *Takeovers Bulletin* highlighted the Takeovers Panel's decision on deducting a final dividend from the stated price of a possible mandatory general offer.

We issued 14 circulars providing guidance on a wide range of matters, including virtual assets, external data storage, dubious private fund and discretionary account arrangements, streamlined requirements for master-feeder exchange traded funds and updates on anti-money laundering and counter-terrorist financing.

Publications and other communications

	Quarter ended 31.12.2019	Nine months ended 31.12.2019	Nine months ended 31.12.2018	YoY Change (%)
Press releases	33	97	94	3.2
Consultation papers	1	3	4	-25
Consultation conclusions	2	4	13	-69.2
Industry-related publications	3	10	12	-16.7
Codes and guidelines ^a	0	5	10	-50
Circulars to industry	14	54	70	-22.9
Corporate website average daily page views ^b	32,094	46,635	61,477	-24.1
General enquiries	1,455	4,753	5,100	-6.8

^a Includes updates to previous versions.

^b The average number of web pages browsed per day during the reporting period.