

IOSCO Annual Conference successfully held in HK

The 31st IOSCO Annual Conference was successfully concluded in Hong Kong on 8 June 2006 after four days of meetings and panel discussions.

It was hosted by the SFC for the first time, and attracted over 650 regulators and market practitioners from 135 jurisdictions.

Important initiatives and accomplishments were announced at the Conference: IOSCO's strategic direction including progress made in commitment to the IOSCO MOU; examination of cross-border co-operation in freezing assets; progress in the work of different Task Forces and Standing Committees, etc.



(From left) Emerging Markets Committee Chairman Dr Dogan Cansizlar, Executive Committee Chairperson Ms Jane Diplock, Acting Chief Executive, the Hon Rafael S Y Hui, Presidents' Committee Chairman Mr Martin Wheatley, Technical Committee Chairman Mr Michel Prada, and Secretary General Mr Philippe Richard officiated the Opening Ceremony. For details, please see press releases issued on 7 and 8 June, available at <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/HTMLGeneralNews?openAgent>.

Message from SFC Chairman

Dear Reader,

The SFC has been very busy in the past two months.

In May, we published the 2005-06 annual report. This month, the IOSCO Annual Conference was successfully held in Hong Kong with significant achievements. Local and international participants complimented the organisation. I wish to thank the Government, the industry, and our sponsors and staff who have made the event a success.

To protect investors, we took decisive action on Whole Win Securities, which breached financial requirements. An administrator is handling distribution of assets to clients. Earlier, we settled a disciplinary action with UKFP (Asia) HK (formerly Towry Law), resulting in a payment offer to investors.

From 1 July, the majority of SFC's operations will move to a five-day week. However, key services to the public, such as the Investor Hotline and receipt of documents, will remain available on Saturdays.

Martin Wheatley

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Annual Report 2005-06 : Investors First

The SFC has published its Annual Report for the year ended 31 March 2006.

It reports on our achievements in the past year in the four disciplines namely: **To Regulate**; **To Enforce**; **To Facilitate**; and **To Educate**.

Mr Martin Wheatley said in the Chairman's Statement that by using our resources appropriately, and with the support of the Government, market bodies, market practitioners and the public, we can confidently meet the regulatory challenges in the next few years.

"Investors First" is the theme of this year's Annual Report, demonstrating the value we attach to this objective.

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IOSCO Annual Conference special moments



Lion dancing at the Opening Ceremony. It was officiated by the Acting Chief Executive, who said Hong Kong was deeply honoured to host the event.

The Hon Rafael Hui welcoming the delegates.

Chairs issued the final communique to the media.

Delegates at a panel meeting.

Financial Secretary, the Hon Henry Tang (right) at the Farewell Gala Dinner.



Visitors at the SFC exhibition booth.

Practising Tai Chi in the morning.

Police Pipe Band march at the Opening Ceremony.

Technical Committee meeting on the first day of the Conference.

Accompanying persons toured the Lantau Island.



Administrator appointed for Whole Win Securities

During a review of the financial return of Whole Win Securities Limited, the SFC last month identified certain suspicious entries. Whole Win later admitted that there was a liquid capital deficit of \$28 million. The firm had been operating its business almost entirely on financial resources from bank borrowings secured by client securities collateral and henceforth put its margin clients at a high risk. The SFC took immediate actions and issued a restriction notice on Whole Win on 26 May to prohibit it from carrying on the business of dealing in securities and disposing of /dealing with any assets. The subsequent developments of the incident are summarised as follows:

27 May - The SFC issued Questions and Answers to help clients of Whole Win to understand the matter.

31 May - The SFC's ongoing investigation revealed evidence to suggest that Whole Win has pledged the stock of some cash clients to its banks without due authorisation and failed to keep cash clients' money in a segregated account at all times. In light of its findings, the SFC applied to the Court to appoint Mr John Lees to administer the property of Whole Win and property it held on behalf of clients.

1 June - The administrator set out its plan

for the handling of client assets, particularly regarding Bank of China IPO allotments and refunds and derivative warrants.

2 June - The administrator sent to Whole Win's clients a circular, a claim form and statements of account to facilitate his verification of client entitlements.

9 June - The Court confirmed the continuing appointment of the administrator until the hearing of the Originating Summons filed by the SFC.

For details, please see press releases of 26, 27 and 31 May, 1, 2 and 9 June 2006, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/HTMLGeneralNews?openAgent>.

Bulletin board - licensing matters

The SFC's Licensing Department is primarily responsible for the gatekeeping of the securities and futures industry. From time to time, the Department will come across issues affecting intermediaries and the following are recent issues that we would like to bring to the attention of intermediaries:

Dual Accreditations of Responsible Officers (ROs)

We note that some ROs have applied for additional accreditation to other licensed corporations that are not group companies of their existing principals.

The SFC is concerned about the above dual accreditation arrangements. Apart from the potential conflicts of interest of the

arrangement, it is also questionable as to how such individuals can properly manage their time in supervising the regulated activities of all their principals.

Given the RO's important role in a licensed corporation, it is of paramount importance that he is not only technically competent, but also possesses adequate resources, including time, and sufficient authority within the firm to discharge his supervisory responsibilities.

Payment of Annual Fee

Under section 138(1) of the SFO, licensees or registered institutions are required to pay to the SFC an annual fee within one month after each anniversary date of grant of the

licence or certificate of registration, or on such other date as may be approved by the SFC. The annual fee payable depends on the number and types of regulated activities that the entity conducts.

We would like to remind licensees and registered institutions that if they cease carrying on any or all of its regulated activities after their anniversary date, they are still required to pay the relevant annual fees for the full year. As such, they should take into account their anniversary dates in deciding the cessation of their regulated activities. They should also understand the implications of the failure to pay their licensing fees pursuant to sections 195(4) to (6) and 197(4) to (6) of the SFO.

In brief

- The Securities and Futures (**Reduction of Levy**) Order 2006, which provides for a 20% reduction of the levy payable in respect of any trading in securities, futures or options contracts, was gazetted on 16 June 2006. Subject to the legislative process, it will take effect from 1 December this year, meaning lower transaction cost for investors.
- Three **Amendment Rules** namely Securities and Futures (Financial Resources) (Amendment) Rules 2006; Securities and Futures (Client Securities) (Amendment) Rules 2006; Securities and

Futures (Contract Notes, Statements of Account and Receipts) (Amendment) Rules 2006; and amendments to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission were gazetted on 19 May 2006. Subject to the legislative process, they will come into effect on 1 October this year.

- From January to March 2006, the SFC received via the Stock Exchange 13 listing applications and commented on 8 cases under the **Dual Filing** arrangement. We continued to note with concern serious deficiencies in the factual disclosures in the first draft prospectuses submitted with the initial listing applications. The

nature and degree of deficiencies in some cases suggested that the sponsor might not have sufficient understanding of the listing applicant or performed adequate due diligence.

- The SFC has issued FAQs to help investors understand **REITs distributions** etc. Visit the InvestEd website (www.InvestEd.hk) for: components of REITs distributions; mechanism and implications of "step up" interest rate swap arrangement; distribution entitlement waiver and its implications to investors; and impact of downward revaluation of properties in a REIT.

Five-day week for SFC

The majority of the SFC's operations will move to a five-day week from 1 July 2006, in line with a similar move by the Government.

The SFC has carefully considered the feasibility of changing to a five-day week, and has concluded that there should be no significant impact on the market if essential operations are maintained on Saturdays.

The SFC will continue to open the Investor Hotline for telephone enquiries on Saturdays, while documents delivered to the SFC on Saturdays will also be received. Market

practitioners may continue to contact SFC staff in emergency situations.

The SFC office hours will be as follows:

Monday - Thursday	Friday
9 am - 6 pm	9 am - 5:15 pm

- The SFC will have staff in place to receive documents between 9 am and 1 pm on Saturdays. Documents may be sent to the SFC office on the 8th Floor of Chater House, 8 Connaught Road Central.

- The Investor Hotline (2840 9333) will remain open from 9:30 am to 12:30 pm on Saturdays. Callers may leave a message after the operating hours.

The SFC has issued a circular to intermediaries informing them of the changes. FAQs have also been posted on the SFC website.

For details, please see press release issued on 16 June 2006, available on the SFC website at: <http://eapp01.sfc/apps/cc/PressRelease.nsf/eng/lkupNewsCode/06PR137?openDocument>.

Adviser pays investors after SFC negotiations

As a result of SFC negotiations, UKFP (Asia) HK Limited (formerly Towry Law (Asia) HK Limited) has offered payment to investors of certain funds and geared products.

The SFC instituted disciplinary proceedings against the firm for mis-selling of certain funds and had concerns about the sale of some geared products.

Without admission of liability to investors, the firm has agreed to settle claims made by eligible investors.

Investors may receive up to 80% and/or 60% of the original investment, depending on the product which the investor invested in.

The firm has sent a letter to all eligible clients informing them of the above schemes.

The firm will keep its Hong Kong office open until 31 December 2006, or until all payments have been made, if earlier.

In light of the payment offer, the SFC issued a severe reprimand against the firm.

The SFC believes that it is vital for investment advisers to assess risk profiles of investors and properly advise them about suitable products. Investors also have a duty to consider whether what they are buying is within their risk tolerance and suits their investment objectives.

For more details, please refer to Enforcement Reporter issued in June 2006, available on the SFC website at: http://www.sfc.hk/sfc/doc/EN/speeches/public/enforcement/06/june06_eng.pdf

Brokers' profits jumped in Q1

Profits of stock exchange participant brokers in the first quarter of 2006 had jumped three times from the previous quarter, the latest issue of the SFC Quarterly Bulletin shows.

Total net profits of these stockbrokers in January to March 2006 amounted to \$3.8 billion, as compared to \$1.2 billion for October to December 2005. This was on the back of a 49% increase in their total turnover.

All categories of stockbrokers recorded a strong growth in turnover, with increases ranging from 37% to 62%. Categories A, B, C brokers saw their profits jump three times, doubled and jump five times respectively.



Circulars

The following recently published circulars are available on the SFC website under "Legislation & Regulatory Handbook" - "Regulatory Handbook" - "Codes, Guidelines and Circulars" at: <http://eapp01.sfc.hk/apps/cc/RegulatoryHandbook.nsf/eng/GenerateHTMLTB?openAgent>.

1. Circular to All Licensed Corporations re Five-day Week (16.06.2006)
2. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing (1) United Nations Sanctions (Sudan) Regulation (2) United Nations (Anti-Terrorism Measures) Ordinance (12.06.2006)
3. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing - Frequently Asked Questions on the Guidance Note on Prevention of Money Laundering and Terrorist Financing (19.05.2006)
4. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing (1) United Nations Sanctions (Cote d'Ivoire) Regulation 2006 (2) United Nations Sanctions (Liberia) Regulation 2005 (10.05.2006)
5. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing Prevention of Money Laundering and Terrorist Financing Guidance Note and Quarterly Suspicious Transaction Report Analysis (26.04.2006)



Investor focus

Reading financial reports pays dividends

According to an SFC Stock Investor Survey, around half of all stock investors refer to financial reports when making trading decisions. These investors might have reduced their losses by doing so.

The survey polled 500 stock investors between September 2005 and February 2006.

About half of them referred to financial reports (51%) and company announcements (48.4%) when making stock trading decisions. Nearly the same

proportions relied on stock commentators' recommendations on TV, radio or newspapers (48.2%) and media reports (47.6%).

When reviewing the performance of their stock investments, 53.4% gained and 21.4% lost.

While there was no statistically significant difference between the amount of profit made by stock investors who read financial reports and that made by stock investors who did not, stock investors who did not read

financial reports suffered a bigger trading loss (25.2%) than otherwise (16%).

We will continue our investor education work to promote informed investment decision and remind investors to carefully study a company's fundamentals and consider the suitability of any investment recommendations before committing their money.

For details, please see press release issued on 2 June 2006, available on the SFC website at: <http://eapp01.sfc.hk/apps/cc/PressRelease.nsf/eng/lkupNewsCode/06PR122?openDocument>

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Annual Report 2005-06 : Investors First

We believe that investors, like consumers, will only be attracted to a market that is well regulated and where firm and fair enforcement action will be taken against malpractice. The regulatory environment should allow innovation, and enable educated investors to make informed choices from a wide range of products.

In this report, we have also expanded discussions on our staff and our corporate social responsibility policies.

The SFC's total revenue in 2005-06 amounted to \$852 million. Total expenditure was \$497 million resulting in a surplus of \$355 million and reserves of \$1.2 billion at the year-end.

The Annual Report is available on the SFC website at: <http://www.sfc.hk/sfc/html/EN/speeches/public/annual/annual.html>.

Teachers' workshops are CPD eligible

The SFC has organised 15 investor education workshops for secondary school teachers from 29 May to 14 July 2006, covering wide-ranging investment topics. Participating teachers have the opportunity to visit the Stock Exchange's new Exhibition Hall, a fund management house and a bank or a broker firm.

This year's workshops are recognised as Continuing Professional Development (CPD) courses for teachers by the Education and Manpower Bureau.

Their ultimate aim is to help students develop positive investment attitudes and learn the basic skills of personal financial management.



Investor resources

The following items of investor resources have been made available to the

investing public or updated recently. They can be found on the InvestEd website at the URLs provided.

Investor Alert Updates (<http://eapp01.sfc.hk/apps/ie/eIRCAAlertList.nsf/eng/alert?openpage>):

Seven unlicensed companies/entities have been added to the Alert List: "Swisscash" (06.06.2006); "Stonewell Finance", "F-Easy Investments Co" (01.06.2006); "Bidvask Investment Limited", "China Cosmos Investments Limited" (19.05.2006); Charles Fleming Co Ltd (16.05.2006); Gramax Investment Club Limited (12.05.2006).

Dr Wise's Column (<http://www.invested.hk/invested/html/EN/features/index.htm>):

"How Dividend Payments Affect Warrant Prices" (30.05.2006)

Other publications



The following publications have been published since the release of the last SFC Alert. They are available on the SFC website under "Speeches, Publications & Consultations" - "Publications" at: <http://www.sfc.hk/sfc/html/EN/speeches/public/public.html>.

1. SFC Enforcement Reporter - June 2006 (23.06.2006)
2. SFC Quarterly Bulletin - Spring 2006 (01.06.2006)
3. SFC Enforcement Reporter - May 2006 (18.05.2006)
4. SFC Annual Report 2004-2005 (17.05.2006)
5. An English-Chinese Glossary of Securities, Futures and Financial Terms (Fourth Edition) (17.05.2006)
6. Amendments to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (15.5.2006)
7. SFC Enforcement Reporter - April 2006 (21.04.2006)

New investor education TV dramas

Tackling mis-selling to retail investors is one of SFC's regulatory challenges. To this end, the SFC and Radio Television Hong Kong (RTHK) have jointly produced a Cantonese TV drama series entitled "Investment Challenge" to explain the features and the risks of a wide range of complex and structured products.

The series started on 14 May for 10 consecutive Sundays, at 11am on ATV Home and 3:20pm on TVB Jade, and simultaneously on RTHK's website (<http://tv.rthk.org.hk>) and RTHK's Education Television website (www.eTVonline.tv). Starting 2 July, it will be re-screened at 8:55pm every Sunday on the Financial Channel of Cable TV with the following schedule:

Date	Theme
2/7	Equity-linked instruments
9/7	Managed funds
16/7	Bonds
23/7	Derivative warrants
30/7	Short-dated warrants
6/8	Futures
13/8	Investment-linked assurance schemes
20/8	Real estate investment trusts
27/8	Leveraged foreign exchange contracts
3/9	Investment advisers



(From left) Artistes Ms Ella Koon and Ms Lily Hong, columnist Mr Shek Kang Chuen, Controller of RTHK's Education Television Division Mr Forever Sze, singer Ms Jade Kwan, SFC Executive Director Mr Peter Au-Yang and banker Mr Andrew Fung launched the TV series.



FAQs

Q: Is "boiler room scam" the same as cold calling?

A: "Boiler room scam" is a type of cold calling where fraudsters make use of slick, professional-sounding salespeople to cold call investors and use high pressure sales tactics to lure them into seemingly lucrative investment opportunities e.g. overseas pre-IPO stocks. Once investors have parted with their money, the fraudsters are no longer contactable. Because these salespeople "cook up" their stories to attract susceptible investors, these scams have gained the notoriety of a "boiler room".



Recruitment

The following SFC positions are open. For application and details of the openings, please visit the SFC website at: <http://www.sfc.hk/sfc/html/EN/aboutsfc/employment/employment.html>.

- **Senior Counsel/Counsel - Legal Services Division**
- **Senior Manager / Manager - Intermediaries and Investment Products Division**
- **Translator**
- **Manager / Assistant Manager - Investor Education and Communications**
- **Executive Trainee**



Subscription information

The bi-monthly *SFC Alert* forms part of our range of regular publications; others include the monthly *SFC Enforcement Reporter*, the *Quarterly Report*, the *Quarterly Bulletin* and the *Annual Report*. All these publications are posted on the SFC website.

Free subscription to the electronic version of the *SFC Alert* (and other publications) can be made to sfcalert@sfc.hk.



Feedback

Tell us what you think of the *SFC Alert*. Questions and comments can be sent to sfcalert@sfc.hk.

Securities and Futures Commission
Office: 8/F Chater House, 8 Connaught Road Central, Hong Kong
Phone: (852) 2840 9222
Fax: (852) 2521 7836
Investor Hotline: (852) 2840 9333
Media: (852) 2840 9287
SFC website: www.sfc.hk
E-mail: enquiry@sfc.hk
InvestEd website: www.InvestEd.hk