



# Annual Report 2023-24



Hong Kong plays a unique role intermediating global capital between Mainland China and the rest of the world. Over the past 35 years, the Securities and Futures Commission has striven to maintain the integrity and transparency of the markets it regulates and to protect the interests of the investing public.

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# Mission and Mandates

The Securities and Futures Commission (SFC) is an independent statutory body set up in 1989 to regulate Hong Kong's securities and futures markets.

## Mission statement

As a financial regulator in one of the world's leading international financial centres, the SFC strives to strengthen and protect the integrity, orderliness and competitiveness of the securities and futures markets in Hong Kong for the benefit of the industry, investing public and Hong Kong's society as a whole.

## Mandates

Our work is defined and governed by the Securities and Futures Ordinance (SFO), which sets out our powers, roles and responsibilities.

## Our statutory objectives

- Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry
- Help the public understand the workings of the industry
- Provide protection for the investing public
- Minimise crime and misconduct in the industry
- Reduce systemic risks in the industry
- Maintain Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. Since then, our education function has been delegated to a subsidiary, the Investor and Financial Education Council (IFEC), which is fully funded by us and dedicated to promoting and delivering free and impartial investor and financial education resources and programmes to help improve the financial literacy level of the people in Hong Kong.

The Investor Compensation Company Limited, another subsidiary, was established in 2003 to manage and administer claims against the Investor Compensation Fund. It provides a measure of protection for investors in cases of broker default.

## Regulatory functions



Our work can be divided into five principal areas. We adopt a multidisciplinary approach under the "One SFC" ethos to leverage all of our regulatory tools and pool our expertise to achieve our objectives.

## Corporates

We oversee listing and takeovers matters in Hong Kong, including the vetting of listing applications, disclosure requirements for listed companies, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK).

Empowered by the Securities and Futures (Stock Market Listing) Rules and more generally under the SFO, we intervene in corporate cases at an early stage when we have reason to believe that a proposal may be harmful to investors or the broader public interest. We may raise objections to listing applications and transactions proposed by listed companies, or direct SEHK to suspend trading in a listed company's shares.

On a daily basis, we monitor company announcements to identify misconduct or irregularities. We facilitate the fair treatment of investors in corporate activities such as mergers, takeovers, privatisations and share buy-backs.



## Intermediaries

We set standards and qualifying criteria for corporations and individuals operating in our markets under the SFO. To protect the investing public, we allow only “fit and proper” persons to be licensed or registered.

We supervise licensed intermediaries to ensure financial soundness and compliance with business conduct requirements through off-site monitoring and on-site inspections. Our approach aims to detect risks early and through timely intervention prevent them from spreading. We promote the industry’s awareness of emerging issues and encourage proper market conduct by providing appropriate guidance.

We work closely with local and overseas regulatory counterparts and participate in international supervisory fora to enhance cooperation and coordination.

## Products

To develop Hong Kong as a full-service international asset and wealth management centre and preferred fund domicile, we formulate policies and support initiatives for the regulation of the asset and wealth management industry.

We maintain robust regulations for investment products offered to the public in Hong Kong under the SFO. We act as a gate-keeper in authorising investment products and monitoring their compliance with disclosure and other requirements.

We require offering documents for retail investment products to be accurate and to provide adequate information for investors to make informed decisions.

## Markets

We formulate policies to facilitate the development of market infrastructure and boost links with Mainland and international markets. To help reduce systemic risks, we monitor and collect quantitative information about the financial markets.

We also supervise market operators including exchanges, clearing houses, share registrars and alternative trading platforms.

## Enforcement

To maintain market integrity and protect the investing public, we combat crime and misconduct in the Hong Kong securities and futures markets through our

surveillance, investigative and disciplinary work. Where appropriate, we take action to remedy the effects of market misconduct by applying to the court for injunctive and remedial orders.

We work with other law enforcement agencies as well as Mainland and overseas regulatory bodies on investigations where required.

Our major enforcement actions include criminal prosecution and civil, disciplinary and market misconduct proceedings.

## Market development

To maintain Hong Kong’s status as a leading international financial centre, we endeavour to expand the breadth and depth of our financial markets and enhance our market infrastructure to provide an environment to nurture the healthy and sustainable growth of participants and businesses, without compromising investors’ interests. We also welcome innovation and constantly review our perimeters to ensure our regulatory framework is clear, robust and accommodates technological advances.

## Regulatory collaboration

To ensure our regulatory framework aligns with global standards, we actively participate in the International Organization of Securities Commissions and other global rule-setting bodies. We work closely with local and Mainland authorities on regulatory and market development initiatives to support Hong Kong’s long-term strategic development amidst the opening of Mainland financial markets.

## Communications and education

We maintain close communication with the industry and investment community to promote a better understanding of our work and the rationale behind our initiatives. We reach out to the industry and the public frequently to explain our functions and policies as well as specific issues to promote and facilitate compliance. When formulating policy or rule changes, we engage the industry and the public at an early stage through a variety of channels to explain our rationale as well as to listen to the perspectives of those who may be affected, before conducting public consultations on proposed rule changes. We promote investor education to help the public understand the workings of the industry, working closely with our wholly owned subsidiary, the IFEC.

# 35 Years of Transformation

Since it was established in 1989, the Securities and Futures Commission (SFC) has embarked on a remarkable journey to both guard and grow Hong Kong's capital markets, by enabling business opportunities and ensuring financial stability. As the city's markets usher in a golden era of development in leaps and bounds – not without setbacks at times, the SFC has adapted, evolved and progressed with the changing times, spurring market transformation and empowering the industry along the way.

Let's look back on this 35-year evolution.



<sup>1</sup> Figures have been rounded up.

<sup>2</sup> When SFC began work on 1 May 1989, 86 people were recruited in advance and 55 civil servants seconded from the Government.

<sup>3</sup> Source: HKEX. Figures as of the last trading day of March.

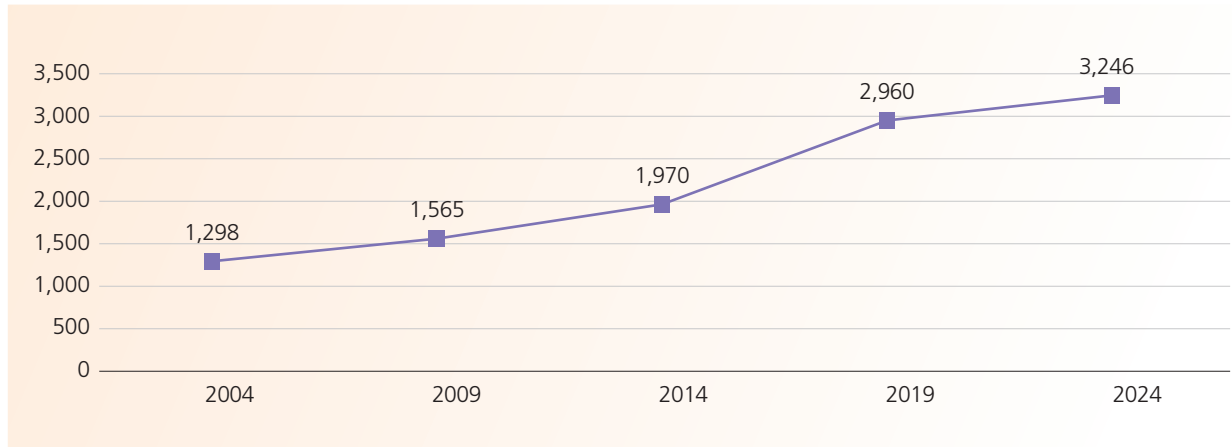
<sup>4</sup> Comparison of five-year averages between 1989-1993 and 2019-2023 based on calendar year ended 31 December. Source: HKEX.

<sup>5</sup> As of 2023.

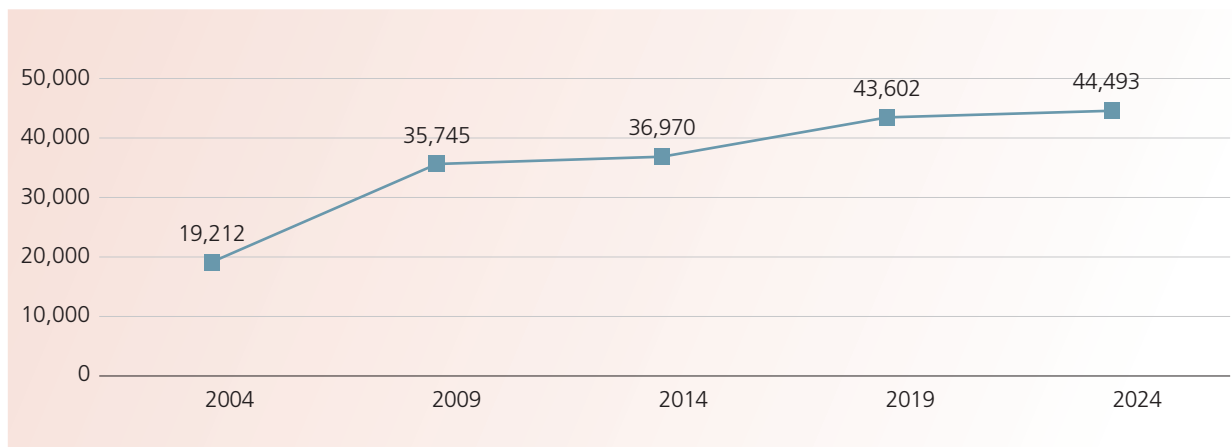
<sup>6</sup> International Organization of Securities Commissions.

<sup>7</sup> Former name of the IOSCO Board.

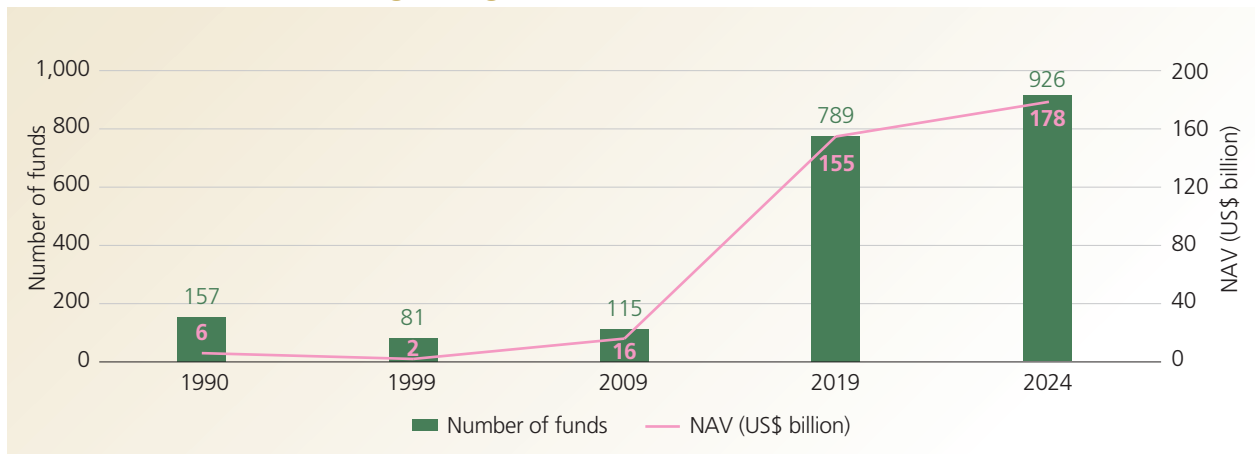
### Licensed corporations<sup>8</sup>



### Licensed individuals<sup>8</sup>



### Funds domiciled in Hong Kong



<sup>8</sup> The figures represent the number of persons licensed under the Securities and Futures Ordinance which came into effect on 1 April 2003.



# 35 Years of Transformation

The SFC is founded on 1 May as an independent statutory body to regulate Hong Kong's securities and futures markets



The code of conduct for securities and futures dealers and investment advisers in Hong Kong takes effect

For the first time, the court imposes immediate custodial sentences on persons convicted of stock manipulation following the SFC's prosecution

1989

1993

1994

2000

2002

Amendments to the Listing Rules and a regulatory cooperation agreement with Mainland regulators enable the listing of H shares and red chips

Hong Kong Exchanges and Clearing Limited is founded and the SFC takes over the supervision of intermediaries dealing in securities and futures

Following consultation and issuance of the hedge fund guidelines, Hong Kong becomes one of the first markets in the world to offer hedge funds to the retail public



2016

2015

IOSCO appoints the SFC's then Chief Executive Officer Mr Ashley Alder as Chairman of its Board

Shenzhen-Hong Kong Stock Connect is introduced

Mainland-Hong Kong Mutual Recognition of Funds is launched

The SFC obtains its first court order to liquidate a listed company to protect investors

The SFC authorises Hong Kong's first Islamic balanced fund

New listing rules for companies from emerging and innovative sectors take effect

The revised Code on Unit Trusts and Mutual Funds introduces active exchange-traded funds (ETFs)



2017

2018

2019

2020

The SFC announces a new front-loaded regulatory approach for listing regulation, marking a change in the approach in the use of SMLR<sup>9</sup> to direct the suspension of trading in a listed company to pre-empt further harm to investors pending investigation and enforcement outcome

The SFC announces *Strategic Framework for Green Finance*

The SFC initiates the establishment of the Green and Sustainable Finance Cross-Agency Steering Group with the HKMA to green the financial sector

The SFC reprimands and imposes a record fine against a licensed corporation for serious rule breaches in relation to the 1Malaysia Development Berhad's bond offerings

<sup>9</sup> Section 8 of the Securities and Futures (Stock Market Listing) Rules.



2003

The Securities and Futures Ordinance (SFO) consolidates ordinances governing the securities and futures markets



2005

The first Real Estate Investment Trust in Hong Kong is authorised for listing

2007

China Development Bank issues the first issue of renminbi bonds in Hong Kong

2008

The first criminal conviction for insider dealing under the SFO is obtained

2009

The SFC, the Hong Kong Monetary Authority (HKMA) and 16 distributing banks reach an agreement in relation to the repurchase of Lehman Brothers Minibonds from eligible customers



2014

A new regulatory regime for over-the-counter derivatives is introduced

Shanghai-Hong Kong Stock Connect is launched

2013

The new statutory regime mandates timely disclosure of inside information

2012

The Investor Education Centre, now known as the Investor and Financial Education Council, is established as a subsidiary of the SFC

2010

The first renminbi denominated fund is authorised for sale to retail investors

For the first time, the SFC exercises its statutory power under the SFO to apply to intervene in the privatisation proposal of a listed company, PCCW Ltd, through court proceedings following complaints of vote-rigging in the court meeting to approve the privatisation proposal

The Cross-boundary Wealth Management Connect Pilot Scheme commences

Trading of ETFs under Stock Connect, ie, ETF Connect, is launched



2023

We launch an investor identification regime for the Hong Kong securities market

Swap Connect is launched with northbound access

The licensing regime for virtual asset trading platforms under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance takes effect

Enhancements to Wealth Management Connect and ETF Connect are announced

2021

MSCI China A50 Connect Index Futures is launched

2022

Asia's first virtual asset ETFs are launched in Hong Kong

2024

The SFC announces *Strategic Priorities for 2024-26* to regulate and develop capital markets

We authorise Asia's first spot virtual asset ETFs

# Message from Chairman and CEO

“The past 35 years isn’t without challenges and setbacks, but Hong Kong’s world-class financial regulation and unique connectivity, coupled with our unwavering commitment to a free economy and the rule of law, have allowed us to go above and beyond.”

“As the premier connector between China’s and the global capital markets, Hong Kong will continue to thrive by staying resilient and agile in strengthening both existing and new market connections. In this, the SFC will keep on playing our critical role as both protector and enabler.”



**Tim Lui**  
*Chairman*

**Julia Leung**  
*Chief Executive Officer*

Thirty-five years may not make a “proud history”, but it certainly marks an inspiring journey replete with challenges, missions and achievements in safeguarding and developing the big financial market of this dynamic city.

It also represents a winding course of evolution for the SFC and Hong Kong’s capital markets amidst constant global market vagaries. Through these changing times,

the SFC has continued to adapt, evolve and progress with the emerging trends and novel practices in capital markets. While we remain firmly committed to market integrity, resilience and investor protection every step of the way, we also strive to create fresh opportunities for investors and businesses. Our prudent yet agile regulatory approach has been the essential support for Hong Kong’s success as an international financial centre, and this will only strengthen in the years to come.



### Journey of a market protector

On our journey to protect Hong Kong's standing as a global financial hub, we have stayed committed and tireless in pursuing market integrity, transparency and resilience. We have zero tolerance towards market misconduct and continue to take a robust enforcement approach against wrong-doings.

A classic example is our tremendous efforts in tackling ramp and dump schemes in recent years to ensure a healthy market ecosystem. As the core members of sophisticated syndicates are being brought to justice, we are seeing the fruit of our investigations, which have been possible only through close collaboration with other law enforcement agencies, such as the Independent Commission Against Corruption and the Hong Kong Police Force.

Over the past decades, our resolute actions against corporate misconduct have also protected investors and minority shareholders, leading to the delisting and liquidation of fraudulent firms, as well as disqualification of their senior management members. In addition, we have taken deterrent disciplinary actions against licensed firms and sanctioned their responsible officers for failures to discharge their obligations and control deficiencies, especially those causing hefty losses of investors' funds.

Our gatekeeping role would only be complete with our close vigilance on the financial markets and supervision of the exchanges, clearing houses and intermediaries, which are critical to the strengthening of their risk management abilities and prevention of systemic risks. And we never waste a crisis: through the past 35 years, we have learnt, improved and evolved our skillsets to monitor the markets and safeguard financial stability. Our capital markets have been very resilient through various market vagaries and even crises. In the last five years, we have endured social unrests in Hong Kong, the pandemic, geopolitical tensions and drastic global monetary tightening.

Underlying this resilience is our continued enhancement of capabilities in market surveillance, both on market and off market. The latest addition to our surveillance toolkit is the Hong Kong Investor Identification Regime launched in 2023, which enables us to spot trading irregularities early on and deter misconduct.

### Enabling by connecting

Healthy and resilient markets provide a necessary foundation for industry players and investors to grow and thrive. As an enabler of quality growth, we provide a policy platform, build market infrastructure and establish investor protection standards to facilitate trading and investments and allow participants to seize opportunities of the times. One example is our work to enhance stock market liquidity and efficiency and reduce transaction costs. With various short-term measures implemented recently, we continue to work with Hong Kong Exchanges and Clearing Limited (HKEX) to explore medium to long-term measures, such as reducing stock trading spreads and optimising collateral arrangements.

Our facilitation of Hong Kong's super-connector role is critical to our journey to develop markets. Since the first H-share listing some 30 years ago, the city has played a pivotal role in the opening-up of Mainland capital markets. The Mainland-Hong Kong Connect schemes have further enhanced this role by catalysing the city's rise as a global financial hub and the premier China gateway. Wealth Management Connect was expanded in January 2024 to allow the participation of brokers and more eligible investment products. In support of expanding mutual market access, the China Securities Regulatory Commission announced just in April 2024 a package of five measures which included allowing Mainland investors' access to REITs<sup>1</sup> listed in the city, as well as relaxing the criteria for Hong Kong exchange-traded funds (ETFs) under ETF Connect. These represent collective and assiduous efforts by both the SFC and HKEX since 2014 to drive progress of the Connect train from equities to fixed income and from the cash market to derivatives.

As an international financial centre, Hong Kong's connectivity extends towards overseas markets. We are pulling our weight to diversify our sources of capital and listings, by expanding connectivity with Asian markets and attracting more firms from the region to list here. As a milestone in forging new ties, the city saw the listing of Asia's first and the world's largest ETF investing in Saudi Arabian stocks last year. We have also enabled opportunities for our fund managers to expand regional footprints, and will continue to engage with Asian market regulators for more cooperation.

<sup>1</sup> Real estate investment trusts.

### Regulation empowering innovation

Harnessing the power of innovation and technology in financial markets is integral to our regulatory journey. The paths of financial regulation and technology have continued to cross, from our regime for electronic trading to the guidance on online distribution and robo-advice. With cutting-edge technologies such as blockchain and artificial intelligence set to change the world, we must embrace them to facilitate efficiency gains and better customer experience, while ensuring investor protection as well as transparent and orderly markets.

We have created a regulatory regime for virtual assets (VA) with comprehensive investor protection where none existed previously, based on the “same business, same risks, same rules” principle, which has become the golden rule adopted by regulators globally. Our efforts in regulating VA trading platforms since 2017 have crystallised into a new licensing regime effective in mid-2023 which comprehensively protects investors. Through these initiatives, we ensure new technology is used in a responsible and secure way that will culminate in a robust Fintech ecosystem.

We see potential benefits in the use of distributed ledger technology for financial services, and have guided the industry on the tokenisation of traditional securities and investment products, provided that no less investor protection is afforded than that in the conventional market. In the process, a VA ecosystem is being fostered. Starting with our authorisation of VA futures ETFs in late 2022 to enable retail access to VAs through a regulated channel, we have taken this further by allowing spot VA funds and ETFs for public access. Public and private tokenised funds have been available in our markets.

### Road to sustainability

We connect ourselves with global markets through shared objectives, and sustainability is clearly one of the most prominent. As the Mainland has pledged carbon neutrality by 2060, we can leverage the large financial footprint of Hong Kong to contribute to the nation’s carbon-neutral ambition.

Our green journey may be still young, but it will carry us far into the future. Hong Kong has stayed at the forefront of sustainable finance policy initiatives, with a priority to align Hong Kong’s climate-related corporate reporting standards with the IFRS<sup>2</sup> Sustainability Disclosure Standards published in June 2023. We have set out a roadmap to implement them in phases starting January 2025 with large listed companies.

The alignment will be part of Hong Kong’s strategy to develop a comprehensive sustainability disclosure ecosystem. Meanwhile, it is important that we ensure our approach to the implementation of the new standards is flexible, scalable and interoperable, in order to encourage adoption and make continuous progress, without losing sight of our long-term green vision. The new regime will give listed companies in Hong Kong a head-start in speaking to the market in the common international language in their reporting.

To overcome the challenges to adoption, we are building awareness and preparedness among issuers and the financial industry. We are also addressing data gaps by supporting the development of a voluntary code of conduct for ESG<sup>3</sup> data providers, as well as launching online emission calculation tools for the use of enterprises and the public.

<sup>2</sup> International Financial Reporting Standards.

<sup>3</sup> Environmental, social and governance.

### Vision for the fourth decade

From our permanent home at One Island East, we continue our regulatory journey to guard and grow Hong Kong's reputation as an international financial centre. We will remain steadfast in discharging our statutory functions and continue to act without fear or favour. It will not be all smooth sailing, but with a solid track record in weathering trying times, we have full confidence in the resilience of our markets and the robustness of our regulatory framework. We will build on this solid foundation to ensure a bright future for the city as the major connector between China's and the global capital markets.

In this year of celebration, we wish to express our heartfelt gratitude to our Board members and staff for their continued support and dedication that have been a vital driving force for the SFC on this 35-year journey.

**Tim Lui**  
Chairman

**Julia Leung**  
Chief Executive Officer



# Strategic Priorities

In the coming three years, the SFC's top four priorities are:

## 1 Maintaining market resilience and mitigating harm



- ◆ Combatting market misconduct and that related to virtual assets
- ◆ Expanding surveillance and investigatory toolkit
- ◆ Enhancing enforcement powers and collaboration
- ◆ Enhancing supervisory powers and intermediaries' risk management
- ◆ Stepping up HKEX oversight and clearing house risk management
- ◆ Enhancing regulatory framework for investment funds
- ◆ Implementing uncertificated securities market and regulation of securities registrars
- ◆ Preparing for over-the-counter derivative regime
- ◆ Type 13 Regulated Activity regime to launch
- ◆ Further guidance on cybersecurity to industry



## 2 Enhancing Hong Kong's global competitiveness

# 2

- ◆ Listing regime improvement
- ◆ Enhancing market liquidity
- ◆ Leading international standard-setting efforts
- ◆ Further enhancing Connect schemes with Mainland and expanding connections to new markets
- ◆ Reinforcing Hong Kong's position as asset and wealth management hub
- ◆ New integrated platform for retail fund distribution
- ◆ Building an offshore RMB and risk management hub

## 3 Leading market transformations via technology and ESG



- ◆ Tokenisation to increase industry efficiency
- ◆ Virtual asset regulatory regime to improve continuously
- ◆ Guidance on using generative AI large language models
- ◆ Advancing Hong Kong's leading role in sustainable finance
- ◆ Adopting global sustainability disclosure standards
- ◆ Supporting voluntary code for ESG rating and data products providers

### TOP PRIORITIES



## 4 Enhancing SFC's resilience and efficiency

# 4

- ◆ Prudent financial control
- ◆ Guarding against cyber threats
- ◆ Commitment to carbon reduction and neutrality
- ◆ Cross-divisional process review to drive efficiency
- ◆ New online platform to process product applications
- ◆ Deploying AI and other technologies

## Strategic Priority 1

### Maintaining market resilience and mitigating serious harm to our markets

We commit ourselves to keeping markets resilient against global challenges and heightened risks to financial stability. The risk management capabilities of our markets and intermediaries must be strengthened to ensure a smooth sail through future storms. We also expect to achieve better outcomes from investigations, law enforcement and investor protection, by deploying technology and collaborating with local, Mainland and overseas regulatory counterparts. More resources will be allocated to anti-scam publicity campaigns to educate the public.



#### Combatting market misconduct

##### ◆ Combatting misconduct of all forms

We are committed to tackling misconduct by listed companies, intermediaries and other market players engaged in market manipulation and insider trading. To mitigate the harm to investors from ramp and dump scams, we disrupt the operations of criminal syndicates, freeze their assets, and pursue legal action against the perpetrators.

To combat corporate fraud and misfeasance, we hold bad actors accountable, taking action against culpable directors and senior management of firms, and seek court orders to compensate investors. We continue to stay vigilant on intermediaries' internal control deficiencies that may facilitate manipulative schemes or result in loss of client assets.

##### ◆ Counteracting suspicious activities and investment scams

With the rise of new investment tools and asset classes has also come an increasing number of related scams and suspicious activities that put the investing public at risk. Combatting suspicious activities, including those happening on the internet or related to virtual assets (VA), is a new priority in our efforts to maintain market integrity. We warn the public against suspected fraud as well as suspicious investment products and platforms through social media posts, alert lists on our website and press briefings. We are also dedicating extra resources to publicity campaigns to alert the public in light of the rampant online or VA-related fraud of late. We address these risks through our collaboration and information sharing with other law enforcement agencies. In particular, the SFC shares intelligence and enhances collaboration with the Hong Kong Police Force (Police) in monitoring and investigating VA-related illegal activities through our joint working group.



### ◆ Expanding surveillance and investigatory toolkit

We will further deploy technology to monitor and mitigate market risks by linking evidence to advance legal proceedings. We have embarked on a robust data strategy to detect novel market abuse patterns and consolidate risk data across divisions that cover major players in the Hong Kong securities market to fight syndicate crimes. To address the rise of online scams, we have turned to artificial intelligence (AI) for monitoring social media platforms and flagging potential risk content. The ability to sift through data faster and more accurately will allow us to direct resources to high-impact cases.

### ◆ Enhancing enforcement powers

We continue to explore options to enhance our powers to maintain a robust and responsive regulatory framework. After concluding our consultation, we are proceeding to expand the jurisdiction of the SFO to include insider dealing activities that are related to overseas-listed securities perpetrated in Hong Kong, and those involving Hong Kong-listed securities perpetrated elsewhere, in joint operations.



### ◆ Enhancing supervisory powers and intermediaries' risk management

We continue to provide guidance to facilitate intermediaries' compliance with regulatory requirements. We conduct stress tests regularly and in times of market volatility, and follow up with thinly-capitalised intermediaries on their risk management controls and contingency funding plans. To enhance our supervision of global financial institutions, we will augment our collection of key risk indicators and financial information from these firms. We will also refine our data analytics for the over-the-counter (OTC) derivative transaction data reported to the Hong Kong Trade Repository to improve our monitoring of prime brokers' OTC derivatives activities in Hong Kong.

Furthermore, we will deepen collaboration with both international and domestic regulators through joint reviews and enhanced exchange of supervisory information to strengthen intermediaries' risk management. We also plan to expand fund data reporting requirements for private funds to enhance the SFC's monitoring of fund activities and market risk.

### ◆ Strengthening enforcement collaboration

To achieve the best possible enforcement outcomes, we actively engage with other local regulators and law enforcement agencies, including the Police, the Independent Commission Against Corruption (ICAC), the Accounting and Financial Reporting Council (AFRC) and the Stock Exchange of Hong Kong (SEHK).

In addition, our close collaboration with the China Securities Regulatory Commission (CSRC) extends our efforts to address cross-boundary misconduct more effectively. We also maintain highly effective enforcement cooperation internationally, through investigatory assistance to regulators outside Hong Kong.





## Regulatory enhancements to step up oversight and manage systemic risks

### ◆ Enhancing HKEX oversight and clearing house risk management

We continue to supervise Hong Kong Exchanges and Clearing Limited's (HKEX) operations closely and discuss with it the sufficiency of its governance and control processes. As part of these efforts, we inspected HKEX's information technology project management and system operations in 2023. We also continue to engage with HKEX on various risk management initiatives to improve the resilience of recognised clearing houses in Hong Kong, including enhancing the default fund sizing methodology and reviewing the margining measures.

### ◆ Enhancing regulatory framework for investment funds

In 2024-26, the SFC will conduct a holistic review of the regulatory requirements for SFC-authorized funds including the Code on Unit Trusts and Mutual Funds and the authorisation process. The review aims to: (1) broaden the range of fund types, investment strategies and investable assets; (2) reduce compliance burden on investment funds; and (3) implement updated international regulatory standards, such as those on fund liquidity risk management.

### ◆ Implementing uncertificated securities market (USM) and regulation of securities registrars

To facilitate a smooth implementation of USM, we aim to issue later this year a single paper to conclude the two consultations launched in 2023. The consultations respectively concerned: (1) subsidiary legislation regarding the details of the USM regime and regulation of securities registrars, and (2) proposed amendments to the code and guidelines relating to the regulation of approved securities registrars. The USM regime is expected to take effect from the end of 2025.

### ◆ Preparing for over-the-counter derivatives (OTCD) regime

We aim to launch in 2024 a public consultation on the draft OTCD-related amendments to the Securities and Futures (Financial Resources) Rules and the application guidelines for the internal models approach.

### ◆ Type 13 Regulated Activity (RA 13) regime to launch

To better protect public fund assets, we will directly license and regulate depositaries of SFC-authorized funds under the regime for a new regulated activity, RA 13, starting from 2 October 2024. For a smooth transition, we are working closely with the applicants, which consist of all depositaries currently operating in Hong Kong. Also, we will finalise the amendments to the financial return and the Business and Risk Management Questionnaire.

### ◆ Further guidance on cybersecurity to industry

To manage the systemic risks arising from cybersecurity under rapid financial innovation, we will share with the industry the lessons learnt and good practices found in a thematic review on emerging cybersecurity risks and threats, which is currently underway. The review covers the use of end-of-life software, vendor management and remote access. We will also update our current cybersecurity baseline requirements as appropriate.

### Strategic Priority 2

#### Enhancing the global competitiveness and appeal of Hong Kong capital markets

To help Hong Kong stay competitive globally and uphold its status as a hub for raising funds as well as asset management, the SFC is dedicated to raising the quality, liquidity and fund-raising ability of our equity market, deepening ties with Mainland capital markets, diversifying market access, as well as broadening our risk management tools. Our overseas networks will be broadened by exploring potential collaboration with overseas regulators. At the international stage, the SFC will continue to lead standard-setting work.



#### Strengthening listing market

##### ◆ Listing regime improvement

The SFC works closely with SEHK to enhance the listing regime and promote the long-term development of our listing market. Together with SEHK, we are reviewing the structure of the listed market, public float requirements, the initial public offering (IPO) price discovery process and enhancements to corporate governance standards, in order to foster a dynamic and liquid stock market and attract more institutional investors to the city's IPOs. The listing rules have also been amended in 2024 to allow issuers to manage their capital structure more flexibly through the holding and resale of treasury shares. Various enhancements to the listing regime have been made in the past year, including the introduction of a new listing regime for specialist technology companies, the addition of the Saudi Exchange and Indonesia Stock Exchange as recognised stock exchanges to facilitate international listings, and GEM reforms to enhance GEM's appeal to small and medium enterprises. In addition, the SFC and HKEX cooperate to enhance IPO settlement efficiency, and for this purpose, the Fast Interface for New Issuance (FINI) was launched in November 2023.

##### ◆ Enhancing market liquidity of public market

With a number of proposed short-term measures implemented, the SFC continues to work with HKEX to explore potential medium to long-term measures to reduce market friction, lower transaction cost and boost capital efficiency. Potential measures include reducing the minimum stock trading spreads, enhancing the price discovery process for IPOs, reviewing requirements on the public float of listed companies' shares, optimising collateral arrangements, allowing Mainland bonds held in custody under Bond Connect to be collateralised for renminbi (RMB) swap lines and other purposes, and adding block trades under Stock Connect.



## Upholding status as international financial hub

### ◆ Diversifying market access

To diversify the sources of capital and investors for our stock market and asset management industry, we will further explore with regulators of other markets, especially those in Middle East and ASEAN<sup>1</sup> possible cooperation arrangements to facilitate cross-listings and distribution of Hong Kong funds in those markets.



### ◆ Leading international standard-setting efforts

We maintain close collaboration with overseas counterparts and contribute to the work of international standard-setting bodies. Our senior executives shape international policies through their leadership roles in the committees and working groups of the Financial Stability Board and International Organization of Securities Commissions (IOSCO). As the newly-appointed Chair of IOSCO's Asia-Pacific Regional Committee, our Chief Executive Officer can contribute to strengthening regulatory cooperation and capacity building among securities regulators in the region.

<sup>1</sup> Association of Southeast Asian Nations.



### Deepening Mainland-Hong Kong market connect

#### ◆ Further enhancing Connect schemes

For mutual market access, we will prepare for the expansion of ETF<sup>2</sup> Connect and Mutual Recognition of Funds as well as the launch of REIT<sup>3</sup> Connect. Stock exchanges and clearing houses in Hong Kong and the Mainland are working closely to prepare the implementation details for introducing block trade (manual trade) under Stock Connect. Also, for trading ChiNext stocks under Stock Connect, the SFC will explore the relaxation of investor eligibility.

For Cross-boundary Wealth Management Connect (WMC) Scheme in the Greater Bay Area, we are working with the industry to smoothly implement the enhancements announced in early 2024 and will consider further optimisation. These enhancements include allowing participation by eligible brokers, expanding investment product scope and increasing the individual investor quota.



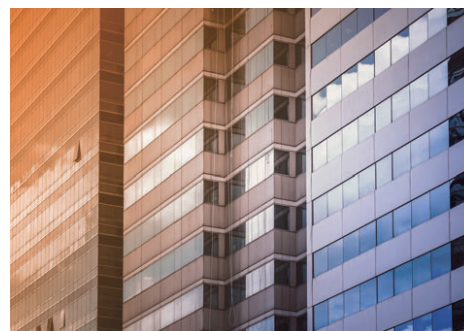
### Fostering a more competitive asset management industry

#### ◆ Reinforcing Hong Kong's position as a leading asset and wealth management centre

For the Mainland-Hong Kong Mutual Recognition of Funds scheme, we are working with the CSRC to enhance it by relaxing sales limits and overseas delegation restrictions.

#### ◆ New integrated platform for retail fund distribution (IFP)

To increase participation and diversification in Hong Kong's retail fund market and generate new business opportunities, we are joining forces with HKEX and other parties on the new IFP. The platform will provide a business-to-business service model initially and cover the front-to-back distribution lifecycle and value chain for distributing SFC-authorized funds.



<sup>2</sup> Exchange-traded funds.

<sup>3</sup> Real estate investment trusts.





## Building an offshore RMB and risk management hub

### ◆ Including RMB counters into Stock Connect

The RMB counters of 24 stocks have been established for trading since June 2023. In April 2024, Mainland authorities indicated support for the inclusion of these counters into southbound Stock Connect, and we are working with them on its launch.

### ◆ Paving the way for A-share index options

We are working with the CSRC on the launch of MSCI China A 50 Connect Index options, which will complement the MSCI China A50 Connect Index futures launched in 2021. The index futures and options are effective Mainland-related derivatives in Hong Kong to meet international investors' hedging needs.

### ◆ Preparing to launch 10-year China Treasury bond futures

Offshore investors' participation in Swap Connect has been increasing steadily after its launch in May 2023. It enables offshore investors to access the Mainland interest rate swap market efficiently to better hedge interest rate risk, mostly for short to medium tenor. To further broaden offshore interest rate risk management tools, we are working closely with HKEX on the upcoming launch of China Treasury bond futures contracts in Hong Kong, which was announced in November 2023. This key risk management tool can help offshore investors hedge the longer-tenor interest rate risk of their China bond holdings and encourage them to participate further in the Mainland bond market.

### Strategic Priority 3

#### Leading financial market transformation through technology and ESG

To transform financial markets to serve the needs of real economy and society over the long run, we embrace both technology and sustainable finance. For technology, we help to foster a secure Fintech ecosystem, support the tokenisation of investment products, and further advance the regulatory regime for virtual asset trading platforms (VATPs) while protecting investors' interests. For sustainable finance, we seek to bolster Hong Kong's leading position through the development of corporate disclosure standards and intermediating between emerging and developed economies.



#### Embracing technology

##### ◆ Tokenisation to increase industry efficiency

We facilitate tokenisation of traditional securities, including SFC- authorised investment products, by providing a clear and consistent regulatory framework, to support the industry's experiments with tokenisation with greater certainty. In our late-2023 guidance, we have emphasised how traditional financial institutions should manage the risks arising from tokenisation.

##### ◆ VA regulatory framework to improve continuously

The SFC continues to enable retail investors' exposure to VA, while putting in place additional investor guardrails. We facilitate the authorisation of funds investing directly or indirectly in VAs. In late 2023, we set out our requirements for intermediaries distributing investment products with exposure to VAs, including VA spot ETFs. We also provided guidance on authorising investment funds with VA exposure of more than 10% of their net asset value for public offering, including VA spot ETFs.

The new VATP regime, which commenced in June 2023, permits retail investors to trade VAs on SFC- licensed VATPs. In a policy update, the SFC and the HKMA have also further expanded retail access to VAs through SFC-regulated intermediaries with appropriate safeguards.

##### ◆ Guidance on using generative AI large language models

In light of the growing popularity and adoption of generative AI large language models, we aim to issue a circular in 2024 to provide additional guidance for licensed firms in relation to the use of such technology, while also reminding them of their existing regulatory obligations. The guidance will cover areas such as senior management accountability, model risk management, data management and cybersecurity.

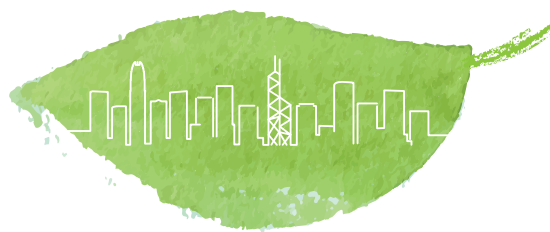




## Promoting environmental, social and governance (ESG)

### ◆ Advancing Hong Kong's leading role in sustainable finance

We take the lead in local, regional, and international fora on developing a comprehensive financial ecosystem that furthers the global sustainability agenda. We develop world-class regulations for sustainable finance in line with our *Agenda for Green and Sustainable Finance*. Key priorities include enhancing climate-related disclosure requirements for Hong Kong-listed companies, bridging Mainland carbon markets with international investors, monitoring the implementation of sustainable finance initiatives in asset management and ESG funds to address greenwashing, and supporting capacity building.



### ◆ Adopting global sustainability disclosure standards

As Co-Chair of Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group, we spearhead work on Hong Kong's adoption of the IFRS Sustainability Disclosure Standards<sup>4</sup> in a pragmatic way. Following the SFC's approval, SEHK issued its consultation conclusions on enhanced climate-related disclosure requirements for Hong Kong-listed companies in April 2024. The new requirements will be introduced in phases from January 2025. SEHK also published an implementation guidance to assist issuers in preparing disclosures. The SFC will continue to work with SEHK to ensure the smooth implementation of the new requirements, which aim to give listed companies a head-start in building preparedness and capabilities for sustainability reporting.

### ◆ Supporting voluntary code for ESG rating and data products providers

To help strengthen the transparency, quality and reliability of sustainability-related data for investors and financial institutions, we sponsor and support the development of a code of conduct for voluntary adoption by ESG ratings and data products providers in Hong Kong. An industry-led working group convened by the International Capital Market Association is leading the development of the code, while the SFC and other local regulators are sitting as observers to the working group.

<sup>4</sup> Comprising the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures.

### Strategic Priority 4

#### Enhancing institutional resilience and operational efficiency

The SFC pursues its own institutional resilience and operating efficiency in order to play a critical role in developing Hong Kong's capital markets. We apply robust budgeting and internal controls to ensure sufficient financial resources for operations. To enhance efficiency, we are streamlining workflows across divisions and continue to digitalise application and authorisation processes. We also step up our cyber resilience in light of heightened cybersecurity risks.



#### Fortifying SFC's resilience

##### ◆ Prudent financial control

In order to strengthen our institutional resilience and financial conditions against capital market headwinds, we employ multiple measures to control our costs such as headcount freeze, cross-divisional staff deployment, and adopting technology to increase productivity. We also intend to assess the potential resumption of annual licensing fees in 2025-26, after granting a fee waiver for nine out of the past 10 years.

##### ◆ Guarding against cyber threats

We will keep abreast of cybersecurity intelligence and solutions in the coming years, while also strengthening partnerships with global cybersecurity solution providers, law enforcement agencies and security experts to pre-empt and respond swiftly to cyber-attacks.

##### ◆ Commitment to carbon reduction and neutrality

To develop the SFC sustainably, we are committed to achieving carbon neutrality before 2050, in line with the Government's *Hong Kong's Climate Action Plan 2050*. We are implementing carbon emission reduction measures and raising staff awareness of climate change and sustainability.





## Improving our operational efficiency

### ◆ Cross-divisional process review to drive efficiency

The SFC is committed to fostering greater collaboration across all divisions to promote better synergies. The Enforcement Division and the Legal Services Division will conduct a joint review of the investigation and enforcement processes. This enhanced collaboration will optimise operational workflow and increase efficiency, allowing us to better achieve our regulatory objectives. We aim to digitalise and automate existing processes, standardise protocols, centralise knowledge management and streamline cross-divisional collaboration processes.

### ◆ New online platform to process applications

To streamline processes and enhance operational efficiency in handling applications of new investment products and post-authorisation matters, we will launch in mid-2024 a new online application system, e-IP, on the SFC's WINGS<sup>5</sup> portal. The deployment of WINGS has proven effective, for example, to streamline licence applications and reporting for intermediaries and VATPs.

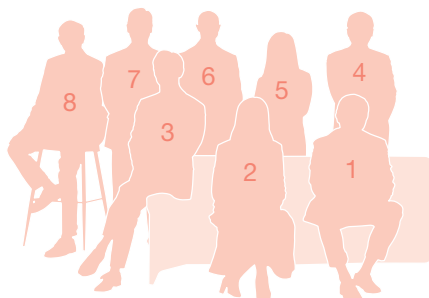
### ◆ Deploying AI and other technologies

The SFC is taking automation and digitalisation further, and meanwhile using AI to drive operational efficiency. We will further take advantage of both traditional and generative AI to process information and embed them into the daily work of various SFC divisions to improve productivity. Advanced technologies will be further deployed to implement automated and intelligent workflows. The technology infrastructure will also be upgraded to support wider AI adoption.

<sup>5</sup> Web-based INTeGrated Service.

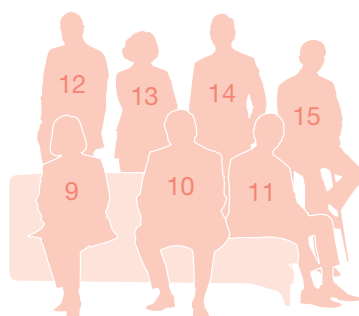


## Our Board



1. James C LIN    2. Julia LEUNG Fung-yee    3. Rico LEUNG Chung-yin    4. CHEW Fook-aun  
5. Christina CHOI Fung-yee    6. Christopher WILSON    7. Dieter YIH    8. Michael WONG Yick-kam





9. Agnes CHAN Sui-kuen    10. Tim LUI Tim-leung    11. Johnson KONG    12. Michael DUIGNAN  
13. Lisa CHEN Ping    14. Victor DAWES    15. Nicky LO Kar-chun

### Board members



**Tim LUI**  
**Tim-leung GBS, JP**

Chairman

From 20 October 2018  
Current appointment to  
19 October 2024

#### Other SFC-related positions

- ◆ Chairman: Investment Committee and Advisory Committee
- ◆ Member: Audit Committee and Remuneration Committee
- ◆ Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee
- ◆ Member, Process Review Panel for the Securities and Futures Commission

#### Current offices, public service and professional affiliations

- ◆ Chairman, University Grants Committee
- ◆ 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, the HKSAR Government
- ◆ Director, Hong Kong 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

- ◆ Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- ◆ Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- ◆ President, Hong Kong Institute of Certified Public Accountants (1996-1997)
- ◆ Chairman, Education Commission (2015-2022)
- ◆ 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 (1999-2005)



**Julia LEUNG**  
**Fung-yee SBS, JP**

Chief Executive Officer

From 1 January 2023  
Current appointment to  
31 December 2025

#### Other SFC-related positions

- ◆ Member: Budget Committee and Investment Committee
- ◆ Member: Advisory Committee and SFC (HKEC Listing) Committee

#### Current public service

- ◆ Council Member, Treasury Markets Association
- ◆ Vice President, The Hong Kong Institute of Bankers

#### Past offices and public service

- ◆ Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research (2019-2023)
- ◆ 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)

#### Past SFC positions

- ◆ Deputy Chief Executive Officer (2018-2022)
- ◆ Executive Director, Intermediaries (2016-2022)
- ◆ Executive Director, Investment Products (2015-2016)

#### Publication

- ◆ *The Tides of Capital* (London: OMFIF Press, 2015)



**Agnes CHAN**  
**Sui-kuen BBS**

Non-Executive Director

From 20 October 2018  
Current appointment to  
19 October 2024

#### Other SFC-related positions

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

#### Current offices, public service and professional affiliations

- ◆ Senior Advisor of Chairman's Office, Greater China, Ernst & Young
- ◆ Member, The 14th National Committee of the Chinese People's Political Consultative Conference
- ◆ Chairman, Hong Kong General Chamber of Commerce
- ◆ Member, Public Service Commission, the HKSAR Government
- ◆ Member, Election Committee, Accountancy Subsector, the HKSAR Government
- ◆ Member, Users' Committee, Inland Revenue Department, the HKSAR Government
- ◆ Member, Advisory Panel on BEPS 2.0, the HKSAR Government
- ◆ Accounting Advisor (Hong Kong), Ministry of Finance, People's Republic of China
- ◆ Hong Kong SAR Delegate, All-China Women's Federation
- ◆ Fellow Member, Hong Kong Institute of Certified Public Accountants
- ◆ Fellow Member and Honorary Advisor, Chartered Accountants Australia and New Zealand
- ◆ Fellow Member, Taxation Institute of Hong Kong
- ◆ Honorary Advisor, Hong Kong Public Sector Accountants Association
- ◆ Deputy Director, Professional Affairs Committee, Friends of Hong Kong Association Limited

#### Past offices and public service

- ◆ Managing Partner, Hong Kong and Macau, Ernst & Young (2009-2022)
- ◆ Hong Kong Monetary Authority: Member, Exchange Fund Advisory Committee; Member, Audit Sub-Committee; Member, Governance Sub-Committee (2018-2024)
- ◆ Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute (2015-2023)
- ◆ 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)

#### Past SFC positions

- ◆ Senior Director, Enforcement (2017-2023)
- ◆ Deputy Chief Counsel, Legal Services (2014-2017)
- ◆ Senior Counsel, Legal Services (2004-2009)

#### Past offices

- ◆ Counsel, Davis Polk & Wardwell (2013-2014)
- ◆ Consultant, Clifford Chance (2009-2013)



**Lisa CHEN Ping**

Executive Director,  
Legal Services

From 22 May 2023  
Current appointment to  
21 May 2026



## Our Board



### **CHEW Fook-aun**

Non-Executive Director

From 1 January 2023

Current appointment to  
31 December 2024

#### **Other SFC-related positions**

- ◆ Member, Remuneration Committee
- ◆ Member, SFC (HKEC Listing) Appeals Committee

#### **Current offices, public service and professional affiliations**

- ◆ Independent Non-Executive Director, Karex Berhad
- ◆ Fellow Member, Hong Kong Institute of Certified Public Accountants
- ◆ Fellow Member, The Institute of Chartered Accountants in England and Wales
- ◆ Fellow Member, The Hong Kong Institute of Directors
- ◆ Member, Hong Kong Judiciary Barristers Disciplinary Tribunal Panel
- ◆ Vice Chairman, Hong Kong Sports Institute Limited
- ◆ Council Member, The Hong Kong Polytechnic University
- ◆ Director, Asian Youth Orchestra
- ◆ Vice President, Hong Kong Football Club
- ◆ Deputy Chairman, Malaysian Chamber of Commerce

#### **Past SFC-related position**

- ◆ Member, Advisory Committee (2007-2013)

#### **Past public service**

- ◆ Hong Kong Institute of Certified Public Accountants: Vice President (2010), Council Member (2003-2010)
- ◆ Financial Reporting Council (now known as Accounting and Financial Reporting Council): Council Member (2009-2015); Member, Investigation and Compliance Committee (2019-2021); Member, Independent Audit Oversight Reform Committee (2015-2019)
- ◆ Member, Standing Committee on Company Law Reform, Companies Registry (2009-2015)
- ◆ Independent Commission Against Corruption: Member, Operations Review Committee (2015-2020); Member, Corruption Prevention Advisory Committee (2009-2014); Member, Citizens Advisory Committee on Community Relations (2007-2008)

#### **Past offices**

- ◆ Lai Sun Garment (International) Limited: Deputy Chairman and Non-Executive Director (2023); Deputy Chairman and Executive Director (2012-2023)
- ◆ Lai Sun Development Company Limited: Deputy Chairman and Non-Executive Director (2023); Deputy Chairman and Executive Director (2012-2023)
- ◆ Lai Fung Holdings Limited: Deputy Chairman and Non-Executive Director (2023); Chairman and Executive Director (2012-2023)
- ◆ Executive Director, eSun Holdings Limited (2012-2023)
- ◆ Executive Director and Group Chief Financial Officer, Esprit Holdings Limited (2009-2012)
- ◆ Executive Director and Chief Financial Officer, The Link Management Limited (2007-2009)
- ◆ Executive Director, Kyard Limited (a private family office) (2004-2007)
- ◆ Director of Corporate Finance, Kerry Holdings Limited (1998-2004)
- ◆ Chief Financial Officer, Kerry Properties Limited (1996-2004)





**Christina CHOI  
Fung-ye**

Executive Director,  
Investment Products

From 1 August 2016  
Current appointment to  
31 July 2025

**Other SFC-related positions**

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

**Current public service**

- ◆ Chairman, Committee on Investment Management, International Organization of Securities Commissions
- ◆ Member: Asian Financial Forum Steering Committee and Financial Services Advisory Committee, Hong Kong Trade Development Council

**Past SFC position**

- ◆ Senior Director, Investment Products (2012-2016)

**Past offices**

- ◆ Partner, Clifford Chance (2001-2004)



**Victor DAWES sc**

Non-Executive Director

From 1 August 2020  
Current appointment to  
31 July 2024

**Other SFC-related positions**

- ◆ Chairman, Investor and Financial Education Council
- ◆ Member: Audit Committee and Remuneration Committee
- ◆ Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee

**Current offices and public service**

- ◆ Senior Counsel, Temple Chambers
- ◆ Recorder, High Court
- ◆ Chairman, Hong Kong Bar Association
- ◆ Member, Advisory Body appointed under Part 10A of the Arbitration Ordinance

**Past public service**

- ◆ Member, Proceedings Committee, Hong Kong International Arbitration Centre (2019-2023)



**Michael DUIGNAN**

Executive Director,  
Corporate Finance

From 1 November 2022  
Current appointment to  
31 October 2025

**Other SFC-related positions**

- ◆ Chairman, Public Shareholders Group
- ◆ Member: Advisory Committee, Committee on Real Estate Investment Trusts and Nominations Committee

**Current public service**

- ◆ Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited

**Past SFC positions**

- ◆ Senior Director, Enforcement (2019-2022)
- ◆ Senior Director, Corporate Finance (2014-2018)

**Past offices**

- ◆ Director of Securities and Markets Supervision, Malta Financial Services Authority (2012-2014)
- ◆ Head of Market Supervision, Irish Stock Exchange (2008-2011)
- ◆ Manager, UK Financial Services Authority (2000-2008)

## Our Board



### Johnson KONG

Non-Executive Director

From 15 November 2021

Current appointment to  
14 November 2025

#### Other SFC-related positions

- ◆ Member, Remuneration Committee
- ◆ Member, SFC (HKEC Listing) Appeals Committee

#### Current offices, public service and professional affiliations

- ◆ Managing Director, BDO Limited
- ◆ Fellow, Hong Kong Institute of Certified Public Accountants (HKICPA)
- ◆ Fellow, Institute of Chartered Accountants in England and Wales (ICAEW)
- ◆ Fellow, CPA Australia
- ◆ Fellow, The Hong Kong Chartered Governance Institute
- ◆ Member, Hong Kong Academy of Finance
- ◆ Accounting Advisor (Hong Kong), Ministry of Finance, People's Republic of China
- ◆ Member, Election Committee, the HKSAR Government
- ◆ Member, Operations Review Committee, Independent Commission Against Corruption
- ◆ Member, Panel of the Witness Protection Review Board
- ◆ Council Member, Association of Hong Kong Accounting Advisors
- ◆ Alternate Director, Hong Kong Association of Registered Public Interest Entity Auditors
- ◆ Chair, Governance Committee, HKICPA
- ◆ Member, Audit Committee, University of Hong Kong
- ◆ President, St. Stephen's College Alumni Association
- ◆ Committee Member and Honorary Treasurer, The Association of Experts for Modernization
- ◆ Director, The Hong Kong Coalition of Professional Services
- ◆ Advisor, ESG Consortium
- ◆ Member, Hong Kong Chapter Committee, ICAEW

#### Past public service

- ◆ HKICPA: President (2020); Council Member (2015-2021); Chairman, Professional Conduct Committee (2017-2019); Inaugural Chair, Restructuring and Insolvency Faculty (2008-2012)
- ◆ President, Hong Kong Institute of Accredited Accounting Technicians (2009-2012)
- ◆ Member, Securities and Futures Appeals Tribunal (2017-2021)
- ◆ Member, Appeal Panel (Housing) (2012-2018)
- ◆ Member, Advisory Group on Modernisation of Corporate Insolvency Law (2012-2016)
- ◆ Member, Board of Review Panel (Inland Revenue Ordinance) (2010-2016)
- ◆ Member, Standing Committee on Company Law Reform (2009-2015)
- ◆ Member, Appeal Board Panel (Town Planning) (2009-2015)
- ◆ Executive Board Member, INSOL International (2005-2010)
- ◆ International Federation of Accountants: Chairman, Small and Medium Practices Business Support Task Force; Deputy Chair, Small and Medium Practices Advisory Group (2018-2023)



**Rico LEUNG  
Chung-yin**

Executive Director,  
Supervision of Markets

From 28 August 2019  
Current appointment to  
27 August 2025

**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

**Current public service**

- ◆ Member, Risk Management Committee, Hong Kong Exchanges and Clearing Limited
- ◆ Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research

**Past SFC position**

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

**Past offices**

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



**Dr James C LIN**

Non-Executive Director

From 1 August 2018  
Current appointment to  
31 July 2024

**Other SFC-related positions**

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

**Current offices and public service**

- ◆ Senior Partner, Davis Polk & Wardwell
- ◆ Director, the Hong Kong Investment Corporation
- ◆ Member, Process Review Panel for the Insurance Authority
- ◆ Member, Process Review Panel for the Mandatory Provident Fund Schemes Authority
- ◆ Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants
- ◆ Harvard Law School: Visiting Lecturer on Law; Member, Dean's Asia Leadership Council
- ◆ Overseer, Morningside College, The Chinese University of Hong Kong
- ◆ Trustee, Asia Society Hong Kong Center

**Past public service**

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

## Our Board



**Nicky LO**  
**Kar-chun SBS, JP**

Non-Executive Director

From 24 April 2019  
Current appointment to  
23 April 2025

### Other SFC-related positions

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

### Current offices and public service

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

### 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, the HKSAR Government (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

- ◆ President and Chief Executive Officer, Synnex Distributions (China) Ltd (1987-2013)
- ◆ President and 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 Hong Kong Government (1974-1987)



**Christopher WILSON**

Executive Director,  
Enforcement

From 1 November 2022  
Current appointment to  
31 October 2025

### Past offices

- ◆ Deputy General Counsel, Asia Global Banking and Markets, HSBC (2016-2022)
- ◆ Deputy General Counsel, Citizens Bank (2015-2016)
- ◆ Managing Director of Legal, JPMorgan Hong Kong (2004-2015)
- ◆ Associate Counsel, Simpson Thacher & Bartlett (1998-2004)

### Past public service

- ◆ Board Member, Board of Directors, Hong Kong Association of Corporate Counsel (2019-2022)



**Michael WONG**  
**Yick-kam SBS, MH, JP**

Non-Executive Director

From 1 April 2021  
Current appointment to  
31 March 2025

#### Other SFC-related positions

- ◆ Member, Remuneration Committee
- ◆ Member, SFC (HKEC Listing) Appeals Committee

#### Current offices and public service

- ◆ Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- ◆ Member, Estate Agents Authority
- ◆ Member, Land and Development Advisory Committee
- ◆ Member, Board of Trustees of New Asia College, The Chinese University of Hong Kong
- ◆ Member, Executive Committee, Hong Kong Youth Hostels Association

#### Past offices and public service

- ◆ Sun Hung Kai Properties Group: Non-Executive Director (2013-2015); Non-Executive Director and Group Principal Advisor (2009-2013); Executive Director (1996-2009)
- ◆ Chairman, Hong Kong Youth Hostels Association (2005-2014)
- ◆ Member, Steering Committee on the Child Development Fund (2008-2016)
- ◆ Member, Social Welfare Advisory Committee (2009-2015)
- ◆ Member, Social Innovation and Entrepreneurship Development Fund Task Force (2013-2020)
- ◆ Chairman, Council of the Hong Kong Metropolitan University (2016-2022)
- ◆ Non-Executive Director, Urban Renewal Authority (2016-2022)



**Dieter YIH JP**

Non-Executive Director

From 15 November 2021  
Current appointment to  
14 November 2025

#### Other SFC-related positions

- ◆ Member, Remuneration Committee
- ◆ Member: SFC (HKEC Listing) Appeals Committee, Takeovers and Mergers Panel, and the Takeovers Appeal Committee

#### Current offices, public service and professional affiliations

- ◆ Partner, Kwok Yih & Chan, Solicitors
- ◆ Chairman, Quality Education Fund Steering Committee
- ◆ eMPF Platform Company Limited: Non-Executive Director; Chairman, Risk Committee
- ◆ Member, University Grants Committee
- ◆ Member, Standing Committee on Legal Education and Training

#### Past public service

- ◆ President, The Law Society of Hong Kong (2012-2013)
- ◆ Chairman, Financial Dispute Resolution Centre (2018-2024)
- ◆ Deputy Chairman, Council of the Education University of Hong Kong (2016-2022)
- ◆ Convenor, Investigation Panel (Panel A), Hong Kong Institute of Certified Public Accountants (2014-2021)
- ◆ Member, Registration Committee, Hong Kong Institute of Certified Public Accountants (2022-2024)
- ◆ Member, Banking Review Tribunal (2016-2022)
- ◆ Member, Education Commission (2016-2022)
- ◆ Member, Standing Committee on Judicial Salaries and Conditions of Service (2016-2021)
- ◆ Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2015-2021)

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

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 214–223 for information about SFC external committees.



# Highlights

## Key figures for 2023-24

### Corporates

**157**  
new listing applications  
received

**67**  
new listings

**317**  
takeovers-related  
transactions and  
applications  
reviewed

### Enforcement

**4,627**  
requests for trading  
and account records

**183**  
cases initiated for  
investigation

**204**  
individuals and  
corporations subject  
to ongoing civil  
proceedings

**\$49.9 million**  
in fines imposed on  
licensees

### Communications

**192**  
press releases,  
statements and  
announcements

**63**  
circulars to the  
industry

**350**  
social media posts

**100+**  
executive speaking  
engagements

**3,637**  
general enquiries

**3,206**  
complaints against  
intermediaries and  
market activities

### Intermediaries

**7,255**  
new licence applications, comprising  
**7,035** individuals and **220** corporations

As of 31 March 2024

**47,851** licensees and registrants including  
**44,493** licensed individuals,  
**112** registered institutions, and  
**3,246** licensed corporations,  
with **2,140** licensed for Type 9  
(asset management) regulated activity

**23** VATP<sup>1</sup> applications under the AMLO<sup>2</sup>,  
comprising

**4** from existing VATP  
licence applicants under the SFO<sup>3</sup> and  
**19** new applications

As of 31 March 2024

**2** VATPs were licensed under the SFO

**234** on-site inspections of licensed  
corporations and associated entities

### Products

**170** new authorised funds

**172** new open-ended fund  
companies registered

As of 31 March 2024

**2,951**  
authorised collective investment  
schemes, including

**926** Hong Kong-domiciled funds

<sup>1</sup> Virtual asset trading platform.

<sup>2</sup> Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

<sup>3</sup> Securities and Futures Ordinance.



## Market development

### China Treasury bond futures

We announced the upcoming launch of China Treasury bond futures contracts in Hong Kong. This important risk management tool can facilitate further participation by offshore institutional investors in the Mainland Treasury bond market. We are working closely with Hong Kong Exchanges and Clearing Limited (HKEX) on its launch.

### Swap Connect

Swap Connect, which allows offshore investors from Hong Kong and other jurisdictions to participate in the Mainland interbank interest rate swap market, was launched for northbound trading in May 2023.

As of 31 March 2024, there were 50 offshore Swap Connect participants, and the month-on-month average daily gross notional amount of contracts executed under Swap Connect had quadrupled since its launch.

### Stock Connect enhancements

Enhancements to Stock Connect were announced to further raise the trading efficiency of the scheme and promote the mutual development of the Mainland and Hong Kong capital markets. These measures include the expansion of the scope of exchange-traded funds (ETFs), the incorporation of real estate investment trusts (REITs) into the Stock Connect, and the introduction of block trading (manual trades).

### Renminbi (RMB) counters

The RMB counters of 24 stocks were launched for trading in June 2023. The average daily turnover of the 24 RMB counters amounted to RMB98.3 million (\$105.1 million) since their launch. The dual counter market making programme brings in market makers to ensure liquidity and minimise gaps between Hong Kong dollar and RMB share prices, and would be further invigorated by the China Securities Regulatory Commission's (CSRC) support of the inclusion of RMB-denominated stocks into southbound Stock Connect.

### Enhancements to cross-boundary Wealth Management Connect (WMC)

We jointly announced the enhancements to WMC with the People's Bank of China (PBoC), the National Financial Regulatory Administration (NFRA), the CSRC, the State Administration of Foreign Exchange (SAFE), the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao. Enhancement measures include expanding the scope of eligible products and allowing eligible brokers to participate in the scheme.

To facilitate licensed corporations' participation in WMC, we issued a set of guidance and frequently asked questions (FAQs).

### Hong Kong-listed ETFs

We authorised Asia's first and the world's largest ETF investing in Saudi Arabian-listed stocks, which was listed in Hong Kong in November.

We also authorised the first two active ETFs adopting a covered call writing strategy in Hong Kong. They were listed in February 2024.

### Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme

We reached an agreement with the CSRC on relaxing the MRF scheme.

As at 31 March 2024, a total of 44 Mainland funds were authorised by the SFC and 38 Hong Kong funds were approved by the CSRC. The aggregate cumulative net subscriptions were about RMB26.6 billion.

### Hong Kong-domiciled funds

The assets under management (AUM) of Hong Kong-domiciled public funds recorded US\$178 billion as of 31 March 2024 and net fund inflows of about US\$11.5 billion were recorded during the year.

### Grant scheme for OFCs and REITs

The Government's grant scheme to subsidise the setting up of open-ended fund companies (OFCs) and listing of REITs in Hong Kong has been extended for another three years from May 2024.

### Overseas listings by Mainland enterprises

After discussing with the SFC, the Stock Exchange of Hong Kong Limited (SEHK) concluded a consultation on Listing Rule amendments to reflect Mainland China's revised regulation updates on overseas listings by Mainland enterprises. The new rules became effective on 1 August 2023.

### International listings

The main markets of the Saudi Exchange and the Indonesia Stock Exchange were added to the list of recognised stock exchanges, which will enable Saudi- and Indonesia-listed companies to apply for secondary listing in Hong Kong.

### GEM listing reforms

With our approval, SEHK's GEM listing reforms became effective in January 2024. SEHK introduced facilitative measures for eligible GEM issuers to transfer to the Main Board.



## Regulatory enhancements

### Codes on Takeovers and Mergers and Share Buy-backs

Amendments were made to enhance regulation of takeovers and share buy-backs, including clarifying a number of important terms and provisions, streamlining processes and introducing green initiatives.

### Uncertificated securities market (USM) regime

Following our March 2023 consultation on subsidiary legislation, we launched a further consultation in October on proposed amendments to the code and guidelines for regulating approved securities registrars under the USM environment. We aim to issue a conclusions paper on both consultations later this year.

### Position limit regime

The enhanced position limit regime took effect in December 2023. The amendments clarified funds-related regulatory requirements, facilitated compliance and provided greater flexibility to the market. We also published an FAQ and updated the related guidance note to help market participants understand the enhancements.

### Over-the-counter (OTC) derivatives regulation

With the legislative process completed for our proposed amendments to the Clearing Rules for the OTC derivative transactions, they will take effect in July 2024. The amendments are in line with the global interest rate benchmark reform.

### Investor identification regime

The investor identification regime for the Hong Kong securities market and the OTC securities transactions reporting regime for shares listed on SEHK were launched in March and September 2023 respectively. Both regimes have strengthened the market surveillance capability, upheld market integrity and bolstered investor confidence in the Hong Kong securities market.

### Type 13 regulated activity (RA 13) regime

Following the completion of the legislative process, the new RA 13 regime for depositaries of public funds will come into effect in October 2024. We provided guidance and began accepting applications in July 2023. As of 31 December, all depositaries of public funds operating in Hong Kong had submitted their RA 13 applications.

### New treasury shares regime

Working together with the SFC, SEHK launched a consultation to introduce a listing regime governing treasury shares. It received strong market support and the rule changes became effective in June 2024.



## Virtual assets (VA) and tokenisation

### New regulatory regime for VATPs

The licensing regime for VATPs under the AMLO came into effect in June 2023. It requires all VATPs operating a virtual asset exchange in Hong Kong or actively marketing their services to Hong Kong investors to be licensed by the SFC.

We licensed two VATPs under the SFO. As of 31 March 2024, we received 23 VATP applications, of which four were from existing VATP licence applicants under the SFO, and the remainder were new applications.

### Guidance on VA activities, VA products and tokenisation

We revised the joint circular issued together with the HKMA on intermediaries' VA-related activities to enable retail investors to access VA dealing services and advisory services provided by SFC-regulated intermediaries partnering with SFC-licensed VATPs. We further revised the joint circular to set out requirements for distributing investment products with exposure to VAs. In another circular, we issued our requirements applicable to SFC-authorised funds with exposure to VAs of more than 10% of their net asset value, including SFC-authorised VA spot ETF.

We also provided guidance to the industry on tokenised securities-related activities and tokenisation of SFC-authorised investment products, which emphasised how traditional financial institutions should address and manage the risks arising from tokenisation.

The first tokenised SFC-registered private OFC was launched in December 2023; the first tokenised retail gold product was authorised by the SFC in March 2024.

### Enforcement actions under VATP regime

To identify and address potential fraud promptly, we established a dedicated joint working group with the Hong Kong Police Force (Police) with an information sharing protocol to enhance collaboration in monitoring and investigating illegal activities related to VAs and VATPs. At the SFC's request, the Police expeditiously took steps to block access to websites of entities involved in suspected fraud.



## Gatekeeping and supervision

### Listing applications

We processed 261 listing applications<sup>4</sup>, of which 157 were new listing applications. Amongst others, there were new listing applications from three companies with a weighted voting rights (WVR) structure, 14 pre-profit biotech companies, one special purpose acquisition company (SPAC), two companies seeking a listing by way of de-SPAC transactions<sup>5</sup> and two specialist technology companies. One overseas-listed company achieved dual-primary listing on the Main Board.

### Licensing corporations and individuals

We approved 164 new corporate licence applications and around 6,700 individual licence applications. Amongst the newly approved corporate applications, 85% of them applied for Type 9 (asset management) regulated activity (RA) and 63% applied for Type 4 (advising on securities) RA.

### Suitability obligations for dealing with sophisticated professional investors

We issued a joint circular with the HKMA to guide the implementation of a streamlined approach to comply with the suitability obligations when dealing with sophisticated professional investors.

### Risk management guidelines for futures brokers

We issued risk management guidelines for licensed persons dealing in futures contracts to enhance futures brokers' risk management.

### Inspections

We conducted 234 on-site inspections of licensed corporations and associated entities to review their compliance with regulatory requirements and noted 1,492 breaches<sup>6</sup> of our rules and regulations.

### Cybersecurity

Our thematic review on emerging cybersecurity risks and threats was commenced, covering the use of end-of-life software, vendor management and remote access.

### Non-exchange traded investment products

We published a report on the joint SFC-HKMA annual survey on the sale of non-exchange traded investment products<sup>7</sup> during 2022, which showed that 35% of firms recorded an increase in their transaction amount and the top-selling collective investment schemes were money market funds.

### Review of SEHK's work

We published a report on our review of the performance of SEHK in its regulation of listing matters during 2021 and identified areas for enhancement.

### Corporate misconduct

As part of our front-loaded approach in preventing corporate misconduct, we issued section 179<sup>8</sup> directions to gather additional information in 39 cases.

<sup>4</sup> Including 157 new listing applications and 104 cases brought forward from the previous reporting period.

<sup>5</sup> Including one company with a WVR structure.

<sup>6</sup> Please refer to Table 2 of Operational Data on page 208 for details.

<sup>7</sup> Such as collective investment schemes, structured products and debt securities.

<sup>8</sup> 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.





## Enforcement

### Surveillance

We made 4,627 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements.

### Investigations and prosecutions

We commenced 183 investigations and laid 50 criminal charges against 24 individuals, of which 17 were charged for suspected market misconduct and other offences for indictment prosecution. We secured convictions against two of them.

Twenty-four people, including key members and a suspected ringleader of a large-scale, sophisticated ramp and dump syndicate, were charged following a joint operation with the Police.

### Notable disciplinary actions

We reprimanded and fined Changjiang Corporate Finance (HK) Limited \$20 million for failure in discharging its duties as the sponsor in six applications to list on SEHK.

We revoked the licence of Axial Capital Management Limited for repeated failures to comply with the SFO, the Securities and Futures (Financial Resources) Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC.

### Regulatory collaboration

We conducted the first-ever tripartite operation together with the Independent Commission Against Corruption and the Accounting and Financial Reporting Council (AFRC) in October 2023 against two Hong Kong-listed companies on suspected fictitious corporate transactions totalling \$193 million.

We issued the first joint statement with the AFRC in July 2023, addressing an observable increase in cases of listed issuers channelling corporate funds to third parties as “loans” in dubious circumstances. We set out conduct standards and practices that listed issuers, their directors, audit committees and auditors should follow in relation to loans and similar arrangements.



## Sustainability

### Cross-Agency Steering Group<sup>9</sup>

We co-led efforts to develop greenhouse gas emissions calculation and estimation tools and the Prototype Hong Kong Green Fintech Map, both of which were launched in early 2024. We also co-lead work on developing a roadmap for Hong Kong's adoption of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards as appropriate, which included hosting an industry roundtable with the International Sustainability Standards Board in March 2024.

### International Organization of Securities Commissions' (IOSCO) Sustainable Finance Task Force (STF)

Through our leading role within IOSCO's STF and Asia-Pacific Regional Committee (APRC), we promote regulatory alignment, knowledge sharing and capacity building in the region on sustainable finance topics including sustainability disclosures and carbon markets.

### ESG ratings and data products providers

We supported and sponsored the development of a voluntary code of conduct for ESG<sup>10</sup> ratings and data products providers via an industry-led working group.

### Inaugural Forum on Sustainability Disclosures

In November 2023, we held our inaugural Forum on Sustainability Disclosures which was attended by more than 200 local and regional participants to gather views on developing a sustainability disclosure ecosystem for Hong Kong.

### Carbon neutrality

We announced our commitment to become a carbon-neutral organisation by 2050, in line with the HKSAR Government's climate strategy. Our interim target is to reduce 50% of our total carbon emissions by 2030.



## Regulatory engagement

### Mainland

To further deepen cross-boundary regulatory cooperation and discuss market development initiatives for Mainland and Hong Kong capital markets, we met with the senior management of a number of Mainland authorities including the CSRC, PBoC, NFRA and SAFE, held the 13th and 14th SFC-CSRC high-level meetings with the CSRC, and visited several stock exchanges, futures exchanges and clearing houses in Guangzhou, Shenzhen and Shanghai. We also maintained close cooperation with the CSRC, including providing investigatory assistance in each other's cases and providing secondment and training opportunities for each other's staff.

### International

Our senior executives took up key roles in IOSCO, including Chair of its APRC, Vice Chair of its

STF, and Chair of its Policy Committee on Investment Management. We also co-chair Open-ended Funds Working Group under the Financial Stability Board's Standing Committee on Supervisory and Regulatory Cooperation.

We hosted a number of high-profile international meetings in Hong Kong. In February 2024, we organised the IOSCO APRC meetings attended by more than 70 senior regulators and experts from 21 jurisdictions.

In July 2023, we hosted a visit by the representatives of the Takeovers Regulation Panel of South Africa where we exchanged experiences in regulating takeovers.

We responded to 143 requests for information and bilateral meetings from overseas regulators and industry bodies.

<sup>9</sup> Co-chaired by the SFC and the HKMA, the Green and Sustainable Finance Cross-Agency Steering Group comprises the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Insurance Authority, Mandatory Provident Fund Schemes Authority, AFRC, and HKEX.

<sup>10</sup> Environmental, social and governance.



## Communications

### Regulatory Symposium

We organised the SFC Regional Securities Regulatory Leadership Symposium in February 2024 as one of the events marking the SFC's 35th anniversary. More than 300 senior government officials, financial regulators and business leaders exchanged views on Asia-Pacific capital market developments.

### Education and alerts

We enhanced our website to consolidate all investor alerts and make them more accessible to the public. To raise awareness, we warned the public against cases of suspected frauds and other misconduct through press briefings, press releases, social media posts, and posting of suspicious entities and products on the SFC's Alert List. We added 19 suspicious VATPs and 28 suspicious investment products to the Alert List.

We launched advertising campaigns spanning both online and offline channels, including radio, buses, online banners and panels in MTR stations to alert the public to financial scams as well as the risks of trading on unregulated VATPs.

We also worked with Radio Television Hong Kong to produce a TV drama series featuring a strong anti-scam message.

### Social media

We launched our YouTube channel to broaden our reach to the general public, in addition to our social media platforms including Facebook, WeChat as well as LinkedIn.

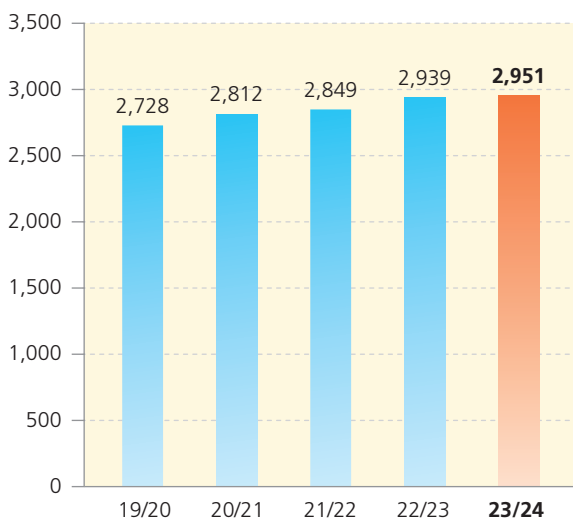
### Community outreach

To promote public awareness of common investment scam tactics and provide tips to avoid them, we supported anti-scam community events and spoke at various webinars, TV and radio interviews.

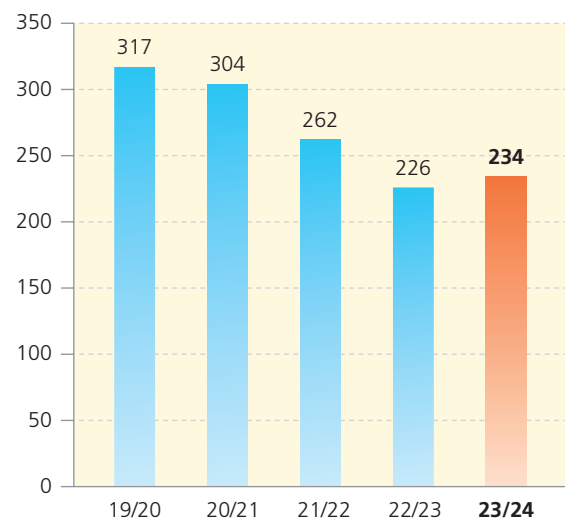
## Highlights

These charts are intended to show some top-line data at a glance. See Operational Data on pages 207–213 for more details.

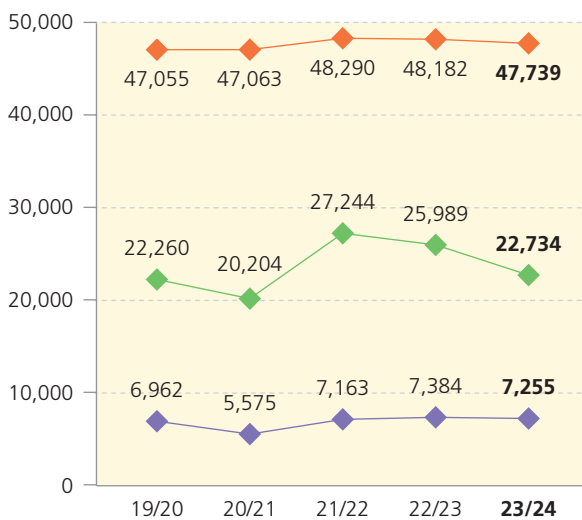
### Authorised collective investment schemes



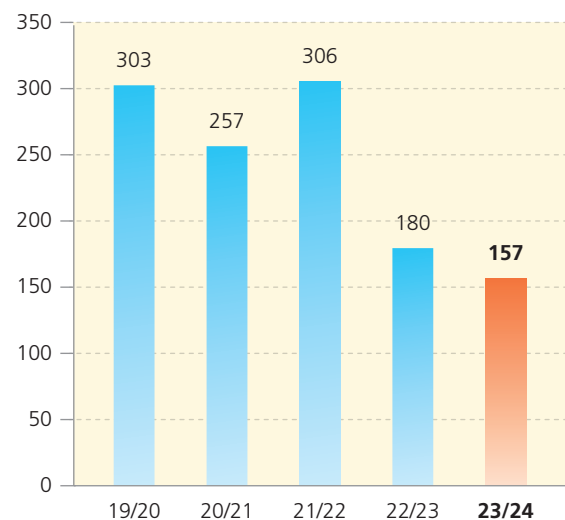
### On-site inspections of licensed corporations and associated entities



### Licensing

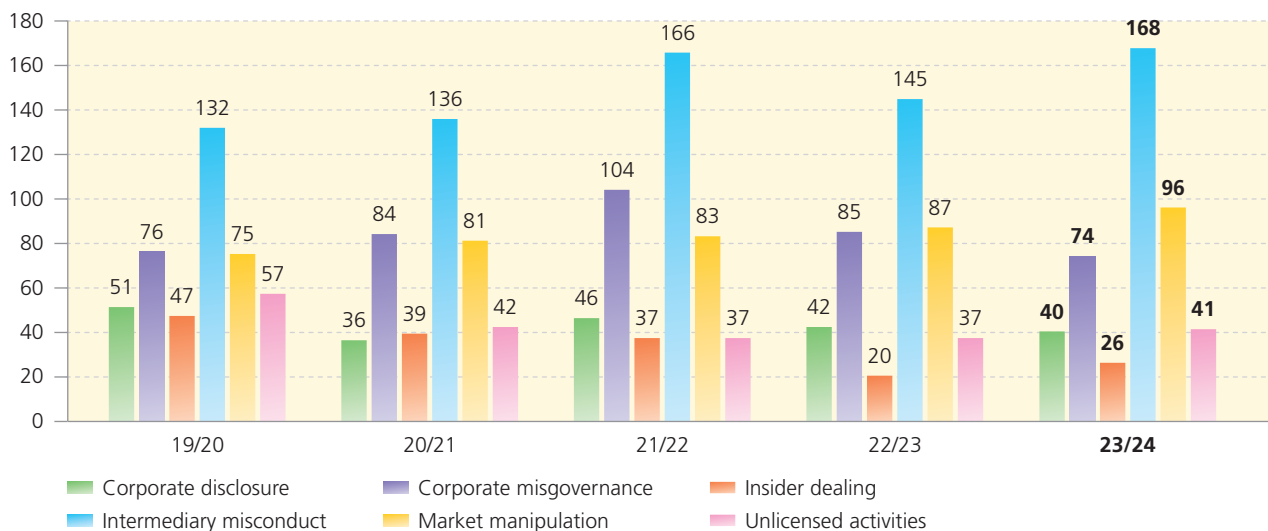


### New listing applications

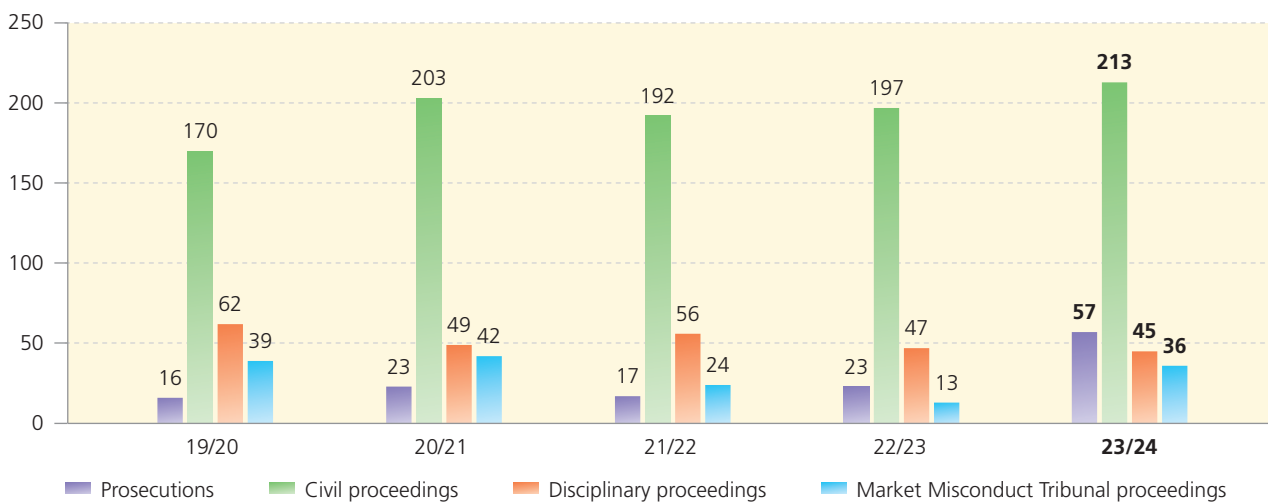


- ◆ Total number of SFC licensees as at each financial year-end
- ◆ Applications to conduct new regulated activity
- ◆ Applications for SFC licences

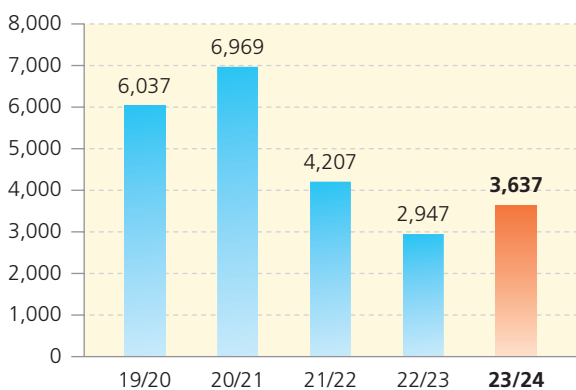
### Investigations



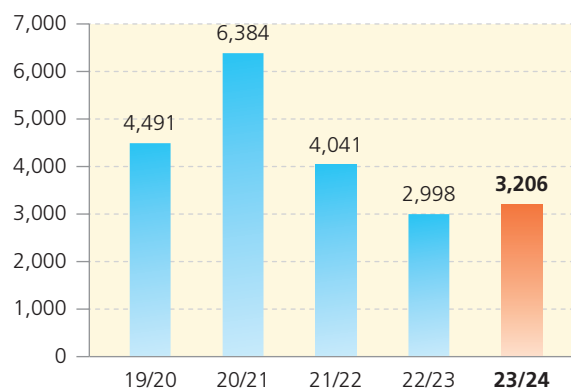
### Persons/corporations subject to enforcement action



### General enquiries



### Complaints against intermediaries and market activities





# Operational Review

Our strategic priorities are the guiding force behind our multidisciplinary approach under the “One SFC” ethos. We effectively harness the full range of our regulatory tools and resources to strengthen the integrity and soundness of the financial markets through our five principal areas of work: corporates, intermediaries, products, markets and enforcement. We also strive to facilitate market development and increase the global competitiveness of our markets by expanding their breadth and depth as well as enhancing market infrastructure.



# Corporates

Our oversight of listing and takeovers matters in Hong Kong comprises vetting of listing applications, overseeing takeovers and mergers activities, monitoring corporate disclosures and conduct as well as supervising the Stock Exchange of Hong Kong Limited's (SEHK) listing-related functions. We also review listing and takeovers policies to safeguard investors' interests and promote the development of a fair and orderly market.

## Developing Hong Kong as a premier listing platform

### Launching new treasury shares regime

Working together with the SFC, SEHK launched a two-month consultation in October 2023 on introducing a listing regime governing treasury shares. Under the proposed regime, the Listing Rules requirement to cancel repurchased shares will be removed, ie, listed issuers will be able to retain their repurchased shares in treasury. To deter market manipulation, SEHK proposed to introduce safeguards to govern the resale of treasury shares. With the SFC's approval, SEHK published the consultation conclusions in April 2024 and the new Listing Rules became effective in June.

### Aligning requirements for Mainland enterprises' overseas listings

SEHK consulted the public on proposed amendments to the Listing Rules to reflect changes in Mainland China's regulations and to align the requirements for Mainland-incorporated issuers with those applicable to other issuers. This was in response to the China Securities Regulatory Commission's (CSRC) new requirement<sup>1</sup> for Mainland enterprises' overseas listings and securities offerings. With the SFC's approval of the new rules, SEHK published the consultation conclusions in July 2023, and the new rules took effect on 1 August.



Mr Michael Duignan, Executive Director of Corporate Finance, at the 24th Annual Corporate and Regulatory Update

### Reviewing GEM listing regime

With the SFC's approval, SEHK's GEM listing reforms became effective on 1 January 2024. The new rules introduced a new route for GEM listings and a streamlined mechanism enabling eligible GEM issuers to transfer to the Main Board. In addition, GEM issuers are no longer required to announce their quarterly results.

### Facilitating international listings

Following discussions with the SFC, SEHK added the main markets of the Saudi Exchange and the Indonesia Stock Exchange to the list of recognised stock exchanges in September and November 2023. The additions enable Saudi- and Indonesia-listed companies that meet the Main Board's initial listing criteria to apply for secondary listing in Hong Kong.

### Reviewing SEHK's listing-related work

In July 2023, we published a report on our review of SEHK's performance in its regulation of listing matters during 2021 and identified areas to enhance its performance. We examined SEHK's performance in reviewing business valuations for large acquisitions and

<sup>1</sup> The new CSRC requirement (the "Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies" and related guidelines), which took effect in March 2023, requires Mainland enterprises to register their direct and indirect overseas listings and securities offerings with the CSRC. The former regulations for overseas listings (the "Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies" and the "Mandatory Provisions for the Articles of Association of Companies Listing Overseas") were repealed.

## Corporates

disposals, its administration of the Placing Guidelines for initial public offerings (IPO) and its review of IPO placee lists. We also looked into the processes of its Listing Operation Governance Committee, the Listing Compliance function as well as the management of its Listing Committee members' conflicts of interest.

### Updating listing guidance materials

To assist listing applicants and their advisers to better understand the Listing Rules and related requirements, we have been working closely with SEHK to streamline the listing guidance. In November 2023, SEHK published the Guide for New Listing Applicants, which consolidated and streamlined all IPO-related guidance letters and relevant listing decisions into a single guide.



Processed

**261**

listing applications<sup>2</sup>

Average processing time<sup>3</sup>:

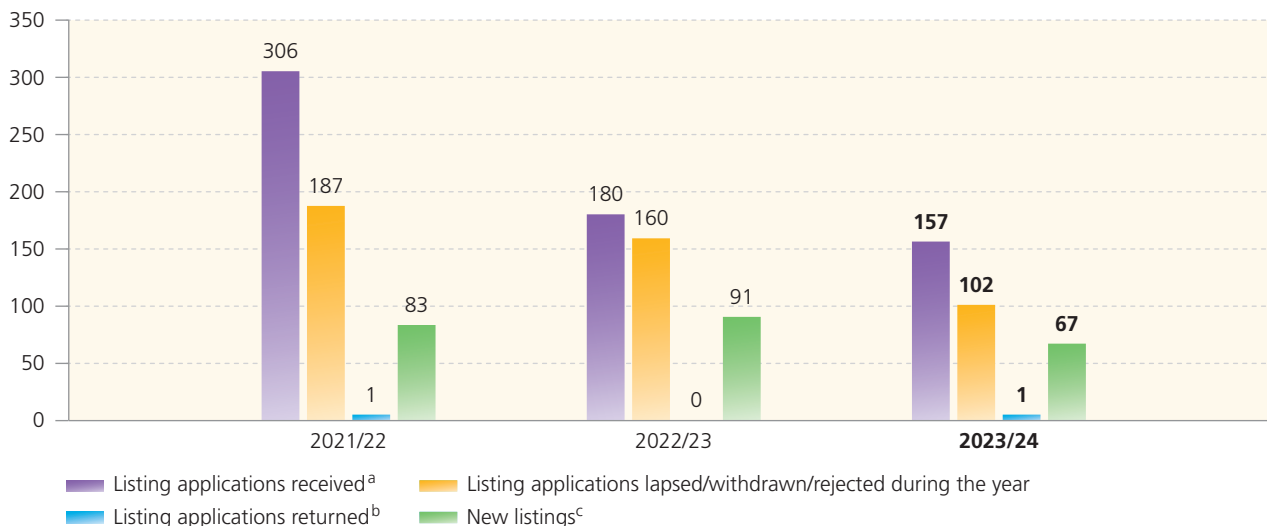
**101**

business days

### Vetting IPO applications for quality listings

We vet listing applications and make enquiries to determine whether a listing application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing based on one or more of the grounds set out in section 6(2)<sup>4</sup> of the SMLR.

### New listing applications



<sup>a</sup> Including applications for transfer from GEM to the Main Board (2023/24: 1; 2022/23: 3; 2021/22: 3).

<sup>b</sup> Listing applications were returned by SEHK because the application proofs or related documents were not substantially complete. The listing applicants can only submit a new listing application with a new application proof not less than eight weeks after the return.

<sup>c</sup> Including successful transfers from GEM to the Main Board (2023/24: 3; 2022/23: 0; 2021/22: 3). The Hang Seng Index closed at 16,541 on 31 March 2024 (31 March 2023: 20,400; 31 March 2022: 21,996).

<sup>2</sup> Including 157 new listing applications and 104 cases brought forward from the previous reporting period.

<sup>3</sup> For the 129 listing applications we cleared.

<sup>4</sup> Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.

We processed 261 listing applications during the year. These included 157 new listing applications<sup>5</sup>, including applications from three companies with a weighted voting rights (WVR) structure, 14 pre-profit biotech companies, one special purpose acquisition company (SPAC)<sup>6</sup>, two companies seeking listing by way of de-SPAC transactions<sup>7</sup> and two specialist technology companies. One overseas-listed company achieved dual-primary listing on the Main Board.

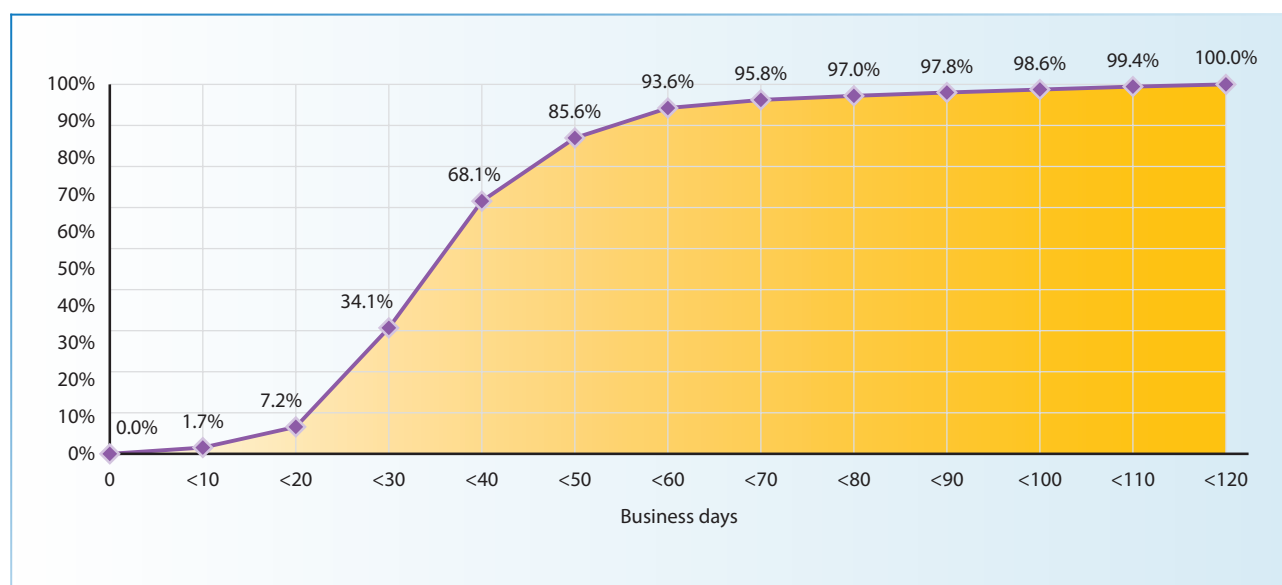
Exercising our powers under the SMLR, we issued requisition letters directly to three listing applicants during the year (2022-23: seven). Amongst our concerns were the accuracy and completeness of their disclosures regarding business arrangements, taxation matters or financial performance. As at 31 March 2024, two of these listing applicants had satisfactorily addressed our concerns, while the enquiry regarding the remaining applicant was still ongoing.

During the three years ended 31 March 2024, we cleared 361 cases, 94% of which were cleared within 60 business days. During the year ended 31 March 2024, we cleared 129 listing applications, 97% of which were cleared within 60 business days. The average processing time for the 129 cleared cases was 101 business days<sup>8</sup>, down 18% from last year.

### Tackling corporate misconduct

As part of our front-loaded approach in preventing corporate misconduct, we review corporate announcements daily to identify potential misconduct and irregularities. During the year, we issued section 179<sup>9</sup> directions to gather additional information in a total of 39 cases. In some of these cases, there were indications that the corporate action or transaction may have been conducted in an oppressive or unfairly prejudicial manner for shareholders.

### SFC vetting time (April 2021 to March 2024)



Note: In the chart, “SFC vetting time” refers to the total number of business days we spent to process and clear a listing application, which includes a number of rounds of comments. The figure excludes the response time of the listing applicants or their advisers.

<sup>5</sup> New listing applications include any renewal application filed by the same applicant where its previous application has lapsed by more than 14 days.  
<sup>6</sup> A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.  
<sup>7</sup> Including one company with a WVR structure.  
<sup>8</sup> Including the SFC’s vetting time and the response time of the listing applicants or their advisers.  
<sup>9</sup> 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.

### Enhancing regulation of takeovers and share buy-backs

We launched a five-week consultation on proposed amendments to the Codes on Takeovers and Mergers and Share buy-backs (Codes) in May 2023. This followed a review conducted by the Takeovers Executive in consultation with the Takeovers and Mergers Panel. We proposed clarifying a number of important terms and provisions, streamlining processes

and introducing green initiatives. Our proposals were welcomed by the market and all were adopted with only minor modifications.

We published our consultation conclusions in September 2023, and the revised Codes took effect in the same month. Changes were also made to a number of our Practice Notes to guide the market on our latest revisions and practice.

### Takeovers activities

	2023/24	2022/23	2021/22
General and partial offers under Code on Takeovers and Mergers	32	33	45
Privatisations	17	11	21
Whitewash waiver applications	21	22	22
Other applications under Code on Takeovers and Mergers <sup>^</sup>	240	231	291
Off-market and general offer share buy-backs	7	7	5
Other applications under Code on Share Buy-backs <sup>^</sup>	0	1	1
<b>Total</b>	<b>317</b>	<b>305</b>	<b>385</b>

<sup>^</sup> Including stand-alone applications and those made during the course of a Code-related transaction.

Note: Also see Table 1 in Operational Data on page 207 for more details.

# Intermediaries

We set standards and qualifying criteria for corporations and individuals licensed to operate in our markets under the Securities and Futures Ordinance (SFO). As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations<sup>1</sup> (LCs) and explain our regulatory focus and concerns to the industry. We closely monitor market and technological developments and adapt our regulatory approach to ensure our gatekeeping and supervisory functions remain effective.



## Licensing corporations and individuals

As of 31 March 2024, the number of licensees and registrants totalled 47,851. With the continuous expansion of the financial landscape, there were 84 licensed firms carrying out regulated business in robo-advisory, virtual banking, virtual asset (VA) related activities and multi-family offices.



Mr Keith Choy, Interim Head of the Intermediaries Division, at the Hong Kong Web3 Festival 2023

The number of LCs in Hong Kong stood at around 3,250. Approximately 15% of the LCs were controlled by foreign financial groups, mainly from the US, UK, and the European Union. In addition, a number of overseas-based fund managers, which manage pension funds and private equity funds, have established their business activities in Hong Kong over the years. The number of licensed individuals stayed at around 45,000 during the period, about 35% of which were employed by foreign-controlled LCs.

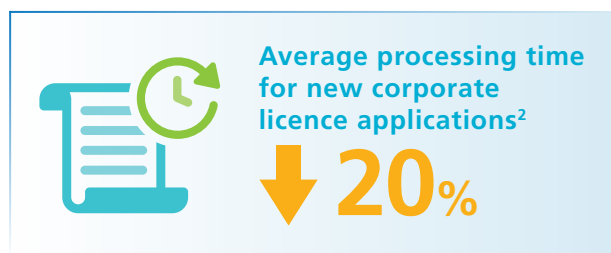
## Licensees

	Corporations <sup>^</sup>		Representatives		Responsible Officers		Total <sup>^</sup>		
	As at 31.3.2024	As at 31.3.2023	As at 31.3.2024	As at 31.3.2023	As at 31.3.2024	As at 31.3.2023	As at 31.3.2024	As at 31.3.2023	Change
Stock exchange participants	545	559	11,259	11,358	2,003	2,075	13,807	13,992	-1.3%
Futures exchange participants	86	91	373	737	113	143	572	971	-41.1%
Stock exchange and futures exchange participants	74	83	5,283	5,269	619	668	5,976	6,020	-0.7%
Non-stock/non-futures exchange participants	2,541	2,521	18,159	18,080	6,684	6,598	27,384	27,199	0.7%
<b>Total</b>	<b>3,246</b>	<b>3,254</b>	<b>35,074</b>	<b>35,444</b>	<b>9,419</b>	<b>9,484</b>	<b>47,739</b>	<b>48,182</b>	<b>-0.9%</b>

<sup>^</sup> These figures exclude 112 registered institutions as at 31 March 2024 and 31 March 2023.

<sup>1</sup> Broadly, LCs include securities and futures brokers, leveraged forex traders, fund managers, investment advisers, sponsors and credit rating agencies.





During the year, we received around 7,300 new licence applications, comprising more than 7,000 individuals and 220 corporations. It is noteworthy that the number of new corporate licence applications received in this financial year substantially increased by 22% as compared to last year.

We approved 164 new corporate licence applications and around 6,700 individual licence applications. The total number of applications increased by 5% from last year. Amongst the newly approved corporate applications, 85% of them applied for Type 9 (asset management) regulated activity (RA) and 63% applied for Type 4 (advising on securities) RA. As of 31 March 2024, the number of firms licensed for Type 9 RA increased by 2.6% to 2,140.

To support the industry, we have waived the annual licensing fees for all intermediaries and licensed individuals in Hong Kong for the 2024-25 financial year. This measure will help the industry save approximately HK\$250 million.

## Enhancing our regulatory regime

### Stepping up risk management for dealing in futures contracts

In August 2023, we concluded a public consultation on proposed guidelines which set out a comprehensive risk management framework to ensure licensed futures brokers' resilience in volatile markets.

Effective February 2024 after a transitional period of six months, the guidelines set out our requirements for commodity futures trading, client credit risk management, concessionary margining, safeguarding client assets and stress testing.

### Consulting on guidelines for market soundings

In October 2023, we launched a consultation on proposed guidelines for market soundings to assist intermediaries in their compliance with the general principle to conduct their business activities honestly, fairly and in the best interests of their clients and market integrity during market soundings. The guidelines were based on a thematic review of market soundings we initiated in early 2022 to understand current industry practices and related controls, through surveys to buy-side and sell-side intermediaries and focus group discussions. In the guidelines, we also took into consideration local and overseas market practices and regulatory requirements as well as information and preliminary feedback from intermediaries during the thematic review. The consultation ended in December 2023 and we are analysing the responses.

<sup>2</sup> For granting an approval in principle; the change is on a year-on-year basis. Electronic submission via WINGS became mandatory from 1 April 2022.

Financial position of the Hong Kong securities industry<sup>a</sup>

	As at 31.12.2023	As at 31.12.2022	As at 31.12.2021
Securities dealers and securities margin financiers	1,406	1,439	1,433
Active clients <sup>b</sup>	4,757,112	4,650,024	4,159,100
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Total assets	1,331,829	1,452,449	1,658,553
Total liabilities	850,453	969,051	1,130,341
<b>Total shareholders' funds</b>	<b>481,376</b>	<b>483,398</b>	<b>528,212</b>
(\$ million)	12 months to 31.12.2023	12 months to 31.12.2022	12 months to 31.12.2021
Profit and loss			
Total value of transactions <sup>c</sup>	107,897,497	126,014,719	160,931,088
Net securities commission income	17,113	20,210	31,329
Total operating income	197,239	187,385	217,469
Total overheads and interest expense	172,046	170,730	173,978
Total operating profit	25,193	16,655	43,491
Net profit proprietary trading	3,307	6,211	21,397
<b>Net profit</b>	<b>28,500</b>	<b>22,866</b>	<b>64,888</b>

<sup>a</sup> Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing.

<sup>b</sup> Active clients are clients for whom the LC is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

<sup>c</sup> The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Note: Also see Table 8 in Operational Data on page 213 for more details.

### Supervising licensed firms

As of 31 March 2024, 3,246 LCs were subject to our supervision. We adopt a front-loaded, risk-based approach to supervising LCs and focus on the greatest threats and the most significant or systemic risks. We closely monitor LCs' operations and risk management, focusing on their business conduct and financial soundness, and carry out stress tests to ensure their resilience, particularly in extreme market conditions. We also provide timely guidance to help intermediaries comply with our regulatory requirements.



### On-site reviews

On-site reviews are a key supervisory tool for us to understand LCs' business operations, risk management and internal controls, and to gauge their compliance with legal and regulatory requirements.

During the year, we carried out 234 risk-based on-site inspections. We noted LCs' breaches of our rules and regulations<sup>3</sup>, mainly the Code of Conduct<sup>4</sup>, Fund Manager Code of Conduct and Anti-Money Laundering Guidelines as well as internal control weaknesses.

This year's thematic inspections covered LCs' selling practices, anti-money laundering and counter-financing of terrorism (AML/CFT) measures and cybersecurity.

### Off-site monitoring

We conduct off-site monitoring of LCs' operations by analysing their regulatory filings and intelligence from other sources. We also interact regularly with LCs to assess their financial strength, internal controls and risk management practices.

### Breaches noted during on-site inspections<sup>3</sup>

	2023/24	2022/23	2021/22
Internal control weaknesses <sup>a</sup>	465	430	427
Breach of Code of Conduct <sup>b</sup>	332	243	265
Non-compliance with anti-money laundering guidelines	269	214	301
Failure to safekeep client money	45	26	35
Failure to safekeep client securities	41	27	23
Others	340	290	365
<b>Total</b>	<b>1,492</b>	<b>1,230</b>	<b>1,416</b>

<sup>a</sup> Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

<sup>b</sup> Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

<sup>3</sup> Please refer to Table 2 of Operational Data on page 208 for details.

<sup>4</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Assessing prudential and conduct risks

### Protecting client assets at non-compliant brokers

During the year, we issued restriction notices to three brokers that breached our regulatory requirements in relation to the protection of client assets, which seriously jeopardised the interests of the investing public. In one instance, we obtained a court order to appoint administrators to assume control of a broker suspected of misappropriating client money, review its books and records, and facilitate the orderly return of client assets.

### Surveying the sale of non-exchange traded investment products

In September 2023, we and the Hong Kong Monetary Authority (HKMA) published a report on our annual joint survey on the sale of non-exchange traded investment products. The survey results help both regulators better understand market trends, identify risks and strengthen our supervisory work to protect investors.

Our survey found that 371 LCs and registered institutions engaged in the sales of investment products in 2022, with an aggregate transaction amount of \$3,799 billion. Around 35% of those firms recorded an increase in their transaction amount. Money market funds were the top-selling collective investment schemes (CIS), accounting for 61% of the total top five CIS by transaction amount in 2022, up from 33% a year earlier. Bond funds and equity funds followed, accounting for 14% and 7% of the total.

## Conducting circularisation exercise and internal control review

As a regular exercise to examine brokers' internal controls over client asset protection, we engaged an independent accounting firm to conduct a circularisation exercise to ascertain the account balances of selected brokers' clients and review the brokers' internal control systems. We notified the industry of the exercise in a January 2024 circular and will share key findings from the exercise where appropriate.

## Managing risks in providing IPO subscription services

In November 2023, we published a circular to remind LCs to exercise prudent risk management and controls when providing initial public offering (IPO) subscription and financing services to clients after the launch of FINI<sup>5</sup>. The circular sets out our expected control measures relating to credit risk management, liquidity risk management, safeguarding of client subscription deposits and financial risk management.

## Distributing SFC-authorized funds

In October 2023, we issued a circular on our observations of LCs' practices in offering and promoting SFC-authorized funds. The circular also highlighted the legal and regulatory requirements for distributors that offer additional returns or other incentives in promoting such funds.

<sup>5</sup> The Fast Interface for New Issuance (FINI) platform was launched by Hong Kong Securities Clearing Company for Hong Kong's IPO settlement process in November 2023.

### Guidance to the industry

#### Dealing with sophisticated professional investors

Our July 2023 joint circular with the HKMA guided intermediaries on a streamlined approach to comply with suitability obligations when dealing with sophisticated professional investors. The approach seeks to front-load intermediaries' know-your-client measures when onboarding clients or during regular reviews to ascertain a client's financial situation, investment experience, investment objectives and risk tolerance. For clients who exhibit the degree of sophistication, loss-absorption ability and risk profile of a sophisticated professional investor, they would be allowed to specify the product type and amount they wish to trade without going through their intermediaries' routine assessment and disclosure processes.

This streamlined approach makes it more flexible and efficient for these investors to invest within acceptable parameters. To provide sufficient investor protection, intermediaries are required to establish and maintain effective systems and controls to ensure the streamlined approach operates properly, and the Code of Conduct continues to apply in full force.

#### Addressing anti-money laundering and terrorist financing risks

Effective June 2023, our amendments to the AML/CFT guidelines provided updated guidance to the industry on the revised statutory provisions under the Anti-

Money Laundering and Counter-Terrorist Financing Ordinance<sup>6</sup>. We also incorporated a new chapter to help the industry address money laundering and terrorist financing risks arising from the distinct characteristics of VAs when engaging in related businesses so as to meet statutory and regulatory requirements. In addition, we updated the AML/CFT self-assessment checklist in November to provide a structured framework for the industry to assess their compliance with key AML/CFT requirements.

Also in November, we hosted two AML/CFT webinars for close to 1,800 management and compliance personnel from LCs to provide updates on major regulatory developments and recent supervisory observations. External speakers<sup>7</sup> shared the latest scam trends and provided feedback on suspicious transaction reporting as well as an overview of the proliferation financing risk situation in Hong Kong.

#### Preparing industry for increased connectivity in the Greater Bay Area

In January 2024, we issued a set of guidance and frequently asked questions (FAQs) for LCs which wish to participate in the cross-boundary Wealth Management Connect Pilot Scheme<sup>8</sup> in the Guangdong-Hong Kong-Macao Greater Bay Area. The guidance and FAQs cover the eligibility criteria for participating LCs and investors, scope of eligible investment products, account opening arrangements, investor quota management, cross-boundary closed-loop fund flow arrangements as well as promotion and sales arrangements.

<sup>6</sup> Including politically exposed persons, beneficial owner of a trust and the use of a recognised digital identification system for customer due diligence.

<sup>7</sup> Including speakers from the Commerce and Economic Development Bureau and the Hong Kong Police Force.

<sup>8</sup> See Products on pages 58-65.



## Issuing quick reference guides to help industry understanding

We actively collaborate with the industry to improve their understanding of our licensing regime. The quick reference guides on licensing requirements we issued in March 2023 were well received by the industry.



Quick reference guides on licensing requirements.

The guides set out our requirements in a clear and accessible manner, making it easier for the industry and the public to grasp the key concepts.

Throughout the year, we engaged with stakeholders to promote transparency in our licensing process. At an event hosted by the Hong Kong Securities and Investment Institute in June 2023, we explained our gatekeeping functions, licence approval process and the application of technology such as artificial intelligence in the financial industry. In a seminar hosted by the Hong Kong Investment Funds Association in December 2023, we provided a refresher session to its members covering topics including overseas practitioners visiting Hong Kong to perform RAs, incidental RAs for fund managers and our digitalised licensing process.

## Revamping the SFC Public Register

To enable easier access to information about intermediaries' business activities, we introduced a new search function in our Public Register of Licensed Persons and Registered Institutions by corporations' business activities, including VA-related activities, operation of online trading platforms, corporate finance-related activities and the management of public real estate investment trusts.

## Embracing innovation with investor safeguards

To promote responsible innovation, we have addressed VA-related activities with proactive and comprehensive policy responses over the years to provide regulatory clarity and consistency. Adhering to the principle of “same business, same risks, same rules”, our regulatory framework aims to capture all dimensions of the public’s interface with VAs to ensure investor protection and tackle the prudential risks to financial institutions.

### Regulation

To provide clarity on our expected standards for the new regime for virtual asset trading platform (VATP) operators, we concluded our consultation on the regulatory requirements for licensed VATP operators and the corresponding Guidelines for VATP Operators in May 2023. The new regime under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) began in June 2023.

We extended retail access to VAs via SFC-regulated intermediaries partnering with SFC-licensed VATPs in October 2023. This is in line with our policy of allowing retail investors to trade VAs on SFC-licensed VATPs.

In December, we set out the latest requirements for distributing products with exposure to VAs in our updated joint circular<sup>a</sup> with the HKMA, including the distribution of related investment products and the provision of dealing, asset management and advisory services in respect of VAs.

We also issued a circular in the same month on requirements applicable to SFC-authorized funds with exposure to VAs of more than 10% of their net asset value, including SFC-authorized VA spot exchange-traded funds (ETFs). These requirements cover the types of eligible VA, platforms for conducting VA transactions, entities responsible for VA custody and the custody standards.

### Licensing

As of 31 March 2024, we had approved two licensed VATPs<sup>b</sup> under the SFO to provide their services to Hong Kong investors. Their licensing

conditions were modified in August 2023 to allow retail access to their services. During the reporting period, we received 23 VATP applications under the new AMLO regime, four of which were from VATP licence applicants under the SFO, whilst the remainder were new applications.

### Protecting investors<sup>c</sup>

In February 2024, we published a press release reminding investors to check the regulatory status of VATPs, as VATP operators which had not submitted a licence application to us by 29 February must close down their businesses in Hong Kong by 31 May. The SFC issued another press release on 1 March to remind industry participants and investors of the above key dates, and urged investors to trade VAs only on SFC-licensed VATPs.

### Publishing more guidance

To help the industry better understand our requirements and apply for a licence, we issued a wide range of publications, including a Licensing Handbook for VATP Operators, circulars on the implementation of and transitional arrangements for the new regime as well as FAQs on licensing and conduct matters. We introduced fully digitalised licensing application forms to enable potential applicants to apply for a licence online, and we consolidated all relevant materials on a new dedicated webpage for VAs on our website.

Going forward, to promote a vibrant VA ecosystem in Hong Kong, we will keep abreast of market developments in the Fintech space and put in place the necessary regulatory guardrails.



<sup>a</sup> We issued joint circulars on intermediaries’ VA-related activities on 20 October 2023 and 28 January 2022. The December 2023 circular supersedes previous versions of this circular.

<sup>b</sup> OSL Digital Securities Limited and Hash Blockchain Limited.

<sup>c</sup> For more on our VA-related investor protection publicity, see Communications and Education on pages 89-97.

## Broadening product variety

We observed financial institutions' growing interest in tokenising traditional financial instruments in global financial markets, with an increasing number of intermediaries exploring the tokenisation<sup>a</sup> of securities and distribution of tokenised securities to their clients.

Tokenisation may bring potential benefits to financial markets, particularly in enhancing efficiency and transparency, reducing settlement time and lowering operational costs for traditional finance. Nevertheless, we are also aware of new risks arising from the use of this technology not typically associated with traditional securities, especially ownership and technology risks.

We consider it necessary to provide more guidance on tokenised securities-related activities to help clarify our regulatory expectations for intermediaries engaging in these activities. This also provides more regulatory certainty to support continued innovation with appropriate investor safeguards.



To this end, we issued two circulars to give guidance on tokenised securities-related activities and the tokenisation of SFC-authorized investment products, whilst highlighting how traditional financial institutions should address and manage the risks arising from this new tokenisation technology.

Following our guidance issued in November 2023, the first tokenised SFC-registered private OFC was launched in December, and the first tokenised retail gold product was authorised by us in March 2024.

<sup>a</sup> This refers to the creation of blockchain-based tokens that represent, or aim to represent, ownership in certain assets or rights.

# Products

Our policy initiatives seek to enhance Hong Kong's position as a global asset and wealth management centre and a preferred fund domicile, whilst providing investors with better protection and a wider variety of investment options. We also authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with our regulatory requirements.



Ms Christina Choi, Executive Director of Investment Products, at the Saudi Arabia ETF Investment Forum



funds), 16 investment-linked assurance schemes (ILAS), one paper gold scheme and 16 mandatory provident fund (MPF) pooled investment funds. A total of 2,951 SFC-authorized CIS were offered to the public.

We also authorised 349 unlisted structured investment products for public offering during the year.

## OFC registrations

During the year, we registered 172 open-ended fund companies (OFCs), including six re-domiciled OFCs, and approved 328 OFC sub-funds, comprising 17 SFC-authorized funds, amongst which there were eight exchange-traded funds (ETFs) with a total market capitalisation of over \$507 million (US\$64 million). Of the 302 OFCs registered as of 31 March 2024, eight were corporate funds re-domiciled in Hong Kong as private OFCs.

## Hong Kong-domiciled funds

For the 926 Hong Kong-domiciled funds, overall net inflows of US\$11.5 billion were recorded during the year.

## Gatekeeping investment products<sup>1</sup>

### Authorisations

During the year, we authorised 170 collective investment schemes (CIS), comprising 137 unit trusts and mutual funds (including 69 Hong Kong-domiciled

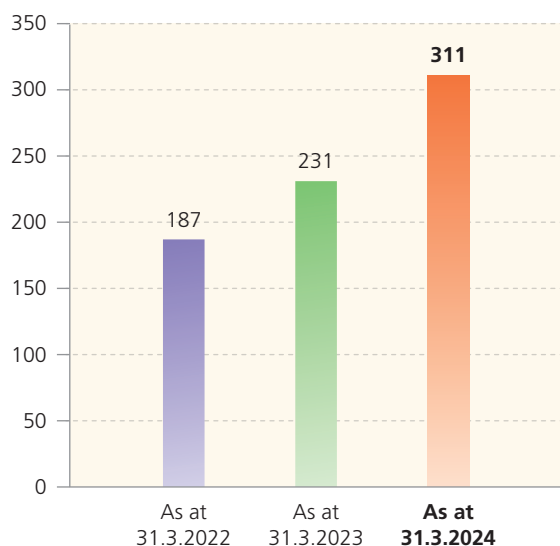
### Authorised CIS

	As at 31.3.2024	As at 31.3.2023	As at 31.3.2022
Unit trusts and mutual funds — Hong Kong-domiciled	926	913	866
Unit trusts and mutual funds — non-Hong Kong-domiciled	1,425	1,417	1,381
ILAS	319	305	300
Pooled retirement funds	32	32	32
MPF schemes	26	26	26
MPF pooled investment funds	197	221	219
Others <sup>^</sup>	26	25	25
<b>Total</b>	<b>2,951</b>	<b>2,939</b>	<b>2,849</b>

<sup>^</sup> Comprising 15 paper gold schemes and 11 real estate investment trusts.

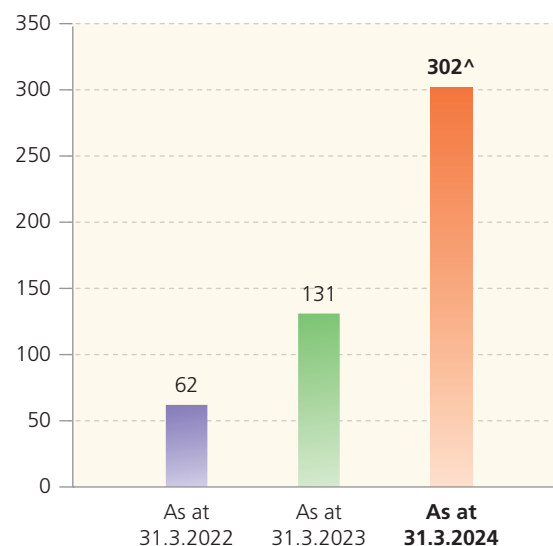
<sup>1</sup> All figures are as of 31 March 2024 unless otherwise specified.

### Authorised unlisted structured investment products<sup>^</sup>



<sup>^</sup> On a “one product per key facts statement” basis, including equity-linked investments and deposits.

### Registered OFCs



<sup>^</sup> As of 31 March 2024, this figure included 274 private OFCs.

### Authorised unit trusts and mutual funds domiciled in Hong Kong — fund flows by type<sup>a</sup> (US\$ million)

Hong Kong-domiciled funds reported overall net inflows of \$89.6 billion (US\$11.5 billion), which was primarily attributed to index funds and money market funds.

	12 months to 31.3.2024			12 months to 31.3.2023		
	Subscription	Redemption	Net subscription/ (redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/ (redemption) <sup>b</sup>
Bond	11,523	11,737	(215)	9,923	12,045	(2,122)
Equity	11,557	16,595	(5,038)	13,628	13,923	(295)
Mixed	4,344	7,530	(3,186)	7,313	8,831	(1,518)
Money market	61,610	51,586	10,024	33,293	26,634	6,659
Feeder funds <sup>c</sup>	2	6	(4)	3	4	(1)
Index <sup>d</sup>	69,797	59,972	9,824	65,412	60,285	5,127
Guaranteed	–	5	(5)	0	4	(4)
Other specialised <sup>e</sup>	148	93	55	78	65	13
<b>Total<sup>b</sup></b>	<b>158,980</b>	<b>147,525</b>	<b>11,455<sup>f</sup></b>	<b>129,650</b>	<b>121,791</b>	<b>7,859</b>

<sup>a</sup> Based on data reported by funds domiciled in Hong Kong.

<sup>b</sup> Figures may not add up to total due to rounding.

<sup>c</sup> The subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded to better reflect the total fund flows.

<sup>d</sup> Including ETFs and leveraged and inverse products.

<sup>e</sup> Including virtual asset futures ETFs.

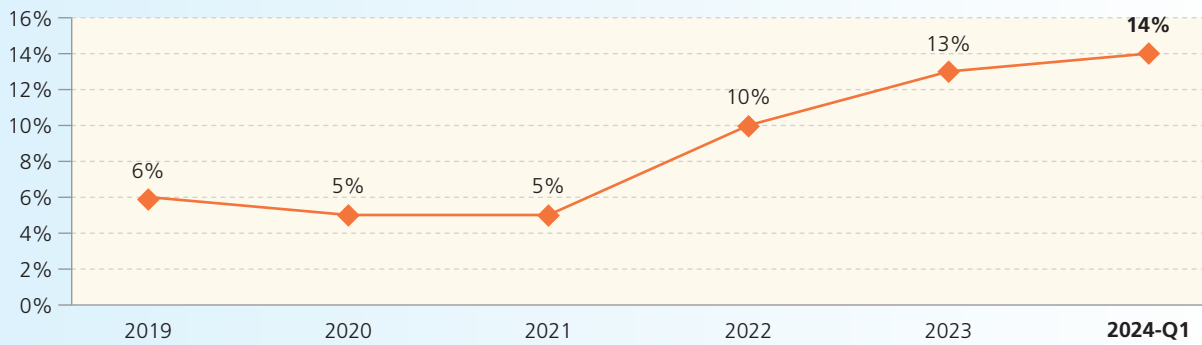
<sup>f</sup> This figure includes net fund outflows of \$44.4 billion (US\$5.7 billion) reported by retail approved pooled investment funds which MPFs may invest into and may also be offered to the public in Hong Kong.



### Growing vibrancy of Hong Kong’s ETF market

The launch of ETF Connect in July 2022 has spurred the growth in Hong Kong’s ETF market turnover. ETFs’ share of trading on the Main Board reached 14% in the first quarter of 2024, more than doubling since 2021.

#### Trading of HK ETFs as % of the turnover of the Main Board of the Hong Kong stock market (%)

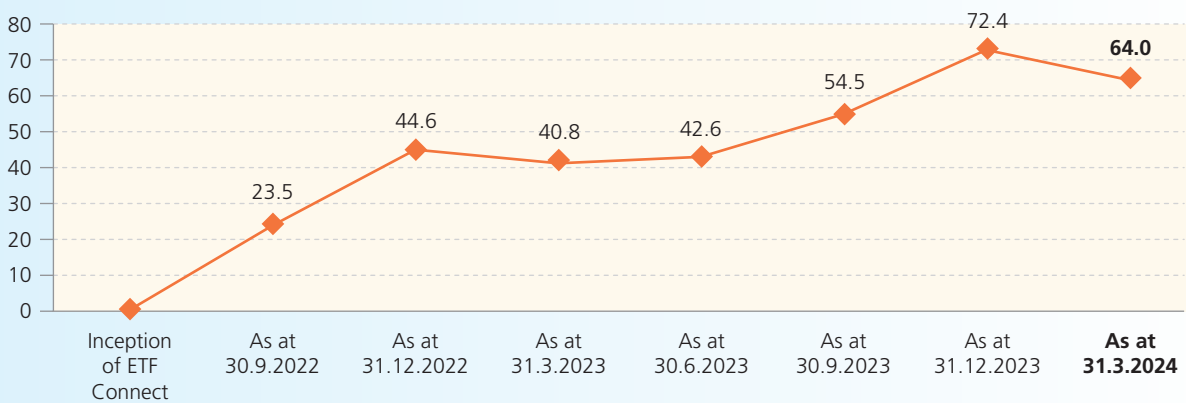


Source: Hong Kong Exchanges and Clearing Limited (HKEX)

ETF Connect contributed close to 10% of the local ETF market’s overall turnover since its launch. Eligible ETFs have also recorded cumulative aggregate inflows since their inclusion under the scheme.

#### Cumulative fund inflows to eligible Hong Kong ETFs since the inception of ETF Connect

(HK\$ billion)



Source: HKEX

ETF Connect — Southbound trading and fund flows of eligible Hong Kong ETFs<sup>a</sup>

Six months ended	Number of eligible Hong Kong ETFs as of period end	Market capitalisation as of period end (\$ million)	Southbound trading average daily turnover (\$ million)	As % of eligible ETFs' turnover (%)	Fund inflow/ (outflow) of eligible Hong Kong ETFs (\$ million)
2024.3.31	8	196,197	2,140	10.2	9,405
2023.9.30	6	203,005	3,217	14.0	13,777
2023.3.31	5	203,835	1,561	6.8	17,231

<sup>a</sup> Based on data from HKEX.

## ETFs and L&amp;I products

A total of 179 SFC-authorized ETFs, including 25 leveraged and inverse (L&I) products, were listed on the Stock Exchange of Hong Kong Limited, up 4.1% from 31 March 2023. Their total market capitalisation reached \$386.4 billion (US\$49.4 billion), down 5.1% from 2023 levels. Full-year net inflows to these ETFs amounted to \$73.4 billion (US\$9.4 billion), with \$17.9 billion (US\$2.3 billion) in net inflows during January to

March 2024<sup>2</sup>. Their average daily turnover decreased 1.2% from the previous quarter to \$13.3 billion (US\$1.7 billion), but rose 5.8% to \$13.7 billion (US\$1.8 billion) year-on-year.

During the year, we authorised Asia's first and the world's largest ETF investing in Saudi Arabian-listed stocks. The ETF was listed in November 2023 (see sidebar below).

## Market connectivity with the Middle East

We authorised Asia's first and the world's largest ETF investing in Saudi Arabia-listed stocks. Listed in Hong Kong last November, the ETF provides retail investors with exposure to the Saudi Arabian market by tracking the performance of the FTSE Saudi Arabia Index. As at 31 March 2024, the ETF's market capitalisation amounted to US\$1.13 billion, up 13.5% since listing.

To enhance connectivity with the Middle East, we co-hosted a high-level roundtable and a seminar in Hong Kong with the Dubai Financial Services Authority (DFSA) in April 2024. More than 40 members of Hong Kong's asset management industry attended. Participants gained a deeper understanding of the regulatory requirements for offering Hong Kong-domiciled funds in the Dubai International Financial Centre (DIFC) and the opportunities in DIFC for Hong Kong asset managers, including accessing to investors in the wider United Arab Emirates (UAE) market through the UAE fund passporting regime.

Following the events, we published a quick reference guide on our website to provide an overview of DIFC's market landscape and how Hong Kong funds can be offered there and in the UAE via DIFC by way of the UAE fund passporting regime.



(From left to right) Ms Christina Choi; Mr Ian Johnston, Chief Executive of the DFSA; Ms Julia Leung, Chief Executive Officer of the SFC; Mr David Tait, Associate Director of Conduct, Supervision, of the DFSA

<sup>2</sup> Since the second quarter of 2023, market capitalisation and fund flow statistics have been calculated based on the units or shares of all ETFs held in Hong Kong. Prior to that, these statistics were calculated based on the total units or shares of ETFs, except for the SPDR Gold Trust.

## Products

We authorised the first two active ETFs adopting a covered call writing strategy in Hong Kong. Listed in February 2024, the ETFs invest in constituent stocks in the Hang Seng Index and Hang Seng China Enterprises Index, and sell call options on the two indices to receive premium from option buyers.

During the year, eight ETFs were eligible for southbound trading of ETF Connect. Their average daily turnover amounted to \$2,679 million (US\$342 million) and accounted for 12% of eligible Hong Kong ETFs' turnover.

### RMB products

A total of 58 SFC-authorised unlisted funds<sup>3</sup> and 51 ETFs<sup>4</sup> primarily invested in the onshore Mainland securities markets<sup>5</sup> or offshore renminbi bonds, fixed income instruments or other securities.

## Facilitating market development

### Cross-boundary Wealth Management Connect

To deepen financial market connectivity in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), financial regulatory authorities from the Mainland, Hong Kong and Macao issued revised rules and guidance for enhancements to the scheme in January 2024. Effective this February, the new measures include allowing eligible licensed corporations to participate in the scheme, expanding the eligible investment product scope to cover all non-complex Greater China equity funds and other non-complex funds rated by distributors as "low" to "medium-high" risk (excluding high-yield bond funds

### SFC-authorised RMB investment products

	As at 31.3.2024
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	58
Unlisted funds (non-RMB denominated) with RMB share classes	431
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangement	44
Unlisted structured investment products issued in RMB <sup>a</sup>	310
Investment-linked assurance schemes with policy currency in RMB	8
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	51
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	28
RMB L&I products	3
RMB gold ETFs <sup>b</sup>	1
RMB REITs	1

<sup>a</sup> The number is on a "one product per key facts statement" basis.

<sup>b</sup> Only includes gold ETF denominated in RMB.

<sup>3</sup> Excluding recognised Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds arrangement.

<sup>4</sup> Refers to unlisted funds or ETFs which are denominated in RMB.

<sup>5</sup> Refers to onshore Mainland investments through the Qualified Foreign Investor scheme, Stock Connect, Bond Connect and the China Interbank Bond Market.

and single emerging market equity funds) which are domiciled in Hong Kong and authorised by the SFC. The measures also clarify the sale and distribution arrangements, increase the individual investor quota and support greater participation by GBA residents.

### ETF Connect enhancements

ETF Connect has been an important driver of the growth and turnover of Hong Kong's ETF market since its launch in July 2022. The SFC has been working closely with the China Securities Regulatory Commission (CSRC) and exchanges in both markets to further expand the product scope. In April 2024, Hong Kong Exchanges and Clearing Limited (HKEX) and the Mainland exchanges announced several enhancements to ETF Connect, including lowering the minimum fund size requirement and relaxing the weighting requirements for the underlying index tracked by an ETF. The exchanges will announce the implementation date when they complete the technical preparations.

### Inclusion of REITs under Stock Connect

To build on the success of Stock Connect, we have also been working with the Mainland authorities and exchanges on the proposed expansion of the scheme to cover real estate investment trusts (REITs).

### Mainland-Hong Kong MRF

We reached an agreement with the CSRC on relaxing the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme.

Under the scheme, a total of 38 Hong Kong funds were approved by the CSRC and 44 Mainland funds were authorised by the SFC as at 31 March 2024.

During the year, Hong Kong funds and Mainland funds recorded net subscriptions of about RMB10.9 billion and net redemptions of RMB92.5 million, respectively. The aggregate cumulative net subscription for both Hong Kong and Mainland funds was about RMB26.6 billion as at 31 March 2024.

### New integrated platform for retail fund distribution

The SFC has been working closely with HKEX and other stakeholders on launching an integrated fund platform (IFP) for retail fund distribution. The IFP will provide a business-to-business service model initially and cover the front-to-back distribution life cycle and value chain for distributing SFC-authorised funds in Hong Kong. The IFP is expected to increase participation and diversification in Hong Kong's retail fund market. It will also generate new business opportunities and reinforce Hong Kong's position as a leading international asset and wealth management centre.

### Supporting the New Capital Investment Entrant Scheme (New CIES)

The Government announced the launch of the New CIES in March 2024 to enrich the talent pool in Hong Kong and attract more new capital. Eligible CIS will be among the financial assets allowed for investment by scheme applicants. These will cover various SFC-

## Mainland-Hong Kong MRF scheme — fund flows<sup>a</sup> (RMB million)

	Six months ended 31.3.2024			Six months ended 30.9.2023			Six months ended 31.3.2023		
	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>
Hong Kong funds	14,269	5,109	9,160	5,984	4,201	1,782	7,360	4,146	3,215
Mainland funds	21	112	(91)	201	202	(1)	182	165	16

<sup>a</sup> Based on data from the State Administration of Foreign Exchange.

<sup>b</sup> Figures may not add up to total due to rounding.

## Products

authorised and registered products which meet the requirements, including funds, ILAS, REITs and OFCs. In connection with the scheme's launch, we published a list of eligible CIS under the New CIES on a dedicated webpage on our website. The SFC will continue to support the Government's work to facilitate the smooth operation of the New CIES.

### Grant scheme for OFCs and REITs

Since its introduction in May 2021, the Government's grant scheme for OFCs and REITs has been well received by the asset management industry. The number of registered OFCs increased 131% year-on-year to 302.

The grant scheme has been extended for another three years until 9 May 2027. We issued a press release to set out the details. For instance, the extended scheme covers 70% of eligible expenses paid to Hong Kong-based service providers, subject to a cap of \$1 million per public OFC, \$500,000 per private OFC and \$8 million per REIT.

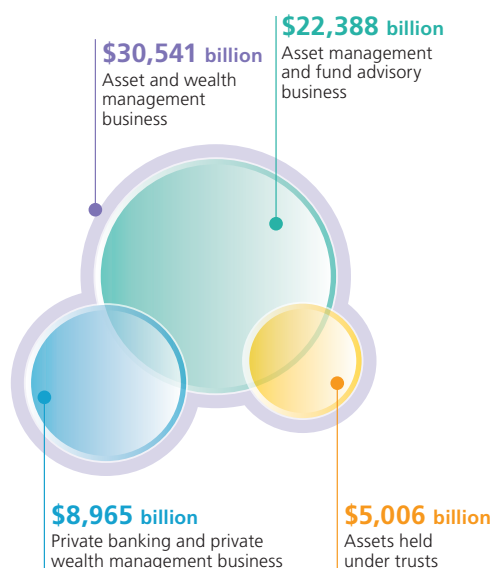
### ESG funds

The 224 SFC-authorized environmental, social and governance (ESG) funds<sup>6</sup> had total assets under management (AUM) of \$1,358.3 billion (US\$173.6 billion), up 14.4% from 2023. During the year, we maintained a dialogue with fund managers of new ESG funds with novel strategies, and worked closely with the Investor and Financial Education Council to raise investors' awareness of ESG funds.

### Hong Kong's asset and wealth management activities in 2022

In August 2023, we published our annual Asset and Wealth Management Activities Survey (AWMAS), which recorded total AUM of \$30,541 billion (US\$3,912 billion) for Hong Kong's asset and wealth management business as at end-2022. Net fund inflows amounted to \$88 billion (US\$11 billion). The AUM fell 14% from 2021, in line with the 15% drop in the AUM of worldwide regulated funds during 2022, and slightly outran major market indices.

## Highlights of the AWMAS



## Enhancing regulations

### Regulating depositaries of SFC-authorized CIS

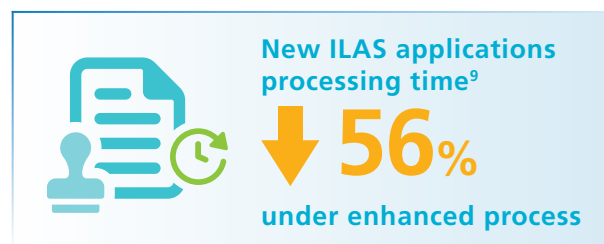
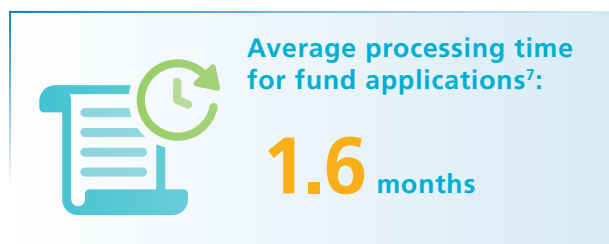
Following the completion of the legislative process in May 2023, the new Type 13 regulated activity (RA 13) will come into effect in October 2024. The SFC issued a circular to provide further licensing guidance on RA 13 and began accepting corporate licence or registration applications in July 2023. As of 31 December, all depositaries of public funds operating in Hong Kong had submitted their RA 13 applications to the SFC. We also spoke to the industry about the new regime in training seminars hosted by the Hong Kong Trustees' Association and the Hong Kong Institute of Certified Public Accountants.

### Tokenisation of investment products

We provided guidance allowing primary dealing of tokenised SFC-authorized products subject to additional safeguards in November. We are also committed to engaging with market participants to establish appropriate measures that address issues relating to secondary trading of tokenised SFC-authorized products. The first tokenised SFC-registered private OFC was launched in December 2023, and the first tokenised retail gold product was authorised by us in March 2024 (see sidebar on page 57).

<sup>6</sup> See Sustainability on pages 115-124.





### Streamlined measures for SFC- authorised funds

Our December 2023 circular and updated guidance set out a number of streamlined measures to enhance the operational efficiency and approval processes of SFC-  
authorised funds, such as the disclosure and reporting requirements relating to changes in investment delegates, reporting of pricing errors and breaches by SFC-  
authorised UCITS<sup>8</sup> funds and other post-  
authorisation notifications.

### Disclosing annualised returns for money market funds

In October 2023, we issued guidance to allow SFC-  
authorised money market funds to present annualised returns for periods of less than one year in factsheets, marketing materials or other documents, subject to certain disclosure and other requirements. This was in response to the industry's request to provide more fund performance information to investors, considering the adoption of similar practices in several major jurisdictions.

### Enhancing REIT regime and SFO market conduct regime for listed CIS

In March 2024, we launched a public consultation on proposals to introduce a statutory scheme of arrangement and compulsory acquisition mechanism for REITs and to enhance the market conduct regime for listed CIS under the Securities and Futures Ordinance (SFO). The proposals would enable Hong Kong REITs to conduct privatisation and corporate restructuring in a way that is similar to other listed companies with a number of safeguards. Under the proposals, various SFO market conduct regimes would also be explicitly extended to listed CIS to help enhance market integrity and investor protection.

### ILAS

To foster better investor protection, we have been working closely with the industry and other stakeholders on implementing the enhanced guidance on ILAS product design. The enhancements require ILAS fees and charges to be commensurate with comparable alternative products and align with the insurance protection offered, in addition to reducing product complexity and enhancing fees-related disclosures. We authorised a total of 22 ILAS with different product features.

### Ensuring an orderly market

To monitor the risk exposure of Hong Kong-domiciled SFC-  
authorised funds, we require asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations, credit quality, currency exposure, use of leverage, as well as securities financing and borrowing transactions. We stay abreast of market developments and tailor our monitoring programme in response to different market circumstances and stress events.

We closely monitor the liquidity of SFC-  
authorised funds through reports from asset managers of unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems. In addition, we are conducting liquidity stress tests on selected Hong Kong-domiciled SFC-  
authorised funds.

### Cautioning against suspicious investment products

Through our alert list on suspicious investment products on the SFC's website, we continue to caution and provide early warning to the public about unauthorised investment products suspected to be CIS or structured products falling under the SFO, other suspicious financial products under the SFO or products which are sold by unlicensed entities to Hong Kong investors.

During the year, we cautioned the public against 28 suspicious investment products involving real property, digital tokens and other investments through alert list postings, press releases and social media posts.

<sup>7</sup> The overall average processing time dropped from 1.9 months (for the year 2022/23) to 1.6 months (for the year 2023/24). Since the adoption of the revamped fund authorisation process in 2016, the processing time for all fund applications consistently falls within our targeted processing time, which is on average within one to two months for standard applications and within two to three months for non-standard applications.

<sup>8</sup> Undertaking for collective investment in transferable securities.

<sup>9</sup> Since the introduction of enhanced authorisation process in November 2021, the average processing time for new ILAS applications decreased by 56%, from 4.8 months to 2.1 months.

# Markets

We introduce measures to enhance market infrastructure and support Hong Kong's development as a premier risk management centre. We supervise and monitor exchanges, clearing houses, share registrars and automated trading services (ATS) in Hong Kong to ensure orderly markets.



Mr Rico Leung, Executive Director of Supervision of Markets, at the ISDA Derivatives Trading Forum

## Expanding mutual market access

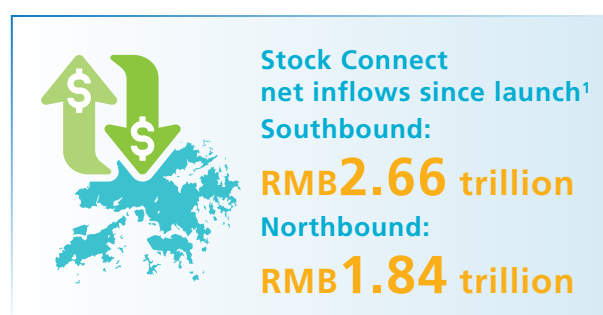
### China Treasury bond futures to launch

The amount of China onshore bonds held by offshore investors has increased steadily since the 2017 launch of Bond Connect. With the Mainland authorities' support, the launch of China Treasury Bond Futures in Hong Kong serves as an important risk management tool to facilitate overseas investors' hedging of their China bond holdings and encourage their increased participation in the Mainland bond market. We are making preparations with Hong Kong Exchanges and Clearing Limited (HKEX) for the launch, including reviewing HKEX's proposed rule amendments.

### Swap Connect well received

Launched in May 2023, Swap Connect enables offshore investors to access the Mainland CNY interest rate swap (IRS) market more efficiently and better hedge the interest rate risk arising from their investments in the Mainland bond market.

Offshore investors' participation in Swap Connect has recorded steady growth one year into its launch. As of 31 March 2024, there were 50 offshore Swap Connect participants, the majority of which were international banks and asset management firms. For the CNY IRS traded and cleared via Swap Connect, their month-on-month average daily gross notional amount has quadrupled since the programme's launch. We have been working closely with HKEX to introduce further enhancements to the scheme.



## Stock Connect enhancements

In August 2023, we announced with the China Securities Regulatory Commission (CSRC) the introduction of block trading (manual trade) under Stock Connect. This new initiative was in response to market demands, paving the way for more trading mechanisms, higher trading efficiency and the mutual development of both securities markets. Once implemented, offshore investors will be able to conduct block trades under Stock Connect on the Shanghai and Shenzhen stock exchanges through the northbound trading link, whilst Mainland investors can report manual trades to the Stock Exchange of Hong Kong Limited through the southbound trading link.

In October 2023, HKEX launched Synapse, a new integrated settlement acceleration platform and the latest enhancement to Stock Connect. This optional service enables northbound Stock Connect participants to streamline their settlement process and reduce operational risks within a tight securities settlement timeframe.

Further enhancements to Stock Connect were announced to raise the scheme's trading efficiency and promote the mutual development of the Mainland and Hong Kong capital markets. These measures include the expansion of the scope of exchange-traded funds (ETFs) and incorporation of real estate investment trusts.

<sup>1</sup> See sidebar on page 67.

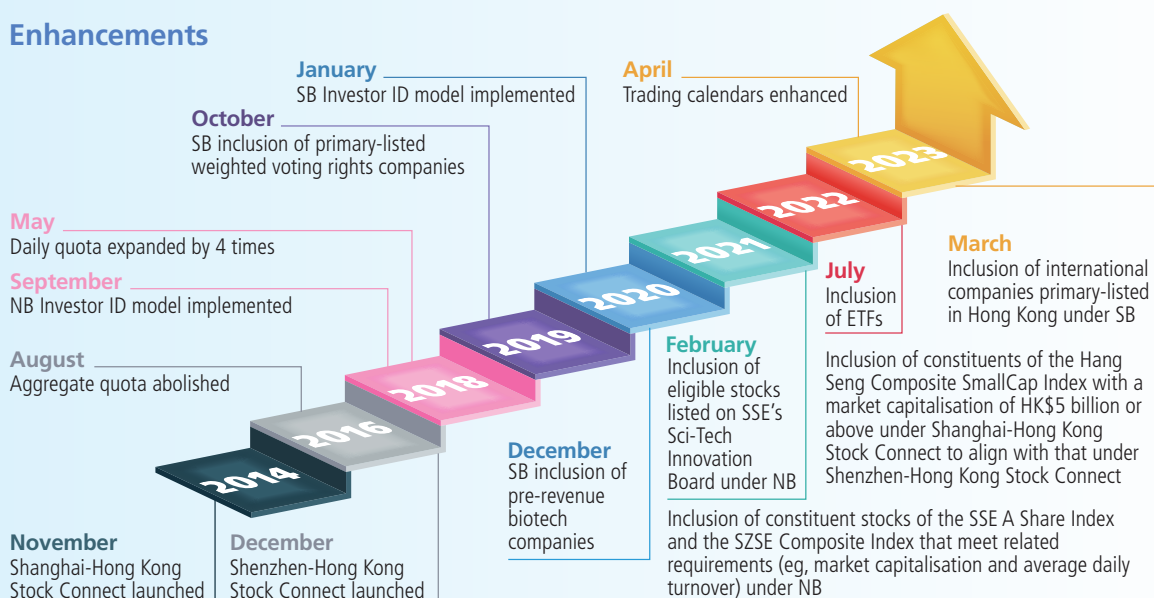
## Celebrating a decade of Stock Connect

Year 2024 marks the 10th anniversary of Mainland-Hong Kong Stock Connect. Launched in November 2014, the ground-breaking mutual market access scheme has reshaped the city's role as the China gateway. With the unique feature of closed-loop securities and fund flows, the scheme has become a preferred channel for investors to trade listed shares in the other market directly through their own local brokers and exchange.

Together with the CSRC, the SFC has introduced a number of important expansions and enhancements through the past decade to promote the steady and healthy development of Stock Connect.

### Stock Connect milestones

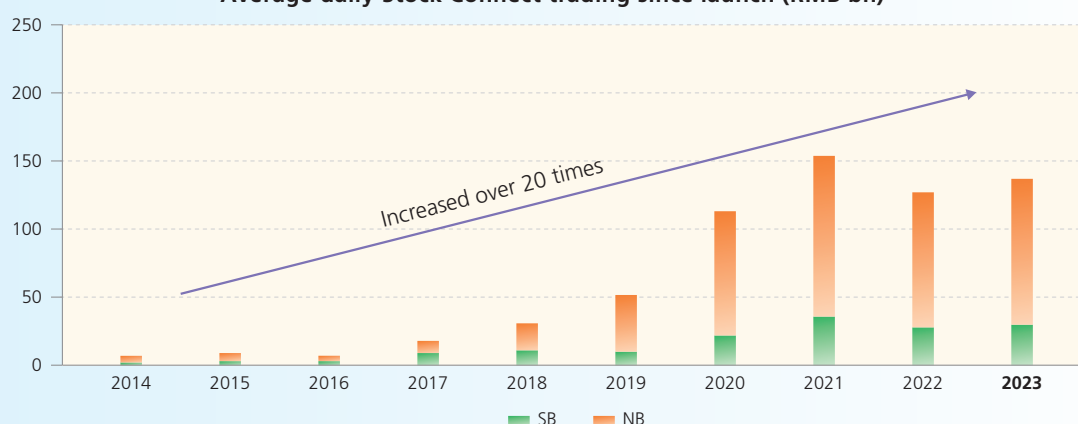
#### Enhancements



#### Expansion

Stock Connect has witnessed strong demand, with turnovers and net buys growing rapidly over the past decade. Daily southbound (SB) turnover surged from RMB0.7 billion to RMB28.4 billion from its launch in 2014 to end-2023, whilst daily northbound (NB) turnover jumped from RMB5.6 billion to RMB108.3 billion. During this period, cumulative net buys increased from about RMB0.01 trillion to RMB2.5 trillion for SB trading and from about RMB0.07 trillion to RMB1.8 trillion for NB trading.

Average daily Stock Connect trading since launch (RMB bn)





Officiating guests at the launch ceremony of HKD-RMB Dual Counter Model

### HKD-RMB dual counter trading

We promote the issuance and trading of renminbi (RMB)-denominated securities in Hong Kong, working closely with the Hong Kong Monetary Authority (HKMA) and HKEX.

In June 2023, the RMB counters of 24 stocks were launched in Hong Kong, and trading has remained orderly. The average daily turnover of the 24 RMB counters amounted to RMB98.3 million (\$105.1 million) since their launch.

**Hong Kong's stock exchange ranked eighth globally<sup>2</sup>**  
**Market capitalisation<sup>3</sup>: US\$3.87 trillion**

HKD-RMB dual counters allow investors to trade RMB-denominated securities and help strengthen Hong Kong's position as the prime offshore RMB centre. The CSRC announced its support for the inclusion of RMB-denominated stocks into southbound Stock Connect.

### Supervising HKEX

Our ongoing supervision of HKEX have focused on a number of initiatives to improve its overall resilience. Last year, we completed an on-site inspection of HKEX's information technology project management and system operations, and made a number of recommendations. We have monitored HKEX's implementation of our recommendations. At our request, HKEX also enhanced the sizing methodology for the default fund in the futures market clearing house to improve its risk management capability.

### Short position reporting

	As at 31.3.2024	As at 31.3.2023	As at 31.3.2022
Market value of short positions as a percentage of market capitalisation of reported securities	1.18%	1.23%	1.34%

<sup>2</sup> In terms of market capitalisation (source: World Federation of Exchanges).

<sup>3</sup> As of 31 March 2024.

## Enhancing local market infrastructure

### Fast Interface for New Issuance (FINI)

The implementation of FINI<sup>4</sup> in November 2023 was the outcome of our joint effort with HKEX. The implementation was generally smooth, and the settlement process for initial public offerings (IPO) has been shortened from five business days to two, providing investors with quicker access to new listings whilst improving market efficiency. In addition, the new pre-funding arrangements have significantly reduced the “lock-up” period of subscription monies in the banking system. FINI has also prevented multiple subscriptions far more effectively.

### Severe weather trading

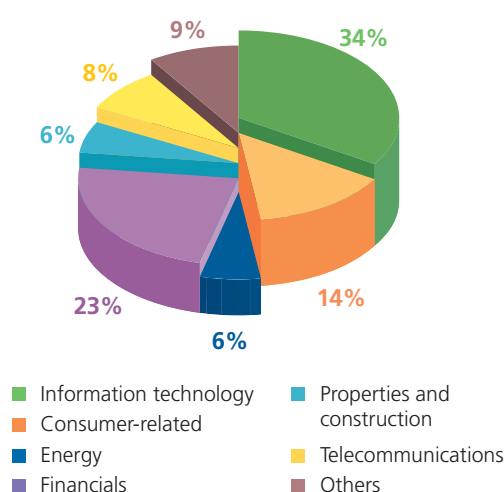
To enhance overall market competitiveness, the SFC, together with the Government, HKMA, HKEX and other industrial associations, established a working group to formulate a proposal to maintain normal operations of Hong Kong’s securities and derivatives markets under severe weather conditions. Based on the working group’s discussions, HKEX launched a two-month consultation to collect market views on the operational model and implementation timeline in November 2023. Taking into account market feedback from the consultation, HKEX is now finalising its proposal and targets to issue consultation conclusions and announce the implementation details around mid-2024.

### Uncertificated Securities Market (USM)

We are working towards implementing the USM regime in Hong Kong, which will enable investors to hold securities in their own names without paper documents. Following our March 2023 consultation on subsidiary legislation regarding the technical and operational details of the regime and the regulation

of securities registrars, we launched a further consultation in October on proposed amendments to the code and guidelines for regulating approved securities registrars under the USM environment. We aim to issue a conclusions paper on both consultations later this year.

### Market capitalisation of Hang Seng Index constituents by sector<sup>^</sup>



<sup>^</sup> As of end-March 2024.

### Position limit

The enhanced position limit regime<sup>5</sup> became effective in December 2023. The amendments sought to clarify funds-related regulatory requirements, facilitate compliance and provide greater flexibility to the market. Key enhancements included raising the statutory position limits for stock futures, stock options and USD/CNH contracts, expanding the list of “specified contracts” for granting excess position limits, as well as clarifying the application of the laws to the asset managers of funds or sub-funds of umbrella funds. We published an FAQ<sup>6</sup> and updated the related guidance note to help market participants understand the enhancements.

<sup>4</sup> FINI is a new digitised platform which allows IPO market participants and regulators to manage the end-to-end settlement process for new listings in Hong Kong.

<sup>5</sup> Under the Securities and Futures Ordinance, the SFC may prescribe limits on the number of futures and options contracts which a person may, directly or indirectly, hold or control and require a person holding or controlling a reportable position to lodge a notice of that reportable position with a recognised exchange company or the SFC.

<sup>6</sup> Frequently asked question.



### Hong Kong as a risk management centre via mutual market access

Through various Connect schemes, the amount of Mainland investments by international investors has recorded substantial growth, and so has their demand for offshore hedging tools. As the world's leading offshore RMB hub and risk management centre, it is important for Hong Kong to provide the right Mainland-related trading instruments and risk management tools with convenient means of access for international investors.

Swap Connect is a new mutual access programme between the Mainland and Hong Kong interbank IRS markets. Following the launch of Northbound Swap Connect in May 2023, eligible Hong Kong and overseas investors are able to trade CNY IRS on the China Foreign Exchange Trade System (CFETS) with Mainland dealers through a trading link between offshore third-party platforms and CFETS<sup>a</sup>. The operation of Swap Connect has been smooth, and the trading and clearing volume has increased steadily. As of 31 March 2024, about 3,200 CNY IRS contracts were traded under Swap Connect.

In the fixed income market, we and HKEX are preparing for the launch of China Treasury bond futures to facilitate international investors' hedging of Mainland interest rate and investment risks, in view of their increased holding of China bonds. Subject to regulatory approval, the Treasury bond futures can add to the suite of Mainland-related risk management tools, encourage further participation by offshore institutional investors in the Mainland bond market and promote its further development.

<sup>a</sup> The IRS executed under Swap Connect on CFETS is then submitted to OTC Clear and Interbank Market Clearing House Co., Limited for clearing and settlement. OTC Clear acts as the central counterparty to Hong Kong and overseas investors to clear and settle IRS transactions with Interbank Market Clearing House Co., Limited.

Another key derivatives product to meet investors' demand is the MSCI China A 50 Connect Index futures, launched in October 2021. This has since become an effective tool for international investors to manage the risk of their exposures to Mainland stocks. As at end-March 2024, it recorded an average daily volume of 18,001 contracts and open interest of 12,862 contracts.

As part of our long-term strategy to enhance and expand various Connect schemes, we are working with the CSRC on the launch of MSCI China A 50 Connect Index options to complement the trading of MSCI China A 50 Connect Index futures. We believe the options contract can supplement the existing futures contract and enable market participants to implement more tailored trading and hedging strategies. This will also help drive the launch of more A-share based investment products, thereby boosting the vibrancy of Hong Kong's risk management ecosystem.



### OTC derivatives regulation

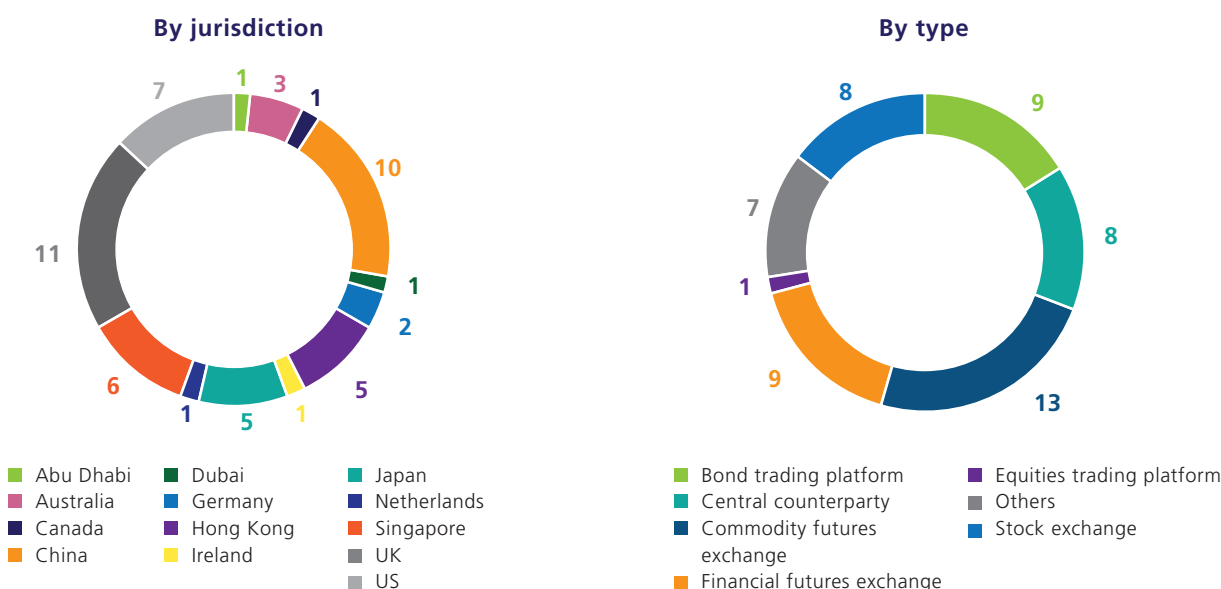
In line with the G20 commitments to reform the over-the-counter (OTC) derivatives market, we have been working with the HKMA and relevant stakeholders on implementing a regulatory regime for the OTC derivatives market in Hong Kong. In April 2023, we launched a joint consultation with the HKMA on the proposed amendments to the Clearing Rules<sup>7</sup> for OTC derivative transactions. These proposals are in line with the global interest rate benchmark reform, particularly the transition from the use of interbank offered rates to alternative reference rates. We received broad support for our proposals. The legislative process is now complete, with the proposed amendments taking effect in July 2024. We will continue to monitor global developments and fine tune the regime as appropriate.

In March 2024, in a further step to promote global data standardisation and harmonisation, we issued a joint further consultation with the HKMA on enhancing

the OTC derivatives reporting regime. We consulted on mandating the use of Unique Transaction Identifier<sup>8</sup>, Unique Product Identifier<sup>9</sup> and Critical Data Elements<sup>10</sup>, and jointly concluded that the list of designated jurisdictions for the masking relief of the reporting obligation remains unchanged. The consultation period lasted for eight weeks and we are analysing the responses.

### ATS

During the year, products traded or cleared through ATS<sup>11</sup> providers ranged from benchmark index futures and options, commodity futures, bonds and equities to ETFs and OTC derivatives. The average daily trading volume of futures contracts originating from Hong Kong was about 678,000 contracts for the 12 months ended 31 March 2024. We authorised seven Part III applications during the year.



Operational Review

### ATS providers

	As at 31.3.2024	As at 31.3.2023	As at 31.3.2022
Under Part III	54	51	53
Under Part V	29	28	25

<sup>7</sup> The Securities and Futures (OTC Derivative Transactions — Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.  
<sup>8</sup> A unique identifier assigned to identify each reported OTC derivatives transaction.  
<sup>9</sup> A unique identifier to denote a specific OTC derivatives product.  
<sup>10</sup> These are a standard set of OTC derivatives transaction data elements (other than Unique Transaction Identifier and Unique Product Identifier).  
<sup>11</sup> Under the Securities and Futures Ordinance (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.

### Investor compensation

The current compensation limit is \$500,000 per investor per default. This limit, in place since 1 January 2020, is reviewed regularly. The latest review was completed in the first quarter of 2024, and the results indicated that the current limit remains appropriate.

During the year, the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received two claims against the Investor Compensation Fund and processed four claims.

### Investor compensation claims

	2023/24	2022/23	2021/22
Balance brought forward	39	37	30
Received	2	9	17
Processed	4	7	10
— Compensation payments made	0	0	0
— Rejected	4	5	10
— Withdrawn	0	2	0
— Reconsidered	0	0	0
Balance carried forward	37	39	37

### Net asset value of compensation funds

	As at 31.3.2024 (\$ million)	Change	As at 31.3.2023 (\$ million)	Change	As at 31.3.2022 (\$ million)
Unified Exchange Compensation Fund (UECF) <sup>a</sup>	88.1	2.7%	85.8	0.1%	85.7
Investor Compensation Fund (ICF) <sup>b</sup>	2,636.8	4.8%	2,517.0	2.5%	2,454.9
<b>Total</b>	<b>2,724.9</b>	<b>4.7%</b>	<b>2,602.8</b>	<b>2.4%</b>	<b>2,540.6</b>

<sup>a</sup> See pages 193-206 for the financial statements of the UECF. The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

<sup>b</sup> See pages 180-192 for the financial statements of the ICF.

# Enforcement

We take proactive and resolute enforcement actions to protect investors, punish wrongdoers and safeguard the reputation and integrity of our markets. Our strategic focus on high-impact cases helps us address key risks in financial markets and send strong deterrent messages.

## Leveraging available regulatory tools

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, civil, compensatory and disciplinary actions. We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage. We can discipline licensed intermediaries through reprimands, fines<sup>1</sup> and suspensions or revocations of licences. Additionally, we have the authority to apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

To tackle market misconduct, such as insider dealing and market manipulation, we initiate criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT). During the year, we commenced 183 investigations and laid 50 criminal charges against 24 individuals. We secured convictions against two of them and the proceedings against the others are ongoing.

We obtained disqualification and compensation orders against one corporation and 18 individuals. Civil actions seeking financial redress and other remedial orders against 204 individuals and corporations in 37 cases are pending before the court.

Disciplinary actions were taken against 14 individuals and 12 corporations. We also issued 144 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.



<sup>^</sup> The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

<sup>1</sup> Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

## Enforcement

### Taking actions under the VATP regime

To combat fraudulent activities of suspicious virtual asset trading platforms (VATPs) in a more timely manner, we established a dedicated joint working group with the Hong Kong Police Force (Police) in October 2023 to enhance collaboration in monitoring and investigating illegal activities involving or purporting to involve virtual assets or VATPs. In December 2023, we and the Police further strengthened our cooperation with an information sharing protocol to identify and address potential fraudulent activities promptly.

To raise public awareness, the SFC warned the public against 19 suspected cases of VATP-related frauds and unlicensed VATPs<sup>2</sup> during the year through press releases, social media posts, posting of suspicious entities on the SFC's Suspicious VATP Alert Lists, and press briefings. As a result of our concerted efforts, the Police expeditiously took steps to block access to websites of entities involved in suspected fraud, based on requests made by the SFC. We have also issued cease and desist letters to relevant website operators, urging them to cease offering tokens issued by suspicious VATPs.

### Joint operations with other law enforcement agencies

#### First tripartite operation

We conducted the first tripartite operation together with the Independent Commission Against Corruption (ICAC) and the Accounting and Financial Reporting Council (AFRC) in October 2023 against two companies listed on the Stock Exchange of Hong Kong Limited (SEHK) on suspected fictitious corporate transactions totalling \$193 million. A total of 16 premises were jointly searched by the three agencies, and the ICAC arrested three individuals, including an executive director of a listed company, for suspected offences under the Prevention of Bribery Ordinance. The said

joint operation involved the use of documents with intent to deceive principals by agents, and auditors' misconduct concerning the suspected fictitious transactions, respectively. The investigations are ongoing.

### Joint operation with ICAC

We conducted a joint operation with the ICAC against a sophisticated market manipulation syndicate that was suspected to have orchestrated a scheme to ramp up the share prices of two companies listed on SEHK. In connection with the joint operation, we issued restriction notices to six brokers, prohibiting them from dealing with or processing assets held in eight trading accounts which are related to the suspected market manipulation of the shares of one of the two listed companies. The ICAC also arrested one core member of the suspected syndicate under the Prevention of Bribery Ordinance.

## Combatting market misconduct

### Surveillance

On a daily basis, we monitor trading on SEHK and the Hong Kong Futures Exchange Limited, and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance.

Our surveillance of untoward price and turnover movements resulted in 4,627 requests for trading and account records from intermediaries<sup>3</sup>. We also received and assessed 248 notifications from intermediaries regarding suspicious equity and derivative trading. We posted one "high concentration" announcement on our website to remind the investing public to exercise caution when trading in the shares of a listed company that are highly concentrated in a small number of shareholders.

<sup>2</sup> Including <https://futu-pro.com>, <https://futubit.com>, FUBT Exchange, Hounax, Hong Kong Digital Research Institute (or HongKongDAO), BitCuped, LonShiX, BITBANK, Aramex, DIFX, MEXC, [www.oslint.com](http://www.oslint.com), HSKEX, [www.oslexu.com](http://www.oslexu.com), BitForex, ByBit, KKR Global, HKCEXP and EDY.

<sup>3</sup> Intermediaries are required to report clients' suspected market misconduct to the SFC.



## Looking back on debut year — How the Hong Kong Investor Identification Regime enhances enforcement outcome

The Hong Kong Investor Identification Regime (HKIDR) became effective on 20 March 2023. Under the HKIDR, relevant SFC-licensed corporations or registered institutions are required to disclose to SEHK the identities of their clients who originated all securities orders in real-time. Since its launch, the HKIDR has significantly enhanced the SFC's market surveillance capabilities.

### More targeted market surveillance

The immediate availability of investors' identity information allows us to detect client-level abnormal trading patterns on a real-time basis. We can now quickly establish whether trading irregularities behind multiple brokers are attributable to one single trader without further inquiries to the intermediaries.

We have deployed advanced data analytics to tap into this additional data source to model unusual and novel trading behaviour that might emerge in different economic climates. By leveraging our surveillance capabilities combined with data analytics, resources can now be directed towards cases of high impact and high strategic value that will have the desired deterrence effect.



The Hong Kong Investor Identification Regime came into effect on 20 March 2023

Reduced **21%**  
section 181 notices issued

### Enhancing operational efficiency

Before the HKIDR's launch, the SFC had to issue section 181 notices to relevant exchange participants to obtain information about the orders or trades including the identities of the underlying clients. It took a significant amount of time to collate the data returned from the different intermediaries. Under the HKIDR, we are able to associate each order and trade with a unique investor identity, thus reducing the need to issue section 181 notices to intermediaries and enhancing the overall efficiency in our share dealing enquiry. As a result, the number of section 181 notices reduced by 21% year-on-year from 5,851 to 4,627 during the reporting year.

### Second phase of investor identification regime (HKIDR)

Following the launch of HKIDR in March 2023, we launched the second phase in September, ie, the over-the-counter securities transaction reporting regime for shares listed on SEHK. This new regime allows us to better monitor off-exchange transactions and the parties involved.

### Insider dealing and other market misconduct

- ◆ Three suspected core members of a large-scale and sophisticated syndicate suspected of ramp and dump market manipulation were charged with the offence of conspiracy to employ a scheme with intent to defraud or deceive in transactions involving securities contrary to section 300<sup>4</sup> of the SFO and sections 159A and 159C of the Crimes Ordinance. In February 2024, the case against two of the suspected core members were transferred to the District Court. This is the first ramp and dump criminal prosecution in the District Court.
- ◆ Following our earlier joint operation with the Police against a large-scale, sophisticated ramp and dump syndicate, 10 more suspects, including key members and a suspected ringleader, were brought to the Eastern Magistrates' Courts on charges of various criminal offences, including conspiracy to perpetrate fraud or deception in transactions involving securities provided in section 300 of the SFO and related money laundering offences. In total, 24 people were charged in this case. Further hearings were scheduled.
- ◆ The Court of First Instance (CFI) granted an interim injunction order under section 213 of the SFO against Tsang Ching Yi and Barry Kwok Sze Lok for suspected insider dealing in the shares of I.T Limited, prohibiting them from removing assets up to \$8,246,496 from Hong Kong.
- ◆ The Court of Final Appeal unanimously dismissed the appeal by six suspected overseas manipulators concerning service out of the jurisdiction<sup>5</sup>. The appeal arose from legal proceedings under section 213 of the SFO brought by us in a case of alleged false trading in the shares of Ching Lee Holdings Limited through a large-scale and sophisticated scheme. As a result of these proceedings, we obtained from the CFI injunctions to freeze the assets held by 15 local and overseas entities.
- ◆ We commenced proceedings in the MMT against a former executive deputy general manager of China CITIC Bank International Limited for alleged insider dealing in the shares of Bloomage BioTechnology Corporation Limited.
- ◆ We commenced proceedings in the MMT against the former chairman and non-executive director of Ding Yi Feng Holdings Group International Limited and 20 other individuals for allegedly manipulating the trading of Di Yi Feng shares. We also commenced proceedings in the CFI under section 213 of the SFO against the same 21 individuals to seek various orders to restore affected counterparties to their pre-transaction positions and restrain the defendants from disposing of or dealing with any assets, and to ensure that there will be sufficient assets to meet the restoration orders.
- ◆ We brought about the first prosecution for employing a fraudulent scheme with intent to defraud in securities transactions against Yeung Tak Sum Christine (Yeung) in the context of illegal short selling in breach of section 300 of the SFO. In February 2024, the Eastern Magistrates' Court convicted Yeung for the offence under section 300 after she pleaded guilty. In March 2024, Yeung was sentenced to 18 months of imprisonment.

<sup>4</sup> Under section 300 of the SFO, a person shall not, among other things, directly or indirectly, in a transaction involving securities, engage in any act, practice or course of business which is fraudulent or deceptive, or would operate as a fraud or deception.

<sup>5</sup> As the suspected manipulators are overseas nationals or entities incorporated outside Hong Kong, we have obtained leave for service out of the jurisdiction from the CFI. The overseas manipulators then made several applications to challenge the CFI's leave for us to serve them out of the jurisdiction. In October, the Court of Final Appeal held that leave to serve out of jurisdiction is not required in the present case.

## Tackling corporate fraud and related misbehaviour

During the year, we commenced legal proceedings in the CFI under section 214<sup>6</sup> of the SFO against the following individuals:

- ◆ to seek disqualification orders against seven former directors and a former chief financial controller of China Candy Holdings for permitting, acquiescing or turning a blind eye to falsified bank and accounting records, breach of directors' duties and other misconduct;
- ◆ to seek disqualification orders against eight current or former directors of FingerTango Inc. and a compensation order against six of them for allegedly committing corporate misconduct and breaching their duties towards the company. We also issued restriction notices to three brokers prohibiting them from dealing with or processing certain assets held in the accounts of three of the respondents for preservation of funds to pay compensation to FingerTango if so ordered by the court; and
- ◆ to seek disqualification orders against five former directors and a former de facto director of First Credit Finance Group Limited for breach of directors' duties.

We obtained orders from the CFI under section 214 of the SFO against:

- ◆ Lau Chi Yuen Joseph and Chung Man Wai, former directors of Luxey International (Holdings) Limited, to disqualify them from being a director or taking part in the management of any corporation in Hong Kong for eight years and five years, respectively, for their misconduct in a corporate acquisition;
- ◆ Liu Yong, a former executive director of National Agricultural Holdings Limited, and Chiu Kam Hing Kathy and Fan Chung Yue William, both former independent non-executive directors of the company, to disqualify them from being a director or taking part in the management of any corporation in Hong Kong for three years, 20 months and 20 months, respectively, after they admitted to having breached their directors' duties to the company;
- ◆ Tse On Kin, the former chairman and executive director of Kong Sun Holdings Limited and China Sandi Holdings Limited, to disqualify him from being a director or taking part in the management of any corporation in Hong Kong for 10 years and to pay compensation of around \$2.2 million to Kong Sun, being the profit he made in breach of his fiduciary duty owed to Kong Sun, after he admitted that he had devised a fraudulent scheme to conceal his interests in the companies' share placements and obtained a secret profit. He was also ordered to pay our costs in the proceedings;
- ◆ Nicholas Chiu Sai Chuen, a former independent non-executive director of China Candy, to disqualify him from being a director and being involved in the management of any listed or unlisted companies for three years, after Chiu admitted he acted negligently in discharging his duties as a director. He was also ordered to pay our costs in the proceedings; and
- ◆ Chan Wai Shing, former chief financial officer (CFO) and company secretary of Fuguiniao Co., Ltd, to disqualify him from being a director of any corporation or being involved in the management of any listed corporation in Hong Kong for two years, after Chan admitted that he failed to discharge his duties as the CFO of Fuguiniao. He was also ordered to pay our costs in the proceedings.

<sup>6</sup> Under section 214 of the SFO, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for up to 15 years or any other orders it considers appropriate.

## Enforcement

- ◆ In a case where we commenced legal proceedings under section 214 of the SFO against Leung Anita Fung Yee Maria, a former chief executive officer and executive director of SMI Culture & Travel Group, to seek a compensation order for losses suffered by SMI Culture as a result of a suspected fraudulent scheme, we obtained an interim order at the CFI to require Leung to notify us before disposing of her various land properties. The loss suffered by SMI Culture through purchases of overpriced assets was estimated to be \$235 million, while the unjust profits gained by the suspected fraudsters ranged from \$35 million to \$74 million. The interim order was given pending the determination of our injunction application in respect of the assets held by Leung.
- ◆ In a case where we commenced legal proceedings to seek disqualification orders against the former chairman and two other former executive directors of Tech Pro Technology Development Limited for breaching their duties owed to the company, we have set the case down for trial at the CFI.
- ◆ We directed SEHK to suspend dealings in the shares of LET Group Holdings Limited and Summit Ascent Holdings Limited under the Securities and Futures (Stock Market Listing) Rules with effect from 14 February 2024 due to concerns regarding a very substantial disposal of a major asset of LET and Summit Ascent and the conduct of the two companies and their management.
- ◆ We collaborated with SEHK in an enforcement action that led to SEHK's disciplinary action against Singapore-residing Aris Goh Leong Heng (Goh) and Anita Chia Hee Mei (Chia), two former directors of GEM-listed Global Uin Intelligence Holdings Limited for misappropriating Global Uin Intelligence's assets through a rerouting arrangement. SEHK publicly censured them and issued the Director Unsuitability Statement against them. Our investigation into the suspected misappropriation by Goh and Chia is still ongoing.

## Taking resolute action against intermediary misconduct

During the year, we disciplined 12 corporations and 14 individuals<sup>7</sup>, resulting in total fines of \$49.9 million. Key disciplinary actions included the following:

### Mishandling client assets

- ◆ We reprimanded China On Securities Limited and fined it \$6 million for failing to act within the scope of its client's authority and adequately safeguard the client's assets when acting as a placing agent of shares in Hon Corporation Limited.
- ◆ We reprimanded Changjiang Asset Management (HK) Limited and fined it \$3.4 million for regulatory breaches in relation to the segregation of client money and provision of account statements to clients.
- ◆ We reprimanded Ruifeng Securities Limited (RSL) and fined it \$5.2 million for failures relating to its fund management activities and account opening procedures. We also suspended the licence of Fang Zhi for failing to discharge his duties as a responsible officer of RSL in charge of its fund management activities.

<sup>7</sup> Comprising seven responsible officers/managers-in-charge, three licensed representatives, one person involved in the management of the business of a licensed corporation and one relevant individual of a licensed bank in Hong Kong.

## Internal control deficiencies

- ◆ We revoked the licence of Axial Capital Management Limited for repeated failures to comply with the SFO, the Securities and Futures (Financial Resources) Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct). We also suspended the licence of Eugene Chung, a responsible officer of Axial and member of the senior management of Axial, for five years for failing to discharge his duties.
- ◆ We reprimanded Chee Tak Securities Limited and fined it \$2 million for internal control deficiencies and regulatory breaches. We also suspended the licences of Kevin Chiu Koon Yu, a responsible officer and a member of the senior management of Chee Tak, for 10 months for failing to discharge his duties. Hau Bing Leung, a former account executive, faced a suspension of 15 months for allowing a third party to operate a client's account without the client's written authorisation and carrying out personal trades in the client's account.
- ◆ We reprimanded PICC Asset Management (Hong Kong) Company Limited and fined it \$2.8 million for failing to discharge its duties as the fund manager of a fund to ensure that its investments were in line with its stated investment strategy, objectives and investment restrictions and to implement adequate and effective internal controls for the fund's risk management.
- ◆ We reprimanded Taiping Securities (HK) Co Limited and fined it \$1.3 million for failing to put in place adequate and effective internal controls to monitor employee dealings.

## Sponsor failures

- ◆ We reprimanded and fined Changjiang Corporate Finance (HK) Limited (CCF) \$20 million for failure in discharging its duties as the sponsor in six applications to list on SEHK. We also partially suspended CCF's licence to act as a sponsor for listing applications on SEHK for one year or until we are satisfied with its related controls and procedures. Ivan Chan Chuk Cheung, a former responsible officer of CCF, was also banned from re-entering the industry for seven years for failing to discharge his supervisory duties as a sponsor principal in charge of five listing applications.
- ◆ We banned Tsang Kwong Fai, a former responsible officer and senior management member of RaffAello Capital Limited, from re-entering the industry for two years for failing to discharge his supervisory duties as a sponsor principal.

## AML/CFT-related breaches

- ◆ We reprimanded China Industrial Securities International Brokerage Limited and fined it \$3.5 million for internal control failures relating to monitoring suspicious trading activities and recording client order instructions.
- ◆ We reprimanded Lion Futures Limited and fined it \$2.8 million for failing to comply with anti-money laundering (AML) and counter-terrorist financing (CFT) and other regulatory requirements.



## Enforcement

### Other disciplinary actions

*Other regulatory breaches and criminal convictions*

Company/Name	Breaches/Convictions	Action/Fine	Date
Lam Ching Chiu	Conviction of bribery offences	Banned from re-entering the industry for five years	06.02.2024
Wong Siu Fung	Conviction of bribery offences	Banned from re-entering the industry for five years	06.02.2024
Central Wealth Securities Investment Limited	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$1 million	18.12.2023
Amy Chow Bik Sum	Conviction of bribery offence	Banned from re-entering the industry for life	13.12.2023
Xie Yangxiong	Provided false and misleading financial information about licence applications of two firms, failed to sufficiently maintain the firms' liquid capital and notify the SFC of the firms' liquid capital deficits	Banned from re-entering the industry for life	06.06.2023
Law Chi Kin Peter	Took part in a stock manipulation scheme	Banned from re-entering the industry for 10 years and fined \$535,500	26.04.2023
Ninety One Hong Kong Limited	Conducted dealings in futures contracts without the required licence	Reprimanded and fined \$1.4 million	04.04.2023

### Other notable cases

The Securities and Futures Appeals Tribunal affirmed our decision to ban Calvin Choi Chi Kin, a former managing director of UBS AG, from re-entering the industry for two years for breaching the Code of Conduct and the Corporate Finance Adviser Code of Conduct.

We obtained an order from the CFI to appoint two administrators to administer the property of Vantage New Generation Securities Limited, including assets held by the firm on behalf of its clients or third parties, as well as to manage the affairs of the firm.

We commenced legal proceedings in the CFI to inquire into non-compliance by AMTD Global Markets Limited<sup>8</sup> and its former executives with our notices issued under section 183 of the SFO concerning initial public offering-related investigations.

<sup>8</sup> Currently known as orientiert XYZ Securities Limited.

The MMT sanctioned Mayer Holdings Limited (Mayer) and nine of its former senior executives for failing to disclose inside information as soon as reasonably practicable as required under the SFO and ordered them to pay a total fine of \$4.65 million. The nine former senior executives were also disqualified for 20 to 30 months and ordered to attend an SFC-approved training programme on compliance with corporate disclosure requirements under the SFO, directors' duties and corporate governance. The MMT further recommended the AFRC to take disciplinary action against Mayer's former company secretary and financial controller.

In June 2022, the Court ordered Maxim Capital Limited and Maxim Trader to pay qualifying investors of the Maxim Fund following legal proceedings brought by the SFC under section 213 of the SFO<sup>9</sup>. In September 2023, the CFI granted our application to extend the cut-off date for investors to make claims relating to investment schemes operated by Maxim Capital Limited and Maxim Trader in Hong Kong by 30 November 2023 (Maxim Fund). The original cut-off date was 23 July 2022.

## Restriction notices

During the year, we issued restriction notices to 19 securities brokerage companies prohibiting them from disposing of or dealing with certain assets held in their client accounts which are related to suspected ramp and dump scam or other misconduct.

## Regulatory collaboration

### First SFC and AFRC joint statement

As part of our enhanced collaboration in the regulation of the securities and futures markets in Hong Kong, we issued the first joint statement with the AFRC in July 2023, addressing an observable increase in cases of listed issuers channelling corporate funds to third parties as "loans" in dubious circumstances. These loans were often approved without sufficient commercial rationale or appropriate documentation. Listed issuers suffered significant losses when these loans became unrecoverable. We set out in the joint statement the conduct standards and practices that listed issuers, their directors, audit committees and auditors should follow in relation to loans and similar arrangements.

We will continue to work with the AFRC to maintain the integrity of Hong Kong's capital market and protect the interests of the investing public.

### Enhancing our powers to curb misconduct

Following our consultation on proposed amendments to enforcement-related provisions of the SFO in June 2022, we published the consultation conclusions in August 2023. After having considered industry feedback, we concluded that we would proceed with the proposal to broaden the insider dealing provisions of the SFO to cover insider dealing perpetrated in Hong Kong in relation to overseas-listed securities or their derivatives. The amendments also cover insider dealing perpetrated outside of Hong Kong which involves Hong Kong-listed securities or their derivatives. Considering the complex implementation issues raised during the consultation, pending further review, we will put on hold the other two proposals concerning professional investor exemption and injunctions as well as other orders. We will continue to monitor market developments and consider a full range of options to enhance investor protection as necessary.

<sup>9</sup> The SFC's investigation found that Maxim Capital Limited and Maxim Trader had solicited over 260 investors to invest more than \$170 million in investment schemes since 2013. Investors were initially able to receive monthly returns on their investments, but the payments discontinued in July 2015 and Maxim Capital or Maxim Trader informed them that their investments had been converted into shares of a company which appeared to be worthless.

## Enforcement activities

	2023/24	2022/23	2021/22
S179 <sup>a</sup> inquiries commenced	34	31	57
S181 <sup>b</sup> inquiries commenced (number of letters sent)	188 (4,627)	191 (5,851)	203 (7,308)
S182 <sup>c</sup> directions issued	182	130	214
Investigations started	183	135	220
Investigations completed	175	164	131
Individuals/corporations charged in criminal proceedings	24	25	4
Criminal charges laid <sup>d</sup>	50	115	28
Notices of Proposed Disciplinary Action <sup>e</sup> issued	26	26	37
Notices of Decisions <sup>f</sup> issued	27	29	43
Individuals/corporations subject to ongoing civil proceedings	204	180	168
Compliance advice letters issued	144	113	162
Cases with search warrants executed	26	35	37

<sup>a</sup> Section 179 of the 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.

<sup>b</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

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

<sup>d</sup> The SFC brought a total of 16 criminal charges against 7 individuals. The Police brought a total of 34 criminal charges against 17 individuals for the investigations of the SFC.

<sup>e</sup> 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.

<sup>f</sup> A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

# Regulatory Engagement

To advance Hong Kong's position as a leading international financial centre, we actively participate in international policymaking through our leadership in global standard-setting bodies and closely collaborate with local and Mainland authorities on regulatory and market development initiatives.

## Leadership in global standard-setting bodies

Our Chief Executive Officer (CEO) Ms Julia Leung has represented the SFC on the Board of the International Organization of Securities Commissions (IOSCO)<sup>1</sup> since 2016. During the year, Ms Leung took part in regular calls and meetings of the IOSCO Board to identify, discuss and address emerging regulatory issues and share information about capital market developments. The areas of focus included sustainable finance, digital assets, and non-bank financial intermediation.

Ms Leung chairs<sup>2</sup> the IOSCO Asia-Pacific Regional Committee (APRC), which is one of IOSCO's four regional committees and comprises over 30 Asia-Pacific regulators. The APRC focuses on addressing regulatory issues, enhancing supervisory collaboration and



SFC CEO Ms Julia Leung chairs the IOSCO Asia-Pacific Regional Committee

experience sharing, and supporting capacity building activities. Furthermore, she is a member of the Management Committee of the IOSCO Asia Pacific Hub, which delivers capacity building programmes for securities regulators in the region.

Ms Leung also serves as a Vice Chair of the IOSCO Sustainable Finance Task Force (STF) and co-leads the STF's Corporate Reporting Workstream, under which she oversaw IOSCO's assessment and evaluation of the IFRS<sup>3</sup> Sustainability Disclosure Standards.



Meeting of IOSCO Committee on Enforcement and the Exchange of Information in the US in November 2023

<sup>1</sup> IOSCO is responsible for developing, implementing and promoting adherence to internationally recognised standards for securities regulation. IOSCO's membership regulates more than 95% of the world's securities markets in 130 jurisdictions.

<sup>2</sup> Ms Leung's two-year term commenced in May 2024 during the IOSCO 2024 Annual Meeting.

<sup>3</sup> International Financial Reporting Standards.

## Regulatory Engagement

Other SFC senior executives also play leading roles in key international initiatives, holding leadership positions in committees and working groups under IOSCO and the Financial Stability Board (FSB).



The meeting of the IOSCO Assessment Committee in Hong Kong in September 2023

- ◆ Ms Christina Choi, our Executive Director of Investment Products, chairs the IOSCO Policy Committee on Investment Management. She also leads the committee's core expert group which supports the Financial Stability Engagement Group in the ongoing international work related to open-ended funds (OEFs) and published in December 2023 the IOSCO Guidance on Anti-Dilution Liquidity Management Tools (LMTs). The committee also conducted a public consultation on proposed good practices for leveraged loan and collateralised loan obligation markets in 2023.
- ◆ Ms Choi also co-chairs the OEF Working Group under the FSB Standing Committee on Supervisory and Regulatory Cooperation, which published the revised FSB policy recommendations in December to address structural vulnerabilities from liquidity mismatch in OEFs. Together with IOSCO's guidance on anti-dilution LMTs, both reports aim to promote the greater use and enhanced consistency in the use of anti-dilution LMTs by OEFs at a global level to address financial stability risks and investor protection at the same time.
- ◆ Mr Kenneth Lai, our Director of Enforcement, is serving his second term as Vice Chair of the IOSCO Committee on Enforcement and the Exchange of Information, which seeks to implement international enforcement cooperation under the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU). He is also a member of the IOSCO MMoU Monitoring Group Steering Committee.
- ◆ Ms Christine Kung, our Senior Director and Head of International Affairs and Sustainable Finance, leads the IOSCO APRC Sustainable Finance Working Group, which aims to drive consistent sustainable finance regulation across the region, including climate-related disclosures.



The 48th IOSCO Annual Meeting in Bangkok in June 2023



## SFC hosts high profile international meetings in Hong Kong

We work closely with our international counterparts and the IOSCO Secretariat to facilitate cooperation, discussions, and capacity building amongst IOSCO members. During the year, we hosted four international meetings in Hong Kong. The SFC hosted the IOSCO APRC meetings in February 2024, which were attended by more than 70 senior regulators and experts from 21 jurisdictions.

The discussions focused on risks and opportunities in the region, including sustainable finance, Fintech, capital market access by small and medium-sized enterprises, and the use of regulatory and supervisory technologies. Participants also shared experiences in capacity building, tackling online frauds and scams, and addressing greenwashing and market manipulation.

In the same month, we also hosted the eighth EU-Asia-Pacific Forum on Financial Regulation, an annual forum for policymakers and financial authorities from the European Union (EU) and Asia-Pacific jurisdictions to discuss cooperation in financial regulation and supervision.

Under the two key themes of sustainable finance and digital finance, participants discussed major regulatory and market developments. They also reaffirmed the importance of continued dialogue



EU-Asia-Pacific Forum on Financial Regulation in Hong Kong in February 2024

and cross-border cooperation to make the financial system more resilient and monitor vulnerabilities.

We hosted a meeting of the IOSCO Committee on Investment Management and two industry roundtables in November 2023. Over 30 members at the meeting discussed work on liquidity management tools for OEFs, industry practices and market developments on valuation and the future workplan.

The IOSCO Assessment Committee aims to encourage full, effective and consistent implementation of IOSCO's Objectives and Principles of Securities Regulation. In September 2023, we hosted a meeting where committee members discussed implementation monitoring in the areas of sustainability reporting, crypto assets and effective market surveillance posed by technological challenges.



IOSCO APRC Supervisory Directors' Meeting in Hong Kong in February 2024



IOSCO APRC Enforcement Directors' Meeting in Hong Kong in February 2024



## Regulatory Engagement

### Strengthening global regulatory collaboration

Within IOSCO, the SFC contributes to all of its task forces at the Board level, including the STF, Fintech Task Force, and Financial Stability Engagement Group. We also participate in all eight policy committees of IOSCO, the Committee on Emerging Risks, and the Assessment Committee. At the regional level, we lead the IOSCO APRC.

The SFC participates in the CPMI<sup>4</sup>-IOSCO Steering Group which is responsible for coordinating regulatory policy work regarding the oversight and supervision of financial market infrastructures, including central counterparties (CCPs). The Group has set up a Policy Standing Group and an Implementation Monitoring Standing Group. Through the SFC's participation in these two Standing Groups, we have been involved in development and implementation monitoring of policies and standards related to CCPs.

The SFC participates in the BCBS<sup>5</sup>-CPMI-IOSCO's Joint Working Group on Margin, which is advancing work on the transparency and responsiveness of initial margin in centrally cleared markets. We supported a review of margining practices of centrally cleared and uncleared markets in particular during periods of high market volatility.

During the year, Mr Rico Leung, our Executive Director of Supervision of Markets, and other senior SFC representatives participated in meetings of the FSB Regional Consultative Group for Asia and the FSB Standing Committee on Standards Implementation.

### Ensuring financial stability

As a member of the IOSCO Financial Stability Engagement Group and its Steering group, we coordinate IOSCO's role in addressing financial stability risks with the FSB, identify and address vulnerabilities associated with non-bank financial intermediation.

We are also a member of the FSB Cross-Border Crisis Management Group for Financial Market Infrastructures. The Group provides a forum for

regulators to discuss matters and formulate policies regarding the resolution of CCPs. Through these international forums, the SFC participates in the policy making process and keeps abreast of the latest developments in global CCP regulations. This will help enhance our supervision of CCPs in Hong Kong.

### Furthering Mainland-Hong Kong collaboration

To consolidate Hong Kong's position as a leading international financial centre and a premier China gateway, we hold regular discussions and work proactively with the China Securities Regulatory Commission (CSRC) and other Mainland authorities to deepen mutual market access schemes and enhance cross-boundary supervisory and enforcement cooperation. Through a series of high-level meetings and working-level discussions, we endeavoured to cultivate enhanced dialogue and cooperation across a diverse spectrum of issues.

In March 2024, our Chairman Mr Tim Lui and CEO Ms Julia Leung met with CSRC Chairman Mr Wu Qing in Beijing. They took stock of the recent achievements of cooperation between the Mainland and Hong Kong capital markets and exchanged views on recent developments of both markets. They also agreed to further deepen cross-boundary regulatory and enforcement cooperation, promote coordinated development of the two capital markets, and enhance Hong Kong's status as an international financial centre.



(From left to right) SFC CEO Ms Julia Leung, CSRC Chairman Mr Wu Qing and SFC Chairman Mr Tim Lui

<sup>4</sup> The Committee on Payments and Market Infrastructures.

<sup>5</sup> The Basel Committee on Banking Supervision.

The SFC also visited Guangzhou, Shenzhen and Shanghai in the summer of 2023 to meet with the CSRC local bureaus, stock exchanges, futures exchanges and clearing houses there and discuss cross-boundary regulatory cooperation and market development initiatives. We organised a training programme for a CSRC senior executives delegation to meet with SFC operational divisions, various local regulators and industry associations, and received visits by several batches of CSRC working-level delegations. By fostering greater communication and cooperation, we have strengthened the foundations and enhanced our collaborative efforts to address emerging risks and challenges.

At the 13th and 14th SFC-CSRC high-level meetings held in June and December 2023, we exchanged views on comprehensive topics including the latest capital market development, recent achievements in cross-boundary regulatory cooperation, and ongoing initiatives of market development and regulatory cooperation. We also agreed to further explore new initiatives to promote the healthy development of the Mainland and Hong Kong capital markets. With the launch of the HKD-RMB Dual Counter Model for trading in June 2023, we are communicating closely with relevant Mainland authorities to prepare for the inclusion of RMB-denominated securities under southbound trading of Stock Connect.

We remain committed to further deepening and expanding our collaboration with other Mainland authorities on various cooperation initiatives. During the year, we visited the People's Bank of China (PBoC), National Financial Regulatory Administration and State Administration of Foreign Exchange in Beijing to discuss the latest economic and market conditions and the development of mutual market access schemes. Under our joint efforts with the PBoC and the Hong Kong Monetary Authority, northbound trading of Swap Connect was launched in May 2023.

We continued to play a critical role in support of the HKSAR Government to strengthen Hong Kong's cooperation with the Mainland, on those initiatives set out in the Guangdong-Hong Kong-Macao Greater Bay Area development plan, as well as other regional cooperation initiatives. For example, enhancements to the Cross-boundary Wealth Management Connect pilot scheme (WMC 2.0) were rolled out by relevant Mainland and Hong Kong authorities and financial regulators in early 2024.

Over the past year, the SFC's Enforcement Division maintained close cooperation with the CSRC. In addition to providing investigatory assistance in each other's cases, both regulators have actively collaborated and exchanged information on important cases affecting the Mainland and Hong Kong capital markets.



The 13th Mainland and Hong Kong Regulatory High-level Meeting in Hong Kong in June 2023

## Regulatory Engagement

During the year, the regular high-level and working-level meetings held between our Enforcement Division and the CSRC's Enforcement Bureau brought about notable progress in a number of areas. On case investigation, we moved forward some high-impact cases involving cross-boundary investigatory assistance and made headway. On training, the first in-person joint training since the pandemic held in Chengdu was attended by more than 140 enforcement officers from the SFC, CSRC and its regional offices, the Mainland public security authorities, the Independent Commission Against Corruption (ICAC), the Hong Kong Police and the Accounting and Financial Reporting Council. In addition, multiple exchange programmes between the two enforcement units allowed investigators to deepen their understanding of each other's work and exchange their experiences.

The SFC, CSRC, Commercial Crime Bureau of the Hong Kong Police Force (CCB) and the ICAC met in April to exchange views on enforcement cooperation. This sent both the Hong Kong and Mainland markets a positive signal about stepped-up collaboration between the enforcement agencies of both jurisdictions.

In November, senior representatives of the SFC, CSRC, Economic Crime Investigation Department of the Ministry of Public Security and the CCB also met to discuss strengthening law enforcement cooperation against securities and economics crimes under their respective legal remits.



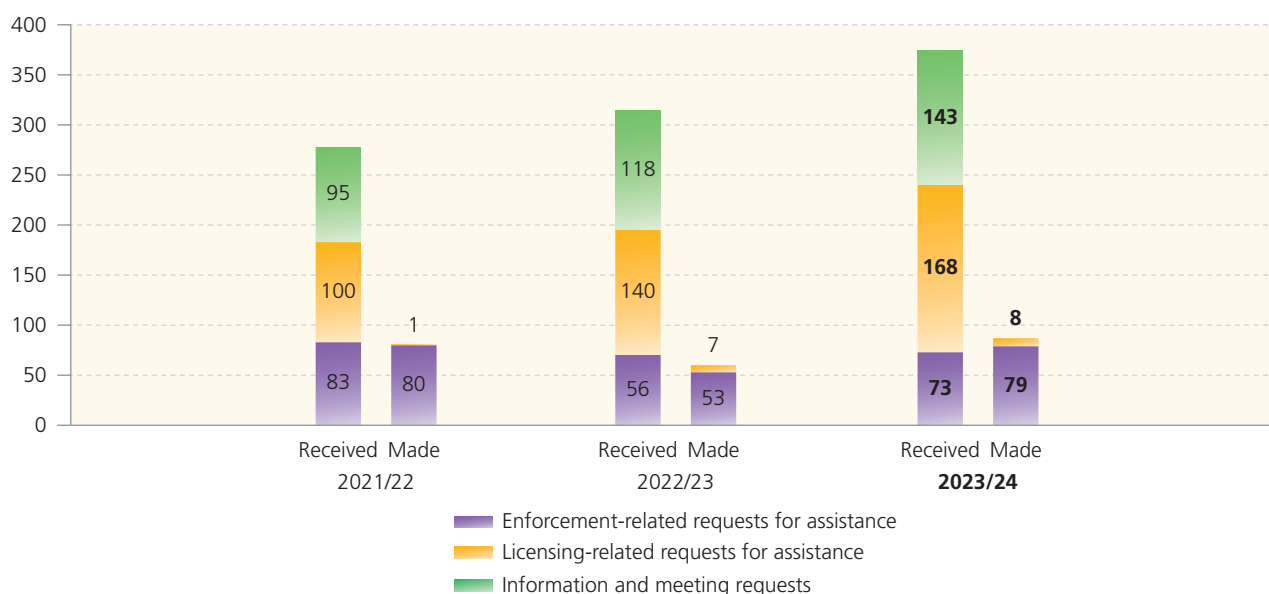
The CSRC's Enforcement Bureau and the SFC's Enforcement Division joint training in Chengdu in November 2023

## Other engagement

The SFC held the 15th Bilateral Regulatory Meeting with the Financial Supervisory Commission of Taiwan, China, where we exchanged views on regulatory development of virtual assets, exchange-traded funds and sustainable finance.

In July 2023, the SFC hosted a visit by the representatives of the Takeovers Regulation Panel of South Africa, where we exchanged experiences in regulating takeovers.

## Requests for regulatory assistance



# Communications and Education

To promote a deeper understanding of our work and ensure timely and effective dissemination of regulatory updates, we proactively engage with both the industry and the public through an array of communication channels and educational initiatives.

## Proactive communications keep the public informed

We actively carry out education and outreach initiatives in a variety of formats to increase public awareness of policy work. Our targeted publicity campaigns help alert the investing public of investment risks including scams. Joint activities with the Investor and Financial Education Council (IFEC), the SFC's wholly-owned subsidiary, promote public understanding of the features and risks of different types of financial products.

## Explaining Fintech regulation

Through a range of channels, we informed stakeholders of the regulatory requirements under our new licensing regime for virtual asset trading platforms (VATPs), which took effect on 1 June 2023, and reminded the public of the risks of trading on unregulated platforms.

To explain our requirements, our executives spoke at over 50 interviews, seminars, panel discussions and events organised by government authorities, international regulators, industry associations, professional firms, media outlets, think tanks and universities. We also met with industry associations, and local and international industry participants.

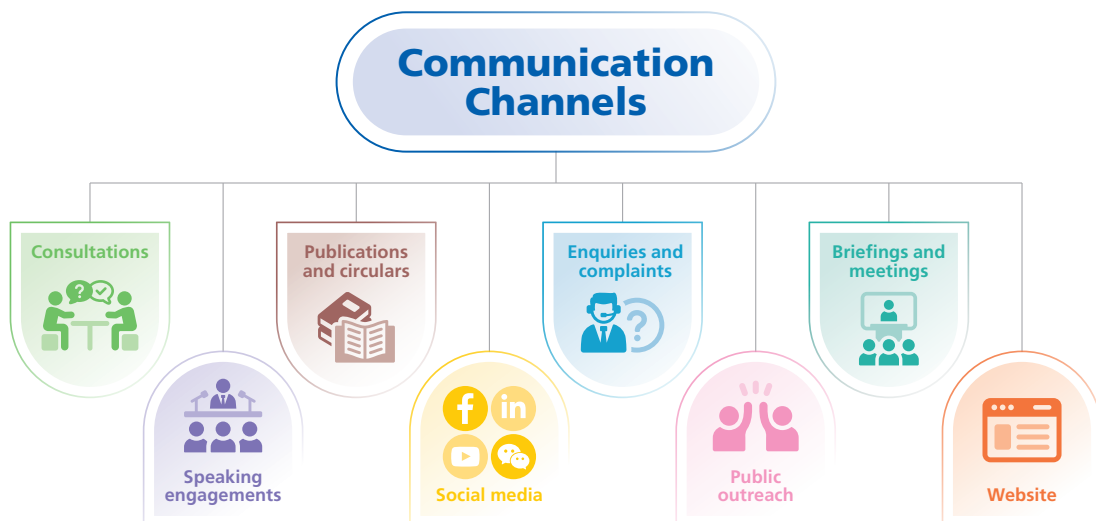
We stepped up our investor education efforts on VATPs through televised interviews with our Director of Licensing and Head of Fintech unit Ms Elizabeth Wong by Radio Television Hong Kong (RTHK) in June 2023 and another by Phoenix TV in August 2023. Ms Wong also explained the investor guardrails embedded in the new regime at an online interview by IFEC in October 2023.

At a media briefing in September 2023, we communicated our measures to reinforce information dissemination to further raise awareness about the risks associated with unregulated VATPs. Our VATP lists published on our dedicated webpage provide a handy resource for the public to check the regulatory status of VATPs.

## Broadening online channels for more engaging communication

The SFC's official YouTube channel launched in October 2023 has expanded our online communication toolkit and broadened our reach to the general public. Our videos cover a range of topics such as our policy initiatives, executives' speeches at industry events, as well as alerts to investors. We also maintain an official page on Facebook, WeChat as well as LinkedIn.

We leverage various social media platforms to promote awareness and bring the public's attention to our scam alerts, rule changes and major initiatives to develop Hong Kong's financial market such as sustainable finance and mutual market access schemes. Close to 350 posts were issued during the year.





### Amplified efforts to raise awareness of scams

Extending our investor education efforts to combat investment scams is a priority at the SFC. We have devoted additional resources to publicity campaigns and collaborated with IFEC as well as different groups to convey clear and effective messages to a wider public audience.

### Investor alerts

To disseminate information in a clear, transparent and timely manner, we enhanced the SFC website to consolidate all investor alerts and make them more accessible to the public. In addition, we issued press releases and social media posts to better alert the public of these updates and promote awareness.

During the year, 19 suspicious VATPs and 28 suspicious investment products were added to the Alert List.

Together with IFEC, we cautioned investors against common ploys by scammers, such as impersonation, fraudulent trading apps and platforms, ramp and dump schemes, as well as fraud associated with virtual assets and other investment products. A series of videos launched by IFEC in February 2024 provided a closer look at scams related to online investing. The videos also reminded investors to check the licensing and registration status of intermediaries and VATPs.



Videos reminded investors about online financial scams

### TV drama series

We teamed up with RTHK to produce a new series of “SFC in Action”, a law-enforcement TV drama series which illustrates to the public prevalent investment scams and other market misconduct, helping them to stay out of harm’s way. Consisting of four episodes, the series recounts the SFC’s major enforcement cases in recent years, focusing on social media investment scams, ramp and dump schemes, insider dealing and market manipulation.

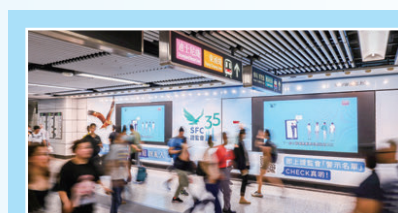
The series premiered on the channel RTHK TV 31 in January 2024 and can be viewed on the SFC YouTube channel.



Our Commission Secretary and Chief Governance Officer Mr Paul Yeung (right) and Director of Broadcasting Mr Eddie Cheung officiate at the launch ceremony of “SFC in Action”

### Multimedia publicity campaigns

To caution the public about financial scams and the risks of trading on unregulated VATPs, we launched advertising campaigns on multiple channels, spanning radio, buses, online banners and panels in MTR stations. Through these advertisements, we highlighted the investor alerts against scams to the public across different demographics.





### Community events

We supported the anti-scarn carnival organised by the Hong Kong Police Force’s Anti-Deception Coordination Centre in December 2023. Over 3,000 members of the public attended the full-day fun fair, which featured interactive games and educational activities.

At a community event held in March 2024 by the Anti-Scam Alliance led by a few legislators and former senior law-enforcement officials, our Senior Manager of Secretariat and External Mr Joseph Lee shared common tactics used by scammers and tips to avoid falling victim.



### Interviews and talks

To remind the public to guard against investment scams, our executives actively spoke on various occasions, including webinars as well as TV and radio interviews.

In January 2024, Mr Jimmy Tong, Director of Enforcement, explained in two RTHK interviews how ramp and dump schemes and other online investment scams operate and provided tips for avoiding them. At an online talk hosted by IFEC in February 2024, Director of Licensing and Head of Fintech unit Ms Wong and Director of Enforcement Mr Damon Cheng discussed common virtual asset-related scam tactics and proper ways to trade these assets. In an RTHK interview in March 2024, Ms Wong explained the risks of trading virtual assets on unlicensed VATPs and urged investors to trade only on SFC-licensed platforms.





### Market outreach to advance regulatory dialogue

#### Events

We maintain an open and constructive dialogue with market participants. To keep the industry informed of regulatory developments, we organise regular meetings, briefing sessions and workshops and contribute articles to industry association newsletters.

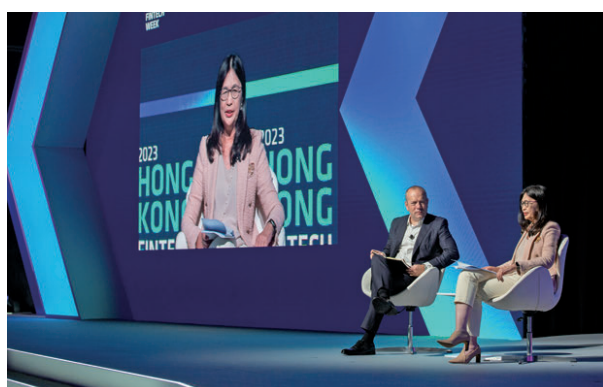
We organised the SFC Regional Securities Regulatory Leadership Symposium in February 2024 as one of the events marking the SFC's 35th anniversary. More than 300 senior government officials, financial regulators and business leaders exchanged views on Asia-Pacific capital market developments (see sidebar on page 94).

In November 2023, we co-hosted the "Conversations with Global Investors" seminar with the Hong Kong Monetary Authority (HKMA) and the Hong Kong Academy of Finance. With the theme "Living with Complexity", the seminar featured 20 global leading investors who shared their investment insights and latest approaches to navigate a challenging landscape. Over 300 overseas and local business leaders attended the seminar, which was the concluding event of the three-day Global Financial Leaders' Investment Summit.

Promoting Fintech is a core objective of our outreach. We co-organised Hong Kong FinTech Week 2023 in November. Highlighting tokenisation as a key topic, our Chief Executive Officer (CEO) Ms Julia Leung discussed the SFC's vision of building a pathway for the Fintech industry to flourish in Hong Kong. Our Interim Head of Intermediaries Mr Keith Choy moderated a panel joined by esteemed members of the industry who shared their experience and insights on the future of financial technology.

Sustainable finance is another area we champion. Our senior executives regularly speak at local and international events on how the SFC leads financial market transformation through sustainability initiatives. In November 2023, we held our inaugural Forum on Sustainability Disclosures to gather market views on developing a sustainability disclosure ecosystem for Hong Kong<sup>1</sup>. In the first quarter of 2024, we organised an event on green Fintech<sup>2</sup> as part of the Government's Hong Kong Green Week and were a Strategic Partner of the inaugural One Earth Summit held during the Hong Kong Financial Mega Event Week.

As part of the SFC's ongoing outreach efforts to make our licensing process more transparent, we engage with the industry in a series of events throughout the year, including a briefing session for legal and



CEO Ms Julia Leung (second left) and Interim Head of Intermediaries Mr Keith Choy (first right) speak at Hong Kong FinTech Week 2023

<sup>1</sup> See Sustainability on pages 115-124.

<sup>2</sup> The event was organised by the Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and HKMA, together with Cyberport and Invest Hong Kong.

compliance advisory firms in March 2024. We provided insights into the latest industry demographics and licensing activities. We also shared key observations gathered through our licensing work and highlighted our recent initiatives to support industry development.

In addition, we hosted two webinars in November 2023 for close to 1,800 management and compliance personnel from licensed corporations to provide updates on major regulatory developments and recent inspection observations on anti-money laundering and counter-financing of terrorism in Hong Kong.

To enhance connectivity with the Middle East, we co-hosted a high-level roundtable and a seminar with the Dubai Financial Services Authority (DFSA) for Hong Kong's asset management industry in April 2024. The events highlighted the opportunities in Dubai and the wider United Arab Emirates for Hong Kong asset managers and explained the regime for offering Hong Kong-domiciled funds in Dubai (see sidebar on page 61).

### Speaking engagements

At over 100 local and international events during the year, our senior executives spoke on a wide range of topics and explained our major policy initiatives, including asset management, Fintech and climate finance. We supported 15 seminars and events organised by industry bodies.



Briefing session on licensing requirements for legal and compliance advisory firms



Chairman Mr Tim Lui highlights the significance of our agile regulatory approach in supporting market developments at a forum of the Law Society of Hong Kong

Our Chairman Mr Tim Lui discussed regulatory updates and market developments at major events and seminars. He also delivered keynote speeches on sustainable finance at industry conferences.

Our CEO Ms Leung addressed regional and international audiences at major events. She also shared her views in industry newsletters.

Our other senior executives also spoke at industry conferences and met with trade associations to exchange views on topical issues.



Co-hosting events with the DFSA to promote connectivity with the Middle East

## Charting Asian markets' way forward at SFC symposium



Held on 28 February 2024, the half-day SFC Regional Securities Regulatory Leadership Symposium marked the debut event to celebrate the SFC's 35th anniversary.

Twenty prominent speakers from both Asia-Pacific and Europe in the four panels discussed a range of topics: challenges and opportunities for Asian capital markets, regional landscape for investment funds, the role of regulation in sustainable finance, as well as using technology in wealth management.

The event was graced by the keynote speeches of Mr Paul Chan, Financial Secretary of the Hong Kong

Special Administrative Region, and Dr Fang Xinghai, Vice Chairman of the China Securities Regulatory Commission (CSRC). Our Chairman Mr Lui opened the event by stressing the importance of collaboration among Asian financial markets. Our CEO Ms Leung closed the event with the vision that the SFC is ready to embrace emerging technologies and trends to ensure the Asian story has legs to go further.

A full synopsis of the symposium along with the event photos and videos are available on the SFC website.





### Consulting on rule changes

When proposing rules under the Securities and Futures Ordinance (SFO), we consistently exceed statutory requirements for public consultation. We also consult on proposed non-statutory codes and guidelines, as well as amendments to them.

We detail our proposals in consultation papers and hold both formal and informal discussions to hear stakeholders’ views as part of our consultation process. After completing our analysis, we publish a consultation conclusions paper to summarise the main comments received and set out our conclusions. During the year, we published six consultation papers and seven consultation conclusions.

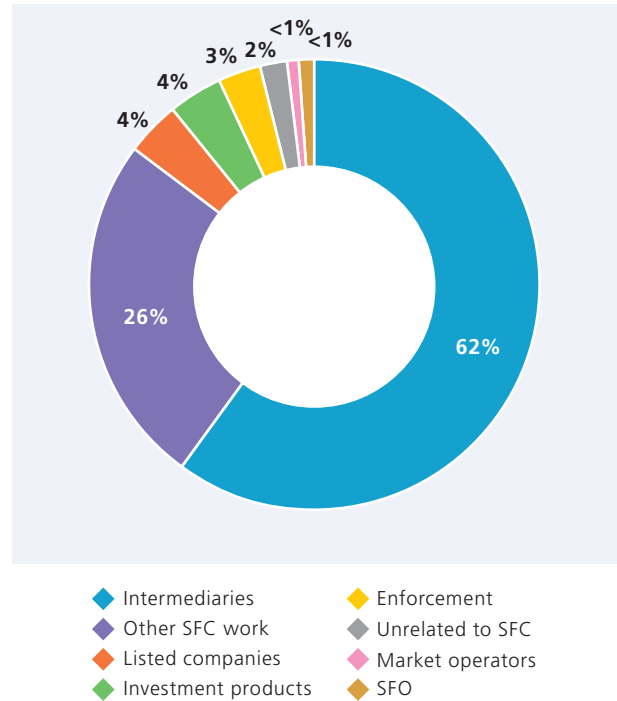
### Publications and enquiries

Our publications aim to update the industry on our regulatory work and other noteworthy developments. This year, we issued nine thematic publications, including newsletters, market reviews and surveys. We publish circulars and frequently asked questions on our website to help the industry better understand our regulatory requirements. During the year, the 63 circulars we issued provided guidance on a range of matters, including tokenisation of funds, funds with virtual asset exposure, eligibility to participate in Wealth Management Connect and updates on anti-money laundering and counter-terrorist financing.

We respond verbally or in writing to enquiries from the industry on topics related to our rules and regulations, including licensing, listings and takeovers, product authorisation and short position reporting. Designated email addresses are provided to help us handle enquiries on specific topics more efficiently.

The SFC Fintech Contact Point promotes communication with businesses involved in the development and application of financial technology in conducting regulated activities and virtual asset-related activities in Hong Kong. A separate mailbox dedicated to licensing-related matters regarding VATPs facilitates communication with potential VATP applicants. During the year, we received a total of 391 Fintech-related enquiries.

### General enquiries



### Government and LegCo

We attend Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, to provide legislators with details of our policy initiatives, explain the rationale behind our work and answer questions. We also respond to enquiries and complaints referred to us or raised by LegCo members and other government agencies. Maintaining close liaison with the Financial Services and the Treasury Bureau, we provide updates on our regulatory initiatives through regular meetings and reports. In addition, we provide assistance and information to other government bureaux and departments on various issues.

### Regulatory counterparts

We collaborate closely with local, Mainland and overseas regulatory counterparts<sup>3</sup>, particularly with the CSRC. To contribute to global policymaking with potential impact on our markets, we take an active part in the global regulatory arena and participate in both the International Organization of Securities Commissions and the Financial Stability Board.

<sup>3</sup> See Regulatory Engagement on pages 83-88.

### Publications and other communications to highlight regulatory updates

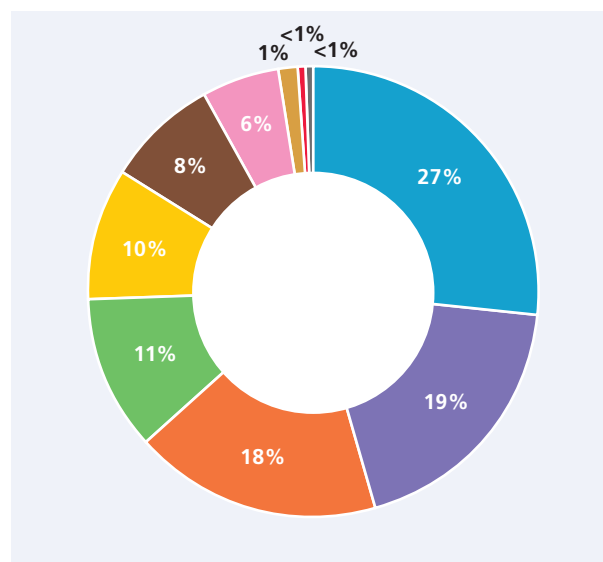
We formulate and execute media strategies to enhance public understanding of our work by engaging the media and explaining our policies, initiatives and regulatory actions. We address public concerns and enquiries regarding the securities and futures markets.

This year, we received 3,637 general enquiries and 3,206 complaints against intermediaries and market activities. Our senior executives gave media interviews to foster public understanding of Hong Kong's financial regulatory framework and the SFC's role.

We issued 186 press releases to inform the public of the latest regulatory actions and other SFC news. We also published six policy statements and announcements explaining our regulatory approach to specific issues.

We released our *Annual Report 2022-23* and quarterly reports to help our stakeholders and the public understand our key regulatory work and corporate developments. Our reporting efforts were recognised with Silver Award in the 2023 Hong Kong Management Association's Best Annual Reports Awards. The report also won a Corporate Governance Award in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance and ESG Awards 2023. On our corporate website, the public can easily obtain up-to-date information about our work and regulations.

### Complaints against intermediaries and market activities



- ◆ Listing-related matters and disclosure of interests
- ◆ Scams and frauds
- ◆ Conduct of licensees
- ◆ Market misconduct
- ◆ Unlicensed activities
- ◆ Other financial activities not regulated by SFC
- ◆ Boiler rooms and suspicious websites
- ◆ Breach of offers of investments
- ◆ Conduct of registered institutions
- ◆ Product disclosure



## Publications and other communications

	2023/24	2022/23	2021/22
Press releases	186	114	111
Policy statements and announcements	6	7	3
Consultation papers	6	8	3
Consultation conclusions	7	4	8
Industry-related publications	16	9	13
Codes and guidelines <sup>a</sup>	12	4	5
Circulars to industry	63	67	85
Corporate website average daily page views <sup>b</sup>	64,941	62,191	35,415
General enquiries	3,637	2,947	4,207

<sup>a</sup> Includes updates to previous versions.

<sup>b</sup> The average number of webpages browsed per day during the reporting period.

## Complaints against intermediaries and market activities

	2023/24	2022/23	2021/22
Conduct of licensees	569	712	725
Conduct of registered institutions	7	36	27
Listing-related matters and disclosure of interests	863	669	1,761
Market misconduct <sup>a</sup>	360	344	512
Product disclosure	3	12	17
Unlicensed activities	310	339	96
Breach of offers of investments	46	34	50
Boiler rooms and suspicious websites	178	258	374
Scams and frauds <sup>b</sup>	612	341	270
Other financial activities not regulated by SFC <sup>c</sup>	258	253	209
<b>Total</b>	<b>3,206</b>	<b>2,998</b>	<b>4,041</b>

<sup>a</sup> Primarily, alleged market manipulation and insider dealing.

<sup>b</sup> Such as identity fraud and impersonation.

<sup>c</sup> For example, bullion trading and banking services.

# Environmental, Social and Governance

As a statutory regulator, we endeavour to uphold high standards in our operations and deliver on our public mission. Our core values of integrity, transparency and public accountability drive everything we do. Maintaining sound corporate governance is essential to the effective delivery of our regulatory policies. We commit ourselves to social responsibility and sustainability by spearheading local and global efforts.



# Corporate Governance

## Adopting effective governance framework

We are firmly committed to upholding a robust corporate governance framework that comprises a well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures, and independent checks and balances. This is essential to ensuring that we carry out our work as a statutory regulator efficiently, fairly and with integrity, and is in line with best governance practices for public bodies, including those set out in *Corporate Governance for Public Bodies — A Basic Framework*<sup>1</sup>.

## Our Board

The SFC Board plays a pivotal role in ensuring that we effectively carry out our duties to the fullest extent.

## Constitution

The Securities and Futures Ordinance (SFO) stipulates the constitution and proceedings of our Board. 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. Their appointment terms and conditions are determined by the HKSAR Government. Board members' emoluments for the year are detailed on page 163.

As of 31 March 2024, the Board comprised nine Non-Executive Directors (NEDs), including the Chairman; and six Executive Directors (EDs), including the Chief Executive Officer (CEO).

With diverse backgrounds, our NEDs bring a wealth of experience, expertise and independent perspectives to the Board. Together, the Board contributes to the development of the SFC's policies by providing strategic insights.

See pages 24-33 for the full list of Board members and their biographies.

## Key components of our governance framework



<sup>1</sup> Published by the Hong Kong Institute of Certified Public Accountants.

## Key responsibilities of Board



### Chairman and CEO

The non-executive Chairman and the CEO each has distinct roles and responsibilities. The clear division of duties entails a more effective corporate governance structure.

### Executive Directors and Non-Executive Directors

Our EDs and NEDs play different but complementary roles. The EDs are entrusted with managing the SFC's daily operations and each has executive duties in key functions – listings, takeovers and corporate conduct, licensing and supervision of intermediaries, market infrastructure, investment products, enforcement and legal services. The NEDs provide guidance on and monitor the performance of the SFC's various functions.

### Governance practices

Upholding top-notch corporate governance standards is our priority. We put in place clear and proper policies and processes to help the Board work in an efficient and accountable manner. We arrange monthly meetings, quarterly policy meetings and special meetings as needed for the Board, as well as an annual retreat. To help Board members stay abreast of the SFC's work and its impact on the markets, we furnish them with timely information and updates regarding our operations and financial conditions well in advance of meetings. Furthermore, we hold induction briefings for new NEDs to enable them to better understand the organisation, its functions and powers, and their responsibilities.

## Roles and responsibilities of Chairman and CEO

### Chairman



- ◆ Leads the Board in setting the SFC's policies, strategy and overall direction
- ◆ Monitors the executive team's performance
- ◆ Counsels the CEO on how the organisation is run

### CEO



- ◆ Assumes executive responsibility for the SFC's day-to-day operations
- ◆ Develops strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board
- ◆ Assigns responsibilities to senior management and supervising their work
- ◆ Reports regularly to the Board

Secretariat and External, a unit within the CEO's Office, is tasked with ensuring effective corporate governance. It provides secretarial support to the Board and the Advisory Committee. It ensures the effective delivery of strategic governance and oversees organisation-wide initiatives, assisting the Board and the CEO in directing work processes to enable good governance, enhance efficiency and manage changes. It is responsible for the SFC's overall external development and stakeholder management, acting as the central relationship point with the Government, the Legislative Council (LegCo) and its members, fellow regulators, other public bodies and industry associations. It also oversees the SFC's publications and social media. The Commission Secretary and Chief Governance Officer is the head of Secretariat and External. He serves as the secretary to the Board, and is a member of the Executive Committee (ExCo). He is also the Data Privacy Officer of the SFC responsible for ensuring the SFC's compliance with the data privacy rules and standards.

### Board evaluation

The Board continues to improve its effectiveness in different ways. As part of a self-assessment it conducts every other year, each board member is invited to complete an anonymous questionnaire on how well the Board is performing its key responsibilities. An analysis of the findings is presented to the Board at its retreat meeting to consider areas for improvement.

### Board appointments

During the year, Mr Michael Wong Yick-kam and Mr Nicky Lo Kar-chun were reappointed NEDs for two years, effective 1 April 2023 and 24 April 2023, respectively, while both Mr Johnson Kong and Mr Dieter Yih were reappointed NEDs for another two-year term, effective 15 November 2023. Ms Lisa Chen Ping and Dr Eric Yip Chee-hang were appointed EDs for three years, effective 22 May 2023 and 2 May 2024, respectively.

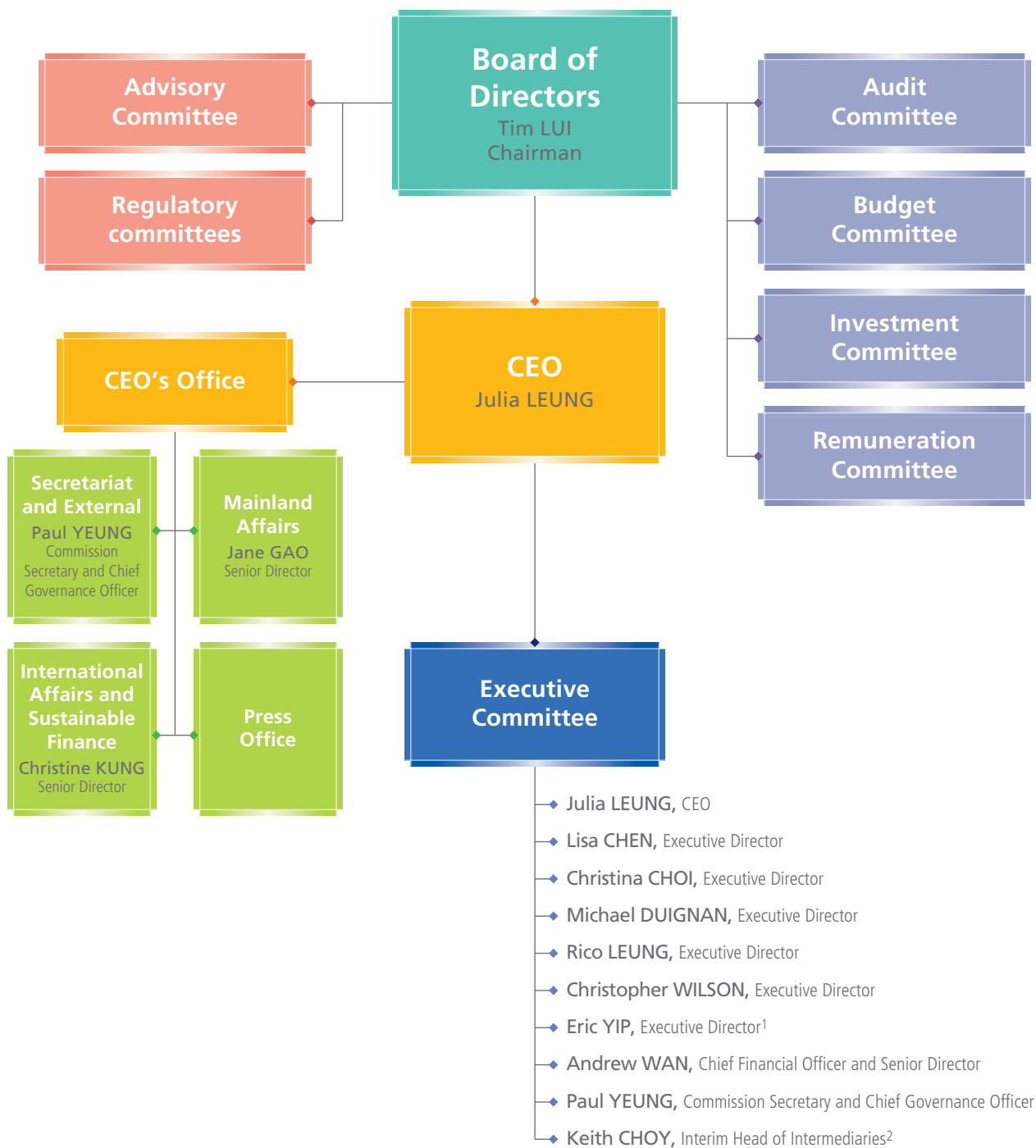
### Board meetings

In addition to monthly meetings, the Board meets from time to time to discuss policy issues in depth and convenes special meetings as needed to address key matters. Furthermore, the Board holds an annual retreat meeting to set out strategic objectives and management priorities to effectively steer the organisation towards the desired goals.

Last year, 14 Board meetings were held with an average attendance rate of 94%.

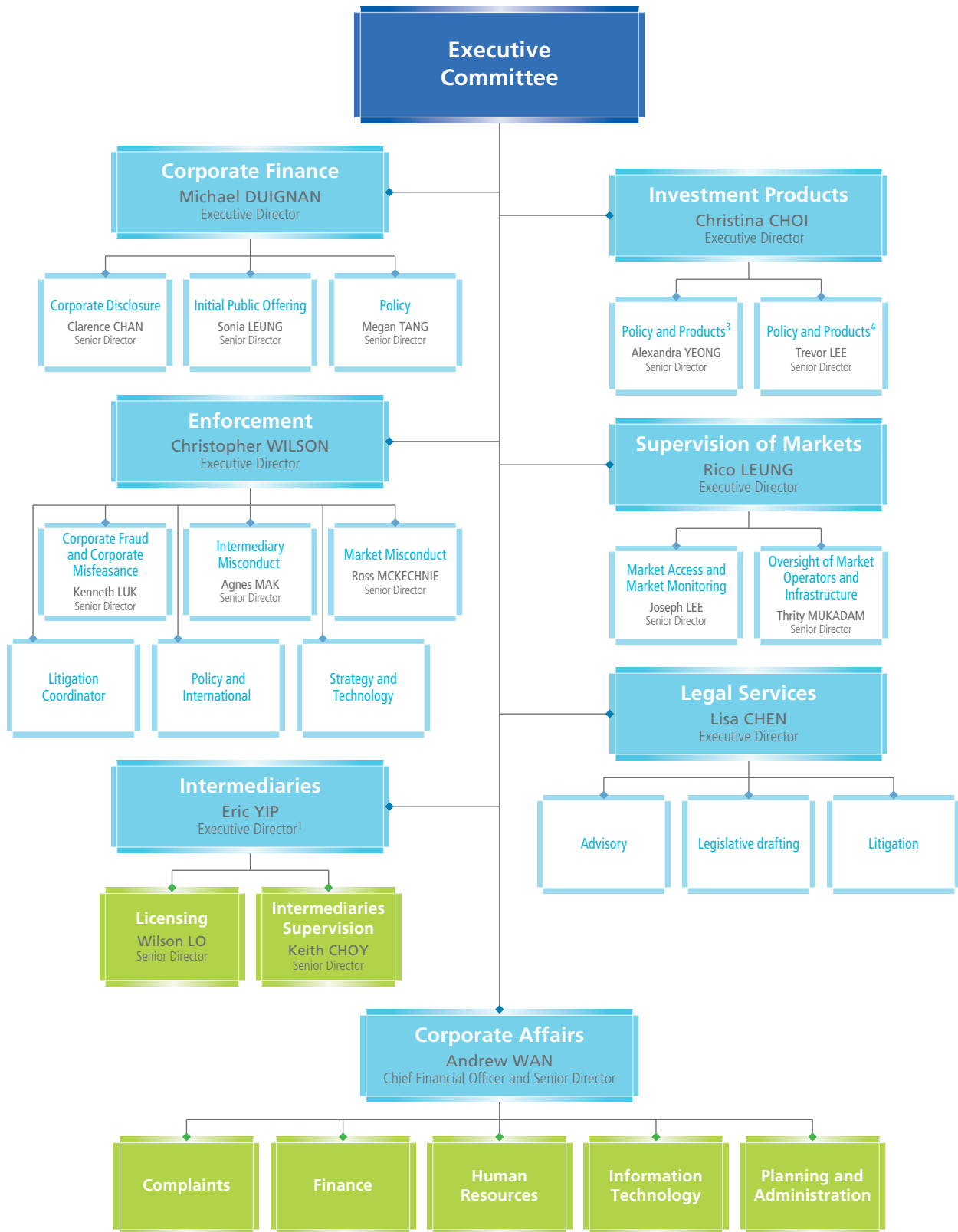


Organisational structure



- Board committees
- External committees

<sup>1</sup> Appointment took effect on 2 May 2024.  
<sup>2</sup> Appointment expired on 1 May 2024.



Environmental, Social and Governance

<sup>3</sup> Relating to the International Organization of Securities Commissions, environmental, social and governance, mandatory provident funds, pooled retirement funds, structured products, unit trusts and mutual funds.

<sup>4</sup> Relating to the Mainland, exchange-traded funds, investment-linked assurance schemes, real estate investment trusts, unit trusts and mutual funds.

## Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
<b>Chairman</b>						
Tim Lui Tim-leung	14/14	2/2	–	2/2	1/2	–
<b>Executive Directors</b>						
Julia Leung Fung-yee	13/14	–	1/1	2/2	–	15/17
Lisa Chen Ping <sup>1</sup>	11/11	–	–	–	–	13/14
Christina Choi Fung-yee	14/14	–	–	–	–	11/17
Michael Duignan	13/14	–	–	–	–	14/17
Rico Leung Chung-yin	13/14	–	–	–	–	16/17
Christopher Wilson	12/14	–	–	–	–	14/17
<b>Non-Executive Directors</b>						
Agnes Chan Sui-kuen	13/14	2/2	1/1	1/2	2/2	–
Chew Fook-aun <sup>2</sup>	13/14	–	–	–	2/2	–
Victor Dawes	13/14	2/2	–	–	2/2	–
Johnson Kong <sup>3</sup>	13/14	–	–	–	2/2	–
Dr James C Lin	13/14	2/2	1/1	2/2	2/2	–
Nicky Lo Kar-chun	14/14	–	1/1	2/2	2/2	–
Michael Wong Yick-kam <sup>4</sup>	12/14	–	–	1/1	2/2	–
Dieter Yih <sup>5</sup>	13/14	–	–	–	2/2	–
<b>Chief Financial Officer and Senior Director</b>						
Andrew Wan Chi-yiu	–	–	–	2/2	–	14/17
<b>Commission Secretary and Chief Governance Officer</b>						
Paul Yeung Kwok-leung <sup>6</sup>	–	–	–	–	–	16/17
<b>Interim Head, Intermediaries</b>						
Keith Choy Chung-fai	–	–	–	–	–	15/17

<sup>1</sup> Appointed as a member of the Board and Executive Committee effective on 22 May 2023.

<sup>2</sup> Appointed as a member of the Budget Committee effective on 5 February 2024.

<sup>3</sup> Appointed as a member of the Audit Committee effective on 5 February 2024.

<sup>4</sup> Appointed as a member of the Investment Committee effective on 5 February 2024.

<sup>5</sup> Appointed as a member of the Audit Committee effective on 5 February 2024.

<sup>6</sup> Appointed as a member of the Executive Committee effective on 24 May 2023.

## SFC committees

### Executive Committee

ExCo, being the highest executive body within the organisation, carries out a wide range of administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. Chaired by the CEO, ExCo comprises all other EDs, the Chief Financial Officer and Senior Director of Corporate Affairs, and the Commission Secretary and Chief Governance Officer.

ExCo convenes regular meetings to deliberate on policy and operational proposals and expense requests from different divisions of the organisation. Throughout the year, 17 ExCo meetings were held with an average attendance rate of 86%.

### Board committees

Each of our four board committees has a distinct focus on well-defined areas of the SFC's operations and is chaired by an NED. The involvement and active participation of the NEDs provide effective checks and balances to scrutinise our management decisions to ensure their soundness and efficacy.

### External committees

Established under the SFO, external committees are made up of a large number of members outside the SFC. They represent the diverse perspectives of market participants and play a crucial role in the governance of the SFC.

The Advisory Committee provides insights and advice on policy matters concerning the SFC's functions. The majority of members are external representatives

## Board committees

<b>Audit Committee</b>	2 Meetings
<b>Responsibilities</b>	
<ul style="list-style-type: none"> <li>Reviews annual financial statements</li> <li>Recommends the appointment of external auditors</li> <li>Coordinates the scope of the external audit and reviews audit findings</li> <li>Examines management procedures to ensure effective financial and internal controls</li> </ul>	4 NEDs

<b>Budget Committee</b>	1 Meeting
<b>Responsibilities</b>	
<ul style="list-style-type: none"> <li>Examines and approves the parameters and bases used in the annual budget</li> <li>Conducts the mid-year budget review</li> <li>Reviews the annual budget and makes recommendations to the Board</li> </ul>	4 NEDs 1 ED <sup>^</sup>

<b>Investment Committee</b>	2 Meetings
<b>Responsibilities</b>	
<ul style="list-style-type: none"> <li>Advises on the SFC's fund management policies, strategies and investment guidelines</li> <li>Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines</li> <li>Advises on investment risk management and asset allocation and monitors the performance of investments</li> </ul>	5 NEDs 1 ED 1 Senior Director <sup>^</sup>

<b>Remuneration Committee</b>	2 Meetings
<b>Responsibilities</b>	
<ul style="list-style-type: none"> <li>Reviews the structure and level of staff remuneration</li> <li>Reviews trends in remuneration packages and recommends adjustments</li> <li>Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment</li> </ul>	9 NEDs

<sup>^</sup> In a non-voting capacity.

### Meet our new Executive Director

In May 2023, we welcomed a new member to our Board — Ms Lisa Chen, ED of Legal Services.

With 15 years of experience in the Enforcement Division (ENF) and Legal Services Division (LSD), Ms Chen brings a wealth of legal knowledge and enforcement and litigation experience to her new role. Her prior experience as a Senior Director of ENF has given her valuable insights into the importance of effective collaboration between divisions and other law enforcement agencies to drive optimal enforcement outcomes. This has prepared her to lead LSD in providing legal advice and guidance that ensure effective enforcement actions by the SFC.

She recalls her memorable experience heading ENF's Intermediary Misconduct Team — upholding market integrity by taking disciplinary actions against sponsor failures, anti-money laundering breaches and internal control failures. By effectively communicating the high standards that the SFC expects from regulated firms, these actions have proven critical in mitigating harm to investors and maintaining a fair market.

In her new position, Ms Chen aspires for LSD to be proactive in assisting other divisions to identify potential problems in the market, addressing them early and preventing them from escalating into



Ms Lisa Chen

*In my new role, I not only provide legal advice and guidance, but I also actively participate in discussions, debates, and decisions surrounding emerging issues.*

*Lisa Chen*

crises. To achieve this goal, LSD will take near-term measures to optimise workflows through technology and enhance the quality of its work.

As a Board member, Ms Chen is committed to advising and collaborating with other divisions and the Board to implement the SFC's strategic priorities. She firmly believes that through teamwork, the SFC can achieve its mission of promoting market integrity, investor protection and sustainable growth in the financial industry.

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.

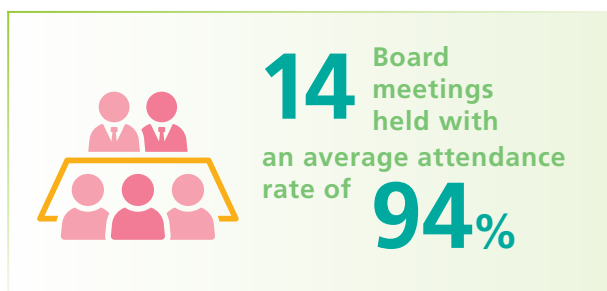
In addition, each regulatory committee specialises in certain areas such as investment products, shareholders' rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Members of these committees are appointed by the Board and consist of NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2024.

See pages 214-223 for the responsibilities and membership lists of the external committees.

### Formulating strategic plans

As the financial regulator of a leading international financial centre (IFC), we make strategic plans to guide our regulatory work through changing market developments and regulatory landscape. In particular, as our financial markets have been facing unprecedented challenges and opportunities in recent years, we see the importance to set strategic priorities to steer market development and maintain Hong Kong's status as a leading IFC. At its annual retreat meeting during the year, the Board discussed market outlook and forward-looking initiatives of the SFC, which facilitates our formulation of strategies and priorities for the upcoming years.





In January 2024, with the Board's support and endorsement, we published our three-year strategic plan for 2024-26 to announce our priorities in capital market regulation and approach to enhance the competitiveness of the Hong Kong markets and drive their sustainable development. Details of these priorities are set out in Strategic Priorities on pages 12-23.

### Upholding standards of conduct

Our staff must uphold a high standard of integrity and conduct to instill and preserve public trust. Besides complying with their legal obligations, staff are obligated to adhere to our code of conduct which sets out our standards in detail. It covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Failure to comply with the code may result in disciplinary action.

In February 2024, we enhanced the staff investment recording system to align with the latest changes in the policy on personal dealings of financial products in our code of conduct and introduce user-friendly features. Also, we launched a new e-workflow system specifically designed for all staff and Board members to declare conflicts of interest. Staff training was organised before the new systems were implemented.

### Maintaining accountability and transparency

We have established rigorous policies and procedures to ensure that we act with credibility, fairness and transparency.

#### Delegation of authority

A comprehensive system of delegation of authority is in place under which the authority of the Board and different levels of the executive management are clearly delineated. As permitted under the SFO, the Board delegates regulatory powers and functions to EDs, with power to sub-delegate to staff in their respective divisions, to facilitate the discharge of their duties.

#### Budgeting

Each year our annual budget is prepared following a disciplined and prudent approach in order to maintain effective fiscal control and plan for the next financial year. This involves careful management of expenditure by adopting our internal financial control policies, making pragmatic assumptions and identifying areas where resources can be deployed to meet our strategic objectives, priorities and operational needs. Divisions' expense requests for the next financial year are critically assessed during the budget process to ensure that resources are efficiently and effectively utilised. 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 present our budget each year to LegCo's Panel on Financial Affairs.

#### Investment

The reserves of the SFC are invested conservatively and cautiously to achieve our objective of long-term financial sustainability. Management of our reserves adheres to the investment guidelines approved by the Financial Secretary to ensure proper risk management so that financial resources are available for future needs.

## Corporate Governance

We have delegated responsibility for the selection and management of our investments to reputable external investment managers which are mandated to comply with the investment guidelines and regularly review their compliance with them. The external investment managers have confirmed that they adopt the Principles of Responsible Ownership<sup>2</sup> in their undertakings to manage these investments.

The Investment Committee, one of our Board committees, advises the SFC on investment management policies and guidelines, risk management and performance, and strategies and asset allocation.

### High standards of corporate governance gain recognition

The SFC has always been at the forefront of adopting best practices in corporate governance, information disclosure and personal data privacy. Our dedication in these areas were recognised through three prestigious awards received during the year, which served as a testament to our unwavering commitment.

Our *Annual Report 2022-23* let us take home a Corporate Governance Award<sup>a</sup> from the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance and ESG Awards, as well as a Silver Award<sup>b</sup> in the Hong Kong Management Association's Best Annual Reports Awards. The judges commended our standards of corporate governance, including implementing effective corporate governance framework, robust internal controls and risk management, as well as independent checks and balances. They also appreciated our initiatives to support Hong Kong's development as a sustainable finance hub and

<sup>a</sup> Public sector/not-for-profit organisations (large) category.

<sup>b</sup> Non-profit making and charitable organisations category.

### Financial control and reporting

In order to ensure the appropriate management and use of public funds, we adhere to strict financial controls and reporting procedures that are embedded in our processes. Each year, we engage an external independent professional services firm to review our compliance with those controls and procedures and reassess their continued effectiveness and robustness.

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

efforts to keep stakeholders and the public informed of our regulatory work and financials.

In addition, we were honoured with a Privacy-Friendly Gold Award from the Office of the Privacy Commissioner for Personal Data. This accolade underscored our long-term commitment to good data governance in the era of big data. It is also a recognition of our privacy protection measures in place, including the implementation of internal policies on personal data handling.



<sup>2</sup> 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.

In addition, we keep up-to-date with best market practices 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 firmly believe in upholding our principles of accountability and transparency, which extend to every aspect of our operations, including our complaints handling procedures. Reports of improper practices of the SFC or our staff can be filed under our procedures for handling complaints against the SFC or its employees. These encompass dissatisfaction with the SFC or our staff in carrying 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

Our regular reviews of corporate resources ensure that we operate efficiently by identifying our needs and strategic priorities, and allocating resources accordingly.

As a long-term accommodation plan, we purchased our permanent office at One Island East in Quarry Bay, which would eliminate recurring rental expenses, channel the cost savings towards other uses, and minimise any potential operational disruption resulting from further relocation. See Corporate Developments on pages 137-143 for more details.

We strategically configure resources across the organisation to align with our priorities to deliver robust supervision and enforcement. In response to rapidly-evolving and increasingly complex and interconnected markets, we set up cross-divisional project teams to work on policies or initiatives related to the functions of multiple divisions in order to formulate regulatory responses in a timely and effective manner.

Following recent virtual asset-related frauds, we comprehensively reviewed our manpower and processes and set up an internal coordination task force during the year for more efficient handling of these matters. In addition, we enhanced a number of operational processes with digitisation and automation. The use of traditional and generative artificial intelligence further improves our operational efficiency.

### Supporting sustainability

As a socially responsible organisation, we are dedicated to addressing the full range of risks arising from climate change and sustainability. We have a sound framework for corporate governance around related risks and opportunities in this area. We are committed to becoming a carbon-neutral organisation before 2050, in line with the HKSAR Government's climate action plan<sup>3</sup>. Additionally, we set an interim target to reduce 50% of our total carbon emissions by 2030. See Sustainability on pages 115-124 for more details of our work.

<sup>3</sup> Hong Kong's Climate Action Plan 2050.

### Fostering external communications

To help our stakeholders better understand our work and policies, we engage with a broad range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a timely and effective manner. We have adopted a more proactive approach in our external communications particularly in light of changing market developments and public expectations. A wide range of publicity activities, advertising campaigns and education initiatives are conducted through both offline and online channels including social media. See Communications and Education on pages 89-97 for more details.

We also reach out to the industry and the public to explain our policies and listen to their views through workshops, seminars and other activities. We attend meetings at LegCo to present our budget, explain policy initiatives and other issues of public interest.

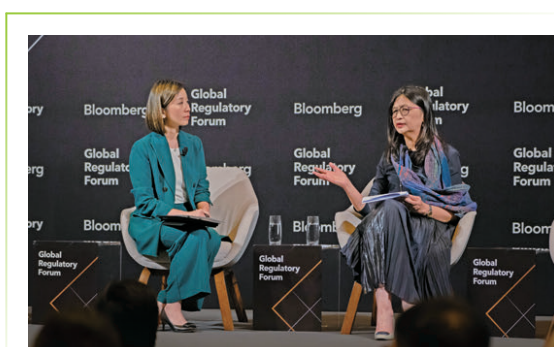
In addition to responding to public enquiries, we handle complaints from the public with integrity. In November 2023, two staff members from the Enforcement Division and the Complaints Team of the Corporate Affairs Division respectively received the Ombudsman's Awards 2023 for Officers of Public Organisations in recognition of excellence in handling public complaints.

### Managing risks proactively

To perform our regulatory functions effectively in a dynamic market environment, it is important for us to identify, assess and manage both external and internal risks in a timely and systematic manner. We adopt a wide range of tools to monitor risks to the market and our organisation, and implement effective control measures or regulatory response to mitigate the potential risks that may affect the market or our operations.



Alerting the public against financial scams and suspicious investment products



Speaking at industry events





## Staying vigilant to manage risks

### Mitigating market risks amid uncertainty

Hong Kong's financial market continues to face volatility at times due to external macro factors such as global economic uncertainty, the monetary policies of major central banks, overseas market turbulence and geopolitical tensions. We have therefore stayed vigilant and taken a proactive approach to manage risks, leveraging our regulatory toolkit with agility, to ensure market integrity and financial stability.

Our robust surveillance system provides reliable and timely market data across different sectors of the capital markets to identify significant abnormal situations that may affect financial stability. This thus enables us to monitor the market comprehensively. We have developed proprietary indicators to monitor market trends, trading patterns and changes in positions across various market segments. To detect irregularities, we conduct holistic assessment of potential systemic risks arising from positions across the markets. We also closely monitor fund flows into and out of the Hong Kong stock market and assess potential risks and implications for the market. In times of high market volatility, we may make ad hoc requests for additional reporting of information from major market participants to better assess risks in the stock and derivatives markets.

Trading data collected under the Hong Kong investor identification regime launched in March 2023 have strengthened our market supervision with information of investor identities for all transactions. In addition, our cross-divisional Risk Review Group identifies and assesses potential and emerging risks facing the SFC and the Hong Kong market at large.

Furthermore, we coordinate with the Government and other financial regulators to exchange information about market situations and to react promptly, appropriately and in a coordinated manner where crises arise. Our market contingency plan sets out measures in different market segments for dealing with emergency situations which may affect Hong Kong's securities and futures markets.

### Safeguarding against risks internally

We take risks which may affect our operations seriously, including financial risks and threats to our information and office security. Our financial control policies and procedures ensure that we uphold a high standard of integrity and exercise rigorous controls on the use of public funds.

To provide for safe and smooth operations, we regularly update our business resumption plan to address readily identifiable risks and emergencies covering office premises, communications and computer services. Apart from 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. Approved by the Audit Committee, the scope of each review may cover banking and investment, finance, procurement, human resources and information technology. The findings, together with recommendations, are reported back to the Audit Committee and enhancements to related policies and procedures are then made where necessary.

To facilitate compliance with the Personal Data (Privacy) Ordinance, we have designated the Commission Secretary and Chief Governance Officer as the Data Privacy Officer. We also have a data privacy manual and provide staff with a quick guide comprising frequently asked questions and illustrative examples.





Our information security policy provides guidance on safeguarding the confidentiality and integrity of information and it is frequently updated to keep up with technological and operational changes. We refine our information security practice to summarise key cybersecurity risks exposed by the SFC, aiming for effective communication and risk management. We also deploy timely updates to the access controls of our information and systems to protect them from unauthorised access, use or modification. Additionally, we consult external experts and partner with other law enforcement agencies to gather latest intelligence to strengthen our security posture against evolving threats.



### Ensuring independent checks and balances

Independent bodies play an important role in maintaining a fair and balanced approach to our operational work. They are responsible for conducting external checks and balances to ensure fairness in our

decision making, observance of due process and proper use of our regulatory powers. The Process Review Panel and the Securities and Futures Appeals Tribunal scrutinise our actions and procedures. In addition, we are subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Relevant functions	SFC-related tasks handled
<p><b>Process Review Panel</b> </p> <ul style="list-style-type: none"> <li>◆ An independent panel established by the Chief Executive of the HKSAR in 2000</li> <li>◆ Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice</li> </ul>	<ul style="list-style-type: none"> <li>◆ 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</li> </ul>	<ul style="list-style-type: none"> <li>◆ Reviewed 60 cases and published its annual report in December 2023</li> </ul>
<p><b>Securities and Futures Appeals Tribunal</b> </p> <ul style="list-style-type: none"> <li>◆ 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</li> </ul>	<ul style="list-style-type: none"> <li>◆ Reviews specified decisions made by the SFC or the Investor Compensation Company Limited</li> <li>◆ 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</li> </ul>	<ul style="list-style-type: none"> <li>◆ Received requests to review four new cases</li> <li>◆ Decided on one case brought forward from 2021-22</li> <li>◆ Allowed one case received in 2023-24 to be withdrawn</li> </ul>
<p><b>The Ombudsman</b> </p>	<ul style="list-style-type: none"> <li>◆ Handles public complaints against the SFC and its staff for alleged maladministration</li> </ul>	<ul style="list-style-type: none"> <li>◆ Commenced four preliminary inquiries</li> </ul>
<p><b>Courts</b> </p>	<ul style="list-style-type: none"> <li>◆ Handle judicial reviews of SFC decisions</li> </ul>	<ul style="list-style-type: none"> <li>◆ Handled three judicial review cases</li> </ul>

## 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		
		2023/24	2022/23	2021/22
<b>Applications for subordinated loan or modification/ waiver of requirements under SFO</b>				
Commence review of application upon receipt	2 business days	100%	100%	98%
<b>Authorisation/registration of investment products</b>				
Take-up of applications upon receipt	5 or 2 business days <sup>1</sup>	100%	100%	100%
Preliminary response to applications after take-up for paper gold schemes, private open-ended fund companies, Thai domiciled funds under the Thailand-Hong Kong Mutual Recognition of Funds (MRF) and Hong Kong-domiciled feeder funds each investing in a single Thai-domiciled master fund that meets the requirements under the MRF scheme	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
<b>General enquiries</b>				
Preliminary replies	5 business days	100%	100%	100%
<b>Processing of licensing applications<sup>2</sup></b>				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	100%	99%	99%
Representatives (normal licences)	8 weeks	99% <sup>3</sup>	99%	99%
Representatives (responsible officers)	10 weeks	99% <sup>3</sup>	99%	99%
Transfer of accreditation	7 business days	99% <sup>3</sup>	99%	99%
<b>Complaints against intermediaries and market activities</b>				
Preliminary response	2 weeks	99.9% <sup>4</sup>	99.9%	99.8%

<sup>1</sup> 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
- Investment-linked assurance schemes (effective from 1 November 2021)

The pledge of two business days is applicable to the authorisation of other products (which include investment-linked assurance schemes (prior to 1 November 2021) and paper gold schemes) and the registration of private open-ended fund companies.

<sup>2</sup> During the year, we processed 12,950 applications that were subject to performance pledges, 11,710 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,240 applications was delayed for reasons beyond our control. For example:

- unresolved fitness and propriety 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.

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

<sup>4</sup> One case failed to meet the pledge.

## Corporate Governance

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.

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

<sup>5</sup> If the subject matter involves complex Code issues, the time limit will be extended to 21 business days and the applicants will be informed of this.

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

<sup>7</sup> The parties will be informed of the longer time needed.

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

# Sustainability

This year, we continue to structure our sustainability section around the Task Force on Climate-Related Financial Disclosures (TCFD)<sup>1</sup> Recommendations. The table below summarises our regulatory and operational efforts to advance our sustainability agenda<sup>2</sup> and promote the incorporation of climate and sustainability considerations across the financial sector.



## Governance

### Board and management's role

We put in place a well-defined management structure for corporate governance relating to climate and sustainability. Our Chief Executive Officer (CEO) Ms Julia Leung chairs the cross-divisional Sustainable Finance Working Group, which reports regularly to the Board and senior management on developing regulatory policies, coordinating local and international engagement, and implementing internal decarbonisation efforts.



## Strategy

### The risks and opportunities we identified and their impact on our regulatory initiatives and operational activities

Climate change poses physical and transition risks to both the real economy and the financial system, and escalates the risk of greenwashing. Regulators play a key role in supporting the management of such risks and facilitating effective capital allocation for transition.

Leading financial market transformation through technology and environmental, social and governance (ESG) is one of the SFC's strategic priorities for 2024-26. We adopt a comprehensive sustainable finance policy framework with a climate-first approach. In addition to developing regulatory policies in line with our *Agenda for Green and Sustainable Finance*<sup>3</sup> to promote transparent markets and ensure investor protection, we take active steps to decarbonise our operations and conduct scenario analysis to access the resilience of our operations.

Climate and sustainability-related issues are cross-border and cross-sectoral. The SFC participates actively in international regulatory discussions to develop best practices and recommendations on sustainable finance, which will have implications for our policy development in Hong Kong. We also spearhead local initiatives to contribute to the development of a sustainable finance ecosystem to bolster Hong Kong's position as a leading sustainable finance hub. Key focus areas include alignment with global standards through the adoption of the IFRS<sup>4</sup> Sustainability Disclosure Standards, and the promotion of Green Fintech, capacity building and talent development to scale sustainable finance.



## Risk management

### Our processes on identifying, assessing and managing risks

Our cross-divisional Risk Review Group identifies and monitors potential and emerging risks faced by the SFC, including those relating to climate and sustainability, and reports to the Board and senior management.

To ensure that we effectively identify, assess and manage climate and sustainability-related risks, we monitor and take steps to reduce our greenhouse gas emissions, and participate in local and international stakeholder engagement activities. Additionally, we implement regulatory measures to enhance investor protection through combatting greenwashing risk, promote capacity building within the financial services sector and raise awareness amongst investors.



## Metrics and targets

### Our emissions, metrics for assessing risks, and targets

We have committed to achieving carbon neutrality before 2050, with an interim target of reducing 50% of our total carbon emissions by 2030. We are closely monitoring our carbon footprint, and have reduced our total carbon emissions by 48.6% against the baseline. Our Scope 1, 2, and 3 emissions, and decarbonisation initiatives are disclosed to the public.

<sup>1</sup> The TCFD was established in 2015 to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. The final TCFD Recommendations, issued in June 2017, cover four core areas: governance, strategy, risk management, and metrics and targets. Under these four core areas are 11 recommended disclosures.

<sup>2</sup> See Strategic Priorities on pages 12-23.

<sup>3</sup> We published the *Agenda for Green and Sustainable Finance* in August 2022 to set out further steps to support Hong Kong as a regional sustainable finance centre, having achieved the goals set out in our *2018 Strategic Framework for Green Finance*.

<sup>4</sup> International Financial Reporting Standards.

**This section outlines how we incorporate climate and sustainability considerations in developing our regulatory initiatives and our organisation's activities. It is structured around the TCFD Recommendations.**

We take the lead in advancing Hong Kong's position as an international sustainable finance hub and developing an effective regulatory framework to support the financial system's transition to a low-carbon future. We introduce regulatory initiatives to combat greenwashing and build industry capacity and awareness through our information and guidance, with a view to maintaining the transparency and orderliness of our financial markets and enhancing investor protection.

Within the organisation, we actively integrate climate and sustainability into our internal policies and take steps to manage relevant risks in our day-to-day operations. We support the HKSAR Government's climate strategies and are taking steps to meet our target of 50% reduction in total carbon emissions by 2030.

### Governance: Comprehensive framework for sustainability

As a statutory financial regulator, we have established a robust framework for corporate governance around climate and sustainability-related risks and opportunities<sup>5</sup>. Our cross-divisional Sustainable Finance Working Group, which is led by our CEO Ms Julia Leung, comprises members from across the organisation. It meets regularly to coordinate our policy initiatives and organisational activities in line with our overall strategy for sustainable finance. Members of this group report to and seek guidance from the Board and the Executive Committee (ExCo) periodically and at least on a semi-annual basis.



Our International Affairs and Sustainable Finance team<sup>6</sup> is responsible for coordinating our sustainable finance efforts at the local, regional and global levels. The team advises the Board, ExCo and senior management on our sustainability strategy and coordinates with the HKSAR Government, other local and international regulatory agencies and industry bodies to formulate and implement sustainable finance initiatives.

The SFC's Investment Committee enquires into how and to what extent our external fund managers incorporate environmental principles into their investment and risk analysis processes. To ensure their compliance with the SFC's Principles of Responsible Ownership, we regularly communicate with our external fund managers and have engaged an independent consultant to oversee and assess their commitments and practices.

<sup>5</sup> The Board is responsible for setting the overall direction and providing strategic guidance on policymaking, whilst the Executive Committee is responsible for considering policy and operational proposals. See Corporate Governance on pages 99-114.

<sup>6</sup> This team within the CEO's Office reports directly to our CEO Ms Julia Leung.



## Strategy: Maintain transparent markets and protect investors

Leading financial market transformation through technology and ESG is one of our strategic priorities for 2024-26. We aim to bolster Hong Kong's position as a sustainable finance hub both internationally and in Asia-Pacific, including the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, we introduce measures which enhance financial market transparency and protect investor interests.

## Adopting a climate-first approach

Climate change presents risks related to its physical impact and the transition to a lower-carbon economy, which affect both the real economy and the financial system. Addressing these risks will require significant financial resources. As Hong Kong is uniquely positioned to bridge capital flows between international investors and Asia including Mainland China, local regulators including the SFC have been contributing to the development of an ecosystem to support capital allocation for a low-carbon transition in the region and the world.

Climate-related risks affect the operations of not only the firms we regulate but also the SFC. To better understand the resilience of our operations against climate-related risks, we conducted a physical and transition risk assessment with reference to scenarios developed by the Intergovernmental Panel on Climate Change and Network of Central Banks and Supervisors for Greening the Financial System.

As a growing concern accompanying the continual growth of sustainable finance, greenwashing may weaken investors' confidence in an orderly and effective green and sustainable finance market, dilute sustainability efforts and pose investor protection risks. Gatekeeping against greenwashing is our top priority. We closely monitor the latest market and regulatory developments and implementation of existing measures.

## Implementing a comprehensive strategy for sustainable finance

The *Agenda for Green and Sustainable Finance* details our strategy to develop a robust regulatory framework, which covers listed companies, asset managers, ESG funds, investor protection, technology and innovation,

### A comprehensive strategy for sustainable finance



## Sustainability

and carbon markets. Under this framework, we work collaboratively to build the local sustainable finance ecosystem and actively contribute to international standard setting by taking a lead at the International Organization of Securities Commissions (IOSCO).

### Building an enabling local ecosystem

Sustainability considerations are not only cross-border but also cross-sectoral in nature. Recognising the need to strengthen local coordination, we initiated and co-lead Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)<sup>7</sup>, which aims to coordinate the management of climate and environmental risks, accelerate the growth of green and sustainable finance and support the HKSAR Government's climate strategies.

During the year, the Steering Group progressed in advancing its 2023-25 priorities of world-class regulation, data and technology for transition, market opportunities and product innovation, and communication, capacity building and collaboration with the Mainland, regional and global markets. It launched:

- ◆ new workstreams on Hong Kong's adoption of the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB) as appropriate, and on policy and market development initiatives to support transition planning and finance;
- ◆ the Prototype Hong Kong Green Fintech Map to help corporates and financial firms identify Green Fintech solutions to meet business needs (see sidebar on page 119);

- ◆ greenhouse gas emissions calculation and estimation tools to facilitate sustainability reporting by corporates and financial institutions (see sidebar on page 119);
- ◆ the Guangdong-Hong Kong-Macao Greater Bay Area Green Finance Cooperation Meeting and an industry roundtable to exchange views on regional collaboration, sustainability disclosures, transition finance, as well as data and Green Fintech; and
- ◆ a revamped website which serves as a centralised hub for sustainability-related data, regulation, news and events, training and internship opportunities. It also contains an e-portal to facilitate entities in digital sustainability reporting<sup>8</sup>.

In addition, the Steering Group continues to administer the HKSAR Government's Pilot Green and Sustainable Finance Capacity Building Support Scheme and supports the Sustainable Finance Internship Initiative.

### Developing a comprehensive regulatory framework

#### Corporate sustainability disclosures

We continue to take steps to enhance sustainability disclosures in Hong Kong. Disclosures aligned with international standards are integral to meeting investors' needs for comparable and consistent information to inform decisions, and also to reinforcing Hong Kong's position in intermediating capital flows.

<sup>7</sup> Established in May 2020, the Steering Group is co-chaired by the SFC and the Hong Kong Monetary Authority, and also includes the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Insurance Authority, Mandatory Provident Fund Schemes Authority, Accounting and Financial Reporting Council and Hong Kong Exchanges and Clearing Limited.

<sup>8</sup> The sustainability disclosure e-portal facilitates reporting against the Climate and Environmental Risk Questionnaire for Non-listed companies, which was developed and launched in 2022 by the Steering Group and CDP, a global non-profit body that runs the world's environmental disclosure system for companies, cities, states and regions.

## Data and technology to support growth of sustainable capital markets

The availability and quality of sustainability-related data in the real economy are crucial to market transparency and to investors in making informed decisions, thereby channeling capital flows into sustainable projects.

To facilitate sustainability reporting by corporates and financial institutions in Hong Kong, the Steering Group and the Hong Kong University of Science and Technology launched two tools to calculate and estimate greenhouse gas emissions in February 2024.

The tools, which are available for free public access on the Steering Group's website, feature clearly disclosed methodologies and incorporate Hong Kong and the Mainland's elements data in the calculation and estimation modelling while referencing widely adopted international standards.

Additionally, during the Hong Kong Green Week, the Steering Group, Cyberport and Invest Hong Kong launched the Prototype Hong Kong Green Fintech Map, a directory of over 50 Green Fintech firms operating in Hong Kong as of February 2024. The Green Fintech solutions offered by these firms include ESG data and analytics, ESG disclosures and regulatory reporting, climate risk modelling and assessment, green digital finance and investments, and carbon credit trading and analytics.

Green Fintech has potential to facilitate the flow of sustainability-related information and support financial institutions in ways such as meeting regulatory requirements and informing investment decisions and developing new financial products. The map aims to help corporates and financial firms identify Green Fintech solutions which meet their business needs.



Launch ceremony of greenhouse gas emissions calculation and estimation tools

## Sustainability

We co-lead a working group on sustainability disclosures with the Financial Services and the Treasury Bureau under the Steering Group. This working group is developing a roadmap on Hong Kong's appropriate adoption of the IFRS Sustainability Disclosure Standards, which will comprise four key areas of sustainability reporting, assurance, data and technology, and capacity building. During the year, we contributed to the working group's desktop research and stakeholder engagement activities, which informed the HKSAR Government's vision statement on developing a sustainability disclosure ecosystem in Hong Kong issued in March 2024.

To build Hong Kong listed companies' capabilities and preparedness, we have been working closely with the Stock Exchange of Hong Kong Limited (SEHK) to develop enhanced climate-related reporting requirements. In

April 2023, SEHK consulted the market on proposals to enhance climate-related disclosures under its ESG framework, which were informed by the exposure draft IFRS S2 Climate-related Disclosures. The finalised Listing Rule requirements were announced in April 2024 and will take effect on 1 January 2025. This is an important first step towards achieving Hong Kong's ambition of becoming one of the first jurisdictions to align local sustainability disclosure requirements with the IFRS Sustainability Disclosure Standards.

Many companies listed on SEHK have businesses with sizable Mainland operations and value chain exposures. We have been engaging with the China Securities Regulatory Commission to ensure that our approach considers the pace of regulatory developments on the Mainland.

### Promoting sustainability disclosures in Hong Kong

The SFC takes active steps to prepare the industry and raise its awareness of sustainability reporting against international standards, including the IFRS Sustainability Disclosure Standards, to bolster Hong Kong's position as a leading sustainable finance hub.

In November 2023, we held our inaugural Forum on Sustainability Disclosures where more than 200 leaders from the financial industry, listed companies and industry associations, as well as policymakers from Hong Kong, the Mainland and Asia-Pacific attended. Discussions focused on the benefits and challenges of adopting international sustainability reporting and assurance standards locally, including the enormous fund-raising opportunities associated with comparable high-quality disclosures as well as the need for increased public-private partnerships and use of technology to address data gaps.



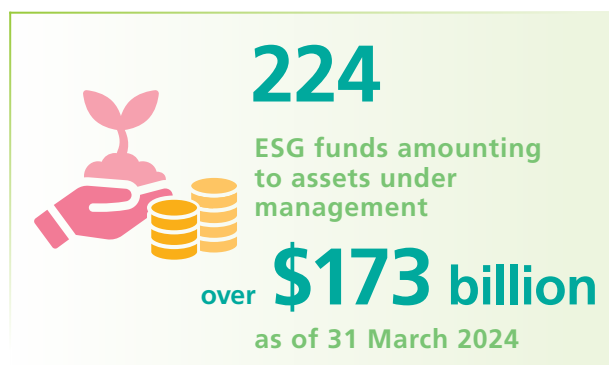
SFC Forum on Sustainability Disclosures

In March 2024, we hosted an industry roundtable organised by the Steering Group and the ISSB to discuss and promote sustainability disclosures by companies and financial institutions in Hong Kong. Participants exchanged views on their experiences in and the unique circumstances for entities making sustainability disclosures in Hong Kong and Asia. Following this event, the Steering Group and the ISSB agreed to maintain dialogues and strengthen collaboration on developing comprehensive capacity building programmes.

### Intermediaries

We continue to closely monitor the implementation of our climate-related requirements for fund managers<sup>9</sup>, which aim to help investors make informed investment decisions and understand the impact of climate change on their investments.

With investors' increasing demand for ESG-related products, the use of ESG ratings and data products by asset managers and funds has grown considerably. Our fact-finding exercise and industry outreach found that surveyed asset managers had concerns about data quality, transparency, and conflicts of interest management of these product providers. In October 2023, we supported and sponsored the development of a voluntary code of conduct for ESG ratings and data products providers via an industry-led working group. When this code is finalised, we will consider providing principles-based guidance to our licensed corporations on leveraging it to conduct due diligence and ongoing assessment.



### ESG funds

We closely monitor ESG funds' compliance with our enhanced requirements for disclosures and annual assessments, which aim to help investors understand the features of these funds and determine whether they meet their investment needs. During the year, we maintained dialogue with fund managers of new ESG funds with novel strategies and kept abreast of latest market developments in this area.

### Public outreach

We work with the Investor and Financial Education Council (IFEC), an SFC subsidiary dedicated to improving financial literacy in Hong Kong, to raise public awareness and understanding of sustainable finance through mass communication and public outreach initiatives.

Our Senior Director and Head of International Affairs and Sustainable Finance Ms Christine Kung spoke at an event as part of Hong Kong Federation of Youth Groups' *Stepping Forward with Commitment to Hong Kong* campaign. She also acted as a judge of the Hong Kong Securities and Investment Institute's competition on sustainability projects for university students in promoting Hong Kong's sustainable finance initiatives and supporting young talent development.

Sustainable finance initiatives launched by the IFEC during the year included:

- ◆ holding a talk to discuss financial return and ESG benefits of sustainable investing with support from Hong Kong Exchanges and Clearing Limited (HKEX), the CFA Institute and CFA Society Hong Kong during IOSCO's World Investor Week 2023;
- ◆ publishing a series of articles on its website and blog explaining financial return and ESG benefits of sustainable investing, how ESG adds value to shareholders, ESG indexes and ratings, and greenwashing; and
- ◆ raising public awareness and understanding of green and sustainable finance through social media channels and newspaper columns.

IFEC also gauged retail investors' awareness and perception of sustainable finance through its flagship research *Retail Investor Study 2023*. The findings of this study helped to inform IFEC's continuing effort on educating the investing public on the topic.

<sup>9</sup> Fully effective in November 2022, the SFC's new conduct of conduct for fund managers requires them to systematically assess climate-related risks associated with their investment strategies and portfolios and to provide investors with appropriate disclosures.



### Being a leading voice in the international regulatory community

As climate change and other sustainability concerns are global in nature, a coordinated approach is crucial to effectively promote understanding of sustainability, address related risks, harness its opportunities, and mitigate any potential risks of regulatory fragmentation and arbitrage. International standards and policy recommendations have significant importance in informing our domestic policy agenda, which we seek to align with international best practices with a view to showcasing a clear pathway for the region.

Our international priority is to ensure that global regulatory approaches and requirements are interoperable and adopted across jurisdictions. Through our leading role within IOSCO's Sustainable Finance Task Force (STF) and Asia-Pacific Regional Committee, we promote regulatory alignment, knowledge sharing and capacity building in the region on sustainable finance topics including sustainability disclosures and carbon markets.

In addition, we are a supporter of the TCFD Recommendations, a member of the International Platform on Sustainable Finance, and a member of the Consultative Group of the United Nations Sustainable Stock Exchanges Initiative (SSE). We also participate in the SSE's Advisory Group on Carbon Markets.

### Risk management: Monitoring and addressing sustainability challenges

We proactively identify, assess and manage climate and sustainability-related risks to our regulatees and ourselves. Our cross-divisional Risk Review Group takes active steps to identify and monitor potential and emerging risks facing the SFC in a comprehensive manner, including macro financial risks and operational risks relating to climate and sustainability. The group reports to the Board and ExCo regularly.

### Risks to regulatory initiatives

Our local and international engagements help us identify and assess climate and sustainability-related risks. We are a member of the IOSCO Committee on Emerging Risks, which focuses on the identification and assessment of regulatory issues across securities markets and informs the IOSCO Board in determining key priorities. We also actively engage with regulatory bodies and the industry on the latest developments and risks associated with climate and sustainable finance.

We facilitate the financial sector's consideration and management of climate and sustainability risks by introducing a number of regulatory requirements and guidance. We also worked with local and international regulators and stakeholders to promote the adoption of global standards.

### Risks to operational activities

In late 2023, we made an important strategic decision to acquire the floors we already occupied in One Island East, which were previously leased. This minimises disruptions to our operations while ensuring cost-effectiveness and environmental sustainability<sup>10</sup>.

Swire Properties, as the co-owner and property manager of the building, has taken proactive steps to address climate change. It has established 1.5°C-aligned science-based targets, which aim for net-zero emissions by 2050. To further strengthen resilience and mitigate risks, short and medium-term measures have been identified, such as enhancing flood protection measures and alert systems, improving chiller efficiency, conducting regular inspections of the glass facade, and implementing smart monitoring systems.

<sup>10</sup> See Corporate Developments on pages 137-143.

With a commitment to address climate-related risks while ensuring business continuity, we have incorporated comprehensive measures into our business resumption plan. This plan not only covers our office premises, but also encompasses our communications and computer services. We actively mitigate various risks associated with climate-related physical hazards, technical issues, fires, and other emergencies. Furthermore, we conduct routine simulation exercises and have established emergency response teams to effectively manage critical crises and maintain operational capabilities during major incidents. To promote energy efficiency and minimise environmental impact, we prioritise regular maintenance of our electrical and audio-visual equipment, as well as our air conditioning systems.

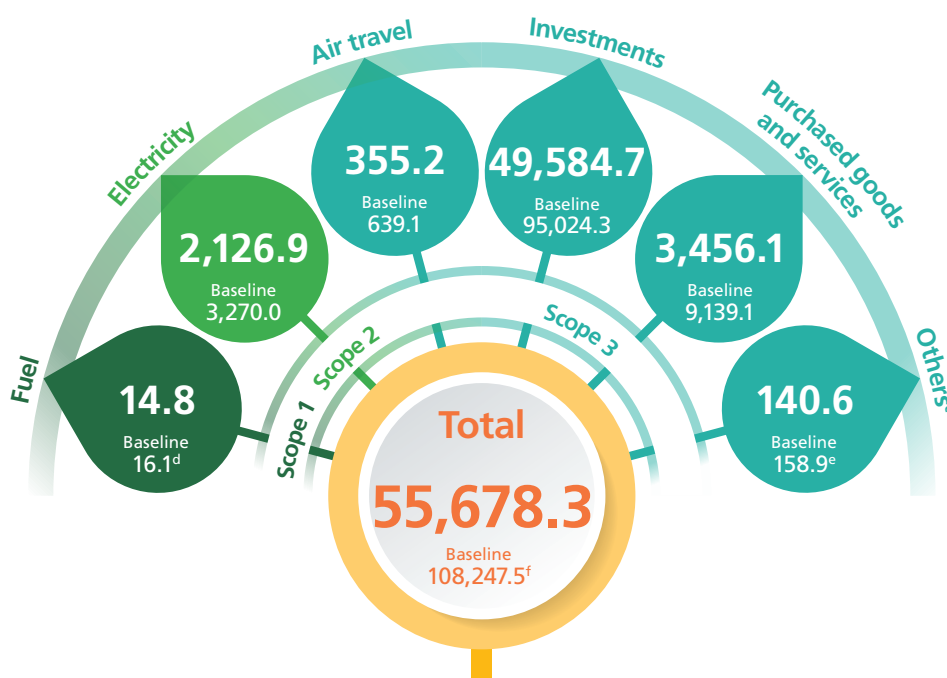
By ensuring optimal efficiency, we save energy and reduce our carbon footprint. We have also engaged an external consultant to assess our corporate emissions footprint and have been monitoring our emissions on a regular basis.

### Metric and targets: Taking stock of our climate impact

As a responsible organisation, our commitment extends to addressing the full range of risks arising from climate change and sustainability. We have pledged to achieve carbon neutrality before 2050, in line with the HKSAR Government’s *Hong Kong’s Climate Action Plan 2050*, with an interim target of reducing 50% of our total carbon emissions by 2030.

An external consultant assesses our organisation’s emissions footprint covering Scope 1 (direct emissions), 2 (indirect emissions), and 3 (value chain and investments) emissions under the Greenhouse Gas Protocol. We reduced 48.6% of our total carbon emissions against our baseline. The table below shows the Scope 1, 2 and 3 emissions for our baseline and the 2023-24 financial year.

The SFC’s Scope 1, 2, and 3 emissions<sup>a</sup> in 2023/24 (tCO<sub>2</sub>e<sup>b</sup>)



<sup>a</sup> The emission figures were computed by the SFC’s consultant based on available data, and in some cases are subject to estimation.  
<sup>b</sup> Tonnes of carbon dioxide equivalent.  
<sup>c</sup> Including electricity transmission and distribution, hotel accommodations, car rentals and waste.  
<sup>d</sup> Restated to reflect updates in emission factors including CH<sub>4</sub> and N<sub>2</sub>O.  
<sup>e</sup> Restated to include estimated carbon emissions from solid waste.  
<sup>f</sup> Restated to reflect changes in fuel and others categories.

## Sustainability



The SFC receives the Green Performance Pledge Award (Platinum)

Our office premises in Quarry Bay take green factors into consideration and have received a Building Environment Assessment Method rating of Platinum, the highest rating available. During the year, we achieved significant improvements in energy savings, water efficiency, and waste diversion rates by undertaking a range of reduction efforts detailed below and our corporate green initiatives focused on waste reduction and recycling<sup>11</sup>.

We are one of the four organisations to receive the highest platinum rating of Swire Properties' Green Performance Pledge, an action-oriented programme that provides tools and support for tenants to improve their performance on energy, water and waste reduction. During the year, we conducted energy audits, water flow tests, and retrofitted flow restrictors to reduce energy and water usage. In addition, we replaced approximately 360 fluorescent tubes with LED light strips in all floor corridors. We will continue to collaborate with Swire Properties under the programme to further reduce our resources consumption and environmental impact.

To meet our carbon neutrality goals, we work towards reducing our portfolio's financed emissions. We closely monitor and review the allocation of assets in our investment portfolio and engage with our fund managers to communicate our targets, understand our financed emissions, request disclosures of emissions metrics as appropriate, and consider green investment options.

To support talent development in sustainable finance, we offer the Sustainable Finance Internship Programme to provide university students with exposure to setting and implementing sustainable finance policies. Apart from introducing initiatives to raise staff awareness of the need to decarbonise and reduce our carbon footprint<sup>11</sup>, we have enhanced our internal staff training curriculum to support our sustainable finance regulatory initiatives.

### Understanding practical use case of carbon credits

During the year, representatives of the Steering Group visited the Organic Resources Recovery Centre Phase 2 (O · PARK2) located in Sha Ling to learn about emissions computation, new technologies to reduce emissions, and how carbon credits were applied to offset emissions.

O · PARK2 is a HKSAR Government project focusing on converting food waste into biogas, which would then be used for electricity generation to support the operations of the facility and provide energy to the power grid. Apart from adopting sustainable business practices, the project operator purchased voluntary carbon credits from CORE Climate, HKEX's trading platform for verified carbon credits, to offset carbon emissions from the project.



Visit to O · PARK2 in Sha Ling

<sup>11</sup> See Corporate Social Responsibility on pages 125-133.

# Corporate Social Responsibility

We are committed to making a positive impact on society by giving back to the community and promoting sustainable practices. Caring for the community, supporting sustainability, protecting the environment, and promoting staff wellness are essential components of our corporate social responsibility (CSR) initiatives.

## Driving positive changes

As a regulator in an international financial centre, we are firmly dedicated to acting as a socially responsible organisation and incorporating CSR principles into our daily operational decisions and practices.

The CSR Committee plans and coordinates our CSR efforts. It is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs, and its members include representatives from units across the organisation. It reports directly to the SFC’s Executive Committee.

The committee is responsible for:

- ◆ formulating and developing our CSR vision, principles, framework and policies;

- ◆ organising and promoting CSR activities; and
- ◆ setting objectives, targets, and key performance indicators to measure the effectiveness of our CSR efforts.

Three working groups are established under the CSR Committee — the Commission Volunteers Group, Green Working Group and Wellness Group. Each group is charged with planning and implementing initiatives under specific themes.

We share our CSR goals, principles and activities on our corporate website and intranet, and send out regular event recaps, upcoming events and quarterly e-newsletters to update staff about our CSR activities. Our CSR intranet serves as a one-stop platform for enhanced communications, letting participants share first-hand accounts of our CSR activities and feedback.

Our CSR efforts have been recognised by the Hong Kong Council of Social Service, which has named us a “Caring Organisation” since 2006.

## CSR working groups and themes





### Fostering a greener marketplace

Being a regulator of Hong Kong's financial markets, we adopt measures to enhance industry-wide operational efficiency and promote eco-friendly practices. Our initiatives not only contribute to conserving energy but also aim to improve the overall sustainability of the industry.

The industry can electronically sign and submit licensing applications and other documents and communicate more efficiently with us through our fully digitalised licensing platform WINGS<sup>1</sup> 2.0, together with a companion mobile application WINGS Mobile. During the year, about 186,000 applications and regulatory filings were electronically signed and submitted via WINGS. About \$55 million were paid to the SFC electronically. It is estimated that over 1,140,000 sheets of paper, equivalent to about 114 trees, have been saved since the launch of WINGS 2.0, as we no longer accept licensing applications in paper form.

### Contributions

	2023/24	2022/23	2021/22
Number of staff participating in volunteering activities	212	99	39
Total volunteering hours	863	409	120
Funds raised for community causes	\$90,209	\$80,156	\$86,922
Corporate sponsorships for community causes <sup>^</sup>	\$5,000	\$24,185	\$2,000

<sup>^</sup> Including donations in lieu of corporate gifts made in the names of guest speakers invited to our in-house training seminars.

### Empowering community through volunteering

Through volunteering and engagement opportunities, our staff make a positive change in the community. We offer volunteering leave to encourage staff participation in community service. This year, 212 SFC staff including their friends and family members spent a total of 863 hours volunteering on society inclusion, elderly caring, animal protection and environmental conservation.

Our staff also support community services through donations and participation in fundraising events. We raised a total of \$90,209 this year through various large-scale community events, such as Pedal Power 10 (see sidebar on page 131) and four Community Chest events: Green Low Carbon Day, Dress Casual Day, Love Teeth Day and Skip Lunch Day.

Donating used items to charities helps people in need and minimises waste in landfills. This year, we donated 480 rapid antigen test kits to the Hong Kong Sports Association for Physically Disabled and 25 printers to the needy through the Caritas Computer Workshop. Also, eight cartons of toys, clothing and books were collected for the Salvation Army Recycling Programme. To promote a culture of sharing and resource circulation, we encouraged staff to join events organised by Swire Properties including the Mooncake Sharing Programme and Red Packet Recycling Programme.

<sup>1</sup> Web-based INTeGrated Service.



During the year, we collaborated with the Fu Hong Society and the Hong Kong Society for Rehabilitation to sell groceries and items made by their members at our in-house Christmas Giving Fair. In the same event, we also invited Coffee Bunnies, a social enterprise under The Neighbourhood Advice-Action Council that provides opportunities for youth employment amid the pandemic, to provide brewed beverages to participants. Additional funds were also raised from the sale of items handmade by our staff.

To foster a culture of harmony between people and animals, we collaborated with Time Auction and Rise Wise to organise a therapy dog experiential day for children with special educational needs (SEN). A total of 19 colleagues joined this event, which raised awareness towards these children and leveraged therapy dogs to serve the community.

Additionally, we partnered with ImpactHK to organise a Kindness Walk where staff volunteers and their family members served food and necessities to the homeless in Tung Chau Street Park. This activity gave us an opportunity to understand the issue of homelessness and the importance of taking action to serve the community. In a food sorting activity jointly organised with Feeding Hong Kong, our staff volunteers and their family members helped sort food at the Yau Tong warehouse, raising their awareness towards food waste and its connection to hunger.

## Protecting our environment

### Going green in workplace

We are dedicated to minimising our impact on the environment and promoting sustainability<sup>2</sup>. An internal protocol, *A Guide to Working "Green" at the SFC*, sets out guidance for staff to protect the environment at the workplace.

Energy-conserving features in our office include motion and daylight sensor lighting, and LED light fittings. The office layout was designed to allow more natural light. Recycling bins collecting a range of materials are conveniently located across the office and the number of individual waste bins in office has been reduced to encourage less waste.

To reduce our paper consumption, we make our internal procedures electronic and share meeting materials on tablets and paperless diaries. We explain to staff the environmental impact of colour printing and remind them to consider the environment before printing. Printers are set by default to print greyscale and double-sided to encourage eco-friendly printing. Our annual reports are only published online as a digital version.



Engaging with SEN children and therapy dogs



Sorting food for charity deliveries

<sup>2</sup> See Sustainability on pages 115-124.

## Full resumption and beyond under One SFC family

With normalcy fully resumed after the pandemic, we stepped up to organise meaningful events for staff and the community throughout the year, with a total of 48 events held and staff participation surpassing 2,000. Volunteering work participation has increased significantly to 212 staff who volunteered and about 863 hours, up 86% from the pre-pandemic period, and over \$90,000 in staff donations were made to community.

At the same time, we have further built rapport across the organisation under our core value of "One SFC" through a variety of engaging recreational activities. While resuming popular major events and interest classes, we organised a series of new thematic activities to elevate staff's experience. For the first time, we launched the Summer Chill series including the first-ever SFC TGIF happy hours in-house event, which featured our staff's engrossing music performance. More

than 120 participants enjoyed mingling in a fun and relaxing atmosphere with food and drinks after work. In addition to the popular movie night, we offered a brand new wine tasting experience and the Ping Pong Jam sessions in the series.

Furthermore, the highly anticipated Christmas Dinner in our Winter Fest Series returned with an impressive turnout of 800 colleagues or 82% of all staff. A new "SFC Festive CNY" series featuring engaging activities was organised during the Chinese New Year.

To provide a positive workplace that embraces the power of leisure, we resumed our sports activities during the year which promote staff morale and team bonding. These included the Stanley International Dragon Boat Championships, Basketball Supervisory Cup, Corporate Challenge in The Standard Chartered Marathon and football tournament. Our excellent teamwork powered us to the best results in sporting events over the years.



Our football team wins the first BNP Paribas Football Bowl



Christmas dinner



Dragon boat race

## Our volunteering events

Month	Activity	Purpose	Outcome
August 2022– August 2023	Phone call support to the elderly with Neighbourhood Advice-Action Council	To provide emotional support to the elderly	14 staff volunteers were paired with elderly individuals and checked in on them over the phone at least twice a month
April 2023	Rapid antigen test kit donation to Hong Kong Sports Association for the Physically Disabled	To help ensure the safety and health of athletes and staff in sports events	Donated 480 sets of rapid antigen test kits
April 2023	Trail and beach clean-up at Lap Sap Wan	To raise awareness towards the marine refuse problem	24 staff volunteers and their family members participated in the activity
June 2023	Soap art recycling workshop with Soap Cycling	To improve the personal hygiene and promote a greener lifestyle	50 staff volunteers made colourful soap bars for underprivileged groups
July 2023	Printer donation to Caritas Computer Workshop	To give away items to those in need and reduce electronic waste in landfills	Donated 25 printers
August 2023	Kindness Walk with ImpactHK	To understand the issue of homelessness by interacting with the homeless and understand the challenges they face	16 staff volunteers and their family members distributed necessities to the homeless in Tung Chau Street Park
October 2023	Food sorting with Feeding Hong Kong	To raise awareness towards food waste and its connection to hunger	30 staff volunteers and their family members sorted food in the warehouse of Feeding Hong Kong for charity deliveries
November 2023	Mental health and wellness therapy dog experiential day with SEN children	To know more about SEN children and leveraging therapy dogs	19 staff volunteers engaged with SEN children and therapy dogs through games
December 2023	Christmas giving fair	To raise funds and spread Christmas joy to the underprivileged	Four staff volunteers prepared muffins, mocktails and handicrafts for the charity sale
February 2024	Embracing and caring for abandoned dogs in animal shelter	To better understand the issue of abandoned animals' welfare	21 staff volunteers visited an animal shelter, the House of Joy and Mercy, and donated food and necessities to the charity
March 2024	Hike and clean-up activity	To help rid trails of waste and promote the practice of leaving no trace	24 staff volunteers participated in the trail clean-up



## Corporate Social Responsibility



Planting trees at habitat restoration programme



Beach cleanup

Other green practices adopted in our workplace include:

- ◆ switching to LED light stripes in all the floor corridors;
- ◆ installing water flow restrictor to reduce water usage;
- ◆ switching to bamboo paper towels in all pantries;
- ◆ sharing sustainable habits both in the workplace and daily lives;
- ◆ sharing recycling tips and information with staff;
- ◆ recycling coffee grounds;
- ◆ reusing stationery by providing stationery refills; and
- ◆ automatically turning off desktop computers every weekend.

The SFC was the first cohort of companies to participate in the Green Performance Pledge<sup>3</sup> conducted by Swire Properties. Our improvements in energy savings, water efficiency and waste diversion rate led us to achieve the highest Platinum rating during the year.

### Eco-friendly activities

During the year, we held a number of outdoor activities for staff and their family members to raise environmental awareness and promote a low-carbon, sustainable lifestyle. A total of 24 staff members, along with their friends and families, joined the beach clean-up at Lap Sap Wan, which helped promote environmental protection, particularly reduction of marine refuse. We partnered with the Kadoorie Farm and Botanic Garden to organise a habitat restoration programme where 14 staff volunteers planted native tree species on the hillside of Tai Mo Shan. Participants not only contributed to environmental sustainability but also gained a better understanding of nature

preservation. To promote organic and green living, we organised an eco tour at Go Green Organic Farm for 33 participants, including staff members and their families, to experience a farm visit and take part in hands-on activities such as planting seeds, touring the organic farm, and creating DIY sand paintings.

We also launched the “20-Day Go Green Team Challenge” to encourage staff to embrace green living and improve their health and well-being. 14 staff members successfully completed the challenge by adopting various green habits for 14 and 20 days, such as having a no-meat day, shopping from sustainable shops and joining the vegan day.

Various green workshops, including those on soap art recycling and T-shirt bag upcycling, were available for staff to utilise recyclable and eco-friendly materials, giving new life to unwanted items. Additionally, we encouraged staff to support the events organised by Swire Properties on recycling electrical equipment and clothing. To raise awareness of global warming and wise use of air conditioning, we supported Green Sense’s No Air Con Night, which called on households to switch off their air conditioning for 12 hours.

On an ongoing basis, we support the global warming prevention and environmental conservation causes of the World Wide Fund for Nature.

- ◆ No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve shark fins at any SFC event.
- ◆ Earth Hour 2024: Taking part in this annual energy conservation event for over 20 years, we encouraged staff to switch off lights for one hour and made a pledge as a corporate supporter.

<sup>3</sup> An action-oriented programme that provides tools and support for office tenants to reduce consumption of energy, water and waste.

### Pedalling for charity

In April 2023, 23 participants including staff and their family members participated in Pedal Power 10, a charity cycling event to raise money for less advantaged youth, schools, and communities to join Outward Bound training courses. These trainings help teenagers gain confidence, build resilience and acquire leadership skills.

All participants successfully completed the ride from Tai Mei Tuk to Science Park either along a 16.6 km regular route or a 31.6 km elite route on a Saturday

morning with perfect weather. Two colleagues took prizes home, with one coming second on the elite route and another coming third on the regular route.

Held since 2011, Pedal Power was not only a fun and rewarding activity for all involved but also a meaningful way to give back to the community. By raising money for Outward Bound training courses, we help empower the development of youth and promote a more inclusive and resilient society.



### Consumption and recycling

	2023/24	2022/23	2021/22
<b>Consumption</b>			
Paper (pieces/head)	4,419	5,429	5,421
Electricity (kWh)	3,231,983	2,924,902	3,322,576
<b>Recycling</b>			
Paper (kg)	20,679	25,095	19,669
Toner and printer ink cartridges	563	637	715



# Corporate Social Responsibility

## Enhancing wellness

We strive to provide a healthy and safe working environment which emphasises employee wellbeing. Our holistic wellbeing framework covering physical, mental, social and family wellbeing sets the foundation for the activities we provided to staff throughout the year:

- ◆ Workshops on recognising and maintaining mental wellbeing for individuals and people managers to support mental health at work
- ◆ Workshops on managing emotions in the workplace facilitated collaboration and overall wellbeing
- ◆ Webinars on emotional care for parents and the elderly helped enhance healthy family relationships
- ◆ A month-long Step Challenge initiative promoted the benefits of physical exercise
- ◆ The SFC Wellbeing Bazaar showcased how the use of artificial intelligence and innovative technology can help us with our mental and physical wellness

- ◆ Various fitness classes helped enhance staff's cardiovascular strength, physical flexibility and coordination as well as stretching
- ◆ Workshops on sound therapy, tea appreciation and chocolate tasting and a massage week helped improve staff wellbeing

As a founding member of the City Mental Health Alliance Hong Kong (CMHA HK), we actively take part in its initiatives. During the year, in addition to participating in the Thriving at Work assessment to take stock of our progress in the journey to promote workplace mental health, we joined its mental health in the workplace surveys to help better address and support mental health and wellbeing in the business community. We promoted free webinars and articles offered by CMHA HK and Mind Hong Kong to provide staff with more resources for maintaining physical and mental health. We also organised a talk with Family Development Foundation on achieving a balance between work and family life. To support both the World Mental Health Day and World Suicide Prevention Day, we promoted a self-care challenge to all staff and shared useful links and information on the importance of looking after yourself, family and friends.



The SFC Wellbeing Bazaar



Fitness class



Tufting workshop

## CSR Activity Calendar



### July – September 2023

- ◆ Kindness walk with ImpactHK
- ◆ Printer donation to Caritas Computer Workshop
- ◆ Lunch and learn: Recycle of household and office waste
- ◆ Lunch and learn: Relationship between climate change and meat consumption
- ◆ “20-Day Go Green” team challenge
- ◆ DIY eco-friendly lantern workshop
- ◆ World Suicide Prevention Day – “WE CARE” Challenge
- ◆ BarreKore classes
- ◆ Stretching classes for upper and lower back

### January – March 2024

- ◆ Embracing and caring abandoned dogs in animal shelter
- ◆ Community Chest Skip Lunch Day
- ◆ Hike and trail clean-up
- ◆ Lunch and learn: Green living
- ◆ Red packet recycling
- ◆ Earth Hour 2024
- ◆ Massage week
- ◆ Sound therapy workshop
- ◆ Detox diet week challenge and healthy fruit day



### April – June 2023

- ◆ Pedal Power 10
- ◆ Phone call support to elderly^
- ◆ Blood donation day
- ◆ Surgical masks and rapid antigen test kit donation
- ◆ Community Chest Green Low Carbon Day
- ◆ Trail and beach clean-up at Lap Sap Wan
- ◆ Soap art recycling workshop
- ◆ **DIY T-shirt bag upcycling workshop**
- ◆ Share your green tips challenge
- ◆ Healthy diet week
- ◆ Fitness classes
- ◆ Chocolate tasting workshop



### October – December 2023

- ◆ Food sorting and repacking with Feeding Hong Kong
- ◆ Therapy dog experiential day with SEN children
- ◆ Community Chest Dress Casual Day
- ◆ Community Chest Love Teeth Day
- ◆ Christmas giving fair
- ◆ Tree planting in Kadoorie Farm and Botanic Garden’s habitat restoration programme
- ◆ **Organic farm tour**
- ◆ No Air Con Night
- ◆ World Mental Health Day – Pamper yourself challenge
- ◆ Mental health weekly articles sharing



^ August 2023–August 2024.

# Meet Our People

Over the past 35 years, change has been the only constant for the SFC in an ever-moving market landscape. Our people shared how they combined agility and resilience to help them through the challenges and stay on top of emerging trends.

## Enduring crises

Rolling back the clock to 1997. During the Asian financial crisis, the local stock market tumbled as the Hong Kong dollar came under attack. Stephen Shek, Director of Enforcement, was a surveillance manager back then. He recalled how he and his team kept a close eye on the market and conducted territory-wide enquiries — all these to ensure market operations remained orderly and no misconduct went undetected. “I was very lucky to witness this ‘event of the century’ up close,” Stephen related. **“Within a relatively short time, the authorities restored the level playing field in the stock market, reinforcing the SFC’s commitment to upholding market integrity.”**

A decade later came the financial meltdown in 2008 — this time on a global scale. The fallout from the failures of major financial institutions overseas quickly spread, and many members of the public and intermediaries in Hong Kong took a hit. “Thereafter, the SFC launched a few initiatives to enhance the market infrastructure, including a regime together with the Hong Kong Monetary Authority to regulate the opaque over-the-counter derivatives market, which was among

the factors leading to this crisis,” said Derek Shek, Director of Licensing. **“These measures have made our markets more transparent, and put us in a better position to identify emerging risks and take early action.”**

## Building a solid foundation

Our people also shared their fond memories from the past. Witnessing the historic moments of the launch of Shanghai-Hong Kong Stock Connect in 2014 and Shenzhen-Hong Kong Stock Connect in 2016, Director of Supervision of Markets George Tam described it as a game changer that bridged the two-way capital flows between the Mainland and the overseas markets through Hong Kong. It also paved the way for other Connect schemes. **“Stock Connect is the world’s first successful mutual market access scheme,”** George noted. “The SFC and the China Securities Regulatory Commission have been working even more closely on an ongoing basis to enhance Stock Connect.”

Developing markets is a big part of the SFC’s duties; maintaining market integrity is another. Back in 2013, Director of Corporate Finance Benjamin Cheuk was



(From left) Benjamin Cheuk, Derek Shek, Stephen Shek, Pabby Lee, George Tam





(From left) King Lee, Daniel Browne, Chelsea Xu, Peter Sze

tasked to form and lead a dedicated team for monitoring corporate disclosure. He took pride in his team's years of collective efforts, which have brought the number of dubious corporate transactions sharply lower. "The team has been working closely with the Hong Kong Exchanges and Clearing Limited to **encourage more meaningful disclosures and improve the quality of corporate announcements made by listed companies,**" Benjamin added.

Technology, as an agent of change, has continued to pose regulatory challenges. Back in 2014, Pabby Lee, Associate Director of Intermediaries Supervision, Intermediaries, helped to put in effect the SFC's enhanced requirements regulating electronic trading. **"While technological developments increased market efficiency and provided options for investors, we saw the need to ensure fair and orderly trades,"** he recounted. "To develop effective regulations for electronic trading in Hong Kong, we comprehensively considered the services provided by local intermediaries, international principles and the approaches adopted by major overseas markets."

### A purposeful mission for the future

As with our long-serving staff, our new joiners share a common mission to lead the SFC's way forward into the future.

Senior Counsel of Legal Services Peter Sze aspired to contribute to legislative drafting which enabled the SFC to perform its functions as a world-class financial regulator. He believes we need a facilitative legislative framework in this era of multipolarity to maintain Hong Kong's global appeal, without

compromising market integrity. **"We must not lose sight of the need to equip ourselves with sufficient regulatory powers to cope with emerging forms of financial activities."**

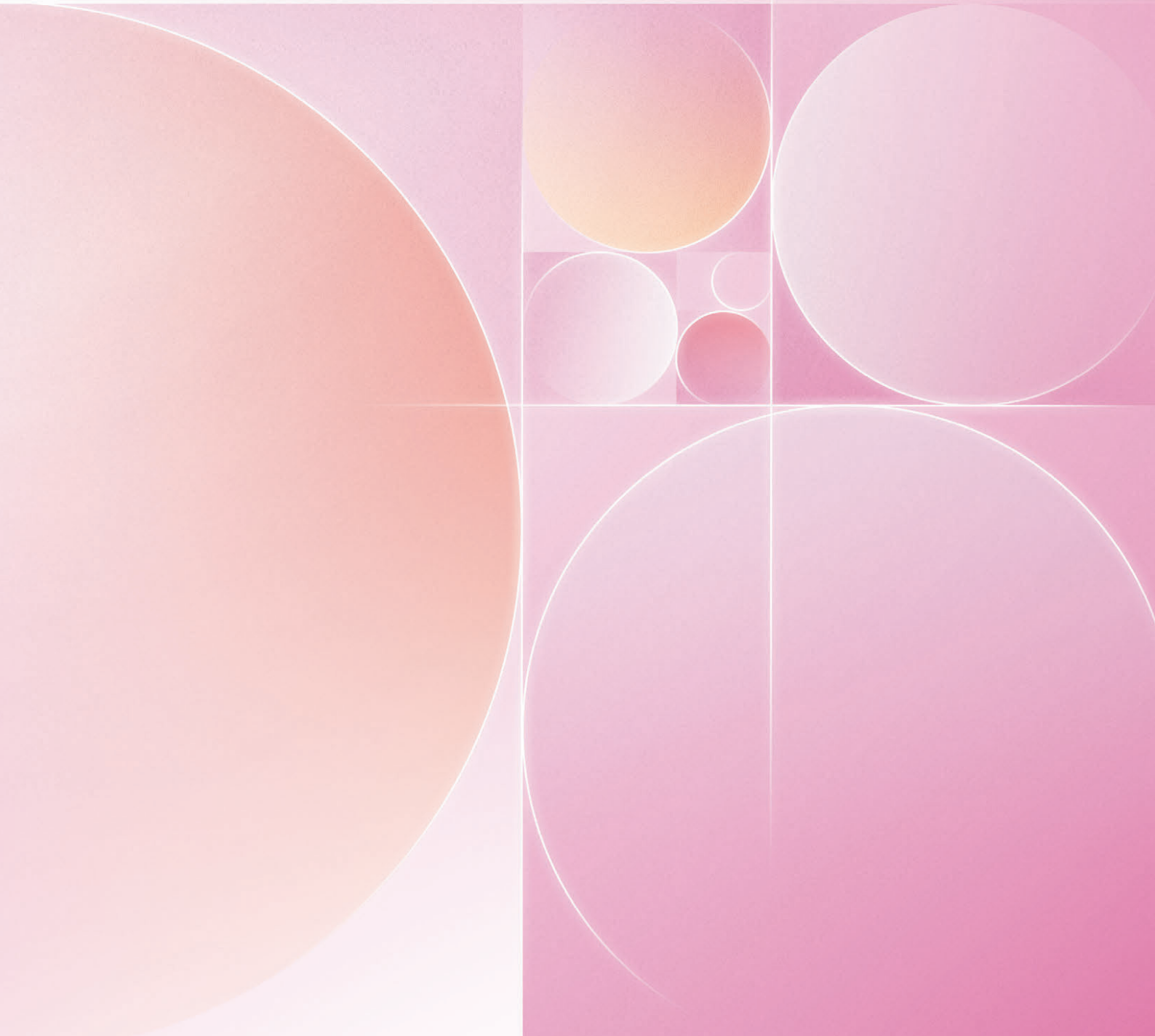
The SFC is constantly adapting to changes and leads market transformation through technology and sustainable finance, according to King Lee, Assistant Manager of Investment Products. Through his involvement in the policy work for virtual asset funds and tokenised investment products, King is thrilled to be an enabler of financial industry innovation. **"We should stay vigilant, engage with stakeholders proactively and enhance our regulatory framework continuously to properly safeguard investors' interests,"** King said.

Chelsea Xu also shares these views. As Management Associate of Mainland Affairs, she believes that it is a priority for the SFC to embrace technology to improve efficiency, while closely monitoring the application in regulated activities to identify and address any risks. As markets have become more connected, Chelsea is keen to contribute to Hong Kong-Mainland connectivity. **"We actively seek to establish open dialogue and closer collaboration with Mainland authorities,"** she said.

According to Daniel Browne, Director of Finance, Corporate Affairs, the SFC's commitment to market integrity and the future of quality regulation is instilled in every aspect of its work ethic. **"This will help us navigate the challenges from new technology and climate change that every regulator will face in the future,"** Daniel explained. He also vows to promote the SFC's underlying values, strategic goals and operational efficiency, and support Hong Kong's position as a leading international financial centre.

# Corporate Developments

Recognising staff is our greatest asset, we build a positive and supportive workplace culture with an emphasis on staff wellbeing to keep Team SFC more engaged and productive. To provide effective regulation and enhance institutional resilience, we use our resources prudently and consistently upgrade our technology infrastructure to stay up to date with market developments.





# Corporate Developments

## Putting people first

Making the SFC an employer of choice is our priority. Our commitment lies in fostering a workplace that attracts, retains and supports the growth of talent as well as supports the growth and development of employees. For 18 years in a row, the SFC was named a “Caring Organisation” by the Hong Kong Council of Social Service. The Employees Retraining Board (ERB) also recognised our dedication to promoting staff learning and development with the “ERB Manpower Developer” award for the 11th consecutive year.

## Professional development

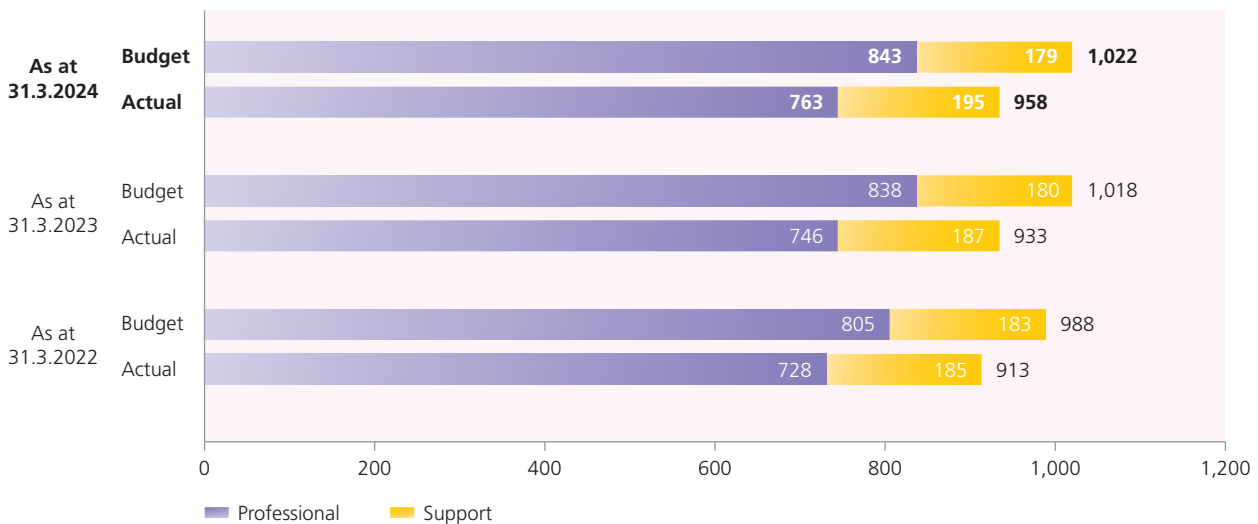
Our Chief Executive Officer (CEO) hosts the CEO sharing session from time to time to communicate important organisational matters, explain regulatory developments and address questions from staff. In a late 2023 session, our CEO presented to our staff the SFC’s key strategic priorities for 2024-26. We also arrange Commission Connection sessions to update



Nurturing talent development

our staff on new policy initiatives. In addition, we provide training on the global macro-economic environment and the governmental and economic policies on the Mainland. Our Chairman and some of the Non-Executive Directors have given sharing sessions on relevant topics.

## Employee statistics



	As at 31.3.2024	As at 31.3.2023	As at 31.3.2022
Male	341	328	310
Female	617	605	603
Average years of service	9.8	9.6	9.5
Female staff at Senior Manager grade or above	58%	60%	59%

## Corporate Developments



Team building



We offer a range of career development opportunities to staff. Our merit-based human resources policies are constantly fine-tuned to better align our people and culture with the SFC's regulatory objectives.

Recognising the benefits of broader professional exposure, we provide short-term internal secondments for staff through a cross-divisional exchange programme. External secondment opportunities are also offered such as those with the Financial Services and the Treasury Bureau, and the China Securities Regulatory Commission (CSRC). This year, we welcomed one officer from the Hong Kong Police Force and four CSRC counterparts who were seconded to us.

Throughout the year, we invited local and overseas regulators and industry professionals to speak on diverse topics including financial products, trading strategies and the latest trends in local and overseas markets to help us stay on top of these developments.

During the year, our employees spent an average of 39 hours on structured learning courses, which included workshops, seminars and training programmes. These help to equip them with the skills and knowledge necessary to their work. This year, we hired eight executive trainees under a new two-year Executive Trainee Programme, which is a refinement of our previous Graduate Trainee Programme.

A total of 80 interns (including summer, winter and full-year) were placed across our various divisions this year and 25 of them joined the Sustainable Finance Internship Programme.

### Engaged workforce

We foster a supportive culture and a positive working environment as part of our core values.

This year, we brought back in-person team building activities for our staff. In addition to organising activities for every division of the SFC to promote team bonding, we conducted several cross-divisional team building activities for staff at managerial grades and below for the first time to build rapport within the SFC.

While female colleagues make up nearly two-thirds of all staff, the SFC Women's Network helps advance women's professional growth and foster an inclusive work culture. We were the first statutory body in Hong Kong to set up a women's group for staff. During the year, our Women's Network launched the "Women in Action" series to engage and support female colleagues and encourage them to develop their leadership potential (see sidebar on page 139). To raise awareness and celebrate the International Women's Day 2024 under the theme "Invest in Women: Accelerate Progress", we invited six of our senior male colleagues to share how male allies in leadership and management positions can help invest in women and accelerate their progress.

### Training

	2023/24	2022/23	2021/22
Percentage of employees who participated in internal training <sup>^</sup>	99%	98%	99%
Average hours of internal training per employee <sup>^</sup>	39	30.7	29

<sup>^</sup> Including lecture, workshops, seminars, webinars and e-learning.

## Get inspired by women in action

Throughout the year, the Women’s Network organised a series of inspiring and informative “Women in Action” initiatives. These events featured prominent industry experts, leaders and trailblazers who shared their personal and professional journeys and offered valuable insights with colleagues.

For the first time, two colleagues had the opportunity to get up close and personal with our CEO and experience a day in the life of a top executive in the “Executive Shadow Programme”. By spending a unique day with our CEO attending high-level meetings and discussions, the colleagues saw how the CEO manages multiple priorities in day-to-day work and witnessed firsthand a leader’s decision-making processes. They also picked up useful tips for personal growth and development.

*This programme has been an eye-opening opportunity! Our CEO maintains a remarkable sense of humour that lightens the mood at meetings. Her ability to instill a sense of lightness in challenging situations helps to foster a positive atmosphere in meetings.*

*Jayvier Chow, Manager of Enforcement Division*

*Our CEO’s quick wit is seen from the instantaneous adaptation to the role she has to play in different engagements.*

*Ryan Shin, Assistant Manager of Corporate Finance Division*



Two colleagues shadow our CEO at the Executive Shadow Programme



Panel discussion at the talk “Resilience, Choice and Impact: The Journey of Women in Law”

In another talk “Resilience, Choice and Impact: The Journey of Women in Law”, a panel of esteemed legal practitioners comprising Ms Teresa Ko, Ms Winnie Tam, Ms Sara Tong and Ms Benita Yu shared their valuable experience and wisdom through lively anecdotes and deep reflections from their professional and life journeys. The panel discussion, moderated by our Commission Secretary and Chief Governance Officer Mr Paul Yeung, inspired the 80 attendees to embrace resilience, make empowered choices, and create a lasting impact in the legal field and beyond.

Ms Whitney Tang, founder of Limitless Coffee, shared her journey in the “Women in Social Enterprise” workshop on how she started a business to provide meaningful employment opportunities for individuals with varying abilities. Limitless Coffee’s barista training created a supportive and inclusive environment for the employees to thrive and showcase their unique talents. Through the sharing, our colleagues learnt a lot from the baristas while savouring freshly-brewed, aromatic coffee to start their day off right.

## Corporate Developments

In addition, we participate in the newly established IOSCO<sup>1</sup> Diversity Network which aims at promoting diversity, including gender, cultural and social backgrounds, among regulatory organisations via a global platform.

### Building quality workplace

Our office in One Island East (OIE) offers a green working environment which promotes both work efficiency and staff well-being. In late-2023, we purchased office floors at OIE as our permanent office (see sidebar below).

When sufficient daylight is available or a room is not in use, lights are automatically turned off or dimmed through sensors in our office. Bins for recycling paper, plastic, metal and glass are conveniently placed around the office. During the year, we switched about 360 fluorescent tubes to LED light strips in all the floor corridors to achieve significant energy savings and contribute to a reduction in greenhouse gas emissions in the long run. See Sustainability on pages 115-124 for details of our sustainability work.

### A permanent home for the SFC

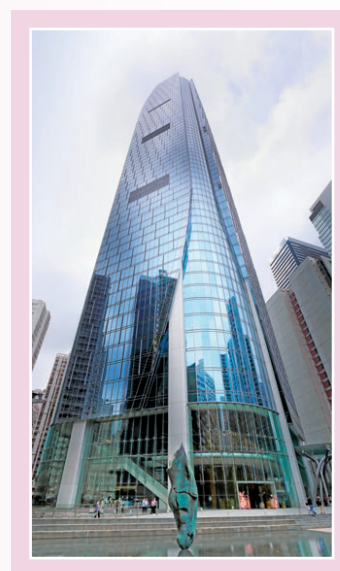
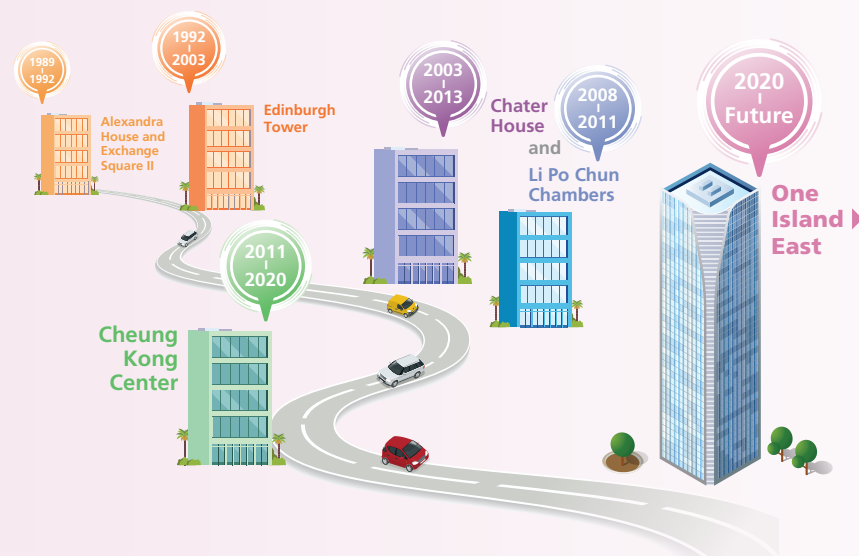
Since its establishment in 1989, the SFC has relocated its office four times. In a milestone move to purchase our own office premises in late 2023, we have consigned to history the office rental practice of more than three decades.

The purchase of 12 floors in OIE office space for a sum of \$5.4 billion was made possible after extensive negotiations, as well as years of financial planning and reserve build-up, which allowed us to seize the market opportunity. The acquisition frees us from future relocation needs, minimising disruptions to our operations. Having a permanent office enables us to better allocate resources and

plan for the future. This decision also aligns with our commitment to sustainability, as owning the office space adheres to the best practices for an environmentally conscious organisation. Moreover, it can strengthen our financial position by reducing operating expenses compared to being a tenant and providing protection against potential rental increases. The cost savings can be put to other uses to advance our cause.

The strategic decision to acquire the existing office space in OIE also ensures a smooth transition for our staff and operational activities. The acquisition of the existing nine floors we currently occupy took effect from December 2023, with the remaining three floors to be acquired in phases by 2028.

### Timeline



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



To safeguard the health of staff and enhance productivity, all workstations are equipped with height-adjustable desks. An air quality treatment system helps ensure a healthy working environment. We have wellness rooms and communal areas to cater to staff's needs. Spacious multi-function rooms provide venues for larger-scale staff training as well as leisure activities.

### Empowering with legal support

Our Legal Services Division handles a range of legal cases, including criminal cases, civil litigation, and Market Misconduct Tribunal cases initiated by the SFC. It also defends judicial reviews and other cases brought against the SFC.

To support our day-to-day operations, the division provides guidance and advice on legislative drafting and various regulatory matters such as licensing issues, supervision of risky brokers, front-loaded regulation of listing matters, takeovers activities, investor compensation and enforcement investigations, as well as on administrative affairs, including employment, data privacy and procurement contracts. In addition, it collaborates with and provides guidance to other divisions to facilitate their pursuit of the SFC's strategic priorities.

### Upgrading technology infrastructure

#### Enhanced functionalities of WINGS

During the year, several enhancements were made to our digitalised submission platform WINGS<sup>2</sup> to support new regimes and gather market intelligence. To launch the new licensing regime for centralised virtual asset trading platforms under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, we added 11 forms on WINGS for virtual asset trading platforms operators to apply for an SFC licence from 1 June 2023 onwards.

In the year, the reporting channels under the over-the-counter (OTC) securities transactions reporting regime were launched on WINGS with which relevant regulated intermediaries must use to report transfers of shares related to OTC securities transactions. In addition, changes were made to WINGS and internal systems to support the licensing and registration of Type 13 regulated activity<sup>3</sup> to be launched in October 2024 as well as to accommodate the initiative of the Companies Registry and the Inland Revenue Department to adopt a standard unique business identifier to identify relevant entities in various transactions and regulatory interactions.

While WINGS' functionalities and user accounts continued to grow, we upgraded its support service in April 2023 to provide technical hotline support to over 70,000 user accounts, servicing more than 9,000 inquiries as of end-March 2024. A user satisfaction survey conducted in late 2023 revealed that the majority of users were positive about the technical hotline support rendered.

### Artificial intelligence and cyber resilience

In addition to the increased efficiency resulted from our digitalisation efforts, we further harnessed the benefits of artificial intelligence in automating the handling of voluminous information and improving accuracy in various processes internally. This enables us to enhance regulatory efficiency with advanced tools and techniques under the rapidly changing markets.

We also refined our information security practice by sharing timely summaries of our cybersecurity risks monitoring to internal stakeholders and then reporting to the Executive Committee, aiming to make our communication and risk management more effective. External cybersecurity experts were consulted and partnerships with law-enforcement agencies were formed to assess and strengthen our security posture to protect our systems and data.

<sup>2</sup> Web-based INTeGrated Service.

<sup>3</sup> Depository services provision for SFC-authorized collective investment schemes.



## Corporate Developments

### Adhering to financial discipline

As a publicly funded organisation, we prepare our annual budget under a disciplined and prudent approach. 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. We appoint external investment managers to manage our surplus reserves according to the investment guidelines approved by the Financial Secretary.

### Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is substantially lower than the original rate of 0.0125% set in 1989. We have not revised our fees and charges since 1994, and have offered annual licensing fee waivers 11 times since 2009<sup>4</sup>. A waiver was also granted for 2023–24 and is extended for another year beginning 1 April 2024.

### Income

Total income for the year was \$1,835 million, down 6% from \$1,942 million last year. As average securities market turnover decreased during the year, our levy income went down 19% from last year to \$1,390 million.

Our investments recorded a net gain of \$208 million for the year, compared to a net gain of \$103 million a year ago, mainly contributed by the performance of our investments in pooled funds and higher interest income from fixed deposits.

### Expenditure

The costs of our operations totalled \$2,133 million, \$341 million below our budget of \$2,474 million.

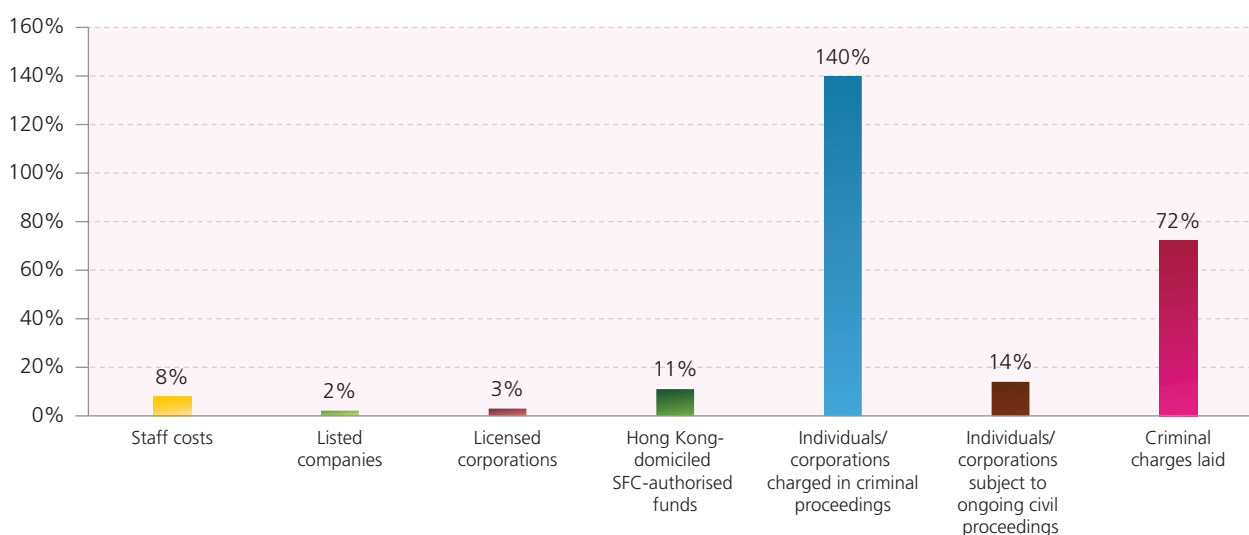
Over the past three years, our staff costs increased 8% and total expenses increased 5%, while our regulatory work increased in volume and complexity. The ratio of average expenses to income stood at 101% for the past three years.

We recorded a deficit of \$298 million for the year, taking into account the one-off reversal of the lease-related provision of \$112 million for the property acquisition.

### Reserve

To complete the transaction for acquiring nine office floors as our permanent office, \$2.3 billion from the property acquisition reserve was utilised. As of 31 March 2024, our reserves stood at \$7.6 billion, of which \$1.2 billion is set aside to support the acquisition of three additional floors and future principal bank loan repayments.

### Three-year change in staff costs vs market statistics (2020/21-2023/24)



<sup>4</sup> Full waivers were given in 2009-10, 2012-19 and 2020-24 (extended to 2024-25), and a 50% discount was provided for 2019-20.

### Income breakdown

	2023/24	2022/23	2021/22
Levies	75.8%	88.8%	95.3%
Fees and charges	6.2%	5.5%	6.7%
Net investment income/(loss) and others <sup>^</sup>	18.0%	5.7%	(2.0%)

<sup>^</sup> Net investment income/(loss) and others included foreign exchange gain or loss.

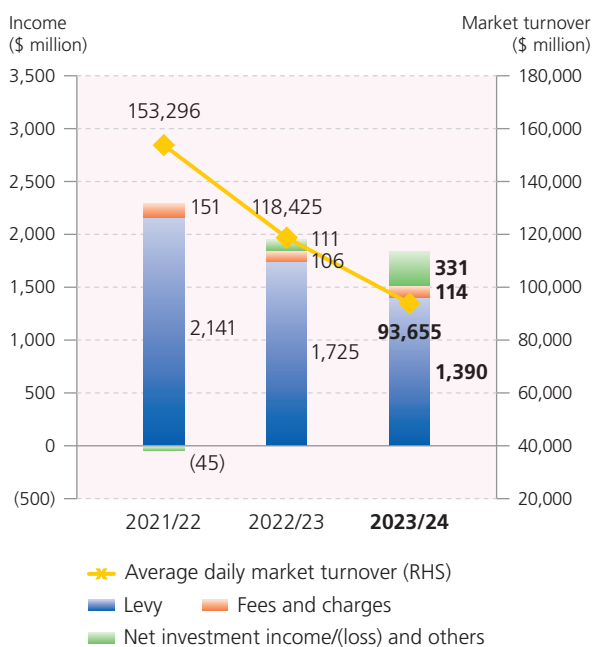
### Expenditure breakdown

	2023/24	2022/23	2021/22
Staff costs	75.1%	74.5%	75.7%
Premises and related expenses	1.7%	1.7%	1.8%
Other expenses	12.0%	11.3%	9.9%
Depreciation	11.2%	12.5%	12.6%

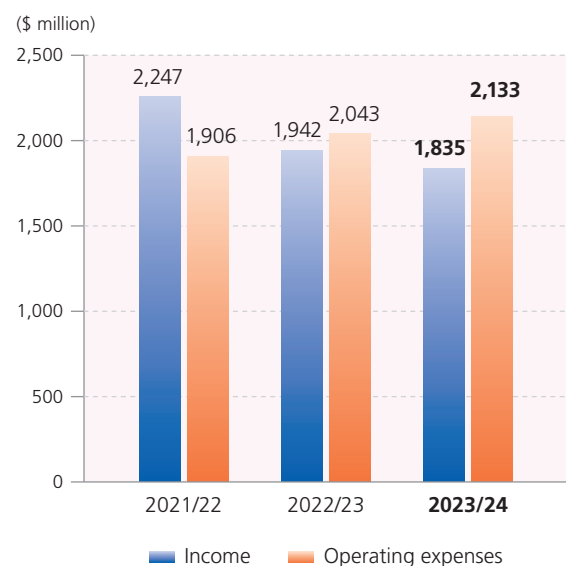
### Finance

(\$ million)	2023/24	2022/23	2021/22
Income	1,835	1,942	2,247
Expenses including depreciation	2,133	2,043	1,906
(Deficit)/Surplus	(298)	(101)	341

Income vs market turnover  
(2021/22-2023/24)



Income and operating expenses  
(2021/22-2023/24)



# Securities and Futures Commission

## Independent auditor's report To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Opinion

#### *What we have audited*

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group), which are set out on pages 148 to 179, comprise:

- the consolidated statement of financial position as at 31 March 2024;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in our audit are summarised as follows:

- Valuation of investments
- Acquisition of property

#### *Valuation of investments*

The aggregate carrying value of the Group's investment portfolio was HK\$4,089 million, which represented 41% of consolidated total assets as at 31 March 2024.

The investment portfolio comprise of i) pooled funds (equity instruments) with a total value of HK\$1,088 million which is carried at fair value through profit or loss and ii) debt investments with a total value of HK\$3,001 million which were accounted for at amortised cost.

The Group's investments are categorised as Level 1 and Level 2 in the fair value hierarchy based on prices quoted in active markets or valued based on market observable inputs.

We identified valuation of investments as a key audit matter because of the size of these items in the consolidated financial statements, the impact of changes in valuation on the profit and loss and the management judgments and assumptions used in assessing expected credit losses (ECL) associated with the financial instruments carried at amortised cost.

## Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Key audit matters (continued)

#### *How our audit addressed the key audit matter*

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis.
- We assessed the appropriateness of the ECL methodologies and assumptions associated with the financial instruments carried at amortised cost.

Based on the procedures we performed, we found that the valuation of investments to be supported by available evidence and the models, key parameters, judgments and assumptions adopted by management were considered acceptable. We found that management's estimates and judgments made in determining the ECL for financial instruments carried at amortised cost to be acceptable.

Notes 3(i), 10, 11 and 24(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, a detailed breakdown of these investments and the respective fair value hierarchy disclosures.

#### *Acquisition of property*

The Group acquired the office floors in the premises previously rented (the "property") during the year and the carrying amount of fixed assets has increased significantly from HK\$0.2 billion as at 31 March 2023 to HK\$4.4 billion as at 31 March 2024, representing 45% of consolidated total assets. The property was stated at historical cost less accumulated depreciation and any impairment losses.

We identified the acquisition of property as a key audit matter because the property acquisition is the most significant transaction that occurred during the year and the property acquired is the most significant asset of the Group.

#### *How our audit addressed the key audit matter*

The audit procedures we performed in connection with the acquisition of property included:

- Assessed the accounting policies of fixed assets and depreciation with reference to the requirement of the prevailing accounting standards.
- Inspected the relevant supporting documents approving the acquisition of the property.
- Agreed the purchase consideration of the property to the signed agreements of the transaction.
- Performed physical inspection and land search to verify the existence and ownership of the property.
- Assessed the adequacy and appropriateness of the financial statement disclosures with reference to the requirement of the prevailing accounting standards.

Based on the procedures we performed, we found that the acquisition of property to be supported by sufficient evidence.

Notes 3(h), 12 and 18 to the consolidated financial statements sets out the Group's accounting policies relating to this matter and the relevant disclosures.

### Other information

The directors of the SFC (the directors) are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

#### Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



## Independent auditor's report (continued) To the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

### Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Amy Y.K. Yeung.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 23 May 2024

## Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Income</b>			
Levies	2(a)	1,390,183	1,725,174
Fees and charges	2(b)	113,788	106,185
Net Investment income			
Investment income	5	234,755	100,841
Less: custody and advisory expenses		(10,508)	(10,394)
Recoveries from the Investor Compensation Fund		6,061	6,238
Exchange (loss)/gain		(16,633)	12,708
Other income	6	117,017	1,759
		<b>1,834,663</b>	<b>1,942,511</b>
<b>Expenses</b>			
Staff costs and directors' emoluments	7	1,600,573	1,522,663
Depreciation			
Fixed assets	12	129,120	108,457
Right-of-use assets	13	108,925	146,178
Other premises expenses		36,914	35,677
Finance costs	8	31,711	6,708
Other expenses	9	225,176	223,718
		<b>2,132,419</b>	<b>2,043,401</b>
<b>Deficit and total comprehensive income for the year</b>		<b>(297,756)</b>	<b>(100,890)</b>

The notes on pages 154 to 179 form part of these consolidated financial statements.

## Consolidated statement of financial position

As at 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Non-current assets</b>			
Fixed assets	12	4,410,812	216,366
Right-of-use assets	13	21,477	700,776
Deposits and prepayments		335,414	37,609
Financial assets at amortised cost – debt securities	10	2,102,479	2,903,608
		<b>6,870,182</b>	<b>3,858,359</b>
<b>Current assets</b>			
Financial assets at amortised cost – debt securities	10	898,557	381,528
Financial assets at fair value through profit or loss			
Debt securities	11	–	403,649
Pooled funds	11	1,087,666	1,045,571
Debtors, deposits and prepayments	16	196,080	283,492
Fixed deposits with banks	14	610,147	2,845,253
Cash held for Grant Scheme	15	58,656	124,205
Cash at bank and in hand	14	146,154	66,647
		<b>2,997,260</b>	<b>5,150,345</b>
<b>Current liabilities</b>			
Fees received in advance		8,497	8,378
Creditors and accrued charges	17	199,132	274,732
Bank loan	18	18,262	–
Lease liabilities	13	9,212	141,385
Provisions for reinstatement cost	19	574	873
		<b>235,677</b>	<b>425,368</b>
<b>Net current assets</b>		<b>2,761,583</b>	<b>4,724,977</b>
<b>Total assets less current liabilities</b>		<b>9,631,765</b>	<b>8,583,336</b>

## Consolidated statement of financial position (continued)

As at 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Non-current liabilities</b>			
Bank loan	18	2,001,319	–
Lease liabilities	13	12,879	581,156
Provisions for reinstatement cost	19	1,190	88,047
		<b>2,015,388</b>	669,203
<b>Net assets</b>			
		<b>7,616,377</b>	7,914,133
<b>Funding and reserves</b>			
Initial funding by Government	20	42,840	42,840
Reserve for property acquisition	26	1,186,800	3,375,000
Accumulated surplus		6,386,737	4,496,293
		<b>7,616,377</b>	7,914,133

Approved and authorised for issue by the Securities and Futures Commission on 23 May 2024 and signed on its behalf by

**Tim Lui**  
Chairman

**Julia Leung**  
Chief Executive Officer

The notes on pages 154 to 179 form part of these consolidated financial statements.

## Consolidated statement of changes in equity

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2022	42,840	3,250,000	4,722,183	8,015,023
Deficit and total comprehensive income for the year	–	–	(100,890)	(100,890)
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
<b>Balance at 31 March 2023 and 1 April 2023</b>	<b>42,840</b>	<b>3,375,000</b>	<b>4,496,293</b>	<b>7,914,133</b>
Deficit and total comprehensive income for the year	–	–	(297,756)	(297,756)
Transfer to accumulated surplus	–	(2,313,200)	2,313,200	–
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
<b>Balance at 31 March 2024</b>	<b>42,840</b>	<b>1,186,800</b>	<b>6,386,737</b>	<b>7,616,377</b>

The notes on pages 154 to 179 form part of these consolidated financial statements.



## Consolidated statement of cash flows

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

Note	2024 \$'000	2023 \$'000
<b>Cash flows from operating activities</b>		
Deficit for the year	(297,756)	(100,890)
Adjustments for:		
Depreciation – Fixed assets	129,120	108,457
Depreciation – Right-of-use assets	108,925	146,178
Finance costs	31,711	6,708
Interest income on deposits for leases	(211)	(289)
Investment income	(234,755)	(100,841)
Exchange loss/(gain)	14,405	(12,885)
Loss on disposal of fixed assets	32	4
Gain arising from lease termination	(112,220)	–
	(360,749)	46,442
Increase in right-of-use assets	(7)	(4)
(Increase)/decrease in debtors, deposits and prepayments	(254,664)	71,911
Decrease/(increase) in cash held for Grant Scheme	65,549	(54,909)
Increase in fees received in advance	119	689
(Decrease)/increase in creditors and accrued charges	(80,756)	41,438
Net cash (used in)/generated from operating activities	(630,508)	105,567
<b>Cash flows from investing activities</b>		
Decrease/(increase) in fixed deposits other than cash and cash equivalents	2,478,344	(302,860)
Interest received	254,316	137,067
Debt securities at fair value through profit or loss purchased	(72,193)	(251,749)
Debt securities at fair value through profit or loss sold or redeemed	466,030	237,846
Pooled funds purchased	–	(195,123)
Pooled funds sold	6,091	4,977
Debt securities at amortised cost purchased	(1,016,572)	(300,223)
Debt securities at amortised cost redeemed at maturity	1,274,696	189,259
Fixed assets purchased	(4,321,316)	(63,896)
Proceeds from fixed assets disposal	–	9
Net cash used in investing activities	(930,604)	(544,693)

## Consolidated statement of cash flows (continued)

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(106,282)	(119,416)
Interest element of lease payments		(4,492)	(6,708)
Proceeds from bank loan		2,019,014	–
Interest expense on bank loan		(23,778)	–
Net cash generated from/(used in) financing activities		1,884,462	(126,124)
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		407,901	973,151
<b>Cash and cash equivalents at the end of the year</b>	14	<b>731,251</b>	407,901

### Analysis of the balance of cash and cash equivalents

	2024 \$'000	2023 \$'000
Fixed deposits with banks	585,097	341,254
Cash at bank and in hand	146,154	66,647
	<b>731,251</b>	407,901

The notes on pages 154 to 179 form part of these consolidated financial statements.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

### 2. Income

Details of the SFC's funding are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the exchanges at rates specified by the Chief Executive in Council.
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

### 3. Material accounting policies

#### (a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Material accounting policies adopted by the SFC and its subsidiaries (together, the Group or we) are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

#### Amendments to HKFRSs that are first effective in the current accounting period and adopted by the Group

Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described in note 3(q), none of these amendments have a material effect on how the Group's results and financial position for the current or prior periods are prepared and presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (b) Basis of preparation

We have prepared these consolidated financial statements using the historical cost as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(i)). The accounting policies have been applied consistently by the group entities.

We prepare the consolidated financial statements in conformity with HKFRSs which require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The classification of debt securities requires judgment. In making this judgment, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgment to select the appropriate method for fair value measurement (see note 3(i)).

#### (c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

Inter-company transactions and balances between group companies are eliminated.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

#### (d) Recognition of income

We recognise income in the consolidated statement of profit or loss and other comprehensive income when or as it satisfies a performance obligation by transferring promised services to the customers in an amount to which the Group expects to be entitled in exchange for these services. We record our income as follows:

- (i) *Levies*  
We recognise levies from SEHK and HKFE as income on a trade date basis.
- (ii) *Fees and charges*  
We recognise annual fees as income on a straight-line basis over the periods to which they relate as the services are performed over time. We record other fees and charges as income when the performance obligation is satisfied. We record other fees and charges received in advance as a liability.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (d) Recognition of income (continued)

For interest income, we record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities measured at amortised cost; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

For net gain/loss on financial assets at fair value through profit or loss, the change in fair value or disposal of financial assets are recognised in profit or loss as they arise.

#### (e) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

#### (f) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates prevailing at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the closing rate at the end of the reporting period. We recognise exchange gains and losses on translation in the consolidated statement of profit or loss and other comprehensive income.

#### (g) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.



## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (h) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the consolidated statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

Leasehold land and buildings	50 years
Leasehold improvements	5 years or, if shorter, the life of the respective leases
Furniture and fixtures	5 years
Office equipment	5 years
Computer application systems	4 years
Motor vehicles	4 years
Personal computers and software	3 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the consolidated statement of profit or loss and other comprehensive income on the date of retirement or disposal.

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### (i) Financial assets

##### (i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses are recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (i) Financial assets (continued)

##### (iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Investments in debt securities and pooled funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

##### Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets are included in investment income using the effective interest method. Any gain or loss arising from derecognition is recognised directly in the consolidated statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss and other comprehensive income.

##### FVPL:

Changes in fair value of investments in debt securities and pooled funds that are subsequently measured at FVPL are recognised in the consolidated statement of profit or loss and other comprehensive income and presented net within investment income/loss in the period in which they arise.

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. The fair value is determined based on the Group's share of the net assets of the pooled funds as determined by the custodian.

##### (iv) Impairment

We assess on a forward-looking basis the expected credit losses (ECL) associated with our financial instruments carried at amortised cost. We perform impairment assessments using the 12-month ECL, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (j) Related parties

For the purpose of these consolidated financial statements, we consider that the following are related parties of the Group:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region (the Government) under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 *Related Party Disclosures*.

#### (k) Debtors, deposits and other receivables

Debtors, deposits and other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method less impairment losses (see note 3(i)(iv)).

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### (m) Creditors and accrued charges

Creditors and accrued charges are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### (n) Bank loan

We state bank loan initially at fair value, net of transaction costs incurred, and thereafter at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

#### (o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the consolidated statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

#### (p) Provisions and contingent liabilities

We recognise a provision in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (q) Recent developments in HKFRSs

*Interest Rate Benchmark Reform — Phase 2 — amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16*

The Group has certain debt securities at amortised cost that are referenced to the 3-month USD London Interbank Offered Rate (LIBOR). The 3-month USD LIBOR continues to be published under a synthetic methodology. These exposures will remain outstanding until the synthetic USD LIBOR ceases and will therefore transit in the future. The Group has assessed the impact and there was no significant effect on the consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate.

As at 31 March 2024, the carrying amounts of debt securities at amortised cost that are referenced to a synthetic USD LIBOR and have yet to be transitioned to an alternate benchmark was \$32,892,000 (2023: \$116,105,000). The total notional contract amount was \$32,871,000 (2023: \$115,967,000).

### 4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

### 5. Investment income

	2024 \$'000	2023 \$'000
Interest income from bank deposits	105,067	76,051
Interest income from debt securities at amortised cost	84,824	71,412
Net gain/(loss) on financial assets at FVPL – pooled funds	51,315	(39,969)
Net loss on financial assets at FVPL – debt securities	(6,451)	(6,653)
	<b>234,755</b>	<b>100,841</b>



## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 6. Other income

	2024 \$'000	2023 \$'000
Gain arising from lease termination (Note 13c)	112,220	–
Investigation costs awarded	4,488	1,381
Sale of SFC publications	29	73
Others	280	305
	<b>117,017</b>	<b>1,759</b>

### 7. Staff costs and directors' emoluments

	2024 \$'000	2023 \$'000
Salaries and allowances	1,443,568	1,380,752
Retirement scheme contributions	97,165	90,050
Medical and life insurance	47,846	45,107
Staff functions	3,092	1,072
Recruitment	6,719	3,870
Registration and membership fees	2,183	1,812
	<b>1,600,573</b>	<b>1,522,663</b>

The total number of staff as at 31 March 2024 was 985 (958 for the SFC, 24 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2023: the total number of staff was 959, comprising 933 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (continued)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions <sup>1</sup> \$'000	2024 Total \$'000	2023 Total \$'000
<b>Chief Executive Officer<sup>2</sup></b>						
Ashley Alder, SBS, JP (retired 31 December 2022)	–	–	–	–	–	5,935
Julia Leung Fung-ye, SBS, JP (appointed 1 January 2023 <sup>3</sup> )	–	6,504	1,748	647	8,899	8,710
<b>Executive Directors<sup>2</sup></b>						
Thomas Atkinson (retired 2 May 2022)	–	–	–	–	–	530
Lisa Chen Ping (appointed 22 May 2023)	–	3,355	785	335	4,475	–
Christina Choi Fung-ye	–	4,661	1,217	466	6,344	6,184
Michael Duignan (appointed 1 November 2022)	–	4,446	1,040	445	5,931	2,494
Rico Leung Chung-yin	–	4,574	1,235	457	6,266	6,068
Christopher Wilson (appointed 1 November 2022)	–	4,549	900	455	5,904	2,533
	–	28,089	6,925	2,805	37,819	32,454
<b>Non-executive Chairman</b>						
Tim Lui Tim-leung, GBS, JP	1,255	–	–	–	1,255	1,255
<b>Non-executive Directors</b>						
Agnes Chan Sui-kuen, BBS	314	–	–	–	314	314
Edward Cheng Wai-sun, GBS, JP (retired 31 December 2022)	–	–	–	–	–	235
Chew Fook-aun (appointed 1 January 2023)	314	–	–	–	314	79
Victor Dawes, SC	314	–	–	–	314	314
Johnson Kong	314	–	–	–	314	314
Dr James C Lin	314	–	–	–	314	314
Nicky Lo Kar-chun, SBS, JP	314	–	–	–	314	314
Michael Wong Yick-kam, SBS, MH, JP	314	–	–	–	314	314
Dieter Yih, JP	314	–	–	–	314	314
	3,767	–	–	–	3,767	3,767
<b>Total directors' emoluments</b>	<b>3,767</b>	<b>28,089</b>	<b>6,925</b>	<b>2,805</b>	<b>41,586</b>	<b>36,221</b>

<sup>1</sup> This represents net contribution expenses accrued during the year ended 31 March 2024 in accordance with the accounting policy set out in note 3(e). The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2024 was \$2,253,000 (as at 31 March 2023: \$2,078,000).

<sup>2</sup> Directors' emoluments to Chief Executive Officer and Executive Directors are for services in connection with the management of the affairs of the SFC.

<sup>3</sup> Ms Julia Leung was appointed as Chief Executive Officer (CEO), effective 1 January 2023. Prior to the CEO appointment, she acted as an Executive Director (ED). For the year ended 31 March 2023, the total emoluments represented her appointment as a CEO and an ED.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (continued)

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$34,156,000 (2023: \$32,894,000) with the breakdown as follows:

	2024 \$'000	2023 \$'000
Salaries and allowances	25,005	24,540
Discretionary pay	6,657	5,990
Retirement scheme contributions	2,494	2,364
	<b>34,156</b>	<b>32,894</b>

Their emoluments are within the following bands:

	2024 No. of individuals	2023 No. of individuals
\$5,500,001 to \$6,000,000	0	2
\$6,000,001 to \$6,500,000	4	2
\$8,500,001 to \$9,000,000	1	1

### Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

#### (a) ORSO Scheme

##### (i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2023: nil).

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 7. Staff costs and directors' emoluments (continued)

#### Employee benefits (continued)

##### (a) ORSO Scheme (continued)

###### (ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$2,971,000 (2023: \$6,306,000) and the amount so forfeited available at the end of the reporting period was \$10,000 (2023: \$238,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

##### (b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

### 8. Finance costs

	2024 \$'000	2023 \$'000
Interest expense on bank loan and related charges	27,219	–
Interest expense on lease liabilities (Note 13b)	4,492	6,708
	<b>31,711</b>	<b>6,708</b>

### 9. Other expenses

	2024 \$'000	2023 \$'000
Information and systems services	103,803	93,486
Legal and professional services and others	54,836	68,183
Investor and other education programme costs to the Investor and Financial Education Council	28,163	36,604
Overseas travelling, regulatory meeting expenses and others	16,318	5,484
General office and insurance	11,946	11,523
Learning and development	8,165	6,667
Auditor's remuneration	1,070	986
Funding for the International Financial Reporting Standards Foundation	843	781
Loss on disposal of fixed assets	32	4
	<b>225,176</b>	<b>223,718</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 10. Financial assets at amortised cost – debt securities

	2024 \$'000	2023 \$'000
(a) Amortised cost		
Listed – outside Hong Kong	1,655,213	1,782,349
Listed – in Hong Kong	1,334,881	1,439,399
Unlisted	10,942	63,388
	<b>3,001,036</b>	3,285,136
(b) Fair value		
Listed – outside Hong Kong	1,588,242	1,684,588
Listed – in Hong Kong	1,230,565	1,320,107
Unlisted	10,944	62,201
	<b>2,829,751</b>	3,066,896
(c) Maturity profile		
Within one year	898,557	381,528
After one year but within two years	595,137	808,991
After two years but within five years	930,894	1,300,075
After five years	576,448	794,542
	<b>3,001,036</b>	3,285,136

As at 31 March 2024, the weighted average yield to maturity of the debt securities was 5.3% p.a. (2023: 4.9% p.a.).



## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 11. Financial assets at fair value through profit or loss

	2024 \$'000	2023 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	–	317,906
Listed – in Hong Kong	–	7,735
Unlisted	–	78,008
	–	403,649
(ii) Maturity profile		
Within one year	–	28,757
After one year but within two years	–	58,584
After two years but within five years	–	162,470
After five years	–	153,838
	–	403,649
	2024 \$'000	2023 \$'000
(b) Pooled funds – unlisted	1,087,666	1,045,571

The pooled funds comprised of listed equity securities as well as cash and other receivables to be used for re-investment purposes.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 12. Fixed assets

	Leasehold land and buildings (Note) \$'000	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>							
At 1 April 2023	–	192,321	22,400	449,490	200,050	3,611	867,872
Additions	4,258,265	2,736	683	48,903	13,011	–	4,323,598
Disposals	–	(645)	(165)	–	(1,390)	–	(2,200)
At 31 March 2024	4,258,265	194,412	22,918	498,393	211,671	3,611	5,189,270
<b>Accumulated depreciation</b>							
At 1 April 2023	–	109,010	13,107	343,554	183,574	2,261	651,506
Charge for the year	28,388	37,864	4,068	45,481	12,697	622	129,120
Written back on disposals	–	(635)	(143)	–	(1,390)	–	(2,168)
At 31 March 2024	28,388	146,239	17,032	389,035	194,881	2,883	778,458
<b>Net book value</b>							
At 31 March 2024	4,229,877	48,173	5,886	109,358	16,790	728	4,410,812
<b>Cost</b>							
At 1 April 2022	–	191,845	22,419	395,816	195,474	3,225	808,779
Additions	–	658	209	53,674	6,064	996	61,601
Disposals	–	(182)	(228)	–	(1,488)	(610)	(2,508)
At 31 March 2023	–	192,321	22,400	449,490	200,050	3,611	867,872
<b>Accumulated depreciation</b>							
At 1 April 2022	–	71,469	9,325	296,779	165,680	2,291	545,544
Charge for the year	–	37,723	3,997	46,775	19,382	580	108,457
Written back on disposals	–	(182)	(215)	–	(1,488)	(610)	(2,495)
At 31 March 2023	–	109,010	13,107	343,554	183,574	2,261	651,506
<b>Net book value</b>							
At 31 March 2023	–	83,311	9,293	105,936	16,476	1,350	216,366

Note:

On 17 November 2023, a Sales and Purchase agreement was entered into between the SFC and its landlord with a consideration of \$5.4 billion to acquire 12 office floors in the premises previously rented. Transaction of the nine office floors that we previously occupied was completed in December 2023 while acquisition of the three additional floors will be completed by 2028, with a down payment of \$334,438,000 included in deposits and prepayments. See note 21 for capital commitment.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 13. Leases

As at 31 March 2024 and 2023, the Group had right-of-use assets and lease liabilities as follows:

	2024 \$'000	2023 \$'000
Right-of-use assets		
Premises	20,407	698,829
Office equipment	1,070	1,947
	<b>21,477</b>	700,776
Lease liabilities		
Current	9,212	141,385
Non-current	12,879	581,156
	<b>22,091</b>	722,541

- (a) During the year, the Group recognised additional right-of-use assets of \$8,883,000 (2023: nil) under new or renewed lease agreements for premises.
- (b) For the year ended 31 March 2024, the Group recognised depreciation expense for the right-of-use assets for premises of \$108,047,000 (2023: \$145,300,000) and office equipment of \$878,000 (2023: \$878,000). The interest expense on lease liabilities was \$4,492,000 (2023: \$6,708,000). The total cash outflow for leases during the year was \$110,774,000 (2023: \$126,124,000).
- (c) As a result of the property acquisition, lease of the existing office spaces has been terminated. The respective right-of-use assets, the provisions set aside for reinstatement costs and the lease provision recognised at the start of the original lease term according to HKFRS16, *Leases*, were reversed and resulted in a one-off expense write back of \$112,220,000 for the year.

### 14. Bank deposits and cash at bank

As at 31 March 2024, the effective interest rate on bank deposits ranged from 4.17% p.a. to 4.7% p.a. (2023: 1.8% p.a. to 5.2% p.a.). These balances mature within one year as at both 31 March 2024 and 2023.

#### Reconciliation to cash and cash equivalents:

	2024 \$'000	2023 \$'000
Cash at bank and in hand	146,154	66,647
Fixed deposits with banks	610,147	2,845,253
Amounts shown in the consolidated statement of financial position	<b>756,301</b>	2,911,900
Less: Amounts with an original maturity beyond three months	(25,050)	(2,503,999)
Cash and cash equivalents in the consolidated statement of cash flows	<b>731,251</b>	407,901

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 15. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in creditors and accrued charges.

Subsequent to the year end, the Group has received \$41,900,000 from the Government for the Grant Scheme.

### 16. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$154,761,000 of receivables (2023: \$243,796,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2024 and 2023.

### 17. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2024 and 2023.

### 18. Bank loan

	2024 \$'000	2023 \$'000
Bank loan – secured		
Current	18,262	–
Non-current	2,001,319	–
	<b>2,019,581</b>	–

To finance the property acquisition transaction, the Group has obtained a 5-year term loan of \$2,029,160,000 on 21 December 2023. The term loan carries a fixed interest rate of 4.7% per annum for the first two years and subsequently carries a floating interest rate of 1-month HIBOR plus 0.55% per annum. The term loan is secured by the Group's land and buildings.

The carrying amount is considered to be the same as its fair value as the interest payable on the bank loan is at current market rate.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 19. Provisions for reinstatement cost

Provisions represent reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

### 20. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

### 21. Capital commitment

As at 31 March 2024 and 2023, the Group had capital commitments contracted for but not yet incurred as follows:

	2024 \$'000	2023 \$'000
Land and buildings	1,073,345	–
Other fixed assets	50,883	53,004
	<b>1,124,228</b>	53,004

### 22. Consolidation

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 March 2024, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2023: \$0.2). The balance is too small to present on the statement of financial position of the SFC which is expressed in thousands of dollars.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 23. Related party transactions

We have related party relationships with the Investor Compensation Fund (ICF) and the Unified Exchange Compensation Fund (UECF). In addition to the related party relationships disclosed in note 25, we have the following related party transactions and balances.

#### (a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$6,061,000 was recovered from the ICF for the ICC's expenses (2023: \$6,238,000). As at 31 March 2024, ICC had an amount due to the ICF of \$148,000 (2023: amount due from the ICF of \$208,000).

#### (b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

#### (c) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services were nil (2023: \$88,000) for the year under normal commercial terms and conditions.

### 24. Financial risk management and fair value

Financial instruments of the Group mainly comprise debt securities and units in pooled funds. The underlying investments of the pooled funds comprised of listed equity securities and cash and other receivables to be used for re-investment purposes.

The main financial risks of the Group arise from its investments in debt securities and units in pooled funds. The Group appoints external investment managers to manage the Group's investments and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The external investment managers report thereon to the Group on a regular basis.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

As at 31 March 2024 and 2023, the Group invested in debt securities rated A or above and bank balances are placed with licensed banks in Hong Kong rated P-1 by Moody's or A-1 or above by Standard and Poor's. Investment in pooled funds up to 25% (2023: 15%) of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country outside the Mainland and Hong Kong, except for the holdings of US Treasuries.

During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group performed impairment assessment using the 12-month ECL as there is no financial assets with significant increase in credit risk.



## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 24. Financial risk management and fair value (continued)

#### (b) Interest rate risk

The Group's interest bearing assets mainly comprise debt securities, fixed deposits with banks and bank balances and interest bearing liabilities mainly comprise bank loan. As majority of these financial assets and liabilities bears fixed interest rates, the Group is exposed to limited cash flow interest rate risk.

The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). As at 31 March 2024, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$15,087,000 (2023: \$32,268,000). This sensitivity analysis is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2023.

During the year, the Group has disposed all of its debt securities at FVPL. In prior year, the Group is subject to fair value interest rate risk in relation to debt securities at FVPL. Changes in interest rates may have an impact on the price of debt securities. As at 31 March 2023, the average duration of the Group's debt securities at FVPL was 3.72 years. It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gain on revaluation and the accumulated surplus by approximately \$15,018,000.

The Group manages interest rate risk of its debt securities by imposing different levels of concentration and maturity limits to the investments.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 24. Financial risk management and fair value (continued)

#### (c) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. See note 26 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for bank loan and lease liabilities. As at 31 March 2024 and 2023, the contractual undiscounted cash flows for financial liabilities were as follows:

	Contractual undiscounted cash flows				
	Carrying amount \$'000	Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000
<u>2024</u>					
Creditors and accrued charges	199,132	199,132	199,132	–	–
Bank loan	2,019,581	2,029,160	20,292	20,089	1,988,779
Lease liabilities	22,091	22,562	9,488	6,300	6,774
	<b>2,240,804</b>	<b>2,250,854</b>	<b>228,912</b>	<b>26,389</b>	<b>1,995,553</b>
<u>2023</u>					
Creditors and accrued charges	274,732	274,732	274,732	–	–
Lease liabilities	722,541	738,913	147,091	144,870	446,952
	<b>997,273</b>	<b>1,013,645</b>	<b>421,823</b>	<b>144,870</b>	<b>446,952</b>

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 24. Financial risk management and fair value (continued)

#### (d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 15% (2023: 5%) of the investment portfolio. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2024 and 2023, the exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.

As at 31 March 2024, the Group had USD denominated financial assets of \$4,194,405,000 (2023: \$5,060,270,000) and the USD/HKD exchange rate was 7.82645 (2023: 7.84995). Holding all other variables constant, movement in USD/HKD exchange rate to the upper bound of the Convertibility Zone would increase the Group's surplus and accumulated surplus by approximately \$12,621,000 (2023: \$32,000); while movement in USD/HKD exchange rate to the lower bound of the Convertibility Zone would decrease the Group's surplus and accumulated surplus by approximately \$40,972,000 (2023: \$64,430,000).

#### (e) Market risk

The Group's investment activities also expose to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt securities and pooled funds. Such risks will be reflected in the price and the carrying value of the financial assets concerned.

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 25% (2023: 15%) of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. The Group invests in units of pooled funds, which comprised of listed equity securities and cash and other receivables to be used for re-investment purposes, the performance of which is measured against the results of benchmark indices, MSCI AC Asia ex Japan (Net Return) and MSCI AC World (Net Return), including their returns and volatilities. Based on the weighted average volatilities of these benchmark indices in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 15.9% (2023: 20.5%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$175,546,000 (2023: \$223,667,000).

The sensitivity analysis above indicates the instantaneous change in the Group's accumulated surplus that would arise assuming that the changes in the benchmark indices had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair value of the Group's investment in pooled funds would change in accordance with the historical correlation with the relevant benchmark indices since the portfolio is diversified in terms of industry distribution and that all other variables remain constant.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 24. Financial risk management and fair value (continued)

#### (f) Fair value measurement

##### (i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs (unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date).
- Level 2 valuations: Fair value measured using only Level 2 inputs (observable inputs which fail to meet Level 1, and not using significant unobservable inputs for which market data are not available).
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>2024</u>				
Pooled funds – unlisted	1,087,666	–	–	1,087,666
	1,087,666	–	–	1,087,666
<u>2023</u>				
Debt securities				
– Listed	–	325,641	–	325,641
– Unlisted	–	78,008	–	78,008
Pooled funds – unlisted	1,045,571	–	–	1,045,571
	1,045,571	403,649	–	1,449,220

The fair value of debt securities is based on evaluated prices at the end of the reporting period using current bid prices without any deduction for transaction costs.

The fair value of the investment in the pooled funds is determined based on the net asset values of the pooled funds which are publicly available in the active market. The underlying investments of the pooled funds comprised of listed equity securities and cash and other receivables to be used for re-investment purposes.

Changes in market conditions could materially affect fair value estimates. Any increase or decrease in the fair value of financial instruments would affect profit or loss in future years.

During both years, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 24. Financial risk management and fair value (continued)

#### (f) Fair value measurement (continued)

##### (ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2024 and 2023 except for the following financial instruments, for which their carrying amount, fair value and the level of fair value hierarchy were disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>2024</u>					
Financial assets at amortised cost					
– debt securities	3,001,036	2,829,751	–	2,829,751	–
<u>2023</u>					
Financial assets at amortised cost					
– debt securities	3,285,136	3,066,896	–	3,066,896	–

### 25. Sponsored unconsolidated structured entities

The SFC considers the ICF and the UECF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2024, the ICF's maximum liability in respect of claims received was \$5,593,000 (2023: \$5,824,000) and the net asset value was \$2.6 billion (2023: \$2.5 billion).

The SFC is also responsible for the administration and management of the UECF under respective provisions in the repealed Securities Ordinance. This fund provides compensation to investors who suffer a loss due to the default of an exchange participant of SEHK occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2024, the UECF's maximum liability in respect of claims received was \$10,161,000 (2023: \$10,261,000) and the net asset value was \$88,098,000 (2023: \$85,839,000). Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2023: nil). The related party relationships with these entities are disclosed in note 23.

## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 26. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 20, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has a reserve for future acquisition of office premises. As of 31 March 2024, \$1.187 billion is set aside to support the acquisition of three additional office floors and future principal bank loan repayments (2023: \$3.375 billion). The SFC's investment holdings and available cash balances will be used to support this reserve.

### 27. Statement of financial position of the SFC

	2024 \$'000	2023 \$'000
<b>Non-current assets</b>		
Investment in subsidiaries	–	–
Fixed assets	4,404,316	216,272
Right-of-use assets	20,278	700,735
Deposits and prepayments	335,185	37,609
Financial assets at amortised cost – debt securities	2,102,479	2,903,608
	<b>6,862,258</b>	<b>3,858,224</b>
<b>Current assets</b>		
Financial assets at amortised cost – debt securities	898,557	381,528
Financial assets at fair value through profit or loss		
Debt securities	–	403,649
Pooled funds	1,087,666	1,045,571
Debtors, deposits and prepayments	203,472	282,579
Fixed deposits with banks	610,147	2,845,253
Cash held for Grant Scheme	58,656	124,205
Cash at bank and in hand	129,264	60,265
	<b>2,987,762</b>	<b>5,143,050</b>



## Notes to the consolidated financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 27. Statement of financial position of the SFC (continued)

	2024 \$'000	2023 \$'000
<b>Current liabilities</b>		
Fees received in advance	8,497	8,378
Creditors and accrued charges	183,117	267,345
Bank loan	18,262	–
Lease liabilities	8,725	141,365
Provisions for reinstatement cost	574	873
	<b>219,175</b>	<b>417,961</b>
<b>Net current assets</b>	<b>2,768,587</b>	<b>4,725,089</b>
<b>Total assets less current liabilities</b>	<b>9,630,845</b>	<b>8,583,313</b>
<b>Non-current liabilities</b>		
Bank loan	2,001,319	–
Lease liabilities	12,276	581,133
Provisions for reinstatement cost	873	88,047
	<b>2,014,468</b>	<b>669,180</b>
<b>Net assets</b>	<b>7,616,377</b>	<b>7,914,133</b>
<b>Funding and reserves</b>		
Initial funding by Government	42,840	42,840
Reserve for property acquisition	1,186,800	3,375,000
Accumulated surplus	6,386,737	4,496,293
	<b>7,616,377</b>	<b>7,914,133</b>

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their report together with the audited financial statements for the year ended 31 March 2024.

### Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

### Financial statements

The financial performance of the Fund for the year ended 31 March 2024 and the financial position of the Fund as at that date are set out in the financial statements on pages 183 to 192.

### Members of the Committee

The members of the Committee during the year and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

Ms Kwok Hom Siu Sally

Mr Wan Chi Yiu, Andrew

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the year or at any time during the year.

### Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Committee

**Rico Leung**

Chairman

23 May 2024

## Independent auditor's report To the Securities and Futures Commission

### Opinion

#### *What we have audited*

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance, which are set out on pages 183 to 192, comprise:

- the statement of financial position as at 31 March 2024;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### Independent auditor's report (continued) To the Securities and Futures Commission

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 23 May 2024

## Statement of profit or loss and other comprehensive income

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Income</b>			
Interest income		124,165	65,264
Exchange (loss)/gain		(4,215)	3,304
		<b>119,950</b>	<b>68,568</b>
<b>Expenses</b>			
Investor Compensation Company Limited expenses	6	6,061	6,238
Auditor's remuneration		192	186
		<b>6,253</b>	<b>6,424</b>
<b>Surplus and total comprehensive income for the year</b>		<b>113,697</b>	<b>62,144</b>

The notes on pages 187 to 192 form part of these financial statements.

## Investor Compensation Fund

### Statement of financial position

As at 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Current assets</b>			
Interest receivable		55,366	47,392
Amount due from the Investor Compensation Company Limited		148	–
Fixed deposits with banks	7	2,584,342	2,472,685
Cash at bank	7	648	847
		<b>2,640,504</b>	<b>2,520,924</b>
<b>Current liabilities</b>			
Provision for compensation	8	3,394	3,394
Creditors and accrued charges		278	274
Amount due to the Investor Compensation Company Limited		–	208
		<b>3,672</b>	<b>3,876</b>
		<b>2,636,832</b>	<b>2,517,048</b>
<b>Net current assets</b>			
		<b>2,636,832</b>	<b>2,517,048</b>
<b>Net assets</b>			
		<b>2,636,832</b>	<b>2,517,048</b>
Representing:			
<b>Compensation fund</b>		<b>2,636,832</b>	<b>2,517,048</b>

Approved and authorised for issue by the Securities and Futures Commission on 23 May 2024 and signed on its behalf by

**Tim Lui**

Chairman of the SFC

**Julia Leung**

Chief Executive Officer of the SFC

The notes on pages 187 to 192 form part of these financial statements.



## Statement of changes in equity

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Contributions from the Unified Exchange Compensation Fund (note 9) \$'000	Contributions from the Commodity Exchange Compensation Fund (note 9) \$'000	Contributions from the Securities Dealers' Deposits Fund (note 9) \$'000	Contributions from the Commodities Dealers' Deposits Fund (note 9) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2022	994,718	108,923	–	–	1,351,263	2,454,904
Surplus and total comprehensive income for the year	–	–	–	–	62,144	62,144
Balance at 31 March 2023 and 1 April 2023	994,718	108,923	–	–	1,413,407	2,517,048
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund	–	–	5,470	617	–	6,087
Surplus and total comprehensive income for the year	–	–	–	–	113,697	113,697
Balance at 31 March 2024	994,718	108,923	5,470	617	1,527,104	2,636,832

The notes on pages 187 to 192 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the year		113,697	62,144
Adjustments for:			
Interest income		(124,165)	(65,264)
Exchange loss/(gain)		4,215	(3,304)
		(6,253)	(6,424)
Change in amount due from/to the Investor Compensation Company Limited		(356)	314
Increase in creditors and accrued charges		4	–
Net cash used in operating activities		(6,605)	(6,110)
<b>Cash flows from investing activities</b>			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		421,471	(300,430)
Interest received		116,149	19,617
Net cash generated from/(used in) investing activities		537,620	(280,813)
<b>Cash flows from financing activity</b>			
Contributions from the Securities Dealers' Deposits Fund and the Commodities Dealers' Deposits Fund		6,087	–
Net cash generated from financing activity		6,087	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>537,102</b>	<b>(286,923)</b>
Cash and cash equivalents at the beginning of the year		164,980	451,903
<b>Cash and cash equivalents at the end of the year</b>	7	<b>702,082</b>	164,980

### Analysis of the balance of cash and cash equivalents

	2024 \$'000	2023 \$'000
Fixed deposits with banks	701,434	164,133
Cash at bank	648	847
	<b>702,082</b>	164,980

The notes on pages 187 to 192 form part of these financial statements.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making a claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation — Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

### 2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds and the two dealers' deposit funds, namely the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006), the Securities Dealers' Deposits Fund (SDD) (wound up on 27 June 2023) and the Commodities Dealers' Deposits Fund (CDD) (wound up on 27 June 2023). Further details are set out in note 9.

Other sources of money for the Fund include the levies chargeable on securities traded on the Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 5), and returns earned on any investment of the Fund.

### 3. Material accounting policies

#### (a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Material accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (a) Statement of compliance (continued)

Amendments to HKFRSs that are first effective in the current accounting period and adopted by the Fund

Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

None of these amendments have a material effect on how the Fund's results and financial position for the current or prior periods are prepared or presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### (b) Basis of preparation

We have prepared these financial statements using the historical cost as the measurement basis.

We prepare the financial statements in conformity with HKFRSs which require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Recognition of income

##### (i) Interest income

We record interest income as it accrues using the effective interest method.

##### (ii) Recoveries

We recognise recoveries pursuant to Sections 87 and 243 of the SFO as income to the Fund. We record recoveries received when and only when we can be virtually certain that the recoveries will be received.

#### (d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates prevailing at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the closing rate at the end of the reporting period. We record exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

#### (e) Impairment of financial assets

We assess on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost. We perform impairment assessments using the 12-month ECL, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

#### (f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### (g) Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less impairment losses (see note 3(e)).

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (h) Provisions for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities and Futures (Investor Compensation — Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

As the Fund is continually updating information in respect of the claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect the profit and loss in future years.

#### (i) Creditors and accrued charges

Creditors and accrued charges are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### (j) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of the outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (k) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Fund:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (k) Related parties (continued)

- (b) An entity is related to the Fund if any of the following conditions applies:
- (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong profits tax under Section 14 of the Inland Revenue Ordinance.

### 5. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and reinstatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion.

Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2019 which came into effect on 1 January 2020, the Fund is entitled to a levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on HKFE and Stock Connect Securities. In addition, the trigger levels for levy suspension and reinstatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005. The changes in trigger levels do not affect the levy suspension in effect.



## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 6. Investor Compensation Company Limited expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2024, the ICC incurred costs of \$6,061,000 for its operations (2023: \$6,238,000).

### 7. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2024 ranged from 3.77% p.a. to 5.85% p.a. (2023: 2.19% p.a. to 5.49% p.a.). The deposit balances at both 31 March 2024 and 2023 mature within one year.

#### Reconciliation to cash and cash equivalents

	2024 \$'000	2023 \$'000
Cash at bank	648	847
Fixed deposits with banks	2,584,342	2,472,685
Amounts shown in the statement of financial position	2,584,990	2,473,532
Less: Amounts with an original maturity beyond three months	(1,882,908)	(2,308,552)
Cash and cash equivalents in the statement of cash flows	702,082	164,980

### 8. Provision for compensation

The provision of compensation as at 31 March 2024 was \$3,394,000, which was related to a number of claims received in respect of a default case which occurred on or before 31 December 2019 (2023: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision is expected to be paid within one year.

### 9. Contributions from compensation funds and dealers' deposit funds

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2024, the SFC had \$994,718,000 (2023: \$994,718,000) and \$108,923,000 (2023: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

Under Section 76 (11) of Schedule 10 of the SFO, the SFC shall pay into the Fund any remaining balance in the SDD and the CDD after repaying the dealers' deposits and any money due to the registered dealers. During the year ended 31 March 2024, the SFC had \$5,470,000 and \$617,000 paid into the Fund from the SDD and the CDD respectively.

The Fund defines "capital" as including contributions from the UECF, the CECF, the SDD and the CDD and the accumulated surplus.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 10. Related party transactions

The Fund has related party relationships with the SFC, the ICC, the UECF, the SDD and the CDD. The SDD and the CDD were wound up in June 2023. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2024 and 2023 (refer to notes 6 and 9).

### 11. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or reprice in the short term, as a result of which the Fund is exposed to limited interest rate risk. As at 31 March 2024, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$25,843,000 (2023: \$24,727,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

The Fund's credit risk is primarily attributable to amounts at bank. As at 31 March 2024 and 2023, the bank balances are placed with licensed banks in Hong Kong rated P-1 by Moody's or A-1 or above by Standard and Poor's. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities are due within one year or payable on demand.

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2024 and 2023, the Fund's exchange gain/loss was mainly driven by the revaluation of USD denominated financial assets.

As at 31 March 2024, the Fund had USD denominated financial assets of \$1,479,684,000 (2023: \$1,409,707,000) and the USD/HKD exchange rate was 7.82645 (2023: 7.84995). Holding all other variables constant, a movement in USD/HKD exchange rate to the upper bound of the Convertibility Zone would increase the Fund's surplus and accumulated surplus by approximately \$4,452,000 (2023: \$9,000); while a movement in USD/HKD exchange rate to the lower bound of the Convertibility Zone would decrease the Fund's surplus and accumulated surplus by approximately \$14,454,000 (2023: \$17,949,000).

### 12. Contingent liabilities

In addition to the provision for compensation made as described in note 8, there were 12 outstanding claims as at 31 March 2024 (2023: 14 outstanding claims). The maximum liability in respect of these claims in aggregate was \$2,199,000 (2023: \$2,430,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 3(h)) or the amount claimed.

# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their report together with the audited financial statements for the year ended 31 March 2024.

### Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 March 2024, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

### Financial statements

The financial performance of the Fund for the year ended 31 March 2024 and the financial position of the Fund as at that date are set out in the financial statements on pages 196 to 206.

### Members of the Committee

The members of the Committee during the year and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Ms Kwok Hom Siu Sally

Ms Lai Chun Mei Hilda (appointed on 1 July 2023)

Mr Yiu Ka Yan Wilfred (retired on 30 June 2023)

Dr Lin, James C.

Mr Wan Chi Yiu, Andrew

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the year or at any time during the year.

### Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Committee

**Rico Leung**

Chairman

14 May 2024

## Independent auditor's report To the Securities and Futures Commission

### Opinion

#### *What we have audited*

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance, which are set out on pages 196 to 206, comprise:

- the statement of financial position as at 31 March 2024;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAAs) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the material accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

### Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Independent auditor's report (continued) To the Securities and Futures Commission

### Responsibilities of directors of the SFC for the financial statements (continued)

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 14 May 2024

## Unified Exchange Compensation Fund

### Statement of profit or loss and other comprehensive income

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	2024 \$'000	2023 \$'000
<b>Income</b>		
Interest income	4,486	2,372
<b>Expenses</b>		
Recoveries re-distributed	40	22
Auditor's remuneration	87	86
	127	108
<b>Surplus and total comprehensive income for the year</b>	<b>4,359</b>	<b>2,264</b>

The notes on pages 200 to 206 form part of these financial statements.



## Statement of financial position

As at 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Current assets</b>			
Interest receivable		612	454
Fixed deposits with banks	6	99,009	96,869
Cash at bank	6	353	491
		<b>99,974</b>	97,814
<b>Current liabilities</b>			
Creditors and accrued charges	7	10,226	10,325
Relinquished trading rights payable to SEHK	8	1,650	1,650
		<b>11,876</b>	11,975
		<b>88,098</b>	85,839
<b>Net current assets</b>			
		<b>88,098</b>	85,839
<b>Net assets</b>			
		<b>88,098</b>	85,839
Representing:			
<b>Compensation fund</b>		<b>88,098</b>	85,839

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 14 May 2024 and signed on its behalf by

**Rico Leung**

Chairman

**Sally Kwok**

Committee Member

The notes on pages 200 to 206 form part of these financial statements.

## Unified Exchange Compensation Fund

### Statement of changes in equity

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to the ICF (note 12) \$'000	Total \$'000
Balance at 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725
Net contributions to SEHK	(2,150)	–	–	–	–	–	(2,150)
Surplus and total comprehensive income for the year	–	–	–	–	2,264	–	2,264
Balance at 31 March 2023 and 1 April 2023	52,150	353,787	630,000	6,502	38,118	(994,718)	85,839
Net contributions to SEHK	(2,100)	–	–	–	–	–	(2,100)
Surplus and total comprehensive income for the year	–	–	–	–	4,359	–	4,359
Balance at 31 March 2024	50,050	353,787	630,000	6,502	42,477	(994,718)	88,098

The notes on pages 200 to 206 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the year		4,359	2,264
Adjustment for:			
Interest income		(4,486)	(2,372)
		(127)	(108)
(Decrease)/increase in creditors and accrued charges		(99)	16
Decrease in relinquished trading rights payable to SEHK		–	(200)
Net cash used in operating activities		(226)	(292)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(9,024)	(1,612)
Interest received		4,328	1,952
Net cash (used in)/generated from investing activities		(4,696)	340
<b>Cash flows from financing activity</b>			
Net trading rights deposits refunded to SEHK		(2,100)	(2,150)
Net cash used in financing activity		(2,100)	(2,150)
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		69,384	71,486
<b>Cash and cash equivalents at the end of the year</b>	6	<b>62,362</b>	69,384

### Analysis of the balance of cash and cash equivalents

	2024 \$'000	2023 \$'000
Fixed deposits with banks	62,009	68,893
Cash at bank	353	491
	<b>62,362</b>	69,384

The notes on pages 200 to 206 form part of these financial statements.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The Unified Exchange Compensation Fund (the Fund) provides compensation to investors who suffer a loss due to the default of an exchange participant of the Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF.

Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

### 2. Money constituting the Fund

SEHK is required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make any such payment as the total of the compensation payments exceeded the deposits received from SEHK (2023: nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determined it would retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9; other contributions detailed in note 11; and replenishments from SEHK detailed in note 15.

The Fund defines "capital" as including all elements of the Fund, as disclosed in the statement of changes in equity less contributions from SEHK (trading rights deposits from SEHK detailed in note 8) and contributions to the ICF (note 12).

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies

#### (a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Material accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund.

#### Amendments to HKFRSs that are first effective in the current accounting period and adopted by the Fund

Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

None of these amendments have a material effect on how the Fund's results and financial position for the current or prior periods are prepared or presented.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### (b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (c) Recognition of income

##### (i) Interest income

We record interest income as it accrues using the effective interest method.

##### (ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

##### (iii) Replenishments from SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

#### (d) Impairment of financial assets

We assess on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost. We perform impairment assessments using the 12-month ECL, unless there has been a significant increase in credit risk by comparing the risk of a default as at the reporting date and the initial recognition date.

#### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### (f) Creditors and accrued charges

Creditors and accrued charges are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### (g) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of the outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.



## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 3. Material accounting policies (continued)

#### (h) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Fund:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 4. Equity securities received under subrogation

As at 31 March 2024, the equity securities received under subrogation amounted to \$15 (2023: \$30). The balances as at 31 March 2024 and 2023 are too small to present on the statement of financial position which is expressed in thousands of dollars.

### 5. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong profits tax under Section 14 of the Inland Revenue Ordinance.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2024 ranged from 4.00% p.a. to 4.80% p.a. (2023: 3.05% p.a. to 4.25% p.a.). The deposit balances at both 31 March 2024 and 2023 mature within one year.

#### Reconciliation to cash and cash equivalents

	2024 \$'000	2023 \$'000
Cash at bank	353	491
Fixed deposits with banks	99,009	96,869
Amounts shown in the statement of financial position	99,362	97,360
Less: Amounts with an original maturity beyond three months	(37,000)	(27,976)
Cash and cash equivalents in the statement of cash flows	62,362	69,384

### 7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than six months from the cheque issuing date and accrued auditor's remuneration. They are unsecured, non-interest bearing and due on demand or within one year.

### 8. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the year, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$2,300,000 in respect of 46 relinquished trading rights were refunded to SEHK. As at 31 March 2024, 33 trading rights totalling \$1,650,000 were relinquished but not yet refunded (2023: 33 trading rights totalling 1,650,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

	2024 \$'000	2023 \$'000
Balance at the beginning of the year	52,150	54,300
Add: new trading rights issued	200	350
Less: relinquished trading rights refunded	(2,300)	(2,700)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	–	200
Balance at the end of the year	50,050	52,150

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

### 10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years from 1998 to 2001. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

### 11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

### 12. Contributions to the ICF

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF from the Fund up to 31 March 2024 amounted to \$994,718,000 (2023: \$994,718,000), no further contributions have been made to the ICF since 1 April 2005.

### 13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2024 and 2023.

### 14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or reprice in the short term, as a result of which the Fund is exposed to limited interest rate risk. As at 31 March 2024, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$990,000 (2023: \$969,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. As at 31 March 2024 and 2023, the bank balances are placed with licensed banks in Hong Kong rated P-1 by Moody's or A-1 or above by Standard and Poor's. There are no amounts past due or impaired.

The Fund's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

## Notes to the financial statements

For the year ended 31 March 2024 (Expressed in Hong Kong dollars)

### 15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2024, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,798,000 to the Fund as follows:

	2024 \$'000	2023 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: recoveries received for compensation paid up to \$8 million	(29,986)	(29,986)
Add: recoveries re-distributed to claimants	16,407	16,407
Less: replenishments from SEHK	(16,361)	(16,361)
<b>Net amount the SFC may request SEHK for replenishment</b>	<b>70,798</b>	<b>70,798</b>

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need to request replenishment from SEHK in the near future.

# Operational Data

Table 1 Takeovers activities

	2023/24	2022/23	2021/22
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>			
General and partial offers under Code on Takeovers and Mergers	32	33	45
Privatisations	17	11	21
Whitewash waiver applications	21	22	22
Other applications under Code on Takeovers and Mergers <sup>1</sup>	240	231	291
Off-market and general offer share buy-backs	7	7	5
Other applications under Code on Share Buy-backs <sup>1</sup>	0	1	1
<b>Total</b>	<b>317</b>	<b>305</b>	<b>385</b>
<b>Executive Statements</b>			
Sanctions imposed with parties' agreement <sup>2</sup>	0	3	3
<b>Takeovers and Mergers Panel</b>			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	1	1
Hearings before the Panel (disciplinary and non-disciplinary)	0	2	0
Statements issued by the Panel <sup>3</sup>	0	2	0

<sup>1</sup> Including stand-alone applications and those made during the course of a code-related transaction.

<sup>2</sup> Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

<sup>3</sup> Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

**Table 2 Breaches noted during on-site inspections**

	2023/24	2022/23	2021/22
Failure to comply with Securities and Futures (Financial Resources) Rules	13	8	10
Failure to safekeep client securities	41	27	23
Failure to maintain proper books and records	16	20	20
Failure to safekeep client money	45	26	35
Unlicensed dealing and other registration issues	19	10	12
Breach of licensing conditions	1	6	0
Breach of requirements of contract notes/statements of account/receipts	43	46	53
Failure to make filing/notification	0	3	1
Breach of margin requirements	8	3	6
Marketing malpractices	0	0	3
Illegal short selling of securities	1	0	0
Dealing malpractices	0	0	3
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>1</sup>	332	243	265
Breach of Corporate Finance Adviser Code of Conduct	9	16	11
Breach of Fund Manager Code of Conduct	122	88	135
Breach of regulation of online trading	17	7	12
Non-compliance with anti-money laundering guidelines	269	214	301
Breach of other rules and regulations of the Exchanges <sup>2</sup>	7	2	9
Internal control weaknesses <sup>3</sup>	465	430	427
Others	84	81	90
<b>Total</b>	<b>1,492</b>	<b>1,230</b>	<b>1,416</b>

<sup>1</sup> Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

<sup>2</sup> The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

<sup>3</sup> Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.



Table 3 Hong Kong domiciled authorised funds

By type	As at 31.3.2024				As at 31.3.2023			
	Number		Total NAV (US\$ million)		Number		Total NAV (US\$ million)	
Bond	165	(21.6%)	25,928	(14.5%)	173	(22.7%)	26,396	(15.1%)
Equity	203	(26.5%)	44,854	(25.2%)	206	(27.1%)	50,530	(29.0%)
Mixed	111	(14.5%)	25,175	(14.1%)	112	(14.7%)	28,384	(16.3%)
Money market	67	(8.8%)	28,010	(15.7%)	49	(6.4%)	16,542	(9.5%)
Feeder funds <sup>1</sup>	50	(6.5%)	15	(0.0%)	48	(6.3%)	20	(0.0%)
Index <sup>2</sup>	165	(21.6%)	54,107	(30.3%)	169	(22.2%)	52,578	(30.1%)
Guaranteed	1	(0.1%)	30	(0.0%)	1	(0.1%)	34	(0.0%)
Other specialised <sup>3</sup>	3	(0.4%)	163	(0.1%)	3	(0.4%)	44	(0.0%)
Sub-total	765	(100.0%)	178,280 <sup>4</sup>	(100.0%) <sup>4</sup>	761	(100.0%) <sup>4</sup>	174,527 <sup>4</sup>	(100.0%)
Umbrella structures	161				152			
<b>Total</b>	<b>926</b>				<b>913</b>			

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

<sup>1</sup> The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the “Feeder funds” category to better reflect the total asset under management.

<sup>2</sup> Including exchange-traded funds and leveraged and inverse products.

<sup>3</sup> Including virtual asset futures exchange-traded funds.

<sup>4</sup> Figures may not add up to total due to rounding.

## Operational Data

**Table 4 Non-Hong Kong domiciled authorised funds**

a) By origin	As at 31.3.2024						As at 31.3.2023				
	Umbrella funds	Sub-funds	Single funds	Total		Total NAV (US\$ million)	Total		Total NAV (US\$ million)		
Luxembourg	56	1,009	1	1,066	(74.8%)	1,172,193	(74.3%)	1,063	(75.0%)	1,119,869	(74.9%)
Ireland	25	231	2	258	(18.1%)	248,008	(15.7%)	250	(17.6%)	222,462	(14.9%)
United Kingdom	2	6	18	26	(1.8%)	75,359	(4.8%)	29	(2.0%)	65,319	(4.4%)
Mainland China	1	1	44	46	(3.2%)	17,112	(1.1%)	49	(3.5%)	22,786	(1.5%)
Bermuda	0	0	1	1	(0.1%)	116	(0.0%)	1	(0.1%)	116	(0.0%)
Cayman Islands	3	16	4	23	(1.6%)	1,171	(0.1%)	20	(1.4%)	1,446	(0.1%)
Others	0	0	5	5	(0.4%)	63,680	(4.0%)	5	(0.4%)	63,634	(4.3%)
<b>Total</b>	<b>87</b>	<b>1,263</b>	<b>75</b>	<b>1,425</b>	<b>(100.0%)</b>	<b>1,577,641<sup>1</sup></b>	<b>(100.0%)</b>	<b>1,417</b>	<b>(100.0%)</b>	<b>1,495,633<sup>1</sup></b>	<b>(100.0%)<sup>1</sup></b>

<sup>1</sup> Figures may not add up to total due to rounding.

b) By type	As at 31.3.2024				As at 31.3.2023			
	Number		Total NAV (US\$ million)		Number		Total NAV (US\$ million)	
Bond	358	(26.8%)	453,231	(28.7%)	358	(26.9%)	432,041	(28.9%)
Equity	775	(57.9%)	823,726	(52.2%)	774	(58.2%)	791,354	(52.9%)
Mixed	163	(12.2%)	166,913	(10.6%)	155	(11.7%)	156,729	(10.5%)
Money market	12	(0.9%)	11,777	(0.7%)	12	(0.9%)	9,724	(0.7%)
Feeder funds <sup>1</sup>	3	(0.2%)	0	(0.0%)	3	(0.2%)	0	(0.0%)
Index <sup>2</sup>	26	(1.9%)	121,878	(7.7%)	26	(2.0%)	105,669	(7.1%)
Hedge	1	(0.1%)	116	(0.0%)	1	(0.1%)	116	(0.0%)
Sub-total	1,338	(100.0%)	1,577,641 <sup>3</sup>	(100.0%) <sup>3</sup>	1,329	(100.0%)	1,495,633	(100.0%) <sup>3</sup>
Umbrella structures	87				88			
<b>Total</b>	<b>1,425</b>				<b>1,417</b>			

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

<sup>1</sup> The NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total asset under management.

<sup>2</sup> Including exchange-traded funds.

<sup>3</sup> Figures may not add up to total due to rounding.

Table 5 Successful prosecutions

Defendant	Date of conviction	Fine/Penalty	Investigation costs awarded
<b>Insider dealing</b>			
WONG Pak Wai	26.10.2023	\$25,000 and 240-hour community service	\$38,277
<b>Short selling</b>			
YEUNG Tak Sum Christine	20.3.2024	18-month imprisonment	–

Note: Cases with fines below \$10,000 are not shown in this table.

Table 6 Other public disciplinary actions

Name	Date	Breach	Action
LO Wai Ming	16.9.2023	Failed to comply with the firm's internal procedures when placing clients' orders and to maintain proper records of clients' order instructions	Banned from re-entering the industry for seven months
WONG Yeung Andy	9.1.2024	Failed to discharge his duties as a Responsible Officer and a member of the senior management of City International Futures (Hong Kong) Limited	Suspended for 10 months

Table 7 Other enforcement activities

	2023/24	2022/23	2021/22
S179 <sup>1</sup> inquiries commenced	34	31	57
S181 <sup>2</sup> inquiries commenced (number of letters sent)	188 (4,627)	191 (5,851)	203 (7,308)
S182 <sup>3</sup> directions issued	182	130	214
Rule 8 directions <sup>4</sup> issued	2	0	0
Letter of mindedness <sup>4</sup> issued	2	0	0
Cases with search warrants executed	26	35	37
Compliance advice letters issued	144	113	162
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	1 (1)	0 (0)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	10	8	8
Individuals/corporations involved in ongoing MMT proceedings	3	2	2
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	3 (5)	1 (25)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	29	18	18
Individuals/corporations involved in ongoing MMT proceedings	22	1	0
(c) Others			
Individuals/corporations summonsed (summons laid)	3 (10)	10 (73)	4 (28)
Individuals/corporations involved in ongoing civil proceedings	166	154	142
Individuals/corporations involved in ongoing MMT proceedings	9	11	11
Individuals charged for suspected market misconduct and other offences for indictment prosecution <sup>5</sup>	17	14	0
Disciplinary enquiry			
Notices of Proposed Disciplinary Action <sup>6</sup> issued	26	26	37
Notices of Decision <sup>7</sup> issued (including S201 <sup>8</sup> agreement)	27	29	43
Securities and Futures Appeals Tribunal (SFAT) hearings			
Applications to SFAT	4	1	8
Applications/hearings completed/withdrawn/abandoned	2	9	2

<sup>1</sup> 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.

<sup>2</sup> Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

<sup>3</sup> Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

<sup>4</sup> A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A letter of mindedness is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, if the company failed to address the concerns raised by the SFC satisfactorily.

<sup>5</sup> Seventeen individuals were charged with various criminal offences including conspiracy to defraud, fraud, dealing with property known or believed to represent proceeds of indictable offence, illegal short selling and conspiracy to employ a scheme with intent to defraud or deceive in transactions involving securities under section 159A and 159C of the Crimes Ordinance, section 16A of Theft Ordinance, section 25 of the Organized and Serious Crimes Ordinance, and section 170(1) and 300 of the SFO.

<sup>6</sup> 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.

<sup>7</sup> A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

<sup>8</sup> Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

**Table 8 Statistical information and financial position of the Hong Kong securities industry<sup>1</sup>**

	As at 31.12.2023	As at 31.12.2022	As at 31.12.2021
Securities dealers and securities margin financiers	1,406	1,439	1,433
Active cash clients <sup>2</sup>	2,193,229	2,203,172	1,939,379
Active margin clients <sup>2</sup>	2,563,883	2,446,852	2,219,721
Active clients	4,757,112	4,650,024	4,159,100
<b>Balance sheet</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Cash in hand and at bank <sup>3</sup>	564,507	678,480	694,492
Amounts receivable from margin clients <sup>4</sup>	148,038	152,062	218,436
Amounts receivable from clients and other dealers arising from dealing in securities	183,166	179,132	211,398
Proprietary positions	69,444	70,834	148,661
Other assets	366,674	371,941	385,566
Total assets	1,331,829	1,452,449	1,658,553
Amounts payable to clients and other dealers arising from dealing in securities	624,749	697,055	770,952
Total borrowings from financial institutions	28,753	72,890	98,429
Short positions held for own account	2,571	7,183	16,718
Other liabilities	194,380	191,923	244,242
Total shareholders' funds	481,376	483,398	528,212
Total liabilities and shareholders' funds	1,331,829	1,452,449	1,658,553
	<b>12 months to 31.12.2023 (\$ million)</b>	<b>12 months to 31.12.2022 (\$ million)</b>	<b>12 months to 31.12.2021 (\$ million)</b>
<b>Profit and loss</b>			
Total value of transactions <sup>5</sup>	107,897,497	126,014,719	160,931,088
Net securities commission income	17,113	20,210	31,329
Gross interest income	39,987	23,044	19,394
Other income <sup>6</sup>	140,139	144,131	166,746
Total operating income	197,239	187,385	217,469
Total overheads and interest expense	172,046	170,730	173,978
Total operating profit	25,193	16,655	43,491
Net profit on proprietary trading	3,307	6,211	21,397
Net profit for the period	28,500	22,866	64,888

<sup>1</sup> Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing.

<sup>2</sup> Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

<sup>3</sup> Cash in hand and at bank include trust monies held on behalf of clients which totalled \$340,373 million (31.12.2022: \$399,988 million).

<sup>4</sup> As at 31.12.2023, the average collateral coverage was 4.1 times (as at 31.12.2022: 4.2 times). It represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis.

<sup>5</sup> The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

<sup>6</sup> Comprises asset management fee income, corporate finance income, inter-company management fee income and others.

# Committees, Panels and Tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see Corporate Governance on pages 99–114.

## SFC Committees

### Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

#### Chairman

LUI Tim Leung Tim, GBS, JP

#### Members

LEUNG Fung Yee Julia, SBS, JP (Ex-officio member)  
Prof CAI Hongbin (from 1.6.2023)  
Prof CHAN Ka Lok, MH (to 31.5.2023)  
CHAN Yuk Sing Freeman  
CHOI Fung Yee Christina (to 31.5.2023)  
DUIGNAN Michael (from 1.6.2023)  
Dr JIA Hongrui (from 1.6.2023)  
KUNG Yeung Ann Yun Chi, BBS, JP (to 31.5.2023)  
LEUNG Chung Yin Rico  
LI Tong

MEYER Phillip Michael (from 1.6.2023)  
NG Siu Mui Fion  
PUN Wing Nin Winnie (to 31.5.2023)  
Dr TAN Yue Heng, JP (to 31.5.2023)  
TSE Yung Hoi, BBS  
WONG Tsu Hing Harold, JP (from 1.6.2023)  
WONG Wai Man June  
YIEN Yu Yu Catherine (to 30.8.2023)  
YIM Lok Kui (to 31.5.2023)  
YIU Ka Yan Wilfred (from 1.6.2023)

**Number of meetings: 3**

**Average attendance rate: 84%**

### Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training (CPT), advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met once to consider a number of matters including updates on the licensing examination and training plan for virtual asset-related activities, Type 13 regulated activity and over-the-counter derivatives licensing regime. The Hong Kong Securities and Investment Institute also provided updates on the online regulatory examination arrangement.

#### Chairperson

CHOY Chung Fai Keith

#### Members

Prof CAO Jie Jay  
Dr CHAN Fung Cheung Wilson  
Prof CHAN Wing Ho Alex  
CHEUNG Wai Kwok Gary (to 31.3.2024)  
Prof CHOI Darwin (from 1.4.2023)

LO Wai Shun Wilson (to 31.3.2024)  
PONG Po Lam Paul (to 31.3.2024)  
WONG Pui Ling Pauline  
WONG Wing Fai Joseph (to 31.3.2024)

#### Secretary

MAN Hoi Yee Holly

**Number of meetings: 1**

**Average attendance rate: 91%**



### Committee on Real Estate Investment Trusts

Advises the SFC on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

There was one meeting during the year.

#### Chairperson

CHOI Fung Yee Christina

#### Members

CHAN Duen Grace  
 Prof CHAU Kwong Wing  
 CHEUNG Keith  
 CHU Ho Kwan Raphael  
 DUGNAN Michael  
 LAU Ka Shi Betsy, BBS

LAU Pak Wai  
 LU Ming  
 WONG Sing Ming (Rita WONG)  
 YEONG Wei Ming Alexandra  
 YUEN Ka Fai (Frank YUEN)

#### Secretary

LAU Tin Mei

Number of meetings: 1

Average attendance rate: 83%

### Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

#### Members

JAT Sew Tong, SC, JP  
 LAM Yan Kay Rachel, SC  
 MAN Bernard, SC

MAURELLET José-Antonio, SC  
 SHIEH Wing Tai Paul, SC  
 WONG Man Kit Anson, SC, JP

## Committees, Panels and Tribunal

### Fintech Advisory Group

The Group aims to broaden the SFC's understanding of the opportunities, risks and regulatory implications of the latest Fintech trends and developments.

During the year, the Group met once to discuss a range of topics such as regulation of the virtual asset market and development of virtual asset custody.

#### Chairperson

CHOY Chung Fai Keith

#### Ex-officio member

WONG Lok Yan Elizabeth

#### Members

AU Alex

AUYANG Evan

CHIU Clara

CRAWFORD Andrew (from 1.3.2024)

FOK James (to 29.2.2024)

GAZMARARIAN Lucy

KONG Nike (from 1.3.2024)

LI Shu Pui (to 29.2.2024)

Prof LIN Chen

MA Henry (to 29.2.2024)

OBRADOVIC Bojan (from 1.3.2024)

TAN Jessica (to 29.2.2024)

YUEN Kelvin (from 1.3.2024)

**Number of meetings: 1**

**Average attendance rate: 78%**

### Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and deal with other administrative matters.

#### Chairman

LEUNG Chung Yin Rico

#### Members

KWOK Hom Siu (Sally KWOK)

Dr LIN James C.

WAN Chi Yiu Andrew

**Number of meetings: 1**

**Average attendance rate: 100%**

### Investor Compensation Company Limited Claims Committee

Reviews and determines investors' claims for compensation from the Investor Compensation Fund.

#### Chairman

Dr LIN James C.

#### Members

CHAN Lui (Clara CHAN)  
 CHUI Ming Wai (Vivian CHUI)  
 KWOK Hom Siu (Sally KWOK)  
 LEE Jor Hung (Dannis LEE)  
 LEUNG Chung Yin Rico

MUKADAM Thrity Homi  
 SO Kang Wong (Pierre SO)  
 TSUI Kam Yip (Alison TSUI)  
 WAN Chi Yiu Andrew

Number of meetings: 0

Average attendance rate: N/A

### Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the abovementioned panel and committees.

#### Chairman (ex-officio member)

LEUNG Fung Yee Julia, SBS, JP

#### Members

DAWES Victor, SC

LUI Tim Leung Tim, GBS, JP

#### Ex-officio members

CHAN Yuk Sing Freeman

DUIGNAN Michael

#### Alternate members to CHAN Yuk Sing Freeman

KO Teresa Yuk Yin, BBS, JP

SCHWILLE Mark Andrew

LAM Chor Lai Celia

WEBB David Michael

MAGUIRE John Martin

YU Ka Po Benita

Number of meetings: 1

Average attendance rate: 100%

## Committees, Panels and Tribunal

### Products Advisory Committee

The SFC may consult the Committee on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds as well as the overall market environment, industry practices and novel product features.

There was no meeting during the year.

#### Chairman

CHOI Fung Yee Christina

#### Members

ABRAT Katherine Anna

CHAN Duen Grace

CHENG Siu Fun (Eric CHENG) (from 2.8.2023)

CHO Yee Kee Amy (to 6.11.2023)

FUNG Ka Shing Bernard

FUNG Wai Cheong (Alger FUNG) (from 16.6.2023)

HUI Mei Ying (Carol HUI) (to 2.8.2023)

KENNEDY Glenn Ronald

LAW Lai Wah Andrew

LEE Chi Kee Trevor

LEE Pui Shan (Rosita LEE)

LIAN Shaodong (Doris LIAN)

LIN Christine

#### Secretary

POON Wing Yee Loreen

LUI Yu Kwok (Marty LUI) (from 2.8.2023)

Dr MAK Sui Choi Billy

NG Ka Li (Elisa NG) (from 6.11.2023)

NOYES Keith Samuel

PAN San Kong Terry

PANG Wai Sau Queenie

SHEN Hua

SMITH Paul Henry

TAM Sau Ngor Vera

TSUI Chi Kin Ellick (to 16.6.2023)

TSUI Wai Yu (Fion TSUI)

YEE Gar Bo Gabriella (to 2.8.2023)

YEONG Wei Ming Alexandra

**Number of meetings: 0**

**Average attendance rate: N/A**

### Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met four times and discussed various policy subjects, such as class meeting requirement for A/H shareholders, recent performance of the Hong Kong stock market, review of the listed structured products regime and tokenisation of funds and other asset classes.

#### Chairman

DUIGNAN Michael

#### Members

CHAN Kwok King Kingsley

CHAN Wai Yan Ronald

FOONG Leonie

GILL Amar Singh

LI Lin Lincoln

MEYER Phillip Michael

MO Yuen Man Anita

TYE Philip Andrew

WANG Fang

WEI Zhen

WONG Chi Ming Sally

**Number of meetings: 4**

**Average attendance rate: 71%**

### Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and deal with other administrative matters.

#### Chairman

LEUNG Chung Yin Rico

#### Members

KWOK Hom Siu (Sally KWOK)

LAI Chun Mei (Hilda LAI) (from 1.7.2023)

Dr LIN James C.

WAN Chi Yiu Andrew

YIU Ka Yan Wilfred (to 30.6.2023)

**Number of meetings: 1**

**Average attendance rate: 100%**

### SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of the Stock Exchange of Hong Kong Limited (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (HKEX) and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

#### Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

#### Members

CHAN Wai Yan Ronald

CHAN Yuk Sing Freeman

CHEN Ping Lisa (from 22.5.2023)

CHOI Fung Yee Christina

CHOY Chung Fai Keith

EMSLEY Matthew Calvert

LEE Yuen Man Virginia

LEUNG Chung Yin Rico

LEUNG Fung Yee Julia, SBS, JP

LEUNG Po Wah Pauline

WILSON Christopher

**Number of meetings: 0**

**Average attendance rate: N/A**

## Committees, Panels and Tribunal

### SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Review Committee when actual or potential conflicts of interest arise between HKEX and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

#### Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

#### Members

CHAN Sui Kuen Agnes, BBS  
CHEW Fook Aun  
DAWES Victor, SC  
KONG Johnson  
Dr LIN James C.

LO Kar Chun Nicky, SBS, JP  
LUI Tim Leung Tim, GBS, JP  
WONG Yick Kam Michael, SBS, MH, JP  
YIH Dieter, JP

Number of meetings: 0

Average attendance rate: N/A

### Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There were no circumstances which called for a meeting of the Committee during the year.

#### Chairman

CHIU Jeckle

#### Deputy Chairman

TSUI Kam Yip Alison

#### Members

CHAN Pak Lam Tom  
FOOTMAN Michael Henry Charles  
LAM Hui Yip (Clement LAM)

LEE Virginia Yuen Man  
LIN Christine  
WONG Man Yee (Fanny WONG)

Number of meetings: 0

Average attendance rate: N/A

### Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consist of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

There were no circumstances which called for a meeting of the Committee during the year.



## Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive<sup>1</sup> at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

There was no meeting during the year.

### Chairman

CHAN Yuk Sing Freeman

### Deputy Chairpersons

KO Teresa Yuk Yin, BBS, JP

LAM Chor Lai Celia

MAGUIRE John Martin

SCHWILLE Mark Andrew

WEBB David Michael

YU Ka Po Benita

### Members

BIDLAKE Alexandra

CHAN Che Chung (Conrad CHAN)

CHARLTON Julia Frances

CLARK Stephen John

IP Koon Wing Ernest

LEE Kam Hung Lawrence, BBS, JP

LEUNG Po Wah Pauline

LIU Yun Bonn (to 3.1.2024)

LO Samson Lambert

NORMAN David Michael

NORRIS Nicholas Andrew

PARK Yoo Kyung

SABINE Martin Nevil

SHAH Asit Sudhir

TYE Philip Andrew

WINTER Richard David

WOLHARDT Julian Juul

WONG Richard

WONG Wai Ming

WONG Yu Tsang Alex

WOO Ka Biu Jackson

YIH Dieter, JP

YUEN Ka Fai (Frank YUEN)

**Number of policy meetings: 0**

**Number of non-disciplinary hearings: 0**

**Number of disciplinary hearings: 0**

**Average attendance rate: N/A**

**Average attendance rate: N/A**

**Average attendance rate: N/A**

<sup>1</sup> The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

## Committees, Panels and Tribunal

### Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

#### Members

BIDLAKE Alexandra	PARK Yoo Kyung
CHAN Che Chung (Conrad CHAN)	SABINE Martin Nevil
CHAN Yuk Sing Freeman	SCHWILLE Mark Andrew
CHARLTON Julia Frances	SHAH Asit Sudhir
CLARK Stephen John	TYE Philip Andrew
IP Koon Wing Ernest	WEBB David Michael
KO Teresa Yuk Yin, BBS, JP	WINTER Richard David
LAM Chor Lai Celia	WOLHARDT Julian Juul
LEE Kam Hung Lawrence, BBS, JP	WONG Richard
LEUNG Po Wah Pauline	WONG Wai Ming
LIU Yun Bonn (to 3.1.2024)	WONG Yu Tsang Alex
LO Samson Lambert	WOO Ka Biu Jackson
MAGUIRE John Martin	YIH Dieter, JP
NORMAN David Michael	YU Ka Po Benita
NORRIS Nicholas Andrew	YUEN Ka Fai (Frank YUEN)

Number of meetings: 0

Average attendance rate: N/A

### Independent Panels and Tribunal

#### Leveraged Foreign Exchange Trading Arbitration Panel

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

#### Chairman

LEE Pui Shan Rosita

#### Deputy Chairman

CHAN Siu Ping Chordio

#### Members

FUNG Kit Ming Veronica	LEUNG Tak Lap (to 16.7.2023)
LEUNG Bon Yuen Eviana	Dr WANG Lei Levin (from 17.7.2023)

## Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, investment products authorisation, exercise of investigation and disciplinary action, and corporate finance transactions (including the administration of listing rules).

### Chairman

LEE Kam Hung Lawrence, BBS, JP

### Members

Prof CHAN Ka Lok, MH  
 CHAN Lap Tak Jeffrey  
 CHAU Suet Fung Dilys, JP  
 CHING Kim Wai Kerry  
 CHUA Suk Lin Ivy  
 CHUI Yik Chiu Vincent

KWAN Wing Han Margaret  
 KWOK Pui Fong Miranda, JP  
 LAI Hin Wing Henry  
 LI Man Bun Brian David, BBS, JP  
 LIN Xiaodong Charles  
 Dr WANG Lei Levin, JP

### Ex-officio members

LUI Tim Leung Tim, GBS, JP

YUNG Lap Yan

## Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

### Chairmen

HARTMANN Michael John, GBS  
 LUNN Michael Victor, GBS

MCWALTERS Ian Charles, GBS, JP

### Members

CHAN Chun Hung Vincent  
 Prof CHAN Ka Lok, MH  
 Prof CHAN Koon Hung  
 CHAN Siu Ping Chordio  
 CHAN Yuen Shan Florence  
 CHAU Suet Fung Dilys  
 CHEN Xin Lorna  
 CHEUNG Wai Kwok Gary  
 CHUA Suk Lin Ivy  
 HO Ching Tak Kent  
 HUNG Wan Shun Stephen  
 KOO Chi Sum Sammy

Dr KWAN Pak Hoo Bankee  
 LAU Pak Wai  
 LEUNG Ming Hym Peter  
 LUI Kit Fong Carol  
 NG Kam Wah Webster  
 SENG SZE Ka Mee Natalia  
 Prof TANG Hei Wai  
 TANG Hamilton Ty  
 Dr TO Wing Christopher  
 YAU Yu Xin Amelia  
 YIP Chai Tuck  
 YUEN Siu Bun Edward

# Glossary and Abbreviations

## Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter derivatives.

## Depositaries

Top-level trustees and custodians of SFC-authorized collective investment schemes.

## Exchange participant

A company with rights to trade on or through the Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

## Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

## GEM

A stock market operated by Hong Kong Exchanges and Clearing Limited (HKEX) to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements. Formerly known as the Growth Enterprise Market.

## Green and Sustainable Finance Cross-Agency Steering Group

A group co-chaired by the SFC and the Hong Kong Monetary Authority (HKMA) with participation from the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Insurance Authority, Mandatory Provident Fund Schemes Authority, Accounting and Financial Reporting Council, and HKEX to coordinate the management of climate and environmental risks in the financial sector, accelerate the growth of green and sustainable finance and support Hong Kong's climate strategies.

## Greenwashing

A false or unsubstantiated claim that certain activities or practices are sustainable or environmentally friendly, such as when asset managers market themselves as "green" or "sustainable" but do not fully integrate these factors into their investment processes.

## Integrated fund platform (IFP) for retail fund distribution

A platform to be established by HKEX to provide a business-to-business service model initially and cover the front-to-back distribution life cycle and value chain for distribution of SFC-authorized funds in Hong Kong.

## International Organization of Securities Commissions (IOSCO)

A body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation. Its membership regulates more than 95% of the world's securities markets in more than 130 jurisdictions.

## International Sustainability Standards Board (ISSB)

An independent standard-setting body set up by the IFRS<sup>1</sup> Foundation to develop a high-quality, comprehensive global baseline for corporate sustainability disclosures focused on the needs of investors and the financial markets.

## Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements which provides both insurance protection and investment options, usually through funds.

## IOSCO Asia-Pacific Regional Committee (APRC)

Chaired<sup>2</sup> by our Chief Executive Officer Ms Julia Leung, this group is one of four regional committees and comprises over 30 Asia-Pacific regulators. It focuses on addressing regulatory issues, enhancing supervisory collaboration and experience sharing, and supporting capacity building activities.

<sup>1</sup> International Financial Reporting Standards.

<sup>2</sup> Ms Leung's two-year term commenced in May 2024 during the IOSCO 2024 Annual Meeting.

### Investor and Financial Education Council (IFEC)

An SFC subsidiary dedicated to improving financial literacy in Hong Kong by providing consumer education through mass communication and stakeholder engagement initiatives.

### Leveraged and inverse products

Products structured as exchange-traded funds for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index.

### Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance which imposes civil sanctions against those it determines to be guilty of market misconduct.

### Open-ended fund companies (OFC)

Collective investment schemes structured in corporate form with limited liability and variable share capital.

### Over-the-counter (OTC) derivatives

Financial instruments which are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from those of underlying assets.

### Pooled retirement fund

A collective investment scheme which enables multiple occupational retirement schemes to gain exposure to underlying investment portfolios.

### Ramp and dump scheme

A form of stock market manipulation. Fraudsters “ramp” up the price of a stock and use social media to lure unwary investors to buy at an artificially high price. The fraudsters then sell or “dump” the stock to take profits causing the price to collapse.

### Real estate investment trust (REIT)

A collective investment scheme constituted as a trust which invests primarily in real estate with the aim to provide returns derived from rental income.

### Securities and Futures Appeals Tribunal (SFAT)

A body established under the Securities and Futures Ordinance to review specified decisions made by the SFC, the HKMA or a recognised investor compensation company.

### Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products, the securities and futures market and industry, as well as to their regulation and other matters including investor protection.

### Task Force on Climate-related Financial Disclosures (TCFD)

A task force set up by the Financial Stability Board to improve and increase reporting of climate-related financial information.

### Tokenisation

Tokenisation refers to the creation of blockchain-based tokens that represent, or aim to represent, ownership in certain assets or rights.

### Unit trust

A collective investment scheme constituted in trust form.

### Virtual assets

Digital representations of value, also known as cryptocurrencies, crypto-assets or digital tokens.

### Voluntary code of conduct (VCoC) for ESG<sup>3</sup> ratings and data products providers

A code of conduct developed via an industry-led working group for voluntary adoption by ESG ratings and data products providers, which will align with international best practices as recommended by IOSCO and relevant expectations introduced in other major jurisdictions.

### Whitewash waiver

A waiver of a party's obligation to make a mandatory offer to other shareholders under the Takeovers Code.

<sup>3</sup> Environmental, social and governance.

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PricewaterhouseCoopers

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This Annual Report has a Chinese version.

Concept design

and production: REF Financial Press Limited





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