Strategic Priorities

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

TOP PRIORITIES

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

- 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

4 Enhancing SFC's resilience and efficiency

- 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-authorised 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-authorised 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[1] 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.

[1] Association of Southeast Asian Nations.

Deepening Mainland-Hong Kong market connect

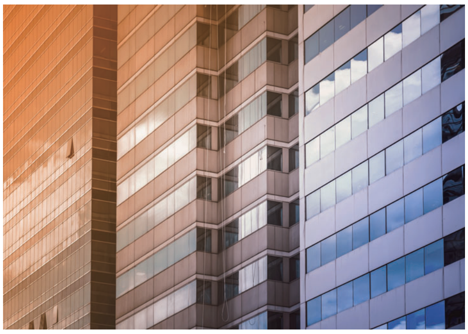
Further enhancing Connect schemes

For mutual market access, we will prepare for the expansion of ETF[2] Connect and Mutual Recognition of Funds as well as the launch of REIT[3] 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-authorised funds.

2 Exchange-traded funds.

3 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[4] 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.

[4] 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[5] 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.

[5] Web-based INteGrated Service.