

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 requirement¹ 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.

¹ 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.



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

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

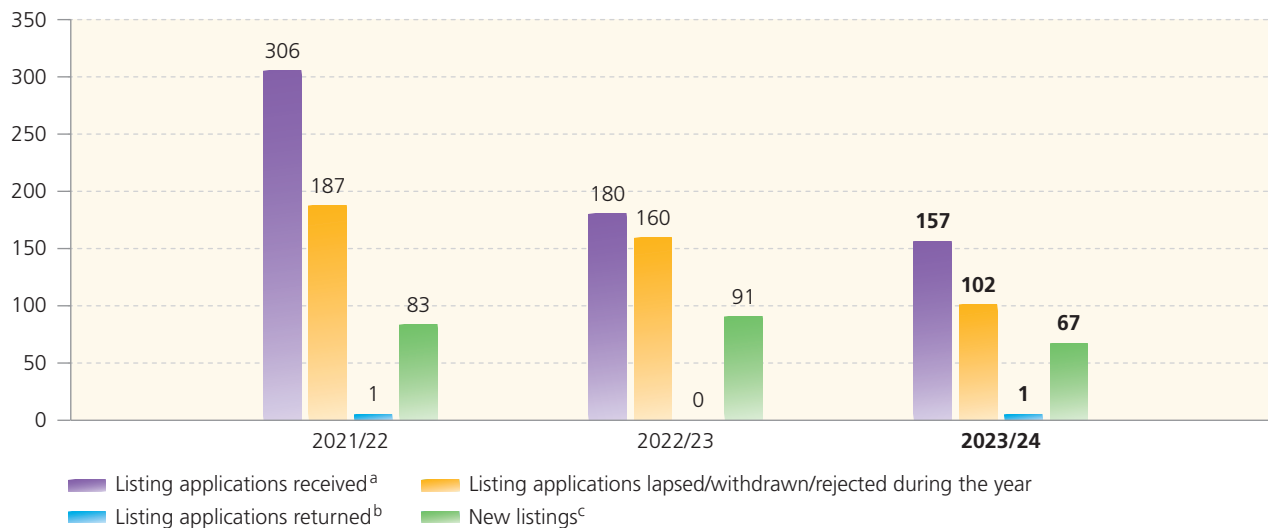
To assist listing applicants and their advisers to better understand the Listing Rules and related requirements, we have been working closely with SEHK to streamline the listing guidance. In November 2023, SEHK published the Guide for New Listing Applicants, which consolidated and streamlined all IPO-related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



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)⁴ of the SMLR.

New listing applications



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

^b 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.

^c 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).

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

³ For the 129 listing applications we cleared.

⁴ 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 applications⁵, including applications from three companies with a weighted voting rights (WVR) structure, 14 pre-profit biotech companies, one special purpose acquisition company (SPAC)⁶, two companies seeking listing by way of de-SPAC transactions⁷ and two specialist technology companies. One overseas-listed company achieved dual-primary listing on the Main Board.

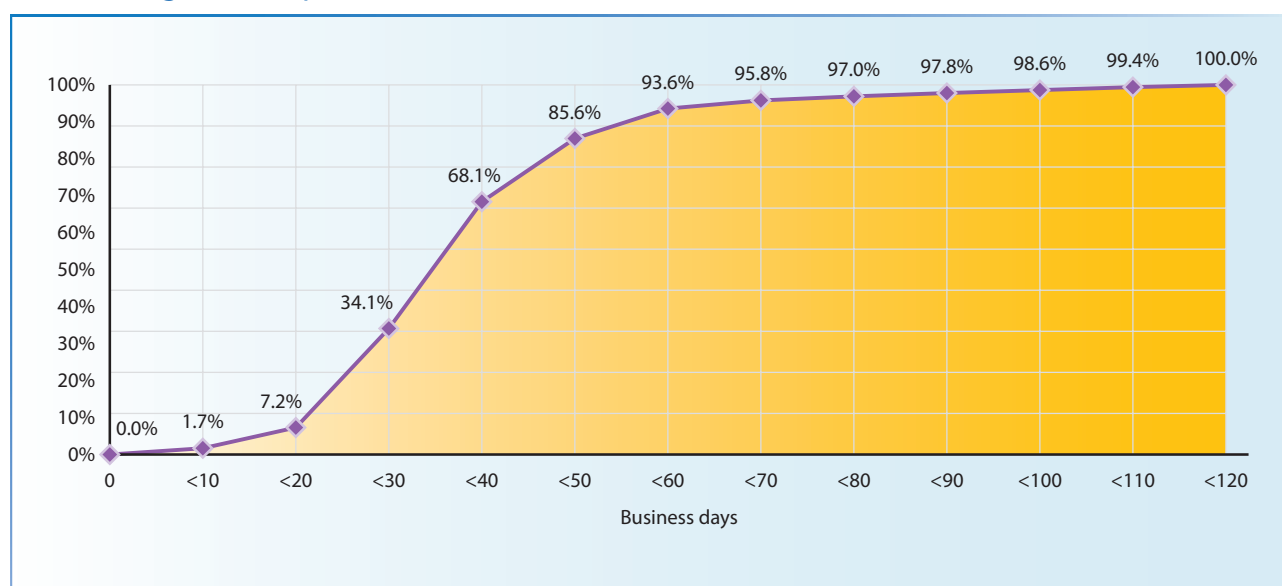
Exercising our powers under the SMLR, we issued requisition letters directly to three listing applicants during the year (2022-23: seven). Amongst our concerns were the accuracy and completeness of their disclosures regarding business arrangements, taxation matters or financial performance. As at 31 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 days⁸, 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 179⁹ 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.

⁵ New listing applications include any renewal application filed by the same applicant where its previous application has lapsed by more than 14 days.
⁶ 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.
⁷ Including one company with a WVR structure.
⁸ Including the SFC’s vetting time and the response time of the listing applicants or their advisers.
⁹ 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 [^]	240	231	291
Off-market and general offer share buy-backs	7	7	5
Other applications under Code on Share Buy-backs [^]	0	1	1
Total	317	305	385

[^] 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 corporations¹ (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 [^]		Representatives		Responsible Officers		Total [^]		
	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%
Total	3,246	3,254	35,074	35,444	9,419	9,484	47,739	48,182	-0.9%

[^] These figures exclude 112 registered institutions as at 31 March 2024 and 31 March 2023.

¹ 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.

² 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^a

	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 ^b	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
Total shareholders' funds	481,376	483,398	528,212
(\$ 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 ^c	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
Net profit	28,500	22,866	64,888

^a 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.

^b 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.

^c 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 regulations³, mainly the Code of Conduct⁴, 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 inspections³

	2023/24	2022/23	2021/22
Internal control weaknesses ^a	465	430	427
Breach of Code of Conduct ^b	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
Total	1,492	1,230	1,416

^a 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.

^b Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

³ Please refer to Table 2 of Operational Data on page 208 for details.

⁴ 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 FINI⁵. 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.

⁵ 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 Ordinance⁶. 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 speakers⁷ 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 Scheme⁸ 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.

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

⁷ Including speakers from the Commerce and Economic Development Bureau and the Hong Kong Police Force.

⁸ 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^a 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^b 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^c

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.



^a 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.

^b OSL Digital Securities Limited and Hash Blockchain Limited.

^c 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^a 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.

^a 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

Gatekeeping investment products¹

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 [^]	26	25	25
Total	2,951	2,939	2,849

[^] Comprising 15 paper gold schemes and 11 real estate investment trusts.

¹ All figures are as of 31 March 2024 unless otherwise specified.



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.

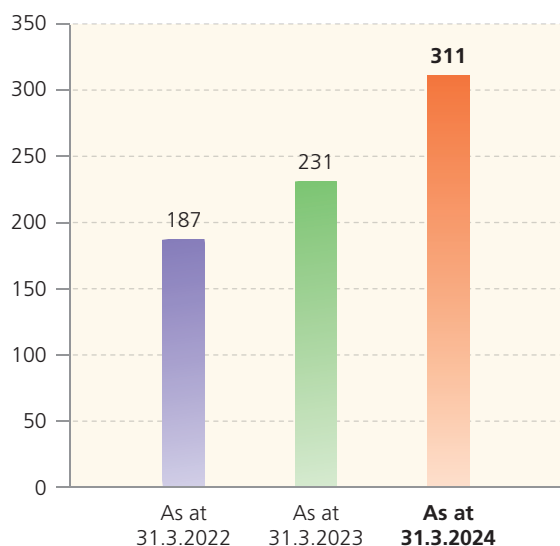
OFC registrations

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

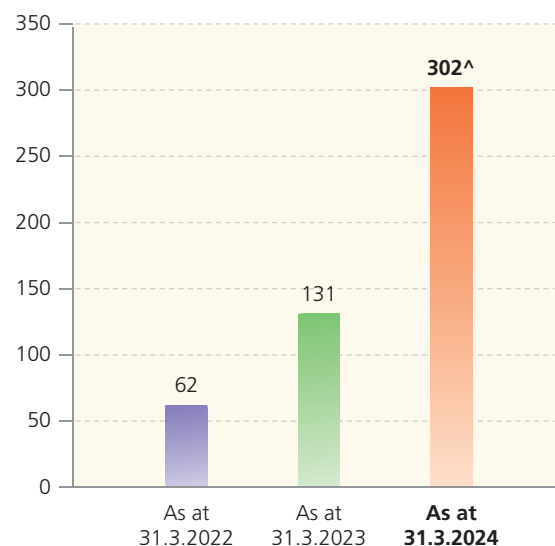
For the 926 Hong Kong-domiciled funds, overall net inflows of US\$11.5 billion were recorded during the year.

Authorised unlisted structured investment products[^]



[^] On a “one product per key facts statement” basis, including equity-linked investments and deposits.

Registered OFCs



[^] 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^a (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) ^b	Subscription	Redemption	Net subscription/ (redemption) ^b
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 ^c	2	6	(4)	3	4	(1)
Index ^d	69,797	59,972	9,824	65,412	60,285	5,127
Guaranteed	–	5	(5)	0	4	(4)
Other specialised ^e	148	93	55	78	65	13
Total^b	158,980	147,525	11,455^f	129,650	121,791	7,859

^a Based on data reported by funds domiciled in Hong Kong.

^b Figures may not add up to total due to rounding.

^c 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.

^d Including ETFs and leveraged and inverse products.

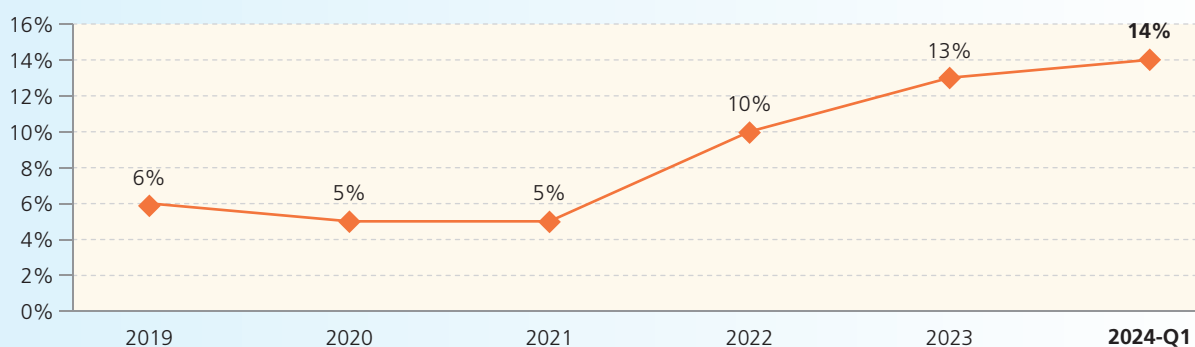
^e Including virtual asset futures ETFs.

^f 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 (%)

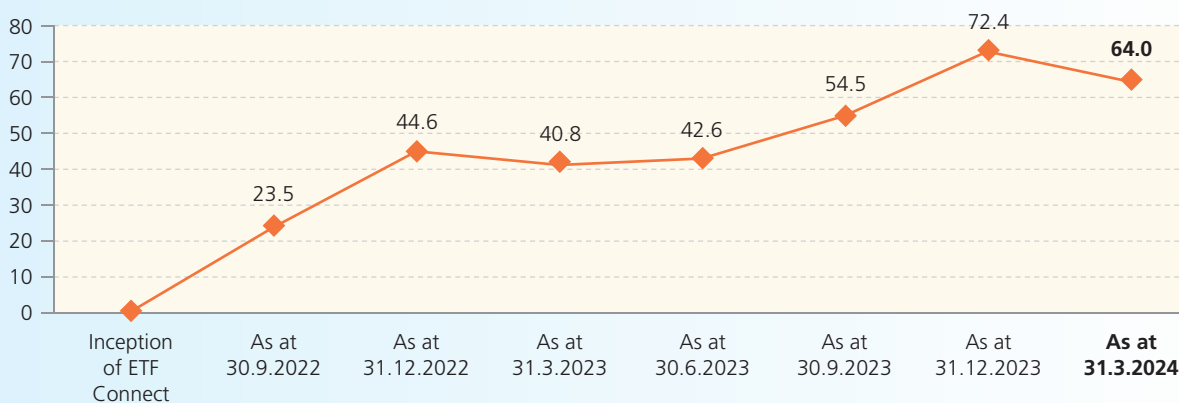


Source: Hong Kong Exchanges and Clearing Limited (HKEX)

ETF Connect contributed close to 10% of the local ETF market’s overall turnover since its launch. Eligible ETFs have also recorded cumulative 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^a

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

^a Based on data from HKEX.

ETFs and L&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 2024². 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

² 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 funds³ and 51 ETFs⁴ primarily invested in the onshore Mainland securities markets⁵ 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
Unlisted products	
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 ^a	310
Investment-linked assurance schemes with policy currency in RMB	8
Listed products	
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 ^b	1
RMB REITs	1

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

^b Only includes gold ETF denominated in RMB.

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

⁴ Refers to unlisted funds or ETFs which are denominated in RMB.

⁵ 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^a (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) ^b	Subscription	Redemption	Net subscription/(redemption) ^b	Subscription	Redemption	Net subscription/(redemption) ^b
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

^a Based on data from the State Administration of Foreign Exchange.

^b 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.

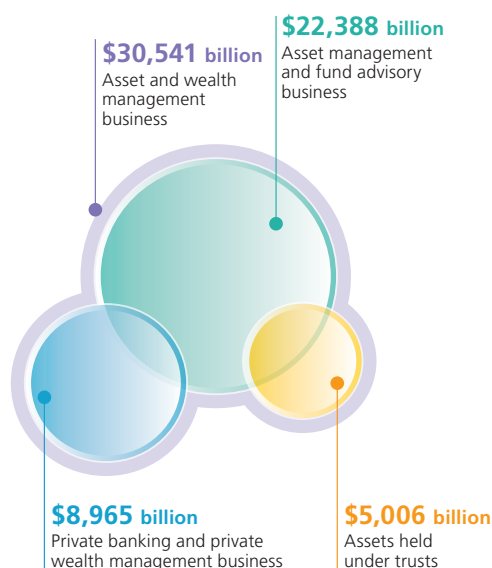
ESG funds

The 224 SFC-authorized environmental, social and governance (ESG) funds⁶ 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

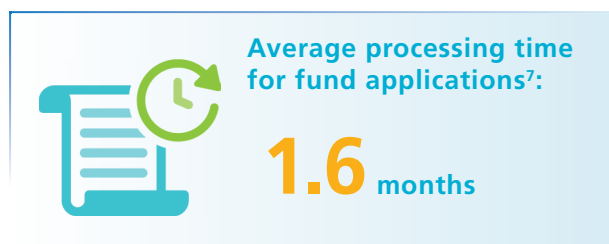
Regulating depositaries of SFC-authorized CIS

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).

⁶ See Sustainability on pages 115-124.



Streamlined measures for SFC- authorised funds

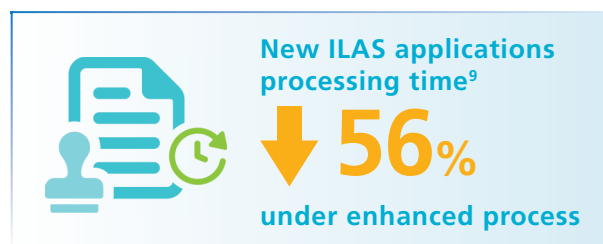
Our December 2023 circular and updated guidance set out a number of streamlined measures to enhance the operational efficiency and approval processes of SFC- authorised funds, such as the disclosure and reporting requirements relating to changes in investment delegates, reporting of pricing errors and breaches by SFC- authorised UCITS⁸ 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.

⁷ 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.

⁸ Undertaking for collective investment in transferable securities.

⁹ 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

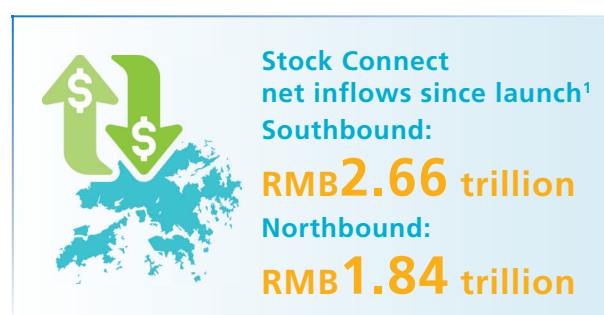
China Treasury bond futures to launch

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.

¹ See sidebar on page 67.

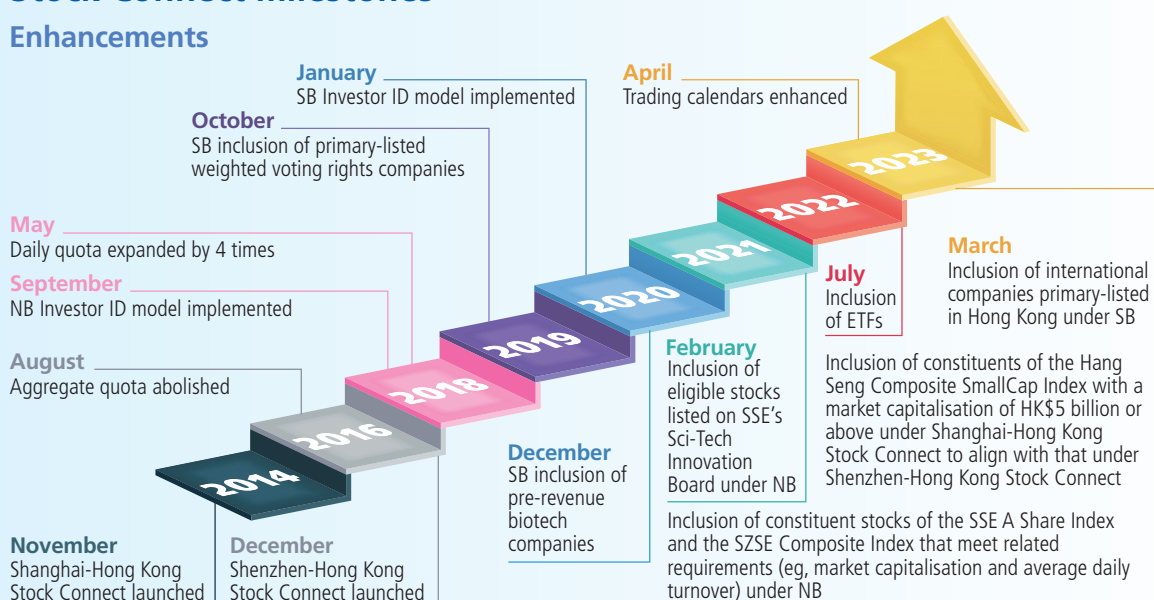
Celebrating a decade of Stock Connect

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

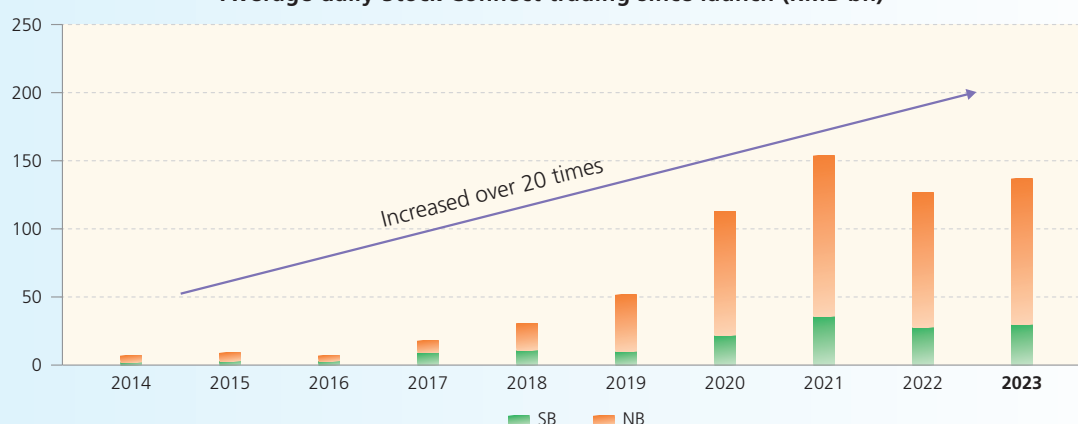
Enhancements



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 globally²
Market capitalisation³: 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%

² In terms of market capitalisation (source: World Federation of Exchanges).

³ As of 31 March 2024.

Enhancing local market infrastructure

Fast Interface for New Issuance (FINI)

The implementation of FINI⁴ 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

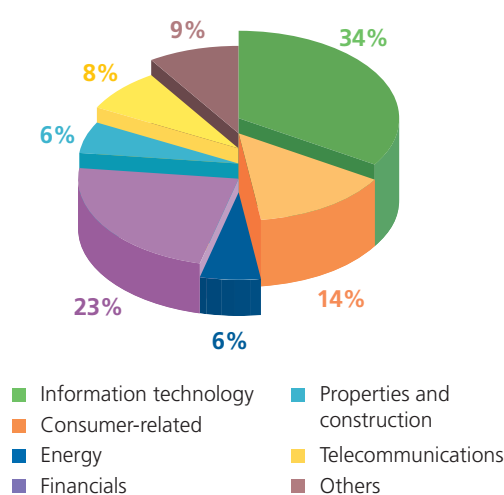
To enhance overall market competitiveness, the SFC, together with the Government, HKMA, HKEX and other industrial associations, established a working group to formulate a proposal to maintain normal operations of Hong Kong’s securities and derivatives markets under severe weather conditions. Based on 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[^]



[^] As of end-March 2024.

Position limit

The enhanced position limit regime⁵ 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 FAQ⁶ and updated the related guidance note to help market participants understand the enhancements.

⁴ 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.

⁵ 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.

⁶ 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^a. 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.

^a 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

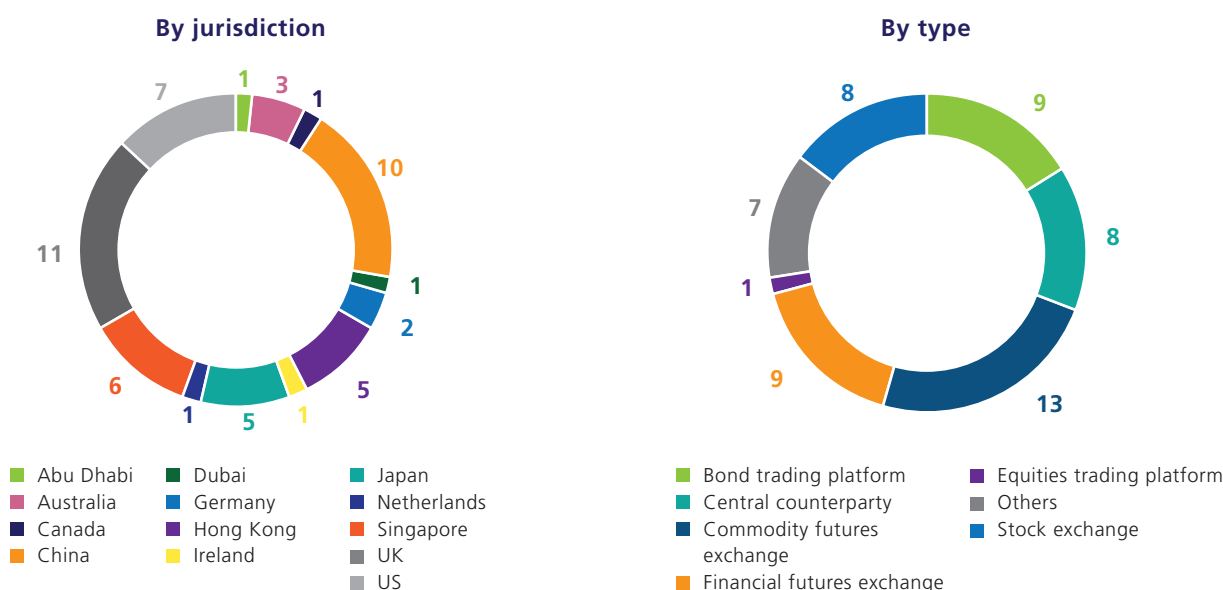
In line with the G20 commitments to reform the over-the-counter (OTC) derivatives market, we have been working with the HKMA and relevant stakeholders on implementing a regulatory regime for the OTC derivatives market in Hong Kong. In April 2023, we launched a joint consultation with the HKMA on the proposed amendments to the Clearing Rules⁷ 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 Identifier⁸, Unique Product Identifier⁹ and Critical Data Elements¹⁰, 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 ATS¹¹ 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

⁷ The Securities and Futures (OTC Derivative Transactions — Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.
⁸ A unique identifier assigned to identify each reported OTC derivatives transaction.
⁹ A unique identifier to denote a specific OTC derivatives product.
¹⁰ These are a standard set of OTC derivatives transaction data elements (other than Unique Transaction Identifier and Unique Product Identifier).
¹¹ 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) ^a	88.1	2.7%	85.8	0.1%	85.7
Investor Compensation Fund (ICF) ^b	2,636.8	4.8%	2,517.0	2.5%	2,454.9
Total	2,724.9	4.7%	2,602.8	2.4%	2,540.6

^a 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.

^b 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, fines¹ 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.



[^] The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

¹ 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 VATPs² 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 intermediaries³. 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.

² 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, HSKEX, www.oslexu.com, BitForex, ByBit, KKR Global, HKCEXP and EDY.

³ 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 300⁴ 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 jurisdiction⁵. 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.

⁴ 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.

⁵ 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 214⁶ 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.

⁶ 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 individuals⁷, 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.

⁷ 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 Limited⁸ and its former executives with our notices issued under section 183 of the SFO concerning initial public offering-related investigations.

⁸ 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 SFO⁹. 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.

⁹ 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 ^a inquiries commenced	34	31	57
S181 ^b inquiries commenced (number of letters sent)	188 (4,627)	191 (5,851)	203 (7,308)
S182 ^c 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 ^d	50	115	28
Notices of Proposed Disciplinary Action ^e issued	26	26	37
Notices of Decisions ^f 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

^a 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.

^b 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.

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

^d 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.

^e 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.

^f 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)¹ 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 chairs² 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 IFRS³ Sustainability Disclosure Standards.



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

¹ 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.

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

³ 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 CPMI⁴-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 BCBS⁵-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

⁴ The Committee on Payments and Market Infrastructures.

⁵ 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.

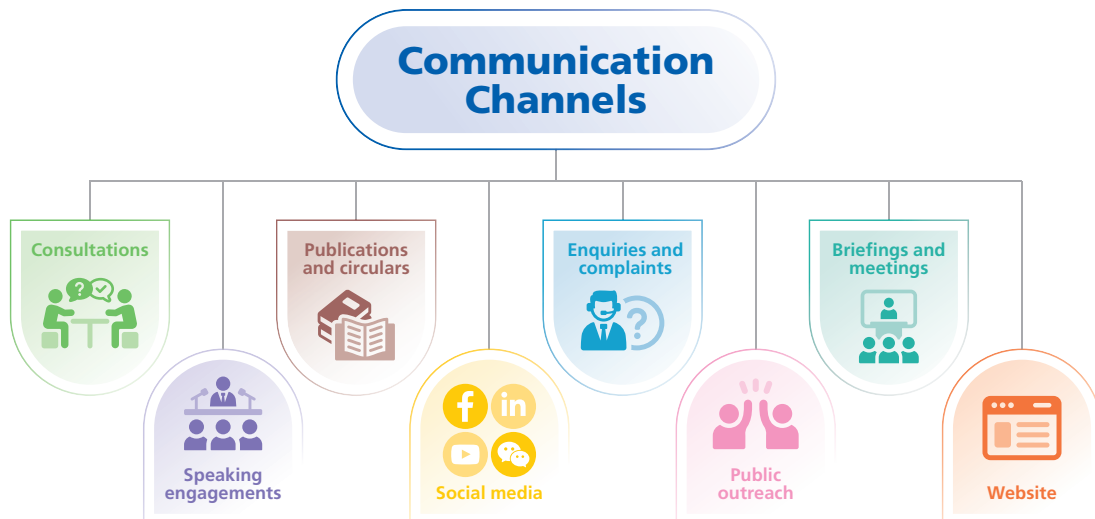
We stepped up our investor education efforts on VATPs through televised interviews with our Director of Licensing and Head of Fintech unit Ms Elizabeth Wong by Radio Television Hong Kong (RTHK) in June 2023 and another by Phoenix TV in August 2023. Ms Wong also explained the investor guardrails embedded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

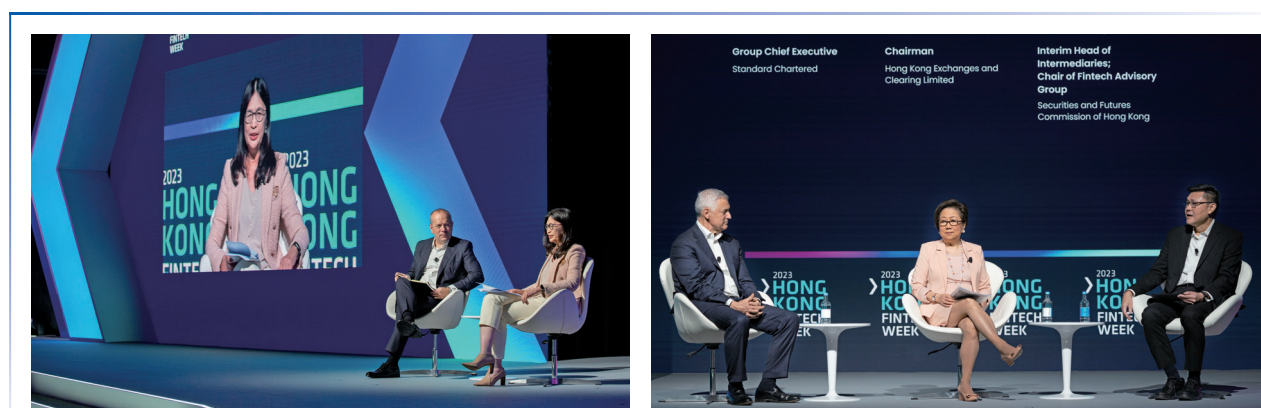
We organised the SFC Regional Securities Regulatory Leadership Symposium in February 2024 as one of the events marking the SFC's 35th anniversary. More than 300 senior government officials, financial regulators and business leaders exchanged views on Asia-Pacific capital market developments (see sidebar 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 Kong¹. In the first quarter of 2024, we organised an event on green Fintech² 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

¹ See Sustainability on pages 115-124.

² 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.

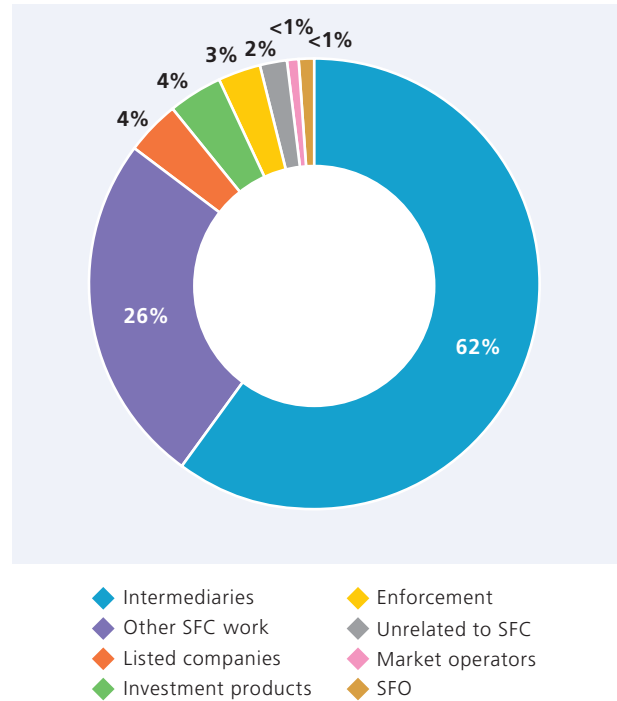
Publications and enquiries

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 counterparts³, 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.

³ See Regulatory Engagement on pages 83-88.

Publications and other communications to highlight regulatory updates

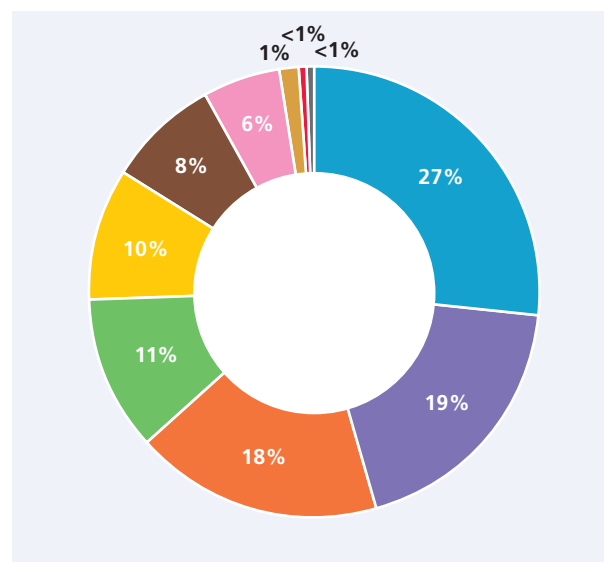
We formulate and execute media strategies to enhance public understanding of our work by engaging the media and explaining our policies, initiatives and regulatory actions. We address public concerns and enquiries regarding the securities and futures markets.

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 ^a	12	4	5
Circulars to industry	63	67	85
Corporate website average daily page views ^b	64,941	62,191	35,415
General enquiries	3,637	2,947	4,207

^a Includes updates to previous versions.

^b 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 ^a	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 ^b	612	341	270
Other financial activities not regulated by SFC ^c	258	253	209
Total	3,206	2,998	4,041

^a Primarily, alleged market manipulation and insider dealing.

^b Such as identity fraud and impersonation.

^c For example, bullion trading and banking services.