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SFC Regulatory Forum 2021

Summary of discussions

SFC Regulatory Forum 2021

The SFC Regulatory Forum 2021 was held at the Hong Kong Convention and Exhibition Centre on 25 November. This year, more than 1,100 leaders from the financial industry, listed companies, professional services firms and industry associations attended the full-day event in person and online.

This year's Forum focused on the role of regulation and the SFC's strategies to address emerging challenges arising from Hong Kong's development as a leading asset management and risk management centre. Forum participants also exchanged views on the latest trends in corporate regulation, intermediary supervision and enforcement.

About the SFC

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

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

There are six statutory objectives that underpin the execution of our regulatory work.

- Maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry
- Help the public understand the workings of the industry
- Provide protection for the investing public
- Minimise crime and misconduct in the industry
- Reduce systemic risks in the industry
- Assist the Government in maintaining Hong Kong's financial stability

In carrying out our duties, we strive to strengthen Hong Kong's standing as an international financial centre.

SFC Regulatory Forum 2021

Opening remarks

Mr Tim Lui, SBS, JP, Chairman, SFC

The Financial Secretary, Mr Paul Chan, distinguished guests, ladies and gentlemen, good morning.

It's my great pleasure to welcome you to the SFC Regulatory Forum.

To start with, I want to thank the Financial Secretary for taking the time to join us today and deliver the keynote address. I also want to thank everyone who is taking part in today's event, whether here at the convention centre or watching online.

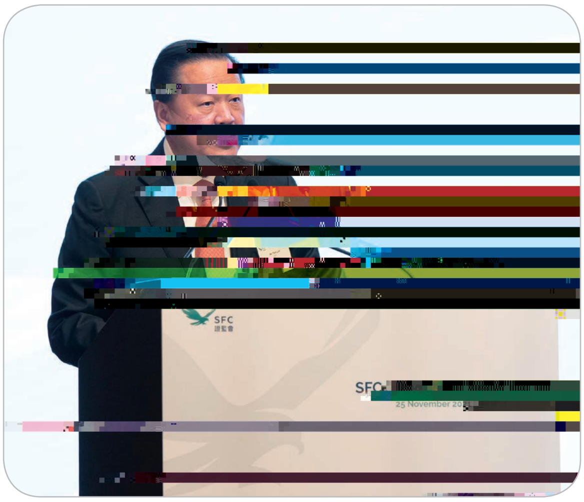
I know some of you will remember our first Regulatory Forum, in 2014. The response was very positive, and we decided to make it a regular event.

We originally planned to hold a forum early last year, but for obvious reasons, it had to be postponed. That means the last time we held a public event like this was nearly four years ago.

So we have a lot of catching up to do. We are very glad to finally have a chance to come together with the industry and other key stakeholders for what I hope is an honest exchange of views.

Now to say that a lot has happened in our markets over the past few years would be a bit of an understatement. The global financial landscape has changed dramatically in the space of a very short time. Hong Kong's markets have also gone through some significant changes. By any measure, they are now larger, deeper and more connected with the Mainland as well as with the rest of the world.

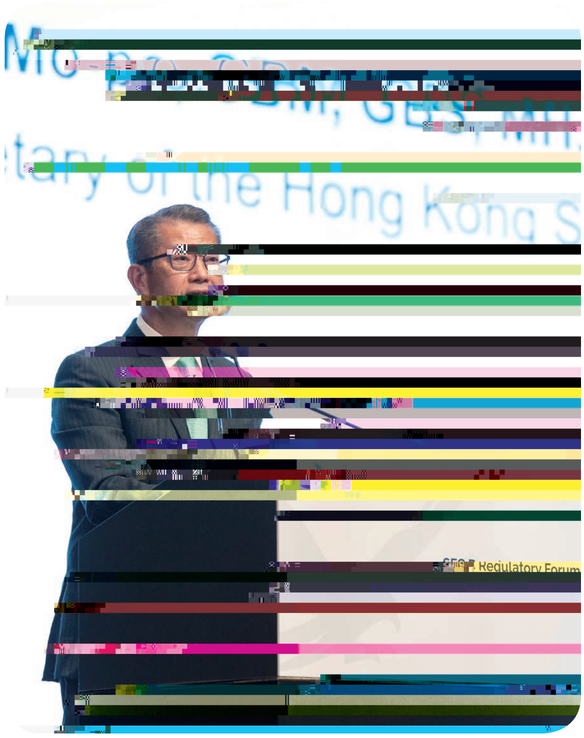
At the same time, the financial institutions we regulate have become more complex and sophisticated, and we have seen a steady stream of new, innovative financial products coming on the market.



Hong Kong's future and the regulatory agenda

Today will be an opportunity to take stock of these changes and focus on some of the most important areas on our regulatory agenda. As will become clear throughout the course of the day, the main theme running through all of these discussions is Hong Kong's future as China's international financial centre.

I want to be very clear about this right from the start. Hong Kong's status as a leading global financial centre is here to stay.



The numbers are equally encouraging for Bond Connect, with northbound turnover climbing 82% in 2020, and another year-on-year growth of 34% this year up to August.

Southbound Bond Connect began operation in September, and marks another milestone in mutual access between the capital markets of Hong Kong and the Mainland.

Hong Kong's role as a bridge, allowing international investors to access the Mainland market and Mainland funds to flow out to the international market, will be all the more significant.

Looking ahead, our listing policies and regulatory procedures should keep track of market changes. That can boost the competitiveness of Hong Kong listings, reinforcing our status as a premier capital-formation centre.

Hong Kong Exchanges and Clearing Limited (HKEX) has the Government's full support in enhancing our listing regime. I'm sure some of you took part in the recent consultation by the HKEX on the establishment of a listing regime for special-purpose-acquisition companies, or SPACs. With consultation now concluded, our regulators are making concerted efforts to work out a SPAC listing regime that aims to strike that fine balance between market development and investor protection.

HKEX has also concluded its review on our secondary listing regime. Starting from 1 January next year, Greater China issuers without a weighted voting rights structure can secondary list with a lower minimum market capitalisation at listing and without the need to demonstrate that they are "innovative companies".

Hong Kong's asset- and wealth-management business will find a concerted forum spotlight later this morning. The good news is that Hong Kong's fund-management business grew 21%, year on year, to almost HK$35 trillion at the end of 2020. And I'm determined to create more opportunity for the business and its players. fund company structure some three years ago. Last year, the limited partnership fund regime was introduced. Since then, more than 350 funds have set up here in Hong Kong.

Tax concessions are part of the plan. The latest is exempting carried interest payable by private-equity funds operating in Hong Kong from taxation.

We're offering financial incentives, as well. Subsidies of up to HK$1 million are available to each qualifying, open-ended fund company, and as much as HK$8 million for each real estate investment trust.

We're also encouraging foreign funds to establish a presence in Hong Kong. On November 1, we introduced a set of new fund redomiciliation mechanisms designed to attract foreign funds to relocate their registration and operation to this city.

The family office business is also a priority, and InvestHK and regulators now offer one-stop support services to family offices looking to establish, or expand, in Hong Kong. Tax concessions for such offices are also under serious consideration.

Then there's the Guangdong-Hong Kong-Macao Greater Bay Area Wealth Management Connect. It is, ladies and gentlemen, nothing less than a milestone for our asset- and wealth-management sector.

Certainly, our position as the world's largest offshore Renminbi business hub will grow with the expansion of the two-way, cross-boundary fund flow. We count the largest pool of Renminbi liquidity outside the Mainland, and about 70% of offshore Renminbi payments are handled by the banks right here in Hong Kong.

Rest assured, we'll continue to expand channels for the two-way flow of Renminbi funds. Amongst other initiatives, we are looking to allow stocks traded via Stock Connect southbound to be denominated in Renminbi.

We will also continue to enable the issuance of offshore Renminbi bonds. In September, the Ministry of Finance announced its plan to issue in Hong Kong this year Renminbi sovereign bonds totalling RMB20 billion. The Shenzhen Municipal People's Government also issued offshore Renminbi municipal government bonds here in October. These issuances showcase Hong Kong as the premier gateway

Panel 1: Perspectives on the Future of Hong Kong as an International Financial Centre

Moderator:

- **Mr Tim Lui, SBS, JP**
  Chairman, SFC

Panellists:

- **Mr Ashley Alder, SBS, JP**
  Chief Executive Officer, SFC

- **Mr Nicolas Aguzin**
  Chief Executive Officer, Hong Kong Exchanges and Clearing Limited (HKEX)

- **Mr Gokul Laroia**
  Co-Head of Global Equities and Co-CEO of Asia Pacific, Morgan Stanley

- **Mr Charles Lin**
  Vice Chairman, CLSA Group

- **Ms Rachel Lord**
  Chair and Head of Asia Pacific, BlackRock

- **Mr Shen Bing**
  Director-General of the Department of International Affairs, China Securities Regulatory Commission (CSRC)

The panel brought regulators and industry leaders together for a discussion of Hong Kong's future role as a financial centre in light of recent market developments, ongoing geopolitical tensions and closer cooperation between Mainland and Hong Kong regulators.

Hong Kong's strategic position

Hong Kong has unique advantages as a bridge for financial flows between the Mainland and the rest of the world and would continue to play a crucial part in the nation's development, began Mr Tim Lui. Looking ahead, there would be more opportunities for the further opening up of the Mainland market, the development of the Greater Bay Area and the expansion of mutual market access schemes.

Stock Connect had been a game changer for global investors and Mainland markets since it was introduced, noted Mr Gokul Laroia. This trend was not reversible and would only grow as Mainland assets became more attractive. Index inclusion meant that not owning these assets was not an option. Hong Kong's advantages {including its stable, predictable regulatory framework, human capital and physical infrastructure {would not be disintermediated in the immediate future, Mr Laroia added. Accessing Mainland markets directly and accessing them through Hong Kong would always coexist.

Mr Shen Bing said that Hong Kong's unique role as a financial gateway to and from the Mainland would only grow stronger in

manageable. Inbound capital flows would

Regulatory cooperation

Ms Lord said that global investors struggle with the complexity of the different channels for investing in the Mainland, each of which had its own requirements. Hong Kong can help by advocating for harmonising the rules across different channels to make them easier for investors to understand.

Ms Lord added that Hong Kong can play a pivotal, unique role by serving as a bridge of communication between China and global investors. Long-distance observers do not always understand China's positions. Hong Kong, with its proximity to the Mainland and its pool of talent who have a good understanding of the China market, can facilitate the monitoring of developments on the Mainland and provide insightful analysis and research for global investors.

As the Mainland opens up, financial institutions are able to establish a wholly or majority-owned presence onshore, but data controls add complexity. Here, Hong Kong can act as a risk management centre, providing oversight and a centre of excellence in specific business operational areas to support the onshore business eg, threshold reporting, data integrity checks and investment platform support. However, it is important to note that much of the regulatory reporting would require cross-border data transfers.

Complexity was a challenge, Mr Laroia agreed. However, the relationship between the Mainland and Hong Kong capital markets was highly symbiotic because Hong Kong provided access to the global institutional capital the Mainland needed. Stock Connect had been so successful because it provided a fairly straightforward, easy-to-access mechanism to achieve this. There was an opportunity for Hong Kong to provide alternatives which were easy for the industry to understand and accept, he added.

Mr Shen said the extensive, effective cooperation between the Mainland and Hong Kong, particularly between the regulators, had not only helped the Mainland's equity market grow into the world's second largest, but also helped make regulation in the domestic market more transparent and predictable. This cooperation would be strengthened in the future and it was very important for the two sides to work closer together to mitigate the geopolitical and other risks they faced. Together with Hong Kong's stronger role as a financial gateway, this was the best example of the benefits of One Country, Two Systems, he said.

Mr Alder described the SFC's frequent interaction with the CSRC, highlighting the degree to which they understood one another's point of view and worked hard to ensure that market access structures were based on cross-border regulatory

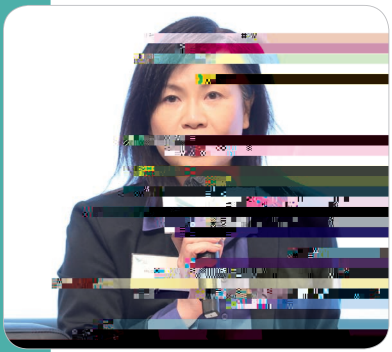
Panel 2: Hong Kong’s position as an international asset and wealth management centre

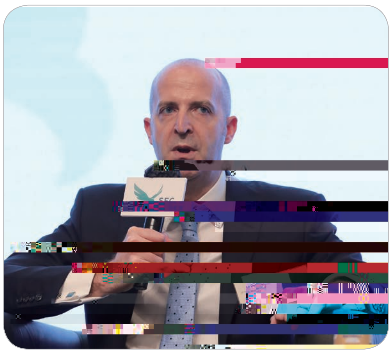
Moderator:

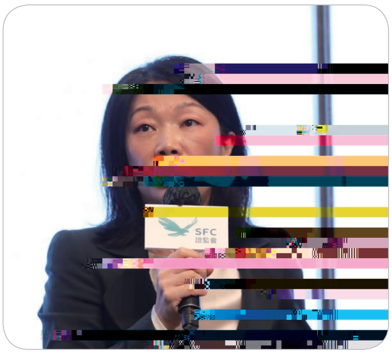
- **Ms Christina Choi**
  Executive Director of Investment Products, SFC

Panellists:

- **Ms Doris Lian**
  Chairperson, Chinese Asset Management Association of Hong Kong (HKCAMA) and Acting Chief Executive Officer, Bosera







Asked to identify the top issues which would affect their business, all four panellists considered that connectivity with mainland China was a top priority. China was the number one strategic growth plan for Mr Dan Watkins' company, and he saw Hong Kong as a gateway to the opportunities brought about by Wealth Management Connect, Mutual Recognition of Funds and other cross-border schemes. Ms Doris Lian said that Hong Kong's position as a cross-border investment centre had been consolidated by these schemes and she expected wealth management demand in the Greater Bay Area (GBA) to fuel Hong Kong's asset management industry.

Mr Ivan Wong added that Hong Kong, as part of China, had also been open and well-connected to international markets, making it well-positioned to add value by assisting the newly-created wealth in China to invest globally while helping global investors tap the investment opportunities in the world's second-largest economy.

Mr Ming Lu remarked that Hong Kong's proximity to the Mainland was a natural advantage, but as the industry witnessed digitalisation bridging distances, it was crucial for Hong Kong to promote connectivity amongst businesses and people and enhance coordination amongst regulators, which remained key differentiating factors. Hong Kong had excelled in implementing various market access schemes and promoting the development of physical infrastructure to better connect with the Mainland. Hong Kong could build on this position of strength to encourage innovation while also providing a sound and dependable market for the financial services industry to conduct business.

Others agreed that digitalisation was a core priority, as it reshaped asset managers' money management, client engagement and business operations, said Mr Watkins. It also changed the distribution landscape as new digital entrants entered the market. Mr Wong attributed the digitalisation trend to the pandemic and the growing number of clients who were more tech-savvy and expected greater convenience, flexibility, simplicity and personalisation. Mr Lu advised that the industry monitor, learn and in many cases adopt new innovations to address fintech disruptions, which span cyber, consumer data, blockchain and tokenisation, amongst others, each of which may play a role in fundraising and in product and asset distribution in the future.

ESG was an important area and Mr Watkins believed sustainable investing would have a fundamental strategic impact and change every aspect of the asset management industry. Ms Lian noted that ESG had become the new normal in investing. She observed that institutional investors were raising the bar for ESG while asset owners and fund managers had begun to divert resources and capital towards sustainable income.

In response to an audience question about ESG challenges and opportunities, Mr Lu said that ESG considerations presented both long-term investment and value-creation strategies for his company as well as a key risk-mitigation tool. He noted that, in practice, considerable efforts were needed to collect data, track performance, measure outcomes and report results. It was clear that asset allocation trends and capital flows were gravitating towards opportunities where ESG considerations were thoughtfully managed. For the private wealth management business, ESG had also become a core, indispensable theme, said Mr Wong. He added that China's pledge to become carbon neutral by 2060 would trigger a tremendous transformation across many industries.

Talent was also a key priority and in a people business like asset and wealth management, Mr Wong viewed talent development as one of the most critical factors for Hong Kong to remain a major financial centre and wealth management hub. Mr Lu agreed, adding that the industry was undergoing a transformative sea change, and Hong Kong should consider appealing to broader categories of professionals, including those with digital and data scientist backgrounds and cybersecurity and blockchain expertise, to ensure that appropriate human capital infrastructure was in place to support the industry in the future.

Ms Lian acknowledged that renminbi internationalisation was a long-term goal of the Chinese Government. She expected a boost in the demand for renminbi-denominated products in Hong Kong.

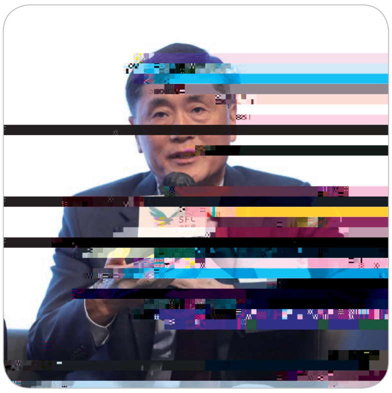
Mainland connectivity and access

Asked about Hong Kong as a platform to leverage Mainland opportunities, Ms Lian highlighted Hong Kong's sound, stable policy

On the new limited partnership fund (LPF) structure, Mr Lu noted that taxation was a key consideration, particularly with regard to the dual taxation of some beneficiaries. While Hong Kong had a favourable and simplified tax regime, it could enhance its positioning by entering into more bilateral tax treaties with more jurisdictions. A secondary consideration was operational costs and professional services networks, which Hong Kong managed well.

Moving on to family offices, Mr Wong stated that a lot of good work had been done to attract more of these offices to establish their presence in Hong Kong. LPFs were especially welcomed by prospective family offices because they could use this private fund structure to hold their investments here, he said.

Lastly, Ms Choi asked what advice the panel would give to asset managers who were looking to have a presence on the Mainland. Mr Watkins responded that they needed to have a clear long-term strategy, stay focused and avoid being taken off-course by short-term distractions. After years of operating in the global market, there were aspects they would have to unlearn and then relearn for the Mainland asset management market. Asset managers had a huge role to play in supporting the development of China's financial market, he concluded.



Panel 3: Deepening market connect schemes

Moderator:

- **Ms Julia Leung, SBS, JP**
  Deputy Chief Executive Officer and Executive Director of Intermediaries, SFC

Panellists:

- **Mr Filippo Gori**
  Chief Executive Officer, Asia Pacific, J.P. Morgan

- **Dr Huang Haizhou**
  Managing Director and Member of Management Committee, China International Capital Corporation Limited

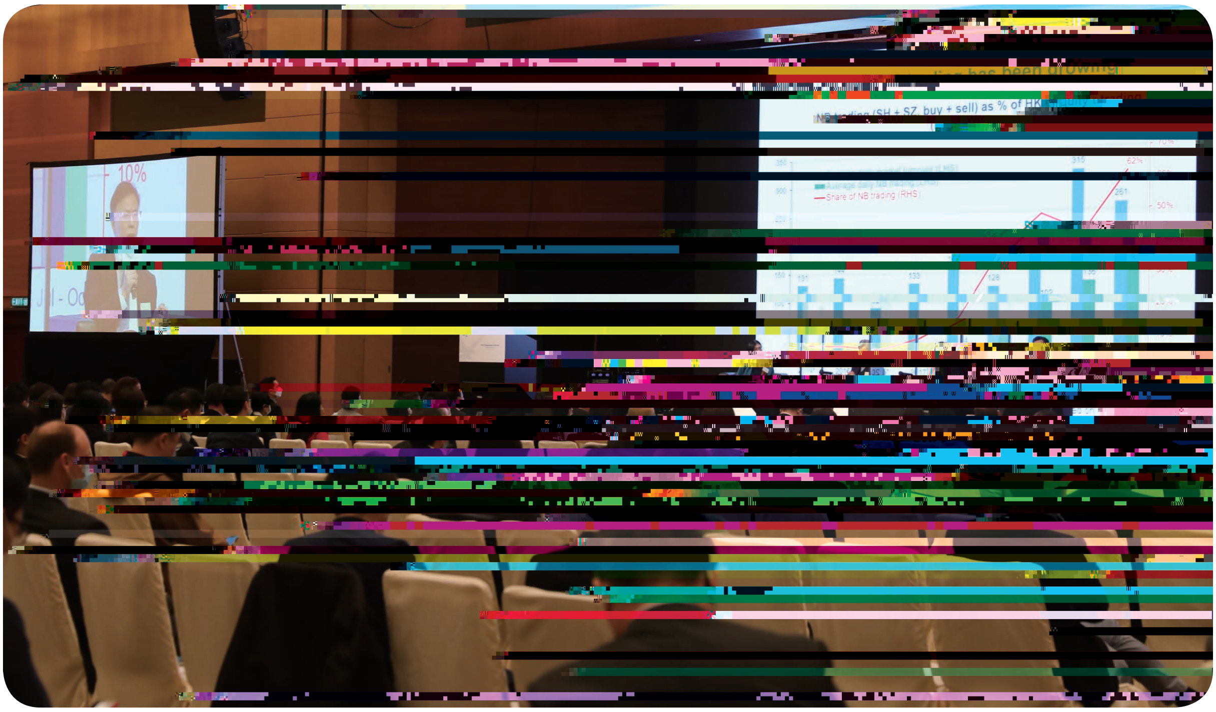
- **Mr Rico Leung**
  Executive Director of Supervision of Markets, SFC

- **Ms Angel Ng**
  Chief Executive Officer, Citi Hong Kong and Macau

The panel examined the role of market connect schemes in bridging capital between the Mainland and other parts of the world as well as Hong Kong's development as a risk management hub. Speakers also discussed the industry's strategies and outlook as the Mainland's financial markets continued to open up.

Ms Julia Leung set the scene by providing an overview of the market reception to the Mainland-Hong Kong mutual market access schemes. Stock and Bond Connect, along with the newest Wealth Management Connect, were the first of their kind to connect the Mainland capital market to the rest of the world. Since Stock Connect was introduced in 2014, the accumulated A-share net buy

Mr Filippo Gori emphasised that the



participants as it played a unique role as an international financial centre connecting the Mainland market with international investors.

Another initiative now underway was the promotion of renminbi counters, Mr Leung continued. There were currently no regulatory barriers to raising funds in renminbi or setting up a renminbi counter for secondary market trading, but market interest remained low. It would be worthwhile to consider initiatives which help develop an active renminbi counter market to strengthen Hong Kong as a leading offshore renminbi centre and facilitate renminbi internationalisation.

Dr Huang shared the view that Hong Kong had key advantages in developing its renminbi businesses, given its sizable liquidity pool and the flexibility allowed for financial institutions to develop hedging instruments.

Asked whether Hong Kong's super-connector role was sustainable as China continued to allow direct foreign participation, Mr Gori considered that direct access was feasible but remained complicated. Amongst the available options to access the onshore capital markets, firms showed a clear preference for trading through the Connect schemes as they were the easiest to understand and execute. He noted that multinational companies had an edge in offering services to support cross-border flows, especially for investments coming into the Mainland via Hong Kong. Amongst retail businesses, expanding onshore asset management was a recent focus.

In Ms Ng's view, Wealth Management Connect served an added purpose compared with other cross-border trading programmes. It helped Mainland investors diversify asset allocation away from the present over-concentration on properties and stocks. When trading through Hong Kong, investors enjoyed a wide choice of products, professional advisory services and a high degree of confidence provided by thorough product due diligence. She also noted that investor education for the newly launched Wealth Management Connect was a priority for financial institutions.

Potential risks

Turning to the other side of business operations, Ms Leung pointed out that opportunities came along with risks, particularly with the COVID-induced extreme market volatility and operational risks in the past few years, as well as geopolitical risks, sanctions, regulatory risks and the risks of losing staff. She asked the panel about the major risks to expect in the coming year.

Panel 4: Fostering a high-quality listing market in Hong Kong

Moderator:

- **Ms Megan Tang**
  Senior Director of Corporate Finance, SFC

Panellists:

- **Ms Bonnie Y Chan**
  Head of Listing, Hong Kong Exchanges and Clearing Limited (HKEX)

- **Ms Ding Chen, MH**
  Chief Executive Officer, CSOP Asset Management Limited; Permanent Honorary Chairperson of HKCAMA and Director of Financial Services Development Council and Mainland Opportunities Committee Convenor

- **Ms Catherine Leung**
  Chairperson, Chamber of Hong Kong Listed Companies and Co-Founder and Partner, MizMaa Ventures Ltd

- **Mr David Wong**
  Senior Investment Strategist, Head – Asia Business Development, Equities, Co-Chair – Responsible Investing Steering Committee, Asia-Pacific, AllianceBernstein Hong Kong Limited

Panellists discussed how Hong Kong's listed market had changed in recent years and what could be done to enhance the listing regime. They also examined the essential attributes of a quality fund-raising platform.

Evolving market trends

When the SFC held its last forum in 2018, it dealt with conduct issues and problems such as backdoor listings, shell manufacturing,

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In other cases, some of the underwriting commissions were paid to the IPO subscribers, in effect giving them rebates on the IPO offer price. These arrangements distorted the price discovery process and artificially inflated the offer price, Ms Tang said.

Market Transformation over 20 Years

Market capitalisation by industry sectors

2000

Others
7%

Industrials
7%

2020

Others
10%

Industrials
4%

Source: HKEX and SFC analysis

Cross-border enforcement posed a greater challenge to the Hong Kong market because most listed companies were located offshore. Therefore, a greater onus was placed on the front end of the regulatory process, from vetting and rule-making to other interventions to protect the market and investors.

Meanwhile, Ms Tang continued, the wrongdoers who were looking to abuse the market and take advantage of investors were well-resourced and constantly updated their strategies. Protecting Hong Kong's reputation as an international financial centre was essential to be able to pursue new market opportunities and expand the listing platform.

While the financial sector and conglomerates had produced Hong Kong's largest listed companies in the last 20 years, there had been a shift to the information technology and consumer sectors, as was evident in other markets.

Ms Tang noted that more than half of the listed companies in Hong Kong had a market capitalisation of $1 billion or less, but these accounted for only 1% of market turnover. However, companies with a market capitalisation of more than $100 billion contributed 60% of market turnover, even though they made up only 3% of all listed companies. In the last five years, more than 75% of the SFC's regulatory actions against corporates were related to the smaller companies, she said.

Ms Chan also stressed that the cornerstone for making Hong Kong a quality listing market is upholding market integrity. To capture the opportunities, the key is to match people who have capital with people who need it, in an orderly manner. The rules and regulatory regime need to be fit for purpose and keep up with changes in the investor and issuer profiles over time. Otherwise, there may be a lack of attractive investment opportunities. The listing of development-stage mining companies in 2009 and the introduction of the regime for pre-revenue biotech companies in 2018 had been breakthroughs, and the next step was to consider artificial intelligence, autonomous driving and other innovative companies.

Ms Leung said that when thinking about introducing another platform for new types of companies to obtain financing, a main consideration should be whether quality institutional investors want to participate in it. The platform should be more focused on institutional investors in the beginning and opened to retail investors later, Ms Leung said.

Mr Wong said that the participation of retail investors should be encouraged as their participation in the market would add to liquidity. Newer companies can often offer significant opportunities for returns, and anyone who invests in equities understands that they are taking on some amount of risk, he added.

Ms Chan echoed his comment that the profile of retail investors had changed significantly over the last few years and they now understood the risks better thanks to the ready availability of information and discussions on social media.

Mr Wong added that the SFC has provided an excellent regulatory and supervisory environment which has allowed Hong Kong to remain the foremost institutional market for investors in Asia. There was also a need to keep improving governance standards in Hong Kong so that it remained attractive for international capital, he said, noting that Hong Kong's strong GDP growth provided tailwinds for higher profits and revenues, but earnings per share growth had not matched the US market over a 25-year period.

Hong Kong was a unique market in many ways, Ms Chan concluded, and it should not just copy other jurisdiction's regulatory regimes. In fact, Hong Kong had a successful track record creating its own version of the rules based on what is best for the market here.

Panel 5: How law enforcement agencies are

Moderator:

- **Mr William Hallatt**
  Partner, Co-Chair of Global Financial Regulatory Group, Gibson Dunn

Panellists:

- **Mr Thomas Atkinson**
  Executive Director of Enforcement, SFC

- **Mr Marek Grabowski**
  Chief Executive Officer, Executive Director, Financial Reporting Council

- **Mr Sean Lam**
  Senior Managing Director, FTI Consulting

- **Mr Jon Witts**
  Head of Enforcement, Listing Division, Hong Kong Exchanges and Clearing Limited (HKEX)

- **Mr Wong Chi-kwong**
  Chief Superintendent of Police (Commercial Crime Bureau), Hong Kong Police Force

Mr Jon Witts agreed that corporate fraud was

When asked whether fines alone could be sufficient to change culture and behaviour, Mr Atkinson remarked that, for example, in initial public offering sponsor cases, the SFC suspended firms from operating in addition to imposing fines, and the licences of key individuals were suspended in over one-third of these cases. Positive changes had been seen at the senior levels of large firms under the new sponsor regime, he added, and although the MIC regime was not an enforcement tool, it had helped firms better understand their internal controls and

Mr Lam observed that fraudulent activities were becoming more complex, particularly in cases involving networks of companies. More public domain data was being collected which could be analysed using technology and artificial intelligence to identify trends and relationships.

In the coming year, Mr Witts expected that HKEX's enforcement would remain very active and there would likely be more cases involving newly-listed companies. Mr Lam concurred, saying that enforcement cases would increase, particularly financial reporting

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