



Opening remarks at SFC media luncheon

Mr Ashley Alder
Chief Executive Officer

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Thank you for joining us today. We always welcome informed press coverage of our work, and we recognise the importance of reporting all views whether they are supportive or critical of what we do.

Now to state the obvious, it is clear that Hong Kong's capital markets are larger and far more complex than ever before.

As a result of this, both we and our Mainland counterpart – the China Securities Regulatory Commission (CSRC) – are especially focussed on the opportunities but also the risks associated with far greater cross-boundary market connectivity and the associated capital flows.

I have spoken on other occasions about the need for us to work closely with the CSRC to manage some of these cross boundary risks – and I should say here that the level of cooperation is now even better than ever.

But today I would like to say a word about how we are making big changes to the way in



and fair markets, as well as a related statement made with the Stock Exchange aimed at the directors of companies wanting to list on GEM. We also sent a clear message that we will not hesitate to take enforcement action if our expectations were ignored.

The resulting behavioural change in firms was immediate. IPO share placings became more balanced, some sub-par listing plans were withdrawn and most IPOs started to include public offers. Investors and the markets therefore benefitted straight away. We know that this didn't solve all the problems in GEM at a stroke, but it certainly had a big impact.

And it's important to understand that in doing this we were using our own statutory listing rules, which carry legal force. These rules exist alongside the Exchange's own non-statutory rules. They enable us to intervene directly as a market gatekeeper when a matter is sufficiently serious or systemic to warrant early SFC action, recognising that enforcement often only comes into play after irreparable harm has been done to investors.

And we will continue to deploy this front loaded approach in other aspects of listing regulation. We recently issued guidance on how we would look to apply these statutory listing rules to encourage IPOs of suitable "One Belt, One Road" companies. We also hope shortly to tackle a long standing problem of unrealistic valuations used to support suspicious asset disposals or acquisitions by listed companies.

A similar, upfront approach is also being taken outside listing regulation. So, for example, the division that inspects brokers and other firms licensed by us will increasingly concentrate on thematic reviews of the higher risk areas alongside the more usual inspections. An important part of this is to flag publicly our areas of concern early on: when firms already know what we are interested in, it's more likely that they will have fixed big failings before we arrive in their offices to do an inspection. We have recently done this in the areas of cybersecurity and anti-money laundering, using workshops and other intensive communications with industry. It's all about proactive regulation to prompt fast behavioural changes.

Time is too short to give you more examples. But the main point is that we will be far more direct, upfront and transparent in how we regulate as a gatekeeper and as a market supervisor. And of course back-end enforcement will always remain a critical part of what we do: deterrence and remediation are an essential part of our armoury. H87awence umioslob the. u(ykmmess
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