SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Speech

Importance of capital markets professionalism and the role of regulators

James Shipton
Executive Director of Intermediaries

17 June 2014

Introduction

I would first of all like to congratulate the Asia Capital Markets Institute (ACMI), and its managing director Brian Tang in particular, for the successful launch of this summit. You are to be commended for providing an important platform to promote professionalism - that is skillful and conscientious behavior - in the capital markets.

Through organisations like the ACMI, different parts of the capital markets ecosystem ranging from investors and the buy-side, sponsors, experts, the sell-side, service providers and listed companies including many of you who are sitting here in this room today are able to work collectively and collaboratively towards ensuring and improving professionalism and market integrity in Hong Kong and beyond.

From a regulatory perspective, the focus on professionalism and capital markets integrity is

recognise that the levels of professionalism, conduct and culture of individual stakeholders directly impact the integrity of the market. I have personally come to the view that unless each and every component of the market is acting with integrity you cannot achieve the goal of market integrity.

Accordingly, what regulators around the world are now realising is that the root cause of the financial crisis, and the resulting trust deficit the financial industry has with the public at large, cannot be solved by applying prudential and market-structure regulations alone. Instead we t and how decisions are made by market participants. An extremely relevant question to ask in this regard is whether the right levels of professionalism are being applied by the industry?

So, it is of no surprise that there has been growing attention paid by global regulators on issues of professionalism, culture and ethics. William Dudley[1], Head of the Federal Reserve Bank of New York, made the sobering conclusion last year that there is still evidence of -seated cultural and ethical failures at man

Christine Lagarde[2], Managing Director of the International Monetary Fund, remarked a few weeks ago in a speech that simply addi3(l)5(d)8n[w)15(ee)fe(t)-4(i)5(on)3(sd6B40)6(3(l)5(d)8n[w)15(ee))6(f

Carney[3],Governor of the Bank of England, has also echoed these sentiments by recently

in a
different way an industry acting professionally that is conscientiously and skillfully.

Our old colleague Martin Wheatley, now leading the Financial Conduct Authority in the UK, has also spoken on ethics and culture at firms at great length and weighty organisations like the Financial Stability Board have issued worthy tomes on the subject. Importantly, what is

- Fairness
- Reputation
- Character and
- Reliability

These elements are fundamental to the notion that professionalism, ethics and values is imbedded in the regulatory regime that governs our industry.

At the SFC, this all means that we will be broadening our regulatory approach to our licensed entities focus not just on the traditional control systems & procedures framework at firms, but that is, the culture and leadership dimensions of businesses. In essence, more regulatory attention will be paid to the human dimension, the human element, particularly to the drivers of decision making and conduct within licensed entities.

Incentives / Disincentives

One key driver of behaviour and professionalism is incentives and a lot of attention has been paid by regulators and the industry in this regard. Nevertheless, in my observation, there is not enough focus by firms on incentivizing the correct behavior and professionalism and an over reliance on disincentivising bad behaviour. I think the principal way to make people proactively think about issues is the incentives in so doing. What is needed as I have said before then is a combining of the proverbial stick to the carrot, as punishment and de(ce,)813(r)-3(r)-3(o)13e

proaTJET EMC /P <</MCID 7>>BDC BT1 0 0 1 70.944 58.291.2 Tm[pa)3(he)3(se)-3(e is)13(0)-4c(i)5(ul)5( )-4)-4( )-4(ap)3(c(s(oETBT1 0 0 1

[redacted]

Organisational culture and leadership is important since professionalism, ethics and values unless there is an environment that nurtures and promotes these principles that is an erred both because it will go a long way to

protect firms from both legal and reputational risk. If nothing else, applying an ethical standard is the right thing to do.

alignment of their control priorities and their control culture with their business strategy and decision-making processes. looking at licensed firms to see whether these principles are, in fact, imbedded in their businesses and operations.

Cross-departmental Initiatives

divisions are also actively engaged in ensuring that higher standards to protect the investing public are being pursued. As many of you already know, starting this year, the SFC has taken on a broader, more proactive oversight of listed companies as a corporate regulator. As a first step, we have set up a Corporate Regulation team under our Corporate Finance Division to review company announcements, circulars and reports, and to conduct periodic in-depth reviews of companies on a risk-based approach. By actively detecting misconduct

role in maintaining quality markets and high corporate governance standards as well as protecting investors.

Regulatory oversight of listed companies has also come in the form of our new IPO sponsors regime[4], which came into effect in October of last year, and which aims to enhance the IPO gatekeeping process and the quality of listings.

Creating a virtuous cycle and self-regulation

Returning to the challenges of professionalism, culture and leadership, I have already highlighted the enhanced role of regulators. Nevertheless, only through industry-led initiatives can there be real on-the-ground and in-the-markets change. Ultimately, I am speaking of a market eco-system where there is a self-reinforcing culture of adherence to high ethical standards by market participants. What I have also observed in my 12 months which is exactly today at the SFC so far is that market participants do not externally expect high enough standards of each other and of their clients and counterparties. Each firm appears to be reluctant to express, let alone require, the best standards of the people and the entities it does business with.

One practice that the industry should consider using more of, but which has gone out of
[5] has forcefully come
ced when bad behavior arises. This element of self regulation has been entirely delegated to the regulatory process which is a shame.

Accordingly, it would be worthwhile for organisations like the ACMI to look into ways and means that the industry can create a virtuous cycle of heightened expectations and