



Resilience, right conduct and integrity of the wholesale market

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Good morning. It's an honour to be invited to give this opening keynote for the ASIFMA Compliance Asia Conference 2022.

My address today will focus on two major themes—the resilience of our capital markets and the institutions participating in them, and conduct issues in the wholesale market.

You might ask, shouldn't the behaviour of institutional players in the wholesale market be a matter to be resolved amongst themselves? Why should regulators be concerned?

As a global financial centre, Hong Kong has a huge wholesale financial services industry that is part of an integrated capital market spanning the globe. Risks originating in Hong Kong may reverberate in



policies and lockdowns and Sino-US tensions. These add to the challenges faced by market participants in maintaining operational efficiency and retaining talent in Hong Kong.

In this context, resilience, not cash, is king. However, our capital markets are only as resilient as the institutions participating in them. When markets reverse, the first participants to go under are typically those with highly leveraged and concentrated positions.

The SFC prioritises financial system resilience above everything. To this end, we are constantly seeking to identify the sources of stress so we can deal with them.

Financial resilience

Securities margin financing (SMF) brokers are particularly exposed to credit risks in times of high volatility. We introduced the SMF guidelines in 2019 to address the deteriorating quality of margin loans and excessive concentration risks—



Futures brokers' risk management

Recent shocks in the futures market—most notably crude oil futures trading at negative prices in April 2020 and the suspension and cancellation of nickel contracts by the London Metal Exchange in March 2022—underscored the challenges regulators face in times of market volatility and geopolitical fragility.

When extreme events occur, large position takers who incur severe losses may be subject to huge margin calls. Significant defaults may put futures brokers' own capital at risk, as they will have to satisfy their own obligations with the clearing houses. If futures brokers have inadequate funds to meet them, other clients' funds that are commingled at the clearing houses may be jeopardised. To mitigate these risks, we will soon consult the market on proposed risk management guidelines for futures brokers.

Climate resilience

The urgent need to do something about the threat of climate change is another priority of the SFC. Our new climate-related disclosure requirements for fund managers and funds will make it easier for investors to make informed decisions about green funds. This kind of regulatory support is essential to ensure our market is resilient against climate risks.

From this August, fund managers managing collective investment schemes will be obligated to take climate-related risks into consideration in their investment and risk management processes and to make appropriate disclosures² in phases. This will help investors get the information they need and protect them against green washing.

The SFC also plays a leading role in major international initiatives to promote green and sustainable finance. In March, the IFRS Foundation's International Sustainability Standards



liquidity pools. The platform also supports cross-firm analysis—for example, of trading activities conducted by a single person across different firms.

During the