

Hong Kong Capital Markets Update

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SFC relaunches the Enforcement Reporter to provide latest updates on its enforcement work and priorities

On 8 December 2016, the Securities and Futures Commission (SFC) relaunched its [Enforcement Reporter](#) (ER) as a biannual newsletter to provide regular updates of its current enforcement work and priorities to the market.

New Enforcement Approach and Priorities

The SFC conducted a strategic review of its enforcement priorities and identified a number of areas to focus its enforcement efforts.

Notable Enforcement Priorities

- Corporate fraud and misfeasance

Recognising the significant damage to the integrity and reputation of the Hong Kong capital markets and the huge capital losses suffered, listed company-related fraud and misfeasance is identified as the top enforcement priority. The SFC has formed a specialised team to focus on these cases.

- Anti-money laundering (AML)

To fight against crime and terrorism, the SFC expects its licensees to treat their AML responsibilities seriously and implement effective AML internal controls (i.e. "Know-Your-Client" procedures) which comply with the regulatory requirements. Suspected AML internal controls inadequacies are investigated by a specialised team and tough sanctions will be imposed on licensees who commit regulatory breaches.



Financial Action Task Force (FATF) Review ¹

Hong Kong will be subject to a review by FATF in 2018. To avoid being labelled as a high-risk jurisdiction by FATF, it is expected that financial regulators will focus on the internal controls and processes over AML procedures.

The directors and senior management of those corporates or institutions are suggested to prioritise establishing a work plan to ensure compliance with the relevant rules and regulations.

- Growth Enterprise Market (GEM)

Noting the significant volatility in the share price of some newly listed GEM companies and that shell creations on GEM may put investors' interests at risk, a specialised team has been formed to investigate suspected misconduct in this area and the SFC will take appropriate actions as and when needed to address the issue.



Share Price Volatility

Directors of GEM companies should be mindful as to whether extreme share price volatility may actually be due to certain corporate information that should be disclosed to the investing public.

¹ FATF is an inter-governmental body for combating money laundering, terrorist financing and other related threats to the integrity of international financial system. Its work includes the identification of those high-risk and non-cooperative jurisdictions with strategic deficiencies in their frameworks to combat money laundering and the financing of terrorism and proliferation.

• Market surveillance

The SFC surveillance team detected a rise in cyber-hacking customer accounts to profit by trading into the volatility created and incidences of extreme high shareholding concentrations. The SFC surveillance team shared intelligence with the HK Police and international agencies to curb cyber-hacking related activities and the SFC continues close monitoring of market irregularities.

Focusing on Systemic Problems

Going forward, the SFC will collectively assess multiple breaches within a company or a corporate group for systemic weaknesses. The SFC believes taking a holistic enforcement approach with a focus on tackling systemic issues promotes a good compliance culture and deters corporate internal control failures.



SFC's Tips to Market Players

- Cooperate with the SFC as early as possible during their enforcement actions
- Report any material misconduct found to the SFC
- Implement effective internal control systems and procedures to safeguard against non-compliance
- Ensure senior management is fully aware of their responsibility towards corporate misconduct



Corporate Governance

With the SFC focused on holding individuals responsible for their misconduct and inappropriate management, the number of directors and senior management of listed corporates held liable for breaches is expected to increase.

Directors and senior management should strengthen the corporate governance structure to mitigate conflicts of interest and safeguard against inappropriate management.

A good corporate governance structure can support the corporate's long-term development and improve operating efficiency, which serves as fundamental to success for all corporates.



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