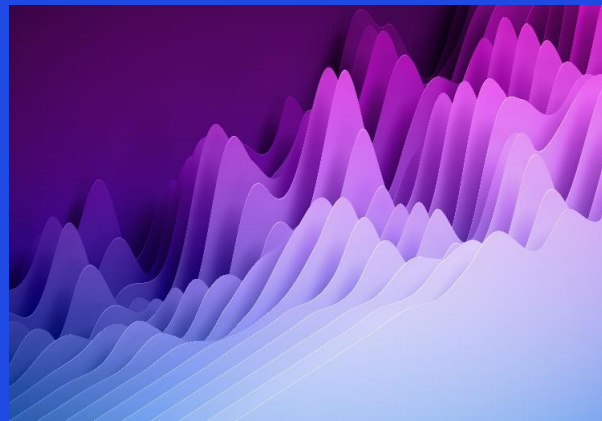


# SFC Annual Report: Key takeaways for financial institutions



July 2022

On 22 June 2022, Hong Kong’s Securities and Futures Commission (SFC) published its Annual Report 2021-22<sup>1</sup> which sets out its strategic priorities. In this brief, KPMG presents a summary of the SFC’s strategic priorities and discusses how they may impact regulatory enforcement and oversight in the coming year.

Implementation of **Supervisory Technology (“SupTech”)** by the SFC to monitor the strength of institutions’ regulatory compliance processes and encouraging institutions to adopt **Regulatory Technology (“RegTech”)** are key themes that run across the SFC’s strategic priorities and recent speeches by senior executives. As regulators use more and more advanced data analytics, financial institutions will come under increasing pressure to integrate equivalent technology into their regulatory compliance frameworks. **We see the effective use of RegTech as essential to keep pace with these developments.**

## Listing



- May ‘21 joint statement with SEHK on higher scrutiny of listing applications
- Imposed listing conditions on problematic IPOs using powers under the SMLR<sup>2</sup>
- New SEHK rules to hold individuals accountable for misconduct/rule breaches
- Recent SPAC<sup>3</sup> listing regime to provide alternative route

- Incorporated OTC derivatives data to monitor potential exposure concentration
- Reviewed OTC derivatives market through questionnaires
- Recent stress tests on mainland China’s property exposures
- Joint annual survey with HKMA on sale of non-exchange traded investment products
- From August 2022, new conduct requirements for book-building activities, and fund managers to considering climate-related risks

## Intermediaries



## Asset and wealth management



- Cross-boundary Wealth Management Connect Pilot Scheme in GBA<sup>4</sup>
- New supplementary product design guidance for ILAS<sup>5</sup>
- New regulatory activity RA 13 to supervise depositaries of SFC-authorized funds
- Launch of grant scheme for OFCs<sup>6</sup>, supporting their growth
- Worked with CSRC<sup>7</sup> to enhance the mainland China-Hong Kong Mutual Recognition of Funds scheme, relaxed sales limits and reduced overseas restrictions

- Provide risk management tools for global investors to hedge exposures in the A-share market
- Working group with HKMA and HKEX to promote use offshore RMB investments
- Preparing proposed amendments to OTC derivatives reporting for new RA 13 regime
- Implement investor identification by end '22, OTC securities transactions reporting by Q2 '23
- Consulting on subsidiary legislation for paperless securities market<sup>8</sup>

## Markets



## Enforcement



- Continue tackling investment fraud and online platform scams
- Increase efforts against misappropriation of assets and IPO-related fraud
- Close watch on intermediaries' misconduct; Manager-In-Charge regime to identify culpable individuals
- Strengthen collaboration with local, national and global regulators and law enforcement

- International cooperation to align on and implement sustainability reporting standards
- Local cooperation to implement Green and Sustainable Finance Cross-Agency Steering Group
- Working with SEHK to promote corporate climate reporting
- Support Hong Kong's Climate Action Plan 2050 to achieve carbon neutrality

## Green and sustainable finance



## Communications



- Proactive strategy to articulate regulatory initiatives and policies to stakeholders and wider public
- Use cross-communication platforms and media toolkits to ensure messages are consistent, compelling and timely

- Updates to WINGS<sup>9</sup>, an integrated online platform:
  - New licensing functions for secure licensing submission, payment and communication
  - Updated functions for financial returns
- Developing a new back-end data analytic platform to assess brokers' compliance

## Technology



## Regulatory collaboration



- Foster collaboration nationally and globally
- Senior executives have taken leadership roles in IOSCO's<sup>10</sup> and FSB's<sup>11</sup> committees and working groups
- Cross-boundary cooperation with Mainland regulators to ensure smooth implementation of market development initiatives

## References

<sup>1</sup> Hong Kong Securities and Futures Commission, Annual Report 2021-2022, June 2022, [https://www.sfc.hk/-/media/files/ER/Annual-Report/21-22/annual-report-21\\_22-full\\_e.pdf](https://www.sfc.hk/-/media/files/ER/Annual-Report/21-22/annual-report-21_22-full_e.pdf)

<sup>2</sup> SMLR: Securities and Futures (Stock Market Listing) Rules

<sup>3</sup> SPAC: Special Purpose Acquisition Companies

<sup>4</sup> GBA: Guangdong-Hong Kong-Macau Greater Bay Area

<sup>5</sup> ILAS: Investment-Linked Assurance Scheme

<sup>6</sup> OFC: Open-ended Fund Companies

<sup>7</sup> CSRC: China Securities Regulatory Commission

<sup>8</sup> Framework set out in the Securities and Futures and Companies Legislation (Amendment) Ordinance 2021

<sup>9</sup> WINGS: An integrated online platform for SFC electronic forms and submission services

<sup>10</sup> IOSCO: International Organization of Securities Commissions

<sup>11</sup> FSB: Financial Stability Board

## Resilience, right conduct and integrity of the wholesale market

On 28 June 2022, Julia Leung, Deputy Chief Executive Officer and Executive Director, Intermediaries, delivered a speech on the regulation of Hong Kong's wholesale market<sup>12</sup>.

This speech highlighted the following areas of focus for the SFC on wholesale market regulation:

- The SFC is currently conducting a thematic review of **OTC derivatives activities** in Hong Kong to assess prevailing market practices and probe firms' risk management, assessment and escalation practices.
- The SFC plans to address concerns raised by recent shocks in the futures market through a consultation on **proposed risk management guidelines for futures brokers**.
- The SFC will shortly commence a thematic review of **market sounding activities** with an aim to consider potential conduct standards for market soundings in Hong Kong.
- The SFC has been developing a data analytics platform driven by big-data and artificial intelligence (AI) to **identify potential misconduct in equities trading such as uncovered short selling, wash trading, spoofing and pricing anomalies in alternative liquidity pools**. This 'Supervisory Technology' (SupTech) uses data collected from institutions through the Data Standard – Order Life Cycle ("DS-OL").
- The SFC **strongly encourages institutions to adopt AI and machine learning** to detect misconduct more quickly.

**KPMG is working with financial institutions in Hong Kong to help them address the impact of evolving market conditions and regulatory requirements. Our Risk and Technology Consulting teams can advise across all areas of the regulators' agenda, including:**

1

Adoption and validation of Regulatory Technology' (**RegTech**) solutions including the use of AI and machine learning to identify market misconduct

2

Supervision and risk management of **OTC derivatives activities** including where 'remote booking' models are adopted to book positions overseas

3

Implementation of the SFC's new Fund Manager Code of Conduct requirements on **Climate Risk Management**

4

Implementation of the SFC's new conduct requirements for **book-building activities** which become effective in August 2022

5

Implementation of the SFC's new investor identification regime at trading level for the securities market in Hong Kong (**HKIDR**) and over-the-counter securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong (**OTCR**).

<sup>12</sup> *Hong Kong Securities and Futures Commission, Keynote speech at ASIFA Compliance Asia Conference 2022 by Julia Leung, June 2022, <https://www.sfc.hk/-/media/files/ER/PDF/Speeches/20220620ASIFMA-Compliance-2022DCEO-speechFinal-Publish-versionEngl.pdf>*

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