What the Research Tells Us: The SFC

The SFC adopted a more streamlined and specialised approach to enforcement last year, focussing on high priority cases posing the greatest risks to investors and market integrity. Nevertheless, overall activity levels still increased in the year to March 2017, with the regulator completing 591 investigations (up by 36% on the previous year), and HK$93 million in fines (against $87 million the year before).

This rise in activity was supported by a slight increase in both staff numbers (from 841 to 867) and, more substantially, in expenditure (from HK$1,586 million to HK$1,719 million, up). Priorities have been AML, with a number of high profile cases and relatively high fines against firms; internal controls, with the regulator showing it's ready to impose heavy fines for clusters of smaller breaches to ensure improvements in behaviour; and culture, being driven in future by the implementation of the new Manager-In-Charge (MIC) regime announced in December 2016.

The SFC has also sent strong messages to firms in a couple of other areas: irresponsible authorship, for which it banned a US-based activist short seller based from dealing in the Hong Kong market for five years; and nepotism, following a US$264 million settlement paid to the US SEC, DOJ and Federal Reserve Board of Governors over charges under the Foreign Corrupt Practices Act for allegedly offering internships to the children of Chinese government officials in exchange for lucrative business deals.

Many of these priorities will continue in 2017 and beyond. On nepotism, the SFC has promised to start a fresh investigation against a Hong Kong entity involved in the US case; AML, too, continues to be a priority, with the SFC having a dedicated team targeting customer due diligence failings.

The SFC's top priority, by its own statements, however, is corporate fraud and misfeasance, which it holds responsible for billions in market capitalisation wiped from Hong Kong stock markets in recent years. Two dedicated teams at the regulator have been established to tackle this. It also has concerns about the GEM, the alternative stock market to the Main Board of the Hong Kong Stock Exchange. It offers investors opportunities in 'high risk, high growth' companies, according to the market's own publicity.[1] The SFC has expressed concern regarding the rise in the number of shell companies created and listed on GEM and has formed a dedicated team to investigate suspected misconduct in this area.

1 http://www.hkgem.com/aboutgem/market/e_main.htm