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Regulatory and Technical Updates

HKEX Strategic Plan 2016-2018



Hong Kong Exchanges and Clearing Limited (“HKEX”) announced its Strategic Plan 2016-2018 on 21 January 2016, outlining the development roadmap for HKEX.

HKEX’s strategic goal in 2016-2018 is to extend and deepen its value proposition as China and the world markets accelerate their mutual integration. The key themes are to:

1. Build the most effective platform for cross-border market access; and
2. Develop a unique destination market in Hong Kong for products with both Chinese and international relevance.

The plan includes HKEX’s business strategy for its three asset classes: equity, commodities and fixed income and currency. It also covers the company’s goals in client relationship management and platform enhancement as well as market microstructure and regulation.

Strengthen the ESG Guide

On 21 December 2015, strengthening the Environmental Social and Governance Reporting Guide (“ESG Guide”) was decided by The Stock Exchange of Hong Kong Limited (“SEHK”) in its Listing Rules after its consultation on proposed changes to upgrade the disclosure obligation of

the ESG Guide met with strong support from a broad range of respondents.

Some major changes to the ESG Guide and related Listing Rules include:

- the upgrade of the General Disclosures in the ESG Guide to “comply or explain” and the revised recommended disclosures that have taken effect from 1 January 2016; and
- the upgrade of the Key Performance Indicators in the “Environmental” Subject Area to “comply or explain” that will take effect from 1 January 2017.

The SEHK publishes guidance letter on cash company rules



The SEHK issued a guidance letter on 21 December 2015 on its application of the cash company provisions of its Rules Governing the Listing of Securities on the SEHK (“Listing Rules”) to large scale fundraisings.


Under the Listing Rules, a cash company, i.e. a company whose assets consist wholly or substantially of cash or short-dated securities, is not suitable for listing. There is no prescribed quantitative threshold in the Rules for defining a cash company. Once an issuer is considered to be a cash company, its application for resumption of trading would be treated as if it were a new listing application. When making the assessment, SEHK considers not only the issuer’s cash

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level, but also the background facts and circumstances of the issuer's business, operations and financial position.

The guidance letter reflects SEHK's approach in applying the cash company part of the Listing Rules to fundraising activities. Under the guidance letter, where SEHK considers that: (i) a proposed fundraisings will render a listed issuer a cash company under the Listing Rules; and (ii) the fundraisings would be a means to list a new business which is unsuitable for listing, it will evaluate the listed issuer's business against the requirements for a new listing. The SEHK encourages listed companies planning large scale fundraisings to consult the Exchange at the earliest opportunity to seek guidance on the application of the cash company provisions.

SEHK publishes report on the review of disclosure in issuers' annual reports


 In order to improve transparency and promote a fair, orderly and informed market, the SEHK published a report on 29 January 2016 which set out the findings and recommendations from its review of issuers' annual reports (excluding the annual reports of authorised collective investment schemes) for the financial year ended 31 December 2014.

According to the report, a vast majority of issuers continue to comply with the Listing Rules, but there are some areas where issuers can improve their disclosure and fully follow the relevant guidance on best practices, particularly on the areas of (1) continuing connected transactions, (2) contractual arrangements adopted by issuers, (3) disclosure of significant changes to issuers' financial performance and reliance on key customers in the management discussion and analysis section, and (4) equity fundraising.

SEHK intends to cover most of the

areas reviewed in this report for the next review that covers annual reports for the financial year ended between 31 January and 31 December 2015. In particular continuing connected transactions will continue to be an area of focus. Issuers should note the findings and recommendations of the report and follow the relevant guidance.

Publication of Listing Document Simplification Guide


 On 2 February 2016, the SEHK published the Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications ("Listing Document Simplification Guide") with a view to encouraging listing applicants and their advisers to produce and maintain a concise and effective listing document which is user friendly for investors.

The structure of the Listing Document Simplification Guide includes three parts:

- General guidance on producing clear and concise listing documents;
- Consolidated and updated version of a number of the SEHK's guidance letters on disclosures in listing documents, mostly included under the title "Simplification Series" ("Consolidated Guidance"); and
- Online hyperlinks to: sample "Summary of the Constitution of the Company and the Companies Law" sections of listing documents of applicants incorporated in Bermuda, the Cayman Islands and Mainland China; and the corresponding sample constitutional documents for the applicants.

Applicants which intend to submit their listing applications on or before 30 April 2016 may comply with either the Consolidated Guidance or the guidance letters on disclosures in listing documents, mostly included under the title "Simplification Series", while they should comply with the Consolidated Guidance if they intend to submit their listing applications after 30 April 2016.

SFC published conclusions on the over-the-counter ("OTC") derivatives clearing and reporting obligations

 On 2 February 2016, the SFC issued the conclusions on introducing mandatory clearing (Phase 1 Clearing) and expanding mandatory reporting for OTC derivatives market (Phase 2 Reporting) ("the conclusions paper"). Highlights of the conclusions paper regarding Phase 1 Clearing include:

- indication that the commencement of Phase 1 Clearing is 1 September 2016, subject to the legislative process;
- seeking views on the initial list of "financial services providers" (who are one of the groups of prescribed persons on whom the mandatory clearing obligation cast on) to be published in the Government Gazette;
- a single threshold applies to all prescribed persons regardless of their residences;
- allowing an exit for the clearing obligation and providing a mechanism for such purpose;
- providing exemption for certain transactions resulting from a multilateral portfolio compression cycle from the clearing obligation.

Highlights of the conclusions paper regarding Phase 2 Reporting include:

- indication that the commencement of Phase 2 Reporting is on 1 July 2017, subject to the legislative process;
- backloading requirement for transactions reported prior to Phase 2 Reporting does not apply to transactions maturing before 1 July 2018;
- excluding from the reporting obligation foreign exchange forwards which are entered into for the purposes of buying or selling securities in a foreign currency and which are settled within the settlement cycle for the securities; and

- requiring central counterparties who are authorised automated trading services providers (i.e. ATS providers) to comply, starting from 1 September 2016, with the Phase 1 Reporting requirements to align with the commencement of Phase 1 Clearing.

Proposed changes to ATS Guidelines concluded



On 1 March 2016, the SFC published the consultation conclusion paper. Major changes proposed were reported in last S.I.. The revised Guidelines for the Regulation of Automated Trading Services (“ATS Guidelines”) are scheduled to take effect on the same day when the Phase 1 mandatory clearing of OTC derivative transactions is implemented. The SFC anticipates it is 1 September 2016.

SFC concludes on expanding scope of short position reporting



On 24 February 2016, the SFC published a consultation conclusion regarding to expand the scope of short position reporting and on corresponding amendments to the Securities and Futures (Short Position Reporting) Rules. Short position reporting will be expanded to cover all Designated Securities under the rules of the SEHK. The reporting threshold for stocks will remain unchanged, while the threshold for collective investment schemes will be set at \$30 million.

The SFC will submit the proposed amendments to the Legislative Council for negative vetting and expects the amended rules to come into effect on 15 March 2017, subject to the legislative process. Further announcements regarding operational reporting arrangements for the expanded regime will be made in due course.

Proposed introduction of a volatility-control mechanism (“VCM”)

VCM, which is a form of what is commonly known as “circuit breaker”, is to be implemented in the third quarter of this year and S.I. issue 3 contains detailed discussion about it. Many exchanges such as those in US, Singapore and Japan have their own models of circuit breaker. Shanghai and Shenzhen exchanges introduced circuit breaker from the first trading date of 2016 and subsequently announced putting off its implementation on 8 January 2016. A comparison of Hong Kong’s VCM and Shanghai and Shenzhen circuit breaker is snapshot as follows:

Feature	Hong Kong’s VCM	Shanghai and Shenzhen Circuit Breaker
Number of stocks that the VCM/circuit breaker applies to	only the 81 constituent stocks (out of 1800-odd stocks) of the Hang Seng Index and the H-share index	all the 2,700-plus stocks for the whole market in Shanghai and Shenzhen exchanges
Momentum of effect once the VCM/circuit breaker is triggered	the trading of the relevant stock could only be traded within certain price limits	the whole markets are suspended from trading
Threshold for triggering the VCM/circuit breaker and duration	<ul style="list-style-type: none"> • if a stock price moves 10% up or down from its last traded price 5-minutes ago, there will be a 5-minute cooling-off period on the relevant stock • there is one such cooling-off period the most for each of the two Continuous Trading Sessions for the day 	<ul style="list-style-type: none"> • if the CSI 300 moves 5% up or down as compared to its previous close, the whole markets will be suspended for 15 minutes • if the CSI 300 moves 7% up or down as compared to its previous close, the whole markets will be suspended for the rest of the day

SFC publishes consultation conclusions on Principles of Responsible Ownership




On 7 March 2016, the SFC released consultation conclusions on the Principles of Responsible Ownership which aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies. Having considered respondents’ comments, the SFC has decided to introduce the proposed principles with minor changes, removing references to individual and retail investors from the principles.

The principles, which are voluntary, are intended to apply to investors who invest money or hold shares on behalf of clients or stakeholders to whom they are accountable.

Regulatory and Technical Updates


SFC issued a circular to licensed corporations licensed for dealing in securities - protecting client assets against internal misconduct

 On 5 February 2016, the SFC issued a circular to remind licensed corporations licensed for dealing in securities should develop internal control procedures, such as requesting clients to contact back office staff for all non-trade related matters and reviewing trading activities in client accounts periodically, and have financial and operational capabilities which can be expected to protect client assets from financial loss arising from internal misconduct or omissions.

SFC issued a circular on leveraged and inverse products

 On 5 February 2016, the SFC issued a circular that set out the requirements under which the SFC would plan to authorise leveraged and inverse products structured as exchange-traded funds (“ETFs”) for public offering in Hong Kong under the Securities and Futures Ordinance (“SFO”). Hereafter, leveraged and inverse products structured as ETFs are referred to as “Leveraged Products” and “Inverse Products” respectively, and “L&I Products” collectively.

Circular to all brokers regarding tips on protection of online trading accounts

 On 29 January 2016, the SFC issued a circular to all brokers regarding the tips on protection of online trading accounts in view of the incidents of unauthorised access to online client accounts. The SFC and the Police’s Cyber Security and Technology Crime Bureau have jointly listed out suggested control

measures to remind all securities and futures brokers for monitoring client transactions and safeguarding against unauthorised activities committed in online client accounts. These are summarised below:

- Clients’ requests of cash or stock transfers to third party accounts should only be approved on an exceptional basis after making proper enquiries and supported by clients’ original written authorisation. Direct confirmation with clients by calling back to their registered phone numbers to verify the authenticity of the transfer requests is strongly encouraged.
- Consider using two-factor authentication to verify clients’ identities in electronic trading system. Ensure secured delivery of passwords to clients and clearly inform clients about how passwords will be delivered to them. Monitor and record logins from unusual or questionable Internet Protocol addresses.
- Use reliable preventive and detective measures to protect sensitive information. Maintain and review audit trail records/access logs for computer or network systems to identify any unauthorised access or system security attack, as well as develop a contingency plan.

The SFC reminds brokers of the requirements of the Code of Conduct for Persons Licensed by or Registered with the SFC regarding the electronic trading.

FSDC released three reports to promote Hong Kong’s asset management business

 On 7 December 2015, the Financial Services Development Council (“FSDC”) released three research reports to promote Hong Kong’s asset management business. These reports exemplified how the FSDC collaborated with practitioners on the formulation of proposals conducive to enhancing the long-term development of different sectors of Hong Kong’s financial market.

The three reports are:

- “Strengthening Hong Kong as a Retail Fund Distribution Centre” that mentioned objectives to make Hong Kong a leading fund distribution centre in the Asia Pacific Region;
- “A Paper on the Tax Issues on Open-Ended Fund Companies and Profits Tax Exemption for Offshore Private Equity Funds” that set out recommendations regarding the tax regime for open-ended fund companies and the profits tax exemption standards for private equity funds; and
- “A Paper on Limited Partnership for Private Equity Funds” that examined the current Limited Partnerships Ordinance and suggested an alternative limited partnership structure to enhance Hong Kong’s competition in the private equity industry.



Corporate Conduct

On 26 January 2016, Mr Brian Ho, Executive Director of the Corporate Finance Division of the SFC, spoke at the SFC Executive Director Series on corporate conduct. The discussion started with a quick look at the Growth Enterprise Market (“GEM”) and the common features of stocks that have displayed huge volatility in share prices. The SFC’s observations have led to the introduction of a holistic approach for dealing with corporate conduct.

Mr Ho gave a brief market snapshot which highlighted the fact that a majority of companies with significant increase in market cap within any 6-month period between January 2013 and October 2015 were loss-making or had small profits relative to market cap. The market data of financial year 2014 also showed that the proportion of GEM companies being loss-making or with low profits relative to their market cap tends to be larger than those of Main Board companies.

Market feedback on recent corporate conduct issues, in particular transactions with questionable valuation, were covered. He indicated that in 2015, 20 acquisitions of assets have been identified with concerns about valuation of the assets involved. Some common features among these transactions include: (1) over half of the cases had independent valuation; (2) majority of the targets were either loss-making or without track records; (3) for those which had profits, their P/E ratios were very high; and (4) half of the targets had either minimal asset value or net liabilities. More importantly, these transactions raised concerns about the common use of the Discounted Cash Flow model as a valuation methodology where valuers apply the assumptions made by directors or vendors in the valuation model without verification.

Mr Ho elaborated on the issue of price volatility of GEM stocks based on recent market data: (1) GEM stocks were much more volatile than Main Board stocks over the past decade; (2) post-IPO share price of some newly-listed GEM companies was highly volatile; (3) more than half of the top 20 market cap companies had net loss in 2015; and (4) compared with Main Board, GEM had a higher percentage of high shareholding concentration cases in 2015.

Mr Ho then pointed out that there would be a significant impact on market indices when stocks with high shareholding concentration are included in market indices. For example, the market cap movements of these stocks could be highly volatile around the time of an announcement of corporate action, such as a massive bonus issue or a placing of convertible notes, and the issuance of SFC’s high shareholding concentration notice. To tackle the problem, FTSE recently introduced a new rule to exclude high shareholding concentration stocks. In December 2015, MSCI published a consultation which proposed not to add such companies and to exclude all existing MSCI constituents which are included in the SFC’s high shareholding concentration notices.

To conclude, there is room for improvement on corporate conduct based on the above market data. Mr Ho mentioned that the Corporate Regulation Team was set up under Corporate Finance Division of the SFC in late 2013 to strengthen the oversight of corporate conduct issues. The team focuses on conducting corporate surveillance, analysis and enquiry work including reviewing company announcements and other published documents, and conducting theme reviews of listed companies. He stressed that the SFC would work more closely with the Hong Kong Exchanges and Clearing Limited to handle corporate conduct issues.



Regulatory Insight Series: Disclosure Regimes for Directors, Chief Officers and Substantial Shareholders

A strong disclosure regime is an important feature of market-based monitoring of corporate conduct and is central to the ability of shareholders to exercise their voting rights effectively. In Hong Kong, there are various kinds of disclosure regimes established by law, regulators, and exchanges, such as disclosure of inside information (Part XIVA of the SFO) that we have mentioned in last issue of the S.I. and disclosure of notifiable transactions and connected transactions required by the Listing Rules.

In this issue, we will examine some of the disclosure requirements for directors, chief officers and substantial shareholders under the current securities regulatory framework in Hong Kong, including disclosure of interest (Part XV of the SFO) and the requirements in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) of the Listing Rules of the SEHK. Disclosure of interest and changes in interest in listed companies held by directors and substantial shareholders can increase market transparency. For this purpose, HKEX has made available such information in its HKExnews website (www.hkexnews.hk) to allow investors to make more informed investment decisions.

Disclosure of Interest (Part XV, SFO)

Part XV of the SFO contains provisions requiring substantial shareholders (holders of 5% or more) and directors and chief executives to disclose their interests or changes in interest in the “relevant share capital” of listed companies, i.e. their voting shares.

What constitutes an “interest” in the relevant share capital of a listed company is widely defined. It will include both long and short positions (i.e. without any net off), interests in equity derivatives (such as warrants, options, etc. and whether cash settled or physically settled), attributed interests (for example, through trust arrangements, corporate shareholdings, family arrangements, etc.), and so on.

A director or chief executive must make initial disclosure of his/her interest upon taking up the post and subsequent disclosure of any change in such interest, including any interest held by his/her spouse, children under the age of 18, a company controlled by him/her and a trust. A company is “controlled” by a director or chief executive if he/she directly or indirectly controls one third or more of the voting power at general meetings of the company or if the company or its other directors habitually act in accordance with his directions (See Example 1).

A shareholder becomes a substantial shareholder once his/her interests reached a 5% threshold of the listed shares. He/she must make an initial disclosure and subsequent disclosures when there is a change in (a) the percentage level of his/her interest (e.g. buying or selling their interest in the relevant share capital of the listed company concerned); or (b) the nature of his/her interest (e.g. acquiring shares on the exercise of a call option) (See Example 2).

Disclosure must be made within the prescribed time frame (normally three business days after the relevant event) and must be made to the listed company and to the exchange on which it is listed.

Part XV does not prohibit delegation of the submission of the disclosures to the listed company and the relevant exchange but the ultimate responsibility and liability for any failure to perform the duty fall on who owes the disclosure duty that he must make sure that it is strictly complied with.

Consequences of Breaching Part XV of the SFO

Failure to make proper and timely disclosure as required by Part XV is a criminal offence which carries a maximum penalty of a fine of HK\$100,000 and imprisonment for up to two years.

Examples of Breaching Part XV of the SFO

Example 1 – failure of a director to disclose interest in his company

In 2012, the Chairman and executive director of a listed company (“the executive director”) was convicted in the District Court of 10 charges of price rigging and 16 charges of failing to perform a duty of disclosure for his interest in the shares to the listed company and to the SEHK. The Court heard that, during a consecutive 9-month period from 2007 to 2008, the executive director operated 3 different accounts, one in his own name, another jointly with his wife and a third in his brother’s name, via which he manipulated shares of the listed company. He was sentenced to imprisonment for 6 months, fined and disqualified from being a company director for 1 year for the price rigging and failure to discharge his interest disclosure duty.

Example 2 – failure of a substantial shareholder to disclose interest in his company

A substantial shareholder of a listed company was convicted at a Magistracy in 2015 and fined HK\$12,000 for failing to disclose to the relevant listed company changes in his interests in the share of the listed company. The substantial shareholder argued that he had delegated his duty of disclosure to his account executive. The Court, however, held that the legal obligation for ensuring disclosures and notifications were proper and timely was still on the substantial shareholder.

Model Code

Besides the statutory-backed disclosure regime, the SEHK also has its own rules for the issue of disclosure of its listed companies’ directors on securities transactions. The SEHK expects directors of an issuer to fulfil fiduciary duties to a standard at least commensurate with that established by Hong Kong law. Every director must comply with the Model Code set out in the Listing Rules or the listed issuer’s own code on terms no less exacting than those set out in the Model Code. Any breach of the required standards will be regarded as a breach of the Listing Rules.

The Model Code not only requires directors and listed issuers to have timely disclosure and notification for the issue of securities transaction, but also embeds restrictions to directors on dealing securities of their company. The below table briefly lists out the requirements of the Model Code:

Absolute Prohibition	<ul style="list-style-type: none">• must not deal in the securities of the company:<ul style="list-style-type: none">a) when he is in possession of inside information in relation to those securities, or if clearance to deal has not been given;b) on the publication date of the company’s financial results;c) 60 days preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; andd) 30 days preceding the publication date of the quarterly results (if any) or half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the.• must give advance notice to the SEHK of the commencement date of each blackout period under (c) and (d) above.• must not deal in its securities if he is in possession of inside information in relation to those securities by virtue of his position as a director of another listed issuer. The restrictions on dealings in the Model Code apply equally to dealings by directors’ spouses and children under the age of 18 and to any dealings in which they are deemed to be interested for the purposes of Part XV of the SFO.
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Regulatory Insight Series: Disclosure Regimes for Directors, Chief Officers and Substantial Shareholders

Model Code (continued)

Duty of Notification	<ul style="list-style-type: none">• to establish a procedure whereby a director is required to provide written notification to the chairman or a director (other than himself) designated by the board and receive a dated written acknowledgement before dealing in any securities of the listed issuer.• any response to a request for clearance to deal must be given to the relevant director within 5 business days and the clearance to deal must be valid for no more than 5 business days of clearance being received.• must maintain a written record of notifications given by directors, acknowledgements of such notifications and the written responses given.
Exceptional Circumstance	<ul style="list-style-type: none">• must comply with the provisions of the code regarding prior written notice and acknowledgement and must satisfy the chairman or the designated director that the circumstances are exceptional and the proposed sale or disposal is the only reasonable course of action available to the director before the director can sell or dispose of the securities, if a director proposes to sell or otherwise dispose of securities of the listed issuer under exceptional circumstances where the sale or disposal is otherwise prohibited under the Model Code.• shall give written notice of such sale or disposal to the SEHK as soon as practicable stating why it considered the circumstances to be exceptional.• shall publish an announcement in the newspapers immediately after any such sale or disposal and state that the chairman or the designated director is satisfied that there were exceptional circumstances for such sale or disposal of securities by the director.
Disclosure	<ul style="list-style-type: none">• to disclose in its interim reports and the Corporate Governance Report contained in its annual reports, having made specific enquiry to all directors, whether its directors have complied with, or committed any non-compliance with, the required standard set out in the Model Code.

Consequences of Breaching Model Code

If a director breaches any of the Listing Rules, the SEHK may respond with disciplinary procedures including but not limited to:

- issuing a private reprimand or a public censure;
- issuing a public statement which involves criticism;
- reporting the offender's conduct to a regulatory authority or to an overseas regulatory authority;
- requiring a breach to be rectified or other remedial action taken within a stipulated period; and
- taking or refraining from taking such other action as the SEHK thinks fit.

If the SEHK considers that the listed issuer failed in a material manner to comply with the Listing Rules, it may suspend dealings in the issuer's securities or cancel the listing of the issuer's securities.

Directors should also be aware that it is a criminal offence under section 384 of the SFO to intentionally or recklessly provide any information which is false or misleading in a material particular in any public disclosure document filed with the SEHK or the SFC (this will include any document filed under the Listing Rules' continuing disclosure obligations). The offence carries a maximum penalty of 2 years' imprisonment and a fine of HK\$1 million.

Under section 214 of the SFO, the court may make orders disqualifying a person from being a director of any corporation for up to fifteen years if he is found to be wholly or partly responsible for the misconduct of a company's affairs. Misconduct for these purposes will include where shareholders have not been given all the information with respect to the company's business or affairs which they might reasonably expect.

Example of Breaching Model Code

A former non-executive director of a listed company (“ND”) and his wife conducted the dealings during the blackout period, and without ND first notifying the Chairman or other designated director and obtaining a dated written acknowledgement, but he has only disclosed to the SEHK. Also, he failed to prevent his wife’s dealing during the blackout period.

The Listing Committee of the SEHK censures ND for his breaches of the Model Code. As ND has resigned as a non-executive director and who is not currently a director of any other company listed on the SEHK, the Listing Committee directs him to complete trainings in relation to Listing Rules compliance, director’s duties and corporate governance operated by approved training providers before the effective date of next appointment as a directors of any listed company. He should provide the Listing Division of the SEHK any proof of training completed.

Moreover, as mentioned above, directors who fail to make proper and timely disclosure of interest as required by Part XV of the SFO is a criminal offence. In this case, the ND had committed offence under the SFO as his obligation in disclosure of interest applies to both the SEHK and his company according to the SFO.

Points for noting for the issue of disclosure

The following are some key measures that a listed company must take so as to comply with the requirements as set out in the Model Code and Part XV of the SFO:

- Keep registers of (i) the interests and short positions of its substantial shareholders; (ii) the interests and short positions of its directors and chief executive in the shares of the listed issuer and its associated corporations; and (iii) the interests of its directors and chief executive in the debentures of the listed issuer and its associated corporations. It is also a criminal offence under Part XV of the SFO for listed companies not to keep proper record of these registers;
- Keep such registers at its registered address or at the place where the register of shareholders is kept. The information in the notice received by it must be entered in the register within 3 business days after the notice is received; and
- Disclose the interests and short positions of its directors and chief executive in the shares, underlying shares and debentures of the company and its associated corporations in its annual accounts and half-year reports.
- Remind all directors that they should not deal in the shares during the blackout period.

There are some suggestions for directors, chief executive and substantial shareholders to help them comply with the relevant requirements:

- Ensure they are familiar with the disclosure requirements so that they can comply with the rules. Attend relevant training on a continuous basis to develop and refresh their knowledge;
- Ensure that their agents are very familiar with and comply with the rules if they rely on others to arrange disclosure for them.



Know Your Board Director - Mr Joseph Chan

Mr Joseph Chan is one of our Board Directors as well as the Membership Committee chairman in 2016. He is the youngest one in the Board but his experience in both the industry and the community has made him one of the HKSI Institute leaders.

Joseph has been a derivative professional in the global markets division with different banks throughout his career. It is a very dynamic and demanding industry where clients' needs and regulations keep changing, hence one has to keep learning and adapting to changes in order to deliver suitable and timely solutions to the clients.

When asked about the difficulties investment banks facing nowadays, Joseph has quickly summarised that on one hand, clients require banks to develop new, innovative products to meet their increasingly complex investment or hedging objectives. On the other hand, since the financial crisis, banks have many more steps to complete in terms of fulfilling the new accounting requirements and compliance checks before a new product can be launched. "Clients and markets do not wait but we have more work to do before a new product can be produced, hence putting us under even more pressure on a day-to-day basis," Joseph pointed out.

However, Joseph emphasized that while everybody says Hong Kong finance professionals have experienced a few very difficult years, one has to recognise that Hong Kong is already in a better position than New York and London. "Our core market, Asia, remains the highest growing region in the world, and our fundamentals are relatively unscratched by the financial crisis compared to the US and Europe. In my opinion, with the continuing internationalisation of RMB and the liberalisation of China's capital markets, there are plenty of opportunities for Hong Kong in the next decade," he said.



Mr Joseph Chan presented the Best Mentee Award 2015 to Ms Sky Luo.

Joseph joined the HKSI Institute back in 2008, which he said was relatively late given he had already got his license a few years before that. At the very beginning, he was attracted by the continuing education programme. "Since I had to obtain many CPT hours a year anyway, I would rather choose from the wide range of interesting topics offered by the HKSI Institute instead of taking the in-house training classes," Joseph said. "My expectation was well-beaten. Not only does the HKSI Institute offer a large variety of training seminars with high quality speakers, it also offers a platform for me to meet and listen to many renowned industry professionals through different events such as the roundtable luncheons and cocktails. It was the wonderful experience I had with the HKSI Institute which drove me to join the Membership Committee and become a volunteer."

Joseph had already been serving the HKSI Institute as a volunteer for six years before he was elected to the Board in 2015. "When I joined the Board, I thought it was the right time to do more for the HKSI Institute with my experience and knowledge about the HKSI Institute. I felt very comfortable and welcome when I started as the fellow Board Directors and the staff

are all familiar faces whom I had been working with for years."

Hong Kong was predominantly an equities centre since the first mainland Chinese company listed here in 1993. However, in the 21st century Hong Kong has developed into an international finance centre providing a full range of financial services.

With the mainland China market opening, Joseph expects Hong Kong to keep evolving to adapt to the new environment and grab the upcoming various occasions. The HKSI Institute, was well aware of the trend and took the strategic step to include "Investment" in its name in 2012, timely expanded its services from focusing on the securities sector only to serving many other different sectors in the finance industry. This change is very significant to not only the long-term development of the HKSI Institute, but also the increasing contribution that the HKSI Institute can make to Hong Kong.

"Looking forward, HKSI Institute will need to upgrade and expand the programme and services on a timely manner in order to help our finance professionals to capture the opportunities ahead."

Know Your Board Director - Mr Victor Lee

In 1997, an eventful year, the Asian Financial Crisis was sweeping Hong Kong into a monetary maelstrom. As a new entrant to the fund management industry, **Mr Victor Lee** witnessed the drastic change of a bull market turning into a prolonged period of bear market at the very beginning of his career. Such experience opened up the opportunity for him to learn about the expectation investing, risk control and market psychology. He encourages the young practitioners to cherish the valuable learning opportunities during the harsh market environment, which is best described in Warren Buffet's famous quote: "Only when the tide goes out do you discover who's been swimming naked". Quality investments should be able to distinguish themselves among the crowd after the baptism of market volatilities in a bear market.

As a veteran in the asset management industry, he always appreciates Hong Kong's low tax system as the "most investor friendly economy in the world" and is confident in the growth of AUM for the asset management sector. The main challenge nowadays is the lowering fee level to active managers due to the fee pressure from ETF and other passive investment products. In addition, the negative interest rate, ageing population and the lack of global growth are pushing down the expected returns of financial market for investors, who then simply demand a lower fee on the asset management. In a vicious spiral, the fund managers lower the commission for their brokers and creates a chain reaction in the financial industry that resulted in lowering fee in all levels. The investor's blind spot is that active fund managers have the role of effective "capital allocation" in the society with a "hint of human touch". Such human instinct of decision making cannot be programmed in the financial modeling and the popular quantitative models. It is a dangerous idea to replace human being's role in capital allocation. The fund managers however has to accept the reality of falling fee level and adjust the business



Mr Martin Wheatley (left), past Chief Executive Officer of the SFC, and Mr Victor Lee at the Lipper Fund Awards 2010.

model to adopt the new environment.

Joining the HKSI Institute for more than 15 years, he takes pride in being a member of the professional community. He has witnessed the growth of the HKSI Institute and its unique role in supporting the development of the industry, especially in training and qualifying professionals. As the HKSI Institute is well recognised in the industry with its standard setting licensing examinations and quality CPT-bearing seminars, he would like to contribute more in widening our reach to more practitioners to build the professional community. He commended HKSI Institute's staff for their tremendous efforts in organising "first class" seminars and events.

He joined the Examinations Committee to set and raise the standards of the HKSI Institute's examinations since 2014. The examinations are constantly reviewed to suit the ever-changing financial industry and provide the up-to-date standard for financial practitioners and market. Moreover, the recently launched quarterly technical newsletter "S.I. – Standards and Insights", offers an in-depth newsfeed on the important regulatory development, analysis of recent regulatory or enforcement issues and practical experience sharing for members and practitioners to have a quick overview of the changes.

Mr Lee started his Board Directorship since 2015. From the first day of his directorship, he has in his mind the strong sense of "responsibility" to represent the asset management sector and better serve our members. He encourages more volunteers to run the Board Director election that can bring the best candidates of each field to the Board, who can drive the HKSI Institute to be stronger. Also, members can contribute in the volunteer works from reviewing the study manuals to organising outreach events. Last but not least, our younger generation of financial professionals require senior practitioners' guidance throughout their career development journey. Mr Lee supports Board Chairman Mr John Maguire's initiative to set up the Young Professional Club ("YPC") to cultivate a ground for the HKSI Institute's young members to grow in our community and expand their network within and beyond through a wider range of activities.

Going beyond the existing level, he wishes to extend the HKSI Institute's reach to the universities and help the undergraduates to be a well-prepared generation of talents for the financial industry, and so the potential leaders of HKSI Institute in the future. The HKSI Institute belongs to the next generation of financial professionals; and long serving members like himself are only custodian of the HKSI Institute for our younger members.

Ethics and Financial Innovation

Financial technology (“Fintech”) brings new business models and enhances efficiency for the global financial industry over the last few years. It refers to the application of information and communication technology in the field of financial services, including such areas as electronic payments, robo-advisors, distribution of financial products, big data analytics, cyber security, equity crowdfunding and peer-to-peer lending. The Hong Kong Special Administrative Region Government (“Government”) is keen to promote Hong Kong's development into the Fintech hub for Asia. It will work on five areas: promotion, facilitation, regulations, talent, and funding to foster the industry's development.

Recent Key Milestones on Fintech Development of Hong Kong

30 March 2015	The Government established the Steering Group on Financial Technologies (“Steering Group”).
13 November 2015	The regulatory regime for stored value facilities and retail payment systems under the Payment Systems and Stored Value Facilities Ordinance commenced operation.
13 January 2016	The Chief Executive of the Government announced in his Policy Address 2016 to develop Hong Kong into a Fintech hub by providing policies and an environment conducive to the development of the industry.
24 February 2016	The Financial Secretary of the Government proposed a series of initiatives for supporting the development of Fintech in his 2016-17 Budget speech, including financial, space and training supports.
26 February 2016	The Steering Group released a report with recommendations to further Hong Kong's development as a Fintech hub.
1 March 2016	The SFC established the Fintech Contact Point to encourage businesses involved in the Fintech development and the Fintech Advisory Group to examine the opportunities, risks and regulatory implications of Fintech development.
21 March 2016	The Hong Kong Monetary Authority established Fintech Facilitation Office to facilitate the healthy development of the Fintech ecosystem in Hong Kong and to promote Hong Kong as a Fintech hub in Asia.

Empowering Businesses toward Financial Innovation

It is no doubt that the business impact of Fintech is huge, and the ethical and compliance issues cannot be overlooked. Investor protection, customer due diligence, prevention of fraud and ethical usage of big data must be taken into account in the development of Fintech. As a professional organisation advocating ethical behaviour and best practices specifically for the financial services industry, **the HKSI Institute will host its 9th Business Ethics Forum (“BEF”)**. The one-day forum will feature influential and prominent leaders, to raise awareness of the business ethics perspectives of this digital revolution in the financial services sector.

Mark your diary, and watch this space for details!

Business Ethics Forum 2016

Ethics in Action: Empowering Businesses toward Financial Innovations

18 November 2016

JW Marriott Hong Kong

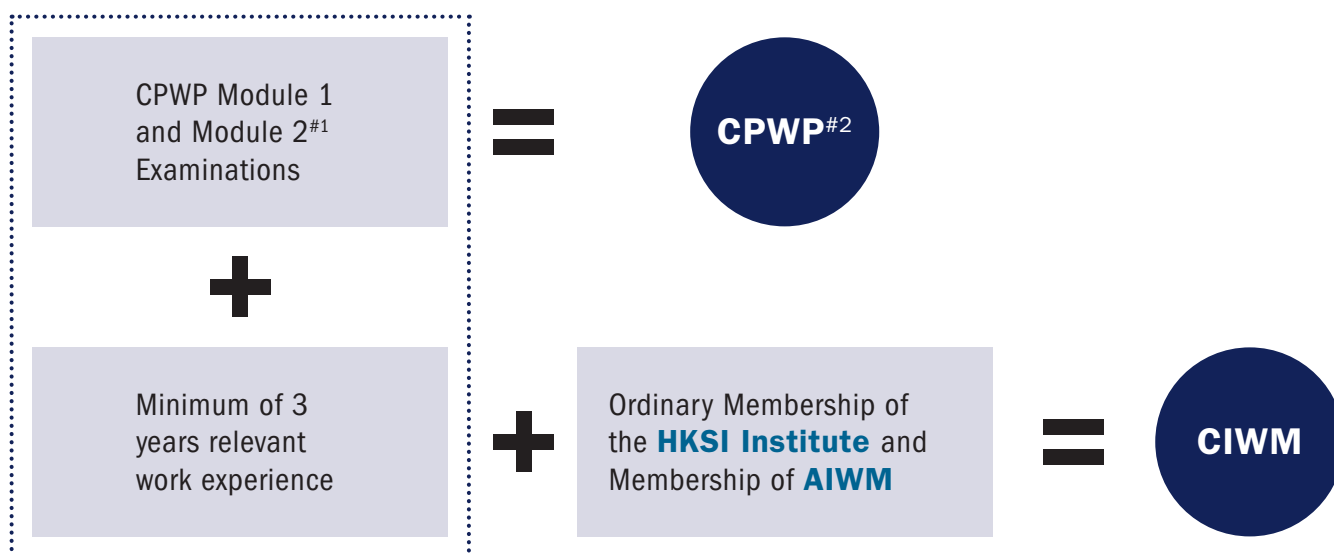
- Trends and opportunities
- Supervisory support and regulatory considerations
- Ethical, social and corporate considerations
- Convergence of value and conduct
- Risk and compliance challenges



One Exam Two Designations: Fast track to be an internationally recognised wealth manager



By passing the Certified Private Wealth Professional (“CPWP”) examinations, members of the Hong Kong Securities and Investment Institute (“HKSI Institute”) exclusively enjoy the fast track to attain Certified International Wealth Manager (“CIWM®”), an international professional qualification in private wealth management jointly awarded by the HKSI Institute and the Association of International Wealth Management (“AIWM”).



CIWM is world-wide recognised by wealth managers, portfolio managers, investment advisors and asset managers in major markets. Eligible candidates who completed the CPWP Modules 1 and 2 Examinations^{#3} on or before 30 June 2016 can apply for the CIWM designation without taking additional examinations for a limited period until 29 July 2016.

The HKSI Institute will sponsor its members who are eligible to the fast track a one-off AIWM joining fee of CHF115. You only need to pay the AIWM annual fee of CHF30.

For new applicants for the HKSI Institute Membership, the joining fee of HK\$600 is waived. You only need to pay HK\$1,200 for annual subscription fee.

Please take advantage of this unique opportunity for professional advancement. Please visit our website or email to member@hksi.org for the application details.

^{#1} Module 2 Examination conducted by The Hong Kong Institute of Bankers

^{#2} Fulfil any other requirements prescribed by the Private Wealth Management Association

^{#3} This is not applicable for applicants who obtained the CPWP certification under “grandfathering” route, completed accredited in-house programmes or passed the accredited internal examinations.

HKSI News and Updates

Chairman's Cocktail 2016 features the CPT Star Awards

More than 180 Members and guests attended the Chairman's Cocktail at the Hong Kong Club on 28 January 2016, as we herald in the New Year with HKSI Institute new Chairman Mr John Maguire, and Guest of Honour Mr Carlson Tong, Chairman of the Securities and Futures Commission. Mr Maguire shared with us his vision and some initiatives on the development of HKSI Institute, such as Advanced Learning Platform, Young Professional Club, etc.

At the event, Mr Paul Day, Chairman of Education Committee of HKSI Institute, announced the Awardees of the CPT Star Programme for recognising the financial professionals with learning aspirations to pursue continuing professional training. We are pleased to have Mr Carlson Tong presenting the awards to the CPT Star Gold and Silver Awardees and delivering a keynote speech to our Members and guests.



CPT Star Awardees

Name	Total	Name	Total
Gold Award (at least 45 CPT hours)			
Kwan Wing Kai Eric	66		
Silver Award (at least 35 CPT hours)			
Chan Kit Hing Kathy	39		
Bronze Award (at least 25 CPT hours)			
Wong Shing Nok Noah	34.5	Ng Ho Yeung Tony	27.5
Craig Lindsay	32.5	Ma Tak Wah	27
Chong Chin	31	Yao Sze Ling	26.5
Mak Kwong Fai Louis	29.5	Kenju Ogyu	25
John Martin Maguire	28.5		

Interview with Mr Eric Kwan – Our CPT Gold Star Awardee 2015

Why do you regularly engage in continuous learning?

A well-respected investor once shared with me one of his life philosophies: “the mind is like a parachute, it only works when it is open”. As an investment professional, I have always found it beneficial to engage in continuous learning in order to keep pace with the rapidly changing environment. CPT equips practitioners with an edge, and the training at the HKSI Institute presents one of best all-round practical development programs. It was a pleasant surprise to have earned the CPT Gold Star Award and a great honor to be presented with the Award by Mr. Carlson Tong.

Can you share with us about your learning experience at the HKSI Institute?

The Institute’s training calendar covers a wide range of subjects, including asset allocation, behavioral finance, corporate governance, risk management, wealth management, and rules and regulations. In my mind, the presenters stand out for their hands-on experience and personal insights. I have always been impressed by how generous the course instructors are taking questions and engaging with the delegates. I have benefitted greatly from many of such discussions.



Do you think the training mode of the HKSI Institute’s CPT offerings is suitable for busy professionals?

Certainly! The formats of training and events are very convenient and flexible, coming in as bitesize one-hour luncheon presentations or more in-depth evening sessions lasting between two and three hours. For the time-pressed professionals, these educational programs represent great return on their investments in terms of time and resources. I would strongly recommend the courses at the HKSI Institute.

CPT Star Awardees

Name	Total	Name	Total
Certificate of Merit (at least 15 CPT hours)			
Choo Kong Jam James	24	Lee James Siu Lung	17
Chan Wai Sum	24	Chan Wai Ling	17
Wong Chan Wing Raymond	22.5	Tse Bik Woon Rachel	17
Cheng Tak Hon Teddy	22	Ng Kit Fong Ashley	17
Alice Kan	21	Lee Yim Lan Phyllis	17
Barbara Wang	19.5	Wong Kun Kim	16
Leung Ho Pong Ronald	19.5	Jerry Shum	15.5
Leung Kam Fung, Kathy	19.5	Tsang Chi Suen Trini	15
Kwok Chi Piu Bill	19	Kwan Wai Man	15
Yew Yat Ming Edmond	18	Mak Yau Kan Tony	15
Ting Hao-Wei Peter	17	Ng Chi Keung	15
Yim Ka Fat	17		

New Corporate Member - Category A*



中信証券國際

CITIC Securities International

New Individual Members

Mr Rick Adkinson	Ms Kanchan Dayoldas Harjani	Mr Mak Yin Ping
Mr Afonso Menezes	Mr Ho Ho Ming	Mr Ng Wing Sum Vincent
Mr Chan Cheuk Wing	Mr Hsu Hao Tsuan Jonathan	Mr Shen Jun
Mr Chan Ting Fong	Mr Hugh Garway - Templeman	Mr Siu Wai Leong
Ms Chan Wan Yuk	Ms Hung Wing Sze Aki	Mr Sung Shuk Ka
Dato Cheah Cheng Hye	Mr Joung Byung Hyun	Mr Tang Cho Yin Joseph
Miss Cheung Ching Woon	Ms Sayaka Kume	Mr Tang Ho Wai Wilson
Ms Cheung Hiu Yan Hilda	Mr Kwan Teng Hin Jeffrey	Mr Tang Yin Lung
Miss Cheung Hoi Ting	Ms Kwong Ka Yin	Mr Tsang Ling Him Michael
Ms Cheung Tsz Wah Christine	Miss Lam Ching Yu	Mr Andrew Weir
Mr Cheung Yin Ming Edwin	Mr Lau Kim Ming	Mr Wong Paul Koon Po
Mr Choi Wang Ngai	Ms Lau On Ying Janet	Mr Wong Wai
Mr Chow King Yue Vision	Ms Lau Yin Ling	Ms Xu Yuan
Mr Chu Bo Hang Burton	Mr Lee Li-Wei William	Miss Yeung Hoi Lun Helen
Mr Daniel Choi	Mr Leung Ho Fai	Mr Yu Choi Yan
Mr Fu Kin Chun	Mr Lo King Leung Raymond	Mr Yuen Wai Ching Alex
Mr Fu Liang	Mr Ma Ho Yin	

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S.I. electronic version



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