SI

Standards & Insights

Issue 1
January 2015

HKSI

Welcome to the inaugural issue of S.I.,…from the HKSI Institute

Dear members and friends,

We are delighted to present to you the inaugural issue of S.I., a quarterly newsletter of technical updates from the Hong Kong Securities and Investment Institute ("HKSI Institute"). Not only does S.I. bears the resemblance to the acronym of the HKSI Institute, it also stands for "Standards and Insights". "Standards" refers to our vision to champion professional standards of excellence in Hong Kong financial services industry; and "Insights" aims at offering you our thoughts on recent industry development and regulatory matters worthy of drawing your attention.

On 22 January 2015, the HKSI Institute organises the Business Ethics Forum to promote professionalism and integrity in the financial services industry. In order to signify this important event, we are excited to publish the inaugural issue of S.I. on the same day.

We would like to take this opportunity to thank Mr. Carlson Tong, the Chairman of the Securities and Futures Commission ("SFC"), for his kindness and meaningful words in his congratulate message to mark the occasion.

Thank you very much for your continued support to the HKSI Institute and we hope you enjoy our first edition of S.I.!

Yours sincerely,
Hong Kong Securities and Investment Institute

Congratulatory Message from the Chairman of the Securities and Futures Commission

There is little doubt that the pursuit of continuing advancement and innovation is essential for success. In this spirit, I was glad to learn that the HKSI Institute is launching a quarterly technical newsletter. The HKSI Institute has once again gone the extra mile to keep market practitioners abreast of key trends and new developments that affect the industry. I am honoured to have the opportunity to share my thoughts in the inaugural issue.

Most recent regulatory developments revolve around the central goal of promoting good corporate culture, conduct and business ethics. To achieve this goal requires cultivating a mindset of doing the right things rather than just doing things right. Whilst some companies feel that compliance with minimum legal requirements is enough to be ethical, we need to bear in mind that we are in an industry where investor trust and confidence are a key driver for success. It is particularly important for senior executives to exercise the necessary leadership to establish consistent ethical benchmarks, regardless of geographic boundaries, cultural differences, local rules and job titles.

As Peter Drucker said, "management is doing things right; leadership is doing the right things." From my perspective, this means that the dedicated commitment of firms' senior management is crucial to set the tone from the top. This will then be cascaded through a strong tone in the middle, which will help staff recognise that good business ethics is more than a set of codes to be memorised. Rather, it must be a core value in all that we do.

At the SFC, we have been promoting the idea of "doing the right things" by resetting how we supervise firms in response to the enormous changes which have affected markets and the industry over the past few years. For example, we restructured our organisation into specialised teams with more experts and we adopted a more proactive and holistic approach in our regulatory work. We also reformulated the way we make risk assessments. All of this ensures we are better aligned and in tune with the vast range of activities conducted by the largest global players all the way down to the smallest retail firms.

In conclusion, I want to salute the HKSI Institute's efforts over the past 17 years to maintain both professional standards of excellence and a high standard of business ethics among Hong Kong's financial professionals. Over the years, Hong Kong persevered through many challenges, but we have never lost faith in the resilience of our markets. We always emerged stronger than ever. At the SFC, we stand firm in our commitment to strengthening Hong Kong's position as an international financial centre and we take an unwavering stance against market misconduct. We will remain impartial, showing no favour to anyone. We hope you will support our efforts by doing the right things through market highs and lows and all the rest.

Let me also take this opportunity to wish you all a fruitful and rewarding year ahead. Thank you.

Carlson Tong, SBS, JP
Chairman
Securities and Futures Commission
January 2015

Business Ethics - Interview with Mr. Colin Shaftesley

> **"Good business practice and strong ethical standards are the foundation to businesses to attract quality talent and good customers, and to strengthen long-term success and profitability."**

In this inaugural issue of S.I., we are excited to invite Mr. Colin Shaftesley, Senior Fellow of the HKSI Institute, to share his experience and thoughts about business ethics. Colin is the master of ceremony of the Business Ethics Forum, a signature event of the HKSI Institute, held on 22 January 2015 at the Hong Kong Convention & Exhibition Centre.

Currently an audit partner of the financial services practice of PricewaterhouseCoopers ("PwC") in Hong Kong, Colin has over 30 years of experience in the accounting and audit profession, 26 years in Hong Kong where he specialises with clients licensed by the SFC. Also a fellow of the Hong Kong Institute of Certified Public Accountants, Colin has been involved significantly in the securities and investment industry. "I was lucky to have been seconded to the SFC for 2 years during my tenure with PwC", Colin said "and that enabled me to join the HKSI Institute as a member in 1998 when it was first formed, where I am now a director of the Board and the Chairman of the Examinations Committee of the HKSI Institute."

Colin told us that business ethics impacts all parts of his work. "As an audit partner of PwC, it is very important for me to understand and be comfortable with the business ethics of my clients", said Colin. "As the risk management partner for PwC's Financial Services Group, I have a constant dialogue with my fellow partners in terms of the business ethics of their clients and potential new clients." On the other hand, from an HKSI Institute perspective, Colin also contributes his thoughts about business ethics. "As directors of the HKSI Institute, we spend significant amount of time considering how best to remind the financial services community and improve the corporate governance, including the understanding and importance of business ethics in the business community we represent." Colin elaborated.

"The Business Ethics Forum is one of the major initiatives for the HKSI Institute to promote business ethics and integrity in the financial services industry, and we are planning to organise seminars and training courses to educate and help practitioners in this respect."

Colin believes that, in addition to classroom training courses, setting the tone at the top is essential to build up a strong ethical culture within an organisation. "When considering business ethics and how a company operates, it is important and a key criteria for senior management at the top to understand not only what has gone on or if bad practice has occurred but also to understand an organisation's "rationalisation" of how they dealt with bad practice", Colin elaborated. "Was it brushed under the table because an employee is a good profit earner or was it dealt with properly and professionally to show all staff that such poor behaviour will not be tolerated?"

Colin told us that in his HR role in PwC, it is critical that all new staff and existing staff understand the importance of business ethics. "As a mentor to my staff, I always remind them to remember ethics and good behaviour at all times and to look out for dubious behaviour in their work", Colin explained. "I always encourage my people to practice good business ethics themselves – we have a strong reputation and the damage done by one individual can have a huge impact on the whole organisation. Obviously, this not only applies to professional firms but also to financial services organisations", Colin added.

Finally, Colin advises everyone in the industry to constantly strive to improve business ethics. "We should appreciate that good business practice and strong ethical standards are the foundation to businesses to attract quality talent and good customers, and to strengthen long-term success and profitability".

Upcoming Programmes

SFC Executive Director Series

Speaker:	**Mrs Alexa Lam, JP** Deputy Chief Executive Officer and Executive Director, Investment Products, International & China Securities and Futures Commission
Date:	Tuesday, 10 February 2015
Time:	12:00pm - 12:20pm (Registration) 12:20pm - 1:20pm (Seminar)
Venue:	The HKSI Institute Training Centre

SFC Executive Director Series
Challenges in Upholding the Integrity of Markets

Speaker:	**Mr James Shipton** Executive Director, Intermediaries Division Securities and Futures Commission
Date:	Thursday, 5 March 2015
Time:	12:00pm - 12:20pm (Registration) 12:20pm - 1:20pm (Seminar)
Venue:	The HKSI Institute Training Centre

For details or registration, please visit http://www.hksi.org

Major Regulatory and Market Development in 2014

There were a number of important regulatory and market developments in the Hong Kong financial services industry in 2014. At the fresh start of the year, we highlight some of the major developments as follows:

New Companies Ordinance ("NCO")

The NCO which took effect on 3 March 2014 represents a remarkable step in the development of company law in Hong Kong. The NCO replaces those provisions in the old Companies Ordinance, except the prospectus regime and the winding-up insolvency provisions which remain regulated under the old Companies Ordinance (now known as "Companies (Winding Up and Miscellaneous Provisions) Ordinance"). The NCO aims at bringing various changes to achieve the following four main objectives (some examples of relevant changes are then given below):

NCO

Improving corporate governance

- introduce a new statutory requirement on director's duty of care, skill and diligence
- require public companies and companies not qualified for simplified report to prepare a more comprehensive directors' report
- abolish headcount test *(Note 1)*

Modernizing the company law

- abolish the memorandum of association and par value of share capital
- streamline the types of companies that can be formed under NCO

Facilitating business operations

- simplify financial and directors' report for small and medium sized companies
- permit general meeting to be held at more than one location using electronic technology

Enhancing regulations

- introduce a new offence on an inaccurate auditor's report
- introduce a new power for the Company Registrar to compound specified offences set out in Schedule 7 of the NCO *(Note 2)*

Note 1: A majority in number of the members present and voting at the meeting is required for the approval of scheme involving a takeover offer or general offer to buy back shares.

Note 2: These offences are generally simple and minor regulatory offences committed by companies.

Directors, company secretaries, accountants, in-house lawyers and other professionals involved in company secretarial affairs should have familiarised themselves with these new provisions and updating their policies, internal control procedures and documentation to cope with the changes. You may want to find out more details at the following link of the Companies Registry: http://www.cr.gov.hk/en/about/ordinances.htm

We organised a seminar "Changes to the New Companies Ordinance" in March 2014 to help industry practitioners to keep abreast of the NCO. If you are interested to find out more about our forthcoming events and seminars, please visit the HKSI Institute's website http://www.hksi.org.

Connected Transaction Rules Amendments

A large number of connected transactions between listed issuers and their major shareholding groups take place in Hong Kong on a daily basis. Connected transactions may give rise to potential risk of abuse and thus are closely monitored by the regulators.

On 1 July 2014, the revised Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") regarding connected transaction requirements came into effect. The amendments seek to improve the clarity of the relevant provisions in the Listing Rules. Some of the key amendments include:

- simplifying the language of the connected transaction rules,
- exempting transactions with connected persons at the subsidiary level from the shareholders' approval requirement,
- excluding persons connected with insignificant subsidiaries of the issuer from the definition of connected person, and
- renaming the definitions of connected person and associate in Chapter 1 of the Listing Rules as "core connected person" and "close associate" respectively.

Directors and controlling shareholders of listed companies with complicated group structures should assess the impacts of such amendments for their existing and future connected transactions. Compliance procedures for independence checking will need to be revisited and revised pursuant to the amendments in connected transactions rules. Corporate finance advisers will also find these amendments relevant while making advices to their clients. Please see the following link of The Stock Exchange of Hong Kong Limited ("SEHK") for more details: http://www.hkex.com.hk/eng/rulesreg/listrules/mbrulesup/mb_contxn_index.htm

Requirements on electronic trading under the Code of Conduct for Persons Licensed by or Registered with the SFC ("Code")

The Code requirements on electronic trading have taken effect for one year since its implementation on 1 January 2014. The requirements replaced the Guidance Note on Internet Regulation which was issued by the SFC in March 1999. Electronic trading refers to the trading of securities and futures contracts electronically and includes internet trading, direct market access and algorithmic trading. At least one responsible officer or executive officer should be responsible for the overall management and supervision of the system and one licensed or registered person be responsible for settlement and financial obligations of orders sent to the market through its electronic trading system. The SFC has recently completed a series of reviews of internet trading systems of selected licensed corporations ("LCs") and found the following major deficiencies in management and supervision in their information technology resources and applications:

Information Technology Governance:

- no formal IT management policies;
- absence of business continuity plans;
- weak vendor governance;
- insufficient monitoring of suspicious websites and mobile applications;
- lack of IT audit conducted by independent party;
- infrequent and inadequate IT awareness training provided to staff;
- missing contractual terms regarding data ownership; and
- vendor's responsibilities and liabilities in outsourcing engagement(s).

Operational Control:

- incapability of safeguarding the confidentiality and integrity of information stored in the internet trading systems and/or passed between internal and external networks;
- insufficient authentication and password controls implemented on the internet trading systems to prevent unauthorised access; and
- ineffective controls to ensure delivery of passwords to clients in a secure manner.

Monitoring and Contingency:

- inadequate testing on the contingency plan for ensuring its viability;
- lack of capacity planning or stress testing; insufficient backup facility; inadequate controls for monitoring abnormal user activities (e.g. change of IP address within a short period of time); and
- lack of incident reports or insufficient incident details for certain material system delays or system failures.

We recommend that licensed corporations should assess whether their existing policies, procedures and systems of internal controls are adequate to comply with the Code requirements and take appropriate actions whenever necessary. For more specific details, please refer to the SFC's Circular "Internet Trading, Information Security Management and System Adequacy" dated 26 November 2014.

In 2014, the HKSI Institute organised a seminar on the regulation of electronic trading, relevant internal controls techniques and a real case experience sharing of handling regulator's inspection on the electronic trading system. The HKSI Institute will organise similar seminars in due course.

After-hours Futures Trading ("AHFT")

Hong Kong Exchanges and Clearing Limited ("HKEx") first introduced AHFT on 8 April 2013. The purpose of AHFT is to cover most of Europe's business hours and the morning part of the US business day so that investors who trade stock index futures and RMB Futures can react to the market news during those periods.

Considering the development need for AHFT and feedbacks from the market participants, HKEx has added more products in addition to stock index futures in AHFT since its launch so as to increase the business opportunities for the participants. The products added include mini stock index futures, RMB currency futures and commodities futures.

The closing time of AHFT Trading Session has also been extended to 11:45 pm for index futures and RMB currency futures since 3 November 2014. Before the extension, trading between 9:30 pm and 11 pm, a period that overlapped with the start of US stock trading, contributed over 40 per cent of HKEx's overall AHFT volume. When the standard time became effective in New York in early November 2014, the US stock trading started one hour later, at 10:30 pm. If there was no extension of the AHFT close, the overlap would be reduced from 90 minutes to 30 minutes (i.e., from 9:30 pm-11 pm to 10:30 pm-11 pm). With the extension, HKEx's AHFT overlaps with US stock trading at least one hour and 15 minutes throughout the year.

Opening and Closing Times

	Original Arrangement	Arrangement from 3 November 2014
AHFT Trading Session	5:00 pm-11:00 pm	5:00 pm-**11:45 pm**
T+1 Clearing Session	5:00 pm-11:45 pm	5:00 pm-**12:30 am**

On 21 November 2014, the People's Bank of China announced a rate cut in the evening after the stock market closed. The total trading volume of the AHFT on that night reached a record high, with 3 times more than its previous average. This is a good example to illustrate how investors could make use of AHFT to react to market news released after the Day Trading Session.

For large brokerage firms which were originally having night desk operations to offer European or US derivatives trading for their clients, the AHFT has been a good opportunity to expand their business with limited operational impact. In view of cost saving, some small brokerage firms have also elected to cooperate with the larger firms to provide the AHFT services. Participants who decided to participate in the AHFT are reminded that they should ensure sufficient manpower and resources available to support their AHFT operations and that all staffs involved in the business are well trained and properly supervised. Participants should also review their client agreements with specific terms and conditions in order to be applicable and can be extended for the AHFT Trading Session. At all events, participants should observe the SFC's Code of Conduct when dealing with clients on all matters in relation to the AHFT.

Regulatory Outlook for 2015

Year 2015 will continue to be a challenging year in terms of regulatory reform and development. The following section briefly introduces a selection of the expected regulatory developments in Hong Kong financial service industry in 2015 for your reference.

Over-the-counter derivatives ("OTCD") regulatory regime

The legislation regarding OTCD regulatory regime has been incorporated in the Securities and Futures (Amendment) Ordinance 2014 ("Amendment Ordinance") which has been passed by the Legislative Council in March 2014. The Amendment Ordinance has yet taken effect pending the relevant sub-legislations, codes and guidelines to be in place. Under the new regulatory regime on OTCD, there will be two new regulated activities ("RAs"): (a) Type 11 (dealing in OTC derivative products or advising on OTC derivative products) and (b) Type 12 (providing client clearing services for OTC derivative transactions). Meanwhile, the existing Type 9 RA (asset management) and Type 7 RA (providing automated trading services) will also be expanded to cover OTCD portfolios and transactions respectively. The Amendment Ordinance also empowers the SFC to make sub-legislations, including those relating to mandatory clearing obligation, mandatory trading obligation, regulating the systemically important participants ("SIP") to regulate the OTCD activities in Hong Kong.

Requirements under the new regulatory regime will not be implemented in one go but will be done on a step-by-step approach. The first set of rules to be implemented will be mandatory reporting and related record keeping obligations. The Hong Kong Monetary Authority and the SFC have recently completed the consultation conclusion on one of the relevant sub-legislations namely the "Securities and Futures (OTC Derivative Transactions-Reporting and Record Keeping Obligations) Rules" and planned to have the rules vetted by the Legislative Council and implemented in the first quarter of 2015. Authorised institutions ("AIs"), LCs and approved money brokers ("AMBs") should report reportable transactions (which are initially be certain types of Interest rate swaps and non-deliverable forwards) that they are a counterparty to or they have conducted in Hong Kong on behalf of an affiliate. Central counterparties are required to report OTCD transactions that have been entered by them as part of the clearing process and that they are thus a counterparty to.

The current timeline for implementation of other areas of the new regulatory regime is as follows:

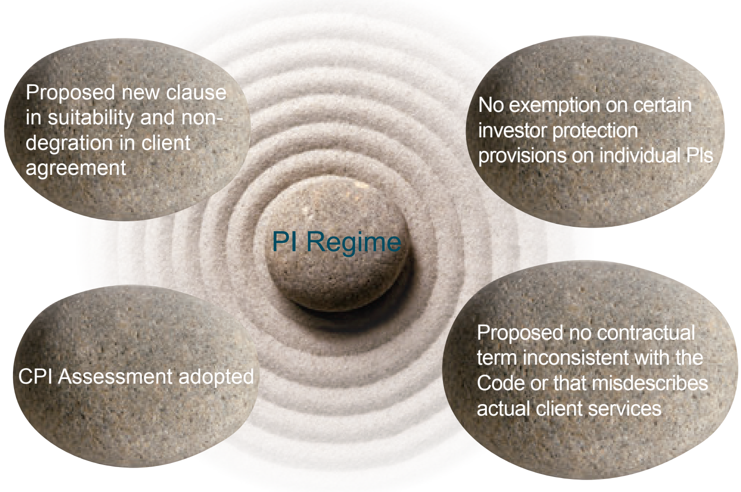
Q1 2015	Q4 2015	2016 and beyond
• Mandatory reporting and related record keeping for regulated entities	• Mandatory clearing (dealer-to-dealer transactions) and related record keeping • SIP • margin and other risk mitigation techniques for non-centrally cleared derivatives in respect of AIs	• Mandatory trading (dealer-to-dealer transactions) and related record keeping • New and expanded RAs • Phase 2 clearing • Margin and other risk mitigation techniques for non-centrally cleared derivatives in respect of LCs

The HKSI Institute has been inviting executives of HKEx, directors and senior managers of the SFC and project leaders of renowned international accounting firms to give seminars on the latest international and Hong Kong OTCD regulatory development since the calling for regulatory reform on OTCD brought by the global financial crisis of 2008. We will continue to provide relevant seminars and training programmes as the development goes. On the other hand, the HKSI Institute is working closely with the SFC in developing the relevant curriculum and study manuals for the licensing examinations for the 2 new RAs. Relevant details will be provided in due course.

Amendments to Professional Investor ("PI") Regime and Client Agreement Requirements

The revised PI Regime to be effective on 25 March 2016 would not allow intermediaries when serving individual PIs to be exempt from certain investor protection provisions of the Code. A principles-based corporate professional investor assessment ("CPI Assessment") will be adopted to assess whether exemptions to certain investor protection provisions apply when intermediaries serve CPIs. To cope with the changes, intermediaries should amend the policies and documents for individual PIs and CPIs and provide training to relevant staffs.

On 25 September 2014, the SFC issued a consultation paper which proposes to revise paragraph 6.2 of the Code to require an insertion of a new clause on suitability and non-derogation into client agreements and an addition of a new paragraph 6.2 of the Code to disallow the client agreements to include any clause inconsistent with the Code or which misdescribes the actual services provided to the clients. Although the outcome of the SFC proposal is yet unknown, intermediaries should get prepared by reviewing their existing client agreements for these changes.



Other regulatory initiatives in 2015 and beyond

Finally, apart from the above, there are a number of other regulatory initiatives in 2015 and beyond that you should watch out for. For examples:

- Consultation launched by the SFC in December 2014 on proposed amendments to the Securities and Futures Ordinance which enable the SFC to provide supervisory assistance to overseas regulators upon request by means of making enquiries and obtaining certain records and documents from licensed corporations;
- Consultation conclusion issued by the SEHK in December 2014 on its proposed amendments to the Corporate Governance Code and Corporate Governance Report relating to internal controls. These amendments will apply to accounting periods beginning on or after 1 January 2016;
- The mutual recognition of the funds between the Mainland China and Hong Kong in which the regulators and the working group are in the final preparation stage for the official launch (the exact date not yet announced); and
- The joint publication of six drafts guidelines under the Competition Ordinance ("the Ordinance") by the Competition Commission and the Communications Authority in October 2014 which are expected to be finalised by the first half of 2015 and pave way for the full implementation of the Ordinance.

You may want to keep a close eye on the continuous development of the above regulatory initiatives and get prepared for them once they become effective.

Regulatory Insight Series – Unlicensed activities

The SFC considers unlicensed activities as very serious regulatory issues and will take appropriate enforcement action against them. In a recent enforcement case, a corporation and its sole owner were fined a total of HK$1.5 million for providing advisory services on corporate finance without a license. The owner was sentenced to 6 month's imprisonment suspended for 18 months. In this issue, we would like to share some thoughts on unlicensed activities, what and how market practitioners should do to prevent them.

What is unlicensed activity?

Section 114 of the Securities and Futures Ordinance prohibits any person from performing any regulated function except for a licensed representative. A person commits an offence when the person, without reasonable excuse, carries/carries on a business in a regulated activity without a license.

Examples of unlicensed activities

The following are some real life examples of potential unlicensed activities carried on, whether inadvertently or not, by individuals or firms:

- Allowing a new employee to take and execute client orders, answer client inquires on investment products or services and/or give investment advice before a license is formally granted by the SFC.
- Employing unlicensed dealing staff to take order instructions from clients and to execute them.
- Permitting the dealing room to be operated by unlicensed staff without a responsible officer to supervise the dealing function.
- An unlicensed firm entering into service agreement to advise a client on its listing application where the scope of services constitutes advising on corporate finance regulated activity.
- Promoting incentive schemes where the members of public introducing new clients to an intermediary would be rewarded commission or rebate.

What are the consequences?

The consequences of carrying/carrying on a business in a regulated activity without a license can be very serious. Here are some examples of potential consequence of unlicensed activities:

- Reprimanded by the SFC.
- Fitness and properness on holding a license being adversely affected.
- Ordered to pay the SFC's investigation costs.
- Fined by the court.
- Imprisonment.

Lessons to learn

The following measures are recommended to prevent unlicensed activities from happening:

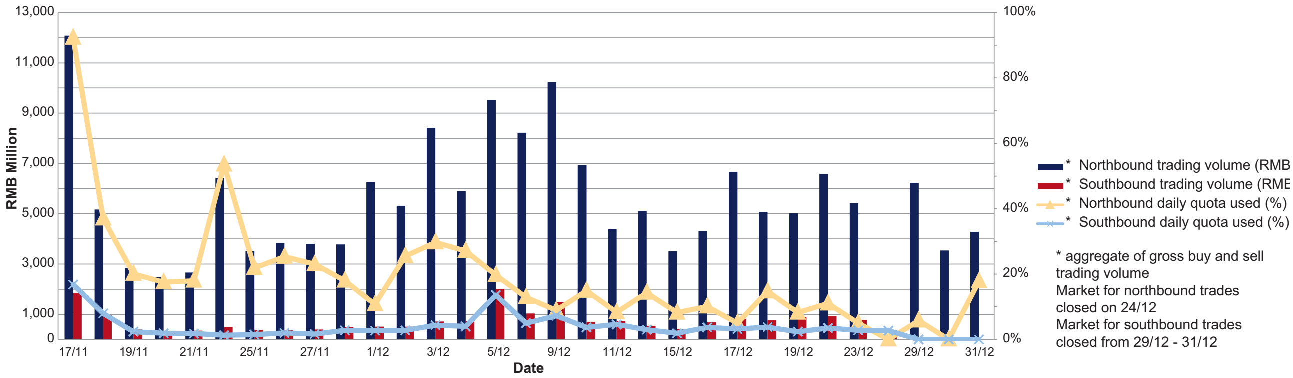
- Set up appropriate internal control procedures in the recruitment process to ascertain the licensing status of newly recruited employees.
- Never ask your new employee to undertake any regulated activity before his/her proper licensing/registration is confirmed by regulator(s).
- Senior management and responsible officers of an intermediary should exercise adequate supervision and oversight on the activities carried out by its employees.
- Consult the SFC and/or seek legal advice in advance if you are unsure whether a new business activity or the terms of a new agreement constitutes any regulated activity.
- Check the SFC's Public Register of Licensed Persons and Registered Institutions on the SFC website to ensure that people and firms are licensed before engaging them.

Shanghai-Hong Kong Stock Connect

The long-waited "Shanghai-Hong Kong Stock Connect" ("Stock Connect")" commenced on 17 November 2014. The RMB daily exchange limit for individual was also abolished on the same day. Since then, there have been lots of comments in the market about Stock Connect's performance and its outlook.

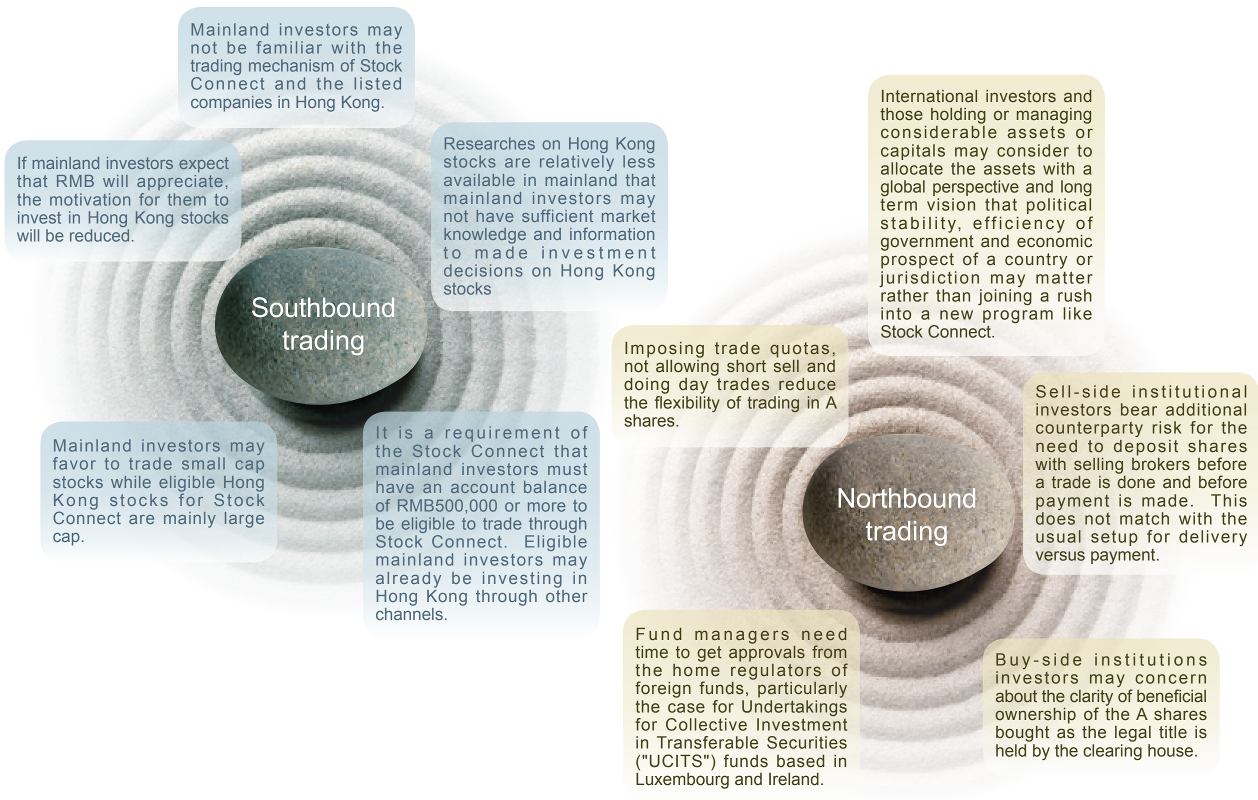
Trading volume since commencement

We compiled a diagram to illustrate the trading volume and quota utilisation rate for both southbound and northbound trading since 17 November 2014 as follows:



Comments from the market

The following are some commentaries that we noted from the market on the possible reasons that the transaction volume of Stock Connect was not as high as the market expected before it commenced.



Although the utilisation of the trade quotas have been inevitably be cited as a measure of the investor participation rate of trading through the Stock Connect, the trade quota requirement is, after all, a risk management tool according to the exchanges and regulators. The market is generally of the view that it will take two years or more to reflect the substantial influence of the Stock Connect to both markets.

Despite the relatively slow start of Stock Connect, some market participants hold the view that large allocators of global funds have huge interest in Stock Connect which is seen to be a tool for foreign capital to target the drivers of future prosperity given the higher growth rate in mainland China as compared with elsewhere, especially Europe. Under-valuations in the A-share market, particularly exposure to high growth sectors and future inclusion of A shares in the MSCI or other global indexes are definitely attractions to fund allocators.

Recent developments

In early December 2014, South China's Shenzhen Qianhai district has released a plan which includes a measure of setting up a cross-border trading platform for securities and derivatives. The Premier of the State Council of the People's Republic of China, Li Keqiang, has also expressed, in his recent visit to Shenzhen in early January of 2015, that there should be Shenzhen-Hong Kong Stock Connect right after the Shanghai-Hong Kong Stock Connect. Analysts anticipated that Shenzhen-Hong Kong Stock Connect has been shifted to a fast track of implementation, possibly within 2015.

In early January of 2015, HKEx has carried a system test aiming to make covered short-selling of A shares through Northbound Trading available to overseas and Hong Kong investors soon. The rollout of the short-selling service will give investors greater flexibility in trading strategy and risk management. In March 2015, HKEx will test a new system function which enables tracking of investors' stock holdings in its custody. This new system will enable institutional investors who hold their A shares through custodians to comply with the Mainland's pre-trade checking requirement without transferring their shares to brokers before execution of a sell transaction.

Going forward

In 2014, the HKSI Institute organised a program of 3 seminar series where executives of HKEx gave the operational details of Stock Connect. Right after its launch, Mr Ashley Alder, Chief Executive Officer of the SFC, has spoken on a luncheon hosted by the HKSI Institute about the Stock Connect and how regulators have agreed to tackle enforcement and surveillance challenges arising from the Stock Connect (http://www.hksi.org/hksi/index.php?option=com_content&view=article&id=1553&Itemid=246&lang=en). The HKSI Institute expects that there will be a number of development in relation to the Stock Connect in the next couple of months and we will continue to provide relevant seminars and education programmes in due course.

What is Weighted Voting Right ("WVR")?

You may recall that in early 2014 there was a debate as to whether we should accept companies with WVR structures to list their shares in Hong Kong or we should stick to the traditional "one share, one vote" concept. WVR structure is the governance structure on a company that gives certain persons voting power or other related rights disproportionate to their shareholding. Swire Pacific Ltd is an example of Hong Kong listed company having WVR structure. From 8 April 1987, WVR structure was prohibited by the SEHK for new issuers so as to ensure the fair and equal treatment of shareholders.

Further to the HKEx's publication of the WVR concept paper in August 2014, we circulated that document to our members encouraging them to provide responses either through the HKSI Institute or directly to HKEx.

In addition to collecting members' opinion, we have invited individual members, corporate members, and candidates of our Licensing Examination for Securities and Futures Intermediaries to participate in a survey. It was designed to collect details on survey participants' understanding of the concept and their views on WVR structure. It was an interesting finding that 73% of the respondents, many of them were practitioners in the securities and investment industry and/or public investors, were not familiar with the concept of WVR. It appears to us that some education programmes through appropriate channels should be organised in order to enhance market participants', investors' and public awareness and knowledge on WVR concept.

Chart 1. Overall familiarity with WVR

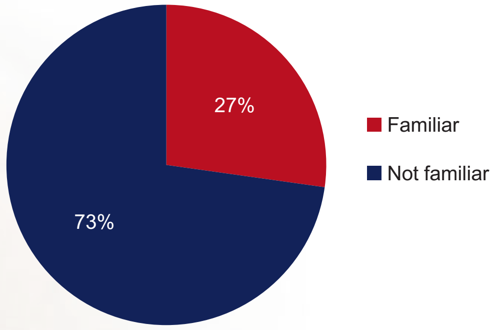
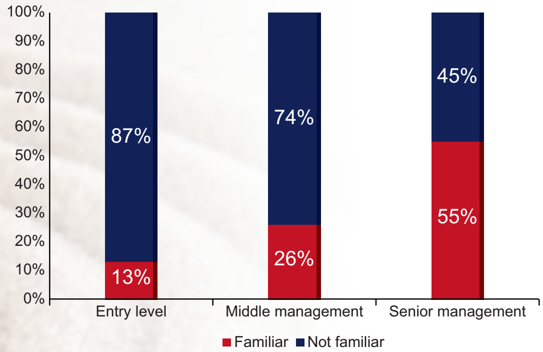


Chart 2. Familiarity with WVR in different levels of seniority



Watch out for the next issue…

We hope that you enjoy reading our first issue of S.I. and find it useful. Please watch out for our next issue which will bring you more about the regulatory and market development in Q1 2015. We will also continue to interview a member of the HKSI Institute to share his/her experience in the securities and investment industry. Last but not least, the Regulatory Insights Series will discuss "market misconduct" which is recently a major focus of the regulator. Thank you and wish you all a prosperous 2015!

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