Keynote Speech
2018 Refinitiv Pan Asian Regulatory Summit

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10 October 2018

Thank you Refinitiv for inviting me back to speak for a third year at the Pan Asian Regulatory Summit.

I noticed last week that Hong Kong has regained its crown from New York as the number one market

We created specialised teams around these risks and prioritised our investigations. We closed cases that were less important. The outcome of this exercise left us with highly specialised and knowledgeable teams focused on our most serious problems – each with a clear mission to mitigate a specific set of risks.

So now let me give you some idea of what those teams have been able to accomplish as a result of this new collaborative, focused approach. At the SFC we still believe corporate fraud poses the greatest threat to Hong Kong's reputation. The types of fraud I am referring to are suspicious fund raising, round robin transactions, customer or sales falsification. All are designed to deceive investors.

Given that a large percentage of our stock list consists of companies with operations on the Mainland, this gives rise to some especially thorny evidentiary problems. So just as we collaborated internally to achieve focus and prioritisation, we also collaborated externally with our key partner on the Mainland, the China Securities Regulatory Commission (CSRC), to assist us with evidence gathering and knowledge sharing. We increased our consultations and training with the CSRC and continued with both long-term and short-term secondments to improve cross-border collaboration.

After the re-organisation, we were left with the big, challenging cases. These are the important ones that have become our top priority.

Last year, I told you the Corporate Fraud Team had 136 active investigations and we had chosen 28 that we deemed particularly serious. We have suspended the share trading of 14 listed companies within this group.

In one of these cases, we commenced criminal proceedings against a listed company and its director for disclosing false or misleading information in its financial results. The listed company was convicted and fined while the criminal proceeding against the director is still ongoing.

The team is now targeting and addressing approximately 100 more entities and individuals within this group. Our goal is to complete all these high-priority investigations by the end of 2018. As you can see, we are completing these very complex cases in a relatively short period.

From these completed investigations, we are targeting legal proceedings against approximately 60 companies and individuals by the first half of 2019.

We will bring civil and criminal proceedings, including seeking compensation orders where appropriate against these entities and individuals.

To drive home the deterrent message, we have also vigorously pursued individual responsible directors. Since 2017, we have doubled the number of directors we have removed or banned for fraud, misfeasance or similar breaches under the Securities and Futures Ordinance.

Lastly, in terms of the role of gatekeepers of the stock list, our sponsor team has now investigated 30 cases of suspected sponsor misconduct involving 28 sponsor firms and 39 listing applications.

We have already issued proposed disciplinary notices to nine firms and four sponsor principals. We are still considering more disciplinary notices against other sponsor firms and principals. We continue to see sponsor work performed below expectations. Let me give you an example. In one case we looked at, it was critical for a sponsor firm to have indemnity agreements signed by various parties as part of the due diligence process.

Our investigation revealed that one person had signed these agreements for some overseas customers on the same day in four different countries spanning different time zones – yet no one at the firm raised any alarm about the authenticity of these agreements. From what we are seeing, the quality of sponsor work appears to have much room for improvement, and we will continue to focus on this area until standards have improved.

Intermediaries misconduct

Another team that I would like to highlight is our Intermediaries Misconduct Team. We believe prioritisation and our increased focus on the more serious matters have allowed for better deterrence in this area.

This year the team has focused on serious internal control failures and conflicts of interest in firms that could affect the investing public. In many cases we had the boards of licensed firms sign off on remediation efforts, approved by us and independent reviewers.

You may have noticed we have meted out significantly larger fines this year. The aggregate fines imposed for the whole of last year were approximately $63 million. This year we have already imposed $191 million in financial penalties. Of course this comparison excludes the $400 million fine paid by HSBC last year.

The multiplier approach was adopted in that case to ensure that the penalty was proportionate to the misconduct, in order to achieve the intended deterrent effect.

We understand that bigger fines do not necessarily equate with better deterrence, but in our case, it does illustrate that we are “on strategy” – as we focus on the more serious matters impacting the investing public, the size of our fines has naturally increased as well.

Also, we have not used fines as the only deterrent. We have also been leveraging on the Manager-In-Charge (MIC) regime to help us identify the senior managers in charge of core functions. We are using it as a roadmap to pin down those senior individuals responsible for different types of misconduct. We

We have talked previously about how ICE has had some success with very difficult market problems such as price volatility in the GEM market. We are now addressing some more insidious behaviours. This is where we have collaboratively exercised some of our front-loaded regulatory tools that can range from actions such as objecting to listing applications that failed to meet the requisite standards, to outright suspension of a company's shares from trading.

One of the difficult problems facing our market is what I referred to last year as the "nefarious networks" which one could describe as a group of highly organised people who own or control listed companies, licensed dealers, money lenders, financial advisory services and placing agents; or any combination of the above.

These networks enrich themselves at the expense of unsuspecting investors by numerous methods. These methods range from share warehousing, the use of nominees to disguise actual voting control, to the sale of assets using outrageous discounts, or extreme overpricing, usually accompanied by some form of market manipulation.

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We made this possible through extensive inter-divisional collaboration coordinated by the ICE group. The work of this group has showcased the strength of the combined knowledge and execution capabilities of the SFC when it works collaboratively across divisions. So the noose is tightening.

We are now sifting through the evidence and are methodically and relentlessly building civil and criminal cases against our targets. Life is about to get very uncomfortable for those who abuse our capital markets.

So you can see from my comments today, enforcement has changed significantly over the last few years. We continue to protect the fairness of our markets and our reputation as an international financial centre by focusing on the more serious problems even though these problems can be quite arduous.

It has been through both internal and external collaboration that we have been able to achieve this. Our Enforcement Division is adapting to the changing needs of the market, taking a very strategic approach to discharging our duties.

I would like to thank Refinitiv for inviting me here and I would like to thank the staff at the SFC for zealously guarding the reputation of Hong Kong's capital markets.