



# **Accountability and Transparency in the Age of Global Markets**

**The American Chamber of Commerce  
Financial Services Committee**

**14 May 1999**

# Globalisation of Markets

- ◆ **Deregulation, financial and technological advancement brings:**
  - **change**
  - **confusion**
  - **competition**
  - **consolidation**

# The Age of Technology

- ◆ Internet financial transactions cost one US cent each - paper-based transactions cost US\$1
- ◆ E-trading did not exist before 1995 - 10 million investors can now choose from over 100 online brokers in the US alone. Online trading accounts for 25% of all trades on NYSE and Nasdaq
- ◆ 8 traditional SEC registered stock exchanges, vs more than 20 electronic trading systems

# Markets are Networks

- ◆ **high transparency + low transaction cost  
= high liquidity + low volatility**
- ◆ **Markets need quality information,  
timely disclosures and efficient access to  
information**
- ◆ **Abuses and misuse will destroy market  
fairness, integrity and level playing field**

# Gaps in Information

- ◆ **Asian Financial Crisis reveals**
  - gaps in disclosure
  - gaps in incentives to use information
  - gaps in the law and the regulatory net
  - gaps in the capacity to use information
- ◆ **Fallacy of composition gives illusory comfort of safety**



# Plugging the Gaps

- ◆ **New regulatory regime under composite Securities and Futures Bill to enhance standards of transparency, accountability and disclosure**



# Regulatory Reform

- ◆ Clarification of regulatory objectives of SFC
- ◆ Strengthened supervisory and investigative powers
- ◆ Civil fine based enforcement
- ◆ Market Misconduct Tribunal
- ◆ New regulation on Internet trading
- ◆ A streamlined licensing regime for market intermediaries



# Regulatory Objectives

- ◆ **IOSCO (International Organisation of Securities Commissions) objectives of securities regulation:**
  - **Protection of Investors**
  - **Ensuring markets are fair, efficient and transparent**
  - **Reduction of systemic risks**



# SFC Regulatory Objectives

- ◆ **Maintaining and promoting confidence in the securities industry**
- ◆ **maintaining fairness, efficiency, competitiveness and transparency of our markets**
- ◆ **promoting the understanding of the investing public of benefits and risks**
- ◆ **seeking the appropriate degree of protection for investors**
- ◆ **minimising financial crime and misconduct**
- ◆ **reducing systemic risks**

# Checks and Balances

- ◆ **Equal number of Executive Directors and Non-Executive Directors; NEDs as first line of independent supervision**
- ◆ **Enforcement and licensing decisions are fully appealable on the merits to an independent appeals tribunal**
- ◆ **Aggrieved parties can seek judicial review of a Commission decision**

# Checks and Balances

- ◆ **Commission also subject to scrutiny of the Ombudsman and ICAC**
- ◆ **Accounts are audited independently and tabled before LegCo. Director of Audit has right of access to records**
- ◆ **Annual estimates and reports are to be laid before LegCo. Officers regularly appear before Panel on Financial Affairs**

# Checks and Balances

- ◆ Website on which accounts of performance are posted
- ◆ Prior consultation before bill is laid before LegCo for deliberation
- ◆ Internal procedures to ensure due process, fair treatment and right to making representation

# Greater Accountability

- ◆ **Examining suggestions of a separate review committee to review the process of the Commission**
- ◆ **Balance the public interest of greater transparency and accountability against the risk of creating too many levels of review that would adversely impact on effectiveness and independence**