



ASCPA 5th REGIONAL CONFERENCE IN HONG KONG “A Better Asia Tomorrow”

**The Role of the Securities and Futures
Commission -Transparency and Accountability
in the Age of Global Markets**

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Asian crisis - growth slowed, but not as bad in USD terms

Real GDP Growth Rate (%)

	IN LOCAL CURRENCY			IN USD
	1997	1998	1999*	1999 over 1997
Hong Kong	5.0	-5.1	-0.5	-5.7
Singapore	8.0	1.5	5.0	-7.4
Taiwan	6.8	4.8	5.5	-2.6
S. Korea	5.5	-5.8	8.0	-20.5
Thailand	-1.3	-9.4	3.0	-24.8
Malaysia	7.5	-7.5	2.0	-31.4
Indonesia	4.9	-13.7	2.0	-70.2
Philippines	5.2	-0.5	3.0	-22.1

Remarks: * ADB September forecast; exchange rates for 1999 are the averages of Jan-Sep 1999



Stock Market Performance

	Stock Market Indices		% change	
	end-Jun 97	22 Nov 99	end-Jun 97 to 22 Nov 99 in local currency	end-Jun 97 to 22 Nov 99 in USD
Hong Kong	15197	15285	0.6	0.3
Singapore	1921	2215	15.2	-1.4
Taiwan	9030	8052	-10.3	-21.5
S. Korea	745	978	29.6	-1.7
Thailand	527	406	-22.9	-50.9
Malaysia	1077	741	-31.3	-54.3
Indonesia	725	630	-13.0	-70.2
Philippines	2809	1962	-30.2	-54.8
Australia	2726	3063	12.3	-5.2



Financial Markets as Networks

- ◆ The wider the network, the more valuable it becomes as it draws on more resources and knowledge
- ◆ Networks have negative and positive externality
- ◆ Lessons of the Asian financial crisis



Application of Knowledge

- ◆ From technology revolution to management revolution
- ◆ Cheap and ready access of knowledge at all levels by the public
- ◆ Competition of economies becomes the competition of knowledge
- ◆ Value added by knowledge



Risk Management is therefore Knowledge Management

- ◆ Complexity of Global economy means we must shift risk management to self responsibility to everyone
 - ✱ **Consumer must know risks - buyer beware**
 - ✱ **Investor must have relevant price-sensitive information to assess risks**
- ◆ Must have clear principles, codes, standards, rules and regulations
- ◆ Need to educate: consumer, investor, intermediary and regulator of rights, responsibilities and risks



Information & Markets

- ◆ Markets need real time, reliable information to make correct decisions, especially for risk management in highly volatile environment
- ◆ High quality information needs :
 - ✦ Good accounting standards,
 - ✦ Reliable, timely statistical & reporting processes
 - ✦ Capacity to process, analyze and decide on information critical to competitive success
- ◆ Bad accounting = bad information = poor decision making = bad risk management → financial crisis



Functions of Capital Markets

- ◆ **Price discovery** - pricing of risks and valuation of property rights
- ◆ **Resource allocation** - exchange of property rights
- ◆ **Investor choice** - timing of consumption vs savings
- ◆ **Risk Management** - enable diversification of risks
- ◆ **Role in corporate governance**



Objectives of Financial Reforms

- ◆ Improve resource allocation
- ◆ Improve price discovery
- ◆ Improve risk management
- ◆ Improve corporate governance
- ◆ ∴ need to develop balanced bank, bond, equity and derivative markets



Great development potential for bond market (% of GDP 1998)

	Bank Assets	Equity Market	Bond Market
Hong Kong	214	206	47
China	139	25	12
Singapore	220	112	20*
US	65	158	141
Japan	145	64	101
Germany	273	51	97
S. Korea	233	35	53
Thailand	176	30	21#

Remark: * figure for Singapore includes government bonds only; # 1997 figure
Sources: FIBV, IFC, World Bank and various central banks



Regulatory framework

◆ There should be :

- ◆ **full, timely and accurate disclosure of information to investment decisions**
- ◆ **good governance principles**
- ◆ **clarity in the roles, responsibilities, and objectives of the regulatory authorities**
- ◆ **transparency in trading and price reporting to deter manipulation and unfair trading practices**
- ◆ **uniform regulatory, compliance and enforcement standards for intermediaries**
- ◆ **sound criteria for external credit assessments**



Transparency and Accountability

- ◆ Transparency depends on high quality information, with international accounting standards, uniform rules and regulations, timeliness and ready accessibility
 - ✦ Gaps in Disclosure
 - ✦ Gaps in incentives to use information
 - ✦ Gaps in capacity of absorb information
 - ✦ Gaps in regulatory net
 - ✦ Fallacy of Composition problem
- ◆ Transparency helps accountability, improves governance but has limits and high costs



Regulatory framework

- ◆ The SFC is working on a composite bill which consolidates, updates and harmonizes 9 different Ordinances
- ◆ Incorporates recent market changes & lessons of Asian crisis
- ◆ Bring law up-to-date, user, technology and innovation friendly



5 key regulatory objectives

- ◆ **Maintain and promote fair, efficient, transparent and orderly securities, futures and related financial markets**
- ◆ **Promote public confidence in and understanding of the financial system, and to secure appropriate degree of protection for investors in securities**
- ◆ **Minimize crime and misconduct in the securities, futures and other related financial markets**



5 Key regulatory objectives (2)

- ◆ **Reduce systemic risks** in the securities, futures and related markets
- ◆ **Assist Government in maintaining stability** and integrity of the monetary and financial systems in Hong Kong



Transparency and Accountability

- ◆ SFC strongly believes that the **regulator should be both transparent and accountable**, subject to requirements of secrecy and confidentiality
- ◆ Checks and balances on SFC's functions and powers:
 - ✦ **clear objectives, functions and powers will provide benchmarks** for measuring SFC's performance



Transparency and Accountability (2)

- ✦ **Judicial reviews** of SFC decisions
- ✦ **Complaints to the Ombudsman** on SFC's action
- ✦ DOJ to conduct independent review of possible prosecutions and market misconduct cases



Securities and Futures Appeals Tribunal

- ◆ Existing Securities and Futures Appeals Panel will be upgraded to a Securities and Futures Appeals Tribunal (SFAT)
- ◆ Headed by High Court Judge with prominent market practitioners
- ◆ Conduct **full merits review** of all SFC's licensing and disciplinary decisions (including decisions to reprimand)
- ◆ SFAT has power to affirm, vary or substitute SFC's decision



Conclusion

- ◆ Global finance is complex, competitive and ever-changing
- ◆ Hong Kong needs a sensible, flexible and user-friendly regulatory framework
- ◆ Proposed new Composite Bill aims to maintain Hong Kong's continual success as an international financial centre
- ◆ Need co-operation from government, legislature and financial community to move forward