

**Hong Kong Society of Financial Analysts  
The Association of Investment Management and Research**

**CFA Charter Award Dinner  
November 16, 1999,  
Marriott Hotel, Hong Kong**

***“Analytics & Ethics”***

**Speech by**

**Andrew Sheng  
Chairman  
Securities & Futures Commission**

Mr George Long, Chairman HKSFA  
Distinguished Guests,  
Ladies & Gentlemen,

The conferment of the CFA Charter is a great honour and achievement. I am ashamed to say that I am not qualified to be a CFA, even though I have managed a large portfolio and have been involved in financial markets almost all of my career. My only excuse is that I have been too busy to take the examination, but let me say that tonight, it is both an honour and a pleasure to address you all.

When President George Long invited me to deliver the Keynote Address, he pointed out that the HKSFA, which is the local affiliate of the AIMR has 500 members, with over 4,000 CFA candidates, making Hong Kong the third largest CFA examination centre world-wide. He wanted me to talk on the latest development of the investment industry in Hong Kong and he pointed out that central to the CFA exams is the section on ethics. So I have the theme of my speech tonight as “Analytics & Ethics”.

Oscar Wilde, not exactly the most analytical, but the sharpest of all wits once said that the cynic was a person who knew the price of everything, and the value of nothing. On that basis, the definition of a Chartist (you notice I did not say Charterholder) is an analyst who knows the trend of everything, except the correct market price. Actually, I discovered only the other day that the earlier definition of a Chartist was one who upholds the principles of universal suffrage. By that definition, a bad Chartist is one who suffers universally.

On a more serious note, it is a pleasure to speak to members of an Association that shares so many values and objectives in common with the Securities and Futures Commission.

The most important objectives of the SFC include:

- Investor protection; and
- Fair, honest and efficient markets.

We want to achieve these objectives at the same time as we foster an environment that facilitates business development. We recognise that achieving these objectives and that Hong Kong's standing as an international financial centre depends not only on the quality of the services provided by our market intermediaries, but also trust and confidence of investors that this is a fair and honest market to invest in.

Thus, the quality and integrity of our intermediaries are very much a part of our competitive advantage.

When I look at the work of the Association for Investment Management and Research, I see the same emphasis on quality and integrity.

The focus of this evening's gathering is, of course, the Chartered Financial Analyst Program. This program is very much focussed on professional excellence:

- It is focussed on assisting investors to make informed investment decisions.
- It is focussed on staying up to date with the latest market developments, techniques and analytical tools.
- It is focussed on the need for continuing education.

Those are precisely the attributes that the SFC wants to see in the intermediaries working in Hong Kong.

We do have high standards amongst the market intermediaries in Hong Kong but at the SFC, we understand that we cannot afford to be complacent.

We can do better and we must recognise that the constantly changing market place requires that intermediaries make a serious and ongoing commitment to excellence.

## Licensing Review

To that end, we have recently undertaken a review of our system for licensing intermediaries in Hong Kong.

Several of the reforms that we have in mind are particularly focussed on excellence in the industry:

- First, we intend to include express requirements that applicants for SFC licenses must meet specified competence requirements. The particular competence requirements will vary according to the nature of the licence sought but they will be based on a combination of academic qualifications and practical experience.

We will thus introduce a statutory basis for making objective assessments about the quality of applicants for a licence. Programs like the one leading accreditation as a CFA are an important part of that competence-based approach to licensing.

- Secondly, we intend to require the licensing of all senior management and, in particular, all executive directors, to ensure they meet higher standards of competence and have the necessary skills and experience to undertake the responsibility of managing and supervising a market intermediary.
- Thirdly, we intend to introduce a requirement for ongoing training.

We will set out in Policy Statements what we expect in that regard. The responsibility for ensuring that the requirement is met will be borne by both the individual licence holder and the employer firm. A failure to satisfactorily undertake continuous training is a matter that would lead to disciplinary action.

Once again, programs like the one leading to accreditation as a Chartered Financial Analyst are an important part of what we have in mind in introducing this ongoing training requirement.

- Fourthly, we intend to re-classify the activities for which an SFC licence is required - in part that is so that we can better match our competence requirements to the type of work to be licensed.

For example, we will replace the single approval to act as a corporate adviser with approval to give advice in particular areas, such as corporate advisory, funds management or retail.

- Finally, by way of example, we are changing the criteria for granting exempt status to banks in particular.

For the first time, they will need to satisfy us that they are fit and proper to carry on the securities business for which they seek exemption from licensing.

## **High Ethical Standards**

But, of course, having a skilled group of intermediaries is only half the story.

To attract investors to the Hong Kong markets, there must also be confidence in the honesty and integrity of intermediaries.

Here also the SFC and AIMR have a lot in common.

When I look at AIMR's Code of Ethics and Standards of Professional Conduct, I see that the very first requirement is that Member shall:

“Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees and fellow members.”

It is a passage that could almost have come from the SFC’s own Code of Conduct [For Persons Registered with the Securities and Futures Commission].

That SFC Code begins: “In conducting its business activities, a registered person should act honestly, fairly, and in the best interests of its clients and the integrity of the market.”

The fundamental test for being granted and for retaining a SFC licence is, of course, whether the applicant is “fit and proper”.

But, here again, there is no room for complacency. As I am sure, many of you will know, a few weeks ago, the SFC was part of a group that prepared and launched an important new publication “Ethics in Practice: A Practical Guide for Financial Practitioners”.

The key messages of that book include the close links between high ethical standards and market and investor confidence. 70% of investors select financial intermediaries and products because of trust: trust in their professional knowledge and standards, their commitment to service and their integrity.

I need not remind you that working within an ethical code involves more than just complying with the letter of the law.

For those of you who have not seen the book, I can thoroughly recommend it.

## **Conclusion**

Let me conclude by congratulating the AIMR, the HKSFA and above all, all of you who have worked so hard to complete the program leading to accreditation as a Chartered Financial Analyst. With each higher qualification come more responsibilities. I cannot agree more with your Charter: a charter for commitment to the highest standards of knowledge, service & integrity, and also a commitment to continual education.

Service is all about people, and Hong Kong, as an international financial centre, has to continually upgrade the quality of its service, especially education in her people, in order to compete globally.

Thank you for inviting me to join you this evening.

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