

Safeguarding financial stability and national security Speech at National Security Education Day

Mr Tim Lui
Chairman

15 April 2021

I am very pleased to share with you today the role and functions of the Securities and Futures Commission (SFC) in the important area of safeguarding financial stability and national security.

Financial security is an integral component of national security, providing an important foundation for the healthy development of China's economy. The Central Government sees financial risks as not only relevant to national security, but also to China's overall development plan and the safety of personal property. Financial risks are a major hurdle which must be prevented, overcome and resolved.

In recent years, China has remained committed to deepening its financial reforms, advancing the opening up of the financial industry and accelerating its connectivity to and integration with global capital markets. The Outline of China's 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives through the Year 2035, recently passed in the NPC and CPPCC¹ National Committee annual sessions, stated that efforts should be made to enhance the financial sector's capacity for sound development and implement a number of financial security strategies, including to enhance the framework for managing cross-border capital flows, strengthen regulatory cooperation and upgrade risk prevention and control capabilities as well as response preparedness.

As China's key international financial centre and offshore market, Hong Kong should position its financial development as part of the country's overall development plan and serve the national strategy. With the ongoing integration between the Mainland and Hong Kong capital markets, ensuring the stability and orderliness of Hong Kong's financial system will help safeguard the nation's financial security.

The SFC regulates Hong Kong's securities and futures markets in accordance with the Securities and Futures Ordinance. We uphold rigorous regulatory standards to maintain the integrity of our markets, protect investors and reinforce Hong Kong's position as a major international financial centre.

Note: This is an English translation of the speech as drafted, which may differ from the delivered version.

¹ NPC stands for the National People's Congress of the People's Republic of China and CPPCC stands for the Chinese People's Political Consultative Conference.



In recent years, the Hong Kong market faced challenges arising from the COVID-19 pandemic, global economic turmoil and Sino-US relations. To ensure that our markets operate in an orderly manner, the SFC has a market contingency plan to consider taking action when potential risks are detected. In our supervision of intermediaries, we closely monitor the market, including brokers' financial positions, operations and settlement as well as their ability to weather varying market conditions. We conduct stress tests and special inspections of licensed corporations to review their risk management practices and compliance with guidelines to ensure their resilience. And in times of market volatility, we will require licensed corporations to implement appropriate contingency plans as needed. We also closely monitor the liquidity and redemption profiles of SFC-authorized funds and stay in close contact with licensed corporations to help us assess their financial soundness, internal controls and risk management practices.

More broadly, the SFC has developed a framework and a number of benchmarks to monitor our financial markets. We endeavour to detect potential systemic risks through our daily monitoring of market participants' trading activities, paying particular attention to unusual trading activities and open positions or instances of market manipulation. We are working with Hong Kong Exchanges and Clearing Limited (HKEX) to implement an investor identification regime for the securities market in Hong Kong. This would enable us to detect suspicious trading activities and market misconduct more efficiently.

To ensure that our market infrastructure operates smoothly and can withstand extreme volatility, we have scaled up our efforts to tackle market and systemic risks, focusing on monitoring HKEX's prudent risk management measures and maintaining close contact with local clearing houses to ensure their margin policies appropriately address risks. Together with HKEX, we are reviewing the Volatility Control Mechanism, including a circuit breaker and other contingency measures, to mitigate the impact of extreme market volatility.

In addition, widespread misconduct in the financial services sector may pose systemic risks to the financial system and undermine investor confidence. For this reason, we adopt a zero-tolerance policy against misconduct. In taking resolute and decisive enforcement action against wrongdoers, we also send a clear deterrent message to the market to help achieve our regulatory objective of investor protection.

As you can see, in our day-to-day regulatory work, we pay heightened attention to financial market stability and have adopted a range of measures in response to the pandemic and global economic turmoil to avoid disruptions to financial stability and prevent systemic risks.

The SFC has contributed a lot to Mainland-Hong Kong collaboration and supports China's management of cross-border risks. Hong Kong is an indispensable part of China. It is essential that we leverage both our close ties with global markets and our safe and well-regulated offshore environment, and continue to support the opening up of China's financial industry. Through it all, Hong Kong must effectively prevent or address any risks emanating from cross-border capital flows and enhance financial regulation. Hong Kong can play a pivotal role in supporting the country's management of cross-border risks. Over the years, the mutual market access schemes have been running smoothly. This shows that Hong Kong can serve as a firewall and buffer zone in supporting the Mainland to withstand global market volatility and deal with considerable capital flows under extreme conditions.



As more Mainland equities and bonds are included in major global indices, overseas investors need hedging tools to manage the risks associated with their investments in Mainland assets. Hong Kong has been keen to develop more diversified risk management tools, particularly financial derivatives products linked to the performance of Mainland assets. The launch of these products could prevent panic-selling by global institutional investors amidst sharp market fluctuations and boost their confidence in investing in Mainland assets. Ultimately, this would promote more global, long-term investment in the Mainland's capital market and help manage cross-border risks—all of which will promote financial security. We will strive to pursue and promote these initiatives.

More importantly, the Mainland and Hong Kong financial regulators have formed a close partnership in regulatory and enforcement cooperation over the years. We keep in close communication with the China Securities Regulatory Commission and have signed several cross-border regulatory cooperation arrangements and memoranda of understanding. This lays an important foundation for monitoring cross-border capital flows, which helps safeguard national financial security and stability.

Our participation in global regulatory cooperation initiatives is a very meaningful part of our work. Hong Kong is an open market with free flow of capital. Events in other major markets could have knock-on effects which have a significant impact on Hong Kong's financial markets.

The SFC is actively involved in the formulation of global policies which could affect Hong Kong. We were elected to chair the Board of the International Organization of Securities Commissions and participate in the Financial Stability Board established under the Group of Twenty. We have also built close cooperative relationships with our overseas regulatory counterparts to jointly maintain the stability of the global financial markets.

In addition, we adapt to change by continually reviewing our regulatory approach and enhancing our regulatory framework to meet the needs of the Hong Kong market as well as to stay aligned with international developments and standards.

In all, a sound regulatory framework is the cornerstone of a market's sustainable development. The SFC plays multiple roles as a gatekeeper, regulator and law enforcer. It also plays a key part in maintaining the integrity of Hong Kong's financial markets and investor confidence.

Over the years, our markets have stood the test and operated in a fair and orderly manner with our core competitiveness remaining unchanged.

I strongly believe that with our nation's support, the future development of Hong Kong's financial markets will be promising. We also look forward to collaborating with other local, Mainland and overseas regulators to achieve our common regulatory goals. We will strive to ensure the smooth operation of Hong Kong's financial system and markets and continue to safeguard national security and financial security.

Thank you.