

Laws, Regulations and Financial Services in Hong Kong



February 2023

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Laws, Regulations and Financial Services in Hong Kong

Introduction

Hong Kong's continued success as one of the world's leading financial centres, bridging Mainland and global markets, is built on its strong fundamentals. Among which, the city's robust legal system, underpinned by the strong rule of law and long-standing judicial independence, provides a solid foundation for an open, efficient and secure business environment. Relatedly, Hong Kong enjoys world-renowned reputation as one of the global legal and dispute resolution service hubs. Endowed with these strengths, international financial services firms choose Hong Kong as their operational hub in Asia, with the confidence being supported by the unparalleled access to world class professional legal and financial services.

In this context, the Financial Services Development Council (FSDC) initiated a qualitative study with an aim of understanding the key attributes of Hong Kong's legal system that foster and contribute to the development and enhancement of the financial services industry. With an intention to visit the topic from the perspective of legal professionals and industry leaders of different sectors, the FSDC interviewed over a dozen leading practitioners of various background — 14 of such interviews were videotaped and broken down into four modules — and this report comprises views from such an exercise. The four modules of the report are set out as follows:

Module 1 – Deal Making and Finance

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This module explores the attributes that build and define the ecosystem of Hong Kong as an ideal deal-making hub. Notably, having a trusted legal and regulatory system, being one of the freest economies in the world and its proximity to Mainland China are the key reasons.

Speakers include:



Ms Amy Lo

Co-Head Wealth Management Asia Pacific,
UBS Global Wealth Management,
Head and Chief Executive,
UBS Hong Kong



Dr Levin Wang

Chief Executive Officer,
Huatai Financial Holdings (Hong Kong) Ltd.



Mr Barry Chan

Managing Director,
Head of Investment Banking, Hong Kong,
China International Capital Corporation

Module 2 – Dispute Resolution & Court System

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In the National 14th Five-Year Plan and the Outline Development Plan for the Guangdong - Hong Kong - Macao Greater Bay Area (GBA), both plans confirmed the national policy towards supporting Hong Kong in being the centre for international legal and dispute resolution services in the Asia-Pacific region. The module provides an overview of Hong Kong's dispute resolution sector and the court system, covering elements including but not limited to, the Basic Law, judicial review and alternative dispute resolution.

Speakers include:



Dr Anthony Neoh

KC, SC, JP,
Chair,
Asian Academy of International Law



Mr Frederick Hui

Partner, Solicitor Advocate,
Zhong Lun Law Firm LLP



Mr Laurence Li

SC, JP,
Chairman,
Financial Services Development Council

Module 3 – Legal Profession

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Hong Kong's effective and sound legal system is underpinned by a broad and deep pool of world-class legal professionals, forming a unique competitive edge in the legal and dispute resolution sectors. In addition, legal practitioners in Hong Kong can enjoy the enormous opportunities arising from the integration with the GBA. For example, the introduction of the GBA Legal Professional Examination and other pilot measures to facilitate the flow of legal talents within the GBA.

Speakers include:



Mr Phillip Meyer

General Counsel, Chief Compliance Officer &
Co-Chief Operating Officer,
Oasis Management Company Ltd.



Dr Anthony Neoh

KC, SC, JP,
Chair,
Asian Academy of International Law



Mr Chak-ming Chan

President,
The Law Society of Hong Kong



Ms Roanna Kwong

Senior Associate,
Allen & Overy

Module 4 – Regulators

This module provides an overview of the principal regulators and the exchange in Hong Kong’s financial system, who share a collective goal to maintain the city’s financial stability and integrity. Through the sharing from private sector representatives on their experience to deal with regulators, one can observe how the regulators cooperate closely to adapt to global trends and market innovation.

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the video



Speakers include:



Mr Craig Katerberg

Chief Legal & Corporate Affairs Officer,
Budweiser Brewing APAC Ltd.



Ms Winnie Wong Chi-shun

CEO & Executive Director,
Asia Insurance, Avo Insurance



Mr Evan Auyang

Group President,
Animoca Brands



Ms Ding Chen

Chief Executive Officer,
CSOP Asset Management Ltd.



Ms Virginia Lee

Partner,
Clifford Chance

Module 1 – Deal Making and Finance

Deal-making is at the heart of all commercial and financial activities. Flexibility, transparency and certainty are important attributes in the deal-making process, which can be presented in the form of (i) freedom to negotiate, (ii) fairness, (iii) flexibility in reaching agreements, and ultimately, (iv) the precision in defining the rights, obligations and liabilities arising as a result of details. All these require a sound rule of law.

Hong Kong as the ideal deal-making hub

Deal-making in Hong Kong is well supported by its effective and strong legal framework and world-class professional services, etc. Furthermore, its “super-connector” role under the “One Country, Two Systems” principle, remarkably bridges Mainland China and the rest of the world, and facilitates the deal-making process. Hence, enabling the city to distinguish itself from other leading economies and cement Hong Kong’s standing as an ideal deal-making hub.

Sophisticated legal and regulatory system

Hong Kong’s prosperity and stability as an international financial centre is premised upon the strong rule of law and judicial independence in its legal framework. Under the common law system, Hong Kong has sophisticated modern laws to facilitate a broad range of deal-making, commercial fairness and enforceability of rights and obligations.

The city also has a reliable and transparent dispute resolution process, supporting deal-making across a broad array of sectors and products by enforcing rights and obligations arising from deals, and providing remedies for disputes and defaults. In addition, Hong Kong’s courts have a long-track record when it comes to the adjudication of commercial and financial cases.

Specifically, the strength and comprehensiveness of Hong Kong’s commercial and financial related laws are well recognised. The regulatory framework (Table 1) covers a wide range of business activities, ensuring that parties’ rights are protected. Additionally, effective law enforcement agencies are in place to prevent fraud, and hence, maximising deal makers’ confidence in Hong Kong.

Table 1: Examples of the legal infrastructure and regulatory framework (Non-exhaustive)

Examples	Description
<ul style="list-style-type: none"> • Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) 	To handle issues in relation to bankruptcy and insolvency
<ul style="list-style-type: none"> • Prevention of Bribery Ordinance (Cap. 201) 	To detect, enforce, and deter fraud and corruption
<ul style="list-style-type: none"> • Banking Ordinance (Cap. 155) • Banking (Capital) Rules (Cap. 155L) • Banking (Disclosure) Rules (Cap. 155M) • Banking (Liquidity) Rules (Cap. 155Q) • Banking (Exposure Limits) Rules (Cap. 155S) • Insurance Ordinance (Cap. 41) 	To strengthen the protection in deal-making in the aspects of banking and insurance
<ul style="list-style-type: none"> • Competition Ordinance (Cap. 619) 	To maintain a level playing field between parties
<ul style="list-style-type: none"> • Contracts (Rights of Third Parties) Ordinance (Cap. 623) 	To provide for the enforcement of contractual terms by third parties
<ul style="list-style-type: none"> • Electronic Transactions Ordinance (Cap. 553) 	To facilitate the use of electronic transactions for commercial and other purposes, including the use of electronic signatures and records
<ul style="list-style-type: none"> • Unconscionable Contracts Ordinance (Cap.458) • Sale of Goods Ordinance (Cap.26) • Supply of Services (Implied Terms) Ordinance (Cap. 457) 	To provide balanced consumer protection in a modern approach

The flexibility, transparency and certainty that Hong Kong’s judicial system offers are well acknowledged. In 2021 Worldwide Governance Indicators, Hong Kong ranked No.3 in Asia under the dimension of “Rule of Law”.¹

¹ World Bank, 2021 Worldwide Governance Indicators, 2021, <http://info.worldbank.org/governance/wgi/Home/Reports>

One of the freest economies in the world

Hong Kong is an open market – free flow of capital within, into and out of Hong Kong is guaranteed under Article 112 of the Basic Law², coupled with the benefits from free flow of information and people. Such an open market supports both the buy side and the sell side in deal-making, upholding confidence of organisations and individuals across the globe in conducting deals in Hong Kong.

Hong Kong has always been crowned as the world's freest economy in the Economic Freedom of the World Annual Report published by the Fraser Institute since 1996. Among which, they have ranked the city first in "Freedom to Trade Internationally" and "Regulation" since 2018.³ Remarkably, leveraging such strengths, the city has ranked as the world's largest initial public offering (IPO) market for seven times in the past 14 years. In addition, as a service-oriented economy, Hong Kong has been active in negotiation of trade in services agreement. The city has been a member of the World Trade Organization (WTO) since 1995.



"Hong Kong is the only Chinese jurisdiction whose financial system is built upon common law, which is well understood by international investors and companies alike."

Ms Amy Lo

*Co-Head Wealth Management Asia Pacific,
UBS Global Wealth Management,
Head and Chief Executive,
UBS Hong Kong*

² Basic Law, <https://www.basiclaw.gov.hk/en/basiclaw/chapter5.html#:~:text=Article%20112&text=The%20Hong%20Kong%20dollar%20shall,and%20out%20of%20the%20Region>

³ Fraser institute, Economic Freedom of the World: 2022 Annual Report, September 2022, <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2022.pdf>

Proximity to Mainland China

The connectivity between Hong Kong and Mainland China bolsters Hong Kong's role as an international deal-making hub.

With an aim of strengthening the connectivity, Hong Kong has been exploring legal enhancement with Mainland China under the principle of “one country, two systems and three jurisdictions” in the GBA. For instance, the recent measures include:



- The Interim Measures Arrangement for arbitration took effect in October 2019, where Hong Kong has become the first jurisdiction outside of Mainland China, permitting parties to arbitral proceedings to apply to Mainland China courts for interim measures (such as property freezing and evidence collection).



- Hong Kong and Mainland China jointly initiated a co-operation mechanism for cross-boundary insolvency and debt restructuring on 14 May 2021. As a result, Hong Kong becomes the only jurisdiction outside of Mainland China that allows mutual recognition of and assistance to insolvency proceedings.



- The Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Ordinance (“Ordinance”) was passed by the Legislative Council on 26 October 2022. The Ordinance seeks to provide for the enforcement in Hong Kong of judgments in civil and commercial matters given in the Mainland, and for facilitating the recognition and enforcement in the Mainland of judgments in civil and commercial matters given in Hong Kong. It aims to give effect to *the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters* signed between Hong Kong and the Mainland in January 2019.



- The pilot measures for Hong Kong and Macao legal practitioners to obtain Mainland practice qualifications were launched in October 2020. The measures enable the qualified practitioners to practise law in the nine Mainland cities in the GBA on specified civil and commercial matters upon passing the GBA Legal Professional Examination.⁴ In addition, with an aim of strengthening practical knowledge on the courts' handling of legal matters in Mainland China, practical trainings are offered to eligible practitioners by the Department of Justice of Hong Kong and the Supreme People's Court.⁵

With regards to economic and trade co-operations, Hong Kong and Mainland China have made significant achievements throughout the past two decades (Table 2). At present, the number of foreign entities entering the market has been booming alongside the development of the GBA and the Belt and Road Initiative. According to the HSBC Navigator 2021, 75% of the surveyed international companies planned to expand their business in the GBA in the next three years, and most of them prefer having Hong Kong as the entry point.⁶

⁴ HKSAR, Press Releases – Inaugural GBA Legal Professional Examinations to be held next January, November 2020, <https://www.info.gov.hk/gia/general/202011/20/P2020112000797.htm>

⁵ Constitutional and Mainland Affairs Bureau, Greater Bay Area Website, accessed on 14 Oct 2022, <https://www.bayarea.gov.hk/en/opportunities/cepa.html>

⁶ HSBC, HSBC Navigator 2021, 2021, <https://www.business.hsbc.com.hk/en-gb/campaigns/hsbc-navigator>

Table 2: Milestones of Mainland China and Hong Kong’s connectivity initiatives in the financial market

Year	Connectivity initiatives in the financial market
2002	Qualified Foreign Institutional Investor (QFII)
2003	Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)
2011	RMB Qualified Foreign Institutional Investor (RQFII)
2014	Shanghai-Hong Kong Stock Connect
2015	Mutual Recognition of Funds
2016	Shenzhen-Hong Kong Stock Connect
2017	Bond Connect
2018	<p>HKEX introduced new chapters to expand the existing listing regime:</p> <ul style="list-style-type: none"> i. Permitting listings of biotech issuers that do not meet any of the Main Board financial eligibility tests; ii. Permitting listings of companies with weighted voting right (WVR) structures; and iii. Establishing a new concessionary secondary listing route for Greater China and international companies that wish to secondary list in Hong Kong
2021	Cross-boundary Wealth Management Connect; and Southbound Trading under Bond Connect

Year

Connectivity initiatives in the financial market

2022 Jan

HKEX's enhanced measures to facilitate "China Concept Stocks" in conducting secondary listing or obtaining primary listing⁷ :

- i. Secondary listing - relaxing the requirements of secondary listing for Greater China issuers without a WVR structure;
- ii. Secondary listing to primary listing – secondary listed issuers will be considered as primary listed issuers in the case of delisting from an overseas exchange. A 12-month grace period will be granted for companies to prepare financial statements; and
- iii. Dual primary listing - Grandfathered Greater China issuers with WVR or variable interest entity (VIE) structures that fulfil secondary listing requirements could apply directly for dual primary listing

2022 Jul

ETF inclusion in Stock Connect

2022 Jul

Announcement on the launch of Swap Connect in 2023

2022 Sep

The joint promulgation of the "18 measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai" by the Hong Kong Government and the Qianhai Authority of Shenzhen

Announcement on the inclusion of foreign companies in southbound trading of Stock Connect⁸

2022 Oct

Consultation paper on the new listing rules for specialist technology companies⁹

⁷ HKSAR, Press Releases – Attracting China Concept Stock companies to list in Hong Kong, 6 April 2022, <https://www.info.gov.hk/gia/general/202204/06/P2022040600276.htm?fontSize=1>

⁸ SFC, SFC welcomes Central Government's support to enhance Hong Kong's IFC status, Sep 2022, <https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR67>

⁹ HKEX, Exchange Publishes Consultation Paper on New Listing Rules for Specialist Technology Companies, 19 October 2022, https://www.hkex.com.hk/News/Regulatory-Announcements/2022/2210191news?sc_lang=en

The mergers and acquisitions market

Among a broad-spectrum of deal-making activities, mergers & acquisitions (M&A) is attractive to most of the financial and professional services firms. M&As are, in a nutshell, transactions in which two companies consolidate or combine through various forms, such as stock purchase and asset purchase.

Consistent with the global trend¹⁰, the M&A market in Mainland China and Hong Kong recorded an increase in 2021 but a slight slowdown in 1H 2022 - The M&A deal value in China, including Mainland China and Hong Kong's outbound transactions, fell from US\$295.6 billion in 1H 2021 to US\$236.7 billion in 1H 2022, representing a 20% decrease. The slower pace in global M&A activities earlier was due in part to the uncertainties brought by, for instance, the pandemic, geopolitical instability, etc.¹¹

Besides dealing with inbound and outbound M&A activities, there are opportunities for both private and public M&As in Hong Kong. Transactions relating to technology-related assets were common targets in the recent couple of years, while other active sectors also include financial services, infrastructure and logistics, as well as media¹²

Robust legal and financial advisory support throughout the entire M&A process in Hong Kong

Legal and financial advisory service support

In the M&A universe, the reputation of service providers is important and such is often developed through involvement in previous transactions, executed or lapsed. During such course, a lot of proper due diligence and legal documentation is needed.

From the interviews, Hong Kong is said to be the destination of choice for such M&A activities due to the excellent support of legal services throughout the entire process. According to the Global & Regional League Tables 2021 (by deal count), the top 10 legal and financial advisory firms that advised the highest number of M&A deals all have a presence in Hong Kong.¹³ Given the transparent legal and regulatory framework of Hong Kong, clients can get reasonable support of legal advisory services. In this context, it is viable for deals from all over the world to be completed in Hong Kong, in view of its open, fair and transparent characteristics for all participants, whether from Mainland China or the rest of the world.

¹⁰ McKinsey & Company, Global M&A market slows in 2022 first half, 30 September, 2022, <https://www.mckinsey.com/capabilities/m-and-a/our-insights/global-m-and-a-market-slows-in-2022-first-half-but-shows-signs-of-strengt>

¹¹ PwC, China M&A 2022 mid-year review and outlook, August 2022, <https://www.pwccn.com/en/deals/ma-2022-mid-year-review-and-outlook.pdf>

¹² IFLR, 2019 M&A Report: 9Hong Kong, February 2019, <https://www.ifl.com/Article/3860941/2019-M-A-Report-Hong-Kong.html> Mergermarket, Global & Regional M&A Report 2021, January 2022, <http://www.mergermarket.com/pdf/MergermarketFinancialLeagueTableReport.Q42021.pdf>

¹³ Mergermarket, Global & Regional M&A Report 2021, January 2022, <http://www.mergermarket.com/pdf/MergermarketFinancialLeagueTableReport.Q42021.pdf>

Regulations

The acquisition of public companies incorporated in Hong Kong is regulated by the Companies Ordinance (Cap. 622), the Securities and Futures Ordinance (Cap. 571) (SFO), the Listing Rules, if applicable, and the Takeovers Code. These regulations are set out and enforced. Further, the Companies Ordinance (Cap. 622) allows certain mergers between wholly-owned companies within the same group.

Flexibility is offered in terms of alternative means of acquisition available in Hong Kong. In respect of public companies, one could consider takeovers and reverse takeovers as the alternatives.

If a takeover is not contested, there are various alternative approaches available. For instance, the bidder may consider using a court-sanctioned scheme of arrangement. The advantage of this approach is that it is capable of delivering to the bidder the whole, i.e. 100%, of the shares in the target while only requiring approval at a shareholder meeting by 75% of the votes attaching to shares held by the disinterested shareholders. That said, this approach is only available for cases where no more than 10% of the votes attached to shares owned by disinterested shareholders vote against the proposal. Alternatively, as entitled by the Companies Ordinance (Cap. 622), the bidder can also exercise its compulsory acquisition rights to acquire the remaining shares if the bidder has received acceptances in respect of 90% or more of the shares tendered to the offer.

The flexibility, in terms of deal structure, for example, and transparency and certainty that Hong Kong offers make it a great place to conduct M&A in the city.

Hong Kong has a remarkable legal support throughout the entire M&A process (non-exhaustive list):

Examples	Legal Support
Fair fight between the bidder and the target	Rule 6 (Equality of information to competing offerors) of the Codes on Takeovers and Mergers and Share Buy-backs states that any information given to an offeror must be provided equally and promptly to another competing offeror.
Regulations for six forms of market misconduct	The SFO regulates insider dealing, false trading, price rigging, bid-ask transactions, disclosure of false or misleading transaction, stock market manipulation.



“Hong Kong is designed to be a global deal-making centre, there are no restrictions on capital movements in or out of the territory. This eases transactions and creates a favourable environment for the financing of deals.”

Mr Barry Chan

*Managing Director,
Head of Investment Banking, Hong Kong,
China International Capital Corporation*



“Regulations on the acquisition of public companies and cross-border M&A deals are neatly laid out and enforced. These clear instructions enable us, as bankers, to complete the deal more smoothly.”

Dr Levin Wang

*Chief Executive Officer,
Huatai Financial Holdings (Hong Kong) Ltd.*

Module 2 - Dispute Resolution & Court System

Hong Kong's judicial and legal systems are robust and trusted. The city has been and will continue to be a pre-eminent centre for international legal and dispute resolution services, carrying out functions in relation to mediation and arbitration. Among others, Hong Kong was ranked as the third most preferred seat of arbitration in the world by the Queen Mary University of London and White & Case International Arbitration Survey in 2021, showing international businesses' vote of confidence in the systems ¹⁴

Alternative dispute resolution

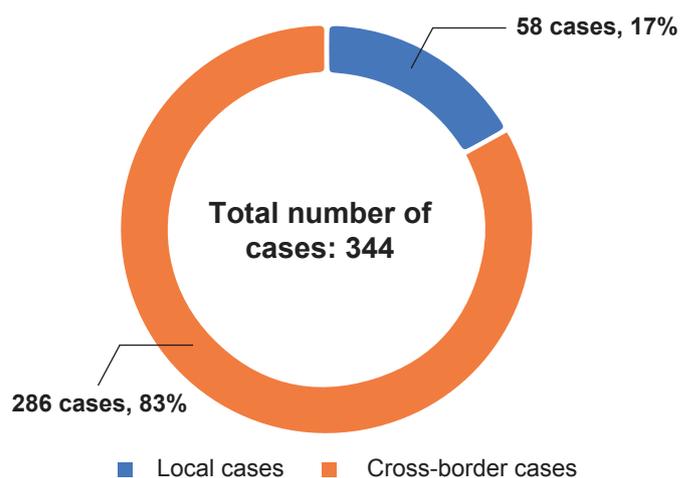
Alternative dispute resolution (ADR) refers to a dispute resolution process aside from litigation. It is becoming more popular nowadays due to its cost-effective and confidential nature which could avoid the trade terms to be disclosed. Two commonly used forms of ADR are arbitration and mediation.

Arbitration

Arbitration is a dispute resolution process governed by the Arbitration Ordinance (Cap. 609). When the arbitrator has a final decision on the case, an award will be issued to the aggrieved party. Arbitral awards made in Hong Kong can also be enforced through the courts of most trading countries in the world.

Pursuant to the statistics released by the Hong Kong International Arbitration Centre (HKIAC)¹⁵, it handled 344 arbitration cases with a total amount in dispute of HK\$ 43.1 billion in 2022. Among which, 83.1% were cross-border cases, where at least one party was outside Hong Kong (Figure 1). Altogether, 63 jurisdictions, for instance Mainland China, British Virgin Islands, Cayman Islands and Singapore, were involved.

Figure 1: Nature of cases handled by HKIAC in 2022



Source: HKIAC

¹⁴ Queen Mary University of London and White & Case, 2021 International Arbitration Survey: Adapting arbitration to a changing world, May 2021, <https://www.whitecase.com/publications/insight/2021-international-arbitration-survey>

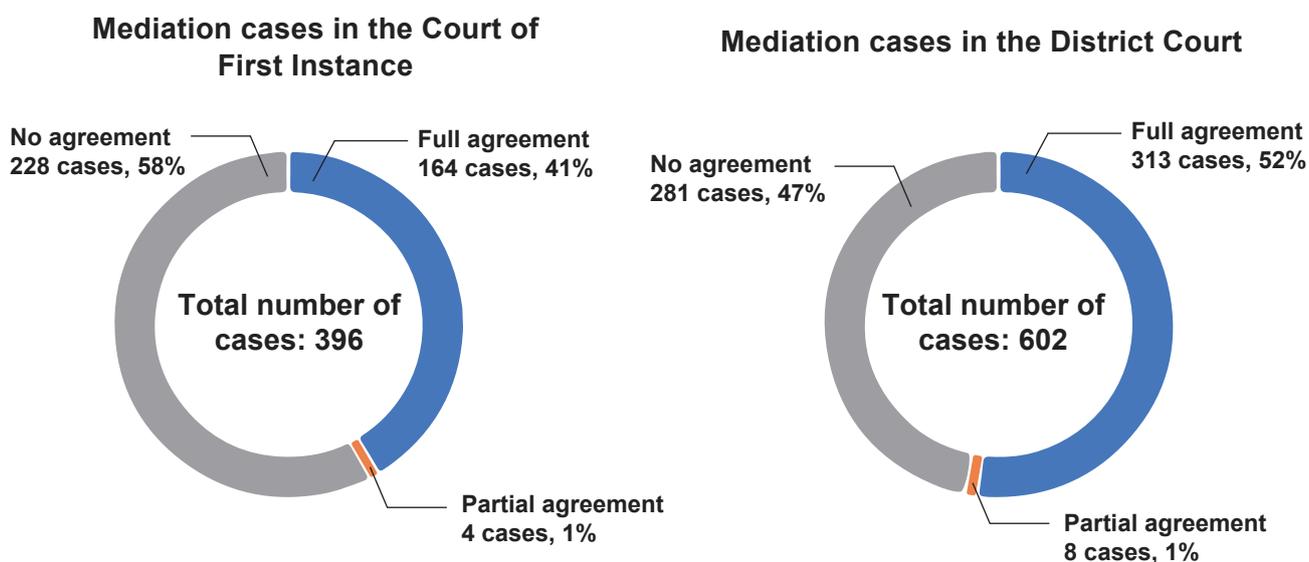
¹⁵ HKIAC, 2022 Statistics, <https://www.hkiac.org/about-us/statistics>

Mediation

Since the Civil Justice Reform in April 2009, mediation serves as a voluntary and confidential dispute resolution process to encourage settlement before trial. A mediator assists the disputing parties by various means - identifying the issues in dispute, exploring options of solutions, facilitating communication and reaching a settlement agreement regarding the resolution of the whole, or part, of the dispute.

In 2021, 396 mediation cases were submitted to the Court of First Instance, with 42% (168 cases) resulting in agreements¹⁶; meanwhile, 602 mediation cases were submitted to the District Court, with 53% (321 cases) resulting in agreements (Figure 2).¹⁷

Figure 2: Mediation cases in the Court of First Instance and the District Court (2021)



Source: Hong Kong Judiciary

¹⁶ Hong Kong Judiciary, Summary of Mediation Reports filed in the Court of First Instance in 2021, https://mediation.judiciary.hk/en/doc/2021_CFI_EN.pdf

¹⁷ Hong Kong Judiciary, Summary of Mediation Reports filed in the District Court in 2021, https://mediation.judiciary.hk/en/doc/2021_DC_EN.pdf

The Basic Law

The Basic Law, enacted by the National People's Congress in accordance with Article 31 of the Constitution of the People's Republic of China, gives legal effect to the implementation of "One Country, Two Systems". Therefore, while Hong Kong is a part of China, under the principle of "One Country, Two Systems", it has retained its common law system, which has been in practice in Hong Kong for more than 170 years.

The Basic Law protects other fundamental rights as well. For instance, equality before the law, the power of independent judiciary and final adjudication by the Court of Final Appeal are guaranteed.

Hong Kong's judicial independence

The Basic Law, which specifically enshrines Hong Kong's judicial independence, provides that the courts of Hong Kong must exercise the judicial power independently, free from any interference. Additionally, Hong Kong courts can reference the precedents of other common law jurisdictions to ensure cases are adjudicated in a fair, reasonable and predictable manner.

The quality of Hong Kong's judges is top class

Hong Kong's judiciary system has always been independent, and it helps uphold the rule of law. All judges and magistrates must be qualified to practice law either in Hong Kong or in another common law jurisdiction, and are required to have extensive professional experience in a relevant field. Under the Basic Law, judges are appointed by the Chief Executive of the HKSAR on the recommendation of the Judicial Officers Recommendation Commission.¹⁸

Furthermore, Hong Kong's Court of Final Appeal includes local eminent judges and non-permanent judges from other common law jurisdictions. These judges are recognised to be some of the best and most respected judges in the common law world, such as Australia, Canada and the UK. The acceptance of appointments to the Court of Final Appeal is a consistent demonstration of their confidence in Hong Kong's judicial independence and its quality as a dispute resolution centre.

¹⁸ Community Legal Information Centre, How are the Judges being appointed or dismissed?, February, 2020, <https://www.clc.org.hk/en/topics/hkLegalSystem/courtsStructureAndTheJudiciary/answer11>



“What underpins dispute resolution in the Hong Kong court is a very basic principle. That principle is justice must be done but it must also be seen to be done. That principle encapsulates two things. First, there has to be great fairness in the way the courts treat people. The second thing is that the courts have to be completely open in the way it deals with people.”

Dr Anthony Neoh

*KC, SC, JP,
Chair,
Asian Academy of International Law*



“Hong Kong has one of the best regarded judiciaries in the world. Judicial independence is very much in our DNA. In practice, it is done every day in every case in every court.”

Mr Laurence Li

*SC, JP,
Chairman,
Financial Services Development Council*

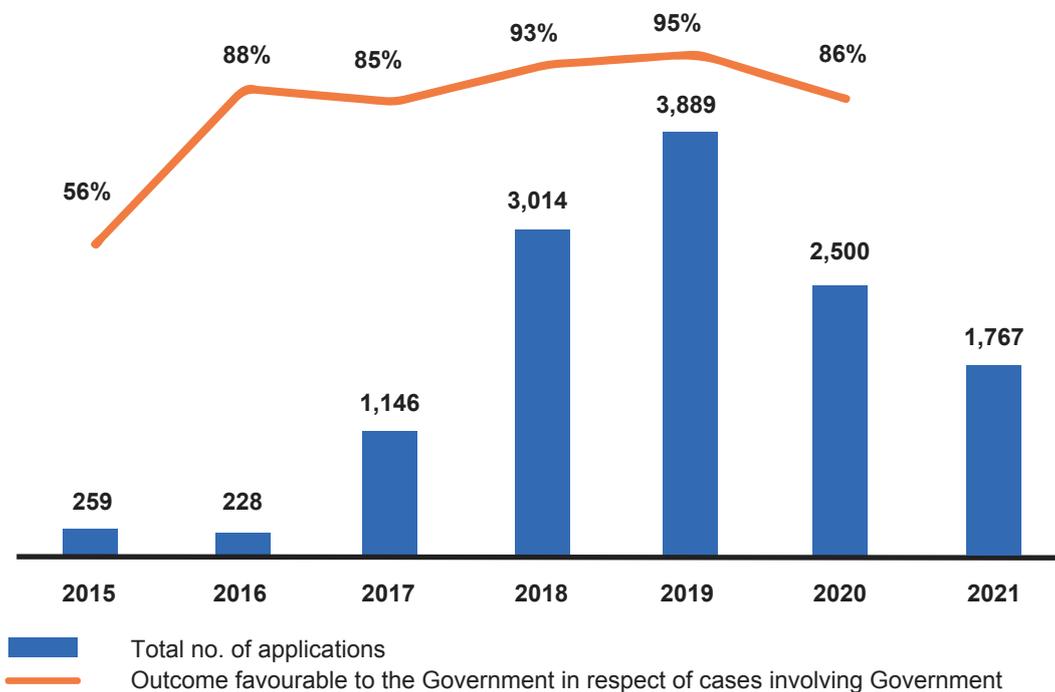
Hong Kong courts remain impartial in cases involving the Government or public bodies

Judicial review could be brought against government officials or other public officers if they exercise their powers in a potentially illegal or irrational manner, or taken without following proper procedures. Such a remedy could ensure the public bodies act lawfully and do not abuse their power.

In Hong Kong, in order to apply for a judicial review, the decision concerned must affect the public interest. The court will then review the relevant decision-making process instead of the merits of the decision.

There were 1,767 applications for leave for judicial review in 2021 and 2,500 applications in 2020.¹⁹ Among cases involving the Government in 2020, 86% of the outcome of judicial review was favourable to the Government, reflecting that the Government has been committed to the observance of the public law principles when exercising its power (Figure 3); on the other hand, it implies that it is not uncommon for the Hong Kong Government and other public bodies to lose cases before Hong Kong courts via judicial review and other litigation tactics.²⁰

Figure 3: Statistics of judicial review (2015-2021)



*The percentage of cases with favourable outcome to the Government in 2021 has not been released.
Source: Department of Justice, LegCo

¹⁹ Department of Justice, The Judge Over Your Shoulder A Guide To Judicial Review For Administrators (4th Edition), May 2022, https://www.doj.gov.hk/en/publications/pdf/JOYS_4th_e.pdf

²⁰ Department of Justice, The Judge Over Your Shoulder A Guide To Judicial Review For Administrators (4th Edition), May 2022, https://www.doj.gov.hk/en/publications/pdf/JOYS_4th_e.pdf

Furthermore, public officials who act in a corrupt manner are also subject to investigation. In this regard, Hong Kong has a longstanding record of zero tolerance for corruption, which contributes to its notably transparent legal and financial system. Hong Kong ranks highly for low corruption in global indices.^{21,22} Its anti-corruption laws, including the Prevention of Bribery Ordinance (Cap. 201), the Elections (Corrupt and Illegal Conduct) Ordinance (Cap. 554) and common law anti-bribery and misconduct in public office offences are particularly stringent.

²¹ WEF, The Global Competitiveness Report 2019, October 2019, https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

²² Transparency International, Corruption Perceptions Index 2021, January 2022, <https://www.transparency.org/en/countries/hong-kong>

Enforceable private and public rights

Hong Kong is one of the most protected legal jurisdictions in the world. Under the Basic Law and the Hong Kong Bill of Rights Ordinance (Cap. 383), private and public rights are well protected in Hong Kong. It is also protected by hundreds of international treaties and conventions, such as the International Covenant on Civil and Political Rights.

In terms of economic relations, for instance, Hong Kong is a member of the World Trade Organization since its inception in 1995²³ and the city “takes part in the Assemblies of the Member States of the World Intellectual Property Organization as part of the Chinese delegation”.²⁴ Thus, Hong Kong is obliged to abide by various conventions in relation to trade, commerce, financial services, protection of intellectual property, patent rights, etc.

In the World Competitiveness Yearbook 2022 published by the International Institute for Management Development, around 70% respondents of the Executive Opinion Survey ranked “Effective legal environment” as the most attractive factors of Hong Kong.²⁵

“People who choose to do business in Hong Kong will see substantially the same private and public rights that they would see in any other common law jurisdiction.”



Mr Frederick Hui

Partner, Solicitor Advocate,
Zhong Lun Law Firm LLP

²³ WTO, Hong Kong, China and the WTO, accessed on 14 Oct 2022, https://www.wto.org/english/thewto_e/countries_e/hong_kong_china_e.htm

²⁴ Legislative Council, Brief – International Organisations (Privileges and Immunities) (World Intellectual Property Organisation) Order, 2022, https://www.legco.gov.hk/yr2022/english/brief/citbcr2201115_20220518-e.pdf

²⁵ IMD World Competitiveness Center, IMD World Competitiveness Yearbook 2022, Digital 2021, Talent 2021: summaries, 2022, <https://www.imd.org/globalassets/wcc/docs/wco/pdfs/countries-landing-page/HK.pdf>

Module 3 – Legal Profession

Hong Kong is well supported by a diverse pool of quality and international legal practitioners in different areas of laws. This is an important cornerstone upon which Hong Kong maintains its robust and open legal framework. Businesses have access to top-notch legal professionals who can provide them with local or cross-jurisdictional legal solutions.

Attractiveness for legal professionals

The wide spectrum of expertise the legal profession possesses covers many areas, ranging from capital markets, corporate finance, securities, banking, intellectual property, maritime law, etc. As of December 2022, Hong Kong had 13,144 solicitors and 1,610 barristers, 1,442 registered foreign lawyers from different jurisdictions as well as 77 foreign law firms in Hong Kong, providing services in relation to cross-boundary and international legal issues.^{26,27} This legal 'brain bank' makes Hong Kong a world-class legal centre in the region.²⁸ Being a lawyer in Hong Kong, one can get to meet and work with peers of great diversity.

In Hong Kong, IPO is a substantial revenue-generating practice for a considerable number of law firms in Hong Kong. It is, however, not the whole and entire business for the total of some 900 law firms operating here. Firms in Hong Kong provide a wide range of services, and many have been through the ups and downs of the global financial market. In addition to IPO activities, non-IPO deals, such as credit and secondary fund activities, acquisitions and disposals, restructuring, technology and intellectual property rights, etc. are some other revenue-generating areas. The diversification is not limited to the area of expertise, but also covers the base of their clients – the deals basically come from different parts of the world, may it be Mainland China, Southeast Asia, Europe or the US.

²⁶ Hong Kong Bar Association, Bar List, December 2022, <https://www.hkba.org/Bar-List>

²⁷ The Law Society of Hong Kong, Profile of the Profession, December 2022, <https://www.hklawsoc.org.hk/en/About-the-Society/Profile-of-the-Professio>

²⁸ Hong Kong Legal Hub, Our Talented Professionals, <https://www.legalhub.gov.hk/details.php?a=3&v#>

“I chose Hong Kong because I would have the privilege of serving my country.”



Dr Anthony Neoh

*KC, SC, JP,
Chair,
Asian Academy of International Law*

“I found myself having confidence in the prospects brought by the fast-growing economy in Hong Kong, well supported by our robust legal system and the competence of legal profession in the city.”



Mr Chak-ming Chan

*President,
The Law Society of Hong Kong*

Solicitors and barristers

Hong Kong's legal profession, in general, is divided into solicitors and barristers with a clear demarcated scope of practice. In general, barristers are not allowed to practise as solicitors simultaneously, vice versa.

Solicitors have direct contact with clients and play a major role in offering customer care. Many solicitors work on non-contentious transactional matters and handle documentation files such as the drafting of contracts. They have a limitation on the rights of audience before the courts; whereas barristers specialise in advocacy, providing expertise in trial work and giving oral submission in the court on behalf of their clients. They have unlimited rights of audience in all courts. Similar to solicitors, barristers can also draft legal documents or give legal advice to their clients.²⁹

An alternative career for legal professionals

In view of more complex and stringent global regulations, corporations have been aware of the importance of having an internal legal team to provide timely legal advice to their daily operation. In-house legal team is expected to not only manage and resolve crises, but to anticipate and detect risks.

For in-house counsel, sharp business acumen and the ability to review documents from all angles and spot legal and non-legal red flags are crucial skills. Their contribution should not be undermined as they serve true to the smooth running of Hong Kong as an international financial centre. They rapport with private practice legal practitioners and position themselves as an effective communication bridge with business people in their organisations.

Meanwhile, being an in-house counsel is a highly attractive option for some lawyers, with the perception being that it can offer a better flexibility and the opportunity to become a key stakeholder and business partner.

According to the Law Society of Hong Kong, around 30% practicing solicitors are in-house lawyers as at the end of 2021.³⁰ There is also a new breed of in-house counsel working on short-term contracts. The example of in-house lawyers demonstrates the variety, flexibility and mobility of Hong Kong's strong and healthy legal industry. And in every category, the Hong Kong legal profession is flushed with talents.

²⁹ Community Legal Information Centre, What are the main differences between Solicitors and Barristers?, February 2020, <https://www.clc.org.hk/en/topics/hkLegalSystem/theLegalProfession/answer17>

³⁰ The Law Society of Hong Kong, Annual Report 2021, 2021, https://www.hklawsoc.org.hk/-/media/HKLS/pub_e/about/report/AR_2021/Annual-Report-2021.pdf?rev=7efd2e622c024d75844897bc43c19f44

“Financial institutions have begun to realise the multi-layered expertise of the job in view of more complex and stringent global regulations, and in-house counsel has become one of the three mainstream legal professions as a result.”



Mr Phillip Meyer

*Chief Compliance Officer & Co-Chief Operating Officer,
Oasis Management Company Ltd.*

“Hong Kong’s integration with the Greater Bay Area means that there is scope for Hong Kong lawyers to expand beyond the city and to deepen our cooperation with Mainland China counterparts.”



Ms Roanna Kwong

*Senior Associate,
Allen & Overy*

Opportunities brought by the integration with the Greater Bay Area

The opportunities for Hong Kong's legal profession have been further expanded in recent years, facilitated by national policies such as the 14th Five-Year Plan, Closer Economic Partnership Arrangement (CEPA) and the Greater Bay Area initiatives.

Under CEPA, which was launched in 2003 with multiple rounds of further liberalisation since then, Hong Kong firms are allowed to form associations with Mainland firms, and Mainland firms can employ Hong Kong legal practitioners as consultants. In 2021, a pilot scheme was launched, allowing Hong Kong's and Macau's experienced legal practitioners to practise on specified civil and commercial legal matters in the GBA upon passing the GBA Legal Professional Examination. It is an important breakthrough for the legal sector. 655 Hong Kong lawyers (588 solicitors and 67 barristers) enrolled in the first inaugural GBA Legal Professional Examination as of in 2021.³¹

Moreover, Hong Kong enterprises registered in Qianhai may choose Hong Kong law as the applicable law of contracts. This would help drive the demand for legal services of Hong Kong.

³¹ Legislative Council, Panel on Administration of Justice and Legal Services - Background brief on the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") Legal Professional Examination and other development opportunities in GBA for the Hong Kong legal profession, August 2021, <https://www.legco.gov.hk/yr20-21/english/panels/ajls/papers/ajls20210831cb4-1430-5-e.pdf>

Module 4 – Regulators

Financial markets are global, fast-changing and highly complex nowadays. Hong Kong maintains a regulatory regime that is a mixture of principles-based and prescriptive regulations. Hong Kong's financial market has developed and evolved with the increasing depth and diversity of financial products and services, and adhere to international regulatory standards and developments. This consolidates Hong Kong's status as an international financial centre.

A world-class financial centre

While there is no overarching financial regulator in Hong Kong, the regulators, and the exchange that conducts front-line regulation of listed issuers in the securities and derivatives market, are generally responsible for regulation of specific portions of the financial sector in the city to maintain its financial stability and integrity. They are the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC), the Insurance Authority (IA), the Mandatory Provident Fund Schemes Authority (MPFA), the Accounting and Financial Reporting Council (AFRC) and the Hong Kong Exchanges and Clearing Limited (HKEX).³² This clear division of responsibility allows financial institutions to have effective liaison with the appropriate entity when they plan to start and/or carry on a regulated business in Hong Kong. Please refer to Appendix 1 for further details on their functions.

- **Hong Kong Monetary Authority:** The HKMA is responsible for maintaining monetary and banking stability in Hong Kong. In conjunction with the SFC, the HKMA also supervises securities activities undertaken by banks in Hong Kong.
- **Securities and Futures Commission:** The SFC is responsible for regulating the securities and futures markets in Hong Kong, including asset management, OTC derivatives and credit rating agencies.
- **Insurance Authority:** The IA is responsible for regulating and promoting the development of insurance industry in Hong Kong.
- **Mandatory Provident Fund Schemes Authority:** The MPFA is responsible for regulating and supervising mandatory privately-managed provident fund schemes. It also acts as the Registrar of Occupational Retirement Schemes (ORSO schemes) responsible for regulating the operation of ORSO schemes.

³² FSTB, Hong Kong: The Facts: Financial Services, https://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf

- **Accounting and Financial Reporting Council:** The AFRC regulates an independent regulatory regime of the accounting profession, enhanced to be in line with international developments with increased coherence and efficiency.³³
- **Hong Kong Exchanges and Clearing Limited:** HKEX is the holding company of the Hong Kong Stock Exchange (SEHK) and the Hong Kong Futures Exchange (HKFE), which respectively operate the securities and futures markets in Hong Kong, including responsibility for regulating listing matters and ongoing corporate governance of listed companies.

It is noteworthy that Hong Kong's financial regulators collaborate with each other, and they share the common responsibility of protecting the strength, resilience and integrity of Hong Kong's marketplace. As financial institutions evolve and scale their business practices, products and services, functions of these regulators will remain as important as ever.

³³ FSTB, New Regulatory Regime of the Accounting Profession, 2022, https://www.fstb.gov.hk/en/financial_ser/regulatory-reform-of-the-accounting-profession.htm



“Along with our industry peers, we maintain a positive relationship with the SFC and have found them to be very helpful and receptive to a two-way dialogue on all matters of the market.”

Ms Virginia Lee

*Partner,
Clifford Chance*



“Notably, the IA embraces consultative and engaging approach in rolling out different regimes while adhering to international standards. It has successfully become the host regulator of several multinational insurance companies. This cements Hong Kong’s position as an international risk management and insurance hub.”

Ms Winnie Wong Chi-shun

*CEO & Executive Director,
Asia Insurance & Avo Insurance*

We have always found the HKEX to be very professional, and their process is transparent, which actually makes Hong Kong an appealing listing venue for us. During the listing phase, they were very receptive and understanding we are in a unique situation. They want to abide by the policy, protecting and informing retail investors.



Mr Craig Katerberg

*Chief Legal & Corporate Affairs Officer,
Budweiser Brewing APAC Ltd.*

“The SFC has expanded its regulatory framework to include granting licences for virtual asset trading platforms following the latest developments of Web 3.0, which includes NFTs and cryptocurrencies. The SFC’s approach is indicative of their responsiveness in addressing emerging market opportunities and managing risk for businesses and investors.”



Mr Evan Auyang

*Group President,
Animoca Brands*

The powers of the regulators

Each of the regulators in Hong Kong has similar types of powers of inspection, investigation and examination. The regulators can initiate enforcement actions as an outcome of their findings, and the sanctions that they may impose include revocation and suspension of an offender's license, the imposition of a pecuniary penalty, private or public reprimand and others.

The powers of the financial regulators are not unlimited, however, and are subject to appropriate checks and balances to ensure a fair process for all. They must articulate their concerns to an affected party and allow that party to be heard before making a final decision. When it comes to disciplinary actions imposed by any regulators, they are subject to review by respective tribunals and, when necessary, the Hong Kong courts. These regulators are also subject to judicial review by the courts when they make decisions that are not reviewable under the statute.

The regulatory systems

Hong Kong is a member of all the major international regulatory organisations and associations, such as the Financial Stability Board and the International Organization of Securities Commissions. It ranked first in the sub-factor, "Business Legislation", in the World Competitiveness Yearbook 2022.³⁴

Differences among Mainland China, Hong Kong and United Kingdom

Mainland China and Hong Kong vs. United Kingdom

Both Mainland China and Hong Kong adopt an institutional approach in financial regulation. That is, a firm's legal status determines which regulator is tasked with overseeing its activities, from a safety and soundness perspectives as well as business conduct.³⁵ Banking, securities, insurance and pension funds sectors are therefore supervised by separate agencies.

On the other hand, the UK has adopted the twin peaks approach which is based on the principle of regulation by objective and refers to a separation of regulatory functions between two regulators. The Financial Conduct Authority is in charge of maintaining the stability of banking system, while Prudential Regulatory Authority, a separate regulator oversees financial consumer protection.

³⁴ IMD World Competitiveness Centre, IMD World Competitiveness Yearbook 2022, Digital 2021, Talent 2021: summaries, 2022, <https://www.imd.org/globalassets/wcc/docs/wco/pdfs/countries-landing-page/hk.pdf>

³⁵ Di Johnson, John Rodwell, Thomas Hendry, Analyzing the Impacts of Financial Services Regulation to Make the Case That Buy-Now-Pay-Later Regulation Is Failing, February 2021, <https://www.mdpi.com/2071-1050/13/4/1992>

Mainland China and Hong Kong

Mainland China's legal system is based primarily on civil law. In comparison, Hong Kong adopts the common law system and remains the only common law jurisdiction in China. The main defining feature of this system is the court's ability to make laws in the form of case law, which is determined by rulings on legal precedents.

That said, due to the extensive and growing interconnections between Hong Kong and Mainland China's financial systems, closer ties and regulatory interaction is expected to be fostered. While the two sets of regulators are legally separate, there are a range of formal and informal cooperative systems in place for both to perform their respective functions.

"The relationship between regulators in Hong Kong and Mainland falls under the "One Country, Two Systems" principle of the Basic Law." Hong Kong maintains a separate legal system and a separate financial system which includes separate financial laws, regulations and regulators."



Ms Ding Chen

*Chief Executive Officer,
CSOP Asset Management Ltd.*

Conclusion

Hong Kong's development is built upon the Basic Law, which enshrines the city's governing policies of "One Country, Two Systems", and makes the city the only jurisdiction adopting the common law legal system in the country. From the perspective of prominent industry leaders, it is evident that Hong Kong's commitment to the rule of law and judiciary independence gives the city a comparative advantage, and is also well recognised internationally. It is the cornerstone of the city's success as an international financial centre and a global deal-making hub.

Moreover, a cluster of stakeholders has been supporting the ecosystem of Hong Kong's legal environment, with each of them playing a crucial role in maintaining an open, secure and efficient legal framework that ensures a level playing field for business.

All in all, thanks to these unique strengths - Hong Kong's highly regarded status as a legal hub for a variety of deal making and dispute resolution services, it bolsters a high degree of confidence from individuals and enterprises across the globe for doing international business in Hong Kong. With the strong connectivity with Mainland China, enormous opportunities are presented, especially in cross-boundary integration of legal professionals and in providing legal services. With all these favourable factors considered, Hong Kong will continue to thrive and excel in both financial and commercial activities.

Appendix 1 - Roles and functions of the five regulatory bodies and the exchange

Hong Kong Monetary Authority (HKMA)

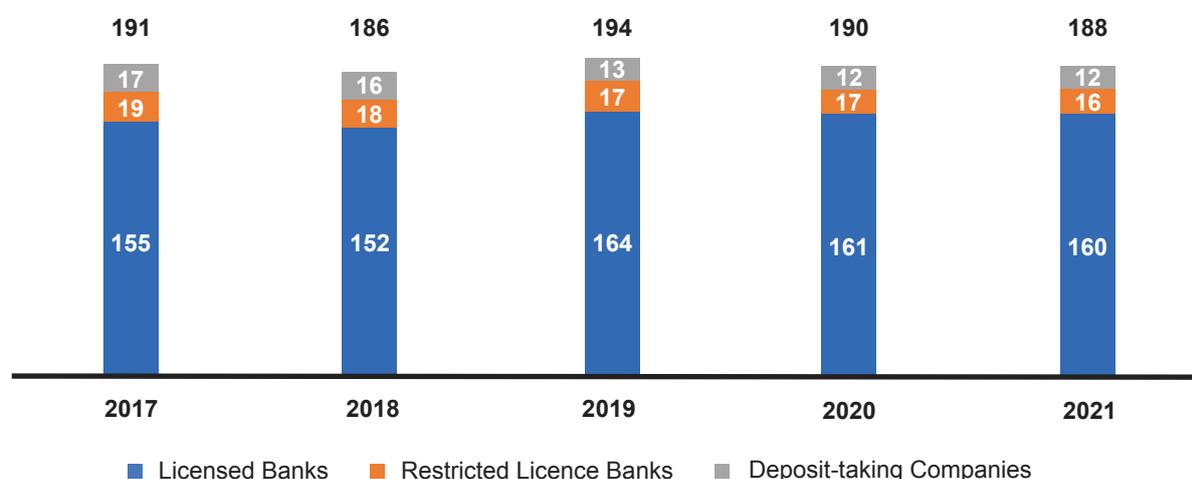
The HKMA is Hong Kong's central banking institution. It has four major functions:³⁶

- maintaining currency stability within the framework of the Linked Exchange Rate system;
- promoting the stability and integrity of Hong Kong's financial system, including the banking system;
- helping to maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure; and
- managing the Exchange Fund pursuant to the provisions of the Exchange Fund Ordinance (Cap. 66).

The HKMA is responsible for the authorisation, regulation and supervision of banking business and the business of taking deposits; the licensing and supervision of Stored Value Facilities; and the designation and oversight of Retail Payment Systems in Hong Kong. In addition, the HKMA is responsible for approving and supervising money brokers operating in the interbank foreign exchange and deposit markets in Hong Kong.

As an international financial centre, Hong Kong has over 70 of the world's largest 100 banks, and it is also the regional headquarter for over 29 multinational banks.³⁷ As at end-2021, there were 188 authorised institutions (AIs), including 160 licensed banks, 16 restricted licence banks and 12 deposit-taking companies in Hong Kong (Figure 4).

Figure 4. Number of Hong Kong's AI (2017-2021), (year-end positions)



Source: HKMA³⁸

³⁶ HKMA, About the HKMA, <https://www.hkma.gov.hk/eng/about-us/the-hkma/>

³⁷ HKMA, Banking, <https://www.hkma.gov.hk/eng/key-functions/banking/>

³⁸ HKMA, Annual Report 2017-2021, <https://www.hkma.gov.hk/eng/data-publications-and-research/publications/annual-report/>

Securities and Futures Commission (SFC)

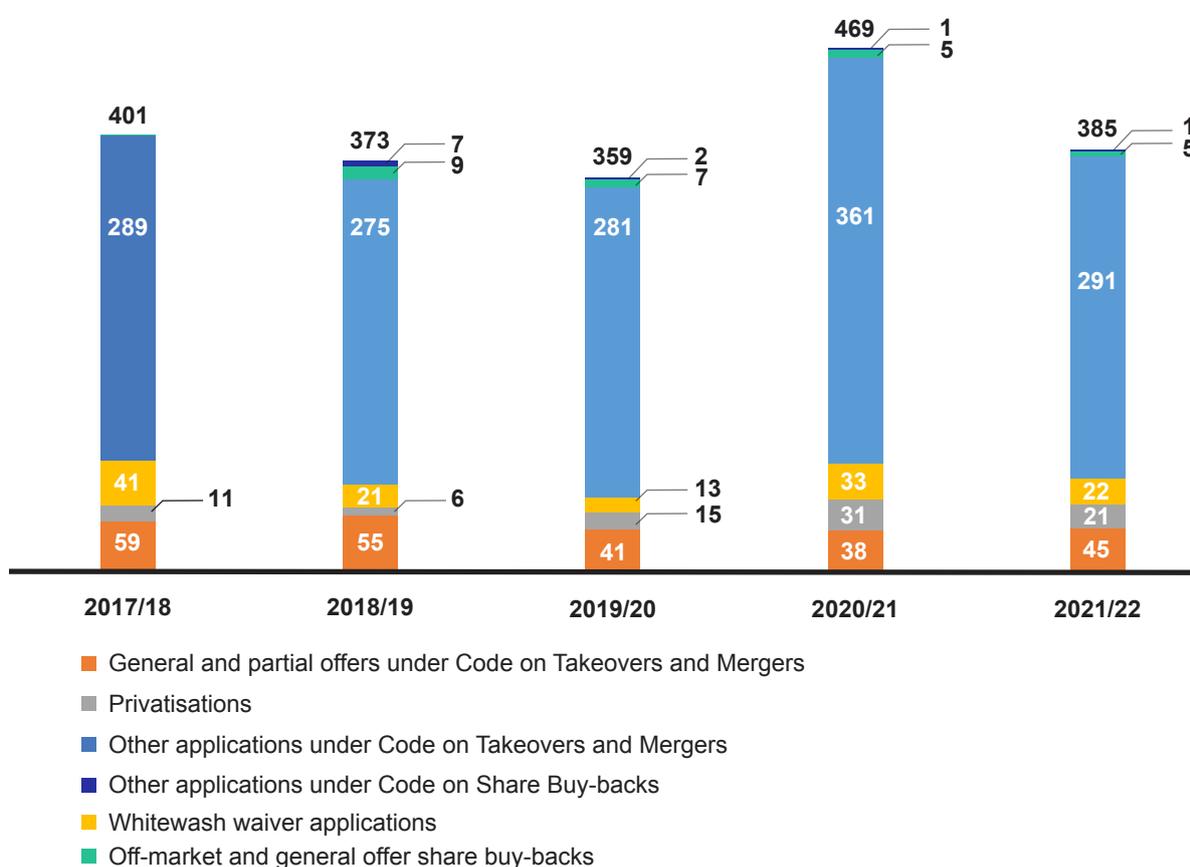
The SFC is a statutory body, which regulates participants conducting different types of regulated activities in Hong Kong's securities and futures markets pursuant to the provisions of the SFO. Intermediaries engaging in a regulated activity (as defined in the SFO, including, for example, dealing in or advising on securities or futures contracts) require to be licensed by the SFC or, in the case of banks conducting regulated activities, registered with the SFC following consultation with the HKMA.

The remit of the SFC is wide-ranging, yet clearly set out. The oversight of financial products offered or traded in the securities and futures markets is one of its important ambits. It vets new applications for listing on the Stock Exchange of Hong Kong (SEHK). Companies listed on the SEHK are also subject to the ongoing requirements of the SEHK under the listing rules, as well as the oversight of the SFC pursuant to its powers under the SFO.

Additionally, the SFC supervises takeovers, mergers and privatisations of public companies. It also investigates misconduct in the securities and futures markets. As empowered by the SFO, the SFC can initiate criminal and disciplinary proceedings against offending behaviours.

While Hong Kong's takeovers market has stayed active throughout the years (Figure 5), the SFC constantly monitors the market trends to ensure the regulations can meet the changing circumstances with a view to maintaining a fair and orderly market.

Figure 5: Number of takeovers activities (2017/18-2021/22)



Source: SFC³⁹

³⁹ SFC, Annual Report, <https://www.sfc.hk/en/Published-resources/Corporate-publications/Annual-reports>

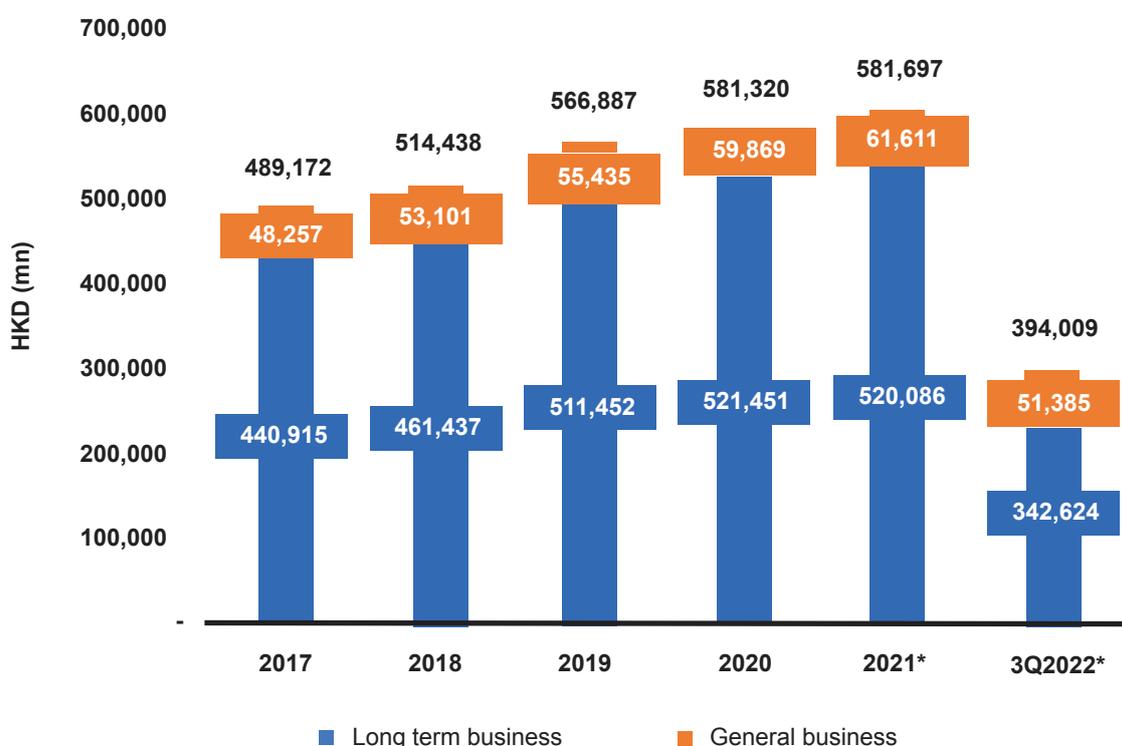
Insurance Authority (IA)

The IA is a statutory body set up to administer the Insurance Ordinance (Cap. 41) (IO). Its principal functions are to regulate and supervise the insurance industry with a view to maintaining its stability and protecting relevant policy holders, and to promote the market development of the insurance industry.⁴⁰ Persons conducting businesses in Hong Kong as an insurer, an insurance agency, an insurance agent or an insurance broker require to be authorised or licensed by the IA under the IO. The IA is provided with express powers under IO to initiate investigation and impose a range of disciplinary sanctions on authorised insurers, designated insurance holding companies, and regulated persons, which includes licensed insurance intermediary, responsible officer and person concerned in the management of regulated activities.⁴¹

The establishment of the IA has greatly strengthened insurance regulation in Hong Kong.⁴² Under the Group-wide Supervision framework, the IA is the host regulator of three multinational insurance groups. To align with international regulatory standard and enhance financial soundness of insurers, the IA is rolling out up-to-date regulatory measures including the Risk-based Capital Regime and IFRS17.

Hong Kong is a thriving international insurance hub with over 160 insurance companies and the development of Hong Kong's insurance industry has been steady. From 2017 to 2021, the total gross premiums of the Hong Kong insurance industry had been increased for 18.9% (Figure 6).

Figure 6: Total gross premiums of the Hong Kong insurance industry (2017-3Q 2022)



*Provisional statistics

Source: IA^{43,44,45}

⁴⁰ IA, FAQs - Insurance Industry, https://www.ia.org.hk/en/infocenter/faqs/faqs_1.html

⁴¹ IA Enforcement, https://ia.org.hk/en/enforcement/authorized_insurers/AuthorizedInsurers.html

⁴² IMF, PRC-HKSAR: Financial Sector Assessment Program-Technical Note-Insurance Sector Regulation and Supervision, <https://www.imf.org/-/media/Files/Publications/CR/2021/English/1HKGEA2021009.ashx>

⁴³ IA, Annual Report, https://ia.org.hk/en/infocenter/publications_publicity_materials.html

⁴⁴ IA, The Market, November 2022, <https://www.ia.org.hk/en/infocenter/statistics/market.html>

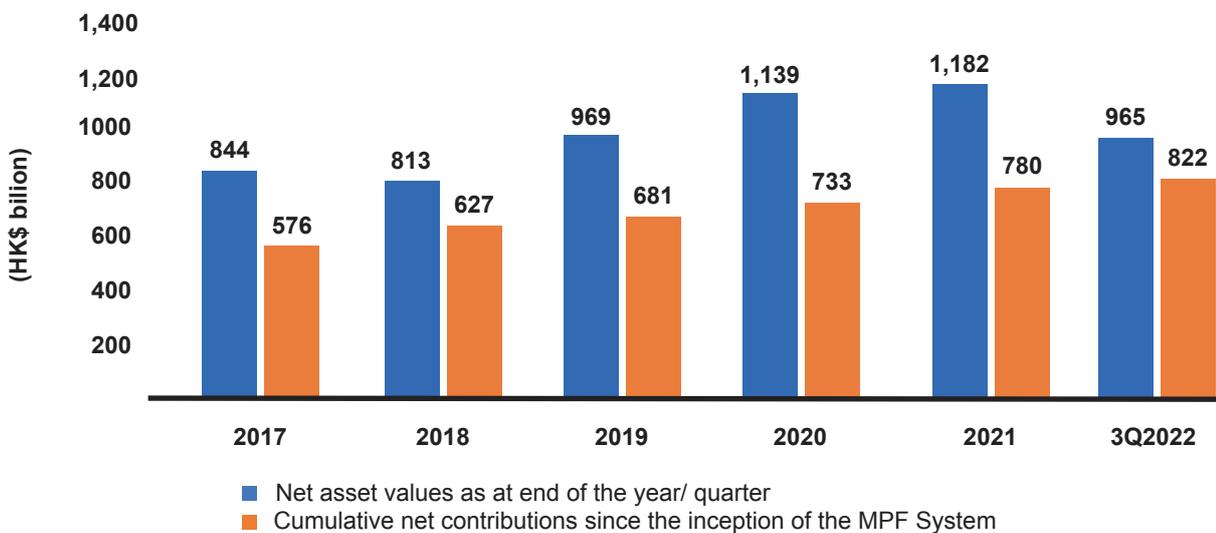
⁴⁵ IA, Insurance Authority releases provisional statistics of Hong Kong insurance industry in the first half three quarters of 2022, 31 August-30 November 2022, https://www.ia.org.hk/en/infocenter/press_releases/20221130_1.html

Mandatory Provident Fund Schemes Authority (MPFA)

The MPFA is a statutory body established under the Mandatory Provident Fund Schemes Ordinance (Cap. 485). The MPFA has multiple roles to protect Mandatory Provident Fund (MPF) scheme members' interest. As an industry regulator, the MPFA regulates MPF products (schemes and funds), and supervises MPF industry participants (trustees and intermediaries). As a law enforcer, the MPFA ensures compliance of the MPF industry participants, employers and self-employed persons with the Mandatory Provident Fund Schemes Ordinance and take necessary enforcement actions. The MPFA also helps scheme members recover default contributions, educate scheme members and implement reforms to enhance the MPF System. It also acts as the Registrar of Occupational Retirement Schemes.⁴⁶

The MPF System has continued to develop over the years. As of 3Q2022, the aggregate net asset values of MPF schemes amounted to HK\$965 billion, while the cumulative amount of net contributions reached HK\$822 billion (Figure 7).

Figure 7: Net asset values and cumulative net contributions of the MPF System



Source: MPFA⁴⁷

⁴⁶ MPFA, Annual Report 2021-22, August 2022, https://www.mpfa.org.hk/en/-/media/files/information-centre/publications/mpfa-annual-reports/eng/2021-22/mpfa_ar_2021-22_full_report_e.pdf

⁴⁷ MPFA, Mandatory Provident Fund Schemes Statistical Digest, <https://www.mpfa.org.hk/en/info-centre/research-reports/quarterly-reports/mpf-schemes>

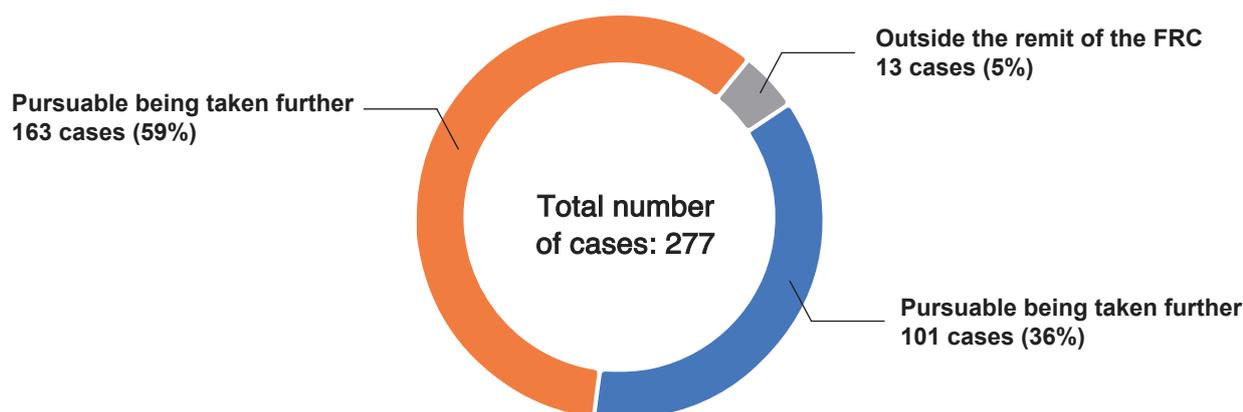
Accounting and Financial Reporting Council (AFRC)

Established in 2006, the AFRC is formerly known as the Financial Reporting Council (FRC). With an aim of ensuring the quality of professional accountants to protect public interest, one of its major functions is to investigate irregularities related to auditing and reporting made by auditors of listed entities in Hong Kong.⁴⁸

In October 2022, a new regime of the accounting profession came into effect, with a view to enhancing coherence and efficiency of the existing regulatory framework. Against this backdrop, the AFRC becomes a full-fledged independent regulator of the accounting profession. With expanded statutory functions, the AFRC is entitled to issue practising certificates to certified public accountants, register practice units and Public Interest Entities auditors, and handle cases in relation to inspection, investigation and discipline of the accounting profession. In addition, it is responsible for the oversight of the Hong Kong Institute of Certified Public Accountants' performance of its various statutory professional functions.⁴⁹

Between 2021 and 2022, the AFRC received a total of 277 complaints, of which 101 were pursuable being taken further, 163 were pursuable but not taken further, and the remaining 13 cases were out of the FRC's remit (Figure 10). These complaints were received from members of the public, whistleblowers, HKEX, the SFC and other enforcement agencies.

Figure 10: Actions taken in response to the complaints (2021-22)



Source: FRC⁵⁰

⁴⁸ AFRC, A brief history of AFRC, <https://www.afrc.org.hk/en-hk/about-afrc/history/>

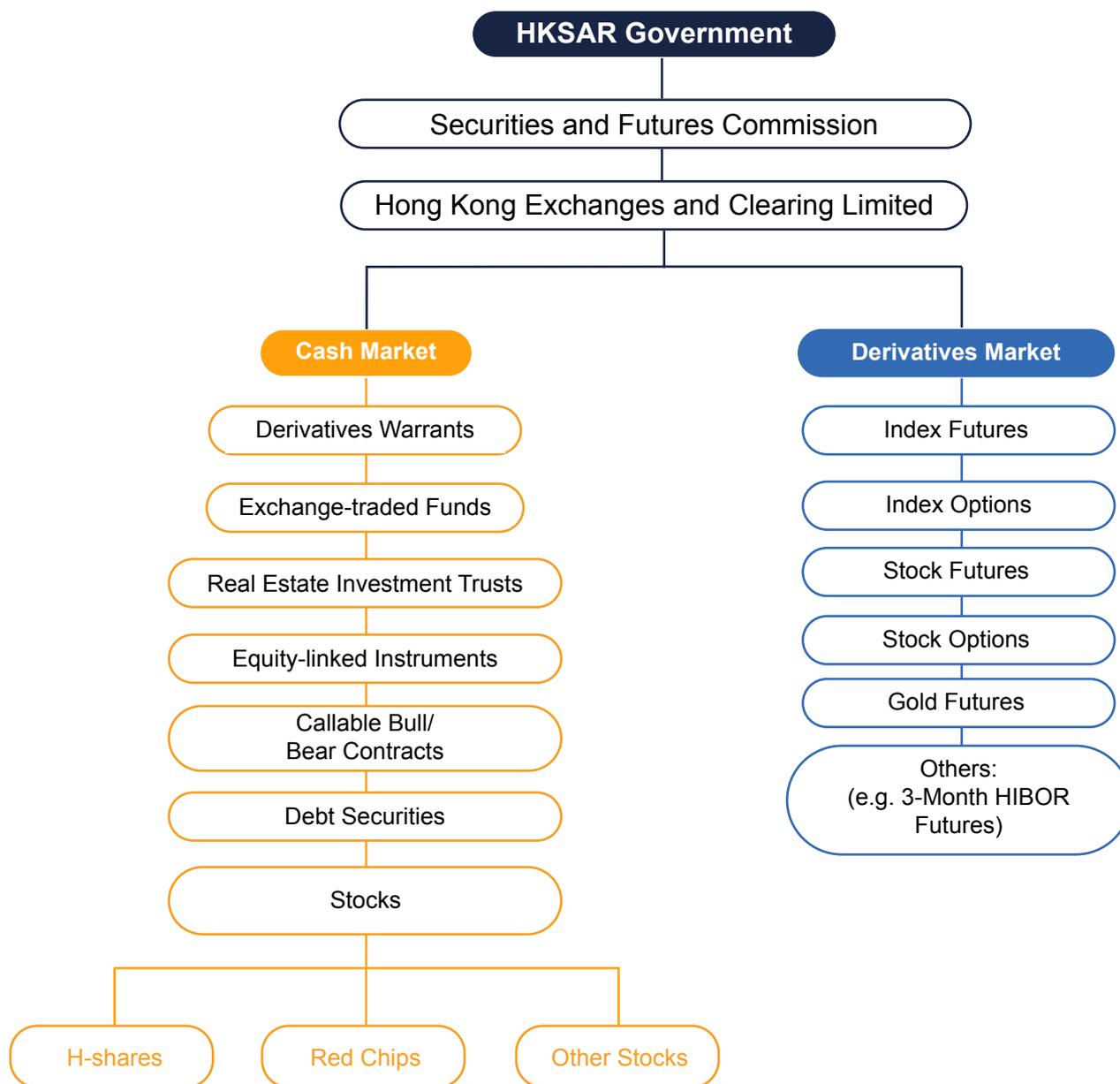
⁴⁹ AFRC, A brief history of AFRC, <https://www.afrc.org.hk/en-hk/about-afrc/history/>

⁵⁰ FRC, Annual Report 2021-22, <https://www.afrc.org.hk/media/44cmn5dd/annual-report-2022.pdf>

Hong Kong Exchanges and Clearing Limited (HKEX)

The HKEX is the market operator of Hong Kong's securities trading and clearing systems. Under the three-tier regulatory structure, the HKSAR Government, the SFC and the HKEX play different roles in the securities market.

Structure of Hong Kong Securities Market



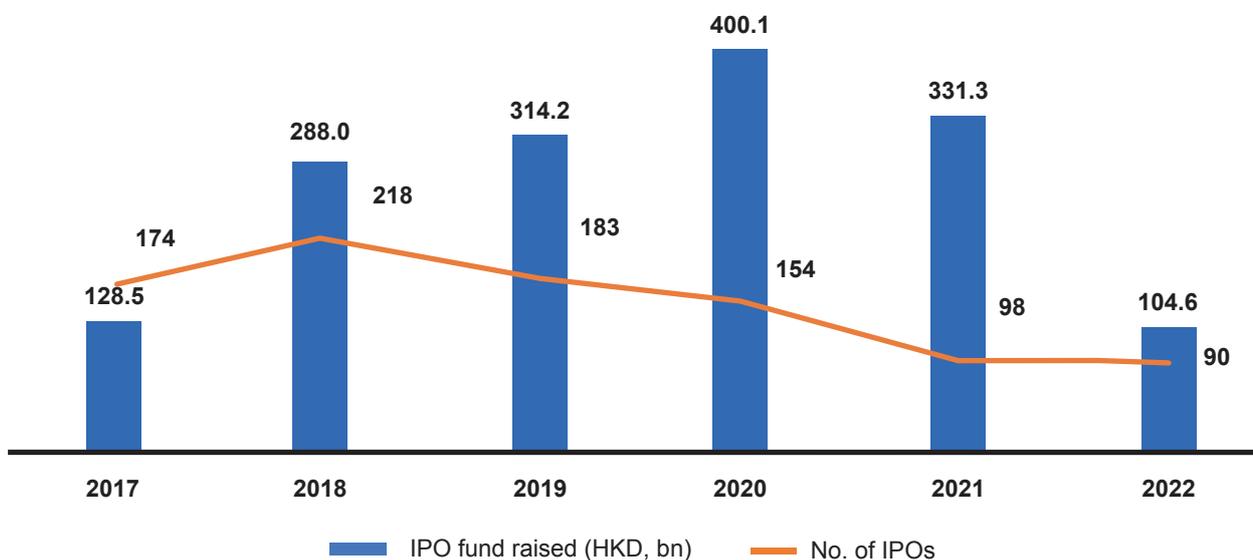
Within the regulatory framework, the SFC oversees the HKEX and its subsidiaries, namely the SEHK, the HKFE and four related clearing houses.⁵¹

HKEX comprises a Main Board and a Growth Enterprise Market (GEM) board for stock trading. As for cash market, HKEX also allows the trading for derivative warrants, exchange-traded funds, real estate investment trusts, equity-linked investments, callable bull/bear contracts and debt securities. The derivatives market is also operated by HKEX, which includes the trading of index futures, stocks futures, index options and stock options.⁵³

HKEX brings in the high-growth emerging and innovative industries, injecting fresh momentum into the listing market. In 2018, it launched a new listing regime, allowing innovative enterprise with weighted voting rights structure, pre-revenue biotech firms and qualified overseas listed companies to list in Hong Kong.⁵⁴ Furthermore, HKEX introduced a new listing regime for special purpose acquisition companies (SPACs) in January 2022.

In 2022, HKEX continued to be one of the world’s leading fundraising centres, 90 companies listed, raising a total of HK\$104.6 billion (Figure 8). As at end-2022, the market capitalisation of the securities market reached HK\$35.67 trillion with a total of 2,597 listed companies (Figure 9).

Figure 8: IPO fund raised (HKD, bn) and number of IPO (2017-2022)



⁵¹ FSTB, Hong Kong: The Facts: Financial Services, https://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf

⁵² IFEC, HK Stock Market, <https://www.ifec.org.hk/web/en/investment/investment-products/stock/basics/hk-stock-market.page#2-1>

⁵³ HKEX, HKEX celebrates third anniversary of new listing regime, June 2021, https://www.hkex.com.hk/News/Media-Centre/Special/HKEX-Celebrates-Third-Anniversary-of-New-Listing-Regime?sc_lang=en

Figure 9: Market capitalisation and no. of listed companies (2017-2022)



Source: HKEX^{54,55}

⁵⁴ HKEX, HKEX Fact Book, https://www.hkex.com.hk/Market-Data/Statistics/Consolidated-Reports/HKEX-Fact-Book?sc_lang=en

⁵⁵ HKEX, Market Statistics 2022, https://www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/Annual-Market-Statistics/e_2022-Market-Statistics.pdf

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About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

The FSDC has been incorporated as a company limited by guarantee with effect from September 2018 to allow it to better discharge its functions through research, market promotion and human capital development with more flexibility.

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