

6th June 2005

To : Clerk to Bills Committee on
Securities and Futures (Amendment) Bill 2005

**Submission by The Hong Kong Society of Financial Analysts on
Splitting the post of the Chairman of the Securities and Futures Commission**

As I believe the committee is quite clear on our views regarding the future Chair of the SFC (C/SFC), I will not repeat them here. Rather, I will attempt to share some of my thoughts on the complexities of the financial markets that Hong Kong and other regulators will have to face in the near and longer term future. I believe it is important to understand some of these issues when deciding on what kind of person is required to lead the Commission.

- 1) Hedge Funds. The hedge fund sector is still the fastest growing part of the fund management industry, yet they are still largely unregulated. The rapid growth in the number of hedge funds and in the assets under management in the hedge fund industry means that there will be accidents along the way and calls for greater regulation. There is already talk of increased regulation in the US. How should Hong Kong regulate Hedge funds? (not only those hedge funds offered to the public.) What sort of disclosure is required to safeguard investors' interests, yet still allow the entrepreneurial nature of the industry to thrive? How much cooperation should there be with other regulators? How can we make sure that Hong Kong remains competitive in this vibrant and crucial industry
- 2) Derivatives, CDO & CDS markets. How should the regulation of these markets evolve with their ever growing complexity and size? What part of derivatives/CDO/CDS trading should be regulated by the SFC vs the HKMA.
- 3) Structured products. Retail investors are buying increasing quantities of structured products, either directly or indirectly. How should regulation evolve to ensure that risks are being properly managed and that publicity materials are not misleading? How much cooperation is required with other regulators in Hong Kong and abroad?

These are only a few of the many complex yet crucial issues that the SFC and other global securities regulators will face in the coming years. Hong Kong requires a fully competent and motivated SFC Chairman to make sure that the commission's resources are deployed appropriately in the face of such complexity. The Chairman will also be crucially involved in the development of inter regulator cooperation, both within Hong Kong (i.e. with the HKMA) and outside Hong Kong (with other regulators around the world).

Finally, when the inevitable next financial crisis hits global or local markets, it is crucial that timely and bold decisions are taken by the head of the commission. The nature of the regulatory response to such events has long lasting ramifications.

We are extremely concerned that the SFC will not be equipped to properly handle these issues if the Chairman is selected from a pool of individuals that is restricted to those people willing to perform an underpaid act of public duty. The livelihood of our members and the prosperity of Hong Kong's financial sector depend on a strong, transparent and competent regulatory framework. The current proposal for selecting future Chairman of the SFC puts all those things at risk.

Sincerely,

For and on Behalf of
The Hong Kong Society of Financial Analysts



James Soutar, CFA
Director