

## **Press Release**

### **LCQ14: Investigations into suspected irregularities of Hong Kong Mercantile Exchange Limited**

Wednesday, June 29, 2016

Following is a question by the Hon James Tien and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 29):

Question:

The Securities and Futures Commission (SFC) issued a statement on May 21, 2013 announcing that after going through the relevant procedure, it had withdrawn the authorisation of automated trading services granted to the Hong Kong Mercantile Exchange Limited (HKMEx) as a result of the deterioration in HKMEx's financial position. Moreover, the SFC and the Police had respectively initiated an investigation into the suspected irregularities of HKMEx. However, three years have passed and the investigation progress or outcome has yet to be announced. In this connection, will the Government inform this Council:

(1) as there are views that the prolonged delay of the SFC and the Police in completing the investigations into the aforesaid case and announcing the investigation outcome was due to the fact that the former chairman of HKMEx had served as chairman of the election campaign office of the incumbent Chief Executive (CE) and a member of the Executive Council, whether the Government has assessed if such views are justified; if it has assessed, of the details;

(2) whether it knows if CE or other people have, in respect of such investigations, approached the SFC or the Police directly or indirectly and made any request explicitly or implicitly;

(3) as it has been reported that the former chairman of HKMEx still gives advice to CE from time to time after the suspected irregularities of HKMEx has been uncovered, whether the authorities have gained an understanding from CE in respect of such reports; if they have, of the details; if not, the reasons for that;

(4) of the number of cases of suspected irregularities in the past five years the investigations into which by the SFC took more than three years, and a summary and the actual investigation time of each case (set out in a table); and

(5) whether it has studied if the prolonged delay of the SFC and the Police in completing the investigations into the aforesaid case and announcing the investigation outcome has created a negative impact on Hong Kong's international image (including fairness, impartiality, probity and rule of law); if it has studied, of the outcome?

Reply:

President,

Our response to the five parts of the question is as follows:

(1) and (2) The Securities and Futures Commission (SFC) is operationally independent and conducts investigations without regard to the status of people involved. Section 378 of the Securities and Futures Ordinance (Cap. 571) requires the SFC as a matter of law to keep its investigations secret. the SFC will not comment on individual cases owing to its secrecy obligation.

The Police investigates all cases in a fair and just manner, regardless of the person's identity or background. The time for investigation may vary from case to case on account of its nature and complexity. On the case in question, the Police have been keeping close contact with the Department of Justice from which legal advice on the case is sought in a timely manner. It is not appropriate to comment on the specific circumstances at this stage.

(3) We do not comment on speculative reports or rumours.

(4) The SFC seeks to complete its cases as quickly as possible. However, the time needed to complete an investigation varies according to the complexity of the case, and progress will be subject to different factors. The SFC publishes in its annual and quarterly reports the statistics on enforcement work. However, the statistics are not compiled in the manner described in the question. According to the SFC, on average, in the past five years, over 60% of the SFC

investigations were completed within seven months.

(5) We appreciate Members' and the public's concerns regarding the Hong Kong Mercantile Exchange Limited incident, and their expectations for transparency on the part of law enforcement agencies and regulators. However, as mentioned in parts (1) and (2) of the reply, the SFC and the Police are not in a position to make any comments at this stage.

The SFC strives to strengthen and protect the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry. In line with the established practice, the SFC will make a public announcement if enforcement action is taken after investigation. The Police will also make a public announcement at an appropriate time.

Ends