

2009 FINANCIAL MARKET INTEGRITY INDEX

# HONG KONG

## **CFA Charterholders and Professional Integrity**

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# Introduction

# Concept of an FMI Index

The Financial Market Integrity Index (the FMI Index) was developed by the CFA Institute Centre for Financial Market Integrity (the CFA Institute Centre) to gauge the perceptions investment professionals have about the state of ethics and integrity in six major financial services markets and how these perceptions evolve over time. Specifically, the index measures the level of integrity that investment practitioners experience

in conducting regulatory outreach and developing enhanced professional standards.

The FMI Index is distinguished from other market surveys and is proprietary in that it capitalizes on our exclusive access to seek the opinion and perspective of the CFA Institute membership (see inside cover for details). CFA charterholders are investment professionals who have earned

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*The Financial Market Integrity Index was developed to gauge the perceptions investment professionals have about the state of ethics and integrity in financial services markets.*

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in their respective markets—Canada, Hong Kong, Japan, Switzerland, the United Kingdom, or the United States—and the practitioners' beliefs in the effectiveness of regulation and investor protections to promote such integrity. This pragmatic input from working investment professionals will help raise awareness of leading issues in the capital markets and will inform the work of the CFA Institute Centre

the CFA designation and are required to adhere to a stringent code of ethics. The informed opinion of this particular respondent group offers valuable insight into the current state of ethical practices and standards in select global markets and will help to inform regulators and other financial industry thought leaders concerning potential areas for improving the investment profession.

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*The CFA Institute Centre  
provides this report to advance  
the cause of ethics and integrity  
in financial markets.*

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The CFA Institute Centre provides this report on the findings of the survey (the Report) to advance the cause of ethics and integrity in financial markets through the views and opinions of trained investment professionals so as to:

- Inform investors and regulators of the perceived ethics and integrity of practitioners and the effectiveness of regulatory systems in the market;
- Encourage investors to consider whether they are likely to be treated fairly and ethically if they invest in the market;
- Help assess whether a particular country or market has specific integrity issues that need to be addressed by regulators; and
- Inform practitioners in the market about how others perceive their actions and honesty, in general, and to stimulate remedial actions on their part where appropriate.

Each FMI Index Report measures the sentiments expressed by a cross section of survey respondents concerning ethical standards and investor protections of a particular market. The ratings discussed in this Report represent the opinions of a distinct group of professionals, CFA charterholders, responding to a series of questions about their experiences with practitioners, regulations, and investor protections in Hong Kong. This survey was specifically designed to gather the perceptions of only the Hong Kong market. Because respondent populations differ significantly between markets, we believe it will be more valid and informative to assess each country's report independently of the others rather than to try to make cross-country comparisons.

# About the FMI Index Methodology

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*The FMI Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity.*

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The CFA Institute Centre, in consultation with Harris Interactive, developed the FMI Index to specifically reflect the perspectives and opinions of investment professionals identified as being committed to the highest level of professional ethics. CFA charterholders and holders of the ASIP and FSIP designations were asked to evaluate and rate a number of financial “market participants,” including sell-side analysts, hedge fund managers, board members,

and others as well as “market systems,” such as market regulation and investor protections, including corporate governance, shareowner rights, and transparency. The questions relate to how market participants and market systems contribute to financial market integrity (see **Figure 1**). Respondents were asked to answer a number of questions that rate on a five-point scale the ethical behavior of these market participants and systems.<sup>1</sup>

### FMI Index Questions and Rating Scales

Please rate the overall ethical behavior exhibited by the following groups in Hong Kong.



For each of the following, please rate the overall effectiveness of market systems for ensuring market integrity in Hong Kong.



**Figure 1**

*The ethical behavior of market participants and the effectiveness of market systems were the two dimensions of evaluation that produced the final FMI rating.*

More than 2,000 professionals in six countries who hold the CFA, FSIP, or ASIP designations participated in the research for the 2009 FMI Index by taking the survey either online or by scripted telephone interview between 26 February and 13 March 2009.

To provide the most statistically reliable opinions, this Report will use in-market ratings when referring to an index rating or score, unless otherwise noted.<sup>2</sup>

Out-of-market ratings will be used for discussion and comparisons only where noted because these results are statistically less significant as a result of smaller sample sizes.

The FMI Index is constructed to give equal weight to two dimensions of

evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity. Data gathered during phone interviews were adjusted to align them with online responses so that all responses could be accurately integrated into one pool of responses.

For more comprehensive information regarding the overall FMI Index methodology, please refer to the separate report available on the CFA Institute Centre's website at [www.cfainstitute.org/centre](http://www.cfainstitute.org/centre).

This is an opinion-based survey, and CFA Institute makes no representations concerning accuracy or otherwise warrants use of the FMI Index for any purpose by readers.

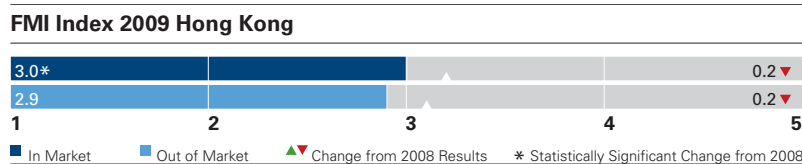
<sup>1</sup> One question dealing with severity of unethical behavior or ethical lapses was an exception and listed a score of 1 as not severe at all and 5 as extremely severe. This question did not figure in the final calculations of the FMI rating.

<sup>2</sup> In this Report, in-market ratings are those from respondents inside Hong Kong and out-of-market ratings are those given by respondents outside Hong Kong.

# Executive Summary

**Figure 2**

*In 2009, in-market respondents gave the Hong Kong market a lower overall FMI rating (3.0) than they did in 2008 (3.2).*



The 2009 FMI Index rating for Hong Kong was 3.0 on a five-point scale (see **Figure 2**).<sup>3</sup> Respondents inside and outside Hong Kong were slightly less confident in the integrity of market professionals and the effectiveness of capital market systems in 2009 than they were in 2008. The in-market rating fell from 3.2 in 2008 to 3.0 in 2009, a statistically significant drop at the 95 percent confidence level.<sup>4</sup> The ratings decline is attributable to lower ratings for both market professionals and systems, but respondents voiced slightly more concern for the ethical behavior of professionals, given the drop in the all-professionals rating from 3.4 to 3.2 and in the all-systems rating from 3.3 to 3.2.

Hong Kong, like the other markets in the survey, was not spared the pain of the global economic crisis that unfolded in late 2008. However, the territory's government moved quickly to support the export-driven economy with an aggressive stimulus package, and HSBC cut its Hong Kong lending rate five times in the last four months of 2008. Slowdowns in three key areas of the Hong Kong

economy—exports, finance, and property—posed a triple threat to investors.

Exacerbating the weakness in the economy and in the capital markets, several ethics-related events raised the concerns of investors in the Hong Kong market.

Concerns were focused on the integrity of financial professionals and the ability of the capital market systems to support the reporting of accurate and timely information, to adequately regulate market participants, and to effectively enforce regulation. Concern over shareholder rights, in particular the rights of minority shareholders, were top of mind with many survey respondents. The effort of majority shareholders to take PCCW private during 2009, even over the objections of the Hong Kong Securities and Futures Commission (SFC), was a high-profile example of what a number of respondents claim are common instances of boards, management, and majority shareholders putting their interests ahead of the interests of minority shareholders.



## Conclusions

- The overall 2009 FMI Index rating of 3.0 is lower than the 2008 rating of 3.2, reflecting lower ratings for both market participants and capital market systems. Fallout from several ethics related events that occurred in 2009, such as the Lehman minibond sales, postponement of the extension of the directors' trading blackout period, and the attempted PCCW privatization, may be responsible for this year-over-year decline.
- Based on ethics and integrity alone, 66 percent (73 percent in 2008) of in-market respondents were likely or very likely to recommend investing in Hong Kong markets in 2009. Those outside Hong Kong did not respond as favorably, at 37 percent (50 percent in 2008).
- Open-ended comments were heavily weighted toward concern for shareholder rights in Hong Kong. Respondents highlighted the disparity between the rights of minority and majority shareholders, noting a lack of enforcement of extant legal and regulatory investor protections.
- The perception of the integrity of financial professionals and of the capital market system in Hong Kong was revised downward over the past year, with similar assessments made by those inside and outside the market. Almost all component parts—the individual professions as well as the unique parts of the financial system—uniformly lost credibility in the eyes of survey respondents.

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### Respondents highlighted the disparity between the rights of minority and majority shareholders

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<sup>3</sup> A market's overall rating is composed of the 10 factors that make up the financial professionals rating and the 7 factors that make up the market systems rating. The final, overall rating for this market was created by taking the average rating or score from two sets of questions. The first question set contained 10 equally weighted components from a set of questions pertaining to investment professionals (i.e., market participants). The second question set contained 7 equally weighted components of questions pertaining to the effectiveness of capital market systems in ensuring market integrity. These two sets of questions were averaged as a set, and then each set carried equal weighting in the final determination of the FMI Index rating for this market.

<sup>4</sup> For these purposes, a 95 percent confidence level means that if we were to replicate this study 100 times, we can be confident that 95 out of 100 times the differences between the two groups would be different from zero. There is still a chance that in five of those 100 replicated studies, there is no significant difference between those two groups. Five percent represents the level of uncertainty that a surveyor is willing to accept when conducting a study with a limited number of respondents.

# Key Findings

# Ethical Behavior of Individuals

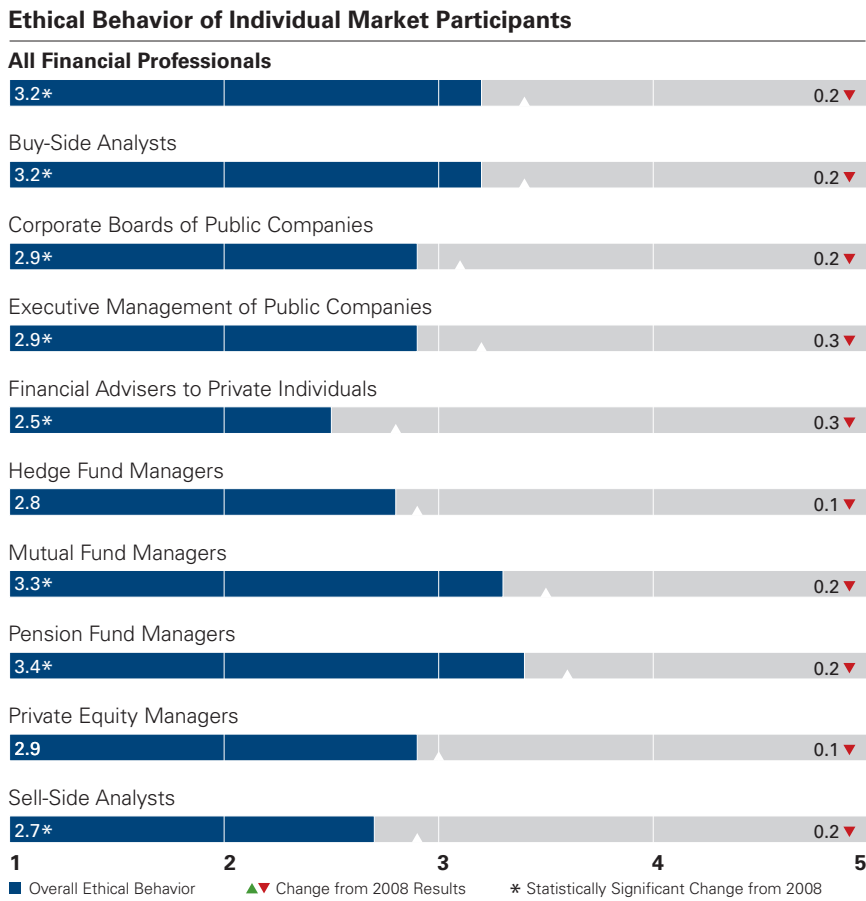
The first group of FMI Index questions asked respondents their opinions concerning the ethical behavior exhibited by various financial professionals—also referred to as “market participants”—in the market over the past year.

Overall, as demonstrated in **Figure 3**, all financial professionals received an above-average rating of 3.2. This rating is not simply an average of the nine

ratings linked to the ethical behavior of specific professions but was asked separately as a control question. The *average* of the ratings of the nine professions is 3.0.

Only two categories of financial professionals received ratings that did not decrease significantly from 2008 to 2009 (hedge fund managers

**Figure 3**  
 Respondents were asked to rate the ethical behavior of financial professionals as a whole as well as the ethical behavior of specific financial professionals.



and private equity managers). The sentiment ratings of all other financial professionals decreased by at least 0.2 points from 2008 to 2009.

The overall rating of the ethical behavior of Hong Kong financial professionals in 2009 remains above the midpoint of the five-point rating scale, at 3.2, even after declining somewhat from the 2008 FMI rating of 3.4. The ratings for all financial professionals fell by a statistically significant margin at a 95 percent confidence level except

for the ratings for hedge fund managers and private equity managers. All professions took a bit of a hit, largely because of several ethics-related events that unfolded during the year. For example, board members' reputations were probably negatively affected when more than 200 directors of Hong Kong-listed companies acted collectively to influence the Hong Kong Stock Exchange (HKEx) in its decision to delay the implementation and shorten the proposed extension of the directors' trading blackout period.

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“  
*Sometimes I feel professionals  
in Hong Kong seem to put their  
own interests first.*

— Survey Respondent

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# Ethical Behavior of Individuals

(continued)

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“  
*The majority of Hong Kong financial advisers are commission-driven product-pushers.*

— Survey Respondent

”

The main purpose of the original proposal to extend the trading blackout period (supposed to take effect 1 January 2009) was to reduce the probability of insider trading for the entire period between the end of the reporting period and when results are announced, which in Hong Kong is four months for year-end results and three months for interim results. Beginning 1 April 2009, the modified rule bans company insiders from trading for the 60 days preceding the year-end results announcement, compared with the one month required previously. The trading ban for interim results remains at one month.

The reputation of financial advisers was definitely tarnished when the Lehman minibonds that many Hong Kong advisers sold to unsuspecting

individual investors lost substantial value following the collapse and bankruptcy of Lehman Brothers. Hong Kong, as did the other five markets surveyed, experienced repercussions from the global financial crisis that likely added to the weaker overall perception of its financial professionals in 2009.

A sense of concern about the ethical behavior of financial advisers—ranking lowest of all professions at 2.5—was amplified by respondents’ specific comments on this category of professionals, many of which addressed conflicts of interest issues.

Respondent comments focused on conflicts of interest within the financial community, sales of unsuitable investment products to individual investors,

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“

*Advisers’ lack of understanding or care for fiduciary responsibilities [is a concern].*

— Survey Respondent

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and insider trading. All of these subjects were in financial news headlines in Hong Kong in 2009. Numerous respondents expressed the belief that conflicts of interest appear to be perpetuated through a well-established web of professional interconnections at the highest levels of the Hong Kong financial community, resulting in a lack of independence among executives, boards, and regulators.

There was also considerable commentary centered on aggressive sales tactics by financial advisers and on banks that too often attempt to sell high-risk products to unsophisticated investors. Many respondents blamed a lack of regulation, as well as inappropriate behavior by market participants, for the widespread nature of these problems.

Structured products, derivatives, and of course, the Lehman minibonds, were all mentioned by respondents as examples of products inappropriately sold to individual investors. Respondents largely attribute financial advisers’ and bank salespersons’ motivation to inappropriately promote such high-risk products to incentive structures that highly compensate those who sell them. Respondents also view uneducated sales staff as part of the problem.

Comments on insider trading focused mainly on the unfettered ability of directors to trade on insider information. Respondents’ frustrations were compounded by directors’ recent success in deterring the HKEx from increasing the trading blackout period that was to begin in January 2009.

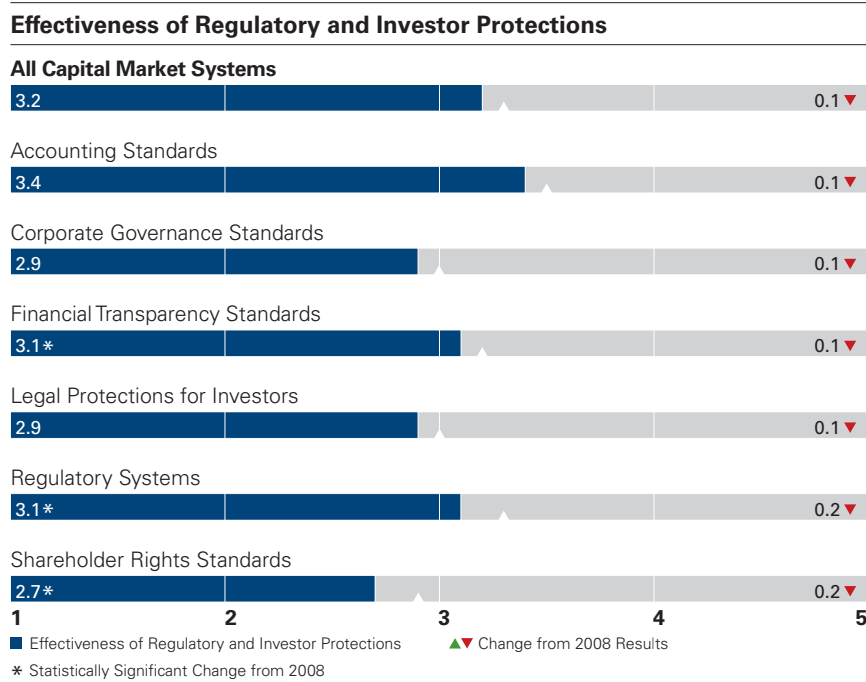
# Effectiveness of Regulatory and Investor Protections

The second group of FMI Index questions asked the respondents their opinions concerning the effectiveness of regulatory and investor protections in the market (referred to as “market systems”) over the past year. In the control question seeking ratings of all capital market systems, this group of investor protections received an above-midpoint rating of 3.2. This control question rating was somewhat higher than the average rating of 3.0 earned by the group. In the 2008 FMI survey, this control question earned a rating of 3.3 and the *average* of all market

systems ratings was 3.0, the same as the average rating in 2009.

The highest rated component in the Hong Kong capital market system was accounting standards at 3.4. The lowest rated component was shareholder rights at 2.7, which was also the most-commented-on capital market system component in Hong Kong. All individual systems, other than accounting standards, received ratings below the overall systems rating of 3.2. The ratings for financial transparency standards, regulatory systems, and

**Figure 4**  
 Respondents were asked to rate the overall effectiveness of capital market systems as a whole as well as the effectiveness of specific systems and standards.



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“  
*Conflicts of interest between regulators at SFC and the stock exchange [is a problem].*

— Survey Respondent

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shareholder rights each declined a statistically significant amount over the last year.

As demonstrated in **Figure 4**, the shareholder rights and regulatory system ratings showed the most significant drop year over year, with each falling 0.2 points.

Respondents’ comments suggest that their perception of the regulatory system in Hong Kong declined because of the controversy surrounding various instances of weak regulatory enforcement—including the HKEx’s decision to modify the

extension of the directors’ trading blackout period and the ineffectiveness of shareholder protections in the fight to privatize PCCW.

The largest number of comments received (45) related to the effectiveness of shareholder rights in the Hong Kong market, followed by regulation issues, with 27 comments. Respondents expressed concern about the perceived inability of regulatory authorities to properly protect shareholder rights and to manage conflicts of interests, the suitability of products for investors, a lack of transparency, and insider trading.

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“  
*Enforcement by the regulatory system has been relatively weak due to lack of understanding of the market operation among the various regulators.*

— Survey Respondent

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”

# Effectiveness of Regulatory and Investor Protections

(continued)

“

*Pre-IPO placings to selected wealthy individuals and preferential allocations to them is an abuse of the market. That needs to be considered by the regulator.*

— Survey Respondent

”

A number of comments spoke to a broad concern among respondents that boards, executives, and majority shareholders are working to protect their own interests over those of the minority shareholders. It is very common in Hong Kong to have a majority shareholder sitting on the board as a director or chairman or as a senior executive of the company. This situation can create significant conflicts of interest because unmonitored

majority shareholders/managers have the ability to make business decisions for their own benefit that may disenfranchise minority shareholders.

Although the SFC has been criticized in the past for lax enforcement of shareholder protections, in 2009, the SFC did fight to oppose the privatization of PCCW. Even though the SFC received a favorable appeal ruling in April 2009 that blocked the attempt by

“

*Typically, major shareholders are also executive management of companies. Rights of independent shareholders could be compromised.*

— Survey Respondent

”



PCCW to take the company private, shareholder rights standards remain a subject of serious concern.

Respondents also were asked two subquestions about capital market systems to further identify some of the reasoning behind the individual scores given to the various market system

implemented correctly, whether those market systems would offer a solid framework for investor rights. Respondents assigned these regulations and policies a midrange rating of 3.0 out of 5.0 (this rating was 3.2 in 2008).

The second subquestion focused on the effectiveness of implementation

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“  
*Lack of commitment by government to uphold or enforce shareholder rights and ensure good corporate governance and transparency at public companies [is a problem].*

— Survey Respondent

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components. These subquestions do not figure in the final calculation of ratings. The first subquestion asked about the effectiveness of capital market regulation policies themselves. Specifically, we sought respondents' perceptions on whether the regulations and investor protections available in the market represent industry standard or best practice and if

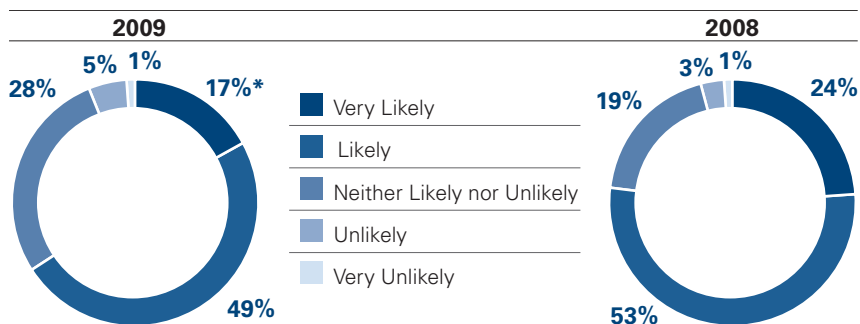
or enforcement of such regulations and policies. Respondents appear to believe that Hong Kong authorities' enforcement of regulatory policies can use some improvement; they gave the effectiveness of regulatory enforcement a rating of 2.9 out of 5.0. In 2008, survey respondents answered this question with a 3.0 rating.

# Willingness to Invest in Hong Kong

Respondents inside and outside the market expressed less willingness to invest in Hong Kong, which may reflect the effects of the global financial crisis. The decreased confidence in the Hong Kong market relative to the sentiment in the 2008 index is likely attributable to the general malaise and skepticism investors around the world are

feeling about the investment process as well as to the overall condition of the financial markets. Adding to this sentiment in Hong Kong, however, may be the fallout from the attempted PCCW privatization, Lehman minibond sales, and the backtracking by the HKEx in regards to the extension of the blackout period.

**Figure 5**  
Likelihood of in-market respondents to recommend investing in Hong Kong based solely on the ethical behavior of market participants and the effectiveness of capital market systems.



**Based Solely on Ethical Behavior and Capital Market Systems, Would You Recommend Investing in Hong Kong?**

\* Statistically Significant Change from 2008

NOTE: Percentages may not total 100 percent because of rounding

In the 2009 FMI Index, based solely on the ethical behavior of market participants and the effectiveness of capital market systems, 66 percent of respondents inside Hong Kong said they were likely or very likely to recommend investing in their home market, compared with 37 percent of respondents outside Hong Kong (see **Figure 5**). In 2008, 73 percent of in-market respondents made such a claim compared with 50 percent of those outside the market.

# Other Key Survey Considerations

## In-Market vs. Out-of-Market Perceptions

For purposes of this FMI Index, charter holders from five other markets we surveyed (Canada, Japan, Switzerland, the United Kingdom, and the United States) were given the opportunity to rate and comment on both their own and the Hong Kong market. (Survey respondents were given the option to skip questions pertaining to any market about which they did not think they were knowledgeable).

As demonstrated in **Figure 6**, the integrity of market participants overall was rated equally well (3.2) by respondents inside and outside Hong Kong. In 2008, all professionals received a slightly higher rating from those inside Hong Kong (3.4) than from those outside (3.2). As shown in **Figure 7**, in 2009, respondents inside Hong Kong had more confidence in their market systems to ensure market integrity than did their peers outside Hong Kong, as shown by ratings of 3.2 and 3.0, respectively.

The ethical behavior of financial professionals was viewed similarly by in-market and out-of-market respondents, with the only real divergence in sentiment coming in their perceptions concerning the ethical behavior of hedge fund managers in Hong Kong.

In contrast to the essentially similar

perceptions about the ethical behavior of Hong Kong market participants by those inside and outside the market, some greater differences can be noted in the ratings regarding the effectiveness of regulatory and investor protections in Hong Kong. The *average* rating given to all market systems was 3.0 and 2.7 by in-market and out-of-market respondents, respectively. The most pronounced difference of opinion was observed between the two groups in terms of accounting standards. In-market respondents viewed accounting standards much more favorably (3.4) than did those outside the market (2.9).

Figure 6 and Figure 7 also report the changes in external sentiment toward the Hong Kong market from 2008 to 2009. Although respondents working outside the Hong Kong market gave the same overall rating to professionals working in Hong Kong in 2009 as they did in 2008 (3.2), the ratings for the individual professions were mixed, with the rating given to financial advisers falling the most from 2008.

In rating the effectiveness of regulatory and investor protections, respondents outside Hong Kong gave uniformly lowered rankings across all market system components year over year, with the rating for accounting standards falling the most.

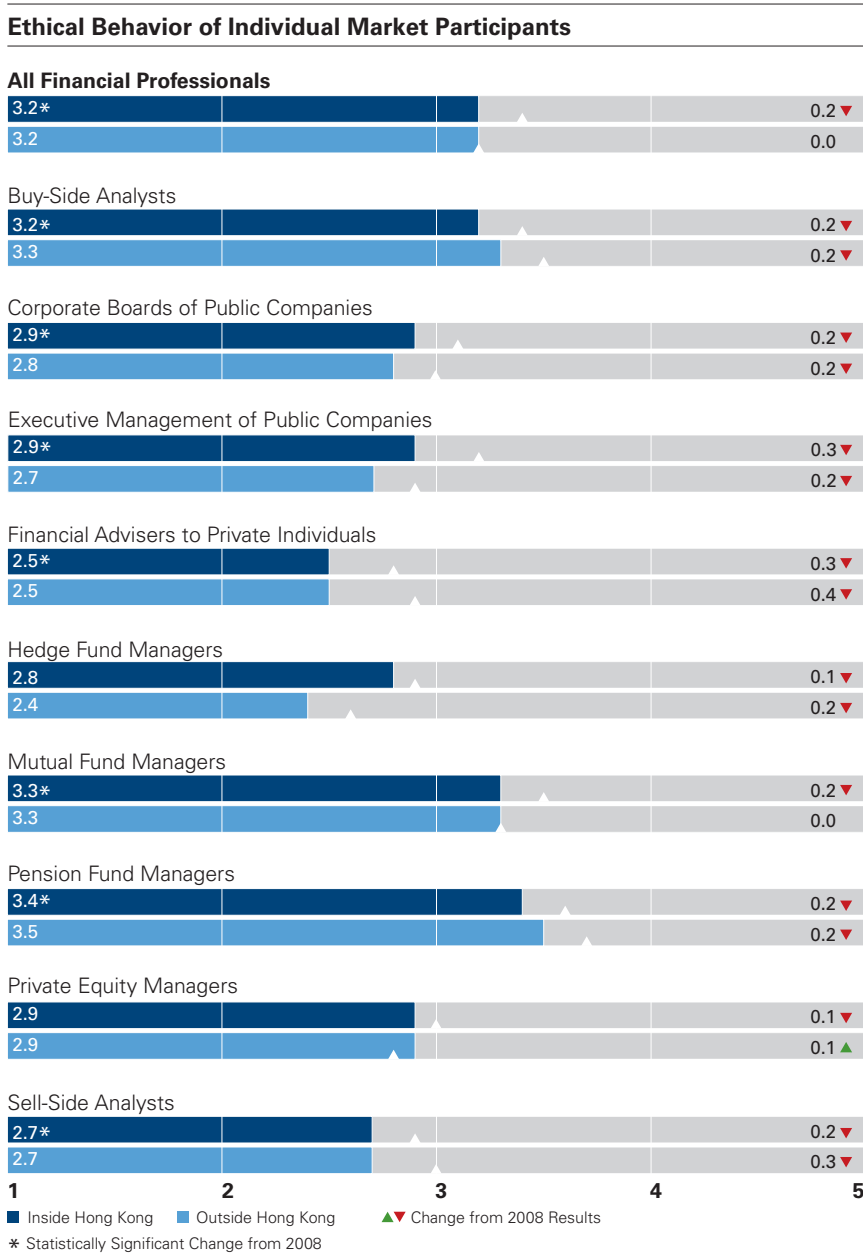
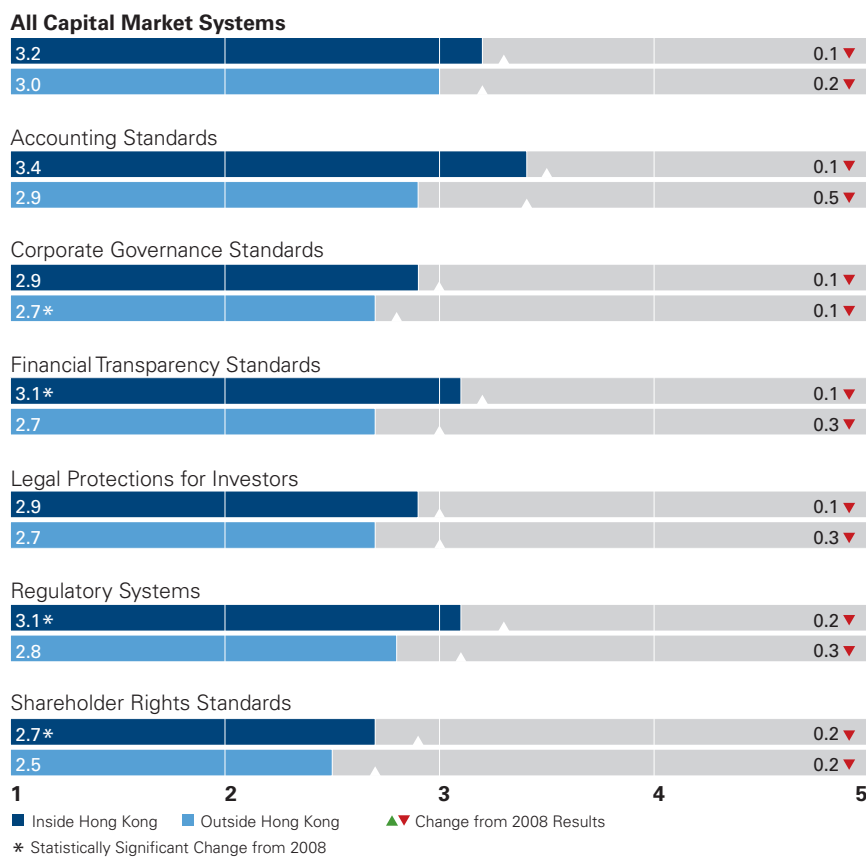


Figure 6

# In-Market vs. Out-of-Market Perceptions

(continued)

**Figure 7 Effectiveness of Regulatory and Investor Protections**



## Market-Specific Question

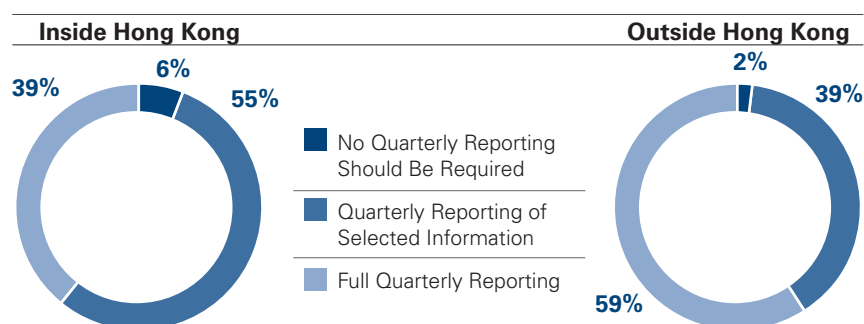


Figure 8

### What level of quarterly financial reporting do you think should be required of listed companies on the main board?

In the 2009 FMI Index survey we offered a new feature: the opportunity for respondents to answer a market-specific question addressing an issue of particular importance to participants in a given market. Not all surveys included a market-specific question, but in- and out-of-market respondents to the FMI Index for Hong Kong were asked what level of quarterly financial reporting should be required of listed companies on the main board. Results are shown in **Figure 8**.

There was a significant difference of opinion between those inside and outside Hong Kong regarding the degree of disclosure they thought should be required in quarterly reporting,

although both groups overwhelmingly agreed that some form of quarterly reporting is needed. Nearly 60 percent of respondents outside Hong Kong answered affirmatively to the need for full quarterly reporting, compared with just less than 40 percent of respondents inside Hong Kong. The majority of in-market respondents (55 percent) clearly prefer quarterly reporting of select information versus full information. Reasons given in support of partial disclosure included the expense of preparing detailed financial information at such a frequent interval; the focus it would place on short-term results, likely causing a rise in market volatility; and the distraction it would present to management in the pursuit of normal business operations.

# Comments of Survey Respondents

More than 250 respondents offered comments to expand on their opinions about the current state of financial market integrity in Hong Kong. Respondents were given opportunities in connection with several of the survey questions to provide written comments about their thoughts and concerns. In particular, additional comments were solicited in the survey section concerning individual market participants and again after questions concerning market systems. At the completion of the survey, respondents also were asked what additional or specific issues investors should be concerned about and for any other comments.

More than 250 substantive comments were received; those responding with “no answer” or “nothing to add” types of remarks were excluded.

The various responses were examined and then categorized based on the concerns addressed in each comment (e.g., corporate governance, transparency, fraud). The key areas of comment and the topics raised most often are highlighted in **Figure 9**. In instances where an individual raised more than one concern, each separate concern was identified and counted.

**Figure 9**

*Survey respondents commented most about shareholder rights, regulation, and conflicts of interest.*

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## Issues Raised Most Frequently

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Shareholder Rights	<b>42</b> comments
Regulation/Regulatory Systems	<b>25</b> comments
Conflicts of Interest	<b>20</b> comments
Suitability of Products	<b>20</b> comments
Transparency	<b>18</b> comments
Insider Trading	<b>17</b> comments

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## Shareholder Rights

Shareholder rights standards received almost twice the number of comments (42) as the next highest area of concern mentioned by respondents. Minority shareholders are widely perceived as being in a very disadvantaged position compared with majority shareholders, boards, and management. A lack of transparency as well as lax accounting standards also affect shareholder rights issues because accurate and timely information is not made available to outsiders, or minority shareholders, hampering their ability to make informed investment decisions.

As mentioned previously, the PCCW privatization case was among issues in

the Hong Kong market that raised the profile of shareholder rights abuses in 2009. In the 2008 FMI Index, shareholder rights concerns were the subject of 26 comments (roughly half as many as were received in 2009) and stood fifth among the seven most-commented-on financial integrity issues in Hong Kong.

“  
*Opportunities for misadventure by controlling shareholders exist.*

— Survey Respondent

“  
*Private dealings by controlling shareholders of listed companies [and] insufficient redress for aggrieved shareholders [are problems].*

— Survey Respondent

“  
*Lax rules and regulatory enforcement for protection of investors [is a problem].*

— Survey Respondent

*There is a lack of action by the regulator on pertinent issues. The regulator micromanages the capital market and focuses on minor issues that do not actually contribute to shareholder protection.*

— Survey Respondent

## Regulation

The tenor of respondents' comments concerning regulation in Hong Kong characterizes the regulatory authorities as being frequently unable to combat some market participants' attempts to circumvent regulation. The SFC is viewed by some as not sufficiently independent of those it is intended to regulate. A number of respondents characterized the Hong Kong market as being a network of interconnected parties and transactions that is essentially unable—and without incentive—to monitor itself.

# Comments of Survey Respondents

(continued)

## Conflicts of Interest

The respondents' concerns over conflicts of interest in the Hong Kong market echoed other concerns expressed, such as shareholder rights and the suitability (or lack thereof) of products for the investors they are sold to. Minority shareholders are viewed as having inadequate protections and/or insufficient redress of grievances so that the interests of

majority shareholders and insiders can often be placed before the interests of others. Financial advisers and companies in Hong Kong are perceived by respondents to be inappropriately recommending high-fee and/or high-risk products to unsophisticated investors to increase the advisers' and companies' profits.

Conflicts of interest ranked high in the concerns of 2008 survey respondents as well, receiving the second-highest number of comments (46), more than double the number of comments received on the same topic in the 2009 survey (20).

## Suitability of Products

“  
*Hong Kong needs to urgently strengthen its rules on selling financial products to individuals; 'ethical behavior' must include an assessment of product suitability.*

— Survey Respondent

The Lehman minibond sales and the losses sustained by investors who purchased them have brought the issue of product suitability front and center for respondents in Hong Kong. In addition, respondents believe that individual investors are often sold complex structured products and derivatives that do not fit the investor's risk profile.

Financial advisers and bank salespeople are seen to have financial incentives to sell such products even

if they do not fully understand the products they are selling. The selling of unsuitable products to investors also brings up concerns regarding a lack of transparency about the potential risks involved and conflicts of interest between what is best for the investor versus what is best for the salesperson or adviser—at least in the short run.

Several respondents called on regulators to address this concern and to take steps to prohibit the sale of risky securities to unsophisticated investors.

“  
*Selling of investment products is very business-driven by the banks rather than matching the investor's need and risk profile.*

— Survey Respondent

## Transparency

Transparency, although a frequently raised issue again in the 2009 survey, was less prominently noted than it was in 2008, when it was the top-ranked concern (47 comments). Transparency is also a factor in other top concerns named by 2009 respondents, such as shareholder rights, product suitability, insider trading, and conflicts of interest. One particular area of concern raised addresses the asymmetry of information between company executives, boards, and

majority shareholders (insiders) and minority shareholders (outsiders) relating to the timing of the release of updated financial results. Many of the issues raised by respondents are closely intertwined and are elements of one another. For example, the issue of information asymmetry affects insider trading and conflicts of interest, both named by respondents as examples of unethical behavior by market participants.

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“  
*Certain information is made available to large institutional investors rather than individuals.*

— Survey Respondent

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## Insider Trading

The events surrounding the directors' trading blackout period has raised the profile of insider trading in Hong Kong, as indicated by 2009 survey respondent comments. Insider trading was not included in the top seven concerns

about the Hong Kong market in the 2008 FMI Index. Increased discussions about adopting quarterly reporting in Hong Kong also has raised the topic of insider trading because more frequent reporting would increase the number

of blackout periods and decrease the opportunities for insiders to trade. Some form of quarterly reporting was strongly supported by respondents (see page 23).

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“  
*One of the problems in Hong Kong is the excessive delay between the closure of the financial period and the reporting of results. This needs to be shortened. Also, the rules governing director dealing during this period need to be changed.*

— Survey Respondent

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”

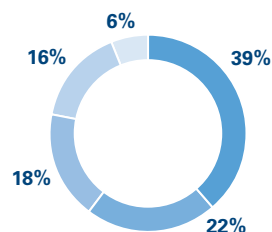
# Demographics

The following figures indicate some of the key demographic information about the respondent base (please see complete methodology report at [www.cfainstitute.org/centre](http://www.cfainstitute.org/centre) for further details).

## Overview of Out-of-Market Respondents

### Market

39%	United States
22%	Canada
18%	United Kingdom
16%	Japan
6%	Switzerland

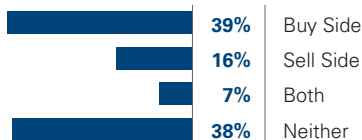


## Respondent Profiles for Hong Kong Market

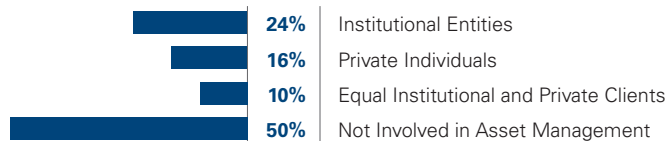
In Market (282 respondents)

Out of Market (51 respondents)

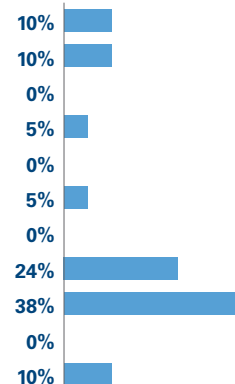
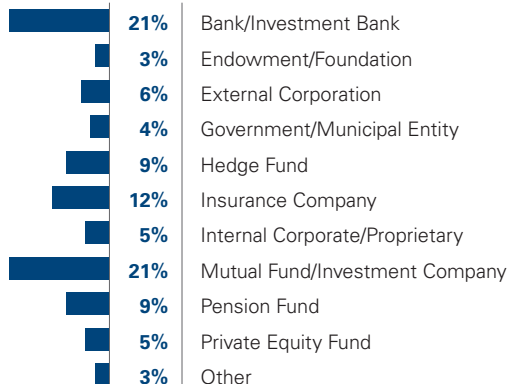
### Buy/Sell Side



### Client Asset Base



### Institutional Asset Client Type



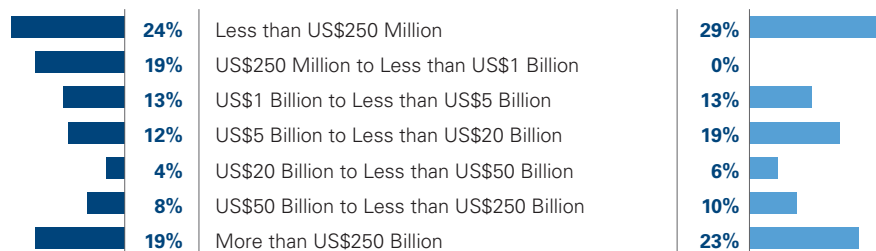
*These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category*

## Respondent Profiles for Hong Kong Market (continued)

In Market (282 respondents)

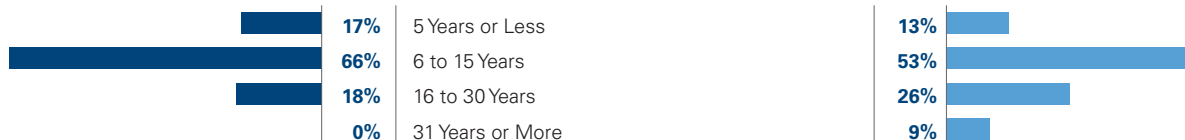
Out of Market (51 respondents)

### Assets Under Management

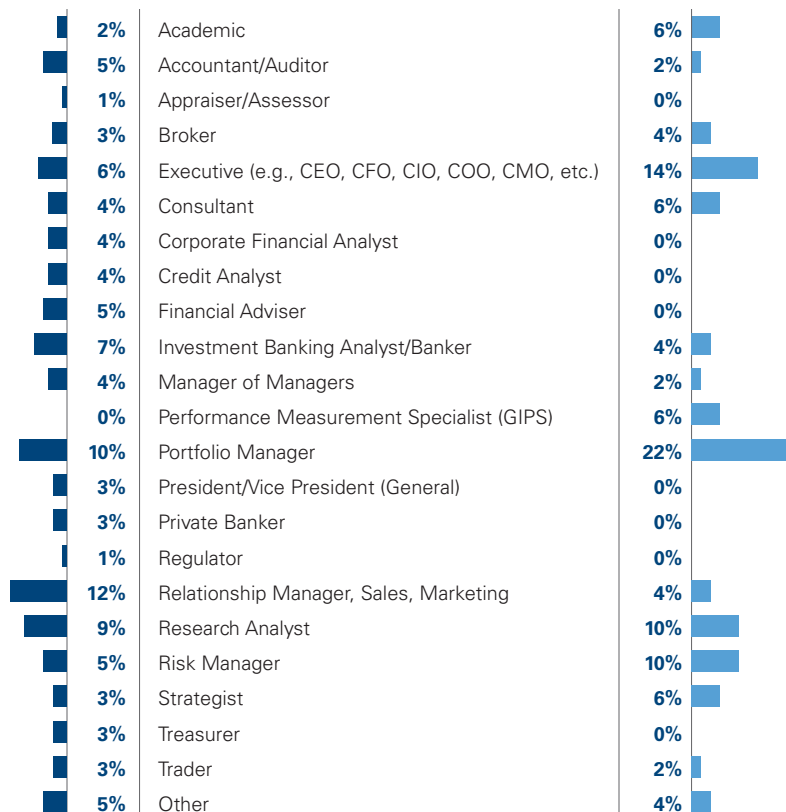


*These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category*

### Years in the Investment Industry



### Primary Job Function



NOTE: Percentages may not total 100 percent because of rounding

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