

FINANCIAL MARKET INTEGRITY INDEX™

HONG KONG

2010



CFA Charterholders and Professional Integrity

CFA Institute is the not-for-profit, professional association of 99,000 financial analysts, portfolio managers, and other investment professionals in more than 130 countries, of whom 87,000 hold the Chartered Financial Analyst® (CFA®) designation. The Standards and Financial Market Integrity Division is the research, policy, and advocacy arm of CFA Institute.

The CFA designation is widely recognized as the designation of professional excellence within the global investment community. CFA charterholders must pass three rigorous examinations that test their understanding of a number of financial disciplines, including ethics and professional standards, and must complete several years of qualifying financial work experience to earn the charter. To retain the designation, CFA charterholders also must annually renew their pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

In 2002, when CFA Institute and the United Kingdom Society of Investment Professionals partnered, UKSIP members were adopted into CFA Institute and holders of the corresponding FSIP and ASIP designations were accepted into CFA Institute membership based on the comparable level of rigor needed to obtain these designations. Although all CFA Institute members adhere to an ethical standard, only CFA, FSIP, and ASIP designees also have displayed a level of mastery in investment principles. Therefore, this research does not include responses from all CFA Institute members but, rather, only from those who are active members with CFA, FSIP, or ASIP designations; all will be referred to collectively as “CFA charterholders” throughout this report.

Contents

4	Introduction
4	Concept of This Index
6	About the Index Methodology
8	Executive Summary
10	Key Findings
10	Ethical Behavior of Individuals
14	Effectiveness of Regulatory and Investor Protections
18	Willingness to Invest in Hong Kong
20	Other Key Survey Considerations
20	In-Market vs. Out-of-Market Perceptions
24	Comments of Survey Respondents
30	Demographics
32	Appendix
32	Results from 2008 to 2010

Introduction

Concept of This Index

The Financial Market Integrity Index was developed by the Standards and Financial Market Integrity Division of CFA Institute (formerly known as the CFA Institute Centre for Financial Market Integrity) 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

the work of CFA Institute in conducting regulatory outreach and developing enhanced professional standards.

The Financial Market Integrity 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

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.

investment practitioners experience in their respective markets—Canada, Germany, Hong Kong, Japan, 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

who have earned 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.

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

CFA Institute 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 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 Financial Market Integrity 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 Report 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 Index Methodology

The Financial Market Integrity 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.

The Standards and Financial Market Integrity Division of CFA Institute, in consultation with Harris Interactive, developed the Financial Market Integrity 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 to rate “market systems,” such as market regulation and investor protections, corporate governance, shareholder 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.¹

More than 2,700 professionals in 80 countries who hold the CFA, FSIP, or ASIP designations participated in the research for the 2010 Financial Market Integrity Index by taking the survey either online or by scripted telephone interview between 1 February and 9 March 2010. For the first time, in 2010, the out-of-market ratings and commentary for each Financial Market Integrity report was extended to CFA charterholders from around the globe and not limited to the six markets covered by these reports. CFA Institute believes that this will allow us to gather responses from a more diverse cross-section of our membership. Due to this

Financial Market Integrity 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 are the two dimensions of evaluation that produce the final Financial Market Integrity rating.

change in methodology, care should be taken when comparing the 2010 out-of-market ratings for Hong Kong with ratings from previous years. An analysis of the 2010 ratings conducted by Harris Interactive reveals that ratings for Hong Kong from CFA charterholders outside of the six markets included in this research skew higher than ratings from CFA charterholders within these six markets. As a result, the 2010 out-of-market ratings for Hong Kong are higher than what might have been reported if the methodology remained the same as in previous years.

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.² Out-of-market ratings will be used for discussion and comparisons only where noted.

The Financial Market Integrity Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of a market's regulations and investor protections (referred to herein as "market systems") in promoting and upholding 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 Financial Market Integrity Index methodology, please refer to the separate report available on the CFA Institute website at www.cfainstitute.org/ethics.

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

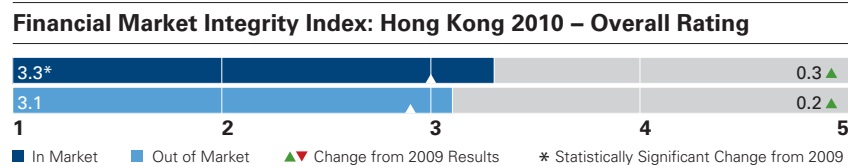
¹ One question dealing with severity of unethical behavior or ethical lapses was an exception and listed a score of 1 as not severe at all and 5 as extremely severe. This question did not figure in the final calculations of the Financial Market Integrity rating.

² 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 2010, in-market respondents gave the Hong Kong market a significantly higher overall Financial Market Integrity rating (3.3) than they did in 2009 (3.0).



The overall rating of 3.3³ for the Hong Kong market in 2010 (see **Figure 2**) was significantly higher than it was in 2009 (3.0).⁴ In fact, every 2010 rating is significantly higher than last year's, showing a meaningful rebound in confidence in the integrity of the Hong Kong market. The overall 2009 rating had dipped from the 2008 rating of 3.2 as a result of the recent global financial crisis.⁵ This improvement in 2010 may reflect general optimism about the Hong Kong authorities' adoption of tighter financial reporting regulations and stricter enforcement against insider-trading infractions.

The ratings concerning the ethical behavior of financial professionals equalled or surpassed levels from two years ago. The overall rating of the ethical behavior of financial professionals fell from 3.4 in 2008 to 3.2 in 2009 but rebounded to 3.5 in 2010.

The overall rating for Hong Kong's capital market systems rose from 3.3 in 2008 to 3.5 in 2010 (after dropping

to 3.2 in 2009), mirroring the positive direction of the overall Hong Kong market score. The scores received by each market system followed a similar pattern, dipping in 2009 and then regaining or improving on their respective 2008 scores.

Respondents point to insider trading and insider dealing as their main concern when asked to comment on worrisome issues in the Hong Kong market. Covering a wide group of professionals—including institutional investors, investment bankers, executive management, and majority shareholders—these comments suggest the use of insider information is a pervasive issue in the Hong Kong market.

Respondents also continue to voice concern about the independence and competence of financial advisers in Hong Kong, with the recent Lehman minibond scandal still clearly affecting some market participants.

Conclusions

- Sentiment in every category rated in this survey showed significant improvement from 2009 to 2010. Ratings generally returned to or surpassed 2008 levels, signaling that most survey participants believe there is general improvement in the behavior of financial professionals and the effectiveness of capital market systems in Hong Kong.
- Based on their perceptions of market ethics and integrity alone, approximately 77 percent of survey respondents in Hong Kong were likely or very likely to recommend investing in Hong Kong markets (66 percent in 2009, 77 percent in 2008).
- All market system categories earned a score of 3.1 or higher. The two lowest-rated systems, with a rating of 3.1, are corporate governance and shareholder rights.
- The overall perception of the ethical behavior of financial professionals improved substantially from the previous year. The highest rankings were earned by mutual fund managers (3.6), buy-side analysts (3.6), and pension fund managers (3.7); financial advisers scored lowest (2.9).
- The comments of survey respondents show the greatest amount of concern about insider trading in the Hong Kong markets, jumping from the sixth most frequently mentioned concern in the 2009 survey to the top concern in 2010.

Sentiment in **every category** rated in this survey **showed significant improvement** from 2009 to 2010.

³ 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 Financial Market Integrity Index rating for this market.

⁴ 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 5 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.

⁵ See the appendix for ratings from 2008 to 2010.

Key Findings

Ethical Behavior of Individuals

The first group of Financial Market Integrity Index questions gauged attitudes concerning the ethical behavior exhibited by various financial professionals—also referred to as “market participants”—in the market over the past year. Overall, the category for “all financial professionals” received an above-average rating of 3.5. This rating is not simply an average of the nine

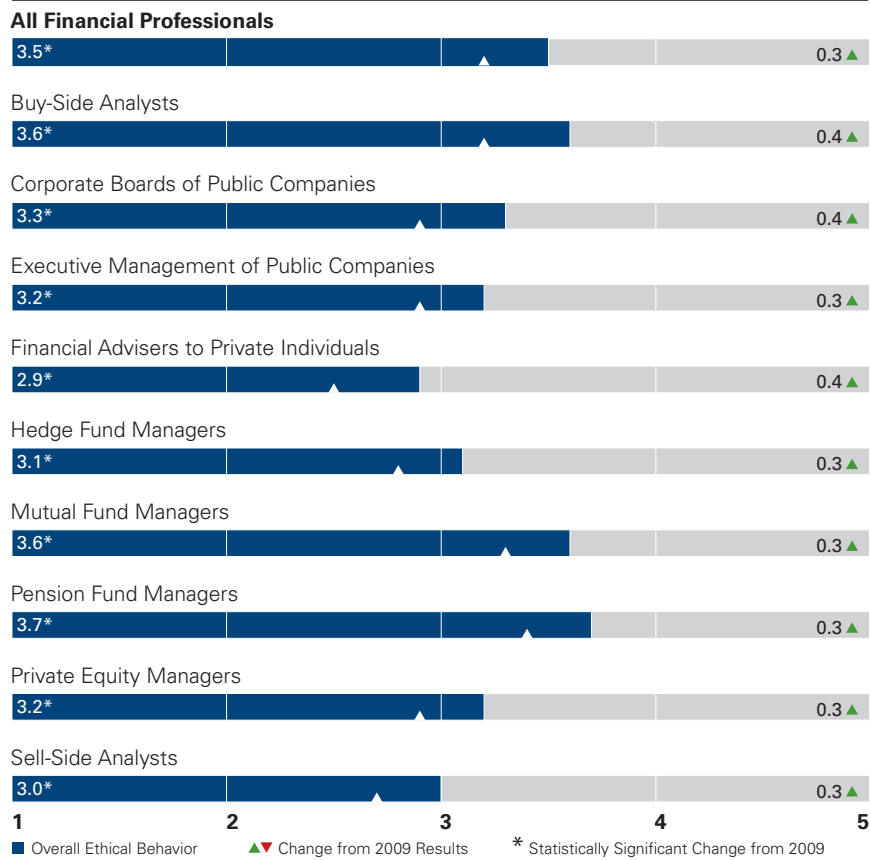
ratings linked to the ethical behavior of specific professions; it is based on a separately asked control question. (The average of the ratings of the nine professions is 3.3.)

Survey respondents rated the overall ethical behavior of financial professionals significantly higher in 2010 (3.5) than in 2009 (3.2). The year-over-year ratings

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.

Ethical Behavior of Individual Market Participants



“
In Hong Kong, many derivatives are packaged to sell to ordinary investors who are not knowledgeable at all.

— Equity Trader
OUTSIDE HONG KONG

”

of all nine professional categories improved significantly as well. The ethical reputation of buy-side analysts, corporate boards, and financial advisers earned the largest improvement in sentiment from 2009 to 2010, with all three of these professional categories rating higher by 0.4. Perceptions of corporate executives, hedge fund managers, mutual fund managers, pension fund managers, private equity managers, and sell-side analysts also

received significantly better marks, each improving 0.3 from 2009.

Of the nine professions listed in **Figure 3**, only the ethical behavior of financial advisers rated below the average score of 3.0, at 2.9. Financial advisers and sell-side analysts received the two lowest ratings of all nine professions in both the 2009 and 2010 surveys.

“
The front-line investment advisers are not providing transparent information and are unable to explain the risk characteristics of products.

— Chief Investment Officer
INSIDE HONG KONG

”

Ethical Behavior of Individuals

(continued)

When asked to provide comments about the ethical behavior of Hong Kong financial professionals, survey respondents most often singled out financial advisers as cause for concern.

This result is consistent with financial advisers receiving the lowest rating of all nine professional categories. Some of this distrust stems from fallout

from the unsettled Lehman minibond incident, in which many banks sold the Lehman minibonds to retail investors before the financial crisis and promised a guaranteed return. Overall, concerns about advisers generally focus on conflicts of interest, poor transparency of product structures, and the suitability of investment advice given by advisers.

“
Insider trading [and] illegal information brokering are my main concerns.

— Senior Manager
INSIDE HONG KONG

”

“

The outcry against outlawing insider trading speaks volumes about this market.

— Chief Executive Officer
OUTSIDE HONG KONG

”

Survey respondents’ comments also reflected serious concern about insider trading/insider information, with the issue jumping from the sixth- to the top-ranked subject of concern. This change may reflect recent high-profile prosecutions of insider trading by the Hong Kong regulatory authorities,

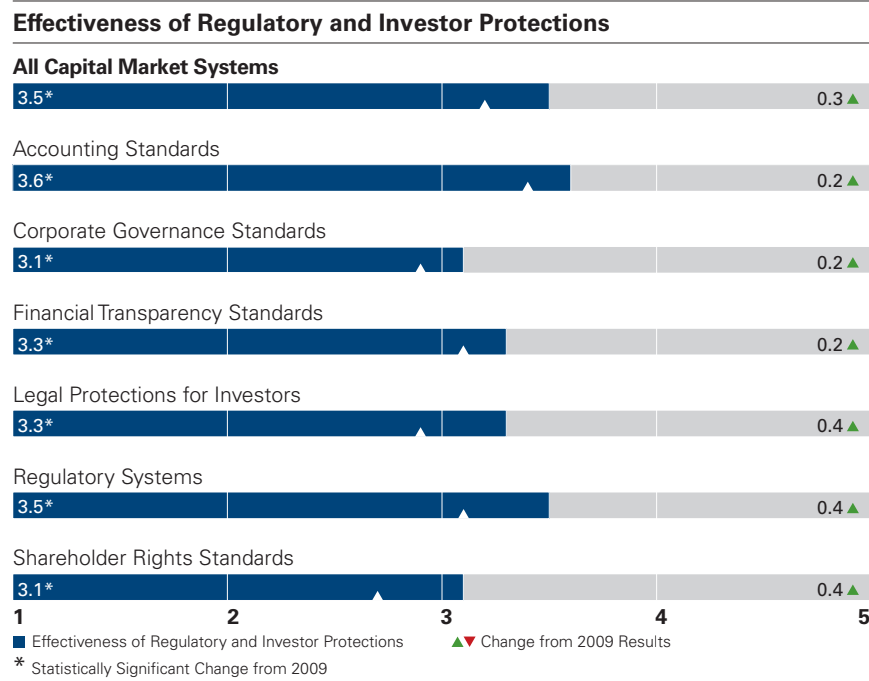
including prosecutions resulting in jail time for the guilty parties. We would expect the level of concern to decrease next year if survey respondents think that authorities have adequately addressed the problem of insider trading in Hong Kong.

Effectiveness of Regulatory and Investor Protections

The second group of Financial Market Integrity Index questions asked respondents to rate the effectiveness of regulatory and investor protections in the market (referred to as “market systems”) over the past year. In the control question, respondents gave a 3.5 rating to “all capital market systems,” which was higher than the average rating of 3.3 earned by the group. In 2009, this control question earned a rating of 3.2 and the average

of all the market systems ratings was 3.0 (see **Figure 4**). This control question rating has been higher than the average rating of the six individual market system ratings every year we have conducted this survey in Hong Kong. This finding tells us that survey respondents are generally satisfied with current regulatory and investor protections in Hong Kong but may be less satisfied with certain aspects of these systems.

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.



“

[My main concern is] management only representing major shareholder interests.

— Vice President
INSIDE HONG KONG

”

The ratings for each of the individual systems that contribute to the effectiveness of regulatory and investor protections in Hong Kong improved significantly from 2009 to 2010.

Regulatory systems (3.5), legal protections (3.3), and shareholder rights (3.1) improved the most, moving higher by 0.4. Accounting standards earned a 3.6 rating but, year over year, moved up less than regulatory systems, having earned a 3.4 in the prior year.

Corporate governance standards and shareholder rights appear to raise the most concerns in the minds of survey participants—both received the lowest score (3.1) given to the individual market systems.

With an overall Financial Market Integrity rating of 3.3 and an overall capital market systems rating of 3.5, confidence in the integrity of the Hong Kong financial markets is relatively

“

Transparency seems [to be] going away from, instead of coming closer to, individual investors.

— Head of Client Trading
OUTSIDE HONG KONG

”

Effectiveness of Regulatory and Investor Protections

(continued)

high. Sentiment has become more positive in the current year as evidenced by the fact that regulation and regulatory systems moved from being the second most frequently named concern in 2009 to the sixth in 2010.

Survey comments reflect concern about the state of shareholder rights, transparency, and corporate governance in the Hong Kong market. The first two issues received 29 comments each from survey respondents,

tying as the third most frequently mentioned issue overall. Corporate governance, which received 23 comments from respondents, followed closely on the heels of shareholder rights and transparency as a perceived weakness in the Hong Kong market that remains to be addressed.

Several survey respondents noted that their opinion of the overall integrity of the Hong Kong market is good, reflecting its overall Financial Market Integrity

“
Enforcement has improved in the past few years with the criminalization of insider trading and several successful prosecutions for various types of market misconduct.

— Asia Top Editor
INSIDE HONG KONG

”

“
Hong Kong has been able to maintain high standards of market integrity as reflected in the low number of incidents related to corrupt corporate practices in the market.

— Senior Equity Analyst
OUTSIDE HONG KONG

”

Index rating of 3.3. In general, this view appears to reflect an improvement in regulatory enforcement, which would be consistent with a lower level of expressed concern, year over year, about the regulatory systems and regulation in Hong Kong.

Respondents also were asked two subquestions about capital market systems to further illuminate some of the reasoning behind the individual scores given to the various market system components. These subquestions, however, 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 implemented correctly, would those market systems offer a solid framework for investor rights. Respondents rated these regulations and policies an average rating of 3.1 this year (this rating was 3.0 in 2009).

The second subquestion focused on the effectiveness of implementation or enforcement of such regulations and policies. Respondent sentiment about regulatory enforcement in Hong Kong has improved over the last year, as this score rose to 3.0 in 2010 from a rating of 2.7 in last year's survey.

Willingness to Invest in Hong Kong

In this section of the survey, respondents were asked the likelihood that they would recommend investing in the Hong Kong market to a client, friend, or family member. The recommendation was to be based solely on their perceptions of the ethical behavior of market participants and of the effectiveness of capital market systems.

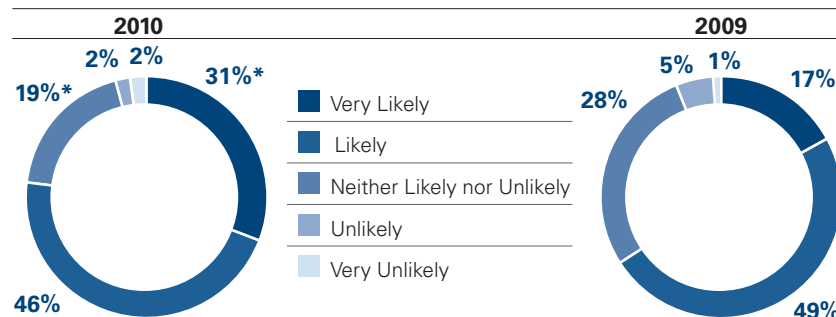
approximately 77 percent of respondents in Hong Kong stated this year that they were likely or very likely to recommend investing in Hong Kong based on the integrity of market participants and the effectiveness of market protections (see **Figure 5**). In 2009, this number was 66 percent, and in 2008, it was 77 percent.

Whereas this year's survey occurred during the global capital markets

Those outside Hong Kong are not as confident about the state of Hong

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 2009

recovery, the 2009 Financial Market Integrity survey was conducted in February and March 2009, at the height of fear about the global financial crisis. It is hardly surprising, then, that survey respondents' willingness to invest in Hong Kong has improved over the past year, with investor confidence returning nearly to 2008 levels. Indeed,

Kong market integrity. Only about 55 percent of respondents outside Hong Kong said they were likely or very likely to recommend investing in the Hong Kong market based on the same criteria. This number represents a substantial improvement from the 37 percent outside Hong Kong who were likely or very likely to recommend investing in Hong

Kong last year and just edges out the 54 percent level seen in the 2008 survey.

The percentage of in-market respondents who said they were unlikely or very unlikely to recommend investing in Hong Kong changed only slightly, dropping from 6 percent in 2009 to about 4 percent in 2010. The sentiment regarding an “unwillingness” to invest in Hong Kong on the part of out-of-market respondents held steady in both years at 8 percent.

Based on the answers to this question and the results we have observed elsewhere in this survey, it appears that the sentiment concerning the integrity of the Hong Kong market has returned to the point it was two years ago before the global financial crisis unfolded. In fact, the recent steps taken to address regulatory system controls in Hong Kong appear to have been a factor in the Hong Kong market earning a significantly higher overall rating than in 2009. However, a couple of ratings regarding the ethical behavior of financial professionals—in particular, sell-side analysts and financial advisers—remain at or below 3.0, or merely “somewhat ethical,” reflecting survey respondents’ views that further improvement is needed from both sets of professionals.

Other Key Survey Considerations

In-Market vs. Out-of-Market Perceptions

For purposes of this Financial Market Integrity Index, charterholders from other markets around the world 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.)

In 2010, those in Hong Kong tended to rate the integrity of individual market participants and individual capital systems higher than did respondents from outside Hong Kong, as shown in **Figure 6** and **Figure 7**.

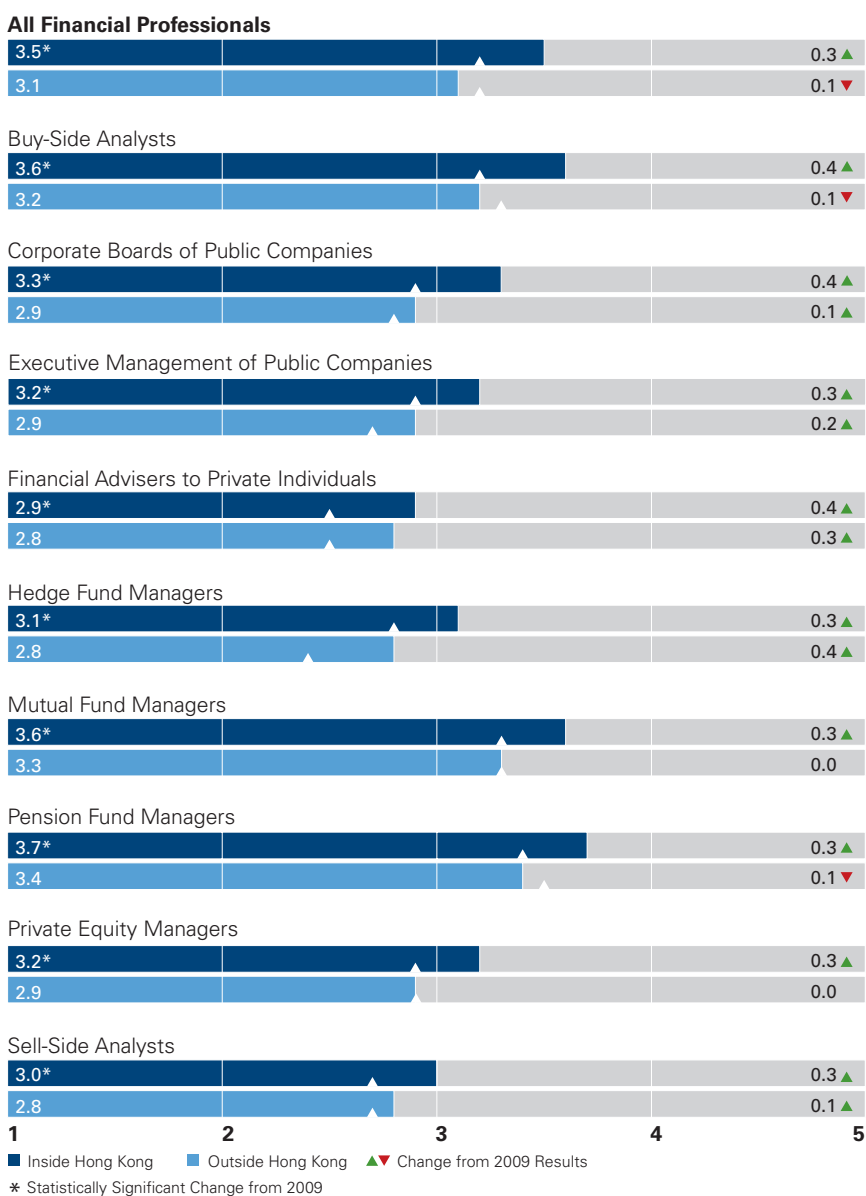
The biggest differences in the perception of those inside the Hong Kong market versus those outside the market are in the ratings regarding the ethical behavior of buy-side analysts and corporate boards (0.4 difference in each case).

For the third year in a row, survey respondents from outside Hong Kong rated market systems slightly lower than did respondents who work and live in the market. Sentiment concerning accounting standards and regulatory systems—the two highest-rated systems by those in Hong Kong—showed the biggest divergence in opinion between the two groups at 0.3. In 2009, the divergence of opinion was even larger in terms of accounting standards (0.5), with the gap closing in 2010 because of a more positive sentiment on the part of out-of-market respondents. The in-market and out-of-market groups were also in agreement as to the lowest-rated systems—corporate governance standards and shareholder rights standards.

Figure 6 demonstrates that confidence in the integrity of Hong Kong financial professionals by those outside Hong Kong increased or stayed the same

Ethical Behavior of Individual Market Participants

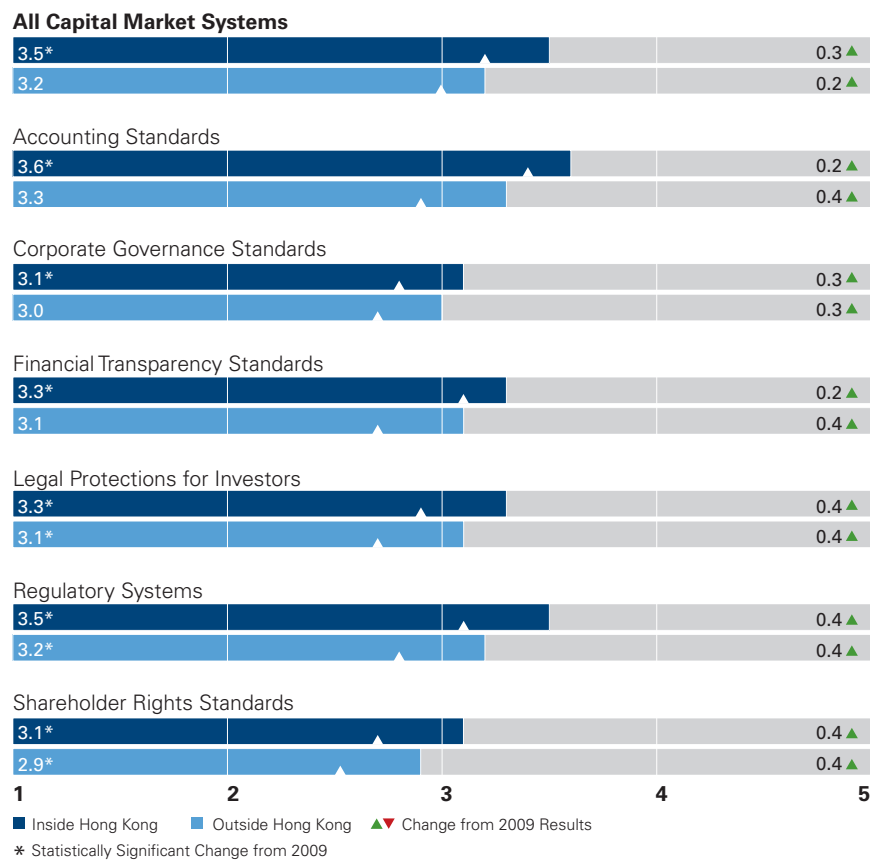
Figure 6



In-Market vs. Out-of-Market Perceptions

(continued)

Figure 7 Effectiveness of Regulatory and Investor Protections



in every category except for buy-side analysts and pension fund managers (for which the drop in ratings was not seen as statistically significant), even though the overall rating for all financial professionals decreased slightly year over year. Improvement was most pronounced in the perception of hedge fund managers, although confidence in these professionals still was below the average rating of 3.0.

Figure 7 shows that market systems in Hong Kong earned back some trust from those outside the Hong Kong market over the past year. The individual categories showed greater relative improvement than the overall category, which was up 0.2 from 3.0 in 2009 to 3.2 in 2010. All of the six categories were rated below the average rating of 3.0 in 2009, so the improvement from 2009 to 2010 is coming from a relatively low base score.

Comments of Survey Respondents

Comments were offered by 250 respondents 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 for additional issues of concern and for any other comments.

More than 300 substantive comments were received; those responding with “no answer” or “nothing to add” 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 8**. In instances in which an individual raised more than one concern, each separate concern was identified and counted.

Figure 8

Survey respondents commented most about insider trading, financial advisers, shareholder rights, and transparency.

Issues Raised Most Frequently

Insider Trading/Insider Dealing	37 comments (23 inside Hong Kong/14 outside Hong Kong)
Financial Advisers	33 comments (24 inside Hong Kong/9 outside Hong Kong)
Shareholder Rights	29 comments (19 inside Hong Kong/10 outside Hong Kong)
Transparency	29 comments (18 inside Hong Kong/11 outside Hong Kong)
Corporate Governance	23 comments (13 inside Hong Kong/10 outside Hong Kong)
Regulation/Regulatory Systems	18 comments (13 inside Hong Kong/5 outside Hong Kong)

Insider Trading

Insider information and insider trading was the sixth most mentioned concern expressed by respondents in 2009. This concern moved to the top in 2010, with respondents pointing to

“
The insider trading of executives of the public companies should be more effectively spotted and regulated.

— Senior Manager
OUTSIDE HONG KONG

”

“
Privileged information usually available to... institutional players or hedge funds [is a problem].

— Chief Executive Officer
INSIDE HONG KONG

”

insider trading and insider dealing on proprietary information on the part of institutional investors, investment bankers, executive management, and majority shareholders.

Comments of Survey Respondents

(continued)

Advisers

Financial advisers received the next-highest number of comments, reflecting their score of 2.9, the lowest score of all nine professional categories. Those who showed concern about the ethical behavior of financial advisers noted potential conflicts of interest, adviser incentive structures, and a lack of investment knowledge.

“
I think professionalism and ethical conduct could be brought up to a higher standard because I do feel that individual advisers are not living up to the expected standard.

— Senior Finance Manager
INSIDE HONG KONG

“
Financial advisers often failed to explain complex financial products to unsophisticated investors properly. Perhaps they themselves did not properly understand the products they were selling.

— Associate Professor
INSIDE HONG KONG

Shareholder Rights

Shareholder rights dropped from the issue of most concern among survey respondents in 2009 to third in 2010. The majority of comments focused on the lack of protection for the rights of minority shareholders and the conflicts of interest that arise between minority and majority shareholders.

“
It seems like the government is reactive rather than proactive. Minority shareholders are disadvantaged by manipulation by majority shareholders.

— Broker
INSIDE HONG KONG

”

“
In listed companies, the big shareholders or institutions usually grab the extra profit or benefit by sacrificing the benefit of small shareholders as the cost.

— Equity Analyst
OUTSIDE HONG KONG

”

Comments of Survey Respondents

(continued)

Transparency

Transparency garnered 29 comments in the current year compared with 18 comments in the prior year. A lack of transparency in terms of financial,

product, and risk information was specifically named by respondents as a concern for the efficacy of the Hong Kong market.

“

The HK markets have long been characterized by poor retail investor protections, especially on risk disclosure and retail marketing of complex investments. A CFA charterholder with advanced option analysis software would be hard pressed to understand the risks/payoffs of most of the products sold to retail investors (mom and pop!) under the guise of enhanced yield. It is shocking that the HK regulators allow such products to be sold to unsophisticated investors by unsophisticated advisers simply on the basis of expected yield.

— Director
OUTSIDE HONG KONG

”

Corporate Governance

Corporate governance emerged as one of the top issues for respondents in 2010. The concern was shared almost equally by those inside and outside the Hong Kong market; of the 23 comments received on this topic, 13 were from in-market respondents and 10 were from out-of-market respondents.

“
The market is generally efficient. However, individual investors should pay attention to the corporate governance of some of the companies.

— Finance Manager
INSIDE HONG KONG

”

“
From “policies” to “effectiveness,” there is a long way to go.

— Manager
INSIDE HONG KONG

”

Regulation

Regulation and regulatory systems was again a topic of concern for survey respondents, but it was less so in 2010 than in 2009, when it ranked second in the number of comments received. In the past year, progress has been made in addressing the weaknesses in the regulatory system through the institution of new reporting requirements for fair value measurement and liquidity risk as well as in enforcing and

punishing insider trading. In addition, the Hong Kong Monetary Authority has announced that elements of the Basel Committee on Banking Supervision’s capital reform program will be implemented in 2010. All of these developments may be contributing to the more positive sentiment regarding the Hong Kong regulatory environment, although survey respondents still note that improvement is needed.

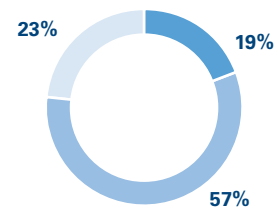
Demographics

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

Overview of Out-of-Market Respondents

Market

- **19%** Americas
- **57%** Asia Pacific
- **23%** Europe/Middle East/Africa

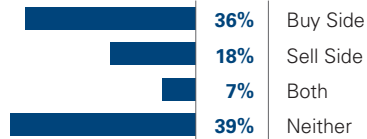


Respondent Profiles for Hong Kong Market

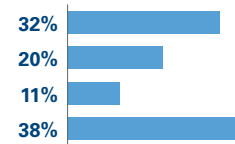
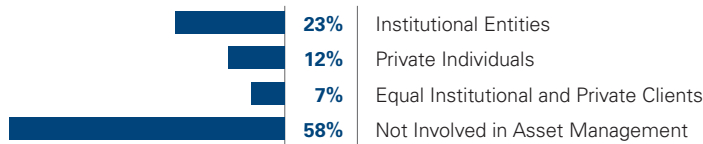
In Market (287 respondents)

Out of Market (261 respondents)

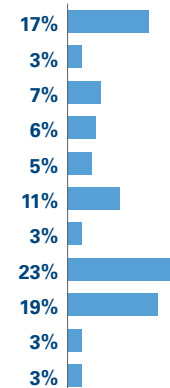
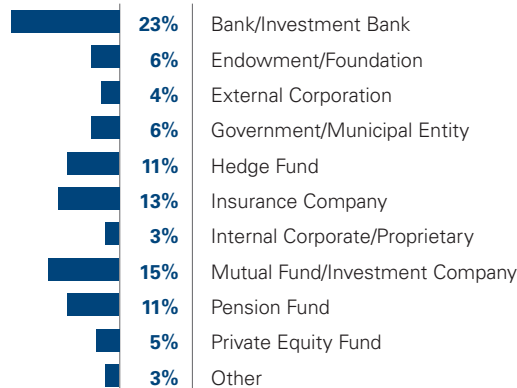
Buy/Sell Side



Client Asset Base



Institutional Asset Client Type



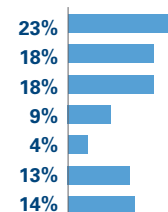
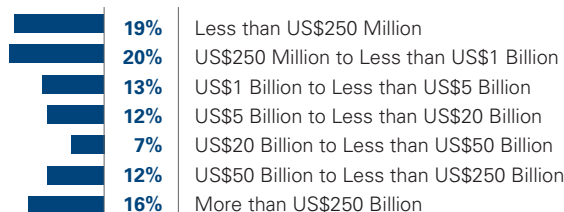
These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category.

Respondent Profiles for Hong Kong Market (continued)

In Market (310 respondents)

Out of Market (474 respondents)

Assets Under Management

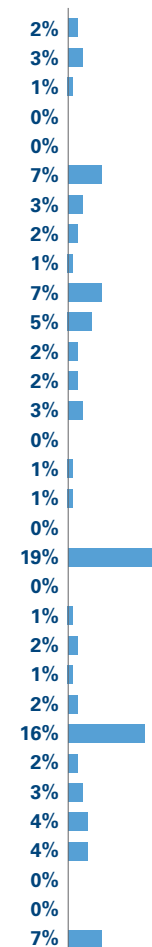


These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category.

Years in the Investment Industry



Primary Job Function



NOTE: Percentages may not total 100 percent because of rounding.

Appendix

Results from 2008 to 2010

	In Market			Out of Market		
	2010	2009	2008	2010	2009	2008
	A	B	C	D	E	F
Overall Rating	3.3 B	3.0	3.2 B	3.1	2.9	3.1
All Financial Professionals	3.5 B	3.2	3.4 B	3.1	3.2	3.2
Buy-Side Analysts	3.6 B	3.2	3.4 B	3.2	3.3	3.5
Corporate Boards of Public Companies	3.3 B	2.9	3.1 B	2.9	2.8	3.0
Executive Management of Public Companies	3.2 B	2.9	3.2 B	2.9	2.7	2.9
Financial Advisers to Private Individuals	2.9 B	2.5	2.8 B	2.8	2.5	2.9
Hedge Fund Managers	3.1 BC	2.8	2.9 B	2.8	2.4	2.6
Mutual Fund Managers	3.6 B	3.3	3.6 B	3.3	3.3	3.3
Pension Fund Managers	3.7 BC	3.4	3.6 B	3.4	3.5	3.7
Private Equity Managers	3.2 BC	2.9	3.0	2.9	2.9	2.8
Sell-Side Analysts	3.0 B	2.7	2.9 B	2.8	2.7	3.0
All Capital Market Systems	3.5 BC	3.2	3.3	3.2	3.0	3.2
Accounting Standards	3.6 B	3.4	3.5	3.3 E	2.9	3.4
Corporate Governance Standards	3.1 BC	2.9	3.0	3.0	2.7	2.8
Financial Transparency Standards	3.3 B	3.1	3.2 B	3.1 E	2.7	3.0
Legal Protections for Investors	3.3 BC	2.9	3.0	3.1 E	2.7	3.0
Regulatory Systems	3.5 BC	3.1	3.3 B	3.2 E	2.8	3.1
Shareholder Rights Standards	3.1 B	2.7	2.9 B	2.9 E	2.5	2.7

NOTE: Column letters are used to denote significant year-to-year differences at the 95 percent confidence level. For example, a letter "B" next to a rating in column "A" means that the rating in column A is statistically significantly higher than the rating in column B at a 95 percent confidence level.

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

	In Market			Out of Market		
	2010	2009	2008	2010	2009	2008
Number of Respondents	287	282	361	261	51	44
	A	B	C	D	E	F
Very Unlikely	2%	1%	1%	3%	2%	0%
Unlikely	2%	5%	3%	5%	6%	5%
Neither Likely nor Unlikely	19%	28% AC	19%	38%	55% D	41%
Likely	46%	49%	53%	37%	31%	37%
Very Likely	31% BC	17%	24% B	18% E	6%	17%

NOTE: Percentages may not total 100 percent because of rounding.

NOTE: Column letters are used to denote significant year-to-year differences at the 95 percent confidence level. For example, a letter “B” next to a rating in column “A” means that the rating in column A is statistically significantly higher than the rating in column B at a 95 percent confidence level.

Financial Market Integrity Index Report Staff

Kurt N. Schacht, JD, CFA

Managing Director, Standards and Financial Market Integrity

Charles Cronin, CFA

Head, Standards and Financial Market Integrity,
Europe, Middle East, Africa Region

Lee Kha Loon, CFA

Head, Standards and Financial Market Integrity,
Asia-Pacific Region

James C. Allen, CFA

Head, Capital Markets Policy Group

Matthew Orsagh, CFA, CIPM

Director, Capital Markets Policy

www.cfainstitute.org

For More Information

Media may contact:

United States Kathy Valentine, +1 (434) 227-2177

United Kingdom Steve Wellard, +44 (0) 20-7531-0755

Hong Kong Terry Lee, +852 3103-9383

The Americas

560 Ray C. Hunt Drive
P.O. Box 3668
Charlottesville, VA 22903-0668
USA

Phone: +1 (434) 951-5499
USA and Canada: (800) 247-8132
Fax: +1 (434) 951-5262
E-mail: info@cfainstitute.org

477 Madison Avenue
21st Floor
New York, NY 10022-5802
USA

Asia-Pacific

Suite 4905-08
One Exchange Square
8 Connaught Place, Central
Hong Kong SAR

Phone: +852 2868-2700
Info Hotline: +852 8228-8820
Fax: +852 2868-9912
E-mail: info@cfainstitute.org

Europe

10th Floor
One Canada Square
Canary Wharf
London E14 5AB
United Kingdom

Phone: +44 (0) 20-7531-0751
Fax: +44 (0) 20-7531-0767
E-mail: info@cfainstitute.org

Square de Meeûs 38/40
1000 Brussels
Belgium

www.cfainstitute.org



9780938367307

90000