

REGULATORY NEWSLETTER

2022 Vol.6



Entering June, sunshine and blue sky are returning to our land, resembling a new start as the gloom of Covid-19 seems to fade away in the city. The collective resilience and diligence of this city have brought us one step closer to health and prospect. Rain or shine, ComplianceDirect has never ceased to endeavor to provide you with our best consultation and compliance advice as well as our professional service. We will continue to help you thrive for excellence while the city is embracing a new beginning.

REGULATORY UPDATES

Circular to Intermediaries

Frequently Asked Questions (FAQs) on (i) the Code of Conduct on Bookbuilding and Placing Activities in Equity Capital Market and Debt Capital Market Transactions and (ii) "Sponsor Coupling"

6 May 2022

The conduct requirements for (i) bookbuilding and placing activities in equity capital market and debt capital market transactions and (ii) "sponsor coupling" as stipulated in paragraph 21 and 17.1A of the Code of Conduct¹, respectively, will become effective on 5 August 2022.

In view of a number of questions raised by financial institutions and industry associations, the SFC has issued [FAQs](#) today to provide further guidance and clarifications to facilitate an effective implementation of policies, procedures, and controls for market participants to comply with the relevant requirements.

[View Circular](#)

Circular to Licensed Corporations which are Participants of The Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited

Licence Holders Insurance Scheme for Exchange Participants

31 May 2022

This circular sets out the arrangements of the license holders insurance scheme applicable to the following categories of licensed corporations for the scheme year from 1 April 2022 to 31 March 2023 (both dates inclusive): -

Category 1: Participants of The Stock Exchange of Hong Kong Limited and licensed for Type 1 regulated activity (i.e., dealing in securities);

Category 2: Participants of Hong Kong Futures Exchange Limited and licensed for Type 2 regulated activity (i.e., dealing in futures contracts).

The Insurance Requirements

Under the Securities and Futures Ordinance, corporations that are licensed to carry on certain regulated activities are required, as a condition of their licenses, to take out and maintain insurance in the manner prescribed by the Securities and Futures (Insurance) Rules (Rules).

The Rules provide, amongst other things, that the licensed corporations in the above categories must take out and maintain insurance in relation to specified risks, for not less than an amount specified in the Rules, when the SFC has approved a master policy of insurance applicable to them.

[View Circular](#)

ENFORCEMENT NEWS

Court orders Pyramid and Ponzi scheme fraudsters to compensate investors

16 May 2022

The Court of First Instance has granted orders sought by the Securities and Futures Commission (SFC) against fraudsters of a global Pyramid and Ponzi scheme to compensate victims following legal proceedings under section 213 of the Securities and Futures Ordinance (SFO).

The scheme was operated by DFRF Enterprises LLC and DFRF Enterprises, LLC (collectively, DFRF) and their founder, Mr. Daniel Fernandes Rojo Filho, between 2014 and 2015.

Under the scheme, DFRF and Filho falsely claimed that DFRF, whose main business was gold mining operations, would soon be listed in the US and persuaded a number of Hong Kong investors to acquire "membership units" of its membership program for a monthly return. Around May 2015, they falsely claimed that DFRF had been listed in the US and offered investors the option to convert their "membership units" into preferred shares of DFRF at a certain price.

In December 2016 and March 2017, the SFC obtained interim injunctions to freeze assets in the two bank accounts that received monies from investors for the purpose of acquiring “membership units” and converting them into preferred shares.

The Court has appointed administrators to receive and distribute the proceeds of the scheme remaining in the two bank accounts – approximately totaling \$2.8 million – for the benefit of the investors on a pro rata basis.

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SFC bans Ho Pak Hay for life

19 May 2022

The Securities and Futures Commission (SFC) has banned Mr. Ho Pak Hay, a former licensed representative of KGI Asia Limited (KGI) and KGI Futures (Hong Kong) Limited (KGI Futures), from re-entering the industry for life.

The disciplinary action follows an SFC investigation which found that Ho had misappropriated and misused funds totaling \$1.8 million received from three KGI’s clients between February 2018 and July 2019 after he privately agreed to make investments for them.

However, instead of making investments for them with the funds as agreed, Ho had spent a portion of the funds on gambling. The investigation also revealed that Ho had issued eight dishonored cheques purportedly to repay the funds owed to one of the three clients around August 2018 to April 2019.

The SFC considers that Ho is not a fit and proper person to be licensed as Ho’s conduct casts serious doubts on his integrity and reliability, and his ability to carry on regulated activities honestly. Having considered all the circumstances, the SFC has decided that a life ban on Ho is appropriate and commensurate with the gravity of his conduct.

[A copy of the Statement of Disciplinary Action is available on the SFC website](#)

[View News](#)



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