
REGULATORY NEWSLETTER

2020 Vol. 6



REGULATORY UPDATES

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

7 May 2020

This circular sets out the arrangements of the licence holders insurance scheme applicable to Participants of The Stock Exchange of Hong Kong Limited and licensed for Type 1 regulated activity and/or Participants of Hong Kong Futures Exchange Limited and licensed for Type 2 regulated activity (collectively "Corporations") from 1 April 2020 to 31 March 2021.

Insurance requirements

According to the Securities and Futures (Insurance) Rules (Cap. 571AI), Corporations are required as a condition of their licenses to take out and maintain insurance in the manner prescribed.

Arrangement of the scheme and approval of master policies of insurance

An Industry Working Group ("IWG") was formed by representatives of various brokers' associations and brokerage houses to arrange an appropriate insurance scheme. Jardine Lloyd Thomas Limited ("JLT") as the insurance broker and scheme administrator for the scheme year 2020/2021 arranged two master policies of insurance covering respectively the Corporations.

According to each master policy of insurance, insured participant will be indemnified for financial losses due to fidelity risks relating to its activities of dealing in securities, futures contracts or both, subject to an indemnity limit of \$15 million per regulated activity per year and a deductible amount of \$3 million per claim or loss.

Premium allocation

For Basic premium and variable premium, insured participants are required to pay minimum basic premium and variable premium.

Minimum basic premium (20% of the gross premium quoted for each Corporations) is the administration cost that insurers accord to the scheme. Variable premium (the remaining 80% of the gross premium) will be allocated based on the annual turnover of individual participants during the previous calendar year as a proportion of the total turnover of all participants under the same licensed regulated activities conducted, subject to adjustments for any premium loading and/or discount (mentioned below) where applicable.

As a fixed premium loading, the IWG approved a fixed premium loading of \$15,000 for each claim notification lodged.

For more details of the premium loading, please refer to the circular published by the SFC below.

[View Circular](#)

Concurrent SFC-HKMA thematic review of spread charges and other practices

18 May 2020

The SFC and HKMA will commence a concurrent thematic review to assess intermediaries' spread charges and other practices as well as their compliance with requirements governing the disclosure of trading capacity and monetary benefits under the Code of Conduct. The review will cover policies, procedures, systems, controls on the selected intermediaries and aims to ascertain whether clients are being expose to any excessed spreads or charges.

According to the Code of Conduct, intermediaries should act honestly, fairly, and with due skill, care and diligence in the best interests of their clients; make adequate disclosure of relevant material information in their dealings with their clients; and avoid conflicts of interest, and when they cannot be avoided, ensure that their clients are treated fairly.

To comply with these requirements, intermediaries are expected to:

- have in place appropriate policies, systems, controls and management supervision over order handling and spread charges;
- properly disclose price, fees, monetary benefits received and trading capacity to clients; and
- maintain adequate records (e.g. telephone recordings) to ensure compliance with internal policies and procedures as well as with regulatory requirements and to enable reviews or investigations

[View Circular](#)

ENFORCEMENT NEWS

SFC reprimands and fines Convoy Asset Management Limited \$6.4 million for regulatory breaches over bond recommendation

The SFC found Convoy Asset Management Limited ("Convoy") referred clients to third party platform to execute 30 transaction of bonds listed under Chapter 37 of the Main Board Listing Rules and some of which involved solicitation or recommendation made to clients.

Convoy failed to:

- put in place an effective system to ensure product suitability
- conduct proper product due diligence on the bonds
- have proper documentation to record the investment advice or recommendation given to clients
- have adequate and effective internal control in place

SFC bans Kwok Chau Mo from re-entering the industry for nine months

The SFC found Kwok Chau Mo ("Kwok") breached the trading policies of Guosen Securities (HK) Asset Management Company Limited ("GSHKAM") during his employment in GSHKAM.

During SFC investigation, it was found that Kwok traded through the securities trading accounts held by a friend and external brokerage firm.

According to the Trading Policies of GSHKAM, employees are required to seek prior approval from line managers and/or Legal and Compliance Department before conducting personal trades and opening any securities trading accounts at external brokerage firms.

Kwok failed to disclose his beneficial interests in and/or direct control or influence over two securities trading accounts held by a friend and an acquaintance at an external brokerage firm, and his trading activities in them.

[View News](#)

[View News](#)



ComplianceDirect Consulting Limited

Address: Unit A, 21/F, Wing Hang Insurance Building, 11 Wing Kut Street, Central, Hong Kong

Phone: 2606 1800

Website: www.compliancedirecthk.com
