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# REGULATORY NEWSLETTER

2020 Vol.10



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“陰晴圓缺都休說 且喜人間好時節”

As ancient Chinese says, set aside all ups and downs, lay back and enjoy the long festive holiday. ComplianceDirect and our valued clients are together stepping into an autumny October, let's get wind of the news flash from the SFC, take a fall break and grind for a fruitful last quarter.

May the Moon be with you, fully and brightly shining your way.

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## REGULATORY UPDATES

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### **Frequently Asked Questions on Corporate Professional Investor Assessment**

**8 September 2020**

Under paragraph 15 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“Code of conduct”), an intermediary is required to, among other things, assess whether a Corporate Professional Investor meets certain criteria before the intermediary can be exempted from certain Code of Conduct requirements when dealing with the Corporate Professional Investor in relation to relevant products or markets. In January 2015, the SFC issued a set of Frequently Asked Questions (“FAQs”) to provide practical guidance on how intermediaries should conduct such an assessment.

In light of queries from the industry, the SFC has updated the answer to Question 2 of the abovementioned set of FAQs to provide further guidance on the assessment of the corporate structure and investment process of Corporate Professional Investors, in particular those investment vehicles owned by family trusts or family offices that engage investment professionals to manage their investments.

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## Circular to licensed corporations Review of internet trading cybersecurity

23 September 2020

The SFC recently conducted a thematic review of selected internet brokers which provide online trading services to assess their compliance to the Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading ("Cybersecurity Guidelines") and other cybersecurity requirements of a general nature included in the Code of Conduct. A report on the thematic review found that most of the surveyed brokers were in compliance with the SFC's key regulatory requirements.

The report summarises the key findings and observations and provide guidance on the SFC's expected standards. It highlights deficiencies and instances of non-compliance in areas such as Two-Factor Authentication, data encryption, session timeout and monitoring and surveillance to identify requirements and good practices adopted by these brokers. The report also includes reminders of other requirements and good practices adopted by these brokers.

In conjunction with the above, the circular elaborates on the regulatory expectations set out in the Cybersecurity Guidelines that came into effect in July 2018. In addition, given that some vulnerabilities which are unique to mobile trading applications have not been covered in the Cybersecurity Guidelines, the circular also provides guidance on specific system security controls which internet brokers should employ for mobile trading applications as required under the Code of Conduct.

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## ENFORCEMENT NEWS

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### Former licensee convicted of providing false or misleading information to SFC

The Eastern Magistrates' Court today convicted Mr. Lau Tin Yau ("Lau") in a prosecution brought by the SFC for offences under the SFO that arose from his licence applications to the SFC. Lau, who pleaded guilty to all the charges against him, was fined \$36,000 and ordered to pay the SFC's investigation costs.

The SFC told the Court that Lau failed to disclose in two licence applications to the SFC in August 2017 that he was a subject of investigations by other regulatory or criminal investigation bodies. Lau also failed to report to the SFC within seven business days of the occurrence of events related to criminal and disciplinary proceedings against him.

The SFC expects applicants and licensees to make

### SFC commences proceedings against Tianhe Chemicals Group Limited and its executive director for defective prospectus and to seek compensation orders for investors

The SFC has commenced proceedings in the Market Misconduct Tribunal against Tianhe Chemicals Group Limited ("Tianhe") and its executive director, Mr. Wei Xuan, for allegedly issuing Tianhe's listing prospectus in which the company's revenue was overstated by over RMB6.7 billion.

The SFC's investigation also revealed that about 53% of Tianhe's total track record revenue of RMB12.6 billion disclosed in the prospectus was overstated. This is due to Tianhe's prospectus containing materially false or misleading information regarding its sales revenue and profits for its track record period for the financial years from 2011 to 2013.

The SFC is seeking orders from the Court of First

complete, true and correct disclosure of all information submitted and make timely reports if there are any changes. Failure to do so may affect their fitness and properness to be licensed or remain to be licensed.

Instance under Section 213 of the SFO to restore all public shareholders of the company to the position before their subscriptions or purchases of Tianhe's shares.

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