REGULATORY NEWSLETTER

COMPLIANCEDIRECT

2025 Vol.6

June, summer begins spreading around the globe despite the dynamics of the market. A perfect timing to act with determination and resistance as we believe the world will have prosperity in future. As always, we would endeavor to provide you our professional consultation and compliance services.

Let's have a brief look with our Regulatory Updates from the SFC!

REGULATORY UPDATES

Circular to Licensed Corporations Revised financial return form

2 May 2025

The Securities and Futures Commission (SFC) today published a revised version of the financial return form which is required to be submitted by licensed corporations under section 56 of the Securities and Futures (Financial Resources) Rules. The main changes to the form relate to the collection of hedge fund data from asset managers semi-annually. More detailed data are required from managers headquartered in Hong Kong and responsible for overall operation of hedge fund portfolios with a net asset value of at least USD 500 million.

Financial return form

A Gazette notice (see Annex) was published today to specify that, with effect from 1 July 2025, the electronic version of the revised financial return form shall be used for submitting a return in respect of any period ending on or after 23 June 2025 and it supersedes the electronic form in the notice gazetted on 23 August 2024 (G.N. 4894).

The electronic version of the revised form is available on the SFC website: https://www.sfc.hk/en/Forms/Intermediaries/Financial-returns

Should you have any questions regarding the contents of this circular, please contact the case officers in charge.

View Circular

Mutual Recognition of Funds (MRF) between Ireland and Hong Kong

14 May 2025

The **Securities and Futures Commission (SFC)** and the **Central Bank of Ireland (CBI)** first signed a memorandum of understanding (MoU) on **5 November 1997**, pledging cooperation in overseeing cross-border investment management activities. A new MoU, signed on **14 May 2025**, builds on this collaboration by focusing on mutual recognition of **covered funds** and **management companies**, aiming to strengthen cooperation for:

1. **Collective investment schemes** domiciled in Hong Kong or Ireland and offered to the public in both jurisdictions.
2. **Management companies** of these schemes operating in either jurisdiction.

In this context, an **Irish Covered Fund** refers to an Irish fund eligible for or authorized under the **MRF framework** by the SFC, while an **Irish Covered Management Company** is one authorised to manage such funds.

General Principles of the MRF

The MRF operates on specific principles for Irish Covered Funds authorised by the CBI and seeking SFC authorisation for public offering in Hong Kong:

a. Funds must meet eligibility and compliance requirements outlined in the circular
b. Funds must remain authorised by the CBI and continue to be offered to retail investors in Ireland.
c. Operations must comply with Irish laws, regulations, and constitutive documents.
d. Sales and distribution in Hong Kong must meet local regulatory standards.
e. Funds must adhere to additional SFC rules for authorisation, compliance, and distribution.
f. Fair treatment must be ensured for investors in both jurisdictions, including protections, rights, compensation, and disclosures.
g. Disclosures must be made simultaneously in both jurisdictions, considering time zone differences.

Eligibility and Fund Types

Funds seeking SFC authorisation must fall within one of these categories:

1. General equity funds, bond funds, mixed funds, or funds investing in other schemes.
2. Feeder funds linked to eligible underlying funds.
3. Unlisted index funds.
4. Passively managed ETFs tracking indices.
5. Active ETFs (listed open-ended funds).

The SFC and CBI may expand the MRF to include other fund types in the future.

Compliance Requirements

To align with Hong Kong's regulatory standards and ensure investor protection, Irish Covered Funds must:

- Appoint a **Hong Kong representative** to ensure compliance.
- Remain authorised by the CBI and under its supervision.
- Notify investors in both jurisdictions of any fund changes simultaneously.
- Obtain SFC approval for changes affecting fund eligibility under the MRF framework.

In case of a regulatory breach, the fund must notify both the SFC and CBI promptly and take

corrective action.

Application Process
Applications for Irish Covered Funds under the MRF are processed via:

1. **FASTrack**: Simple fund applications processed within **15 business days**.
2. **Two-Stream Approach**:
    - **Standard Applications**: Processed within 1–2 months.
    - **Non-Standard Applications**: Processed within 2–3 months.

Applicants must submit an application form, compliance checklist, offering documents, constitutive documents, and other supporting materials. A certificate from the CBI confirming eligibility is also required.

Disclosure and Advertising

- Offering documents must be complete, accurate, and clear, with updates provided to investors in **English and Chinese**.
- Advertisements in Hong Kong must follow local guidelines.
- Periodic financial reports and important notices must be disclosed simultaneously to investors in Ireland and Hong Kong.

This initiative simplifies cross-border fund recognition, offering Irish Funds streamlined entry into Hong Kong while maintaining high standards of investor protection. A separate CBI circular will guide Hong Kong funds entering the Irish market.

View Circular

Circular to Licensed Corporations – Updates on the implementation of ISO 20022 Standard related to Hong Kong's Over-the-Counter (OTC) derivatives reporting requirements

21 May 2025

The Hong Kong Trade Repository (HKTR) disclosed on 19 May 2025 that its system will be ready to support the ISO 20022 standard starting 22 September 2025, which is one week ahead of the mandatory implementation date of 29 September 2025. This early readiness aims to assist reporting entities in preparing for their migration to the new standard.

From 22 to 28 September 2025, reporting entities can voluntarily transition to the ISO standard and start reporting trades using the new system. Trades reported during this period will be considered compliant with the pre-implementation requirements, meaning they should not also be reported in the old system.

The mandatory implementation of the ISO standard will commence on 29 September 2025, and reporting entities will have a six-month transition period to migrate all long-dated legacy trades to the new standard.

HKTR also announced on 19 May 2025 updates to technical specifications related to Hong Kong's OTC derivatives reporting (please visit the HKTR's website). A copy of the HKTR's announcement is attached to this Circular.

Additionally, the HKTR announced updates to the technical specifications for OTC derivatives reporting. For further details on the announcement or technical arrangements, reporting entities can contact the HKTR at 8100 3115 or via email at hktr@hkma.gov.hk. Policy-related enquiries can be directed to the SFC or HKMA through their respective emails.

View Circular

Circular to licensed corporations Phishing detection and prevention

21 May 2025

The Securities and Futures Commission (SFC) has issued a circular to remind licensed corporations (LCs) of the standards they must follow to detect and prevent phishing attacks, which have caused financial losses for some clients. The circular also emphasized the importance of notifying the SFC about any security incidents or suspected market misconduct.

Recently, some LCs reported phishing attacks where clients received fake text messages with links pretending to be from the LCs. After clicking the links, clients were tricked into providing their login credentials, which were then used to conduct unauthorized transactions. These transactions may have involved market manipulation and resulted in financial losses for the clients.

Expected Standards for LCs:

1. Avoid sending risky messages: LCs should not send emails or SMS messages with links asking clients to visit websites or mobile apps to conduct transactions.
2. Do not request sensitive information through links: LCs must not ask clients to provide login credentials or one-time passwords via hyperlinks.
3. Educate clients: LCs should regularly send cybersecurity alerts and reminders, including warnings about phishing attacks.
4. Monitor unauthorized account access: LCs should implement systems to detect unauthorized access to clients' trading accounts.

Additionally, LCs should inform clients that they will never ask for sensitive information through links and remind them to avoid entering account information on unverified websites. If phishing incidents occur, LCs should:

- Advise affected clients to report the matter to the Police.
- Notify other clients about the incident as soon as possible.

LCs offering internet trading must also ensure proper risk management systems are in place, including:

1. Pre-trade controls: To prevent orders that do not follow regulatory requirements.
2. Post-trade monitoring: To detect manipulative or abusive transactions.

Notifications to the SFC:
Under the Code of Conduct, LCs must:

1. Immediately report any major system failure or error to the SFC.
2. Notify the SFC if they suspect any client has violated market misconduct laws, providing relevant details and documents.

View Circular

Circular to intermediaries Updates to acceptable account opening approaches

30 May 2025

The Securities and Futures Commission (SFC) recognizes the growing significance of non-face-to-face (NFTF) client onboarding for intermediaries, driven by the increasing digitization and automation of business operations. Currently, there are five approved NFTF account opening methods listed on the SFC's official webpage. This circular provides updates to these methods.

Certification Services (Previously listed as Approach #2 on the SFC's webpage)

Certification services recognized under the Electronic Transactions Ordinance (Cap. 553) can be used for verifying client identities in NFTF account opening. A list of recognized certificates available for subscription is provided on the Digital Policy Office (DPO) website. Certification services from recognized certification authorities (CAs) can now be accessed remotely using smartphones equipped with near-field communication (NFC) technology. This development offers intermediaries more convenient ways to onboard overseas investors remotely.

For instance, Digi-Sign Certification Services Limited provides the "Personal (Remote) ID-Cert Class 12," which complies with International Civil Aviation Organization (ICAO) standards. Overseas investors with ICAO-compliant ePassports can subscribe to this certificate remotely.

Intermediaries are encouraged to utilize such certification services to verify the identities of overseas investors for remote onboarding. More than 100 jurisdictions worldwide issue ICAO-compliant ePassports and have registered their public keys in the ICAO public key repository. Investors holding these ePassports may qualify for the recognized certificate. Appendix A provides illustrative processes for onboarding overseas investors using ICAO-compliant ePassports.

iAM Smart (Newly added to the SFC's webpage as an acceptable approach)

Launched by the Hong Kong SAR Government in December 2020, iAM Smart is a digital platform designed to support Hong Kong's digital transformation. It serves as a reliable and independent source for verifying the identities of Hong Kong residents.

Since its introduction, the SFC has approved iAM Smart as a valid method for client identity verification during account opening. Both versions of the platform — iAM Smart and iAM Smart+ — are acceptable for this purpose. The SFC has updated its designated webpage to include iAM Smart as an approved NFTF account opening approach.

Some intermediaries have already implemented iAM Smart for remote client onboarding, while others are testing its application. To support adoption, the DPO has launched the iAM Smart Sandbox Programme in collaboration with Cyberport. This initiative helps financial institutions access necessary resources and documentation. Licensed corporations interested in participating can apply through the SFC, and registered institutions can contact the Hong Kong Monetary Authority directly. Appendix B outlines the steps for integrating and using iAM Smart in account opening processes.

Eligible Jurisdictions for Remote Onboarding of Overseas Clients (Previously listed as Approach #5)

The SFC has published a list of eligible jurisdictions where clients can hold bank accounts for initial payments and ongoing fund transfers during the remote onboarding process. This list is based on the Financial Action Task Force's mutual evaluation results.

Fifteen new jurisdictions have been added to the list, effective immediately. These include Argentina, Brazil, France, Germany, Greece, India, Indonesia, Japan, Korea, Luxembourg, the Netherlands, New

Zealand, Saudi Arabia, South Africa, and Turkey. The updated list is available on the SFC's designated webpage.

Intermediaries should remain aware of any restrictions imposed by domestic regulatory authorities in these jurisdictions regarding cross-border investments or capital transfers. Additionally, intermediaries must implement strong cybersecurity measures to protect their systems, client accounts, and data from threats such as phishing and ransomware.

Ongoing Technology Developments

The SFC will continue to monitor advancements in technology and engage with the industry to explore new methods for secure and effective client identity verification during account opening.

View Circular

ENFORCEMENT NEWS

Pre-trial review fixed for prosecution of unlicensed advising on securities by finfluence

8 May 2025

The Eastern Magistrates' Court has scheduled a pre-trial review for 24 July 2025 in the case brought by the Securities and Futures Commission (SFC) against Mr. Chau Pak Yin (formerly known as Chau Kin Hei), a finfluencer, who has pleaded not guilty to charges of providing securities advice without a licence, in violation of the Securities and Futures Ordinance (SFO).

According to the SFC, between 16 April 2021 and 14 May 2021, Chau allegedly operated a business of providing securities advice in Hong Kong by hosting a Telegram chat group, without holding an SFC licence and without a reasonable excuse.

View News

SFC reprimands and fines Sino-Rich Securities & Futures Limited $2 million and suspends its responsible officer for failures in relation to margin lending practices

12 May 2025

The Securities and Futures Commission (SFC) has issued a reprimand and imposed a $2 million fine on Sino-Rich Securities & Futures Limited (Sino-Rich) for deficiencies related to its margin lending policy and practices.

In addition, the SFC has suspended the licence of Mr. Budihardjo Wilhelm Soeharsono (Budihardjo),

a responsible officer and manager-in-charge at Sino-Rich, for a period of five months and two weeks, effective from 8 May 2025 to 22 October 2025.

The SFC's investigation revealed that between 1 December 2017 and 30 September 2019, Sino-Rich failed to:

- Properly document its margin lending policy;
- Enforce a requirement that client credit limits be based on objective evidence of their net income or net worth; and
- Mandate written explanations to justify deviations from its margin lending policy.

These shortcomings constitute breaches of the Code of Conduct.

The SFC determined that these failings were attributable to Budihardjo's inability to fulfill his responsibility as a responsible officer and senior manager of Sino-Rich.

Factors Considered in Disciplinary Actions

When deciding on the sanctions against Sino-Rich and Budihardjo, the SFC considered several factors, including:

1. **Past Disciplinary Actions**:
    - In **2021**, Sino-Rich was previously disciplined for failing to comply with anti-money laundering (AML) and counter-terrorist financing (CTF) regulatory requirements in handling cash deposits and third-party fund transfers.
    - In **2009**, Budihardjo was separately disciplined for failing to actively monitor clients' trading activities in his role as a senior manager at another firm.

2. **Remedial Actions**:
    - Sino-Rich has taken steps to address and improve its margin lending practices.

3. **Cooperation with the SFC**:
    - Both Sino-Rich and Budihardjo cooperated with the SFC during the investigation.

4. **Financial Position**:
    - The SFC also took into consideration Sino-Rich's financial status (Note 7).

These measures reflect the SFC's commitment to maintaining robust regulatory standards and holding firms and individuals accountable for their actions.

View News

Court convicts brothers-in-law of false trading

15 May 2025

The Eastern Magistrates' Courts has convicted Mr. Lin Tai Fung and his brother-in-law, Mr. Or Chun Nin, after they pleaded guilty to charges of conspiracy to commit false trading in the shares of Pa Shun International Holdings Limited (Pa Shun) between 9 April 2017 and 7 March 2018. The prosecution was brought by the Securities and Futures Commission (SFC).
The Court also found Lin guilty of failing to notify the Stock Exchange of Hong Kong (SEHK) about

changes in his interest in Pa Shun shares on eight occasions between 2 June 2017 and 14 March 2018, following his guilty plea to these offences.

During the relevant period, Lin and Or conspired to purchase Pa Shun shares to ensure the losing share price remained at or above a certain level.

On eight occasions, Lin's trading activities in Pa Shun shares resulted in changes to his shareholding level, triggering a duty of disclosure to SEHK and Pa Shun. However, Lin failed to make the required notifications to either party.

The Court has adjourned sentencing to 10 June 2025. Both individuals have been granted bail under the following conditions:

1. Cash bail of $20,000; and
2. Surety of $50,000.

The SFC's Executive Director of Enforcement, Mr. Christopher Wilson, stated: "The market price of a stock should reflect genuine supply and demand. Artificially fixing a closing price disrupts the market's ability to establish a true price and may mislead investors about the stock's appeal. The SFC has zero tolerance for market malpractice that undermines market confidence and integrity."

View News

Court of First Instance dismisses appeal by offender of unlicensed activity

15 May 2025

Ms. Lai Ka Yi began serving her two-week prison sentence immediately after her appeal against her conviction and sentence for conducting unlicensed activities was dismissed. The prosecution was initiated by the Securities and Futures Commission (SFC).

On 30 October 2024, the Eastern Magistrates' Court sentenced Lai to two weeks' imprisonment and ordered her to pay $98,000 in compensation to a victim of her unlicensed activities. Lai was convicted of falsely presenting herself as operating a business in dealing in securities without holding an SFC licence.

Following the ruling, Lai filed notices of appeal against both her conviction and sentence. She was granted bail pending her appeal, which was heard today in the Court of First Instance.

The SFC urges the investing public to verify the licensing status of firms and individuals offering securities dealing services by consulting the Public Register of Licensed Persons and Registered Institutions on the SFC's website.

View News

SFC revokes Mui Chok Wah's licence and bans him for two years

19 May 2025

The Securities and Futures Commission (SFC) has revoked the licence of Mr. Mui Chok Wah and withdrawn its approval for him to serve as a responsible officer of KCG Securities Asia Limited (KCGSA), following his criminal conviction for theft and his failure to promptly notify the SFC of

his criminal charge. Mui has also been banned from re-entering the industry for a period of two years, from 16 May 2025 to 15 May 2027.

On 13 June 2024, Mui was arrested and charged by the Hong Kong Police Force after stealing a wallet left on an ATM machine. He was subsequently convicted of theft by the Eastern Magistrates' Court on 11 September 2024.

Instead of promptly informing the SFC about his criminal charge, as required, Mui delayed notification until after his conviction. This delay, lasting approximately three months, violated the requirements of the Securities and Futures Ordinance (SFO) and the Securities and Futures (Licensing and Registration) (Information) Rules.

The SFC determined that Mui's conviction and the delay in notification constituted misconduct, rendering him unfit and improper to remain licensed for regulated activities.

When deciding on the penalty, the SFC considered Mui's cooperation during the investigation and his otherwise clean disciplinary record.

View News

SFC bans Ho Hin Hang for five months

21 May 2025

The Securities and Futures Commission (SFC) has prohibited Mr. Ho Hin Hang, a former responsible officer (RO), manager-in-charge (MIC), and director at Lion Futures Limited (LFL), from working in the financial sector for five months, starting from 21 May 2025 to 20 October 2025.

This decision is linked to earlier disciplinary actions against LFL for failing to comply with anti-money laundering (AML) and counter-terrorist financing (CFT) rules, along with other regulatory obligations, during the period between May 2017 and July 2019.

The SFC determined that LFL's compliance failures occurred partly because Mr. Ho did not fulfill his duties as an RO and senior management member between May 2017 and September 2018. Investigations revealed the following issues at LFL:

1. Inadequate risk management: LFL allowed clients to use client-supplied systems (CSSs) for placing orders without performing enough due diligence to assess the risks of money laundering or terrorist financing.
2. Weak monitoring: LFL lacked an effective system to track and evaluate suspicious trading patterns in client accounts.

When deciding Ho's penalty, the SFC considered:

- The seriousness of LFL's and Ho's failures, which could harm public trust and market integrity.
- The need to send a strong message that such negligence is unacceptable.
- The fact that Ho had no previous disciplinary record.

View News

SFC obtains disqualification orders between two to nine years against former directors and senior executive of National Agricultural Holdings Limited

27 May 2025

The Securities and Futures Commission (SFC) has secured disqualification orders from the Court of First Instance against Ms. Lu Ying, a former financial manager; Mr. Ren Hai and Mr. Peng Guojiang, former executive directors; and Mr. Ting Tit Cheung, a former independent non-executive director of National Agricultural Holdings Limited (NAH).

The court disqualified Lu for nine years, Ren and Peng for seven years each, and Ting for two years from:

1. Serving or continuing to serve as a director, liquidator, receiver, or manager of the property or business of any corporation in Hong Kong, including NAH and its subsidiaries or affiliates.
2. Involvement, either directly or indirectly, in the management of any corporation in Hong Kong.

Additionally, they were ordered to cover the SFC's legal costs for the proceedings (Notes 3 and 4).

These rulings followed the SFC's investigation, which uncovered the following misconduct:

1. NAH's controlling shareholder, Parko (Hong Kong) Limited, acquired 212,194,500 shares in NAH as part of a subscription agreement but failed to pay the HK$676 million consideration when the shares were allotted on 9 June 2015.
2. Under instructions from NAH's former chairman, Mr. Chen Li-Jun, Lu and others transferred HK$384 million between January and June 2015, supposedly to establish an investment fund for NAH. However, the funds were diverted to unrelated purposes, with some being transferred to Parko.
3. A refund of RMB1.85 billion from two lapsed transactions, deposited into NAH's accounts in August 2017, was subsequently withdrawn through suspicious transactions for unknown purposes.
4. In 2015, Chen transferred HK$50 million from NAH to a company connected to him without justification, disguising it as a loan to another company.

Chen was identified as the key figure responsible for this misconduct, having intentionally violated his duties to benefit both Parko and himself. However, Parko became defunct, and Chen, who was also a director of Parko, passed away after the proceedings began.

The court orders were made after Lu, Ren, Peng, and Ting admitted to breaching their duties to NAH. The court detailed the following findings:

- **Lu Ying**, as NAH's financial manager, played a significant role in managing its finances, coordinating questionable transactions, and either knowing or having the responsibility to know about the misconduct.

- **Ren Hai and Peng Guojiang**, as executive directors, allowed Chen and others to dominate NAH's affairs for personal gain. They failed to identify, report, or rectify the misconduct and did not raise concerns or seek necessary information regarding the dubious transactions. Despite being directors of Parko themselves, they permitted Chen and Parko to exploit NAH.

- **Ting Tit Cheung**, as an independent non-executive director, failed to exercise independent judgement and supervision. He neglected to investigate or question the questionable transactions and, as a member of the audit committee, did not act even after auditors raised concerns. He allowed Chen to dominate NAH's affairs and failed to address or rectify the misconduct.

On 23 June 2023, the SFC also secured disqualification orders against three additional directors of NAH.

View News