

REGULATORY NEWSLETTER



2025 Vol.9



September, 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 - Updated Technical Specifications for OTC Derivatives Trade Reporting

11 August 2025

The Securities and Futures Commission (SFC) has issued this circular to remind licensed corporations (LCs) of the Hong Kong Monetary Authority's (HKMA) notice, dated 8 August, regarding updated technical specifications for over-the-counter (OTC) derivatives trade reporting to the Hong Kong Trade Repository (HKTR). These updated specifications will take effect on 22 September 2025, ahead of the implementation of new reporting requirements for the Unique Transaction Identifier, Unique Product Identifier, and Critical Data Elements on 29 September 2025[1]. A copy of the HKMA notice is attached to this circular.

LCs subject to mandatory reporting obligations are encouraged to review the notice for further details.

For inquiries related to HKTR services, operations, or testing arrangements, please contact the HKTR at 8100 3115 or email hktr@hkma.gov.hk. For questions concerning policy or regulatory

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Joint statement by the SFC and the HKMA on stablecoin-related market movements

14 August 2025

The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) released a joint statement on August 14, 2025, addressing recent market fluctuations linked to stablecoins. These movements were reportedly driven by corporate announcements, media reports, social media posts, or speculations regarding plans to apply for stablecoin issuer licenses, engage in related activities, or explore such initiatives in Hong Kong. Some claims have even referenced interactions with Hong Kong's financial regulators.

The HKMA clarified that it applies a stringent and cautious approach to stablecoin licensing, maintaining high standards for approval. It emphasized that expressions of interest, applications, or preliminary communications with applicants are only part of the process and do not indicate approval. Licenses will only be granted to entities that fully meet the established criteria.

The SFC and HKMA expressed concerns over the significant uncertainties surrounding these preliminary plans and noted that speculative market activity has resulted in abrupt price volatility. Such movements, often driven by excitement or hype, can lead to irrational decisions and expose investors to unnecessary risks. The public is urged to remain cautious, conduct thorough research, and avoid making impulsive investment decisions based on market rumors or momentum. Responsible and informed decision-making is essential to mitigate risks amidst heightened volatility.

Market participants were reminded to act responsibly in their public communications and avoid making statements that could mislead investors or create unrealistic expectations. To uphold market integrity and protect investors, the SFC announced that its market surveillance team, equipped with advanced monitoring systems, will closely observe trading activities and take firm action against manipulative or deceptive practices.

SFC Chief Executive Officer Ms. Julia Leung highlighted the risks associated with speculative share price movements tied to stablecoins. She urged investors to stay vigilant, conduct their own research, and avoid being swayed by short-term price volatility or unverified claims, particularly those on social media. The SFC remains committed to monitoring market activities and taking decisive action to safeguard market integrity and investor interests.

HKMA Chief Executive Mr. Eddie Yue reiterated the authority's rigorous approach to stablecoin licensing, noting that approval thresholds are high, and only a limited number of licenses will be issued initially. He explained that while dozens of parties have engaged in preliminary discussions with the HKMA regarding stablecoin licensing, such communications should not be seen as an endorsement or approval of any specific entity's prospects.

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Circular to licensed virtual asset trading platform operators on custody of virtual assets

15 August 2025

The Securities and Futures Commission (SFC) has released a circular detailing the required standards for securely managing client virtual assets by SFC-licensed virtual asset trading platform operators and their affiliates (Platform Operators). This document highlights the minimum requirements to address potential platform vulnerabilities and includes examples of best practices to support compliance.

Key Background: Overseas Incidents

Recent cybersecurity breaches at overseas centralised virtual asset platforms revealed weaknesses in wallet systems, access controls, and transaction verification processes, leading to significant financial losses. These incidents underline vulnerabilities in both hot and cold wallet systems, internal controls, and third-party services, irrespective of the custody technology used.

Importance of Custody Controls

The circular emphasizes robust security, governance, and operational controls for client asset custody. The SFC's policy, aligned with the ASPIRe roadmap, advocates for technology-neutral, outcome-based standards that prioritize secure custody environments. While most Platform Operators demonstrated basic safeguards, a recent review found some controls insufficient, prompting further clarification of expectations.

Key Requirements and Best Practices

1. **Governance and Oversight:** Senior management must ensure effective policies, internal controls, and governance with oversight by qualified individuals. At least one Responsible Officer or Manager-in-Charge should lead compliance efforts.
2. **Cold Wallet Infrastructure:** Platform Operators must adopt strong internal controls for private key management, ideally using offline environments like hardware security modules (HSMs). Providers must undergo due diligence and periodic evaluations.
3. **Cold Wallet Operation:** Measures should mitigate risks of theft or fraud, ensure segregation of duties, and prevent unauthorized transactions. Whitelisting, air-gapped devices, and systematic transaction verification are crucial safeguards.
4. **Third-Party Providers:** Thorough due diligence, ongoing monitoring, and strong change management procedures are required when outsourcing wallet or platform services. Providers must comply with robust security and operational standards.
5. **Real-Time Threat Monitoring:** Continuous 24/7 monitoring is essential to detect cybersecurity threats and discrepancies. A Security Operations Centre (SOC) or equivalent should handle incident detection and escalation.
6. **Training and Awareness:** Staff must receive role-specific training, particularly in transaction verification, to prevent errors and blind signing. Regular phishing simulations and security awareness programs are also recommended.

Conclusion

The SFC's outlined standards and practices aim to enhance the resilience of Platform Operators and Virtual Asset Custodian Service providers. By implementing these measures, the industry

can achieve a consistent framework for safeguarding client virtual assets.

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IPO and securities trading growth powers Hong Kong ahead as global financial hub: SFC Quarterly Report

27 Aug 2025

Hong Kong has solidified its status as a global financial hub through robust IPO activities and strong market performance, as highlighted in the Securities and Futures Commission's (SFC) Quarterly Report for April to June 2025. Over the first seven months of the year, Hong Kong recorded 51 IPOs, raising \$128 billion, a significant year-on-year increase of 610%. With more than 220 IPO applications pending, the SFC and the Hong Kong Stock Exchange introduced initiatives like the Technology Enterprises Channel and confidential filings to support listings for technology and biotech companies.

The securities market demonstrated resilience during a period of volatility in April, ensuring smooth operations and rebounding strongly. The Hang Seng Index reached its highest level in over three years, while the average daily turnover grew by 85% to \$243.7 billion. Meanwhile, licence applications increased by 16% year-on-year, and Hong Kong-domiciled funds experienced a 39% rise in assets under management (AUM), driven by steady inflows into money market funds.

International collaboration also advanced, with the SFC signing agreements to strengthen ties with overseas markets. A memorandum of understanding with the Central Bank of Ireland resulted in the first cross-listing of an actively managed ETF from Hong Kong and Ireland. Additionally, partnerships with Saudi Arabia's Capital Market Authority included bilateral meetings and a roundtable for asset managers to explore cooperation.

In the digital asset space, the SFC expanded its offerings by increasing the number of authorised virtual asset spot ETFs to nine and approving three funds to engage in staking under strict safeguards, making Hong Kong a regional leader in this area. The number of licensed virtual asset trading platforms grew to 11 by the end of July, while the SFC began consulting on regulatory proposals for virtual asset dealers and custodians to enhance the ecosystem.

Investor protection remained a priority, with the SFC warning the public about stablecoin-related risks and offering guidance on preventing phishing and unauthorized trading. The SFC also supported global initiatives to combat online scams and unlawful social media influencers. In July, a joint operation with the Independent Commission Against Corruption led to the arrest of two former executives for suspected market manipulation and corruption.

The full Quarterly Report is available on the SFC's website.

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ENFORCEMENT NEWS

SFC and HKEX collaborate in enforcement action against two former listed company directors for non-cooperation in investigations

12 August 2025

The Stock Exchange of Hong Kong Limited (the Exchange) has initiated its first disciplinary action against two former directors of a listed company for failing to cooperate with investigations conducted by the Securities and Futures Commission (SFC) and the Exchange.

This action highlights the collaboration between the SFC and the Exchange in improving the efficiency of investigations and enforcement, leveraging the Exchange's disciplinary powers under the Listing Rules to ensure fair regulatory outcomes.

The Exchange has publicly censured Ms. Ma Xiaoqiu, a former executive director, and Mr. Jin Lailin, a former independent non-executive director of TOMO Holdings Limited (TOMO). It has deemed both individuals unsuitable to serve as directors or hold senior management positions at TOMO or any of its subsidiaries.

The SFC and the Exchange investigated TOMO and related parties. The SFC, as part of its investigation into potential breaches of the Securities and Futures Ordinance (SFO), issued section 183 notices requiring Ma and Jin to provide relevant information. Both failed to respond, leading the SFC to refer the case to the Exchange for action under the Listing Rules.

Separately, the Exchange's Listing Division investigated whether Ma and Jin fulfilled their obligations under the Listing Rules, but neither cooperated. Under the Listing Rules, directors of listed companies must cooperate with investigations by the SFC or the Listing Division, a requirement that remains in effect even after they leave their positions. The Listing Committee determined that Ma and Jin had seriously breached this obligation.

Christopher Wilson, the SFC's Executive Director of Enforcement, emphasized that non-cooperation undermines regulatory oversight and investor protection. He reiterated the importance of the SFC-Exchange partnership in ensuring accountability and market integrity.

Catherine Yien, HKEX's Head of Listing Regulation and Enforcement, stressed the importance of full cooperation by issuers and directors to maintain an orderly and fair securities market. She warned that non-cooperation constitutes serious misconduct and will lead to sanctions, urging issuers and directors to provide timely and accurate information during investigations.

The SFC's investigation into the matter is still ongoing.

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SFC bans Zhu Hong for 12 months and fines her \$400,000 for fund management failure

18 August 2025

The Securities and Futures Commission (SFC) has prohibited Ms. Zhu Hong, a substantial shareholder, director, and former manager-in-charge (MIC) of core functions at Kylin International (HK) Co., Limited (Kylin), from conducting any regulated activities for 12 months, spanning from 16 August 2025 to 15 August 2026. Additionally, she has been fined \$400,000 for her failures in managing several private funds.

Between August 2018 and July 2021, Kylin acted as the investment manager and/or consultant for sub-funds of a Cayman Islands-incorporated fund. During this period, Zhu was responsible for approving borrowing agreements for the sub-funds and implementing internal control measures to prevent money laundering and terrorist financing. However, the SFC's investigation found that Zhu failed to fulfill her responsibilities as Kylin's director and MIC for anti-money laundering and counter-terrorist financing (AML/CTF) in relation to the management of these funds.

When determining the penalty, the SFC considered Zhu's acknowledgment of her failings, her expression of remorse, and her previously clean disciplinary record.

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Wong Pak Ming to stand trial for insider dealing after pleading not guilty

25 August 2025

The criminal trial for insider dealing, brought by the Securities and Futures Commission (SFC) against businessman Mr. Wong Pak Ming, is provisionally scheduled to take place from 20 November 2025 to 12 December 2025. This follows Wong's plea of not guilty to the charge during his appearance at the Eastern Magistrates' Court today.

The Court has adjourned the case to 24 October 2025 for a pre-trial review.

Wong is accused of insider dealing related to shares of Transmit Entertainment Limited (formerly Pegasus Entertainment Holdings Limited). Specifically, he allegedly advised or facilitated another person to trade Pegasus shares between 25 August 2017 and 17 October 2017. At the time, Wong was the chairman and controlling shareholder of Pegasus and was in possession of material non-public information about the company.

Wong's bail has been extended under the following conditions:

1. Cash bail of \$200,000.
2. He shall reside at the address provided and notify the Police in advance of any change in residence.
3. He shall inform the SFC at least 24 hours before leaving Hong Kong.

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SFC reprimands and fines HSBC \$4.2 million for disclosure failures in research reports

26 August 2025

The Securities and Futures Commission (SFC) has reprimanded and fined The Hongkong and Shanghai Banking Corporation Limited (HSBC) \$4.2 million for failing to comply with disclosure requirements in research reports on Hong Kong-listed securities over an eight-year period.

The issue was uncovered after HSBC self-reported the matter, prompting an investigation by the Hong Kong Monetary Authority (HKMA) alongside the SFC. The investigation revealed that, between 2013 and 2021, HSBC either failed to disclose or made incorrect disclosures about its investment banking relationships with companies featured in more than 4,200 research reports on Hong Kong-listed securities. These failures were attributed to deficiencies in HSBC's data recording and system mapping processes.

The SFC determined that HSBC did not exercise due skill, care, or diligence in ensuring compliance with disclosure requirements and failed to maintain effective systems and controls to ensure the accuracy of disclosures in its research reports.

When deciding the penalty, the SFC considered several factors, including:

- No evidence was found of client losses resulting from the disclosure breaches.
- HSBC conducted reviews to identify the root causes and scope of the issues.
- The bank has implemented measures to improve its systems and controls to prevent future breaches
- HSBC fully cooperated with the HKMA and the SFC during the investigation and resolution process.

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SFC reprimands and fines Deutsche Bank Aktiengesellschaft \$23.8 million for regulatory breaches

28 August 2025

The Securities and Futures Commission (SFC) has reprimanded and fined Deutsche Bank Aktiengesellschaft (DB) \$23.8 million for several regulatory breaches, including overcharging clients on management fees, misassigning product risk ratings, and failing to disclose investment banking relationships in certain research reports.

The disciplinary action followed investigations initiated after DB self-reported the issues between December 2020 and December 2023.

Overcharging Clients on Fees

The SFC's investigation revealed that, between November 2015 and November 2023, DB overcharged approximately \$39 million in client fees due to deficiencies in its processes:

- Fee discounts not applied: Discounted management fee rates agreed with clients were not applied to 39 Discretionary Portfolio Management accounts, resulting in overcharges.
- Incorrect valuation of debt instruments: DB valued 392 floating rate debt instruments using "fixed" interest rates, leading to inaccurate portfolio valuations and overcharging 92 clients on custodian and management fees, as these fees were based on portfolio value.
- Misstated fund valuations: Monthly statements sent to 233 clients overstated or understated the valuations of 16 private equity funds and three real estate funds. This was due to an external vendor's oversight and DB's inadequate controls to ensure prices were updated. Consequently, 32 clients were overcharged custodian fees.

Failure to Disclose Investment Banking Relationships

Between September 2014 and September 2021, DB issued 261 single stock company reports and 1,590 industry reports on Hong Kong-listed companies without disclosing its investment banking relationships. This failure occurred because DB's research disclosure system did not recognize certain investment banking service mandates.

Incorrect Assignment of Product Risk Ratings

From August 2012 to December 2020, DB assigned incorrect, lower product risk ratings to 40 exchange-traded funds (ETFs), impacting 93 clients and 265 transactions. Proper risk ratings revealed mismatches in 10 transactions where the product risk exceeded the clients' risk tolerance levels.

SFC Findings

The SFC concluded that DB failed to:

- Act with due skill, care, and diligence in the best interests of clients and market integrity.
- Provide accurate and non-misleading information to clients.
- Ensure compliance with disclosure requirements in research reports.
- Adhere to all relevant regulations to promote clients' best interests.

Sanctions Considerations

In determining the penalties, the SFC considered:

- DB's reviews to identify the root causes and scope of the breaches.
- Actions taken by DB to remediate the issues and strengthen internal controls.

- Refunds made to affected clients for overcharged fees.
- The unintentional nature of the breaches, with no evidence of deliberate misconduct.
- DB's cooperation with the SFC and acceptance of the findings and disciplinary action.

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SFC revokes the licence of Nerico Brothers Limited and bans its senior management for life

28 August 2025

The Securities and Futures Commission (SFC) has revoked the licence of Nerico Brothers Limited (NBL) and permanently banned its director, Jerff Lee Cheuk Fung, from participating in any regulated activities due to serious misconduct, including the misappropriation of client assets.

Misuse of Client Assets

Between June 2020 and January 2021, NBL misappropriated over US\$68 million of a client's funds on six occasions. These funds were used to purchase shares in two segregated portfolios of a Cayman-incorporated fund for NBL's own account. NBL retained the profits from these subscriptions and only returned the principal amounts to the client by June 2021. These actions were carried out without the client's knowledge, authorization, or consent and violated the terms of the client agreement.

Facilitating Asset Misappropriation

The SFC also found that NBL knowingly aided a scheme led by Neo Ng Yu and his associates, resulting in the misappropriation of approximately US\$154 million of the same client's funds from January 2021 onwards.

- Between January and August 2021, NBL transferred almost all of the client's funds to a segregated portfolio of the fund under the false pretense of acquiring "liquidity provider units" for the client, which did not exist.
- A significant portion of the funds was misused or transferred to Neo Ng and his corporate entities.
- To conceal the scheme, NBL fabricated or used falsified transaction documents and account statements.

Providing False or Misleading Information to the SFC

During the investigation, NBL gave conflicting explanations and relied on fabricated documents to account for the misappropriated funds. Initially, NBL claimed the funds were transferred to acquire "liquidity provider units" from the segregated portfolio. Later, it claimed the funds were used to purchase similar units from a different Cayman-incorporated fund. The SFC determined that both narratives were false and that the funds had been misappropriated.

Senior Management Responsibility

The SFC held Jerff Lee directly responsible for NBL's misconduct. Lee orchestrated the misuse of client funds and facilitated their misappropriation by Neo Ng, with whom he had close ties. Furthermore, Lee knowingly provided false or misleading information during interviews with the SFC, breaching the Securities and Futures Ordinance (SFO).

Sanctions Considerations

In determining the penalties, the SFC considered the following:

- The conduct of NBL and Lee was egregious and undermined public and investor confidence in market integrity.
- Their actions demonstrated a lack of honesty and integrity and caused significant financial losses to the client.
- Both parties had no prior disciplinary record.

As a result, the SFC revoked NBL's licence and imposed a lifetime ban on Jerff Lee from any regulated activities.

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SFC revokes the licence of Amber Hill Capital Limited and bans its senior management for life

28 August 2025

The Securities and Futures Commission (SFC) has revoked the licence of Amber Hill Capital Limited (AHCL) due to its involvement in the misappropriation of funds and other dishonest activities related to fund management. Additionally, AHCL's former senior managers, Neo Ng Yu and Simon Ng She Chun, have been permanently banned from engaging in any regulated activities.

Facilitation of Fund Misappropriation

Between 6 October 2017 and 29 September 2021, AHCL acted as the manager of a segregated portfolio of a Cayman-incorporated fund (Sub-fund). The SFC's investigation revealed that Neo Ng, along with his associates and entities, orchestrated a scheme to misappropriate approximately US\$154 million belonging to a client of Nerico Brothers Limited (NBL) through the Sub-fund, with AHCL knowingly aiding the scheme.

From January to August 2021, NBL transferred the client's funds to the Sub-fund under the false pretense of acquiring "liquidity provider units." However, the Sub-fund did not issue or hold such units. AHCL accepted the funds, directed the Sub-fund to transfer a large portion to a corporate vehicle owned by Neo Ng, and utilized the remainder for the Sub-fund's purposes.

False Information and Fabricated Documents

While managing the Sub-fund, AHCL falsely claimed to its auditors and administrators that:

- NBL was one of the Sub-fund's brokers and held most of its cash assets in an account at NBL (NBL account).
- Neo Ng subscribed to US\$297 million worth of Sub-fund shares through a corporate vehicle he controlled, with the funds deposited into the supposed NBL account.

The SFC's investigation found that the Sub-fund had no account with NBL, and the purported cash assets did not exist. The Sub-fund's cash position was overstated by up to US\$451 million between November 2019 and May 2021.

Additionally, AHCL provided false information and fabricated documents, including fake auditors' reports, to misrepresent the Sub-fund's value and financial position to investors and potential investors between November 2019 and September 2021.

Senior Management Responsibility

The SFC attributed AHCL's misconduct to the actions of Neo Ng and Simon Ng:

- Neo Ng: He masterminded the schemes, personally benefited from the misappropriated funds, and profited from the artificial inflation of the Sub-fund's value.
- Simon Ng: He collaborated with Neo Ng by processing the misappropriated funds, authorizing their transfer to Neo Ng's corporate vehicle, and playing an active role in misleading the Sub-fund's auditors and administrators by providing false information and fabricated documents.

Their actions were profoundly dishonest and fell far below the standards expected of senior management in a licensed corporation.

Disciplinary Actions

In determining the sanctions, the SFC considered the following:

- The egregious and serious nature of their misconduct, which undermined investor and public confidence in market integrity.
- The significant financial losses caused to NBL's client.
- Their previously clean disciplinary records.

As a result, AHCL's licence was revoked, and Neo Ng and Simon Ng were permanently banned from any regulated activities.

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SFC seeks court order to freeze assets up to \$62.5 million for investor compensation in sophisticated ramp-and-dump case

29 August 2025

The Securities and Futures Commission (SFC) has filed an application with the Court of First Instance to freeze assets designated for compensating investors affected by a sophisticated ramp-and-dump scheme. This application is part of the SFC's legal action under section 213 of the Securities and Futures Ordinance (SFO) against six individuals, including the alleged ringleaders, for manipulating the shares of Eggriculture Foods Limited (Eggriculture) between August and November 2018.

The SFC's application seeks to prevent the disposal of assets belonging to one of the suspected ringleaders, up to a value of \$62,566,773, representing the estimated losses suffered by affected investors due to the alleged market misconduct.

At today's initial hearing, the Court issued further directions, including the adjournment of the substantive hearing to a date to be determined.

Separately, a criminal trial is scheduled to begin at the District Court on 13 July 2026, involving five of the six individuals charged with various criminal offences related to the same alleged misconduct.

As the legal proceedings are ongoing, the SFC has stated that it will not provide further comments at this time.

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