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# REGULATORY NEWSLETTER

2025 Vol.1



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## Happy New Year!

As we enter the Year of the Snake in 2025, we are excited to embrace the positive changes ahead. This year symbolizes transformation and adaptability. ComplianceDirect wishes you a year filled with love, happiness, and success. As always, we remain committed to providing you with our expert consultation and compliance services.

Let's begin 2025 with our Regulatory Updates from the SFC!

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## REGULATORY UPDATES

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### **Circular to Licensed Corporations, SFC-licensed Virtual Asset Service Providers and Associated Entities - Anti-Money Laundering / Counter-Financing of Terrorism**

#### **Webinar Materials**

**06 Dec 2024**

The presentation materials used by the Securities and Futures Commission (SFC) staff and speakers from the Financial Intelligence and Investigation Bureau of the Hong Kong Police Force at the recent Anti-Money Laundering and Counter-Financing of Terrorism Webinar have been posted on the SFC website under the headings of "Training materials - Presented by SFC staff" and "Training materials - Presented by external parties" respectively.

Licensed corporations, SFC-licensed virtual asset service providers and associated entities are encouraged to download the aforesaid presentation materials for reference and internal training as appropriate.

Should you have any queries regarding the contents of this circular, please contact Ms Kiki Wong at 2231 1569.

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## **Circular in relation to the clearing and record keeping rules for the OTC derivatives regime – changes to the list of persons designated as financial services providers**

**06 Dec 2024**

The revised list of persons designated as financial services providers (FSPs) for the purposes of the Securities and Futures (OTC Derivative Transactions—Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules (Clearing Rules) is gazetted today, and becomes effective on 1 January 2025.

Licensed Persons are reminded that if their average total position in OTC derivatives during a Calculation Period reaches the corresponding Clearing Threshold, relevant OTC derivative transactions they enter into on and after the corresponding Prescribed Day, including those with FSPs must be centrally cleared in accordance with the Clearing Rules.

Please refer to the Clearing Rules and the Frequently Asked Questions on the Implementation and Operation of the Mandatory Clearing Regime for more information.

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## **Circular to intermediaries**

### **SFC and HKMA joint product survey 2024**

**06 Dec 2024**

As an annual exercise to collect information about the selling activities of intermediaries in Hong Kong, the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) will launch the 2024 joint survey on the sale of non-exchange-traded investment products by licensed corporations (LCs) and registered institutions (RIs) that are licensed or registered for Type 1 (dealing in securities), Type 4 (advising on securities) or both regulated activities (collectively, Reporting Intermediaries). This survey will enable the SFC and the HKMA to better understand the industry landscape and market trends, supervise intermediaries' selling practices, and coordinate their responses to address areas of common concern.

## Scope

The survey covers the sale of non-exchange-traded investment products (such as collective investment schemes, debt securities, structured products, swaps, swaptions and repos) to investors (In-scope Clients) who are not institutional professional investors or certain corporate professional investors for which intermediaries have been exempted from the suitability obligation for the period from 1 January to 31 December 2024.

## Survey questionnaire

The questionnaire includes three parts:

- Part A - General information

All Reporting Intermediaries should complete Part A to provide their contact information and indicate whether they sold any reportable non-exchange traded investment products to In-scope Clients during the reporting period.

- Part B - Information on the sale of non-exchange traded investment products

Reporting Intermediaries which sold reportable non-exchange traded investment products to In-scope Clients during the reporting period should also complete Part B to provide an overview of their selling activities, such as the transaction amounts by types of investment product, the top issuers of the investment products sold and the types of client.

- Part C - Supplementary information

Reporting Intermediaries that are LCs with total transaction amounts of HK\$1 billion or above during the reporting period or RIs with total transaction amounts of HK\$30 billion or above should also complete Part C, which collects information such as the transaction amounts of investment products by types of investor and details of the top five investment products sold.

## Reporting timeline

All Reporting Intermediaries should submit the completed questionnaires to the SFC through [WINGS](#) on or before the following dates:

Reporting Intermediaries completing Part A only	17 January 2025 (Friday)
Reporting Intermediaries completing Part A and Part B only	21 February 2025 (Friday)
Reporting Intermediaries completing Part A, Part B and Part C	7 March 2025 (Friday)

The questionnaire in Excel format, guidance notes and completion instructions are now available on WINGS. Please read the notes and instructions before completing the questionnaire.

All information collected from the survey will be treated in strict confidence and will not be disclosed to any other third parties, except as anonymised, aggregated statistics. Results of the 2023 joint

product survey are available on the SFC website.

Should you have any queries regarding the content of this circular, please contact Ms Denise Chan at the Intermediaries Supervision Department of the SFC at 2231 1188 or your case officer. For technical assistance with using WINGS, please dial the hotline at 2207 9333 or write to [TechEnquiries@wings.sfc.hk](mailto:TechEnquiries@wings.sfc.hk).

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## **Circular to management companies of SFC-authorized money market funds**

**12 Dec 2024**

This circular highlights the Securities and Futures Commission's (SFC) requirements and expectations for management companies (Managers) of SFC-authorized money market funds (MMFs), and sets out good practices for managing the liquidity risk of such funds in the Appendix.

Managers are required to maintain and implement effective liquidity risk management policies and procedures to monitor the liquidity risk of the MMFs under their management, taking into account factors including the funds' investment strategy and objectives, investor base, liquidity profile, underlying obligations and redemption policy. Managers should refer to the SFC's guidance on liquidity risk management of SFC-authorized funds set out in the [Circular](#) to management companies of SFC-authorized funds on liquidity risk management dated 4 July 2016.

Managers are reminded that MMFs are required to invest in high-quality money market instruments. They must take into account both the credit quality and liquidity profile in determining the quality of a money market instrument. Managers should have a prudent internal procedure for assessing whether or not a money market instrument invested by their MMFs is of high quality, having regard to multiple factors, including but without over-reliance on external credit ratings. MMFs are generally not expected to invest in unrated or low-investment-grade money market instruments.

Managers are reminded to exercise due care, skill and diligence in managing the liquidity of their MMFs at all times, taking into account prevailing market conditions (such as interest rate changes and their potential impact on MMFs), and to ensure fair treatment of both redeeming and remaining investors in meeting redemption requests.

It is important to have in place an effective liquidity risk management framework to provide for reasonable liquidity cost, mitigate material dilution and protect the interests of remaining investors upon others' redemption. As such, in the case of an early termination of fixed-term deposits held by the MMFs, redeeming investors should bear any penalties imposed by the depositing entities, and Managers are required to properly allocate to redeeming investors an appropriate share of loss of accrued income resulting from the downward adjustments of interest rates receivable by the MMFs.

Managers should review their current policies and procedures to assess the adequacy of their action plans and availability of LMTs, including the ability to use anti-dilution LMTs, and implement necessary enhancements such as revisions of the funds' offering documents to ensure such tools are available

for use when needed.

The SFC has identified some good practices as set out in the [Appendix](#). Whilst not binding, these examples should assist Managers in managing the liquidity risk of MMFs under their management.

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## **Greater connectivity driving Hong Kong's capital markets forward: SFC Quarterly Report**

**12 Dec 2024**

Hong Kong's capital markets have continued to reap benefits since the third quarter from the success of Connect schemes with the Mainland and breakthroughs in Middle East market connectivity, according to the Securities and Futures Commission's (SFC) [Quarterly Report](#) published today.

Marking the tenth anniversary of the scheme, the Mainland-Hong Kong Stock Connect had notched up strong net southbound inflows up to end-November, amounting to RMB664.3 billion year-to-date and RMB3.2 trillion cumulatively. Driving the growth of the city's exchange-traded fund (ETF) market, the enhanced ETF Connect boosted the number of eligible Hong Kong ETFs to 16 with a total market capitalisation of more than \$300 billion.

Cross-boundary Wealth Management Connect scheme recorded a more than 60% increase in southbound investment since its February enhancement. Under the Mainland-Hong Kong Mutual Recognition of Funds scheme, net subscriptions for Hong Kong funds amounted to RMB8.8 billion for the quarter. Swap Connect – the first derivative market connect – saw active investor participation, with daily transactions of renminbi interest rate swaps averaging RMB10 billion.

Connectivity with the broader Asian markets also made strides with the landmark cross-listing of two Hong Kong ETFs on the Saudi exchange. Being the largest in the Saudi ETF market with a combined market capitalisation exceeding US\$1.6 billion upon listing, the two feeder ETFs have been trading actively since their listing in late October.

"Our ETF market has achieved new milestones this year with continued robust growth in eligible ETFs under the Connect scheme and with new connectivity to the Middle East," said Ms Julia Leung, the SFC's Chief Executive Officer.

"Going forward, with broadening mutual market access with the Mainland, the SFC will strive to elevate Hong Kong to a global hub for multi-asset investing and offshore renminbi fixed-income business," she added.

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## **Circular to virtual asset trading platforms on licensing process and revamped Second-phase Assessment**

**18 Dec 2024**

As part of its on-site inspection programme introduced in June 2024, the Securities and Futures Commission (SFC) has directly engaged and communicated with the senior management and ultimate controllers of deemed-to-be-licensed virtual asset trading platform (VATP) applicants (deemed applicants). Under this approach, the SFC has been able to provide guidance effectively to VATPs on its expected regulatory standards.

The SFC will maintain the effective approach of proactive engagement and enhanced communication with the VATPs, by becoming a party to the engagement for the Second-phase Assessment to be conducted by VATPs.

The SFC will also revamp the Second-phase Assessment to enhance its usefulness. The revamped Second-phase Assessment will focus on ensuring that VATP's policies, procedures, systems and controls (P&P) are suitably designed and implemented by the VATP, and is required to be performed as a direct assurance engagement.

The licensing procedures for VATPs are depicted in the [Appendix](#) to this circular.

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## **Circular to Licensed Corporations - Updated FAQs and Reporting Instructions for OTC Derivatives Reporting**

**20 Dec 2024**

The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) jointly published a revised version of Frequently Asked Questions on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules (FAQs). At the same time, the HKMA issued a revised version of Supplementary Reporting Instructions for OTC Derivative Transactions (SRI) to provide further guidance and reporting instructions for over-the-counter (OTC) derivatives trade reporting.

The revised FAQs and SRI are published in furtherance of the [consultation conclusions](#) issued by the two regulators in September 2024 on the mandatory use of Unique Transaction Identifier, Unique Product Identifier, the reporting of Critical Data Elements and the adoption of the ISO 20022 standard. Both the revised FAQs and revised SRI will take effect from 29 September 2025. Licensed Corporations that may be subject to mandatory reporting obligation are advised to refer to them.

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## **Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong**

**20 Dec 2024**

The Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC) signed a Memorandum of Regulatory Cooperation concerning Mutual Recognition of Funds between the Mainland and Hong Kong (Memorandum) on 22 May 2015. The Memorandum provides a framework for mutual recognition of publicly offered funds between the CSRC and the SFC so that these recognised funds could be offered to the public in both markets. This initiative represents a significant milestone towards strengthening regulatory ties and cooperation between the CSRC and the SFC. This Circular supersedes the previous version dated 22 May 2015 with effect from 1 January 2025.

The SFC understands that this marks the first time Recognised Mainland Funds may seek authorisation from the SFC. The SFC therefore encourages applicants to consult the Investment Products Division early for any clarification or guidance as to how the relevant requirements may apply and be complied with in light of their specific circumstances.

The SFC may issue other circulars, frequently asked questions and other documents from time to time to provide practical guidance to the industry. Please refer to the SFC's website or contact the Investment Products Division.

Further details of the MRF application process for a Recognised Mainland Fund seeking authorisation from the SFC are set out in the Information Checklist, which is now available at the SFC's website <http://www.sfc.hk/web/EN/forms/products/forms.html>

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## **SFC publishes review of SEHK's performance in regulating listing matters**

**20 Dec 2024**

The Securities and Futures Commission (SFC) today released a report on its review of the performance of The Stock Exchange of Hong Kong Limited (SEHK) in regulating listing matters during 2022 and 2023.

During the review, the SFC assessed the general operations, processes and procedures of SEHK's Listing Division. It also weighed up SEHK's performance in handling issuers' non-compliance with the Listing Rule requirements on the disclosure of material information, handling issuers' unusual stock price and volume movements, and vetting initial public offering (IPO) applications.

The SFC noted in the latest review report that SEHK had taken steps to respond to its recommendations made in the 2022 report. In the meantime, the SFC identified several areas for improvement on this year's review topics along with further recommendations for SEHK. The SFC will work closely with SEHK to implement the recommendations, in order to uphold the integrity of Hong Kong's listing market and strengthen its resilience.

One of these areas is the notable number of listed issuers' non-compliance with the notifiable and connected transaction rules. The SFC recommends, amongst others, that SEHK adopt measures beyond issuing guidance or warning letters to improve issuers' compliance and standards in this area.

In handling unusual stock price and volume movements, SEHK has referred to the SFC cases involving suspected breaches of the Securities and Futures Ordinance. The SFC recommends that SEHK strengthen its internal procedures for making enquiries, staff training, and follow-up action after receiving issuers' negative confirmations.

In the area of processing IPO applications, there was a general improvement in SEHK's processing time in 2023. To drive greater processing efficiency and transparency, the SFC and SEHK jointly enhanced the timeframe for the new listing application process in October.

The review report, which summarises the SFC's findings and recommendations along with certain listing market data, has been published on the SFC website.

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## ENFORCEMENT NEWS

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### **Court verdict on fraud over secret backdoor listing**

**09 Dec 2024**

The Securities and Futures Commission (SFC) welcomes the conviction by the District Court of Mr Chim Pui Chung and his son Mr Ricky Chim Kim Lun of two counts of conspiracy to defraud Asia Resources Holdings Limited (Asia Resources), its board of directors and shareholders as well as the Stock Exchange of Hong Kong Limited (SEHK) over a secret backdoor listing arrangement concerning Asia Resources.

Their convictions arose from a prosecution brought by the Independent Commission Against Corruption (ICAC) following a referral by the SFC. Ms Wong Poe Lai was also convicted of one count of money laundering in the same case.

Specifically, in July 2013, Chim Pui Chung, Ricky Chim and Mr Ma Zhonghong agreed on a secret backdoor listing arrangement to sell Asia Resources to Ma through the placement of \$535.5 million convertible notes by Asia Resources to nominees of Ma, including Wong. It was also agreed among the trio that Ma would pay Chim Pui Chung a sum of approximately \$210 million to control 70 to 75% of the issued share capital of Asia Resources.

The SFC's Executive Director of Enforcement, Mr Christopher Wilson, said: "We welcome the Court's verdict which sends an unambiguous message to the public that no person should take advantage of their positions to enrich themselves at the expenses of minority shareholders. The SFC will continue to work closely with the ICAC to combat corporate crimes and maintain the integrity of Hong Kong's capital market."

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### **Court sets trial date for insider dealing case against Segantii Capital Management and its chief investment officer**

**19 Dec 2024**

The District Court today fixed the trial of Segantii Capital Management Limited, its director and chief investment officer Mr Simon Sadler, and former trader Mr Daniel La Rocca on 4 May 2026 after they pleaded not guilty to charges of insider dealing.

The proceedings were commenced by the Securities and Futures Commission (SFC). The three defendants are charged with the offence of insider dealing in the shares of a listed company prior to entering into a block trade in June 2017 in the shares of the same listed company.

Sadler and La Rocca were granted bail pending trial on the same conditions: (i) cash bail of \$1,000,000 and \$500,000 respectively; (ii) they shall inform the SFC 24 hours before leaving Hong Kong, and to

provide the SFC with full itinerary with contact details; (iii) they shall reside at the home address provided to the SFC and inform the SFC 48 hours in advance of any change of address and/or contact details whilst abroad; and (iv) they shall not contact either directly or indirectly any prosecution witnesses.

No further comment will be made as legal proceedings are ongoing.

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## **SFC bans fund manager Ng Ka Shun for life and fines him \$1.7 million for serious misconduct**

**23 Dec 2024**

The Securities and Futures Commission (SFC) has banned Mr Ng Ka Shun, responsible officer (RO) of Agg. Asset Management Limited (Agg), for life and fined him \$1.7 million for window-dressing Agg's financial resources and mismanaging two funds.

### **Window-dressing financial resources**

The SFC found that Ng began window-dressing Agg's financial resources when the firm submitted its licence application. He misled the SFC into believing that Agg had satisfied the financial requirements for a licence by window-dressing the firm's liquid capital as of 31 March 2017. After obtaining a licence for Agg, Ng continued to perpetuate the facade that Agg had sufficient liquid capital from May 2017 to February 2020 by providing false or misleading information in the financial returns submitted to the SFC to mask its inability to maintain the required liquid capital of \$3 million for 34 months.

### **Deficiencies and substandard conduct in fund management**

The SFC also found that Agg mismanaged two funds in its capacity as investment manager which seriously jeopardised the interests of the funds' investors, with Ng responsible for making investment decisions for both funds during the material time.

#### **(i) Conflicts of interest and risk management**

In one of the two funds, Agg invested substantially all of its assets in debentures issued by companies controlled by Ng. By doing so, Agg failed to avoid conflicts of interest and properly manage the risks of the fund, resulting in Ng granting loans to himself with the investors' subscriptions. Agg also caused the fund to invest in two debentures which appeared to have been constructed for the purpose of inflating the fund's net asset value.

#### **(ii) Investment within mandate, safety of fund assets and valuation**

In another fund, Agg failed to properly safeguard the fund's assets by allowing Ng to withdraw part of the investors' subscriptions from the fund ultimately for his own benefit. Agg further failed to ensure that the fund's investments were in line with its stated investment objective and its assets were valued

and properly accounted for.

The SFC is of the view that Agg's window-dressing activities breached the SFO, the Securities and Futures (Financial Resources) Rules (FRR) and the Code of Conduct, thereby jeopardising the integrity of the market. The mismanagement of funds by Agg breached the Fund Manager Code of Conduct, resulting in substantial loss to investors.

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## **SFC reprimands and fines Ever-Long Securities Company Limited \$3 million for sponsor failures**

**27 Dec 2024**

The Securities and Futures Commission (SFC) has reprimanded and fined Ever-Long Securities Company Limited (Ever-Long) \$3 million for failing to discharge its duties as the sole sponsor in the application of Coastal Corporation Limited (Coastal) in 2016 to list on the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong Limited (SEHK).

At the material times, Coastal and its subsidiaries (Coastal Group) were providers of vessel chartering services based in Singapore.

The disciplinary action followed the SFC's investigation which found that Ever-Long failed to:

- perform proper due diligence on material issues in relation to a business arrangement between Coastal's subsidiary and a top customer of Coastal Group;
- disclose a known material issue in relation to the top customer in writing to SEHK; and
- ensure the completeness of information in the Application Proof.

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