REGULATORY NEWSLETTER

2025 Vol.4

April, spring 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

Hong Kong capital markets wrap up 2024 on a high note: SFC Quarterly Report

6 Mar 2025

A strong asset management sector and enhanced market connectivity amidst improving investor sentiment provided Hong Kong's capital markets with a strong finish to 2024, according to the Securities and Futures Commission's (SFC) Quarterly Report published today.

On the asset management front, the exchange-traded fund (ETFs) market made further headway last year, as the average daily turnover for ETFs surged 35% year-on-year to $18.9 billion (US$2.4 billion), accounting for 14% of total stock market turnover. They raked in net inflows of $22.8 billion (US$2.9 billion) for the year, while the number of ETFs increased 11% to 194.

In another sign of the sector's vibrancy, net inflows into Hong Kong-domiciled funds soared 88% to $162.9 billion (US$ 20.9 billion), with their assets under management up by a robust 22% to $1.64 trillion (US$211.4 billion).

Meanwhile, the milestone cross-listing of two Hong Kong ETFs in Saudi Arabia in October has boosted regional market connectivity. The two ETFs, the largest in the Saudi market, had a combined market capitalisation of US$1.6 billion as of December.

Following the implementation of ETF Connect enhancements and the listings of several leading Mainland companies in Hong Kong since April 2024, connectivity with Mainland markets was further reinforced as enhancements to the Mainland-Hong Kong Mutual Recognition of Funds scheme strongly bolstered Hong Kong fund sales after taking effect in January 2025.

Stock Connect, marking a first decade of success, saw a 55% jump in average daily southbound trading to $48.2 billion in 2024, representing more than 18% of Hong Kong market turnover. Southbound net inflows also hit a 10-year high of $807.9 billion, with cumulative inflows nearing $3.7 trillion as of December.

"With the Mainland's comprehensive support for its economy since last September, Hong Kong's markets demonstrated time-tested resilience and enduring appeal to global investors through a challenging year of 2024," said Ms Julia Leung, the SFC's Chief Executive Officer. "Building upon the progress, the SFC will remain committed to facilitating developments and fostering innovation for our markets while upholding their integrity and quality."

In addition, licensing data continued its upward trend, with the total number of licensed corporations up 1.5% and the number of licence applications up 15% as of end-2024. For virtual assets (VA), the SFC granted licences to three more VA trading platforms in early 2025, bringing the total number to 10. To cement Hong Kong's role as a global VA hub, the SFC has recently issued the "ASPIRe" roadmap clearly setting out 12 major initiatives.

To step up investor education and combat investment fraud, the SFC in December launched a fresh anti-scam publicity campaign titled "Don't be Sucker" through a catchy rap song, a music video, a new Instagram account and advertisements on both online and traditional media. The music video recorded more than 78,000 views on the campaign's dedicated YouTube channel in the first two months since launch. The campaign focuses on the common scam scenarios of online romance scams, impersonation and deceptive tips from financial influencers.

The SFC also continued to prudently manage its financial health, which is key to ensuring its sustainability as Hong Kong's capital market regulator. It is pleased to report a modest surplus of $77 million for the last quarter, as Hong Kong's stock market turnover rebounded upon the Mainland's economic support measures.

The quarterly report is available on the SFC website.

[View Circular]

Circular to intermediaries and licensed individuals on arrangements for the collection of annual licensing fees

14 March 2025

Effective April 1, 2025, the Securities and Futures Commission (SFC) will restart the collection of annual licensing fees from all intermediaries and licensed individuals. According to Section 138(2) of the Securities and Futures Ordinance (SFO), all intermediaries and licensed individuals are required to pay their annual licensing fees within one month after the anniversary date of their licenses or registrations. Failure to pay the full annual fee by the due date will result in a surcharge on the outstanding amount, and may lead to the suspension or revocation of their licenses or registrations.

Annual licensing fees must be paid by each type of intermediary, licensed individual, and regulated activity (RA):

Types of Intermediary / Licensed Individual	Types of RA	Annual Licensing Fee
Licensed Corporation	RAs other than RA 3	$4,740 per RA
	RA 3	$129,730
Responsible Officer	RAs other than RA 3	$4,740 per RA
	RA 3	$5,370
Licensed Representative	RAs other than RA 3	$1,790 per RA
	RA 3	$2,420
Registered Institution	RAs other than RAs 3 and RA 8	$35,000 per RA

Intermediaries and licensed individuals are strongly encouraged to pay their annual fees using online payment options on WINGS, including WINGS.Pay, Faster Payment System (FPS), PPS, and credit card.

e-Notifications regarding the payable fees will be sent via WINGS Mails to all intermediaries and licensed individuals on the anniversary dates of their licenses or registrations. Delegated persons should ensure they can access WINGS Mails in their accounts. Intermediaries are also advised to review and set up proper delegation in their Corporate WINGS accounts for managing fees and payments.

The SFC has created a Quick Guide and a set of frequently asked questions (FAQs) to assist the industry in managing annual licensing fee payments. For any inquiries about this circular, please reach out to your case officer.

View Circular

Circular to licensed corporations on IPO subscription and financing services

20 Mar 2025

The Securities and Futures Commission (SFC) has recently conducted a review of the risk management practices and controls of select licensed corporations (LCs) concerning their initial public offering (IPO) subscription and financing services, as well as their adherence to the SFC's 2023 circular. This circular outline the review findings and offers guidance on the expected standards of conduct for IPO financing and subscription practices.

Review Findings
The review identified several shortcomings in the IPO financing activities of the selected LCs. Notably, some accepted clients' subscription orders without confirming their financial ability to fulfill their obligations. This led to imprudent financing practices that increased financial risks, including client defaults when share allocations exceeded their financial capacity. Key findings include:

Credit Controls
The review revealed that many LCs focused more on anticipated subscription levels rather than

assessing clients' financial situations when providing IPO financing. This approach raised the risk of over-leveraging clients and increased the likelihood of defaults. Specifically:

- Most LCs established credit limits based on a multiplier of clients' account balances, often exceeding their actual financial capabilities.
- Many LCs based financing on a set leverage ratio influenced by IPO over-subscription levels, without providing written justifications for these practices.

IPO Funding Arrangements
Some LCs required minimal upfront deposits for non-fully funded IPO subscriptions, relying heavily on their own resources to meet pre-funding requirements. This practice jeopardized their financial stability, especially during the two-day period between pre-funding confirmation and the release of funds from banks.

Handling Subscription Deposits
The selected LCs generally did not properly segregate subscription deposits from clients. The SFC found that:

- LCs did not account for deposits not placed with designated banks in their daily segregation processes, leading to under-segregation of client funds.
- Certain LCs failed to segregate client money promptly after the balloting process, delaying refunds to clients.

Regulatory Guidance
In response to the review findings, the SFC outlines expected standards for LCs in providing IPO financing and recommends internal control measures to enhance their practices.

IPO Financing Activities

1. **Minimum Upfront Subscription Deposits**: LCs should collect a minimum upfront deposit of 10% from clients for IPO subscription orders not fully pre-funded.
2. **Financial Risk Management**: LCs must assess their own financial stability and the creditworthiness of clients before providing financing. Specifically, they should:
   - Perform assessments before an IPO to estimate financial impacts and funding needs.
   - Evaluate clients' financial capabilities and, if necessary, collect more than the minimum upfront deposit.

Segregation of Subscription Deposits
LCs are reminded to properly segregate upfront deposits not placed with designated banks and ensure that funds related to unsuccessful IPO applications are either segregated or refunded within one business day.

Other Compliance Issues
The SFC also emphasizes important considerations for IPO subscriptions:

1. **Investor Identification Requirements under FINI**: LCs must ensure the accuracy of client identification data submitted to FINI, including:
   - Adhering to FINI's waterfall requirements.
   - Verifying that no higher-priority identity documents exist.
   - Implementing controls to prevent multiple subscription orders from the same client.
2. **Computation of Liquid Capital**: LCs must calculate liquid capital according to FRR provisions, ensuring that all assets and liabilities are accounted for correctly. They may include receivables for IPO financing as liquid assets after collecting the minimum upfront deposits.

LCs should review their policies and procedures to ensure compliance with this circular for IPOs commencing after its issuance. The SFC will continue to monitor LCs' compliance through various supervisory methods.

View Circular

Hong Kong's securities industry posted broad-based growth in 2024

26 Mar 2025

Hong Kong's securities industry showed remarkable resilience in financial performance in 2024, with total net profits surging 56% year-on-year to $44.4 billion, as detailed in the Securities and Futures Commission's (SFC) report on the financial review of the securities industry issued today.

The earnings growth came on the back of an 11% increase in total income to $222.6 billion, which outpaced the mild 4% rise in overheads. In 2024, the total value of transactions of all securities dealers and securities margin financiers (Note) in Hong Kong jumped 34% to $144.1 trillion.

The industry reported broad-based growth across different income categories, including net securities commission income (up 18% to $20.2 billion), asset management income (up 14% to $37.5 billion), and notably income from underwriting and placing of securities (up 118% to $11.1 billion).

"Our financial industry has shown resilience and adaptability amid global volatility, and it is even more encouraging to see that firms reported higher profits in 2024 with diversified income streams" remarked Dr Eric Yip, the SFC's Executive Director of Intermediaries. "Looking ahead, the SFC remains committed to reinforcing Hong Kong's position as a leading international financial centre with promising opportunities for industry participants and investors."

The financial review report is available on the SFC website.

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SFC proposes enhancements to targeted tools to address corporate misconduct

28 Mar 2025

The Securities and Futures Commission (SFC) today began a consultation on various proposed enhancements to the Securities and Futures (Stock Market Listing) Rules (SMLR) for IPO cases and post-IPO matters, with a view to improving regulatory efficiency in Hong Kong's listing market and providing broader protection for the investing public against imminent financial harm.

The proposed enhancements came after the SFC completed a review into the SMLR, examining whether the existing rules equip the SFC with sufficient targeted tools to ensure and encourage both listed issuers and listing applicants to make more transparent and accurate disclosures, as well as to address misconduct.

The key proposed enhancements to the SMLR fall into four areas:

(i) for IPO cases, the SFC would be able to require a listing applicant to meet continuing disclosure obligations post-listing without objecting to a listing by adding an express provision to the SMLR to clarify that the listing conditions can continue to have effect after listing. Some listing applications may therefore be allowed to proceed more quickly and transparency be enhanced under this tailored disclosure-based approach;

(ii) for post-IPO matters, the SFC proposes to offer a less disruptive alternative to suspension. Apart from the existing power to suspend dealings in securities when the situation warrants, the SFC would be able to impose post-listing conditions on a listed issuer in appropriate cases requiring more transparent and complete disclosures to ensure that investors can make informed decisions;

(iii) for trading suspensions, shorter suspension time is likely to result from the SFC's proposed move to more efficiently process applications for trading resumption through simplified procedures and the delegation of the SFC Board's decision-making power to senior executives in uncontroversial cases; and

(iv) for issuers aggrieved by the SFC's decisions, a right for them to seek a full merits review by the Securities and Futures Appeals Tribunal would provide an effective independent safeguard that the regulatory decisions made by the SFC are reasonable, proportionate and fair.

"Investors and listed issuers alike stand to benefit from these comprehensive enhancements to drive regulatory and operational efficiencies in Hong Kong's listing market as a favourite listing destination for companies at home and abroad," said Mr Michael Duignan, the SFC's Executive Director of Corporate Finance. "Strengthening public accountability and streamlining the regulatory process underscores the SFC's steadfast commitment to cementing the city's status as an international financial centre."

The SFC invites the public to submit their written comments on or before 23 May 2025 via the SFC website (www.sfc.hk), by email to SMLR.Review@sfc.hk, by post or by fax to 2810 5385.

View News

Updates on grant scheme for open-ended fund companies and real estate investment trusts

31 Mar 2025

The Securities and Futures Commission (SFC) is pleased to acknowledge the strong support from the industry for the grant scheme designed to assist in establishing open-ended fund companies (OFCs) and real estate investment trusts (REITs) in Hong Kong. Since the grant scheme's inception in May 2021, there has been notable growth in the number of OFCs. As of the end of February 2025, the count of registered OFCs in Hong Kong has surged by 81% year-on-year, reaching 502. In total, 430 OFCs and one REIT have benefited from this grant scheme.

In response to industry demand, the government announced an extension of the grant scheme for three additional years until 2027 in the 2024-25 Budget, aimed at fostering the ongoing development of the asset management sector and promoting the OFC structure in Hong Kong. To allow more participants to take advantage of the scheme, and given that the industry is becoming increasingly familiar with establishing OFCs, the eligibility criteria will be revised.

Starting from April 11, 2025, the scheme will cover 70% of eligible expenses incurred with Hong Kong-based service providers for OFCs incorporated in or re-domiciled to Hong Kong, as well as for SFC-authorized REITs newly listed on the Stock Exchange of Hong Kong Limited. This coverage will be capped at $300,000 for public OFCs, $150,000 for private OFCs, and $5 million for REITs, with a limit of one OFC per investment manager.

Ms. Christina Choi, the SFC's Executive Director of Investment Products, stated, "With ongoing support from both the government and market participants, the grant scheme will remain crucial in maintaining interest in establishing new OFCs and REITs in Hong Kong, thus reinforcing its position as a leading asset management hub."

[View News]

ENFORCEMENT NEWS

SFC obtains disqualification orders against former executive directors of Tech Pro Technology Development Limited
3 Mar 2025

The Securities and Futures Commission (SFC) has secured disqualification orders from the Court of First Instance against Mr. Li Wing Sang, the former chairman and executive director; and two former executive directors, Mr. Liu Xinsheng and Mr. Chiu Chi Hong, of Tech Pro Technology Development Limited (Tech Pro) for failing to adequately manage the company's investment through a joint venture with a Mainland partner.

Li and Liu, who also served as the director and supervisor of the joint venture, were disqualified for seven years from acting as a director, liquidator, receiver, or manager, and from participating in the management of any listed or unlisted corporation in Hong Kong. Chiu, who did not hold a position in the joint venture, received a four-year disqualification. All three were also ordered to pay the SFC's costs related to the proceedings.

The SFC's investigation revealed that the three directors did not exercise sufficient control and oversight over the joint venture, allowing the Mainland partner to misappropriate over RMB300 million. Additionally, the Mainland partner failed to pay the rent for a building in Shanghai, which resulted in a Mainland court terminating the joint venture's sub-leasing rights for that building, the main asset of the joint venture, effectively eliminating the value of Tech Pro's investment. The directors were unaware of the court order and the related legal proceedings.

Mr. Christopher Wilson, the SFC's Executive Director of Enforcement, stated, "As executive directors, they are responsible for managing the financial and operational aspects of the joint venture. Delegating management responsibilities to the Mainland partner does not absolve them of their fiduciary duties to act in the best interests of the company and protect its assets."

"These judgments reinforce the SFC's commitment to maintaining high standards of corporate governance and individual accountability to protect investor interests and ensure market integrity," Mr. Wilson added.

[View News]

SFC obtains disqualification order against former financial controller of Anxin-China Holdings Limited

11 Mar 2025

The Securities and Futures Commission (SFC) has secured a court order disqualifying Ms. Yang Shuyan, the former financial controller of Anxin-China Holdings Limited (Anxin), from serving as a director, liquidator, receiver, or manager of any corporation—both listed and unlisted—in Hong Kong for three years, unless permitted by the court.

The Court of First Instance issued this order after Yang acknowledged her failure to fulfill her responsibilities as Anxin's financial controller with the necessary skill, care, and diligence required to assess the company's financial status.

She also admitted to being negligent as part of the special team tasked with investigating discrepancies identified by the company's auditors concerning its banking records and management accounts.

The SFC's investigation revealed that Anxin significantly overstated its cash position from 2011 to 2015. Specifically, the company's cash figures in the audited consolidated financial statements for the years ending December 31, 2012, and 2013, were overstated by $1.26 billion and $1.73 billion, respectively. To conceal this overstatement, Anxin submitted false bank records to its auditors during the 2014 audit.

Yang was responsible for overseeing the audit and preparing the financial statements, which required her to have a thorough understanding of the company's financial condition, including cash reserves. However, she failed to take appropriate measures to recognize the inflated cash position during that period. Furthermore, she did not verify the findings of the special team regarding the discrepancies between banking records and management accounts, accepting their conclusions without question. Yang also neglected to express her concerns about the company's cash flow, the bank records presented to the independent forensic investigator, and her suspicions regarding the integrity of senior management while she was in office.

The Court noted that Yang's negligence was "nothing short of breath-taking," emphasizing that such significant irregularities could not have occurred without her gross negligence.

Mr. Christopher Wilson, the SFC's Executive Director of Enforcement, stated, "The role of financial controllers in listed companies is crucial for maintaining the integrity of financial reporting. Professional skepticism is not merely a best practice; it is a critical obligation. Financial controllers must approach their duties with a questioning attitude, actively verifying financial information to safeguard stakeholders."

View News

SFC seeks disqualification and compensation orders against entire former board of 3DG Holdings (International) Limited

14 Mar 2025

The Securities and Futures Commission (SFC) has initiated legal action in the Court of First Instance to seek disqualification and compensation from eight former directors of 3DG Holdings (International) Limited (previously known as Hong Kong Resources Holdings Company Limited) for their alleged failure to prevent the misappropriation of $74.4 million in corporate funds.

The eight directors were all members of the board of HK Resources during the relevant period. They include Mr. Xu Zhigang, executive director and CEO; Mr. Wu Xiaolin; Mr. Wilfred Lam Kwok Hing; Mr. Zhao Jianguo; Ms. Dai Wei, executive directors; and Mr. Loke Yu, Mr. Anthony Fan Ren Da, and Mr. Xu Xiaoping, independent non-executive directors.

The SFC's investigation found that on June 8, 2017, HK Resources acquired a 100% equity interest in a licensed money lender. From June 2018 to March 2019, HK Resources issued 12 loans totaling $74.4 million through its new money lending operations, all of which defaulted when due.

As part of the legal proceedings, the SFC is seeking compensation orders against the eight directors to jointly or individually reimburse HK Resources the full $74.4 million that was disbursed for the loans. The SFC claims that the acquisition and the loans were part of a scheme to misappropriate HK Resources' funds.

In pursuing disqualification orders, the SFC asserts that the directors breached their responsibilities to HK Resources and did not act with the necessary skill, care, and diligence in fulfilling their roles and exercising their powers.

[View News]

SFC bans Steven Wong Yung for 14 months for fund management failures

19 Mar 2025

The Securities and Futures Commission (SFC) has barred Mr. Steven Wong Yung, a former responsible officer (RO) and chief executive officer of Kylin International (HK) Co., Limited (Kylin), from returning to the industry for 14 months, from March 18, 2025, to May 17, 2026, due to failures in managing various private funds.

From August 2018 to July 2021, Kylin served as the investment manager and/or consultant for sub-funds of a fund incorporated in the Cayman Islands. Wong was tasked with overseeing Kylin’s overall operations and internal controls.

The SFC found that Wong did not fulfill his responsibilities as an RO and senior management member at Kylin, failing to ensure the company maintained appropriate standards of conduct and followed proper procedures in managing the funds, as well as in managing the associated risks.

In determining the sanction, the SFC considered Wong’s cooperation in addressing its concerns and his previously clean disciplinary record.

[View News]

SFC suspends finfluencer for 16 months

20 Mar 2025

The Securities and Futures Commission (SFC) has suspended Mr. Wong Ming Chung, a finfluencer known as Franky Wong and a licensed representative of Tse's Securities Limited (TSL), for 16 months, from March 19, 2025, to July 18, 2026. This action follows his criminal conviction for providing investment advice through a subscription-based Telegram chat group that he hosted without a license.

At the time of the incidents, Wong was a licensed representative with the SFC, but he was only authorized to operate on behalf of TSL in regulated activities. However, he ran the Telegram group in his personal capacity from January 2, 2018, to May 21, 2019.

Given these circumstances, the SFC has determined that Wong is not a fit and proper person to retain his license to conduct regulated activities due to his criminal conviction.

In determining the sanction for Wong, the SFC considered all relevant factors, including his cooperation in addressing the SFC's concerns.

Mr. Christopher Wilson, the SFC's Executive Director of Enforcement, stated, "Investors should be cautious and vigilant when relying on information provided by finfluencers. Some finfluencers sharing investment-related content on social media and other online platforms may be engaging in regulated activities that require SFC licensing. Unlicensed finfluencers may not meet the SFC's standards for conduct and accountability, which can lead to investor losses."

"Before acting on investment advice, investors should verify that the firms and individuals providing it are properly licensed," Mr. Wilson added.

[View News]

Further adjournment for mention in false trading prosecution

20 Mar 2025

The Eastern Magistrates' Court has postponed the false trading case against Mr. Lin Tai Fung and his brother-in-law, Mr. Or Chun Nin, to May 15, 2025, for further mention.

No pleas were entered by the defendants during today's hearing.

The proceedings were initiated by the SFC, with both defendants facing charges of conspiracy to engage in false trading involving shares of Pa Shun International Holdings Limited (Pa Shun), a listed company. Additionally, Lin is charged with failing to disclose his interest in Pa Shun shares.

Both Lin and Or have been granted bail until the next hearing under the following conditions: (i) a cash bail of $20,000 and (ii) a surety of $50,000.

[View News]

SFC reprimands and fines Enlighten Securities Limited $5 million and suspends its responsible officer for internal control failures over securities margin financing

24 Mar 2025

The Securities and Futures Commission (SFC) has issued a reprimand and imposed a $5 million fine on Enlighten Securities Limited (ESL) due to failures in internal controls related to securities margin financing.

Additionally, the SFC has suspended Mr. Denny Kua Kong Chak's license, who is a responsible officer and manager at ESL, for seven months, effective from March 21, 2025, to October 20, 2025.

An investigation by the SFC uncovered significant shortcomings in ESL's risk management practices concerning securities margin financing during the period from May 1, 2020, to November 30, 2022 (the Relevant Period).

The SFC found that ESL extended financial support to margin clients who had long-standing shortfalls and poor records of settling margin calls, failing to implement necessary measures to mitigate associated risks.

ESL's shortcomings did not meet the standards required under the Internal Control Guidelines, the Code of Conduct, and the Guidelines for Securities Margin Financing Activities.

The SFC determined that these failures were linked to Kua's inability to fulfill his responsibilities as a responsible officer and member of ESL's senior management during the Relevant Period.

the SFC considered several factors in determining the disciplinary actions against ESL and Kua.

View News

District Court sets trial dates for three sophisticated ramp-and-dump cases

25 Mar 2025

The District Court trial for three complex ramp-and-dump cases involving the shares of Eggriculture Foods Limited, Fullwealth Construction Holdings Company Limited, and KNT Holdings Limited is set to commence on July 13, 2026, November 30, 2026, and April 6, 2027, respectively.

During today's hearing, trial dates were established after all 19 defendants in these cases pleaded not guilty to charges related to suspected securities fraud and money laundering.

These criminal proceedings stem from a joint investigation by the Securities and Futures Commission (SFC) and the Police.

The defendants face charges of conspiracy to defraud and conspiracy to implement a scheme intended to deceive in securities transactions under common law, the Securities and Futures Ordinance (SFO), and the Crimes Ordinance; and/or money laundering under the Organized and Serious Crimes Ordinance.

The District Court has granted bail to each defendant pending trial with the following conditions: (i) cash and sureties ranging from $50,000 to $1 million; (ii) they must not leave Hong Kong; (iii) they must surrender all travel documents; (iv) they are required to report to the police station regularly; and (v) they must reside at their reported address and inform the Police in advance of any changes.

View News

Court further adjourns insider dealing hearing against Wong Pak Ming

27 Mar 2025

The Eastern Magistrates' Court has postponed the insider trading case against Mr. Wong Pak Ming to April 25, 2025, for further mention in the criminal proceedings initiated by the Securities and Futures Commission (SFC).

Wong faces charges of insider trading related to the shares of Transmit Entertainment Limited (previously known as Pegasus Entertainment Holdings Limited). He is accused of advising or procuring another individual to trade in Pegasus shares between August 25, 2017, and October 17, 2017, while serving as chairman and controlling shareholder of the company, and possessing information that he knew was insider information regarding Pegasus.

Wong's bail has been extended until the next hearing, under the following conditions: (i) a cash bail of $200,000; (ii) he must maintain residence at the address provided and notify the police of any changes; and (iii) he must inform the SFC 24 hours before leaving Hong Kong.

View News

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