

---

# REGULATORY NEWSLETTER

2024 Vol.2



---

## February – It's the time to share love in all its forms!

Whether it's the love we have for our partners, families, friends, or even for ourselves, February serves as a reminder to cherish and nurture these important relationships. So let us take this opportunity to spread love, kindness, and compassion to those around us, and make this month a truly memorable one filled with warmth and heartfelt connections.

ComplianceDirect wishes you all a happy Valentines' Day!

---

## REGULATORY UPDATES

---

### Deferral of margin requirements for non-centrally cleared equity options

15 Jan 2024

This circular informs licensed corporations that the Securities and Futures Commission (SFC) will defer the effective date of its margin requirements for non-centrally cleared single-stock options, equity basket options and equity index options (collectively, "non-centrally cleared equity options") by two years to 4 January 2026 to align with the latest global developments.

The SFC's margin requirements for non-centrally cleared equity options were originally scheduled to take effect on 4 January 2024 when such margin requirements were expected to become effective in the UK and European Union (EU). Nevertheless, on 18 December 2023, the UK's Prudential Regulation Authority and Financial Conduct Authority published a joint policy statement containing amendments to the Binding Technical Standards 2016/2251. The statement extended the temporary exemptions for single-stock equity options and index options from the UK bilateral margining

requirements from 4 January 2024 until 4 January 2026. In addition, on 20 December 2023, the European Supervisory Authorities (ESAs) published the joint draft regulatory technical standards (RTS)<sup>5</sup> under the European Market Infrastructure Regulation, proposing an extension to the equity option exemption from bilateral margining by two years until 4 January 2026.

To prevent regulatory arbitrage and considering that licensed corporations' exposures to non-centrally cleared equity options are currently insignificant, the SFC has decided to align the effective date of its margin requirements with the UK and EU's timelines.

Paragraph 7(e) of Part III of Schedule 10 to the Code of Conduct will be amended accordingly and gazetted in due course.

[View Circular](#)

## **Circularisation exercise and internal control review**

**23 Jan 2024**

The Securities and Futures Commission (SFC) will commence in February 2024 a circularisation exercise on clients' accounts of selected securities brokers and an internal control review of these brokers' safeguarding of client assets (collectively the "Exercise"). The SFC has engaged KPMG Advisory (Hong Kong) Limited (KPMG) to assist with the Exercise, which includes obtaining direct written confirmation from selected clients.

### Client asset protection

Client asset protection is always a top priority of the SFC in supervising licensed corporations (LCs). In this regard, the SFC issues circulars and management letters to LCs from time to time to share its observations on control issues identified in its supervision work, and provides guidance to LCs on the regulatory standards expected of them. The SFC also conducts regular circularisation exercises such that both the SFC and brokers' management could obtain direct confirmations from clients on their account positions and identify any potential misconduct such as unauthorised trading and misappropriation of client assets.

### Circularisation exercise

To facilitate the conduct of the circularisation exercise, brokers are reminded to ensure that their clients' personal information is accurate and up-to-date. Before sending out letters of confirmation, KPMG may seek assistance from brokers to contact the selected clients to: (i) confirm the clients' identities and contact details; (ii) request the clients to check their account positions; and (iii) sign and return their replies directly to KPMG.

### Internal control review

The review will cover brokers' internal control systems that are designed to protect client assets, such as their controls over client information maintenance, clients' money and securities reconciliation, as well as the distribution of account statements and trade documents. In addition, the review will assess brokers' compliance with the expected regulatory standards set out in the following SFC circulars in relation to safeguarding client assets and prevention of fraud:

- [Review of internal controls for the protection of client assets and supervision of account executives](#) and a [self-assessment checklist](#) issued on 19 December 2018;
- [Third-party deposits and payments](#) issued on 31 May 2019;
- [Operation of bank accounts](#) issued on 28 June 2021; and
- [Managing the risks of business email compromise](#) issued on 24 March 2022.

Brokers are expected to have effective and robust controls in place to protect client assets. Where appropriate, the SFC may share the findings of the Exercise with the industry.

[View Circular](#)

## Participation in Cross-Boundary Wealth Management Connect Pilot Scheme

24 Jan 2024

The People's Bank of China published its revised Implementation Arrangements for the Cross-boundary WMC Pilot Scheme in the GBA (Implementation Rules) (《粵港澳大灣區“跨境理財通”業務試點實施細則》) to enhance the Cross-Boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (Cross-Boundary WMC). These enhancements include allowing eligible licensed corporations (LCs) to participate in the Cross-Boundary WMC, expanding the eligible investment product scope and clarifying the promotion and sales arrangements. The revised Implementation Rules will come into effect on 26 February 2024.

In this connection, the Securities and Futures Commission (SFC), upon discussion with the relevant regulatory authorities and soft consultation with the industry, has issued a set of guidance for LCs which wish to participate in the [Southbound Scheme](#) and [Northbound Scheme](#) of the Cross-Boundary WMC, as well as the [Frequently Asked Questions](#). The guidance covers, amongst others, the following aspects:

- eligible criteria for participating LCs;
- eligible criteria for investors;
- scope of eligible investment products;
- account opening arrangements;
- investor quota management;
- cross-boundary closed-loop fund flow arrangements; and
- promotion and sales arrangements.

Prior to the launch of any Cross-Boundary WMC related activities, eligible LCs which intend to participate in the Cross-Boundary WMC should:

- partner with an eligible Mainland broker and work closely with it to ensure that all preparatory work, including the relevant system set-up, is properly performed;
- put in place adequate systems, internal control measures and operating procedures in accordance with the requirements set out in the guidance; and
- submit to the SFC, amongst others, their business plan and a self-assessment report certified by their Manager-in-Charge (MIC) – Overall Management Oversight, MIC – Compliance and head of internal audit function, to demonstrate their operational readiness.

Upon receiving the no objection notification from the SFC, LCs may conduct business activities under the Southbound Scheme, the Northbound Scheme or both.

LCs are encouraged to notify and discuss their business plan with their case officer in the SFC in advance should they wish to participate in the Cross-Boundary WMC.

[View Circular](#)

---

## ENFORCEMENT NEWS

---

### **SFC suspends Andy Wong Yeung for 10 months**

**9 Jan 2024**

The Securities and Futures Commission (SFC) has suspended Mr Andy Wong Yeung, former responsible officer (RO), manager-in-charge (MIC) of key business line and overall management oversight and director of City International Futures (Hong Kong) Limited (CIFHKL), for 10 months from 9 January 2024 to 8 November 2024.

The disciplinary action follows the SFC's sanctions against CIFHKL for its failures in complying with anti-money laundering and counter-terrorist financing (AML/CFT) and other regulatory requirements between March 2016 and October 2018.

The SFC considers that CIFHKL's failures were attributable to Wong's failure to discharge his duties as an RO and a member of the senior management of CIFHKL during the material time.

The SFC's investigation found that CIFHKL, without conducting adequate due diligence, was unable to properly assess and manage the money laundering and terrorist financing and other risks associated with permitting its clients to use client supplied systems (CSSs) in placing orders. The SFC also found that CIFHKL failed to conduct proper enquiries on client deposits which were incommensurate with the clients' declared financial profiles and establish effective ongoing monitoring system to detect and assess suspicious trading patterns in client accounts

. In deciding the disciplinary sanctions against Wong, the SFC took into account that:

- the failures of him and CIFHKL to diligently monitor clients' activities and put in place adequate and effective AML/CFT systems and controls are serious because their failings could undermine public confidence in, and damage the integrity of, the market;
- a strong deterrent message needs to be sent to the market that such failures are not acceptable; and
- he has an otherwise clean disciplinary record.

[View News](#)

---

### **Suspected core syndicate member charged in ramp-and dump case**

**29 Jan 2024**

A suspected core member of a sophisticated ramp-and-dump syndicate, Mr Lau Ka Wing, was charged at the Eastern Magistracy following an extensive investigation by the Securities and Futures Commission (SFC). Two other suspected members of the syndicate were charged previously in

connection with the case.

Lau was charged with the offence of conspiracy to employ a scheme with intent to defraud or deceive in transactions involving securities contrary to section 300 of the Securities and Futures Ordinance and section 159A and 159C of the Crimes Ordinance.

The case was adjourned to 8 April 2024. The Court granted bail to Lau on these conditions: (i) cash bail \$400,000; (ii) not to leave Hong Kong; (iii) surrender all travel documents and (iv) report to police station on a regular basis.

No further comment will be made as legal proceedings have commenced.

[View News](#)



**ComplianceDirect Consulting Limited**

Address: Unit 2, 10/F, Cheong K. Building, 84 & 86 Des Voeux Road Central, Central, Hong Kong

Phone: 2606 1800

Website: [www.compliancedirecthk.com](http://www.compliancedirecthk.com)

---