

# Intermediaries

## Licensing applications

In the quarter, we received 1,786 licence applications<sup>1</sup>, down 6.8% from the same quarter in 2015, while the number of corporate applications rose to 83, up from 53.

As of 31 December 2016, the number of licensees and registrants totalled 42,665, up 2.9% from a year earlier, while in the same period the number of licensed corporations grew 11% to 2,411. Both were record highs since the implementation of the regulatory regime under the Securities and Futures Ordinance on 1 April 2003.

## Senior management accountability

In December, we issued a circular to all licensed corporations to introduce the Manager-In-Charge (MIC) initiative, which aims to clarify the accountability of the senior management of licensed firms and to promote awareness of senior management obligations under the current regulatory regime.

Under the new measures, from 18 April 2017, corporate licence applicants must submit management structure information and organisational charts to the SFC. Existing licensed corporations must submit this information between 18 April 2017 and 17 July 2017. In addition, MICs of the overall management oversight and key business line functions of licensed corporations who are not responsible officers should have applied to become responsible officers by 16 October 2017.

Together with the circular, we published more than 40 frequently asked questions (FAQs) to provide additional guidance. We organised a series of workshops in early 2017 to help the industry further understand the initiative.

## Suitability obligations

Also in December, we issued circulars and updated our FAQs to provide clarification and guidance on licensees' existing suitability obligations<sup>2</sup>. In particular, we clarified the application of these obligations under the Code of Conduct<sup>3</sup> and provided guidance and examples for whether and when they would be triggered under certain scenarios. We also provided

further guidance on licensees' compliance with suitability obligations such as product due diligence and the documentation of the rationale for investment recommendations.

## Mandatory online submissions

To improve the efficiency of the licensing application process, we announced in November that all individuals will be required to use the SFC Online Portal to submit their licensing applications, notifications and annual returns from 1 February 2017. Corporations may continue to submit licensing applications in a paper form or via the portal.

To prepare for the launch of the new requirement, in December we enhanced the portal and our licensing forms and conducted six briefing sessions for the industry.

## Monitoring

During the quarter, we conducted 89 risk-based on-site inspections on licensed corporations to review their compliance with relevant regulatory requirements.

To help formulate policies to improve the overall resilience of the markets, we commenced a review in October to assess the cybersecurity features of the internet and mobile trading systems of licensed corporations as well as the industry's preparedness for and resilience to cyber risks.

In November, we commenced a thematic review of market practices in delivering best execution and providing client facilitation services. The review also considered the latest market developments and assessed licensed corporations' controls for complying with relevant regulatory requirements.

We also conducted a thematic review to assess whether selected licensed corporations have put in place appropriate and specific policies, procedures and controls in respect of algorithmic trading to comply with related requirements stipulated in the Code of Conduct. An advisory circular was issued in December to provide further guidance to the industry and to share observations and good practices noted during the review.

<sup>1</sup> The figure does not include applications for provisional licences. See the table on licensing applications on page 5 or details.

<sup>2</sup> See also Investment products on page 6.

<sup>3</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Promoting compliance

As part of our ongoing effort to promote compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) requirements, we issued 10 advisory circulars in the quarter to enhance the industry's awareness of the latest developments in these areas. We also conducted three seminars in October with more than 800 industry participants including management and compliance personnel from licensed corporations.

In addition, we issued advisory circulars on:

- regulatory requirements on account opening as set out in the Code of Conduct, including the opening of accounts in non-face-to-face situations and the use of the certification services to verify clients' identities;
- regulatory requirements for providing securities dealing services under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and observations noted in recent inspections of these activities; and
- new statutory requirements set out in the Inland Revenue Ordinance regarding automatic exchange of financial account information.

## Licensees and registrants

	As at 31.12.2016	As at 31.3.2016	Change (%)	As at 31.12.2015	YoY change (%)
Licensed corporations	2,411	2,208	9.2	2,172	11
Registered institutions	121	119	1.7	119	1.7
Licensed individuals	40,133	39,207	2.4	39,175	2.4
<b>Total</b>	<b>42,665</b>	<b>41,534</b>	<b>2.7</b>	<b>41,466</b>	<b>2.9</b>

## Financial resolution regime

The Financial Services and the Treasury Bureau, the Hong Kong Monetary Authority, the Insurance Authority and the SFC continue to prepare for the launch of the new financial resolution regime and in November launched a two-month joint consultation on draft regulations for protected arrangements to be made under the Financial Institutions (Resolution) Ordinance<sup>4</sup>.

## Survey on sale of non-exchange traded investment products

We published a biennial Survey on the Sale of Non-exchange Traded Investment Products<sup>5</sup> in December. The survey was conducted with an aim to understand the industry landscape and to obtain an overview of the types and value of investment products sold by licensed corporations. It showed that the number of licensed corporations engaged in the sale of investment products during the year ended 31 March 2016 increased by 15% from the 2014 survey, while the aggregate transaction amount of investment products dropped by 19%. The survey helps us supervise the selling practices of licensed corporations.

<sup>4</sup> The Financial Institutions (Resolution) Ordinance, gazetted on 30 June 2016, will become effective on a date to be appointed by the Secretary for Financial Services and the Treasury pending the passing of subsidiary legislation.

<sup>5</sup> Previous surveys were conducted and published in 2012 and 2014.

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## Licensing applications

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Applications to conduct new regulated activity	4,866	16,491	17,701	-6.8
Applications for SFC licences <sup>#</sup>	1,786	5,880	6,137	-4.2

<sup>#</sup> Figures do not include applications for provisional licences. During the quarter, we received 804 provisional licence applications compared with 1,051 in the same quarter last year.

## Intermediary inspection

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Risk-based on-site inspections conducted	89	241	226	6.6