

# Intermediaries

## Licence applications

In the quarter, we received 1,698 licence applications<sup>1</sup>, down 6.5% from the same quarter in 2016, while the number of corporate applications remained the same at 80.

As at 30 June, the number of licensees and registrants totalled 43,204, up 3.1% year-on-year, while the number of licensed corporations grew 13% to 2,549. Both were record highs.

## Senior management accountability

Under the Manager-In-Charge (MIC) Regime which took effect on 18 April, corporate licence applicants must submit management structure information and organisational charts to the SFC. Existing licensed corporations were required to submit this information by 17 July.

We issued a circular in mid-June to remind the industry that MICs of overall management oversight and key business line functions of licensed corporations should apply for approval to become responsible officers by 16 October.

To facilitate the submission of MIC information from the more than 2,500 existing licensed corporations, we enhanced the SFC Online Portal and introduced its new features at a series of industry workshops we organised between February and April.

## Substantial shareholders and responsible officers

A circular issued at the beginning of June reminded the industry that we may revoke the licences of corporations and individuals if they do not genuinely carry out a business in a regulated activity. This followed our observation that an increasing number of persons with no prior industry experience were seeking to set up or acquire licensed corporations in Hong Kong. Some responsible officers might be hired by these licensed corporations in name only and not have sufficient authority over the firms' management or operations. The circular also clarified that the vetting process for a substantial shareholder application is no less stringent than for a new corporate licence application.

## Licensing information

In April, we published a comprehensive Licensing Handbook which consolidates and provides easier access to the licensing information previously contained in the Licensing Information Booklet and in frequently asked questions (FAQs) and circulars. The licensing section of the SFC website was also revamped to improve the user experience.

## Competence requirements

On 23 June, we issued a circular to clarify certain competence requirements for existing licensed persons seeking to be licensed for Type 9 regulated activity (asset management) and to provide further guidance on how the SFC assesses the competence of a corporation or a responsible officer to carry on asset management activities.

For example, a responsible officer licensed for Type 1 regulated activity (dealing in securities) may, subject to the SFC's discretion, be licensed to engage in Type 9 regulated activity (asset management) without sitting for the required examination papers if he or she has five or more years of related experience in managing discretionary accounts as a wholly incidental activity and completes additional continuous professional training hours. The responsible officer's firm can then carry on discretionary account management business which is no longer restricted to being incidental to its dealing activities.

The circular was issued in response to enquiries from existing licensed persons who intend to broaden their business scope to include asset management.

## Financial Resources Rules

In July, we published consultation conclusions on the proposed regulatory capital regime for licensed corporations engaged in over-the-counter (OTC) derivatives activities and other changes to the Securities and Futures (Financial Resources) Rules (FRR). We will implement the proposals, subject to modifications, and conduct a further consultation on some modified and additional FRR proposals, which are not specific to OTC derivatives activities, to reflect recent market developments.

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

# Intermediaries

## Cybersecurity

In May, we launched a two-month consultation on our proposals to reduce and mitigate hacking risks associated with internet trading, setting out 20 baseline cybersecurity requirements including for two-factor authentication and notifications to clients. We conducted or co-hosted a series of presentations and seminars on our proposals for about a thousand industry participants.

## Financial resolution regime

Together with the Government, the Hong Kong Monetary Authority (HKMA) and the Insurance Authority (IA), in April we jointly released the consultation conclusion on the Protected Arrangements Regulation which imposes appropriate constraints on the resolution authorities (namely, the HKMA, the IA and the SFC) under the Financial Institutions (Resolution) Ordinance<sup>2</sup>.

## Monitoring and promoting compliance

During the quarter, we conducted 74 risk-based on-site inspections of licensed corporations to review their compliance with relevant regulatory requirements.

In May, we issued a circular to alert the industry of ransomware threats and a circular to financial advisers in relation to their advisory work on valuations in corporate transactions.

## Licenses and registrants

	As at 30.6.2017	As at 31.3.2017	Change (%)	As at 30.6.2016	YoY change (%)
Licensed corporations	2,549	2,484	2.6	2,255	13
Registered institutions	119	121	-1.7	119	0
Licensed individuals	40,536	40,267	0.7	39,518	2.6
<b>Total</b>	<b>43,204</b>	<b>42,872</b>	<b>0.8</b>	<b>41,892</b>	<b>3.1</b>

We held a forum in May on algorithmic trading to clarify some fundamental areas of concern and for the industry to share good practices, insights and challenges. The forum was attended by around 180 participants.

Following the April publication of our *Report on the fact-finding exercise on retail futures brokers*, we issued a circular in June to futures brokers setting out key areas of regulatory concern and expected standards of conduct and internal controls.

As part of our ongoing effort to promote compliance with anti-money laundering and counter-terrorist financing requirements, we issued eight circulars during the quarter. We also made three presentations to industry associations attended by around 400 participants in June.

## Restriction notice on IDS Forex

On 12 June, we issued a restriction notice on IDS Forex HK Limited prohibiting the firm from carrying on all activities for which it is licensed following the conviction in Korea of its sole shareholder, Mr Kim Sunghun, for illegal fund-raising and fraud. We are concerned that IDS Forex's capital may be the proceeds of crime.

<sup>2</sup> Both the Commencement Notice of the Financial Institutions (Resolution) Ordinance and the Protected Arrangements Regulation were gazetted in May. They came into operation on 7 July.

## Intermediaries

### Licensing applications

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Applications to conduct new regulated activity	<b>4,810</b>	5,111	-5.9	4,981	-3.4
Applications for SFC licences <sup>#</sup>	<b>1,698</b>	1,902	-10.7	1,816	-6.5

<sup>#</sup> Figures do not include applications for provisional licences. During the quarter, we received 847 provisional licence applications compared with 923 in the same quarter last year.

### Intermediary inspection

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Risk-based on-site inspections conducted	<b>74</b>	71	4.2	71	4.2