

Intermediaries

Licence applications

In the quarter, we received 1,924 licence applications¹, down 9.6% from the last quarter and up 7.7% year-on-year. The number of corporate applications rose 50.8% from the last quarter to 98, up 18.1% year-on-year.

As at 31 December 2017, the number of licensees and registrants totalled 44,169, up 3.5% from last year, and the number of licensed corporations grew 10.3% to 2,660. Both were record highs.

Senior management accountability

On 17 October, we announced the full implementation of the Manager-In-Charge (MIC) regime² following a six-month transition period, during which about 10,000 individuals³ were appointed by licensed corporations as MICs responsible for managing important functions. The announcement also reminded registered institutions to submit relevant management information and organisational charts⁴ to both the Hong Kong Monetary Authority (HKMA) and the SFC by 16 April 2018.

Cybersecurity

On 27 October, we issued conclusions to a consultation on proposals to reduce and mitigate hacking risks associated with internet trading, along with related guidelines and a circular to licensed intermediaries. One key control, two-factor authentication for clients to login to their internet trading accounts, will take effect on 27 April 2018, with all other requirements taking effect on 27 July 2018.

Point-of-sale transparency

On 16 November, we published consultation conclusions to enhance asset management regulation and point-of-sale transparency, including the disclosure of non-quantifiable monetary benefits (eg, trailer fees). We also commenced a two-month consultation on proposed requirements for the disclosure of monetary and non-monetary benefits to discretionary account clients.

OTC derivatives and conduct risks

On 20 December, we launched a two-month consultation on proposals to refine the over-the-counter (OTC) derivatives regime and to require licensed corporations to properly manage financial exposures to connected persons. The proposals refine the scope of certain regulated activities to provide more clarity on the OTC derivatives licensing regime in response to market comments. The consultation also includes proposals related to risk mitigation, client clearing, record keeping and other conduct requirements for OTC derivatives transactions, as well as licensing fees, insurance, competence and training requirements under the new regime.

Intermediary monitoring

During the quarter, we conducted 71 risk-based on-site inspections of licensed corporations to review their compliance with regulatory requirements.

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 6 for details.

² Under the MIC regime, licensed corporations and corporate licence applicants are required to submit up-to-date management structure information and organisational charts to the SFC.

³ Around 40% are not licensed persons as they do not conduct regulated activities and are primarily responsible for managing operations and control functions.

⁴ See the HKMA's 16 October 2017 circular.

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Promoting compliance

We published the first issue of the *SFC Compliance Bulletin: Intermediaries* in December to highlight the importance of managing conflicts of interest in selling practices and asset management and provide an overview of industry demographics.

Risk management

On 10 October, we issued a circular to licensed corporations providing securities margin financing to remind them to vigilantly monitor risks and adopt prudent margin lending and risk management policies in light of volatility in small-cap stocks and some licensed corporations' excessive exposure to securities collateral which was highly concentrated and illiquid.

On 18 December, we issued a circular to provide licensed corporations with additional guidance and examples of good practices for establishing and maintaining prudential risk management practices for client money, liquidity and the concentration risks of funding sources from affiliated entities.

Conflicts of interest

Together with the HKMA, we issued a joint circular on 24 November to share observations and good practices noted in our joint thematic review of potential conflicts of interest arising from the sale of in-house products by intermediaries within the same financial group. The circular also reminded intermediaries about the regulators' expected standards of conduct regarding conflicts of interest.

Cryptocurrencies

We issued a circular on 11 December to remind intermediaries about the legal and regulatory requirements for providing financial services in relation to Bitcoin futures contracts and other cryptocurrency-related products. This followed the launch by futures and commodities exchanges in the United States of Bitcoin futures contracts which can be traded by Hong Kong investors through an intermediary. The circular also cautioned investors of the substantial risks associated with cryptocurrency-related products, including high price volatility and illiquidity.

Corporate transaction valuations

On 13 December, we issued frequently asked questions on the application of our 15 May 2017 circular to financial advisers on valuations in corporate transactions.

Anti-money laundering

In November and December, we met with 10 industry associations, including the Hong Kong Investment Funds Association, Alternative Investment Management Association, Asia Securities Industry and Financial Markets Association and seven major broker associations, to brief them on proposed amendments to the Guideline on Anti-Money Laundering and Counter-Terrorist Financing⁵.

We issued seven circulars during the quarter to promote compliance with anti-money laundering and counter-terrorist financing requirements. In addition, we gave a presentation at an industry association training seminar in October and hosted three seminars in November and December for more than 900 staff of licensed corporations.

⁵ These amendments arise from proposed changes to the provisions of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance relating to financial institutions in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Bill 2017.

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Licensees and registrants

	As at 31.12.2017	As at 31.3.2017	Change (%)	As at 31.12.2016	YoY change (%)
Licensed corporations	2,660	2,484	7.1	2,411	10.3
Registered institutions	119	121	-1.7	121	-1.7
Licensed individuals	41,390	40,267	2.8	40,133	3.1
Total	44,169	42,872	3.0	42,665	3.5

Licensing applications

	Quarter ended 31.12.2017	Nine months ended 31.12.2017	Nine months ended 31.12.2016	YoY change (%)
Applications to conduct new regulated activity	5,526	16,992	16,491	3
Applications for SFC licences [#]	1,924	5,750	5,880	-2.2

[#] Figures do not include applications for provisional licences. During the quarter, we received 942 provisional licence applications compared with 804 in the same quarter last year.

Intermediary inspection

	Quarter ended 31.12.2017	Quarter ended 30.9.2017	Change (%)	Quarter ended 31.12.2016	YoY change (%)
Risk-based on-site inspections conducted	71	80	-11.3	89	-20.2