

Intermediaries

Growth in licensed corporations and individuals

In the quarter, we received 2,017 licence applications¹, comprising 1,972 individuals and 45 corporations, a 13% increase from the previous quarter and up 6% from the same quarter last year.

As at 30 September, there were 48,362 licensees and registrants, of which 3,236 were licensed corporations and 112 were registered institutions. During the quarter, the number of new licensees and registrants totalled 3,094², amongst which 3,061 were individuals and 33 were licensed corporations and registered institutions. Among the 33 corporate licences granted during the quarter, Type 9 (asset management) regulated activity³ (RA) accounted for 44% and Type 4 (advising on securities) for 36%. The number of SFC licence applications increased 11.3% year-on-year⁴.



Applications for SFC licences

▲ 11.3%

Virtual assets: platform licensing, warning and information dissemination

During the quarter, we approved two SFC-licensed virtual asset trading platforms (VATPs) to provide services to retail investors. We also addressed the public on virtual asset-related matters through different channels.

VATP lists

We published several lists of VATPs on our website to disseminate related information in a clear, transparent and timely manner in response to a suspected large-scale fraudulent scheme involving active marketing of virtual asset services without an SFC licence. These include lists of VATP applicants, closing-down VATPs and a dedicated list of suspicious VATPs.

Statements and press release

In August, we issued a statement to warn VATPs of the legal and regulatory consequences of misrepresenting their SFC licence application status and launching services and products not compliant with our requirements for licensed VATPs. We repeatedly alerted investors to the risks of trading on unregulated VATPs.

Subsequently, to warn the public about a number of suspicious practices of an unregulated VATP, social media influencers or key opinion leaders and over-the-counter virtual asset money changers, we issued another statement in September. We made it clear that none of the entities within the unregulated VATP group were licensed by the SFC or had made any licence applications to the SFC to operate a VATP in Hong Kong.

We also issued a press release in September to communicate our plans and measures to reinforce information dissemination and investor education in light of recent public concerns about unregulated VATPs.

Press conference and media briefing

In September, we held a joint press conference with the Hong Kong Police Force and an SFC media briefing to update the public on the SFC's work relating to an unregulated VATP, as well as information dissemination and investor education on unregulated platforms and fraud.

We continue to make efforts to disseminate information to the public effectively and enhance investor education on the risks associated with virtual assets and potential fraud.

¹ The figure does not include applications for provisional licences under the Securities and Futures Ordinance, but includes applications under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

² The figure includes provisional licensed representatives.

³ Each licensed corporation may have multiple RA licences.

⁴ Change from 30 September 2022 to 30 September 2023. This does not include applications for provisional licences.

Intermediaries

Promoting fintech

Together with the Hong Kong Monetary Authority (HKMA) and Insurance Authority, the SFC published a new Fintech Promotion Roadmap in August to further drive fintech adoption in the financial services sector. The roadmap sets out a series of initiatives to be undertaken by the three regulators over the next 12 months, including regular showcase events, roundtables, seminars, practical guidelines, as well as a new Fintech Knowledge Hub.

Regulating depositaries of SFC- authorised CISs

In July, we began to accept applications for carrying on Type 13 RA under a new regime which will bring top-level trustees and custodians (ie, depositaries) of SFC-
authorised collective investment schemes (CISs) under our direct supervision. The new regime will take effect on 2 October 2024. Depositaries operating in Hong Kong are expected to apply on or before 30 November 2023.

Also in July, we issued a circular to provide the industry with additional guidance on the scope and transitional arrangements of the new regime.

Suitability obligations for dealing with sophisticated professional investors

We issued a joint circular with the HKMA in July to provide guidance for applying a streamlined approach to comply with the suitability obligations when dealing with sophisticated professional investors. The approach seeks to front-load intermediaries' know-your-client measures when onboarding clients or during regular reviews to ascertain a client's financial situation, investment experience, investment objectives and risk tolerance. For clients who exhibit the degree of sophistication, loss absorption ability and risk profile of a sophisticated professional investor, they would be allowed to specify the types of product and amount they wish to trade without going through the intermediaries' routine assessment and disclosure processes.



63

on-site inspections

This streamlined approach makes it more flexible and efficient for these investors to invest within acceptable parameters. To provide an appropriate degree of investor protection, intermediaries are required to establish and maintain effective systems and controls to ensure the streamlined approach operates properly within predefined parameters, and that the Code of Conduct⁵ requirements continue to apply in full force when dealing with a sophisticated professional investor.

Risk management guidelines for dealing in futures contracts

In August, we published the consultation conclusions on risk management guidelines for licensed persons dealing in futures contracts. The guidelines set out a comprehensive risk management framework for futures brokers and include requirements for funding liquidity risk management, safeguarding client assets, trading in futures markets outside Hong Kong and stress testing. Futures brokers have a transitional period of six months to comply with the guidelines, which will become effective on 25 February 2024.

Cybersecurity review

In September, we issued a circular to inform the industry that we will commence a cybersecurity review of selected licensed corporations. As part of the review, we will conduct a survey of these corporations with follow-up discussions and meetings, and perform on-site inspections for a deep-dive review and compliance assessment of their information technology and related management controls. The review will cover cybersecurity management and incident reporting, cloud security controls and governance, vendor risk management and remote access controls, amongst others. The findings of the cybersecurity review will form the basis for us to issue further industry guidance.

⁵ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

Joint product survey with HKMA

In September, we and the HKMA published a report on our annual joint survey on the sale of non-exchange traded investment products. We surveyed 371 licensed corporations and registered institutions which engaged in the sale of investment products in 2022, with the participation of over 800,000 clients. The report aims to help both regulators better understand market trends, identify potential risks and address areas of common concern.

The survey showed that the total transaction amount declined by 24% year-on-year to \$3,799 billion, largely in

line with the decrease in turnover observed in other major stock markets. However, the overall manpower deployed by firms to conduct selling activities remained stable. For CISs, there was a noticeable shift in transactions from bond funds and equity funds to money market funds, the proportion amount of which jumped to 61% from 33% in 2021. On debt securities, investors shifted their interest to sovereign bonds, such as the HKSAR Government bonds (including Green Bonds and Silver Bonds). Sovereign bonds accounted for 29% of total debt securities sold, up from 15% in 2021. The number of firms distributing investment products online increased 19% year-on-year to 83.

Licensees and registrants

	As at 30.9.2023	As at 31.3.2023	Change (%)	As at 30.9.2022	YoY change (%)
Licensed corporations	3,236	3,254	-0.6	3,274	-1.2
Registered institutions	112	112	0.0	111	0.9
Licensed individuals	45,014	44,928	0.2	45,584	-1.3
Total	48,362	48,294	0.1	48,969	-1.2

Licensing applications

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
Applications to conduct new regulated activity	7,753	13,974	13,439	4.0
Applications for SFC licences [^]	2,017	3,801	3,414	11.3

[^] Figures do not include applications for provisional licences but include applications under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance. During the quarter, we received 1,235 provisional licence applications compared with 1,350 in the same quarter last year.

Inspections of licensed corporations

	Quarter ended 30.9.2023	Six months ended 30.9.2023	Six months ended 30.9.2022	YoY change (%)
On-site inspections commenced [^]	63	114	113	0.9

[^] Including inspections conducted remotely in light of the COVID-19 pandemic.