

# Intermediaries

## Increase in licence applications

For 2023, we received around 7,200 licence applications comprising around 7,000 individuals and 185 corporations, a 16% increase from 2022<sup>1</sup>. Between October and December, we received 1,581 licence applications<sup>2</sup> comprising 1,530 individuals and 51 corporations, a 22% decrease from the previous quarter but an 8% increase from the same quarter last year. Furthermore, six virtual asset trading platforms (VATPs) submitted their corporate licence applications.

As at 31 December, there were 48,091 licensees and registrants, of which 3,257 were licensed corporations, 112 were registered institutions, and 44,722 individuals. The number of licensees and registrants remained stable compared to the same period of 2022. During the quarter, the number of new licensees and registrants totalled 2,415<sup>3</sup>, amongst which 2,359 were individuals, and 56 were licensed corporations and registered institutions. Among the 56 licensed corporation applications approved during the quarter, 88% of them applied for Type 9 (asset management) regulated activity (RA) and 66% applied for Type 4 (advising on securities) RA.



Applications for SFC licences

▲ 16%  
in 2023

## Embracing Fintech with investor safeguards

Over the years, the SFC has facilitated retail investors to trade different types of virtual assets (VA) and related products by enhancing investor protection measures. In October, the SFC refined its VA regulatory regime by revising the joint circular with the Hong Kong Monetary Authority (HKMA) on intermediaries' VA-related activities, which enabled retail investors to access VA dealing services and advisory services provided by SFC-regulated intermediaries. In December, the joint circular was further revised to set out requirements for SFC-regulated intermediaries involved in the distribution of investment

products with exposure to VAs, including SFC-authorised VA spot ETFs<sup>4</sup>. In addition, a new circular was issued to provide guidance on authorising investment funds with exposure to VA of more than 10% of their net asset value for public offering in Hong Kong, including VA spot ETFs.

In November, the SFC issued two other circulars to give guidance to the industry on tokenisation of traditional securities and SFC-authorised investment products. In these circulars, the SFC emphasised how traditional financial institutions should address and manage the risks arising from tokenisation. By providing a clear and consistent regulatory framework, we aim to support the industry to experiment with tokenisation with greater certainty.

## Joining forces to tackle fraud

To combat suspected fraudulent activities of suspicious VATPs in a more timely way, we established a joint working group with the Hong Kong Police Force (Police) in October to enhance collaboration in monitoring and investigating illegal activities involving or purporting to involve VAs or VATPs. In December, the SFC and the Police further implemented a twice-a-week information sharing protocol so as to promptly address potential fraud. Between October and December, the SFC raised public awareness by warning the public against five suspected cases of VA-related frauds and two suspected cases of investment product frauds through press releases, social media posts, posting of suspicious entities on the SFC's Suspicious VATP and Suspicious Investment Products alert lists, and press briefings. As a result of our concerted efforts, the Police expeditiously blocked access to websites of entities involved in suspected fraud at the SFC's request.

## Promoting Fintech development in Hong Kong

In October, the SFC attended the meeting of the Coordination Group on the implementation of Financial Technologies Initiatives chaired by Secretary for Financial Services and the Treasury. At the meeting, views on the development of Fintech in Hong Kong were shared and discussed. In late October, the SFC also attended the Panel on Financial Affairs of the Legislative Council to answer lawmakers' questions on VATP regulation.

<sup>1</sup> Change from calendar year 2022 to 2023. This does not include applications for provisional licences.

<sup>2</sup> The figure does not include applications for provisional licences.

<sup>3</sup> Including provisional licensed representatives.

<sup>4</sup> Exchange-traded funds.

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The SFC also worked closely with the Financial Services and the Treasury Bureau and HKMA on the regulatory regime for stablecoins in Hong Kong. Further consultation on this subject was published by the Government in December.

To promote public understanding of Fintech such as VAs and Web 3.0, we spoke at close to 20 interviews, seminars and events organised by government authorities, international regulators, industry associations, media outlets and universities.

### Driving industry-wide sustainability initiatives

To help Hong Kong align with international best practices for environmental, social and governance (ESG) as recommended by the International Organization of Securities Commissions (IOSCO) and meet relevant expectations introduced in other major jurisdictions, we announced in October that we support and sponsor the development of the voluntary code of conduct (VCoC) for ESG ratings and data products providers. To this end, an industry-led working group, ie, the Hong Kong ESG Ratings and Data Products Providers VCoC Working Group, was established. The working group consists of members and observers from ESG ratings and data products providers, users, and covered entities. The SFC, the HKMA, the Insurance Authority and the Mandatory Provident Fund Schemes Authority sit as observers while the International Capital Market Association serves as the secretariat and will leverage its experience from relevant work in other jurisdictions.

### Regulating depositaries of SFC-authorised public funds

During the quarter, all depositaries of SFC-authorised collective investment schemes currently operating in Hong Kong submitted their Type 13 licence or registration applications to the SFC. We will continue to work closely with the industry to facilitate a smooth transition to the new regime, which will take effect on 2 October 2024.



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on-site inspections

### Guiding market soundings practices for intermediaries

In October, we launched a consultation on a set of proposed guidelines for market soundings. The proposals aim to provide guidance to assist intermediaries in their compliance with the general principle of conducting their business honestly, fairly and in the best interests of their clients, as well as the integrity of the market during market soundings.

To understand current industry practices and related controls, we initiated a thematic review of market soundings in early 2022 to collect information through surveys on buy-side and sell-side intermediaries and focus group discussions. When drafting the guidelines, we also considered local and overseas market practices and regulatory requirements, in addition to information and preliminary feedback gathered from intermediaries in the thematic review. The consultation ended in December and we are analysing the responses.

### Enhancing distribution of SFC-authorised funds

In October, we issued a circular to summarise recent observations of licensed corporations' practices in offering and promoting SFC-authorised funds. The circular highlights the legal and regulatory requirements for distributors promoting SFC-authorised funds with additional returns or other incentives, which may divert the client's focus from properly considering the risks and features of the underlying funds.



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### Strengthening risk management for IPO subscription services

In November, we issued a circular to remind licensed corporations to implement robust risk management measures for client credit risk control, funding arrangement, safeguarding of client subscription deposits, and financial assessment when providing initial public offering (IPO) subscription and financing services under Fast Interface for New Issuance.

### Combatting anti-money laundering

In November, we updated the anti-money laundering and counter-financing of terrorism (AML/CFT) self-assessment checklist to reflect the latest AML/CFT guidelines. The checklist provides a structured framework for licensed corporations, SFC-licensed VA service providers and associated entities to assess their compliance with the key requirements.

### Issuing restriction notices

In September, we issued a restriction notice to China Prospect Securities Limited which had a managerial vacuum, raising our concerns on the continued safeguarding and handling of its client assets.

In November, we issued a restriction notice to Profitech Securities Limited due to its breach of the Securities and Futures (Client Securities) Rules for a protracted period and our grave concern about its financial and operational viability. The restriction notice froze Profitech's house assets and required the broker to immediately rectify the breach and return all client assets in an orderly manner.

### Licensees and registrants

	As at 31.12.2023	As at 31.3.2023	Change (%)	As at 31.12.2022	YoY change (%)
Licensed corporations	3,257	3,254	0.1	3,253	0.1
Registered institutions	112	112	0.0	111	0.9
Licensed individuals	44,722	44,928	-0.5	45,314	-1.3
<b>Total</b>	<b>48,091</b>	<b>48,294</b>	<b>-0.4</b>	<b>48,678</b>	<b>-1.2</b>

### Licensing applications

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022 <sup>b</sup>	YoY change (%)
Applications to conduct new regulated activity	5,008	17,199	18,498	-7.0
Applications for SFC licences <sup>a</sup>	1,581	5,375	4,884	10.1

<sup>a</sup> Figures include applications under the SFO and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, excluding applications for provisional licences. During the quarter, we received 778 provisional licence applications under the SFO compared with 844 in the same quarter last year.

<sup>b</sup> Figures have been adjusted for the period.

### Inspections of licensed corporations

	Quarter ended 31.12.2023	Nine months ended 31.12.2023	Nine months ended 31.12.2022	YoY change (%)
On-site inspections commenced <sup>^</sup>	52	166	167	-0.6

<sup>^</sup> Including inspections conducted remotely in light of the COVID-19 pandemic.