



Securities and Futures (Accounts and Audit) Rules

Wilson Lo

Senior Manager

Intermediaries Supervision



Section 153 of the Securities and Futures Ordinance (“SFO”)

Licensed corporations (LC) and associated entities of intermediaries (AE) are required to appoint an auditor to perform functions under or pursuant to the SFO and other ordinances.



Section 156 of the Securities and Futures Ordinance (“SFO”)

LC and AE are required to:-

- prepare such financial statements and other documents as required by the Securities and Futures (Accounts and Audit) Rules (“Accounts and Audit Rules”);
- submit the financial statements, other documents and an auditor report to the SFC not later than 4 months after the end of the financial year



Auditors to lodge report with the SFC in certain cases

- Section 157(1) of the SFO requires the auditor of LC and AE to lodge written report with the SFC when he:-
 - becomes aware of any reportable matter; or
 - proposes to include any qualification or adverse statement in the audit report
- Reportable matters include:-
 - failure to comply with prescribed requirements set out in the Accounts and Audit Rules
 - matter adversely affects to a material extent to the financial position
 - failure to comply with the Securities and Futures (Financial Resources) Rules (“FRR”) (for LC only)



Primary Changes to the Accounts and Audit Rules

- Expand the scope of applications to all LCs and AEs
- Require the auditor to confirm adequacy of system of control to ensure compliance with:-
 - the Securities and Futures (Client Money) Rules (“Client Money Rules”);
 - the Securities and Futures (Client Securities) Rules (“Client Securities Rules”)



Primary Changes to the Accounts and Audit Rules (Continued)

- Require selected financial returns to be audited and submitted to the SFC
- Obtain information about the business operations and risk management measures of LC and AE by using a Business and Risk Management Questionnaire (“BRMQ”)
- Specify additional disclosure requirements and questionnaire as forms made under section 402 of the SFO



Annual Reporting Requirements

LC

- A set of audited accounts
- 8 selected monthly financial returns as of the end of financial year
- BRMQ

AE

- A set of audited accounts
- An analysis of client assets
- BRMQ



Special Reporting Requirements (Business Cessation)

LC

- A set of audited accounts
- A liquid capital computation

AE

- A set of audited accounts
- An analysis of client assets



Account Disclosure Document (“ADD”)

- The ADD is not intended to specify any format of the accounts to be adopted by LC
- It only sets out the additional disclosure of financial information in the regulatory accounts of LC to be submitted to the SFC
- The ADD consists of three sections:
 - Profit and loss information
 - Balance sheet information
 - Other financial information



BRMQ

- LC or AE is expected to complete the BRMQ to the best of its knowledge in order to reflect its own operations and controls
- BRMQ can also be used as a tool for LC or AE to assess whether their existing risk management measures are in line with their business operations
- The questions in the BRMQ are not intended to imply, nor should be construed as, a single set of generally acceptable internal control or risk management practice ¹⁰



Structure of BRMQ

I. Business Overview

- business activities
- management supervision
- branch operation

II. Risk Management

- operational risk (including handling of client accounts, dealing practices and asset protection)
- credit risk
- market risk
- liquidity risk
- compliance risk



Auditor' Report – Financial Statements

- The accounts of LC and AE are in accordance with the records kept under the Securities and Futures (Keeping of Records) Rules (“Keeping of Records Rules”)
- The balance sheet and profit and loss account of LC and AE give a true and fair view



Auditor's Report – Regulatory Compliance

- Selected FRR returns are correctly compiled from the records kept by LC
- Adequacy of internal control system to ensure compliance with specified sections of the Client Money Rules and the Client Securities Rules
- Compliance with specified sections of the Keeping of Records Rules, the Client Money Rules and the Client Securities Rules
- Any contravention of FRR



Scope of Compliance Reporting - Keeping of Records Rules

- Record keeping requirements for LC (section 3) and specific requirements for the following activities:
 - dealing in securities (section 5)
 - leveraged foreign exchange trading (section 6)
 - providing securities margin financing or other financial accommodation and entering into margined transactions (section 7)
 - asset management (section 8)
- Record keeping requirements for AE (section 4)



Scope of Compliance Reporting – Client Money Rules

- Payment of client money into and out of segregated accounts (sections 4 and 5)
- Treatment of interest on client money held in segregated accounts (section 6)
- Renewal of standing authority (section 8(4))
- Requirement to pay money other than client money out of segregated accounts (section 10)
- Reporting of non-compliance with certain provisions of the Rules (section 11)



Scope of Compliance Reporting - Client Securities Rules

- Renewal of standing authority (section 4(4))
- Requirement for registration or deposit of client securities and securities collateral (section 5)
- Limitations on the treatment of client securities and securities collateral (section 10(1))
- Reporting of non-compliance with certain provisions of the Rules (section 12)