

Operational Review

Intermediaries

Licence applications

During the quarter, we received 2,030 licence applications, up 2.7% from the last quarter and up 19.6% year-on-year. The number of corporate applications dropped 10.7% from the last quarter to 75, down 6.3% year-on-year.

As at 30 June, the number of licensees and registrants totalled 45,099, up 4.4% from last year, and the number of licensed corporations grew 8.9% to 2,775. Both were record highs.

Securities margin financing

We engaged selected industry representatives to discuss ways to enhance risk management following a study we conducted which showed that brokers' total margin loans had grown nine times between 2006 and 2017 with a significant deterioration in quality. We will share our observations from the study soon.

Professional investors

In May, we issued consultation conclusions on proposals to standardise the rules for prescribing professional investors. The rule amendments aim to ensure consistent application of the regulations and to better serve the interests of both firms and their clients. The amended rules came into effect on 13 July.

Disclosure requirements

We issued consultation conclusions in May to require intermediaries providing discretionary account management services to disclose benefits receivable from product issuers as well as trading profits earned from products purchased from or sold to third parties for their clients. The requirements address potential conflicts of interest arising from incentives provided by product issuers. We also published frequently asked questions (FAQs) to provide further guidance to the industry.

OTC derivatives

We launched a two-month consultation in June on proposals to impose margin requirements for non-centrally cleared over-the-counter (OTC) derivatives transactions. The proposals specify the categories of licensed corporations, counterparties and instruments subject to the requirements for margin exchange, as well as the assets eligible as margin.

Investor compensation regime

Our consultation on proposed enhancements to the investor compensation regime ended in June. The proposals, which included increasing the compensation limit from \$150,000 to \$500,000 per investor per intermediary default and covering northbound trading under Stock Connect, received broad support. We are working with the Government on the necessary legislative amendments and target to issue the consultation conclusions later this year.

Intermediaries

Intermediary monitoring

During the quarter, we conducted 65 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Promoting compliance

In May, we published the *SFC Compliance Bulletin: Intermediaries* to highlight our concerns in considering licensing applications and to provide an update on the implementation of the Manager-In-Charge regime.

In April, we issued a circular and report to highlight the key areas of concern and good practices identified during our thematic review of alternative liquidity pools (ALPs) and to provide an overview of the ALP landscape in Hong Kong.

The use of instant messaging poses new supervisory and record-keeping challenges. To provide guidance to the industry, we issued a circular in May on the controls and procedures which intermediaries are expected to put in place when receiving clients' orders via instant messaging services.

In a June circular, we reminded intermediaries of their obligation to inform us of any plans to provide trading and asset management services involving crypto-assets or robo-advisory services. Intermediaries were also advised to discuss their plans with the SFC before they engage in these services.

In June, we issued FAQs on the requirements for the disclosure of non-quantifiable monetary benefits and the use of the term "independent" by intermediaries in the sale of investment products. These requirements will come into effect on 17 August.



Anti-money laundering

Following the Government's publication of the *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* on 30 April, we issued a circular on the same day to licensed corporations to draw their attention to the results of the assessment and the corresponding mitigating measures they should take. We hosted three seminars in June for about 700 industry participants to discuss the report's key findings and related measures. We also issued another 13 circulars to assist licensed corporations in complying with the requirements during the quarter.

SFC Compliance Forum 2018

The SFC Compliance Forum 2018 was held on 21 June. Over 500 industry participants attended the half-day event to exchange views on the SFC's recent guidance on best execution, client facilitation, IPO¹ sponsors and ALPs. The use of innovative technology to deliver financial services and associated risks were also discussed.

Communication with the industry

In May, we met with eight major broker associations to discuss regulatory updates including the new and proposed guidelines for online distribution and advisory platforms, anti-money laundering and securities margin financing, as well as our recent circular on receiving client orders through instant messaging. We also held briefing sessions for members of four industry associations to explain recent and proposed rule changes.



SFC Compliance Forum 2018

¹ Initial public offerings.

Intermediaries

Licensees and registrants

	As at 30.6.2018	As at 31.3.2018	Change (%)	As at 30.6.2017	YoY change (%)
Licensed corporations	2,775	2,702	2.7	2,549	8.9
Registered institutions	118	120	-1.7	119	-0.8
Licensed individuals	42,206	41,536	1.6	40,536	4.1
Total	45,099	44,358	1.7	43,204	4.4

Licensing applications

	Quarter ended 30.6.2018	Quarter ended 31.3.2018	Change (%)	Quarter ended 30.6.2017	YoY change (%)
Applications to conduct new regulated activity	5,894	5,586	5.5	4,810	22.5
Applications for SFC licences [#]	2,030	1,977	2.7	1,698	19.6

[#] Figures do not include applications for provisional licences. During the quarter, we received 1,096 provisional licence applications compared with 847 in the same quarter last year.

Intermediary inspections

	Quarter ended 30.6.2018	Quarter ended 31.3.2018	Change (%)	Quarter ended 30.6.2017	YoY change (%)
On-site inspections conducted	65	76	-14.5	74	-12.2