

Intermediaries

Licence applications

As at 30 June, the number of licensed corporations reached a record high of 3,017, up 51% from the same period in 2014 and 8.7% from last year. At the same time, the number of licensees and registrants totalled 47,239, up 4.7% year-on-year.

During the quarter, we received 1,756 licence applications¹, down 10.5% from the last quarter and 13.5% year-on-year. The number of corporate applications dropped 14.3% from the last quarter to 66, down 12% year-on-year.

Revamped licensing process

Changes to our licensing processes fully implemented in April bring our gatekeeping function in line with our front-loaded regulatory approach. Starting 11 April, intermediaries are required to use new licensing forms to submit licensing-related information to us.

To help us better track “bad apples”, licensed corporations have to disclose any internal investigation of a licensed individual commenced within six months preceding his or her cessation of accreditation. They should also notify the SFC as soon as practicable if an internal investigation is commenced after the initial notification of cessation, regardless of how long ago the individual left the firm. We issued frequently asked questions (FAQs) in May to provide additional guidance to the industry on the types of information to be disclosed and how we treat the information collected.

Prudential risks

Securities margin financing

In April, we concluded a public consultation on proposed guidelines which set out the expected risk management standards for securities margin financing activities. The guidelines, including qualitative requirements and quantitative benchmarks for margin lending policies and key risk controls, will take effect on 4 October.

Complex financing arrangements

We issued a circular jointly with the Hong Kong Monetary Authority in April to remind banks and licensed corporations to review financing arrangements involving complex, opaque transactions within their groups which may conceal embedded financial risks and make it difficult to conduct rigorous risk assessments. Holding companies or controllers of licensed corporations need to prudently manage group financial risks to ensure they can provide financial support and contain contagion risks that may affect the financial integrity of the licensed corporations.

Conduct risks

Client facilitation

In a May circular, we highlighted our concerns about compliance with the standards of conduct and internal controls expected of licensed brokers providing client facilitation services. The circular related deficient policies and practices identified in our inspections since mid-2018, and reminded the industry of our expected standards, in particular that client consent should be obtained before providing client facilitation services.

Credit rating model risk management

Also in May, we issued a circular to relate our regulatory concerns and good practices noted during our supervision of credit rating agencies' model risk management and set out expected standards for credit rating model governance, model validation, data quality and the use of credit rating models.

Third-party deposits and payments

Another circular issued in May reiterated the importance of mitigating the financial crime and money laundering risks associated with third-party payments to or from accounts maintained by clients with licensed corporations and associated entities. It elaborated our expected standards in areas where licensed corporations were often found to have failed to implement adequate policies and controls to mitigate these risks, and provided examples of effective measures to promote compliance.

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 8 for details.

Intermediaries

Prime services and equity derivatives

Following a thematic review of prime services² and related equity derivatives business in Hong Kong, we issued a circular and a report in June pinpointing the regulatory obligations of prime brokers in Hong Kong and setting out the standards of conduct and internal controls we expect of them. The report also discussed areas for improvement and shared good industry practices noted from the thematic review.

Foreign exchange margin trading on the Mainland

A June circular reminded licensed corporations that it is illegal under Mainland law and regulations for any unapproved institution to conduct foreign exchange margin trading on the Mainland or for any client on the Mainland to entrust an unapproved institution to do so. Licensed corporations which provide or market foreign exchange margin trading to Mainland investors or assist other persons in such activities should review the legality of their activities immediately.

Account opening

Effective 5 July, the amendments to paragraph 5.1 of the Code of Conduct³ were made to cater for the need for intermediaries to adapt their practices as business

activities are increasingly conducted online. To facilitate compliance, we published acceptable account opening approaches on a designated webpage which also features relevant circulars and FAQs.

At the same time, a new approach for the onboarding of overseas individual clients online took effect. It includes the authentication of a client's identity document and verification of a client's biometrics using appropriate technologies, together with an initial payment from the client's designated overseas bank account in an eligible jurisdiction.

Communication with the industry

Compliance Forum 2019

On 17 June, we hosted the SFC Compliance Forum 2019 to exchange views with the industry on our recent guidance on securities margin financing, prime brokerage business, client onboarding and transaction monitoring, as well as regulatory issues noted in selling practices. Management accountability, internal controls and supervision of account executives were also covered. More than 700 participants attended the event.



SFC Compliance Forum 2019

² Prime services refer to one-stop-shop services, including trade execution and clearing, securities borrowing and lending, custody, financing solutions, reporting, capital introduction and consulting services, provided to institutional clients such as hedge fund managers.

³ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries

Compliance Bulletin

The May issue of the *SFC Compliance Bulletin: Intermediaries* provided an update on the revamped licensing process and highlighted our effort in tracking “bad apples” and how the fitness and propriety of a licensed corporation’s controllers and affiliates may have an impact on the firm. Case studies were provided for illustration.

Seminars and meetings

To help intermediaries implement the new regulatory requirements for online and offline sales of complex products, we organised a number of seminars for more than 1,000 industry participants in April and May.

A circular and FAQs were also issued in June to give further guidance.

We also explained the licensing requirements for private equity firms to two alternative investment management industry associations as well as exchanged views on other issues including the discretionary management power.

Notifications to the SFC

Starting from May, intermediaries can submit notifications under paragraph 12.5 of the Code of Conduct⁴ via a new online service, which is available on the SFC’s online portal, WINGS⁵.

Licensees and registrants

	As at 30.6.2019	As at 31.3.2019	Change (%)	As at 30.6.2018	YoY change (%)
Licensed corporations	3,017	2,960	1.9	2,775	8.7
Registered institutions	115	116	-0.9	118	-2.5
Licensed individuals	44,107	43,602	1.2	42,206	4.5
Total	47,239	46,678	1.2	45,099	4.7

Licensing applications

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Applications to conduct new regulated activity	5,101	5,469	-6.7	5,894	-13.5
Applications for SFC licences [#]	1,756	1,961	-10.5	2,030	-13.5

[#] Figures do not include applications for provisional licences. During the quarter, we received 929 provisional licence applications compared with 1,096 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
On-site inspections conducted	82	86	-4.7	65	26.2

⁴ Intermediaries must immediately report to the SFC upon the occurrence of any incident under paragraph 12.5 of the Code of Conduct.

⁵ Web-based INteGrated Service.