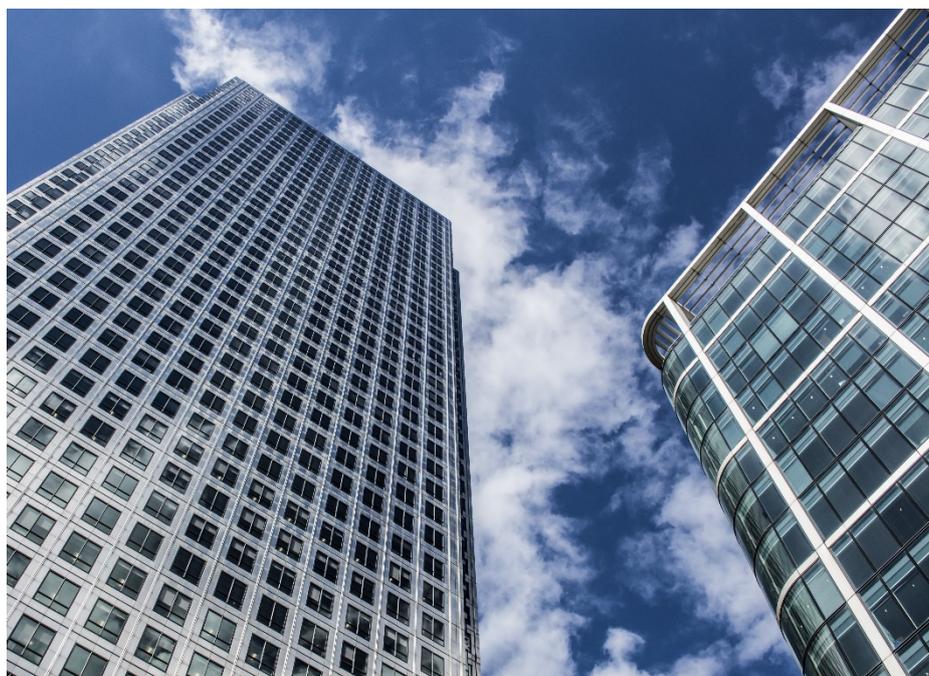


# BDO NEWS

February 2020

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## FINANCIAL UPDATES February 2020 Issue



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To maintain the financial stability and facilitate the economic growth of Hong Kong, regulators have been reviewing different regulations and guidelines regularly. Regulators and financial institutions around the globe may have new developments. In this month, the following has happened:

### Self-assessment of compliance with the Code of Banking Practice 2019

On 9 January 2020, the HKMA issued the annual self-assessment of compliance with the Code of Banking Practice (the Code) to all authorised institutions, covering the period from 1 January 2019 to 31 December 2019, will be due for submission by 31 March 2020.

The reporting requirements specified in reporting template are the same as those for the last year. Authorised institutions (AIs) are reminded that the Code requires compliance by certain subsidiaries and affiliated companies of AIs, which should also be covered by this self-assessment accordingly.

AIs are required to commission their internal audit department, compliance department or other equivalent unit to conduct the self-assessment as usual. The Chief Executive of the AI should co-sign the self-assessment report. Where an instance of non-compliance is identified which is a recurrence of similar instances identified in previous exercises, a full account should be provided.

Read more from the source:

<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200109e1.pdf>

## SFC highlights importance of risk management

On 20 January 2020, the Securities and Futures Commission (SFC) published the latest SFC Compliance Bulletin: Intermediaries which emphasises the importance of sound risk management for brokers and fund managers during times of market volatility. Liquidity and credit risks associated with exposures to illiquid assets are highlighted along with precautionary responses and good risk management practices.

The bulletin also includes case studies illustrating risks that may arise in transactions with related parties and in relation to other complex financing arrangements, and stresses the need for licensed firms' holding companies and controllers to prudently manage risks at group level.

"Fund managers should conduct stress tests and closely monitor the liquidity profiles of their fund portfolios throughout the entire life cycle of their funds," said Ms Julia Leung, SFC's Deputy Chief Executive Officer and Executive Director of Intermediaries. "Brokers and their holding companies or controllers should also take steps to mitigate any potential default risks on their own balance sheets, where high leverage might result in a liquidity crunch for the entire group."

The bulletin also warns investors to be cautious when investing in high-risk investment products as well as to be wary of investing in funds with a high concentration of hard-to-sell assets or those with long or extendable redemption dates.

**Read more from the source:**

<https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=20PR6>

## SFC lifts suspension of UBS Securities Hong Kong Limited acting as sponsor

On 14 January 2020, the Securities and Futures Commission (SFC) lifted the suspension of UBS Securities Hong Kong Limited (UBS Securities Hong Kong) to act as a sponsor for listing applications on the Stock Exchange of Hong Kong Limited (SEHK).

The license, which allows UBS Securities Hong Kong to act as a sponsor, was suspended for one year as part of the SFC's disciplinary action against UBS AG and UBS Securities Hong Kong (collectively, UBS) when they were sanctioned on 14 March 2019 for their failures to discharge their obligations as one of the joint sponsors of three listing applications.

As agreed, UBS has engaged and cooperated with an independent reviewer to review its policies, procedures and practices in relation to the conduct of its sponsorship business (relevant area). The reviewer conducted a 10-month review of UBS's enhanced governance processes from the acceptance of

a sponsorship mandate to the listing of a listing applicant and concluded that UBS's governance and control processes applicable to the relevant area are generally well-designed, and that its assessment took into account a number of key controls, including:

- A framework of processes, reviews, governance and oversight within the first line of defense to support the transaction team's compliance in the relevant area and to enable effective management oversight;
- Policies setting out specific responsibilities for dedicated first line of defense control functions of the sponsor business with respect to quality assurance, control monitoring and testing, as well as issue reporting and escalation, to ensure compliance with internal and regulatory requirements and expectations in the execution of listings;
- Adequate and appropriate forums for escalation of material issues identified across the entire deal cycle for discussion with management senior to the sponsor principal (including managers-in-charge) on a specific mandate;
- Adequate involvement of the independent second line of defense, ie, the compliance and operational risk functions; and
- An audit programme designed and executed by internal audit as the third line of defense, which is adequate to sufficiently discharge their responsibility and perform annual assessments to ensure that both UBS and its systems and controls remain effective and compliant with the relevant regulatory requirements.

In arriving at the decision to lift the suspension, the SFC has assessed the reviewer's findings of UBS, including obtaining from the reviewer the supporting documents for its findings, as well as seeking from the reviewer explanations for its conclusions about the adequacy and effectiveness of UBS's governance framework and control processes.

The SFC would like to make clear that the standards assessed in the case of UBS are equivalent to those that are expected to be adopted by all licensed sponsors. In addition, it is important that all licensed sponsors understand that regulatory compliance ultimately depends on the ability of a firm to apply and operate these controls effectively in practice when executing all IPO mandates, which requires close management attention and supervision.

The SFC is satisfied after its own assessment that UBS has clear requirements and procedures in place to enable staff members to understand and properly perform their responsibilities, and that there are adequate and effective systems, controls, policies and procedures to enable

compliance with all applicable Hong Kong legal and regulatory requirements in relation to its sponsor business.

**Read more from the source:**

<https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=20PR4>

## Principal intermediaries (PIs) to strengthen internal controls

On 3 December 2019, the Mandatory Provident Fund Schemes Authority (MPFA) would like to remind PIs about the importance of establishing and maintaining proper controls and procedures for securing compliance by themselves and their subsidiary intermediaries (Sis) with the conduct requirements under section 34ZL (3) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (MPFSO) and the Guidelines on Conduct Requirements for Registered Intermediaries (Conduct Guidelines). In particular, there are some areas of concerns that PIs should pay attention to as follows:

- Importance of compliance with Conduct guidelines;
- Suitability assessment and risk mismatch;
- Unauthorised transfer of MPF benefits, impersonation and forged signature;
- SI's engaged personal assistant who is not RI;
- Use of advertising and marketing materials by Sis; and
- Roadshow marketing activities.

PIs should use their best endeavours to secure observance by their SIs of such controls and procedures. Internal control failure of PIs may cause serious impact on the interest of scheme members and may give rise to disciplinary actions against the PIs and their responsible officers.

**Read more from the source:**

[http://www.mpfa.org.hk/eng/legislation\\_regulations/legulations\\_ordinance/circulars/mpf/2016\\_2020/files/CIR-20191203.pdf](http://www.mpfa.org.hk/eng/legislation_regulations/legulations_ordinance/circulars/mpf/2016_2020/files/CIR-20191203.pdf)

## How can BDO help?

At BDO, our Risk Advisory Services (RAS) team, a group of dedicated professionals, is well equipped, qualified, experienced and well-prepared to assist your board in achieving good corporate governance and to discharge its oversight responsibility to ensure the effectiveness of your organisation's internal control system. We are capable of providing assistance to your institution in complying with the upcoming requirements including internal audit services, compliance services or matters relating to HKMA's requirements. Please do not hesitate to contact us and talk to our consultants. We will be pleased to provide further insights or assistance, if needed.

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