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FINANCIAL SERVICES SECTOR UPDATES Issue 2/2022



To maintain the financial stability and facilitate the economic growth of Hong Kong, regulators have been reviewing regulations, guidelines and compliance regularly. Regulators around the globe may introduce new requirements or take enforcement actions from time to time. In our 'Financial Services Sector Updates', it will include the latest development of the sector for your reference:

Discussion Paper on Crypto-assets and Stablecoins

In January 2022, the Hong Kong Monetary Authority (HKMA) issued the Discussion Paper on Crypto-assets and Stablecoins to express its views on the regulatory approach for crypto-assets, in particular for the payment-related stablecoins in Hong Kong. The paper focuses on the adequacy of the existing regulatory framework of crypto-assets in the financial market and sets out the HKMA's views on how to expand such regulatory framework. It discusses the authority of HKMA in those payment-related stablecoins and the requirement of stablecoins under the Banking Ordinance.

Given the growing linkage of crypto-assets development with mainstream financial system which may have impact on the monetary and financial stability. The paper outlines the HKMA's plans on identifying objectives and introducing guiding principles for regulating the crypto-assets space.

Read more from the sources:

Circular

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/01/20220112-3/>

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The paper

<https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2022/20220112e3a1.pdf>

SFC reprimands and fines Emperor Securities Limited and Emperor Futures Limited for breaches of anti-money laundering regulatory requirements

In March 2022, the Securities and Futures Commission (SFC) has reprimanded and fined Emperor Securities Limited (ESL) and Emperor Futures Limited (EFL) (collectively, Emperor) \$5.4 million for failures in complying with anti-money laundering and counter-terrorist financing regulatory requirements.

Specifically, the SFC found that Emperor failed to implement adequate and effective policies and procedures to mitigate the risks of money laundering and terrorist financing associated with third party deposits and payments.

Despite the presence of red flags in some of the third party fund transfers requested by clients, Emperor did not identify the suspicious transfers and make appropriate enquiries. The SFC is of the view that Emperor's conduct was in breach of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, the Guideline on Anti-Money Laundering and Counter-Terrorist Financing and the Code of Conduct issued by the SFC.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR14>

The Green and Sustainable Finance Cross-Agency Steering Group welcomes the publication of ISSB proposed standards for public consultation

In March 2022, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) welcomed the publication of the proposed general requirements for disclosure of sustainability-related financial information and the climate disclosure requirements by the International Sustainability Standards Board (ISSB).

The proposed standards are built on the recommendations of the Task Force on Climate-related Financial Disclosures and are intended to form a comprehensive and effective global baseline of investor-focused sustainability disclosures. To support the development of a global uniform set of sustainability reporting standards, the Securities and Futures Commission (SFC) and Hong Kong Exchanges and Clearing Limited plan to engage with industry practitioners including the audit and accounting profession, the Hong Kong Institute of Certified Public Accountants, listed companies, global standard setters such as the International Organization of Securities Commissions and other key stakeholders to evaluate and gather feedback on how the ISSB's proposed disclosure requirements can be applied in Hong Kong.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR20>



SFC reprimands and fines Citigroup Global Markets Asia Limited for serious regulatory failures

In January 2022, the SFC reprimanded and fined Citigroup Global Markets Asia Limited (CGMAL) \$348.25 million for allowing various trading desks under its cash equities business to disseminate mislabelled indications of interest (IOIs) and make misrepresentations to institutional clients when executing facilitation trades from 2008 to 2018.

The SFC reviewed and found that facilitation trades executed by CGMAL's various trading desks involved misrepresentation and non-disclosure to conceal the principal nature of facilitation trades in order to avoid losing trades to competitors. The prevalence of the misconduct among the desks over a period of more than 10 years indicates serious and systemic lapses across CGMAL's controls framework and its first and second lines of defence.

Management of licensed corporations should ensure the maintenance of appropriate standards of conduct and adherence to relevant regulatory requirements. Lack of proper management oversight can result in penalties and fines, not only for a licensed corporation, but also individual responsible management members of the company in some cases.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR6>

How can BDO help?

It is important for financial institutions to keep up with compliance regulations updates from regulatory bodies, and implement any updates to existing effective compliance controls, inform and continuously refresh the regulatory requirement knowledge of responsible management and staff.

Our financial services team is a group of dedicated and experienced compliance consultants who have up-to-date knowledge on regulatory requirements in the financial services industry. We provide consulting service to a company's internal control procedures over compliance, identify and improve any control weaknesses. Get in touch to see how we can help your company!

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