

FINANCIAL SERVICES SECTOR UPDATES Issue 3/2022



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:

HKMA takes disciplinary action against Commerzbank AG, Hong Kong Branch for contraventions of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance

In August 2022, the Hong Kong Monetary Authority (HKMA) completed an investigation and disciplinary proceedings with Commerzbank AG, Hong Kong Branch (CBHK) under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO). The HKMA imposed a pecuniary penalty of HK\$6,000,000 against CBHK for contraventions of the AMLO.

The disciplinary action follows an on-site examination and further investigation by the HKMA on CBHK's systems and controls for compliance with the AMLO. The control lapses identified in the investigation relate to conducting customer due diligence (CDD) before establishing business relationships during the period between April 2012 and June 2016. CBHK also failed to establish and maintain effective procedures for carrying out its duties under the AMLO in relation to conducting CDD and implementing name screening mechanism of customers' beneficial owners during this period.

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Read more from the source:

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/08/20220826-6/>

SFC's review shows increasing popularity of online investment services

In August 2022, the Securities and Futures Commission (SFC) released the observations and findings from its review of licensed firms providing online brokerage, distribution and advisory services.

The review revealed that licensed firms provided the following online services to clients:

- New accounts were predominantly opened online using non-face-to-face approaches.
- The most commonly offered products were exchange-traded products such as equities, exchange-traded funds, and futures and options contracts. Increasingly, online brokers also offered collective investment schemes (including money market funds for cash management purposes) as well as robo-advisory services.
- Apart from Hong Kong, the US and the Mainland were the major equities markets which clients of the surveyed firms accessed through online platforms. The major futures and options markets were those in the US and Hong Kong.
- Some firms invested heavily in their online platforms to enable technical analysis of stocks and to facilitate investors' market research in a self-directed environment. This was coupled with the use of popular social media platforms for marketing and communication purposes. Platforms which achieved economies of scale charged lower commission fees.

The SFC has issued various circulars and guidelines to provide guidance on how its principles-based, technology-neutral rules could be applied in a digital environment. These cover non-face-to-face account opening, online distribution and advisory platforms and cybersecurity.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR66>

Ex-securities brokers charged by ICAC guilty of bribing computer company staff over trading programme service

In August 2022, ICAC charged two former brokers of a securities firm (Glory Sky Global Markets Limited), of offering bribes of about \$70,000 and gifts worth over \$12,500 to staff of a computer company for arranging the provision of services to their clients through a computer trading programme.

Between late 2014 and early 2015, the former brokers (the defendants) promoted the computer trading programme of Hong Kong Financial Engineering Company Limited (HK Financial Engineering) to two of their clients. In December 2014, the two defendants agreed on the request of the chief executive officer of HK Financial Engineering to pay a rebate per transaction to its staff who handled the computer programme for their clients.

HK Financial Engineering did not allow its staff to accept advantages from the defendants in relation to its business and affairs. The ICAC investigation arose from a corruption complaint. HK Financial Engineering had rendered full assistance to the ICAC during its investigation into the case.

Read more from the source:

https://hkbedc.icac.hk/en/integrity_focus/recent_icac_cases/487



SFC issues restriction notice to a broker to freeze client account linked to suspected insider dealing

In August 2022, the Securities and Futures Commission (SFC) issued a restriction notice to Bright Smart Securities International (H.K.) Limited (Bright Smart), prohibiting it from disposing of or dealing with certain assets held in a client account that holds proceeds of suspected insider dealing.

The SFC considers that the issue of the restriction notice, which prevents dissipation of proceeds of suspected insider dealing held in the account, is desirable in the interest of the investing public or in the public interest. The SFC's investigation is continuing.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR63>

How can BDO help?

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

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 and can provide consulting service to a company's internal controls procedures over compliance, identify and improve any control weaknesses. Get in touch to see how we can help your company!

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