

Financial Services Regulatory Tracker Q4 2018

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Subject	Update	Key date(s)	Link
<p>Consultation conclusion on the offline sale of complex products</p>	<p>On 4 October 2018 the Securities and Futures Commission ("SFC") released conclusions to its further consultation on requirements applicable to the offline sale of complex products.</p> <p>Under these requirements, additional protective measures will apply to the sale of complex products in an offline environment, for example, when the sale is concluded with a client face-to-face, over the telephone or via other forms of interactive communication. The suitability of complex products will need to be ensured and clients will need to be provided with product information and warning statements. These are the same protective measures which will be introduced for the distribution of complex products on online platforms.</p>	<p>Release date: 4 October 2018</p> <p>Effective date of additional measures: 6 April 2019</p>	<p>Press release: https://www.sfc.hk/edis-tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR112</p> <p>Consultation Conclusions: https://www.sfc.hk/edis-tributationWeb/gateway/EN/consultation/conclusion?refNo=17CP3</p>
<p>New regulatory approach for virtual assets</p>	<p>On 1 November 2018 the SFC issued a statement setting out a new approach which aims to bring virtual asset portfolio managers and distributors of virtual asset funds under its regulatory net. It also sets out a conceptual framework for the potential regulation of virtual asset trading platforms.</p> <p>In light of the significant risks virtual assets pose to investors, the SFC will adopt new measures within its regulatory remit to protect those who invest in virtual asset portfolios or funds. The SFC will impose licensing conditions on firms which manage or intend to manage portfolios investing in virtual asset, irrespective of whether the virtual assets meet the definition of "securities" or "futures contracts".</p> <p>In an accompanying circular, the</p>	<p>Release date: 1 November 2018</p>	<p>Press release: https://www.sfc.hk/edis-tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR126</p> <p>Statement by SFC: https://www.sfc.hk/web/EN/news-and-announcements/policy-statements-and-announcements/reg-framework-virtual-asset-portfolios-managers-fund-distributors-trading-platform-operators.html</p> <p>Accompanying circular: https://www.sfc.hk/edis-tributationWeb/gateway/EN/circular/doc?refNo=18EC77</p>

	<p>SFC provided detailed guidance and reminded firms which distribute funds investing in virtual assets that they should be registered with or regulated by the SFC and should comply with its regulatory requirements, including the suitability obligations, when distributing these funds.</p> <p>Under a conceptual framework also announced in the statement, the SFC will also explore whether virtual asset trading platforms are suitable for regulation in the SFC Regulatory Sandbox.</p>		
<p>Review of verification requirements for electronic wallets setting up direct debit authorizations</p>	<p>On 26 October 2018 the HKMA announced that it has completed its review on the process of electronic wallets users setting up direct debit authorisation ("eDDA") through the Faster Payment System ("FPS"). The HKMA has requested stored value facility operators and banks to adopt the following refined process to enhance user protection:</p> <p>(i) the user will receive an SMS notification from his bank to confirm the setting-up of eDDA; or</p> <p>(ii) he will need to make a one-time credit transfer from the relevant bank account to his electronic wallet, so as to confirm the wallet user is the same as the bank account owner; or</p> <p>(iii) the bank's two-factor authentication (via mobile phone short message service for identity verification).</p> <p>In order to provide more comprehensive protection to users, the above refined process</p>	<p>Release date: 26 October 2018</p>	<p>Press release: https://www.hkma.gov.hk/eng/key-information/press-releases/2018/20181026-6.shtml</p>

	<p>will apply to direct debit services conducted through both FPS and non-FPS channels. This refined process was implemented to close security loopholes identified by the HKMA. These loopholes had allowed fraudulent information to be disseminated and false identification to be used. Before the implementation of this refined process, there was no uniformity with respect to user protection.</p>		
<p>Consultation conclusion on amendments to anti-money laundering and counter-financing of terrorism guidelines</p>	<p>On 12 October 2018 the SFC released consultation conclusions on proposals to amend its Guideline on Anti-Money Laundering and Counter-Terrorist Financing ("AML/CFT Guideline").</p> <p>Under the revised AML/CFT Guideline, the changes allow firms the flexibility to adopt reasonable risk-based measures to verify customer identification information. To facilitate non-face-to-face customer on boarding, firms are allowed to take a mix of supplementary measures to guard against impersonation risk.</p> <p>In addition, the categories of politically exposed persons ("PEPs") will be expanded to include international organisation PEPs who are persons entrusted with a prominent function by an international organisation. The enhanced scrutiny for foreign PEPs will be extended to domestic PEPs and international organisation PEPs where their business relationships with a firm are assessed to be of high risk. These amendments were made so</p>	<p>Release date: 12 October 2018</p> <p>Effective date of the revised AML/CFT Guideline: 1 November 2018</p>	<p>Press release: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR119</p> <p>Consultation Conclusions: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/conclusion?refNo=18CP6</p> <p>Consultation Paper: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/openFile?refNo=18CP6</p>

	<p>that the AML/CFT Guideline is in line with the latest international AML/CFT standards, which mainly comprise the FATF Recommendations and guidance papers published by the FATF from time to time. Specifically for PEPs, the latest is the FATF Guidance on Politically Exposed Persons, Recommendations 12 and 22 (June 2013).</p>		
<p>Consultation conclusion on amendments to the Code on Unit Trusts and Mutual Funds</p>	<p>On 6 December 2018 the SFC released the consultation conclusions on proposed amendments to the Code on Unit Trusts and Mutual Funds ("UT Code"), which propose the following:</p> <ol style="list-style-type: none"> (1) Increase the minimum capital for management companies. (2) Increase flexibility to allow multinational management companies to use group resources and expertise to meet key personnel requirements. (3) Allow greater flexibility for plain vanilla funds to invest in derivatives. (4) A new column will be added in the list of SFC-authorized funds shown on the SFC website to indicate whether the fund is a derivative fund or a fund allowed to invest in derivatives. (5) Accept high quality government securities with favourable credit quality assessments as collateral for reverse repo transactions. (6) Lower the minimum levels of daily and weekly liquid assets required to be held by a money market fund to further align with requirements in 	<p>Release date: 6 December 2018</p> <p>Tentative effective date of the revised codes: 1 January 2019</p>	<p>Press release: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR135</p> <p>Consultation Conclusions: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/conclusion?refNo=17CP8</p> <p>Consultation Paper: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/openFile?refNo=17CP8</p>

	<p>comparable jurisdictions.</p> <p>(7) A 12-month transition period from the effective date will be provided for existing funds and operators to comply with the revised UT Code.</p> <p>Consequential amendments to the SFC Code on MPF Products ("MPF Code"), Code on Pooled Retirement Funds ("PRF Code") and Code on Investment-Linked Assurance Schemes ("ILAS Code") will also be implemented.</p>		
MoU on United Kingdom-Hong Kong Mutual Recognition of Funds	<p>On 8 October 2018 the SFC and the Financial Conduct Authority ("FCA") have entered into a Memorandum of Understanding on Mutual Recognition of Funds ("MoU"), which will allow eligible Hong Kong public funds and United Kingdom retail funds to be distributed in each other's market through a streamlined process.</p> <p>The MoU also establishes a framework for exchange of information, regular dialogue as well as regulatory cooperation in relation to the cross-border offering of eligible Hong Kong public funds and United Kingdom retail funds.</p>	Release date: 8 October 2018	<p>Press release: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR116</p> <p>MoU: https://www.sfc.hk/web/EN/files/ER/PDF/FINAL_UK%20MRF%20MOU%20with%20Appendix%20B%20(20181008).pdf</p> <p>SFC circular: https://www.sfc.hk/edis/tributationWeb/gateway/EN/circular/doc?refNo=18EC70</p> <p>FCA circular: https://www.fca.org.uk/publication/mou/fca-circular-mrf-uk-hong-kong.pdf</p>
Consultation conclusion on OTC derivatives and conduct risks	<p>On 12 December 2018 the SFC released consultation conclusions on proposals to enhance the over-the-counter ("OTC") derivatives regime and to address conduct risks posed by dealings with group affiliates and other connected persons.</p>	<p>Release date: 12 December 2018</p> <p>Effective dates: 14 December</p>	<p>Press release: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR141</p>

	<p>Under the proposals, licensed corporations that are contracting parties to non-centrally cleared OTC derivative transactions or are licensed for Type 9 (asset management) regulated activity will be subject to risk mitigation requirements. Licensed corporations providing client clearing services for OTC derivative transactions will be subject to segregation, portability and disclosure requirements.</p> <p>In addition, licensed corporations which have dealings with group affiliates and other connected persons will be subject to conduct requirements to ensure that risks are properly managed, they act in clients' best interest and appropriate risk disclosure is provided.</p>	<p>2018—Code of Conduct amendments</p> <p>1 September 2019—Risk mitigation requirements</p> <p>14 June 2019 (6 months after the effective date of Code of Conduct amendments) —Conduct requirements regarding group affiliates and other connected persons</p> <p>Client clearing requirements to become effective upon Types 11 and 12 regulated activities taking effect</p>	<p>Consultation Conclusions: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/conclusion?refNo=17CP9</p> <p>Consultation Paper: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/openFile?refNo=17CP9</p>
<p>Conclusion of further consultation on the financial resources rules</p>	<p>On 19 October 2018 the SFC released conclusions to the further consultation on proposed amendments to update the Securities and Futures (Financial Resources) Rules ("FRR"). The SFC will implement the proposed changes, the main purpose of which is to update the computation basis of the financial resources requirements in response to market developments and to facilitate the business</p>	<p>Release date: 19 October 2018</p> <p>Effective date of amendments relating to a new accounting standard: 1 January 2019</p> <p>Effective date</p>	<p>Press release: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR122</p> <p>Consultation Conclusions: https://www.sfc.hk/edis/tributationWeb/gateway/EN/consultation/openFile?refNo=17CP6</p>

	<p>operation of licensed corporations.</p> <p>Key changes include relaxing the treatment for foreign currencies subject to exchange control, clarifying the treatment for non-freely floating foreign currencies, introducing and updating haircut percentages for certain types of securities and investments and refining the treatments for amounts receivable arising from securities transactions. A number of futures and stock exchanges will also be added to the list of specified exchanges in the FRR.</p>	of all other amended rules: 1 April 2019	
<p>Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules and Inland Revenue (Amendment) (No. 6) Bill 2018</p>	<p>On 19 October 2018 the Government published in the Gazette the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (the "Rules") and the Inland Revenue (Amendment) (No. 6) Bill 2018.</p> <p>Following the commencement of the Financial Institutions (Resolution) Ordinance (Cap. 628) (the "Ordinance") in July 2017, the Hong Kong Monetary Authority ("HKMA"), as the resolution authority for authorised institutions ("AIs"), has made the Rules pursuant to section 19(1) of the Ordinance to prescribe minimum loss-absorbing capacity ("LAC") requirements for AIs and their group companies. The Rules are closely aligned to international standards on LAC requirements, as set out in the Financial Stability Board's total loss-absorbing capacity term sheet.</p> <p>Owing to the loss-absorbing</p>	<p>Release date: 19 October 2018</p> <p>Date on which the Rules and amendment bill would be tabled before the Legislative Council at its sitting: 24 October and 31 October 2018</p> <p>Effective date of the Rules: 14 December 2018</p>	<p>Press release: https://www.info.gov.hk/gia/general/201810/19/P2018101800366.htm</p>

	<p>nature of the LAC debt instruments, their profits tax treatment under the Inland Revenue Ordinance (Cap. 112) is uncertain, in particular whether they are eligible for debt-like tax treatment. To facilitate the implementation of the Rules, the amendment bill will provide certainty of tax treatment for LAC debt instruments issued by AIs and relevant group companies.</p>		
<p>MoU to enhance supervisory cooperation and exchange of information of Cross-Boundary Regulated Entities</p>	<p>On 3 December 2018 the China Securities Regulatory Commission (the "CSRC") and the SFC entered into a Memorandum of Understanding ("MoU") regarding the cooperation and exchange of information in connection with the supervision and oversight of regulated entities of the CSRC or the SFC that operate on a cross-boundary basis in Hong Kong and Mainland ("Cross-Boundary Regulated Entities").</p> <p>The MoU facilitates the CSRC and the SFC to cooperate with each other in the interest of fulfilling their respective mandates, particularly in the areas of investor protection, promoting the integrity and financial prudence of Cross-Boundary Regulated Entities, fostering fairness of markets, reducing systemic risk and maintaining financial stability.</p>	<p>Release date: 3 December 2018</p>	<p>Press release: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR132</p>
<p>Agreement with CSRC to enhance the exchange of information under Stock Connect</p>	<p>On 14 December 2018 the SFC entered into an agreement with the CSRC to enhance the exchange of information under Mainland-Hong Kong Stock Connect.</p> <p>The agreements are part of arrangements for the</p>	<p>Release date: 14 December 2018</p>	<p>Press release dated 14 December 2018: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR138</p>

	<p>implementation of the investor identification regime for both northbound and southbound trading under Stock Connect.</p> <p>An investor identification regime for northbound trading was launched on 26 September 2018 and the investor identification regime for southbound trading is planned to be introduced by the end of the first quarter of 2019. The regime helps enhance market surveillance and combat cross-boundary market misconduct under Stock Connect.</p>		<p>Press release dated 24 August 2018: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/corporate-news/doc?refNo=18PR99</p> <p>SFC and CSRC Joint Announcement dated 16 August 2016: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=16PR80</p> <p>SFC and CSRC Joint Announcement dated 10 April 2014: https://www.sfc.hk/edis/tributationWeb/gateway/EN/news-and-announcements/news/doc?refNo=14PR41</p>
<p>eTradeConnect and collaboration with we.trade</p>	<p>On 31 October 2018 the HKMA announced the official launch of eTradeConnect, a blockchain-based trade finance platform developed by a consortium of twelve major banks in Hong Kong. Formerly known as the Hong Kong Trade Finance Platform, eTradeConnect aims to improve trade efficiency, build better trust among trade participants, reduce risks and facilitate trade counterparties to obtain financing by digitising trade documents, automating</p>	<p>Release date: 31 October 2018</p>	<p>Press release: https://www.hkma.gov.hk/eng/key-information/press-releases/2018/20181031-4.shtml</p>

	<p>trade finance processes and leveraging the features of blockchain technology.</p> <p>eTradeConnect is the first large-scale multi-bank blockchain project in Hong Kong. The project was initially led by seven major banks and later joined by five additional banks, adding up to a consortium of twelve member banks. On 31 October 2018, the HKMA witnessed the signing of a Memorandum of Understanding between the operators of eTradeConnect and the we.trade to conduct a proof-of-concept on connecting the two platforms.</p>		
Designation of nine CNH primary liquidity providers	<p>On 26 October 2018 the HKMA announced that it has designated the following nine authorized institutions as Primary Liquidity Providers ("PLPs") for offshore renminbi (RMB) market in Hong Kong (i.e. CNH market) for another term of two years with effect from 27 October 2018, following the expiry of their current 2-year term of designation.</p> <p>The nine PLPs include Agricultural Bank of China Limited, Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd., BNP Paribas, China Construction Bank (Asia) Corporation Limited, Citibank, N.A., Hongkong and Shanghai Banking Corporation Limited, the Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited.</p>	<p>Release date: 26 October 2018</p> <p>Effective date of designation: 27 October 2018</p>	<p>Press release: https://www.hkma.gov.hk/eng/key-information/press-releases/2018/20181026-3.shtml</p>
Enhanced Competency	<p>On 26 October 2018 the HKMA and the Monetary Authority of</p>	<p>Release date: 30 October</p>	<p>Press release: https://www.hkma.gov</p>

<p>Framework for Banking Practitioners in Macao</p>	<p>Macao ("AMCM") signed a Memorandum of Understanding to jointly promote mutually recognised professional training and certifications under the Enhanced Competency Framework for Banking Practitioners ("ECF"). This would support talent development and facilitate mobility of talent for the banking industry in Hong Kong and Macao.</p> <p>Developed by the HKMA in collaboration with the banking industry, the Hong Kong Institute of Bankers ("HKIB") and other relevant professional bodies, the ECF provides a set of common competency standards for the industry. According to the Memorandum of Understanding, the HKMA and the AMCM have designated the HKIB and the Macau Institute of Financial Services ("MIFS") to join hands in providing related professional training and implementing the mutual recognition of professional certifications under the ECF. The HKIB and the MIFS will also offer a bridging course on relevant laws and regulations of Hong Kong and Macao for banking practitioners in the respective jurisdictions.</p>	<p>2018</p>	<p>hk/eng/key-information/press-releases/2018/20181030-5.shtml</p>
<p>Annual assessment of Domestic Systemically Important Authorised Institutions</p>	<p>On 21 December 2018 the HKMA completed its annual assessment of the list of Domestic Systemically Important Authorized Institutions ("D-SIBs"). Based on the assessment results, the list of authorized institutions designated as D-SIBs remains unchanged compared to</p>	<p>Release date: 21 December 2018</p>	<p>Press release: https://www.hkma.gov.hk/eng/key-information/press-releases/2018/20181221-3.shtml</p> <p>List of D-SIBs: https://www.hkma.gov.hk/media/eng/doc/key-</p>

	<p>the list of D-SIBs published by the HKMA on 29 December 2017.</p> <p>Under the D-SIB framework, each of the authorized institutions designated as a D-SIB will be required to include a higher loss absorbency requirement into the calculation of their regulatory capital buffers within a period of 12 months after the formal notification of its designation.</p>		<p>information/press-release/2018/20181221e3a1.pdf</p>
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