
REGULATORY NEWSLETTER

2020 Vol.1



Happy New Year!

Tis the holiday season and even the SFC has to take a break! So, this has not been a particularly eventful month in terms of regulatory changes, relax! We here at ComplianceDirect look forward to working with you this year.

REGULATORY UPDATES

Joint product survey by the SFC and the HKMA

6 Dec 2019

The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) will jointly launch an annual survey on the sale of non-exchange traded investment products by licensed corporations (LCs) and registered institutions (RIs) licensed or registered for Type 1 or 4 regulated activity. The first joint annual survey will cover the period from 1 January to 31 December 2020, and should be submitted to the SFC electronically via WINGS in the first quarter of 2021. A sample of the PDF survey questionnaire is now available in WINGS, but it can only be accessed by: i) Executive officers of registered institutions; ii) Responsible officers of licensed corporations; and iii) Directors or persons authorised by the Board of Directors of the registered institutions or licensed corporations.

The questionnaire includes three parts:

Part A (General information) – All intermediaries should complete Part A;

Part B (Information on the sale of non-exchange traded investment products) – Intermediaries which sold non-exchange traded investment products during the reporting period should complete Part B; and

Part C (Supplementary information about the sale of non-exchange traded investment products) – LCs with total transaction amounts of HK\$1 billion or above and RIs with total transaction amounts of HK\$ 30 billion or above during the reporting period should also completed Part C.

[View Circular](#)

Streamlined requirements for eligible exchange traded funds adopting a master-feeder structure

16 Dec 2019

The SFC has received a number of requests to allow more flexibility in the master-feeder ETF structure by allowing an SFC-authorized feeder ETF to invest its assets in an overseas-listed master ETF without SFC authorization, thus facilitating the development of ETF product line-up in a more cost-effective manner and offering more investment choices to investors. In response to the requests, the SFC has prepared the following requirements under which it would consider authorizing such feeder ETF.

Master ETF

The master ETF should, at a minimum, meet the following key requirements:

- a) the master ETF must be a scheme regulated in a recognized jurisdiction managed by a management company in an acceptable inspection regime or a scheme eligible under a mutual recognition of funds arrangement;
- b) the master ETF, together with its management company and trustee/custodian, must have a good compliance record with the rules and regulations of its home jurisdiction and (in the case of master ETF) the listing venue;
- c) the master ETF must have a fund size of not less than USD 1 billion and a track record of more than 5 years at the time of the feeder ETF's listing on the Stock Exchange of Hong Kong;
- d) the master ETF must adopt physical replication of the underlying index through either a full replication or a representative sampling strategy; and
- e) the master ETF's engagement in securities financing transactions should not exceed 50% of its total net asset value unless there are comparable safeguards and disclosure.

Feeder ETF

Index tracking feeder ETF seeking SFC authorization for public offering in Hong Kong should comply with the applicable requirements in the Overarching Principles Section and the UT Code in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products and all other applicable regulatory requirements and guidelines as may be issued by the SFC from time to time.

In addition, the feeder ETF should meet the following requirements:

- a) the feeder ETF must be a Hong Kong-domiciled ETF authorized by the SFC;

- b) the feeder ETF must be managed by a management company which is licensed or registered for Type 9 regulated activity and has a good compliance record;
- c) the management company of the feeder ETF should report to the SFC as soon as practicable if the master ETF ceases to comply with the requirements set out in this circular and take appropriate remedial action to promptly rectify the situation; and
- d) the management company of the feeder ETF should put in place appropriate arrangements to inform Hong Kong investors of any material change to, or event that has a significant adverse impact on, the master ETF in a timely manner.

The SFC may consider introducing additional requirements or conditions as deemed necessary or appropriate in the discharge of its functions.

[View Circular](#)

ENFORCEMENT NEWS

SFC reprimands and fines FIL Investment Management (Hong Kong) Limited HK\$3.5 million for regulatory breaches

The SFC has reprimanded and fined FIL Investment Management (Hong Kong) Limited (FIMHK) HK\$3.5 million for regulatory breaches including unlicensed dealing in futures contracts, delay in reporting the breach to the SFC as well as submitting incorrect information during an application.

The SFC found that between August 2007 and July 2018, FIMHK executed 6,738 trades in futures contracts for its overseas affiliates with an approximate value of US\$40 billion without the required licence. FIMHK identified the suspected breach in a review conducted between May and June 2018 but only reported the incident to the SFC in August 2018, after it had obtained external legal advice.

The SFC also found that FIMHK, when applying to the SFC for a new fund authorization in March 2017, submitted an incorrect information checklist based on an outdated template. As a result, certain required information was not completed or provided in the checklist submitted to the SFC.

The internal investigation conducted by FIMHK and the

SFC reprimands and fines Adamas Asset Management (HK) Limited \$2.5 million

The SFC has reprimanded and fined Adamas Asset Management (HK) Limited (Adamas) \$2.5 million for inadequate measures to ensure accurate and timely disclosure of notifiable interests in eight Hong Kong-listed company shares.

The SFC found that between February 2013 and March 2016, Adamas had failed to disclose to The Stock Exchange of Hong Kong Limited (SEHK) and the relevant listed companies all notifiable interests in the shares of these Hong Kong-listed companies in the client portfolios it managed by filing 339 disclosure notices incorrectly or late.

The SFC considers Adamas had failed to implement appropriate procedures to ensure proper disclosure of notifiable interests in Hong Kong-listed corporations as required by the Code of Conduct

reviews performed by an independent reviewer engaged by FIMHK identified certain deficiencies and weaknesses in FIMHK's internal controls and systems, which suggest that FIMHK did not put in place satisfactory and effective systems and controls to ensure the accuracy of information submitted to the SFC at the relevant time.

[View News](#)

[View News](#)



ComplianceDirect Consulting Limited

Address: Unit A, 21/F, Wing Hang Insurance Building, 11 Wing Kut Street, Central, Hong Kong

Phone: 2606 1800

Website: www.compliancedirecthk.com
