SI Standards & Insights

HKSI

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Regulatory and Technical Updates

SFC and HKEX issued joint consultation on listing regulation

On 17 June 2016, the Securities and Futures Commission ("SFC") and Hong Kong Exchanges and Clearing Limited ("HKEX") issued a consultation on proposed enhancements to achieve closer coordination and cooperation between the SFC and The Stock Exchange of Hong Kong Limited ("SEHK") on listing policy formation, to enhance efficiency for dealing with initial listing applications and important or difficult listing decisions, and to establish clearer accountability for decision-making in and oversight of listing regulations.

Enhancements under the proposals include, among other:

- two new SEHK Committees, Listing Policy Committee and Listing Regulatory Committee, on which the SFC and the SEHK are equally represented will be established;
- the Listing Committee will provide a non-binding view on the decisions from both the Listing Policy Committee and the Listing Regulatory Committee; and
- the listing function will remain within the SEHK which will continue to be the frontline regulator for listing matters.

SEHK published Guidance Letter on IPO Vetting and Suitability for Listing

On 3 June 2016, SEHK issued a guidance letter (GL68-13A) on initial public offering ("IPO") vetting and suitability for listing.

SEHK has found that there have been a number of newly listed issuers' controlling shareholders which sold their interests shortly after the lock-up period, sometimes, combined with changes to management and/or the nature of the listed business. One explanation for the phenomenon that is the perceived value attached to listing status by the original controlling shareholders as opposed to a genuine need for fund raising, and a listing status, to develop the listed business. SEHK believes such companies will invite speculative trading which is not in the interest of the investing public.

SEHK plans to take a more focused review when a listing applicant has certain characteristics identified in the GL68-13A. Such applicant and its sponsor are required to provide a robust analysis to substantiate the applicant's suitability for listing. Based on the results of its review of the analysis, SEHK may impose additional requirements or conditions or exercise its discretion to reject the applicant's listing on the grounds of suitability.

SEHK published Guidance Letter for Issuers subject to Rumours or Market Commentaries

On 8 April 2016, the SEHK published a guidance letter for issuers subject to rumours or market commentaries with allegation of fraud, material accounting and/or corporate governance irregularities (together "allegations") that may require a trading halt in their securities.

The guidance letter sets out the SEHK's revised approach and obligations for issuers in handling allegations. The SEHK considers that if there is or there is likely to be a disorderly or false market in their securities as a result of the allegations, a clarification announcement informing the market about their positions regarding each allegation must be made promptly or a trading halt must be applied by the issuers. Trading must be resumed as soon as practicable following publication of a clarification announcement if trading is halted.

Following on the publication of the clarification announcement, the SEHK may follow up with the issuer on any further disclosures, reviews or investigations, if necessary. The issuer is obligated to ensure that its announcements are accurate or not misleading in a material particular according to section 384 of the Securities and Futures Ordinance.

SEHK published Guidance Letter on Bonus Issues of Shares ("bonus issues")

On 27 April 2016, the SEHK issued a guidance letter in relation to handling bonus issues by listed companies.

Recently, there have been increases in listed companies conducting their bonus issues with a large distribution ratio, resulting in significant price and volume fluctuations during the ex-entitlement period (Note 1) in a number of cases. The guidance letter reminds listed companies to plan their bonus issues properly to avoid disorderly trading.

When a company proposes a bonus issue of 200% or more of its existing issued shares, the SEHK will likely raise concern about the operation of an orderly market. Nevertheless, the same concern may also be raised by the SEHK after considering the relevant circumstances and facts of a proposed bonus issue of a smaller scale.

Note 1: The ex-entitlement period refers to the time interval between the ex-entitlement date for a bonus issue and the date of allotment of the bonus shares.

SEHK Reports on its Review of Listed Issuers' Corporate Governance Practice Disclosure

The SEHK reported the findings of its latest review of listed issuers' corporate governance practices on 15 May 2016.

SEHK reviewed the corporate governance reporting for the 1 April 2014 to 31 March 2015 financial year by 318 issuers ("March FYE issuers"). Comparing with the previous review of disclosures for 2014 by the issuers with a financial year-end date of 31 December, the March FYE issuers' compliance level with SEHK's Corporate Governance Code was still high, with two notable exceptions: (1) fewer March FYE issuers reported that they had an internal audit function; and (2) more March FYE issuers did not report aboard diversity policy.

Moreover, the quality of explanations given for deviating from Code Provisions ("CPs") by the March FYE issuers was varied and reflected a degree of "boilerplate" use. SEHK expects that the explanation of any deviation from a CP should be informative and clear, and should:

- explain the manner in which the company deviates from the CP;
- explain the measure(s) taken instead of compliance;
- describe the decision process; and
- give considered reasons.

SFC to enhance fund authorisation process

The SFC has made an announcement on 22 April 2016 that it would formally adopt the Revamped Process for authorisation process for new fund applications and applications made by Mainland Funds seeking authorisation under the Mutual Recognition of Funds ("MRF") arrangement between Mainland and Hong Kong. After its six-month pilot period ended on 8 May 2016, the Revamped Process is proven to have met the market and regulatory needs. New fund applications and MRF applications received on or after 9 May 2016 will be subject to the Revamped Process.

During the pilot period, open dialogue with and feedback from industry participants have been sought for the operation of the Revamped Process. The industry broadly supports the Revamped Process. The SFC commented that with an improved quality of fund applications and more timely responses from applicants, a satisfactory level of investor protection can be achieved with a reduced overall processing time for new fund applications.

Bill for introducing new open-ended fund company structure passed

On 2 June 2016, the Legislative Council ("LegCo") passed the Securities and Futures (Amendment) Bill 2016, which seeks to introduce a new open-ended fund company ("OFC") structure in Hong Kong.

An OFC is an open-ended collective investment scheme set up in the form of a company, but with the flexibility to create and cancel shares for investors to trade the funds, which is currently not enjoyed by conventional companies. Also, OFCs will not be bound by restrictions on distribution out of share capital applicable to companies formed under the Companies Ordinance, and instead may distribute out of share capital subject to solvency and disclosure requirements. An OFC could be a publicly or privately offered fund.

The passage of the bill responds to the market need for a more flexible choice of investment fund vehicle and will be conducive to Hong Kong's further development as an international asset management centre.

LegCo passed The Mandatory Provident Fund Schemes (Amendment) Bill 2015

The Mandatory Provident Fund Schemes (Amendment) Bill 2015 which provides for the introduction of a Default Investment Strategy ("DIS") and requires each Mandatory Provident Fund ("MPF") scheme to provide the DIS has been passed by the LegCo on 26 May 2016.

The DIS is a highly standardised, fee-controlled, investment strategy for MPF members that is designed to be consistent with the objective of establishing long-term retirement savings. The bill requires management fees of DIS funds to a fee cap of 0.75% of the net asset value of the funds, and caps recurrent out-of-pocket expenses at 0.2%. If MPF scheme members do not make any choices regarding their MPF investments, their MPF contributions will be invested in accordance with the DIS. MPF scheme members can also select the DIS if they wish.

The Mandatory Provident Fund Schemes Authority will work closely with the Government and MPF trustees to revise the needed implementation plans on product readiness, the scheme administration system, internal controls, etc. before the launch of the DIS.

New futures contracts introduced by HKEX

Since 9 May 2016, seven sector index futures contracts have been rolled out by HKEX to enable investors to gain exposure to a basket of stocks in a key segment of Hong Kong's securities market. Among those futures contracts, there are four on Mainland-related sectors, two on technology stocks and one linked to gaming stocks.

Moreover, on 30 May 2016, HKEX introduced additional RMB currency futures. The new RMB currency futures introduced and their uses are:

- Cash-settled Euro-RMB, Japanese yen-RMB and Australian dollar-RMB futures to provide market participants more tools for hedging their RMB risk; and
- US dollar-denominated cash-settled RMB-US dollar futures to complement the existing physically-delivered US dollar-RMB futures.

First Batch of Leveraged and Inverse Products Listed

4 Leveraged and Inverse Products ("L&I Products") listed on HKEX on 13 June 2016 as the first batch of L&I Products in Hong Kong market. L&I Products are structured as Exchange-traded Funds ("ETFs"), but they can differ from traditional ETFs in the following ways:

- Investment objective - seek to achieve a multiple of their benchmark's daily performance, before fees and expenses;
- Compounding effects of daily returns - performance can deviate from the multiple of the benchmark's cumulative return when held for longer than one day; and
- Use of derivatives - invest a portion or all of their net assets in derivatives, typically futures or swaps.

For market participants' better understanding on the L&I Products from a regulatory perspective, the SFC published a set of Frequently Asked Questions on L&I Products on 18 February 2016 with some subsequent updates.

HKEX to revise Stock Option Position Limit ("SOPL") model

Following a consultation paper on 29 April 2016 on a proposed revision of the SOPL model for its derivatives market, HKEX published the consultation conclusions on 20 June 2016. The proposal is aimed at addressing the technical deficiency in the existing SOPL regime and improving the efficiency of the market. HKEX believes implementation of the proposal would align Hong Kong's SOPL regime with international practices and ensure the relevance of individual position limits in the long run, thus ensuring the city's competitiveness as an international financial centre.

Key proposed revisions for SOPL model are:

- Three-tier framework to address the de facto single position limit issue.
- Regularly scheduled reviews.
- Adjustment upon corporate action.

As the adoption of the proposed revisions requires changes to HKEX's rules as well as the Securities and Futures (Contracts Limits and Reportable Positions) Rules, HKEX will further discuss its proposal with the SFC. HKEX hopes to announce the next steps, detailed implementation plans and schedules in due course.

Regulatory and Technical Updates

Regulators concern on cybersecurity risks

Cybersecurity is the major risk of the global financial system in the Internet of Everything era. In Hong Kong, besides fraudulent websites and phishing emails related to financial institutions, the recent incident of unauthorised stock trading activities through internet banking services aroused the public awareness on the cybersecurity for financial services. The issue has been of concern to Hong Kong's financial regulators and is increasingly being viewed by them as a matter of priority given the ongoing occurrence of cybersecurity incidents being reported across the financial services and banking industries.

Through a series of circulars published by the SFC, licensed corporations are reminded that they are expected to take appropriate measures to critically review and assess the effectiveness of the cybersecurity controls in place within their business environments. The circulars published by the SFC are shown as follows:

Date	Relevant Document
23 March 2016	Circular to All Licensed Corporations on Cybersecurity
29 January 2016	Circular to All Brokers – Tips on Protection of Online Trading Accounts
11 June 2015	Circular to All Licensed Corporations on Internet Trading – Internet Trading Self-Assessment Checklist
27 November 2014	Circular to Licensed Corporations – Mitigating Cybersecurity Risks
26 November 2014	Circular to All Licensed Corporations on Internet Trading – Information Security Management and System Adequacy
27 January 2014	Circular to All Licensed Corporations on Internet Trading - Reducing Internet Hacking Risks

On the other hand, the Hong Kong Monetary Authority ("HKMA") has also issued a series of circulars and revised its e-banking guidance for strengthening authorised institutions' risk control on cybersecurity. On 18 May 2016, the HKMA launched **Cybersecurity Fortification Initiative** which aims to raise the level of cybersecurity of the banks in Hong Kong.

Licensed corporations, registered institutions and authorised institutions are required to comply with the requirements set up by the relevant regulators for enhancing their cyber resilience.

Roundtable Luncheon Series – Mr Ashley Alder

Hong Kong as an evolving international financial centre

Mr Ashley Alder, Chief Executive Officer of the Securities and Futures Commission ("SFC"), was the guest speaker at the HKSI Institute luncheon on 2 June 2016. He shared his views on recent market developments and ongoing regulatory initiatives, focusing on three main themes.

Hong Kong as a place to manage onshore China risks

Mr Alder shared that despite recent market volatility, many of the underlying secular trends have remained unchanged, including China's opening up. This can be seen in the recent liberalisation of the domestic bond markets for foreign institutional investors, the probable launch of Shenzhen-Hong Kong Stock Connect in the near future, and the recently expressed wish of the China Securities Regulatory Commission to establish domestic commodity futures markets which are open to international investors. Hong Kong should play a major role as a place which originates and clears futures and other derivatives that are more precisely calibrated to manage onshore Mainland risks, although of course offering more sophisticated hedging and similar tools will require the SFC, as regulator, to manage the more complex inherent risks that come with this activity.

Hong Kong as a listed market

Mr Alder said that the SFC is looking hard at some apparent anomalies in how Hong Kong's listed market is functioning, focusing on whether these involve any misconduct and if so, whether this should prompt regulatory action. Mr Alder stressed that any single instance of misconduct related to companies' share price performance could seriously dent investors' confidence, threaten Hong Kong's market reputation and even raise issues about systemic risk. The SFC considers that the questions which need to be answered in relation to Growth Enterprise Market are more fundamental, and getting on top of all of these issues is critical to preserve the quality of Hong Kong's market. Now is the right time to re-visit the regulatory structure for the listed market, and there is a compelling case for a far more coordinated approach towards listing regulation, including greater interaction between listing policy and the Listing Rules, and the regulation of listed companies and intermediaries by the SFC under the Securities and Futures Ordinance. Mr Alder added that the SFC and Hong Kong Exchanges and Clearing Limited should soon conduct a joint public consultation on these issues (Note 1).

Hong Kong as a fund management centre

Mr Alder also spoke about the SFC's new strategy for developing Hong Kong as a global asset management centre. The core of this strategy is the Mainland-Hong Kong Mutual Recognition of Funds scheme, but it also covers fund structures, including the legal framework now being developed for open-ended fund company structures (Note 2), and alternative fund distribution platforms, including an exchange-sponsored platform now under consideration.

The SFC is also working on clarifying its expectations of how the suitability requirement should be implemented across different business models, including online platforms, and the market will be consulted on this later in the year. For new products, the two crude oil futures exchange-traded funds listed in April and May, and the leveraged and inverse products to be listed soon, are expected to meet the market's need for more diversification and innovation in the current low-yield environment. The final limb of the asset management strategy is regulation, and the SFC has consulted the industry about a revamp of the Fund Manager Code of Conduct and a forthcoming circular on liquidity risk management.

Conclusion

In closing, Mr Alder stressed the importance of working together to ensure Hong Kong's value proposition is well understood, both at home and abroad. The SFC is keenly aware that its regulation must take Hong Kong's unique position into account. The regulatory regime must not only be resilient under fast-moving and challenging market conditions, it must also adapt to market changes and broader economic conditions. Moreover, it is up to all of us to ensure Hong Kong's competitive advantages are cultivated and advanced and to reinforce its reputation as a place where international and local investors can operate with confidence.

Note 1: The Consultation has been launched subsequent to the luncheon. Please refer to the Regulatory and Technical Updates (page 1) for details.

Note 2: The Bill for introducing new OFC Structure has been passed. Please refer to the Regulatory and Technical Updates (page 2) for details.

Regulatory Insight Series: Recent Enforcement Cases related to Breaches of Code of Conduct

To protect investors, the Securities and Futures Commission ("SFC") requires licensed persons and corporations to comply with the Code of Conduct for Persons Licensed by or Registered with the SFC ("Code of Conduct"). During the last 6 months, the SFC has announced several enforcement cases that related to the breach of the Code of Conduct. In this issue, we would like to share some thoughts on some of these cases.

Enforcement Case 1

Client data transferred to third party

A licensed Associate Portfolio Manager ("APM") of an intermediary, Company A, responsible for opening accounts for enterprise clients and promoting investment and insurance products.

On his last working day with Company A, the APM sent client information of 1,540 customers from his company email to his personal email. He then sent the client information from his personal email to his new company email at Company B on the first day of his new job with Company B. The above client information provided by clients to Company A was never intended to be passed onto other third parties.

Breaches of regulations

- Code of Conduct:
  <u>*General Principle ("GP") 2*</u>
  Diligence - In conducting its business activities, a licensed or registered person should act with due skill, care and diligence, in the best interests of its clients and the integrity of the market.
  <u>*12.1 - Compliance: in general*</u>
  A licensed or registered person should comply with…the requirements of any regulatory authority which apply to the licensed or registered person.

- Data Protection Principles of the Personal Data (Privacy) Ordinance ("PDPO"):
  <u>*Principle 3 - use of personal data*</u>
  … Personal data shall not, without the prescribed consent of the data subject, be used for a new purpose…

Impact

The data of clients belongs to Company A. By transferring such data to the APM's personal email and then to Company B, the APM has prejudiced the interest of Company A and thereby harmed the integrity of the market and violated GP 2.

The APM has not acted with due care for the best interest of these clients and his acts have also infringed their privacy rights because such transfer of client data was not for purposes for which the data was collected.

The APM could have also violated GP 1 if it could be proved that he had not been honest and fair in this case.

The fitness and properness of the APM was therefore called into question.

Disciplinary action

The APM was banned from re-entering the industry for 12 months.

Lesson to learn

- Proper trainings should be provided to ensure all licensed persons act with integrity and diligence in the best interests of their clients.
- Intermediaries should have appropriate written policies and control procedures on use and transmission of clients' personal data.
- Licensed persons should, besides complying with the rules and regulations issued by the SFC, also observe the relevant law such as the PDPO. A breach of the PDPO is a criminal offence.

Enforcement Case 2

Defect in telephone recording system

An intermediary failed to record client order instructions received through one of its telephone extension lines for more than half a year as the telephone machine concerned was disconnected from the intermediary's telephone recording system due to a loose electric cable.

During the relevant period, the intermediary did not make any routine checks on its telephone recording system, nor did it review the recordings of client telephone orders on a regular basis. The loose electric cable was detected thereafter and re-attached to the telephone recording system by the intermediary. Couples of days later it discovered that its telephone recording system had failed to record client order instructions during the relevant period. As a result of the defect in its telephone recording system, the intermediary could not produce certain telephone recordings required by the SFC.

Breaches of regulations

- Code of Conduct:
  <u>3.9(b)</u> - *Where order instructions are received from*

clients through the telephone, a licensed or registered person should use a telephone recording system to record the instructions and maintain telephone recordings as part of its records for at least six months.

Impact

Telephone recording of client orders is an integral part of an intermediary's audit trails. It safeguards the interests of both the intermediary and its clients by serving as an effective compliance monitoring tool for preventing or detecting irregularities or fraudulent activities.

The intermediary's failure to detect that its telephone recording system was not functioning until after more than 6 months could show that it has also failed to monitor its clients' telephone orders during this period. Such failure has called into question its fitness and properness as an SFC licensee.

Disciplinary action

The intermediary was publicly reprimanded and fined HK$700,000.

Lesson to learn

An intermediary should closely monitor its clients' telephone orders and ensure that it has effective internal control procedures to maintain its telephone recording system.

Enforcement Case 3

"Lending" accounts to others

A licensed representative of an intermediary allowed a client, who is his mother's friend, to trade in futures contracts through his mother's account and his own account held with the intermediary.

Although his mother allowed the client to trade through her futures account, it is inexcusable for the representative to have allowed the trades to be conducted in such a way.

The representative also failed to properly receive and keep records of the client's order instructions. He claimed that he took the client's instructions using a mobile phone communication application and did not immediately call back to the firm's telephone recording system after receiving the client's order instructions.

Breaches of regulations

- Code of Conduct:

  GP 2

  As stated in Enforcement Case 1

  3.9(a)

  …a licensed or registered person should record and immediately time stamp records of the particulars of the instructions.

  5.1(a) - Know your client: in general

  A licensed or registered person should take all reasonable steps to establish the true and full identity of each of its clients…

  5.4(a)(i) - Client identity: origination of instructions and beneficiaries

  A licensed or registered person should be satisfied on reasonable grounds about the identity, address and contact details of:

  (A) the person or entity (legal or otherwise) ultimately responsible for originating the instruction in relation to a transaction; and

  (B) …the person or entity (legal or otherwise) that stands to gain the commercial or economic benefit of the transaction and/or bear its commercial or economic risk.

Impact

By "lending" his account and his mother's account to the client, the representative's conduct had the effect of leading the intermediary to believe the client's trades in the two accounts were trades of his and his mother's and thereby concealed the real identity of the one behind the trades through these accounts. His conduct was neither in the interest of the intermediary, his mother, nor the market. His conduct has cast doubt on his fitness and properness as a licensed person.

Disciplinary action

The representative was suspended for four months.

Lesson to learn

- Never assist, allow, condone, or turn a blind eye to representatives or clients lending accounts to others.
- The use of a mobile phone to receive client order instructions is strongly discouraged. In the event that orders are accepted by a mobile phone outside office premises, the licensed representative should immediately call the licensed entity's telephone recording system and record the time of receipt and other relevant order details.

Enforcement Case 4

Discretionary account approval

A licensed account executive of an intermediary, obtained a written authorisation from his client which authorised him to conduct trades on a discretionary basis in the client's account. But he did not obtain the intermediary's management approval before entering into such arrangement with the client and effected transactions for the client on a discretionary basis without the intermediary's knowledge.

Breaches of regulations

- Code of Conduct:
  <u>*7.1 - Authorisation and operation of a discretionary account:*</u>
  (c) …the Client Agreement and the licensed or registered person's records should designate such accounts as "discretionary accounts".
  (d) Senior management should approve the opening of discretionary accounts.

Impact

A client's securities account cannot be designated as a discretionary account without the approval of senior management so that its operation can be properly monitored and supervised by the firm for the client's protection. As the written authorisation signed by the client has never been approved by the firm and the firm was not aware of the arrangement, operating the account as a discretionary account has prejudiced the interest of the client.

Disciplinary action

The account executive was banned from re-entering the industry for 10 months.

Lesson to learn

- All staff of the intermediary should be aware that client accounts cannot be operated as discretionary accounts without the approval of senior management, notwithstanding that the clients has given the staff their written authorisations.
- Intermediaries should regularly check the order taking records including the telephone records against the account trading records in order to ensure that there is no discretionary trading in non-discretionary accounts.

Enforcement Case 5

Unauthorised trades

A financial consultant ("FC") requested her client to give his password to her for logging into his non-discretionary account so that she could place trade orders for him on the internet. The FC then traded in 4 stocks without authorisation from her client and did not maintain any records of the client's instructions for other orders that she was instructed to place for him in the account.

The FC conducted unauthorised trades, and had a lax attitude towards compliance with regulatory requirements and her duty to act in the best interests of her clients.

Breaches of regulations

- Code of Conduct:
  <u>*GP 2*</u>
  As stated in Enforcement Case 1
  <u>*7.1 - Authorisation and operation of a discretionary account:*</u>
  As stated in Enforcement Case 4

Impact

Staff of intermediaries using client's password to execute unauthorised trades in clients' non-discretionary account and failure to maintain records of clients' instructions in other authorised trades show their:

- failure to act with due skill, care and diligence and in the best interests of their clients; and
- abuse of their clients' trust to them.

The FC could have also violated GP 1 and other offences if it could be proved that the unauthorised trading in the 4 stocks was dishonest and unfair for churning or other unlawful purposes.

The FC's acts could also lead, and have led in this case, to disputes between her firm and clients as to whether the trades belonged to the clients or have been authorised by the clients in the first place.

Disciplinary action

A ban from re-entering the industry for 3 years.

Lesson to learn

- Intermediaries should not execute a transaction for a client unless before the transaction is effected, the client has specifically authorised the transaction.
- Intermediaries must maintain record for client's trading instructions.
- Intermediaries should never allow any of their employees to keep passwords of clients so that they can operate the client accounts.

Enforcement Case 6

Circumvention of employee dealing policies

A fund manager ("FM") of a fund house conducted personal securities transactions through his friend's securities trading account in other brokerage firm without disclosing the transaction to his employer which sets out an employee dealing policies to require its employees to report any securities transactions in which they have a direct or indirect beneficial ownership.

As the FM deliberately and dishonestly circumvented his employer's employee dealing policies which were designed to comply with their obligations under paragraph 12.2 of the Code of Conduct. The SFC considers the FM's conduct, which fell short of the standards required of him, calls into question his fitness and properness to be a licensed person.

Breaches of regulations

- Code of Conduct:
  12.2 – Employee dealings
  Licensed corporations to implement procedures and policies on employee trading and to actively monitor the trading activities in their employee's accounts and their related accounts.

Impact

A robust employee dealing policies formulated by licensed corporations for detecting malpractices arising from employee trading such as front running, insider dealing and market manipulation, are vital to protect the integrity of the market.

The FM's fitness and properness to be a licensed person has been called into questions for concealing from his employer his beneficial interests in these transactions and thereby violating the employee dealing policies formulated by the employers and required by the SFC. The FM would also have violated GP 1 or other laws if it could be proved that his acts were dishonest and unfair for ill-meant or unlawful purposes.

Disciplinary action

A ban from re-entering to the industry for 10 months.

Lesson to learn

- Staff of intermediaries should not be allowed to trade with accounts of others.
- When designing the employee dealing policies, licensed corporations must also consider any measure to prevent employees from circumventing the policies.
- Employees must strictly comply with any internal policies set up by their employers, especially for those required by the SFC.

Enforcement Case 7

Failure to carry out a proper account opening procedures

A relationship manager ("RM") of a bank was not present when a new client, who resided in Taiwan, signed the account opening documents in Taiwan for the opening of an account with the bank and sent them to the RM by courier. The RM has not taken any measure to verify the identity of the client.

Moreover, the RM lent money to the client on three occasions for the settlement of the client's equity-linked notes subscriptions and for the client's credit card payment.

Breaches of regulations

- Code of Conduct:
  GP 2
  As stated in Enforcement Case 1
  5.1(a) - Know your client ("KYC"): in general
  As stated in Enforcement Case 3
  GP 6
  All licensed persons must avoid conflicts of interest, or to ensure that his clients are fairly treated when conflicts cannot be avoided.

Impact

The RM has not carried out proper account opening procedures for his clients. Without taking steps to identify his client, he failed to conduct proper KYC procedures. Failure to carry out these procedures may prejudice clients' interests, as well as expose the licensed person and the intermediary to regulatory risks. It could also violate provisions under the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance.

A licensed person has a duty to act in the best interest of his clients. Lending money by the RM to his client created a debtor/creditor relationship between the RM and his client which could raise conflict of interest situations.

Disciplinary action

Being publicly reprimanded and a fine of HK$300,000 pursuant to section 194 of the Securities and Futures Ordinance.

Lesson to learn

When the account opening documents are not executed in the presence of a licensed person, two of the ways of verifying the new client's identity and his signature are as follows:

- have the signing of the Client Agreement and sighting of related identity documents certified by an affiliate of the licensed/registered person, a Justice of the Peace, or a professional person; or
- obtain from the new client a signed physical copy of the Client Agreement together with a copy of the client's identity document for verification and encash a cheque drawn on a bank account of the client. Inform the client of this procedure and keep proper records of the client identification procedures.

Know Your Board Director – Mr Trini Tsang

Mr Trini Tsang is the Executive Director and General Manager of Wocom Holdings Limited and has been a member of the HKSI Institute since 1998. As a veteran member and seasoned professional, Trini has contributed in various capacities through board directorship, committee membership, and examination reviewing work.

In addition to his role as a Board Director, he is also a Member of the Audit Committee and the Advanced Learning Platform ("ALP") Steering Committee. He was also a council member and GEM Listing Committee member of SEHK.

Mr Trini Tsang (right) and Mr Peter Wong at the HKSI Institute Mentoring Programme Inauguration Ceremony.

Experience Counts

Trini joined the financial industry as a stockbroker with a simple objective – to help his clients achieve reasonable investment return. He entered the market in a very special year – 1987. The market crash is a most valuable experience, enabling him to take a detached view towards the ups and downs of different financial landscapes, especially when financial incidents happened one after another between increasingly short intervals. "When one trades with options, there is a strategy for all kinds of conditions. There is a strategy for bull market, one for bear market, one for stable market and another for volatile market. So one cannot really say that there is nothing to do in the market. There is always something to do to make money," says Trini. Perhaps, this is the Serenity Prayer in action:

> **"God, grant me the serenity to accept the things I cannot change, courage to change the things I can, and wisdom to know the difference."**

Giving Back to Community

Trini is devoted to learning and would always carve out time to attend programmes organised by the HKSI Institute, which keeps him abreast of the latest developments, trends and insights. "The HKSI Institute is an organisation by professionals and for professionals. There is no other organisation in Hong Kong which can provide seminars and events with similar breadth and depth. It is an excellent place for professional development."

Benefiting from the industry insights, Trini is also passionate in giving back to the financial industry. He joined the Board of the HKSI Institute since December 2010 and is one of the long-serving Directors in the current Board. Trini enjoys working with other Board Directors for the development of the HKSI Institute. "My fellow Board Directors are very capable people, and they provide valuable directions and guidance."

For Young People

"Financial industry has been a strong pillar of the Hong Kong economy. One of its challenges in this area is to develop enough securities and asset management professionals to fulfill the needs of high-net-worth clients. There is a huge opportunity for young people of Hong Kong who plan to develop their career in financial industry." Trini was a mentor of the HKSI Institute and is keen in developing young talent. He encourages young professionals to always stay humble and learn as much as they can.

As a veteran, Trini generously imparts his success tool kit with young people, which comprised key elements that include knowledge, techniques and attitudes — knowledge on rules and regulations; technical analysis, options trading techniques for managing clients' money; organisational behaviour for being a good manager and leader, able to share short stories for building good rapport with clients, and show respect, which is necessary and important for dealing with any interpersonal relationship. Trini also recommends young people to read Robert Katz's article "Skills of an Effective Administrator" published in Harvard Business Review. "I always remember the three-skill approach, i.e. technical skill, human skill, and conceptual skill mentioned in the article. It should be useful for young people's career development too," Trini adds.

Looking Forward

Trini, as an experience financial professional who is devoted to learning, understands the importance of innovation in the changing market. Besides Audit Committee, he currently serves in the ALP Steering Committee of the HKSI Institute to provide advice and guidance to our initiatives. Trini believes that the learning platform is pivotal to the development of the HKSI Institute. "The world is moving fast, but the HKSI Institute is growing faster," says Trini.

Know your Board Director – Ms Katherine Ng

Board Director **Ms Katherine Ng** heads the Policy Team of the Listing Department of The Stock Exchange of Hong Kong Limited ("SEHK").

Katherine graduated with a law degree from the University of Cambridge and started her career as a lawyer in private practice, then moved to investment banking prior to serving as Political Assistant to the Secretary for Financial Services and Treasury of the Hong Kong Government. Katherine took up her current post at SEHK in July 2013.

Having been involved in the financial services industry in various capacities, both in the private and public sectors, Katherine appreciates the importance of communication with stakeholders and industry leaders, as well as nurturing the next generation of talent.

Shaping the future

"I have a particular interest in the many facets of the financial services industry," Katherine said. "In my current role at SEHK, I have become keenly aware of the importance of market education." The HKSI Institute's central role in championing the standard of excellence and her board directorship enable her to work with leaders in the field to shape industry development, cultivate young talent and open their eyes to the various roles available to them within the financial services industry.

According to the annual survey of the IMD World Competitiveness Centre, Hong Kong regained first place as the world's most competitive economy after losing out to the US for three consecutive years. Katherine commends the HKSI Institute for its significant contribution to the growth and development of Hong Kong's financial services industry.

"What the HKSI Institute offers has exceeded my expectations," she said. "The HKSI Institute not only provides technical training and broader educational opportunities for a wide spectrum of individuals; it also provides a forum for professionals from various sectors of the market to interact and network."

Learning the ropes

Human resources is a fundamental driver behind the growth of the financial services industry. It is therefore essential for students and graduates to be aware of the full range of functional posts and career prospects available within the industry. Apart from the client facing roles, they may find growing opportunities in technical functions, such as risk management, compliance and operations.

For new entrants into the industry, it is important to remember that proper preparation is imperative for effective execution. A thorough understanding of the legal and regulatory requirements underlying the financial services industry in Hong Kong would help a new entrant to become a valuable team member in project execution.

For veterans in the field, it is equally important to keep abreast of constantly evolving legal and regulatory requirements, as well as rapid technological advances that are changing the way we do business.

"The HKSI Institute plays a pivotal role for both new entrants and veterans in the field by providing topical training in a variety of areas and formats, ranging from entry level courses for those who are interested in pursuing a career within the financial services industry to in-depth workshops and programmes for seasoned practitioners," Katherine said.

Serving the industry

Hong Kong's financial sector has been acknowledged by the International Monetary Fund's Financial Sector Assessment Programme as one of the largest and most developed in the world. Financial stability, efficiency and openness under a level playing field are core strengths of Hong Kong's financial markets.

While Hong Kong's financial services industry is now facing increasing competition as a result of globalisation, a key factor that will help Hong Kong maintain its edge is the rule of law. It is a cornerstone of Hong Kong's success as a leading commercial and financial centre, as it provides a secure environment for individuals and organisations and a level playing field for businesses.

"The blurring of geographical boundaries means that the local workforce is facing more intense competition from international talent," Katherine noted. "However, it also leads to a higher calibre workforce, and ultimately, a more competitive financial industry. Globalisation is therefore an integral part of Hong Kong's future development as an international financial centre."

Katherine highlights that the HKSI Institute plays an important role in educating newcomers to the field on the multi-faceted nature of the financial services industry, and continuously upgrading industry professionals' knowledge and skills to enable them to cope with the evolving nature of the industry.

"It is an honour to serve on the board of the HKSI Institute alongside such high calibre individuals, who are not only leaders but also visionaries in the financial services industry," Katherine said. "I greatly value the opportunity to have a hand in developing the future of the industry in Hong Kong."

Study Mission to Hanoi

The HKSI Institute took a senior delegation to Hanoi for a 2-day visit during 14 to 15 April 2016. This is an annual signature event to visit a key financial market in the region. We have visited Bangkok, Beijing, Jakarta, Kuala Lumpur, Seoul, Shanghai, Singapore, Taipei and Tokyo in the past.

Led by the HKSI Institute's Chairman Mr John Maguire and Study Mission Organising Chair Mr K Y Ho, the 19-member delegation met with local regulators, government officials and key influencers in Hanoi. Delegates learnt about the first-hand update about the latest development in, and outlook of, the first coastal stop of the 21st Century Maritime Silk Road outside China. Valuable contacts were established during the official visits, lunch and dinner receptions.

Programme

Day 1 - 14 April (Thursday)	
9:15 – 10:30	Hanoi Stock Exchange
10:45– 11:45	State Bank of Vietnam
12:30 – 14:30	Young Talent Programme – Presentation and Lunch
15:00 – 16:15	State Securities Commission of Vietnam
16:30 – 17:30	BNP Paribas Bank
18:30 – 21:00	Networking Dinner (co-host with The Securities Research and Training Center)
Day 2 – 15 April (Friday)	
9:45 – 11:00	The Securities Research and Training Center
11:30 – 13:45	Lunch Seminar sponsored by Sunwah Group & VinaCapital
14:30 – 15:15	ULIS – Jonathan KS Choi Cultural Centre at Vietnam National University
16:15 – 17:15	Ba Thien 2 Industrial Park

Snapshots

Mr John Maguire, Chairman of the HKSI Institute (Left) with Mr Vu Chi Dung, General Director, State Securities Commission.

Mr K Y Ho, Organising Chair of the Study Mission to Hanoi (left), Mr John Maguire, Chairman of the HKSI Institute (centre) with Mr Nguyen Hoang Linh, Chief Administrative Officer, Hanoi Stock Exchange.

Gala dinner co-hosted with Securities Research and Training Center with VIP guests from State Securities Commission of Vietnam, Hanoi Stock Exchange, BNP Paribas and Sunwah Group.

“Since 2004, our annual visit to a key financial market in the region has been a highlight in the HKSI Institute’s calendar. There is no doubt that these study missions afford our members extraordinary access to direct, open dialogue with key influencers within our neighbour economies,” said Mr John Maguire, Chairman of the HKSI Institute. “This year, I was excited to have led the delegation to visit the Hanoi Stock Exchange, Vietnam’s securities and monetary regulators and business leaders”, John added.

In addition to official visits, exposure to the local culture and connecting with businesses to gain a flavour of the overall business atmosphere in Vietnam and to build local contacts were also key elements of the HKSI Institute’s study mission. We are grateful for Sunwah Group and VinaCapital, represented by Ms Betty Chan, Director of International Relations of Sunwah Group and Mr Dang Hong Quang, Director of VinaCapital and other senior officers, for hosting the lunch reception for the delegation, which was well attended by the delegates as well as the invited guests.

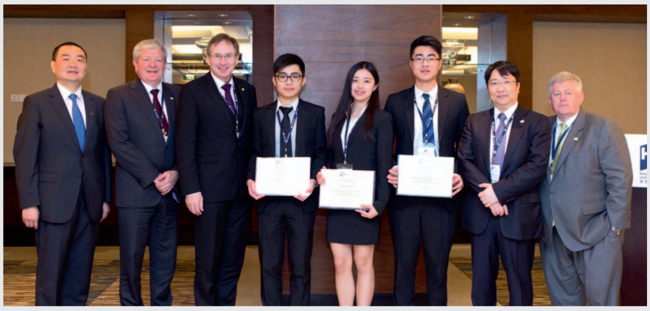
Three awardees from the HKSI Institute Young Talent Programme were privileged to join this study mission through the generous sponsorship of I-Access Group Ltd for the fourth consecutive year. Mr Louis Mak, Chief Executive Officer of I-Access Group Ltd who personally reviewed the essays and selected the following winners:

- Mr Rocky Shum (The Chinese University of Hong Kong)
- Miss Mallory Wang (The Hong Kong Polytechnic University)
- Mr Kevin Xie (Lingnan University)

We further played the ambassadorial role in the region, connecting delegates with the Securities Research and Training Center ("SRTC"), our counterpart in Hanoi. The SRTC generously assisted in lining up the meetings with the key regulators and stock exchange, as well as co-hosting a gala dinner for our delegates to continue the dialogue with the representatives from the visiting organisations in Hanoi.

One of missions of the HKSI Institute is to provide our members with exceptional access to business and regulatory leaders by means of thoughtful programmes. Study Missions prove to be a premier platform for networking and building up meaningful relationship.

Organising Chair of the Hanoi Study Mission and fellow directors of the HKSI Institute with Ms Duong Thi Thanh Binh, Deputy Director of Monetary Policy Department, State Bank of Vietnam



Three awardees with sponsor Mr Louis Mak, Chief Executive Officer of I-Access Group (second right) and fellow directors of the HKSI Institute

Visit to the Hanoi office of Organising Chair, Mr K Y Ho, Managing Director, BNP Paribas (second row, third from the right).

Our signature Business Ethics Forum ("BEF") is happening this 18 November!

The BEF, first launched in 2006, is a signature event organised by the HKSI Institute to promote business ethics and integrity in the financial services industry.

Given the government's initiatives in financial technology ("Fintech") and the market developments in this area, this year's forum aims to raise market awareness of the business ethics perspective of this digital revolution, which presents both a challenge and an opportunity to the established financial services industry. Themed *Ethics in Action: Empowering Businesses through Financial Innovations*, the one-day forum (with 6 CPT/OPT hours) will feature prominent leaders, policymakers and influencers of the industry to deliberate and address the fundamental subject crucial to our industry success and advancement.

Register now to secure your seat! For details, please visit www.hksi.org/bef2016.

Welcome Remarks	
Mr John Maguire, Chairman, HKSI Institute	
Keynote Address	
Professor KC Chan, Secretary for Financial Services and the Treasury, The Government of the Hong Kong SAR	
1st Panel Discussion - *Fintech development trends and opportunities*	
Moderator	**Professor Alexa Lam**, Hon. Fellow, HKSI Institute
Panelists	• **Mr Thomas J DeLuca**, Chief Executive Officer, AMP Credit Technologies • **Mr Louis Mak**, Chief Executive Officer, I-Access Group • **Mr Charles Ng**, Associate Director-General of Investment Promotion, InvestHK
2nd Panel Discussion - *Supervisory support and considerations for financial innovations*	
Moderator	**Miss Au King-chi**, Hon. Fellow, HKSI Institute
Panelists	• **Ms Rachel Hui**, Chief Inspector, Cyber Security Division, Cyber Security and Technology Crime Bureau, Hong Kong Police Force • **Mr Li Shu-pui**, Executive Director (Financial Infrastructure) Designate, Hong Kong Monetary Authority • **Ms Monica Yu**, Executive Director, Hong Kong Business Ethics Development Centre, ICAC
Lunch Keynote	
Mr Arthur Yuen, Deputy Chief Executive, Hong Kong Monetary Authority	
3rd Panel Discussion - *Ethical, social and corporate considerations in Fintech implementations*	
Moderator	**Mr Paul Chow**, Hon. Fellow, HKSI Institute
Panelists	• **Mr Janos Barberis**, Founder, FinTech Hong Kong and SuperCharger • **Mr Steve Monaghan**, Regional Director, Head of Edge (Group Innovation), AIA Company Limited • **Mr Edge Zarrella**, Clients and Innovation Partner, KPMG China

* Programme updated as of 12 July 2016.

2016 HKSAR Government Honours Recipients

We congratulate our HKSI Institute members for receiving the following HKSAR Honours and Awards:

Dr Cheng Mo-chi, Moses, GBS, JP	Grand Bauhinia Medal
Mr Lee Kam-hung, Lawrence, JP	Bronze Bauhinia Star
Mr Yu Shin-gay, Joseph, MH	Bronze Bauhinia Star

Young Professionals Club Established!

With the HKSI Institute's various outreach initiatives – career talks, scholarships and mentoring programmes - more young members are joining our professional community. The newly formed Young Professional Club ("YPC") is for members age 40 or below. It is overseen by a council of 30 volunteered young members with Mr Jason Kwong, Best Mentee of 2014, as the convener. The YPC councilors are working on the launch event and a range of gatherings for fellowship, peer support and professional development. Please stay tuned for the upcoming events!

YPC councilors met for programme planning

New Corporate Member - Category C

IDS Forex HK Limited

New Individual Members

Miss Au Yeung Yin Yi
Mr Chan Cheong Kin
Mr Chan Foon Lok
Miss Chan Ka Tin
Miss Chan Lok Yee
Ms Chan Na Nancy
Mr Chan Sze Kin
Miss Chan Tsz Yin
Miss Chan Wing Yee
Mr Chan Yip Hei
Ms Chau Ming Sze
Mr Cheng Yu Wai
Mr Cheung Fuk Lung
Mr Cheung Kin Fung
Miss Cheung Man Yi
Mr Cheung Yau Hei
Miss Cheung Yin Ying
Mr Garry Noel Crooks
Ms Dong Qi
Ms Fung Wing Man Stephanie
Mr Gong Zhikai
Mr Ho Yuen Kim
Mr Hung Chun Wa
Mr Ip Ka Ki Alex
Mr Jiang Bo
Mr Jiang Jing Sean
Mr Richard Evan Jones
Miss Ku Ka Yeung
Mr Lai Cheuk Lun
Mr Lai Felix Yirid
Mr Lai Man Fung Steven
Ms Lai Po Shan
Mr Lai Pui Wah
Mr Lai Yin Tung
Mr Lam Hiu Yeung
Mr Lam Hoi Yat Emmanuel
Miss Lam Kwan Yung
Miss Lam Man Tan Tansy
Mr Lam Tsz Lok
Mr Lau Chun Yin Kelvin
Mr Lau Chun Yin Kenneth
Ms Lau Wing Ki
Mr Lau Wing Mau Jeff
Mr Law Chi Keung
Miss Lee Hoi Ki
Ms Lee Yuen Fun Udy
Mr Lei Kin Keong
Mr Leung Chi Kin
Mr Leung Kam Lok Michael
Mr Leung Pak Hou Anson
Mr Leung Sze Wai Leo
Mr Li Yan Huen
Ms Li Yan Katherine
Mr Liao Ka Hong
Mr Raymond Limon
Mr Liu Jundong
Mr Robert Lui
Mr Luk Chi Keung
Mr Mak Cho Kei
Mr Michael Mok
Miss Mok Kam Yan Michelle
Mr Srijit Shankaran Kutty Nambiar
Mr Ng Hin Sing
Miss Ng Ka Yee
Mr Ngai Ming Hon
Mr Pang Chi Ming Timothy
Mr Pang Ka Fai Angus
Mr Qiu Xiaolei
Dato' See Soon Keong
Miss Shek Hoi Yan
Mr Suen King Ho
Mr Tai Kai Chuen
Mr Tang Tsz Kwong Keith
Mr Tsang Wing Tai
Dr Karel Vacek
Mr Tomas Vacek
Miss Wang Anqi
Mr Wang Yimei
Miss Wang Yujia
Mr Kevin White
Dr Anson Wong
Miss Wong Ka Ling
Miss Wong Shuk Ching
Miss Wong Ying To
Mr Wu Chin Wai Wilson
Miss Wu Siu Ying
Mr Xie Zihan
Miss Xu Xingmei
Mr Yang Luke Chien-yu
Mr Yip Shing Lam
Mr Yiu Ho Kui
Ms Zhang Jing

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