

FINANCIAL SERVICES SECTOR UPDATES October 2020 Issue



To maintain the financial stability and facilitate the economic growth of Hong Kong, regulators have been reviewing different regulations and guidelines regularly. Regulators and financial institutions around the globe may have new developments. In this month, the following has happened:

AML/CFT Surveillance Capability Enhancement Project

On 29 September 2020, the Hong Kong Monetary Authority (HKMA) implemented the 'Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) Surveillance Capability Enhancement Project' (AMLS Project), through which the HKMA is strengthening the use of data and supervisory technology (Suptech) in its risk-based AML/CFT supervision. The AMLS Project is one of the initiatives under the HKMA's digitalisation programme to respond to the risks and opportunities resulting from new and emerging technologies, which are driving changes across the financial services landscape.

The AMLS Project builds on the Financial Action Task Force's positive assessment of the HKMA's risk-based AML/CFT supervision and responds to the international trend of leveraging technology and data to identify and assess money laundering and terrorist financing (ML/TF) risks to the stability and integrity of the financial system. It also aims to help prioritise resources of the banking sector as a key stakeholder within the broader AML/CFT ecosystem in Hong Kong.

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Adapting the AML/CFT supervision to be more proactive and agile will also mean changes for authorised institutions (AIs). It intends to increase the engagement and data collection, making better use of data to provide more forward-looking assessment of risks, in light of rapid changes in digital activities. At the same time, by using various Suptech tools to help improve and streamline work processes, increase accuracy and enhance interface with the industry.

The above progresses are responding to the evolution of ML/TF risks globally as well as the industry response to managing these risks, which increasingly involves regulatory technology (Regtech). AIs are encouraged to review and assess the implications for, their ML/TF risk management systems, particularly with respect to the adoption of Regtech solutions in their AML/CFT programmes.

Read more from the source:

<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200929e1.pdf>

SFC launches consultation on anti-money laundering guidelines

On 18 September 2020, the Securities and Futures Commission (SFC) launched a three-month consultation on proposals to amend its anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines.

The proposed amendments would facilitate the adoption of a risk-based approach to AML/CFT measures by the securities industry. They address some areas for enhancement identified in the latest Mutual Evaluation Report of Hong Kong published by the Financial Action Task Force (FATF). The amendments also include additional measures which would help mitigate risks associated with business arrangements such as cross-border correspondent relationships.

The proposed amendments would align with the latest international standards and provide useful guidance for firms to apply these important measures in a more risk-sensitive manner, according to the SFC's Chief Executive Officer.

Read more from the source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=20PR93>

Prudential measures for mortgage loans on non-residential properties

On 19 August 2020, the HKMA introduced the prudential measures for mortgage loans on non-residential properties. As a result of the COVID-19 pandemic, Hong Kong's real GDP fell by 9% year-on-year in the second quarter, following a record decline of 9.1% in the preceding quarter. Both private consumption expenditure and investment spending have

shrunk markedly. The escalating geopolitical tensions have also led to continuing pressure on business confidence.

Notwithstanding the sharp economic contraction, the residential property market remains firm, with prices dropping by only 2.7% between the latest peak in May 2019 and June 2020, based on statistics compiled by the Rating and Valuation Department. Transaction volume in the first half of 2020 also increased by 8% compared with the second half of 2019. On the other hand, non-residential property markets have seen major corrections. The prices of offices, flatted factories and retail premises declined by 15%, 11% and 10% respectively. The decline is particularly severe for retail premises in core districts. Transaction volumes of non-residential properties also contracted in the first half of 2020. With business confidence continuing to be affected by the COVID-19 pandemic and the rising geopolitical tensions, non-residential property markets are likely to remain under pressure.

In view of these developments, the HKMA considers it appropriate to adjust the countercyclical macroprudential measures for mortgage loans on non-residential properties. The applicable loan-to-value ratio caps under different scenarios for non-residential properties are thereby adjusted upward by 10 percentage points.

Read more from the source:

<https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200819e1.pdf>

SFC reprimands and fines The Bank of East Asia, Limited \$4.2 million for regulatory breaches

On 17 September 2020, the Securities and Futures Commission (SFC) reprimanded The Bank of East Asia, Limited (BEA) and fined it \$4.2 million for regulatory breaches related to its failure to segregate client securities.

Following a referral from the HKMA and a self-report by BEA, the SFC conducted an investigation which found that BEA had failed to segregate its client securities from proprietary securities in accounts maintained at two external custodians, the Central Clearing and Settlement System and Sumitomo Mitsui Banking Corporation, Tokyo, respectively, from 1 April 2003 to 15 December 2016.

Although BEA identified the client securities in its internal electronic accounting records, it did not comply with the regulatory requirements in that licensed corporations are required to safe-keep client securities in a segregated account designated as a trust account or client account.

In deciding the sanction, the SFC took into account all relevant circumstances, including:

- there is no evidence of client loss as a result of BEA's regulatory breaches;
- BEA has segregated its client securities from proprietary securities following discovery of the regulatory breaches;
- BEA's remedial actions to enhance its internal systems and controls to avoid recurrence of similar breaches; and
- BEA's co-operation in resolving the SFC's concerns and acceptance of the findings and disciplinary action of the SFC.

Any organisation which fails to comply with regulatory requirements runs the risk of a loss of reputation and with it the loss of customers. The damage caused to an organisation's reputation by a conviction could last longer than the initial financial outlay.

Read more from the source:

<https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=20PR92>

How can BDO help?

Business environment is changing enormously in view of the recent events. In particular the spread of COVID-19 changed the business models of many traditional businesses. In view of these, there are also corresponding changes in the regulatory environment. We, as your entrusted advisors, can offer guidance and advices to cope with these changes. Our Risk Advisory team is uniquely positioned with professional staff to help you navigate through these rapidly changing regulatory environment and lead your company to better industry practice. Get in touch to see how we can help your company!

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