

## REGULATORY UPDATES (FINANCIAL SERVICES) September 2019 Issue



To maintain the financial stability and facilitate the economic growth of Hong Kong, regulators have been reviewing and establishing different legal framework regularly for financial institutions. In this month, the Hong Kong Monetary Authority (HKMA), Securities and Futures Commission (SFC) and Insurance Authority (IA) have the following updates:

### **Deficiencies in liquidity risk management systems and controls**

On 23 August 2019, the SFC issued a circular highlighting the noted deficiencies or inadequacies in fund managers' liquidity risk management practices.

The SFC assessed authorised fund managers to understand their liquidity risk management processes and identified deficiencies in liquidity risk management systems and controls in the following areas: (a) overall liquidity risk management framework; (b) assessments of liquidity profiles of fund assets and liabilities; (c) stress testing; (d) governance structure for risk management; (e) risk management reports; and (f) documentation. The SFC also reminded the fund managers to have in place appropriate action plans regarding how they would meet the fund's liquidity needs should any of the stress scenarios materialise.

[Read more on SFC's website \(Circular\)](#)

[Read more on SFC's website \(Annex\)](#)

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## SFC reprimands and fines Sincere Securities Limited \$5 million for internal control failure

On 15 Aug 2019, the SFC reprimanded and fined Sincere Securities Limited (SSL) \$5 million for a series of internal control failings and regulatory breaches.

At the SFC's request, SSL engaged an independent reviewer to review its internal control systems and procedures. The independent review and a separate review by the SFC identified deficiencies across 14 areas of SSL's business operations and internal controls for the period between October 2015 and December 2016. Examples of the deficiencies include: The Compliance and Procedural Manual of SSL was outdated; SSL did not have specific procedures to monitor staff dealing activities; SSL failed to segregate the sales, dealing and settlement functions; and SSL had no written procedures to prohibit its staff from receiving client order instructions through mobile phone when they are on the trading floor. The SFC concluded that SSL's systems and controls were inadequate and failed to ensure compliance with the applicable regulatory rules and requirements.

[Read more on SFC's website](#)

## Recurring types of misconduct in relation to corporate acquisitions and disposals

The SFC published a statement on *the Conduct and Duties of Directors when Considering Corporate Acquisitions or Disposals* to outline recurring types of misconduct in relation to corporate acquisitions and disposals that have given rise to concerns and led to intervention by the SFC on 4 July 2019.

The statement highlighted the concerns in the following areas: (a) lack of independent professional valuation; (b) lack of independent judgment and accountability; (c) quality of earnings; (d) fair presentation of comparables; (e) impact on financial position; (f) compensation; (g) suspicious connected parties; and (h) proper investigation and due diligence. The SFC also reminded the directors and their advisers to comply with their statutory and other legal duties when evaluating or approving the acquisition or disposal of a company or a business.

[Read more on SFC's website](#)

## ICAEW to update assurance on internal controls of service organisations

ICAEW is currently consulting on its proposed changes to TECH 01/06 AAF, *Assurance reports on internal controls of service organisations* made available to third parties. The deadline for providing feedback, in writing or in person, is 30 September 2019.

The purpose of the Technical Release 01/06 AAF is to enable service organisations (third party organisations that provide services to user entities) to engage an independent practitioner (a service auditor) to provide an assurance opinion over the relevant controls which seek to manage risks on behalf of user entities. The assurance opinion can then be made available to user entities and their external auditors (user organisations), avoiding the need for several different user organisations to test the same controls.

The key changes made to TECH 01/06 AAF include:

- Expanded introduction on assurance engagements that should assist more firms undertake engagements in accordance with this guidance
- Expanded guidance for senior management of service organisations, particularly in their role as preparers of the description of the service organisation's control activities
- Expanded guidance for service auditors in respect of the nature, timing and extent of their testing and how the results of that testing gives rise to a range of reporting options that need to be considered by the service auditor
- The control objectives for illustrative purpose have been refined and reworded to reflect the current risks faced by service organisations.
- Control objectives being specified for two new areas, fiduciary management and property investment administration
- Withdrawal of the stewardship supplement

[Read more on ICAEW's website](#)

## Data standards for licensed corporations

On 31 Jul 2019, the SFC has issued a circular to sets out the data standards for order life cycles which prescribe the minimum content and presentation format of trading-related data to be submitted by licensed securities brokers to the SFC upon request.

The SFC considered that data analytics is an effective way to detect various systemic trading-related control deficiencies and instances of non-compliance with the Code of Conduct of the licensed corporations. The Data Standards specify the required material terms of a trading order includes order price, quantity, side, type, capacity, client identification, algorithmic order instructions and aggregation information. In-Scope brokers are expected to implement system changes and comply with the Data Standards within 15 months. The due implementation date for In-Scope brokers for their 2019 turnover would be in April 2021.

[Read more on SFC's website](#)

[Data Standards for Order Life Cycles \(DS-OL\)](#)

## Western Union Financial Services, Inc pays OFAC US\$0.4 million to resolve global terrorism sanctions violations

On 6 July 2019, the Office of Foreign Assets Control (OFAC) entered into a settlement with Western Union under which the company agreed to pay a US\$0.4 million penalty to resolve potential liability for apparent violations of the Global Terrorism Sanctions Regulations (GTSR).

Between December 2010 and March 2015, Western Union processed 4,977 transactions totaling approximately \$1.275 million, which were paid out to third-party, non-designated beneficiaries who chose to collect their remittances at a Western Union Sub-Agent in The Gambia, Kairaba Shopping Center (KSC), an entity that was designated by OFAC pursuant to the GTSR.

OFAC determined that Western Union voluntarily self-disclosed the apparent violations and that the apparent violations constitute a non-egregious case. These and other mitigating factors led to the final penalty amount of US\$0.4 million, which was reduced from the base penalty amount of US\$0.6 million for the apparent violations.

[Read more on OFAC's website](#)

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