

## REGULATORY UPDATES (FINANCIAL SERVICES) October 2018 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 Mandatory Provident Funds Schemes Authority (MPFA) have the following updates:

### **Interest Rate Risk in the Banking Book: Scope of Application**

The HKMA issued a circular in advance about an impending change on the scope of Authorized Institutions (AIs) that will be subject to the local implementation of the standards on interest rate risk in the banking book (IRRBB) issued by the Basel Committee on Banking Supervision (BCBS) in April 2016.

After consultation with industry associations, it was decided that AIs incorporated outside Hong Kong are to be generally exempted from the new local IRRBB framework in case where the parent group of the AI is not additionally represented in Hong Kong through a locally incorporated AI.

The exempted overseas incorporated AIs were reminded that they will continue to be subject to the existing local standards on interest rate risk, and they will be expected to additionally manage their IRRBB together with their parent groups based on the IRRBB standards of their home jurisdictions and in accordance with the BCBS standards.

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

### **CONTENTS**

- ▶ **Interest Rate Risk in the Banking Book: Scope of Application**
- ▶ **Launch of Faster Payment System (FPS)**
- ▶ **AML/CFT measures and controls inspection findings**
- ▶ **Compliance with notification requirement**
- ▶ **SFC reprimands and fines Huatai Financial Holdings (Hong Kong) Limited \$0.8 million for regulatory breaches**
- ▶ **Green Finance Strategic Framework**
- ▶ **Automatic Exchange of Financial Account Information in Tax Matters (AEOI)**
- ▶ **Submission of MPF Intermediary Applications and Giving of Notices/Documents to Registered Intermediaries (RIs) via 'eService'**

## Launch of Faster Payment System (FPS)

The HKMA announced the launch of the FPS on 17 September 2018. The FPS offers the public a platform to facilitate immediate fund transfers between banks and stored-value facility (SVF) on a round-the-clock basis, using mobile number, email address or QR code as account proxy for the payee. It supports both HKD and RMB transactions.

The public can register with their preferred financial institution for receiving payments starting from 17 September 2018. Transfers can be processed starting from 30 September 2018.

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

## AML/CFT measures and controls inspection findings

The SFC has published a circular concerning the AML/CFT measures and controls findings on 31 August 2018. By stating the common deficiencies and good practices identified during the inspections, the SFC aims to remind licensed corporations and associated entities to review the policies, procedures and controls to rectify the inadequacies.

In particular, the SFC lists out few deficiencies that could seriously undermine the AML/CFT controls, namely of (1) institutional and customer risk assessment; (2) initial and ongoing CDD; (3) initial and ongoing customer due diligence; (4) sanctions screening and (5) suspicious transaction monitoring and reporting. Regulatory actions would be taken against firms whose AML/CFT measures and controls do not comply with the AML Ordinance (Cap. 615).

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

## Compliance with notification requirement

Pursuant to paragraph 12.5 of the Code of Conduct, intermediaries are required to report to the SFC immediately upon the suspected or material breach, infringement of or non-compliance with any rules and regulations administered by the SFC.

The SFC has ascertained the crucial importance of prompt reporting on 14 September 2018 and stated that the reporting obligation applies to both licensed corporations and registered institutions. Failure to comply with the notification requirement may result in disciplinary action being taken against the intermediaries and their management.

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

## SFC reprimands and fines Huatai Financial Holdings (Hong Kong) Limited \$0.8 million for regulatory breaches

The SFC has reprimanded and fined Huatai Financial Holdings (Hong Kong) Limited (HFHL) \$0.8 million for short selling on 17 September 2018.

HFHL was found to place an order, without any verifications, to sell the bonus shares of Great Wall Motor Company Limited which had not yet been settled. In turn, HFHL was reprimanded for failing to supervise its staff members and implement adequate and effective systems and controls to ensure compliance with the short selling requirements.

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

## Green Finance Strategic Framework

The SFC has published the strategic framework following to the green finance in Hong Kong on 21 September 2018.

Enhancing listed companies' consistent comparable disclosure of environmental information especially climate-related risks and disclosures is prioritised, in turn investors would be ascertained to have a clear picture on how and to what extent the environmental criteria are taken into consideration during the investment processes and risk assessments. The SFC would also ensure the credibility of green products offering in Hong Kong pursuant to the internationally-compatible disclosure guidance, meanwhile working closely with Hong Kong Exchanges and Clearing Limited on the development and promotions of green financial products.

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



## Automatic Exchange of Financial Account Information in Tax Matters (AEOI)

The MPFA has provided an update to all MPF approved trustees on the latest developments relating to the AEOI on 21 September 2018.

After the Organization for Economic Co-operation and Development concluded that MPF schemes, ORSO registered schemes, ORSO pooling agreements and approved pooled investment funds should not be considered as non-reporting financial institutions (NRFIs) based on an assessment in December 2017, the Government will commence a legislative amendment exercise to remove them from the list of NRFIs under the Inland Revenue Ordinance (IRO).

The aforementioned entities (including MPF schemes) will become reporting financial institutions under the AEOI regime and will need to comply with the AEOI requirements to collect and provide reportable information of financial accounts held by tax residents to the Inland Revenue Department (IRD).

The MPF schemes will start conducting due diligence procedures and collecting the relevant information from 1 January 2020 onwards. The information for the year of 2020 should be furnished to IRD in mid-2021 so that the information would be available for exchange with AEOI Partners in September 2021.

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

## Submission of MPF Intermediary Applications and Giving of Notices/Documents to Registered Intermediaries (RIs) via 'eService'

The MPFA has designated the 'eService' as the electronic systems for submitting MPF intermediary applications and giving of notices from MPFA to RIs under Part 4A of the MPFS Ordinance on 27 September 2018.

To enhance the operation process, intermediary applications are no longer limited to submission through physical forms. The pilot scheme of e-Application would be launched to three principal intermediaries while it would be extended to other interested principal intermediaries in the next phase. In addition, the 'Notices of Approval of Attachment of Subsidiary Intermediary (Individual)' would be sent to all relevant RIs' 'eService' accounts where physical letters would no longer be delivered with effect from 27 September 2018.

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

---

## BDO'S SUPPORT AND ASSISTANCE

25th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong  
Tel: +852 2218 8288  
Fax: +852 2815 2239  
[info@bdo.com.hk](mailto:info@bdo.com.hk)

**RICKY CHENG**  
Director and Head of Risk Advisory  
Tel: +852 2218 8266  
[rickycheng@bdo.com.hk](mailto:rickycheng@bdo.com.hk)

---

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO to discuss these matters in the context of your particular circumstances. BDO, its directors, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.