

# Hong Kong Financial Regulatory Newsletter.



Hong Kong Financial Regulatory Newsletter is the latest initiative of Deloitte Global Financial Services Industry (GFSI) practice. This Issue highlights some significant regulatory developments of the SFC, HKMA, HKEx, OCI, HKFI and MPFA since our last edition.

## Summary

### SFC

- New Frontier in Mainland-Hong Kong funds platform
- Circular to licensed corporations guarding against the risk of client asset misappropriation

### HKMA

- Basel III: Revisions to Liquidity Coverage Ratio (LCR)
- HKMA's announcement on measures to strengthen the HIBOR fixing mechanism
- BCBS revised supervisory guidelines for managing risks associated with the settlement of foreign exchange transactions

### HKEx

- HKEx to introduce after-hours futures trading on 8 April 2013

## SFC

### New frontier in Mainland-Hong Kong funds platform

The plan to introduce Mainland-Hong Kong mutual recognition of funds represents a new frontier for the evolution of renminbi investment products and the development of asset management business, according to the Securities and Futures Commission's Deputy Chief Executive Officer, Mrs Alexa Lam. Speaking at a forum of the Hong Kong Securities and Investment Institute on 22 February, 2013, Mrs Lam urged market participants, particularly asset managers, to gear themselves up to capture new opportunities arising from this groundbreaking initiative, which is still being studied and builds upon the experience of the Renminbi Qualified Foreign Institutional Investors (RQFII) scheme.

"I encourage you to start thinking which of your products would be suitable for the Mainland market, why they would be suitable, who your target investors would be, and how your products would help them... this is because the Hong Kong-Mainland fund platform that we are building will likely be Asia's largest and deepest," Mrs Lam said. It is envisaged that qualified SFC-authorized funds domiciled in and operating from Hong Kong would enjoy the status as "recognised Hong Kong funds" and qualified Mainland funds would enjoy the status of "recognized Mainland funds". These recognised funds could then obtain authorizations

and be sold directly in each other's markets. "If only we get a fraction of Mainland authorized funds to Hong Kong, we would immediately add an exciting new depth and richness to our RMB product pool, boost the appeal of the currency outside the Mainland and move closer to the goal of securing Hong Kong's position as the preeminent offshore RMB centre," said Mrs Lam.

**Read more:**

<http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=13PR4>

### **Circular to Licensed Corporations Guarding against Risk of Client Asset Misappropriation**

The SFC would like to urge licensed corporations to stay vigilant in the supervision of their operations and personnel in order to guard against the risk of misappropriation of client assets. The SFC has reminded licensed corporations in previous circulars about the importance of fraud prevention and drew to their attention circumstances which might facilitate misappropriation of client assets by unscrupulous employees and the need to put in place comprehensive internal control systems and exercise close management supervision. However, failures in management supervision and internal control procedures were still noted in some complaint cases involving unauthorized use of client accounts or misappropriation of client assets.

Licensed corporations are reminded that they must put in place internal controls to protect their operations and their clients from financial loss arising from theft, fraud, and other dishonest acts. We also remind licensed corporations to pay special attention to a number of control areas, as failures in these areas may provide a hotbed for frauds on client accounts.

**Read more:**

<http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=13EC1>

## **HKMA**

### **Basel III: Revisions to Liquidity Coverage Ratio (LCR)**

Last week, the BCBS issued the full text of the LCR in a document entitled Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools. As you are no doubt aware, this text incorporates a number of changes to the LCR from the version originally published in December 2010. The revised LCR is the outcome of work undertaken by the BCBS to address a variety of issues identified by supervisors and the international banking community over the past two years since the LCR was originally published. In devising the revisions, the BCBS has been mindful not only of the potential impact of the standard on the financial markets, the extension of credit and economic growth, but also of the timing of its introduction as significant financial strains persist in some banking systems.

Following the issue of the revised LCR package, the review of the NSFR will now become a priority for the BCBS over the next two years. It remains the intention of the BCBS that the NSFR (with any revisions arising from the review) will become a minimum standard by 1 January 2018. Finalisation of the LCR demonstrates the continuing global commitment to ensuring that banks hold sufficient liquid assets to withstand liquidity shocks. Following the issue of the revised standard, we propose to restart our consultation process with the industry associations with a view to implementing the LCR in Hong Kong from 1 January 2015.

**Read more:**

<http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2013/20130117e1.pdf>

### **HKMA's announcement on measures to strengthen the HIBOR fixing mechanism**

After considering the Treasury Markets Association's (TMA) report and the Hong Kong Association of Banks' (HKAB) submission, the Hong Kong Monetary Authority (HKMA) announced on 6 February 2013 a package of measures to strengthen the fixing mechanism for the HKD Interest Settlement Rate (more commonly known as the Hong Kong Interbank Offered Rate or HIBOR). The measures are designed to enhance the transparency and robustness of the HIBOR fixing mechanism. The HKMA decided to accept the proposals from the HKAB and the TMA, and requested them to take forward various enhancement measures in six months' time. In addition to those measures, the HKMA considers it appropriate to take further supervisory measures to enhance the integrity and robustness of the revised HIBOR fixing mechanism.

An HKMA spokesman said, "In approving this package of measures, the HKMA has taken into account relevant experience in some overseas jurisdictions and recent discussions on the principles for benchmark setting by international standard setting bodies such as the International Organization of Securities Commission (IOSCO). The enhancements to the HIBOR fixing process introduced by the HKMA today would help improve significantly the transparency and robustness of the HIBOR fixing mechanism."

**Read more:**

<http://www.hkma.gov.hk/eng/key-information/press-releases/2013/20130206-4.shtml>

## **BCBS Revised Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions**

The Basel Committee on Banking Supervision (“BCBS”) published Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions on 15 February 2013. This document updates, and replaces, earlier guidance issued by the BCBS in 2000, by providing more comprehensive and detailed guidance on governance arrangements and the management of a much wider spectrum of FX settlement-related risks, including principal risk (which was the main focus of the earlier 2000 guidance), replacement cost risk, liquidity risk, operational risk, legal risk as well as guidance on the maintenance of adequate capital for FX settlement-related risks.

The HKMA will take the necessary steps to revise its Supervisory Policy Manual module TA-2 “Foreign Exchange Risk Management” to bring it in line with the revised guidance. In the meantime, all authorized institutions are encouraged to review their management of FX settlement-related risks in the light of the revised BCBS guidance and take appropriate action to address any material deficiencies or gaps identified.

### ***Read more:***

<http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2013/20130219e1.pdf>

## **HKEx**

### **HKEx to Introduce After-Hours Futures Trading on 8 April 2013**

Hong Kong Exchanges and Clearing Limited (HKEx) announced on 14 February, 2013, that it received regulatory approval for rule changes that will enable it to offer After-Hours Futures Trading (AHFT) and it plans to introduce AHFT on Monday, 8 April 2013. From 8 April, Hang Seng Index and H-shares Index futures will be available for trading from 5 pm to 11 pm (after-hours trading) in addition to the regular trading sessions: 9:15 am to 12 noon and 1 pm to 4:15 pm. Gold futures will be considered for inclusion in AHFT at a later stage. HKEx will arrange briefing sessions for its Participants in early March to explain the trading, clearing and risk management arrangements for AHFT. Participants interested in joining AHFT must complete all related system tests required by HKEx.

HKEx decided to offer AHFT for the following strategic and business reasons:

- AHFT will enable market participants to hedge or adjust their positions in response to market news and events during the European and US business days;
- With Hong Kong becoming an offshore renminbi (RMB) centre, AHFT will enable HKEx to cater for international interest in RMB products in the future;
- AHFT is a prerequisite for HKEx to move into asset classes traded on a global basis, including foreign exchange; and
- Over time, AHFT can help attract more European and US investors to HKEx’s derivatives market.

HKEx will monitor the development of AHFT and review the trading and clearing operations and risk management arrangements for AHFT six months after the implementation.

### ***Read more:***

<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2013/130214news.htm>

# Contacts

If you would like to discuss any of the subjects covered in this Newsletter or our financial services in Hong Kong, please contact:

**Eric Tong**

Partner  
GFSI Leader  
Southern China Region  
Tel: +852 2852 6690  
Email: ertong@deloitte.com.hk

**Polly Lee**

Director  
Financial Services  
Southern China Region  
Tel: +852 2238 7251  
Email: polee@deloitte.com.hk

For further information, visit our website at [www.deloitte.com/cn](http://www.deloitte.com/cn)

## About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/cn/en/about](http://www.deloitte.com/cn/en/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

## About Deloitte in Greater China

We are one of the leading professional services providers with 21 offices in Beijing, Hong Kong, Shanghai, Taipei, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Hsinchu, Jinan, Kaohsiung, Macau, Nanjing, Shenzhen, Suzhou, Taichung, Tainan, Tianjin, Wuhan and Xiamen in Greater China. We have nearly 13,500 people working on a collaborative basis to serve clients, subject to local applicable laws.

## About Deloitte China

In the Chinese Mainland, Hong Kong and Macau, services are provided by Deloitte Touche Tohmatsu, its affiliates, including Deloitte Touche Tohmatsu Certified Public Accountants LLP, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is a member firm of Deloitte Touche Tohmatsu Limited (DTTL).

As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

