

Hong Kong Financial Regulatory Newsletter



This publication provides highlights of the significant developments in regulations of the Hong Kong financial markets and analysis of new laws/regulations affecting the financial services sector in Hong Kong.

Key regulatory developments:

The Securities and Futures Commission (SFC)

- 25 Sep 2014 - SFC publishes consultation conclusions on amendments to professional investor regime and further consults on client agreement requirements
- 28 Aug 2014 - SFC concludes consultation on exemptions for disclosure obligations
- 22 Jul 2014 - SFC publishes Consultation Conclusions on Amendments to the Code on Real Estate Investment Trusts

The Hong Kong Monetary Authority (HKMA)

- 20 August 2014 - Engagement of External Business Referral Service Providers
- 30 July 2014 - Issues and good practices in relation to the sale of investment products

Office of the Commissioner of Insurance (OCI)

- 30 July 2014 - Guidance Note on Underwriting Class C Business (GN15)

The Hong Kong Exchange and Clearing Limited (HKEx)

- 12 September 2014 - Exchange Publishes Rule amendments on Chapter 20 of the Main Board Listing Rules
- 04 September 2014 - Four-party Agreement for Shanghai-Hong Kong Stock Connect Signed

Detailed Summary:

SFC

- **SFC publishes consultation conclusions on amendments to professional investor regime and further consults on client agreement requirements**

SFC released consultation conclusions on proposed amendments to the professional investor regime and launched a further consultation on client agreement requirements. Having reviewed all of the comments received during the consultation, the SFC had decided to proceed with the proposal not to allow intermediaries when serving individual professional investors to be exempt from the suitability requirement and other fundamental requirements that had a significant bearing on investor protection under the Code of Conduct for Persons Licensed by or Registered with the SFC (Code). Other features of the revised professional investor regime included: individual professional investors and corporate professional investors would continue to be allowed to participate in private placement activities; the minimum monetary threshold for qualifying as individual professional investors and corporate professional investors would be maintained at the current levels; and a principles-based criteria would replace the specific tests now used to assess whether exemptions to the Code requirements apply when intermediaries serve corporate professional investors. The amendments relating to the professional investors regime would become effective on 25 March 2016.

Click to read the respective SFC news.

- **SFC concludes consultation on exemptions for disclosure obligations**

SFC released the Consultation Conclusions on Proposed Amendments to the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests). In June 2014, the SFC proposed amendments providing two additional categories for exemption under the Guidelines to cover participants of The Stock Exchange of Hong Kong Limited as well as clearing participants of a recognized clearing house that are themselves clearing houses. The responses all supported the proposed amendments, which would be adopted with minor drafting revisions. The submissions and the SFC's responses were detailed in the Consultation Conclusions. The Guidelines would come into effect on 5 September 2014 after it has been agreed.

Click to read the respective SFC news.

- **SFC publishes Consultation Conclusions on Amendments to the Code on Real Estate Investment Trusts**

SFC released the Consultation Conclusions on Amendments to the Code on Real Estate Investment Trusts (REIT Code). The SFC published in January 2014 proposals to give real estate investment trusts (REITs) the flexibility to invest in (i) property development activities and (ii) financial instruments. The proposals were generally supported by the market and would be adopted with some modifications and amendments taking into account the comments received. Details of the submissions and the SFC's responses to the comments were contained in the Consultation Conclusions. The revised REIT Code would become

effective after it has been gazetted. The SFC would also provide further practical guidance to the industry by way of a set of Frequently Asked Questions.

Click to read the respective SFC news.

HKMA

- **Engagement of External Business Referral Service Providers**

A recent survey conducted by the HKMA found that many AIs engaged external business referral service providers, which acted as referral agencies for various types of credit business. While the majority of such referral agencies engaged by AIs conduct their business according to high professional standards, HKMA alerted AIs to recent cases involving complaints from the public about unfair or improper business practices adopted by some referral agencies and to remind AIs of the need to exercise care and due diligence when engaging business referral service providers. Complaints against business referral service providers brought to the HKMA's attention include charging of excessive fees for arranging loans, charging fees even when a loan was eventually not arranged and lack of transparency about the terms and conditions of loan referral services.

Click to read the respective HKMA circular.

- **Issues and good practices in relation to the sale of investment products**

The circular is to share with AIs certain issues and good practices in relation to the sale of investment products identified during supervisory process, and to reiterate the applicable regulatory requirements as well as the HKMA's expected standards. In recent rounds of on-site examinations and off-site surveillance of AIs' controls in respect of the sale of investment products, it was revealed that whilst AIs in general had put in place policies and procedures to comply with relevant regulatory requirements, some issues and good practices identified warrant further attention by AIs, including product due diligence; training for sales staff; marketing materials of investment products not regulated by the Securities and Futures Ordinance; know-your-customer process and customer risk profiling; suitability assessment and selling practices; handling of mismatches or exceptions and compliance monitoring; monitoring and review mechanism; and complaint handling procedures. AIs should give due regard to these issues, review their own policies and procedures, and implement necessary enhancement measures. AIs were also encouraged to adopt the good practices, as applicable, to improve their sales practices and relevant controls.

Click to read the respective HKMA circular.

OCI

- **Guidance Note on Underwriting Class C Business (GN15)**

The Guidance Note was issued pursuant to the Insurance Companies Ordinance (Cap. 41) ("ICO") and the Insurance Core Principles, Standards, Guidance and Assessment Methodology ("ICP") promulgated by the International Association of Insurance Supervisors ("IAIS"). This Guidance Note applied to all authorized insurers underwriting Class C business, or more commonly known as Investment-Linked Assurance Schemes ("ILAS") business.

Click to read the respective news release.

HKEx

- **Exchange Publishes Rule amendments on Chapter 20 of the Main Board Listing Rules**

The Stock Exchange of Hong Kong Limited published minor Rule amendments on Chapter 20 of the Main Board Listing Rules governing Collective Investment Schemes (CIS) that were authorized by the Securities and Futures Commission. The Rule amendments included clarifying the eligibility requirement of a listing agent who handles a listing application on behalf of a new CIS applicant; streamlining the application procedures for a new CIS applicant; and clarifying the procedures for the listing of additional interests in a close-ended CIS after listing. The Exchange had published the following guidance materials in relation to the Rule amendments: (i) a guidance letter on CIS HKEx-GL79-14; and (ii) a set of revised checklists and forms for CIS under Chapter 20.

Click to read the respective HKEx news.

- **Four-party Agreement for Shanghai-Hong Kong Stock Connect Signed**

The Stock Exchange of Hong Kong Limited (SEHK) and Hong Kong Securities Clearing Company Limited (HKSCC), signed an agreement (the Four-party Agreement) with the Shanghai Stock Exchange (SSE) and China Securities Depository and Clearing Corporation Limited (ChinaClear) for the establishment of Shanghai-Hong Kong Stock Connect, a scheme that would allow investors with access to one market to buy and sell eligible shares listed on the other market. "With this agreement, we had built up a complete framework for the Shanghai-Hong Kong Stock Connect business that clarified all rights and responsibilities of the four related parties in terms of trading, clearing, custody and market surveillance. It is a milestone marking that the two exchanges and the two clearing houses have had consensus about the market mechanism and business arrangement. Our next step is to consolidate the technical preparations, release business rules and further conduct system testing for the launch of the programme," said Gui Minjie, SSE Chairman.

Click to read the respective HKEx news.

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