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Hong Kong Licensed Corporations Alert

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Implications of Hong Kong Monetary Authority's Fintech Adoption Blueprint to Licensed Corporations and Registered Institutions

The Hong Kong Monetary Authority's (HKMA) Fintech Promotion Blueprint under "Fintech 2030" sets out key areas of development centred on advanced use of artificial intelligence and distributed ledger technologies, supported by high-performance computing and underpinned by data excellence and cyber resilience. Firms are expected not only to adopt these technologies, but to do so in a way that is robust, well-governed and aligned with the strategic direction described in the HKMA's press release and the Blueprint.

Key areas of development under the Blueprint

The HKMA is introducing a Quantum Preparedness Index to assess how ready the banking sector is for post-quantum cryptography, providing both a comprehensive snapshot of current preparedness and a measurable target over the coming years. This index is intended to guide the HKMA's practical support throughout the transition, reflecting the systemic importance of strong encryption for the financial industry. At the same time, a New Risk Data Strategy will strengthen banks' data management capabilities through more robust data governance frameworks and sophisticated data infrastructure, enabling them to better leverage complex structured and unstructured data for advanced analytics and to support the expansion of the Granular Data Reporting initiative, thereby enhancing the agility of risk management and supervision.

On the operational resilience front, the HKMA will work with industry experts to develop a standardised, industry-led Fintech Cybersecurity Baseline for fintech solution providers, with a particular focus on novel artificial intelligence (AI) and distributed ledger technology (DLT) applications, to provide clearer cybersecurity expectations, strengthen ecosystem-wide trust and streamline due diligence when banks onboard fintech partners. In parallel,

the HKMA will collaborate with the industry on competency development support for general fintech users, issuing practical guidance to build "human-machine interaction" capabilities and clarify the skills needed to support advanced AI and DLT applications in the next generation of financial products and services.

Implications for firms in Hong Kong

For Hong Kong firms, the Blueprint signals that regulators expect financial institutions not only to adopt fintech, but to do so in a way that is data-driven, cyber-resilient and aligned with the sector-wide AI and DLT trajectory articulated in Fintech 2030. Banks and other regulated entities should therefore review their current and planned AI, DLT and data initiatives against the Blueprint's pillars, identify areas where participation in the AI Factory, Industry Data Utility or cyber enhancement programmes could accelerate implementation, and ensure that governance, risk management and talent strategies are adjusted to capture these opportunities while managing emerging risks.

In practice, financial institutions can start by mapping their existing and planned AI and DLT initiatives against the Blueprint's pillars and timelines, identifying gaps in data governance, cyber resilience and technology infrastructure that may impede implementation. Boards and senior management should consider establishing or refreshing dedicated governance forums to oversee fintech projects, set risk appetite, approve pilots and ensure that responsible innovation principles are embedded into project selection and execution. At the same time, firms can prepare to participate in HKMA flagship projects such as the AI Factory and Industry Data Utility by pinpointing suitable use cases and assembling cross-functional teams with IT, risk, legal and business input.

Strengthening internal capabilities around data and cyber resilience will be critical, including improving data quality and access controls, clarifying data-sharing protocols, and

running targeted cyber-risk assessments on AI and DLT projects. Finally, firms should develop a multi-year fintech talent strategy that combines upskilling existing staff in data, AI and cybersecurity with active use of HKMA's talent nurturing and outreach initiatives, so that they have the human capital needed to execute on Fintech 2030 safely and effectively.

Source:

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/02/20260203-3/>

Hong Kong's Tightened Sponsor Governance Regime: Securities and Futures Commission Issues Circular to Licensed Corporations Carrying Out Sponsor Work

Hong Kong's Securities and Futures Commission (SFC) has issued a new circular that significantly tightens the sponsor compliance framework, combining immediate reporting obligations, internal review requirements and targeted supervisory measures focused on principals' capacity, quality of due diligence and the sponsor's gatekeeping role.

On 30 January 2026, the SFC issued a circular to licensed corporations carrying out sponsor work highlighting "highly concerning issues" observed in recent listing applications, particularly against a backdrop of increased IPO activity. The circular identifies recurring deficiencies in draft prospectuses, over-reliance on experts and inadequate resourcing of principals supervising multiple active mandates, and sets out a package of new reporting, review and inspection measures. The SFC's stated concern is that sponsors' gatekeeping role has been eroded by the pursuit of deal volume without commensurate investment in systems, controls and senior-level supervision.

Key regulatory concerns and new reporting obligations

The circular outlines several core regulatory concerns: declining quality of listing documents, insufficient probing of red flags, over-reliance on experts without independent challenge, and principals supervising or participating in too many concurrent mandates.

In response, the SFC is imposing new reporting obligations on all licensed corporations carrying out sponsor work, requiring them to submit standardised information on each principal (including role, capacity, current and recent IPO mandates) and all active listing engagements within a prescribed deadline. Sponsors must identify any principals who are involved in six or more active listing applications, explain how those principals

can still discharge their supervisory responsibilities effectively, and set out any mitigation measures.

The reported data will be used to classify "Concerned Sponsors" and those with "strained principals", who may then be required to conduct and report on internal reviews of specified listing applications and can expect follow-up supervisory engagement, including targeted inspections and possible licence conditions.

These new reporting obligations sit on top of, and are designed to reinforce, existing Code of Conduct and Sponsor Guidelines requirements on maintaining adequate resources, effective systems and controls, and robust documentation of principals' experience and involvement in sponsor work.

Internal review, inspections and potential regulatory outcomes

Beyond one-off reporting, the circular mandates internal reviews for specified categories of sponsors, including those identified through past joint SFC–SEHK communications or with principals viewed as overstretched. Reviews must retrospectively examine concerns cited by regulators for each affected listing application, assess related internal control weaknesses, and document remedial and accountability measures, with explicit focus on management and principal oversight.

The SFC has indicated that it will conduct on-site thematic inspections of Concerned Sponsors and those with strained principals, on a risk-based basis, to test systems, controls, resourcing and the quality of sponsor work product.

Possible outcomes include licence conditions restricting sponsors' business scope or the number of active listing engagements supervised by particular principals, as well as investigations and disciplinary action in serious cases of misconduct or systemic control failures.

Practical implications and action points for sponsors

Market commentary underscores that the circular marks a more interventionist supervisory stance that will directly influence how sponsors staff and run IPO mandates. Sponsors should promptly map principals' current deal loads against the SFC's new expectations, recalibrate resourcing plans and be ready to explain any exceptional cases where a principal exceeds the five-engagement benchmark. There is also a need to re-centre the sponsor's gatekeeping function by tightening controls around principal appointment, enhancing the quality and

documentation of due diligence and ensuring that red flags are followed through before submitting applications. Further, firms should set out structured internal reviews, signed off by the Manager-in-Charge of overall management oversight, and of preparing for thematic inspections by ensuring that sponsor files clearly evidence planning, work performed, issues identified, escalation and resolution.

In practice, sponsors should consider: (i) conducting an immediate gap analysis of principal workloads, sponsor team resourcing and internal control frameworks against the circular and Sponsor Guidelines; (ii) implementing or refreshing a formal sponsor governance manual that allocates clear responsibility for oversight, escalation and documentation; and (iii) upgrading record-keeping so that management can demonstrate ongoing monitoring of gatekeeping quality across all active mandates.

Firms should also revisit training and appraisal processes for principals and sponsor teams to reinforce expectations around independent judgment, challenge of experts, and thorough documentation of due diligence planning and execution. Sponsors that fail to take early, visible steps to address these issues risk being identified as higher-risk firms for inspections, licence conditions or enforcement action under the SFC's tightened sponsor governance regime.

Source:

<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/02/20260203-3/>

SFC Strategic Priorities for 2024-2026

The SFC's Strategic Priorities for 2024–2026 set a clear roadmap for how Hong Kong regulation, supervision and enforcement will evolve, with direct implications for how licensed corporations structure compliance, risk and governance.

Core strategic themes

The SFC's plan is organised around four top priorities: (i) maintaining market resilience and mitigating serious harm to markets, (ii) enhancing the global competitiveness and appeal of Hong Kong capital markets, (iii) leading financial market transformation through technology and ESG, and (iv) enhancing institutional resilience and operational efficiency.

On market resilience, the SFC signals more intensive use of surveillance, thematic reviews and enforcement to tackle market misconduct, complex products and

cross-border risks, while strengthening coordination with regulators in Mainland China and overseas.

On competitiveness, it emphasises continued development of Connect schemes, primary and secondary market reforms, and measures to attract quality issuers and global investors to Hong Kong.

On leading financial market transformation through technology and ESG, this priority covers virtual assets and tokenisation, climate and sustainability disclosure standards, and the growth of a credible ESG product ecosystem, with a parallel focus on stemming greenwashing and developing sustainable finance talent.

Finally, on enhancing institutional resilience and operational efficiency will be pursued through greater internal digitalisation, use of AI and supotech, cyber resilience and process automation to support more agile supervision and enforcement.

Compliance trends and expectations for firms

For intermediaries, these priorities translate into several concrete compliance trends. Licensed corporations should expect more rigorous scrutiny of governance, suitability, product design and disclosure, particularly where complex, leveraged or cross-border products are involved, and should ensure that risk management frameworks, surveillance tools and incident escalation processes can withstand “serious harm” scenarios.

Cross-border business and Mainland-related activities will attract increasing attention, requiring firms to tighten controls around information flows, insider dealing, market manipulation and fraud in multi-jurisdictional structures, and to maintain robust records to support cooperation with overseas regulators.

On the technology side, firms are expected to invest in RegTech and data analytics, strengthen cyber security, and implement more structured oversight of virtual asset and tokenisation activities to align with the SFC's own adoption of AI-enabled surveillance and enforcement tools. In ESG and sustainable finance, intermediaries and issuers will need to enhance climate and sustainability disclosures, verify ESG claims in products and marketing, and prepare for closer testing of greenwashing risks.

Practically, firms should treat the 2024–2026 priorities as a three-year compliance planning framework: mapping existing policies and controls to each strategic pillar, identifying gaps (for example, in cyber resilience, cross-border governance, ESG data, or VA/tokenisation

risk management) and building a prioritised remediation roadmap. This may involve refreshing board-level risk appetite statements, establishing or upgrading conduct and culture programmes, enhancing management information for senior management on misconduct and emerging risks, and embedding technology, ESG and cross-border considerations into product approval, distribution, outsourcing and third-party risk management processes.

Source:

<https://www.sfc.hk/en/Published-resources/Corporate-publications/SFC-Strategic-Priorities-for-2024-2026>

Circular to Licensed Corporations: Reminder of Statutory Obligations During SFC Inspections to Comply with Section 180 of the Securities and Futures Ordinance

On 29 January 2026, the SFC published a circular to all licensed corporations (LCs) emphasising that inspections conducted under section 180 of the Securities and Futures Ordinance (SFO) are a core supervisory tool to assess ongoing compliance with regulatory requirements, fitness and properness, and the adequacy of governance, risk management and internal controls.

The SFC notes that recent inspections have revealed “unsatisfactory practices and behaviours” by some LCs which hinder its ability to perform effective supervision, prompting this formal reminder of statutory obligations and expected standards of conduct during inspections. The circular applies to all LCs, whether subject to routine cycle inspections, thematic reviews, or targeted visits triggered by specific risks, and makes clear that the same principles will inform SFC inspections of virtual asset service providers and other intermediaries.

Statutory obligations under section 180 SFO

Section 180 of the SFO empowers the SFC to authorise its officers to enter the business premises of an LC or its associated entity, inspect and make copies of records, and make enquiries about any regulated activities or related transactions carried on by the firm. LCs are under a statutory duty to cooperate, which includes giving SFC officers timely access to premises, systems and documents, producing complete and accurate records, answering questions honestly and without concealment, and ensuring that responsible officers or other appropriate senior personnel are available to interact with the inspection team.

The circular reiterates that this duty cannot be diluted by internal policies, client confidentiality arguments or reliance on third-party service providers, and that LCs remain responsible for ensuring that outsourced functions, external consultants and group entities do not impede the SFC’s exercise of its section 180 powers.

Examples of unsatisfactory practices

In the appendix to the circular, the SFC lists examples of practices it regards as inconsistent with section 180 and with a LC’s obligation to remain fit and proper. These include attempts to delay or refuse inspections, such as disputing the SFC’s power to enter premises, restricting access to particular floors or systems, or insisting that inspections be rescheduled for internal convenience. Other cited behaviours are deliberately providing incomplete or piecemeal responses, omitting key records or communications, or submitting documents that are inaccurate, falsified or back-dated, as well as obstructing interviews or coaching staff on what they may say.

The SFC also flags situations where senior management or Managers-in-Charge (MICs) are unavailable or non-responsive during inspections, or where the firm fails to ensure that key personnel with operational knowledge can attend to the inspection in a timely manner.

Consequences of non-compliance and supervisory outcomes

Failure to comply with section 180 obligations is a serious matter that may affect the SFC’s assessment of a LC’s fitness and properness and that of its responsible officers, MICs and other senior management. Where an LC or its staff obstruct or frustrate an inspection, the SFC may impose licence conditions, for example restricting business scope, limiting new client onboarding, or capping client asset transactions, and may in serious cases suspend or revoke licences.

In addition, misconduct uncovered during or in connection with an inspection may be referred for enforcement investigation or prosecution; the circular notes that providing false or misleading information or documents can trigger criminal liability under the SFO. The SFC may also share information with other Hong Kong regulators or Mainland and overseas authorities where cross-border issues or broader systemic concerns arise.

Practical expectations and preparation for inspections

The SFC’s message is that LCs must be “inspection-ready” at all times, with systems and processes that allow prompt

retrieval of records and responsive engagement with the regulator. The circular encourages LCs to establish internal protocols for handling inspections, designate contact points and case coordinators, and ensure that MICs, particularly the MIC of Overall Management Oversight, understand their personal responsibility for facilitating inspections rather than leaving matters solely to compliance staff. Where additional time is genuinely needed to collate information, the SFC expects LCs to notify inspection staff promptly, provide reasons, and propose realistic timelines, instead of resorting to silence, last-minute deferrals or blanket claims of burden. Firms are also expected to maintain accurate and up-to-date records, including electronic communications, trading data and client files, and to test their ability to retrieve and export such data within the sort of timeframes typically set in SFC notices.

In light of the circular, LCs should consider conducting a structured review of their inspection readiness, including a gap analysis of existing procedures against the section 180 expectations and the appendix examples. Concrete steps could include formalising an inspection response policy setting out roles, responsibilities and escalation lines and ensuring document management and archiving systems can produce complete and auditable records on demand

Source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC3>

Circular on Enhanced Facilitative Measure for Visiting Professionals

The SFC's 15 July 2025 circular introduces an enhanced facilitative measure for visiting professionals by lengthening the time they may conduct activities in Hong Kong, while keeping the underlying licensing structure intact.

Visiting professionals from an overseas group company of a licensed corporation or a licensed virtual asset (VA) provider can continue to apply for a representative licence as an itinerant professional (ITP) to conduct SFO-regulated activities or provide VA services in Hong Kong on a short-term basis each year, on behalf of the Hong Kong licensed entity, subject to the existing chaperoning requirement unless they serve only professional investors.

The key change is that the maximum period during which an ITP may conduct regulated activities or provide VA services in Hong Kong is extended from 30 to 45 days per

calendar year, and a new licence condition reflecting the 45-day limit will replace the previous 30-day condition. Apart from this extension, all application processes, eligibility criteria, features and exemptions for ITPs remain unchanged and continue to be governed by the Licensing Handbook and the Licensing Handbook for Virtual Asset Trading Platform Operators, as applicable.

The new 45-day condition applies not only to new applicants but also to existing licensed ITPs, for whom the SFC will arrange replacement of the current condition and notify them separately, with firms directed to contact their case officer or the SFC licensing team if they have questions.

These enhanced itinerant professional arrangements sit alongside the SFC's revamped sponsor and governance regime, which places greater emphasis on clear accountability, proper supervision and sufficient local substance when overseas staff support Hong Kong-regulated business. Firms making greater use of ITPs will therefore need to tighten their governance frameworks, including chaperoning, MIC oversight, documentation of responsibilities and integration of visiting professionals into suitability, conduct, AML/CFT and VA compliance controls.

Source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=25EC41>

Circular to Licensed Virtual Asset Trading Platform Operators on Custody of Virtual Assets

The Securities and Futures Commission (SFC) issued circular on custody of virtual assets as a reminder of standards that all licensed virtual asset trading platform operators (VATPs) must meet when safeguarding client assets. It makes clear that VATPs and their associated entities remain fully responsible for client asset protection, and that robust segregation, cold-wallet-centric storage, stringent private key management, strong cyber controls and disciplined oversight of third-party custodians are now baseline licensing and supervisory expectations rather than best practice options.

At the governance level, the SFC links custody resilience directly to senior management responsibilities under the Guidelines, making it clear that at least one Responsible Officer or Manager-in-Charge should be expressly tasked with overseeing custody controls. Senior management is expected to ensure that effective, documented policies, procedures and internal controls are in place, and that suitably qualified and experienced individuals exercise

ongoing oversight of the matters covered in Sections II to VI. This elevates custody design and operation to a board-level and MIC-level accountability issue, rather than a purely technical or operational matter.

On client cold wallet infrastructure, the circular reinforces that strong private key management is non-negotiable. Seeds and private keys should be generated offline and stored in secure environments such as certified hardware security modules, with the Platform Operator performing due diligence and ongoing assessment of the Hardware Security Modules (HSM) vendor's ability to maintain security standards and patch management. The SFC also expects operators to avoid embedding smart contracts in cold wallet implementations on public blockchains, recognising that on-chain logic can itself become an attack vector and undermine the security objective of "coldness".

For client cold wallet operations, the circular stresses that every stage of the transaction lifecycle can be a point of failure and must be controlled accordingly. Operators are reminded that seeds and private keys should be handled only on air-gapped devices; multiple layers of independent integrity checks and segregation of duties should apply from transaction creation through to broadcast; and systematic whitelist controls should prevent transfers to unapproved addresses. The SFC uses practical "good practice" examples to underline its expectations: dedicated signing terminals in a controlled vault, clear human-readable display of full transaction details to prevent blind signing, and systematic halting and alerting where parameters do not match or destination addresses fall outside the whitelist.

In relation to wallet solutions and third-party providers, the circular reiterates that outsourcing does not dilute responsibility. Platform Operators are reminded that system modifications must be thoroughly tested before deployment, that platforms must be subject to regular reviews and robust contingency planning, and that segregation of duties and oversight over wallet code management is mandatory whether code is in-house or external. The SFC expects independent code reviews, strong supply-chain security, tight administrator access controls, and comprehensive ongoing due diligence of third-party wallet providers – including incident reporting, disaster-recovery testing and periodic independent cyber-security assessments – together with regular inherent-risk assessments and mitigation of residual risks.

For ongoing real-time threat monitoring, the circular effectively sets a 24/7 monitoring capability as the baseline expectation. Platform Operators are reminded that they should have a Security Operations Centre or

equivalent function with adequate resources, real-time reconciliation of on-chain balances to internal ledgers, and robust detection mechanisms for unauthorised access to critical custody infrastructure. The monitoring framework is expected to cover not only the custody system itself but also its technological and vendor dependencies, and to incorporate lessons from industry incidents and newly publicised vulnerabilities. Structured escalation frameworks, severity-based incident playbooks and the ability to mobilise resources outside normal hours are all presented as necessary components of an adequate control environment.

On training and awareness, the circular emphasises that technology controls are only as strong as the people operating them. Operators are reminded of their obligation to allocate appropriately qualified staff and to provide role-specific and continuous training, with a particular focus on transaction signers' understanding of verification requirements and appropriate responses to exceptions. The SFC expects robust measures to prevent blind signing and points to good practices such as targeted transaction validation training and regular phishing simulations, recognising that social engineering remains a primary attack vector.

These requirements are effective immediately and are not optional: Platform Operators are expected to critically assess their custody frameworks and controls against the standards in the circular, remediate any weaknesses, and incorporate adherence into their annual external compliance and technology assessments. By stating that these standards will also form core expectations for future virtual asset custodian service providers, the SFC signals that this custody baseline will become a cross-industry threshold for fitness, properness and market access in Hong Kong's virtual asset ecosystem.

Source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=25EC44>

Supplemental Joint Circular on Intermediaries' Virtual Asset-related Activities

The supplemental joint circular signals a calibrated relaxation of Hong Kong's virtual asset framework for intermediaries, but it also reinforces that any expansion of services must sit within clearly defined guard-rails on custody, disclosure, AML/CFT and client classification.

The circular confirms that the SFC and HKMA have revisited the December 2023 Joint Circular on intermediaries' virtual asset (VA)-related activities and are

now introducing refinements to licensing/registration conditions and the standard terms and conditions, with updated texts set out in the appendices. The regulators expressly frame these changes as facilitating market development “while adhering to investor protection,” and flag that separate guidance will follow for activities involving HKMA-licensed specified stablecoins under the Stablecoins Ordinance.

On staking, in light of new SFC and HKMA staking guidance for platforms and funds, intermediaries are now allowed to provide staking services on behalf of clients, but only within a tightly controlled structure. “Staking activities” are defined as committing or locking client VAs to participate in Proof-of-Stake validation in return for yield, and intermediaries may only conduct these activities through segregated accounts with an SFC-licensed platform or an authorised institution (or its qualifying subsidiary), while complying with disclosure and risk requirements built into the updated Terms and Conditions.

The circular also loosens some earlier structural constraints. For VA dealing, licensed corporations and registered institutions may now execute trades via off-platform services of SFC-licensed platforms, and clause 4.2 of the original Terms and Conditions has been removed to reflect this greater execution flexibility.

In addition, the regulators clarify that clients’ subscriptions and redemptions of investment products using VAs, including in-kind subscriptions/redemptions for VA funds, will not be treated as VA dealing, subject to safeguards: prior notification to the SFC (and HKMA where applicable), custody of those VAs with SFC-licensed platforms or authorised institutions (save where RA9 VA managers already operate under full RA9 Terms), and strict compliance with Chapter 12 of the AML/CFT Guideline when handling deposits and withdrawals.

For distribution and suitability, the circular refines the earlier “sufficient net worth” and specific VA-futures risk disclosure expectations. The SFC and HKMA now state that the requirement to ensure clients have sufficient net worth to bear VA product losses, and the obligation to provide VA-futures-specific risk disclosures, do not apply to institutional professional investors and qualified corporate professional investors, even though they continue to apply to other client categories. This is a targeted relaxation for top-tier professional investors, not a general softening of suitability or disclosure standards for retail or ordinary professional investors.

Finally, the implementation section reiterates that intermediaries must keep the regulators proactively

informed before changing the scope or nature of their VA-related activities. In particular, firms are reminded to notify the SFC (and HKMA where applicable) before changing client types, allowing VA deposits/withdrawals for the first time, commencing staking, enabling VA-based subscriptions/redemptions, or making other material changes to previously notified arrangements. In effect, the circular offers more room to operate (staking, off-platform execution, VA in-kind flows) but ties that flexibility to a clear expectation of advance notification, documented controls and strict adherence to the updated terms and AML/CFT and conduct standards.

Source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=25EC50>

Hong Kong Securities and Futures Commission Issues Circular on Shared Liquidity by Virtual Asset Trading Platforms

On November 3, 2025, the Hong Kong Securities and Futures Commission (SFC) issued a circular on shared liquidity by virtual asset trading platforms. The circular sets out the SFC’s regulatory approach and expected standards for SFC-licensed virtual asset trading platform operators (Platform Operators) to integrate their order books with those of global affiliate virtual asset trading platform operators (OVATPs). Orders from different platforms will be permitted to be combined into an aggregate shared liquidity pool (Shared Order Book), enabling order matching and execution across platforms.

The SFC stated that while current operations minimize settlement risk through pre-funding and instant settlement, the introduction of a Shared Order Book creates settlement exposure and increases operational complexity. Platform Operators offering Shared Order Books are required to implement measures addressing eligible OVATPs, trading and settlement risk, compensation arrangements, market misconduct risk, and other requirements. Prior written approval from the SFC is required before offering such services.

Key points of the circular are as follows:

- A Shared Order Book should be managed jointly with an OVATP licensed in a FATF-member jurisdiction with regulation aligned to FATF and IOSCO recommendations.
- Orders must be fully pre-funded, with automated pre-trade verification and designated custodians.
- Settlement risk must be mitigated through delivery-versus-payment (DVP) mechanisms,

daily settlement, and intraday monitoring within a pre-defined Unsettled Trade Limit.

- Platform Operators must maintain a reserve fund in Hong Kong and insurance or compensation arrangements covering potential losses of Settlement Assets.
- A unified market surveillance programme must be conducted jointly with the OVATP, overseen by a Responsible Officer or Manager-in-Charge.
- Retail client access requires clear disclosure of risks and express election to participate.
- SFC approval is mandatory, with licence conditions imposed for Shared Order Book operations.

This framework reflects a calibrated approach to connecting Hong Kong’s virtual asset market with global liquidity while reinforcing investor safeguards and regulatory oversight.

Source :

<https://apps.sfc.hk/edistributionWeb/api/circular/openFile?lang=EN&refNo=25EC56>

Hong Kong Securities and Futures Commission Issues Circular on Detection and Prevention of Potential Layering Activities in Money Laundering

On November 17, 2025, the Hong Kong Securities and Futures Commission (SFC) issued a circular to licensed corporations, SFC-licensed virtual asset service providers, and associated entities (collectively, “licensed firms”) on anti-money laundering and counter-financing of terrorism (AML/CFT).

The circular focuses on the detection and prevention of potential layering activities in money laundering, an emerging trend where illicit actors exploit licensed firms to obscure the origins of crime proceeds through frequent and swift fund movements.

The circular highlights major red flags, sets out regulatory expectations, and underscores the responsibility of senior management, including responsible officers (ROs), managers-in-charge (MICs), compliance officers, and money laundering reporting officers (MLROs), to ensure vigilance and robust controls. It reinforces obligations under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO, Cap. 615) and the SFC’s Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT Guideline).

I. Emerging Trend of Potential Layering Activities

The SFC observed suspicious patterns involving frequent deposits and withdrawals in client accounts, often with little or no trading activity. These accounts were effectively used as depositary accounts or conduits for transfers, obscuring fund origins and destinations. Intelligence from the Hong Kong Police Force further revealed exploitation of licensed firms to process illicit proceeds from scams, including conversion into virtual assets (VAs) and withdrawal to unhosted wallets.

The following table illustrates the typical patterns of potential layering activities as described in the circular:

Pattern	Description
a) Frequent and scattered fund deposits	Sometimes in small or odd amounts with signs of smurfing, from multiple bank accounts in clients' names, occurring within hours/days or outside banking hours.
b) Accumulation and withdrawal	Scattered deposits accumulate, then withdrawn to clients' bank accounts (possibly different from deposit sources), often on the same or next business day.
c) Minimal or no trading	No trading activities, or only minimal trading not commensurate with deposit amounts, during the period.
d) Account inactivity post-withdrawal	Most accounts remain inactive after funds are withdrawn.

II. Detecting Red Flags of Suspicious Transactions and Activities

The circular reiterates red flags already reflected in the AML/CFT Guideline, including:

Red Flag	Description
a) Accounts used as depositary or conduits	Clients used licensed firms to make payments or hold funds that are rarely used, or are not being used, for trading as if the account appears to be used as a depositary account or a conduit for transfers (as illustrated in paragraph 7 above, fund deposits and withdrawals are made with no or minimal trading activities conducted).

b) Structured transactions	Transactions appear to be undertaken in a structured and sequential manner in order to avoid exceeding the transaction monitoring thresholds (frequent and scattered deposits sometimes structured in small or odd amounts).
c) Short-term relationships	Clients entered a business relationship with licensed firms only for a single transaction or for a very short period without a reasonable explanation (the accounts remain inactive after all funds have been withdrawn).
d) Frequent bank account changes	Clients frequently changed bank account details (eg, clients registered multiple bank accounts for deposits and other bank accounts solely for withdrawal; the number of bank accounts registered was unreasonably high).
e) Jurisdiction inconsistencies	Clients made transfers to and from jurisdictions which were not consistent with their declared business dealing or interests (eg, clients deposited funds from an account maintained with a bank neither incorporated nor operating in a jurisdiction where the clients reside, nor in Hong Kong).
f) Incommensurate transactions	Transaction sizes or patterns were not in line with the background of the clients (eg, clients deposited substantial amount of funds, securities or VAs that were incommensurate with their financial profiles declared in the account opening documents).
g) Shared details among unrelated clients	Profile details of clients were associated with other apparently unrelated clients (eg, multiple clients shared the same bank account for fund withdrawals, each providing seemingly

	legitimate documents to demonstrate the ownership of the bank account).
h) VA conversions obscuring flows	Conversion of funds into VAs with no logical or apparent reason which obscures the fund flow (eg, frequent and scattered fund deposits were converted into VAs and subsequently withdrawn in whole immediately, leaving the account inactive thereafter; buying and selling of VAs with no discernible purpose or where the nature, size or frequency of the transactions appears unusual).
i) Shared IP/device identifiers	Apparently unrelated clients entered the licensed firm's platform from the same IP address or device identifier (eg, multiple clients shared the same IP address and/or device to access the mobile application or web-based platform of the licensed firms for executing transactions or other activities).

III. Implementing Effective AML/CFT Measures

Failure to implement proper AML/CFT measures allows illicit actors to exploit channels, posing risks to the financial system. Licensed firms must uphold safeguards to detect and prevent layering, with robust transaction monitoring and heightened vigilance in deposits/withdrawals.

(A) Robust transaction monitoring systems and processes

Licensed firms are expected to establish proportionate, effective systems with regular reviews of parameters and thresholds. Monitoring should detect layering patterns, including:

Requirement	Description
a) Proportional design	Scale automation to volume and risks; conduct regular reviews of parameters to detect unusual activities and prevent circumvention.
b) Minimal trading detection	Flag deposits and withdrawals with no or minimal trading in between,

	considering timing, size, and amount to catch attempts like minimal trading before large deposits followed by withdrawals.
c) Structured patterns	Identify deposits and withdrawals in a structured manner, such as smaller or odd amounts during odd hours.
d) Short-term activity	Detect deposits and withdrawals over very short periods with subsequent account inactivity.
e) Detail changes	Subject changes in bank account or wallet details to appropriate scrutiny, referencing control procedures for processing.
f) Jurisdiction scrutiny	Scrutinize transfers to and from jurisdictions not aligning with client's nationality, business operations, or residence.
g) Incommensurate transactions	Flag transactions not commensurate with client background.
h) Shared accounts/wallets	Promptly identify sharing among unrelated clients for deposits and withdrawals.
i) VA conversions	Set thresholds to detect multiple conversions within short periods and immediate withdrawals, indicating obscuration.
j) IP/device scrutiny	For online trading, scrutinize IP addresses and device identifiers to identify unrelated clients sharing them, suggesting collusion.

For VA-related activities, firms should employ blockchain analytical tools for pre-transaction and risk-sensitive post-transaction wallet screening, with appropriate follow-up on illicit or suspicious associations.

(B) Heightened vigilance in processing deposits and withdrawals

Firms must apply holistic monitoring, integrating red flags into deposit acceptance and payment release decisions. Robust controls remain necessary even for client-owned accounts/wallets.

Licensed firms are expected to establish bank account registration or VA wallet whitelisting mechanisms:

Requirement	Action
Ownership ascertainment	Take reasonable measures to ascertain bank account ownership (e.g., electronic direct debit authorisation (eDDA), bank-securities arrangements); for VAs, use micropayment or message signing tests; avoid complete reliance on client documents without authenticity checks.
Number limits	Set limits on registered or whitelisted accounts/wallets on a reasonable and need basis to facilitate monitoring and prevent obscuring fund flows via multiples.
Review and approval	Ensure additions or replacements subject to senior management review (e.g., MIC of AML/CFT, compliance officer, MLRO) in a risk-sensitive manner, considering frequency and patterns.
Sharing prohibition	Prohibit sharing of bank accounts or wallet addresses among clients, except where clients share a jointly-owned account and the firm applies appropriate policies and procedures for handling deposits and payments through such accounts. This prohibition extends to prior registered or whitelisted accounts/wallets that have been removed or replaced.

Exercising appropriate scrutiny on withdrawal requests and implement reasonable measures to mitigate the risk of facilitating layering activities: Scrutinize immediate withdrawals via new details for obscuration intent. Investigate red flags before processing; report to JFIU if suspicious.

The table below lists mitigation measures:

Aspect	Measure
Source limitations	Restrict withdrawals to original deposit accounts/wallets.
Holding periods	Apply 1-2 day delays for undeployed funds to deter swift layering.

The SFC commits to supervision via inspections and reviews, with enforcement powers under SFO and AMLO for non-compliance, including restrictions or penalties on firms and management.

IV. Practical Guidance for Licensed Corporations

Licensed corporations should review existing AML/CFT frameworks against the circular's expectations, prioritising enhancements under senior management oversight. Transaction monitoring systems benefit from calibrated thresholds capturing the identified patterns and integration of blockchain analytics for VA activities.

Firms should implement registration/whitelisting mechanisms incorporating rigorous ownership verification, reasonable limits, senior approvals and sharing prohibitions. Operational workflows should embed red flag assessments at deposit and withdrawal stages, with escalated scrutiny for high-risk requests and documented rationales.

Internal audits, targeted staff training on red flags, scenario testing and comprehensive documentation support demonstration of compliance and mitigate SFC's enforcement risks.

The circular conveys the following principal points:

- **Detection of layering trends:** Licensed firms must remain vigilant in identifying emerging patterns of frequent, rapid fund or VA movements with minimal trading activity, where accounts may be misused as conduits to obscure illicit origins.
- **Red flags:** Indicators include structured deposits in odd amounts, short-term or inactive relationships, frequent changes to bank accounts or wallet addresses, mismatches with declared jurisdictions, transactions inconsistent with client profiles, shared details among unrelated clients, and suspicious VA conversions.
- **Transaction monitoring:** Firms should implement robust monitoring systems with proportionate automation, regular reviews, and tailored scenarios to flag layering patterns. VA activities require pre- and post-transaction wallet screening using blockchain analytics.
- **Account and wallet controls:** Establish registration or whitelisting mechanisms for bank accounts and VA wallets, with ownership verification, limits on the number of accounts/addresses, senior management approval for changes, and prohibitions on sharing to prevent misuse.
- **Heightened vigilance in deposits/withdrawals:** Adopt holistic processing, scrutinise withdrawal requests, investigate red flags promptly, and apply risk-mitigation measures such as restricting

withdrawals to source accounts and imposing short holding periods.

- **Senior management accountability:** ROs, MICs, MLROs and boards bear ultimate responsibility for effective AML/CFT controls. Failures may trigger SFC enforcement, including business restrictions, penalties or disciplinary action.

The circular underscores the SFC's commitment to safeguarding investors and strengthening oversight while maintaining Hong Kong's position as a balanced hub for financial innovation and compliance.

Source:

<https://apps.sfc.hk/edistributionWeb/api/circular/openFile?lang=EN&refNo=25EC62>

Hong Kong Securities and Futures Commission Issues Circular on Transition to New Suspicious Transaction Reporting Platform

On January 26, 2026, the Hong Kong Securities and Futures Commission (SFC) issued a circular to licensed corporations, SFC-licensed virtual asset service providers, and associated entities (collectively "licensed firms") regarding the transition to the Joint Financial Intelligence Unit's (JFIU) new suspicious transaction reporting platform, STREAMS 2. STREAMS 2 replaced the current STREAMS platform as the sole channel for filing suspicious transaction reports (STRs) with effect from February 2, 2026.

The SFC stated that STREAMS 2 enhances automation and analytical capabilities, thereby improving the efficiency and effectiveness of the JFIU's analysis and dissemination of financial intelligence. Licensed firms must register STREAMS 2 user accounts and comply with transitional arrangements, including a blackout period from January 28 to February 2, 2026, during which urgent STRs must be submitted directly to the JFIU by email, phone, or fax. All STRs previously filed through STREAMS have been migrated to STREAMS 2.

Key points of the circular are as follows:

- STREAMS 2 is now the only channel for STR submissions effective February 2, 2026.
- Licensed firms may submit STRs via XML format, prescribed PDF upload, or web-based form.
- STREAMS 2 user accounts must be registered using the JFIU's official form.
- A blackout period occurred from January 28 to February 2, 2026; urgent STRs were directed to the JFIU.

- All STRs filed under STREAMS have been migrated to STREAMS 2, with records and consent status accessible.
- Firms intending to use XML submissions must liaise with the JFIU for schema compliance and technical testing.
- The transition underscores Hong Kong's commitment to strengthening compliance infrastructure and enhancing financial intelligence capabilities.

Source:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC2>

Hong Kong Securities and Futures Commission Issues Circular on FATF Statements and Plenary Outcomes

On November 12, 2025, the Hong Kong Securities and Futures Commission (SFC) issued a circular to licensed corporations, SFC-licensed virtual asset service providers and associated entities on recent Financial Action Task Force (FATF) statements and outcomes from the FATF Plenary (October 22–24, 2025). The FATF (the global AML/CFT standard-setting body) issued a Call for Action on high-risk jurisdictions on October 24, 2025 and updated its list of jurisdictions under increased monitoring.

The circular stated that the FATF calls on members to apply enhanced due diligence and, in the most serious cases, countermeasures to protect the international financial system from money laundering, terrorist financing and proliferation financing (ML/TF/PF) risks.

The FATF identified the DPRK and Iran for countermeasures and called for enhanced due diligence on Myanmar; it removed Burkina Faso, Mozambique, Nigeria and South Africa from the increased-monitoring list. The FATF also approved publication of guidance on asset recovery (published November 4, 2025) and a forthcoming “Horizon Scan” on illicit finance risks from new technologies.

Key points of the circular are as follows:

- FATF Call for Action: DPRK and Iran are subject to FATF calls for countermeasures; members are urged to apply enhanced due diligence and countermeasures as appropriate.
- Myanmar remains subject to enhanced due diligence; countermeasures may follow if no progress by February 2026.

- Updated increased-monitoring list: Burkina Faso, Mozambique, Nigeria and South Africa removed.
- FATF Plenary outcomes: asset recovery guidance published (Nov 4, 2025); “Horizon Scan” on AI-related illicit finance risks to be published.
- Licensed firms are reminded to incorporate FATF statements into their risk analyses and to monitor FATF updates.

These measures highlight the SFC's focus on aligning global AML/CFT standards with local protections to ensure market integrity.

Source

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=25EC61>

Hong Kong Securities and Futures Commission Issues Circular on Implementation Arrangements for Cross-Boundary Wealth Management Connect Pilot Scheme

On November 13, 2025, the Hong Kong Securities and Futures Commission (SFC) issued a circular to licensed corporations (LCs) introducing enhancements to the implementation arrangements for the Cross-Boundary Wealth Management Connect Pilot Scheme (Cross-Boundary WMC) in the Guangdong-Hong Kong-Macao Greater Bay Area. The circular builds on the SFC's earlier guidance of January 24, 2024, and sets out new measures relating to promotion and sales, research reports, and partnership arrangements with Mainland brokers.

The SFC stated that Participating LCs may now obtain one-off written consent from Southbound and Northbound Scheme clients, valid for up to one year, to introduce and explain product information through appropriate communication channels. The circular also permits three-party dialogues involving Mainland partner brokers, subject to compliance with regulatory requirements in both jurisdictions. Additional provisions cover the distribution of research reports on individual investment products, subject to strict due diligence, disclosure, and conflict-management requirements.

Key points of the circular are as follows:

- Participating LCs may rely on one-off written consent (valid up to one year) from clients under both Southbound and Northbound Schemes to introduce product information.
- Three-party dialogues between Participating LCs, Partner Brokers, and clients are permitted, with

responsibilities clearly defined in cooperation agreements.

- Participating LCs must not travel to the Mainland to conduct substantive sales, solicit clients, or provide investment advice. Product due diligence and client risk profiling remain mandatory.
- Research reports on individual investment products may be provided if client consent is obtained; Partner Brokers must assume legal and regulatory obligations in the Mainland, while Participating LCs remain responsible for quality and compliance.
- Reports must include prominent disclosures of conflicts of interest and warning statements, including:
 - **Conflicts of interest disclosures:** whether the LC, Partner Broker, affiliates, analysts, or associates have trading activities, financial interests, compensation, or business relationships related to the products.
 - **Warning statements:** reports are for general circulation only; do not constitute offers; do not consider individual objectives; investors should seek independent advice; information is from public sources believed reliable; all investments carry risks including possible total loss; past performance is not indicative of future results; some products may not be authorised under section 104 of the Securities and Futures Ordinance (SFO) and reports do not constitute invitations under section 103 of the SFO.
- LCs intending to partner with more than one Mainland broker must submit business plans and self-assessment reports to the SFC.

This framework reflects Hong Kong's calibrated approach to facilitating cross-boundary wealth management while reinforcing investor protection and regulatory compliance.

Source :

<https://apps.sfc.hk/edistributionWeb/api/circular/openFile?lang=EN&refNo=25EC60>
<https://apps.sfc.hk/edistributionWeb/api/circular/openAppendix?lang=EN&refNo=25EC60&appendix=0>

More materials:

Hong Kong Securities and Futures Commission Releases Anti-Money Laundering and Counter-Financing of Terrorism Webinar Materials

On November 17, 2025, the Hong Kong Securities and Futures Commission (SFC) issued webinar materials providing detailed guidance on regulatory expectations for licensed corporations, including transaction monitoring systems to detect patterns indicative of money laundering and terrorist financing activities.

For further details, please read the full webinar materials here:

https://www.sfc.hk/-/media/EN/files/IS/AML/SFC-AMLCFT-Webinar-202511_SFC_ENG.pdf?rev=9e7f65b1e1b248a789601c3e33a2e603&hash=F3EA899C49F7E847112E2AF96EC85535

Hong Kong Securities and Futures Commission Launches Consultation on Financial Resources Rules Amendments

On July 14, 2025, the Hong Kong Securities and Futures Commission (SFC) issued a circular announcing a public consultation on draft amendments to the Securities and Futures (Financial Resources) Rules and related guidelines to implement capital requirements for over-the-counter derivative activities and facilitate market development for OTC derivatives and other products, while concluding on prior consultations from 2017.

For further details, please read the full circular here:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=25EC40>

Hong Kong Securities and Futures Commission Exempts Non-Centrally Cleared Equity Options from Margin Requirements

On December 22, 2025, the Hong Kong Securities and Futures Commission (SFC) issued a circular granting an exemption for non-centrally cleared equity options, including single-stock, equity basket, and equity index options, from margin requirements effective January 4, 2026, to align with practices in the European Union and the United Kingdom and prevent regulatory arbitrage given minimal exposures.

For further details, please read the full circular here:

<https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=25EC71>

Recent Enforcement Cases Against SFC Licensed Corporations

i. SFC fines UBS HK\$8 million for professional investors misclassification

On October 20, 2025, the SFC reprimanded and fined UBS AG (UBS) HK\$8 million. UBS is registered under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities. From 2009 to 2022, UBS misclassified 560 joint accounts as professional investors (PIs) due to system deficiencies, procedural errors and misinterpretation of the Securities and Futures (Professional Investor) Rules. As a result, clients who were not eligible were sold PI-restricted investment products and executed transactions under protections that did not apply to them. The SFC highlighted that UBS had already been disciplined in 2021 for similar issues and therefore regarded the recurrence as an aggravating factor. UBS is required to introduce Enhanced Complaint Handling Procedures as part of its remediation.

For listed companies, the case is a timely reminder that outdated rule interpretations and operational logic can remain embedded for years and create regulatory exposure. Companies need to review and update compliance system and confirm that past process weaknesses identified through internal audit or regulatory enquiries have been fully and sustainably rectified. Ensuring that complaint patterns relating to investment or counterparty categorization are escalated early can also help identify hidden control issues before they attract regulatory scrutiny.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=25PR167&appendix=0>

ii. SFC fines Freeman Commodities HK\$3.4 million for failures in client system due diligence and AML monitoring

On July 3, 2025, the SFC has publicly reprimanded and fined Freeman Commodities Limited (now Arta Global Futures Limited) HK\$3.4 million. The company is licensed under the Securities and Futures Ordinance to carry on Type 2 (dealing in futures contracts) regulated activity. Between June 2017 and December 2018, the company failed to conduct proper due diligence on the customer supplied systems used by 89 clients and did not adequately monitor suspicious deposits or trading patterns. The SFC determined that these deficiencies resulted in breaches the requirements of Anti-Money Laundering and Counter-Terrorist Financing Ordinance,

the Guideline on Anti-Money Laundering and Counter-Terrorist Financing and the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and were partly attributable to weaknesses in senior management oversight. In addition to the firm-level penalty, former responsible officer Li Chun Kei was suspended for four months, and former responsible officer Pun Hong Hai was suspended for ten months.

For listed companies, the case highlights the importance of assessing the risks associated with client-provided or third-party trading tools, especially where automated or high-volume trading is permitted. The enforcement also reinforces that anomalies in funding patterns, transactional behaviour or system-generated order flows must be flagged early and escalated promptly, including where such issues may reflect deficiencies in oversight by senior personnel. Ensuring that AML/CFT monitoring frameworks are aligned with the company's trading patterns—and that senior management retains visibility over high-risk activities—can help mitigate the types of lapses identified in this case.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=25PR103&appendix=0>

iii. SFC fines Saxo Capital Markets HK\$4 million for failures in distributing virtual asset-related products

On January 6, 2026, the SFC reprimanded and fined Saxo Capital Markets HK Limited (SCMHK) HK\$4 million after finding that the firm, licensed for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 3 (leveraged foreign exchange trading), Type 4 (advising on securities) and Type 9 (asset management), failed to ensure that retail clients possessed adequate virtual asset (VA) knowledge before accessing VA-related products. The SFC identified that SCMHK did not provide sufficient risk warnings, did not conduct meaningful product due diligence, and did not perform suitability assessments, affecting 1,446 VA-related transactions. SCMHK also failed to observe the guidance set out in 2018 Circular (a circular to intermediaries entitled “Distribution of virtual asset funds” issued by the SFC on 1 November 2018) and 2022 Circular (the “Joint circular on intermediaries’ virtual asset-related activities” jointly issued by the Hong Kong Monetary Authority and the SFC on 28 January 2022). These deficiencies were considered serious given the volatility and risk profile of virtual assets.

For listed companies, this case illustrates the regulatory expectation that controls around novel or higher-risk products must be specifically adapted, not simply treated as extensions of traditional product governance frameworks. Companies that trade, hedge or hold digital assets—or that interact with third-party platforms offering tokenised, derivative or VA-linked exposures—may wish to review how staff and decision-makers assess product rationale, client or counterparty understanding, and whether risk disclosures genuinely reflect the unique characteristics of VAs. It may also be timely to confirm that due diligence processes for new products are sufficiently robust and not relying on assumptions drawn from traditional markets.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=26PR1&appendix=0>

iv. SFC fines Tung Tai Securities Company Limited HK\$900,000 for failures to safeguard client assets

On November 13, 2025, the SFC reprimanded and fined Tung Tai Securities Company Limited HK\$900,000 after finding that the firm, licensed to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities, failed to put in place adequate controls to safeguard client assets. According to the SFC's investigation, between 6 September 2019 and 18 February 2020, Tung Tai processed unauthorised sales of client securities and transferred US\$3.3 million of client funds to non-designated overseas bank accounts, acting on instructions sent from a bogus email address that resembled the clients. Despite clear red flags, including repeated telegraphic transfer rejections by multiple banks and discrepancies in beneficiary details, Tung Tai continued processing the transactions. The SFC concluded that the firm lacked effective internal procedures to protect client assets from fraud and misappropriation and that its safeguards were materially inadequate.

For listed companies, this case underscores how weaknesses in verification processes, email-based instructions, or outdated control routines can directly expose client or counterparty assets to fraud risks. Companies handling payment instructions, settlement flows or custodial arrangements may wish to confirm that email-based trade or fund transfer instructions are subject to robust independent verification and that red flags—such as mismatched account details, inconsistent client information or repeated transaction rejections—are escalated rather than overridden. It may also be timely to

assess whether internal controls for asset protection have kept pace with emerging fraud typologies, and whether management oversight actively tests the effectiveness of safeguards designed to prevent unauthorised transactions.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=25PR192&appendix=0>

v. SFC revokes the licence of Nerico Brothers Limited and imposes lifetime industry bans for large-scale client fund misappropriation

On August 28, 2025, the SFC revoked the licence of Nerico Brothers Limited (NBL) after uncovering large-scale misappropriation of client funds and pervasive misconduct. NBL, licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 3 (leveraged foreign exchange trading) and Type 9 (asset management) regulated activities, diverted over US\$68 million of client monies into unauthorised offshore investments and participated in fabricated liquidity-provider schemes. The SFC also found falsified documents and false or misleading information provided during the investigation. In view of the seriousness and dishonesty involved, the SFC imposed the strongest disciplinary outcome available: full licence revocation and lifetime industry bans on members of senior management. No monetary fine was imposed given the scale and nature of the misconduct.

For listed companies, the case serves as a stark reminder that failures in fund governance and transparency—particularly where client or counterparty assets are handled—can quickly escalate to the most serious regulatory outcomes. Companies with treasury, investment or asset-holding functions may wish to ensure that any use of client or pooled funds is fully documented, authorised and consistent with disclosed purposes, and that offshore structures or third-party arrangements receive appropriate due diligence and senior-level scrutiny. The case also highlights the regulatory consequences of providing inaccurate information to regulators; listed companies should maintain clear audit trails and ensure that responses to regulatory enquiries are complete, consistent and supported by contemporaneous records to mitigate enforcement risk.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=25PR134&appendix=0>

vi. SFC revokes the licence of Amber Hill Capital Limited and bans its senior management for life for involvement in large-scale client fund misuse

On August 28, 2025, the SFC revoked the licence of Amber Hill Capital Limited after finding that the firm, licensed to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities, participated in an interconnected scheme with Nerico Brothers that resulted in the redirection and misuse of client assets. The SFC identified serious misconduct including fabricating documents, misleading auditors and investors, and breaching obligations relating to honesty, fairness and safeguarding of client assets. Given the seriousness and deliberate nature of the misconduct, the SFC imposed full licence revocation and lifetime bans on senior management, including individuals who were not licensed but were involved in the misconduct. No monetary fine was imposed in view of the revocation and lifetime prohibitions.

For listed companies, the case illustrates how failures in governance over related-party arrangements, offshore structures or fund-flow routing can give rise to extreme regulatory outcomes. Companies that employ external managers, use offshore vehicles or rely on third-party administrators may wish to review whether oversight mechanisms genuinely allow management to detect asset diversion, improper transactions or fabricated documentation. The enforcement also highlights the risk of providing incomplete or misleading information to auditors or investors; listed companies should ensure that disclosures, valuation processes and supporting records withstand independent scrutiny and that senior management retains visibility over fund flows and delegation arrangements. Strengthening documentation, approvals and monitoring around any structure involving client or pooled assets can help avoid the type of systemic misconduct identified in this case.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=25PR133&appendix=0>

vii. SFC fines EFG Bank AG HK\$10.85 million for wide-ranging product due diligence and disclosure failures

On December 11, 2025, the SFC reprimanded and fined EFG Bank AG HK\$10.85 million after identifying extensive weaknesses in the bank's handling of complex products over a six-year period. EFG, a registered institution

licensed for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities, failed between January 2015 and December 2020 to conduct proper product due diligence on 322 bonds and did not update internal policies to reflect evolving regulatory requirements. The SFC also found that EFG did not provide sufficient product information or warnings to clients, failed to maintain due diligence records for 141 bonds, and delayed reporting suspected failures until July 2020. The investigation originated from EFG's self-report and an HKMA referral. EFG has been reprimanded, fined HK\$10.85 million, and required to implement Enhanced Complaint Handling Procedures covering 351 affected products.

For listed companies, the case reinforces the need to ensure that product approval and due diligence processes evolve in step with market developments and regulatory changes. Companies that invest in, distribute, or rely on structured or fixed-income products should consider whether their policies genuinely capture the risks of complex instruments and whether documentation, particularly around due diligence and suitability, would stand up to regulatory scrutiny years later. The delayed reporting element also highlights the importance of timely escalation: senior management should ensure mechanisms exist to identify, self-report and remediate control weaknesses promptly. Strengthening governance over product reviews, regulatory change management and record-keeping can help prevent the type of long-running lapses seen in this case.

For further details, please read about the full disciplinary action here:

<https://apps.sfc.hk/edistributionWeb/api/news/openAppendix?lang=EN&refNo=25PR205&appendix=0>

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