
REGULATORY NEWSLETTER

2024 Vol.10



Welcome to the September 2024 edition of our Regulatory Newsletter. In this issue, we reflect on the significant developments and updates from the past month that are impacting the financial sector. We'll delve into the latest regulatory changes and the challenges that professionals in the industry are currently facing, with a special focus on the evolving landscape in Hong Kong.

At ComplianceDirect, we are dedicated to ensuring that you remain well-informed about the compliance issues and regulations that directly affect your business. It is our hope that the insights shared in this newsletter prove valuable to you. We look forward to your continued success and are here to assist you in navigating the complexities of the regulatory environment.

REGULATORY UPDATES

Circular to intermediaries - Distribution of research reports of eligible Mainland ETFs under Stock Connect

09 Sep 2024

The Securities and Futures Commission (SFC) issued a circular on September 9, 2024, outlining the conditions under which intermediaries in Hong Kong can distribute research reports on eligible Mainland exchange-traded funds (ETFs) under the Stock Connect scheme. This guidance aligns with Section 103 of the Securities and Futures Ordinance (SFO) and mirrors the existing practices for distributing research on Mainland stocks.

Key Points from the Circular:

- **Eligibility for Distribution:** The distribution of these research reports is permissible for intermediaries licensed for Type 4 (advising on securities) or Type 1 (dealing in securities) regulated activities, provided it is incidental to their securities dealing business.
- **Content Responsibility:** Intermediaries must ensure reports are factual, fair, balanced, and

consistent with the ETFs' offering documents. They must also handle the preparation and distribution responsibly, adhering to the SFC's Code of Conduct.

- **CSRC-Licensed Group Companies:** If the report is prepared by a CSRC-licensed group company, the distributing intermediary must verify the company's compliance with Mainland regulations and ensure a legally binding contract covers the preparation and distribution.
- **Disclosure Requirements:** Reports must clearly disclose any conflicts of interest and include adequate warning statements, with examples provided in the circular's appendix for guidance.
- **Regulatory Framework:** This circular builds on the cooperative framework established by the joint announcements on Stock Connect and specific provisions relating to ETFs, ensuring that intermediaries and investors have clear guidelines for accessing and distributing research.

Intermediaries seeking further clarification on these guidelines or the distribution of such research reports are encouraged to contact the SFC's Investment Products Division or the Intermediaries Supervision Department.

For detailed information and to view the list of eligible Mainland ETFs under Stock Connect, please refer to the links provided in the circular.

[View Circular](#)

ENFORCEMENT NEWS

SFC bans Charles Lam Chung Yiu for life

02 Sep 2024

The Securities and Futures Commission (SFC) has banned Mr Charles Lam Chung Yiu, a former associate director of UBS AG (UBS), from re-entering the industry for life because his criminal convictions led the SFC to consider him not a fit and proper person to be licensed or registered to carry on regulated activities (Note 1).

Lam was sentenced by the Court of First Instance on 7 November 2023 to imprisonment of seven years after his convictions of two counts of theft and two counts of dealing with property known or believed to represent proceeds of an indictable offence (Note 2).

The court found that between 13 March and 27 October 2020, when Lam was overseeing a project in UBS to compensate clients who had been overcharged in previous transactions, he exploited his access to UBS's system to alter the information of rightful recipients under the project and made at least 46 payments, totalling US\$1,875,030.64, to his own accounts or for his own gain.

The court also found that between March and December 2020, various bank accounts controlled by

Lam had received cash deposits from UBS and other sources, a substantial sum of which was transferred out within a short period of time, and the monies being dealt with were all connected to Lam's theft of money from UBS.

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SFC reprimands and fines Profitech Securities Limited \$3.99 million for regulatory breaches

30 Sep 2024

The Securities and Futures Commission (SFC) has reprimanded and fined Profitech Securities Limited (Profitech) \$3.99 million for failures to comply with the Securities and Futures (Financial Resources) Rules (FRR) and other regulatory requirements (Note 1).

The SFC's investigation found that Profitech failed to maintain its required liquid capital of \$3 million in compliance with the FRR between February and June 2021 and since July 2022.

The SFC also found that Profitech had improperly repledged client securities collateral to its execution broker for 17 months for financial accommodation without a valid client standing authority and had failed to ensure that the aggregate market value of its repledged securities collateral did not exceed the repledging limit.

The SFC further found that Profitech had recklessly provided financial accommodation to two new clients for \$15.6 million with borrowed funds without implementing reasonable credit controls and risk management measures. The firm also failed to notify the SFC a change in its holding company's shareholding structure within seven business days in April 2021.

The above-mentioned failures of Profitech constituted breaches of the SFO, the Securities and Futures (Licensing and Registration) (Information) Rules, the Securities and Futures (Client Securities) Rules and the Code of Conduct (Notes 2 and 3).

In deciding the disciplinary sanctions against Profitech, the SFC has taken into account all relevant circumstances, including:

- Profitech's repeated and prolonged failures to maintain the required liquid capital;
- the gravity of the improper repledge of client securities and Profitech's failure to rectify the irregularities despite repeated reminders from the SFC and its express undertakings to do so;
- Profitech's cooperation in resolving the SFC's concerns, including its agreement to engage an independent reviewer to conduct a review of its relevant internal controls; and
- Profitech's otherwise clean disciplinary record.

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