Reed Smith Asia-Pacific: Funds & financial regulatory newsletter

Second quarter 2026 edition

ReedSmith

Contents

Welcome
Second quarter 2026 edition

Welcome to the ninth edition of Reed Smith's quarterly Asia Pacific funds and financial regulatory newsletter.

This edition covers a range of timely topics beginning with a detailed analysis of the Monetary Authority of Singapore's (MAS) approach to AI in finance. Next, we delve deeper into MAS's proposed amendments to notices on technology risk management as well as the publication of good disclosure practices for retail ESG funds.

We also discuss MAS's information papers on valuation and risk management practices for fund management companies and explore key takeaways from the Securities and Futures Commission's 2025 Asset and Wealth Management Activities Survey.

Finally, we examine recent enforcement trends, cross-border regulatory developments, and practical considerations for compliance teams operating in the Asia Pacific region.

In focus:
MAS's twin-track approach to AI in finance: Scaling adoption, embedding safeguards

Introduction

On 25 June 2026, MAS announced the establishment of the Future of Finance Institute (FFI), which will serve as Singapore's national innovation centre for the financial sector. On 3 July 2026, MAS, together with leading financial institutions (FIs) and fintechs, published an industry white paper setting out safeguards for AI agents operating in financial services.

Read together, the recent announcements reflect a deliberate focus on the part of MAS: to build the shared infrastructure that allows the industry to adopt AI at scale and, in parallel, develop the operational controls that keep autonomous systems within institutional risk boundaries. Both initiatives are expected to shape supervisory expectations well before the final Guidelines on Artificial Intelligence Risk Management (AIRG Guidelines) are issued.

MAS's approach to AI has developed in stages. The Fairness, Ethics, Accountability and Transparency (FEAT) principles, first published in 2018, established a baseline guide for FIs on the responsible use of AI and data analytics. In November 2025, MAS consulted on the proposed AIRG Guidelines, which would apply to all FIs and set out MAS's supervisory expectations on AI oversight, AI risk management systems, policies and procedures, AI life cycle controls, and the capabilities and capacity required for the use of AI. The consultation closed on 31 January 2026, and MAS has proposed a transition period of 12 months following issuance of the AIRG Guidelines. As at the time of writing, the final AIRG Guidelines have not been issued.

In the interim, MAS has continued to build out the practical layer. On 20 March 2026, MAS announced the conclusion of phase two of Project MindForge (the MAS-led industry initiative to develop AI risk frameworks and reference architectures) and the publication of an AI Risk Management Toolkit, developed by a consortium of 24 banks, insurers, capital markets firms, and other industry partners. The toolkit features an AI Risk Management Operationalisation Handbook organised into four sections that mirror the proposed AIRG Guidelines, namely (a) scope and oversight, (b) AI risk management, (c) AI life cycle management, and (d) enablers, accompanied by a supplement of implementation examples drawn from participating FIs. MAS indicated that the handbook would be updated periodically to reflect its supervisory expectations and that it would convene an AI risk management workgroup under its BuildFin.ai (MAS's financial AI builder programme) initiative to build capabilities and frameworks for managing risks arising from newer technologies such as agentic AI.

The two developments discussed below are a direct continuation of that programme of work.

The Future of Finance Institute

The establishment of the FFI was announced at the Association of Banks in Singapore (ABS) Annual Dinner on 25 June 2026 by Gan Kim Yong, deputy prime minister and minister for trade and industry, and chairman of MAS. The FFI will focus initially on AI and tokenisation, connecting the financial and technology ecosystems and providing the shared resources and expertise needed to promote broad-based adoption of these technologies.

While MAS will retain policy-making and the development of appropriate regulatory frameworks for financial innovation, the FFI will work directly with industry to accelerate the transition from experimentation to broad-based deployment, lowering adoption barriers for institutions of all sizes.

The FFI will offer four areas of capability:

- **Knowledge hub:** an expanded repository of validated use cases, deployment playbooks, and solution providers, complemented by a capability development roadmap, to help FIs of all sizes adopt frontier technologies.
- **Innovation garage:** orchestration of industry-wide collaboration around targeted AI and tokenisation initiatives, pooling resources across research institutes, fintechs, and FIs.
- **Industry sandboxes:** controlled testing environments for experimentation and pre-deployment validation of emerging technologies, including programmable money, tokenised assets, and AI-enabled workflows.
- **Implementation toolkits:** reference toolkits, including a Programmable Compliance Toolkit for tokenised assets and an updated AI Risk Management Toolkit with implementation guides for deploying agentic AI with appropriate safeguards.

The FFI builds on established collaborative platforms, including the MindForge AI Risk Management Toolkit, PathFin.ai (the industry's shared platform for developing and validating AI use cases, with over 200 participating FIs), Project Guardian, and Project Orchid, bringing these efforts together under a single coordinating body. A board comprising representatives from MAS, major FIs, technology firms, and academia will be established, and further details of the FFI's strategies and governance are expected to be announced later this year.

The SAFR white paper

On 3 July 2026, MAS and industry partners published "Safeguards for Agentic Finance at Runtime" (SAFR), an industry white paper under the BuildFin.ai initiative that sets out an industry-developed framework enabling AI agents to carry out financial tasks safely, securely, and reliably.

SAFR addresses a specific gap in the financial industry. Existing governance processes were built around human decision-making, whereas agents that initiate payments, submit trading orders, approve credit applications, or settle insurance claims act at a speed and scale beyond practical human intervention. SAFR therefore places safeguards at the point of action rather than only at model approval.

The framework sits between an agent and the systems on which it acts, verifying the agent's identity, its conferred authority, applicable controls, and risk thresholds before execution. It comprises four components: agent identity, a controls repository, a disposition engine, and an audit log. The disposition engine determines whether an action is approved for automatic execution, rejected, routed for human review, or permitted subject to monitoring. The audit log creates a tamper-evident record of each governance decision. The paper addresses policy-bound execution, real-time validation, auditability, and interoperability, and contemplates both native integration and a gateway model intercepting outbound API calls.

Industry members have applied SAFR to agent-assisted payments and treasury operations, wealth management and advisory workflows, and client engagement.

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Key observations on the regulatory outlook

SAFR is not regulatory guidance; it is a reference model that institutions adapt to their own systems. The FFI will support adoption through industry pilots and sandbox experimentation. That said, MAS-convened industry frameworks have a consistent history of hardening into the reference point against which supervisory expectations are calibrated. FIs adopting a materially weaker control posture should expect to be asked to justify that position.

For fund managers, the SAFR use cases map onto activities already subject to existing obligations: advisory workflows engage suitability and fair dealing expectations, client-facing content generation engages the Guidelines on Fair Dealing, and treasury and payment activity engages technology and operational risk management expectations now being uplifted. Where agentic capability is procured externally, accountability remains with the FI. With the AIRG Guidelines still outstanding and only a 12-month transition proposed, firms treating that period as the start of preparation are likely to find it insufficient.

Conclusion

Speaking at the ABS Annual Dinner, Deputy Prime Minister Gan framed the second quarter's initiatives around Singapore's role as a "trusted connector in a changing world" and set out the ambition for Singapore to be "a global launchpad for AI in financial services", anchoring AI capabilities within FIs and broadening adoption across the sector.

That framing captures the logic of both initiatives. The FFI addresses the adoption constraint by pooling infrastructure and testing capability that individual institutions would struggle to build alone. SAFR addresses the trust constraint by supplying the runtime controls that make autonomous deployment defensible to boards, clients, and supervisors. Fund managers should review their AI governance frameworks against the MindForge toolkit and SAFR ahead of the issuance of the AIRG Guidelines.

Regulatory updates

Singapore

Consultation paper on proposed amendments to Notices on Technology Risk Management

In June 2026, MAS issued a consultation paper seeking to introduce amendments to the Notices on Technology Risk Management (the Notices), which are applicable to a broad range of financial institutions, including banks, insurers, finance companies, capital markets intermediaries, credit bureaus, trust companies, and payment services providers, among others.

The proposed amendments aim to strengthen the technology resilience of the financial services sector by introducing enhanced requirements across seven key areas: IT asset management, IT risk assessment and monitoring, capacity planning and management, change management controls, continuous system and security monitoring, immutable and offline data backup, and incident management. MAS also proposes to clarify the existing requirement on unscheduled downtime by making explicit that partial or intermittent disruptions must be factored into its computation. The requirements set out in the revised Notices are proposed to take effect 12 months after the finalised Notices are published.

MAS invites comments from financial institutions and other interested parties on the proposed amendments. The consultation paper closed for feedback on 31 July 2026.

MAS publishes information paper on good disclosure practices for retail ESG funds

In June 2026, MAS issued an updated information paper on good disclosure practices for retail ESG funds, to support the adherence of retail ESG funds – of which there are now 189 offered in Singapore – to paragraphs 11 to 14 of the 2022 Disclosure and Reporting Guidelines for Retail ESG Funds circular. The information paper was first published in December 2024.

The observations are drawn from MAS's ongoing review of ESG fund prospectuses and periodic reports, supplemented by findings from 2025 thematic inspections of selected fund managers and the November 2025 IOSCO report on ESG indices as benchmarks. The paper covers four broad areas: clearly defining ESG-related terms and setting out how ESG criteria or metrics are used in a fund's investment focus and strategy; additional disclosures for funds that track or reference an ESG index as a benchmark, including any influence the manager has over the index's construction; disclosure of risks associated with a fund's ESG focus and strategy, including in the Singapore prospectus "wrapper" for recognised schemes; and disclosure of stakeholder engagement activities where these form part of a manager's approach to attaining its ESG focus.

Illustrative examples are provided throughout the information paper, though MAS clarifies that these are not intended to be prescriptive, and the paper reiterates that such disclosures should be underpinned by appropriate internal policies and processes to mitigate greenwashing risks.

MAS publishes information paper on valuation practices for fund management companies

In May 2026, MAS published an information paper setting out supervisory expectations for fund management companies (FMCs) on valuation practices, based on key findings from thematic inspections of selected FMCs across a range of investment strategies. The paper covers four key areas: governance, policies and procedures, ongoing price validation checks, and valuation approaches and methodologies.

On governance, MAS expects valuation to be overseen by senior management or a dedicated committee with sufficient expertise and independence from the portfolio management function, supported by formal terms of reference and proper documentation. MAS observed that some smaller FMCs lacked independence in their valuation process, with senior management members involved in portfolio management also overseeing the valuation of certain assets.

On policies and procedures, FMCs should establish comprehensive valuation policies covering the full range of asset classes and financial instruments that their funds can invest in, with clear escalation procedures and regular reviews.

For ongoing price validation checks, MAS expects FMCs to implement independent checks such as price variance checks, source-to-source checks, stale price checks, and fund-level NAV variance checks, supported by well-defined exception tolerance levels calibrated to the characteristics of different asset classes. MAS found some FMCs with inadequate stale price identification processes, insufficient rigour in following up on price validation checks, and inappropriate application of variance thresholds across all asset types.

On valuation approaches and methodologies, MAS highlighted the unique challenges posed by certain asset classes such as private credit and digital assets. Private credit valuations often involve subjective judgement regarding default designation, recoverability, and reliance on model-based techniques. Digital assets present additional complexity due to 24/7 market operations, high market volatility, fragmented trading environments, and liquidity risks. MAS observed instances of inappropriate valuation of overdue private credit, failure to verify inputs used in fair value assessments, and insufficient due diligence on third-party valuation service providers.

FMCs are expected to benchmark their current valuation governance structures, frameworks, policies, and controls against these expectations and promptly address any gaps identified.

MAS publishes information paper on risk management practices for FMCs

In May 2026, MAS published an information paper setting out supervisory expectations for FMCs on effective risk management practices across the investment process lifecycle. The paper is based on key findings from thematic inspections of selected FMCs across a range of investment strategies, including equity funds, fixed income funds, hedge funds, private credit funds, and fund-of-funds. It covers five areas: governance, policies and procedures, new fund launches and changes to existing funds, investment due diligence, and ongoing monitoring of investments.

On governance, MAS expects the board and senior management to put in place appropriate governance structures overseen by senior management members or committees with sufficient expertise, to identify and mitigate conflicts of interest, and to maintain proper documentation of committee discussions and decisions. MAS observed areas of improvement including inadequate oversight of fund operations, inadequate stature, independence or representation from support functions, failure to manage conflicts of interest, and poor record keeping.

On policies and procedures, MAS expects FMCs to establish comprehensive policies covering all aspects of their fund management activities prior to launching new funds, with clear roles and responsibilities, escalation procedures, and regular reviews.

For new fund launches, FMCs should assess factors such as the fund's investment objectives, risk-return profile, staff availability, operational readiness, and compliance with applicable laws and regulations. For changes to existing funds (changes in investment strategy, inclusion of new asset classes, changes in service providers, etc.), FMCs are expected to review the impact of the changes and communicate them to stakeholders, where necessary.

On investment due diligence, MAS found inadequacies including failure to assess credit quality of borrowers and guarantors, insufficient evaluation of service providers, incomplete consideration of governance structures of third-party fund managers, and inadequate controls to ensure consistency in the assessment of underlying managers. For ongoing monitoring, MAS expects FMCs to implement independent monitoring of performance and risks at suitable intervals, supported by appropriate metrics and thresholds to enable early intervention.

FMCs are expected to benchmark their current governance structures, frameworks, policies, and controls against these expectations and adopt a risk-based and proportionate approach, promptly addressing any gaps identified through specific remediation measures.

Hong Kong
Key takeaways from the SFC's 2025 Asset and Wealth Management Activities Survey

The Securities and Futures Commission (SFC) published its annual Asset and Wealth Management Activities Survey (AWMAS) in July 2026, covering industry data for the year ended 31 December 2025. The results show that Hong Kong's asset management industry has entered a new growth phase, with particular momentum in the private funds space.

1. Record industry AUM and inflows

Hong Kong's total asset and wealth management assets under management (AUM) rose 20% year-on-year (YoY) to a record HK$42,202 billion (US$5,422 billion), surpassing the previous 2021 peak. Net fund inflows nearly tripled (+193%) to HK$2,065 billion, marking a third consecutive year of positive flows. The asset management and fund advisory business (which is the largest segment) grew 19% YoY to HK$30,957 billion, with net inflows surging over three-fold to HK$1,380 billion.

2. Private funds: Hedge funds and private equity continue to expand

Private funds (comprising hedge funds, private equity (PE), and venture capital (VC)) accounted for 19% of the asset management and fund advisory business, with AUM of HK$6,004 billion, representing a 19% YoY increase from HK$5,042 billion in 2024. Hedge funds represented 6% and PE/VC 5% of the total product mix. Within the private banking and private wealth management segment, private funds (including hedge funds, PE, and VC) held AUM of HK$1,983 billion, reflecting 26% YoY growth and representing 15% of private banking assets. Notably, according to AVCJ Research, Hong Kong ranked second in Asia (after Mainland China) in 2025 in terms of total capital under management by PE funds (excluding real estate funds), amounting to US$231 billion.

3. OFC registrations surge driven by private funds

The number of registered open-ended fund companies (OFCs) increased 43% YoY to 676, further rising to 715 by March 2026. Significantly, 631 of the 676 OFCs registered at year-end were private OFCs, underscoring the structure's appeal as a vehicle of choice for private fund managers establishing or re-domiciling funds in Hong Kong.

4. Family offices and alternative investments

Hong Kong's single-family office sector grew robustly, with over 3,380 offices operating as at end-2025, representing an increase of approximately 680 over the past two years. Family offices are showing rising interest in alternative investments, particularly private equity, local real estate, and digital assets, with AI and data science emerging as key thematic allocations.

5. Authorised funds

For completeness, Hong Kong-domiciled SFC-authorised funds also performed well, with AUM growing 38% to HK$2,276 billion and net inflows surging 118% YoY to HK$357 billion. The exchange-traded fund market expanded to 200 listed products with a 33.7% increase in market capitalisation.

6. Industry capacity and outlook

The number of firms licensed for Type 9 regulated activity (asset management) rose 7% YoY to 2,358, with licensed individuals up 5% to 15,747. Total industry headcount grew 5% to 56,557, and 51% of respondents indicated plans to increase staff in 2026. These figures point to sustained confidence in Hong Kong as a base for private fund management operations.

Comment

The AWMAS results reinforce Hong Kong's position as a leading centre for private fund activity in Asia-Pacific, with strong OFC uptake, robust PE capital pools, and a growing family office ecosystem continuing to attract managers to the jurisdiction.

Hong Kong
SFC tightens account opening controls: What SFC licensed asset managers need to know

On 22 May 2026, the Securities and Futures Commission (SFC) issued a circular to all licensed corporations (LCs) on expected controls for account opening and maintaining relationships with clients (the Circular). Although the Circular arose from a thematic review of 12 licensed securities brokers, its requirements and reminders are addressed to all LCs, including those asset managers licensed for Type 9 regulated activity (asset management) (Type 9 Managers).

1. Key deficiencies identified

The SFC's review identified significant deficiencies across five areas: (a) acceptance of forged or questionable account opening documents (in the most serious cases, over 50% of sampled accounts involved forged documents); (b) inadequate due diligence and ongoing monitoring of cross-border correspondent relationships (CBCR) with overseas intermediaries; (c) failures in client identity verification under the designated Hong Kong bank account approach and the remote onboarding of overseas clients approach; (d) non-compliance with the "waterfall" requirements for client identification data (CID) (which apply to on-exchange orders and off-exchange trades reportable to the Stock Exchange of Hong Kong), prioritising Hong Kong identity cards over national identification documents, followed by passports; and (e) failures to assess the reasonableness of residential addresses provided by clients.

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2. Expected standards

The Circular sets out the standards expected of all LCs in respect of the above deficiencies:

- **Account opening documentation:** LCs must approve account openings only after completing all know-your-client (KYC) and customer due diligence (CDD) procedures with a comprehensive management review, and should refrain from establishing (or should terminate) relationships where KYC/CDD cannot be satisfactorily completed. LCs must also conduct an internal review as soon as practicable to detect if any questionable or forged documents have been previously accepted.
- **CBCR:** LCs must adopt a risk-based approach, exercise heightened vigilance where underlying clients' profiles do not align with the overseas intermediary's jurisdiction or typical client base, ensure the intermediary has adequate anti-money laundering and counter-financing of terrorism (AML/CFT) controls, and terminate relationships where money laundering and terrorist financing risks cannot be adequately mitigated.
- **Client identity verification:** LCs must take all reasonable steps to establish the true and full identity of each client and comply with the SFC's published requirements for acceptable account opening approaches, including obtaining sufficient evidence of bank account ownership (for Hong Kong bank account onboarding) and using independently assessed technologies (for remote onboarding of overseas clients).
- **CID waterfall:** LCs must obtain representations from clients confirming that no identification documents of a higher priority are in their possession.
- **Client address:** LCs must review client addresses for anomalies and follow up on any irregularities identified.

As an overriding principle, where LCs identify the use of forged documents, cannot satisfactorily complete KYC/CDD, or cannot adequately mitigate money laundering and terrorist financing risks in a CBCR, they are expected to terminate the business relationship with the client or overseas intermediary concerned as soon as practicable.

3. Additional measures targeting Chinese Mainland individual investors

A notable feature of the Circular is the SFC's decision to impose additional measures specifically targeting Chinese Mainland individual investors (defined as individuals using a PRC resident identity card and/or PRC passport as identification). The SFC noted that most questionable or forged documents identified in the review involved accounts belonging to Chinese Mainland investors, and having considered the associated business, regulatory and reputational risks, introduced three measures:

a. Measure 1 – Closure of accounts opened using forged documents: Upon the SFC's request, LCs must:

i. engage an independent external consultant to conduct a review of accounts opened since January 2023 (or other SFC-specified period) to identify those opened using questionable or forged documents, identify the parties responsible for providing the documents and the persons responsible for control failings, and complete the review within three months of the SFC's request;

ii. give advance written notice to affected clients of the suspension of new client-initiated transactions (except those required to close existing positions or settle obligations) and the intended closure of their accounts;

iii. close the identified accounts within six months of completion of the review;

iv. act in accordance with client agreements and ensure that all client assets are properly safeguarded until the accounts are formally closed;

v. allocate sufficient resources to handle client enquiries and complaints;

vi. review the transactions in the identified accounts for red flags of suspicious activities and make appropriate reports to law enforcement agencies where necessary; and

vii. prohibit the affected clients from opening any investment accounts with the LC or its affiliated firms in the future.

b. Measure 2 – Closure of zero-balance dormant accounts: A "zero-balance dormant investment account" is defined as an account held by a Chinese Mainland investor with no asset balance as of 22 May 2026 (or other SFC-specified date) and no client-initiated activity in the preceding 12 months. Upon the SFC's request, LCs must:

i. conduct a review to identify all such accounts within three months of the SFC's request;

ii. give advance notice to affected clients and suspend the accounts from new transactions unless and until the LC satisfactorily completes reactivation procedures, namely: (A) contacting the client to confirm KYC/CDD information is up to date; and (B) performing the declaration and bank account requirements under Measure 3 below;

iii. close the accounts within six months of the SFC's request if reactivation cannot be satisfactorily completed;

iv. act in accordance with client agreements and ensure client interests remain protected until formal closure; and

v. allocate sufficient resources for client enquiries and complaints.

If any accounts identified in the review involved forged documents, LCs must instead follow the closure steps under Measure 1 above.

c. **Measure 3 – New account opening requirements:** Effective immediately, all LCs opening new investment accounts for Chinese Mainland individual investors must:

   i. obtain a written declaration from the investor confirming that: (A) all funds supporting the investment activities are from lawful sources outside of the Chinese Mainland; (B) the investor does not have an account previously closed or suspended due to forged documents; (C) the investor will notify the LC within seven business days of any changes to the declaration; and (D) the investor understands that upon requests from law enforcement agencies or regulatory authorities, the LC may disclose the investor's personal and other relevant information;

   ii. require the investor to use bank accounts in their own name with banks licensed in Hong Kong or supervised by banking regulators in eligible jurisdictions for all deposits and withdrawals;

   iii. close the investment account if funding sources are subsequently found to be unlawful or in violation of Chinese Mainland capital control regulations;

   iv. maintain proper records for each client's account opening process in a manner readily accessible for compliance checks and audit purposes; and

   v. provide information to the SFC upon request, including the number and details of new investment accounts opened and the clients' written declarations.

Note that these measures do not apply to corporate or institutional clients, nor to accounts opened under mutual market access schemes such as the Cross-boundary Wealth Management Connect.

4. Concurrent CSRC notice and overseas compliance

The Circular was issued concurrently with a notice by the China Securities Regulatory Commission (CSRC) and other Chinese Mainland authorities specifying remediation plans for certain illegal cross-boundary securities, futures, and investment fund-related activities conducted on the Chinese Mainland. The SFC reminded all LCs that breaches of applicable overseas regulatory requirements may constitute non-compliance with paragraph 12.1 of the Code of Conduct for Persons Licensed by or Registered with the SFC (the Code of Conduct), which may result in supervisory or enforcement actions, and that material breaches must be reported to the SFC immediately.

5. Senior management responsibilities

Senior management are ultimately responsible for ensuring robust internal controls for account opening and client relationships and for maintaining full compliance with applicable regulatory requirements. Failure to fulfil these responsibilities may call into question the fitness and properness of the LC and its senior management.

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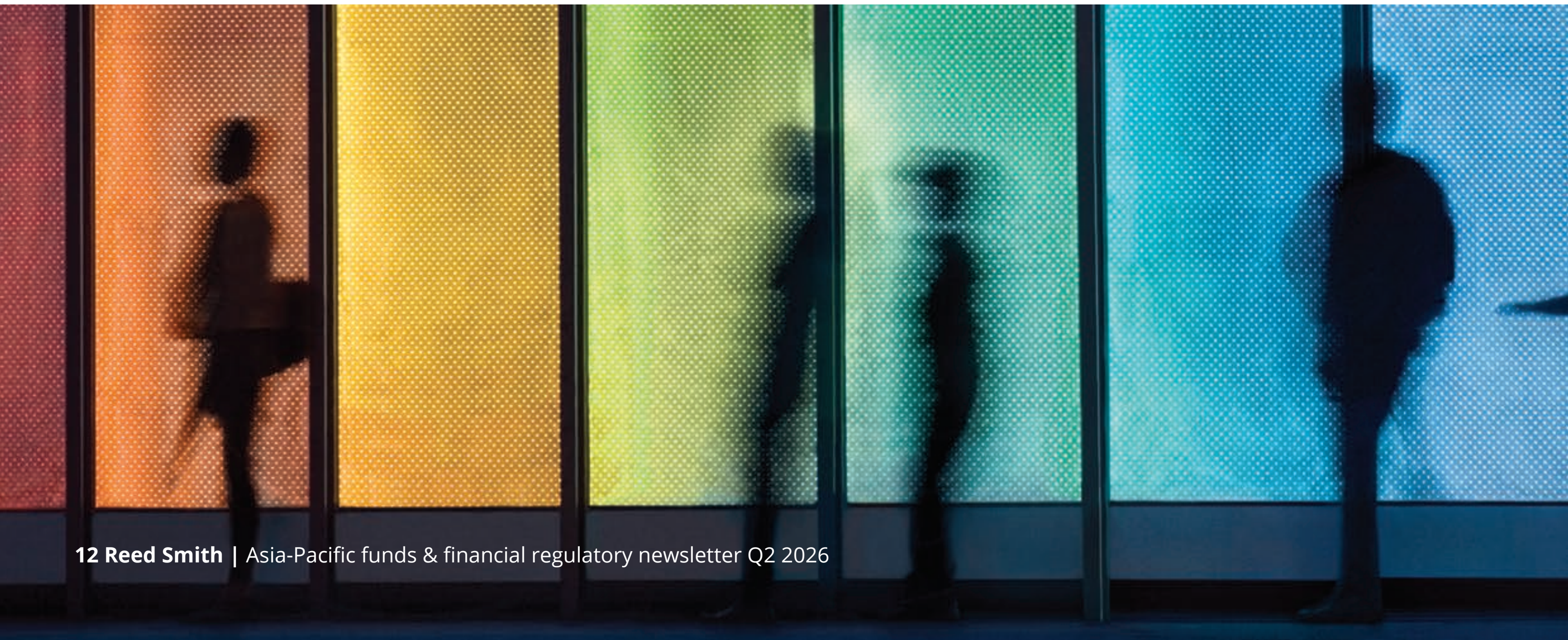

6. **Implications for Type 9 Managers**

Although the deficiencies were identified during the review of account opening practices of securities brokers, the Circular is addressed to all LCs, i.e., not only securities brokers. As such, Type 9 Managers fall squarely within this scope.

To the extent that the investors are regarded as "clients" of the Type 9 Managers, below are the key practical implications:

a. **Direct applicability where managers onboard investors themselves:** Type 9 Managers that directly onboard individual Chinese Mainland investors (for example, high-net-worth individuals subscribing to private funds, or separately managed account clients) must comply with Measure 3 with immediate effect, including obtaining investor declarations and ensuring settlement through qualifying bank accounts. Type 9 Managers should also review their existing onboarding controls against the expected standards set out in the Circular.

b. **Managers using Type 1 distributors or placing agents:** Where a Type 9 Manager outsources distribution and investor onboarding to a Type 1 LC (acting as distributor or placing agent), the account opening controls and the Chinese Mainland investor-specific measures are less likely to apply directly to the Type 9 manager, as it is the Type 1 distributor or placing agent that is likely establishing the direct client relationship. That said, Type 9 managers should review their distribution agreements and oversight arrangements accordingly to ensure compliance with the Circular.

c. **CBCR obligations:** Type 9 Managers that receive subscriptions through overseas intermediaries should review their CBCR due diligence and ongoing monitoring frameworks, particularly regarding the alignment of underlying client profiles with the overseas intermediary's jurisdiction and typical client base.

d. **Overseas regulatory compliance:** The concurrent CSRC notice and the SFC's express reference to paragraph 12.1 of the Code of Conduct signal that Type 9 Managers providing services to investors outside Hong Kong must ensure compliance with applicable legal and regulatory requirements in those jurisdictions. This is particularly relevant for managers marketing to or accepting subscriptions from Chinese Mainland investors.

e. **Limited impact on institutional and corporate clients:** The Chinese Mainland investor-specific measures do not apply to corporate or institutional clients. Accordingly, Type 9 Managers whose investor base consists predominantly of institutional or corporate professional investors (as is typical for hedge funds and PE funds) are less directly affected, though they remain subject to the general standards in the Circular.

Way forward

Type 9 Managers should review their client onboarding procedures, CBCR frameworks, and compliance with overseas regulatory requirements in light of the Circular. The SFC's tone signals a heightened enforcement posture on cross-boundary activities, and Type 9 Managers should expect increased scrutiny in this area.

Hong Kong
Banking on the future: Changes to Hong Kong's banking laws

Summary

Time for change

The Banking Ordinance (BO), first enacted in 1986, then amended in 1995, has served as the cornerstone of Hong Kong's banking regulatory architecture. Eddie Yue, chief executive of the Hong Kong Monetary Authority (HKMA), explained developments such as fintech, digital assets, financial crime typologies, and alignment with other international financial centres prompted a reassessment of the BO so that Hong Kong's "regulatory framework remains robust and conducive to the development of banks". The key amendments under the Banking Legislation (Miscellaneous Amendments) Bill 2026 (the Bill), which have received broad industry support, are set out below.

Bank holding companies will be regulated

A direct statutory supervisory regime will be established, under which theHKMA may designate "designated bank holding companies" (DBHCs) and impose capital, liquidity, and exposure-limitation requirements, with criminal liability for non-compliance.

Expansion of the use of experts

The HKMA may appoint, or require an authorised institution (AI) to appoint, skilled persons to assist the HKMA; this allows the HKMA to tap the expertise of fintech specialists, climate-risk experts, etc. However, the lack of statutory immunity for such appointees may be a material deterrence.

Expansion of disciplinary powers

The HKMA will be given new disciplinary powers, including reprimands and pecuniary penalties against "regulated persons" and "accountable persons".

Simplification to a two-tier banking system

The proposal is to eliminate the deposit-taking company tier by merging it into the restricted licence bank tier, with a five-year transition period, ending in January 2032.

The substantive areas of amendment

3.1 Bank Holding Companies and Designated Bank Holding Companies

a. New section 70E: Requirement for Intermediate Holding Company

Proposed section 70E empowers the HKMA to require a controller of a Hong Kong-incorporated AI to hold its interest through a newly established Hong Kong-incorporated immediate holding company. This provision is designed to ensure that the immediate parent of a locally incorporated AI is subject to the regulatory reach of the HKMA.

b. New Part XIIIA (sections 74A–74H): Designated Bank Holding Companies

The Bill introduces a new Part XIIIA (sections 74A–74H) empowering the HKMA to designate a Hong Kong-incorporated (or re-domiciled) holding company of a Hong Kong-incorporated AI as a DBHC. Key features of the regime include:

- **Scope of designation:** Only locally incorporated holding companies not already under direct or consolidated supervision by the HKMA or another financial regulator may be designated. The regime targets unregulated holding companies with significant influence over an AI, with the policy objective that they act as a source of strength rather than risk to the AI.
- **Prudential requirements:** The HKMA may impose requirements on DBHCs, including capital adequacy and liquidity requirements, and limitations on large exposures. These requirements apply to the DBHC itself, not to other group companies, unless a consolidated requirement applies.
- **Criminal liability:** Non-compliance with requirements imposed on a DBHC carries criminal liability.
- **Application of existing provisions:** Certain existing BO provisions applicable to AIs (e.g., audit of accounts) will apply to DBHCs with appropriate modifications.
- **Industry feedback:** Industry broadly supported the proposal in consultation but sought clarity on scope and interaction with overseas consolidated supervision arrangements.

3.2 Appointment of Skilled Persons and Auditors

New sections 61A–61H empower the HKMA to appoint, or to require an AI to appoint, skilled persons (including auditors and other professionals) to assist the HKMA's supervisory functions. This is a significant enhancement to the HKMA's supervisory toolkit. Key features include:

- **Scope of expertise:** Skilled persons may include auditors, cybersecurity specialists, climate risk experts, and other professionals as required by the HKMA. The HKMA does not intend to maintain a pre-determined list; appointments will be considered case-by-case.
- **Functions:** Skilled persons may be engaged for investigations, reviews, and reporting on any matters relating to an AI that the HKMA reasonably requires.
- **Immunity:** Statutory immunity under section 127 of the BO will not extend to skilled persons. They will be subject to terms and conditions set by the HKMA.
- **Guidance:** The HKMA intends to revise and expand Supervisory Policy Manual module IC-3 to cover engagement of auditors and skilled persons, with further industry consultation.

3.3 Modernisation of Enforcement Powers

New Part XXB (sections 118G–118ZB) introduces a modernised disciplinary regime empowering the HKMA to:

- direct or appoint investigators to examine the affairs of an AI;
- reprimand and/or impose a pecuniary penalty on a "regulated person" (e.g., an AI) or an "accountable person" (e.g., officers of an AI); and
- prohibit certain persons from acting as officers of an AI.

The stated purpose is to address and deter misconduct or improper management of AIs in a more tailored and proportionate manner. Crucially, the new powers introduce intermediate disciplinary tools short of licence revocation (which was the previous "nuclear option"); now there is more scope for graduated enforcement action. This aligns with the enforcement frameworks of comparable financial centres, including the UK's Prudential Regulation Authority and the Monetary Authority of Singapore.

3.4 Simplification to a Two-Tier Banking System

One of the most structurally significant reforms in the Bill is the elimination of the deposit-taking company (DTC) tier, merging it into the restricted licence bank (RLB) tier. The existing three-tier structure – licensed banks (LBs), RLBs, and DTCs – has been in place for approximately four decades, originally designed to balance market-entry flexibility with small-depositor protection. However, the DTC tier has become functionally obsolete. As of the consultation, DTCs accounted for only 0.08% of total banking-sector assets and 0.03% of total customer deposits, with no new DTC authorisation application having been submitted since 2009. Key features include:

- **Five-year transition period:** Existing DTCs are provided a five-year transition period to convert to RLB status.
- **Deadline:** DTCs not transitioned to RLB by 1 January 2032 will have their DTC deposit-taking authorisation revoked.
- **No fresh application required:** Conversion does not require a fresh RLB licence application, provided the DTC meets the RLB minimum capital requirement before the transition deadline.

The Banking Ordinance (BO), first enacted in 1986, then amended in 1995, has served as the cornerstone of Hong Kong's banking regulatory architecture.

3.5 Technical Amendments

There are a range of technical amendments designed to modernise and streamline the BO's operational framework:

Definition of "deposit"

The definition of "deposit" will be amended to allow the HKMA to declare a sum of money or financial product to be, or not to be, a deposit. This provides flexibility to address novel financial products and structures that may or may not fall within the traditional deposit-taking perimeter.

Definition of "indirect controller"

The definition of "indirect controller" will be broadened to include: (i) persons whose directions, instructions, or wishes the directors of a company are accustomed or obliged to act on; and (ii) persons (other than directors or management) able to exercise significant influence over management. Possible explicit exclusions for persons "employed in the management of the company" are contemplated.

"Working day" and liquidity calculations

While the "working day" definition in the BO itself is retained, the Banking (Liquidity) Rules are amended so that average liquidity maintenance ratio and average core funding ratio calculations are based on each calendar day (not just "working days"). This reflects the reality that, nowadays, trading and payments can occur on Saturdays and public holidays.

Other provisions in Parts 7 and 8 aim to reduce the compliance burden of AIs by removing certain application and approval requirements, thereby providing flexibility in audit and publication requirements and use of electronic communications.

The Bill represents a comprehensive and carefully sequenced modernisation of Hong Kong's banking regulatory framework.

Practical implications

6.1 For Authorised Institutions

- **Skilled persons:** AIs should anticipate that the HKMA will use the new skilled persons power to commission independent assessments on emerging risk areas (cybersecurity, climate risk, operational resilience, etc.). AIs should review their internal processes for managing such engagements, including cost management and contractual obligations.
- **Enforcement:** The new intermediate disciplinary powers (reprimand, pecuniary penalty, prohibition orders) significantly expand the HKMA's enforcement toolkit. AIs and their officers should review governance and compliance frameworks to mitigate exposure.
- **Technical compliance and exemptions:** AIs should note the revised "indirect controller" definition and assess whether any existing arrangements or governance structures may bring new persons within scope. The calendar-day liquidity calculation methodology may require systems adjustments.

6.2 For Bank Holding Companies

- **Designation risk:** Hong Kong-incorporated holding companies of locally incorporated AIs that are not already under direct or consolidated supervision by the HKMA or another financial regulator should urgently assess their designation risk under the new DBHC regime.
- **Prudential requirements:** Potential DBHCs should prepare for capital, liquidity, and large-exposure requirements comparable to those applicable to AIs, and review their corporate governance structures and internal controls accordingly.
- **Section 70E:** Controllers of locally incorporated AIs should assess whether they may be required to interpose a newly established Hong Kong-incorporated immediate holding company, and plan for the associated corporate restructuring.

6.3 For Deposit-Taking Companies

- **Transition planning:** Existing DTCs must begin immediate planning for transition to RLB status and should assess whether they can meet the capital requirements for RLB authorisation.
- **Strategic options:** DTCs unable or unwilling to meet RLB capital requirements should consider strategic alternatives (merger, acquisition, voluntary revocation) well in advance of the 1 January 2032 deadline.

6.4 For All Market Participants

A related amendment to the Financial Institutions (Resolution) Ordinance introduces “public interest” as an express resolution condition and this may lower the threshold for initiating resolution proceedings. All within-scope financial institutions should review their recovery and resolution planning in light of this potentially broader trigger.

Conclusion

The Bill represents a comprehensive and carefully sequenced modernisation of Hong Kong’s banking regulatory framework. Its passage will equip the HKMA with supervisory and enforcement tools commensurate with those of peer regulators, address long-standing structural anomalies in the three-tier system, and close supervisory gaps relating to bank holding companies. Given the broad legislative and industry support, enactment during the current legislative session appears likely.

Mainland China

Guiding opinions on the regulation and development of private investment funds

The General Office of the State Council released the Guiding Opinions of the General Office of the State Council on Strengthening Regulation, Preventing Risks, and Promoting the High-Quality Development of Private Investment Funds. The guidelines establish a comprehensive system to systematically upgrade private fund supervision, curb financial risks, eliminate illegal activities, and support high-quality market development. Key measures include:

1. **Source control:** optimising the registration and filing rules for private funds, establishing a comprehensive assessment and consultation mechanism, and strictly controlling the establishment of new government investment funds.
2. **Enhanced supervision:** tightening rules on information disclosure, fundraising, and mandatory custodianship while enhancing tracking on cross-border money flows.
3. **State/government funds:** explicitly defining responsibilities for state-owned and government-guided funds to ensure focus on strategic tech and core businesses.
4. **Risk resolution:** requiring deregistration of fraudulent, non-compliant, or dormant private fund managers within a prescribed time limit, and improving requirements relating to the clean-up of institutions without registration or filing, cross-regional risk disposal, and the classified regulation of government investment funds and state-owned enterprise investment funds.
5. **Market growth:** promoting long-term “patient capital” to fund early-stage tech, small businesses, and strategic emerging industries.

Measures for the supervision and administration of derivatives trading (for trial implementation)

On 15 May 2026, the China Securities Regulatory Commission (CSRC) formally issued the Administrative Measures for the Supervision and Administration of Derivatives Trading (Trial) (CSRC Order No. 234), effective 16 November 2026 – the first departmental rule governing derivatives under CSRC supervision. The measures apply to swaps, forwards, non-standardised options, and their combinations traded on CSRC-regulated derivatives venues or by CSRC-regulated operating institutions, excluding the interbank market and bank/insurance OTC derivatives markets, though banks and insurers participating as traders in CSRC-regulated markets remain subject to the rules. The measures establish the functional positioning of the derivatives market as one of managing risk, allocating resources, and serving the real economy, encouraging hedging and risk management activities while restricting excessive speculation. Key provisions include: a margin and performance bond system; mandatory professional investor standards and real-name account requirements for traders; prohibitions on listed companies and their major shareholders, actual controllers, directors, supervisors, and senior executives from entering into derivatives contracts referencing the company’s stock or other equity-type securities; licensing conditions requiring securities firms and futures companies to maintain net capital of no less than RMB 500 million for the preceding six consecutive months; and the establishment of a derivatives trade repository and cross-market data-sharing mechanisms. A transitional period is provided, during which any non-compliant existing business must be wound down upon maturity, with no new business permitted.

Plan to rectify illegal cross-border securities, futures, and fund business activities

Eight authorities, including CSRC, released the Notice on Issuing the Implementation Plan for the Comprehensive Rectification of Illegal Cross-Border Securities, Futures, and Fund Business Activities, setting a two-year intensive rectification period to completely ban illegal cross-border activities by overseas institutions. The plan prohibits foreign institutions from illegally conducting marketing and solicitation activities related to securities, futures, and fund business within China and from illegally providing account opening, transaction order processing, fund transfer, and other transaction services relating to securities, futures, and fund business within China. Furthermore, it prohibits relevant domestic entities from assisting foreign institutions in illegally conducting marketing activities or illegally providing transaction services.

The plan outlines 10 major tasks, including comprehensive monitoring and investigation, supervisory talks with overseas institutions, investigation and penalties for key cases, resolute disposal of illegal entities, enhanced cross-border investment management, strengthened cross-border regulatory cooperation, protection of investor rights, policy publicity and guidance, and improvement of regulatory systems. CSRC leads the overall effort, with other authorities performing their respective duties and local governments assuming territorial responsibilities. The plan emphasises that investor property safety is not affected by the rectification, and guides domestic investors to invest overseas through compliant channels such as Stock Connect, QDII schemes, and Cross-boundary Wealth Management Connect.

Administrative Measures for the Online Marketing of Financial Products

On 21 April 2026, eight Chinese authorities, including the People's Bank of China, jointly issued the Administrative Measures for the Online Marketing of Financial Products, effective 30 September 2026. The measures comprehensively regulate online marketing activities for financial products conducted by financial institutions and third-party internet platforms, aiming to protect the legitimate rights and interests of financial consumers and investors. Financial institutions must operate within their licensed business scope, are prohibited from marketing private placement products and OTC derivatives to unspecified targets, and are barred from facilitating illegal financial activities such as illegal fundraising and virtual currency trading.

Key provisions require financial institutions to establish a headquarters-level compliance review mechanism for marketing content, ensuring accuracy and consistency with product contracts, while banning guaranteed-return promises and the use of terms like "low risk" or "instant approval". Non-bank payment institutions are forbidden from listing loans or asset management products as payment options or marketing credit products. Third-party platforms are prohibited from intervening in core sales processes such as contract execution, fund transfers, and suitability assessments; they must redirect users to the financial institution's proprietary platform for transactions and avoid brand confusion. The measures also set specific rules governing algorithmic recommendations, pop-up advertisements, bundled sales, and nuisance marketing.

CSRC soliciting comments on the Measures for the Supervision and Administration of Futures Companies

On 17 April 2026, CSRC published the Notice on Soliciting Comments on the Measures for the Supervision and Administration of Futures Companies (Draft for Comments), with the deadline for feedback set as 17 May 2026.

The draft measures comprehensively revise the regulatory framework for futures companies by reclassifying business activities into "basic services" (domestic futures brokerage and futures trading consultancy) and "trading services" (futures market-making, derivatives trading, and futures asset management), with tiered minimum registered capital requirements of RMB 100 million, RMB 200 million, RMB 500 million, and RMB 1 billion respectively. The draft measures strengthen corporate governance and risk segregation, mandating the appointment of a chief risk officer, prohibiting shareholder interference in operations, cross-shareholding, and circular shareholding, and limiting any single entity to controlling no more than one futures company. In the chapter on derivatives trading, it is specified that futures companies must maintain separate dedicated accounts for market-making, asset management, and derivatives activities.
The draft measures further specify that asset management plans are prohibited from investing in unlisted equities and non-standardised debt instruments. The draft measures also raise subsidiary establishment thresholds (net capital of no less than RMB 500 million for domestic subsidiaries and RMB 1 billion for overseas subsidiaries) and specify requirements for IT governance, client follow-up, complaint handling, and data backup.

On 17 April 2026, CSRC published the Notice on Soliciting Comments on the Measures for the Supervision and Administration of Futures Companies.

AMAC releases rules and guidelines on publicly offered securities investment funds

On 12 June 2026, the Asset Management Association of China (AMAC) released the following four regulatory documents governing publicly offered funds:

- **Guidelines for the Application of Sustainable Investment Strategies by Publicly Offered Securities Investment Funds (for Trial Implementation):** The guidelines apply to publicly offered funds that conduct securities investment through the use of sustainable investment strategies. Funds primarily applying sustainable investment strategies must, at a minimum, adopt an integration investing strategy, combined with either negative or positive screening, covering at least 80% of non-cash assets, and establish a performance benchmark reflecting the strategy. Fund managers must build an evaluation indicator system and conduct assessments at least annually.
- **Detailed Rules for the Appropriateness Management of Investors in Publicly Offered Securities Investment Funds:** The rules apply to the sale of publicly offered funds by fund managers and fund distribution institutions. Fund risk classification systems must be established and reviewed at least annually. Risk assessments for ordinary investors are capped at twice per day and eight times per 12-month period. A heightened duty of care applies when selling high-risk funds to investors aged 65 and above. Non-face-to-face sales must be fully documented.
- **Guidelines on the Management of Thematic Investment Styles for Publicly Offered Securities Investment Funds:** The guidelines apply to publicly offered funds allocating over 80% of non-cash assets in accordance with a specified investment focus (excluding publicly offered REITs and index funds). Fund names must align with the investment focus, and proactive style pool updates are capped at 12 per year. The guidelines take effect on 1 December 2026, with a 12-month rectification window for non-compliant existing products.
- **Guidelines on Fund Managers Concurrently Serving as Investment Managers of Privately Offered Asset Management Plans:** A fund manager must not have been subject to any criminal or administrative penalty within the preceding one year, and the concurrently serving personnel must have over five years of investment management experience and no relevant penalties in the preceding five years. A single individual may manage no more than 10 public and private products combined. The rules strengthen the segregation between public offering and private asset management businesses in terms of premises, personnel, accounts, funds, and information, and prohibit such personnel and their immediate family members from investing in the privately offered plans they manage.

Qualified foreign investors allowed to participate in treasury futures trading

On 24 April 2026, CSRC issued an announcement on allowing qualified foreign investors to participate in treasury futures trading. According to the announcement, upon consultation with the People's Bank of China and the State Administration of Foreign Exchange, qualified foreign investors may, as of 24 April 2026, participate in treasury futures trading, with trading purposes limited to hedging. This move aims to continuously expand the investable scope for qualified foreign investors, enrich interest rate risk management tools for foreign institutional investors, enhance the attractiveness of RMB-denominated bond assets, stabilise the investment behaviour of foreign institutions, and promote the high-quality development of both the spot and futures markets for bonds.

On 24 April 2026, CSRC issued an announcement on allowing qualified foreign investors to participate in treasury futures trading.

Enforcement actions

Singapore

Civil penalty for insider trading

MAS imposed a civil penalty of S$120,000 on an individual employed by a subsidiary of a listed firm for insider trading in the firm's shares ahead of its privatisation. Prior to the company's public announcement of a voluntary conditional general offer to take it private, the individual was among a small number of shareholders informed in advance of the privatisation plan and the offeror's intention to expand the company's operations, and was asked to sign an irrevocable undertaking in favour of the offer. While in possession of this undisclosed material information, he purchased shares in the company at a cumulative cost of approximately S$67,200.

The individual admitted to contravening section 218(2)(a) of the Securities and Futures Act and paid the civil penalty without court action. He also gave a voluntary undertaking not to act as a company director or be involved in company management for two years.

Civil penalty for AML/CFT breaches

MAS imposed a composition penalty of S$300,000 on a licensed trust company for breaches of MAS's AML/CFT requirements. Breaches identified during MAS's inspection included failures to inquire into unusual transactions that had no apparent economic or lawful purpose, and to promptly submit Suspicious Transaction Reports when there was sufficient basis to do so. These breaches stemmed from inadequate AML/CFT controls, including a lack of scrutiny of unusual transactions and poor staff awareness of money laundering and terrorism financing risks and red flag scenarios.

The firm has since paid the composition penalty, taken remedial actions to address the deficiencies identified by MAS, and appointed an independent reviewer to validate the effectiveness of those actions.

Individuals convicted for trading offences under the Securities and Futures Act

Two individuals were separately convicted and sentenced for trading offences under the Securities and Futures Act.

In the first case, a former trading representative of a brokerage firm was convicted of abetting false trading and unauthorised trading. Over a period of 11 months, he intentionally aided another individual to create a false appearance of active trading in a listed company's shares by enabling that person to place orders through six trading accounts he was not authorised to operate. In doing so, the representative also deceived the brokerage firm into believing that the orders and trades were made by the respective account holders. The individual was found guilty at trial and sentenced to 10 weeks' imprisonment.

In the second case, a former general manager of the finance department of a corporation related to the manager of a listed REIT was convicted of insider trading. The individual purchased units in the REIT while in possession of material non-public information relating to the REIT's full-year financial results, which he had received in the course of his work. After the results were announced, he sold the units for a profit of around S$223,000. He had also executed trades in the REIT's units on behalf of former colleagues without properly disclosing the beneficial ownership of those trades to his brokerage firm. He pleaded guilty and was sentenced to a fine of S$200,000. He voluntarily donated US$100,000 to charity and paid around S$89,000 to the state as disgorgement of his share of profits from the offences.

Major payment institution licence revoked for regulatory breaches

MAS revoked the Major Payment Institution Licence of a digital payment token services provider. An onsite inspection conducted by MAS uncovered serious breaches of regulatory requirements, including significant weaknesses in the firm's risk management practices and conflict of interest policies, as well as a failure to meet MAS's outsourcing guidelines in its arrangements with related entities. MAS also found that the firm had provided information to MAS that was false or misleading in material particulars on multiple occasions, from the time of its licence application up to and including during MAS's inspection.

The firm's activities while licensed were limited, and it has informed MAS that there are no outstanding customers' monies or assets held by it. MAS noted that it was reviewing the responsibilities of key officers of the firm.

Senior management of capital markets services licensee reprimanded for regulatory breaches

MAS reprimanded the chief executive officer and executive director of a capital markets services licensee and imposed a S$40,000 composition fine on the firm for multiple regulatory breaches. The firm failed to implement an adequate risk management framework to identify, address, and monitor risks associated with its managed assets. It also breached its base capital requirement and did not report this non-compliance to MAS. Additionally, the firm violated its licence conditions by launching a new product without first obtaining MAS's written approval, and by failing to ensure that retail investors received personalised financial advice from independent financial advisers prior to being onboarded for that product.

The firm has since ceased its retail fund management business and is no longer permitted to manage monies for retail investors.

One-year prohibition order for unauthorised trading

MAS issued a one-year prohibition order against a securities representative following a civil penalty settlement for unauthorised trading under which he paid S$65,000 to MAS.

Over a five-month period, the individual executed trades in a listed company across three client accounts he managed, acting on instructions from a third party rather than from the account holders themselves. In doing so, he deceived his employer into believing that the trades had been directed by the account holders, who were also the beneficial owners of the shares.

MAS issued a one-year prohibition order against a securities representative following a civil penalty settlement for unauthorised trading under which he paid S$65,000 to MAS.

Hong Kong

SFC sanctions an individual for market manipulation

The SFC suspended the licence of a former licensed representative of a securities firm for nine months following an investigation into a market manipulation scheme involving a listed company's shares.

Over an approximately one-year period, the individual had allowed third parties to be significantly involved in operating, or acting on behalf of, client accounts without obtaining written authorisation from the clients concerned. He had also disclosed the clients' confidential information to the third parties without authorisation.

Although the individual claimed the clients had asked the third parties to assist with their trading accounts, he was aware of the extent of the third parties' involvement yet failed to obtain, or ensure the clients had obtained, written authorisation confirming the third parties were entitled to act on their behalf. This conduct breached the firm's internal policies and failed to protect clients' interests, calling into question his fitness and properness to remain licensed. In determining the sanction, the SFC took into account the individual's remorse, his willingness to accept the disciplinary action, and his otherwise clean disciplinary record.

SFC sanctions a licensed investment manager for regulatory failures

The SFC reprimanded and fined a licensed corporation HK$2.5 million for regulatory failures relating to its financial returns, liquid capital maintenance, and handling of client and non-client money. The action followed an SFC investigation triggered by the firm's own self-reports.

The investigation found that the firm had made various accounting errors in financial returns submitted under the Securities and Futures (Financial Resources) Rules, resulting in both overstatements and understatements of its liquid capital over an 18-month period. Once corrected, these errors revealed that the firm's liquid capital had in fact been in deficit for four months during that period, in breach of the applicable rules. This was largely attributable to the firm's failure to ensure that the external service providers engaged to prepare its financial returns were suitably competent, compounded by its own staff's insufficient familiarity with the relevant regulatory requirements.

The SFC also found that the firm had transferred a substantial sum of client money, running into the hundreds of millions, from segregated accounts to overseas brokers' accounts to facilitate client trading, without first obtaining the required written direction or standing authority. Separately, over a period of more than two and a half years, the firm failed to promptly transfer non-client money out of segregated accounts within the required timeframe, in further breach of the client money rules.

In determining sanctions, the SFC considered the duration and extent of the failures, the remedial measures subsequently taken by the firm, the absence of client loss, the firm's otherwise clean disciplinary record, and its cooperation in facilitating an early resolution.

SFC issues lifetime ban for misuse and misappropriation of client assets

The SFC has banned a former responsible officer of a licensed corporation from re-entering the industry for life.

The SFC found that over a period of seven months, the firm misused a client's funds totalling over US$68 million for its own benefit without the client's knowledge or consent. The firm also knowingly facilitated a separate scheme that resulted in the misappropriation of another US$154 million of the same client's funds. During the SFC's investigation, the firm offered two contradictory narratives supported by fabricated documents to explain the use and whereabouts of the misappropriated funds. The SFC determined that the firm's misconduct was directly attributable to the individual, who had authorised the transfers of the client's funds and executed documents that facilitated both the misuse and misappropriation. The individual also personally breached the Securities and Futures Ordinance by knowingly giving false or misleading answers and explanations during SFC interviews.

In imposing the lifetime ban, the SFC considered that the individual's egregious conduct undermined investor and public confidence in the integrity of financial markets and caused significant losses to the client.

SFC prosecutes chairman of a listed company for insider dealing

The SFC secured a criminal conviction against the chairman and controlling shareholder of a listed company for insider dealing.

While negotiations were underway for the sale of his controlling stake in the firm, the individual became aware of price-sensitive and non-public information relating to the deal. He then transferred funds to his relative and advised her on the timing and price at which to purchase the company's shares. Over a period of three months, the relative purchased over nine million shares at prices well below the company's market price following the public announcement of the deal.

The court found that the individual had advised another person to deal in the company's shares while in possession of information he knew to be inside information. Upon conviction, the individual was sentenced to imprisonment and a fine of close to HK$100,000, equivalent to the relative's profits from insider dealing. The individual was also ordered to pay the SFC's investigation costs of HK$374,000.

SFC obtains two-year disqualification order against former financial controller of a listed company

The SFC obtained a disqualification order against the former financial controller and company secretary of a listed company. The individual is disqualified for two years from acting as a director, liquidator, receiver, or manager of the property or business, and from being involved in the management of any listed or unlisted corporation in Hong Kong without court approval. He has also been ordered to pay the SFC's costs in the proceedings.

The SFC found that the firm's annual turnover had been materially overstated and its bank borrowings understated in the company's IPO prospectus and published financial statements over a period of several years. As the company's most senior finance officer, the individual failed to discharge his duties and responsibilities in overseeing the firm's accounting and finance functions and internal controls. Had he properly fulfilled those duties, he would reasonably have been likely to discover the relevant irregularities. He also failed, in his capacity as company secretary, to immediately inform the board or address the company's reporting and compliance obligations in relation to a subsidiary restructuring matter that implied a sudden deterioration of its financial position.

SFC obtains disqualification orders against former directors of a listed company

The SFC obtained disqualification orders of up to 33 months against four former directors of a listed company for negligence in failing to uncover material overstatements in the company's financial records and in discharging their duties as directors.

Two former executive directors and chairpersons were disqualified for 33 months and 24 months respectively, while two former independent non-executive directors were each disqualified for 12 months from being a director, liquidator, receiver, or manager of, or being involved in the management of, any corporation in Hong Kong. They were also ordered to pay the SFC's costs in the proceedings.

Following an investigation, the SFC found material overstatements in the firm's cash and bank balances by 87% and 97% respectively. The company's bank and accounting records had also been fabricated to cover up the overstatements. The former directors admitted that they had relied on external professionals to identify and report potential red flags. Internal control review reports prepared by those professionals had identified several issues, including discrepancies in cash counts, absence of petty cash records, and inconsistencies in management accounts and bank reconciliations. Nevertheless, the directors did not adequately examine these concerns or confirm that the proposed corrective actions had been carried out, effectively relinquishing their obligation to independently identify and assess the overstatements and fabrication.

The SFC obtained disqualification orders of up to 33 months against four former directors of a listed company for negligence in failing to uncover material overstatements in the company's financial records and in discharging their duties as directors.

SFC reaches shareholder compensation agreement with former listed company's auditor

The SFC reached an agreement with the auditor of a listed company under which the auditor agreed to set aside HK$1 billion to compensate eligible independent minority shareholders.

The SFC's investigation found that the company had substantially overstated its annual revenue and profits for two fiscal years by prematurely recognising revenue from property sales before the completion and delivery of properties to buyers. The company's audited annual revenue was overstated by approximately 45% for FY2019 and 69% for FY2020, and what had been reported as profits of RMB 33.5 billion and RMB 31.4 billion for those years should in fact have been losses of RMB 7.12 billion and RMB 19.9 billion respectively.

The SFC concluded that the auditor was concerned in the disclosure of false or misleading information, failed to maintain auditor independence, failed to exercise adequate professional scepticism in audit planning and procedures, and actively acquiesced to the manipulation of audit samples and site inspections by the company's management. Under the agreement, the matter has been resolved without admission of liability, and the SFC will take no further action against the auditor provided the terms of the agreement are fulfilled. The compensation will be allocated to eligible independent minority shareholders through a process overseen by an independent administrator.

SFC sanctions listed firm and its former responsible officer over staff trading

The SFC reprimanded and fined a licensed corporation HK$2 million for failing to diligently supervise its staff and maintain effective internal controls over staff trading activities. The SFC also issued an eight-month prohibition order to an individual who formerly served as a director, responsible officer, and manager-in-charge of the firm.

The SFC's investigation found that over a period of five years, the individual and another staff member engaged in personal trading contrary to regulatory requirements while being responsible for making investment decisions for funds managed by the firm. The individual conducted over 2,500 personal transactions without obtaining prior written approval, traded in the same securities on the same day as the fund he managed on over 200 occasions, participated in 12 IPOs through personal accounts subscribing for the same shares as the fund, and failed to hold personal investments for at least 30 days on 29 occasions.

The SFC found that these activities breached the Fund Manager Code of Conduct and the firm's staff dealing policies, and demonstrated a failure to identify, prevent, or manage actual or potential conflicts of interest. Although the firm had written staff dealing policies in place, they were neither implemented nor enforced prior to 2021. The SFC attributed the firm's failures to the individual's neglect in discharging his duties as responsible officer and a member of senior management.

Mainland China

China to penalise three brokerages as crackdown on illegal cross-border trading intensifies

On 25 May 2026, CSRC announced that it would resolutely crack down on Tiger Brokers (NZ) Limited, Futu Securities International (Hong Kong) Limited, and Longbridge Securities (Hong Kong) Limited for illegal cross-border business operations. These entities marketed securities trading services, processed trading orders, and derived profits within Mainland China without regulatory approval or licences for securities brokerage and margin trading, thereby engaging in the illegal operation of a securities business. They were also found to have illegally engaged in public fund distribution and futures brokerage activities. CSRC stated that the activities of these brokerages violated China's laws and regulations concerning securities, funds, and futures, and disrupted market order. CSRC intends to confiscate all illegal gains and impose penalties in accordance with the law.

Accounting firm penalised by CSRC

CSRC investigated an accounting firm based in Jiangsu Province and found that the firm, during its audit of a client's 2021 annual financial statements, failed to perform its duties diligently in accordance with the requirements of the Chinese Certified Public Accountants Practice Standards, and the audit report issued by the firm contained false information. Furthermore, the audit process lacked proper risk assessment and substantive procedures, violating relevant provisions of the Securities Law of the PRC and constituting illegal acts under that law. Based on the facts, nature, circumstances, and degree of social harm of the illegal acts, CSRC ordered the accounting firm to rectify its actions, confiscated its business income of RMB 1.02 million, and imposed a fine of RMB 1.02 million. The two signing certified public accountants, as persons directly in charge, were given warnings and each fined RMB 200,000.

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