Reed Smith Asia-Pacific funds & financial regulatory newsletter

Third quarter 2025 edition

ReedSmith

Contents

Welcome

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Welcome to the sixth edition of Reed Smith's quarterly Asia Pacific funds and financial regulatory newsletter. In this edition, we highlight key developments in the financial regulatory landscape, including regulatory changes and enforcement actions relevant to financial institutions, investment managers, and funds across the region.

We delve deeper into the recent enhancements to the anti-money laundering and counter-financing of terrorism (AML/CFT) framework for fund managers in Singapore.

We also examine the introduction of the stablecoin licensing regime in Hong Kong and the regulatory expectations licensees will be required to meet.

Finally, we consider the implications of the recent suite of enforcement actions taken by the Securities and Futures Commission of Hong Kong (SFC) amid the growth in the asset management sector in Hong Kong.

In focus

MAS's recent enhancements to the AML/CFT framework for fund managers

Introduction

The Monetary Authority of Singapore (MAS) recently introduced a suite of AML/CFT enhancements that apply across the asset and wealth management ecosystem, including holders of Capital Markets Services licences, Variable Capital Companies (VCCs), trust companies, and other capital markets intermediaries. The revisions both widen the substantive scope of the regime and raise supervisory expectations around the pace and depth of adoption, as well as consistency of compliance.

The updates are designed to align Singapore's regulatory regime with the Financial Action Task Force's standards, and to reinforce Singapore's reputation as a secure and attractive global asset and wealth management hub.

Overview of key changes

Inclusion of proliferation financing in risk assessments – All financial institutions (FIs) are required under the new framework to identify, assess, and mitigate the risk that customer funds or assets could be used for the proliferation of weapons of mass destruction, including through dual-use goods or technology, as part of usual money laundering and financing of terrorism risk assessments.

Broadened due diligence for trust and legal arrangements – The definition of a "trust-relevant party" has been expanded to expressly capture protectors, classes of beneficiaries, objects of a power, and any other person exercising powers under a legal arrangement. Full identification and verification of these persons, and of any natural person exercising ultimate effective control, is now mandatory.

Accelerated Suspicious Transaction Report timelines – The timeframe for lodging Suspicious Transaction Reports (STRs) with the Suspicious Transaction Reporting Office has been reduced from 15 business days to five (5) business days after suspicion arises. Where the suspicion involves a sanctioned person or someone acting on their behalf, the STR should be filed as soon as possible and no later than one (1) business day. The previous requirement to send a duplicate copy to MAS automatically has been removed, and copies should be provided only upon MAS request. Where further suspicion is raised in relation to the customer or any transaction for the customer, the FI should also assess if filing a further or supplementary STR to report the further suspicion is warranted.

Enhanced supervisory expectations – MAS has also made certain amendments to the AML/CFT Guidelines to reflect its supervisory expectations over the years. These cover areas such as screening, source of wealth (SoW), and source of funds (SoF) establishment and guidance on higher-risk structures. In particular, FIs under the supervision of the MAS will have to:

- Extend screening beyond standard databases to include relevant search engines more closely associated with the nationality, residence, or source of wealth of the person being screened, where deemed appropriate, using a risk-based approach;
- Facilitate sharing of internal information on customers (minimally including customer due diligence data and SoW information) across all business lines;
- Provide staff with guidance on identifying fraudulent or tampered data and establishing processes to escalate the observed indicators and relevant mitigation measures;
- Reference MAS's Money Laundering National Risk Assessment Report, Terrorism Financing National Risk Assessment Report, Proliferation Financing National Risk Assessment Report, and other risk assessment reports as part of the enterprise-wide money laundering and terrorism financing (ML/TF) risk assessment process;
- Consider higher-risk shell companies as a higher risk category. Characteristics include: unclear economic purpose for requiring an account relationship in Singapore; unclear economic purpose for linking a common individual/address to multiple companies; and the addition of unrelated third parties to operate an account after account opening, for example; and
- File an STR when they are aware that a customer has participated in a tax amnesty programme, adopt a risk-based approach to determine whether to conduct a review of the customer's account, and where a review raises grounds for suspicion, file a further STR with the findings of the account review.

With specific reference to assessing a customer or beneficial owner's SoW or SoF, MAS's latest updates also clarified that:

- SoW includes seed money that generated subsequent wealth and gifts of other assets received by the customer and beneficial owner;
- SoW information should comprise the entire body of wealth that the customer and beneficial owner would be expected to have, as well as the means by which the customer and beneficial owner acquired the wealth;
- A risk-based approach should be adopted for the corroboration of SoW and SoF information;
- Reliable and independent sources of information should be used to establish SoW and SoF where there are higher ML/TF risks;
- Where SoW or SoF that presents higher risks cannot be corroborated, an assessment should be made on whether additional risk mitigation measures are required;
- Where a gift forms a material SoW of the customer or beneficial owner, information should also be obtained to establish the legitimacy and plausibility of such gift. Where it cannot be assessed, the need for additional risk mitigation measures must be considered based on the residual risks presented;
- An overall assessment should be made on the plausibility and legitimacy of the customer and beneficial owner's SoW and SoF. Where it cannot be ascertained, consideration should be given to whether there is a need to terminate the business relationship or file an STR; and
- As part of ongoing monitoring, commensurate risk mitigation measures must be implemented if there are changes to a customer's risk profile, information, and/or transactions that warrant corroboration of the customer's and any beneficial owner's SoW and SoF.

Key observations on regulatory outlook

At first glance, the heightened AML/CFT requirements may indicate MAS adopting a stricter stance towards foreign capital sourced outside Singapore.

However, it should be noted that the MAS has stated in the Consultation Paper on Proposed Amendments to AML/CFT Notices and Guidelines that many of the amendments are intended to be clarificatory in nature and primarily serve to formalise best practices already adopted in the industry, rather than to increase the regulatory hurdles for investors using Singapore-based asset management solutions.

Further, MAS's recent policy initiatives reflect instead a broader strategy to strengthen Singapore's position as a premier asset and wealth management hub. For example, the Equity Market Development Programme aims to bolster the retail equities market by injecting funds up to S$5 billion into Singapore's capital markets through allocations provided to Singapore-based asset managers.

MAS has also committed to streamlining timelines for tax incentive applications and working with private banks in Singapore to reduce bank account opening timelines for single-family offices. In addition, an upcoming unified licensing exemption for single-family offices is expected to be announced in due course.

Taken together, these measures, alongside the enhancement of AML/CFT standards, demonstrate MAS's intention to reaffirm investor confidence and reinforce Singapore's asset management infrastructure from a wider global perspective.

Taking into further consideration the events and accompanying scrutiny and changes that followed in the aftermath of the 2023 money laundering breach that occurred in Singapore, it is our view that the enhancements to Singapore's AML/CFT regulatory framework will further reinforce Singapore's status as a safe and reputable asset and wealth management hub.

Action points for industry stakeholders

In response to the new AML/CFT framework, fund managers and other capital markets intermediaries should review and update their current AML/CFT policies and compliance manuals to ensure alignment with the latest AML/CFT regulatory framework, with particular focus on enhancing due diligence requirements for trust structures, family offices, and high-net-worth clients.

Training should also be scheduled for all staff on new STR timelines, expanded customer due diligence requirements, and identification of fraudulent data.

As MAS continues to enhance its supervisory approach across the fund management sector, managers should also ensure that ongoing monitoring and risk assessment processes are robust and aligned with the latest framework.

Final thoughts

The latest AML/CFT regulatory updates by the MAS underscore its dual commitment to establishing a robust regulatory framework in line with global standards while providing market transparency. These updates further enhance and deepen Singapore's position as an established and well-regulated asset and wealth management hub on the global stage by adopting measures to streamline processes and improve efficiency in the asset and wealth management sector.

As highlighted by the Deputy Chairman of MAS, Mr Chee Hong Tat, at the WMI Global-Asia Family Office Summit on 29 September 2025, the MAS's intention is to "achieve an environment that is pro-business and efficient, has high standards, and is trusted" and will not shift away from "a regulatory environment that you can trust". He further emphasised that Singapore's wealth management industry has grown amid global volatility as wealth management clients "trust in our governance, our stability and our consistent policies". This encapsulates the objective of the recent AML/CFT framework updates, which aim to uphold stringent AML/CFT standards, thereby ensuring that Singapore continues to be recognised as a reputable and competitive asset and wealth management centre in both global and regional markets.

Moving forward, Singapore-based asset managers should consider the steps suggested above and speak with their external advisors to support their continued alignment with the ongoing regulatory changes in this space.

Regulatory updates

Singapore

Consultation paper on enhancements to Product Highlights Sheet requirements and the complex products framework

In July 2025, MAS issued a consultation paper proposing enhancements to Product Highlights Sheet (PHS) requirements and a review of the complex products framework to improve retail investor understanding and streamline regulatory processes. The proposals cover three key areas: design and content upgrades to PHS templates (including design enhancements such as clearer, standardised disclosures, visual indicators for complex products, and added issuer financial ratios and profiles); alignment of PHS requirements across legislation for different asset classes; and introduction of new product-level PHS requirements for investment linked policies. MAS also proposes refinements to the complex products framework, including adopting "noncomplex" and "complex" nomenclature in place of Excluded Investment Products and Specified Investment Products (EIP/SIP); streamlining customer knowledge assessment (CKA) and customer account review (CAR) safeguards into a single Customer Knowledge Assessment; and introducing a product knowledge assessment as an alternative pathway.

MAS invited comments from financial institutions, issuers, insurers, professional firms, and other interested stakeholders on the proposed changes. The consultation paper closed for feedback on 1 September 2025.

MAS Annual Report 2024/2025

MAS published its Annual Report for FY2024/2025, setting out key achievements, policy priorities, and the economic backdrop for Singapore's financial system. The Annual Report highlights robust sectoral performance alongside continued efforts to strengthen resilience, technology adoption, and market integrity. Singapore's banking, insurance, and asset and wealth management sectors recorded solid growth, with assets under management rising 12.2% year on year to S$6.07 trillion, surpassing the S$6 trillion mark for the first time. MAS reported net profit of S$19.7 billion, driven by investment gains of S$31.4 billion, partially offset by a negative currency translation effect of S$3.4 billion and net costs from money market operations and other expenses of S$8.3 billion.

The Annual Report underscores MAS's focus on anchoring responsible innovation in finance, particularly through the adoption of artificial intelligence (AI). MAS is supporting financial institutions via PathFin.ai, a pathfinder programme to accelerate practical AI use cases, and is developing supervisory guidance on the management of AI-related risks. It is also strengthening the resilience and security of digital financial services, including trials to assess the viability of quantum-safe solutions, and working with banks to introduce stronger frictions and safeguards to disrupt scam transactions.

On the macroeconomic outlook, core inflation eased to 0.6% year-on-year in the first five months of the year, with inflation expected to remain subdued in the second half. Global economic activity is projected to slow over the remainder of the year. MAS emphasises that its mandate to secure medium-term price stability will continue to anchor stability for the Singapore economy, with domestic financial markets functioning normally.

MAS Asset Management Survey 2024

MAS published its Singapore Asset Management Survey for the calendar year ended 31 December 2024. The report provides a comprehensive overview of the industry's performance, structure, and outlook, including asset growth, flows, sector composition, fund vehicles, and ecosystem development. Singapore's assets under management rose 12% to S$6.07 trillion, supported by stronger market performance and higher net inflows. The industry remained globally orientated, with 77% of AUM sourced from outside Singapore and 88% invested internationally, while discretionary mandates continued to account for more than half of total AUM.

The report highlights robust expansion in alternatives, which grew 14% in 2024, led by private equity, venture capital, and hedge funds, alongside a 21% increase in private credit allocations. Growth in these segments more than offset declines in REITs and real estate AUM. The number of licensed fund management companies increased to 1,298 as of end-2024, reflecting continued interest from global and regional managers. Retail fund activity remained buoyant, with authorised and recognised collective investment schemes up 31% to S$191 billion in aggregate. ESG integration also deepened, with monies managed with an ESG overlay constituting 48% of total AUM among Singapore-based managers.

Structural developments continued apace across fund vehicles and the broader ecosystem. As of end-2024, 1,200 VCCs, representing 2,695 sub-funds and managed by 628 regulated fund management companies, had been incorporated or re-domiciled in Singapore, underscoring the VCC's versatility across strategies. MAS notes a supportive outlook for Asia-focused growth and diversification opportunities, including private credit and secondaries, while emphasising the need for firms to navigate ongoing operational challenges such as digital transformation, cost optimisation, and revenue pressures.

MAS publishes information paper on cyber risks associated with deepfakes

In September 2025, MAS, together with the Association of Banks in Singapore's Standing Committee on Cyber Security and the MAS Cyber and Technology Resilience Experts Panel, issued an information paper on the cyber risks posed by deepfakes to the financial sector. The paper explains how advances in synthetic media threaten biometric authentication, enable sophisticated social engineering and impersonation scams, and fuel misinformation and disinformation campaigns that may undermine market integrity and public trust. Drawing on recent case studies across the region and globally, it highlights the market, cyber, fraud, regulatory, and reputational risks to financial institutions, and sets out practical measures to strengthen institutional and sectoral resilience.

The paper underscores the heightened risk of deepfakes defeating digital onboarding and facial biometrics through spoofed media and injection attacks, and details possible controls such as robust document authenticity checks, advanced liveness detection, regular vulnerability assessments, and security testing, including crossdataset testing, endpoint protections against virtual camera and maninthemiddle attacks, strong encryption, and cancellable biometrics. It also addresses the surge in impersonation scams leveraging synthetic audio and video in corporate settings, recommending enhanced staff and customer awareness, implementation of measures to verify authenticity, endpointlevel deepfake detection on corporate devices, and strengthened governance for sensitive transactions through multifactor authentication and separation of duties. To counter misinformation and disinformation risks, the paper calls for active monitoring for brand abuse and executive impersonation across digital platforms, inclusion of deepfake scenarios in incident response playbooks, and the use of authenticated communications to rapidly debunk false narratives.

Looking ahead, MAS emphasises ongoing vigilance and capabilitybuilding to keep pace with evolving deepfake techniques, including the adoption of realtime detection technologies, continuous testing and updates to incident response, and deeper collaboration and informationsharing across the financial ecosystem to enhance collective defence.

Hong Kong

Cautionary tales amid the growth of asset management in Hong Kong

Latest results of the Asset and Wealth Management Activities Survey published in the third quarter of 2025 by Hong Kong's local regulator, the Securities and Futures Commission (SFC), reflect Hong Kong's commitment to and growth as an international asset management and financial hub. Among other things, the total assets under management of Hong Kong grew 13% year on year, and the net fund inflows increased 81% to HK$705 billion in the year. Of note, both the geographical distribution and asset classes of investments continue to display diversity: the percentages of assets invested in and outside Asia Pacific have remained consistent at 58% and 42% across the past two years, whereas the proportion of investment in non-equity assets (such as bonds, cash, and money markets) has increased by 4% year on year.

Nonetheless, the vibrance of the asset management industry does not come at the expense of regulatory oversight, as seen in various recent enforcement actions published by the SFC. One case concerned a dishonest scheme for misappropriating client funds involving two related licensed asset managers in Hong Kong. Their licences were revoked and their respective senior management permanently banned from engaging in all regulated activities. The asset manager of the top-level fund misused client funds totalling over US$68 million to subscribe for shares in two segregated portfolios of a Cayman fund. The SFC specifically highlighted that the subscription was made without the client's knowledge, instructions, or consent, and in breach of the express terms of the client agreement.

As part of the orchestrated scheme, the asset manager further purported to acquire certain "liquidity provider units" in one of these segregated portfolios (Sub-fund) and transferred almost all of the client funds to the Sub-fund. The Sub-fund's asset manager then accepted the transferred monies and redirected the proceeds to a member of its senior management and their corporate vehicle. It also made certain misrepresentations to the Sub-fund's auditors and administrators in an attempt to conceal the misappropriation, alleging that the Sub-fund maintained a brokerage account with the top-level fund.

Another case concerned the asset manager's failure to act in the best interests of the fund. A responsible officer and manager-in-charge of multiple core functions of an asset manager was suspended for 12 months. This arose because the asset manager, as the investment manager of another Cayman fund, invested up to 100% of the fund assets in debentures issued by companies controlled by another responsible officer, who was also the asset manager's sole shareholder and director. In doing so, the asset manager failed to properly manage conflicts of interest. The asset manager also invested fund assets into two debentures that appeared to be used to inflate the fund's net asset value.

While sophisticated fraud schemes may not be commonplace, these cases serve as a timely reminder to asset managers of the importance of robust internal governance:

1. While the diversification of the types and geographies of assets may be commercially agreed upon within each fund's investment strategy, asset managers should ensure that the fund documents grant them sufficiently broad investment powers and discretion, and that the subscription documents have concrete disclosures of relevant risk factors to investors. This helps ensure that all investment actions are carried out with the authority and informed consent of investors.
2. Any substantial changes in asset managers' scope of power should be communicated to investors promptly in accordance with any client agreements. Investors' consent to such variations should be sought where required.
3. Given that the senior management of asset managers often "wear multiple hats" across connected entities and funds, asset managers should ensure that any conflicts of interest are clearly disclosed in their internal corporate authorisation documents.
4. Asset managers should ensure that key management actions (such as the choice of custody location for client assets or specific investment decisions) are backed by a well-defined commercial rationale, documented internally as part of the approval process. This rationale should be clearly communicated when working with auditors, custodians, administrators, or other professional parties involved in fund management.

Mainland China

Eight authorities solicit comments on the draft Administrative Measures for Special Anti-Money Laundering Preventive Measures

For the first time, a departmental regulation on AML has been jointly issued by eight governmental bodies: the People's Bank of China (PBC), the Ministry of Foreign Affairs, the Ministry of Public Security, the Ministry of State Security, the Ministry of Justice, the Ministry of Finance, the Ministry of Housing and Urban-Rural Development, and the State Administration for Market Regulation.

The special AML preventive measure against persons included in the lists issued by the Ministry of Foreign Affairs, the PBC, and the national counterterrorism leading body includes, without limitation, ceasing the provision of financial or other services and restricting the transfer of related funds or assets. The draft regulation specifies that those subject to the measures must not be notified in advance that the measures have been taken.

The draft further provides that financial institutions should establish systems and strengthen risk management related to special AML preventive measures, promptly obtain the lists, and conduct checks on customers and their counterparties to ensure compliance.

Upon verification, financial institutions must immediately adopt the special AML preventive measures and report to the relevant authorities. In addition, the draft specifies the circumstances for lifting the measures and the procedures for handling objections.

PBC to implement the draft Administrative Measures for the Supervision and Administration of Anti-Money Laundering and Counter-Terrorism Financing by Financial Institutions

The PBC revised the Circular on Relevant Matters Concerning the Implementation of the Measures for the Supervision and Administration of Anti-Money Laundering and Counter-Terrorism Financing by Financial Institutions and solicited public comment before 30 July 2025.

The draft specifies the division of regulatory duties for corporate financial institutions, with certain national-level legal-person financial institutions being subject to AML regulation by the head office of the PBC, and all others by the corresponding PBC branch. The draft also revises the requirements for risk-based AML regulation. In the section on work requirements for financial institutions, the draft details the types of major risk events to be reported and adjusts AML information reporting obligations for financial institutions.

Proposed new rules to regulate financial institutions' customer due diligence and customer identity data retention

The draft promulgated by the PBC, the National Financial Regulatory Administration (NFRA), and the China Securities Regulatory Commission (CSRC) sets out detailed requirements for financial institutions regarding customer due diligence (CDD). It defines the scope of application and related provisions to ensure alignment with the Anti-Money Laundering Law of the PRC. In particular, the draft updates the applicable scenarios for CDD and specifies that financial institutions must determine the extent and specific methods of CDD measures based on risk levels. It provides for sector-specific measures to be taken by different financial institutions in line with current financial practices. It also requires that financial institutions understand the money laundering risks of customers during the course of business relationships and implement enhanced due diligence measures where necessary.

The draft also provides that financial institutions must assess the money laundering and terrorist financing risk status in the country or region where an overseas institution is located when establishing a correspondent banking relationship or business relationship of a similar nature with an overseas financial institution, or when accepting an entrustment to provide domestic securities and futures transactions for an overseas brokerage institution or any of its customers.

SHFE further expands investment scope of QFII

The Shanghai Futures Exchange (SHFE) recently issued the Circular on Further Expanding the Investment Scope of Qualified Foreign Investors in Commodity Futures and Options, and the Notice on Further Expanding the Investment Scope of Qualified Foreign Investors in Commodity Futures and Options. According to the circular and with the approval of the CSRC, effective 10 September 2025, the SHFE will further expand the investment scope of qualified foreign institutional investors (QFII) and RMB qualified foreign institutional investors (RQFII) to include: (1) bitumen futures contracts and (2) fuel oil, bitumen, and wood pulp options contracts.

CSRC issues the Interim Provisions on the Administration of Internet Marketing by Futures Companies

The provisions strengthen the regulation of internet marketing activities carried out by futures companies. Key provisions include defining the scope of such activities, reinforcing content review, clarifying marketing systems and department responsibilities, tightening oversight of marketing personnel and accounts, enhancing the management of third-party institutions, improving client protection, and stipulating certain prohibited practices in internet marketing.

Under the provisions, futures companies are required, among other things, to implement centralised review and management of internet marketing content to ensure its legality and compliance, keep complete records of marketing activities, establish a pre-assessment mechanism for third-party service providers, and continuously monitor and evaluate their compliance.

NFRA issues revised administrative measures for trust companies

The measures standardise the conduct of asset service trusts, asset management trusts, and charitable trusts. They uphold the principle that "the seller shall fulfil the due diligence obligation and the buyer shall bear its own risks; if the seller fails to fulfil its obligation, it shall make compensation accordingly", thereby breaking the rigid payment guarantee.

The measures require trust companies to strengthen management of shareholder conduct and related-party transactions, and establish rigorous internal assessment mechanisms alongside incentive and constraint systems. Trust companies are urged to focus on compliance management of trustees' performance and operational risks to strengthen comprehensive risk management. The measures also increase the minimum registered capital of trust companies, strengthen capital and provision management, and provide for the implementation of tiered and classified supervision.

CSRC issues Administrative Provisions on Programmed Trading in the Futures Market

The measures provide definitions of programme trading and high-frequency trading, and specify that programme trading must be conducted in compliance with relevant laws and regulations, as well as the business rules of futures exchanges, without affecting the security of the futures exchange system or normal trading order. They clarify the reporting requirements for programme trading, requiring that futures companies verify the information reported by programme-trading clients and programme traders either periodically or as needed. The measures also contain chapters on system access management, hosting and seat management, trading monitoring and risk management, and supervision and regulation.

NFRA issues measures for product suitability management by financial institutions

The measures apply to the suitability management of investment-type products issued or sold by financial institutions that have uncertain yields and may result in the loss of principal, as well as to insurance products. They specify that financial institutions must ensure that suitable products are provided through appropriate channels to suitable customers, apply a uniform classification for the risk levels of investment-type products they issue or sell, and implement differentiated suitability management for professional and ordinary investors, with special protection for general investors. These protections include strengthened assessments of risk tolerance, fulfilment of notification obligations, and the provision of risk warnings. Regulatory oversight will be strengthened, and the NFRA and its local offices may adopt regulatory measures and impose administrative penalties. The measures will take effect on 1 February 2026.

Trust companies are urged to focus on compliance management of trustees' performance and operational risks to strengthen comprehensive risk management.

Enforcement actions
Singapore

Capital Markets Services Licence revoked for multiple breaches

The MAS revoked the Capital Markets Services (CMS) Licence of a licence holder and reprimanded its Executive Director and former Chief Executive Officer. The actions were taken due to breaches of the Securities and Futures Act (SFA), various regulations, and licence conditions.

The firm failed to submit its audited financial statements for the financial years 2022 and 2023, as well as quarterly and monthly returns for parts of 2024 and 2025. It also failed to notify MAS of a change in its principal place of business, the resignation of an executive director, and having fewer than two full-time appointed representatives. Furthermore, the company did not put in place a commensurate compliance function and failed to pay its annual corporate fees for 2024. MAS determined that the Executive Director and then-sole remaining director was aware of these breaches and had failed to ensure compliance.

Regulatory actions against nine financial institutions for AML-related breaches

MAS announced regulatory actions against nine FIs and a number of individuals for AML-related breaches. These actions followed supervisory examinations linked to the major money laundering case of August 2023.

Composition penalties totalling S$27.45 million were imposed on the nine FIs for breaches of MAS's AML and CFT requirements. The authority found shortcomings in the implementation of policies and controls relating to customer risk assessment, establishing and corroborating the source of wealth of higher-risk customers, transaction monitoring, and follow-up actions after filing STRs.

Prohibition orders (POs) ranging from three to six years were issued to four individuals from one of the FIs for their respective roles in the compliance failures. These included failing to develop and implement adequate policies and controls, failing to raise a red flag when they were aware of information that should have aroused suspicion, and failing to perform enhanced CDD when warranted.

Reprimands were issued to three senior managers of a licensed trust company for failing to ensure compliance and for lapses in CDD. Two individuals from another bank were also reprimanded for failures in conducting proper CDD.

Five-year prohibition order for forgery

A former representative of two insurance companies was issued a five-year prohibition order. The individual had moved from one company to another and deliberately misled a former client into believing their existing policy could be transferred in order to meet sales targets.

He then forged the client's signature to set up a new policy with the new company without the client's knowledge. The deception was discovered when the client's original policy lapsed after he was instructed by the representative to ignore payment reminder notices.

Prohibition orders for unauthorised access to bank customer information

MAS issued prohibition orders against three individuals for unauthorised access to customer information. A former collections officer at a bank, who had legitimate access to the customer information system for his job, conducted unauthorised searches out of curiosity and at the request of a former colleague and a friend.

The former collections officer received a six-year PO. The former colleague, who asked for salary details of his new work colleagues, was given a four-year PO. The friend, who requested contact details of a mutual contact, received a three-year PO. All three were also convicted of criminal offences under the Computer Misuse and Cybersecurity (Amendment) Act 2017, the Computer Misuse Act 1993, and/or the Banking Act 1970.

Three-year prohibition order for misselling insurance products to a vulnerable client

A former representative of an insurance company was issued a three-year prohibition order for misselling insurance products to a vulnerable client with an intellectual disability.

The representative recommended several complex insurance policies, including investment linked products, without due consideration of the client's financial situation, limited education, and lack of investment experience. MAS found that the client would not have been able to afford the premiums for the full tenure of the policies. The representative also failed to take reasonable steps to collect and document information regarding the client's financial situation or to adequately document the basis for her recommendations.

Composition fine and regulatory action against financial advisory firm and individuals

MAS issued a composition fine of S$93,750 against a financial advisory firm for failing to implement effective policies related to the recruitment, supervision, and training of its representatives.

This led to breaches of the Financial Advisers Act (FAA) and Financial Advisers Regulations (FAR). POs of up to four years were issued against the firm's former Chief Executive Officer and two former representatives. One of these representatives had also taught others to make misleading statements during sales pitches. Five other individuals were issued reprimands for their roles in the misconduct, which involved "parking" new representatives under other supervisors to circumvent limits on the number of representatives a manager could oversee.

Reprimand for former relationship manager over due diligence failures

MAS issued a reprimand to a former relationship manager of a bank for her failure to conduct proper due diligence in respect of several persons of interest connected to a major money laundering case. This action followed the conclusion of an investigation into breaches of AML regulations.

Prohibition orders (POs) ranging from three to six years were issued to four individuals from one of the FIs for their respective roles in the compliance failures.

Hong Kong

SFC sanctions licensed futures broker for AML/CFT and controls failures

The Hong Kong SFC reprimanded and fined a licensed futures broker HK$3.4 million for systemic AML/CFT and controls failures between June 2017 and December 2018. Reviews found no due diligence on customersupplied systems used by a large cohort of clients; failure to detect, assess, and enquire on client deposits incommensurate with their declared financial profiles; and ineffective monitoring systems to detect suspicious trading patterns, including frequent samesecond, sameprice buy and sell orders in the same futures contracts. The SFC concluded the broker breached the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, the AML Guideline, and the Code of Conduct.

The SFC also suspended two former responsible officers for their roles in the compliance failures and stressed the need for active senior management oversight, due diligence on clientfacing technologies, and realtime monitoring of deposits and trading.

In setting penalties, the SFC weighed the seriousness and deterrence needs against mitigating factors such as clean disciplinary records, financial position, and the firm's cessation of business, noting that in the absence of these factors, a higher fine would have been imposed.

SFC secures community service sentences for conspiracy to commit false trading

The Eastern Magistrates' Courts sentenced two individuals to community service orders of 240 hours and 160 hours, respectively, following their guilty pleas in an SFC criminal prosecution for conspiracy to commit false trading in a listed company's shares between April 2017 and March 2018. One individual also pleaded guilty to failing to notify the stock exchange of changes in shareholding interests on eight occasions between June 2017 and March 2018. The court considered imprisonment but, after reviewing mitigating factors and probation reports, imposed community service and ordered both individuals to pay the SFC's investigation costs.

The decision underscores the court's stance against market manipulation offences, while noting that community service is not a lenient sentencing option as it intends to address misconduct through unpaid work.

Disqualification orders issued against former directors for misconduct

The SFC has obtained disqualification orders in the Court of First Instance against five former directors of a delisted international group. The action follows an SFC investigation into misconduct related to three acquisitions made by the company between 2007 and 2014, which were part of schemes to misappropriate company assets and resulted in significant losses.

The court found that the company had acquired interests in a target that purportedly held non-existent forestry assets for HK$1.678 billion. It also acquired interests in another company that purportedly held intellectual property for engineering technology that was found to have little to no value. The five directors admitted to breaching their duties by failing to ensure proper and reasonable due diligence was conducted regarding the two acquisitions, and in doing so, had acted incompetently, recklessly, or negligently in approving the acquisitions.

The former executive director and chairman was disqualified for 10 years, the former independent non-executive director for seven years, and three other former executive directors for five years each. The SFC's proceedings against other former directors and officers of the company remain ongoing.[1]

SFC issues prohibition order against former responsible officer for fund misconduct

The SFC has prohibited a former responsible officer (RO) of an asset management firm from re-entering the industry for nine years and imposed a fine of HK$350,000 for his failure to discharge his duties as an RO.

The investigation found that during his tenure, the firm failed to act in the best interests of a fund under its management and did not properly manage conflicts of interest when entering into three separate lending agreements for the fund between May 2017 and December 2018.

The disciplinary action followed the repeated failures concerning the loan arrangements, all of which ultimately defaulted. These defaults resulted in significant financial losses of HK$25.6 million for the fund, which represented 86% of its net asset value.

In deciding the sanction, the SFC took into account the severity and recurring nature of the misconduct, emphasising the importance of sending a strong deterrent message against substandard practices in fund management. The regulator noted that, but for the individual's financial position, a much higher fine of HK$700,000 would have been imposed.

Market misconduct tribunal sanctions former company secretary for insider dealing

The Market Misconduct Tribunal (MMT) has found a former company secretary of a listed property company and her Mainland associate culpable of insider dealing. The MMT has ordered them to disgorge illicit profits totalling over HK$1 million and disqualified the former company secretary from being a director of any listed corporation for four years. The inside information concerned a significant share acquisition in the listed company by a major property management firm.

The MMT found that the company secretary, who was privy to the deal, disclosed the inside information to her associate, knowing he would use it to trade. The associate subsequently purchased a substantial number of shares in the company prior to the public announcement of the deal. The company secretary had an interest in the associate's acquisition of shares through one of his securities accounts. The MMT considered the company secretary's misconduct to be serious, as she had been entrusted with a managerial role and had orchestrated the scheme, which involved a layering process to hide the illicit gains.

1 See below at "SFC obtains disqualification orders against five former directors of international group" for more information on the enforcement action against other directors.

In addition to the disgorgement and disqualification orders, the MMT imposed "cold shoulder" orders against both individuals for four years, prohibiting them from dealing in any securities in Hong Kong, and cease and desist orders prohibiting the two from engaging in any conduct that constitutes market misconduct.

SFC obtains disqualification order against former executive director

The SFC has obtained a seven-year disqualification order from the Court of First Instance against a former executive director of a listed finance group for breaches of her fiduciary duties. The order, which reflects the gravity of her misconduct, prohibits her from being a director or being involved in the management of any corporation in Hong Kong without the leave of the court. She was also ordered to pay the SFC's costs.

The legal action followed an SFC investigation that found another individual, who was a de facto director of the company, had participated in a share placement and subscribed for untaken rights shares while his role was not disclosed to the market. Announcements issued by the company incorrectly stated that all participants were independent third parties. The executive director admitted that she had breached her duties by failing to disclose the de facto directorship, negligently or recklessly causing the company to issue false and misleading announcements, and failing to consider the dilution impact of the share placement on shareholders before approving it.

The SFC's proceedings against four other former directors and the former de facto director are still ongoing.

Court-appointed administrators distribute HK$19 million to affected investors of an investment firm

Approximately HK$19 million in assets were distributed to affected clients of a now-defunct investment company. The distribution was carried out by court-appointed administrators this month, following approval from the Court of First Instance. This action represents the final stage of a lengthy legal process initiated by the SFC to secure compensation for investors who suffered losses due to fraud and misappropriation.

The legal proceedings began after an SFC investigation uncovered financial irregularities at the investment company. The firm's sole director and shareholder was found to have sold client securities without authorisation, misappropriated the proceeds, and falsified statements to conceal the misconduct. This led to a criminal prosecution by the Department of Justice, where the director pleaded guilty to misappropriating around HK$58 million of client assets between 2011 and 2019, and was sentenced to community service.

The SFC has stated that it is firmly committed to safeguarding market integrity and protecting investors. The actions taken in this case, from freezing assets to appointing administrators and achieving restoration for clients, highlight the SFC's strong stance against dishonest practices by intermediaries and its dedication to maintaining public trust in the financial markets.

SFC secures disqualification order against former vice-chairman

The SFC has secured a six-year disqualification order in the Court of First Instance against the former vice-chairman and executive director of a defunct international holdings company. The order disqualifies him from being a director or being involved in the management of any listed or unlisted corporation in Hong Kong without leave of the court, reflecting the serious nature of his misconduct.

The legal proceedings arose from an SFC investigation that uncovered his failure to fulfil his directorial duties with due care and diligence. He failed to prevent or disclose to the board two problematic transactions involving the company's former executive directors: unauthorised fund transfers totalling RMB150 million and the disposal of the company's stake in another business at a substantially undervalued price. He also proceeded to approve the publication of interim results that contained false or misleading information by omitting these matters.

Although there was no allegation that the former vice-chairman personally benefited from the transactions, the court agreed with the SFC that a six-year disqualification was appropriate. The decision took into account the seriousness of his breaches of duty, his senior management role at the material time, and the substantial sums involved in the unauthorised activities.

SFC and HKEX take joint action against directors for non-cooperation

In a first-of-its-kind disciplinary action, Hong Kong Exchanges and Clearing Limited (HKEX) has publicly censured two former directors of a listed company for failing to cooperate in parallel investigations conducted by both the SFC and HKEX. The Exchange also stated that the two individuals are unsuitable to hold director or senior management positions at the company or its subsidiaries.

The SFC had been investigating possible contraventions of the Securities and Futures Ordinance involving the company, and issued statutory notices requiring the two directors to provide information and documents. Neither director responded, prompting the SFC to refer the matter to HKEX for disciplinary action under the Listing Rules. THKEX' own investigation into whether the directors had discharged their duties was also met with non-cooperation.

Both regulators issued strong statements on the matter, affirming that cooperation from directors is essential for maintaining an orderly and informed market. The SFC's Executive Director of Enforcement warned that directors cannot simply walk away from their obligations, while the HKEX Head of Listing Regulation and Enforcement reiterated a zero-tolerance stance for non-cooperation. This joint action serves as a clear signal that directors will be held accountable for obstructing regulatory investigations.

SFC sanctions individual for fund management failures

The SFC has banned an individual for 12 months and imposed a financial penalty of HK$400,000 in connection with failures between 2018 and 2021 arising from the management of several private funds. The individual was a director of the licensed corporation acting as the investment manager and/or consultant of these funds. The SFC found that the individual failed to discharge her duties relating to implementing AML/CFT controls and oversight of borrowing arrangements entered into on behalf of the funds in question.

In determining the sanctions, the regulator took into account the individual's acceptance of responsibility, the fact that the individual is no longer in the relevant roles, and an otherwise clean disciplinary record. The action is related to the regulator's separate proceedings concerning the management of the same funds by an associated licensed entity, and certain details have been withheld pending the conclusion of that matter.

Regulator reprimands and fines major bank for disclosure failures

The SFC has reprimanded and fined a major banking corporation HK$4.2 million for breaching disclosure requirements in research reports on Hong Kong-listed securities over an eight-year period. The action followed a self-report by the bank, which revealed systemic failures in disclosing its investment banking relationships with companies covered in its research reports published between 2013 and 2021.

The investigation, conducted by the SFC in collaboration with the Hong Kong Monetary Authority (HKMA), found that the bank had either failed to disclose or made incorrect disclosures regarding its investment banking relationships. These issues, which affected over 4,200 research reports, were caused by deficiencies in the bank's data recording and mapping processes across different systems. The SFC concluded that the bank failed to exercise due skill and care and lacked effective internal controls to ensure compliance.

In deciding the sanction, the SFC took into account several factors, including that there was no evidence of client losses resulting from the disclosure failures. The regulator also noted that the bank had self-reported the issue, conducted its own reviews to identify the root causes, taken steps to enhance its systems, and cooperated fully with the investigation.

SFC fines global bank HK$23.8 million for multiple regulatory breaches

The SFC has reprimanded and fined a global banking corporation HK$23.8 million for a series of regulatory breaches, including overcharging clients, failing to disclose investment banking relationships, and incorrectly assigning product risk ratings. The disciplinary action followed investigations triggered by self-reports from the bank, which uncovered systemic issues across its wealth management and research divisions over several years.

The investigation found that the bank had overcharged clients approximately HK$39 million in management and custodian fees due to failures in applying agreed-upon fee rates and incorrect valuations of various financial instruments. The SFC also found that the bank failed to disclose its investment banking relationships in over 1,500 research reports.

Furthermore, it incorrectly assigned lower product risk ratings to numerous exchange-traded funds, leading to risk mismatches in some client transactions.

In determining the penalty, the SFC considered that the bank had failed to act with due skill and care and failed to comply with all relevant regulatory requirements. However, the regulator also took into account the bank's self-reporting of the issues, its full cooperation with the investigation, its remediation of the problems, and its compensation to affected clients.

SFC revokes licence of a brokerage firm and bans senior manager

The SFC has revoked the licence of a licensed broker and banned its former senior manager and director for life for facilitating the misappropriation of approximately US$154 million of client funds and engaging in other dishonest activities.

The firm also misused US$68 million of the same client's funds to subscribe for shares in the same Cayman fund, retained the profits for its own account, and only returned the principal to the client's account without the client's consent.

The firm was also found to have knowingly facilitated a scheme orchestrated by an associate[2] that resulted in the misappropriation of a further US$154 million from the same client. To conceal the scheme, the firm and its director fabricated transaction documents and provided false and misleading information to the SFC during its investigation. The SFC concluded that the director was the driving force behind the firm's misconduct.

In deciding on the lifetime ban and licence revocation, the SFC determined that the conduct was egregious and serious, undermining the confidence of investors and the public in market integrity. The actions caused significant losses to the client and demonstrated a profound lack of honesty and integrity, warranting the most severe sanctions.

2 See below at "SFC bans senior managers of asset manager for life over dishonest scheme" for more information on the enforcement action against the associate.

SFC bans senior managers of asset manager for life over dishonest scheme

The SFC has revoked the licence of an asset management firm and banned its two former senior managers for life for facilitating the misappropriation of approximately US$154 million of client funds and engaging in other dishonest activities. The firm managed a sub-fund through which one of the senior managers, with the help of the other, orchestrated a scheme to misappropriate the funds belonging to a client of another licensed broker.

The investigation revealed that the asset management firm knowingly facilitated the scheme by accepting the client's funds for a purported acquisition of "liquidity provider units" from the sub-fund, which did not exist. A significant portion of the funds was then transferred to a corporate vehicle owned by the scheme's mastermind. The firm also provided false information and fabricated documents, including auditors' reports, to its investors and the sub-fund's administrators to overstate the sub-fund's cash position by up to US$451 million.

The SFC concluded that the misconduct was directly attributableto the two senior managers, with one being the orchestrator of the scheme. Their conduct was deemed profoundly dishonest, egregious, and a serious blow to market integrity, causing significant investor losses. The lifetime bans reflect the SFC's zero-tolerance approach to such fraudulent and deceptive practices in the asset management industry.

SFC bans former associate director of Swiss bank for life following criminal conviction

The SFC has banned a former associate director of a major Swiss bank from re-entering the industry for life, following his criminal convictions for money laundering and committal for contempt of court. The case originated from his role as a client advisor, where he defrauded two Mainland Chinese clients by diverting their funds, intended for cross-boundary remittance, into his personal bank accounts in Hong Kong.

The court found that the former advisor had diverted deposits totalling over HK$134 million, and used the stolen funds to finance a lavish lifestyle, including the purchase of luxury vehicles and numerous properties. He was sentenced to 10 years' imprisonment after pleading guilty to two counts of dealing with property believed to represent proceeds of an indictable offence. He was also sentenced to six months' imprisonment for contempt of court after breaching a worldwide freezing injunction obtained by the clients.

In light of his criminal convictions for offences involving serious dishonesty and his blatant disregard for a court order, the SFC concluded that he is not a fit and proper person to be licensed or registered in the financial industry. The lifetime ban reflects the SFC's determination to exclude individuals who have demonstrated a lack of integrity from the market.

SFC obtains disqualification orders against five former directors of international group

The SFC has obtained disqualification orders from the Court of First Instance against a further five former directors of a now-delisted international group, bringing the total number of disqualified directors from the company to 10. The orders, ranging from two-and-a-half to four years, ban the individuals from being directors or being involved in the management of any corporation in Hong Kong while the orders are in force.

The disqualification orders were made after the five former directors admitted to breaching their duties and being negligent in approving the company's acquisitions of purported forestry assets in 2007 and 2009. The SFC's investigation found that these forestry assets did not exist. The directors admitted to failing to review key documents or scrutinise the due diligence performed by professionals, and in the case of the 2009 acquisition, to approving an announcement that contained false and misleading information.

The SFC's proceedings against other former directors and officers of the company are ongoing as part of its continued efforts to hold company officials accountable for their misconduct.

SFC suspends former responsible officer for fund management failures

The SFC has suspended a formerRO of a now-dissolved asset management firm for 12 months due to his role in significant fund management failures. The disciplinary action followed an SFC investigation that found the firm, acting as an investment manager, had invested up to 100% of a fund's assets in debentures issued by companies controlled by the firm's sole shareholder and other RO.

The investigation concluded that the firm had failed to avoid conflicts of interest and did not properly manage the fund's risks. The fund was also directed to invest in two debentures that appeared to have been constructed solely to inflate its net asset value. The SFC found that the suspended individual failed to discharge his duties as an RO and senior manager to ensure the firm acted in the best interests of the fund and its investors and complied with regulatory requirements.

In deciding the 12-month suspension, the SFC took into account that the individual had a lower level of responsibility for the failures compared to the other RO, who made the ultimate investment decisions. The SFC also noted his cooperation in the investigation and that there was no finding of dishonesty against him, unlike the other RO, who was previously banned for life.

SFC fines brokerage firm for failure to report cross trades

The SFC has reprimanded and fined a licensed brokerage firm HK$8 million for its failure to report a vast number of cross trades to HKEX. The investigation revealed that between December 2012 and March 2018, the firm failed to report 8,817 pairs of cross trades, with a total transaction value of around HK$25.9 billion, conducted between its clients and an affiliated company.

This failure constituted a breach of the reporting requirements of the HKEX's Code of Conduct. The SFC's investigation also found that during the five-year period, the firm had no internal policies or procedures for governing or monitoring the reporting of cross trades. Furthermore, the firm did not conduct any reviews of its trade reporting process.

In deciding the disciplinary sanction, the SFC considered the prolonged duration of the failure, the substantial number of unreported trades, and the significant sums involved. The regulator also took into account the firm's cooperation in resolving the matter and its initiative to cease the relevant trade flows.

SFC bans former responsible officer for five years

The SFC has banned a former RO, board member, and department head of a major global markets firm from re-entering the industry for five years due to serious managerial failures. The disciplinary action follows earlier sanctions against the firm itself for significant regulatory breaches and internal control failures related to its cash equities business over a ten-year period from 2008 to 2018. The SFC found that the firm's failings were attributable to the individual's failure to discharge his duties as a member of senior management.

The investigation revealed that the former RO neglected his responsibilities, enabling a culture of chasing revenue at the expense of client interests. He should have been aware that his subordinates were sending mislabelled indications of interest (IOIs) to provoke client enquiries but failed to ensure adequate controls were implemented. He failed to act on client complaints regarding the accuracy of IOIs. He also did not ensure the firm made proper pre-trade disclosures to and obtained prior consent from clients before executing facilitation trades.

The SFC's Executive Director of Enforcement stated that senior management holds primary responsibility for ensuring a firm maintains appropriate standards of conduct. This case highlights that exerting pressure to grow market share while failing to be vigilant for signs of dishonest conduct constitutes a grave failure of managerial responsibility. The action underscores the SFC's resolve to hold errant senior managers accountable for their firms' failures.

SFAT affirms SFC's decision to fine sponsor firm for due diligence failures

The Securities and Futures Appeals Tribunal (SFAT) has affirmed the SFC's decision to reprimand and fine a corporate finance adviser HK$4 million for failing to discharge its duties as a sponsor in a listing application. The SFC's investigation found that the sponsor had failed to perform all reasonable due diligence on the listing applicant, a retail and wholesale handbag company, and had not examined information with the required professional scepticism.

The sponsor overlooked multiple red flags indicating that the applicant's retail sales might have been fabricated to inflate its revenue. These red flags included a series of consecutive, high-value cash transactions at retail stores and bulk purchases made by individuals connected to the applicant's own wholesalers and suppliers. The sponsor also failed to conduct adequate due diligence to verify the independence of the applicant's largest wholesaler and a key supplier, despite discovering information that suggested they could be controlled by the applicant.

The SFC had originally proposed a HK$13 million fine but accepted a reduction to HK$4 million due to the sponsor's financial difficulties. The SFAT agreed with the reduced penalty and made a broader observation on a sponsor's duty, stating that when a matter of concern is identified, it is not sufficient to simply make a note and move on, but a coherent record must be made of what was discovered and how it was resolved.

SFC fines brokerage for mishandling client money

The SFC has reprimanded and fined a securities brokerage firm HK$2.1 million for multiple regulatory breaches relating to the mishandling of client money. An SFC investigation, which followed a referral from HKEX, found 12 incidents between February 2021 and July 2022 where the firm failed to maintain a sufficient balance in its segregated client account. On one occasion, the shortfall amounted to $15.5 million.

The incidents arose from the firm's practice of using money from its client account to meet margin calls made by HKEX. The failures were compounded by inadequate management of its daily online bank transfer limit and human error by its staff.

In deciding the sanction, the SFC took into account that no client had suffered any loss as a result of the failures. It also noted that the firm had taken remedial action to enhance its internal controls, rectified the shortfalls shortly after each incident, and had cooperated with the SFC's investigation. The firm's otherwise clean disciplinary record was also a mitigating factor.

The sponsor overlooked multiple red flags indicating that the applicant's retail sales might have been fabricated to inflate its revenue.

Mainland China

CSRC issues an administrative penalty against a law firm

In July 2025, the CSRC issued a notice of administrative penalty against a law firm for making false statements in legal documents it prepared and issued for its client's private placement of shares in 2020, and for failing to exercise due diligence in providing legal services, which included failing to conduct adequate due diligence on the trading business and failing to fully verify major business contracts and the business registration information of key clients and suppliers. The law firm was ordered to rectify its violations, with business income of more than RMB 470,000 confiscated and a fine of RMB 1 million imposed. Two lawyers deemed as the directly responsible persons in charge for the violations were issued warnings and fined RMB 400,000 each.

CSRC issues an administrative penalty against a securities company

In July 2025, the CSRC imposed an administrative penalty on a securities company. The company had entered into an independent financial adviser agreement with a client to advise on the client's issuance of shares and acquisition of an equity interest in a leasing company, as well as related fundraising, with advisory fees amounting to RMB 15 million. The CSRC found that documents issued by the securities company contained material omissions and false statements, and that the company failed to exercise due diligence in its independent financial advisory services.

The company was ordered to rectify the violations, with business income of RMB 15 million confiscated and a fine of RMB 45 million imposed. Three individuals deemed as the directly responsible persons in charge received warnings and were fined between RMB 80,000 and RMB 100,000 each.

NFRA issues administrative penalties

In September 2025, the NFRA imposed a fine of more than RMB 87 million on a bank for failing to exercise due diligence in managing related loans, bills, interbank operations, and other business activities, as well as for non-compliance in reporting regulatory data. Two individuals at the bank were issued warnings, and four others were issued warnings and fined RMB 200,000 each.

In August 2025, the NFRA penalised a wealth management company for non-compliant investment operations, imprudent data management, and untimely information registration. The penalty included confiscation of the company's illegal gains of RMB 1.9 million and a fine of RMB 9.6 million, totalling more than RMB 11 million. Two individuals at the company received warnings and were fined a total of RMB 400,000.

Two lawyers deemed as the directly responsible persons in charge for the violations were issued warnings and fined RMB 400,000 each.

Other notable updates
Hong Kong

Stablecoin regime is in full swing

Introduction

Recently, Hong Kong's increasing fund and stock trading volumes have highlighted the importance of leveraging the opportunities presented by stablecoins to enhance its financial ecosystem and global competitiveness. We expect that combinations of traditional banks and technology companies can more easily demonstrate viable use cases and navigate capital requirements, as well as the investments needed in infrastructure and controls. As the HKMA itself stated: "It is envisaged that only a handful of licences will be granted initially." Start-ups and pure technology companies should carefully consider whether they can meet the regulatory expectations.

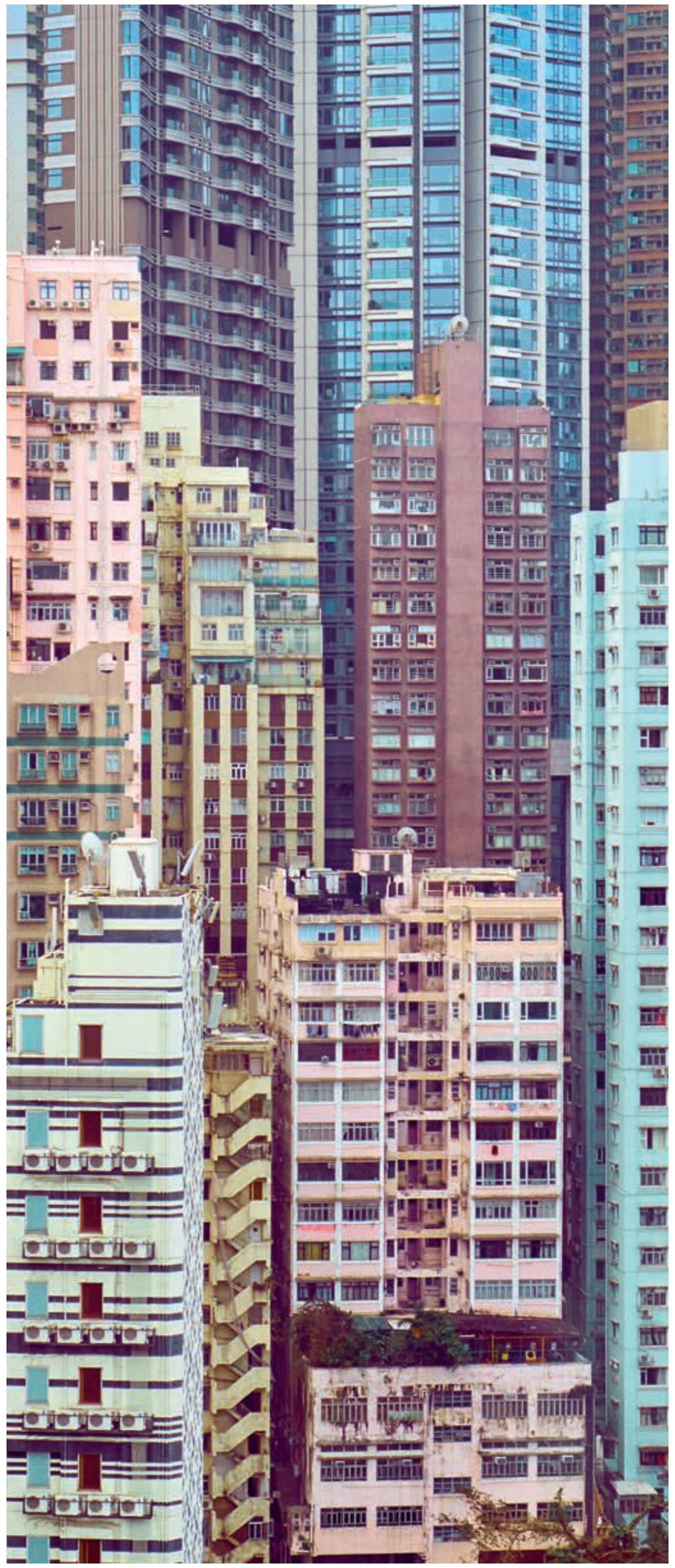
The Stablecoins Ordinance took effect on 1 August 2025 with the government's full support. In the latest Chief Executive's 2025 Policy Address, a stablecoin licensing regime and the development of other virtual assets policies have been expressly mentioned. The HKMA has formally published an Explanatory Note on Licensing of Stablecoin Issuers (Licensing Note), a Guideline on Supervision of Licensed Stablecoin Issuers (Supervision Guideline), and a Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Stablecoin Issuers) (AML Guideline), providing clarity to the licensing process and regulatory expectations.

Supervision Guideline

The guideline details the operational, financial, and governance standards that licensees will be expected to meet. Key areas include:

- **Prudential standards and reserve asset management:** Issuers must maintain full backing of all outstanding stablecoins with high-quality, highly liquid reserve assets. The reserve assets pool must match the referenced currency. These reserves must be segregated from the issuer's own assets, safeguarded under trust arrangements, and subject to regular reconciliation and independent audits. Issuers must also ensure that the composition and valuation of reserves are transparent, with frequent public disclosures and prompt reporting of any discrepancies or breaches to the HKMA.
- **Issuance, redemption, and distribution controls:** Issuers are only permitted to issue stablecoins upon receipt of matching fiat funds. Redemption rights for holders must be clear, enforceable, and honoured at par value within one business day, with no unreasonable fees or burdensome conditions. Where third parties are involved in distribution or secondary market liquidity, issuers must conduct robust due diligence and ensure that these arrangements do not undermine prudent operations or regulatory compliance.
- **Financial resources and risk management:** Stablecoin issuers must maintain a minimum paid-up share capital of HK$25 million, with the HKMA reserving the right to require higher thresholds based on risk. The guideline mandates comprehensive risk management frameworks that cover credit, liquidity, market, technology, operational, and reputational risks. Issuers are expected to implement robust governance structures, conduct regular stress testing, and maintain clear lines of responsibility for risk oversight and internal controls.
- **Corporate governance and business conduct:** The guideline sets out stringent "fit and proper" requirements for controllers, directors, and key personnel, with HKMA approval required for appointments. Issuers must establish strong internal controls, maintain secure information and accounting systems, and ensure transparent disclosure of key policies and procedures to the public. There are also specific requirements for handling complaints, protecting personal data, and ensuring that all business activities are conducted with integrity and in compliance with applicable laws.

We expect that combinations of traditional banks and technology companies can more easily demonstrate viable use cases and navigate capital requirements, as well as the investments needed in infrastructure and controls.



AML Guideline

The separate AML Guideline suggests that licensed stablecoin issuers are treated as "financial institutions" under Hong Kong's AML/CFT regime, with obligations aligned to international standards and the guidance of the Financial Action Task Force. Key elements include:

- **Risk-based approach:** Issuers must conduct institutional AML/CFT risk assessments, maintain strong governance and internal audit arrangements, and ensure staff are adequately trained.
- **Customer due diligence:** CDD is required for all issuance and redemption transactions at or above HK$8,000, and for all ongoing business relationships. Issuers must identify whether customer wallets are custodial or unhosted, and apply enhanced due diligence and monitoring for transactions involving unhosted wallets.
- **Ongoing monitoring and transaction screening:** Licensees are expected to deploy technological solutions (such as blockchain analytics) to monitor transaction flows, screen wallet addresses, and identify suspicious or sanctioned activity. Special attention is required for transfers to and from unhosted wallets and for secondary market activity.
- **Travel rule compliance:** Stablecoin issuers must comply with the "travel rule" for virtual asset transfers, ensuring the transmission of required originator and beneficiary information.
- **Secondary market oversight:** The HKMA expects licensees to implement proportionate monitoring and controls to prevent misuse of stablecoins in secondary markets, including potential measures such as blacklisting illicit wallet addresses and confining distribution to regulated intermediaries.
- **Future guidance:** The HKMA is developing supplementary AML/CFT guidance for other digital asset activities (for example, custodial services) and will consult further with the financial sector later in 2025.

Since the passing of the Stablecoins Ordinance, the new regime has sparked significant market interest and a surge in stablecoin-related stocks. We provide bite-sized FAQs for entities considering a licence application.

Q1: Who is eligible?

A. Applicants must be either (i) a Hong Kong-incorporated company or (ii) an authorised institution incorporated outside Hong Kong (such as an overseas bank holding a valid banking licence in Hong Kong). Overseas non-bank institutions should establish a local subsidiary to apply for a licence. For non-bank applicants, stablecoin issuers must maintain a minimum paid-up share capital of HK$25 million.

Q2: Are there local office presence requirements?

A. Yes. A principal place of business in Hong Kong is required and must be stated in the application.

Q3: What are the senior staffing requirements?

A. The Stablecoins Ordinance requires that the applicant's chief executive, director, stablecoin manager, and controller must be fit and proper persons. The HKMA expects that at least one-third of the board members should be independent non-executive directors. In general, the HKMA expects senior management and key personnel to be based in Hong Kong. Senior management is also expected to appoint a Compliance Officer at the management level to take overall responsibility for the establishment and maintenance of its AML/CFT systems, and a Money Laundering Reporting Officer to act as the central reference point for suspicious transaction reporting and as the main point of contact with the Joint Financial Intelligence Unit and law enforcement agencies.

Q4: Can licensees engage third-party custodial services for holders of their stablecoins?

A. The HKMA allows licensees to either directly provide custodial services to holders of their stablecoins or to use wallets offered by custodial wallet providers, which may be financial institutions or licensed virtual asset service providers. Measures should be put in place to manage AML/CFT risks associated with custodial wallets. The SFC and the Financial Services and the Treasury Bureau are conducting a public consultation on a new regulatory regime for virtual asset custodian services. Watch this space for upcoming developments regarding third-party custodians.

Q5: Who are the qualified custodians for the safekeeping of reserve assets?

A. A custodian for the safekeeping of reserve assets, which must be segregated from the licensee's assets under a written trust arrangement, should be a licensed bank or another asset custodian under an arrangement acceptable to the HKMA. If investment managers are engaged to manage reserve assets, the licensee should ensure such investment managers are qualified for the role. Appropriate risk assessments and due diligence must be conducted.

Q6: Who can distribute the issued stablecoins?

A. Only "permitted offerors" may distribute or offer specified stablecoins. They are:

- Stablecoin issuer licence holders;
- Authorised institutions (such as banks holding a valid banking licence in Hong Kong);
- Licensed stored-value facility providers;
- SFC-licensed virtual asset trading platforms; and
- SFC-licensed corporations for Type 1 activities.

Q7: What is the application process? Is there an application form?

A. The HKMA requires any entity interested in applying for a licence to first indicate its interest to the HKMA Licensing Team before making a formal application. The HKMA will then engage with the potential applicant to gain a better understanding of the person's background and business model, and to ensure the applicant is fully aware of the licensing procedures and the HKMA's expectations regarding the minimum criteria before making a formal application. The HKMA has not published the application form to the public; it is only obtainable from the Licensing Team. However, the HKMA has set out a list of documents (23 items) required when submitting an application. See Annex B to the Licensing Note.

Q8: How long will the application take?

A. The HKMA has indicated that licensing "will be an ongoing process" without an express commitment on the processing time of an application. As an indication, three aspiring applicants have been in the HKMA sandbox since mid-2024.

Q9: How many licences will be issued?

A. The HKMA has reported receiving 77 expressions of interest for stablecoin licences as of 31 August 2025. However, it has repeatedly emphasised that "only a handful of licences will be granted initially". The HKMA is adopting a rigorous and prudent approach to the process and has warned that "the approval thresholds are set high".

In light of the recent abrupt market movements linked to the stablecoin concept, the SFC and HKMA published a joint statement reiterating the high bar for applications and warned investors against unjustified optimism or speculation.

Q10: How important is having a use case?

Very important. Without a sustainable and practical use case, an applicant is unlikely to progress far. The HKMA is looking for viable plans, clear implementation roadmaps, a good understanding of the risks, competence in managing the business and risks (AML, in particular), and technical expertise.

Market optimism

Market players are enthusiastic for a reason, as the new regime creates brand-new opportunities. This is especially so, given that many Asian currencies are subject to capital controls that limit global circulation, whereas Hong Kong, where capital flows with few restrictions, enjoys a regional competitive advantage.

For issuers: Stablecoin issuers are incentivised to issue stablecoins as they can earn interest by investing the reserve assets that back these tokens, as stablecoin holders do not receive any interest on their holdings. Instead, the yield generated from the underlying reserves accrues to the issuer. For example, Tether (USDT) and Circle (USDC) both invest the fiat reserves backing their stablecoins in short-term government securities and other low-risk instruments, generating substantial interest income. This business model has become a significant source of revenue for leading stablecoin issuers, further fuelling the growth and adoption of stablecoins in global markets.

For businesses: By leveraging blockchain networks, stablecoins cut out correspondent banking and SWIFT messaging fees, significantly lowering transaction costs. They also enable near real-time value transfer across borders 24/7 without intermediaries. For example, a business in Hong Kong can settle invoices with European partners via U.S. dollar-pegged stablecoins instantly, without conversion. The latest regulatory framework also strongly supports the introduction of offshore yuan-pegged stablecoins – opening exciting opportunities for greater financial innovation and cross-border connectivity.

For traders: Integrating stablecoins into the market infrastructure could streamline settlement, boost liquidity, and reduce transaction costs – particularly for cross-border and after-hours trades. For example, this could pave the way for stock exchanges to partner with licensed stablecoin issuers to enable stablecoin-based settlement or support tokenised securities, which could deliver efficiency and transparency and boost Hong Kong's competitiveness as an international financial centre.

The future

Hong Kong's stablecoin regime marks a bold new chapter for digital asset regulation, setting a relatively high bar for market entry and operational standards. With robust requirements and a selective licensing process, the HKMA is signalling that only credible and well-prepared players will be able to participate in this evolving landscape. The message for now is clear: the (stable) door is open and those who meet the challenge will go through.

What about future or other opportunities? The HKMA has said that "with practical experience gained, [it] will be in a position to be flexible in certain areas". So, we can expect that the door will open wider over time.

Meanwhile, there are other ways to participate in Hong Kong's vibrant virtual asset ecosystem: a growing number of SFC-licensees offer virtual asset products and services (alongside "traditional" securities); an increasing volume of real-world assets are being tokenised; and a number of fintech companies are providing value-added services to existing licensed exchanges, brokers, and asset managers engaged in virtual asset activities. We encourage all players to participate in this exciting moment of change.

Regulated stablecoins are poised to be a global game changer in the coming years, offering the potential to boost funds mobility and increase participation and trading activity in digital asset markets. As these innovations reshape the financial landscape, market participants are encouraged to proactively review their operations and prepare to seize the new opportunities ahead. Our dedicated multi-disciplinary virtual assets team at Reed Smith has been advising clients, such as exchanges, SFC licensees, banks, and service providers, on many aspects of virtual assets. Please contact your usual Reed Smith representative or one of the team members below if you would like to know more. We are always ready to assist you.

United Arab Emirates

Tokenisation in the UAE: Regulatory reforms and updates

The United Arab Emirates is rapidly positioning itself as a global leader in the regulation and adoption of tokenised assets. Supported by robust legal frameworks and a growing pipeline of market initiatives, the UAE is reshaping how investors access real estate and other real-world assets. Tokenisation – using distributed ledger technology to fractionalise ownership of physical or financial assets – has moved from concept to implementation, enabled by a regulatory landscape that is evolving at pace.

Regulatory architecture: Onshore and financial free zones

For companies operating in mainland UAE (i.e., outside the financial free zones), the principal regulators are the Securities and Commodities Authority (SCA) and the Virtual Assets Regulatory Authority (VARA). The SCA is the federal authority responsible for regulating and supervising the offering and trading of securities and commodities. VARA, the Emirate of Dubai's specialised regulator for virtual assets and virtual asset service providers, oversees virtual asset activities in Dubai outside the Dubai International Financial Centre (DIFC).

The UAE's two common law financial free zones – Abu Dhabi Global Market (ADGM) and DIFC – maintain their own regulatory regimes.

Abu Dhabi Global Market

Within ADGM, the Financial Services Regulatory Authority (FSRA) regulates financial services, including activities involving virtual assets and digital securities. The FSRA's framework accommodates the use of digital and virtual tokens with the characteristics of securities – such as shares, debentures, and units in collective investment funds – across primary and secondary markets. In December 2024, the FSRA updated its approach to the issuance of fiat-referenced tokens. Following an extensive consultation in 2024, ADGM issued detailed updated guidance and implemented amendments to its digital assets regime in June 2025, focusing on the recognition process for "accepted virtual assets" and revising capital and fee requirements for virtual asset service providers. On 30 September 2025, the FSRA issued Consultation Paper No. 10 of 2025 proposing a regulatory approach to staking activities, including triggers for regulation and requirements for ADGM-regulated firms that stake clients' virtual assets, with the aim of enhancing clarity and investor protection.

Dubai International Financial Centre

Within the DIFC, the Dubai Financial Services Authority (DFSA) regulates financial services, including activity relating to digital assets. In 2024, the DIFC enacted Digital Assets Law No. 2 of 2024, which defines the legal characteristics of digital assets and clarifies how they may be controlled, transferred, and dealt with. In parallel, the DFSA refined its crypto token regime to foster innovation and strengthen safeguards. These amendments addressed, among other matters, the offering of units in external and foreign funds that invest in recognised crypto tokens, custody standards for crypto tokens, and the process for seeking recognition of a crypto token by the DFSA, which remains limited to fiat-backed tokens.

Onshore developments: SCA tokenisation regulations

In August 2025, the SCA issued Board of Directors' Resolution No. 15/Chairman of 2025 on the Regulation of Security Tokens and Commodity Token Contracts (the Tokenisation Regulations). This is a pivotal step in aligning the regulation of tokenised assets with the UAE's existing financial framework.

The Tokenisation Regulations distinguish clearly between security tokens and commodity contract tokens. Security tokens encompass on-chain representations of traditional securities, such as shares, bonds, sukuk, and structured notes. Commodity contract tokens comprise on-chain derivatives, including futures and options, linked to commodities. In each case, the token represents rights under an agreement between parties recorded on a distributed ledger, with those rights exercised and transferred via distributed ledger technology.

All trading, settlement, and transfer of security tokens and commodity contract tokens must take place through entities licensed by the SCA. While the regulations expressly exclude "virtual assets" as separately defined (digital representations of value used for investment that are not fiat, securities, or other funds), they carve in fiat-referenced tokens and stablecoins, bringing them within scope where relevant.

To ensure enforceability of on-chain rights, token arrangements must be documented through a "registration agreement", which establishes the legal relationship between the parties and sets out the conditions for the registration, retention, and transfer of tokens. The agreement, as well as the tokenised rights, must be recorded on the distributed ledger.

Over-the-counter trading of security and commodity tokens is permitted, but only through licensed custodial wallets or pre-approved self-custodial wallets, to ensure compliance with the UAE's AML/CFT standards. This represents a notable expansion in the permissible venues for trading securities.

The regulations also codify investor protections. In particular, where the obligee is declared bankrupt or its assets are seized, dealings in the relevant security or commodity tokens remain legally binding in favour of the investor if the dealings were made prior to the bankruptcy, have become irrevocable under the rules of the relevant distributed ledger or trading facility, and were recorded on the distributed ledger within 24 hours.

Real estate tokenisation: Dubai Land Department's initiative

Rising demand for tokenised real estate is illustrated by the Dubai Land Department's (DLD) Real Estate Tokenization Initiative, developed in collaboration with the Virtual Assets Regulatory Authority (VARA), the Dubai Future Foundation, and the Central Bank of the UAE. The DLD is the first real estate registration authority in the region to adopt blockchain-based tokenisation to enable fractional ownership of real estate.

In May 2025, the DLD announced the issuance of the world's first property token ownership certificate following the sale of a tokenised real estate project on Prypco Mint, a VARA-licensed platform. As the initial project under the DLD initiative, it attracted approximately 224 investors, about 70% of whom were new to the UAE market, and generated a waitlist of around 6,000 expressions of interest. The DLD projects a market value of approximately AED 60 billion for the initiative by 2033, representing an estimated 7% of Dubai's total real estate transactions.

Innovation pipelines in the free zones

The DFSA's Tokenisation Regulatory Sandbox in the DIFC entered a new phase in June 2025, commencing engagement with firms selected for the Innovation Testing Licence Programme, originally launched in 2017. Interest has been global, with 96 expressions of interest from the UAE, the UK, the EU, Canada, Singapore, and Hong Kong. The initiative underscores the UAE regulators' commitment to iterative reform aimed at facilitating responsible innovation and is expected to inform further legislative and regulatory enhancements.

Tokenised funds and real-world assets are no longer speculative: they are viable, increasingly regulated, and being tested at scale in the UAE.

Conclusion

Tokenised funds and real-world assets are no longer speculative: they are viable, increasingly regulated, and being tested at scale in the UAE. The current wave of reforms reflects more than technological novelty; it signals a structural shift in how ownership and market access may function in the future. For market participants, early and rigorous compliance will be decisive. Success will depend on selecting the appropriate jurisdiction, engaging regulated custodians, structuring offerings to satisfy applicable securities and investment-token criteria, and embedding AML, Know Your Customer (KYC), disclosure, and technical risk controls from the outset.

The DLD's pilot transactions and the broader legislative developments across the SCA, VARA, ADGM, and DIFC indicate sustained demand, a premium on transparency, and the necessity of regulatory alignment. As the UAE moves towards 2030–2033, tokenised funds and assets are poised to become mainstream – for those who build on strong legal, custodial, and compliance foundations.

Contacts

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