

Major Common Issues Identified

(1) *Deficiencies in policies and procedures*

The policies and procedures of some RIs are not sufficiently clear and detailed to ensure that the fitness and propriety assessments of proposed ReIs are conducted properly and sufficient documentation is maintained. For instance, these policies and procedures do not describe the division of duties and responsibilities among different units involved in the assessment, as well as the requirement for establishing and maintaining audit trails and supporting documentation on the assessment process (including the follow-up actions on apparent irregularities found in such process). As a result, some critical assessment steps have not been performed due to misunderstanding of the involved units about their respective duties and responsibilities.

(2) *Deficiencies in background checks and self-declarations*

- (2.1) The major issues include incomplete coverage of background checks of proposed ReIs (e.g. on transferees from group entity), no documentary evidence to support the performance of the background checks and / or follow up actions of adverse results, and registration of ReIs before completion of the assessments.
- (2.2) Control deficiencies in respect of obtaining self-declarations from ReIs include insufficient scope of the self-declaration form to ensure compliance with subsection 5.4 of the HKMA Supervisory Policy Manual module SB-1, registration before obtaining or without evidence of having obtained self-declarations, and no documentary evidence of follow-up actions on any apparent irregularities.

(3) *Deficiencies in competence assessments and relevant documentations*

In some cases, the documentation is insufficient to demonstrate how a proposed ReI meets the competence requirements. For instance, the basis for the competence assessment of every proposed ReI is not documented, including:

- whether he / she has been grandfathered (and if so, how he / she becomes eligible for grandfathering);
- whether he / she fulfils all elements of the initial competence requirements before registration; and
- whether the registration is subject to the “six-month grace period” arrangement, or exemption from examination subject to condition(s) (and if so, how he / she becomes eligible for such exemption and the specific condition(s) applicable).

(4) *Deficiencies in observing Continuous Professional Training (CPT) requirement*

A few RIs have erroneously included the attendance in meetings or certain training courses which are not relevant to enhancing the technical skills, professional expertise, ethical standards or regulatory knowledge of ReIs as CPT eligible hours.

(5) *Deficiencies in submission of information for the HKMA Register*

Some RIs' registration of certain ReIs is inappropriate given that their duties (e.g. mortgage business, anti-money laundering monitoring) are not relevant to any RAs.

(6) *Problems in obtaining information from previous employers*

Some deficiencies are observed in certain incidents such as no previous employment check performed, registration of staff before receipt of results, and no documentary evidence of follow-up actions on any apparent irregularities. In some cases, the deficiencies in the previous employment checks and the fitness and propriety assessments are attributable to the difficulties in obtaining timely and satisfactory employment reference and confirmation on grandfathering and registration details from other RIs (as previous employers).