



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

19 September 2017

The Chief Executive
All Registered Institutions

Dear Sir / Madam,

**Circular Issued by the Securities and Futures Commission (“SFC”) on
Common Instances of Non-Compliance in Managing Funds and Discretionary
Accounts**

Further to our circular of 2 August 2017 in relation to potential regulatory concerns identified by the SFC in the course of its supervision of licensed corporations engaged in managing private funds and discretionary accounts, I am writing to draw your attention to various other issues noted by the SFC among licensed asset managers in general (see attachment). Examples of instances of non-compliance include:

- (a) Inappropriate receipt of cash rebates giving rise to apparent conflict of interest;
- (b) Failure to ensure suitability of funds or discretionary account mandates when making solicitations or recommendations of funds under their management, or providing discretionary account management services, to clients;
- (c) Failure to put in place a proper liquidity risk management process to ensure that liquidity risks of funds and discretionary accounts under management are adequately addressed;
- (d) Deficiencies in setting up a proper governance structure and implementing comprehensive policies and procedures for fair valuation of assets;
- (e) Deficiencies in systems and controls to ensure best execution;
- (f) Failure to ensure fair order allocation;

- (g) Inadequate systems and controls in relation to protection of client assets;
- (h) Inadequate systems and controls for ensuring compliance with investment restrictions and guidance; and
- (i) Inadequate systems and controls to address the risk of market misconduct.

Registered institutions which engage in asset management business should take note of the captioned circular, and review and enhance as necessary their internal control procedures and operational capabilities to ensure compliance with applicable regulatory requirements.

Yours faithfully,

Carmen Chu
Executive Director (Banking Conduct)

Encl.

c.c. SFC (Attn: Ms Julia Leung, Executive Director (Intermediaries))