



18 May 2020

## **Concurrent SFC-HKMA thematic review of spread charges and other practices**

The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) will commence a concurrent thematic review in the second half of this year to assess intermediaries' spread charges and other practices as well as their compliance with requirements governing the disclosure of trading capacity and monetary benefits under the Code of Conduct<sup>1</sup>. The review will cover the selected intermediaries' policies, procedures, systems and controls as well as management oversight of the distribution to clients of non-exchange traded investment products such as bonds and structured products.

Conflicts of interest may arise when intermediaries manage trades for clients. The concurrent thematic review aims to ascertain whether charges may be in excess of the spreads or fees disclosed in the intermediaries' standard documents to clients, or as agreed with or understood by the clients, or spreads may be increased after a trade is executed and the price improvement is retained without agreement with or disclosure to clients. The review will also ascertain whether intermediaries understand and properly disclose the capacity in which they are acting when conducting trades for clients.

The Code of Conduct provides that intermediaries should act honestly, fairly, and with due skill, care and diligence in the best interests of their clients<sup>2</sup>; make adequate disclosure of relevant material information in their dealings with their clients<sup>3</sup>; and avoid conflicts of interest, and when they cannot be avoided, ensure that their clients are treated fairly<sup>4</sup>. To comply with these requirements, intermediaries are expected to:

- put in place appropriate policies, systems, controls and management supervision over order handling and spread charges<sup>5</sup>;
- properly disclose price, fees, monetary benefits received and trading capacity to clients; and
- maintain adequate records (eg, telephone recordings) to ensure compliance with internal policies and procedures as well as with regulatory requirements and to enable reviews or investigations by the intermediaries, their external auditors and the regulators.

The findings of the concurrent thematic review will form the basis for the SFC and the HKMA to assess intermediaries' compliance, and in the event of a breach, take regulatory action. The SFC and the HKMA will also share the findings of the thematic review with the industry and consider the need for further guidance, where appropriate.

---

<sup>1</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

<sup>2</sup> GP1, GP2 and paragraph 3.10 of the Code of Conduct.

<sup>3</sup> GP5, paragraphs 8.3 and 8.3A of the Code of Conduct.

<sup>4</sup> GP6 and paragraph 10.1 of the Code of Conduct.

<sup>5</sup> Including post-trade spread increases.

Should you have any questions regarding the contents of this circular, please contact Ms KiKi Wong at the Intermediaries Supervision Department of the SFC on 2231 1569 or Ms Eloise Pun at the Banking Conduct Department of the HKMA on 2878 1903.

Intermediaries Supervision Department  
Intermediaries Division  
Securities and Futures Commission

Banking Conduct Department  
Hong Kong Monetary Authority

End

SFO/IS/023/2020  
HKMA/B1/15C