



## Supervisory Policy Manual

**MB-1**

### **Risk-based Supervision of Approved Money Brokers**

V.1 – 15.11.24

This module should be read in conjunction with the [Introduction](#) and with the [Glossary](#), which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

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## Purpose

To set out the HKMA's risk-based approach to the supervision of money brokers approved by the MA.

## Classification

A statutory guideline issued by the MA under the Banking Ordinance (the Ordinance) §118C(7).

## Previous guidelines superseded

This is a new guideline.

## Application

To all money brokers approved by the MA.

## Structure

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Annex



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## 1. Introduction

### 1.1 Approval

1.1.1 Under §118A(1) of the Ordinance, no person shall act as a money broker unless the person is an approved money broker (AMB).

1.1.2 “Money broker” is defined under §2(1) of the Ordinance. The MA has issued a guideline under §118C(7) of the Ordinance titled “Approval and revocation of approval of money brokers” which describes the authorization regime for money brokers and explains how the MA will interpret the minimum criteria for approval of money brokers as set out in the Eleventh Schedule to the Ordinance.

1.1.3 The MA may attach conditions to the approval of a money broker under §118C of the Ordinance. Common conditions that are generally applicable to all AMBs include:

- (i) The money broker must fully comply, at all times, with the codes of conduct issued, adopted or endorsed by the Treasury Markets Association (as amended from time to time) as applicable to the money broker, other relevant codes or guidelines to which it may be subject being a money broker as the term is defined in the Ordinance, and any guidelines which may be published by the MA from time to time under §118C(7) of the Ordinance;
- (ii) The money broker shall give not less than 7 working days’ advance written notice to the MA of any change(s) in its controllers, directors or chief executive<sup>1</sup>; and
- (iii) The money broker’s total revenue derived from carrying on *Hong Kong Money Market Businesses*<sup>2</sup> must consistently be at least 50 per cent of its total revenue derived from

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<sup>1</sup> In the case of an AMB that is incorporated outside Hong Kong, this refers to the chief executive of the business in Hong Kong as well as the chief executive of the AMB as a whole.

<sup>2</sup> Please refer to the Annex for the definitions of “Hong Kong Money Market Businesses” and “Hong Kong Relevant Businesses”.



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carrying on *Hong Kong Relevant Businesses*<sup>2,3</sup>. Without prejudice to the generality of the foregoing, if the aforesaid percentage calculated based on the relevant figures reported in two consecutive half-yearly returns submitted by the money broker to the MA is less than 50 per cent, generally speaking, it will be deemed that the money broker has consistently failed to meet such minimum threshold.

Please refer to the Annex for further details.

1.1.4 Apart from the common conditions referred to in paragraph 1.1.3 above, the MA may also attach to the certificate of approval of an AMB other conditions as considered necessary taking into account the specific situation and risk profile of the AMB.

1.1.5 Any person who intends to seek approval by the MA to act as a money broker or has any enquiries in that regard should approach the Banking Conduct Department of the HKMA (email: [moneybrokers@hkma.gov.hk](mailto:moneybrokers@hkma.gov.hk)).

## 1.2 Supervisory framework

1.2.1 The objective of the supervisory framework of the HKMA is to provide an effective process to monitor and assess the soundness of AMBs on a continuing basis.

1.2.2 The HKMA adopts a risk-based approach to the supervision of AMBs. It consists of a structured methodology designed to establish a forward-looking view on the risk profile of AMBs. This permits a direct and specific focus on the areas of greatest risk to an AMB.

1.2.3 The adoption of a well-structured risk-based framework allows the HKMA to apply appropriate supervisory measures on areas that expose the AMB concerned to the greatest degree of risk. This should also benefit AMBs as regulatory effort is focused on high-risk areas warranting management attention.

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<sup>3</sup> Such common condition expressed in the form of a formula is set out in the Annex for illustrative purposes. In exceptional cases where the AMB's revenue is not earned on a transaction basis, the calculations would be based on "total transaction amount" instead of "total revenue". The purpose of setting such a threshold serves to ensure that the AMB's primary business activity in Hong Kong Relevant Businesses is Hong Kong Money Market Businesses.



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## 2. Major supervisory requirements

### 2.1 Codes of conduct

2.1.1 The HKMA will have regard to an AMB's compliance with the Code of Conduct and Practice issued by the Treasury Markets Association (the TMA) (such Code as amended from time to time, the "TMA Code") in considering whether it is carrying on its business with integrity, prudence and the appropriate degree of professional competence. In particular, the HKMA will have regard to the following principles with reference to the TMA Code:

- honesty and fairness – an AMB should conduct its business in an honest and fair manner at all times;
- diligence – an AMB should exercise due care and diligence when acting for its clients in a business transaction and ensure that the interests of clients will not be compromised;
- confidentiality – an AMB should exercise utmost care in observing confidentiality and preserving client anonymity. An AMB should not divulge any information relating to deals transacted or being transacted, except when express permission from the parties involved is obtained, or when names of the principal contracting parties are released to the counterparties involved in a transaction under accepted terms of disclosure, or otherwise required by law or court order;
- conflicts of interest – any actual or perceived conflict of interest should be strictly avoided by an AMB in a market transaction to ensure fairness in the treatment of counterparties. An AMB should train its employees to identify situations that may potentially arouse concerns;
- compliance with legal and regulatory requirements – an AMB should comply with all laws, regulations and supervisory requirements (including codes, circulars and guidelines) applicable to the conduct of its business and activities; and
- professional knowledge – the management of an AMB



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should ensure that its employees have the necessary knowledge and expertise in treasury operations and are capable of carrying out their duties.

- 2.1.2 Apart from the TMA Code, AMBs should also comply with other codes or guidelines specified by the HKMA. An AMB's non-compliance with the TMA Code or any other codes and guidelines specified by the MA may call into question whether the AMB continues to be fit and proper to remain approved.

## **2.2 Business model**

- 2.2.1 AMBs should not take any proprietary position or act as principals in transactions which they broke under all circumstances. In particular, AMBs should only serve as intermediaries of deals by matching counterparties on mutually acceptable terms and passing names to facilitate the conclusion of transactions. AMBs are also not permitted to act in any discretionary fund management capacity.

- 2.2.2 The primary business activity of an AMB in Hong Kong Relevant Businesses is generally expected to be Hong Kong Money Market Businesses<sup>2</sup>. Notwithstanding the foregoing, the HKMA recognizes that the business model of an AMB may render it necessary for the AMB to be licensed/authorized under the Securities and Futures Ordinance (the SFO) or other applicable laws of Hong Kong. AMBs should inform the HKMA before making any changes to their business models.

- 2.2.3 AMBs should keep their business models under review, and seek professional advice as they consider necessary, for the purpose of determining whether their business activities in Hong Kong require them to be licensed/authorized under the SFO or other applicable laws of Hong Kong. For example, AMBs that are licensed corporations under the SFO should also comply with the relevant codes and guidelines issued by the Securities and Futures Commission.

## **2.3 Internal controls**

- 2.3.1 AMBs are expected to have effective internal controls to monitor and manage each of the risks inherent in their business operations and address any problem at an early stage. Types



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of risks may include credit<sup>4</sup>, operational<sup>5</sup>, liquidity, reputation<sup>6</sup>, legal and compliance risks.

2.3.2 An AMB's internal control system should, at a minimum, cover the following:

- controls relating to major functional areas, including broking, trade confirmation and accounting. Such controls should include segregation of duties between staff in the front office (trading) and middle/back office (risk measurement and monitoring, accounting, etc.), physical segregation of front and back offices, internal authorization and approval procedures, limit monitoring and self-assessments of operational risk;
- controls relating to information technology risk. Such controls should include system security, access controls, technology audits and disaster recovery planning;
- controls relating to conflicts of interest management. Such controls should ensure that any deal involving a connected principal is conducted in their respective interests and at arm's length;
- controls relating to prevention of money laundering and counter terrorist financing. Such controls should include systems, control mechanisms and periodic trainings to ensure compliance with the relevant laws, regulations and supervisory requirements (including codes, circulars and guidelines);
- controls relating to complaints handling. Such controls should include control mechanisms and procedures to ensure that complaints received regarding broking and other business activities are investigated promptly and

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<sup>4</sup> Credit risk may arise from outstanding brokerage receivables for cash deposits held at banks and money market instruments.

<sup>5</sup> Operational risk may arise from broker errors, deficiencies in information systems, disruption of critical business processes, loss of key staff from a broking desk, fraud, etc.

<sup>6</sup> Reputation risk may arise if any unfair or improper business practices, staff misconduct or operational errors come to light.



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objectively;

- controls relating to prevention of fraud and other conduct issues. Such controls should include systems, control mechanisms and periodic trainings to ensure matters which could give rise to fraud and other conduct issues are promptly detected and reported with adequate audit trail; and
- controls relating to compliance with legal and regulatory requirements. Such controls should include the establishment of a separate, independent compliance function to ensure that the AMB is in compliance with the laws, regulations and supervisory requirements (including codes, circulars and guidelines) applicable to its business and activities.

2.3.3 The adequacy and effectiveness of internal controls should be examined and tested periodically by the AMB's internal audit function or independent experts where appropriate. Any identified deficiencies and weaknesses, including non-compliance with internal policies and procedures, or with laws, regulations and supervisory requirements (including codes, circulars and guidelines), should be promptly reported to the Board of Directors and senior management for early rectification.

## **2.4 Policies and procedures**

2.4.1 An AMB should establish and maintain policies and procedures that it and its employees should follow. The policies and procedures should, at a minimum, cover the following standards and good practices:

- an AMB should ensure that its employees are adequately trained with the necessary knowledge and expertise in treasury operations;
- an AMB should establish defined policies and guidelines on whether it allows its dealing staff to trade for their own account, and if so, the AMB should disclose details of any material conflict, whether actual or perceived, between their own interests and their responsibilities to clients;
- an AMB should ensure that its employees comply with



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the relevant legal and regulatory requirements (including codes, circulars and guidelines specified by the HKMA) that may be applicable or relevant to its business and activities;

- an AMB should formulate well-documented policies and procedures for the prevention of money laundering and counter terrorist financing;
- an AMB should have effective segregation of duties between the front office (trading) and the middle/back office (risk measurement and monitoring, accounting etc.) functions with clear delineation of reporting lines and responsibilities;
- an AMB should establish and implement policies towards the receipt and giving of entertainment and gifts, having regard to any legal and regulatory requirements and the reputational risks to the AMB;
- unless otherwise specified, prices/rates quoted by an AMB should be taken as firm in marketable amounts;
- an AMB should adopt the practice of checking with dealers from time to time whether their quotes remain valid;
- an AMB should have proper procedures and control measures for recording all transactions and relevant data. In general, the use of mobile phones and similar devices in the dealing room that would bypass the control measures or do not support retrieval of relevant transaction records should be restricted;
- an AMB should have proper procedures to ensure its compliance with relevant laws, regulations, supervisory requirements (including codes, circulars and guidelines) in making and retaining tape recordings;
- an AMB should not disclose the name of a client unless the AMB is satisfied that both sides of the clients have a serious intention to enter into the transaction;
- an AMB should seek co-operation from its client to disclose the counterparty's name when there is a





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suspicion on the existence of such a counterparty if a borrower's or a lender's name is rejected;

- where electronic broking platforms are used, an AMB should establish guidelines on the time limit for the validity of quotes and reconfirm indicative prices/rates before a deal is struck;
- an AMB should formulate a business contingency plan to ensure business continuity in the front, middle/back offices in the event of any market disruption or crisis;
- where an AMB quotes a firm or an unqualified price but is subsequently unable to substantiate the quote when a deal is proposed, the AMB must make good the difference between the price quoted and the price at which the transaction is executed. The difference may be settled by cheque, or with mutual agreement, offset against brokerage charges. The AMB should keep a record of all such incidents;
- an AMB should have a proper approval process and the related procedures in place for the introduction of new products and services; and
- an AMB should promptly confirm the transaction with both counterparties, and its back office staff should be involved in checking the details.

## 2.5 Fitness and propriety of chief executives, directors and controllers

2.5.1 AMBs should ensure that their chief executives<sup>1</sup>, directors, and controllers are fit and proper persons to hold the respective positions on a continuous basis.

## 2.6 Capital

2.6.1 An AMB should have adequate financial resources to meet its business and operational needs, and in assessing the financial strength of an AMB, the HKMA has primary regard to the AMB's capital adequacy. As a minimum, an AMB's aggregate amount of paid-up share capital and the balance of its share premium account (if any) must be at least HK\$5 million (see paragraphs 1(2) and 5 in the Eleventh Schedule to the Ordinance). The MA may set further financial resources requirements, having regard



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to the circumstances, including the AMB's nature and scale of operations.

#### **2.7 Net liquid assets**

2.7.1 An AMB should also maintain adequate net liquid assets to ensure that it can meet its obligations as they fall due and finance its ongoing operations.

#### **2.8 Compliance with conditions**

2.8.1 An AMB's failure to comply with a condition attached to its certificate of approval is a ground for revocation of approval (see paragraph 4 in the Twelfth Schedule to the Ordinance).

2.8.2 In considering whether approval is to be revoked, the HKMA will take into consideration any remedial action taken, or proposed to be taken, by the AMB in question. For example, where the AMB is subject to the condition referred to in paragraph 1.1.3(iii) above, remedial actions could include spinning-off the other businesses concerned to a separate entity.

### **3. Supervisory process**

#### **3.1 Off-site reviews**

3.1.1 The HKMA maintains close communication with the industry through regular surveys and supervisory meetings with AMBs. The HKMA will conduct off-site reviews on the operations of AMBs. The HKMA also monitors each AMB's financial condition and compliance with its conditions of approval. The off-site surveillance ensures that the HKMA maintains familiarity with the financial condition and risk profile of each AMB and that the HKMA is prepared to instigate corrective actions if necessary.

3.1.2 AMBs are required to submit periodic returns on their financial positions and audited financial statements to the HKMA. From time to time, the HKMA may also require AMBs to submit further information (such as information about their risk management systems and internal controls) to enable the HKMA to have a holistic perspective of their operations as well as industry trends.

3.1.3 An AMB's directors are required to attest to the AMB's compliance with its conditions of approval through periodic submission of a certificate of compliance to the HKMA. This



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attestation requirement is intended to reinforce the responsibility of directors to ensure an AMB complies with its conditions of approval.

- 3.1.4 AMBs may be required to submit information on specific areas of concern (such as their status of compliance, or information about their risk management systems and internal controls) which the HKMA has identified during its review of periodic returns or has become aware of as part of its ongoing supervisory process (including but not limited to complaints or whistle-blowing reports).
- 3.1.5 In case it comes to the attention of the HKMA that the fitness and propriety of an AMB's chief executive<sup>1</sup>, directors or controllers may be at question, the HKMA may require the AMB to provide information to facilitate any assessment by the HKMA as appropriate. AMBs may also need to take appropriate actions to rectify the situation.
- 3.1.6 AMBs are required to submit incident reports to the HKMA on all non-compliance issues. The incident report shall contain, among others, details of the incidents, relevant regulatory requirements, impact on clients, and the remediation measures taken by the AMB.

## **3.2 On-site examinations**

- 3.2.1 The HKMA may conduct on-site examinations on an AMB pursuant to §55(4) of the Ordinance. An on-site examination will generally either be a general risk-based examination or a targeted examination that focuses on specific areas of concern which the HKMA has identified during its off-site supervision or has become aware of as part of its ongoing supervisory process (including but not limited to complaints or whistle-blowing reports).
- 3.2.2 On-site examinations enable the HKMA to obtain first-hand knowledge of how an AMB is being managed and controlled. Such information also facilitates the HKMA to determine whether the AMB has established appropriate and effective policies, procedures and controls to ensure compliance with relevant laws, regulations and supervisory requirements (including codes, circulars and guidelines). AMBs are expected to be able to demonstrate that their policies and procedures are



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well established and effectively applied.

### 3.3 Co-operation with other supervisors

- 3.3.1 To enhance co-operation and exchange of supervisory information in the broking operations of AMBs (including operations involving places outside Hong Kong), the HKMA may enter into formal arrangements for supervisory collaboration through memoranda of understanding or letters of agreement and maintain regular contact with other relevant supervisory authorities within or outside Hong Kong.

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## Annex

### Further details regarding the common condition referred to in paragraph 1.1.3(iii) in this guideline

- **Illustrative formula of such common condition**

$$\frac{\text{Total revenue}^7 \text{ from Hong Kong Money Market Businesses}}{\text{Total revenue}^7 \text{ from Hong Kong Relevant Businesses}} \times 100\% \geq 50\%$$

- **Relevant definitions**

#### ***Meaning of “Hong Kong Money Market Businesses”***

In this guideline, the term “Hong Kong Money Market Businesses” means the businesses carried on by the money broker in or from Hong Kong for reward, or the services provided by the money broker to persons in Hong Kong for reward, of negotiating, arranging or facilitating, whether by electronic means or otherwise, agreements between other persons:

- (i) in respect of—
  - (A) the making of a deposit of any currency;
  - (B) the purchase or sale of any currency, and whether or not the currency the subject of the purchase or sale is to be received or delivered immediately or at any future time or upon the happening of any future occurrence; or
  - (C) the purchase or sale of an instrument, or an instrument belonging to a class of instruments, declared in a notice under §2(14)(a) of the Ordinance to be an instrument, or a class of instruments, as the case may be, for the purposes of the definition of “money broker” in §2(1) of the Ordinance; and
- (ii) as agent for, or as the provider of a Dealing Service (see definition below) to, not less than one of those persons.

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<sup>7</sup> In exceptional cases where the AMB’s revenue is not earned on a transaction basis, the calculations would be based on “total transaction amount” instead of “total revenue”.



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#### ***Meaning of “Hong Kong Relevant Businesses”***

In this guideline, the term “Hong Kong Relevant Businesses” means:

- (i) any Hong Kong Money Market Businesses (as defined above); plus
- (ii) any business carried on or any service provided by the money broker in Hong Kong, which is not subject to the relevant licensing, registration or authorization requirements under the SFO for carrying on such business or providing such service in Hong Kong by reason of the money broker’s reliance on an applicable exclusion or exemption from such requirements under the SFO that is expressed as being applicable to an “approved money broker” (as defined in section 1 of Part 1 of Schedule 1 to the SFO), other than any Hong Kong Money Market Businesses (as defined above).

#### ***Meaning of “Dealing Service”***

In this guideline, the term “Dealing Service” means a service, whether or not offered in person or by electronic means or otherwise, whereby the persons to whom the service is provided are given the ability to quote bid or offer prices or rates—

- (i) for the purpose of effecting an agreement (and whether or not any such agreement is effected); and
- (ii) which may be—
  - (A) accepted by any of those other persons to whom they are quoted; or
  - (B) matched pursuant to the service.