

SFC reinforces the regulatory requirements for provision of online investment services

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The increasing demand and adoption of online platforms for brokerage, distribution and advisory services by Licensed Corporations (“LCs”), as seen in the latest [joint survey](#) from the regulators on the Sale of Non-exchange Traded Investment Products, has reinforced the focus of the regulator on robust and secure online platforms for investment trading, in particular those requirements for suitability, remote account opening and cybersecurity.



In the Securities and Futures Commission (“SFC”) [circular](#) published in Aug 2022, a number of observations and findings were highlighted as a result of recent inspections. It is anticipated that future inspection and enforcement will be ramped up as the [Guidelines on Online Distribution and Advisory Platforms](#), published in July 2019, have already been in force for a few years. LCs with online platforms or those considering digitalising parts of their business should take note and evaluate current or planned frameworks for compliance.



Key Observations from the SFC Review of Online Brokerage, Distribution and Advisory Services

- Strong demand and adoption of remote account onboarding
- 98% of LCs surveyed provide online trading of equities with a focus on Hong Kong (53%) and US (39%) markets
- Less than half of LCs surveyed have platforms for selling bonds and funds with a low penetration (6% of LCs surveyed) providing robo-advisory services.
- Certain LCs offered unique features to enhance customer experience such as (i) market data and analysis; (ii) instant customer services; and (iii) gamification features
- Increasing trend to use social media platforms for marketing and communication purposes with over 86% of surveyed LCs using self-developed or third-party operated social media platforms to interact with their clients, such as Weibo, Wechat and Facebook

With the emergence of fin-tech and wealth-tech solutions and the move to greater demand for online services during the pandemic, we expect many of the brokers which do not already offer online, or at present offer only limited online services, will face demand to improve and augment their existing offerings. We also expect robo-advisory to become more prevalent in the Hong Kong market.



Key Regulatory Concerns

- Failure to conduct proper client identity verification to mitigate impersonation risks when onboarding clients
- Inclusion of clauses and statements within the client agreements and risk disclosures in an attempt to restrict clients’ rights, exempt LC’s obligations, or misdescribe the actual services provided to clients
- Insufficient product due diligence and failure to observe selling restrictions applicable to specific products
- Lack of monitoring mechanisms to review the information and commentaries posted on online platforms
- Failure to implement adequate mechanisms to mitigate cybersecurity risks

Non-Face to Face Client Onboarding

- Client identity verification should be performed properly while onboarding clients via online platforms. Examples include, but are not limited to:
 - Recognising clients’ designated accounts in Hong Kong
 - Procuring independent assessments for the facial recognition technologies used to authenticate clients’ identities when onboarding overseas clients

Cybersecurity

- Adequate mechanisms should be in place to mitigate cybersecurity risks, including but not limited to:
 - Effective two-factor authentication for client to login to the online platform
 - Monitoring and surveillance to detect unauthorised access to clients’ internet trading accounts
 - Channels to promptly notify clients after certain client activities, and session timeout
 - Disallow clients from disabling session timeouts and limit the idle timeout period



Online Trading, Distribution and Marketing

- Should not limit client rights by including clauses and statements on the client agreements and consents
- Perform proper product due diligence to assess the key features and risks of the products
- Observe the selling restrictions or additional regulatory requirements when distributing certain investment products, such as VA-related products.
- Adequate measures should be in place for detecting any abnormal frequent changes to client profiles
- Sufficient monitoring mechanisms in reviewing information and commentaries posted by the LCs on the online platform should be in place to ensure information is sufficient and not misleading.
- Observe additional compliance requirements while offering solicitation service to overseas clients

Resources Planning

- Given the potential increase in the number of clients adopting online platforms, LCs should maintain adequate resources and establish effective procedures to properly carry out their business activities



Continuous Obligations

Apart from fulfilling the expected standards as outlined in the Circular, LCs are reminded to adhere to the SFC requirements when conducting their regulated activities on online platforms:



Non-Face to Face Client Onboarding

[Acceptable Account Opening Approaches](#)

[Circular to intermediaries – Remote onboarding of overseas individual clients](#)



Online trading, distribution and marketing

[Guidelines on Online Distribution and Advisory Platforms](#)

[Frequently Asked Questions on Suitability requirements](#)



Cybersecurity

[Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading](#)

[Circular to licensed corporations on review of internet trading cybersecurity](#)

[Report on the 2019-20 thematic cybersecurity review of internet brokers](#)



Moving online goes beyond digitalisation of offline processes

As more investors are making investments through online platforms provided by LCs, LCs are reminded to review their systems, controls and procedures with regards to the expected standards as reminded in the Circular and ensure that the online platforms are properly designed and operate in compliance with all applicable rules and regulations. It should be noted that moving to an online platform is not as simple as digitalising offline processes; proper considerations should be made to comply with [Guidelines on Online Distribution and Advisory Platforms](#) including discharging of suitability obligations, triggering of suitability, review of materials posted online, robo-advisory governance and capabilities, and information for clients, to name a few.



How KPMG can help?

We have advised numerous clients in the online and offline space to navigate the challenges imposed by prevailing guidelines and regulatory requirements:

Client needs



LCs with an established/ready-to-launch online platform looking for an external view of their compliance status relative to market practices and regulators' expectations



LCs seeking to enhance services and client experience by offering online platform services to their clients.

LCs that have a basic framework in place can use this approach to enhance or revamp their framework for compliance with prevailing requirements



LCs with an online platform that want to meet increasingly more stringent requirements



LCs with an online platform that are looking for independent verification of their implementation plan



LCs with resources limitations looking for professional support for project implementation

Service

Health-Check/Readiness

- End-to-end review of customer risk profiling ("CRP"), product due diligence ("PDD"), sales suitability framework, and governance and oversight as well as alignment with SFC Guidelines on Online Distribution and Advisory Platforms

Framework Design/Remediation

- Provide tailored templates, policies, procedures, flowcharts and checklists for elements of the sales suitability framework for customisation and implementation (i.e. typically CRP process, PDD process, sales suitability process and management supervision)
- Design CRP questions and the underlying scoring mechanism, and product risk rating model
- Where applicable, advise on updates to existing policies and procedures and operational tools, which may include redesign of processes and workflows as appropriate.
- UI/UX considerations for suitability flow, to comply with regulatory requirements

Questionnaire and Product Risk Rating Review

- Assess the adequacy and effectiveness of customer risk profiling and product risk rating framework and scoring mechanisms, in light of recent regulatory scrutiny in these areas

Post-Implementation Review

- Verify the implementation of recommendations (from health-check) or enhanced policies and procedures (from framework design/remediation) via inspection of relevant documents, process walkthrough and sample testing

Implementation Support

- Professional staff/secondes to assist in project implementation

KPMG has multi-disciplinary teams with subject matter experts who have significant depth and capability to advise on regulatory compliance and information technology challenges. We draw on this depth to ensure that our clients have access to the right perspectives as we have the expertise that meets your needs.

Contact us

If you would like to further discuss the implications of the latest circular, please contact us:



Jeffrey Hau
Risk Consulting
Partner
T. +(852) 2685 7780
E. jeffrey.hau@kpmg.com



Gerard Sharkey
Wealth Management Advisory
Partner
T. +(852) 3927 5994
E. gerard.sharkey@kpmg.com



Chad Olsen
Forensics / AML
Partner
T. +(852) 3927 5576
E. chad.olsen@kpmg.com



Henry Shek
Technology Consulting
Partner
T. +(852) 2143 8799
E. henry.shek@kpmg.com



Brian Cheung
Technology Consulting
Partner
T. +(852) 2847 5026
E. brian.cheung@kpmg.com



Safa Sadigh-Mostowfi
Risk Consulting
Director
T. +(852) 2522 6022
E. safa.mostowfi@kpmg.com

kpmg.com/cn/socialmedia



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