

23 November 2011

Circular to All Licensed Corporations

Provision of services to clients for conducting transactions in other jurisdictions

Licensed corporations may provide services to clients for conducting transactions in other jurisdictions through overseas counterparties. The licensed corporations which provide such services to their clients are required to establish and maintain policies and procedures to ensure the proper management of risks to which the firms and, if applicable, their clients are exposed. Licensed corporations are expected to perform the following:

- Evaluate and monitor the risks associated with their relationship with overseas counterparties, including:
 - assessing the creditworthiness of the counterparties concerned;
 - evaluating the counterparties' capabilities in providing the services; and
 - be alert to adverse changes in the prevailing market conditions that may increase the risks inherent in their relationship with the counterparties and to the risk of over reliance on a single counterparty;
- Subject to any instructions from clients, avoid placing excessive client money with overseas counterparties.

In addition, licensed corporations are reminded to explain to their clients the risks associated with such trading activities as set out in the Code of Conduct¹. These include the risks of client assets received or held outside Hong Kong as such assets may not be subject to the same protection as that conferred on client assets received or held in Hong Kong. Also, it would be in the interests of clients for licensed corporations to inform them of other risks of conducting transactions in other jurisdictions. For example, overseas markets may be subject to regulation which may offer different or diminished investor protection and a local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where clients' transactions have been effected.

Further, licensed corporations should take a proactive role in dealing with clients' enquiries and concerns, particularly regarding client assets, and to obtain and provide any updated information to the clients in relation to their overseas transactions when dealing with them.

Should you have any queries regarding the contents of this circular, please contact Ms Lorraine Chan on 2842-7751.

Intermediaries Supervision Department
Securities and Futures Commission

End

SFO/IS/021/2011

¹ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission