

Cementing Hong Kong's Role as a Premier Private Wealth Management Hub in Asia



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Executive Summary

Practitioners within the private wealth management (PWM) industry continue to operate in a rapidly changing and challenging environment. The trend of digital adoption has become inevitable as the tech-savvy younger generation seek out a more personalised experience in terms of strategic planning and delivery of product offerings.¹ From a global perspective, this trend has shown stronger momentum in the Asia Pacific region, driven by higher levels of public access to mobile technology and higher savings rates.

For a long time, the PWM business has been a key contributor to the asset and wealth management sector in Hong Kong. In 2021, the total assets of the PWM industry decreased to HK\$10.6 trillion, down 6% from the previous year, but the industry still saw net new fund inflows of HK\$638 billion.² Such growth could be attributed to the key developments in the Greater Bay Area (GBA) as well as the growing investment appetite of high-net-worth individuals (HNWIs). According to a report jointly published by the Private Wealth Management Association (PWMA) and KPMG,³ the number of HNWIs in Hong Kong had increased by 9.6% to 188,000 from 2019 to 2020. Meanwhile, 41% of PWM institutions' assets under management (AUM) was sourced from Mainland China, and this figure is expected to reach 51% over the next five years. In the essence of facilitating the digital experience of private wealth clients, especially for HNWIs and those from the GBA, it is crucial to maximise the industry's potential to capture relevant emerging opportunities. While Hong Kong's PWM industry has managed to maintain its quality-of-service during the COVID-19 period by transforming its working strategy and client expectations,⁴ the Financial Services Development Council (FSDC) also acknowledges the collective efforts made by the Financial Services and the Treasury Bureau (FSTB), Hong Kong Monetary Authority (HKMA), and Securities and Futures Commission (SFC) in recognising the importance of the PWM industry to Hong Kong. While we laud their intent to strike a balance between investor protection and principles-based regulation, there remains a need to review certain key areas to enhance the city's competitiveness, as summarised in the following recommendations:

Re Know Your Customer (KYC) –

- Aligning the regimes dealing with Anti-Money Laundering (AML) KYC, suitability KYC, and professional investor (PI) KYC across the financial services industry.

Re Sophisticated PI –

- Introducing a sophisticated PI classification into the Code of Conduct in respect of individual and corporate professional investors (based on the existing assets test) in respect of which Suitability Obligations can be exempted on an opt-in basis.

Re Asset Based PI –

- Introducing a higher assets test into the Code of Conduct in respect of individual and corporate professional investors, in respect of which the Suitability Obligations can be exempted on an opt-in basis where such investors have a portfolio of no less than HK\$40 million or total assets (excluding main residence) of no less than HK\$80 million.

¹ KPMG, Assessing the impact of digitalisation on wealth management, April 2019, <https://home.kpmg/cn/en/home/insights/2019/04/assessing-the-impact-digitalisation-wealth-management.html>

² SFC, Asset and Wealth Management Activities Survey 2021, July 2022, https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2021_final_e.pdf

³ PWMA & KPMG, Hong Kong Private Wealth Management Report 2021, October 2021 <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/10/hong-kong-private-wealth-management-report-2021.pdf>

⁴ Ibid

Re Suitability –

- Reviewing the current Suitability Framework and Suitability Obligations with regards to the assessment for dis-applying Suitability Obligations and the "portfolio approach" regime introduced by the HKMA in 2012 for the private banking industry.

Re Tax –

- Reviewing current tax regime to ensure that individual asset owners are treated on an equal footing regardless of whether they are Hong Kong residents or not.

Re Education –

- Further developing the talent pipeline for the industry through growing talent at the entry level, attracting mid-career transfer, and enhancing the quality of talent throughout the pipeline.

Overview

Digitalisation in Private Wealth Management in Hong Kong

Digitalisation is a well-established trend in the banking industry. Banks have adopted digital solutions to modernise customer service and improve customer experience, reduce operating costs, improve financial inclusion, and enhance regulatory compliance capabilities and risk management. The onset of COVID-19 has significantly accelerated digital transformation as a result of permanent behavioural changes in firms and people. There is also a greater market demand for multi-access channels.

The use of non-face-to-face engagement has created huge opportunities, particularly for retail banking and brokerages. As an illustration, there has been an exponential growth in the use of the Faster Payment System (FPS), with 7.8 million registrations recorded at the end of July 2022,⁵ and an average daily turnover reaching 673,000 real-time transactions (worth HK\$5.4 billion and RMB136 billion) at the end of 2021, 90% higher than that in 2020.⁶ Hong Kong also has a robust smartphone penetration rate of 92.1%,⁷ the second fastest internet speed (ranked by median download speeds) in the world,⁸ and a widespread accessibility of 4G internet connectivity at a rate of 94.1%.⁹ These provide a solid foundation for financial services firms to serve clients, especially the more technologically adept younger generation, who prefer to have financial services primarily delivered via digital means.

According to the Hong Kong Private Wealth Management Report 2021 jointly published by PWMA and KPMG, wealth managers were of the view that their digital offering continued to meet their clients' expectations. From the private wealth clients' perspectives, despite a slight drop in the figure compared with the previous year, 78% of the private wealth clients still rated their relationship managers' (RMs) digital performance as mostly meeting, or exceeding expectations.¹⁰

In a global wealth research report published by EY in 2021,¹¹ more than one in three clients indicated that their relationship with their wealth manager had become less personal (e.g., less face-to-face communication), and the figure is even higher among millennial clients (Next Gens) and those who prefer digital-led or hybrid engagement models. When clients increasingly call for more tailored and specialised services, smart technology tools with behavioural analytics can be engaged by RMs to deliver bespoke services at a low cost to meet client expectations.

Hong Kong is home to about three-fourths of the world's largest 100 banks.¹² The total AUM of the asset and wealth management business rose to HK\$35 trillion with a 2% year-on-year increment in 2021. The total AUM held by private banks in Hong Kong also stood at around HK\$10.5 trillion.¹³ Whilst the digital strategy of global banks is often centralised at the parent level, Hong Kong's strategy will largely be driven by, and focuses on the key factors of (a) culture, (b) customer experience, (c) distribution and sales, and (d) opportunities relating to the Mainland Chinese market, each of which is explored below.

In considering these factors, it is important to ensure that we enhance customer loyalty, not only to their current PWM platforms but also to Hong Kong, and we position Hong Kong as best in class to be the PWM hub for China and Asia Pacific as a whole.

⁵ Hong Kong Interbank Clearing Limited, FPS Statistics, July 2022, https://fps.hkicl.com.hk/eng/fps/about_fps/statistics.php

⁶ Hong Kong Monetary Authority, 2021 Annual Report, July 2022, https://www.hkma.gov.hk/media/eng/publication-and-research/annual-report/2021/AR2021_E.pdf

⁷ Census and Statistics Department, Thematic Household Survey Report No. 73, April 2021, https://www.censtatd.gov.hk/en/data/stat_report/product/B1130201/att/B11302732021XXXXB0100.pdf

⁸ Fastmetrics, Report on Fastest Internet in The World 2020 - Ranked By Median Download Speeds, August 2020, <https://www.fastmetrics.com/internet-connection-speed-by-country.php>

⁹ Quinlan and Associates, Branching Off, 2021, <https://www.quinlanandassociates.com/wp-content/uploads/2021/03/Quinlan-Associates-Branching-Off.pdf>

¹⁰ PWMA & KPMG, Hong Kong Private Wealth Management Report 2021, October 2021, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/10/hong-kong-private-wealth-management-report-2021.pdf>

¹¹ Ernst & Young, Where will wealth take clients next? 2021 EY Global Wealth Research Report, April 2021, https://assets.ey.com/content/dam/ey-sites/ey-com/en/_gl/topics/wealth-and-asset-management/ey-2021-global-wealth-research-report-optimized-for-web-v2.pdf

¹² FamilyOfficeHK, Hong Kong A Leading Hub for Family Offices, 2021, https://www.investhk.gov.hk/sites/default/files/2021.04_HK_A%20Leading%20Hub%20for%20Family%20Offices_en.pdf

¹³ SFC, Asset and Wealth Management Activities Survey 2021, July 2022, https://www.sfc.hk/-/media/EN/files/COM/Reports-and-surveys/AWMAS-2021_final_e.pdf

a. Culture

There has been a notable paradigm shift in PWM's demographics due to the following:

- generational wealth transfer in existing high-net-worth (HNW) / ultra-high-net-worth families – based on a study by IQ-EQ (an investor services provider),¹⁴ over US\$15 trillion worth of assets are scheduled to be passed to the Next Gens by 2030; and
- rising entrepreneurial wealth in IT/new economy space – in the US, among the 2021 top 400 wealthiest Americans, most of the 12 under-40 richest Americans have earned their fortune in the tech or social media sectors.¹⁵ Similarly, in China, out of the 878 billionaires as of 2020, 60 were under the age of 40 and more than half found their footing through setting up their own companies.¹⁶

With the client base gradually shifting to younger generations raised in the digital age who are heavily dependent on the internet in seeking out knowledge, RMs can add value through deploying technology in distilling and personalising data, including market data, to meet client expectations. However, building trust and human relationships will remain important, which is consistent with the core pillar of the PWM business – client relationship management.

b. Customer experience

In the era of high-speed technology, clients expect their information to be immediately accessible. In order to provide personalised services, it is pivotal for banks to learn clients' preferences in obtaining information. For example, enabling access to client information via an online portal has become a necessity for providing a better client experience – not only for the younger generations, but for all clients.

Additionally, clients want access to more details on market information, research, and product information to make better investment decisions on a more informed basis.

At the same time, these clients do not want to trigger "suitability" requirements simply because they are given more information and investment choices.

As noted by a report published by the Boston Consulting Group (BCG) in June 2021,¹⁷ Next Gens tend to feel more comfortable with independently navigating many elements of their wealth management, and are not inclined to pay high fees for activities which they believe they can manage on their own. Such activities include high-value alternative investments, impact investing, deal opportunities, private placements, and bespoke credit. In a survey published by Accenture and Orbium Wealth Management in 2020,¹⁸ the market is expected to evolve progressively towards a highly personalised segment focusing on individual clients' wants and needs. Future engagement models will be driven by clients' social, ethical, ecological, and personal values and lifestyle choices, as well as their needs linked to specific lifecycle events.

¹⁴ IQ-EQ, The Great Global Wealth Transfer, <https://info.iqeq.com/global-wealth-white-paper>

¹⁵ Forbes, "12 Under 40", September 2020, <https://www.forbes.com/sites/hayleyuccinello/2020/09/08/12-under-40-here-are-the-youngest-billionaires-on-the-forbes-400-2020/?sh=31779bbd4d91>

¹⁶ CNBC, "China's young billionaires are riding the tech boom", October 2020, <https://www.cnbc.com/2020/10/28/chinas-youngest-richest-billionaires-and-how-they-made-their-money.html>

¹⁷ BCG, Global Wealth 2021, June 2021, <https://web-assets.bcg.com/d4/47/64895c544486a7411b06ba4099f2/bcg-global-wealth-2021-jun-2021.pdf>

¹⁸ Accenture, Orbium, Survive and thrive to 2025 - Insights from the Wealth Management C-Level, https://www.accenture.com/_acnmedia/PDF-166/Accenture-Orbium-Wealth-Management-C-Level-Survey-2020.pdf

c. Distribution and sales

Many banks are leveraging technology to improve their distribution and sales strategies; the convergence of big data and AI-driven automation has allowed private banks to deliver a targeted and personalised customer experience at scale and with relatively lower costs.

To prepare for competition from new entrants, private banks must consider the following:

- (a) increasing the use of innovative, multi-functional, and value-added features on mobile and online platforms, such as tools that offer trade ideas and execution-only functionalities;
- (b) enabling greater access to market information and research;
- (c) allowing a wider range of products to be sold and services to be offered online;
- (d) developing new non-client facing tools to deliver seamless and affordable solutions; and
- (e) investing in robo-advisory platforms. The size of the robo-advisory market in Hong Kong was around US\$ 90 million in 2018 and is expected to grow to US\$ 3.5 billion by 2022.¹⁹ Furthermore, the total AUM for investments made with robo-advisors are US\$6.4 billion in 2025.²⁰ Market practitioners have reflected that they see more potential in robo-advisory platforms which support RMs instead of client-facing robo-advisory services. Through our research process, the FSDC has noted that a trend of incumbent RMs using hybrid robo-advisory models is already well-established. It is also noted that RMs often utilise the technology of automated platforms to enhance their service offerings to clients while simultaneously saving costs in the middle office.²¹

¹⁹ Deloitte, The rise of robo-advisers in Asia Pacific, 2019, <https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/financial-services/sea-fsi-robo-advisers-asia-pacific.pdf>

²⁰ SCMP, "Hong Kong offers fertile ground for robo-advisory firms to grow and tap wealth management market in mainland China, Aqumon says", February 2021, <https://www.scmp.com/business/markets/article/3121694/hong-kong-offers-fertile-ground-robo-advisory-firms-grow-and-tap>

²¹ Redesigning Financial Services (RFS), The Future of Wealth Management, March 2021, <https://redesigning-fs.com/wp-content/uploads/2021/03/The-Future-of-Wealth-Management.pdf>

d. Opportunities relating to the Mainland Chinese market

Multiple studies have identified Mainland China as the global driver for investable wealth in the next few years. A report prepared by Credit Suisse estimates that by 2025, the number of millionaires in China will increase to a total of 10.17 million, i.e., an estimated 93% increase from that in 2020, which is the highest growth rate among all the countries listed in the report.

Table 1. Number of millionaires in 2020 and 2025, by region and for selected countries²²

	Number (thousand)		Change	
	2020	2025	Thousand	%
United States	21,951	28,055	6,104	27.8
China	5,279	10,172	4,893	92.7
Japan	3,662	5,411	1,749	47.8
France	2,469	4,201	1,732	70.1
Canada	1,682	2,981	1,299	77.2
Germany	2,953	4,240	1,287	43.6
Australia	1,805	3,071	1,266	70.1
United Kingdom	2,491	3,711	1,220	49.0
Korea	1,051	1,772	721	68.6
Spain	1,147	1,804	657	57.3

Source: Global Wealth Report 2021, Credit Suisse

In its global wealth report issued in June 2021, BCG predicted that Hong Kong will overtake Switzerland to become the world's largest cross-border wealth management centre by AUM in 2023, with a compound annual growth rate of 9% between 2020 and 2025.²³

The GBA is expected to bring about considerable opportunities for Hong Kong. According to the Hurun Global Rich List 2022, Mainland China is home to 1,133 billionaires and there are 276 billionaires living in the GBA alone.²⁴ The GBA has also long been a piloting zone for innovative cross-border financial services and products. For instance, remote account opening by attestation of Mainland China personal accounts (Type II and Type III) was piloted for Hong Kong citizens in 2019, with designated pilot banks in the GBA.

Furthermore, with the launch of Wealth Management Connect in September 2021, cross-boundary collaboration among regulators and market participants has been further strengthened. Innovative and reliable platforms will continue to be critical in facilitating the development of cross border connectivity.

²² Credit Suisse, Global Wealth Report 2021, June 2021, <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html>

²³ BCG, Global Wealth Report, June 2021, <https://web-assets.bcg.com/d4/47/64895c544486a7411b06ba4099f2/bcg-global-wealth-2021-jun-2021.pdf>

²⁴ Hurun, Global Rich List 2022, March 2022, <https://www.hurun.net/en-US/Info/Detail?num=EAR425P9JVTE#totop>

Risks and challenges

Digitalisation has radically changed the way business is conducted. When used responsibly, technology can provide cheaper and more effective solutions in many aspects of the banking functions such as AML, suitability, disclosures, electronic trading, best execution, marketing, access to research and market information, data privacy, outsourcing, and cyber security. Regulators such as the SFC and HKMA have voiced strong support for responsible financial innovation that is in line with their regulatory requirements.

However, as PWM institutions continue to digitalise their services, the risk of data breaches and other cyber security issues have understandably become a key concern. In a PWMA member survey published jointly with KPMG in 2020, nearly two-thirds of the surveyed member firms considered the risk of data leakage for confidential client information as one of the top three challenges around using technology;²⁵ whilst in a joint report published by PWMA and KPMG in 2021, the surveyed members noted that back office cyber security was one of the top five digital transformation areas where investment had increased the most year on year.²⁶

Notwithstanding the risk elements associated with digitalisation, Hong Kong's PWM sector must be committed to staying abreast of innovative technologies and business models in order to meet client expectations while also promoting responsible innovation. This will ensure that Hong Kong remains a competitive international financial centre while keeping up-to-date with global standards, including those set by the Financial Action Task Force (FATF).

²⁵ PWMA & KPMG, Hong Kong Private Wealth Management Report 2020, November 2020, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2020/11/hong-kong-private-wealth-management-report-2020.pdf>

²⁶ PWMA & KPMG, Hong Kong Private Wealth Management Report 2021, October 2021, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/10/hong-kong-private-wealth-management-report-2021.pdf>

AML/CFT Practices in Private Wealth Management

Digital Transformation in Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) Compliance

As a member of the FATF since 1991, Hong Kong, together with other major jurisdictions in the world which have joined the organisation, is obliged to adhere to FATF standards in promoting effective legal, regulatory, and operational measures to combat money laundering and terrorist financing (ML/TF). However, in implementing FATF standards, Hong Kong is afforded an appropriate level of flexibility with regards to local law and regulations as well as market practice. In its Mutual Evaluation Report on Hong Kong, published in September 2019,²⁷ the FATF confirmed Hong Kong's strong legal foundation and effective system for combating ML/TF and commendable effort in responding to ML/TF risks. A non-exhaustive list highlighting the key features of, among others, Hong Kong's AML/CFT regime and regulations/obligations, is set out in Appendix 1.

In light of social distancing measures under the COVID-19 pandemic, the FATF has encouraged the fullest use of responsible digital customer onboarding systems and delivery of digital financial services.²⁸ One such application is the use of digital identification (ID), which can help improve security and privacy, and identify people closer to real time for both onboarding and conducting transactions. As documented in its 2018 paper,²⁹ the FSDC also supports the use of digital ID and KYC utilities, and noted that reliable and independent digital systems with appropriate risk mitigation measures can effectively reduce the burden associated with compliance for client due diligence (CDD) requirements.

Heightened reliance on digitalisation, however, is not without risk. In its paper entitled "Opportunities and Challenges of New Technologies for AML/CFT" issued in July 2021, the FATF noted that the top three challenges faced in the development and/or implementation of new technologies are regulatory practices, data privacy and protection requirements, and data quality.³⁰ In this regard, mitigative measures such as manual review and human input remain crucial in managing residual risk.

Hong Kong Regulatory Response in Promoting Technologies for AML/CFT

In recent years, Hong Kong regulators have devoted much attention and resources to facilitate technology adoption. For instance, in its September 2020 report on AML/CFT supervision in the age of digital innovation,³¹ the HKMA acknowledges the benefits and opportunities of digitalisation in the AML/CFT processes; in particular, the use of regulatory technologies (Regtech) and supervisory technologies (Suptech) has made financial services more accessible to clients and facilitated the process for financial institutions and regulators to conduct regulatory and supervisory work.

²⁷ FATF, Mutual Evaluation Report of Hong Kong, China, September 2019, <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Hong-Kong-China-2019.pdf>

²⁸ FATF, COVID-19 and measures to combat illicit financing, April 2020, <https://www.fatf-gafi.org/publications/fatfgeneral/documents/statement-COVID-19.html>

²⁹ FSDC, Building the Technological and Regulatory Infrastructure of a 21st Century International Financial Centre: Digital ID and KYC Utilities for Financial Inclusion, Integrity and Competitiveness, June 2018, https://www.fsd.org.hk/media/05ieplto/kyc-paper_e_0.pdf

³⁰ FATF, Opportunities and challenges of new technologies for AML/CFT, July 2021, <https://www.fatf-gafi.org/media/fatf/documents/reports/Opportunities-Challenges-of-New-Technologies-for-AML-CFT.pdf>

³¹ Deloitte and HKMA, AML/CFT Supervision in the Age of Digital Innovation, September 2020, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200929e1a1.pdf>

The HKMA made it clear in its white paper, published in November 2020,³² that it intends to realise its vision for Regtech by 2025 and expects banks to accelerate the adoption of Regtech in Hong Kong. Indeed, the HKMA remains committed to promoting Regtech adoption in AML/CFT in the banking sector, and has cited case studies to demonstrate that data and network analytics allow authorised institutions (AIs) to more easily visualise connectivity of data and identify suspicious customer behaviours and attributes (such as IP addresses, customer name, transactional data, login attempts, and other data relating to a customer's digital footprint), thereby facilitating the identification of high-risk relationships and suspicious transactions.³³

With remote engagements becoming more prevalent in light of the COVID-19 pandemic, both the HKMA and SFC have provided guidance on the use of technological means to help the industry comply with AML/CFT requirements under a risk-based approach. In 2020, the SFC amended its Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) to devise new approaches for account opening. The HKMA also issued several circulars between 2019 and 2021, setting out the guiding principles for remote onboarding, including a circular on remote onboarding of corporate customers, and a circular encouraging the wider adoption of "iAM Smart" (which stands for "*internet Access by Mobile in a Smart way*") in remote onboarding arrangements.³⁴

Additionally, the launch of the mobile application "iAM Smart" by the Government in December 2020 represents a turning point for the industry. This is an acceptable technology solution that meets customer identification and verification requirements under the AMLO. As a next step, the Government intends to develop systems to recognise accredited foreign providers of eID services such as those in the European Union, as well as the development of an equivalent solution for accredited eID service providers in Hong Kong.

It is acknowledged that the Government is in the process of amending the AMLO to enable the use of a recognised digital identification system that is a reliable and independent source. Moreover, iAM Smart is also recognised by the relevant regulatory authorities for customer identification and verification purposes. The iAM Smart mobile application is an example of a recognised digital identification system; the FSDC is supportive of this development.

To facilitate the exchange of data between financial institutions, appropriate third-party service providers, and government agencies, the HKMA launched an Open API framework³⁵ in July 2018 and provided further updates in May 2021.³⁶ The implementation of Phases III and IV of banking Open API would further facilitate KYC procedures and reduce authentication costs by streamlining processes through sharing customer profiles.

³² HKMA, Transforming Risk Management and Compliance: Harnessing the Power of Regtech, Press release, November 2020, <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2020/20201102e3a1.pdf>

³³ Deloitte and HKMA, AML/CFT Regtech: Case Studies and Insights, January 2021, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210121e1a1.pdf>

³⁴ HKMA, Remote on-boarding and iAM Smart, May 2021, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210524e1.pdf>

³⁵ HKMA, Open API Framework for the Hong Kong Banking Sector, July 2018, <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2018/20180718e5a2.pdf>

³⁶ Accenture and HKMA, The Next Phase of the Banking Open API Journey, May 2021, https://www.hkma.gov.hk/media/eng/doc/key-functions/ifc/fintech/The_Next_Phase_of_the_Banking_Open_API_Journey.pdf

Noting the importance of having adequate name screening systems and controls in place, in April 2018, the HKMA shared some feedback from its thematic reviews of AIs' name screening systems which, among other factors, concluded that operating ineffective name screen systems brings significant legal and reputational risks, and that the cost of inefficient screening systems should not be underestimated.^{37,38} Given the dynamic nature of risk, as well as the volume and speed of data, the HKMA recognises the vital role played by technology and Regtech to help banks monitor, screen, and analyse information.³⁹ Accordingly, name screening should be considered alongside and together with AML/CFT KYC in this context.

Regulatory Challenges Faced by the Private Wealth Management Industry

A notable challenge is associated with group-wide AML/CFT systems. In particular, the requirement in Hong Kong for an overseas branch or subsidiary undertaking a Hong Kong-incorporated AI to apply the higher requirements of: (i) the jurisdiction where the overseas branch or subsidiary undertaking is located (i.e., the host jurisdiction), and (ii) Hong Kong, if the AML/CFT requirements in the host jurisdiction and Hong Kong differ, and to the extent that the host jurisdiction's laws and regulations permit, rather than allow, the host jurisdictions' equivalent laws and regulations to prevail.⁴⁰

Long Onboarding Time and High Costs for KYC/AML Compliance

In its circular on "De-risking and Financial Inclusion" published in September 2016, the HKMA emphasised that while it is vital for AIs to ensure AML/CFT controls are sufficiently robust and comply with all the relevant regulatory requirements, AIs are expected to adopt a risk-based approach and refrain from adopting practices that would result in financial exclusion, particularly in respect of *bona fide* businesses needing access to basic banking services.⁴¹ Based on the PWMA and KPMG annual survey in 2021, the average client onboarding time for PWM institutions has seen a slight improvement from 40 business days in 2020 to 36 business days in 2021.⁴² Notwithstanding the shorter time span in client onboarding, 85% of the surveyed practitioners still considered KYC and AML/CFT as the regulatory areas requiring the most resources and budget.⁴³

Our Recommendations

i. Promoting sound AML/CFT and KYC practices

In view of the growing prominence of digitalisation and the need for an aligned and more streamlined industry-wide solution, regulators (i.e., the HKMA and SFC) have been providing up-to-date guidance from time to time in line with international standards. Additional best practice guidance or frequently asked questions (FAQs) developed from the PWM industry (issued/ endorsed by the HKMA and SFC) can help provide greater consistency and clarity in respect of client onboarding processes and ongoing AML/CFT obligations across PWM entities to ensure a consistent and aligned approach.

³⁷ HKMA, Feedback from Recent Thematic Review of AIs' Sanctions Screening Systems, April 2018, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2018/20180412e1.pdf>

³⁸ HKMA, Seminar on Thematic Review of AIs' Sanctions Screening Systems, April 2018, https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/aml-cft/Presentation_23_04_2018.pdf

³⁹ Deloitte and HKMA, AML/CFT Regtech: Case Studies and Insights, January 2021, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210121e1a1.pdf>

⁴⁰ HKMA, paragraph 3.18 of Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Authorized Institutions), October 2018, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/guideline/g33.pdf>

⁴¹ HKMA, De-risking and Financial Inclusion, September 2016, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20160908e1.pdf>

⁴² PWMA & KPMG, Hong Kong Private Wealth Management Report 2021, October 2021, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/10/hong-kong-private-wealth-management-report-2021.pdf>

⁴³ Ibid

ii. Government involvement and support in the use of technology in client onboarding

For a longer-term solution beyond the basic digital and non-face-to-face ID verification of individuals and entities, the industry urges that a sector-wide KYC utility is established, as unveiled in FSDC's paper published in June 2018.⁴⁴ While iAM Smart is viewed as an acceptable technology solution for remote onboarding for individuals, together with the Commercial Data Interchange which facilitates the secure movement of data for corporates, it would be beneficial to continue exploring efficient ways to promote client onboarding. Such means should allow client information to be submitted, validated, and shared across institutions with a view to improving client experience and reducing compliance burden. For example, consideration should be given as to how the available big data, artificial intelligence, and analytics can be used in KYC more broadly to facilitate the complete customer lifecycle, which includes, but is not limited to, onboarding, sanctions, suitability assessment, disclosure, and ongoing monitoring.

iii. Developing a more facilitative regulatory regime for family offices

The set-up of family offices has gathered significant momentum globally in recent years, and it has been identified as a key growth area in Hong Kong. According to the PWMA-KPMG Hong Kong Private Wealth Management Report 2021, 77% of the surveyed PWM institutions agreed that family offices are an increasing source of business for their organisation.⁴⁵

While attracting family offices to Hong Kong continues to be a focus for the PWM industry, certain regulatory risks must be addressed. For example, the types of activities routinely conducted by family offices are often similar in nature to those of regulated institutions, and are regarded by the FATF as potentially having higher ML/TF risks.

Family offices are not regulated for AML/CTF purposes unless they are licensed trusts or company service providers regulated by the Registry of Trust and Corporate Service Providers within the Hong Kong Companies Registry, or licensed investment managers regulated by the SFC. We acknowledge that efforts have also been made by the Law Society of Hong Kong with regards to improving the regulatory framework in relevant areas such as family offices and trustee companies in Hong Kong dealing with private wealth. In this respect, the financial services industry can benefit from better clarity and guidance from regulators regarding the framework applicable to Hong Kong-based family offices. The detailed policy recommendations can be found in the FSDC's paper on "Family Wisdom: A Family Office Hub in Hong Kong" (Family Office Paper) published in July 2020.⁴⁶

⁴⁴ FSDC, Building the Technological and Regulatory Infrastructure of a 21st Century International Financial Centre: Digital ID and KYC Utilities for Financial Inclusion, Integrity and Competitiveness, June 2018 https://www.fsd.org.hk/media/05ieplto/kyc-paper_e_0.pdf

⁴⁵ PWMA & KPMG, Hong Kong Private Wealth Management Report 2021, October 2021, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/10/hong-kong-private-wealth-management-report-2021.pdf>

⁴⁶ FSDC, Family Wisdom: A Family Office Hub in Hong Kong, July 2020, https://www.fsd.org.hk/media/lrej3ikz/fsdc_paper_no_45_family_wisdom_a_family_office_hub_in_hong_kong_paper_eng.pdf

The Professional Investor Regime & Sophisticated Professional Investors in Hong Kong

Hong Kong's regulators have refined and streamlined the professional investor regime (PI Regime) over the years, in particular following the global financial crisis of 2008 and against the backdrop of significant individual investor losses stemming from mis-selling of investment products to HNWIs by financial institutions. Please refer to Appendix 2 for the implemented changes in the PI Regime.

When the current PI regime was being contemplated, questions were raised as to the wisdom of prescribing an individual, an individual's investment holding corporation, and a corporation, each holding a portfolio of HK\$8 million, as PIs. The figure of HK\$8 million was not considered a massive amount in 2003. The regulators held the view that while an individual or a corporation holding a portfolio of HK\$8 million has greater capacity to absorb investment losses, such an individual or corporation might not necessarily be a knowledgeable or sophisticated investor, and therefore should be afforded the same level of protection as non-PIs under the Securities and Futures Ordinance (Cap. 571 of Hong Kong) (SFO), the Securities and Futures (Professional Investors Rules) (Cap. 571D of Hong Kong) (PI Rules), and the Code of Conduct.

Despite there being some merit to this view, when individuals and corporations opt in for PI status, industry participants believe that the PI Regime has overlooked the considerable compliance burden imposed on financial institutions. Specifically, such burden revolves around carrying out a detailed examination of their client's investment knowledge and sophistication, which is considered disproportionate to the level of client protection offered. It also fails to take into account the customer experience. As a result, a better balance needs to be struck between securing adequate investor protection and reducing the operational and regulatory burden currently borne by financial institutions in conducting client knowledge and sophistication assessments.

Over a 19-year period since 2003, the SFC has introduced amendments to the PI Rules and the Code of Conduct to allow more flexibility in their application. These include allowing certain asset types to be taken into account by Individual PIs in determining the value of their portfolios, expanding the definition of corporate PIs, and allowing alternative forms of evidence to demonstrate qualification as PIs. As the financial markets are currently trading in a more complex and sophisticated manner than they were in 2003, now may be an opportune time to revisit the net assets test for ascertaining whether an individual, an individual's investment corporation, or a corporation may be treated as a PI, and if so, the type of PI which is applicable.

Current Position

In May 2013, the SFC issued a public consultation paper concerning the PI Regime,⁴⁷ which included a proposal to define PIs under three categories in the Code of Conduct, namely Institutional PIs, Corporate PIs, and Individual PIs (Code of Conduct PIs).

In September 2014, the SFC published its consultation conclusions⁴⁸ and the amended Code of Conduct came into effect in March 2016. At that time, no change was introduced in respect of institutional PIs, who continue to be persons falling under paragraphs (a) to (i) of the definition of "professional investor" under the SFO for the purposes of the Code of Conduct. However, the remaining PIs, being the classes prescribed in the PI Rules made pursuant to paragraph (j) of the definition of "professional investor" under the SFO, were separated into two distinct categories for the purposes of the Code of Conduct as follows:

⁴⁷ SFC, Consultation Paper on the Proposed Amendments to the Professional Investor Regime and the Client Agreement Requirements, <https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=13CP1>

⁴⁸ SFC, Consultation Conclusions on the Proposed Amendments to the Professional Investor Regime and Further Consultation on the Client Agreement Requirements, <https://apps.sfc.hk/edistributionWeb/api/consultation/conclusion?lang=EN&refNo=13CP1>

- (a) Corporate PIs, being those falling under sections 3(a), (c), and (d) of the PI Rules, namely:
 - (i) A trust corporation entrusted with total assets of no less than HK\$40 million;
 - (ii) A corporation having a portfolio of no less than HK\$8 million or total assets of no less than HK\$40 million;
 - (iii) A corporation whose principal business is the holding of investments and which is wholly owned by another type of PI;
 - (iv) A corporation which wholly owns a corporation having a portfolio of no less than HK\$8 million or total assets of no less than HK\$40 million; and
 - (v) A partnership having a portfolio of no less than HK\$8 million or total assets of no less than HK\$40 million; and
- (b) Individual PIs, being individuals falling under section 3(b) of the PI Rules, namely, those having a portfolio of no less than HK\$8 million. Any such portfolio can be held on the individual's own account, jointly, or by the individual's wholly owned investment holding corporation.

While financial institutions dealing with Institutional PIs are automatically exempt from compliance with the obligations stipulated in paragraphs 15.4 and 15.5 of the Code of Conduct, the same exemption does not apply to financial institutions dealing with Corporate PIs. Separately, market participants have voiced their concerns that the interpretation of the Code of Conduct PIs has caused considerable confusion with the SFO definition of "professional investor", as it regards private placement of safe harbours for offerings of securities and other investment products to investors in Hong Kong. The assessment of Code of Conduct PIs, on the other hand, is used to determine whether certain exemptions can be applied (e.g., requirements for client agreement and suitability).

Our Recommendations

Given the evolution of the financial markets over the past two decades, increasing digitalisation of financial services, as well as individuals' wealth growth, we believe that the PI framework should be reviewed in its entirety to reposition Hong Kong as a dynamic PWM hub, particularly in light of the opening up of the GBA. Such review should aim to improve the overall customer experience and facilitate the provision of a wider choice of investment products and research to PIs, both face-to-face and online, in a more efficient manner and without necessarily triggering the suitability requirements. The FSDC is not, however, recommending the need to review the current product offering private placement safe harbours that have existed under the SFO since 2003.

In our view, the Hong Kong market can greatly benefit from addressing two areas of industry concern as a priority, namely (i) the financial thresholds for determining who qualifies as a PI, which have remained unchanged since 2003; and (ii), the suitability regime which is built upon a mix of prescriptive regulatory direction and a principle-based approach that is challenging for the industry to implement from a compliance perspective. The suitability regime is discussed in more detail in the next section.

Definition of “professional investors” in various markets

	Hong Kong ⁴⁹ (Professional Investor)	Singapore ⁵⁰ (Accredited Investor)	US ⁵¹ (Accredited Investor)	UK ⁵² (Elective Professional Client)	Switzerland ^{53,54} (Professional Client ⁵⁵)
Monetary criteria	A portfolio of not less than HK\$8,000,000 for corporate professional investors (CPIs) that satisfy the eligible CPI criteria re investment experience and sophistication. All individuals and ineligible CPIs are treated as retail investors for suitability purposes	<ul style="list-style-type: none"> • Net personal assets exceed a value of SG\$2,000,000 (equivalent to HK\$11,500,000); • Financial assets (net of any related liabilities) exceed a value of SG\$1,000,000 (equivalent to HK\$5,740,000); or • Income in the preceding 12 months is not less than SG\$300,000 (equivalent to HK\$1,723,000) 	<ul style="list-style-type: none"> • Net worth exceeds US\$1,000,000 (equivalent to HK\$7,800,000), either alone or together with a spouse (excluding the value of primary residence); or • Income exceeds US\$200,000 (equivalent to HK\$1,570,000) (or US\$300,000 (equivalent to HK\$2,351,000) together with a spouse) in each of the prior two years, and reasonably expects the same for the current year 	Financial instrument portfolio exceeds EUR€500,000 (equivalent to HK\$4,255,000)	HNWI and private investment structures established for such individuals who have a financial wealth of at least CHF2,000,000 (equivalent to HK\$16,800,000) ⁵⁶

⁴⁹ HK e-Legislation, <https://www.elegislation.gov.hk/hk/cap571D>

⁵⁰ Singapore Statutes Online, Securities and Futures Act 2001, <https://sso.agc.gov.sg/Act/SFA2001>

⁵¹ U.S. Securities and Exchange Commission, Accredited Investors – Updated Investor Bulletin, April 2021, <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/updated-3>

⁵² Financial Conduct Authority, COBS 3.5 Professional Clients, <https://www.handbook.fca.org.uk/handbook/COBS/3/5.html>

⁵³ Fedlex, Federal Act on Financial Services, Article 4 Client Segmentation, https://www.fedlex.admin.ch/eli/cc/2019/758/en#art_4

⁵⁴ J.P. Morgan, Classification Criteria under the Swiss Financial Services Act, <https://assets.jpmprivatebank.com/content/dam/jpm-wm-aem/documents/emea-important-information/Classification-Criteria-under-the-Swiss-Financial-Services-Act-v2.pdf>

⁵⁵ Only individual professional client is taken into account in this comparison.

⁵⁶ Fedlex, Federal Act on Financial Services, Article 5 Opting out and Opting in, https://www.fedlex.admin.ch/eli/cc/2019/758/en#art_5

	Hong Kong (Professional Investor)	Singapore (Accredited Investor)	US (Accredited Investor)	UK (Elective Professional Client)	Switzerland (Professional Client)
Non-monetary criteria	Not applicable	Not applicable	<ul style="list-style-type: none"> Professional certifications, designations and other credentials issued by an accredited educational institution “Knowledgeable employees” of private funds 	<ul style="list-style-type: none"> Carrying out transactions in significant size on the relevant market at an average frequency of 10 per quarter over the previous four quarters Working experience in the financial sector for at least one year in a professional position 	On the basis of training, education and professional experience or on the basis of comparable experience in the financial sector, they possess the necessary knowledge to understand the risks associated with the investments and have at their disposal assets of at least CHF500,000 (equivalent to HK\$4,200,000)
Application rule	Meet the single monetary criterion	Meet any of the monetary criteria	Meet any of the monetary or non-monetary criteria	Meet at least two out of three monetary and non-monetary criteria	Meet at least one of the above criteria

Suitability Framework

Once the suitability requirement is triggered for a PWM client, it then becomes necessary to consider how in practice it is being implemented by the wealth management industry and regulated by the HKMA and SFC.

Hong Kong's Suitability Framework⁵⁷ is complex and has evolved over time through amendments of the Code of Conduct as well as various guidelines and circulars⁵⁸ issued by the SFC and HKMA since the global financial crisis of 2008. Many PWM practitioners consider that the Suitability Obligations imposed on them under the current Suitability Framework do not sufficiently differentiate between a retail client and a private banking client⁵⁹. Although it is generally agreed that wealth does not automatically equate to investment sophistication, equally treating both types of clients is not necessarily the right approach either. In any event, the FSDC does not consider it unreasonable to give a private banking client the ability to make an informed decision whether to opt out from being treated as a retail investor, as discussed further below.

Industry Observations

In view of the constantly evolving regulatory environment, as well as changes in investor demands and behaviour, industry trends, and practices in other markets, the following areas have been identified as requiring change in order to facilitate industry development.

a. Prescriptive-based regulations

Suitability Obligations have become overly prescriptive and discourage intermediaries from developing their own framework and control mechanism to better reflect operating environment and business dynamics. Due to the prescriptive nature of the Suitability Obligations and the fear of being considered in breach of relevant rules/regulations, intermediaries have typically resorted to adopting a mechanical check-box approach to evidence compliance.⁶⁰ This often translates to a mechanical review and matching of the client's risk profile and rationale in undertaking the suitability assessment, as well as a mechanical "read out" by front-line staff from a risk disclosure list prepared by the intermediary (cheat sheet). While regulators endorse a "risk-based" approach, they may disagree with the intermediary's judgment on how the suitability assessment is implemented, and at worst, impose regulatory sanctions.

b. Unsolicited products

Paragraph 5.5 under "Know your client: complex products" in the Code of Conduct came into effect on 6 April 2019,⁶¹ and requires an intermediary to follow the Suitability Framework when dealing in complex products, irrespective of whether the product is solicited or not. In practice, if the product involved is not offered by the intermediary and is instead initiated by the client (i.e., unsolicited), it is resource-intensive for intermediaries to undertake product due diligence, prepare risk disclosure, and provide relevant warning statements to the client prior to executing the client's instructions. It is not uncommon for an intermediary to simply decline a sophisticated client's request, which in turn limits such a client's choice of products.

⁵⁷ Suitability Framework refers to the regulatory regime governing Suitability Obligations and Exemptions

⁵⁸ Please refer to Appendix 4 for a list of circulars issued by the SFC and the HKMA since the global financial crisis in relation to Suitability Obligations.

⁵⁹ Though certain measures demanded by the HKMA apply only to retail banking customers, e.g. physical segregation, audio recording, pre-investment cooling off period, companion requirement for vulnerable clients. See HKMA circular dated 25 September 2019 "Investor Protection Measures in respect of Investment, Insurance and Mandatory Provident Funds Products", <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2019/20190925e2.pdf>

⁶⁰ Please refer to Appendix 5 for an example of investment rationale heck boxes used by financial institutions.

⁶¹ The paragraph reads "a licensed or registered person providing services to a client in complex products should ensure that –

(a) a transaction in a complex product is suitable for the client in all circumstances

(b) sufficient information on the key nature, features and risks of a complex product is provided so as to enable the client to understand the complex product before making an investment decision

c. Overlapping requirements

The evolution of the Suitability Framework, which involves the addition of new requirements on top of existing practices, has resulted in a complex web of requirements which institutions have found challenging to reconcile. As an example, from the Code of Conduct, paragraph 5.1A (KYC: investor characterisation) and paragraph 5.5 (KYC: complex products) appear to contain certain common features in that they both deal with “riskier” products. As a result, financial institutions may find themselves applying different processes even when dealing with transactions of a similar nature.

d. Suitability Obligations and contractual duty

Ensuring suitability is a regulatory obligation imposed on intermediaries under the Code of Conduct. While the intermediary owes a common law duty to its clients, it has been clarified by case law that the Suitability Obligations under the Code of Conduct “cannot override express contractual provisions”.⁶² A list of the key Suitability Obligations under the Code of Conduct is set out in Appendix 3.

A new paragraph 6.2(i) was added to the Code of Conduct, effective from 9 June 2017 under the heading “Minimum content of client agreement”. Effectively, Suitability Obligations are “contracted-in” via paragraph 6.2(i). In other words, when the intermediary solicits/recommends a financial product, the intermediary is obliged to ensure the product is reasonably suitable for the investor. According to some practitioners, this has complicated the operating process, as it requires the intermediary to identify and segregate each transaction into “solicitation” and “non-solicitation” (as the case may be), and places heavy reliance on frontline staff to honour a contractual term.

e. “Portfolio-based” assessment of suitability

The HKMA accepts a “portfolio-based” approach to assess the suitability of products for an investor, as announced in its circular published on 12 June 2012.⁶³ In particular, private banks may conduct a suitability assessment on a holistic basis, taking into account all the circumstances of the client (including investment objectives and horizon, risk tolerance, investment experiences and knowledge, financial situation, investment objectives, or mandates outside the bank, etc.). In this regard, it is possible for a high-risk product to be considered reasonably suitable to be sold to a low-to-medium risk client, so long as the portfolio allocation and overall risk level agreed with the client is adhered to, and such high-risk products only constitute a proportionate part of the client’s portfolio to ensure the client’s portfolio as a whole remains a low-to-medium risk portfolio.

While the HKMA’s circular seemingly provides a more workable framework or process by relaxing certain prescriptive requirements when conducting suitability, the full benefits offered by the circular have not materialised. In practice, the majority of private banks have not adopted or fully adopted the portfolio-based approach, claiming that the significant cost required to implement new systems to support portfolio-based assessments outweighs the perceived benefits.⁶⁴

⁶² Para. 135, Reyes J, Kwok Wai Hing Selina v HSBC Private Bank (Suisse) SA, HCCL 7/2010

⁶³ HKMA, Circular “Selling of Investment Products to Private Banking Customers”, 12 June 2012, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2012/20120612e1.pdf>

⁶⁴ For instance, some claim that the requirement of “investment mandate” does not truly reflect how the advisory account are being conducted (i.e., advisory account would not require the client to sign an investment mandate)

f. Exemption of Suitability Obligations

Currently, the Suitability Obligations may not be waived when dealing with an individual investor, even if they meet the HNW threshold and demonstrate a high level of sophistication, knowledge, and investment experience. Furthermore, many Corporate PIs do not qualify for exemptions because they do not have the relevant corporate structure and investment process and controls in place. As a result, many clients (i.e., HNW and Corporate PIs) must be treated the same way as a retail client in terms of the on boarding, KYC, and Suitability Obligations.

The PWM industry has indicated that there is a growing number of clients – both onshore and offshore – looking to access Hong Kong, who are sophisticated with substantial investment experience and knowledge. These clients, known as “sophisticated PIs”, have expressed their frustration to private banks⁶⁵ concerning the applicability of Hong Kong’s Suitability Regime to them and their inability to opt out of certain investor protection measures in order to streamline their onboarding process and expand the products and services that may be offered to them. The industry believes that the Hong Kong regulatory regime should recognise the differential status in such sophisticated PIs and provide a degree of flexibility in the services and products offered to them.

Our Recommendations

We believe it is an opportune time for the Government and relevant regulators to revisit the Suitability Framework and Suitability Obligations in respect of the following:

- i. Regulatory intent, application, and manner in which regulatory compliance is monitored by the HKMA and SFC;
- ii. Review the current regime in respect of who can be exempt from the Suitability Obligations upon the consent of such investors. This could involve:
 - (a) simplifying the Code of Conduct PI Regime to provide for only one class of investors who meet the designated eligibility criteria;
 - (b) amending the Code of Conduct to allow individual and corporate investors meeting certain eligibility criteria to be classified as Asset Based PIs eligible for suitability exemptions;
 - (c) introducing a new category of individual investors, i.e., “Sophisticated PI”; and
- iii. Review and streamline the “portfolio-based approach” regime which was introduced by the HKMA in 2012 for the private banking industry.

The above recommendations are being made in the context of addressing issues related to the current Suitability Framework under the Code of Conduct. Notably, we are not seeking to disturb the current product offering private placement safe harbours under the SFO.

⁶⁵ Sophisticated Professional Investor is the term used by the Private Wealth Management Association in its communication with the SFC

i. Regulatory intent, application, and manner in which regulatory compliance is monitored by the HKMA and SFC

The industry acknowledges that the role of the SFC and HKMA remains a challenging one, not least due to market cycles, increased investment and geopolitical risks, and industry aspirations for the PWM industry and regional competition to serve as the leading asset management hub – all balanced against the ongoing requirement to ensure Hong Kong remains a jurisdiction where investor protection remains paramount.

Hong Kong's financial intermediaries face considerable challenges in complying with the Hong Kong Suitability Framework, which has, over the years, evolved into a complex plethora of SFC Codes, SFC and HKMA Circulars, Guidelines, FAQs, and thematic reviews. The industry also shares a perception that both the regulatory routine inspection and investigatory actions measure suitability compliance against a high level of prescription. As a result, financial institutions remain hesitant to adopt a principle/risk-based approach, fearing any diversion from prescriptive compliance might be challenged by regulators.

In view of the above, the industry would welcome both the SFC and HKMA in clarifying and reaffirming their position concerning the principle-based approach to suitability assessment, and to continue to work with the industry to dispel the concerns mentioned above. The involvement of both the SFC's Intermediaries and Supervision and Enforcement Departments and the HKMA's Banking Conduct division in this exercise would be helpful for the industry to gain a better understanding of how a principle-based approach is applied in each of the review, monitoring, investigation, and enforcement functions.

ii. Review the assessment for dis-applying Suitability Obligations

Simplification of the Code of Conduct PI Regime

In comparison to the Hong Kong Suitability Framework, the Singapore regime relies on an opt-in approach by the investor, and accredited investors are classified in accordance with one simple monetary threshold. With appropriate disclosure, banks are exempt from complying with the suitability obligations in Singapore when dealing with all accredited investors who have opted in.⁶⁶

Asset-based Professional Investors

The Code of Conduct can be amended to allow individual and corporate investors meeting certain eligibility criteria to be classified as PIs eligible for suitability exemptions. For example, allowing Suitability Obligations contained in paragraphs 15.4(a)(ii) and (e) to be exempted when dealing with an individual or corporate who (either alone or with any of his/her associates on a joint account) has a portfolio of no less than HK\$40 million or total assets (excluding main residence) of no less than of HK\$80 million.⁶⁷ Such exemptions should be subject to proper disclosure and the consent of the investor – similar to the “opt-in” and disclosure mechanism adopted in Singapore. The consent provided by the investor should be in writing and must be updated on an annual basis.

⁶⁶ Banks have a detailed disclosure “Regulatory Safeguards that do not extend to AIs”, found commonly in the banks’ website. <https://www.dbs.com.sg/personal/accreditedinvestor/default.page>, <https://www.credit-suisse.com/sg/en/legal/accredited-investor-disclosure.html>

⁶⁷ Reference is made to comparable markets in section IV

Sophisticated Professional Investors

The Code of Conduct can be amended to include a new category of PIs (i.e., “sophisticated PIs”) to cover both individual and corporate investors who by virtue of their experience and sophistication should be offered the ability to trade in a different manner to retail investors. The current test for assessing the eligibility of a corporate professional investor in paragraph 15.3A(b) of the Code of Conduct could be refined for use in assessing the experience and sophistication of an individual investor. It is envisaged that the category of sophisticated PI would in practice be restricted to a relatively small number of individual investors by virtue of their experience and sophistication. However, it is believed that such individuals who opt-in to being treated as a “sophisticated PI” would benefit from a wider choice of investment products and services by virtue of having opted out of the suitability regime.

We would also recommend that “standard” disclosures be prepared when addressing and seeking exemptions from the suitability requirements – similar to the prescribed Risk Disclosure Statements as set out in Schedule 1 of the Code of Conduct.

iii. Review the “portfolio-based” approach for the PWM industry

Given its limited application, the “portfolio-based” assessment of suitability has not been fully utilised by the industry when providing services to private banking customers. We believe that it is an appropriate time for the HKMA or SFC to review and further streamline the regime in order to better facilitate the adoption of a portfolio-based approach in the private banking sector.

Tax Complication for Private Wealth Management in Hong Kong

Certain aspects in the current tax system in Hong Kong may have undermined the intention for ultra-high-net-worth individuals (UHNWI), as asset owners, to further invest in Hong Kong-launched private management products and opt for Hong Kong private wealth managers. The potential adverse tax implications could have an indirect negative effect on the PWM industry in Hong Kong, and would go against industry efforts to promote a more vibrant and comprehensive ecosystem in Hong Kong.

In short, the overarching principle has long been that individuals are not taxed on their investment income in Hong Kong unless such gains are related to Hong Kong real estate and the like. UHNWIs have the flexibility to use different investment structures for their investments; that said, if they were to use a Hong Kong private wealth manager or invest in Hong Kong private wealth products, they may be subject to Hong Kong tax, which would not otherwise be charged against other individuals.

To retain private wealth managers' talents in Hong Kong, attract more overseas private wealth managers to set up and run their operations in Hong Kong, and attract both foreign and local investors to have their assets managed by Hong Kong private wealth managers and allocated to Hong Kong wealth management products, the FSDC has called for changes to the current tax regime to ensure that individual asset owners are treated on an equal footing regardless of whether they are Hong Kong residents or not.

The tax policy recommendations are similar to those for promoting family offices set up in Hong Kong as both family offices and private wealth managers providing services mainly to HNWIs. The FSDC is pleased to see that the tax policy recommendations, as set out in the Family Office Paper, were acknowledged and addressed in the recent Budget Speeches.⁶⁸ Additionally, the launch of a consultation on the proposal to provide a profits tax concession for family-owned investment-holding vehicles managed by single family offices in Hong Kong (the family office consultation) demonstrates that the government is actively taking steps to address the issues identified in Hong Kong's current tax system. The FSDC has reiterated the importance of these additional enhancement measures, which could bring further clarity and benefits to asset owners, and indirectly, to private wealth managers (and family offices, and more broadly, the asset and wealth management industry in Hong Kong).

i. Applying the same tax treatment for investment by personal investment companies (PICs) as individuals

PICs are a very common investment structure used by UHNWIs. As pinpointed in the Family Office Paper, the FSDC recommends the Inland Revenue Department (IRD) to recognise the investments of PICs as investments of the individuals themselves, and to apply the same tax treatments to such investments provided certain commercial conditions are met, including but not limited to the following conditions:

- more than 90% of the assets of the PICs must be financial assets;
- PICs cannot have control over investee companies;
- PICs cannot conduct other trades or businesses; and
- PICs need to be owned by an individual or a trust with all beneficiaries as individuals, and that these relevant individuals are not engaged in the business of securities trading or dealing.

⁶⁸ FSDC, FSDC welcomes 2022-23 Budget, February 2022, <https://www.fsd.org.hk/en/media/fsdc-welcomes-2022-23-budget>

Same tax treatments for investment by PICs and that by individuals can be achieved by the IRD adopting a more liberal interpretation of the existing law and guidelines on what is considered “carrying on a trade or business” via a look-through approach (by referring to the tax exemption regime on special purpose entities under the UTE Regime for Funds). As set out in the Family Office Paper, measures can also be put in place to avoid inadvertent abuse by individuals who set up PICs to carry on other trades or businesses.

ii. Removing the existing deeming provision under the UTE regime

As put forth in the Family Office Paper, the FSDC believes that the existing deeming provisions under the UTE regime are broadly restrictive, which may discourage UHNWIs who are residents of Hong Kong or intend on becoming residents of Hong Kong from investing in locally managed private funds making use of the UTE regime. The FSDC suggests a review of the existing deeming provisions with a focus on whether or not the existing deeming provisions would deter the genuine investors with no tax avoidance intention, including UHNWIs, to invest in locally managed funds. As mentioned above, individuals are generally not subject to tax in Hong Kong in respect of their investment income. However, the fact that they can be caught by the deeming provisions under the UTE regime would deter them from making investments in locally managed funds.

The FSDC recommends that the deeming provision be removed for individuals. To reinforce Hong Kong’s status as a competitive, attractive, and inclusive asset and wealth management centre, various measures have been taken over the past few years to enrich the asset and wealth management ecosystem. These efforts include allowing the establishment of Hong Kong domiciled funds in the form of an open-ended fund company or a Hong Kong limited partnership. If individuals are unable to invest in Hong Kong products or the locally managed private funds which have relied on the UTE regime due to the unfavourable tax implications, the Hong Kong fund platforms and UTE would not be put to good uses, and this would go against the policy intentions of the overall regime. With the above in mind, the FSDC has called for urgent changes in this regard.

The FSDC welcomes the steps taken to date to facilitate the growth of family offices in Hong Kong. In particular, while the anti-avoidance provisions in the family office consultation is modelled on the existing “deeming” provisions under the UTE regime for funds, it proposes two carve-outs, namely for (i) Hong Kong resident individuals, and (ii) Hong Kong resident entities that are passive investment-holding vehicles exclusively and beneficially owned by a single family, or a single family office exclusively and beneficially owned by the single family, subject to certain anti-abuse measures including there should not be any arrangement of shifting taxable income from the single family to an family-owned investment holding vehicle for obtaining a tax benefit.⁶⁹ These carve-outs represent a positive step forward in providing tax certainty to investment-holding vehicles owned by UHNWIs and their family members, in order to attract family offices to be set up and operated in Hong Kong, and are in essence similar to the two additional enhancement measures provided above. As such, the FSDC recommends that similar taxation principles and sentiments from the family office tax concession be extended to PICs / individuals, which would be advantageous for both the PWM industry and Hong Kong in further promoting Hong Kong as an asset and wealth management hub in the region, and to help the city’s PWM industry reach new heights.

⁶⁹ KPMG, The Proposed Family Office Tax Exemption Regime in Hong Kong, March 2022, <https://home.kpmg/cn/en/home/insights/2022/03/tax-alert-03-hk-the-proposed-family-office-tax-exemption-regime-in-hk.html>

Education and Talent Development

Building a talent pipeline is essential to sustaining the growth of Hong Kong's wealth management industry. Attracting and retaining talent in Hong Kong's PWM industry requires an abundance of job openings and career development opportunities. In other words, it is vital to create an environment to attract asset management companies or private banks to station and expand in Hong Kong, for both front and middle/back office.

With reference to the various research findings on the PWM industry,^{70,71} and its ancillary sectors (e.g., family office),⁷² talent supply is increasing but talent gaps remain, and the greatest talent gaps identified are associated with particular skillsets at the experienced level with the right/high competence level, e.g., the RM position continues to be a “top three” role where talent supply is most critical. Experience and competency do not come overnight, but instead through a pipeline of growing talent at the entry level, attracting mid-career transfer into the pipeline, and enhancing the quality of talent throughout the pipeline.

This section considers the current status of talent development in Hong Kong's wealth management industry, covering entry level, mid-career, and continued skill set enhancement, and to provide recommendations on further developing the talent pipeline from today's foundation.

Entry Level – Undergraduates and Postgraduates

Current Undergraduate/Postgraduate Programmes with Wealth Management Focus

Local universities supply a substantial number of business/finance graduates every year. The challenge is whether these graduates are aptly equipped, during their four years of study, with the required entry level of knowledge of the wealth management industry and other financial services sectors, such as banking securities and insurance.

While foundation programmes and academic courses are important to prepare students with the right technical mindset, it would be beneficial to the students in terms of strengthening the professional image of the wealth management industry and in preparing them for a wealth management career if more industry-related courses are embedded into the curriculum. Without infringing each university's independency in curriculum design, there may be opportunities for the industry to help universities build on this idea.

The University of Hong Kong, for instance, launched the Bachelor of Finance programme (Asset Management and Private Banking) (BFin (AMPB)) in September 2017,⁷³ with the first cohort graduating in May 2021. The BFin (AMPB) is the first (and the only as of today) undergraduate programme in Asia with a sector focus on building students' career interest in asset management and private banking. Other than the core curriculum for business graduates, the programme offers a number of courses that deal with topics relevant to understanding the industry.

As for post-graduate programmes, the Metropolitan University of Hong Kong launched a programme for Master of Applied Finance in Wealth Management in 2019.⁷⁴

⁷⁰ PWMA & KPMG, Hong Kong, a Leading Global Wealth Management Hub of the Future - 2018 White Paper, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2018/09/hong-kong-a-leading-global-wealth-management-hub-of-the-future.pdf>

⁷¹ PWMA & KPMG, Hong Kong Private Wealth Management Report 2020, November 2020, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2020/11/hong-kong-private-wealth-management-report-2020.pdf>

⁷² FSDC, Family Wisdom, A Family Office Hub in Hong Kong, July 2020, https://www.fsdc.org.hk/media/lre3ikz/fsdc_paper_no_45_family_wisdom_a_family_office_hub_in_hong_kong_paper_eng.pdf

⁷³ The University of Hong Kong, <https://www.fbe.hku.hk/ug/programmes/bfin-ampb>

⁷⁴ OUHK, About the MAFWMF Programme, http://www.ouhk.edu.hk/wcsprd/Satellite?pagename=OUHK/tcSchWeb2014&l=C_BA&lid=1385191632981&c=C_BA&cid=1385191632997&lang=eng&sch=BA&mid=0

Internship Programmes for Undergraduates

Recently, the FSTB co-organised the scheme of “Set Sail for GBA – Scheme for Financial Leaders of Tomorrow” with the Greater Bay Area Homeland Youth Community Foundation.⁷⁵ Additionally, in 2017, the FSTB also launched a Pilot Programme to enhance talent training for the asset and wealth management sector (WAM Pilot Programme),⁷⁶ for which the Hong Kong Investment and Securities Institute (HKSI) was appointed as the implementation agent. Despite the WAM Pilot Programme being discontinued after 2022, continual effort should be devoted to nurturing talent for the asset and wealth management sector.

The Pilot Apprenticeship Programme for Private Wealth Management was launched in 2017. The Apprenticeship Programme is jointly organised by the HKMA and PWMA and administered by the Hong Kong Institute of Bankers (HKIB).⁷⁷ The Apprenticeship Programme includes two consecutive summer internship experiences in the participating institutions (which are private banks and members of the PWMA), leading to a potential job offer with that institution after the apprentices have graduated. The Apprenticeship Programme is open to all full-time students in their first to third year of study in a university based in Hong Kong.

Both the Apprenticeship Programme and the WAM Pilot Programme offer summer internship opportunities to non-final year undergraduates studying at a Hong Kong-based university, with an aim to enhance talent training and pipeline for the asset and wealth management sector, and to facilitate the sector’s sustainable development in the long run. Please refer to Appendix 8 for further details on these internship programmes.

A Need for Structured Training Programmes for Entry Jobs for Fresh Graduates

While the general banking industry (e.g., retail banking or corporate/commercial banking) has been building its talent pipeline through hiring a meaningful number of management trainees under a more structured training programme, the progress for the wealth management industry in offering structured training leaves much to be desired.

Most wealth management firms or private banks do not have structured training programmes. For those handful firms, the recruitment process of fresh graduates or postgraduates possibly only started in the last few years, and the overall number of trainee intake is small. This phenomenon likely stems from the fact that the PWM firms or private banks are geared towards immediate productivity from the added headcounts, as well as the fact that most firms are not yet ready to provide a structured training programme.

⁷⁵ The Greater Bay Area Homeland Youth Community Foundation, Set Sail for GBA - Scheme for Financial Leaders of Tomorrow, <https://gbayouth.org.hk/en/scope/set-sail-for-gba-scheme-for-financial-leader-of-tomorrow>

⁷⁶ HKSI, Pilot Programme to enhance talent training for the asset and wealth management sector, <https://www.hksi.org/en/development/continuous-learning/wam-pilot-programme/wam-pilot-programme/>

⁷⁷ PWMA, Apprenticeship Programme, <http://pwma.org.hk/index.php/Index/content/id/62>

Mid-career Transfer and Overseas/ Mainland Chinese Talent

As noted in earlier sections, a firm/private bank typically hires bankers from other firms/private banks, creating a “musical chairs” situation of bankers constantly moving around. This model is deemed unsustainable for the industry and does not add any new talent to the industry overall.

Another route for hiring bankers or other staff is through attracting talent from sectors outside of the wealth management industry. The sectors that may have the best fit for the “mid-career” transfer would be the retail wealth management divisions of retail banks, corporate and commercial banks, accounting and audit, private equity, equity and fixed income research, and equity brokers/sales. With the lateral hire of bankers or staff from other industries, such mid-career employees could be better equipped with the necessary skills and knowledge of the PWM industry and increase their mobility to a new career stream. For the employer, the risk of hiring transferees will be lowered correspondingly and can be better managed if the industry takes a more proactive approach in pre-empting potential risks.

Attracting Mid-career Transfers from Other Sectors in Hong Kong

Notably, the HKIB, as the administrator for the Enhanced Competency Framework (ECF) on Retail Wealth Management (RWM), has provided the relevant training and examination. While the ECF on RWM is quite different and independent from the ECF on PWM, the ECF on the RWM industry can provide a preview for those interested in wealth management and becoming an employee in RWM firms.

The ECF on RWM was launched in 2018 to provide professional certifications for staff working in the RWM industry. As of May 2022, there were a total of 1,684 professional qualification holders of the Associate Retail Wealth Professional (ARWP), and the Certified Retail Wealth Professional (CRWP), which are the Core Level and Professional Level certifications of the ECF on RWM, respectively.⁷⁸

There are certain similar competencies in serving RWM clients and PWM clients, and some of the 1,684 accredited professionals⁷⁹ in the RWM industry can certainly be a pipeline for career transfer to the PWM industry.

In light of the population size of those working in retail marketing, there is room for the HKIB to attract more retail banking industry practitioners to sit for the accreditation,⁸⁰ which would be a solid pipeline feeding into the wealth management industry. Other target sectors include but are not limited to corporate and commercial banks, accounting and audit, private equity, equity and fixed income research, and equity brokers/sales. The PWMA, HKIB, and HKSI, with input and encouragement from the HKMA, are currently working on a bridging programme of training and assessment. Retail wealth managers, who have passed the ECF on RWM and are certified as CRWP, would be allowed to qualify for Certified Private Wealth Professional (CPWP) under the ECF on PWM. Such a scheme is intended to encourage CRWPs to upskill and become PWM practitioners.

⁷⁸ HKIB, Registers of Certified Individuals (CI), <https://www.hkib.org/page/159>

⁷⁹ Ibid

⁸⁰ As compared to 2,176 CPWP accredited professional in the PWM industry.

Attracting Talent from Overseas and Mainland China

The Talent List of Hong Kong⁸¹ was first published by the Hong Kong Government in 2018, with the aim of attracting high-calibre talent in an effective and focused manner to support Hong Kong's development into a high value-added and diversified economy. Upon review in 2021, the Talent List currently comprises 13 professions. The Talent List website displays the professions needed the most in terms of talent for Hong Kong. It also provides information for those that are eligible for the immigration facilitation under the Quality Migrant Admission Scheme (QMAS), which is a quota-based entrant scheme.

With respect to finance talent, "asset management professionals" and "fintech professionals" are included on the Talent List, and specifically cover investment analysts, investment consultants, and fund managers. Such eligible professionals who meet the requirements of the Talent List may enjoy immigration facilitation and benefit from the government policy to propel the development of Hong Kong's asset and wealth management business.

Continued Skill Enhancement

Enhanced Competency Framework for the Private Wealth Management Industry

The ECF on PWM Industry, endorsed by the HKMA and the PWMA, was launched in 2014, with training programmes and examinations hosted by the HKSI and the HKIB.

Candidates who pass the ECF on PWM Industry examinations, subject to a minimum of three years of relevant working experience, and are currently working in one of the member banks of PWMA, will be certified with CPWP certification. The CPWP certification was established to recognise and incentivise staff of PWMA member institutions who are seeking to enhance their skill set and advance their career within the PWM industry.⁸² It represents the competency of a frontline officer in the PWM industry. A competency standard has been adopted in assessing the candidate, taking into account factors of not only technical skills on investment, portfolio management, and risk, but also holistic expectations for frontline staff, including adherence to ethical standards, fair client treatment, and understanding regulations.

The following table shows the number of certifications in CPWP over the past six years:

	2016	2017	2018	2019	2020	2021
No. of current accredited CPWP	1,781	1,950	2,086	2,159	2,211	2,326
Addition each year	509	268	228	178	164	218
Drop out each year	1	99	92	105	112	103
Current + cumulative drop-outs						2,838

Source: PWMA

⁸¹ HKSAR, Talent List Hong Kong, <https://www.talentlist.gov.hk/en/index.html>

⁸² HKMA, Update on Enhanced Competency Framework on Private Wealth Management (ECF-PWM), July 2021, <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210714e1.pdf>

With a total of 2,326 certified CPWPs in 2021, the industry would either need to plan a talent-building pipeline from graduate level, or attract more mid-career transfers. A point to note is that a big part of the attrition from the CPWP certification might be due to experienced practitioners moving into the Family Office / External Asset Managers arena. This trend will continue as Hong Kong is positioned to develop into an Asian Family Office hub.

In terms of expanding the talent pipeline into the wealth management industry, reference can be drawn from the CPWP Associate certification, which was introduced in June 2021.⁸³ Any staff of PWMA member firms who pass the ECF examinations are eligible to apply for the certification, regardless of experience. Full CPWP status can be obtained once a staff member has obtained the required front-line experience. This approach may attract talent from graduates, from mid-career transfer and those working in the support functions of the wealth management industry, to ultimately move towards frontline job positions.

Enhanced Training for Industry Practitioners and Potential Mid-career Transfers

The HKSI, PWMA, and HKIB frequently host training sessions and seminars on thematic topics related to the wealth management industry. A number of these training sessions / seminars hosted by HKSI and HKIB are eligible for financial reimbursement under the FSTB WAM Pilot Programme.⁸⁴

Under the Financial Reimbursement Scheme of the WAM Pilot Programme, attendees enrolled in the eligible courses can reimburse 80% of the course fees up to a cap of HK\$10,000 for the WAM Pilot Programme. The Financial Reimbursement Scheme aims to upgrade the competency standards of industry practitioners as well as attract other professionals to learn about wealth management. The Financial Reimbursement Scheme was revised in 2020 to expand the eligibility of reimbursement in order to make the scheme more effective.

Our Recommendations

i. Developing more robust master's programmes in wealth and asset management in Hong Kong

Back in 2018, the idea of “develop[ing] a flagship taught postgraduate degree to position Hong Kong as a hub for PWM learning and innovation”⁸⁵ was put forward by the PWMA and KPMG in their joint White Paper. The same recommendation was also made in the Family Office Paper. The FSDC proposes launching practice-based learning for the training of wealth management professionals at both undergraduate and postgraduate levels.

Leveraging on the Undergraduate Programme at the University of Hong Kong and the Postgraduate Programme at the Hong Kong Metropolitan University, there is room to further develop more robust Master's Programmes in wealth and asset management to attract and nurture mid-career talent to join or potentially join the PWM industry.

⁸³ PWMA, CPWP Associate, <https://www.pwma.org.hk/en/ecf/cpwpa/>

⁸⁴ HKSI, Pilot Programme to enhance talent training for the asset and wealth management sector, <https://www.hksi.org/en/development/continuous-learning/wam-pilot-programme/wam-pilot-programme/>

⁸⁵ PWMA & KPMG, Hong Kong, a Leading Global Wealth Management Hub of the Future - 2018 White Paper, September 2018, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2018/09/hong-kong-a-leading-global-wealth-management-hub-of-the-future.pdf>

ii. Nurturing direct collaboration between universities and the industry

The recommendation made in the Family Office Paper on establishing a designated task force to work with the industry on reviewing the programme design of relevant courses should be further explored. In particular, embedding industry-related courses in a curriculum is an effective way to breed student interest in pursuing a career in the financial services industry. This is similar to the approach where universities have embedded courses into their curriculum relevant to the Hong Kong Institute of Certified Public Accountants (HKICPA) qualification or the Chartered Financial Analyst (CFA) qualification.

One of the topics that could be incorporated into a business curriculum is Paper 1 of the Licensing Examination for Securities and Futures Intermediaries.⁸⁶ The Paper itself provides a comprehensive overview of the securities industry, and will inculcate students with good entry-level knowledge of the securities and investment industry. The contents of the Paper can be delivered on both a research and application basis, which will be beneficial to students who are interested in entering the financial industry. Support from the industry will be necessary in various aspects, such as recommending or referring competent teachers with relevant industry experience, to foster collaboration between the educational institution and industry, as well as to provide more practical and tailor-made teaching materials for students.

The same designated task force would also look into a more structured and coordinated out-of-classroom experience for students. With the extensive use of e-platforms, this may benefit a much wider student population. Extended smaller group interactions are also worth exploring.

iii. Facilitating mid-career transfers and overseas/Mainland Chinese talent acquisition

In line with the recommendations proposed in the Family Office Paper, the Government and regulators, together with the industry and professional associations, should put in place a comprehensive suite of training programmes for talent development.⁸⁷ Such training programmes should target talent from a specific sector within the financial services industry. For instance, it could be a certificate or diploma course on “Investment Theories and Portfolio Analysis” targeting corporate and commercial bankers, or a “Investment Risk Management and Suitability” course targeting equity traders.

The PWMA may also promote the ECF on PWM to attract talent from other industries. It would also assist with brand building and attracting overseas/Mainland Chinese talent to Hong Kong to take up positions within the wealth management industry in a broader sense, including sales/marketing, RMs, compliance, family office, etc.

⁸⁶ The Licensing Examination for Securities and Futures Intermediaries is operated by the Hong Kong Securities and Investment Institute

⁸⁷ FSDC, Family Wisdom: A Family Office Hub in Hong Kong, July 2020, https://www.fsd.org.hk/media/lrej3ikz/fsdc_paper_no_45_family_wisdom_a_family_office_hub_in_hong_kong_paper_eng.pdf

Appendices

Appendix 1 - Key Features of Hong Kong AML/CFT Regime

Hong Kong's effective system in combatting AML/CFT issues is enshrined in various ordinances supplemented by industry-specific guidelines,⁸⁸ circulars, and FAQs published by the respective regulators from time to time. There are several ordinances pertaining to the AML/CFT regime in Hong Kong, including:

- The Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO)
- The Organized and Serious Crimes Ordinance (Cap.455) (OSCO)
- The Drug Trafficking (Recovery of Proceeds) Ordinance (Cap. 405) (DTROP)
- United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575) (UNATMO)
- United Nations Sanctions Ordinance (Cap. 537) (UNSO)
- Weapons of Mass Destruction (Control of Provision of Services) Ordinance (Cap. 526) (WMDO)

Regulations / Obligations on AML in Hong Kong

AML regime

The AMLO, which came into force on 1 April 2012, is the primary statute governing Hong Kong's AML compliance regime with the key provisions being found in Schedule 2. In addition to the AMLO, the money laundering offence in Hong Kong is contained in section 25 of the OSCO and section 25 of the DTROP.⁸⁹ CFT obligations can be found in the UNATMO, UNSO, and WMDO. In short, the UNATMO and regulations under the UNSO implement sanctions imposed by the United Nations Security Council, while the WMDO regulates the provision of services that are suspected to be related to the proliferation of weapons of mass destruction.

⁸⁸ The main ones being the guidelines on AML and CFT published by the SFC for licensed corporations and associated entities (SFC AML Guideline), published by the HKMA for authorised institutions and stored value facility licensees (HKMA AML Guideline), published by the Insurance Authority (IA) for authorized insurers and reinsurers carrying on long term business, and licensed individual insurance agents, licensed insurance agencies, and licensed insurance broker companies carrying on regulated activities in respect of long term business (Insurance Ordinance (Cap. 41) (IO)) (IA AML Guideline).

⁸⁹ Section 25 of the OSCO provides that a person commits an offence if he or she deals with property, knowing or having reasonable grounds to believe that the property in whole or part directly or indirectly represents proceeds of an indictable offence. Section 25 of the DTROP is similar but applies to drug trafficking.

Customer due diligence (CDD)

The key AML compliance and CDD obligations are contained in Schedule 2 to the AMLO, under which financial institutions are required to undertake CDD measures under a risk-based approach. These involve: (i) identifying their customers and verifying their identities using documents and information from reliable and independent sources, (ii) where there is a beneficial owner in relation to the customer, verifying the beneficial owner's identity; (iii) obtaining information that should be commensurate with the risk profile of the customers and the nature of the business relationships, which amongst others, may include the initial and ongoing source(s) of wealth or income; and (iv) if a person purports to act on behalf of the customer, identifying the person and taking reasonable measures to verify the person's identity using documents, data, or information provided by a reliable and independent source; and verifying the person's authority to act on behalf of the customer.

Enhanced CDD measures must be conducted in circumstances perceived to pose higher risks including: (i) where the customer is not physically present for identification purposes; (ii) where the customer or any of its beneficial owners is known to be a "politically exposed person" (PEP),⁹⁰ or (iii) other situations that by their nature might present a higher risk of money laundering or terrorist financing.

Ongoing monitoring of customers

Schedule 2 to the AMLO requires financial institutions to continuously monitor the business relationship with a customer by adopting a risk-based approach by, among others, (i) occasionally reviewing CDD documents and information relating to the customer to ensure that they are up-to-date and relevant; (ii) conducting appropriate scrutiny of transactions carried out for the customer to ensure that they are consistent with the customer's profile; and (iii) identifying and examining transactions that are complex, unusual, and have no apparent economic or lawful purpose.

Reporting obligation

The obligation to report suspicious transactions is contained in section 25A of the OSCO, section 25A of the DTROPO, and section 12 of the UNATMO. A reporting obligation arises where a person – applying to any person, not just a regulated person – who knows or suspects that any property (in whole or part, directly or indirectly) represents proceeds of, or was, or is intended to be used in connection with an indictable offence, or drug trafficking, or is terrorist property. The person shall, as soon as it is reasonable for him or her to do so, disclose that knowledge or suspicion, or the information or matters on which the knowledge or suspicion is based, by filing a suspicious transaction report with the Joint Financial Intelligence Unit. An employee may alternatively disclose to an appropriate person (the money laundering reporting officer) in accordance with the procedure established by his or her employer.

⁹⁰ Based on the information publicly known or in the possession of the financial institution. A PEP is an individual who has been entrusted with a prominent public function in a place outside the People's Republic of China and includes a head of state or government; senior politician; senior government, judicial, or military official; senior executive of a state-owned corporation, and important political party official, but does not include a middle-ranking or more junior official of any of these categories. A PEP includes such an individual's spouse, partner, child, or parent, as well as close associate (with which the individual has close business relations, or which is the beneficial owner of a legal person or trust set up for the benefit of the individual).

Record keeping

Under Schedule 2 to the AMLO, financial institutions must keep records and documents relating to their CDD, customer accounts, correspondence, and transactions. Records of customer transactions must be kept for at least five years after the transaction is completed, while other customer records must be kept throughout the life of the business relationship with the customer and for a period of at least five years after the termination of the business relationship.

Establishment of procedures, and senior management oversight

Pursuant to the HKMA AML Guideline and the IA AML Guideline, AIs and insurance institutions should conduct institutional risk assessments every two years to assess their risks in relation to their customers, the jurisdictions their customers are from and in, the jurisdictions they have operations in, and their products, services, transactions, and delivery channels. The SFC AML Guideline similarly requires risk assessment in terms of country, customers, product/service, and delivery/distribution channel risks. Financial institutions should also implement appropriate AML/CFT measures as provided for in Schedule 2 to the AMLO (and monitor their effectiveness and enhance or simplify procedures and controls as appropriate).

The HKMA AML Guideline, the SFC AML Guideline, and the IA AML Guideline all require, at a minimum, oversight by the senior management⁹¹ and appointment of a compliance officer,⁹² and a money laundering reporting officer.⁹³ Other than compliance management arrangements, AML/CFT systems should include an independent audit and review function, employee screening procedures, and an ongoing employee training programme.

Groups

Schedule 2 to the AMLO requires Hong Kong incorporated regulated institutions with overseas branches or subsidiary undertakings that carry on the same business as a financial institution, as defined in the AMLO to implement group-wide AML/CFT systems, to apply the relevant requirements to all branches and undertakings in the group. The HKMA AML Guideline, the SFC AML Guideline, and the IA AML Guideline allow financial institutions to rely upon their overseas intermediaries of the same financial groups to perform CDD measures.

Inspections

Section 9 of the AMLO provides power on the part of relevant authorities such as the HKMA, SFC, IA, and Companies Registry to conduct routine inspections at business premises as well as inspect and make copies of and inquiries concerning records or documents to ascertain whether financial institutions or Trust or Company Service Provider (TCSP) licensees are complying with the AMLO, including Schedule 2.

⁹¹ Including in implementing effective AML/CFT systems, and approving, for example, the establishment or continuance of high-risk business relationships and third-party payments.

⁹² The compliance officer should be at management level and have overall responsibility for the establishment and maintenance of the authorized institution/licensed corporation's AML/CFT systems.

⁹³ The money laundering reporting officer should be a member of senior staff and act as the central reference point for suspicious transaction reporting.

Appendix 2 - Development of Professional Investor Regime in Hong Kong

History & Framework

Section 5(1) of the SFO prescribes the statutory functions of the SFC, including:

- (a) To take such steps as it considers appropriate to maintain and promote the fairness, efficiency, competitiveness, transparency, and orderliness of the securities and futures industry (section 5(1)(a) of the SFO).
- (b) To encourage the provision of sound, balanced, and informed advice regarding transactions or activities related to financial products (section 5(1)(e) of the SFO).
- (c) To secure an appropriate degree of protection for members of the public investing in or holding financial products, having regard to their degree of understanding and expertise in respect of investing in or holding financial products (section 5(1)(l) of the SFO).

In view of these statutory functions, it is inevitable that the SFC feels obliged to actively promote investor protection through intermediaries. As such, intermediaries are required to provide their clients with informed advice concerning financial products and ensuring that such products are suitable for their clients. There can be no doubt that investor protection and market integrity loom large in influencing the SFC in the performance of its regulatory functions, including its approach to the manner in which licensed and registered persons must deal with their clients.

Although the SFC has a statutory obligation to promote investor protection, the SFO provides that this function is conditional and must be balanced against other considerations. This is clear from section 5(1)(l) of the SFO, which requires the SFC to secure an “appropriate” degree of protection for members of the investing public. In recognition of this, the SFO included provisions for a class of investors, known as “professional investors”, who are considered not to require certain protections under the SFO, including:

- (a) Being protected from receiving advertisements, invitations, and documents relating to securities, structured products, or collective investment schemes, the issue of which has not been authorized under the SFO (section 103(1) and (3)(k) of the SFO);
- (b) Being protected from unsolicited calls by intermediaries (section 174(1) and (2)(a) of the SFO);
and
- (c) Being protected from receiving offers to acquire or dispose of the securities of, or issued by, corporations, multilateral agencies, and government and municipal government authorities (section 175(1) and (5)(d)(i) of the SFO).

The term “professional investor” is defined in section 1 of Part 1 of Schedule 1 of the SFO by reference to institutions, such as financial intermediaries, insurers, and government agencies, which are sophisticated and clearly not in need of the same level of protection under the SFO as other less sophisticated investors. These institutional PIs fall under paragraphs (a) to (i) of the definition of “professional investor” under the SFO. Additionally, paragraph (j) of the SFO definition of “professional investor” provides that the SFC may separately make rules under section 397 of the SFO, prescribing other classes of persons as being PIs. These rules are known as the PI Rules and have application to other types of corporate PIs and to Individual PIs.

The PI Rules came into force on 1 April 2003 and prescribed the following four classes of PIs:

- (a) A trust corporation entrusted with total assets of no less than HK\$40 million;
- (b) An individual, either alone or with any of his or her associates on a joint account, having a portfolio of no less than HK\$8 million or its equivalent in any foreign currency;
- (c) A corporation having a portfolio of no less than HK\$8 million or its equivalent in any foreign currency, or total assets of no less than HK\$40 million or its equivalent in any foreign currency; and
- (d) A corporation whose sole business was to hold investments and which was wholly owned by an individual who, either alone or with any of his or her associates on a joint account, had a portfolio of no less than HK\$8 million or its equivalent in any foreign currency.

For the purposes of the PI Rules, “associate” in relation to an individual was defined to mean a spouse or child, and “portfolio” was defined to mean securities, a certificate of deposit issued by a Hong Kong bank, restricted licence bank or deposit-taking company or by a foreign regulated bank, and money held by a custodian.

The SFO permits the SFC to adjust regulatory requirements, which it is empowered to impose on licensed or registered persons in relation to their interaction with PIs. These adjustments are principally provided for under the Code of Conduct. In 2003, paragraph 15.1 of the Code of Conduct relieved licensed or registered persons, when dealing with PIs, from the obligations to comply with certain regulatory requirements stipulated in paragraph 15.5, namely:

- (a) In respect of information about clients, the need to establish a client’s financial situation, investment experience and investment objectives, and the need to ensure the suitability of a recommendation or solicitation for a client;
- (b) In respect of client agreements, the need to enter into a written agreement with a client and the provision of relevant risk disclosure statements;
- (c) In respect of discretionary accounts, the need to obtain from a client an authority in written form prior to effecting transactions for the client without his or her specific authority, and the need to explain the authority and to confirm it on an annual basis;
- (d) In respect of information for clients, the need to inform a client about the licensed or registered person and the identity and status of its employees and others acting on its behalf, the need to confirm promptly with a client the essential features of a transaction after effecting a transaction for the client, and the need to provide a client with documentation on the Nasdaq-Amex Pilot Program.

In 2003, the Code of Conduct distinguished between the institutional PIs stipulated in paragraphs (a) to (i) of the SFO definition of “professional investor” and the other classes of PI prescribed under the PI Rules. Licensed or registered persons were not required to comply with the requirements referred to in the preceding paragraph when dealing with institutional PIs. However, when dealing with the other classes of PIs, a licensed or registered person was only able to waive compliance with those requirements after assessing and being reasonably satisfied that the client was knowledgeable and had sufficient experience in relevant products and markets. The assessment process required a licensed or registered person to have regard to:

- (a) The type of product(s) which the client had traded;
- (b) The frequency and size of trades, with 40 transactions per annum considered the minimum acceptable number;
- (c) The client’s dealing experience, with two years of active trading considered the minimum acceptable period; and
- (d) The client’s awareness of the risks involved in trading in the relevant markets.

Additionally, it was necessary for the licensed or registered person:

- (e) To provide a written explanation to the client concerning the risks and consequences of being treated as a PI, particularly the information that would not be provided to him or her, and that he or she retained the right to cease being treated as a PI;
- (f) To obtain a written and signed declaration from the client acknowledging these matters and consenting to be treated as a PI; and
- (g) To implement procedures for an annual exercise to be carried out to ensure that the client remained a PI and elected to continue being treated as a PI.

Professional Investor Suitability Exemption

Under paragraph 15.2 of the Code of Conduct, licensed or registered persons dealing with Institutional PIs are automatically exempt from compliance with the obligations stipulated in paragraphs 15.4 and 15.5 of the Code of Conduct.

Paragraph 15.4 of the Code of Conduct stipulates the following obligations which, unless an exemption is provided for, are imposed on licensed or registered persons:

- (a) The need to establish a client’s financial situation, investment experience, and investment obligations, except where the licensed or registered person is providing advice on corporate finance work;
- (b) The need to ensure suitability of a recommendation or solicitation;
- (c) The need to assess the client’s knowledge of derivatives and to characterize the client based on his or her knowledge of derivatives;

- (d) The need to enter into a written agreement and the provision of risk disclosure statements;
- (e) The need to disclose transaction related information;
- (f) The need for a licensed or registered person to obtain from the client an authority in written form prior to effecting transactions for the client without his or her specific authority;
- (g) The need to explain the written authority;
- (h) The need to disclose benefits receivable for effecting transactions for a client under a discretionary account; and
- (i) The need to ensure suitability of a transaction in a complex product, to provide sufficient information about a complex product and to provide warning statements.

Paragraph 15.5 of the Code of Conduct stipulates the following obligations which, unless an exemption is provided for, are imposed on licensed or registered persons:

- (a) The need to inform the client about the licensed or registered person and the identity and status of its employees and others acting on its behalf;
- (b) The need to confirm promptly with the client the essential features of a transaction after effecting a transaction for a client; and
- (c) The need to provide the client with documentation on the Nasdaq-Amex Pilot Program.

While they are automatically exempt from compliance with the obligations stipulated in paragraph 5.5 of the Code of Conduct, they are only exempt from compliance with the obligations stipulated in paragraph 15.4 if they are reasonably satisfied that a Corporate PI meets each of the following requirements of paragraph 15.3A(b) in relation to relevant products and markets:

- (a) It has the appropriate corporate structure and investment process and controls concerning the making of investment decisions;
- (b) The person(s) responsible for making investment decisions on its behalf has(have) a sufficient investment background; and
- (c) It, through the person(s) making an investment decision, is aware of the risks involved.

Having satisfied these requirements, a licensed or registered person dealing with Corporate PIs and hoping to be exempt from compliance with paragraph 15.4 of the Code of Conduct, must satisfy each of the following requirements of paragraph 15.3B:

- (a) Obtain a written and signed declaration of consent from the client;
- (b) Fully explain to the client the consequences (i.e., the regulatory exemptions to which the licensed or registered person will be entitled) of being treated as a PI and that the client has the right to withdraw from being treated as such at any time; and

- (c) Specify that the client is treated as a PI in a particular product and market, and inform the client that he has a right to withdraw from being treated as a PI, whether in respect of all products or markets or any part thereof.

The licensed or registered person must also carry out an annual exercise confirming that the client continues to meet the requisite requirements under the PI Rules.

A licensed or registered person dealing with Individual PIs is not entitled to exemption from compliance with the obligations stipulated in paragraph 15.4 of the Code of Conduct, but is entitled to exemption from compliance with the obligations stipulated in paragraph 15.5, provided he or she satisfies each of the requirements of paragraph 15.3B, as described in the preceding paragraph.

Appendix 3 - Suitability Obligations under the Code of Conduct

Paragraph	Description
Paragraphs prevailing prior to the Global Financial Crisis	
Para 5.1	...should take reasonable steps to establish...each client's financial situation, investment experience, and investment objectives...
Para 5.2	Having regard to information about the client..., the licensed or registered person should, when making a recommendation or solicitation, ensure the suitability of the recommendation or solicitation for that client is reasonable in all the circumstances
Para 5.3	a licensed or registered person providing services to a client in derivative products... should assure itself that the client understands the nature and risks of the products and has sufficient net worth to be able to assume the risks and bear the potential losses of trading in the product
Paragraphs adopted after the Global Financial Crisis	
Para 5.1A	...as part of the know your client procedure, a licensed person should assess the client's knowledge of derivatives and characterize the client based on his knowledge of derivatives (effective 4 June 2010)
Para 5.5	a licensed or registered person providing services to a client in complex products should ensure that – (a) a transaction in a complex product is suitable for the client in all circumstances (b) sufficient information on the key nature, features and risks of a complex product is provided so as to enable the client to understand the complex product before making an investment decision (c) warning statements in clear and prominent manner (effective 6 April 2019)
Para 6.3(i)	a Client Agreement should contain [below] provision: "If we [the intermediary] solicit the sale of or recommend any financial product to you [the client], the financial product must be reasonably suitable for your having regard to your financial situation, investment experience and investment objectives. No other provision of this agreement or any other document we may ask you to sign and no statement we may ask you to make derogates from this clause." (effective 9 June 2017)
s8.3 & s8.3A	"where a licensed or registered person distributes an investment product... [he] should deliver the following information to the client prior to or at the point of entering into the transaction: (a) the capacity (principal or agent) in which a licensed or registered person is acting (b) affiliation of the licensed or registered person with the product issuer (c) disclosure of monetary and non-monetary benefits ⁹⁴ (d) terms and conditions in generic terms under which client may receive a discount of fees and charges from a licensed or registered person" (effective March 2014)

⁹⁴ Please refer to Appendix 6 for an example of how disclosures of monetary and non-monetary benefits are generally made.

Appendix 4 - Circulars Issued since the 2008 Global Financial Crisis in Relation to the Suitability Obligations⁹⁵

Date	Issued by	Topic
23 Feb 2009	SFC	Circular regarding self-examination of controls and procedures on Suitability Obligations
23 Jun 2009	SFC	Circular regarding risk disclosure of CLN issuers
8 Sep 2009	SFC	Simplified arrangements for selling of RMB Sovereign Bonds
28 May 2010	SFC	Guidance in relation to investor characterization and PI requirements
2 Sep 2010	SFC	Circular regarding Code of Conduct requirements with respect to derivative products
3 Sep 2010	SFC	Synthetic ETFs and Related Products
22 Dec 2010	HKMA	Selling of Accumulators
31 Oct 2011	HKMA	Rationale for selling of accumulators “Buy at a discount”
20 Jan 2012	HKMA	Applicability of Enhanced Measures to Sales of Investment Products to Private Banking Customers
12 Jun 2012	HKMA	Selling of Investment Products to Private Banking Customers
17 Jul 2012	SFC	Compliance with Suitability Obligations
19 Nov 2012	SFC	Selling of Fixed Income Product
25 Mar 2014	SFC	Selling of complex bonds and high-yield bonds
31 Mar 2016	SFC	Distribution of bonds listed under Chapter 37 of the Listing Rules
23 Dec 2016	SFC	FAQs on Compliance with Suitability Obligations
23 Dec 2016	SFC	FAQs on Triggering of Suitability Obligations
25 Jan 2018	SFC	Compliance failure in distribution of fixed income and structured products
8 Feb 2018	HKMA	Distribution of Fixed Income and Structured Products
13 Jul 2018	SFC	Implementation of the amended PI rules
18 Oct 2018	HKMA	Investment horizon and suitability assessment
30 Oct 2018	HKMA	Sale and Distribution of Debt Instruments with Loss-absorption Features and Related Products
7 Dec 2018	SFC	Distribution of complex and high-risk products

⁹⁵ The list is not exhaustive

Date	Issued by	Topic
22 Mar 2019	SFC	FAQs on implementation of additional protective measures for complex products
13 Jun 2019	SFC	Implementation of regulatory requirements for sale of complex products
8 Jul 2019	HKMA	Frequently Asked Questions on Sale and Distribution of Debt Instruments with Loss-absorption Features and Related Products
25 Sep 2019	HKMA	Investor Protection Measures in respect of Investment, Insurance and Mandatory Provident Fund Products
27 Mar 2020	SFC	Reminder of important obligations to ensure suitability and timely dissemination of information to clients
23 Dec 2020	HKMA	Frequently Asked Questions on Investor Protection Measures

Appendix 5 - Example of “Investment Rationale Check-box” Used by Financial Institutions

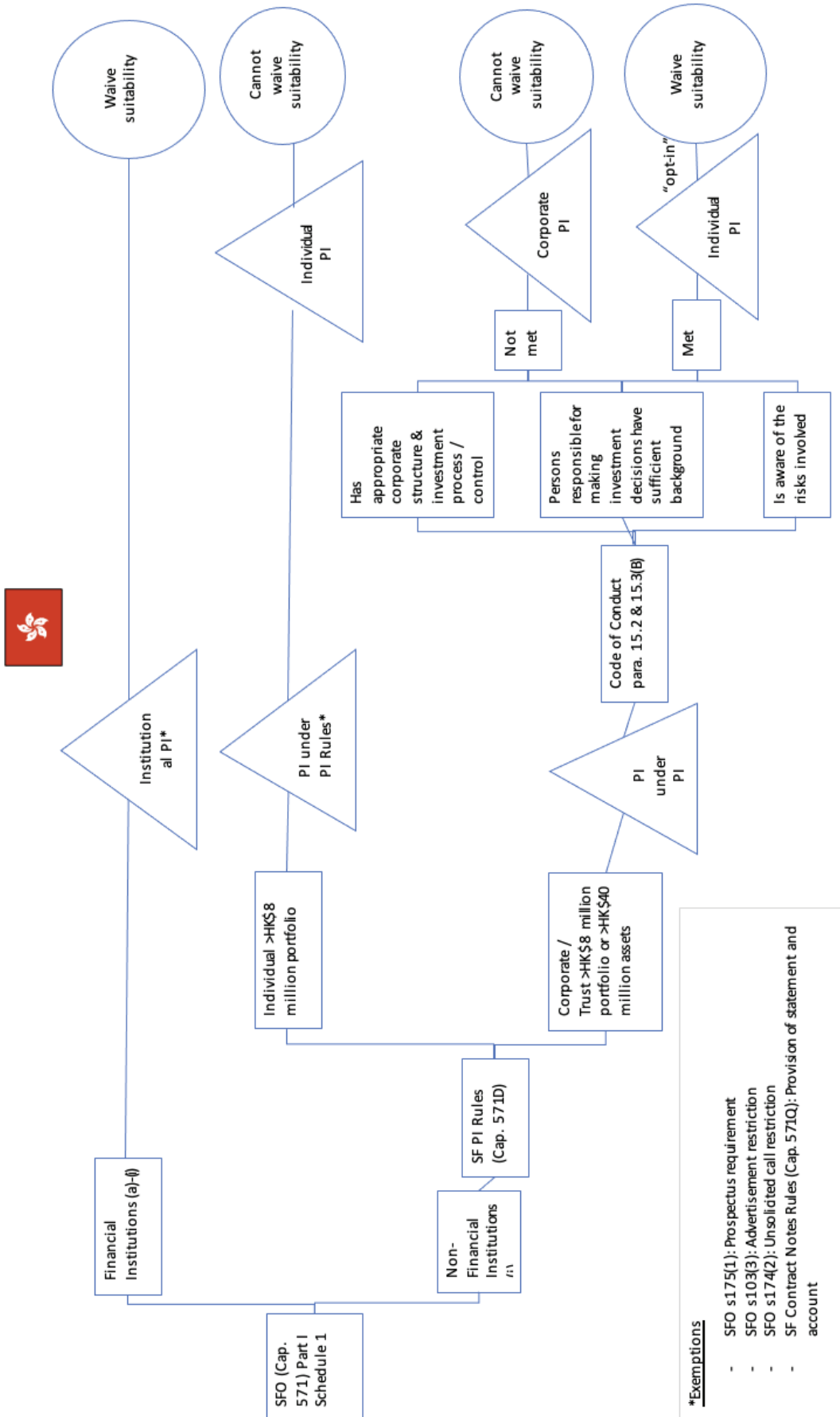
R1	Transaction aligns with your target asset allocation
R2	Transaction will diversify your investment portfolio
R3	Transaction provides you with desired sector / industry exposure
R4	Transaction provides you with desired country / regional exposure
R5	Transaction provides you with desired currency exposure
R6	Transaction aligns with your short-term market view
R7	Transaction aligns with your objective to hedge
R8	Transaction was specifically requested by you
R9	Transaction aligns with your bullish/bearish view on the underlying assets and your desired positioning for yield enhancement or capital gain
R11	Transaction aligns with your decision to realise profit / cut loss by closing out an existing position
R12	Transaction allowing you to buy /sell all/part of the underlying asset at your desirable predetermined price/target within the contract period despite the investment risks may be higher than other structured products
R13	The transaction amount was specifically requested by you. The transaction or the account only forms a small part of your estimated net worth
R14	The transaction amount was specifically requested by you. The Bank understands you would like to reconsider the CIP parameters to cater for your investment activities in the coming days/weeks/months
R15	Despite the long tenor of the product, you have a succession plan on the account
R16	The Bank understands you are planning for cash/assets to be injected to the account which would mitigate the mismatches
R17	The Bank understands you have designated that account for this type of investment
R18	The Bank understands you have other accounts elsewhere to diversify your asset allocation
R19	The account has recently conducted a CIP review and the new parameters agreed in CIP review will mitigate the mismatches
R20	You would like to re-balance your portfolio in the coming days/weeks/months
R21	Taking into account the series of other transactions on the day, the mismatches will be resolved
R22	Roll over of current holding and mismatches will be resolved after the current holding is settled

R23	You understand that the product/security is liquid in the secondary market under normal market condition despite it exceeds your investment time horizon
R24	The transaction aligns with your objective to hedge your interest rate exposure
R25	The transaction aligns with your objective to hedge your equity exposure
R26	The transaction aligns with your objective to hedge your currency/commodity exposure
R27	The transaction has the objective to de-risk the portfolio

Appendix 6 - Disclosure of Monetary And Non-monetary Benefits – Example of How Disclosures Are Generally Made

Product description	Spread / fee
Fixed Income Trading Spread	Up to 2% of the nominal trade
Bond Borrowing and Lending Fee	Up to 50% of the lending fee received from the counterparty
FX OTC options	Up to 60% of the option premium
FX structured investments	Up to 60% of the total yield

Appendix 7 - Hong Kong - PI Regime



Appendix 8 – Internship Programmes Available for Undergraduate Students

Apprenticeship Programme – Private Wealth Management

The HKMA and PWMA jointly organise an Apprenticeship Programme which includes a two consecutive summer internship experience in the participating institutions (private banks), which are members of the PWMA. The Apprenticeship Programme is open to full-time students in their first to third year of study in a university based in Hong Kong.

The Apprenticeship Programme has attracted a lot of students' attention and the number of applicants has increased by four folds over the last three years.

	2017	2018	2019	2020	2021
No. of student applicants	368	786	858	1,126	1,235
No. of participating financial institutions	10	13	16	12	18
No. of internships taken up	29	50	52	39	52

Source: PWMA

The number of take-ups will depend on the number of participating institutions as well as the number of headcount available. However, the quality of the applicants will be the most determinant factor of the number of interns intake. The higher quality of the applicants, the higher chance that more firms will participate and are prepared to give out offers.

The Apprenticeship Programme offers a return second year internship offer, i.e. an Apprentice is able to work in the firm for two consecutive summers, provided that the firm is satisfied with the first session performance. The return rate for the second session internship ranges between 58% and 73%.

	2017	2018	2019	2020	2021
No. of internships taken up	29	50	52	39	52
No. of internships returning for second year	13	17	21	14	27
Return rate	45%	34%	40%	36%	52%

Source: PWMA

The return rate of the second session (as to whether the participating interns are able to secure a return offer) hinges again on the quality of the apprentices. On the other hand, there are also other influencing factors such as whether the return offer appears more attractive than the other options that the apprentice has obtained in other institutions or channels.

While the number of intakes is still insignificant in the context of the whole industry, the Apprenticeship Programme has effectively heightened the students/graduates' awareness of the PWM industry and boosted the profile of the PWM industry as a premier choice of career for graduates. This is clearly reflected in the number of applications which has been increasing significantly on a year-on-year basis.

WAM Summer Internship Programme (SIP) – Investment & Securities Industry

The WAM Pilot Programme was launched by the FSTB in 2016, targeting at undergraduate students and in-service practitioners, with a view to attracting new blood and enhancing the professional competency of the sector.

The SIP is another well sought-after internship programme with a focus on the securities and investment industries, which is open to all full-time students studying in a university in Hong Kong. Both the number of participating institutions and the number of applicants have doubled over the last three years.

	2017	2018	2019	2020
No. of participating institutions	28	25	25	45
Out of which:				
Banks	5	2	0	2
Licensed Corps	20	21	24	41
Trustee	3	2	1	2
No. of applicants	1,053	673	849	2,116
No. of internships taken up	61	55	65	77
Out of which				
Banks	19	6	0	6
Licensed Corps	36	49	65	65
Trustee	6	0	0	6

While the PWMA participating institutions are private banks, most of the SIP participating institutions are licensed corporations, though there are two banks and two trustee companies in the year 2020. The SIP was revamped in 2020 with relaxation to include students of all tertiary institutions and to include non-local full-time students, which has likely attributed to the surge in the number of applicants in 2020.

Analogous to the PWMA Pilot Programme, despite that the number of final intern intake of the SIP remains insignificant in the context of the entire industry, the SIP programme has also raised students' awareness of the securities and investment industries and as a result of which, more graduates are willing to consider the securities and investment industry as a top choice of career. Accordingly, improving the quality of students would definitely be one of the key driving forces to attract more firms to participate in the programme and make more offers.

Glossary

“AI”	Authorised Institution as defined under the Banking Ordinance (Cap. 155 Banking Ordinance of Hong Kong)
“AML”	Anti-money laundering
“AMLO”	Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615 of Hong Kong)
“AUM”	Assets under management
“BCG”	Boston Consulting Group
“BFin (AMPB)”	Bachelor of Finance (Asset Management and Private Banking) launched by The University of Hong Kong
“CDD”	Customer due diligence
“CFT”	Counter-Financing of Terrorism
“Code of Conduct”	Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
“Code of Conduct PI”	Institutional PIs, Corporate PIs and Individual PIs
“Corporate PI”	Corporate Professional Investor Waiving Suitability
“CPWP”	Certified Private Wealth Professional
“CRWP”	Certified Retail Wealth Professional
“DTROP”	Drug Trafficking (Recovery of Proceeds) Ordinance (Cap. 405 of Hong Kong)
“ECF”	Enhanced Competency Framework
“Family Office Paper”	FSDC Paper No.45, entitled “Family Wisdom: A Family Office Hub in Hong Kong” and published in July 2020
“FATF”	Financial Action Task Force
“FPS”	Faster Payment System launched by the HKMA
“FSDC”	Financial Services Development Council
“FSTB”	Financial Services and the Treasury Bureau
“GBA”	Greater Bay Area
“HKIB”	Hong Kong Institute of Bankers
“HKMA”	Hong Kong Monetary Authority

“HKMA AML Guideline”	The guidelines on AML and CFT published by the HKMA (as revised in October 2018) for AIs
“HKSI”	Hong Kong Investment and Securities Institute
“HNW”	High-net-worth
“HNWI”	High-net-worth individual
“IA”	Insurance Authority
“IA AML Guideline”	The guidelines on AML and CFT published by the IA for authorised insurers and reinsurers carrying on long term business, and licensed individual insurance agents, licensed insurance agencies and licensed insurance broker companies carrying on regulated activities in respect of long-term business
“ID”	Identification
“intermediary”	A term generally used to describe licensed person or registered persons who are licensed/registered to carry out regulated activities
“IRD”	Inland Revenue Department
“KYC”	Know your customer
“ML/TF”	Money laundering and terrorist financing
“Next Gens”	Millennial clients
“OSCO”	Organized and Serious Crimes Ordinance (Cap.455 of Hong Kong)
“PEP”	Politically exposed person
“PI”	Professional investor
“PI Regime”	Professional investor regime
“PI Rules”	Securities and Futures (Professional Investors Rules) (Cap.571D of Hong Kong)
“PICs”	Personal investment companies
“PWM”	Private wealth management
“PWMA”	Private Wealth Management Association
“Regtech”	Regulatory technologies
“RM”	Relationship manager

“RWM”	Retail Wealth Management
“SFC”	Securities and Futures Commission
“SFC AML Guideline”	The guidelines on AML and CFT published by the SFC (as revised in September 2021) for licensed corporations and associated entities
“SFO”	Securities and Futures Ordinance (Cap. 571 of Hong Kong)
“SIP”	The WAM Summer Internship Programme launched by the FSTB
“Suitability Obligations”	<p>The set of obligations covering how intermediaries should deal with the clients when providing dealing and advisory services relating to any financial product. The obligations may include knowing your client, product due diligence, suitability assessment, risks disclosure and documenting investment rationale</p> <p>[for Hong Kong, the set of obligations are found in the Code of Conduct; for Singapore, the set of obligations are primarily found in the Financial Advisory Act]</p>
“Suitability Framework”	The regulatory regime governing Suitability Obligations and the relevant exemptions
“UHNWI”	Ultra-high-net-worth individuals
“UNATMO”	United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575 of Hong Kong)
“UNSO”	United Nations Sanctions Ordinance (Cap. 537 of Hong Kong)
“UTE”	Unified Tax Exemption
“WAM Pilot Programme”	The Pilot Programme launched by FSTB in 2017 with a view to enhancing talent training for the asset and wealth management sector
“WMDO”	Weapons of Mass Destruction (Control of Provision of Services) Ordinance (Cap. 526 of Hong Kong)

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About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

The FSDC has been incorporated as a company limited by guarantee with effect from September 2018 to allow it to better discharge its functions through research, market promotion and human capital development with more flexibility.

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