

## Appendix A

### Key findings from the Review and the standards expected of LCs

#### 1. Inadequate due diligence on account opening documentation

The Review found that some brokers approved client account opening applications without conducting adequate due diligence on the documents collected. These brokers lacked effective controls to detect irregularities in these documents, such as:

- multiple clients submitting statements of securities accounts from other brokers that contained identical information (eg, trade details), with only the names, addresses, or account numbers altered; and
- irregularities in the statements or confirmations from other brokers and banks, and utility bills, such as variations in font styles, font sizes and formats (eg, text alignment, character sets), conflicting information within the same document, invalid or impossible dates, discrepancies in asset movements (eg, opening balance and recorded transactions that do not reconcile with the closing balance), and missing or invalid QR codes.

Despite these issues, these brokers accepted questionable or forged documents and approved the account opening applications that should have been rejected.

In the most serious cases, over 50% of the client accounts sampled by the SFC were found to have used forged documents during the account opening process.

#### Expected standards

LCs must maintain adequate resources, act with due care and diligence<sup>1</sup> and implement effective procedures<sup>2</sup> which are needed for the proper performance of business activities:

- Thorough due diligence and robust controls are essential for verifying client identity and detecting irregularities in the client documents submitted during the account opening process before approving the opening of any new accounts;
- Account openings should be approved only after completing all know-your-client and customer due diligence procedures, and a comprehensive review by management;
- LCs shall adopt necessary procedures to guard against falsification of records required to be kept under the Keeping of Records Rules, and facilitate the detection of any such falsification<sup>3</sup>;

<sup>1</sup> General Principle 2 of the Code of Conduct.

<sup>2</sup> General Principle 3 of the Code of Conduct.

<sup>3</sup> Sections 3(1) and 9(2) of the Securities and Futures (Keeping of Records) Rules (**Keeping of Records Rules**).

- If LCs cannot satisfactorily complete know-your-client and customer due diligence procedures, or have doubts about the authenticity of documents submitted, and as a result, their risk assessment indicates that such a client poses a high risk, they should refrain from establishing a business relationship with the client, or terminate any existing business relationships as soon as practicable;
- LCs should warn prospective clients of the serious consequences of submitting forged documents, which include account termination, filing a report with law enforcement agencies, and possible criminal prosecution; and
- LCs should conduct an internal review as soon as practicable to detect if any questionable or forged documents have been accepted for account opening. Where LCs identify those client accounts involved in the use of forged documents (including identification documents), the LCs should terminate the business relationship with the clients concerned and make reference to Measure 1 (ii) to (vii) of Appendix B for the steps to close these client accounts and other measures to be taken.

## 2. Deficiencies in due diligence and ongoing monitoring of CBCR with overseas intermediaries

The provision of securities dealing (including initial public offering (**IPO**) subscription), futures contracts dealing or leveraged foreign exchange trading services to investors through overseas intermediaries, whether affiliated or not, constitutes CBCR.

Some brokers failed to identify red flags and irregularities during due diligence and ongoing monitoring of the CBCR with overseas intermediaries. For instance:

- a broker solely relied on a questionnaire and confirmation provided by an overseas intermediary for assessing the intermediary's know-your-client and anti-money-laundering and counter-financing of terrorism (**AML/CFT**) controls, despite discrepancies between the questionnaire responses and the actual circumstances of the intermediary. The overseas intermediary indicated in the questionnaire that it mainly served local investors, but it was subsequently found that all of its underlying clients subscribing to Hong Kong IPOs through the broker had a nationality of and resided in another country; and
- an overseas intermediary with which a broker maintained a CBCR falsely declared in an AML/CFT questionnaire that it was registered with the local regulator when, in fact, it was not. As a result, the broker was not eligible to apply simplified customer due diligence to the overseas intermediary<sup>4</sup>.

<sup>4</sup> Paragraph 4.8.3 of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations and SFC-licensed Virtual Asset Service Providers) (**AML/CFT Guideline**).

## Expected standards

LCs must take additional due diligence measures to mitigate the associated risks arising from the lack of complete information about the overseas intermediaries' underlying clients and their transactions<sup>5</sup>. Given that not all CBCR pose the same level of money laundering/terrorist financing (**ML/TF**) risks, LCs should adopt a risk-based approach in applying the additional due diligence measures<sup>6</sup>. These include:

- Understanding the nature, reputation, licensing or registration status and regulatory oversight of the intermediaries, the types of their underlying clients and the expected nature, volume and value of transactions;
- Exercising heightened vigilance against red flags during both due diligence and ongoing monitoring. Particular attention is needed if underlying clients' profiles—such as nationality, residence, or business operations—do not align with the jurisdiction in which the overseas intermediary operates or its typical client base;
- Taking additional measures to mitigate any potential ML/TF risks, such as requesting information about underlying transactions or clients, imposing limits on or restricting certain transactions;
- Determining from publicly available information (eg, public registers of licensed or registered entities, public databases of regulatory and enforcement actions, news) the reputation of the overseas intermediary and the quality of its regulatory supervision (eg, whether the overseas intermediary is licensed or registered in the jurisdiction that it operates and is subject to effective AML/CFT supervision by relevant regulatory authorities, whether and when the overseas intermediary has been subject to any targeted financial sanctions, ML/TF investigations or regulatory actions); and
- Ensuring that overseas intermediaries have adequate and effective AML/CFT controls. For higher-risk relationships, LCs should conduct an in-depth review (eg, on-site visits, review findings reported by internal or external auditors) and not rely solely on the intermediary's confirmation. If LCs cannot complete a satisfactory review, they should refrain from establishing business relationships with the overseas intermediary.

All CBCRs must be subject to ongoing monitoring<sup>7</sup>. LCs should ensure their ongoing monitoring identifies and addresses issues, including the aforementioned red flags and weak AML/CFT controls, and take prompt and appropriate actions to comply with all requirements.

Where ML/TF risks associated with any overseas intermediaries under a CBCR cannot be adequately mitigated, LCs should avoid establishing or terminate relationships with the overseas intermediary.

<sup>5</sup> Paragraph 4.20 of the AML/CFT Guideline.

<sup>6</sup> Paragraphs 4.20.5 to 4.20.11 of the AML/CFT Guideline.

<sup>7</sup> Paragraph 4.20.13 of the AML/CFT Guideline.

### 3. Deficiencies in client identity verification process

Some brokers did not perform adequate client identity verification when using the following account opening approaches:

#### (a) Designated Hong Kong bank account approach

Clients are required to transfer an initial deposit of no less than HK\$10,000 from a bank account in their own names at a licensed bank in Hong Kong. All future deposits and withdrawals must be made through this account. It is necessary to ensure that the initial transfer and all subsequent deposits and withdrawals are duly conducted through the bank account, whose ownership has been duly verified by the bank. In one case, a broker failed to collect sufficient information for the bank transfer such as the sender's name and the bank account number to confirm the ownership of the bank account, resulting in incomplete identity verification.

#### (b) Remote onboarding of overseas clients approach

When onboarding overseas individual clients remotely, LCs are required to use technologies pre-assessed by independent qualified assessors to authenticate identification documents and verify client identities. Additionally, clients should make initial and subsequent deposits and withdrawals through designated overseas bank accounts with banks supervised by the regulators in eligible jurisdictions. In one case, a broker relied only on initial deposits from overseas bank accounts and did not use technologies to authenticate clients' identification documents or verify their identities as required.

#### Expected standards

Proper client identity verification is crucial for establishing legitimate client relationships and preventing fraudulent activities. LCs must take all reasonable steps to establish the true and full identity of each client<sup>8</sup> and comply with the requirements for acceptable account opening approaches published on the SFC's designated webpage<sup>9</sup>. In particular:

- For online onboarding through an initial deposit from a Hong Kong bank account<sup>10</sup>, LCs should obtain sufficient evidence to confirm<sup>11</sup> that the fund transfer was made from the client's own bank account; and
- For remote onboarding of overseas clients<sup>12</sup>, LCs should ensure that an independent qualified assessor has confirmed the appropriateness and

<sup>8</sup> Paragraph 5.1 of the Code of Conduct.

<sup>9</sup> Please refer to the SFC's [designated webpage](#) for acceptable account opening approaches and the requirements specified therein.

<sup>10</sup> This refers to the acceptable account opening approach #4 on the SFC's designated webpage.

<sup>11</sup> Please refer to the [circular](#) "Detection and prevention of potential layering activities in money laundering" issued by the SFC on 17 November 2025 for reasonable measures to ascertain the ownership of the bank accounts.

<sup>12</sup> This refers to the acceptable account opening approach #5 on the SFC's designated webpage.

effectiveness of adopted processes and technologies for establishing the true identities of clients before implementation of the processes and technologies. These technologies must be capable of authenticating client identification documents, verifying identities, and safeguarding against security or fraud risks such as identity theft.

#### 4. Inadequate controls in collecting client identification data (CID)

Some brokers failed to implement adequate controls to comply with the “waterfall” requirements<sup>13</sup> for collecting CID of individuals from identification documents, which prioritise Hong Kong identity cards (**HKID**) over national identification documents, followed by passports.

- Some brokers did not take reasonable steps to confirm that clients did not possess identification documents of a higher priority before accepting the documents provided; and
- Some brokers allowed clients to open accounts using passports, even though the clients were citizens of jurisdictions that issue national identification documents, which have a higher priority according to the waterfall requirements.

##### Expected standards

When collecting CID for compliance with paragraph 5.6 of the Code of Conduct and the investor identification requirements under FINI<sup>14</sup>, LCs must implement proper controls to ensure full compliance with the waterfall requirements, including obtaining representations and warranties from clients to confirm that no identification documents of a higher priority in the waterfall<sup>15</sup> are in their possession. For natural persons, the prescribed priority is:

- (i) HKID,
- (ii) national identification document, and
- (iii) passport.

#### 5. Deficiencies in review of client address

The Review found that the brokers generally failed to implement controls to assess the reasonableness of residential addresses provided by individual clients, and to identify anomalies, such as addresses of commercial or government buildings rather than residential locations, or multiple clients sharing the same address. In the most serious

<sup>13</sup> Paragraph 5.6(o) of the Code of Conduct.

<sup>14</sup> FAQs E7 to E9 in the [Fast Interface for New Issuance \(FINI\): Information Pack](#) published by HKEX.

<sup>15</sup> Question 4 of the [FAQs on collection of client identification data](#) and the [circular](#) “IPO subscription and financing services” issued by the SFC on 20 March 2025.

case, one broker onboarded about 190 clients who all provided the same address located in a commercial building, and failed to take any follow-up action.

### Expected standards

LCs should obtain residential address information from individual clients<sup>16</sup> and may require proof of residential address<sup>17</sup> from the clients in order to be satisfied on reasonable grounds as to the address of clients ultimately responsible for originating instructions for transactions<sup>18</sup>.

LCs are expected to review client addresses for anomalies, such as the use of the same address by multiple apparently unrelated clients, inconsistencies in addresses with the clients' expected residential locations, and addresses that are not valid or searchable on public domains. LCs should follow up on any anomalies identified<sup>19</sup>.

<sup>16</sup> Paragraph 4.2.4 of the AML/CFT Guideline.

<sup>17</sup> Footnote 18 of the AML/CFT Guideline.

<sup>18</sup> Paragraph 5.4(a) of the Code of Conduct.

<sup>19</sup> Paragraph 1(h) of Appendix 2 to the [circular](#) "Protecting Client Assets Against Internal Misconduct" issued by the SFC on 5 February 2016 and paragraph 1(f) of Appendix B to the AML/CFT Guideline.