

23 January 2024

Circular to licensed corporations

Circularisation exercise and internal control review

The Securities and Futures Commission (SFC) will commence in February 2024 a circularisation exercise on clients' accounts of selected securities brokers and an internal control review of these brokers' safeguarding of client assets (collectively the "Exercise"). The SFC has engaged KPMG Advisory (Hong Kong) Limited (KPMG) to assist with the Exercise¹, which includes obtaining direct written confirmation from selected clients.

Client asset protection

Client asset protection is always a top priority of the SFC in supervising licensed corporations (LCs). In this regard, the SFC issues circulars and management letters to LCs from time to time to share its observations on control issues identified in its supervision work, and provides guidance to LCs on the regulatory standards expected of them. The SFC also conducts regular circularisation exercises such that both the SFC and brokers' management could obtain direct confirmations from clients on their account positions and identify any potential misconduct such as unauthorised trading and misappropriation of client assets.

Circularisation exercise

To facilitate the conduct of the circularisation exercise, brokers are reminded to ensure that their clients' personal information is accurate and up-to-date. Before sending out letters of confirmation, KPMG may seek assistance from brokers to contact the selected clients to: (i) confirm the clients' identities and contact details; (ii) request the clients to check their account positions; and (iii) sign and return their replies directly to KPMG.

Internal control review

The review will cover brokers' internal control systems that are designed to protect client assets, such as their controls over client information maintenance, clients' money and securities reconciliation, as well as the distribution of account statements and trade documents. In addition, the review will assess brokers' compliance with the expected regulatory standards set out in the following SFC circulars in relation to safeguarding client assets and prevention of fraud:

- [Review of internal controls for the protection of client assets and supervision of account executives](#) and a [self-assessment checklist](#) issued on 19 December 2018;
- [Third-party deposits and payments](#) issued on 31 May 2019;
- [Operation of bank accounts](#) issued on 28 June 2021; and
- [Managing the risks of business email compromise](#) issued on 24 March 2022.

¹ The SFC performed similar exercises in 2006, 2012 and 2017.



Brokers are expected to have effective and robust controls in place to protect client assets. Where appropriate, the SFC may share the findings of the Exercise with the industry.

Should you have any questions regarding the content of this circular, please contact Ms Fanny Wong of the SFC at 2231 1911 or your case officers.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

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