[Enforcement collaboration between HKMA and SFC – SFC reprimands and fines Hang Seng Bank Limited HK$66.4 million for misconduct in selling practices of investment products]

The following is issued on behalf of the Hong Kong Monetary Authority:

The Securities and Futures Commission (SFC) has reprimanded and fined Hang Seng Bank Limited (HSB) HK$66.4 million for serious regulatory failures in relation to the bank's sale of collective investment schemes (CIS) and derivative products and overcharging its clients and making inadequate disclosure of monetary benefits to them during various periods over the course of nine years between February 2014 and May 2023 (Notes 1 and 2).

Sales practices in relation to CIS

The SFC's disciplinary action stemmed from a referral by the HKMA whose investigation revealed a range of concerns regarding HSB's sale of CIS products during the period from June 1, 2016, to November 30, 2017.

Specifically, 111 client accounts were found to have executed 100 or more CIS transactions during the material period. While most transactions were declared as the client's "own choice", 46 clients had in fact been influenced by their relationship managers' solicitation or recommendation in their trades. They were solicited into conducting excessively frequent transactions with short holding periods, a trading pattern which contradicted both the funds' investment objectives and the clients' preferred investment horizons. The frequent trades in CIS products resulted in significant transaction costs borne by the clients, which greatly affected their overall profit and loss.

HSB's internal controls were deficient in that they did not adequately supervise and monitor the sale of CIS to its clients. In this connection, the bank failed to keep a sufficient audit trail to ensure that transactions were genuinely initiated by clients. It also failed to put in place sufficient controls to monitor and follow up on potentially problematic transactions after they had been conducted.

Sale and distribution of derivative products

The HKMA also referred its investigation findings in relation to HSB's sale and distribution of derivative products to the SFC. From February 17, 2014, to December 19, 2018, 388 clients who were not characterised by HSB as having knowledge of the nature and risks of derivatives purchased derivative funds in 629 transactions, and 148 of these transactions involved products whose risk level was higher than the clients' risk tolerance level.

Overcharging and inadequate disclosure of monetary benefits

A joint investigation by the SFC and the HKMA further found that, during various periods between November 2014 and May 2023, HSB had:

- retained monetary benefits from client transactions in circumstances where it should not have done so under applicable regulatory standards;
- charged its clients transaction fees beyond amounts previously communicated to them; and
- failed to adequately disclose trailer fee arrangements to clients trading in investment funds (Note 3).

In total, HSB received at least HK$22.4 million in excess benefits or fees from these transactions.

In light of these findings, the SFC considers that HSB has failed to:

- act with due skill, care and diligence, in the best interests of its clients and the integrity of the market;
- have, or employ effectively, the resources and procedures which are needed for the proper performance of its business activities;
- make adequate disclosure of relevant material information to its clients;
- avoid conflicts of interest and ensure that its clients are treated fairly; and
- comply with all relevant regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of its clients.

These issues were first brought to the SFC's attention by self-reports from HSB or referrals of findings from the HKMA. HSB has compensated impacted clients and has taken remediation steps and enhancement measures to rectify and strengthen its internal controls.

The SFC's Executive Director of Enforcement, Mr Christopher Wilson, said, "HSB's misconduct in these cases was serious and systemic. In particular, clients who declared making investment decisions themselves were in fact repeatedly solicited by HSB's relationship managers to engage in frequent and excessive CIS transactions. As a result, the clients ended up incurring substantial transaction costs to their detriment. HSB also overcharged a significant number of clients across a multitude of the bank's business lines over an extended period of time. We will not hesitate to take robust enforcement actions against errant intermediaries, and the case underscores our determination to hold intermediaries to the highest standards."

"Our collaboration with the HKMA in this case exemplifies our shared commitment to maintaining the integrity of our financial markets and safeguarding the interest of investors."

The Executive Director (Enforcement and AML) of the HKMA, Mr Raymond Chan, said, "This enforcement outcome is a result of close collaboration between the HKMA and the SFC. It helps to send a strong message to the industry that they should have in place adequate systems to ensure compliance with applicable regulatory standards."

In deciding the sanctions, the SFC took into account all relevant factors, including:

- HSB's CIS-related failures exposed its clients to significant loss;
- HSB's monetary benefits-related failures occurred during various periods over the course of nine years and caused its clients to have been improperly charged fees of at least HK$22.4 million;
- a strong message needs to be sent to the market to deter other market participants from allowing similar failures to occur;
- HSB compensated clients for their loss and also refunded the excess monetary benefits retained;
- HSB commissioned a number of internal and independent reviews upon discovery and self-reporting of its misconduct and enhanced its internal controls;
- HSB's co-operation with the HKMA and the SFC and acceptance of the SFC's findings and disciplinary action facilitated an early resolution of the matter; and
- HSB has no previous disciplinary record.

A copy of the Statement of Disciplinary Action is available on the SFC website.

Note 1: This press release is issued jointly by the SFC and the Hong Kong Monetary Authority (HKMA).
Note 2: HSB is registered to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance.
Note 3: Trailer fee arrangements refer to commissions provided by fund houses to HSB in connection with its role in the distribution of funds.