

Preparing for an SFC Inspection: A Guide for Licensed Corporations



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As a corporation licensed by the Securities and Futures Commission (SFC) in Hong Kong, strict adherence to regulatory requirements is of paramount importance. Maintaining alignment with regulatory obligations not only safeguards operational integrity but also mitigates legal, financial, and reputational risks. This commitment is essential for sustaining trust with stakeholders and upholding market confidence in accordance with SFC standards.

SFC, as a gatekeeper of the financial industry, strives to strengthen and protect the integrity and soundness of the Hong Kong's securities and futures markets by supervising licensed corporations. Inspections are one of the key approaches to assess licensed corporations' compliance with the regulatory requirements.

Risk-based Approach

As a risk-based approach, SFC typically inspects licensed corporations every 5 – 8 years and 3 – 5 years for lower risk and higher risk firms, respectively:

Risk Factors	Lower Risk	Higher Risk
Client-facing	Professional Investor ("PI") only	Retail + PI
Client assets	Restricted to holding client assets	Not restricted to holding client assets
Regulated Activities ("RAs") that may pose systemic risks to the market	Do not engage in such RAs	Engage in such RAs
RAs complexity	Less complex	Complex

Examples of lower and higher risk licensed corporations include:

Lower risk firms

- Private fund managers ([Type 9](#))
- Corporate Finance advisors (which do not hold client assets and does not conduct sponsor work) ([Type 6](#))
- Securities or futures advisors ([Type 4](#), [Type 5](#))
- Investment distributors or Introducing-only firms ([Type 1](#))
- Securities or futures dealers that only deal with institutional clients ([Type 1](#), [Type 2](#))

Higher risk firms

- Credit Rating firms (Type 10)
- Authorised fund managers (Type 9)
- Dark-pool platform operators (Type 7)
- Corporate finance advisors such as IPO sponsors (Type 6)
- Securities or futures advisors that target retail investors (Type 1, Type 2)

What to Expect During an Inspection

During an [SFC inspection](#), the regulator will request documents and data within a tight timeframe, often via written enquiries or during staff interview. Staff must understand their roles, articulate workflows clearly, respond to the SFC's questions professionally, and ensure all supporting documents and data are readily accessible.

Tips for Licensed Corporations that are expecting an inspection

Conduct a gap analysis: Conduct a comprehensive gap analysis to identify discrepancies between your firm's practices and SFC requirements. Review internal controls, compliance monitoring, and operational processes. Addressing these gaps before the inspection strengthens compliance readiness.

Update documentation: Ensure all business documentation, including policies, procedures, client agreements, and records, is current and fully compliant with SFC regulations. This includes anti-money laundering (AML) policies, risk management frameworks, and trade execution records. Regular updates demonstrate a proactive compliance culture.

Organise documents: Prepare a checklist of documents likely requested, such as client onboarding records, transaction logs, and compliance reports. Organise them in a centralised, easily accessible system to facilitate quick retrieval during the inspection, minimising delays and demonstrating efficiency.

Appoint a coordinator: Designate a knowledgeable individual with a strong understanding of compliance frameworks and SFC regulatory requirements to serve as the inspection coordinator. This person should manage communications, coordinate logistics, and ensure all requests are handled promptly. While the coordinator does not need to be the compliance officer, he/she should ideally possess working knowledge of SFC rules and familiarity with the firm's operations, policies and risk areas to effectively liaise with the inspection team.

Arrange internal audits: Appoint an independent internal staff, or appoint an external professional institution like Waystone to perform the [internal audit](#) function. Given the volume of documentation, it is nearly impossible to manually review all records to see if they comply with the SFC regulations, hence an internal audit is proven efficient to (i) identifying discrepancies/compliance breaches through sampling approaches; and (ii) this establishment of an internal audit function inherently creates fraud deterrence pressure by introducing systematic checks, transaction sampling, and independent oversight. This mechanism signals to employees and stakeholders that activities are monitored, irregularities are likely to be detected, and accountability is enforced.

Arrange mock inspections: Engage a professional firm like Waystone to conduct [mock inspections](#). By going through the process, this can familiarise staff expected to lead/participate in an inspections (e.g. Responsible Officers, Manager-In-Charge and preparer) with the inspection process, this includes meeting with the SFC's senior manager and the inspection team, preparing supporting documents and responding to SFC's enquiries.

The Value of Mock Inspections

Mock inspections replicate the rigorous process of an actual SFC review, assessing compliance with the Securities and Futures Ordinance, its subsidiary legislation, and SFC codes and guidelines. They are particularly critical for firms operating in sectors where the SFC has issued circulars or guidance (e.g., the October 2024 circular on failures by private fund and discretionary account managers, and the 2023/24 thematic cyber security review

report on licensed corporations.) highlighting common industry failures. Licensed corporations should prioritise addressing these SFC-identified risks in their mock inspections, especially if they anticipate regulatory scrutiny in the near term. By conducting mock inspections, firms can proactively address weaknesses (including those flagged in SFC's circulars/news), enhance staff preparedness, and demonstrate a commitment to compliance.

SFC mock inspections are invaluable tools that simulate real regulatory reviews, enabling firms to identify compliance gaps, refine processes, and build confidence before an actual inspection.

How Waystone Can Help

Waystone offers a full suite of [Corporate Compliance Solutions](#) tailored to the needs of businesses expanding into or operating within Hong Kong. We are committed to enhancing your compliance framework, so you can focus on growing your business with confidence.

If you have any questions about the topics discussed or to learn more about our Corporate Compliance Solutions, please reach out to our [APAC Compliance Solutions](#) team or contact us below.

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