

SFC Circular on Statutory Obligations During Inspections: Ensuring Full Compliance with Section 180 of the SFO – A Practical Guide for Licensed Corporations



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The Securities and Futures Commission (SFC) has issued a strong reminder to all licensed corporations (LCs) regarding their statutory obligations during SFC inspections conducted under Section 180 of the Securities and Futures Ordinance (SFO).

The circular outlines several unsatisfactory practices identified in recent inspections and sets clear expectations for full cooperation, timely document production, and professional conduct. View the circular [here](#).

Why This Circular Matters

The SFC uses Section 180 inspections as a core supervisory tool to verify ongoing compliance with the SFO, subsidiary legislation, the Code of Conduct (CC), the Fund Manager Code of Conduct (FMCC), and other guidelines. Any perceived obstruction or delay undermines market integrity and signals potential weaknesses in a firm's control environment.

The circular makes clear that the SFC will hold senior management, including the Manager-in-Charge (MIC) of Overall Management Oversight (OMO) and the MIC of Compliance, personally accountable. This applies to all SFC licensed corporations, particularly fund managers, given the SFC's continued focus on conflicts of interest, risk management, valuation, AML/CFT, and investor protection.

Unsatisfactory Practices Observed by the SFC

The Appendix to the circular lists common deficiencies, including:

- Attempting to postpone, delay, or reject inspection notices or staff interview requests
- Challenging the SFC's scope, samples, or questions without valid legal basis
- Delaying responses or providing evasive, incomplete, inaccurate, or misleading information
- Withholding documents or submitting ambiguous, illegible, forged, or inconsistent materials
- Arranging affairs or manipulating circumstances to obstruct the inspection
- Displaying uncooperative, unprofessional, or antagonistic behavior toward SFC staff.

These behaviors are unacceptable and will be treated as serious breaches.

Key Statutory Obligations and Expected Standards of Conduct

The circular provides a detailed reminder of the statutory obligations and conduct requirements that apply to licensed corporations during SFC inspections, including:

- **Giving Access to Records and Documents and Answering Questions**
Under Section 180(3) and (4) of the SFO, LCs must immediately provide any requested record or document and answer related questions. **Confidentiality or privacy concerns** (including client data under the PDPO Cap. 486) **do not constitute a reasonable excuse**, as regulatory requests are legally exempt.
- **Maintenance and Prompt Retrieval of Records**
LCs must always maintain proper business records (Keeping of Records Rules) and be **able to retrieve them without undue delay**, even after staff changes or organizational restructuring. Records must be readily accessible, auditable, and convertible into written form.
- **Availability of Responsible Officers (ROs)**
The SFC expects ROs to be **available to participate** in inspections. Claiming **unavailability of ROs or staff** is generally **not accepted as a reasonable excuse**. Notification of an inspection is an official requirement, not a scheduling request.
- **Fitness and Propriety & Cooperative Conduct**
LCs and their senior management **must act honestly, fairly, with due skill, care and diligence** (General Principles 1–3 and 7–9 of the Code of Conduct). **Uncooperative behavior** during an inspection directly **impacts the firm's and individuals' fitness and propriety** to remain licensed.
- **Engagement of External Representatives**
If an LC engages external consultants, lawyers, or other third parties to handle inspection matters, the **LC remains fully responsible and accountable to the SFC** for all actions, representations, and information provided by those parties.
- **Legal Liabilities of Senior Management**
LCs are reminded that **senior management** of LCs, including **ROs and MICs** hold **primary responsibility** for regulatory compliance, with the SFC empowered to sanction these “regulated persons” for misconduct or failure to maintain “fit and proper” standards. The SFC requires MICs of LCs, particularly those responsible for Overall Management Oversight (OMO) and Compliance (C) to exercise **robust, proactive leadership** to ensure full **institutional cooperation and compliance** during the **inspection process**.

Taken as a whole, these obligations underscore the importance of strong governance and proactive compliance in meeting the SFC's inspection standards.

Consequences of Non-Compliance

The circular outlines a range of supervisory and enforcement consequences that the SFC may impose when licensed corporations fail to meet their statutory obligations during inspections.

Supervisory Interventions

- Imposing license conditions to restrict business activities of the LCs
- Limiting the LCs' business and activities (e.g. prohibition on new client onboarding, prohibiting certain transactions, limiting dealings with property)
- Restricting business expansion or changes in personnel
- Referring matters to other regulators in Hong Kong, Mainland China, or overseas.

Enforcement Actions

- Criminal prosecution under Section 180(14)–(16) of the SFO (offences include failure to comply without reasonable excuse, providing false/misleading information, or acting with intent to defraud)

- Disciplinary action under Section 194 (license suspension/revocation, pecuniary penalties, reprimands)
- Personal accountability for ROs, MICs (OMO and Compliance), and other senior management involved in misconduct or neglect.

These potential supervisory and enforcement outcomes highlight the importance of maintaining strong governance and full compliance throughout the inspection process.

Practical Steps to Ensure Full Compliance

To demonstrate a strong compliance culture and avoid the risks highlighted in the circular, licensed corporations should:

- **Update and Communicate Policies:** Immediately review and reinforce internal policies on SFC inspections, record retention, and staff responsibilities. Distribute the circular to all relevant personnel, including senior management, ROs, and MICs.
- **Appoint an Inspection Response Coordinator:** Designate a senior individual (ideally the MIC of Compliance or a senior RO) to lead all inspection-related communications and logistics.
- **Maintain a Systematic Record-Keeping Mechanism:** Ensure all client files, trade records, AML/CDD files, valuation workings, risk assessments, and board minutes are organised, complete, and readily-retrievable.
- **Conduct Mock Inspections:** Simulate Section 180 inspections, including document requests, staff interviews, and time-pressured scenarios. Identify and remediate gaps before the SFC arrives.
- **Train All Staff:** Deliver targeted training on Section 180 obligations, proper conduct during inspections, and the personal accountability of senior management.
- **Prepare RO Availability Protocol:** Ensure at least one RO is always contactable and that temporary absence protocols do not impede regulatory responses.
- **Document Everything:** Maintain a detailed inspection log recording all SFC requests, responses provided, timelines, and decisions made.

Implementing these measures strengthens governance, enhances inspection readiness, and supports ongoing compliance with SFC requirements.

How can Waystone help?

Waystone provides comprehensive compliance solutions designed to support licensed corporations throughout the SFC inspection process and beyond.

Our full suite of [Corporate Compliance Solutions](#), includes:

- [Ongoing](#) compliance support
- Performing a [SFC Compliance Review](#)
- SFC [Mock Inspections](#)

We are committed to enhancing your corporate compliance, so you can concentrate on growing your business with confidence.

If you have any questions about the topics discussed or want to learn more about how our [APAC Compliance Solutions](#) team can help you meet your SFC obligations, please contact your usual Waystone representative or contact us via the link below.

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