

# Implications from Recent SFC Enforcement: Key Lessons for FRR and CMR Compliance



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On 1 June 2026, the Securities and Futures Commission (“SFC”) published a [news](#) release titled, “SFC reprimands and fines XHK Limited \$2.5 million for regulatory breaches.”

## Overview of the SFC’s XHK Limited disciplinary action

The SFC’s disciplinary action against XHK Limited (the “Company”) highlights significant internal control failures, including Required Liquid Capital (“RLC”) deficits caused by over-reliance on external service providers under the Cap. 571N Securities and Futures (Financial Resources) Rules (the “FRR”), and improper client money (“CM”) handling under the Cap. 571I Securities and Futures (Client Money) Rules (the “CMR”). The case serves as a reminder that licensed corporations (“L-Corps”) must maintain robust liquid capital (“LC”) oversight, verify all financial submissions, and ensure appropriate client asset handling controls.

## Key SFC findings: FRR breaches and Client Money Rules failures

The SFC identified several deficiencies across XHK Limited’s financial resources reporting and client money handling controls, including the following:

1. FRR Related
  - **Accounting errors** – Several accounting errors were identified in its FRR returns submitted to the SFC
  - **LC computation errors** – overstatements and understatements of liquid capital from January 2020 to June 2021
  - **RLC deficits** – After correcting the errors, it was revealed that the Company’s re-quired liquid capital was in deficit – ranging from \$3.6 million to \$32.3 million – for 4 months during this period.
2. CMR Related
  - **Transfer client money out of the segregated accounts without authorisation** – Between March and April 2021, the Company transferred up to \$206 million of cli-ent money from its segregated accounts to its overseas brokers’ accounts to fa-cilitate the client’s trading activities **without obtaining a written direction or standing authority** from the client
  - **Failure to transfer non-client money out of segregated accounts within des-ignated period under the CMR** – Between February 2019 and October 2021, the Company **failed** to promptly **transfer non-client money** – including approximately \$38 million in commissions and interest earned on client money – **out of segre-gated accounts within 1 business day after becoming aware that such funds were not client money.**

The findings demonstrate that FRR reporting and client money handling failures can quickly become broader internal control and governance issues if not identified, escalated and remediated in a timely manner.

## Compliance Priorities for Licensed Corporations

### Knowledge, Competency and Training

Ensure relevant staff are competent in the CMR, FRR and applicable accounting rules:

- **Competency of staff** – Ensure the preparer and reviewer of the management accounts and the FRR returns are familiar with the relevant rules and standard:
- The preparer and reviewer of the FRR returns and management accounts should have relevant accounting and FRR experience from a firm with a similar business nature and scale.
- Responsible Officers (“ROs”) or other relevant staff handling CM should understand the key requirements and restrictions under both the FRR and CMR.
- L-Corps should consider incorporating technical tests and quizzes during the hiring process.
- **Training** – L-Corps should arrange routine and refresher training on FRR requirements and client money handling for relevant staff.
- **External service providers** – If the preparation of management accounts and/or FRR returns is outsourced to an external service provider (“ESP”), ensure the ESP has appropriate accounting and FRR knowledge and relevant experience with firms of a similar business nature and scale. This should be assessed during initial, routine or triggered ESP due diligence, for example, when there is a change in the preparer within the ESP.

### Corporate Governance and Oversight

L-Corps should have an appropriate corporate governance structure that covers LC monitoring and CM handling:

- **Regular LC monitoring and CM handling oversight** – L-Corps should monitor LC and CM handling at a frequency appropriate to their operations, for example, daily, monthly or regular monitoring, or on a transaction-by-transaction basis where appropriate.
- **Record-keeping and audit trail** – Ensure CM registers, relevant logs, management accounts and FRR returns are properly reviewed and supported by appropriate records and approval audit trails.
- **Escalation procedures** – L-Corps should maintain reasonable escalation procedures so that, upon identification of an FRR or CM notifiable event or serious breach, preparers, reviewers or other relevant staff can notify senior management, including at least the Manager-In-Charge (“MIC”) for Accounting and Finance, the MIC for Compliance, or one of the ROs, on a timely basis.

By embedding these controls into day-to-day operations, licensed corporations can strengthen governance, reduce the risk of recurring breaches and demonstrate a proactive approach to regulatory compliance.

## Potential Regulatory Consequences of FRR and CMR Breaches

Contravention of the FRR may have a direct bearing on an L-Corp’s and/or an RO’s ongoing fitness and properness to remain licensed with the SFC.

The level of regulatory consequences will depend on the nature and severity of the breach(es), including:

- The maintenance of appropriate standards of conduct and adherence to the L-Corp’s policies and procedures
- Whether the ROs and/or the relevant MICs (the “Relevant Senior Management”) proactively address the breaches and self-report to the SFC on a timely basis.

Whether any person within the L-Corp has provided misleading information or concealed information for the purpose of masking its inability to comply with the FRR or CMR, or mis-leading the SFC during investigations or enquiries.

- The attitude of the Relevant Senior Management during SFC enquiries/investigations.

## Recent SFC Enforcement Cases and Consequences

The following examples illustrate how the SFC has approached FRR, CMR and related con-trol failures in recent enforcement actions:

Date	Company Name (the "Firm")	Issues	Consequences	Link
01/06/26	XHK Limited	1. FRR 2. CMR	<b>The Firm:</b> Reprimanded and a Fine of HK\$ 2.5 million <b>Individual:</b> None	<a href="#">Link</a>
23/12/24	Agg. Asset Management Limited	1. FRR 2. FMCC <sup>1</sup> 3. F&P <sup>2</sup>	<b>The Firm:</b> Struck off the CR <sup>3</sup> and licenses revoked by the SFC <b>Individual:</b> RO Fined HK\$ 1.7 million and suspended for life	<a href="#">Link</a>
11/09/23	Axial Capital Management Limited	1. FRR 2. AAR <sup>4</sup>	<b>The Firm:</b> License revoked by the SFC <b>Individual:</b> RO suspended for 5 years	<a href="#">Link</a>

<sup>1</sup>FMCC: Fund Manager Code of Conduct

<sup>2</sup>F&P: Fitness and Properness

<sup>3</sup>CR: The Companies Registry

<sup>4</sup>AAR: Cap. 571P Securities and Futures (Accounts and Audit) Rules

## How Waystone can support FRR and Client Money Rules Compliance

Waystone offers a full suite of compliance solutions tailored to the needs of businesses expanding into or operating within Hong Kong. We help firms strengthen their regulatory compliance frameworks, allowing them to focus on growing their business with confidence.

### FRR Compliance Services

Waystone provides professional FRR CPT training, FRR drafting and review support, and ongoing compliance services delivered by experienced compliance consultants.

Our team can also support firms in reviewing governance arrangements, documentation standards, escalation procedures and control frameworks relating to FRR compliance and client money handling.

If you have any questions about the themes raised in this article or want to learn more about our [Corporate Compliance Solutions](#), please reach out to your usual Waystone representative or contact our [APAC Compliance Solutions](#) team below.

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