



SFC Senior Management Liability: Are You **Protected** or **Exposed**?

Introduction

In recent years, the Securities and Futures Commission (“**SFC**”) of Hong Kong has demonstrated a clear and consistent regulatory trend: a move towards direct, personal accountability for senior management within licensed corporations (“**LCs**”). This shift is underscored by the SFC’s frequent recourse to enforcement actions, where it explicitly warns that it “will continue to closely supervise LCs and will not hesitate to take action against any LC and their management”.

Underpinning this approach is General Principle 9 of the SFC’s Code of Conduct, which mandates that senior management bear primary responsibility for their firm’s conduct and procedural adherence. This principle, considered alongside an individual’s “apparent or actual authority”, creates a powerful framework of personal liability. Consequently, it has become imperative for senior management members to operate with full awareness of their obligations and with clearly defined scopes of responsibilities.

This article examines the SFC’s senior management accountability framework. It clarifies the scope of who is considered “senior management”, details their core duties and expected standards, and outlines the associated personal liabilities. The analysis underscores the imperative for proactive leadership and robust internal controls within SFC licensed corporations.

Who is Senior Management?

The SFC is of the view that the senior management of a LC includes:

- i) Directors of the corporation;
- ii) Responsible Officers (ROs) of the corporation; and
- iii) Managers-in-Charge (MICs) of the eight prescribed Core Functions.

These categories are not mutually exclusive. For instance, an individual can simultaneously be a director, RO and MIC of the corporation.

1. Directors

Directors are responsible for setting the LC’s overall governance, policies, and compliance culture; approving its organisational structure and risk management framework; supervising other senior management members, including ROs and MICs; and ensuring firm-wide regulatory compliance.

Note: "senior management" includes all directors, whether executive, non-executive or shadow directors, and any person occupying the position of director by whatever name called, which is explicitly defined by Schedule 1 of SFO.

This is because the SFC regards the board of directors as the licensed corporation's ultimate decision-making body. Consequently, all board members play an essential role in managing the licensed corporation's business and should therefore be regarded as part of senior management.

2. Responsible Officers (ROs)

ROs are responsible for overseeing the corporation's regulated activities to ensure compliance with SFC rules and the Securities and Futures Ordinance (SFO); supervising staff engaged in regulated activities; and acting as the main liaison with the SFC.

3. Managers-in-Charge (MICs)

MICs are responsible for managing and enforcing operational controls and standards within their assigned core functions. The eight prescribed core functions are:

- iv) Overall Management Oversight
- v) Key Business Line
- vi) Operational Control and Review
- vii) Risk Management
- viii) Finance and Accounting
- ix) Information Technology
- x) Compliance
- xi) Anti-Money Laundering and Counter Terrorist Financing (AML/CFT)

Note: MICs for Overall Management Oversight and Key Business Line must be ROs.

In group company structures, individuals performing RO or MIC functions may be employed by another group entity or may be based offshore while leading a shared function. In such cases, they may not have full visibility into the Hong Kong entity's daily operations.

Regardless of their specific employment arrangement or location, any individual performing the roles described above is considered part of the licensed corporation's senior management and is accountable for fulfilling all relevant obligations under SFC rules.

Key Areas and Expected Standard of Senior Management's Conduct

In general, the SFC expects senior management to fulfil the core duties outlined in Paragraph 14.1 of the Code of Conduct, which include:

- i) properly managing the corporation's business risks, including the periodic evaluation of its risk management processes;
- ii) understanding the nature of the business, its internal control procedures, and its risk policies; and
- iii) understanding the scope of their own authority and responsibilities.

Beyond these general principles, the SFC has established more specific requirements for senior management through various guidelines, circulars, and FAQs. These detailed expectations include, but are not limited to, the following areas:

- 1. Internal Control:** Under the Management, Supervision and Internal Control Guidelines ([Microsoft Word - msicg_english.doc](#)), senior management assumes ultimate responsibility for the adequacy and effectiveness of the corporation's internal control systems. This includes oversight of information management, compliance, audit functions, operational controls, and risk management.
- 2. Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT):** The AML/CFT Guideline ([AML-Guideline-for-LCs-and-SFC-licensed-VASPs_Eng_1-Jun-2023.pdf](#)) sets out detailed expectations for LC's AML/CFL controls. Senior management of a LC is responsible for implementing effective AML/CFT systems capable of adequately managing identified money laundering and terrorist financing (ML/TF) risks (see Paragraphs 3.6 - 3.11 of the AML Guideline).
- 3. Financial Resources & Regulatory Capital Oversight:** Per the circular issued in July 2024 ([Circular to licensed corporations - Financial resources management and compliance with the Securities and Futures \(Financial Resources\) Rules | Securities & Futures Commission of Hong Kong](#)), ROs and MICs are responsible for effectively managing financial resources and ensuring compliance with the SFC's Financial Resources Rules (FRR). In general, the responsibilities include:
 - a) ensuring the availability of the financial resources needed for the proper performance of the LC's business activities; and
 - b) full compliance with the financial resources requirements under the FRR at all times.
- 4. Operational Resilience & Business Continuity:** Per the circular issued in March 2022 ([Circular to Licensed Corporations Measures to deal with disruptions caused by financial distress and insufficient responsible officers | Securities & Futures Commission of Hong Kong](#)), senior management assumes overall responsibility for the LC's contingency planning, which shall cover potential stress events and appropriate mitigation measures. They are expected to take reasonable steps to secure and ensure the availability of necessary financial resources, manpower, and professional services required to execute the contingency plan, including any exit plan.
- 5. Cybersecurity & Information Technology:** Per the circular issued in February 2025 ([Circular to licensed corporations - Cybersecurity review of licensed corporations | Securities & Futures Commission of Hong Kong](#)), with regards to cybersecurity, senior management should:
 - a) ensure that qualified staff and Third Party Providers are appointed and adequate technology and financial resources¹⁸ are deployed to effectively manage cybersecurity risks;
 - b) review and approve cybersecurity risk management policies and procedures regularly¹⁹ to ensure that they are adequate to address the latest cybersecurity risks and threats;
 - c) ensure that cybersecurity reviews are conducted on their network and systems on a regular basis, where applicable. They should also review findings identified

from these cybersecurity reviews, endorse and monitor the completion of remedial actions to ensure that issues and vulnerabilities identified are properly followed-up; and

- d) establish and maintain adequate contingency plans which address cybersecurity scenarios and corresponding contingency strategies. These plans should be reviewed and tested regularly and revised in light of changes to the LC's operations and cybersecurity risk exposure.

6. Client Complaint Handling: Per the circular issued in March 2022 (Circular to licensed corporations Handling of client complaints | Securities & Futures Commission of Hong Kong), senior management holds primary responsibility for effective complaint handling. This includes:

- a) designating a MIC to oversee the process, who shall be prepared to demonstrate timely and appropriate resolution of complaints to the SFC.
- b) LCs with a large retail client base are expected to allocate dedicated resources, such as a complaint committee, to review and monitor the process.
- c) Staff shall escalate serious cases to senior management for prompt investigation, and all suspected breaches of the Code of Conduct or other regulations shall be reported to the SFC without delay.

7. Cooperation throughout an SFC inspection: Per the circular issued in January 2026 (Circular to licensed corporations Reminder of statutory obligations during SFC inspections to comply with section 180 of the Securities and Futures Ordinance (SFO) | Securities & Futures Commission of Hong Kong), senior management holds primary responsibility for ensuring full cooperation and compliance throughout an SFC inspection. The key requirements include:

- a) Exercise proactive oversight to ensure full cooperation and avoid all uncooperative, delaying, or obstructive behaviours.
- b) Ensure ROs are available to participate in the inspection; claimed unavailability is not a valid excuse for non-compliance.
- c) Provide full, accurate, and timely records and responses. Claims of client confidentiality or privacy do not excuse non-compliance.
- d) Maintain and be able to retrieve records promptly upon request, regardless of organizational or staff changes.

8. Specific Standards for Fund Managers: Per Section 1.6 of the Fund Manager Code of Conduct ("**FMCC**") (Microsoft Word - Fund Manager Code of Conduct Eng (Oct 2024) v5 (RA13)), the senior management of a fund manager is responsible for ensuring the LC's adherence to all relevant legal and regulatory requirements and for cultivating a strong internal compliance culture. They shall maintain clear organizational reporting lines, assign supervisory duties to qualified individuals, and ensure that all personnel are informed of adequate and up-to-date policies and procedures. Furthermore, the senior management is required to ensure that the LC's performance in managing all funds is reviewed at least annually.

The vast majority of circulars emphasize the critical supervisory and compliance role of senior management. Accordingly, the above list is not exhaustive. The principle of senior management's ultimate accountability applies to all areas of an LC's business, and senior management shall endeavour to fulfil the expectations outlined in Paragraph 14.1 of the Code of Conduct.

Comparison of Senior Management Accountability Regimes

Overall, compared to other regulators, the SFC's senior management regime emphasizes structural clarity by assigning defined responsibilities for specific functions. This approach can be similar to or distinct from the frameworks of other regulators:

- The Monetary Authority of Singapore ("**MAS**") introduced the Individual Accountability and Conduct ("**IAC**") Guidelines to strengthen accountability, promote ethical behaviour, and raise conduct standards across the financial sector. The IAC framework outlines five outcomes-based expectations for firms to achieve: (1) clearly identify the senior managers accountable for core functions; (2) ensure these managers are fit and proper and held responsible for their employees and business areas; (3) maintain a governance framework with clear structures to support senior managers; (4) subject Material Risk Personnel to fit and proper checks, effective risk governance, and conduct standards; and (5) implement a firm-wide framework to promote and sustain desired conduct among all employees. Firms retain flexibility in how they implement these outcomes based on their size, complexity, and existing governance frameworks.
- The UK's Financial Conduct Authority ("**FCA**") introduced the Senior Managers and Certification Regime ("**SMCR**") and Prudential Regulation Authority ("**PRA**") to strengthen individual accountability, governance, and conduct standards within financial services firms. Under the regime, Senior Managers shall get pre-approval, pass criminal record checks, and have a Statement of Responsibilities and allocated Prescribed Responsibilities. They are also subject to annual fit and proper assessments. Overall, the SMCR provides a structured framework that closely aligns with the senior management regime of the SFC.
- The US's Securities and Exchange Commission ("**SEC**") does not maintain a structured and preventive senior management regime seen in UK, Singapore and Hong Kong. The US approach relies on enforcement actions and post-breach penalties, rather than pre-appointment approvals and ongoing certification requirements.

Legal Liabilities of Senior Management

Senior management of an LC bears primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the LC. Consequently, they are exposed to civil and criminal liabilities under Hong Kong's key regulatory regimes. This section outlines these legal liabilities under the SFO, including disciplinary action, Market Misconduct Tribunal proceedings, and criminal prosecution, as well as the criminal offences under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO).

1. Liabilities under the SFO

Under Part IX of the Securities and Futures Ordinance (SFO), the SFC may exercise its disciplinary powers to sanction a regulated person if the person is, or was at any time, guilty of misconduct or is considered not fit and proper to be or to remain the same type of regulated person. Notably, all senior management members of a LC qualify as regulated persons due to their managerial role, regardless of whether they are licensed.

While disciplinary sanctions under Part IX of the SFO are civil, the SFO also allows for criminal liability. Senior managers may be held criminally liable if a corporate offence is committed with their consent, connivance, or due to their recklessness.

Consequently, senior management of an LC may face both civil and criminal liability under the SFO. A breakdown of these liabilities is provided below:

a) Disciplinary Proceedings:

The SFC has direct powers to discipline "regulated persons". When determining whether to initiate disciplinary action, the SFC may consider a range of factors, including but not limited to:

- The nature, seriousness, duration, and frequency of the conduct.
- Whether the conduct was intentional, reckless, or negligent.
- The impact of the conduct on market integrity.
- Costs or losses imposed on clients, market users, or the investing public.
- Whether the conduct breaches a fiduciary duty.
- Whether the conduct reveals serious or systematic failures in management or internal controls (for firms).
- The role of the individual or firm if the conduct was engaged in as part of a group.
- The prevalence of the conduct within the industry.
- Whether prior advice was sought from advisors or supervisors.
- Whether the SFC had previously issued relevant guidance on the conduct.

If disciplinary action is warranted, the SFC is empowered to impose one or more of the following sanctions:

- Revocation or suspension (full or partial) of a licence or registration.
- Revocation or suspension of approval to act as a responsible officer.
- A prohibition on applying for a licence, registration, or approval as a responsible officer, executive officer, or relevant individual.
- A financial penalty of up to HKD10 million or three times the profit gained or loss avoided, whichever is higher.
- A private or public reprimand.

b) Market Misconduct Tribunal (MMT) Proceedings

The MMT is an independent body established under Part XIII of the SFO. In accordance with the SFO, if it appears to the SFC that market misconduct or a breach of a disclosure requirement under Part XIVA of the SFO has or may have taken place, the SFC may institute proceedings before the MMT.

The MMT handles 6 specific types of market misconduct:

- insider dealing;
- false trading;
- price rigging;
- disclosure of information about prohibited transactions;
- disclosure of false or misleading information inducing transactions; and
- stock market manipulation.

The MMT can impose civil sanctions including disagreement of profits, director disqualification orders (up to 5 years), “cold shoulder” orders, and fines.

c) Criminal Prosecution

Market misconduct cases in Hong Kong may escalate to impose criminal liability on any of a corporation’s officers if the offence is committed with their consent, connivance, or is otherwise attributable to their recklessness (see Section 390 of the SFO). The term “officer” includes a director, manager, secretary, or any other person involved in the management of the corporation (see Schedule 1 to the SFO). The SFC and the Secretary for Justice have discretion to pursue either civil proceedings before the MMT or criminal proceedings in the courts.

The SFC and the Secretary for Justice have discretion to pursue proceedings for the same misconduct either civilly before the MMT or criminally in the courts. The abovementioned six types of market misconduct can give rise to either civil or criminal liability, depending on the seriousness of the conduct. Please note that a single instance of misconduct cannot trigger both MMT proceedings and criminal proceedings. They are mutually exclusive and cannot be triggered concurrently.

In addition to these six civil/criminal hybrid offences, the SFO sets out three further criminal-only offences (commonly known as the “Division 4 offences”):

- Using fraudulent or deceptive devices in securities / futures / leveraged FX transactions
- False information to induce entry into leveraged FX contracts
- Falsely representing that one is dealing in futures contracts on another’s behalf

2. Liabilities under AMLO

Section 5 of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) makes it a criminal offence if a person who is an employee of a financial institution (“FI”) or is concerned in its management either knowingly, or with the intent to defraud the FI or any regulatory authority, causes or permits the FI to contravene a specified provision in the AMLO.

- If the person knowingly contravenes a specified provision, they are liable to a maximum term of imprisonment of two years and a fine of \$1 million upon conviction.
- If that person acts with the intent to defraud the FI or any regulatory authority, the penalty escalates to a maximum term of imprisonment of seven years and a fine of \$1 million upon conviction.

Criminal liability arises from causing or permitting an FI to breach its core obligations under Schedule 2 of the AMLO. Please see the core obligations below:

- customer due diligence & enhanced due diligence
- ongoing monitoring,
- record-keeping,
- suspicious-transaction reporting (“STR”),
- internal AML/CFT policies, procedures and controls.

Enforcement Cases in Hong Kong

Case Study A

- In an enforcement case in September 2025, a leading global investment bank was fined, and a senior manager (a former RO) was banned from the industry for five years.
- **Key Misconduct:** Over several years, traders at the firm misrepresented trades where the firm acted as a principal (using its own capital to fulfil client orders) as agency trades (where it would seek a natural counterparty). As clients generally prefer natural liquidity, the firm misrepresented facilitation trades as agency trades to avoid losing business to competitors. Also, instead of obtaining explicit client consent, the firm sent “standard disclaimers” to clients where the client’s order was facilitated.
- **Senior Management Accountability Failures:** The sanctioned manager, despite being aware of the specific risks highlighted in prior SFC communications, failed to implement effective controls, monitoring, or training to prevent the misconduct. The manager was also copied on internal emails that revealed the ongoing practice but took no corrective action, allowing the deceptive conduct to persist.
- **Lessons for Senior Management:** This case shows the SFC’s stringent focus on senior management accountability. It highlights that mere disclosure is insufficient to meet the explicit consent requirement, and that senior management is responsible for ensuring robust internal controls.

Case Study B

- An unlicensed executive of an asset management firm was banned from the industry for 12 months and fined HKD 400,000. The firm’s license was later revoked.
- **Key Misconduct:** Between 2018 and 2021, the firm acted as the investment manager for several sub-funds. During this period, the executive was responsible for approving borrowing agreements on behalf of the sub-funds and implementing internal controls to prevent money laundering and terrorist financing (AML/CTF). The executive failed to discharge these duties in managing the funds, leading to significant regulatory breaches.
- **Senior Management Accountability Failure:** The executive was the designated MIC for core functions, including AML/CTF, Risk Management, and Finance & Accounting. The executive failed to implement or maintain the necessary controls to ensure regulatory compliance.
- **Lessons for Senior Management:** this case demonstrates that the SFC enforces accountability based on an individual’s function and responsibilities, not their licensing status. Being an unlicensed MIC provided no protection from personal liability for the failures that occurred under their watch.

Case Study C

- In December 2025, the SFC suspended a RO and MIC of a securities firm for three and a half months for failures in safeguarding client assets.
- **Key Misconduct:** between 2019 and 2020, the firm sold a client's securities and transferred over USD 3.3 million to unauthorized overseas accounts based on instructions from a fraudulent email. The firm ignored multiple red flags, including the use of a suspicious email address and repeated bank rejections of the transfer requests.
- **Senior Management Accountability Failure:** the SFC determined that the firm's failures, specifically, the lack of effective internal controls to prevent fraud and protect client assets, were directly attributable to the manager's neglect of her duties as an RO and senior management. Her oversight lapses allowed the misconduct to proceed unchecked
- **Lessons for Senior Management:** this case shows that senior management bear direct responsibility for establishing and enforcing robust controls to safeguard client assets from fraud and misappropriation. Ignoring clear warning signs, such as suspicious communication or transaction rejections, constitutes a serious failure of duty and will lead to personal sanctions.

Case Study D

- In September 2023, the SFC revoked the licence of a firm and suspended its RO for five years due to prolonged and repeated breaches of financial resource and reporting rules.
- **Key Misconduct:** the firm failed to maintain its required minimum liquid capital of HKD 100,000 for 19 consecutive months. After becoming aware of the breach, it delayed notifying the SFC for 18 months. Furthermore, the firm repeatedly failed to submit six semi-annual financial returns and two annual audited financial statements on time, despite multiple reminders from the regulator.
- **Senior Management Accountability Failure:** the SFC found that the RO, as senior management, was directly responsible for these systemic failures. He breached General Principle 9 of the Code of Conduct by failing to ensure the firm maintained appropriate standards and adhered to proper procedures. His neglect allowed the firm to effectively flout the FRR regime, which is a core safeguard for market integrity and investor protection.
- **Lessons for Senior Management:** Maintaining compliance to the FRR regime is a fundamental, non-delegable duty. Senior management is personally responsible for ensuring their firm meets all liquid capital requirements and submits all financial documents accurately and on time.

Case Study E

- In October 2022, the SFC reprimanded and fined a licensed corporation HKD 1.75 million for failing to comply with EU short selling reporting rules. Its former MIC of Compliance was also banned for two months.

- **Key Misconduct:** the firm built a substantial short position in a UK-listed company but failed to make the required public disclosures and regulatory reports to the FCA for over two and a half years. This was despite the firm being in a new jurisdiction. It also delayed notifying the SFC of this material breach for approximately two months.
- **Senior Management Accountability Failure:** the SFC found that the failures were directly attributable to the MIC of Compliance. He did not ensure adequate systems were in place to monitor and report the position. He also failed to seek necessary legal advice on the EU regulatory obligations before establishing the trade. His conduct fell short of the standards expected of a senior management member overseeing compliance.
- **Lessons for Senior Management:** Senior management shall ensure compliance with all applicable regulations in all jurisdictions where the firm operates, not just Hong Kong. Entering a new market requires proactive legal and regulatory due diligence.

References


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