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SFC reprimands and fines HSBC Investment Funds (Hong Kong) Limited and HSBC Global Asset Management (Hong Kong) Limited HK\$3.5 million for regulatory breaches over funds' cash management

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The Securities and Futures Commission (SFC) has reprimanded and fined HSBC Investment Funds (Hong Kong) Limited (HIFL) and HSBC Global Asset Management (Hong Kong) Limited (HGAML) HK\$3.5 million for breaches of regulatory requirements in relation to cash management for SFC-authorized funds (Notes 1 & 2).

The SFC's investigation found that some of the 53 funds managed and/or advised by HIFL and HGAML between 2010 and 2016 maintained cash deposits with connected entities, namely, The Hongkong and Shanghai Banking Corporation Limited and/or its affiliates. The funds' cash deposits were placed in interest-bearing accounts of the connected entities but mostly did not receive any interest.

An independent review revealed that prior to January 2015, HIFL and HGAML had no procedures in place to ensure that the funds' cash deposited with their connected entities received interest at a rate not lower than the prevailing commercial rate (Notes 3 & 4). The review also found that whilst HIFL and HGAML had an established process to monitor the funds' cash balances on a daily basis, such process was not documented in any policies and procedures and was performed for only 10 of the 53 funds.

The SFC considers that HIFL's and HGAML's internal controls and procedures on cash management of the funds at the material time were inadequate and they failed to manage and minimise the conflicting interests between their connected entities and the funds' investors.

In deciding the sanctions, the SFC took into account all the circumstances, including that HIFL and HGAML:

- agreed to make a voluntary payment of US\$433,257 to the affected funds, representing the financial impact arising from their failures;
- engaged an independent reviewer to conduct the review and took remedial actions to strengthen their internal systems and controls;
- undertook to provide the SFC with a report prepared by an independent reviewer within nine months confirming that all identified concerns have been properly rectified;
- cooperated with the SFC in resolving its concerns and have no previous disciplinary record with the SFC.

End

Notes:

1. HIFL is licensed under the Securities and Futures Ordinance (SFO) to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities.
2. HGAML is licensed under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities.

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