

GIBSON DUNN

Financial Regulatory Update

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## Hong Kong SFC Issues Guidance on Account Opening and Maintaining Client Relationships

*The Circular follows the SFC's review of account opening practices at 12 licensed securities brokers, highlighting key deficiencies identified in the Review and setting out the SFC's expected standards, particularly in relation to the opening and managing accounts of Chinese Mainland investors.*

On 22 May 2026, the Securities and Futures Commission of Hong Kong (the **SFC**) issued a circular to licensed corporations outlining its expected controls for account opening and the maintenance of client relationships (the **Circular**).<sup>[1]</sup> The Circular follows the SFC's review of account opening practices at 12 licensed securities brokers (the **Review**), highlighting key deficiencies identified in the Review and setting out the SFC's expected standards, particularly in relation to the opening and managing accounts of Chinese Mainland investors.

### **I. Background**

The Circular was issued on the same day the announcement by China Securities Regulatory Commission (**CSRC**) of its high-profile enforcement action to penalize three securities brokers and their related domestic and offshore affiliates for offering mainland Chinese investors trading access to overseas securities without licenses. On the same day, the CSRC and seven other government departments issued the Implementation Plan for the Comprehensive Rectification of Illegal Cross-border Securities, Futures and Fund Business Activities (the **Implementation Plan**). The Implementation Plan expressly targets offshore institutions conducting securities, futures and fund business in Mainland China without approval, as well as onshore affiliates, cooperating

entities, internet platforms and other intermediaries that facilitate such activities in Mainland China. Under the Implementation Plan, firms are required to wind down existing illegal businesses, and all existing non-compliant accounts may not undertake new purchases or inward transfers during this two-year period. Firms are also required to remove Mainland-targeted websites, trading applications, and supporting servers.

The SFC’s Circular specifically reminds licensed corporations to take note of the Implementation Plan, and not engage in or facilitate any illegal activities when providing services to investors outside Hong Kong. Licensed corporations which fail to comply with all relevant legal and regulatory requirements in jurisdictions outside Hong Kong may constitute non-compliance with the Code of Conduct, and may result in supervisory or enforcement actions taken by the SFC.

**II. Key findings from the SFC’s Review**

The SFC’s review identified a range of deficiencies among brokers in their due diligence and ongoing monitoring of the account opening process and cross-border correspondent relationships (CBCR) with overseas intermediaries. Notably, the SFC found that some brokers accepted questionable or forged client documentation during account opening.<sup>[2]</sup> The SFC has expressed serious concerns over these practices and indicated that it will take supervisory or even enforcement action against non-compliant brokers.

Key deficiencies identified	Expected standards
<p><u>Inadequate due diligence on account opening documentation</u>: The Review identified weaknesses in conducting adequate due diligence on documents collected from clients during the account opening process. Certain brokers accepted account opening applications despite irregularities in know-your-client (KYC) documentation (such as utility bills) such as impossible dates, or discrepancies in asset movements. These applications should have been rejected.</p>	<p>The SFC expects licensed corporations to implement procedures to prevent and detect record falsification. In particular:</p> <ul style="list-style-type: none"> <li>• account opening should only be approved only after completion of all KYC and customer due diligence (CDD) procedures and a comprehensive management review;</li> <li>• licensed corporations should not establish, or should promptly terminate, business relationships where KYC and CDD procedures cannot be satisfactorily completed, or where document authenticity is in doubt;</li> <li>• licensed corporations should warn prospective clients of the serious consequences of submitting forged documents.</li> </ul>
<p><u>Deficiencies in due diligence and ongoing monitoring of CBCR with overseas</u></p>	<p>The SFC expects licensed corporations to mitigate risks arising from incomplete information</p>

<p><u>intermediaries</u>: The Review found that some brokers relied on overseas introducers or agency arrangements without conducting adequate due diligence or maintaining effective ongoing oversight. In some cases, brokers relied on responses provided by overseas intermediaries for assessing the intermediary's KYC and AML/CFT controls, despite discrepancies between the responses and the actual circumstances of the intermediary.</p>	<p>on overseas intermediaries' underlying clients and transactions by applying additional, risk-based due diligence measures, such as requesting information about underlying transactions or clients, imposing limits on or restricting certain transactions. All CBCRs must be subject to ongoing monitoring.</p>
<p><u>Deficiencies in client identity verification process</u>: The SFC observed that some brokers failed to conduct adequate client identity verification for online onboarding via initial deposits from Hong Kong bank accounts or through remote onboarding of overseas clients. For example, one broker relied solely on initial deposits from overseas bank accounts and did not deploy appropriate technologies to authenticate identification documents or verify client identities, as required for remote onboarding.</p>	<p>Licensed corporations are reminded to take all reasonable steps to establish the true and full identity of each client, and comply with the SFC's requirements for acceptable account opening approaches.</p>
<p><u>Inadequate controls in collecting client identification data</u>: The Review identified failures to implement adequate controls to comply with the "waterfall" requirements for collecting client identification data, which prioritize Hong Kong identity cards, followed by other identification documents and passports. For example, some brokers permitted account openings using passports even where clients were from jurisdictions that issue national identification documents.</p>	<p>Licensed corporations are expected to implement proper controls to ensure full compliance with waterfall requirements, including obtaining representations and warranties from clients to confirm that no identification documents of a higher priority in the waterfall are in their possession.</p>
<p><u>Deficiencies in review of client address</u>: The Review found that brokers generally lacked controls to assess the reasonableness of clients' residential addresses and to identify anomalies, such as commercial or government addresses or multiple clients sharing the same address.</p>	<p>The SFC expects licensed corporations to obtain and verify clients' residential addresses, assess their reasonableness, and follow up on any identified anomalies.</p>

**III. Additional measures for opening and managing investment accounts of Chinese Mainland Investors**

The SFC observed that most of the questionable or forged documents identified in the Review related to accounts held by Mainland Chinese investors — namely, individuals who use either or both a People’s Republic of China (**PRC**) resident identity card and passport as identification documents in a licensed corporation’s records or when opening an investment account.

In light of this, and the associated business, regulatory, and reputational risks faced by licensed corporations, the SFC has introduced additional requirements for licensed corporations when opening and managing such accounts, as summarized below. These measures should be read in conjunction with the SFC’s published frequently asked questions.[\[3\]](#)

*Measure 1: Closure of investment accounts that were opened using questionable or forged documents*

Upon the SFC’s request, licensed corporations are required to conduct a review of account opening activities to:

- identify accounts opened since January 2023 (or such period specified by the SFC) that involved questionable or forged documents, including proof of identity and account statements from other licensed corporations;
- for each such account, identify the party(ies) responsible for providing the documents and the individual(s) responsible for control failings;
- ensure the review is carried out by an independent external consultant in accordance with SFC-prescribed scope and methodology, and completed within three months;
- review the transactions in the identified accounts for any red flags of suspicious activities and make appropriate reports to law enforcement agencies where necessary;
- prohibit the clients of the identified accounts from opening any investment accounts with the licensed corporation or any of its affiliated firms in the future;
- act in accordance with client agreements and ensure that all client assets (if any) are properly safeguarded until the accounts are formally closed; and
- allocate sufficient resources to handle any client enquiries and complaints

(the **Account Opening Review**).

Licensed corporations are expected to close any accounts identified as involving questionable or forged documents within six months of completing the Account Opening Review. They should also provide advance written notice to affected clients of (i) the suspension of any new client-initiated transactions (other than those necessary to close existing positions or reduce account balances for settlement purposes) and (ii) the intended closure of the accounts.

Licensed corporations should allow reasonable time for clients to manage the assets in their accounts, such as unwinding their positions and transferring funds to their bank accounts. Once all client assets have been withdrawn or disposed of, licensed corporations should close the accounts as soon as practicable.

### Measure 2: Closure of zero-balance dormant investment accounts

A zero-balance dormant investment account refers to an investment account held by a Chinese Mainland investor that has no asset balance as at 22 May 2026 or any other date specified by the SFC (**Reference Date**) and has had no client-initiated activity in the 12 months preceding the Reference Date. Upon the SFC's request, licensed corporations should implement measures to mitigate risks associated with the zero-balance dormant investment accounts, including:

- conducting a review to identify all such accounts within three months of the SFC's request (**Dormant Account Review**);
- providing advance notice to affected clients and suspending all new transactions unless and until the licensed corporation (a) confirms that the client's KYC and due diligence information is current and relevant, and (b) completes the applicable declaration and bank account verification measures under Measure 3, as explained below;
- closing the identified accounts within six months of the SFC's request if these steps cannot be satisfactorily completed, unless exceptional circumstances apply (e.g. client-specific extenuating factors);
- acting in accordance with client agreements and ensure that all client assets (if any) are properly safeguarded until the accounts are formally closed; and
- allocating sufficient resources to handle any client enquiries and complaints.

If the client accounts identified in the Dormant Account Review involved the use of questionable or forged documents, licensed corporations should terminate the business relationship with these clients by following steps set out under Measure 1 above for the closure of accounts.

### Measure 3: Opening new investment accounts

Effective immediately, where Chinese Mainland investors approach licensed corporations for opening investment accounts, licensed corporations should implement the following measures, irrespective of the account opening approaches used by licensed corporation for onboarding them:

- obtain a written declaration from the Chinese Mainland investor:
  - confirming that all funds which support the investment activities and related settlements are from lawful sources outside of the Chinese Mainland;
  - confirming that the investor does not have an account that was previously closed or suspended by any licensed corporations or banks due to the use of questionable or forged documents;
  - undertaking that the investor will notify the licensed corporation within 7 business days in the event of any changes in the information in the investor's written declaration; and
  - confirming that the investor understands that upon requests from law enforcement agencies or regulatory authorities, the licensed corporation may disclose the investor's personal and other relevant information.

- require the investor to use bank accounts held in the investor’s own name with banks licensed in Hong Kong or supervised by banking regulators in eligible jurisdictions<sup>[4]</sup> for settlement purposes, and ensure all future deposits and withdrawals are made exclusively through such accounts.
- close the client investment account if the client’s funding sources are subsequently found to be unlawful or in violation of Mainland China’s capital control regulations, in accordance with Measure 1.
- maintain proper records for each client’s account opening process in a manner that is readily accessible for compliance checks and audit purposes.
- provide information to the SFC upon request, including the number and details of new accounts opened during a specified period and the corresponding client declarations.

#### **IV. Conclusion**

The SFC highlighted that senior management are ultimately responsible for ensuring appropriate standards of conduct and robust internal control systems for account opening and maintaining relationships with clients. Both licensed corporations and their senior management should take note of the issues raised in the SFC’s Circular. Failure to fulfil these responsibilities may call into question the fitness and properness of the licensed corporation and its senior management, and may result in supervisory or enforcement action taken by the SFC.

<sup>[1]</sup> “Circular to licensed corporations – Expected controls for account opening and maintaining relationships with clients” published by the SFC on May 22, 2026, available [here](#).

<sup>[2]</sup> The provision of securities dealing services (including subscription for initial public offerings), futures contracts dealing, or leveraged foreign exchange trading to investors through overseas intermediaries, whether affiliated or unaffiliated, constitutes a CBCR.

<sup>[3]</sup> See [here](#).

<sup>[4]</sup> See [here](#).

**The following Gibson Dunn lawyers prepared this update: William Hallatt, Becky Chung, and Jane Lu.**

Gibson Dunn’s lawyers are available to assist in addressing any questions you may have regarding these developments. If you wish to discuss any of the matters set out above, please contact any member of Gibson Dunn’s [Financial Regulatory](#) team, including the following members in [Hong Kong](#):

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