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Sidley's Asia Funds and Financial Services Newsletter discusses important regulatory and enforcement developments that impact financial institutions, investment advisers, and investment funds operating in the Asia-Pacific region in a fast-changing regulatory landscape. In this issue, we cover (among other things) the impact of the recent UK Supreme Court decision in *Hayes* for individual accountability involving market manipulation, the new licensing regime for stablecoins as well as the proposals to significantly expand the licensing regime to cover virtual asset dealers and custodians.

EDITORIAL

BEYOND THE JURY BOX: HOW THE *HAYES* AND *PALOMBO* DECISION POTENTIALLY RESHAPES MARKET MANIPULATION LAWS

The UK Supreme Court's recent ruling in *R v Hayes* and *R v Palombo* has significant implications for market manipulation law, particularly in how criminal intent is determined and could spur global regulators to revisit and refine their enforcement strategies in analogous cases. Delivered more than a decade after the LIBOR scandal—which resulted in over \$10 billion in fines and the conviction of 19 traders in the UK and the US—the ruling's implications are far-reaching.

At the heart of the decision, the Supreme Court dismissed the notion that commercial considerations alone suffice to establish criminal intent. Lord Leggatt emphasized that the assessment of honesty in benchmark submissions hinges on the submitter's state of mind rather than on regulatory definitions. This crucial clarification means that dishonesty cannot be automatically presumed based on conduct alone, regardless of how inappropriate it might appear from a regulatory perspective.

In the realm of regulatory enforcement, this ruling suggests that financial regulators, such as the Securities and Futures Commission (SFC) and their international counterparts, must now engage in a more nuanced analysis of a defendant's subjective state of mind. They can no longer assume that commercial motivations inherently indicate dishonesty. This distinction is vital for proving dishonesty in market manipulation cases involving subjective assessments or opinions.

In essence, the Supreme Court's ruling refines criminal prosecution standards by mandating a careful factual analysis of subjective intent without invalidating broader regulatory enforcement actions. This decision provides a roadmap for developing more sophisticated and defensible standards in criminal market manipulation prosecutions. Ultimately, it aims to deter genuine manipulation while preserving legitimate commercial judgment within appropriate bounds.

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As the financial industry continues to grapple with the appropriate balance between market freedom and regulatory oversight, the Hayes decision offers a pathway toward more principled enforcement and could lead to a more sophisticated regulatory landscape where individual culpability is assessed with greater precision, ultimately fostering a fairer and more transparent financial system. For more details, please refer to [Sidley Update](#) dated August 13, 2025.

NEWS

HONG KONG IMPLEMENTS NEW REGULATORY FRAMEWORK FOR STABLECOINS

On August 1, 2025, Hong Kong officially launched its comprehensive regulatory framework for stablecoins. This pivotal legislation, overseen by the Hong Kong Monetary Authority (HKMA), introduces mandatory licensing and regulatory requirements for stablecoin issuers. Under the framework, stablecoin issuers must maintain minimum financial resources—specifically, HK\$ 25 million in paid-up share capital, HK\$ 3 million in liquid capital, and excess liquid capital sufficient to cover at least 12 months of operating expenses. Importantly, only stablecoins issued by licensed entities may be offered to retail investors and must be entirely backed by high-quality liquid assets.

A key focus of the framework is the stringent management of reserve assets, necessitating 100% backing of outstanding stablecoins at all times. Reserve assets must be high-quality, highly liquid, and segregated from the issuer's other assets. Acceptable reserve assets include cash, short-term bank deposits, government and central bank securities, and tokenized representations of eligible assets. Additionally, currency matching requirements stipulate that reserve assets must be denominated in the same reference currency as the stablecoin.

Further, to maximize protections and safeguards afforded to stablecoin holders, issuers must permit redemptions at par value within one business day and are prohibited from imposing unreasonable fees or conditions. In the event of insolvency, holders are also entitled to the pro rata direct disposal of reserve asset pools.

The framework also restricts the offering or advertising of stablecoins solely through five categories of permitted offerors, including the issuer, authorized institutions, and SFC-licensed trading platforms thereby establishing a closed-loop system. "Offering" is broadly defined to encompass any business communication that provides sufficient information for recipients to make informed decisions regarding the acquisition of stablecoins.

Violations of the new regulations can result in substantial fines and imprisonment. However, there is a three-month transition period for existing issuers to apply for licenses, with provisional licenses available for those demonstrating reasonable prospects of compliance. The HKMA has cautioned the public against scams by entities falsely claiming to be licensed. For more details, please refer to [Sidley Update](#) dated August 5, 2025.

SFC TO EXPAND LICENSING REGIME TO COVER VA DEALERS AND CUSTODIANS

The SFC and the Financial Services and the Treasury Bureau have jointly released detailed proposals aimed at introducing a new licensing regime for intermediaries engaged in virtual asset (VA) transactions and VA custodian services. According to these proposals, any entity operating a VA business in Hong Kong—whether through a physical outlet or a digital platform—or providing VA custodian services must secure a license or registration from the SFC, subject to a rigorous fit-and-proper test.

This proposed licensing regime signifies a substantial enhancement of the current framework, which mainly regulates VA trading platforms (VATPs) in Hong Kong. At present, intermediaries



authorized for Type 1, Type 4, and Type 9 regulated activities can offer VA dealing and advisory services, provided they work in conjunction with SFC-licensed VATPs. However, over-the-counter (OTC) dealings and other VA-related activities remain unregulated. The new proposals intend to cover all VA dealing activities, including those executed by OTC dealers, digital platforms, and hybrid operations. The definition of “dealing” is comprehensive, encompassing agreements for acquiring, disposing of, subscribing to, or underwriting VAs, and includes a broad spectrum of activities from simple conversions to complex brokerage services.

A particularly significant aspect of these proposals is the allowance for licensed VA dealers to conduct trades on overseas exchanges not licensed by the SFC. This flexibility could significantly enhance Hong Kong’s appeal as a hub for VA activities. Moreover, entities offering VA custodian services will also need to be licensed or registered with the SFC, ensuring the safekeeping of client assets.

The proposals are grounded in the principle of “same activity, same risks, same regulation,” which requires intermediaries to maintain minimum financial resources. For retail investors, licensed VA dealers will need to adhere to high-liquidity token standards. It is crucial to note that the proposals exclude peer-to-peer VA trading and offers/redemptions by stablecoin issuers, the latter being separately regulated as from August 1, 2025 (see above).

Upon implementation, any entity offering VA dealing or custodian services without the necessary license will face severe penalties, including imprisonment and substantial fines. Existing regulated entities are strongly advised to apply for licenses before the new regime takes effect to minimize business disruptions and ensure seamless compliance. For more details, please refer to [Sidley Update](#) dated July 9, 2025.

REGULATORY STANDARDS/UPDATES

SFC Clarify Expected Measures to Safeguard Client Assets Against Phishing Attacks

June 2025: Following an uptick in phishing attacks, the SFC published a *Circular* clarifying expected regulatory standards for securities brokers to detect and prevent phishing attacks and handle unauthorized trading incidents. In particular, intermediaries are expected to enhance internal controls and procedures to independently and proactively identify red flags which may indicate unauthorized access and trading in client accounts. The SFC noted that senior management, in particular, the Manager-in-Charge of Information Technology, are ultimately responsible for ensuring firms comply with the enhanced regulatory standards and vigilance to mitigate cybersecurity risks.

SFC to Restrict Unregulated VA Entities From Using Misleading Names

June 2025: The SFC published a consultation to restrict unregulated entities from improperly adopting names that may give the public a false impression that they are regulated. VATPs that carry on business in Hong Kong, or actively market their services to Hong Kong investors, are required to be licensed and regulated by the SFC. The SFO regulates VATPs providing services for virtual assets that also constitute securities or futures contracts, while the AMLO regulates VATPs offering services for virtual assets that do not constitute securities or futures contracts. If implemented, the proposals will expand the current list of restricted names under the SFO/AMLO. Additionally, the proposal will extend the restrictions to commonly used terms that are similar in meaning to “exchange” (e.g., “trading platform”) and those that refer to some of the financial products and platforms regulated under the SFO (e.g., “virtual assets” and “clearing facilities”). The proposal will also cover titles that may imply an association with established exchanges, VATPs, and other similar entities.



MAS Clarifies Timeline for STRs Filings

July 2025: On July 1, 2025, the Monetary Authority of Singapore (MAS) revised its notices and guidelines on anti-money laundering and countering the financing of terrorism (AML/CFT), as applicable to all financial institutions regulated by MAS, including Singapore-licensed fund management companies and payment service providers, as well as variable capital companies. The revisions set out MAS' supervisory expectations for all financial institutions to file suspicious transaction reports (STRs) no later than five (5) business days after suspicion is first established—or, in cases involving sanctioned parties, no later than one (1) business day after suspicion is first established. In addition, the revised guidelines also clarify certain other customer due diligence practices, including screening and establishment of source of wealth and source of funds.

Hong Kong Increases Position Limits for Key Stock Index Derivatives

July 2025: Following public consultation (see our previous update), effective from July 2, the SFC has increased the position limits of exchange-traded derivatives for the three major stock indices in Hong Kong, namely the Hang Seng Index, Hang Seng China Enterprises Index, and Hang Seng TECH Index by 50%, 108%, and 43% respectively to 15,000, 25,000, and 30,000 position delta.

SFC to Refine Financial Resource Rules for OTC Derivatives

July 2025: The SFC published proposals to further refine the capital requirements for licensed corporations engaged in OTC derivatives activities to better align with international regulatory standards. In addition, the proposals also reduce haircuts for certain China-related indices (CSI 300, FTSE China A50), recognize virtual asset derivatives on SFC-licensed exchanges, and exempt the capital requirements for centrally clear repo transactions.

INTERMEDIARIES/MARKET SUPERVISION

MAS to Impose Tighter Financial Advertisement Regulations

May 2025: The MAS has published new proposals to remove existing exclusions to financial advertisement requirements where an advertisement is targeted at certain investor group (e.g., accredited investors, institutional investors). This change would mean that all advertisements, whether relating to any investment product or not, would have to comply with the advertisement requirements, regardless of their target audience. These changes are expected to come into force at the same time as the pending legislative amendments for the regulation of digital marketing activities are implemented.

SFC Reaches Regional Consensus to Combat Online Scams

May 2025: The SFC reached an agreement on closer collaboration to combat online investment scams at the 50th Annual Meeting of the International Organization of Securities Commissions (IOSCO) following an uptick in deepfake investment scams and influencers.



MAS Clarify Supervisory Expectations for VCC Managers

June 2025: The MAS published a *Circular* setting out supervisory expectations and good practices for Variable Capital Companies (VCC) following a thematic review of the sector, highlighting potential areas where certain VCCs and/or VCC managers may not be fully aligned with regulatory requirements. This includes (i) putting in place formal custody arrangements (unless the assets are private equity or venture capital investments offered only to accredited and institutional investors), (ii) ensuring all individuals conducting regulated activities on behalf of the VCCs (such as directors who undertake deal sourcing, investment research, portfolio management, trade execution or client-facing activities) are appropriately appointed as licensed representatives of the VCC manager, (iii) winding down VCCs that have been assessed as unviable and dormant for an extended period of time (or do not hold assets and/or have no investors), and (iv) ensuring that all VCCs are used as a collective investment scheme and VCC managers have a substantive role in the management of the VCCs (as opposed to allowing a VCC to merely serve as a conduit for the offer of funds managed by other managers or having a VCC manager's role limited to purely marketing activities). MAS expects all VCC managers to review their governance and management protocols and take appropriate steps to address any gaps in compliance.

SFC Relax Rules for Itinerant Professionals (ITPs)

July 2025: The SFC published a *Circular* making it easier for visiting professionals from an overseas group company of a licensed corporation to apply for a representative licensed to conduct regulated activities in Hong Kong for 45 days (up from 30 days) each calendar year. ITPs are generally required to be chaperoned by a locally licensed individual when performing regulated activities, unless visiting professional investors.

KEY PRODUCT DEVELOPMENTS

MAS to Enhance Product Highlights Sheet Disclosures for Retail Funds

July 2025: The MAS has published proposals to enhance the design and contents of the product highlight sheet for MAS authorized or recognized retail funds, as well as to simplify the existing regulatory nomenclature and customer suitability assessment process for complex investment products. A six-month transitional period will be provided for financial institutions to implement the new requirements.

SFC Enhances Regulatory Cooperation on Cross-Border Investment Management Activity with Overseas Markets

May 2025: The SFC entered into Memorandum of Understanding (MoUs) with overseas markets to enhance regulatory cooperation on the supervision of cross-border investment management activity: (i) the MoU signed with Ontario Securities Commission (OSC) allows asset managers operating in both markets to offer cross-border investment management services—in particular, OSC-licensed managers are deemed to be eligible to provide investment management services in respect of SFC-authorized funds; (ii) a further MoU signed with the Central Bank of Ireland allows for cross-border offerings of eligible Hong Kong and Irish public funds in each market under a streamlined process; and (iii) a further MoU signed with the Financial Services Regulatory Authority of Abu Dhabi establishes a framework for cooperation and exchange of information to facilitate the supervision and oversight of cross-border fund management, investment and advisory activities, especially on investment delegation and fund offerings through master-feeder structure.



Hong Kong to Expand Products Under Swap Connect for Investors

May 2025: Following the launch of the Mainland Hong Kong interest rate swap markets mutual access scheme (Swap Connect) in May 2023, the People's Bank of China, SFC, and HKMA plan to expand the product types under Swap Connect to further promote the cross-border financial derivatives markets. Once implemented, the tenor of interest rate swap contracts would be extended to 30 years, and institutional investors would be permitted to trade interest rate swap contracts using the Loan Prime Rate as the reference rate. As of the end of April 2025, 20 Mainland dealers and 79 offshore investors had participated in Swap Connect, completing more than 12,000 interest rate swap transactions with an aggregate notional amount of approximately RMB 6.5 trillion.

SIGNIFICANT ENFORCEMENT ACTIONS

The SFC recently released its annual report providing a detailed overview of its enforcement efforts and accomplishments for the year ended March 31, 2025. Notably, internal control weaknesses and breaches of the Code of Conduct (making up nearly 60% of total infractions) remained prevalent, with a staggering 85% increase in internal control weaknesses, which, broadly speaking, comprises deficiencies in management review and supervision, operational controls over handling client accounts, segregation of duties, information management, and adequacy of audit trail for internal control purposes, among other weaknesses. Market misconduct investigations also climbed 20% to 222 (from 182 in 2024) with the number of cases resulting in the formal SFC disciplinary actions marginally increasing 15%. We therefore expect the industry to continue to remain under close regulatory scrutiny as market volatility persists and have highlighted below recent disciplinary and enforcement actions that may be of interest to managers in charge/responsible officers (ROs), licensed representatives, intermediaries, and others operating in the Hong Kong financial markets.

Market Misconduct

June 2025: A former securities dealer was banned for three years for using accounts belonging to his sister, a friend, and his own personal account to conduct matched or wash trades. He carried out these trades to avoid forced liquidation due to potential margin calls without regard for their potential on the trading price or volume of the relevant stocks.

July 2025: The SFC secured two criminal convictions against retail investors for false trading. The market manipulators were sentenced (following guilty pleas) to community service up to 240 hours.

July 2025: A company secretary of a listco and her Mainland associate were held liable for insider dealing. After becoming aware of a conditional agreement for the sale of the chairman and CEO's controlling interest in the listco, she tipped her associate in Mainland China to deal in the shares of the listco. The pair was (among others) ordered to disgorge over HK\$ 1 million in illicit profits.

Conflicts of Interest

July 2025: A fund manager was banned for nine years and fined HK\$ 350,000 over failures to properly manage conflicts when entering into loan and stock lending agreements, all of which ultimately defaulted, culminating in a HK\$ 25.6 million loss to the fund (amounting to 86% of its NAV).



Anti-Money-Laundering (AML) Failures / Senior Management Accountability

June 2025: A futures broker was banned for six months for (among others) failing to make suspicious transaction reports relating to trading limits that grossly exceeded the client's declared annual income as much as 10 times in one instance.

June 2025: A commodities broker and its CEO were suspended for four months and 10 months respectively (and the firm fined HK\$ 3.4 million) for failures to conduct due diligence on the customer-supplied systems used by clients for placing orders and failure to effectively monitor transactions to identify and detect suspicious trading patterns in the client accounts.

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Miscellaneous: Self-Reporting Failures

May 2025: A securities broker was banned for two years following a criminal conviction for theft of a wallet left at an ATM machine and delay in self-reporting the conviction until after sentencing.

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