MOORE

August 2026

MOORE NEWSLETTER

Implementation of Circular 26EC29: Compliance Upgrade Guidelines for Internal Controls over Cross-Border Client Businesses

On 22 May 2026, the Securities and Futures Commission (SFC) of Hong Kong issued Circular 26EC29[1], while the Hong Kong Monetary Authority (HKMA) concurrently released supporting rules for investment accounts[2]. Together with the Implementation Plan for the Comprehensive Rectification of Illegal Cross-Border Securities, Futures and Fund Business Activities issued by mainland regulatory authorities[3], these documents form a coordinated cross-border regulatory framework with tightened compliance standards, imposing stringent full-process compliance requirements on licensed institutions serving mainland investors.

This round of regulatory updates does not prohibit business with mainland clients; instead, it codifies previously principle-based compliance requirements into enforceable, verifiable and accountable mandatory standards. Institutions that fail to optimise existing account opening review and capital control mechanisms to align with the new circular will face heightened regulatory compliance risks. This newsletter summarises core regulatory requirements, prevalent internal control deficiencies across the industry, and corresponding optimisation pathways for reference by all licensed institutions.

OVERVIEW OF REGULATORY UPDATES

The concurrent issuance of new rules by the SFC and HKMA represents one of the most substantial compliance-tightening initiatives for cross-border securities businesses in recent years, covering both securities operations and capital settlement. Regulatory priorities focus on five key areas:

01

Retrospective Review of Account Opening Documentation: Institutions are required to self-inspect all account opening records dating back to 2023, identify accounts supported by suspicious or forged documents, and close such accounts in accordance with regulatory standards[1].

02

Special Cleansing of Dormant Accounts: Conduct a comprehensive review of zero-balance inactive investment accounts, complete mandatory notification and re-verification procedures, and mitigate money laundering risks arising from accounts being misused for illegal activities[1].

03

Stricter Eligibility for New Account Openings: Introduce dedicated control requirements for mainland individual investors across three dimensions: written declarations, settlement accounts, and document verification, raising the threshold for new account approvals[1].

04

Upgraded Risk Controls for Capital Settlement: Tighten risk management rules governing cross-border capital flows, and rigorously enforce SFC requirements for in/out fund transfers via same-name accounts[1].

05

Clarified Boundaries for Cross-Border Business Operations: Reiterate compliance red lines separating mainland and overseas operations, establish standardised internal controls for coordinated cross-border business workflows, and mitigate regulatory risks associated with cross-border activities[1].

The rules apply to all SFC licensed corporations (securities firms, asset management companies, licensed virtual asset service providers, etc.) and authorised institutions under the HKMA that operate investment account businesses.

POLICY BACKGROUND & REGULATORY INTENT

The new circular is not an isolated regulatory measure; its core basis stems from a dedicated SFC review of account opening practices at 12 licensed securities brokerages[1]. The review identified widespread industry gaps including inadequate due diligence for account opening documents, acceptance of suspicious or forged paperwork, and insufficient oversight of cross-border agency relationships—issues predominantly affecting accounts held by mainland investors, which create significant money laundering and illegal cross-border operation risks.

The updated regulatory framework advances reforms across three layers:

01

New Account Origination

Tighten admission criteria at source to reduce risks of fake account openings and illegal capital market inflows.

02

Existing Stock of Accounts

Mandate retrospective reviews of historical records and dormant account cleansing to resolve accumulated compliance loopholes.

03

Cross-Border Business Development

Further clarify operational boundaries, stipulating that licensed institutions must not assist or participate in illegal securities activities within mainland China.

CORE COMPLIANCE REQUIREMENTS FOR MAINLAND INVESTOR ACCOUNTS

The circular imposes differentiated end-to-end compliance standards exclusively for mainland individual investors, covering account opening eligibility, capital settlement, and ongoing account management.

Mandatory Written Declaration of Capital Sources
All mainland individual clients opening new investment accounts must sign a written declaration[1] containing four core undertakings:

- All investment and settlement funds are derived from legitimate sources outside mainland China
- The client has no record of account closure by other licensed institutions due to submission of suspicious or forged documents
- The client consents to regulators and law enforcement authorities accessing their personal information in accordance with the law
- The client shall notify the institution within seven days of any material changes to identity, capital or other key information

Settlement Restricted to the Client's Own Same-Name Accounts at Qualified Banks

All capital deposits and withdrawals for a mainland client's investment account must be processed via bank accounts held solely in the client's name, opened with Hong Kong-licensed banks or banks regulated in other qualified jurisdictions[1]. Institutions must ensure all fund transfers to and from investment accounts are exclusively routed through such eligible same-name accounts.

Ongoing Risk Monitoring & Complete Account Opening Audit Trails

Licensed corporations must close a client's investment account in compliance with regulatory rules if they identify illegal capital sources or capital arrangements violating mainland capital control laws[1]. Full documentation of each mainland investor's account opening process must be retained for compliance reviews and audits, and relevant account opening data and documents must be submitted to the SFC upon request.

PREVALENT INTERNAL CONTROL DEFICIENCIES ACROSS THE INDUSTRY

Drawing on findings from SFC dedicated inspections and general industry operating practices, the following weak links in internal controls for mainland client businesses are key focus areas for subsequent regulatory on-site inspections:

Inadequate Due Diligence on Account Opening Documentation

SFC inspections found that some institutions failed to implement sufficient document review controls to identify anomalies[1]. Many applications displaying red flags—such as identical names/addresses across statements, inconsistent document formatting and fonts, contradictory information, and unreasonable dates—were nonetheless approved for account opening. Severe cases revealed over half of sampled accounts had utilised forged documentation during origination.

Insufficient Due Diligence and Ongoing Oversight of Cross-Border Intermediaries

Any provision of securities, futures or leveraged foreign exchange services via overseas intermediaries constitutes a cross-border agency relationship, regardless of affiliate status[1]. Licensed corporations exhibited notable oversights in managing such partnerships:

- Over-reliance on self-submitted questionnaires and written confirmations from intermediaries, without independent public-source verification of intermediary licensing credentials and client profile characteristics;
- Failure to detect early warning signs when inconsistencies emerged between intermediary self-reported data and actual business operations.

Gaps in Execution of Client Identity Verification Procedures

Identity verification protocols were inconsistently implemented across different account opening scenarios[1]:
For account openings via transfers from designated Hong Kong bank accounts, insufficient transfer records were collected to confirm the remitting account belonged to the applicant;
For remote overseas account opening applications, institutions solely relied on an initial overseas remittance as proof of identity, without deploying independent, regulator-approved technical tools to authenticate document authenticity and client identity.

Insufficient Monitoring of Client Identification Information Collection

Many institutions failed to comply with the SFC's prescribed hierarchy of identity documents[1]. Prior to accepting client identification paperwork, reasonable steps were not taken to confirm whether the client held higher-priority identity documents. Some clients who held a national identity card were permitted to open accounts using only a passport.

Weak Controls Over Client Address Verification

Few institutions established mechanisms to assess the reasonableness of client residential addresses or follow up on risk indicators at the account opening stage[1]. Red flags such as registrations at commercial or government building addresses, or multiple clients sharing an identical address, were frequently overlooked. In one case, nearly 190 clients listed the same commercial premises address without follow-up reviews by the relevant institution.

REGULATORY ENFORCEMENT TRENDS & RISK WARNINGS

Mainland regulators have issued pre-notices of administrative penalties to multiple institutions engaged in illegal cross-border business, proposing full forfeiture of illegal gains plus fines. Penalties primarily target three categories of violations: unlicensed client solicitation within mainland China, illegal provision of account opening and trading services, and inadequate capital controls[4]. The future regulatory trajectory is clear: the SFC will continuously monitor licensed corporations' implementation of Circular 26EC29 requirements, with compliance performance incorporated into routine on-site inspections, off-site supervision and thematic reviews[1]. Institutions with inadequate implementation will face formal regulatory follow-up action. The circular stipulates senior management bears ultimate accountability for cross-border business compliance[1]; severe breaches may result in disqualification of senior management under the fit-and-proper criteria. The current window represents an early-stage remediation period for policy rollout. Proactive identification and rectification of internal control weaknesses will support institutions in smoothly aligning with regulatory standards.

Our Internal Control & Compliance Support Services

In response to Circular 26EC29 regulatory requirements, our firm provides independent third-party internal control assessments, system optimisation and execution effectiveness reviews to help institutions strengthen internal control frameworks for cross-border businesses.

Independent Review & Specialised Assessment of Cross-Border Business Internal Controls
Conduct independent evaluations of internal control design and sampling-based effectiveness testing aligned with regulatory standards, covering retrospective self-inspections of existing accounts and recurring follow-up reviews. Deliver independent professional opinions to support institutional remediation and regulatory inspection responses.

Optimisation of Internal Control Frameworks for Mainland Clients
Build dedicated internal control governance frameworks for mainland investors, with standardised operational workflows and audit trail requirements to unify implementation standards across the full account opening and ongoing management lifecycle.

Optimisation of Cross-Border Capital Risk Control Frameworks
Map risk verification rules for capital flows, optimise system and manual review logic, and support compliance with regulatory mandates for same-name account settlement and abnormal capital flow monitoring.

Optimisation of Mainland-Overseas Business Segregation Frameworks
Evaluate the effectiveness of internal controls separating mainland and overseas business operations, define clear internal control boundaries and audit trail standards, standardise cross-border collaboration protocols, and mitigate dual-jurisdiction regulatory risks.

Service Track Record

Our internal control consulting team provides long-term compliance support to Hong Kong licensed financial institutions. We have partnered with multiple licensed securities brokerages, asset management firms and virtual asset service providers to deliver cross-border internal control optimisation projects, including independent assessments and process design, enabling clients to build robust compliance frameworks.

Conclusion

The rollout of Circular 26EC29 marks a shift toward increasingly granular compliance requirements for cross-border businesses serving mainland investors, rendering extensive loose operational models incompatible with regulatory expectations. Addressing internal control gaps during the remediation window not only mitigates the risk of regulatory sanctions, but also enables institutions to operate cross-border businesses sustainably within compliant parameters.

If you would like to discuss how these changes affect your organisation, contact our consulting team.

KENNETH MA
Transaction Services
Managing Director
T +852 2738 4633
E kennethma@moore.hk

JOE CHAN
Advisory Services
Director
T +852 2738 4630
E joechan@moore.hk

KEVIN LAU
Cyber Risk Services
Director
T +852 2738 4631
E kevinlau@moore.hk

---

1. SFC Circular to licensed corporations: Expected controls for account opening and maintaining relationships with clients (26EC29): https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=26EC29

2. HKMA Circular: Expected controls for account opening and maintaining relationships with clients with investment accounts. https://brdr.hkma.gov.hk/eng/doc-ldg/docId/20260522-9-EN

3. Implementation Plan for the Comprehensive Rectification of Illegal Cross-Border Securities, Futures and Fund Business Activities (issued by CSRC and seven other ministries)
https://www.csrc.gov.cn/csrc/c100028/c7634324/content.shtml

4.CSRC: CSRC Takes Strict Action Against Illegal Cross-Border Business Operations by Tiger Brokers and Other Institutions
https://www.csrc.gov.cn/csrc/c100028/c7634330/content.shtml