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MOORE NEWSLETTER

SFC RA11 OTC Derivatives Compliance Window Period | A Guide for Institutions on Establishing a Statutory Compliance Framework and Mitigating Regulatory Risks

Following the SFC's issuance of the third-round consultation on the RA11 Financial Resources Rules (14 July 2025)[1], and the joint SFC-HKMA consultation conclusions on the OTC Derivatives Clearing Rules (5 June 2026)[2], Hong Kong's OTC derivatives regulatory framework continues to evolve. RA11, established under the SFO[3], regulates OTC derivatives transactions and advisory activities. Following multiple consultation rounds, the regulators have set forth general compliance directions covering business scope, capital, reporting, and risk management.

1. CURRENT REGULATORY LANDSCAPE

RA11 is set out under Part 11 of Schedule 5 to the SFO (Cap. 571), bringing OTC derivatives transactions and advisory services within licensed regulation. Key market realities:

01 **Multiple consultation papers on capital, margin, competency[5], and reporting[4] have been issued – institutions may commence preparatory work by reference thereto.**

02 **Regulatory focus has shifted to early intervention, with emphasis on proactive compliance frameworks.**

03 **During transition, the SFC will scrutinise compliance systems and risk control allocation. Late movers will face greater remedial burdens.**

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1 Circular to licensed corporations -SFC consultation on changes to financial resources rules and related guidelines to foster market developments for OTC derivatives and other products, July 2025.

2 Joint consultation paper on proposed amendments to the Clearing Rules for over-the-counter derivative transactions, June 2026.

3 Cap. 571 Securities and Futures Ordinance

4 OTC derivatives licensing regime: SFC concludes consultation on regulatory scope and competence requirements, June 2020.

5 Circular to licensed corporations Margin requirements for non-centrally cleared OTC derivative transactions, December 2019.

2. TARGET CLIENT GROUPS AND COMPLIANCE BENEFITS

01

Type 9 Licensed PE Firms & Hedge Funds

Scenarios: Portfolio hedging, derivatives advisory, discretionary execution for clients.

Value: Clear demarcation between proprietary hedging and client-facing services; comprehensive documentation satisfies LP/prime broker due diligence; standardised valuation, margin, and stress-testing processes facilitate regulatory inspections.

02

Hong Kong Brokerages & IB Branches

Scenarios: OTC derivatives sales, structured product origination, institutional advisory.

Value: Early implementation of full compliance systems enables prompt licence applications; streamlined HKTR reporting, conflict-of-interest, and counterparty risk controls reduce on-site inspection pressure; alignment with internal/external audit standards.

03

Multinational Corporate Treasury Centres (HK)

Scenarios: FX/interest rate hedging, uncertainty regarding exemption eligibility.

Value: Professional assessment of corporate treasury exemption criteria to optimise licensing costs; dedicated hedging compliance ledgers satisfy group and overseas regulatory reviews; proper records ensure HKTR compliance.

04

Family Offices & Cross-Border WM Institutions

Scenarios: Arranging OTC derivatives for professional investors, providing derivatives opinions.

Value: Clear investor suitability standards and client on-boarding procedures; comprehensive files address inspections and complaints; standardised framework enhances credibility.

05

Derivatives Brokerage & Transaction Service Providers

Scenarios: OTC brokerage, transaction facilitation, derivatives advisory for institutional clients.

Value: Enhanced governance fosters counterparty trust; comprehensive KYC/AML/product controls; alignment with FRR capital and SIMM margin requirements.

3. CORE BENEFITS OF RA11 COMPLIANCE IMPLEMENTATION

01 Clear Compliance Boundaries & Regularised Operations-
Professional assessment of licensing triggers and corporate treasury exemption applicability mitigates regulatory-compliance-risks.

02 Enhanced Compliance Capabilities & Cross-Border Cooperation –
Overseas IBs, prime brokers, and LPs increasingly factor RA11 compliance into due diligence. A robust system prevents cooperation/fundraising obstacles.

03 End-to-End Process Standardisation –
Unified standards across client admission, suitability, conflicts, valuation, margin, and reporting reduce manual errors.

04 Statutory HKTR Reporting & Full Audit Trails – Standardised workflows per Cap. 571AL ensure accurate reporting and complete audit trails.

05 Governance & Personnel Compliance – RO/MIC/compliance roles delineated per the Fit and Proper Guidelines[6] , satisfying SFC governance standards.

4. IMPLEMENTATION SUPPORT SERVICES

All solutions benchmarked against SFC inspection standards, delivering inspection-ready documentation:

01

Business Compliance Assessment & Gap Analysis
Review business models, assess licensing triggers and corporate treasury exemption eligibility. Early gap analysis is recommended.

02

Full RA11 Compliance Policy Development
Policies covering client admission, suitability, conflicts, transaction controls, record retention, etc., drafted to SFC standards.

03

Capital & Risk Management Compliance
FRR capital calculations, margin/stress-testing/counterparty risk frameworks, plus MRM implementation.

04

Governance Structure Design
Board/compliance/ business role definitions with supporting materials for regulatory inquiries.

05

Ongoing Compliance Maintenance
SFC policy monitoring, regular self-assessments, and assistance with regulatory responses.

5. CONSULTATION INVITATION

The current window is optimal for RA11 preparatory work. Early establishment of compliance frameworks reduces transition pressure and secures competitive advantage. If your institution falls within any of the above categories, is engaged in or considering OTC derivatives activities, or is uncertain about compliance boundaries, we invite you to schedule a specialised compliance diagnostic and customised implementation plan.

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

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[6] Fit and Proper Guidelines, Jan 2022.