



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
B9/103C
G16/1C

24 May 2011

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Mystery Shopping Programme (“MSP”) Findings

As announced in our circular of 18 June 2010, the Hong Kong Monetary Authority (“HKMA”) and the Securities and Futures Commission jointly engaged a service provider to undertake the MSP to assess the industry’s compliance with regulatory requirements during the sales process for unlisted securities and futures investment products and structured deposits. The report setting out the findings of the MSP for the banking sector and the securities sector is attached at **Annex 1** and **Annex 2**, respectively. Authorized Institutions (“AIs”) should study the two reports carefully and give due regard to the issues identified in the reports when monitoring their sales process and providing training to their frontline staff. Also, AIs are encouraged to adopt the good practices set out in the two reports, if they have not already done so, to enhance their sales processes.

Some sampled cases revealed areas for improvement in the disclosure of the features and risks of investment products, as well as in ensuring suitability of investment recommendations. AIs should review their systems and controls and make necessary enhancements to ensure their staff disclose sufficient and accurate information and present balanced views on investment products to help customers make informed investment decisions. AIs should also take reasonable steps to ensure that any product recommended to the customer is suitable for the customer having regard to all relevant circumstances. The management of AIs are responsible for diligently supervising their staff, and ensuring compliance with the applicable regulatory requirements.

During the MSP, it was noted that some AIs’ risk profile questionnaire (“RPQ”) did not collect information about customers’ education level and/ or investment objectives. Also, the practice of their sales staff in this area varied considerably, while some asked the shoppers for the relevant information during the sales process, others did not. In the light of this, the HKMA expects AIs to collect and document, among other things, customer’s education level and investment objectives in RPQ or some other Know-Your-Client (“KYC”) document to ensure that the KYC process is conducted properly and that the relevant information is adequately taken into account in the sales process.

Areas where shortcomings were identified in the MSP will be subject to greater scrutiny in the HKMA's supervisory process. The HKMA will continue to deploy mystery shopping from time to time to assess the industry's compliance with regulatory requirements.

Yours faithfully,

Meena Datwani
Executive Director (Banking Conduct)

Encl.

c.c. SFC (Attn: Mr Stephen Po, Senior Director of Intermediaries Supervision)