

**Issues Identified**

■ **Retail Banks**

***No breakdown on clients' investment experience by types of products***

- All the RIs examined have taken reasonable steps to comply with the SFC's requirement to establish the clients' financial situation, investment experience, and investment objectives. Nevertheless, some RIs only documented information on general investment experience of clients through risk profiling exercises, but information on clients' investment experience by types of products was not kept in written form.

***No procedure to ensure comparison of investment horizons of clients with product tenors***

- All the RIs examined have documented information on the investment horizons of clients and established policies to ensure suitability for clients in the selling of investment products. However, a number of RIs did not have specific procedures requiring frontline staff to properly compare the investment horizons of clients and the product tenors during the selling process of investment products.

■ **Private Banks**

***No distribution of prospectuses and annual reports of mutual funds to clients***

- In offering mutual funds to private banking clients, the relationship managers gave explanation on the product features and risks in details, and provided relevant product documents to the clients before entering into any transaction. However, certain RIs provided only product term sheets to clients, but not the prospectuses and annual reports of the mutual funds unless the clients requested such documents from the RIs. For better protection of clients and the RIs, these private banks should take the initiative to provide the prospectuses and annual reports of the mutual funds to clients.

***No formal procedures to implement internal policies for selling unauthorized investment products***

- A few RIs did not have formal policies for carrying out the required procedures under the SFC Code of Conduct<sup>2</sup> before classifying a client as a “professional investor”. In addition, some RIs did not maintain any central log for keeping track of the offer of unauthorized investment products to clients. Nevertheless, all relevant clients of these RIs were able to meet the definition of “professional investor” under the Securities and Futures Ordinance.

***Inadequate compliance monitoring***

- Due to resource constraints, several RIs did not perform regular compliance reviews on their private banking investment advisory activities to ensure proper compliance with relevant regulatory requirements.

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<sup>2</sup> This refers to the Code of Conduct for Persons Licensed by or Registered with the SFC.