



SECURITIES AND FUTURES COMMISSION  
證券及期貨事務監察委員會

## Circular

23 February 2009

### **Circular Regarding Self Examination of Controls and Procedures on Suitability Obligations**

This circular is to remind intermediaries who make investment recommendations or solicitations to clients about the suitability obligations in the Code of Conduct for Persons Licensed by or Registered with the SFC ("the Code").

The Code sets out the principles, including the suitability obligations, which intermediaries should comply with when conducting their regulated business. The Questions and Answers on suitability obligations issued in May 2007 ("FAQs") clarify these existing obligations under the Code. As the suitability obligations in the Code are long-standing and the FAQs were issued nearly 2 years ago, intermediaries should have long-established appropriate controls and procedures to ensure compliance with all applicable requirements.

It is now appropriate for intermediaries to **conduct a formal self examination** of such controls and procedures. The examination should be properly documented and reviewed by senior management to ensure established controls and procedures are operating effectively. In the course of our regular inspections, we will be looking for documentary evidence that such formal self examination has been carried out.

As the FAQs explained, under the Code suitability obligations, intermediaries in making investment recommendations or solicitations to clients are required to:

- Know their clients;
- Understand the investment products they recommend to clients (product due diligence). Product due diligence is to be conducted on a continuous basis at appropriate intervals having regard to the nature, features and risks of investment products offered;
- Provide reasonably suitable recommendations by matching the risk return profile of each investment product with the personal circumstances of each client to whom it is recommended;
- Provide all relevant information to clients and help them make informed investment decisions;
- Document and retain the rationale underlying each investment recommendation made to the client and provide a copy to each client; and
- Employ competent staff and provide appropriate training (to ensure products are sold by staff who have sufficient understanding of the products).

Should you have any queries regarding the contents of this circular, please contact Mr Chung Hing Hing on 2842-7751.

Intermediaries Supervision Department  
Securities and Futures Commission

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