



Our Ref: B1/15C  
G16/1C

31 October 2011

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

### **Rationale for Selling of Accumulators**

Further to the HKMA's circular of 22 December 2010 and in view of the recent market volatility, I am writing to further elaborate on the HKMA's expected standard of conduct for authorized institutions (AIs) engaged in selling accumulators to customers.

In order to facilitate customers' understanding of the essential nature and risks of accumulators, AIs should make available (in the Chinese or English language according to the customer's preference) and encourage customers who are interested in investing in accumulators to read the *inSight* article entitled "[Buy at a discount?](#)" issued by the HKMA on 28 September 2011. AIs should also remind the customers that if they do not understand the features and risks of accumulators, they should make enquiries with the sales intermediary or seek professional advice before entering into such an arrangement.

Also, AIs are reminded to ensure the suitability of the solicitation or recommendation for a customer is reasonable in all the circumstances. As accumulators are derivative products associated with significant investment risks, selling of accumulators to customers should be justified with specific grounds recorded, in particular the rationale for investing in accumulators instead of suitable alternative investment products with lower risk and / or less complex structure (if any) given the risk return profile of accumulators and the customer's personal circumstances.<sup>1</sup> AIs should obtain the customer's acknowledgement (audio or written) of such investment rationale and maintain proper audit trail.

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<sup>1</sup> If it is the customer's intention to hedge against his/her exposure to the relevant underlying asset, the AI should ensure that the customer is aware that accumulators with knock-out clauses or other features to cap the upside (where applicable) may not serve his/her intended hedging purpose. The record of rationale should show why the accumulator is a suitable hedging tool for the customer in all the circumstances.

AIs are expected to observe the principles set out in this circular and the [HKMA's circular of 22 December 2010](#) when selling accumulators, decumulators, and products of a similar nature by whatever name they may be called.

If you have any questions on this letter, please contact Ms Alice Lee at 2878-1603 or Ms Florence To at 2878-1582.

Yours faithfully,

Meena Datwani  
Executive Director (Banking Conduct)

c.c. Securities and Futures Commission  
(Attn: Mr Stephen Po, Senior Director of Intermediaries Supervision)