



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref: B1/15C  
G16/1C

28 December 2016

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

**Update of Requirement Following the Circulars Issued by the Securities and Futures Commission (“SFC”) in relation to Suitability Obligations**

I am writing to draw your attention to two circulars issued by the SFC to intermediaries on 23 December 2016 in relation to (1) Frequently Asked Questions on Triggering of Suitability Obligations and (2) Frequently Asked Questions on Compliance with Suitability Obligations. The former circular clarifies the scope of application of the suitability obligations under the Code of Conduct<sup>1</sup> and provides guidance and illustrations on whether and when the suitability obligations would be triggered under certain scenarios. The latter circular informs intermediaries that the SFC has published an updated set of frequently asked questions on compliance with suitability obligations.

According to the answer to Question 7 of the SFC’s Frequently Asked Questions on Compliance with Suitability Obligations (“FAQs”), licensed or registered persons should maintain records documenting the rationale underlying investment solicitations or recommendations made to the client and provide a copy of the rationale for the solicitations or recommendations to the client upon his/her request. Applying the same standard, the HKMA now updates its requirement<sup>2</sup> on authorized institutions (AIs), i.e. to provide the customer with a copy of the rationale for investment solicitations or recommendations upon the customer’s request.

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<sup>1</sup> Code of Conduct for Persons Licensed by or Registered with the SFC

<sup>2</sup> The HKMA’s relevant requirement was set out in Recommendation 15 in Annex 1 of the circular “Implementation of Recommendations in the HKMA’s Report on Issues Concerning the Distribution of Structured Products Connected to Lehman Brothers” dated 25 March 2009, and Recommendations 13 and 15 in Annex of the circular “Applicability of Enhanced Measures to Sales of Investment Products to Private Banking Customers” dated 20 January 2012. The applicability of such requirement to corporate customers was set out in the circular “Applicability of Enhanced Measures to Sale of Investment Products to Corporate Customers” dated 20 December 2012.

In these FAQs, licensed or registered persons that adopt a portfolio-based approach in assessing suitability when providing services to Private Banking Customers (“PB Customers”) are reminded to follow the requirements set out in the Circular on Compliance with Suitability Obligations issued by the SFC on 17 July 2012 for the purpose of compliance with the requirement of providing the rationale of recommendations to their PB Customers. Similarly, we would like to remind that AIs that adopt a portfolio-based approach in assessing suitability when providing services to PB Customers should continue to observe the requirements stipulated in the HKMA’s circular of 12 June 2012 entitled “Selling of Investment Products to Private Banking Customers” in respect of providing the customer with (i) a copy of the investment mandate; (ii) a copy of the rationale of recommendations for the mandate; (iii) a copy of the rationale for any change in the investment mandate; and (iv) a copy of the rationale for any deviation from the agreed investment mandate.

For the avoidance of doubt, AIs should also continue to observe the requirements stipulated in the HKMA’s circulars<sup>3</sup> governing provision of a copy of customer’s risk profile to the customer.

If you have any questions on this circular, please contact Ms Anita Chan on 2878-1538 or Ms Florence To on 2878-1582.

Yours faithfully,

Carmen Chu  
Executive Director (Banking Conduct)

c.c. SFC (Attn: Ms Julia Leung, Executive Director (Intermediaries))

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<sup>3</sup> Relevant circulars, including but not limited to:

- “Implementation of Recommendations in the HKMA’s Report on Issues Concerning the Distribution of Structured Products Connected to Lehman Brothers” dated 25 March 2009
- “Applicability of Enhanced Measures to Sales of Investment Products to Private Banking Customers” dated 20 January 2012
- “Applicability of Enhanced Measures to Sale of Investment Products to Corporate Customers” dated 20 December 2012