



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
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7 August 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Reminder of Investor Protection Measures

Further to the “Circular Issued by the Securities and Futures Commission (“SFC”) on Reminder of important obligations to ensure suitability and timely dissemination of information to clients” dated 27 March 2020 and “Circular to issuers of SFC-authorized paper gold schemes” dated 20 April 2020 issued by the Hong Kong Monetary Authority (“HKMA”), I am writing to remind authorized institutions (“AIs”) of some important investor protection measures amid the volatile markets.

In view of the recent price volatility of various markets and investment products (including shares, bonds, commodities, precious metals, FX, etc.) as well as the operational challenges brought about by COVID-19, AIs are reminded to remain vigilant, and continue to treat customers fairly and act in the best interest of their customers in the sale of investment products, in line with the Code of Banking Practice and the Treat Customers Fairly Charter. AIs should exercise extra care when handling leveraged transactions where the customer could have potential losses exceeding the invested amount.

When making a solicitation or recommendation on investment products regulated by the Securities and Futures Ordinance, registered institutions (“RIs”) are also reminded to observe the relevant requirements promulgated by the HKMA and the SFC, including but not limited to:

- (a) ensure proper product due diligence, taking into account, among others, the market conditions amid the COVID-19 situation, which may impact on the risk return profile and prospect of an investment. Where the

continuous review by an RI of the risk rating of an investment product results in a higher risk rating being attributed to the product, the RI should follow the existing requirement of disclosing such increase in risk rating to customers to whom it has recommended and sold the product;

- (b) give due consideration to relevant circumstances of a customer when assessing the suitability of an investment product for the customer. Where an RI is aware of material changes to a customer's circumstances (e.g. impact arising from the COVID-19 situation), such changes should be taken into account in the assessment;
- (c) explain to the customer the risks and features of the investment product; and
- (d) present balanced views: do not focus solely on advantageous terms such as high coupon rates or yields, but should explain also the disadvantages and potential downside risks.

Handling of leveraged transactions

AIs should be cautious when distributing investment products where potential losses could exceed the customer's invested amount and when providing leveraged or margin trading services.

In particular, AIs are reminded to make adequate disclosure of the nature, key features and terms, and the associated risks of leveraged products or transactions, especially the risk of losing more than the customer's invested amount (and where applicable the risk of having unlimited losses, e.g. a customer writing a naked call option). AIs should ensure that the customer is willing and has sufficient net worth to assume the risks and bear the potential losses of the leveraged transactions.

In practice, AIs are expected to put in place policies and controls to ensure that targeted customers have been provided with adequate disclosure of, and are capable of understanding the risk of leveraged or margin trading, and the possibility of being subject to margin-calls within a short time period. AIs are also expected to put in place mechanism to monitor customers' margin maintained with the AIs.

The HKMA will continue to monitor AIs' compliance with the regulatory requirements as part of its on-going supervision.

If you have any questions on this circular, please contact Ms Phielle Lau at 2878-1750 or Ms Anita Chan at 2878-1538.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

cc: SFC (Attn: Ms Julia Leung, Deputy Chief Executive Officer and
Executive Director (Intermediaries))