

Investor Protection Measures in respect of Sale of Investment Products
Frequently Asked Questions

(I) Customer's investment horizon

- 1. In considering a customer's investment horizon for the suitability assessment, are RIs expected to strictly match it against the product tenor? What about products that do not have a specific product tenor? Can a flexible approach be adopted for liquid products?**

As provided in the HKMA's circular of 18 October 2018 on "Investment horizon and suitability assessment", the HKMA does not expect rigid and mechanical matching of a customer's investment horizon with an investment product's tenor in suitability assessment. Even for an investment product with long or no tenor, it may have sufficient liquidity which allows customers to exit the position without materially affecting the value before maturity, and thus RIs can regard that product as suitable even for customers with a shorter investment horizon.

In the product due diligence process of an investment product, RIs may take into account relevant factors and circumstances in assessing the product liquidity, e.g. transaction costs; any lock-in period or termination conditions, and determine to which category of a customer's investment horizon the product is suitable.

(II) Customer's concentration risk

- 2. It is common for private banking customers to set up different accounts for different investment objectives. Such customers may designate an account to trade a specific asset class. This often results in high concentration in that particular asset class for that designated account. What is the regulatory expectation in respect of concentration risk in the suitability assessment in such circumstances?**

Regulatory expectation to assess concentration does not focus on the level of concentration within any given account, but the overall effect of the investment on a client's portfolio. For example, a highly concentrated account which only represents a very small portion of a client's portfolio may not involve suitability issue as far as concentration risk is concerned.