



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

23 February 2024

The Chief Executive
All Registered Institutions

Dear Sir/ Madam,

Portfolio-based Approach to Suitability Assessment

In its ongoing dialogue with the industry, the Hong Kong Monetary Authority (“HKMA”) has come across enquiries and feedback on the application of the portfolio-based approach to suitability assessment (“PBA”) in providing investment advisory and trade execution services. The HKMA notes that while some banks have adopted PBA, some banks might have hesitation in doing so having regard to various considerations, including possible questions on the expected standards in the adoption. The HKMA has therefore conducted a review on the supervisory requirements, and updated and consolidated the guidance on PBA for registered institutions (“RIs”) as set out in **Annex 1**. No new supervisory requirements for adoption of PBA is imposed. Instead, in response to enquiries from the industry, clarifications in the form of frequently asked questions on the consideration of a customer’s risk tolerance level, investment horizon and concentration risk, and the calculation of a customer’s investment portfolio are provided in **Annex 2**, with a view to facilitating adoption of PBA.

In gist, PBA may be considered as front-loaded suitability assessment through setting up at the outset an investment agreement that sets out the key elements of an investment portfolio suitable for the customer taking into account the customer’s circumstances. Through the use of PBA:

- (i) at a transaction level, the RI may solicit, recommend, advise or execute a transaction on an investment product for the customer (including product with a lower or higher risk level) so long as the outcome of the customer’s

portfolio is consistent with the investment agreement. Occasions of mismatches or exceptions in individual transactions which would trigger relevant control procedures may therefore be reduced; and

- (ii) there is no need for the RI to record the rationale for the recommendation at the transaction level.

RIs can make their selling process more efficient through appropriate use of PBA. Hence, customer experience can be enhanced while according protection to investor, thereby supporting and facilitating the development of wealth management business in Hong Kong.

This circular supersedes the relevant guidance on PBA previously issued by the HKMA as set out in **Annex 3**.

If you have any questions on the guidance, please contact Mr Kevin Sham on 2878 1594 or Mr Adam Tse on 2878 1233.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

Encl.

c.c. Securities and Futures Commission
(Attn: Mr Keith Choy, Interim Head of Intermediaries)