

Simplified Arrangements for Sale and Distribution of Eligible Retail Bonds Issued by Government and Related Organisations

I. Applicability of simplified arrangements

1. Simplified arrangements set out in this Annex are applicable to the sale and distribution of retail tranches of bonds which meet all the criteria as set out in section II of this Annex. Unless otherwise specified, the guidance in this circular is applicable to all distribution channels.
2. Unless otherwise stated in this circular, registered institutions (“RIs”) distributing these bonds should follow all applicable requirements set out by the Securities and Futures Commission (“SFC”) and the Hong Kong Monetary Authority (“HKMA”).

II. Eligible bonds

3. Retail tranche of the following types of bonds, which meet all the additional criteria set out in paragraph 4 (collectively “Eligible Bonds”):
 - bonds issued by the HKSAR Government;
 - sovereign bonds issued by the Central People’s Government;
 - bonds issued by entities or organisations that are wholly owned by the HKSAR Government, including those through the Exchange Fund; or
 - bonds issued by development finance institution / policy banks¹ of the People’s Republic of China (“PRC”).
4. Additional criteria:
 - (i) denominated in Hong Kong dollar, Renminbi or US dollar;
 - (ii) classified as a non-complex² bond; and
 - (iii) assigned by the RI with low product risk rating.

¹ RIs can refer to the list of development finance institution / policy banks published by the China Banking and Insurance Regulatory Commission of the PRC from time to time.

² For definition of complex products, RIs should refer to guidance issued by the SFC.

III. Physical segregation (applicable to retail banking customers³ only)

5. In respect of sale and distribution of Eligible Bonds through retail bank branches, along the principle and regulatory requirements for physical segregation set out in the relevant HKMA's circular⁴, RIs are allowed to conduct sale and distribution of Eligible Bonds in any areas of their bank branches, provided that such areas are proper facilities that are not used for deposit-taking.
6. Where necessary, RIs may designate counters (which are not used for deposit-taking) with proper signage in the retail bank branches for handling subscription for Eligible Bonds during the subscription period. RIs may also set up drop boxes in the retail bank branches for collecting subscription forms of Eligible Bonds.

IV. Simplified distribution and selling process

Execution-only transactions

7. Where there is no solicitation or recommendation, distribution of Eligible Bonds would not trigger the suitability requirement⁵.
8. Audio-recording of the face-to-face distribution process is not required⁶.

Transactions with solicitation or recommendation

9. Where there is solicitation or recommendation, RIs should ensure the suitability of the solicitation or recommendation for the customer is reasonable in all the circumstances⁷. RIs may adopt a risk-based approach in performing

³ Footnote 1 of section (A)(I) of Annex 1 of the HKMA's circular dated 25 September 2019 on "Investor Protection Measures in respect of Investment, Insurance and Mandatory Provident Fund Products" ("Investor Protection Measures Circular").

⁴ Section (A)(I) of Annex 1 of the Investor Protection Measures Circular.

⁵ Paragraph 5.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ("Code of Conduct").

⁶ RIs are reminded of their obligations to comply with the record keeping requirements, for example, maintenance of order records under Paragraph 3.9 of the Code of Conduct.

⁷ RIs should refer to the relevant regulatory requirements for guidance, including but not limited to Guidelines on Online Distribution and Advisory Platforms (the Guidelines), Frequently Asked Questions (FAQs) on the Guidelines and Paragraph 5.5 of the Code of Conduct, and FAQs on Triggering of

suitability assessment having regard to the personal circumstances of the customer and the nature and risks of the product involved.

10. In view of the nature, structure and risks of Eligible Bonds, in general, mismatch in the risk tolerance level of the customer and the risk rating of the bond is unlikely since the bond is assigned a low product risk rating. RIs may only need to consider the following aspects in performing suitability assessment:
 - (i) the investment horizon of the customer and the liquidity of the bond; and
 - (ii) any concentration issue.
11. Where there is no risk mismatch, audio-recording of the face-to-face sale process is not required.

Companion requirement for vulnerable customers (VCs)
(applicable to retail banking customers only)

12. The companion requirement⁸ for VCs is not applicable to the sale and distribution of Eligible Bonds.

V. Posting of fee discount

13. When determining whether solicitation or recommendation is involved, RIs should have regard to the facts and circumstances of each case⁷.
14. Posting of factual, fair and balanced product-specific materials would not in itself amount to solicitation or recommendation and will not trigger the suitability requirement in the absence of other facts and circumstances which may reasonably be expected to influence investors. In particular, as to whether the posting of any fee discount may amount to solicitation or recommendation, it depends on how it is presented to the customers. For example, if an RI proactively promotes a fee discount or induces customers to subscribe an Eligible Bond by highlighting or focusing on the fee discount, such act may amount to solicitation or recommendation. On the other hand,

Suitability Obligations issued by the SFC.

⁸ Section (A)(II.7) of Annex 1 of the Investor Protection Measures Circular.

if an RI merely factually discloses the fees and charges of an Eligible Bond (including any fee discount) on a fair and balanced manner, such act itself may not constitute solicitation or recommendation. Therefore, RIs distributing Eligible Bonds should be mindful as to whether any fee discount given are specific to an Eligible Bond, and if so, how such fee discount is presented to the customers and whether it would amount to solicitation or recommendation and trigger the suitability requirement.

15. For the avoidance of doubts, advertisements of non-complex retail bonds issued by the HKSAR Government and retail sovereign bonds issued by the Central People's Government with product-specific incentives (e.g. cash rebates, fee discounts) would not amount to solicitation or recommendation⁷.

VI. Previous Guidance Superseded

16. This circular supersedes the HKMA's circular dated 8 September 2009 on "Simplified arrangements for selling of renminbi sovereign bonds".