

23 December 2020

**Circular to Intermediaries**

**Frequently Asked Questions on**

**Compliance with Suitability Obligations and**

**Requirements for Complex Products**

The industry has recently raised a number of questions about compliance with suitability obligations when providing services to high net worth investors who also exhibit financial expertise (ie high levels of knowledge or experience).

Suitability assessment is a dynamic process, the nature of which may vary depending on the client's circumstances, as well as the type, complexity and risks of the investment products and the services provided by the intermediary. When performing product due diligence, explaining products to clients and conducting suitability assessments, licensed and registered persons could vary the process in a proportionate, risk-based manner.

The Securities and Futures Commission (**SFC**) has updated its frequently asked questions (**FAQs**) in order to:

- clarify how to conduct suitability assessments by adding a new Question 5B to the FAQs on Compliance with Suitability Obligations<sup>1</sup>;
- clarify the obligations of licensed or registered persons to explain product risks to clients with different degrees of financial sophistication by adding a new Question 6B to the FAQs on Compliance with Suitability Obligations<sup>2</sup>; and
- provide guidance in complying with paragraph 5.5 of the Code of Conduct, particularly on how to perform product due diligence, disclose product information and provide warning statements for the sale of complex products on an unsolicited basis, by adding a new Question 39 to the Complex Products FAQs<sup>3</sup>.

Intermediaries should note that the SFC will take into account compliance with the guidance in the FAQs when considering whether a licenced or registered person is fit and proper to carry out the relevant regulated activities.

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<sup>1</sup> To provide guidance to licensed or registered persons for complying with the suitability obligations under paragraph 5.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**), the SFC updated the FAQs on the regulatory requirements (**FAQs on Compliance with Suitability Obligations**) on 23 December 2016.

<sup>2</sup> The original Q5 and Q6 in the FAQs on Compliance with Suitability Obligations will be re-numbered to Q5A and Q6A respectively.

<sup>3</sup> The SFC issued frequently asked questions on 13 June 2019 to provide further guidance on the regulatory requirements with respect to sale of complex products (**Complex Products FAQs**) under paragraph 5.5 of the Code of Conduct.



A copy of the newly added FAQs is attached to this circular. The full set of the FAQs is available on the SFC website at [www.sfc.hk](http://www.sfc.hk) under the sections “FAQs – Intermediaries – Supervision – Compliance with Suitability Obligations” and “FAQs – Intermediaries – Supervision – Guidelines on Online Distribution and Advisory Platforms and Paragraph 5.5 of the Code of Conduct”.

Should you have any queries regarding the contents of this circular, please contact Ms Kammy Kwok at 2231 1455 or your case officer.

Intermediaries Supervision Department  
Intermediaries Division  
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Enclosure

End

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