

31 March 2022

Circular to licensed corporations Handling of client complaints

This circular provides guidance to assist licensed corporations (**LCs**) in their compliance with regulatory requirements for handling complaints from clients.

The protection of investors' rights and interests is a top priority of the Securities and Futures Commission (**SFC**). An important element of investor protection is to provide investors with effective mechanisms for redress and it is essential that LCs have in place policies and procedures to handle client complaints in a timely and appropriate manner. This also helps LCs identify areas for improvement in their internal controls and standards of service. Client complaints may highlight control weaknesses or loopholes which, if not addressed, may jeopardise clients' interests and firms' reputations, and result in regulatory breaches.

The SFC received a large number of complaints against intermediaries and market activities in the past few years¹. It noted cases where client complaints were not properly handled and as a result LCs did not properly identify or deal with control deficiencies and regulatory breaches. In view of this, the SFC conducted a review of LCs' complaint handling procedures and identified a number of deficiencies.

LCs should ensure compliance with the requirements under paragraph 12.3 of the Code of Conduct² and part V (5) of the Internal Control Guidelines³ when handling client complaints. The [Appendix](#) to this circular sets out expected regulatory standards for compliance with these requirements, which are divided into the following areas:

- A. Management oversight and complaint handling policies and procedures
- B. Disclosure of complaint handling procedures
- C. Identification and escalation of complaints
- D. Investigating complaints
- E. Communicating outcomes to clients
- F. Record keeping

The Appendix also provides suggested techniques and procedures as well as good practices noted from the SFC's review. LCs are encouraged to adopt the techniques and procedures which are commensurate with their business models and the size of their operations.

¹ The SFC received 6,034, 4,491 and 6,384 complaints against intermediaries and market activities for the years ended 31 March 2019, 2020 and 2021 respectively.

² Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

³ Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission



Senior management are reminded that they bear primary responsibility for ensuring appropriate standards of conduct and adherence to proper policies and procedures. The SFC considers frequent complaints against an LC to be red flag for the firm's internal controls, conduct, operational capabilities and management supervision. We will take this into account when assessing the firm's risk and considering appropriate supervision and other responses. The SFC wishes to highlight the following to the senior management of LCs:

- The senior management of an LC should designate a Manager-In-Charge (**MIC**) to oversee complaint handling, and the MIC is expected to be able to demonstrate to the SFC that any complaint has been handled in a timely and appropriate manner upon enquiries from the SFC;
- LCs with a large retail client base should put in place dedicated resources to handle client complaints, such as forming a complaint committee to review and monitor the complaint handling process; and
- LCs' staff should escalate internally to senior management any serious and high-impact cases for prompt handling and investigation, and report to the SFC without delay suspected breaches of the Code of Conduct and other regulatory requirements.

Should you have any queries regarding the content of this circular, please contact your case officer.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

Enclosure

End

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