



28 July 2023

Joint circular to intermediaries

Streamlined approach for compliance with suitability obligations when dealing with sophisticated professional investors

1. The Hong Kong Monetary Authority (“HKMA”) and the Securities and Futures Commission (“SFC”) noted questions and feedback from intermediaries concerning compliance with suitability obligations¹ when they deal with sophisticated professional investors (“SPIs”) who possess higher levels of net worth and knowledge or experience, particularly in relation to the suitability assessment and product disclosure processes applied.
2. Suitability assessment is a risk-based process that involves intermediaries matching of investment products with the personal circumstances and risk tolerance of clients. The HKMA and the SFC updated the relevant frequently asked questions in December 2020² to clarify the expected standards on how the suitability assessment could be conducted and how product information could be explained and disclosed to clients of different degrees of financial sophistication. Following this premise, intermediaries could tailor point-of-sale procedures to the personal circumstances of SPIs. The HKMA and the SFC consider it useful to provide intermediaries with further guidance on applying a proportionate and risk-based streamlining approach (the “Streamlined Approach”) when dealing with SPIs. Intermediaries may refer to the detailed guidance set out in Annex 1 and the frequently asked questions in Annex 2 to facilitate their application of this Streamlined Approach.
3. An intermediary may rely on information about a client as obtained during onboarding or know-your-client reviews and ascertain if the client qualifies as an SPI. Where an intermediary is reasonably satisfied that the client exhibits the degree of sophistication and loss absorption ability of an SPI, it may apply the Streamlined Approach to allow the SPI to set aside an appropriate amount for investment in a portfolio of investment products with various risk return profiles (including but not limited to high-risk investment products). As a wider range of investment products and/or a proportion of high-risk investment products in the portfolio are more likely to be suitable for SPIs (except for conservative clients), the intermediary may simplify its point-of-sale procedures accordingly. In essence, under the Streamlined Approach, the intermediary is not required at a transaction level to match the SPI’s risk tolerance level, investment objectives and investment horizon, or to assess the SPI’s knowledge, experience and

¹ This refers to the requirements (as set out under paragraph 5.2 and 5.5(a) of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission) that a licensed or registered person should ensure any recommendation or solicitation for the client, or a transaction in complex product is suitable for the client in all the circumstances.

² On 23 December 2020, the HKMA issued the Frequently Asked Questions on Investor Protection Measures and the SFC issued the Circular to Intermediaries on Frequently Asked Questions on Compliance with Suitability Obligations and Requirements for Complex Products.

concentration risk. Explanation of product characteristics, nature and extent of risks could also be provided to the SPI upfront.

4. Intermediaries should bear primary responsibilities for ensuring the maintenance of appropriate standards of conduct and properly managing the risks associated with their business operations. These include having effective systems and controls in place to guard against misuse and detect red-flags (eg, outsize or material transactions) arising from applying the Streamlined Approach.
5. For any enquiries regarding the content of this circular, please contact Ms Eloise Pun at the Banking Conduct Department of the HKMA on 2878 1903, or Ms Nicole Cheung at the Intermediaries Supervision Department of the SFC on 2231 1492.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

Banking Conduct Department
Hong Kong Monetary Authority

Enclosure

End

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