

Responses to the Proposed Guidelines on Online Distribution and Advisory Platforms

General Comments

For our product offering 1) we urge the SFC to waive Code of Conduct 5.1 & 5.1A for KYC as well as the Suitability Requirement, as we do not invest nor receive any funds or AUM from investors and therefore we have zero AML risk since we only receive a monthly or annual fee.

For our product offering 2) the experience of the Robo advisor market in US tell us that most of the investors use Robo advisors for their 401k accounts equivalent to our MPF accounts in HK. If the intent of this gazette is to broaden the use of Robo advisors and lower the transaction cost for investors, we would urge SFC to consider allowing MPF account holders who provide a MPF account number to waive the requirements under Code of Conduct 5.1 and 5.1A on the basis the MPF already have the investor records and details, the fund contributions in the MPF have zero AML risk since these funds are salary and bonus related and reportable to IRD. Under 5.1 and 5.1A, face to face account opening and the existing provisions for offline account opening are too onerous for mass adoption of Robo advisors by HK investors.

We hope the SFC would consider this suggestion to broaden the appeal of Robo advisors among HK MPF investors by waiving 5.1 and 5.1A requirements and in its place, provision of an MPF account would be sufficient for KYC purposes. For your consideration please.

Q1 : Agree no further comments

Q2 : Agree, no further comments

Q3 : With regards to Core Principle 1 - Proper Design prohibiting the marketing or inclusion of any overseas listed ETF. This restriction disadvantages the Hong Kong investor in terms of accessibility and diversity of investing in overseas ETF. We urge the SFC to allow for all non-complex products as defined in para 105 to include overseas ETF as well.

Q4 : With reference to Para 68 under Information for clients requiring Platform providers to disclose how its algorithm works and the limitations of its algorithms. This requirement will require Platform providers to give away its "trade secrets" or IP to its competitors and therefore dissuade Platform providers in using Hong Kong as their Fintech headquarters. Kindly reconsider.

Q5 : Under Client Profiling, we hope the SFC would take a lighter approach to the number and type of questions required in an online platform given that clients are in a semi reverse enquiry mode under an online channel and imposing the same number and types of investor profiling questions alike the offline sales

channel would put off many investors who would need only to answer only 3 to 4 key questions for Robo advisors operating in other jurisdictions.

Q6 : On para 94, rather than require all Robo advisors to meet Suitability Requirement, we suggest the SFC makes a distinction where recommendations are restricted to non-complex products including listed non leveraged ETFs and single listed stocks versus complex products such Convertible Bonds, Structured Products, etc. Where the product recommendation is restricted to non complex products, we request the SFC allow for a SIMPLIFIED Suitability Requirement.

Q7 : I believe the intent of SFC's CEO is to encourage the introduction of Robo advisors to the HK market to allow investors greater choices and lower transaction cost. The way Suitability Requirement is triggered for all products rather than restricted to complex products would impede the introduction of Robo Advisors to the HK market. At a worst, Suitability requirement can be simplified (ideally to no more than 3 questions) for Robo Advisors if their portfolio recommendations include only non complex products as defined per para 105.. Robo advisors charges a fixed fee based on AUM, therefore as long as there is an arms length relationship between the brokerage they use to execute the trades at fair market price with appropriate disclosure, there is little fear of churning by the Robo Advisors selling high rebate or commission structured products or funds which the SFC and ISOCO classify as Complex Products.

Q8 : With reference to your example 5 where Suitability Requirement is NOT triggered, we hope the SFC can broadened this example to include listed single stocks and not just self directed funds alone. This will support our efforts to introduce our product offering 1) Robo Stock Research service to HK investors for a monthly or annual fee for the benefit of more investors.

Q9 : We intend to provide a Stock Robo research service which provides equity research for a monthly or annual fee. Under our model, we have no brokerage commission or rebates and hence clients are already protected as there are no incentive for us to churn the client or direct them to buy complex products. I would therefore suggest in example 5 where Suitability Requirement is NOT triggered, the SFC broadened it to include listed single stocks not just self directed funds alone.

Q10 : We suggest risk assessment under Suitability Requirement to be limited to asking 3 key questions like many other jurisdictions :

- 1) how much are you prepared to lose (without losing sleep)
- 2.) how long is your investment horizon
- 3.) what is your investment objective. Self directed investors have access to robo advisors across many jurisdictions, asking too many questions will put off most investors when it gets too tedious. The fact it is self directed implies the client is in an reverse enquiry situation and hence the rules should be relaxed somewhat when it comes to suitability requirements especially if the recommended products are restricted to non complex products.

Q11 : No comments

Q12 : The non-complex list should be expanded to include non leveraged ETFs and REITs listed in ISOCO recognised exchanges. Most of these products are vanilla products which then gives investors a greater choice.

Q13 : No comments.

Q14 : Agree with the suggestion.

Q15 : As online are mainly self directed investors, the regulation should be less onerous than for offline channels especially where complex products are pushed to the investor.

Q16 : No comments.

Q17 : As long as the Platform Operator meets the Suitability Requirement, there is no necessity to restrict accumulators per se on the platform. Accumulators as a product is not the reason why investors suffered losses, rather it was the collapse of the stock market that created losses for all investors alike, of course leveraged accumulators investors suffered more losses by their leverage amount by the same logic, margin investors suffered losses in accordance to their leverage amount as well. By this reasoning, should we restrict margin trading as well? I assume not.

Q18 : It is sufficient.

Q19 : No comments.

Q20 : I agree with a 12 month transition period.