



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Circulars

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## The Securities and Futures Commission's Report (the Report) on Selling Practices of Licensed Investment Advisers

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1 March 2005

The Chief Executive  
All Registered Institutions

(Including those institutions deemed to be registered under the transitional arrangements of the Securities and Futures Ordinance)

Dear Sir / Madam,

### The Securities and Futures Commission's Report (the Report) on Selling Practices of Licensed Investment Advisers

I am writing to draw your attention to the Report<sup>1</sup> recently issued by the Securities and Futures Commission (SFC).

The Report sets out the regulatory concerns on the selling practices of certain licensed investment advisers, which are under the SFC's direct supervision, and provides clarifications on some existing regulatory requirements. The Report also contains a checklist of recommended sales practices for licensed investment advisers.

Registered Institutions (RIs) should be aware that the regulatory requirements and recommendations detailed in the Report apply equally to the investment advisory activities of RIs. RIs should study the Report carefully and put in place systems and controls to ensure compliance with the recommendations set out in the Report. Some examples of the regulatory concerns identified in the Report include:

- a. Some investment advisers did not provide sufficient explanation or information to help their clients to make informed decisions. In some cases, the risks associated with the products were misrepresented, and clients were led to believe that they were investing in some low risk products. Also, there were cases where the investment advisers concerned did not have reasonable justification for making an investment recommendation to their customers.
- b. There were cases where unauthorized investment funds were offered to clients who did not appear to qualify as professional investors. In addition, some investment advisers

had failed to conduct adequate due diligence on those unauthorized investment funds before recommending them to their clients.

- c. Some investment advisers had not obtained sufficient information on their clients' financial situation, investment experience, investment objectives and risk tolerance level for the purpose of the customer suitability test.
- d. Some client agreements contained waivers and disclaimers of liability which might not fully comply with the Control of Exemption Clauses Ordinance.

The HKMA will monitor closely individual RIs' compliance with the relevant rules and requirements. Breaches of these rules and requirements may lead to disciplinary actions imposed by the HKMA and/or the SFC.

Yours faithfully,

William A. Ryback  
Deputy Chief Executive

<sup>1</sup> Please visit the SFC's website at "<http://www.sfc.hk>" for the Report.

c.c. SFC (Attn: Mrs Alexa Lam)

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