HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

20 January 2012

The Chief Executive
All Authorized Institutions

Dear Sir/ Madam,

Applicability of Enhanced Measures to Sales of Investment Products to Private Banking Customers

In view of the differences in the nature of the clientele and the mode of operations of private banking business in comparison with retail banking business, the Hong Kong Monetary Authority ("HKMA") and the private banking industry engaged in detail discussions and worked out a flexible version of the enhanced measures that were set out in the HKMA's circular of 25 March 2009. This version, set out in the **Annex**, applies to authorized institutions ("AIs") which operate as private banks or have dedicated private banking units (collectively "private banks") in their dealings with private banking customers.[1]

The HKMA expects compliance with these measures no later than four months from the date of this circular. However, private banks should, as always, ensure that they put in place adequate controls on the sale of investment products to customers.

[1] As set out in the HKMA's circulars of 20 May 2010 and 18 April 2011, an AI should classify an individual as a "private banking customer" only if (i) he/ she maintains a personalized relationship with the AI; (ii) receives personalized banking services or portfolio management services from the AI; and (iii) has assets under the AI's management ("AUM") of at least US$1 million. The HKMA expects private banks to observe the AUM threshold requirement on a reasonable basis, and will look at the real substance of the banking relationship to ensure that it is personalized management rather than retail wealth management being disguised as private banking. Following this spirit, private banks may, in exceptional scenarios, have clients with AUM that is below the US$1 million threshold due to market movements or other practical justifications (e.g. relatives or friends referred by existing prominent clients and have genuine private banking relationship with the institution).

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If you have any questions regarding this letter, please feel free to contact Ms Florence To at 2878-1582 or Ms Angela Wong at 2878-1604.

Yours faithfully,

Meena Datwani
Executive Director (Banking Conduct)

Encl.

c.c. Securities and Futures Commission
(Attn: Mr Stephen Po, Senior Director of Intermediaries Supervision)