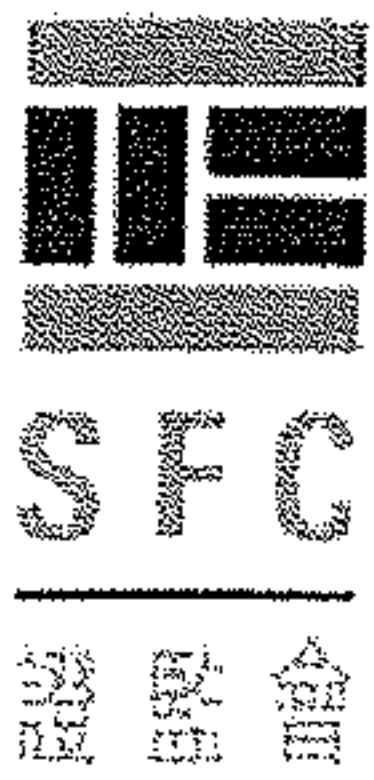




24 October 2012

Circular to All Licensed Corporations

SFC spots deficiencies in selling practices of licensed corporations

The Securities and Futures Commission (SFC) releases today the findings of its latest round of thematic inspection of selling practices of licensed corporations¹. A copy of the report is attached to this circular.

The SFC has inspected firms covering a wide cross-section of those involved in selling investment products. These firms have established procedures to enhance selling practices. The SFC nevertheless identified deficiencies and shortcomings in the following areas:

- management oversight, training and compliance monitoring;
- suitability assessment process;
- use of disclaimers and signing of declarations;
- compliance with the new Code of Conduct requirements²; and
- eligibility verification of "professional investors."

These are detailed in the report, which also outlines practices and controls adopted by some firms. Intermediaries are encouraged to use this report to strengthen their management supervision and compliance programmes.

Management should critically review their policies and procedures to address any issues that are relevant to their firms.

Should you have any queries regarding the contents of this circular, please contact Kammy Kwok at 2840 9455.

Intermediaries Supervision Department
Securities and Futures Commission

End

¹ The SFC has conducted routine and thematic inspections on selling practices, and from time to time, issued thematic inspection reports to provide guidance to intermediaries on how to comply with the selling practices requirements and to address emerging issues and market developments.

² New requirements concerning the sale of investment products under the Code of Conduct for Persons Licensed by or Registered with the SFC were introduced in phases and were fully implemented by September 2011. These requirements include, among others, disclosure of sales related information and benefits received for distributing an investment product, investor characterization based on knowledge of derivatives, etc.