



HONG KONG MONETARY AUTHORITY 香港金融管理局

Banking Conduct Department

銀行操守部

Our Ref: B1/15C
G16/1C

6 January 2015

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Selling of investment products

In the light of recent popularity of structured deposits and investment products distributed by Authorized Institutions (AIs), I am writing to reiterate some important regulatory standards which are generally applicable to the selling of investment products. AIs are reminded to exercise adequate management supervision and take positive steps to monitor their frontline staff to ensure that proper selling practices and controls are adopted. In our 2015 work plan, we will continue to put supervisory focus on AIs' compliance with required standards on the selling of investment products, as part of our ongoing work to protect bank customers, and particularly amidst the uncertain global monetary conditions.

Product due diligence

As part of the product due diligence process¹, AIs should conduct a detailed assessment of the product risks and features, and should be satisfied with the fairness of the products. For example, AIs should be satisfied that the risks of a product are generally commensurate with its return. AIs should also identify the target market and consider customers' interests, by giving due consideration to relevant factors such as the target market's profile (including investment objective, risk appetite, expected investment return and expected tenor, etc.) and whether the product's investment objectives and risk/return profile match the needs of the target market.

By way of example, given the risks and costs involved, Renminbi (RMB) structured deposits should not be regarded as necessarily suitable for all investors looking for higher return for their deposits. While structured deposits may offer higher potential return to investors compared with time deposits, investors may be exposed to the risk of exchange rate fluctuation such that the potential loss from the product could offset (or even exceed) the potential gain if RMB depreciates against the investor's home currency. Further, as mentioned in the HKMA circular of 16 September 2010, RMB products which are not denominated in RMB or with underlying investments which are not RMB-denominated will be subject to multiple currency conversion costs involved in making and liquidating the

¹ The Securities and Futures Commission (SFC) has issued guidance to product providers on internal product approval process in its circular of 30 April 2014.

investments. AIs should take all these relevant factors into account in the product due diligence process.

Selling process

AIs should ensure suitability of their recommendations and/or solicitation, and make adequate disclosure of product features and risks to customers in their selling process, so that customers understand the associated risks and costs before investing in the products. In particular, in the case of RMB investment products, AIs should clearly disclose and explain to the customer whether the RMB exchange rates and / or interest rates relevant to the product refer to the onshore ("CNY") or the offshore ("CNH") rates. AIs should also adequately disclose both the potential gain and the potential loss from the investment, for example, by illustrating through scenario analysis in the Important Facts Statement for structured deposits. It would not be adequate if the scenario analysis (such as charts and calculations) shows only the potential return without incorporating the potential loss (for example, the impact of exchange rate gain or loss).

Marketing materials

As set out in the HKMA circular of 30 July 2014, AIs should follow the SFC's requirements on marketing materials of investment products². Presentation of benefits and returns should come with, and not be more prominent than, the risks of the product. For example, the use of a different font size or text effect to make the potential returns or benefits of a product more prominent than the risk disclosure is not acceptable.

AIs should also take prompt actions to provide adequate training to their staff on relevant development and changes in policy, procedures and practices, and ensure that information in marketing and product documents is accurate and up-to-date for proper disclosure to customers. For example, following the HKMA circular of 12 November 2014 on RMB business, the relevant restrictions, including the RMB20,000 per person per day conversion limit and RMB lending to personal customers and Designated Business Customers, are no longer applicable, and the relevant marketing materials and product documents should be updated accordingly.

If you have any questions, please feel free to contact Ms Karin Lee at 2878-1604 or Ms Florence To at 2878-1582.

Yours faithfully,

Carmen Chu
Executive Director (Banking Conduct)

c.c. SFC (Attn: Mr James Shipton, Executive Director (Intermediaries))

² For instance, "Advertising Guidelines Applicable to Unlisted Structured Investment Products" under the "SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products".