



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

18 October 2018

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Investment horizon and suitability assessment

In response to feedback and enquiries from some authorized institutions (AIs) on how to take into account a customer's investment horizon in suitability assessment, I am writing to provide clarification and guidance to facilitate AIs' implementation of the relevant regulatory requirements.

As a general principle, when conducting suitability assessment, AIs should take into account all the relevant circumstances of a customer, including the customer's investment horizon, investment objectives, investment knowledge and experience, risk tolerance, and financial situation.

AIs should adopt a holistic approach taking into account the risks and features of a product, and match the product with all the personal circumstances of the customer. Regulators do not expect rigid and mechanical matching of a customer's investment horizon with a product's tenor during the suitability assessment. AIs are also not expected to match a customer's investment horizon with a product's tenor on a per transaction basis when adopting "portfolio-based" approach for suitability assessment.

In particular, when an AI considers a customer's investment horizon and liquidity needs as part of its suitability assessment, it should take into account not only the product tenor, but also other relevant factors (e.g. product liquidity, termination conditions and transaction costs). For example, some high-quality sovereign or government bonds, though with long tenor or perpetual feature, may have sufficient liquidity which allows the customer to exit the position before maturity with ease.

When a private bank (PB) adopts a “portfolio-based” approach for suitability assessment, the PB may consider the overall liquidity of a customer’s portfolio, taking into account the composition and liquidity of the products in the customer’s portfolio as well as other relevant factors as mentioned above. A PB may adopt any methodology as appropriate for the circumstances of a customer. By way of example, for a customer whose liquidity need is that he/she may need to liquidate a certain portion of his/her investment portfolio within, say, one year, one possible approach could be ensuring that such portion of the portfolio is invested in assets with short tenor or liquid assets which can be readily monetised within one year without incurring significant loss.

In respect of illiquid financial products, an AI should consider whether such products could be included in a customer’s investment portfolio, and if so the extent that such products could be included, after taking into account the customer’s investment horizon and financial situation such as liquidity needs.

If you have any questions on this circular, please contact Ms Katy Chan on 2878-8602 or Ms Florence To on 2878-1582.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

c.c. SFC (Attn: Ms Julia Leung, Deputy Chief Executive Officer and Executive Director (Intermediaries))

“The last sentence of the third paragraph, and the fifth paragraph of the circular have been superseded by the HKMA’s circular dated 23 February 2024 on “Portfolio-based Approach to Suitability Assessment”.”
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