HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

22 November 2019

The Chief Executive
All Registered Institutions

Dear Sir / Madam,

Feedback from Recent Reviews on Selling of Investment Funds

I am writing to draw your attention to some key observations and good practices that have been identified in the course of our supervisory work in relation to selling of investment funds by Registered Institutions ("RIs").

Further to the circular issued by the Hong Kong Monetary Authority ("HKMA") dated 8 April 2016 on "Feedback from recent reviews of the selling of investment products" and another circular dated 21 December 2018 on "Misconduct Risks in Selling of Investment Funds", the HKMA has conducted some thematic reviews of relevant controls and practices of RIs in respect of selling of investment funds. Some control deficiencies, malpractices and good practices have been noted from the reviews. This circular provides further guidance (**Annex**) to facilitate RIs to prevent, detect and mitigate misconduct risks in the selling of investment funds.

Selling practices, monitoring and review

Soliciting/recommending customers into frequent switching of investment funds can hardly be justified, especially those making little or no economic sense to the customers. RIs should keep their policies and control under review, take any necessary action to ensure the misconduct risks are managed properly, and guard against any potential investment fund churning activities.

The HKMA will continue to monitor RIs' selling practices in its on-going supervision. For the control weaknesses mentioned in the Annex, the RIs concerned have been required to undertake remedial actions. Cases of potential breaches of regulatory requirements are subject to further inquiry and follow-up.

Incentive system and feedback mechanism

Deficiencies in the incentive system and the feedback mechanism may have contributed to some of the malpractices and control issues. RIs are reminded that they should properly design their incentive systems such that proper risk culture and business conduct of staff are encouraged and incentivised, and that improper risk taking and misconduct are deterred. The Annex has included some guidance in respect of incentive system and feedback mechanism, which are generally applicable to all investment products.

Should you have any questions on this circular, please contact Ms Phielle Lau at 2878-1750 or Mr Andrew Ng at 2878-8813.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

Encl.

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