18 June 2010

Circular to All Licensed Corporations

Mystery Shopping Programme

The Commission and the Hong Kong Monetary Authority (together the "Regulators") will jointly introduce a mystery shopping programme ("MSP") to assist them in understanding the selling practices of intermediaries[1]. The MSP will be used to complement the Regulators' respective policies and regulatory work. It will assess the extent to which the regulatory requirements in relation to the practices of intermediaries in selling unlisted securities and futures products ("Investment Products") to Hong Kong investors are being implemented.

The Regulators have jointly engaged a service provider to undertake the mystery shopping exercise (the "Exercise"). The Exercise will focus on the selling practices in respect of Investment Products. Thus licensed corporations (including securities brokers and investment advisers) and registered institutions which engage in selling Investment Products will be the subject of the Exercise.

The service provider will recruit and provide training to mystery shoppers who will then pose as potential buyers of Investment Products offered by these intermediaries. These "shoppers" will have different attributes, e.g., age, educational background, investment experience, etc. The Regulators will use the feedback obtained from the Exercise to assess the extent of intermediaries' compliance with the relevant regulations and requirements, in particular those relating to the "know your client" procedures, risk disclosure and suitability of investment recommendation. To facilitate objective review and assessment of the results of the Exercise, the service provider will ask the mystery shoppers to audio-record their interviews with staff members of intermediaries. The service provider is required to implement appropriate controls and measures to properly handle the data collected.

Subject to the completion of all the preparatory work, the Exercise is expected to commence in the third quarter of 2010. Depending on the findings, certain cases may necessitate follow-up action with the intermediaries concerned. Any industry-wide themes which emerge from this Exercise may be shared with the industry. Intermediaries are asked to communicate to their relevant staff the contents of this circular.

Should you have any queries regarding the contents of this circular, please contact Ms Denise Chan at 2283 6188.

Intermediaries Supervision Department
Securities and Futures Commission

End

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[1] "Intermediaries" means licensed corporations and registered institutions (as defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance).

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