

Banking & Capital Markets

Observations from Review of Selling Processes of Investment Products

Background

The HKMA had conducted a review on the selling processes of investment products of selected registered institutions ("RIs") covering retail banks and private banks.

On 27 February 2023, the HKMA released a circular summarising the observations from the review and clarifications of relevant standards as follows:

Key points from review of selling processes of investment products

Risk disclosure for subsequent transactions of comparable products

- When dealing with retail banking customers, RIs may streamline the risk disclosure for subsequent transactions of investment products comparable to the initial transaction for which risk disclosure has been conducted and records are maintained. As for private banking customers, RIs may streamline product disclosure in consideration of the customer's financial sophistication as long as it has ascertained customer understands the products and records are maintained, regardless of whether this is a first or subsequent transactions.

Assessment of customer's investment horizon

- RIs shall take into account relevant factors and circumstances in assessing the product liquidity during the product due diligence process, for example, an investment product with long or no tenor may have sufficient liquidity to allow customers to exit the position under a short investment horizon, which shall be factored in during the suitability assessment.

Assessment of customer's concentration risk

- RIs should put in place the reasonable methodology and thresholds for assessing customers' concentration risk, which should take into account the risk level of the products and the customers' circumstances.

Handling of execution-only transactions

- RIs should evaluate the communications between their licensed or registered persons and clients whether such would amount to solicitations or recommendations of products, triggering suitability obligations. RIs are reminded that the suitability requirements are triggered when a recommendation or solicitation is made, or in a transaction in a complex product.

Key points from review of selling processes of investment products (Continued)

Audio-recording for retail banking customers

- RIs are reminded to note the audio-recording requirements for the face-to-face sales process of retail banking customers.

For details of the abovementioned findings, please refer to the following.

- *Observations from Review of Selling Processes of Investment Products* – [Link to the Circular](#)
- *Key Observations from Review of Selling Processes of Investment Products* – [Link to the Annex](#)

We would welcome the opportunity to discuss the content of the above regulatory standards that might be applicable to your business.

Please reach out to us if you have any questions or queries.

Contact us



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The materials contained in this document were assembled in March 2023 and were based on the law enforceable and information available at that time.