

Our Ref.: B1/15C

26 February 2009

The Chief Executive  
All Registered Institutions

Dear Sir/Madam,

**Circular Issued by the Securities and Futures Commission (SFC)  
Regarding Self-Examination of Controls and Procedures on Suitability  
Obligations**

I am writing to draw your attention to a circular issued by the SFC on 23 February 2009 ("the SFC Circular"). The SFC Circular requires intermediaries who make investment recommendations or solicitations to clients to conduct a formal self-examination of their controls and procedures to ensure compliance with applicable suitability obligations under the Code of Conduct for Persons Licensed by or Registered with the SFC. A copy of the SFC Circular is attached as **Annex 1**.

If your institution makes investment recommendations or solicitations to clients, you are required to conduct a formal self-examination of such controls and procedures and to ensure that such examination is properly documented and reviewed by senior management. The self-examination should also take into account the Questions and Answers on suitability obligations issued by the SFC in May 2007.

For the avoidance of duplication, RIs which participate in our Self-Assessment on Compliance with the HKMA Supervisory Policy Manual Module SB-1 and Other Requirements over Regulated Activities ("CSA") process in 2009 are not required to separately conduct such formal self-examination. For RIs which do not participate in the HKMA's CSA process in 2009, they are required to conduct this formal self-examination and the HKMA will be looking for documentary evidence in the course of our regular on-site examinations that a formal self-examination has been carried out in accordance with the requirements in the SFC Circular. Please refer to **Annex 2** for a list of RIs that the HKMA intends to invite participation in the 2009 CSA process. The participating RIs will receive a separate letter from the HKMA for the 2009 CSA in due course.

Should you have any questions on this letter, please contact Ms Gillian Hui at 2878-1303.

Yours faithfully,

Nelson Man  
Executive Director  
(Banking Supervision)

Encl. Annex 1 - SFC circular (PDF file, 69KB)  
Annex 2 - list of RIs that the HKMA intends to invite participation in the 2009 CSA process (PDF file, 60KB)

c.c. SFC (Attn: Mr Chung Hing Hing, Director, Intermediaries Supervision Department)

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SECURITIES AND FUTURES COMMISSION  
證券及期貨事務監察委員會

## Circular

23 February 2009

### Circular Regarding Self Examination of Controls and Procedures on Suitability Obligations

This circular is to remind intermediaries who make investment recommendations or solicitations to clients about the suitability obligations in the Code of Conduct for Persons Licensed by or Registered with the SFC ("the Code").

The Code sets out the principles, including the suitability obligations, which intermediaries should comply with when conducting their regulated business. The Questions and Answers on suitability obligations issued in May 2007 ("FAQs") clarify these existing obligations under the Code. As the suitability obligations in the Code are long-standing and the FAQs were issued nearly 2 years ago, intermediaries should have long-established appropriate controls and procedures to ensure compliance with all applicable requirements.

It is now appropriate for intermediaries to **conduct a formal self examination** of such controls and procedures. The examination should be properly documented and reviewed by senior management to ensure established controls and procedures are operating effectively. In the course of our regular inspections, we will be looking for documentary evidence that such formal self examination has been carried out.

As the FAQs explained, under the Code suitability obligations, intermediaries in making investment recommendations or solicitations to clients are required to:

- Know their clients;
- Understand the investment products they recommend to clients (product due diligence). Product due diligence is to be conducted on a continuous basis at appropriate intervals having regard to the nature, features and risks of investment products offered;
- Provide reasonably suitable recommendations by matching the risk return profile of each investment product with the personal circumstances of each client to whom it is recommended;
- Provide all relevant information to clients and help them make informed investment decisions;
- Document and retain the rationale underlying each investment recommendation made to the client and provide a copy to each client; and
- Employ competent staff and provide appropriate training (to ensure products are sold by staff who have sufficient understanding of the products).

Should you have any queries regarding the contents of this circular, please contact Mr Chung Hing Hing on 2842-7751.

Intermediaries Supervision Department  
Securities and Futures Commission

End

SFO/IS/004/2009

**List of Registered Institutions that the HKMA intends to invite participation in the 2009 Self-Assessment on Compliance with the HKMA Supervisory Policy Manual Module SB-1 and Other Requirements over Regulated Activities**

- 1 ABN AMRO BANK N.V.
- 2 AIG PRIVATE BANK LTD
- 3 BANC OF AMERICA SECURITIES ASIA LIMITED
- 4 BANK OF AMERICA, NATIONAL ASSOCIATION
- 5 BANK OF CHINA (HONG KONG) LIMITED
- 6 BANK OF COMMUNICATIONS CO., LTD.
- 7 BANK OF EAST ASIA, LIMITED (THE)
- 8 BANK SINOPAC
- 9 BARCLAYS BANK PLC
- 10 BNP PARIBAS
- 11 BNP PARIBAS WEALTH MANAGEMENT
- 12 CALYON
- 13 CANADIAN IMPERIAL BANK OF COMMERCE
- 14 CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
- 15 CHIYU BANKING CORPORATION LIMITED
- 16 CHONG HING BANK LIMITED
- 17 CITIBANK (HONG KONG) LIMITED
- 18 CITIBANK, N.A.
- 19 CITIC KA WAH BANK LIMITED
- 20 CITICORP INTERNATIONAL LIMITED
- 21 COOPERATIEVE CENTRALE RAIFFEISEN - BOERENLEENBANK B.A.
- 22 CREDIT AGRICOLE (SUISSE) SA
- 23 CREDIT SUISSE
- 24 DAH SING BANK, LIMITED
- 25 DBS BANK (HONG KONG) LIMITED
- 26 DBS BANK LTD.
- 27 DEUTSCHE BANK AKTIENGESELLSCHAFT
- 28 EFG BANK
- 29 FORTIS BANK
- 30 FUBON BANK (HONG KONG) LIMITED
- 31 HANG SENG BANK, LIMITED
- 32 HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (THE)
- 33 HSBC BANK INTERNATIONAL LIMITED
- 34 HSBC PRIVATE BANK (SUISSE) SA
- 35 INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED
- 36 ING BANK N.V.
- 37 J. P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED
- 38 JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
- 39 MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
- 40 MEVAS BANK LIMITED
- 41 MITSUBISHI UFJ SECURITIES (HK) CAPITAL, LIMITED
- 42 NANYANG COMMERCIAL BANK, LIMITED
- 43 NEWEDGE GROUP
- 44 PUBLIC BANK (HONG KONG) LIMITED
- 45 RBS COUTTS BANK AG
- 46 ROYAL BANK OF CANADA
- 47 SHANGHAI COMMERCIAL BANK LIMITED
- 48 SOCIETE GENERALE
- 49 SOCIETE GENERALE ASIA LIMITED
- 50 SOCIETE GENERALE BANK & TRUST
- 51 STANDARD CHARTERED BANK (HONG KONG) LIMITED
- 52 UBS AG
- 53 UNITED OVERSEAS BANK LTD.
- 54 WING HANG BANK, LIMITED
- 55 WING LUNG BANK LIMITED
- 56 WOORI GLOBAL MARKETS ASIA LIMITED