

**Subcommittee on Securities and Futures (Professional Investor)
(Amendment) Rules 2018**

**List of follow-up actions arising from the discussion
at the meeting on 12 June 2018**

1. Under the Securities and Futures (Professional Investor) (Amendment) Rules 2018 ("PI Amendment Rules"), a corporation would qualify as a professional investor ("PI") if it wholly owns another corporation which has met the monetary threshold of \$40 million to qualify as a PI. Some members of the Subcommittee have expressed concern about how the shareholders of a corporation (in particular small and medium sized corporations) would be informed of the consequences and impacts on them when the corporation is qualified as a PI, and how an intermediary could be aware of the shareholders' views. The Administration and the Securities and Futures Commission ("SFC") are required to consider some members' suggestions to (a) impose requirements on a corporation to obtain shareholders' agreement for it to become a PI (e.g. through passing a resolution at a general meeting); and (b) incorporate requirements in the PI Amendment Rules or the Code of Conduct for intermediaries to obtain documents from the corporation concerned confirming shareholders' agreement for the corporation to be become a PI.

2. Under the Securities and Futures (Professional Investor) Rules ("PI Rules"), properties are not included in the portfolio in ascertaining whether an individual meets the monetary threshold of \$8 million for qualifying as a PI but would be counted for ascertaining whether a corporation meets the monetary threshold of \$40 million for qualifying as a PI. The Administration and SFC are requested to explain:

- (a) how the value of a property would be assessed in determining the monetary threshold for a corporate PI;
- (b) the rationale for including different classes of assets in calculating the monetary thresholds of individual and corporate PIs; and
- (c) its considerations in aligning the classes of assets in the calculation of the monetary thresholds for individual and corporate PIs.

3. Some members of the Subcommittee have reservations over adopting the monetary thresholds under the PI Rules for prescribing PIs. The Administration and SFC are requested to respond to members'

views/suggestion that individual investors with in-depth knowledge and rich investment experience should qualify as PIs even they could not meet the monetary threshold of \$8 million, and investors who have received relevant training provided by SFC or intermediaries and passed the relevant examinations could qualify as PIs.

4. With the escalating property prices in recent years, some members of the Subcommittee are concerned that the existing monetary thresholds of \$8 million (for individual PIs) and \$40 million (for corporate PIs) under the PI Rules could not provide sufficient protection for investors. These members consider that it is high time for SFC to review the monetary thresholds and adjust the level upward. The Administration and SFC are requested to respond to members' views above and advise the timetable for the review.

5. The Administration and SFC are requested to respond to a member's views that in order to enhance protection for investors, SFC should strengthen its work in approving investment products including grading investment products according to their risk levels and commenting on the suitability of the products for various investors.

6. The Administration and SFC are requested to consider some members' views that the PI Rules should clearly specify that intermediaries could refer to a certificate issued by a lawyer or a statement issued by a bank in ascertaining the portfolio or total assets of a PI (i.e. the proposed section 8(b) of the PI Amendment Rules).