

27 March 2020

## Circular to Intermediaries

### Reminder of important obligations to ensure suitability and timely dissemination of information to clients

This circular reminds licensed and registered persons of their obligations under the Code of Conduct<sup>1</sup> when distributing investment products, such as funds and bonds, to their clients. In particular, these include (i) the suitability obligations when they make a solicitation or recommendation and (ii) the obligation to disseminate information in a timely manner where they hold an investment product directly or indirectly on behalf of their clients.

Given the potential impact of the COVID-19 outbreak on market volatility and liquidity as well as credit quality, licensed and registered persons are reminded to act in the best interests of their clients<sup>2</sup> and exercise extra care when making a solicitation or recommendation or managing investment portfolios for their clients.

To fulfil their suitability obligations under the Code of Conduct<sup>3</sup>, licensed and registered persons are reminded to, amongst other things:

- ensure that due diligence is conducted on investment products on the current approved product lists on a continuous basis at appropriate intervals having regard to the natures, features and risks of the investment products, including any deterioration in credit quality or liquidity, market and industry risks related to the COVID-19 outbreak and other factors which may have an impact on the risk return profiles and growth prospects of the investments;
- give due consideration to all relevant circumstances specific to a client when assessing the suitability of an investment product for the client, including the client's current financial situation, investment objectives, risk tolerance, investment horizon and liquidity needs, as well as the risk profile and concentration risk of the existing investment portfolio;
- explain to the client the risks and features of the investment product, including its credit quality, liquidity, termination conditions and transaction costs; and
- when recommending an investment product to a client, present balanced views at all times, do not focus solely on advantageous terms such as high coupon rates or yields and explain the disadvantages and downside risks, such as credit deterioration and illiquidity.

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<sup>1</sup> Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (SFC).

<sup>2</sup> General Principle 2 of the Code of Conduct.

<sup>3</sup> The suitability obligations are set out in paragraph 5.2 of the Code of Conduct and supplemented by FAQs on Triggering of Suitability Obligations and FAQs on Compliance with Suitability Obligations issued in December 2016.



Further, where licensed or registered persons hold investment products directly or indirectly on behalf of their clients, they are also reminded to disseminate to their clients notices and other communications prepared or issued by the investment products' issuers, product arrangers or management companies on a timely basis upon receipt<sup>4</sup>. These notices or communications may include material information or updates crucial for investment decisions, eg, untoward circumstances relating to a fund which may include use of liquidity risk management tools by a fund manager<sup>5</sup>.

The SFC will continue to assess compliance with the regulatory requirements during its on-going monitoring of licensed corporations.

Should you have any queries regarding the contents of this circular, please contact your case officer.

Intermediaries Supervision Department  
Intermediaries Division  
Securities and Futures Commission

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<sup>4</sup> Please refer to the Circular on Obligations Relating to Selling / Distribution of Investment Products dated 28 May 2010.

<sup>5</sup> For example, a fund manager's intention to increase or apply any swing factor (or anti-dilution levy) exceeding the one that is disclosed in the fund's offering documents, decision to defer redemption, suspend creation and redemption in the primary market or secondary market trading, and the potential impact on the fund. Please refer to the Circular to management companies and trustees and custodians of SFC-authorized funds dated 27 March 2020.