



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

## **Consultation Conclusions on Proposals to Enhance Protection for the Investing Public**

May 2010



## Section 1 Introduction

### Background

1. In September 2009, the Securities and Futures Commission (SFC or Commission) launched a three-month consultation on a package of proposals to strengthen the regulatory regime with respect to investment products and conduct of intermediaries.
2. The proposals were directed at updating the regulatory framework in view of market developments, enhancing protection for the investing public and addressing issues highlighted in the report submitted by the SFC to the Financial Secretary<sup>1</sup> in December 2008.
3. The proposals covered investment products and conduct of intermediaries, and spanned the three key stages of the life of an investment: the pre-sale, sale and post-sale periods.
4. The proposed measures included the introduction of a consolidated SFC Handbook comprising revised product codes for unit trusts and mutual funds and for investment-linked assurance schemes and a new product code for unlisted structured investment products, a requirement for product key facts statements that summarise the key features and risks of investment products, a post-sale “cooling-off” or “unwind” period for certain unlisted structured investment products, and new requirements to enhance regulation of intermediaries conduct and selling practices relating to the sale of investment products.
5. The public were invited to comment on the proposals. In finalising our proposals, we held discussions with a diverse group of industry participants including banks, brokers, fund managers, investment advisers, insurance companies, professional firms and industry groups, as well as consumer groups and academics.
6. We also organised a forum to exchange views with some 240 industry participants on two key proposals, and invited experts from major overseas regulators to share their insights on the implementation of similar measures in their respective jurisdictions.

### Submissions and conclusions

7. At the end of the consultation period, we had received over 100 submissions from a diverse group of stakeholders. Many of the responses were very detailed, and we thank the respondents for their feedback. A list of respondents is set out in Appendix E.
8. Respondents were generally supportive of the objectives underpinning our proposals. On certain specific measures, differing views were received. We have carefully analysed and considered the comments and adopted a balanced approach in arriving at the conclusions.

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<sup>1</sup> Issues raised by the Lehmans Minibonds crisis, Report to the Financial Secretary, December 2008



9. As noted in the consultation paper, we had in mind, first and foremost, the need to enhance investor protection. At the same time, we are aware of the potential compliance costs of some of the proposed measures to the market. We believe that the regulatory framework should afford investors an appropriate level of protection whilst providing scope for the market to develop. We have therefore decided to implement the majority of the proposals outlined in the consultation paper, with modifications made in light of comments, suggestions and feedback received during the consultation process.
10. We believe the measures are proportionate, reasonable and in line with our regulatory objectives. They will enhance protection for the investing public as well as strengthen Hong Kong's position as an international financial centre.

### **How to read this conclusions paper**

11. For readers' convenience, we have grouped the measures in the conclusions in separate sections as set out below:
  - Section 1 - Introduction
  - Section 2 - Products
  - Section 3 - Conduct of Intermediaries
12. Section 2 sets out the consultation conclusions in relation to the proposed SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.
13. Section 3 sets out the consultation conclusions in relation to the regulation of intermediaries conduct and selling practices relating to the sale of investment products.
14. A post-sale "cooling-off" period was discussed separately in Part IV of the consultation paper. This will be incorporated as a code requirement imposed on issuers of unlisted structured investment products, as detailed in Section 2 of this conclusions paper. The obligations imposed on relevant intermediaries in the event that investors exercise this right are set out in Section 3.
15. We have also provided an analysis of the comments received on each individual proposal and set out the rationale for our conclusions.

### **The way forward**

16. Some of the measures will take effect immediately after publication of the revised codes in the Government Gazette. We are mindful of the adjustments required of industry participants to comply with some of the new requirements, and therefore have provided transitional arrangements in some areas. Further details about the effective dates are set out in Sections 2 and 3.
17. We will work closely with the industry and may issue additional guidance on transitioning to the revised regime where necessary. We plan to organise seminars or workshops on the new requirements. We will also launch a series of focused investor



education programmes aimed at informing the investing public of the details of these new measures.