



## **Client Alert – SFC Releases Guidance on Ensuring Suitability and Timely Dissemination of Information to Clients (March 2020)**

On 27 March 2020, the SFC released a circular to remind licensed and registered persons of their obligation to ensure suitability and timely dissemination of information to clients when distributing investment products, such as funds or bonds, to their clients.

With the potential impact of the COVID-19 outbreak on market volatility and liquidity as well as credit quality, licensed or registered persons must remember to act in the best interest of their clients and exercise extra care when making a solicitation or recommendation or managing investment portfolios.

### **Suitability Obligations When Making Solicitations or Recommendations**

Licensed or registered persons must continue to fulfil their suitability obligations under the Code of Conduct, and are reminded to, amongst other things:

- ensure due diligence is conducted on investment products on the current approved product lists on a continuous basis at appropriate intervals with regards to the nature, features and risks of the investment products, including paying particular attention to 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 the risks and features of the investment product to a client, including credit quality, liquidity, termination conditions and transaction costs; and
- when recommending an investment product to a client, balanced views must be presented at all times, the focus should not lie solely on advantageous terms such as high coupon rates or yields, explanations of the disadvantages and downside risks, such as credit deterioration and illiquidity should be provided.

The SFC made it clear that they will continue to ensure that these responsibilities are carried out and will do this through its ongoing monitoring of Licensed Corporations.

### **Dissemination of Information on Held Investment Products in a Timely Manner**

Licensed corporations that hold investment products directly or indirectly on behalf of their clients, are reminded to disseminate notices to clients and other communications prepared or issued by the investment products' issuers, product arrangers or management companies on a timely basis upon receipt. These notices or communications may include material information or updates crucial for investment decisions, such as untoward circumstances relating to a fund which may include use of liquidity risk management tools by a fund manager.



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