



Online distribution and advisory platforms

A new focus for sales suitability and IT regulations

January 2019

Why is sales suitability relevant to online investment selling?

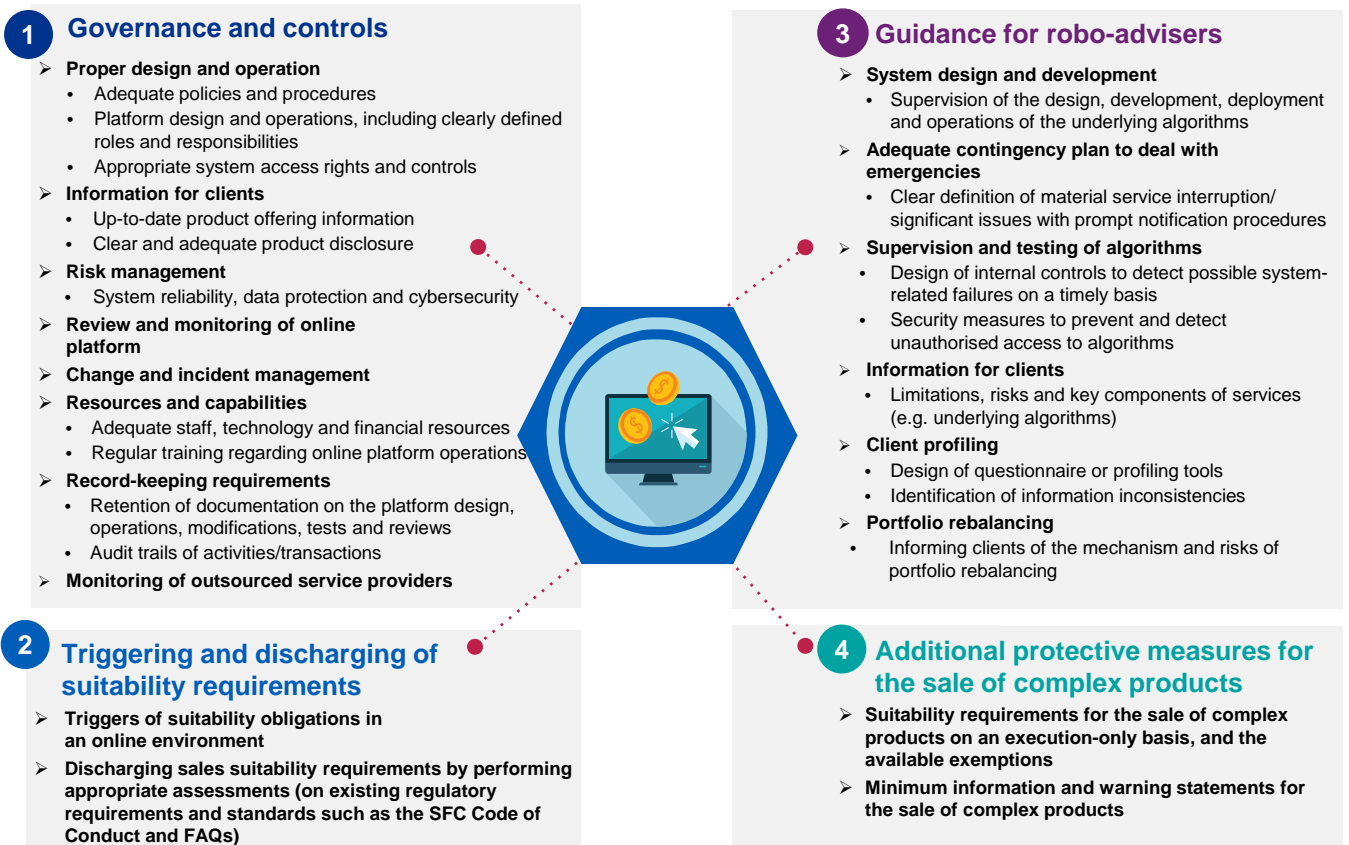
In recent years, regulators have announced a number of initiatives to prepare SFC-licensed corporations and banks performing regulated activities in Hong Kong for investment selling through online platforms, and to encourage them to embrace opportunities brought about by technology, in particular, online wealth management.

With the potential rise of online investment selling and the need to revisit regulations in this area, regulators have been issuing circulars and guidelines on the relevance of the **sales suitability regime** and **IT regulations** in the context of online selling. On **28 March 2018**, the SFC issued the *Consultation Conclusions on the Proposed Guidelines on Online Distribution and Advisory Platforms and Further Consultation on Offline Requirements Applicable to Complex Products* (“**the Guidelines**”), which will become **effective on 6 April 2019**. The Guidelines aim to provide tailored guidance to the industry on the **design and operation of online platforms**, and to clarify how the **suitability requirements** would operate in an online environment.

Who will be impacted by the Guidelines?

The Guidelines are applicable to all SFC-licensed corporations which conduct regulated activities via online platforms. It will apply to all online channels used for presenting information and transacting on investment products which are targeted at Hong Kong investors. In addition, the SFC has clarified that the scope of robo-advice under the Guidelines only applies to the provision of investment advice using client-facing technology tools.

Guidelines on online distribution and advisory platforms: Four key areas



How do the new Guidelines affect your current offline investment selling practices?

In addition to the regulatory requirements in the Guidelines which online platform market participants must implement before **6 April 2019**, financial institutions offering non-SFO-regulated structured investment products (e.g. structured deposits, FX accumulators/decumulators, currency-linked notes) in an offline environment (e.g. face-to-face sales, phone calls) should pay attention to the HKMA circular **Requirements Applicable to Online and Offline Distribution of Non-SFO-Regulated Structured Investment Products**. The circular, issued on **30 October 2018** and effective on **23 August 2019**, lays out the expectations of following the same requirements applicable to online platforms. This includes the determination of applicability of suitability obligations to the sale of standardised and non-standardised non-SFO-regulated products, requirements to provide sufficient information and warning statements, and exemptions for institutional and corporate professional investors.

KPMG capabilities and approaches

We have been helping our clients navigate the challenges of these new guidelines in the following areas:

Sales suitability components

- Assessing the sales suitability processes in an online environment:
 - Presentation of product information on the online platform
 - Online filtering of products available to customers
 - Handling and definition of online triggers of suitability obligations
 - Channels of risk disclosures and provisions of product information to customers
 - Online mapping of customer risk profiles with suitable products
- Transition plans for migration from the current offline suitability framework to a framework meeting the latest online selling requirements

Information technology components

- Performing reviews to ensure compliance with the Guidelines from an IT controls perspective:
 - Effectiveness and adequacy of system governance of the online platform
 - IT capacities in sustaining the platform and the sufficiency of available resources
 - Change and incident management in relation to the platform, and business contingency plan
 - System design and development, including algorithms used in the provision of digital advice
 - Supervision and testing of algorithms
 - Controls over unauthorised and improper system activities
- Review of compliance with other relevant regulatory requirements (e.g. *Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading*)

Contact us



Paul McSheaffrey
Partner, Head of Banking & Capital Markets
KPMG China
+852 2978 8236
paul.mcsheaffrey@kpmg.com



Tom Jenkins
Partner, Head of Financial Risk Management
KPMG China
+852 2143 8570
tom.jenkins@kpmg.com



Jeffrey Hau
Partner,
Risk Consulting
KPMG China
+852 2685 7780
jeffrey.hau@kpmg.com



Henry Shek
Partner,
IT Advisory
KPMG China
+852 2143 8799
henry.shek@kpmg.com



CeCe Choi
Director,
IT Advisory
KPMG China
+852 2685 7450
cece.choi@kpmg.com



Darren Wan
Associate Director,
IT Advisory
KPMG China
+852 2826 7127
darren.wan@kpmg.com



kpmg.com/cn/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG Advisory (Hong Kong) Limited, a Hong Kong limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong. © 2019 KPMG Tax Limited, a BVI limited liability company operating in Hong Kong and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong. The KPMG name and logo are registered trademarks or trademarks of KPMG International.