

Circular to Licensed Corporations and Registered Institutions - Providing Services to Clients with respect to Leveraged and Inverse Products

5 Feb 2016

The SFC issued a [circular on Leveraged and Inverse Products](#) ("L&I Products") to product issuers today setting out the requirements under which the SFC would consider authorising L&I Products structured as exchange traded funds for public offering in Hong Kong under sections 104 and 105 of the Securities and Futures Ordinance.

As stated in the above-mentioned circular, L&I Products are derivative products. The SFC would like to remind intermediaries to observe all the applicable requirements under the Code of Conduct¹, in particular paragraphs 5.1A to 5.3 which are relevant when they provide services to clients with respect to derivative products. Intermediaries should also put in place appropriate measures, such as providing training to staff, to ensure that their staff are familiar with the risks and features of the investment products and comply with the applicable requirements when serving their clients. For details, please refer to the SFC's circular on "Code of Conduct Requirements with respect to Derivative Products" dated 31 August 2010. Intermediaries are also reminded to act in the best interests of their customers when conducting their business activities. In doing so intermediaries need to be aware that gearing to invest in a product compounds the underlying risk.

Further, please refer to <http://www.hkex.com.hk/eng/market/partcir/sehk/2016/Documents/MKDCMS00116E.pdf> regarding a circular issued by the HKEx to exchange participants advising them not to provide margin financing to investors for trading of L&I Products in view of the leveraged and/or inverse features of L&I Products and the additional leverage impact from margin financing.

Should you have any queries regarding the contents of this circular, please contact Ms Kammy Kwok on 2231 1455.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

End

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¹ Code of Conduct for Persons Licensed by or Registered with the SFC

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