

# Legal Commentary

July 24, 2025

## Key Implications of Suitability Measures and Recommendations

Authors: Ting ZHENG | Eryin YING | Lin ZHU | Hattie ZHANG

### Overview

On 11 July 2025, the National Financial Regulatory Administration (NFRA) issued the *Administrative Measures for the Suitability of Products of Financial Institutions* (《金融机构产品适当性管理办法》), the “**Suitability Measures**”, which will take effect on 1 February 2026. The Suitability Measures and related Q&A (available in Chinese only) are available on NFRA’s website<sup>1</sup>.

The Suitability Measures aim to unify the suitability management rules applicable to products issued by financial institutions supervised by NFRA. We summarize below the key requirements of the Suitability Measures and recommended actions for financial institutions, especially banks.

### Key implications

#### I. Application

The Suitability Measures apply to investment-type products issued, sold, or traded by financial institutions, which expected returns are uncertain and may result in principal losses, as well as insurance products.

- “Financial institutions” refer to NFRA-regulated entities that hold financial business licenses, including banking and insurance institutions.
- “Investment-type products”, according NFRA’s Q&A, include wealth management products (the “**WM Products**”) issued by banks and wealth management subsidiaries, asset management trust products, insurance asset management products, asset management products issued by financial asset investment companies, non-principal-protected structured deposits (the “**SD Products**”), and over-the-counter (OTC) derivatives sold by banks to clients.

Notably, the offering and sale of qualified domestic institutional investor (QDII) products, SD Products and OTC derivatives among others, which are popular in banks, will be governed by the Suitability

<sup>1</sup> <https://www.nfra.gov.cn/cn/view/pages/rulesDetail.html?docId=1217183&itemId=4214&generaltype=1> and <https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?docId=1217129&itemId=915&generaltype=0>.

Measures.

That said, the Suitability Measures do not apply to activities in the interbank market (e.g., derivatives trading in the inter-bank market) regulated by the People’s Bank of China. The Suitability Measures also do not apply to the sales of investment-type products issued by securities, fund, or futures institutions (e.g., selling securities investment funds of mutual fund managers as agents), as they are subject to the suitability rules issued by the China Securities Regulatory Commission.

**II. Key requirements related to suitability management**

Chapter 2 of the Suitability Measures sets out comprehensive requirements applicable to financial institutions, including but not limited to establishing/improving a sound suitability management system, building robust information systems, maintaining proper record-keeping, and implementing controls for special categories of clients. Below is a summary of the key requirements and observations (including comparison with existing rules and recommended actions), especially with respect to banks:

No.	Topics	Key requirements and observations
(a)	Internal policies and systems	<ul style="list-style-type: none"> <li>■ Establishing and improving a sound suitability management system. (Art. 6)</li> <li>■ Building information systems that support suitability management, including features for system security, service continuity, data protection, and the ability to identify, alert, and restrict transactions that do not meet suitability requirements. (Art.7)</li> <li>■ For banks, these are not new Similar requirements have been provided in Art.13 and 29 of the <i>Measures on Supervision and Administration of Wealth Management Business of Commercial Banks</i> (《商业银行理财业务监督管理办法》), the “<b>WM Measures</b>”, Art.19 of the <i>Provisional Measures for the Administration of Derivatives Trading by Banking Financial Institutions</i> (《银行业金融机构衍生产品交易业务管理暂行办法》), the “<b>Derivatives Measures</b>”, as well as the general requirements on the information system used by banks.</li> </ul>
(b)	Record-keeping	<ul style="list-style-type: none"> <li>■ Financial institutions shall objectively and comprehensively record key steps of the suitability management process and properly retain relevant materials, including but not limited to product risk ratings, customer assessments, disclosure and warning materials, and audio and video recordings. The process must be traceable, and such records shall be retained for no less than 5 years after the termination of the contractual relationship, unless NFRA provides other retention periods. (Art.17)</li> <li>■ For banks, previously, audio and video recordings for the sales of WM Products to individual customers should be kept for at least 6 months after the termination of relevant WM Product or contract according to Art.13 of the <i>Interim Provisions on Audio and Video Recording Management in Designated Sales Areas of Banking Financial</i></li> </ul>

No.	Topics	Key requirements and observations
		<p><i>Institutions</i> (《银行业金融机构销售专区录音录像管理暂行规定》). With effectiveness of the Suitability Measures, these shall be retained for at least 5 years. This will also apply to OTC derivatives products of banks.</p>
(c)	Enhanced protection measures for vulnerable groups	<ul style="list-style-type: none"> <li>■ When dealing in high-risk products with clients at the age of 65 or above, financial institutions must exercise heightened duties of care. The Suitability Measures may include dedicated sales/trading procedures, enhanced disclosures and risk warnings, additional information collection, longer decision-making time, and timely follow-up with such clients. Online sales/trading processes must be elderly-friendly, user-friendly, and secure. (Art.18) For banks, these requirements are not new. The WM Measures have already required them to take into account the age and investment experience of investors at the age of more than 65 in the course of risk tolerance assessment. NFRA has also in different rules required the enhanced management of sales activities to the elderly and individuals who lack civil capacity, e.g., the <i>Guidance on Further Improving the Level of Financial Services for the Elderly</i> (《关于进一步提升金融服务适老化水平的指导意见》) and <i>Administrative Measures on Agency Sales by Commercial Banks</i> (《商业银行代理销售业务管理办法》).</li> <li>■ Financial institutions must not sell or transact products with individuals who lack civil capacity. With the consent of a legal guardian, low-risk products may be sold to individuals with limited civil capacity. (Art.19) For banks, this is a new requirement but we understand in practice many banks have implemented this.</li> </ul>
(d)	Suitability management in third-party distribution arrangements	<ul style="list-style-type: none"> <li>■ Where a financial institution engages a third party to distribute products, it must verify that the distributor possesses the necessary qualifications and has adequate personnel, internal controls, and technical infrastructure to fulfill suitability obligations. The financial institution must provide the distributor with relevant suitability standards and requirements, including factors considered in product classification and risk rating. The distributor is responsible for conducting customer assessments and ensuring suitability matching. (Art.21)</li> <li>■ These requirements are not new. Banks can only engage other banks to distribute WM Products. According to the <i>Administrative Measures for the Distribution Business of Commercial Banks as Agency</i> (《商业银行代理销售业务管理办法》), such other banks should have satisfied the above general requirements.</li> </ul>

### III. Risk rating

Art.22 of the Suitability Measures requires financial institutions to adopt a universal risk rating system for all investment-type products, which is similar with that for WM Products under Art.27 of the WM

Measures, and the risk levels shall be divided into at least 5 levels, from level 1 (lowest risk) to level 5 (highest risk).

Notably, under Art.44 of the Derivatives Measures, banks are also required to categorize OTC derivatives products based on their risk and complexity, but there is no mandatory requirement on the number of risk levels. With effectiveness of the Suitability Measures, banks shall adopt a universal risk rating system for all investment-type products, including WM Products, SD Products and OTC derivatives products.

In addition, for products involving investment portfolios, financial institutions shall assign risk rating based on the overall risk of the product but not any single underlying asset of the portfolio.

When classifying the risk levels of investment-type products, Art.23 of the Suitability Measures requires financial institutions to conduct a comprehensive assessment based on the following factors: (i) investment objective, scope, ratio, and the liquidity of underlying assets; (ii) maturity terms, subscription and redemption arrangements; (iii) leverage; (iv) structural complexity; (v) method of offering; (vi) the credit status of the issuer and other relevant parties; (vii) historical performance and volatility of similar products; and (viii) other relevant factors. For banks, it is worth noting that existing rules for WM Products and OTC derivatives do not detail these risk factors and banks will need to ensure these are properly factored into the risk rating system for investment-type products.

#### **IV. Differentiated treatment between professional investors and ordinary investors**

##### **1. Scope of professional investors vs ordinary investors**

The Suitability Measures distinguish between professional investors and ordinary investors. Art.27 of the Suitability Measures defines the scope of professional investors to include (i) banking financial institutions, insurance financial institutions, financial holding companies, securities, funds, and futures business institutions, and private fund managers; (ii) financial products issued by the aforementioned institutions to investors, as well as asset service trusts and charitable trusts managed by trust companies; and (iii) social security funds, enterprise annuities, occupational annuities, and other pension funds, charitable funds and other public welfare funds, QFII and RQFII. Investors that are not professional investors will be ordinary investors.

##### **2. No conversion into professional investors**

Compared with the consultation draft of the Suitability Measures, the final version has removed the provision allowing investors to apply for professional investor status, so unlike Art.11 and 12 of the *Measures for the Suitability Management of Securities and Futures Investors* (《证券期货投资者适当性管理办法》), ordinary investors will not be able to apply to be treated as professional investors even if they are willing to do so and are fully aware of the relevant risks.

##### **3. Differentiated treatment**

The Suitability Measures allow financial institutions to simplify or even waive risk tolerance assessments and traceability requirements when selling investment-type products to professional investors. For ordinary investors, financial institutions must strictly follow the provisions of the

Suitability Measures to assess their risk tolerance, determine the products suitable for their purchase or trading, provide clear suitability matching opinions, fully fulfill their duty of disclosure, and promptly issue risk warnings.

For banks, it is notable that the scope of “professional investors” for the purpose of suitability management is different from the scope of “qualified investors” for distribution of privately offered WM Products under the WM Measures. Banks will also need to set up differentiated suitability system targeted at professional investors and ordinary investors respectively.

## V. Information disclosure

Art.31 of the Suitability Measures provides a general requirement on the information that shall be disclosed to ordinary investors in the course of sales of investment-type products, and such disclosure should be made in an easy to accept and understand manner. While not required for professional investors, it would be prudent to follow the same requirement in terms of information disclosure.

For banks, the scope of information that shall be disclosed with respect to the investment-type products is largely consistent with existing requirements for WM Products and SD Products under Art.26 of the WM Measures and Art.1 of the *Requirements for the Sales Management of Wealth Management Products of Commercial Banks* (《商业银行理财产品销售管理要求》, the “**WM Product Sales Requirements**”), and existing requirements for OTC derivatives products under Art.48 of the Derivatives Measures, except that the risk rating (for OTC derivatives) and the circumstances under which the risk rating may be changed (for all investment-type products) will need to be further added into the relevant offering documents.

## VI. Risk tolerance assessment

Art.29 of the Suitability Measures introduces enhanced requirements to ensure the effectiveness of investor risk tolerance assessments:

### 1. Frequency limits

With the same financial institution, investors may not complete risk tolerance assessments more than twice per day or more than 8 times within a 12-month period.

### 2. Reconfirmation requirement

If an investor’s latest risk tolerance level differs from the previous result, the financial institution must alert the investor and prompt a reconfirmation of the change.

For banks, the regulatory requirements in sub-paragraphs (i) and (ii) above are new regulatory requirements and shall be properly built in the suitability management system.

### 3. Assessment validity

It is specified that in principle, the assessment result is valid for 12 months. If more than 12 months have passed since the last assessment, or if an investor voluntarily informs the institution of any circumstances that may affect their risk tolerance, the financial institution shall reassess the investor’s

risk tolerance before selling products to or conducting transactions with the investor.

For banks, the 12-month valid period has already been provided for non-institutional investors (but not institutional investors) in Art.2 of the WM Product Sales Requirements, and for all investors in Art.44 of the Derivatives Measures. The Suitability Measures go further to apply the 12-month valid period for all types of investors. Notably, the 12-month valid period of risk tolerance assessment result under the Suitability Measures does not distinguish among institutional investors, individual investors, professional investors or ordinary investors, which means that if banks have carried out risk tolerance assessment with respect to a professional investor (though such assessment can be waived under Art.27 of the Suitability Measures), the 12-month valid period will also apply for the sales of investment-type products to such professional investor.

## **VII. Regulatory and administrative measures**

In addition to customary measures such as on-site inspections, on-site investigations, off-site supervision, and administrative penalties, Art.44 of the Suitability Measures introduces an additional supervision tool, i.e., incorporating the financial institution's suitability management performance into the annual regulatory assessment of financial consumer protection.

## **Outlook**

The Suitability Measures fill a longstanding regulatory gap in suitability management across the broader financial market especially the banking and insurance industry, creating a more unified investor suitability management standard across different sectors. While the Suitability Measures bring greater regulatory clarity and consistency, they also raise the bar for institutional compliance, particularly in areas such as product risk-rating, customer assessment, and record-keeping. Banks and other financial institutions should take a proactive approach to revisit their internal policies, sales and record-keeping procedures, system capabilities, and third-party distribution arrangements to ensure full alignment with the new suitability framework.

Our team have extensive experience advising on regulatory compliance in the financial services sector, especially banking services, and we are well-positioned to support clients in navigating these heightened requirements and building robust suitability management system. If there is any question with respect to this briefing, please do not hesitate to contact us.

## ***Important Announcement***

This Legal Commentary has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

If you have any questions regarding this publication, please contact:

### **Ting ZHENG**

Tel: +86 21 6080 0203

Email: [ting.zheng@hankunlaw.com](mailto:ting.zheng@hankunlaw.com)