

## **AUTHORITIES INTRODUCE OPERATIONAL GUIDELINE ON THE SUITABILITY AND APPROPRIATENESS TEST FOR INVESTORS**

The FSC introduced an operational guideline on the suitability and appropriateness test for investors which will be put up for public notice from June 3 to June 22.

### **BACKGROUND**

Financial institutions selling investment products to customers are required to carry out a suitability and appropriateness test for investors based on the information provided by customers in order to sort out investment products that are considered to be inappropriate for them.

With the Financial Consumer Protection Act taking effect in March this year, certain changes have been made to the suitability and appropriateness test. First, the scope of investor information that needs to be checked by financial institutions as well as the standards for the measurement of investors' risk appetite and tolerance have become legally mandated through the Act.<sup>1</sup> Second, financial institutions have become subject to monetary penalties if their employees are found to have engaged in fabrication of consumer data or evaded the duty to conduct a suitability and appropriateness test. However, in implementing the Financial Consumer Protection Act, certain aspects of the suitability and appropriateness test have been identified as sources of inconvenience for consumers. As such, the authorities have prepared an operational guideline to help remove the inconvenience and improve the sales process.

### **KEY DETAILS OF THE GUIDELINE**

#### **I. GENERAL PRINCIPLES**

- a) The seller should explain to consumers the purpose of carrying out a suitability and appropriateness test in an easy-to-understand manner and clearly indicate to consumers what kinds of information are being requested.
- b) The suitability and appropriateness test for investors should be carried out in a consistent manner according to the standards prescribed by the relevant laws.
- c) The test results should be stored and maintained along with the justifying documents.

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<sup>1</sup> In the past, these measures were observed on a self-regulatory basis by industry groups.

## **II. ONLINE AND ONSITE TEST USE**

For consumers who have already obtained their suitability and appropriateness test results through online or other non-face-to-face channels, the seller can use existing test results when consumers make onsite visits on the condition that there has been no change in consumer information. Making use of the onsite test results for online sales transactions is also possible on the same condition that there has been no change in consumer information.

## **III. ON DAILY TESTING RESTRICTION, ETC.**

- a) The seller should allow consumers to make changes to their consumer information if the request is made before the consumer being aware of the test result.
- b) When the consumer has been notified and is aware of the test result, the seller should take necessary steps to prevent consumers from knowingly making changes to their consumer information for the purpose of purchasing high-risk investment products, etc. For onsite and face-to-face transactions, making changes to certain information, such as the level of understanding about investment products, risk tolerance, etc., should not be allowed within the same day, except for making corrections to erroneous data. For non-face-to-face transactions, the number of tests allowed in a single day should be limited to up to three times.
- c) When carrying out a reevaluation, the seller should record the reason for reevaluation from consumer and keep relevant data.

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