A Comparison of Investor Suitability Policies Between China and the United States and the Path to Improvement

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Abstract. The purpose of this paper is to compare the investor suitability policies of China and the United States, and to explore the improvement path of China's investor suitability policies. First, it analyzes the differences between China and the U.S. in terms of policy formulation concepts and objectives, investor classification standards, information disclosure requirements, and policy implementation and regulatory mechanisms. The U.S. policy focuses more on market efficiency and investor autonomy in decision-making, while the Chinese policy emphasizes more on protecting the interests of investors, especially small and medium-sized investors. The article then proposes a path for improving China's investor suitability policy, including strengthening regulatory efforts to ensure policy enforcement, increasing transparency and sophistication of information disclosure, and enhancing investor education and risk awareness. Through these measures, it aims to improve market efficiency, protect investors' rights and interests, and promote the healthy development of financial markets.

Keywords: Investor suitability; policy comparison; regulatory improvement; information discsure; investor education

1 Introduction

In the globalized financial market, investor suitability policy plays a crucial role, which is not only related to the protection of investors' rights and interests, but also a key factor in maintaining market order and promoting the healthy development of the market. As the world's two largest economies, China and the United States, the formulation and implementation of their investor suitability policies have a far-reaching impact on the global financial market. By comparing the differences in investor suitability policies between China and the U.S., this paper analyzes the current status and problems of China's policies and proposes a path for improvement on this basis. This study not only helps to understand the similarities and differences between the two countries' policies, but also provides a reference for policy optimization in the Chinese market, with a view to improving market efficiency and competitiveness while protecting investors' rights and interests. [1]

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2 Overview of Investor Suitability Policy

2.1 Definition and Connotation of Investor Suitability

Investor suitability refers to the process by which providers of financial products or services must ensure that these products or services match investors' financial status, investment experience, risk tolerance, etc. when selling products or services to investors. [2] The core of this concept lies in "matching", i.e., financial institutions are required to fully understand not only the characteristics of the products, but also the actual situation of the investors in the sales process, to realize the reasonable matching between the products and the investors. The connotation of investor suitability includes comprehensive assessment of investors, provision of personalized investment advice, and ensuring the adequacy and accuracy of information disclosure. This policy aims to reduce the investment risks arising from asymmetric information or misunderstanding of investors, improve the efficiency and fairness of the financial market, and protect the legitimate rights and interests of investors at the same time.

2.2 Main Contents of the Investor Suitability Policy

The main contents of investor suitability policy include classification and management of investors, product risk assessment, information disclosure requirements, and supervision and enforcement mechanisms. The policy requires financial institutions to categorize investors, distinguishing between professional investors and ordinary investors, and further subdividing ordinary investors in order to provide more precise services. [3] The policy emphasizes risk assessment of financial products, requiring financial institutions to classify the risk level of the products and match the risk tolerance of investors. The policy sets out detailed information disclosure requirements to ensure that investors are provided with adequate product information and risk warnings before purchasing financial products. The policy also involves a monitoring and enforcement mechanism, including supervision and inspection by the regulator and penalties for non-compliance, to ensure that the policy is effectively enforced.

3 Comparison of Investor Suitability Policies Between China and the United States

3.1 Philosophy and Objectives of Policy Formulation

In terms of investor suitability policy formulation, although China and the U.S. share commonalities, there are significant differences in philosophy and objectives. The policy philosophy of the United States is deeply influenced by its market liberalization and individualistic culture, emphasizing the investor's right to make decisions on their own and the principle of risk-sharing. In formulating its policies, the U.S. Securities and Exchange Commission (SEC) aims to ensure the fairness and transparency of the market and to enable investors to make investment decisions based on adequate information through mandatory disclosure requirements. Its goal is to promote market self-regulation and reduce unnecessary administrative intervention, thereby enhancing market efficiency. In contrast, China's policymaking reflects a greater awareness of the protection of small and medium-sized investors, with the concept of "seller's responsibility, buyer's responsibility" emphasizing that financial institutions must ensure that the products they sell are suitable for the risk tolerance of investors. In formulating its policies, the CSRC pays more attention to preventing financial fraud and protecting the interests of investors, and its goal is to reduce the investment risks arising from information asymmetry of investors and maintain the stability of the financial market through classification management and risk control.

3.2 Differences in Investor Classification Standards

In terms of investor classification standards, China and the United States also show different emphasis. The U.S. divides investors into two categories: professional investors and non-professional investors. Professional investors usually include institutional investors, qualified investors, etc., who are considered to have higher investment experience and risk identification ability, and therefore are subject to relatively fewer regulatory restrictions. Non-professional investors, on the other hand, require more protective measures to ensure that they do not make unfavorable investment decisions due to lack of necessary information. China, on the other hand, is more detailed in its investor categorization. [4] In addition to distinguishing between professional and non-professional investors, it also provides further segmentation of non-professional investors, e.g., based on factors such as investment experience, asset size, investment knowledge, and risk appetite. Such segmentation aims to achieve more precise suitability management and ensure that different types of investors are able to obtain investment advice and products that are suitable for their risk tolerance.

3.3 Differences in Information Disclosure Requirements

The United States disclosure policy emphasizes comprehensiveness and transparency by requiring financial institutions to provide detailed product information and risk warnings, which include the structure of the product, risk factors, potential returns and fees. Such disclosure requirements aim to enable investors to make investment decisions based on sufficient information, reflecting the importance that the U.S. market places on investors' ability to make autonomous decisions. China's policy focuses more on investor protection, requiring financial institutions not only to provide product information, but also to conduct risk assessments of investors to ensure that they understand product features and potential risks. In addition, China's policy requires financial institutions to provide ongoing information updates and risk warnings during the sales process to help investors monitor and manage investment risks on an ongoing basis. U.S. listed companies have a much higher level of information disclosure during the M&A and reorganization process than Chinese listed companies, including detailed disclosure of the M&A and reorganization process as well as detailed disclosure of M&A and reorganization documents.

In addition, although Chinese listed companies have established a full set of guideline documents for information disclosure, in practice, the negotiation process of many companies during the suspension and reorganization period is not transparent, making it difficult for ordinary investors to understand the entire process of listed companies' M&A decisions. In addition, although Chinese listed companies have established a full set of guideline documents for information disclosure, in practice, the negotiation process of many companies during the suspension and reorganization period is not transparent, making it difficult for ordinary investors to understand the entire process of listed companies' M&A decisions. This difference reflects the difference in information disclosure transparency and investor protection efforts between the two countries.

3.4 Differences in Policy Enforcement and Regulatory Mechanisms

There are also significant differences between the U.S. and China in terms of policy implementation and regulatory mechanisms. The U.S. regulatory system is more mature, with independent regulators such as the SEC, which has strong enforcement and a variety of regulatory tools, including market access, ongoing supervision, enforcement penalties, etc. The SEC ensures that financial institutions comply with appropriate investor protection rules through regular inspections, investigations and enforcement actions. In addition, the U.S. regulatory system encourages market self-regulation, supplementing regulation through trade associations and self-regulatory organizations. In contrast, China's regulatory system is undergoing continuous improvement, and regulators such as the China Securities Regulatory Commission (“CSRC”) are constantly strengthening their regulatory efforts and improving their efficiency. [5] The CSRC guides financial institutions in their compliance operations by formulating detailed regulatory rules and guidelines, and enforces its policies through on-site inspections, off-site inspections and administrative penalties. However, compared to the United States, China's regulatory system still has room for improvement in terms of enforcement and market self-regulation.

4 Improvement Paths for China's Investor Suitability Policies

4.1 Strengthening Supervision and Implementing Policy Enforcement

The effective implementation of China's investor suitability policy requires regulators to strengthen supervision to ensure that the policy is strictly enforced. Currently, the CSRC has taken a series of measures to improve regulatory efficiency, including implementing stricter market access standards, strengthening on-site and off-site inspections, and increasing the cost of non-compliance. However, in order to further implement policy enforcement, the regulator needs to continue to enhance its regulatory capacity, including strengthening the professionalism of its regulatory staff, modernizing regulatory technology, and improving regulatory regulations and guidelines. In addition, regulators should strengthen coordination and cooperation with other financial regulators to form regulatory synergies to cover all segments of the financial market.

At the same time, regulators should strengthen their efforts in investigating and punishing non-compliance and raise the cost of non-compliance through public exposure and administrative penalties, so as to create an effective deterrent. Through these measures, it can ensure that the investor suitability policy is effectively implemented, protect the interests of investors and maintain market order.

4.2 Improve the Transparency and Refinement of Information Disclosure

Information disclosure is the core aspect of investor suitability management, and improving the transparency and refinement of information disclosure is crucial to the protection of investor rights and interests. The CSRC already requires financial institutions to disclose to investors key information such as the risk and return characteristics, fee structure, and investment strategy of the products when selling financial products. However, in order to further improve the quality of information disclosure, regulators should encourage financial institutions to present information in a more intuitive and easy-to-understand manner, such as charts, examples, etc., in order to help investors better understand product characteristics and potential risks. At the same time, regulators should also require financial institutions to provide more detailed product information, including, but not limited to, the product's legal structure, investment restrictions, and performance comparison benchmarks. In addition, regulators should strengthen the supervision and inspection of information disclosure to ensure that financial institutions disclose information in a truthful, accurate and complete manner. By improving the transparency and granularity of information disclosure, it can help investors make more informed investment decisions and reduce investment risks arising from information asymmetry.

4.3 Enhance Investor Education and Risk Awareness

Investor education is an important way to improve investors' self-protection ability and an important part of investor suitability management. The CSRC has already carried out various forms of investor education activities, including organizing investor education seminars, releasing investor education materials and establishing investor education websites. However, to further enhance investor education and risk awareness, regulators and financial institutions should adopt more diversified and innovative education methods, such as developing online education platforms, utilizing social media for education and publicity, and organizing mock investment competitions. [6]In addition, regulators should encourage financial institutions to provide personalized investment advisory and risk assessment services to help investors choose appropriate financial products based on their own risk preferences and investment objectives. At the same time, regulators should also strengthen education on the protection of investors' rights and interests, raise investors' awareness of their rights and interests, and encourage them to actively seek legal means to defend their rights when their rights and interests are jeopardized. Through these measures, the financial literacy of investors can be improved, their risk awareness and self-protection ability can be enhanced, thus reducing investment risks and protecting investors' interests.

5 Conclusion

Through the comparative analysis and exploration of improvement paths in this paper, we can see that despite the differences between China and the United States in the formulation and implementation of investor suitability policies, the common goal is to protect the rights and interests of investors and promote the healthy development of the market. While learning from the U.S. experience, China also needs to formulate policies that are more suitable to its national conditions based on its own market characteristics and investor needs. Strengthening regulatory efforts, increasing transparency and refinement of information disclosure, and enhancing investor education and risk awareness are key paths to improving China's investor suitability policy. Through the implementation of these measures, it can be expected that China's financial markets will become more mature and stable, investors' rights and interests will be more effectively protected, and the efficiency and fairness of the market will be enhanced. In the future, with the continuous opening and internationalization of China's financial market, the continuous optimization and improvement of investor suitability policy will be particularly important.

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