

Content

Title :	Directions for Banks Engaging in Wealth Management Business 
Date :	2005.07.21
Legislative :	1. 2. Full text of 15 points amended and promulgated on 21 July 2005 per Order No. Jin-Kuan-Yin-(V)-0945000509 of the Financial Supervisory Commission, Executive Yuan; for implementation from the date of promulgation
Content :	<p>1.A bank conducting wealth management business shall comply with these Directions.</p> <p>2.The term "wealth management business" means the provision to high net worth customers by a bank through its wealth managers of financial planning or assets and liability allocation services that match the customer's needs, with a view to offering various financial products and services that the bank is legally authorized to provide.</p> <p>An individual bank shall have discretion in determining its own thresholds for "high net worth customers" under the preceding paragraph based on its operational strategies. Notwithstanding the foregoing, the bank shall, for internal compliance purposes, clearly define the scope of financial products available for planning for or sale to high net worth and non-high net worth customers. The bank shall also avoid selling to non-high net worth customers financial products that are too risky or too complex in structure.</p> <p>A bank shall obtain approval from the Central Bank of China for conducting wealth management business that involves operation of foreign exchange business.</p> <p>3.For wealth management business that involves securities investment consulting services or futures advisory services, further approval shall be obtained from the competent authority for concurrent operation of securities investment consulting business or futures advisory business, as required respectively under the Standards Governing the Establishment of Securities Investment Consulting Enterprises and the Standards Governing the Establishment of Futures Advisory Enterprises.</p> <p>4.To conduct wealth management business, a bank shall meet the following qualification requirements and, upon ratification by the board of directors (or trustees) of such business (or, in the case of a Taiwan branch of a foreign bank, such ratification may be obtained from personnel authorized by the head office), register with the competent authority by submitting relevant operational policies and administrative guidelines; approval to conduct the business is deemed to be granted if the competent authority does not raise any objection within 15 days:</p> <p>(1) The Bank's ratio of equity capital to risk-weighted assets is not lower than 8 percent;</p>

(2) Credit rating: The Bank has a long-term credit rating of twBBB or higher from Taiwan Ratings Corporation, BBB(twn) or higher from Fitch Ratings Limited, Taiwan Branch, Baa2.tw or higher from Moody's Taiwan Corporation, BBB or higher from Fitch Ratings Ltd., BBB or higher from Standard & Poor's Corp. or Baa2 or higher from Moody's Investors Service; and

(3) It has not been subject to any disposition under Article 61-1, paragraph 1, subparagraphs 2 to 5 of the Banking Act within the past 6 months.

A bank not meeting the requirement in subparagraph (3) of the preceding paragraph may be exempted from the restriction in that subparagraph if it has made corrections and produced concrete evidence.

The operational policies and administrative guidelines referred to in paragraph 1 shall include the following:

(1) Operational policies: Shall at least include development strategies, definition of high net worth customers, scope of services provided, financial goals (e.g. expected goals with respect to income, size of assets under management, and number of new customers acquired), and risk tolerance for wealth management business.

(2) Administrative guidelines: Shall at least include organizational framework and personnel qualifications, operational procedures, a risk management system, an internal control system, and an internal audit system.

5. To conduct wealth management business, a bank shall establish a dedicated department and personnel, independent of other departments, and charge such department with the duties of business planning and implementation, and management of wealth management business personnel ("wealth managers").

Personnel not in the wealth management department may neither sell products in the name of wealth management nor carry on business in the name of wealth managers.

No wealth managers may carry on wealth management business without meeting certain qualification requirements. The qualification requirements shall be drafted by the Bankers Association of the Republic of China and submitted to the competent authority for ratification. Notwithstanding the foregoing, where operation of the business involves other regulations concerning specially regulated ("concessionary") financial enterprises, the permit for concurrent business operation and the requirements for personnel qualifications shall be subject to the provisions for the relevant industry.

6. A bank conducting wealth management business shall establish an internal control system and risk management system and faithfully implement them. Such systems shall at least include the following:

(1) Personnel administration rules for wealth managers.

(2) "Know Your Customer" rules.

(3) Monitoring rules for unusual and suspicious transactions.

(4) Risk management rules for business promotion and customer accounts.

(6) Mechanisms to prevent insider trading and conflicts of interest; and

(6) Customer dispute resolution procedures.

7.The "personnel administration rules for wealth managers" referred to in Point 6 shall include, with respect to wealth managers, qualification requirements, professional training, a code of professional ethics, and a salary, reward, and performance evaluation system.

To enhance the competence and quality of wealth management business personnel, the bank shall on an ongoing basis administer education and training for such personnel and shall, for all operating procedures and rules, adopt standard operating procedures for compliance by wealth managers.

8.The "Know Your Customer" rules under Point 6 shall at least include the following:

(1) Customer acceptance principles: shall specify the minimum dollar amount and qualifications for customers wishing to enter into a business relationship and circumstances in which customers may be rejected.

(2) Account opening review principles:

(i) Such principles shall specify review procedures to be followed when opening accounts, and information to be collected, verified and recorded, including, with respect to each customer and beneficiary, the person's identity, financial background, sources of income and funds, risk preference, investment history, and the purposes and needs for opening such an account. In particular, stricter due diligence and approval procedures shall be in place for higher risk individuals of specific backgrounds or professions, or family members thereof.

(ii) No account opening application submitted by a customer may be accepted unless the customer's account opening procedures and the validity and integrity of the documentation provided have been re-checked by a suitable department or person.

(iii) In a situation where a customer authorizes another person to sign and open an account on his or her behalf, additional evaluation shall be conducted on such authorized representative and the ultimate beneficial owner shall be identified.

(3) Evaluation of customer's investment capacity: Evaluation of a customer's investment capacity and acceptance of a customer's request shall, in addition to taking into reference the information described in the preceding paragraph, take the following information into overall consideration:

(i) The customer's fund utilization status and professional competence.

(ii) The customer's investment attributes, understanding of risk, and risk tolerance.

(iii) Suitability of customer services, suitable range of investment recommendations, or suitable transaction amounts.

(4) Regular monitoring system: The bank shall establish a system for its wealth managers to stay up-to-date on any change in a customer's financial or business status by regular telephone calls or face-to-face visits, update customer data files in a timely manner, and review and assess customers' investment capacities accordingly. Internal auditors shall also regularly audit customer files for consistency and integrity. The frequency of such monitoring and auditing may be adjusted dependent on the extent,

complexity, and degree of risk of a given customer's banking relationship with the bank.

(5) Use and confidentiality of customer information: the scope, and level of personnel authorized, for the use and maintenance of customer information, and a control system to guard against unauthorized disclosure and other improper use of customer information.

9. The "rules for unusual and suspicious transactions" under Point 6 shall at least include:

(1) Establishing a management system that identifies, tracks, and controls unusual and suspicious transactions.

(2) Establishing management-by-exception mechanisms for banking activities of higher risk customers.

(3) Establishing an anti-money laundering training system.

10. The "risk management rules for business promotion and customer accounts" under Point 6 shall at least include:

(1) For the promotion of wealth management business, a bank shall adopt guidelines regulating the production of advertising or promotional materials, and control procedures for distribution and publication thereof. No advertising or promotional material for any product or service may be approved until the department head, legal officer, and compliance officer have ascertained that such materials do not contain any improper or untrue statement or other legal violation.

(2) A bank shall establish a set of product suitability policies, which shall include rating and classification of customer risks and product risks, so that customers are provided with suitable products that meet their risk tolerance levels. The bank shall also establish a monitoring system that prevents improper recommendations or sales by wealth managers.

(3) A bank shall provide wealth management suggestions to customers in writing, and properly preserve them for future verification.

(4) A bank shall separately provide a product prospectus and a risk disclosure statement for each product it provides, specifying product characteristics, associated risks, and handling fees or other expenses. A wealth manager shall fully disclose relevant information to a customer, and retain records for verification. The bank shall implement procedures to inspect whether customers are involved with money laundering or other illegal transactions, and issue a report bearing the acknowledgment of the customer.

(5) A bank shall prepare customer rights and interest handbooks and provide them to customers, specifying the content, associated potential risks, and any other special stipulations relating to the financial products or services provided by the bank, together with a full disclosure of fees charged by the bank for its wealth management services, and with information incorporated therein on channels for processing customer comments and complaints, investigation of, response to, and handling of customer comments, and other particulars that are relevant to the protection of customers' rights or interests.

(6) If a bank, in the course of wealth management business, recommends or sells to a customer any product issued by another institution, it shall be

liable for any dispute arising from any promotion of false products or failure to properly disclose associated risk. This [liability] shall be fully disclosed to customers in the customer rights and interests handbooks referred to in subparagraph (5).

(7) A bank shall establish transaction control mechanisms to avoid providing to customers products or services exceeding their credit investigation results, financial status, or suitable investment scope, and to avoid unauthorized business activities or improper consulting activities by wealth managers.

(8) A bank shall establish a system for regular and occasional reporting to customers. The content, extent, manner, and frequency for such reporting shall be subject to the agreement between the two parties, except as otherwise by acts and regulations.

(9) The financial statements used in the regular and occasional reporting referred to in the preceding subparagraph may not be produced or provided by wealth managers.

(10) In the course of wealth management business, a bank shall regularly assess the efficacy of its customer net worth management and take all necessary steps accordingly.

The key points for the "product suitability policies" referred to in subparagraph (2) of the preceding paragraph shall be adopted by the Bankers Association of the Republic of China and reported to the competent authority for ratification.

11. The "system to prevent insider trading and conflicts of interest" under Point 6 shall at least include:

(1) To prevent improper disclosure or use of information to or by unauthorized parties, a bank shall have a policy in place for segregating information between the department or personnel conducting wealth management business and other departments or personnel.

(2) A bank shall establish an employee code of conduct that shall, at the least, address reporting of gifts and entertainment, confidential treatment of customer information, prohibition of insider trading, and reporting of money laundering activities.

(3) Personnel engaging in wealth management business may not, either directly or indirectly, solicit, agree to accept, or accept any improper benefits in cash, in kind, or otherwise, such as may influence the objectivity of their professional judgment or discharge of duties; it shall also be ensured that the adopted reward and remuneration system will not affect the objectivity and impartiality of wealth managers when recommending or selling certain products to customers.

(4) When a bank conducting wealth management business makes the sale of a certain product to a customer a condition for making a loan or investment available, it shall disclose to the customer the income distribution with respect to the loan or investment, and may not violate any applicable provision of the Fair Trade Act.

(5) Where a staff member conducting wealth management business learns from a customer of information related to his or her purchase or sale of a target product, which results in a likelihood of conflict of interest or undue profit, such staff member may not engage in purchase or sale or such

target product.

(6) The salary and compensation system for staff members conducting wealth management business shall be designed in a manner that, on a balanced basis, incorporates commissions, growth of assets entrusted by customers for financial planning, and other factors; a wealth manager may not sell a product merely out of consideration of the amount of commission to be received, nor use some specific benefit or false advertising to induce a customer to buy or sell a specific product.

(7) A bank shall fully disclose the fee rates and details for all products and services it provides.

(8) A bank shall fully disclose to customers the handling fees it actually charges for the provision of wealth management services, the commissions it obtains from recommending selling a product, and any other fees whatsoever charged.

12. The "customer dispute resolution procedures" that an individual bank shall adopt, as required by Point 6, shall at least include procedures for receiving and processing complaints, procedures for responding to complaints, and procedures for properly investigating complaints.

13. In conducting wealth management business, a bank shall make on-going efforts to enhance its management information system in response to the development and complexity of the business, so as to successfully implement the provisions set out in the procedures mentioned above, including, among others, filing and updating customer information in a timely manner and monitoring customer accounts for any unusual or suspicious transactions. The designing and testing of the system's functions shall involve active participation of personnel from each department, with a view to ensure compliance with relevant provisions by the bank in the course of the business.

14. A bank shall incorporate the content of these Directions into its internal control and internal audit items and shall conduct internal audits and self-audits in accordance with the Regulations Governing Implementation of Bank Internal Control and Audit Systems.

15. If a bank violates any provision of these Directions in the course of wealth management business, the competent authority may, in accordance with Article 61-1 of the Banking Act, make appropriate dispositions according to the seriousness of the violation.