

Content

Title :	Guidelines for Banks Selling Financial Products to Customers Other than Wealth Management Customers <b>Ch</b>
Date :	2005.07.21
Legislative :	1.Promulgated by the Bureau of Monetary Affairs on July 21, 2005
Content :	<p>Banks selling financial products to customers other than wealth management customers ( "General Customers" ) shall comply with these Guidelines.</p> <p>The scope of financial products which banks may sell to General Customers shall be limited to the financial products the sale of which is permitted by law. Banks shall avoid selling financial products having extraordinarily high risks or complicated structures to General Customers other than General Customers which the bank has determined to have appropriate knowledge and risk bearing capacity based on objective standards.</p> <p>Bank personnel handling the sale of financial products shall meet specified qualification requirements. The qualification requirements shall be established by the Bankers Association and reported to the regulator for approval. If the relevant sales are governed by rules promulgated of other financial regulators, the rules for simultaneously conducting other business(es) and the qualification requirements for bank personnel shall be complied with in accordance with the rules applicable to each business.</p> <p>For purposes of selling financial products, banks shall establish and implement appropriate internal control and risk management systems. Such systems shall, at the minimum, include:</p> <ol style="list-style-type: none"><li>1. Management guidelines for person(s) selling financial products;</li><li>2. Procedures for fully understanding customers [i.e. know your customer procedures];</li><li>3. Procedures for monitoring unusual or suspicious transactions;</li><li>4. Procedures for promotional activities;</li><li>5. Procedures for prevention of insider trading and conflicts of interest;</li></ol> <p>and</p> <ol style="list-style-type: none"><li>6. Procedures for handling customer complaints.</li></ol> <p>The "Management Guidelines for Person(s) Selling Financial Products" referred to in Article 4 shall include qualifications, professional discipline, ethical standards, wages, rewards and supervision systems for person(s) selling financial products.</p> <p>To improve the capabilities of person(s) selling financial products, banks shall train such person(s) and adopt standardized procedures for person(s) selling financial products in accordance with relevant rules.</p>

The “Procedures for Fully Understanding Customers” referred to in Article 4 shall, at the minimum, include:

1. Principles for accepting General Customers: the circumstances for accepting and rejecting of customers shall be prescribed;
2. Principles for Account Opening:
  - (1) procedures for account opening and the information to be collected, verified and recorded shall be prescribed. The above information shall include identification, financial background, income, funding sources, risk appetitive, past investment experience, and the purpose for account opening by the customer and the ultimate beneficial owner. Strict examination and approval procedures shall be prescribed for high-risk persons having certain backgrounds or occupation and their relatives;
  - (2) With respect to banks accepting customers’ account opening applications, appropriate units or persons shall re-check customers’ account opening procedures and the accuracy and completeness of the documents provided; and
  - (3) when a General Customer authorizes a third party to open an account on behalf of such customer, banks shall separately access such third party so as to ascertain the true identity of the ultimate beneficiary of such account.
3. Assessment of Customers’ Investment Capacity: in addition to making reference to the information referred to in the preceding item, the following shall also be considered when banks evaluate a General Customer's investment capacity and accept a General Customer’ s mandate:
  - (1) the funds availability and professional knowledge of the General Customer;
  - (2) the investment habits, understanding of risks and risk bearing capacity of the General Customer; and
  - (3) the suitability of the service, and the suitable scope of investment and transaction amount.
4. Use and Protection Customer Information: the scope and level of use or maintenance of General Customer information and control mechanisms to prevent disclosure or misappropriation of such information.

The “Procedures for Monitoring of Unusual or Suspicious Trading” referred to in Article 4 shall, at the minimum, include:

1. the establishment of management mechanism for identifying and tracing/controlling unusual or suspicious transactions;
2. the establishment of a special transaction management mechanism for high-risk customers; and
3. the establishment of mechanisms to prevent money laundering.

The “Procedures for the Promotional Activities” referred to in Article 4 shall, at the minimum, include:

1. Management rules regarding the production of advertisements or promotional materials together with control rules for the distribution and publication of such materials. All advertisements or promotional materials for products or services shall, prior to the use thereof, be confirmed by the head of the department, the head of the legal deputation and the head of compliance as not containing any inappropriate misleading or illegal

contents.

2. Product suitability policies which include the classification of General Customers and products by risk levels and so as to provide suitable products to General Customers based on the risk bearing levels of such customers.

3. Providing General Customers with product descriptions and risk disclosure statements specifying product characteristics, ongoing risks, handling fees and other expenditures for certain products. After fully informing General Customers of the above specifications, person(s) selling financial products shall retain a record for verification. Banks shall examine whether General Customers are involved in money laundering or illegal transactions and shall produce a statement confirmed by such General Customer.

4. Producing and providing General Customers with a brochure detailing the General Customer's rights, or providing such information on its website which brochure/website shall include the financial products or services which the bank offers, potential risks and other specific terms. Fees charged for the sale of financial products shall be fully disclosed and included in the above brochure or on the website. Such shall also include the channels for receiving customer comments or complaints together with the investigation, and response procedures for the handling of customer's comments.

5. If the bank recommends or sells products issued by other institutions, the bank shall be liable for disputes regarding product promotions which are inconsistent with the facts, or the failure to fully disclose risk, and shall fully disclose such liability to the General Customer in the General Customers' rights brochure.

6. A bank shall establish a transaction control mechanism so as to avoid providing products or services which exceed credit limits, financial status or scope of suitable investment of General Customers and so as to avoid unauthorized or inappropriate behavior by sales representatives.

The product suitability policy referred to in item 2 of the preceding paragraph shall be prescribed by the Bankers Association and submitted to the regulator for approval.

The "Procedures for Prevention of Insider Trading and Conflicts of Interest" referred to in Article 4 shall, at the minimum, include:

1. Appropriate information control and segregation policies so as to avoid information being inappropriately disclosed to unauthorized parties.

2. Guidelines for employee behavior. Such guidelines shall, at the minimum, include the reporting of gifts or entertainment, the protection of customer information, the prohibition of insider trading and the report of money laundering etc.

3. Persons selling financial products shall not directly or indirectly demand, agree to accept or accept inappropriate payments, property and other benefits which would influence his/her professional judgment and the objectivity of his/her performance. Bank compensation systems shall not affect the objectivity and the fairness of the sale of specific products by person(s) selling financial products.

4. When banks make the purchase of such product a condition for the Banks

credit extension or investments, banks shall disclose to customers the risk and benefit of the credit extension or investments and shall not violate the Fair Trade Law or related laws and regulations.

5. If a person selling financial products possesses information related to buying and selling of a product which information was obtained from a General Customer and such information will result in the possibility of a conflict of interest or undue enrichment, such person shall not enter into the relevant transactions.

6. The compensation system for sales representative shall not be merely based on commissions and sales representatives shall not recommend products based on the amount of commission to be received. Solicitation of investments in specific products using specified interests or untrue advertisements is prohibited.

7. Banks shall fully disclose the calculation basis and details of fees for their products and services.

8. Banks shall fully inform General Customers of handling fees, commissions and other fees actually received by the Bank for the sale of financial products.

The "Procedures for handling customers' complaint(s)" referred to in Article 4 shall, at the minimum, include procedures for handling complaints, replying to complaints and appropriately investigating complaints.

Banks shall incorporate the contents of these Guidelines into their internal control systems and implement internal checking for internal control purpose.

If a bank(s) selling financial products violates these Guidelines, the regulator may such bank(s) depending on the severity of the violation punish such Bank pursuant to Article 61-1 of the Banking Law.