Annex 2

Practical guidance on the application of PICOP

Retail customers

"Retail customers" exclude corporate customers, sole proprietors, partnerships and private banking customers. In respect of private banking customers, if the relevant investment services for these customers are provided by retail branches of the AI, such customers should be treated as retail customers and the PICOP arrangements would become applicable. The AI should classify an individual as a private banking customer only if he/she maintains a personalized relationship with the AI, receives personalized banking services or a portfolio management service from the AI, and has assets under the AI's management of at least US$1 million.

Asset concentration

Asset concentration is defined as the percentage of the customer's total net worth (excluding real estate properties) to be invested in the relevant transaction, calculated using the nominal amount of the relevant transaction. For the purpose of ascertaining asset concentration involved in a particular transaction, the AI may rely on self-declaration by the customer.

First-time buyer

In determining whether a customer is a "first-time buyer" of a particular type of product, an AI may take into account his/her investment(s) executed through the AI itself or another intermediary, subject to the following controls:

- If an AI intends to rely on the customer's previous investment experience in the same type of product executed through the AI itself, it should have relevant supporting records of the customer's relevant past investment(s).

- Before classifying a customer as having investment experience in the same type of product executed through another intermediary, an AI has to gather from the customer relevant documentary proof (e.g. relevant monthly statements or contract notes in respect of the same type of product) and retain a copy of such proof for record purposes. Moreover, the AI should obtain the customer's signed declaration that he/she has investment experience in the type of product in question, after it has explained to the customer the rationale for and consequences of signing the declaration. Proper audit trail of the related process should be maintained by the AI.

- An AI should take into account the customer's actual investment experience, instead of merely relying on the fact that the nature and risks of a product or the same type of product was explained to the customer. This is because the customer does not have and should not be classified as having actual investment experience in respect of the type of product in question as he/she never actually held the relevant type of product.