

Registered Institutions are required to formulate a plan on how to implement the following recommendations for discussion with the HKMA by the end of March 2009

Recommendations	Implementation plan agreed by the HKMA and the banking industry
Recommendation 10 AIs, which are registered institutions, continue to be permitted to undertake securities business (including selling investment products to retail customers), but steps should be taken to ensure clearer differentiation between traditional deposit-taking activities and retail securities business, including: - physical segregation of AIs' retail securities business from their ordinary banking business - a requirement that staff involved in selling investment products to retail customers should not be involved in ordinary banking business - a requirement that AIs make clear, through physical signs and warnings, the distinction between deposits and investments and particularly the risks attached to the latter - a requirement that there be complete information separation between a retail customer's deposit accounts and his investment accounts and a	Following discussions with the Retail Banking Taskforce on Sale of Investment Products ("the Retail Banking Taskforce") of the Hong Kong Association of Banks (HKAB), the HKMA sets out below the implementation arrangement for this recommendation: 1. RIs will set up designated "investment corner" with proper "signage" in the banking hall away from the general banking area. All sales of investment products must be conducted in the investment corner by qualified staff. Staff in the investment corner may provide full banking services to customers provided that the customer has provided consent for the RI to access and utilise his/her deposit information for investment and wealth management purposes. 2. For existing active investment customers, banks are not required to seek positive consent from these customers for accessing and utilising their deposit information in the investment corner. However, banks should notify these customers of the new segregation arrangement and provide them with an option to refuse the bank's utilisation of their deposit information for sales/solicitation by the bank staff in the investment corner. 3. For (i) existing inactive investment customers, (ii) existing customers who have previously lodged complaints alleging mis-selling of investment products by the RI and (iii) new customers, the RI will need to seek specific consent from these customers prior to offering full banking services at the investment corner. 4. RIs should ensure that a robust system is in place to ensure that both customers and

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prohibition on an AI's making use of deposit-related information to target and channel retail customers into investment activities.	bank staff are aware of the differentiation between the designated "investment corner" and the general banking area, and there will be procedures in place to ensure that customers will not be lured into the "investment corner" but use it only at their own initiatives. 5. RIs may continue to display marketing materials at bank halls as they are doing currently. However, as this may be considered as part of the solicitation process, care must be taken to handle follow-up enquiries and/or sales to persons who are not yet a customer of the bank to avoid breaching the cold-calling rules. If customers, after reading the marketing materials, want to know more about the investment products or show interests to buy them, then normal suitability procedures must be conducted (as set out in SFC Code of Conduct 5.1 and 5.2 and FAQs on suitability obligations), and under the new segregation arrangement, should be done at the investment corner. 6. The "physical segregation" requirement would not be applicable to general phone banking on the basis that (i) it will be audio recorded and (ii) complicated and high risk investment products will not be marketed or solicited to customers through this channel. For the avoidance of doubt, phone banking between relationship managers and their customers will follow all procedures applicable to the investment corner. 7. Taking into account the time needed for operation and system changes, RIs are expected to achieve implementation by 30 September 2009. Individual RIs requiring more lead time for implementation due to technical difficulties should liaise with their usual HKMA contact directly with justifications for requiring a longer lead time. For the purpose of consent seeking, customers who open investment accounts on or after RI's implementation of this segregation arrangement will be considered "new customers".
Recommendation 11 - the above forms of segregation should apply to AIs' insurance activities and other investment	The HKMA and the HKAB's Retail Banking Taskforce agree that the above arrangement will apply to RIs' insurance activities and other investment activities, except for the following list of general insurance and traditional life insurance products on the basis that customers could generally distinguish them from deposit products and

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activities.	that cooling-off period applies for traditional life insurance products. For life insurance products, RIs should include the following risk disclosure statement: <u>Specimen Warning Statement</u> <i>"[Plan name] is an insurance plan with a savings element. Part of the premium pays for the insurance and related costs. If you are not happy with your policy, you have a right to cancel it within the cooling off period and obtain a refund of any premiums paid. A written notice should be received by us within the cooling off period (that is, 21 days from the date of the application, 14 days from the date of issue of the policy, or 5 days from the date of delivery of the policy/a notice (informing you/your representative about the availability of the policy and expiry date of the cooling-off period), whichever is later). After the expiration of the cooling off period, if you cancel the policy before the end of the term, the projected total cash value may be less than the total premium you have paid."</i> <u>List of general insurance and traditional life insurance products that may be sold outside the investment corner</u> (a) General Insurance ▪ Accident ▪ Sickness ▪ Land vehicles ▪ Fire and natural forces ▪ Damage to property ▪ Motor vehicle liability ▪ General liability ▪ Credit ▪ Miscellaneous financial loss ▪ Legal expenses (b) Traditional Life Insurance Products ▪ Life and annuity (including endowment) ▪ Permanent health

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	Retirement scheme management (except MPF products)