



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Conduct Department

Our Ref: B1/15C
C2/5C
G16/1C

17 December 2014

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

**Disclosure of Remuneration Receivable in respect of
Sale of Investment-Linked Assurance Scheme (“ILAS”) Products**

I am writing in relation to the latest “Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme (“ILAS”) to Enhance Customer Protection” issued by the Hong Kong Federation of Insurers (“HKFI”) on 8 December 2014, which introduces, among other things, a revised template of the Important Facts Statement (“IFS”). In particular, the remuneration disclosure statement contained in the IFS has been revised and made applicable to all distribution channels including authorized institutions (“AIs”) no later than 1 January 2015.

The revised remuneration disclosure statement follows the standardized calculation methodology and disclosure format regarding intermediaries’ remuneration for the sale of ILAS products, which was issued by the Office of the Commissioner of Insurance (“OCI”) recently after consultation with the Hong Kong Monetary Authority (“HKMA”). Having regard to the OCI’s new calculation methodology and disclosure format, the HKMA considers it appropriate for AIs to only adopt the revised remuneration disclosure statement in making pre-sale disclosure of remuneration in connection with the distribution of the ILAS product to the customer. For the avoidance of doubt, AIs will no longer need to adopt the modified remuneration disclosure statement and the standardized template as set out in the HKMA’s circular of 22 April 2013¹.

In addition, AIs should also adopt the following standards in making pre-sale remuneration disclosure, among other things, in order to provide customers with sufficient and relevant information about the remuneration and facilitate customers in making informed decisions:

- (i) AIs should disclose and explain to the customer his/her right to ask for details of the remuneration in connection with the distribution of the ILAS product;
- (ii) if the customer wishes to know more about the remuneration, AIs should provide details including but not limited to the types, actual levels, actual amounts, actual basis of calculation, timing of receiving, etc. of the remuneration; and

¹ “Selling of investment-linked assurance scheme (ILAS) products”

- (iii) if the customer chooses a premium payment term for which the standard remuneration disclosure statement prepared by the insurance company does not disclose the specific remuneration (due to the adoption of a banding approach²), AIs should disclose and explain to the customer his/her right to ask for the specific remuneration disclosure statement based on his/her chosen premium payment term, and should facilitate provision of such specific disclosure statement to the customer upon the latter's request.

Taking this opportunity, I would like to reiterate certain standards expected of AIs in implementing the IFS requirements as set out in Annex. Furthermore, AIs are reminded that the requirements specified in section (B) "Guidance on expected standards and common issues identified" of the HKMA's circular of 22 April 2013 remain in force.

AIs should review and put in place adequate controls and practices, and provide sufficient training and guidance to staff to ensure compliance with all applicable regulatory requirements and proper handling of customer enquiries, in coordination with the respective insurance companies. They should maintain adequate records and audit trails (including audio records) to evidence compliance. The HKMA will continue to monitor AIs' compliance with the relevant regulatory requirements in its supervisory process.

Should you have any question relating to this letter, please contact Mr Kevin Sham at 2878-1594 or Ms Angel Chan at 2878-1606.

Yours faithfully,

Alice Lee

Acting Executive Director (Banking Conduct)

Encl.

c.c. Insurance Authority (Attn: Ms Carol Hui, Acting Assistant Commissioner of Insurance (Long Term Business))

Securities and Futures Commission (Attn: Ms Christina Choi, Senior Director, Investment Products)

² This refers to the banding approach (i.e. highest of individual bands with maximum of 5-year interval, or highest of premium payment term) that may be adopted for disclosing remuneration for a regular payment ILAS product with variable payment term, as mentioned in "ILAS Intermediaries' Remuneration Disclosure – Guide on Calculation Methodology and Disclosure Format" issued by the OCI.

Expected standards of AIs in implementing the IFS requirements

1. AIs should provide the customer with the IFS in his/her preferred language (i.e. Chinese or English).
2. AIs should request the customer to set out his/her reasons/considerations for procuring the ILAS product in the “Statement of Purpose” paragraph of the IFS and should give due regard to such information set out by the customer, together with other relevant information (e.g. the information completed by the customer in the Financial Needs Analysis (“FNA”) Form and the Risk Profile Questionnaire (“RPQ”)), in assessing whether or not an ILAS product is suitable for the customer.
3. Where inconsistent answers are given by a customer in the “Statement of Purpose” paragraph of the IFS, the FNA Form and/or the RPQ, AIs should seek clarifications from the customer and properly document justification(s)/reason(s) provided by the customer.
4. AIs should disclose and explain the remaining paragraphs in the IFS, together with other relevant information¹, to the customer during the selling process so that the customer has sufficient time to consider the important facts before deciding whether to make an application for the ILAS product.
5. AIs that distribute ILAS products for insurance companies within their group are required to ensure that the level of remuneration they receive from their group insurance companies for the distribution of ILAS products should be determined on arm's length basis and commercially justifiable. There should not be any arrangement which may prejudice the disclosure requirements directly or indirectly, such as transfer pricing that can have the effect of concealing or distorting the remuneration receivable from the insurance company under the calculation and disclosure requirements.
6. AIs should not proceed with an ILAS application if any of the applicable confirmations in the IFS has not been properly signed by the customer. A copy of the IFS duly signed by the customer, among other documents, should be provided to the customer at the point of sale.

¹ Among other things, the content of the illustration document should be disclosed and explained to the customer during the selling process to facilitate him/her in making an informed decision.