



FAX

From REGIONAL INTERNAL AUDIT

To Securities and Futures Commission

Company

Tel
Fax (852) 2285 6161

Fax 22935722

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MESSAGE



31 December 2009

Securities and Futures Commission
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

Attention: Consultation on proposals to enhance protection for the investing public

Dear Sir/Madam,

On behalf of AXA China Region Investment Services Limited Limited and AXA China Region Insurance Bermuda Company Limited, we thank you for giving us the opportunity to comment on the consultation paper.

We welcome the initiative to institute procedural reforms for investor protection to restore trust and confidence in our market in the aftermath of the financial crisis. These will impact the "what" (product disclosures) and the "how" (sales conduct) in the selling activities. With respect to the "who" in the selling process, initiatives for competence reforms may be timely to ensure that licensed representatives are re-trained and re-tested on technical and ethical standards. In Hong Kong and in Singapore, such competence reforms have been initiated by the Hong Kong Federation of Insurers (HKFI) and the Monetary Authority of Singapore (MAS) with respect to Investment Linked Assurance Schemes (ILAS) and complex investment products, respectively, requiring all existing and new intermediaries/representatives to pass enhanced/new modules (or obtain additional continuing professional development hours in the case of insurance intermediaries in Hong Kong) before allowing them to sell these products.

We provide our comments on certain consultation questions as follows:

Products

Q15 and Q17. Do you have any particular views as to exactly how long the transition period should be for Existing Schemes to fully comply with the Product Key Facts Statements and Other Disclosure Requirements?

The proposed transition period of 9-12 months may not be feasible and we propose a longer transition period of 2 years to 3 years. We have about 30 unit trust and investment-linked insurance products and it will take considerable time and resources to amend the documents of existing products to reflect the new requirements and to obtain SFC approval of the revised documents.

When the SFC revised its advertising guidelines in 2008 and the industry players were required to obtain SFC approval on the revised documents, SFC was unable to cope with the surge of high volume of documents within the expected timeframe, and as such, the deadline was eventually extended. The consultation paper introduces a vast number of changes and a transition period of 9 to 12 months is not practicable or sufficient for a large number of affected products.



Q16. Do you have any comments on ... (4) the codification of the existing practices regarding the computation of surrender values and the notification requirements of scheme changes?

In the illustration document of ILAS, the proposal is to revise the computation of the surrender value which shall not take into account any non-guaranteed returns. We request for clarification of this proposal. We are of the view that clients may not be able to fully appreciate the product features, especially for hybrid investment-linked products in which non-guaranteed payments form part of the core payments. If these non-guaranteed payments will be excluded in the surrender value presented in the illustration document, the customer will hardly understand how the plan operates. Should this proposal be pursued, we request for consideration to allow two sets of illustrations to be used, one with non-guaranteed payments and the other without non-guaranteed payments.

Intermediaries Conduct

Q18 Do you agree that some of the proposals in this part of the consultation paper should only apply to unlisted investment products?

We agree. However, we would like to seek confirmation that the promotion, offer and sale of Investment-Linked Assurance Schemes (ILAS) to the public is out of scope as this is not a regulated activity as clarified in your recent circular.

Q24 (Business Model 2) Where a distributor does not explicitly receive any benefits for distributing an investment product, which of the following disclosure options (Option 2.1- Specific disclosure of distribution reward; Option 2.2- Generic disclosure) would be more appropriate? Please explain your views.

If disclosure shall be required, we support generic disclosure. We are of the view that generic disclosure is sufficient to draw investors' attention that the licensed representative is being rewarded for the distribution of the product, hence, disclosing possible conflict of interest. We find that providing specific disclosures of monetary rewards will not be beneficial to the investors for the following reasons:

- a. *The specific disclosure may distract or confuse investors in making investment decisions, which should be focused on the product merits and features and suitability to their needs and risk profile. This may result in undue bias towards products with lower monetary benefits to the distributors and such products may not necessarily be preferable or suitable to the investors.*
- b. *The specific disclosure does not enable the investor to make meaningful product comparisons across different product issuers or across the product offerings of a single product issuer.*
 - *The specific disclosure, which is based on subjective and approximate computation, may be used in making erroneous comparison of monetary distributor rewards across different product issuers.*
 - *The specific disclosure is limited to product/s recommended by the distributors. It does not enable the investor to make a comparison vis-à-vis the other products of a single product issuer where such products are not recommended by the distributor. Hence, the information is incomplete and fails to fully disclose any conflict of interest wherein the distributor may be offering a product with a higher monetary distributor reward vis-à-vis other products which are not recommended.*



Q26 Do you consider it appropriate to restrict distributors from offering investors supermarket gift coupons, audio visual equipment and other kinds of gifts having monetary value (except discounts of fees and charges) in promoting a specific investment product to investors?

We do not believe it is appropriate to restrict the offering of gifts. While this promotion activity in a highly competitive market place draws client's attention, we believe that clients are not disadvantaged as adequate investor protection measures are in place, including risk disclosures.

Q28 Do you think audio recording of the client risk profiling process and the advisory or selling process for investment products should be made mandatory or the current record keeping requirements are sufficient? If audio recording is made mandatory, how long do you think these audio records should be kept for? Please explain your views.

We do not support the mandatory audio recording of the risk profiling and the advisory or selling process. The objective of the proposal is to provide a useful audit trail in the event of dispute. However, our view is that the practical difficulties and the cost to implement such proposal outweigh the benefit. The audio recording process in a field sales activity is cumbersome as the risk profiling and selling process may not be conducted in one contiguous conversation. The process may entail several rounds of client meetings and the inclusion of expected non-sales related conversations. There will be logistics cost to set up the infrastructure and controls of the audio recording system.

We find that the current record keeping requirements are sufficient to document information and recommendation given to client. If enhancement shall be required, we propose to put in place confirmation procedures through post-sales calls by non-sales staff for selected "vulnerable" clients. The HKFI has recently required such procedures pertaining to the sale of ILAS.

Q29. Do you believe that a cooling-off period would generally be beneficial for investors or do you believe that costs associated with its implementation would outweigh the benefits to investors?

We believe that cooling off period would be beneficial to investors for cases cited where there will be long lock up period, and/or where there will not be dealings in the product or other liquidity provision on a frequent basis. For such cases, we agree that the cost efficient implementation would be to delay trade execution until after the cooling off period.

For other cases where there is already available exit mechanism for the investor who may opt to terminate the investment at anytime, we find that providing a cooling off right will not be beneficial to the investors as they will nonetheless have to bear the transaction costs and market value adjustments. There is also the risk that the cooling off right may be used for speculation and that investors may be less diligent in understanding product features and risks.

Respectfully Yours,

A handwritten signature in black ink, appearing to read 'JLigon', is written over a light blue horizontal line.

Jacqueline Ligon
Head of Compliance
Telephone Number: 25191392
Email: Jacqueline.ligon@axa.com.hk

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