

AIA Wealth Management Company Limited
Response to the SFC Consultation Paper on Proposals to Enhance
Protection for the Investing Public

In principle we support the direction of enhancing disclosures so that customers are able to make informed choices of the investment products and vehicles to achieve their financial goals.

In reviewing the various proposals put forward by the Commission, we have taken into considerations of:

- a) its effectiveness in enhancing consumer protection;
- b) the apparent and potential costs to the business; and
- c) the possible unintended negative consequences.

AIA Wealth Management Company Limited (AIA WM) is currently a licensed corporation for Type 1 regulated activities. With a business model as being an intermediary for various investment products, we shall focus our responses on Part III – Intermediaries conduct of the SFC Consultation Paper as below:

PART III – INTERMEDIARIES CONDUCT

Question 18 – Do you agree that some of the proposals in this part of the consultation paper should only apply to unlisted investment products? Please explain your views.

AIA WM Response

We agree. Purchases of list products are usually self-directed and do not necessarily involve advice.

INVESTOR CHARACTERIZATION

Question 19 – Do you think that intermediaries should, as part of their “know your client” procedures, seek clients’ information about their knowledge of derivatives and characterize those clients (other those professional investors) with such knowledge as “clients with derivative knowledge” to assist intermediaries in ensuring that the investment advice and products offered in relation to unlisted derivative products are suitable? Please give your views on the contents of the proposed measures for intermediaries to assess whether investors have knowledge of derivatives.

AIA WM Response

Whilst we do not object to this proposal, we do not see incremental value of implementing the proposed measures either, as they are not much different from the suitability requirements currently in place. As a alternative, we suggest an enhancement in the training and education of the intermediaries who are responsible for the recommendation and sale of “complex” products.

PROFESSIONAL INVESTORS

Question 20 – Should a high net worth investor be considered to have specific knowledge and expertise if: (a) he is currently working, or has previously worked in the relevant financial sector for at least one year in a professional position that involves the relevant product; or (b) he has undergone training or studied courses which are related to the relevant product? And, do you have any other suggestions?

AIA WM Response

Whilst we agree that working experience and training could add value to investors' "specific knowledge and expertise", we consider that the more important issue in enhancing investor protection was to ensure that "suitable" advice is being provided. We also anticipate technical difficulties that could arise in ascertaining whether a course and/or training are "relevant" for a consumer's portfolio.

Questions 21 – What amount should the minimum portfolio requirement be set at? Please give your reasons.

In view of the average size of average investment assets in the past 10 years, we do not see the necessity of increasing it now. In fact, we recommend that any future change to this threshold should be as infrequent as possible in order to minimize any disruptions to the service providers and the clients.

PRE-SALE DISCLOSURE OF MONETARY AND NON-MONETARY BENEFITS

AIA WM Comment to the Issue of Commission Disclosure

Generally speaking we acknowledge the potential conflict of interest arising from different levels commissions offered on sales of different investment products. However, we do not agree that full disclosure of commission upfront to potential investors is an effect measure to prevent any practice of mis-selling. Product recommendations should be made on the basis of customer suitability, and customers should be explained in details the rationale behind each recommendation given. Disclosure of commission, in generic terms, should be able to serve the purpose of alerting customers any potential conflict of interest. However, if too much details of a complex commission structure is disclosed, this would not necessarily be understood by the investors, which would defeat the original purpose of disclosure.

As such our recommendation is to have % bands (in terms of either the amount of investment sums, or the fees applicable to the products) whenever practicable, or else a generic disclosure.

In all cases, we recommend that each distributor have a choice of generic disclosure, and we should let the market decide whether investors would favor a more transparent model.

Question 22 – Where a distributor and/or any of its associates explicitly receives or will receive monetary benefits from a product issuer (directly or indirectly), which of the following three disclosure options would be more appropriate? Please explain your views.

- | | |
|------------|---|
| Option 1.1 | Disclosure of dollar amount or percentage |
| Option 1.2 | Disclosure of percentage bands or ceiling (i.e. "x% to y%" or "up to y%") |
| Option 1.3 | Generic Disclosure |

AIA WM Response

As stated above, we recommend either generic disclosure, or, in applicable, % bands in terms of either the amount of investment sums, or the fees applicable to the products.

Question 23 – Do you have any suggestions as to how the percentage bands referred to in Question 22 should be set (e.g. up to 1%, over 1% to 2%, etc)?

AIA WM Response

We suggest no pre-defined format in disclosing the percentage bands, as long as the disclosures on different products offered by a distributor are comparable with each other.

Question 24 – Where a distributor does not explicitly receive any monetary benefits for distributing an investment product, which of the following disclosure options would be more appropriate? Please explain your views.

- | | |
|------------|--|
| Option 2.1 | Specific disclosure of distribution reward |
| Option 2.2 | Generic disclosure |

AIA WM Response

We recommend generic disclosure so that customers are aware of the potential conflict of interest. Any attempt to quantify the distribution reward would create an unfair comparison to the commission disclosed for other products, and as such could not serve the purpose of addressing potential conflict of interest.

Question 25 – Where a distributor makes a trading profit from a back-to-back transaction, which of the following disclosure options would be more appropriate? Please explain your views.

- | | |
|------------|---------------------------------------|
| Option 3.1 | Disclosure of specific trading profit |
| Option 3.2 | Generic disclosure |

AIA WM Response

We recommend generic disclosure so that customers are aware of the potential conflict of interest. Any attempt to quantify the trading profit would create an unfair comparison to the commission disclosed for other products, and as such could not serve the purpose of addressing potential conflict of interest.

USE OF GIFTS BY DISTRIBUTORS IN PROMOTING A SPECIFIC INVESTMENT PRODUCT

Question 26 – 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 discount of fees and charges) in promoting a specific investment product to investors?

AIA WM Response

We agree. Offering of investment advice and recommendations should entirely based on the product suitability of the clients.

SALES DISCLOSURE DOCUMENT

Question 27 – Do you have any comments on the proposed information content of the Sales Disclosure Document which includes (a) capacity (principal or agent); (b) affiliation with product issuer; (c) monetary and non-monetary benefits; and (d) discount of fees and charges available to investors?

AIA WM Response

Sale disclosure should be made in a user friendly manner at the initial sale process and one-off to consumers, for example, as part of the account opening process. Specific guidelines should be provided to the industry on the length and language to be used in the disclosure documents to ensure that they do not become lengthy compliance focused documents.

AUDIO RECORDING

Question 28 – 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.

AIA WM Response

We consider that the current SFC record keeping requirements already suffice for the protection of investors and do not agree to make audio recording mandatory.

If, however, audio recording is made mandatory, taking into consideration of administrative cost arising, we propose these records should not be kept for longer than 3 months.

PART IV – POST-SALE ARRANGEMENTS: COOLING OFF PERIOD

Question 29 – 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 for investors?

AIA WM Response

We should take caution of an unintended consequence that some professional traders take advantage of this provision merely to avoid the respective cost of investment. As such, we in principle support the introduction of “cooling off” period for long dated illiquid products only. However, we are also concerned about the respective increase of the cost of investors. Also, adequate consumer education have to occur prior to the implementation, to avoid any unnecessary complaints on the understanding its implications, for example, that fund received after exercising cooling-off right will be subject to market fluctuation and administration fees.

Question 30 – Please provide your views on whether investors should be given a period of time after placement of their orders during which execution of the trade is delayed and the investor is given an opportunity to cancel the order before the trade is executed. If your view is that this would generally be beneficial to investors, please provide your views on the types of investment products for which it should be considered and the appropriate cooling-off timeframe.

AIA WM Response

This is not recommended, as most of investors expect the execution be taken as soon as practicable.

Question 31 – Please provide your views on whether, and in what circumstances, you think a window could or should be provided to investors after the date the trade in the relevant product is executed during which an issuer should be required to buy back the product at an investor’s request.

AIA WM Response

Our view is that this right should only be applicable only to elderly and inexperienced investors.

Question 32 – On the basis that a cooling-off period is incorporated in an investment product and a client has exercised his right under the mechanism, do you consider that a distributor should promptly pass on to the client the full amount of refund (including the sales commission) received from the product issuer less a reasonable administrative charge? Please explain your views.

AIA WM Response

We strongly recommend that the “refund” (including the sales commission) has to be subject to market fluctuations, price spreads of the underlying assets and administrative charge.