

**STANDARD WORKING RULES ON  
INVESTMENT  
RECOMMENDATIONS**

**Korea Financial Investment Association**

※ These Standard Working Rules on Investment Recommendations have been prepared as reference for individual companies to establish and manage their working rules on investment recommendations in accordance with [§50] of the “Financial Investment Services and Capital Markets Act.” Each company is advised to make changes and modifications to these Standard Working Rules on Investment Recommendations so that they are in accord with the characteristics of their businesses.

※ These Standard Working Rules on Investment Recommendations are based on the premise that “an ordinary investor (*Provided*, That in the case of a discretionary investment/trust agreement, professional investors are included) makes an investment by visiting the sales office of the distributor.” Thus, these rules may be applied differently for sales via the internet or telephone, or sales to professional investors, etc.

# Contents

- I. General Provisions
  - 1. Purpose
  - 2. Definition of Terms
  - 3. General Principles for Investment Recommendation & Sales
- II. Classification of Investors, etc.
  - 4. Confirmation of Purpose of Visit
  - 5. Classification of Ordinary/Professional Investors
- III. Sales to Investors Not Desiring Investment Recommendations
  - 6. Duty to Protect Investors Not Receiving Investment Recommendations
  - 7. Special Rules for Derivatives, etc. (Principle of Adequacy)
- IV. Sales to Investors Desiring Investment Recommendations
  - IV-1. Investor Information
    - 8. Acquisition of Investor Information and Analysis of Investor Propensity
    - 9. Validity Period for Investor Information
  - IV-2. Investment Recommendation
    - 10. Procedures for Investment Recommendation
    - 11. Protection Criteria for Sales of Financial Investment Products to Senior Investors
    - 12. Special Rules for Over-the-Counter Derivatives
    - 13. Matters to be Attended to When Making Investment Recommendations

IV-3. Duty of Explanation

14. Duty of Explanation

15. Special Rules on Duty of Explanation for Foreign Currency Securities, etc.

15-2. Special Rules on Duty of Explanation for Contingent Convertible Bonds

V. Classification of Financial Investment Instrument Risk

16. Classification of Financial Investment Instrument Risk

VI. Other Matters to be Attended to When Making Investment Recommendations

17. Delivery of Contract Documents and Cancellation of Contract

18. Prohibition on Compensation for Loss, etc.

19. Prohibited Acts of Investment Traders and Investment Brokers

20. Matters to be Observed by Investment Advisory Business Entities and Discretionary Investment Business Entities

21. Prohibited Acts of Investment Advisory Business Entities and Discretionary Investment Business Entities

22. Special Rules on Discretionary Investment Business Entities and Trust Business Entities

23. Special Rules for Robo-advisors

## I . General Provisions

### 1. Purpose

The purpose of these Standard Working Rules on Investment Recommendations (hereinafter referred to as the “Working Rules”) is to prescribe specific guidelines and procedures, etc. with which executives and employees of a company as well as investment solicitors (hereinafter referred to as the “executives and employees, etc.”) must comply when making investment recommendations to ordinary investors pursuant to [§50(1)] of the Financial Investment Services and Capital Markets Act (hereinafter referred to as the “Act”).

### 2. Definition of Terms

The definitions of the terms used in these Working Rules are as follows. *Provided*, That the terms that are not prescribed in these Working Rules shall conform to the matters prescribed in the Act, enforcement decrees, enforcement rules, Regulations on Financial Investment Business of the Financial Services Commission and the regulations of the Korea Financial Investment Association, etc. (hereinafter referred to as the “relevant laws”).

- 1) The term “investment recommendation” refers to the act of making a recommendation to a specific investor to execute a contract for trading financial investment instruments, investment consulting, discretionary investment, or a trust (excluding a managerial trust contract and a trust contract as an investment; hereinafter the same shall apply.) ☞ [§9(4)] of the Act.
- 2) The term “portfolio investment” refers to the act of investing in two or more financial investment instruments for the purpose of diversifying investment risks.
- 3) The term “derivatives, etc.” refers to financial investment instruments falling under any of the following: ☞ [§46-2(1)] of the Act
  - a. Derivatives; or

- b. Financial investment instruments in each Subparagraph of [§52-2(1)] of the Enforcement Decree of the Act.

**※ Note for Companies 2-1**

▶ The term “derivatives, etc.” refers to financial investment instruments pursuant to [§46-2] of the Act

- ① Derivatives : Exchange-traded derivatives and over-the-counter derivatives
- ② Derivatives-linked securities (*Provided*, That gold passbooks, etc. are excluded) (Subparagraph 1 of ([§52-2(1)] of the Enforcement Decree of the Act)
- ③ Derivatives collective investment securities : Collective investment securities of a collective investment scheme that may be invested to the extent that the risk valuation amount ensuing from trading derivatives exceeds 10/100 of the total asset amount of the collective investment scheme (*Provided*, That index funds under [§4-7-2] of Regulations on Financial Investment Business are excluded, whereas leverage and inverse ETFs fall under derivatives, etc.)
- ④ Collective investment securities of a collective investment scheme that invest more than 50 percent of the collective investment property in derivatives-linked securities mentioned in ②
- ⑤ Contingent convertible bonds pursuant to [§165-11(1)] of the Act
- ⑥ Beneficiary certificates of money trust contracts that invest in financial investment instruments stipulated in ① through ⑤ (including products that are similar thereto with the beneficiary’s rights to the trust indicated)

☞ A. Collective investment securities of a collective investment scheme that invest no more than 50 percent of the collective investment property in derivatives-linked securities mentioned in ② (excluding the proviso thereof); and

B. Collective investment securities of a collective investment scheme that invests the collective investment property only in derivatives-linked securities according to the proviso of ② are excluded from the scope of “derivatives, etc.”

### **3. General Principles for Investment Recommendation & Sales**

Executives and employees, etc. shall comply with the following when recommending and selling investment instruments to investors.

- 1) Executives and employees, etc. shall comply with the relevant laws, etc. and engage in their business in a fair manner in compliance with the principle of good faith. ☞ [§37(1)] of the Act
- 2) Executives and employees, etc. shall clearly explain the risks associated with an investment as well as the characteristics and major contents of a transaction to allow investors to make reasonable decisions and judgements related to the investment.
- 3) Executives and employees, etc. shall inform an investor that he/she shall make decisions on an investment based on his/her own judgement and responsibility and that he/she is responsible for the results of the investment decision.
- 4) Executives and employees, etc. shall not undermine the interest of an investor without a justifiable ground to enable themselves, the company or a third party to make profit. ☞ [§37(2)] of the Act

## **II. Classification of Investors, etc.**

### **4. Confirmation of Purpose of Visit**

- 1) Executives and employees, etc. shall, when an investor makes a visit, confirm the purpose of the visit and whether the investor wants to receive investment recommendations.
- 2) Executives and employees, etc. shall not conduct an act constituting an investment recommendation for an investor who does not want to receive investment recommendations, and shall provide only objective information desired by the investor.

#### ※ Note for Companies 4-1

- ▶ According to the Act, the term “investment recommendation” refers to the act of recommending trading financial investment instruments or executing a contract for investment advisory, discretionary investment, or trust services to a specific investor. Thus, it is difficult to consider provision of information that does not accompany recommendations for trading or contract execution of financial investment instruments as an investment recommendation.
- ▶ In the case of a provision of information that does not accompany an investment recommendation, it is not necessary to write a confirmation letter on investor information.

### 5. Classification of Ordinary/Professional Investor

1) Executives and employees, etc. shall confirm whether an investor is an ordinary investor or a professional investor prior to making an investment recommendation. ☞ [§46(1)] of the Act

2) Executives and employees, etc. shall, in the case where a professional investor who is entitled to switch over to an ordinary investor pursuant to the proviso of [§9(5)] of the Act notifies the company in writing of its intention to be treated as an ordinary investor, give their consent unless there is any justifiable reason. ☞ proviso of [§9(5)] of the Act

3) A stock-listed corporation shall be regarded as an ordinary investor in the case where it trades over-the-counter derivatives with a company. *Provided*, That the corporation shall be regarded as a professional investor in cases where it notifies the company in writing its willingness to be treated as a professional investor. ☞ proviso of Subparagraph 4 of [§9(5)] of the Act

### III. Sales to Investors Not Desiring Investment Recommendations

#### 6. Duty to Protect Investors Not Receiving Investment Recommendations

- 1) Executives and employees, etc. shall inform an investor that they cannot make investment recommendations in cases where the investor did not provide investor information as he/she does not desire investment recommendations. In cases where an investor who intends to trade derivatives, etc. does not provide investor information, executives and employees, etc. shall notify the investor of the fact that trading is restricted in accordance with relevant laws.

**※ Note for Companies 6-1**

- ▶ In cases where an investor does not provide the information necessary for investment recommendation or does not desire an investment recommendation, a company shall request a letter of confirmation that includes the content of “Confirmation of Refusal to Receive Investment Recommendation (or Refusal to Provide Investor Information)” in [Reference 1] and proceed with follow-up sales procedures.
- ▶ In the case of discretionary/money trust agreement, executing a contract after requesting the “Confirmation of Refusal to Receive Investment Recommendation (or Refusal to Provide Investor Information)” does not accord with the nature of a tailored contract and may be in violation of Subparagraph 5 of [§4-77] and Subparagraph 26 of [§4-93] of the Regulations on Financial Investment Business. <Refer to 22. Special Rules on Discretionary Investment Business Entities and Trust Business Entities>
  - ☞ See Subparagraph 5 of [§4-77] of the Regulations on Financial Investment Business: Investors are to be classified by type based on, among other factors, the investor’s age, investment purpose and income level, and an act of managing discretionary investment assets not suitable for each investor type is prohibited.
  - \* Among money trust agreements, specified money trusts in which the investor specifically designates certain issues and exposures to an investment are excluded. (*Provided*, That even in such cases, when the investor invests in derivatives, etc.,

executives and employees, etc. must identify the information necessary for confirmation, including the investment purpose, financial status and investment experience, etc.)

**Confirmation of Refusal to Receive Investment Recommendation (or Refusal to Provide Investor Information)**

<input type="checkbox"/> I do not want to receive investment recommendation	<input type="checkbox"/> I do not want to provide my investor information ※ Not to be checked in cases where the investor intends to trade discretionary investment, (non-designated) trust instruments and derivatives, etc.
---	--

- In cases where the investor refuses to receive investment recommendation or does not provide investor information, a company may not make any investment recommendations until the customer separately expresses his/her intention to receive them.
- A loss on the principle could be incurred when making an investment, and the customer is fully responsible for the profit & loss of the investment.

- 2) Executives and employees, etc. shall, in cases where an investor intends to make an investment without receiving an investment recommendation, inform the investor of the major matters to be attended in relation to the investment, such as the fact that the investor is responsible for the risk of loss of the principal as well as profits and losses generated from the investment.
- 3) Executives and employees, etc. shall, in cases where an investor intends to invest in securities after the relevant registration statement becomes effective pursuant to [§120(1)] of the Act, deliver the investment prospectus concerned before the sale regardless of whether they make an investment

recommendation to the investor. *Provided*, That investors who are exempt from receiving an investment prospectus pursuant to [§132] of the Enforcement Decree of the Act are excluded. ☞ [§124(1)] of the Act

- 4) Notwithstanding 3), in the case of collective investment securities, if the investor does not make a separate request for the investment prospectus, it may be substituted by a simplified prospectus. In this case, the investor must be informed that he/she may separately request the investment prospectus. ☞ [§124(3)] and [§124(4)] of the Act
- 5) In cases where an investor receives investment advisory services from an investment advisory business entity and requests to purchase the financial investment instrument, etc. in accordance with the results of the investment advisory services in any of the following method, the financial investment company that distributes the financial investment instrument, etc. concerned can omit the principle of suitability, explanation and prospectus distribution process:
  - a. In cases where an investor submits evidential document that confirms that he/she underwent the principle of suitability, explanation and prospectus distribution process with the investment advisory business entity; or
  - b. In cases where the intention to purchase the financial investment instrument, etc. as a result of the investment advisory services, has been delivered through the sales account (advisory-linked account) of the financial investment company linked to the investment advisory contract.

## **7. Special Rules for Derivatives, etc. (Principle of Adequacy)**

- 1) In cases where executives and employees intend to sell derivatives, etc. to an investor, they shall obtain information about the investment purpose, financial status and investment experience of the investor (hereinafter referred to as the “investor information”) through interviews and inquiries, etc. even if they do not make an investment recommendation. ☞ [§46-2(1)] of the Act
- 2) Executives and employees shall, in cases where it is deemed that the

derivatives, etc. concerned are inadequate for the investor in light of the investor information obtained pursuant to 1), inform the investor of the content of the derivatives, etc. concerned, risks involved thereof and the fact that the investment concerned is not adequate in light of the investor information, and shall receive a confirmation from the investor by obtaining his/her signature (including digital signatures pursuant to [§2(2)] of the Digital Signature Act; hereinafter the same shall apply) or seal, or through recording, electronic mail, electronic communications similar thereto, mail or through automatic telephone answering system, etc. (hereinafter referred to as “signature, etc.”). In this case, the criteria for determining the adequacy of the derivatives, etc. concerned shall conform to the criteria for determining the suitability thereof mentioned in 10. and 12. ☞ [§46-2(2)] of the Act and Paragraphs (2) and (3) of [§52-2] of the Enforcement Decree of the Act.

**※ Note for Companies 7-1**

- ▶ In cases where an investor wishes to invest in derivatives, etc. not suitable for him/her, executives and employees, etc. shall have the investor understand that the instrument is not suitable for him/her through the form “Confirmation of Trading Unsuitable Financial Investment Instruments” in Note for Companies 10-4.

#### **IV. Sales to Investors Desiring Investment Recommendations**

##### **IV-1 Investor Information**

##### **8. Identification of Investor Information and Analysis of Investor Propensity**

- 1) Executives and employees, etc. shall, through interviews and inquiries, obtain investor information from an investor who desires an investment recommendation in accordance with the confirmation letter of investor information in <Annexed Paper O> before making an investment recommendation thereto, and shall maintain and manage the information after receiving a confirmation on such information from the investor by obtaining his/her signature, etc. ☞ [§46(2)] of the Act

※ Note for Companies 8-1

- ▶ Confirmation letter of investor information: A company shall prepare a confirmation letter of investor information in the form of <Annexed Paper ○>, and may use the existing forms it has used.
- It is also possible to obtain investor information using the classification of investors in ① and ② based on the confirmation letter of investor information (Sample 2) in [Reference 1].
  - ① Information for identification of the “general propensities of investors” that indicate investors' general attitudes towards investment
  - ② Information for identification of the “propensities of the current investments,” such as the purpose of the current investments and the expected investment periods, etc.
- *Provided*, That even in cases where the general propensities of investors and the current propensities of investments are not separately indicated in the confirmation letter of investor information in (Sample 1) in [Reference 1], the items related to the “current propensities of investments (e.g. the purpose of investment, the expected investment period, loss tolerance level, etc.) have to be included, and it is advisable to confirm whether there have been any changes to the pre-identified information each time investment is recommended.
- ▶ How to prepare the confirmation letter of investor information: Investor information does not need to be written in investors' own handwriting. It is possible for employees to enter the information they obtained through interviews into a computer terminal, print out the information, and then obtain confirmation from investors.
- ▶ Online fund trade: When investing in funds online, unlike general financial investment instruments, an online system needs to be established to implement investment recommendation procedures, such as the principle of suitability, in cases where an investment is recommended or an investor wishes to receive recommendation. (Investors shall be able to check their own investment propensity and the degree of the risk associated with the funds they intend to invest in online.)
- Among online investors, the investors whose investment propensity has already been confirmed shall initially be provided with information on funds that meet his/her investment propensity so that the investor can first make a judgement on the fund that suits his/her investment propensity. It

is desirable to provide information on another fund afterwards, when the investor wishes to receive information on another fund.

- *Provided*, That in cases where an investor does not desire investment recommendation, an online screen should be established to make investors aware of the fact that they are making investments without investment recommendations.
- In the case of derivatives funds, companies shall identify investor information in accordance with the principle of adequacy, and shall give a warning, etc. to investors who desire to trade unsuitable instruments.
- In cases where the funds sold online are multi-class funds, the company shall compare and indicate the difference in fees and commissions by each class.
- In cases where a company presents recommendable funds to an investor with an aim to sell funds online, the company shall specify in detail the cycle, procedure, criteria for selecting the recommendable funds or specify the quantitative or qualitative reasons for selecting such funds.

2) Executives and employees, etc. shall provide, without delay, the content of the investor information confirmed in accordance with 1) as well as the investor propensity classified in accordance with <Annexed Table ●> (hereinafter referred to as the “investor propensity”). ☞ [§46(2)] of the Act

**※ Note for Companies 8-2**

- ▶ A company may autonomously determine evaluation criteria, etc. to identify investor propensity.
- ▶ In cases where a company intends to classify an investor’s propensity into certain types, it may separately determine the types of investor propensity based on the confirmation letter of investor information (Sample) in [Reference 1] and may also change the number or name of the types.

(Sample)

Method 1	Method 2	Method 3	Method 4
<input type="checkbox"/> High risk and high return type <input type="checkbox"/> Middle risk and middle return type <input type="checkbox"/> Low risk and low return type	<input type="checkbox"/> Derivatives type <input type="checkbox"/> Stock preference type <input type="checkbox"/> Growth type <input type="checkbox"/> Interest and dividend-paying type	<input type="checkbox"/> Risk preference type <input type="checkbox"/> Aggressive type <input type="checkbox"/> Growth type <input type="checkbox"/> Stable growth type <input type="checkbox"/> Risk-Averse type	<input type="checkbox"/> Aggressive investment type <input type="checkbox"/> Stock preference type <input type="checkbox"/> Equity fund preference type <input type="checkbox"/> High return bond type <input type="checkbox"/> Hybrid investment type <input type="checkbox"/> Stable investment preference type <input type="checkbox"/> Interest income type

▶ *Provided*, That in cases where a company uses the factor-out method or the method of using a consultation report indicated in [Reference 4], it does not need to classify the investor propensity into specific types.

- 3) Executives and employees, etc. shall, in principle, obtain investor information from the investors themselves. They may obtain such information from the investor’s agent in cases where the agent brings documents, etc. proving their power of attorney such as the certificate verifying the real name of the investor and his/her proxy as well as a letter of delegation, etc. In this case, the company shall confirm whether the authority to prepare investor information is included in the scope of delegation.

**※ Note for Companies 8-3**

- ▶ The form of the letter of delegation used by a company shall include “delegation of authority to prepare investor information.”
- The “agent,” in these Working Rules, assumes the case of an “agent-in-fact.” In the case of a statutory agent, the cause for legal delegation authority, such as applicable law or a court decision, may change the method by which the delegation authority is confirmed.

(Example: In cases where a parent as the legal representative of his/her minor child receives investment recommendation from a company, there cannot be a direct act of delegation of authority by the minor child, as is in the case with the agent-in-fact. In such case, if the parent submits documents evidencing parental rights and his/her legal delegation authority is confirmed, no additional evidence is necessary for determining whether the parent has the right to prepare investor information for the minor child.)

- 4) Even if an investor wishes to receive investment recommendation, if the investor has not provided his/her information, executives and employees, etc. shall notify the investor that investment recommendation cannot be provided as the investor propensity cannot be identified. Executives and employees, etc. shall regard the investor as one who does not wish to receive investment recommendation and follow the procedures set out in “III. Sales to Investors Not Desiring Investment Recommendations.”
- 5) Executives and employees, etc. may identify investor information in a simple manner using the confirmation letter of investor information in [Annexed Paper △] in cases where an investor only trades collective investment securities of a money market fund, government bonds, local government bonds, special purpose bonds, and any other financial investment instruments comparable to these instruments that do not carry a high risk as well as where an investor that enters into a repurchase agreement.

**※ Note for Companies 8-4**

- ▶ In cases where an investor only trades CMAs, MMFs, RPs or government and public bonds, the company may use a separate confirmation letter of investor information as provided in [Annexed Paper △] with approximately three (3) questions designed to simply identify the investment purpose, financial status, investment experience, etc.
- *Provided*, That in cases where the company only intends to recommend general financial investment products such as funds to such investor, the company shall check the investor propensity of the investor by using the general confirmation letter of investor information.

- 6) Executives and employees, etc. shall identify investor information using the “Confirmation Letter of Investor Information for OTC Derivatives” in [Annexed Paper ◇] in cases where an investor wishes to trade OTC derivatives regardless of whether the investor receives investment recommendation.

**※ Note for Companies 8-5**

- ▶ A company shall prepare a separate form referencing the “Confirmation Letter of Investor Information for OTC Derivatives” in [Reference 2],
  - The confirmation letter shall be prepared in two different forms: ‘corporate and sole proprietorship’ and ‘individuals.’
  - A company may make a form by combining the ‘confirmation Letter of Investor Information’ with the ‘confirmation letter of investor information for OTC derivatives.’

**9. Validity Period for Investor Information**

**※ Note for Companies 9-1**

- ▶ The following pertains to cases where a company sets the validity period for investor information and an investor agrees thereto.

- 1) Executives and employees, etc. may deem that investor information has not changed for ( ) months (validity period for investor information) since the date they obtained investor information unless investors file a separate request to change such information.

**※ Note for Companies 9-2**

- ▶ In the case of foreign countries, the validity period for investor information is usually 12-36 months.
- ▶ A company that classifies investor information into “general investor propensity” and “propensity of current investments” when obtaining thereof shall set the validity period for only the information classified as the “general investor propensity. (For further details, please refer to the

<Method of Applying Sample 2> in [Reference 1].)

- 2) Executives and employees, etc. shall explain 1) to investors, and tell them to report the content of any change in investor information.

**※ Note for Companies 9-3**

- ▶ A company shall guide the investor to notify the company of any changes in his/her e-mail address, telephone number, etc. apart from the change in the investor information in order to secure the latest information of the investor.

- 3) Executives and employees, etc. shall, in cases where they make an investment recommendation to an investor whose information is already known to their company, confirm whether the validity period for the information has elapsed, and shall, in the case where such period has expired, obtain the information again.

**※ Note for Companies 9-4**

- ▶ In cases where the validity period for investor information has expired, such information shall be newly obtained by the time when the first investment recommendation is made after the information expiration date.

- 4) Notwithstanding 1) through 3), in cases where a company has entered into a discretionary investment contract with an ordinary investor, the company shall confirm any changes made to the financial status and investment purpose, etc. of the investor at least once every quarter. The company shall confirm any changes made to the financial status, etc. of the investor at least once every quarter, in cases where it has entered into a monetary trust contract (excluding specific money trusts for which investors have specifically designated certain items and proportions thereof, etc.).  Subparagraph 6 of [§4-77] and Subparagraph 22 of [§4-93] of the Regulations on Financial Investment Business

## IV-2 Investment Recommendation

### 10. Procedures for Investment Recommendation

- 1) Executives and employees, etc. shall not recommend an investor making an investment that is deemed unsuitable for the investor in light of the criteria for determining the suitability of an investment recommendation in [Annexed Table ◆] determined by the company concerned. ☞ [§46(3)] of the Act.

<b>※ Note for Companies 10-1</b>
----------------------------------

- |  |
|--|
| <ul style="list-style-type: none"><li>▶ A company shall, in cases where it classified the investor propensity into certain types, set the standards for determining the suitability of an investment recommendation in &lt;Annexed Table ◆&gt; based on the classification of investor propensity and financial investment instrument risk determined by the company. Various methods may be used to determine the suitability of an investment recommendation. The company shall determine the method to be used based on the example in [Reference 4].</li><li>▶ A company shall, even when it does not classify investor propensity into certain types, set the standards for determining the suitability of an investment recommendation in &lt;Annexed Table ◆&gt;.</li></ul> |
|--|

- 2) Executives and employees, etc. shall inform investors whose information is already known to the company, of their investment propensity before making an investment recommendation.

<b>※ Note for Companies 10-2</b>
----------------------------------

- |  |
|--|
| <ul style="list-style-type: none"><li>▶ In such case, the company may use the “financial investment instrument suitable for each investor propensity” table in Note for Companies 10-4 for the better understanding of the investor.</li></ul> |
|--|

- 3) Executives and employees, etc. may, in cases where they believe an investor can lower or avoid risks accompanying any investment through the investment concerned, as the investor's investment purpose is to avoid risks to his/her asset holdings or he/she is investing in installments, make an investment recommendation by applying a more alleviated criteria compared to the

classification criteria for financial investment instrument risk in <Annexed Table ■>.

**※ Note for Companies 10-3**

- ▶ A company may also determine and present the method of applying a more relaxed criteria than <Annexed Table ■> considering an investor's investment method (installment/lump-sum, etc.), investment period and whether he/she is making a portfolio investment, etc. (e.g., In the case where an investor makes an installment investment in collective investment securities for 10 years or more, the degree of the risk applied to the instrument concerned may be downgraded by a notch, and etc.)

- 4) Executives and employees, etc. shall, in cases where an investor intends to invest in a financial investment instrument that is deemed riskier compared to his/her investor propensity known to the company, inform the investor of his/her investment propensity, the risk involved in the financial investment instrument concerned as well as the fact that such investment may not be suitable for him/her.

**※ Note for Companies 10-4**

**▶ When an investor intends to invest in a financial investment instrument that is deemed unsuitable for him/her**

- A company may sell the financial investment instrument after clearly informing the investor of the fact that the instrument is not suitable for him/her.
- The company may halt the trade concerned in accordance with its criteria.
- ▶ The company shall use the “financial investment instrument suitable for each investor propensity” table for the investor to easily understand that the investment he/she is intending to make is an investment in a high-risk financial investment instrument compared to his/her investment propensity.

**Confirmation of Trading Unsuitable Financial Investment Instruments**



※ Even in cases where an investor fills in the “Confirmation of Trading Unsuitable Financial Investment Instruments,” executives and employees shall have to notify the investor of the details of the derivatives, etc. concerned, the risk involved with the investment and the fact that the trading concerned is not suitable for the investor in accordance with the relevant statutes.

\* In cases where the “general propensities of investors” and “current propensities of funds for investment” are classified separately as in (Sample 2) of [Reference 1] and the investor needs to make a stable investment as the risk preference levels of the “current propensities of funds for investment” are lower compared to the “general propensities of investors,” the company shall only sell low-risk financial investment instruments to the investor concerned.

5) In cases where executives and employees, etc. intend to recommend investment in financial investment instruments in b) to an investor stipulated in a), they shall distribute a suitability report that includes the reasons for recommendation and cautionary notes to the investor prior to signing the contract in order to allow the investor to make the right investment decision.

- a) Subject of distribution: new investors, senior investors and super senior investors
- b) Subject instruments: ELS, ELF, ELT, DLS, DLF, DLT

**※ Note for Companies 10-5**

▶ The content, etc. of a suitability report can be wide-ranging, and they shall be determined by the company in reference of the sample in {reference 4-1}.

## **11. Protection Criteria for Selling Financial Investment Instruments to Senior Investors**

In cases where executives and employees, etc. sell a financial investment instrument to a senior investor, they shall comply with the criteria for

determining the suitability of an investment recommendation in [Annexed Table ♦] in accordance with 10.1) as well as the strengthened senior investor protection criteria in [Annexed Paper ▽].

**※ Note for Companies 11-1**

- ▶ A company shall furnish an adequate protection criteria for senior investors that is in line with the company's conditions in the form of [Annexed Paper ▽] in connection with [Reference 5].
- [Annexed Paper ▽] shall include details including the scope of senior investors that will be subject to the stronger protection criteria, range of financial investment instruments and strengthened protection measures, etc.

## **12. Special Rules for Over-the-Counter Derivatives**

1) Executives and employees, in the case where an ordinary investor is a counter-party of trading derivatives, intermediating or arranging transactions or acting by proxy for such trading, may conduct, regardless of whether they make an investment recommendation to such investor, a transaction for the purpose of reducing all or part of economic loss which may be incurred to the assets, liabilities, contracts, etc. owned or to be owned by the investor (hereinafter referred to as the “risk avoidance target”), which meets all the following requirements:

- a. The risk avoidance target is owned or shall be owned by the investor; and
- b. Any profit and loss which may be generated in trading over-the-counter derivatives during the agreed contract term for such derivatives shall not exceed the range of the profit and loss which may be generated from the risk avoidance target.

2) In such case, executives and employees shall confirm the type and amount of the risk that the ordinary investor intends to avoid through trading the over-the-counter derivatives and shall keep the relevant materials.

☞ Subparagraph 1 of [§166-2(1)] of the Act and [§186-2] of the Enforcement Decree of the Act.

- 3) No executives or employees shall, in the case they recommend investment in over-the-counter derivatives, make an investment recommendation that is deemed unsuitable for the investor according to the criteria in <Annexed Table ▼>.

**※ Note for Companies 12-1**

- ▶ A company shall set a separate suitability criteria on over-the-counter derivatives in <Annexed Table ▼> based on [Reference 6].
  - As recommending an ordinary investor making an investment in over-the-counter derivatives is limited to cases where the investor makes transactions for the purpose of avoiding risk, it is thus desirable to set the criteria to determine the suitability of over-the-counter derivatives for such investor separately from those for financial investment instruments other than derivatives or exchange-traded derivatives.

※ Major content of [Reference 6]

		Investment Experience on OTC Derivatives		
		Less than 1 year	At least 1 year ~ Less than 3 years	3 years or more
Individual	Age 65 or over	Interest rate swap, long options trading	Interest rate swap, currency swap, long options trading, short options trading, forward trading	All OTC derivatives with other risk aversion purposes
	Less than 65 years of age	Interest rate swap, currency swap, long options trading, short options trading, forward trading	All OTC derivatives with other risk aversion purposes	
Corporation and Sole Proprietorship	Stock-unlisted corporation, sole proprietorship	Interest rate swap, currency swap, long options trading, short options trading, forward trading	All OTC derivatives with other risk aversion purposes	
	Stock-listed corporation	Interest rate swap, currency swap, long options trading, short options trading, forward trading	All OTC derivatives with other risk aversion purposes	
<p>* In the case of OTC derivatives, it is classified into three stages, including “caution”, “warning” and “danger.” For examples of financial investment instruments that fall under each risk level, refer to “Note for Companies 16-1.”</p> <p>* <b>Among the investors who are suitable for investing in OTC derivatives that fall under the risk level of 'warning', those who are recognized as having sufficient risk management ability, investment experience on OTC derivatives, knowledge about instruments, etc. may invest in all OTC derivatives with other risk aversion purposes.</b></p>				

### 13. Matters to Be Attended to When Making Investment Recommendations

- 1) No executives and employees, etc. shall conduct any of the following acts when making an investment recommendation. ☞ [§49] of the Act, [§54], [§55], Subparagraph 3 of [§68(5)] of the Enforcement Decree of the Act and [§4-8] of the Regulations on Financial Investment Business.
  - a. Providing false information;
  - b. Providing a decisive judgment on an uncertain matter, or information that is likely to mislead, causing an uncertain matter to be believed to be certain;
  - c. Using a method of real-time conversation, such as a personal visit and telephone call without an investor's request for an investment recommendation. *Provided*, That recommending investment in securities and exchange-traded derivatives shall be excluded herefrom;
  - d. Continuously making investment recommendations to an investor although he/she has manifested his/her intent to reject investment recommendations. *Provided*, That each of the following acts shall be excluded herefrom:
    - (1) Recommending investment again, after a lapse of 1 month, to an investor who had manifested his/her intent to reject recommendation of investment;
    - (2) Recommending investment in other types of financial investment instruments. In this case, each of the following types of financial investment instruments/contracts shall be deemed to fall under different types of financial investment instruments:
      - (a) Financial investment instruments: debt securities, equity securities, beneficiary certificates, investment contract securities, derivatives-linked securities, securities depository receipts, exchange-traded derivatives and over-the-counter derivatives.
      - (b) Investment advisory contracts or discretionary investment contracts:
        - ① An investment advisory contract or a discretionary investment contract for securities;

- ② An investment advisory contract or a discretionary investment contract for exchange-traded derivatives;
  - ③ An investment advisory contract or a discretionary investment contract for over-the-counter derivatives.
- (c) Trust deeds:
- ① A trust deed for the trust property under Subparagraph 1 of [§103(1)] of the Act;
  - ② A trust deed for the trust property under Subparagraph 2 through 7 of [§103(1)] of the Act.
- e. Recommending investment to an investor (excluding ordinary investors who have an experience of investment with granted credit under [§72(1)] of the Act) under the condition that lending of money shall be granted, or the service of brokerage, intermediation, or agency for such lending shall be provided even without being asked for such service from the investor; or
- f. Providing or being provided with pecuniary benefits, such as money, goods and benefits, etc., without following the relevant laws, etc. and procedures determined by the company.
- 2) Executives and employees, etc. may, in cases where they decide that long-term investment is more favorable to an investor considering his/her investment propensity and the characteristics of a financial investment instrument, recommend him/her to make a long-term investment in such instrument.
- 3) Executives and employees, etc. may, recommend an investor to diversify his/her investments to prevent his/her investment assets from being concentrated in certain types of financial investment instruments.

**※ Note for Companies 13-1**

- ▶ Executives and employees, etc. shall, **in the case they recommend an investor to make a portfolio investment**, recommend a portfolio consisting of financial investment instruments falling under the business scope of financial investment professionals (fund investment advisor, securities investment advisor, derivatives investment advisor) registered with the Korea Financial Investment Association.

- ▶ Executives and employees, etc. shall, **in the case they intend to provide investment advisory services** for all financial investment instruments to an investor who has signed a contract for investment advisory services, **be registered with the Korea Financial Investment Association as all 3 kinds of investment advisors** (fund investment advisor, securities investment advisor, derivatives investment advisor).
  - In the case where investment advisory services are provided for part of financial investment products, the registration of an investment advisor with the Korea Financial Investment Association shall be required only for the financial investment instrument concerned (e.g., if investment advisory services are provided only for funds, one only needs to be registered as a fund investment advisor.)
  - When providing investment advisory services as an investment advisory business entity after executing an investment advisory agreement, it is desirable to: 1) make a suitability decision not based on the total asset of the investor, but on the specific amount invested in the portfolio by the investor at the relevant time of investment, and 2) have in place guidance or confirmation procedures so that the investor can readjust the ratio of assets in his/her portfolio, if there is a change in the weighted average risk of the portfolio due to sale and additional purchase or fluctuation of asset value.

4) In the case of recommending investing in a fund managed by a collective investment business entity that is an “affiliated company or a business entity comparable to an affiliated company” in accordance with [§4-20] of the Regulations on Financial Investment Business (hereinafter referred to as the “affiliates, etc.”), executives and employees, etc. shall comply with the following provisions: (formulated on July 10, 2012).

- a. Executives and employees, etc. shall notify that the collective investment business entity is related to the affiliates, etc.; and
- b. Executives and employees, etc. shall also recommend investing in similar funds that are managed by a collective investment business entity that is not one of the affiliates, etc.

**※ Note for Companies 13-2**

▶ The term “similar funds” refers to the funds that fall under the following standards:

- ① Funds with the same degree or a lower degree of risk compared to funds of affiliates, etc. for which executives and employees, etc. have made investment recommendations to ordinary investors; and
- ② Funds of the same type (referring to the types pursuant to [§229] of the Act) as funds of the affiliates, etc. that have been recommended to ordinary investors. *Provided*, That in cases of funds other than securities funds and money market funds, where the company does not have the same type of funds, a different fund type may be applied.

\* With regard to funds that satisfy the conditions of ① and ②, the company shall make investment recommendations by taking consideration of major investment assets and investment regions (domestic/overseas): *Provided*, That an investment recommendation may differ according to the future outlook, management stability, sales strategy, etc.

▶ Online distribution: Even in the case where a fund is sold online where investment recommendation is not provided, it shall be indicated that the fund is a fund of affiliates, etc. so that the investor can take such fact into consideration when making an investment decision.

### **IV-3. Duty of Explanation**

#### **14. Duty of Explanation**

- 1) Executives and employees, etc. shall, in cases where they make an investment recommendation to an investor, explain the details of the financial investment instrument, the risks contingent upon the investment, the structure and nature of investment risks of the financial investment instrument, matters concerning

the commissions incurred by the investor, matters concerning terms and conditions of early repayment if such terms and conditions exist, and matters concerning the cancellation or termination of contracts, etc. (hereinafter referred to as the "matters to be explained about an investment") with such sufficiency as to allow the investor to understand them, and shall obtain a confirmation from the investor, stating that he/she has understood the explanation in methods including the provision of his/her signature, etc.  [§47] of the Act, [§53] of the Enforcement Decree of the Act

- 2) Executives and employees, etc. may, in case where they fulfill the duty of explanation in accordance with 1), offer different levels of explanation to different investors taking into account the complexity, risk level, etc. of the financial investment instrument concerned as well as the level of their understanding, such as their investment experience and the level of their knowledge about the financial investment instrument.

**※ Note for Companies 14-1**

- ▶ The Act ([§47]) stipulates that a company shall explain the details of an investment with such sufficiency as to allow an investor to understand them and receive a confirmation that he/she has understood the explanation. Thus, the company is not required to uniformly provide an equal level of explanation to all investors. In other words, different levels of explanation may be provided to different investors based on the characteristics of the financial investment instrument and the investor's knowledge and experience.
  - Therefore, explanation may be needed more than usual in the case the company sells new instruments, instruments with a complicated structure or risky instruments, or in the case it deals with investors with insufficient financial knowledge or vulnerable investors.
  - On the other hand, a simpler explanation may be provided to investors with experiences with regard to investment in the same or a similar instrument or those with a high level of understanding of the instrument concerned, etc. Executives and employees, etc. shall make efforts to objectively identify the investment experience of an investor in similar types of financial investment instruments and the investor's level of understanding through simple questions, etc. on the

financial investment instrument concerned, as it is difficult to present a uniform criteria for the investment experience or financial knowledge in a similar financial investment instrument.

- For example, in cases where history of investment in a similar type of financial investment instrument is maintained at the company concerned, or where the investor wishes to receive a brief explanation, etc. due to reasons including having investment experience in similar types of financial investment instruments of other companies, executives and employees, etc. may provide a brief explanation in line with the level of understanding of the investor that has been identified through simple questions on the structure and risk level of the financial investment instrument concerned.

► In cases where simple structured listed securities (e.g.: equities, ETF, etc.) and exchange-traded derivatives (e.g.: futures options), etc. that are traded on a continuous basis are traded on the exchange, it may be possible to perform the duty of explanation at the initial opening of the account or at the time investment is recommended, as it is difficult to explain the trading method and relevant risk, etc. each time investment is recommended.

► Even in cases where a comprehensive financial investment business entity issues a bill that is a fixed-rate instrument based on its credit, executives and employees, etc. shall explain the key details and risks of the instrument in reference of the following:

- Key details: matters including the interest rate, maturity, repayment method (in cases where partial repayment is not allowed, the fact thereof), the interest rate applied to early repayment, etc.

- Risks: matters including the fact that the depositor is not protected, credit risk exposure of the issuer, methods to confirm the credit rating of the issuer, etc.

3) No executives or employees, etc. shall, in the case an investor does not understand the structure of profits and losses, or the risk of loss of the instrument concerned, even though they provided him/her with an explanation thereon pursuant to 1) and 2), continue with their investment recommendation.

- 4) Executives and employees, etc. shall, except in any of the following cases, deliver a prospectus to the investor to fulfill the duty to explain pursuant to 1):
- a. An investor refuses to receive the prospectus by mail, telephone, telegraph, fax, electronic mail and other similar electronic communication methods, or any other method prescribed and disclosed by the Financial Services Commission; or
  - b. The investment prospectus (in the case of collective investment securities, a simplified investment prospectus unless the investor makes a separate request for the investment prospectus) pursuant to [§123] of the Act is delivered to the investor before the sale of securities after the relevant registration statement becomes effective.
    - ☞ [§124] of the Act and Item b of Subparagraph 9 of [§4-20(1)] of the Regulations on Financial Investment Business.

**※ Note for Companies 14-2**

- ▶ The fact that the investor understood the details of the explanation can be confirmed using the following form, etc.

**Customer Confirmation on Explanation for Details Regarding the Product Subscription Application Form (Example)**

1. I have received the investment prospectus (the prospectus shall not be distributed in cases where the investor refuses to receive it).
2. I have been explained and understood the details explained on the features of the financial investment instrument, key risks involved with the investment (credit risk, market risk, FX risk, etc.), possible losses on the principal (investment is not protected under the Depositor Protection Act\*), commissions, early repayment conditions, rescission·termination of contract, and preferential explanation to vulnerable financial consumers.

\* Cash deposits (depositor's deposit· beneficiary's deposit), account opening deposits for credit transactions, part of collateral such as credit collateral, savings deposits such as tax-exempt comprehensive savings, etc. are protected under the Depositor

Protection Act [※ the details can be partially revised in cases where the scope of the financial investment instruments differ by company].

- ▶ Among the content of the investment prospectus, essential words related to the possible losses on the principal, protection of depositors and risks associated with the investment shall be indicated in relatively large, bold letters (e.g.: based on A4 size; letters shall be at least 2 points larger than other letters).

5) No executives or employees, etc. shall, in case where providing an explanation pursuant to 1), provide false or misleading information, or omit any important information while explaining material facts that may produce a significant impact on the investor's reasonable judgement or the value of the financial investment instrument concerned. ☞ [§47(3)] of the Act.

6) Executives and employees, etc. shall inform an investor of their names, titles, contact numbers and of ways to use their call center or service center to allow him/her to make an inquiry of the financial investment instrument concerned in the future.

**※ Note for Companies 14-3**

- ▶ It is desirable to provide information necessary for post-management, including the name and contact number of the employee in charge of distribution by using various documentation such as the prospectus distributed to the customer.

## **15. Special Rules regarding Duty of Explanation for Foreign Currency Securities**

- 1) Executives and employees, etc. shall, in cases where they recommend investing in foreign currency securities to an investor, include the following matters when providing an explanation pursuant to 14.1):
  - a. The characteristics of the economic conditions and market situation of the target investment country or region;

- b. In addition to general risks associated with the investment, the risk of exchange rate fluctuation and differences in systems of each country, such as the trading and taxation systems; and
  - c. In cases where the investor himself/herself hedges his/her investment against FX risks, the fact that losses may occur if the hedging ratio is unadjusted in accordance with the market conditions.
- 2) Executives and employees, etc. shall, in cases where they recommend investing in collective investment securities of a collective investment vehicle that invests in overseas assets, include the following in their explanation pursuant to 14.1):
- a. Risks associated with the economic conditions and market situation of the investment country or region;
  - b. In addition to general risks associated with the investment, exchange rate fluctuation risk, the target FX hedging ratio with a ceiling set for the FX hedging ratio, the currency subject to FX hedging, the main FX hedging tool and method, and whether the collective investment vehicle concerned hedges against FX risks;
  - c. FX risk hedging cannot eliminate all exchange rate fluctuation risks, and in cases where the investor himself/herself hedges his/her investment against FX risks, the fact that losses may occur if the hedging ratio is not adjusted in accordance with the market conditions; and

**※ Note for Companies 15-1**

- ▶ In cases where a company recommends an investment that hedges against FX risks by trading OTC derivatives, the company shall follow the procedures of “12. Special Rules for Over-the-Counter Derivatives.”

- d. In cases of investing in master-feeder collective investment vehicles, the fact that the instruments could be distributed by offering different FX risk hedging ratios (e.g. 20%, 40%, 60%) by adjusting the distribution ratio of the feeder fund that hedges against FX risks and the feeder fund that does

not hedge against FX risks upon the request of the investor.

3) In cases where executives and employees, etc. recommend a trust instrument that invests in overseas assets to an investor, they shall include the following in their explanation pursuant to 14.1):

a. Investment ratio by target investment country or region and investment assets;

b. Characteristics of the target investment country or region, such as the economic and market conditions;

c. In addition to the general risks associated with the signing of the trust contract, exchange rate fluctuation risk, whether the collective investment vehicle concerned hedges against FX risks and the level of hedging;

d. The fact that the exchange rate fluctuation trend of the past does not fully predict the exchange rate fluctuation of the future, and the correlation between currencies could change in the future; and

e. The fact that hedging against FX risks does not fully eliminate the exchange rate fluctuation risks, and in cases where the investor hedges against FX risks himself/herself, losses can be incurred if the hedging ratio is not adjusted according to the market conditions.

**※ Note for Companies 15-2**

▶ When a trust business entity classify the degree of risks for trust contracts that invest in assets denominated in foreign currency, it shall consider FX risks as one of the major risk factors.

**15-2. Special Rules on Duty of Explanation for Contingent Convertible Bonds**

When executives and employees, etc. recommend investors that they invest in contingent convertible bonds, they shall include the following in their explanation pursuant to 14.1):

- a. The fact that when a particular reason occurs, the total amount of the principal and interest is either written off or converted into common shares;
- b. The cause and effect of writing off and converting;
- c. The fact that (if there is a special agreement on the restriction on interest payments) the interest may not be paid in the event of a particular reason or at the discretion of the issuer;
- d. The fact that (if the maturity is a long-term base or there is a special agreement on discretionary extension of maturity of the issuer) encashment or liquidation may not be guaranteed for a long time;
- e. The fact that (if prepayment condition exists) the maturity can be shortened; and
- f. The rankings of bonds.

**※ Note for Companies 15-2-1**

- ▶ When explaining about contingent convertible bonds, the executives and employees, etc. shall thoroughly explain the risks for each instrument by referring to the contents stipulated in “Matters to be Attended for Investment Decision on Contingent Convertible Bonds (Date of Disclosure-00605, ‘15.8.5)”

## **V. Classification of Financial Investment Instruments Risk**

### **16. Classification of Financial Investment Instruments Risk**

- 1) A company shall classify the degree of risk of each financial investment instrument as in <Annexed Table ■> taking into account the following elements, and shall set the standards on risk classification of over-the-counter derivatives separately from those on other financial investment instruments.
  - a. Quantitative Factors : Volatility of prices of the past, scope of potential loss of principal, types and component ratio of underlying assets, credit rating, maturity, degree of leverage, and target investment period in financial

investment instruments, etc.

b. Qualitative Factors : Complexity of structure, counter-party risk, possibility of early redemption and liquidity, etc.

2) A company shall, when classifying the risk of financial investment instruments pursuant to 1), classify exchange-traded derivatives as those with higher risks than other financial investment instruments (excluding over-the-counter derivatives).

**※ Note for Companies 16-1**

▶ A company shall classify risks of financial investment instruments, such as securities, bonds, derivatives-combined securities, derivatives, collective investment securities, etc. and define as <Annexed Table ■> based on “consideration factors for the evaluation of the risk level of financial investment instruments (sample)” in [Reference 3].

- When classifying financial investment instruments risk, notall quantitative/qualitative elements need to be taken into account. Relevant items for each instrument may be selected and applied.
- Classification of over-the-counter derivatives risks shall be conducted and managed separately from that of other financial investment instruments.

**Sample Classification of Over-the-Counter Derivatives Risk**

- a. Caution : Interest rate swap, purchase of options (instruments that may incur losses that exceed the principal, provided that the extent of such losses is limited)
- b. Warning : Currency swap, sale of options, forward contracts trading (instruments with a simple structure that may result in an unlimited losses)
- c. Danger : Over-the-counter derivatives other than those mentioned in a. and b. (instruments with a complicated structure, that may result in an unlimited losses)

▶ The classification of financial investment instruments risk shall be based on the classification of propensities of investors (e.g. 3-stage or 5-stage, etc.) and the distribution of the real investor propensity. It is desirable to make periodic adjustments to the classification based on the changes

in financial investment instruments risk according to the changes in the market environment, etc.

- ▶ A company shall prepare a “classification chart of financial instruments risk” at its front desk to help investors understand risks of such financial instruments. When giving recommendations, the company shall use a classification chart to compare such instruments to other instruments, etc. in order to explain a relative degree of risk to an investor.
  - A classification chart of financial investment instruments risks shall categorize the risks using three colors (red, yellow and green) in accordance with the degree of risk to enhance investors’ intuitive understanding.

- 3) A company may, in case of classifying financial investment instruments risk, consider the standards of risk evaluation prepared by an external institution.
- 4) Executives and employees shall, in case of a portfolio investment, use the information on the degree of portfolio risks, obtained by calculating the weighted average of each financial investment instrument risk comprising the portfolio on the total amount invested: *Provided*, That in case a professionals of such company decide the composition of the portfolio, management strategy and risk evaluation, etc., such decision should be abided by.

**※ Note for Companies 16-2**

- ▶ When giving a recommendation to a portfolio investor, there is a need to take caution on including a high-risk financial investment instrument in the portfolio considering the investor’s purpose, experience and knowledge.
  - For example, it may be an inappropriate investment recommendation if futures and options are recommended and thus included in an investor’s portfolio despite the investor being classified as preferring mid-level of risk and return and has no investment experience or knowledge about futures and options.

**VI. Other Matters to Be Attended to When Making Investment Recommendations**

## **17. Delivery of Contract Documents and Cancellation of Contract**

- 1) When executives and employees, etc. enter into a contract with an investor, they shall deliver the contract documents to the investor without delay. *Provided*, That the delivery of contract documents may be omitted in any of the following cases where there is no possibility of undermining the protection of investors in light of the contents of the contract, etc.:
    - a. Where the investor creates an account for trading, executes a basic contract for trading financial investment instruments, and continues trading repeatedly in accordance with the terms and conditions of the contract;
    - b. Where the investor manifests his/her intent in writing to refuse to receive contract documents; or
    - c. Where the investor expresses his/her will to receive contract documents by mail or electronic mail, and they have been sent in response to the investor's request.
  - 2) Executives and employees, etc. shall notify an investor who has entered into a investment advisory contract of the fact that he/she may cancel the contract within seven days from the date on which the contract documents under 1) are delivered.
- ☞ Paragraphs (1) and (2) of [§59] of the Act and [§61] of the the Enforcement Decree of the Act.

## **18. Prohibition on Compensation for Loss, Etc.**

No executives or employees, etc. shall commit any of the following acts in relation to the buying and selling of financial investment instruments and other types of transactions: *Provided*, That the following cases are exempted where losses are compensated for or profits are guaranteed pursuant to [§103(3)] of the Act (New Old Age Pension Trust, pension trust and lump-sum payment for retirement benefits in trust), or where there is no possibility of undermining fair trade practices and there is a justifiable reason:

- a. Promising in advance to compensate for all or part of the losses that an

- investor may sustain;
- b. Compensating for all or part of losses sustained by an investor after the fact;
  - c. Promising an investor in advance to guarantee certain profits; or
  - d. Offering an investor certain profits after the fact.

☞ [§55] of the Act

## **19. Prohibited Acts of Investment Traders and Investment Brokers**

### 1) Prohibition of Recommendation of Churning

No executives or employees, etc. shall recommend an ordinary investor to trade financial investment instruments frequently or in an excessive scale without taking into account the investor's investment purpose, status of property and investment experience, etc. In order to determine whether a specific transaction constitutes frequent or excessive trading, the following should be considered:

- a. Total amount of commissions incurred by an investor;
- b. Whether the transactions benefit an investor's status of property and purpose of investment;
- c. Whether an investor understands risks accompanying the transactions, in light of his/her investment knowledge and experience; and
- d. Whether a recommendation made for each transaction is feasible.

☞ [§71] of the Act, Subparagraph 2 of [§68(5)] of the Enforcement Decree of the Act and Subparagraph 5(a) of [§4-20(1)] of the Regulations on Financial Investment Business.

### 2) Prohibition of Recommendation of Floor Trading

No executives or employees, etc. shall recommend that an investor trade specific financial investment instruments for the purpose of trading financial investment instruments favorably to or for their own benefits for their accounts or business in financial investment instrument market, except when the counterparty is an investor.

☞ Subparagraph 5(b) of [§4-20(1)] of the Regulations on Financial Investment Business

### 3) Prohibition of Unfair Recommendation

- a. No executives or employees, etc. shall sell or buy specific financial investment instruments by recommending that an investor sell or buy the financial investment instruments without informing the investor of a known fact likely to have a significant impact on the value of the instruments. ☞ Subparagraph 5 of [§68(5)] of the Enforcement Decree of the Act
- b. No executives or employees, etc. shall recommend that an investor trade securities issued by their own company. ☞ Subparagraph 9 of [§68(5)] of the Enforcement Decree of the Act
- c. No executives or employees, etc. shall use a transaction of over-the-counter derivatives, a trust deed, or a linked transaction for the purpose of avoiding prohibition or restriction under [§55] (Prohibition of Compensation for Loss, etc.) and [§71] (Prohibition of Unsound Business Conduct) of the Act ☞ Subparagraph 11 of [§68(5)] of the Enforcement Decree of the Act
- d. No executives or employees, etc. shall recommend that an investor trade specific financial investment instruments or adopt specific trading, management or diversification strategy and technique without any proper and reasonable ground including reliable information or theory, or rational analysis, reasoning, or forecasts. ☞ Subparagraph 5(c) of [§4-20(1)] of the Regulations on Financial Investment Business
- e. No executives or employees, etc. shall recommend that an investor trade specific financial investment instruments without informing him/her of critical interest in advance, in cases where their business has critical interests in the price or transaction of such financial investment instruments due to any extraordinary reason (such as execution of an underwriting contract by the company, guarantee for payment, holding a loan, relationship with an affiliate or a target of ongoing merger or acquisition, or holding one or more percentage of outstanding stocks) other than ordinary interests arising from operation. *Provided*, That excluded herefrom are cases where an investor has been informed of such information owing to any of the following reasons:
  - (1) The investor was aware of such interests or there is a reasonable ground to believe that an investor was aware of such interests or at the time of recommending a transaction: *Provided*, That a recommendation of such

transaction according to data from research and analysis is excluded herefrom;

- (2) The executives or employees who recommended the transaction did not know of such interests: *Provided*, That excluded herefrom are cases where the company instructed or induced the executives or employees, etc. to make a recommendation to trade such financial investment instruments without informing them of such interests; and
- (3) The recommendation of a transaction is recognized as in the best interest of an investor: *Provided*, That a recommendation of such transaction according to data from research and analysis is excluded herefrom.

☞ Subparagraph 5(f) of [§4-20(1)] of the Regulations on Financial Investment Business

- f. No executives or employees, etc. shall receive any financial benefit from a person who has an interest in specific financial investment instruments, such as the issuer of the recommended financial investments, or the issuer's related party, in exchange for recommending such financial investment instruments. ☞ Subparagraph 5(h) of [§4-20(1)] of the Regulations on Financial Investment Business
- g. No executives or employees, etc. shall, in connection with sale of collective investment securities, discriminately promote sale of specific collective investment securities to an investor because the sales fee or commission payable to their company exceeds those of other similar collective investment securities dealt by the company: *Provided*, That excluded herefrom are cases where the subject matter for sale is limited to collective investment securities of a single collective investment business or discriminately promoted because there is a reasonable ground to believe that such efforts meet the investor's interests. ☞ Subparagraph 10(a) of [§4-20(1)] of the Regulations on Financial Investment Business
- h. No executives or employees, etc. shall incite or encourage an investor who does not want any transaction through grant of credit to conduct such transaction, and shall provide a full explanation of accompanying risks to an investor who wants a transaction through grant of credit.

- i. No executives or employees, etc. shall recommend a transaction through grant of credit, excessive or speculative transaction, or trading of high-risk financial investment instruments, such as futures and options, to an investor who depends heavily on investment recommendations due to lack of experience in transactions, etc.

**20. Matters to be Observed by Investment Advisory Business Entities and Discretionary Investment Business Entities (Amended on November 7, 2011)**

- 1) Executives and employees, etc. shall, in cases where intending to execute an investment advisory contract or a discretionary investment contract with an investor, provide written materials containing the following matters in advance to the investor and receive a confirmation therefrom.
  - a. The scope of investment advice and the method of provision, or the scope of discretionary investment, and target financial investment instruments, etc.;
  - b. General guidelines and procedures established by a company, in relation to the execution of investment advisory company or discretionary investment company concerned;
  - c. Names and career of executives or employees who conduct investment advisory business or discretionary investment business (In case where a robo-advisor is used, the fact that investment advisory or discretionary investment business is conducted by it);

**※ Note for Companies 20-1**

- ▶ Robo-advisor refers to an online asset management tool that provides investment advisory/discretionary investment services conforming to investors' preferences by analyzing algorithms and big data utilizing computer programs.

- d. Guidelines and procedures established by the company concerned in order to prevent conflict of interests with investors;
- e. The fact that the results of investment shall be borne by each investor and

matters concerning the liability of each investor in relation to the investment advisory contract or discretionary investment contract;

- f. Matters concerning commissions;
  - g. The method of notifying investors of the evaluation of investment performances and the outcome of investment (limited to a discretionary investment contract);
  - g-2. The fact that the investor may change the method of management of discretionary investment property or demand the termination of the contract;
  - h. Matters concerning executives and large shareholders;
  - i. In case of a discretionary investment contract, the form of discretionary investment that the investor will own at the beginning of the contract period and the form of discretionary investment that the investor will own at the end of the contract period;
  - j. Matters concerning the investment method applied to the management of the discretionary investment;
  - k. The term applicable to the preparation of the discretionary investment report under [§99(1)] of the Act; and
  - l. Other matters in each subparagraph of [§4-73] of the Regulations on Financial Investment Business.
- 2) Executives and employees, etc. shall, whenever they make an investment advisory contract or a discretionary investment contract with an investor, state the following matters in the contract documents delivered to the investor in accordance with [§59(1)] of the Act. In this case, the descriptions therein shall not differ from those contained in the written materials delivered in accordance with 1).
- a. Matters under each subparagraph of 1);
  - b. Matters concerning contractual parties;

- c. Contract period and contract date;
  - d. Matters concerning amendment to and termination of the contract; and
  - e. Names and sales offices of an investment trader, investment broker, or of any other financial institution in which the discretionary investment property is deposited.
- ☞ [§97] of the Act and [§98] of the Enforcement Decree of the Act

## **21. Prohibited Acts of Investment Advisory Business Entities and Discretionary Investment Business Entities**

No executives and employees, etc. shall commit any of the following acts: *Provided*, That in cases of 1) and 2), where the company concerned runs another financial investment company, or any other financial business, concurrently and the laws applicable to the concurrently-run company do not prohibit the acts under 1) and 2).

- 1) Keeping in custody or deposit money, securities, or any other property from an investor;
- 2) Lending money, securities, or any other property to an investor, or acting as a broker, making an arrangement, or acting as an agent of a third party for lending a third party's money, securities, or any other property to an investor; or
- 3) Receiving any compensation in addition to commissions agreed upon by a contract.

☞ [§98(1)] of the Act, [§99(1)] of the Enforcement Decree of the Act

## **22. Special Rules on Discretionary Investment Business Entities and Trust Business Entities**

In the case of discretionary investment and money trust (excluding specified money trusts to which investors have specifically designated certain items and proportions, etc.; hereinafter the same shall apply), the following matters shall be added or applied with priority:

- 1) Executives and employees, etc. shall identify investor information through meetings, questions, etc. according to the letter of confirmation on investor information in <Annexed Paper ㉟>, including investment purpose, financial condition, investment experience, age, risk tolerance, income level, proportion of financial assets, etc., to categorize investors. The information shall be maintained and managed after receiving confirmation from investors through signatures, etc. *Provided*, That the research can be omitted when the professional investor does not want to be classified through research, and in this case, the professional investor can choose his/her own investment classification.
- ☞ [§46(2)] of the Act, Subparagraph 5 of [§4-77] and Subparagraph 26 of [§4-93] of the Regulations on Financial Investment Business

**※ Note for Companies 22-2**

- ▶ A company shall refer to example 3 of [Reference 1] to prepare a letter of confirmation of investor information regarding discretionary investment and money trust in the form provided in <Annexed Paper ㉟>. In the case where the questions asked in the letter of confirmation of investor information to make recommendations on general financial investment products are different from those asked in the letter of confirmation of investor information regarding discretionary investment and money trust, different letters of confirmation of investor information shall be used for each case.
- ▶ In the case where types of investors are identified using a scoring method, the company concerned shall establish its own classification standard for categorizing investor types according to scoring standards and scoring results by itemizing investors' information (in the case of choosing to use the consultation report method, investors may write open-ended responses to the questions).
- ▶ For a corporation, the company concerned shall use the questions

regarding investment purpose, financial condition, investment experience (in accordance with [§46(2)] of the Act), investor age, risk tolerance, investment purpose, income level, and proportion of financial assets (in accordance with Subparagraph 5 of [§4-77] and Subparagraph 26 of [§4-93] of the Regulations on Financial Investment Business) after tailoring them to its circumstances: *Provided*, That in the case of a professional investor, it is possible to classify the types of investors by first taking into account the investor's plan to manage the assets and expected investment period.

- ▶ The company will regularly assess how effectively the questions classify investors.

(In the case where investors are disproportionately classified for certain types, or there are too many investors preferring high-risk investments, it is necessary to regularly assess the questions and scoring standard.)

- ▶ The company shall refer to the examples mentioned below for classifying investor types (*Provided*, That the classification shall be made in five or more stages):

(Sample)

Aggressive investment type	Risk preference type	Stage 1	<div style="text-align: center;"> <b>High risk</b>      <b>Low risk</b> </div>	Stage 1	Aggressive investment type
Active investment type	Active type	Stage 2		Stage 2	Stock preference type
Risk/return neutrality type	Growth type	Stage 3		Stage 3	Equity fund preference type
Stable preference type	Stable growth type	Stage 4		Stage 4	High yield bond type
Stable type	Risk -Averse type	Stage 5		Stage 5	Hybrid investment type
				Stage 6	Stable investment preference type
				Stage 7	Interest income type

- For ordinary investors, it is desirable to determine the suitability of investment in stocks or any other instruments with a similar level of risks only when investment is planned for a certain investment period (e.g. at least one year) by considering expected investment period separately.

< **Classifying investor types based on the expected investment period (e.g. in case of 5 stages) >**

Division		Risk tolerance (investment period, etc.)				
		Short term	Short and mid term	Mid term	Mid and long term	Long term
Investor Type	<b>(High risk)</b>	Risk/return neutrality type	Aggressive investment type	Aggressive investment type	Aggressive investment type	Aggressive investment type
		Risk/return neutrality type	Active investment type	Active investment type	Aggressive investment type	Aggressive investment type
	↕	Stable preference type	Risk/return neutrality type	Active investment type	Active investment type	Active investment type
	<b>(Low risk)</b>	Stable preference type	Stable preference type	Risk/return neutrality type	Risk/return neutrality type	Risk/return neutrality type
		Stable type	Stable preference type	Stable preference type	Risk/return neutrality type	Risk/return neutrality type

\*The investment period may be merged into three stages (short term/mid term/long term) other than the five stages shown above in the example: *Provided*, That the types of investors should be classified by five stages or more.

- 2) Executives and employees, etc. shall provide investors with investor information confirmed according to 1) and the types of investors classified

according to <Annexed Table ●> (hereinafter referred to as “types of investors”) without delay. ☞ [§46(2)] of the Act

- 3) The company shall provide more than one asset allocation class, which shall be divided into two or more detailed asset allocation types.

**※ Note for Companies 22-3**

- ▶ The asset allocation class may be composed of “between the same assets (e.g. stocks)” or “between cross-assets (e.g. stocks-bonds).”
- ▶ The asset allocation class may be composed of stocks only, but there must be two or more detailed asset allocation types. There should be a meaningful difference among detailed asset allocation types in terms of volatility, characteristics of items, and effects of diversified investments.
- ▶ *Provided*, That in the case where the investor’s assets are managed individually on a one-on-one basis (the case where the acquisition and disposal of certain equities, etc. is carried out based on a certain ratio for each account and the orders of each account are not combined), it is not required to provide asset allocation class or detailed asset allocation types: *Provided*, That it is necessary to manage the assets in a manner that suits the investor type. (Reference: Subparagraph 4 and 5 of [§4-77] and Subparagraph 21 and 26 of [§4-93] of the Regulations on Financial Investment Business)

- 4) The company shall decide on the detailed asset allocation type suitable for the investor type classified according to 1) and thus make a contract with the investor.

**※ Note for Companies 22-4**

- ▶ Take note that signing contracts for detailed asset allocation types that are inappropriate for the investor type as the act may violate the Regulations on Financial Investment Business (Prohibition of Inappropriate Letter of Confirmation).

☞ (Reference) Subparagraph 5 of [§4-77] and Subparagraph 26 of [§4-93] of the Regulations on Financial Investment Business: categorizing investors into different types by taking into account investors' age, investment purpose, income level, etc. and prohibiting actions that do not fall under management of discretionary investment and trust assets in the appropriate method for each type.

▶ In the case of choosing to use the scoring method, the company shall decide on allocation of points autonomously and recommend detailed asset allocation types for each investor type.

▶ **In the case where the necessary conditions of passive customization\* and active customization\* conflicts**

\* Reflect specific conditions wanted by investors

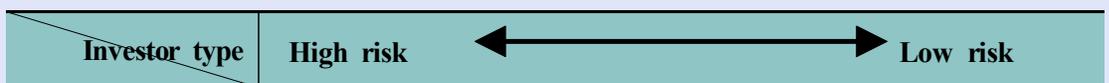
\*\* Categorize by taking into account the individuality of investors and manage them accordingly

- Reflect the conditions of passive customization, **to the extent that the scope does not interfere with the necessary conditions of active customization\***

\* Even if the investor makes a request for assets to be incorporated and managed by designating a specific item or sector, it should not exceed the risk level for the investor type.

○ *Provided*, That in the case of professional investors, the necessary condition of passive customization shall be reflected preferentially for them to choose their own investment types.

< Investor Type and Detailed Asset Allocation Type (sample) >



Asset allocation type	preference			preference
Class 1 (Stocks)	Stock 1	Stock 3		-
	Stock 2	Stock 4		
Class 2 (Bonds)	Speculative-grade corporate bonds, equity-linked bonds (BW, etc.) 		Best-performing corporate bonds, government bonds	
Class 3 (Funds)	Equity-type funds, derivative-type funds, funds with high volatility 		Government and public funds, funds with low volatility, MMFs	
Class 4 (Cross-assets)	Stocks, derivatives, speculative-grade corporate bonds, equity-linked bonds, equity-linked warrants, non-principal protected ELS (DLS), ELW, emerging market bonds, stocks in foreign currency 		Government bonds, MMFs, principal-protected ELS	

\* In the case of corporate bonds, detailed asset allocation types should be classified by the company according to the risk levels of bonds (e.g. whether guarantee is provided or not, credit rating, whether it is a subordinated bond or not, etc.).

Stocks		Bonds		Funds	Others
Domestic	Overseas	Domestic	Overseas		
- Value stocks - Growth stocks - Sector stocks - Large/small and medium cap. stocks -KOSDAQ stocks	- Advanced countries - Emerging market - Stocks related to sector/ specific region	- Government and public bonds - Corporate bonds - High yield bonds - Subordinated bonds - Equity-linked bonds	- Government and public bonds - Corporate bonds - High yield bonds - Subordinated bonds	- Equity type - Hybrid type - Bond type - MMF - Fund of funds - Overseas (advanced/ emerging)	- Structured product (principal-protected/ non-protected) - Alternative investment, etc. (gold, raw materials, REITs, etc.)

\* In the case of stocks, the classification of detailed asset allocation types can be broken down further according to items or capital size of the issuing company. Also, in the case of bonds, the classification can be subdivided based on credit rating, etc., while the classification of funds can be subdivided according to volatility, etc.

- 5) Executives and employees, etc. shall explain the following to investors before executing a discretionary investment contract or a money trust contract:
- a. Matters concerning the classification standards, differences and expected risk level for detailed asset allocation types;
  - b. The fact that volatility of return may be much higher than collective investment schemes, etc. because there might be no regulations on

diversification;

- c. The fact that investors may engage in the management of discretionary investment and money trust assets within a scope that does not exceed the risk level for the investor's type classified according to 1); and
- d. In the case of a contract where a performance fee is receivable, matters concerning requirements of receiving said performance fee and potential risks that might occur from receiving such fee.

### **23. Special Rules for Robo-Advisors (Formulated on May 25, 2017)**

1) In case of recommending execution of a robo-advisory and/or robo-discretionary contract to an investor, a company shall explain a robo-advisor's concept, investment strategy, risk factors, etc. and confirm whether the investor has a full understanding of the aforementioned matters.

<b>※ Note for Companies 23-1</b>
----------------------------------

- |  |
|--|
| <ul style="list-style-type: none"><li>▶ The duty of explanation shall be completed using forms, etc. set forth in “14. Duty of Explanation” to ensure that an investor was delivered with such documents and understood the content.</li><li>▶ In case of recommending investing in financial investment instruments of which names include ‘robo-advisor’, a company shall need to explain that robo-advised instruments do not guarantee more gains than any other instrument that are not advised by robo-advisors.</li></ul> |
|--|

2) In case where an investor executes a contract such as robo-advisory contract online, a financial investment company shall publicize relevant information including key features and matters to be attended so that the investor may easily comprehend them.

**※ Note for Companies 23-2**

- ▶ General matters to be attended regarding robo-advisors shall be explained by referring to samples set forth in [Reference 7].

- 3) Major changes including material change in an algorithm of a robo-advisor shall be notified to an investor in advance.

## References

[Reference 1] Letter of Confirmation of Investor Information (Samples 1, 2, 3)

[Reference 2] Letter of Confirmation of Investor Information for OTC Derivatives (Corporation and Sole Proprietorship) (Sample)

[Reference 3] Factors for Consideration to Evaluate Risk Level of Financial Investment Instruments (Sample)

[Reference 4] Method of Judging Suitability (Sample)

[Reference 4-1] Suitability Report (Sample)

[Reference 5] Protection Criteria for Selling Financial Investment Instruments to Senior Investors

[Reference 6] Method of Judging Suitability (OTC derivatives) (Sample)

[Reference 7] Matters to be Attended for Investors Using Robo-Advisors (Sample)

[Reference 1]

**[Ordinary Investors] Letter of Confirmation of Investor Information**  
**[Sample 1]**

<Sample 1 Instructions>

- ▶ A company shall autonomously prepare [letter of confirmation of investor information] that suits the characteristics of the company by referring to and/or making adjustments to the following categories to confirm investor information. *Provided*, That it is mandatory to identify ordinary investor information, including **investment purposes, financial conditions and investment experiences**, in accordance with [§46(2)] of the Act.
- The samples are only for references, and it is not necessary to construct a letter of confirmation in a manner that is identical to them.
- In the case where financial investment instruments, such as CMA, MMF, RP and government bonds, are deemed to have very low risks by the company, it is possible to prepare [letter of confirmation of investor information] separately to the extent that investor protection is not undermined.
- In the case of recommending contracts, including the discretionary and trust agreements, [letter of confirmation of investor information] may be constructed separately to suit the characteristics of the contracts.
- ▶ **A company may autonomously decide whether it will set a validity period for investor information.**
- Even after a validity period for investor information is determined, it is desirable to confirm with the investor whether the information that was initially confirmed is still relevant to characteristics of target investments (such as investment purposes, expected investment period, loss tolerance, etc.) whenever making an investment recommendation.
- In the case where the investor information is different from the one confirmed previously, it is necessary to re-identify investor propensity by reflecting the new information.
- ※ The information inside the dotted-line box is only to be used as references by a company, and should be excluded from forms prepared for investors.

(hereinafter the same will apply)

- This letter of confirmation will be used to identify investor information of customers pursuant to the Financial Investment Services and Capital Markets Act, and provide proper investment recommendations accordingly. Please select the option that best describes the customer's circumstances.
  
- This letter of confirmation must be prepared when a customer wishes to trade derivatives, etc. in accordance with [§46-2(1)] of the Financial Investment Services and Capital Markets Act.

**Categories of Investor Information (Sample)**

Classification	Sample Questions	Note
<b>Financial condition</b>	<b>Percentage of assets that can be invested compared to monthly income</b> <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%	Need to be considered when making cumulative investments.
	<b>Whether there are surplus funds</b> <input type="checkbox"/> For less than 0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> Over 0 months	Confirm the amount of surplus funds equivalent to future household expenses to prepare for unexpected circumstances.
	<b>Status of monthly income</b> <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> Over 0 won	
	<b>Expectation on the future financial status</b> <input type="checkbox"/> Will improve greatly <input type="checkbox"/> Will improve <input type="checkbox"/> Will remain very much similar <input type="checkbox"/> Will worsen <input type="checkbox"/> Will worsen greatly	Financial status or source of income during the expected investment period.
	<b>Expectation on the future source of income</b> <input type="checkbox"/> Currently receiving regular income, which is expected to remain the same or increase in the future <input type="checkbox"/> Currently receiving regular income,	

	<p>which is expected to decrease or become unstable in the future</p> <p><input type="checkbox"/> Currently there is no regular income, and pension income is the main source of income</p>	
	<p><b>Total asset size (net asset)</b></p> <p><input type="checkbox"/> 0 mn won or less <input type="checkbox"/> Over 0 mn won</p>	
	<p><b>Percentage of total investments to total financial assets</b></p> <p><input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%</p>	<p>To identify general investment propensity.</p>
<p><b>Investment experience</b></p>	<p><b>Financial investment instruments with investment experiences</b> (multiple choices allowed)</p> <p><input type="checkbox"/> Stocks <input type="checkbox"/> ELW <input type="checkbox"/> Margin transactions</p> <p><input type="checkbox"/> Foreign currency securities</p> <p><input type="checkbox"/> Futures Options <input type="checkbox"/> Bonds</p> <p><input type="checkbox"/> Equity funds <input type="checkbox"/> Bond/hybrid funds</p> <p><input type="checkbox"/> Overseas funds <input type="checkbox"/> Advisory-discretionary investment <input type="checkbox"/> Trusts</p> <p><input type="checkbox"/> Others [     ]</p>	<p>In case of instruments with which an investor has investment experience, the mandatory explanation process can be simplified considering that the investor should have some understanding about the concerned instruments.</p>
	<p><b>Financial investment instruments with investment experiences</b> (multiple choices allowed)</p> <p><input type="checkbox"/> Government bonds, municipal bonds, guaranteed bonds, MMF, etc.</p> <p><input type="checkbox"/> Bank debentures, corporate bonds with high credit ratings, bond funds, principal protected ELS, etc.</p> <p><input type="checkbox"/> Corporate bonds with medium grade credit ratings, ELS with partial protection of the principal, hybrid funds, etc.</p> <p><input type="checkbox"/> Corporate bonds with low credit ratings, stocks, ELS without principal protection, equity funds that pursue</p>	

	<p>market return, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> ELW, futures options, equity funds that pursue higher return than market return rate, derivative funds, margin transactions of stocks, etc.</li> </ul>	
	<p><b>Investment experience in financial investment instruments</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> None <input type="checkbox"/> Less than 0 years <input type="checkbox"/> Less than 0 years <input type="checkbox"/> Less than 0 years <input type="checkbox"/> 0 years or more</li> </ul>	
	<p><b>Experience of investing in derivatives, derivatives-linked securities without principal protection, or derivatives funds</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Investment period (      Yrs    Mths)</li> </ul>	<p>*Please refer to the definitions of “derivatives, etc” in 2-1 of the references for companies.</p>
<b>Investment purpose</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Prefer to make profits through aggressive trading and is willing to endure risk of loss that exceeds the principal</li> <li><input type="checkbox"/> Aim to make profits through aggressive trading</li> <li><input type="checkbox"/> Aim to achieve similar level of profit as the price fluctuation seen in the market (e.g. the stock price index)</li> <li><input type="checkbox"/> Aim to make profits similar to gains from bond coupons and stock dividends</li> <li><input type="checkbox"/> Aim to hedge risks on assets held</li> <li>※ The risk of losses increases as the expected profits increase</li> </ul>	<p>Classifications may also be made according to the characteristics of the investments; such as for retirement, to buy homes, for education, to run a business, to make extra money, etc.</p>
	<p><b>Attitude towards investment profits and risks</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Investment profits matter, but preservation of principal is more important</li> <li><input type="checkbox"/> Preservation of principal matters, but investment profits are more important</li> <li><input type="checkbox"/> Regardless of the risk of losses, the investment profits are of greatest importance</li> </ul>	<p>This category is to address possibly unidentifiable issues, as investors would most likely to select 'high' when asked about the level of profits they pursue, and 'low' when asked about the level of losses they are willing to</p>

	<b>Attitude towards investment profits and risks</b> <input type="checkbox"/> $\pm 0\%$ range <input type="checkbox"/> $\pm 0\%$ range <input type="checkbox"/> $\pm 0\%$ range <input type="checkbox"/> $\pm 0\%$ range <input type="checkbox"/> Over $\pm 0\%$ range	accept. Identify based on the volatility of return on investment.
<b>Level and understanding of financial knowledge</b>	<input type="checkbox"/> No experience of investing in financial investment instruments <input type="checkbox"/> Have a moderate level of understanding of the structures and risks of widely known financial investment instruments (stocks, bonds, funds, etc.) <input type="checkbox"/> Have deep understanding of the structures and risks of widely known financial investment instruments (stocks, bonds, funds, etc.) <input type="checkbox"/> Have understanding of the structures and risks of most financial investment instruments, including derivatives	

<b>Level of loss tolerance</b>	<input type="checkbox"/> The principal must be guaranteed under any circumstances <input type="checkbox"/> Willing to accept minimum losses in the principal <input type="checkbox"/> Willing to accept partial losses in the principal <input type="checkbox"/> The level of risk does not matter so long as the expected profit is high	
	<b>Level of losses that can be accepted</b> <input type="checkbox"/> ±0% range of the principal <input type="checkbox"/> ±0% range of the principal <input type="checkbox"/> ±0% range of the principal <input type="checkbox"/> ±0% range of the principal	
	<b>Period that can be tolerated for principal recovery in case of loss occurrence</b> <input type="checkbox"/> 0~6 months <input type="checkbox"/> 6 months ~ 1 year <input type="checkbox"/> 1 year ~ 3 years <input type="checkbox"/> 3 years or more	
	<b>Attitude towards margin transaction and credit transaction</b> <input type="checkbox"/> Little understanding on margin or credit transactions <input type="checkbox"/> Do not wish to engage in margin or credit transactions, as making investments only with the assets held <input type="checkbox"/> Intend to engage in margin or credit transactions for higher profits, although losses may be bigger <input type="checkbox"/> Currently engaged in margin or credit transactions	
<b>Management plan for financial investment instruments</b>	<input type="checkbox"/> will scale down <input type="checkbox"/> will maintain the current level <input type="checkbox"/> will scale up	
<b>Expected investment period for concerned investment</b>	<input type="checkbox"/> Less than 0 months <input type="checkbox"/> 0 months or more ~ Less than 0 years <input type="checkbox"/> 0 or more years ~ Less than 0 years <input type="checkbox"/> 0 or more years ~ Less than 0 years	Expected investment period for the concerned investment.

	<input type="checkbox"/> O or more years	
<b>Family relation</b>	<input type="checkbox"/> Has dependents <input type="checkbox"/> No dependents	
<b>Form of taxation</b>	<input type="checkbox"/> Subject to consolidated taxation <input type="checkbox"/> Subject to general taxation	
<b>Age</b>	<input type="checkbox"/> Age of O or less <input type="checkbox"/> Between the age of O and O <input type="checkbox"/> Between the age of O and O <input type="checkbox"/> Between the age of O and O <input type="checkbox"/> Age of O or more	Able to confirm automatically with the resident registration number.
<b>Vulnerable investors</b>	<p><b>Whether the investor is categorized as vulnerable investor</b> Yes <input type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> <li>- Investors aged 65 or over</li> <li>- Minors</li> <li>- Investors who experience difficulty in making normal judgments</li> <li>- People with no experience regarding financial investment instruments</li> <li>- Illiterates, etc.</li> </ul>	This information is identified with the purpose to strengthen the protection measures for vulnerable investors.

**<Reference for Classifying Investor Propensity>**

- ▶ A company may decide the criteria for classifying investor propensity in view of its own criteria for determining suitability. For example, in cases where investors' propensities are determined based on the scoring method, the company may establish a separate criteria for classifying investor propensity in accordance with the investment information evaluation standards and results of each criterion.
- ▶ In the case where a company wishes to classify investor propensity into certain types, please refer to the following examples:

(Sample)

Method 1	Method 2	Method 3	Method 4
<ul style="list-style-type: none"> <li><input type="checkbox"/> High risk and high return type</li> <li><input type="checkbox"/> Middle risk and middle return type</li> <li><input type="checkbox"/> Low risk and low return type</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Derivatives type</li> <li><input type="checkbox"/> Stock preference type</li> <li><input type="checkbox"/> Growth type</li> <li><input type="checkbox"/> Interest and dividend type</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Risk preference type</li> <li><input type="checkbox"/> Aggressive type</li> <li><input type="checkbox"/> Growth type</li> <li><input type="checkbox"/> Stable growth type</li> <li><input type="checkbox"/> Risk-averse type</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Aggressive investment type</li> <li><input type="checkbox"/> Stock preference type</li> <li><input type="checkbox"/> Equity fund preference type</li> <li><input type="checkbox"/> High return bond type</li> <li><input type="checkbox"/> Hybrid investment type</li> <li><input type="checkbox"/> Stable investment preference type</li> <li><input type="checkbox"/> Interest income type</li> </ul>

**Confirmation of Investor Information**

I hereby confirm the following in relation to the investor information provided to you.

1. The investor information provided to you is accurate information with regards to my investment purpose, financial condition, investment experience, etc.
2. I have been notified that you would regard my investor information unchanged for

the next OO months.

3. I have been explained that in case a change occurs to my investor information, I should notify this to you so that I can receive appropriate investment recommendation.

• Date: \_\_\_\_\_ • Customer's name: \_\_\_\_\_ Signature/Seal  
(If necessary, the designated proxy's name: \_\_\_\_\_ Signature/Seal)

※ Applicable to companies that have set a validity period for investor information.

### **Confirmation of Refusal to Receive Investment Recommendation (or Refusal to Provide Investor Information)**

<input type="checkbox"/> I do not wish to receive investment recommendations	<input type="checkbox"/> I do not wish to provide my informations ※ Shall not be checked if an investor intends to trade discretionary investment, (non-designated) trust instruments, derivatives, etc.
<p>■ In the case when the investor refuses to receive investment recommendation or does not provide investor information, a company may not make any investment recommendations until the customer separately expresses his/her intention to receive them.</p> <p>■ A loss on the principal could be incurred when making an investment, and the customer is fully responsible for the profit and loss of the investment.</p>	

### **Confirmation of Trading Unsuitable(inappropriate) Financial Investment Instruments**

<b>Investor propensity</b>	(                      )
<b>Risk grade of financial investment instrument</b>	(                      )

☞ Fill in the brackets (in reference of the table below)

※ Financial Investment Instrument Suitable for Each Investor Propensity

Investor Propensity	Aggressive type		...		Stable type
Risk Grade of Financial Investment Instrument	Instruments with Ultra-High Risk or Below		...		Ultra-Low Risk

☞ The classification criteria including the name of the categories, etc. may be used after being revised by each company.

- A financial investment instruments that carry a higher risk compared to the investor propensity cannot be recommended by the company. Therefore, each investor shall have to decide at his/her discretion whether to invest in the financial investment instrument concerned.
- A loss on the principal may be incurred upon investment, and the customer shall be responsible for the investment profit and loss.
- In particular, it should be noted that a larger-than-expected loss can be incurred, in the case when the investor invests in financial investment instruments that carry a higher risk compared to his/her investor propensity.

※ Even in the case when an investor fills in the “Confirmation of Details on Trading Unsuitable Financial Investment Instruments,” executives and employees shall need to notify the investor of the details of the concerned derivatives, etc., the risk involved in the investment and the fact that the concerned trading is not suitable for the investor in accordance with the relevant statutes.

**<Reference>**

- ▶ If an investor wishes to invest in financial investment instruments that carry a higher risk compared to his/her investor propensity, the company concerned may suspend such transactions based on its set criteria, or proceed with the sales procedure after ensuring that the investor is informed of such fact by having him/her write down investor propensity and risk level of such financial investment instruments.

**(Ordinary Investors) Letter of Confirmation of Investor Information**  
**(Sample 2)**

**<Sample 2 Instructions>**

- ※ The content of the following (Sample 2) is to be used as reference only for companies that distinguish “general propensities of ordinary investors” and “propensities of current investments.”
- ※ The instructions are the same hereinafter as those of the letter of confirmation of (ordinary investor) investor information (Sample 1).

**<Method of Applying Sample 2>**

\* (Sample 2) is a method of identifying and classifying investor information into “general propensities of investors” and “current propensities of investments.” The method (Sample 1) currently used in most companies, can be used as it is.

Information on the “general propensities of investors”, which does not easily change once identified, and the information on the “current propensities of investments”, which may differ whenever a recommendation is made, should be distinguished.

\* Information on general propensities of investors - Information that results from the general propensities of investors and does not change frequently, including the general investment purpose, financial condition, investment experience, expected investment period, etc.

\* Information on current propensities of investments - Information that may change frequently according to the characteristics of investments, including the purpose of the current investment,

expected investment period, etc.

- The investment purpose, financial condition and investment experience ([§46] of the Act) are categories that must be identified, and the detailed questions can be selected or adjusted to suit characteristics of companies.

**(Information on general propensities of investors)** After the initial identification, the information is only to be reaffirmed after a certain period (validity period) has passed, and the appropriate validity period\* can be reasonably decided by the company.

- When making an investment recommendation to existing investors, the company must reaffirm each categories if the information on investor propensity has passed the validity period set by the company.

\* In the case of some global companies, the validity period for the information is 12 to 36 months.

**(Information on current propensities of investments)** In principle, the information must be updated prior to every investment recommendation.

○ *Provided,* That if an investor confirms both in writing and verbally that his/her current propensities of investments remain the same as before, the procedure for reconfirmation may be omitted.

○ In general cases, it is desirable to make a investment recommendation based on general propensities of investors. In the case where it is confirmed that investment should be made in

low-risk financial investment instruments, it is desirable to recommend only low-risk financial investment instruments regardless of general propensities of investors.

- This letter of confirmation will be used to identify investor information of customers pursuant to the Financial Investment Services and Capital Markets Act and to provide proper investment recommendations accordingly. Please select the option that best describes the customer's circumstances.
- This letter of confirmation must be drawn up when a customer wishes to trade derivatives, etc. in accordance with [§46-2(1)] of the Financial Investment Services and Capital Markets Act.

**Categories of Investor Information (Sample)**  
**(Information on the “general propensities of investors”)**

\* Given the customer’s consent, the information below may be used for a certain period without any changes. Therefore, make sure to state your information accurately.

Classification	Sample Questions	Note
<b>Financial condition</b>	Percentage of assets that can be invested compared to monthly income <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%	Category to be considered when making cumulative investments.
	<b>Whether there are any surplus funds</b> <input type="checkbox"/> For less than 0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> Over 0 months	Confirming the surplus funds that are applicable to the future household expenses to prepare for unexpected circumstances.
	<b>Status of monthly income</b> <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> Over 0 won	
	<b>Expectation on the future financial status</b> <input type="checkbox"/> Will improve greatly <input type="checkbox"/> Will improve <input type="checkbox"/> Will remain very much similar	Financial status or source of income during the expected investment period.

	<input type="checkbox"/> Will worsen <input type="checkbox"/> Will worsen greatly	
	<b>Expectation on the future source of income</b> <input type="checkbox"/> Currently receiving regular income, which is expected to remain the same or increase in the future <input type="checkbox"/> Currently receiving regular income, which is expected to decrease or become unstable in the future <input type="checkbox"/> Currently there is no regular income, and pension income is the main source of income	
	<b>Total asset size (net asset)</b> <input type="checkbox"/> 0 mn won or less <input type="checkbox"/> Over 0 mn won	
	<b>Percentage of total investment instruments to the total financial asset</b> <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%	Category to identify the general propensity to investment.
<b>Investment experience</b>	<b>Financial investment instruments with investment experiences</b> (multiple choices allowed) <input type="checkbox"/> Stocks <input type="checkbox"/> ELW <input type="checkbox"/> Margin transactions <input type="checkbox"/> Foreign currency securities <input type="checkbox"/> Futures options <input type="checkbox"/> Bonds <input type="checkbox"/> Equity funds <input type="checkbox"/> Bond/hybrid funds <input type="checkbox"/> Overseas funds <input type="checkbox"/> Advisory-discretionary investment <input type="checkbox"/> Trusts <input type="checkbox"/> Others [    ]	In case of instruments with which an investor has investment experience, the mandatory explanation process can be simplified considering that the investor should have some understanding about the concerned instruments.
	<b>Financial investment instruments with investment experiences</b> (multiple choices allowed) <input type="checkbox"/> Government bonds, municipal bonds, guaranteed bonds, MMF, etc. <input type="checkbox"/> Bank debentures, corporate bonds with high credit ratings, bond funds, principal protected ELS, etc. <input type="checkbox"/> Corporate bonds with medium grade	

	<p>credit ratings, ELS with partial protection of the principal, hybrid funds, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Corporate bonds with low credit ratings, stocks, ELS without principal protection, equity funds that pursue market return, etc.</li> <li><input type="checkbox"/> ELW, future options, equity funds that pursue higher return than market return, derivative funds, margin transactions of stocks, etc.</li> </ul>	
	<p><b>Investment experience for the financial investment instruments</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> None <input type="checkbox"/> Less than 0 years</li> <li><input type="checkbox"/> Less than 0 years</li> <li><input type="checkbox"/> Less than 0 years</li> <li><input type="checkbox"/> 0 years or more</li> </ul>	
	<p><b>Experience of investing in derivatives, derivatives-linked securities without principal protection, or derivatives funds</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Investment period (      Yrs    Mths)</li> </ul>	<p>*Please refer to the definitions of “derivatives, etc.” in 2-1 of the references for companies.</p>
<p><b>General investment purpose</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Prefer to make profits through aggressive trading and is willing to endure the risk of losses that exceeds the principal</li> <li><input type="checkbox"/> Aim to make profits through aggressive trading</li> <li><input type="checkbox"/> Aim to achieve a similar level of profit as the price fluctuation seen in the market (e.g. the stock price index)</li> <li><input type="checkbox"/> Aim to make profits similar to gains from bond coupons and stock dividends</li> <li><input type="checkbox"/> Aim to hedge risks on assets held</li> <li>※ The risk of losses increases as the expected profits increase</li> </ul>	<p>It can also be classified according to the characteristics of the investments, such as for retirements, to buy homes, for children education, to run a business, to make extra money, etc.</p>
	<p><b>General attitude towards investment profits and risks</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> ±0% range <input type="checkbox"/> ±0% range <input type="checkbox"/> ±0%</li> </ul>	<p>Identify the general level of tolerance according to the volatility.</p>

	range <input type="checkbox"/> $\pm 0\%$ range <input type="checkbox"/> Over $\pm 0\%$ range	
<b>Level and understanding of financial knowledge</b>	<input type="checkbox"/> No experience of investing in financial investment instruments <input type="checkbox"/> Have a moderate understanding about structures and risks of widely known financial investment instruments (stocks, bonds, funds, etc.) <input type="checkbox"/> Have a deep understanding about structures and risks of widely known financial investment instruments (stocks, bonds, funds, etc.) <input type="checkbox"/> Have an understanding about structures and risks of most financial investment instruments, including derivatives	
<b>Level of loss tolerance</b>	<input type="checkbox"/> The principal in investments must be guaranteed under any circumstances <input type="checkbox"/> Able to accept the minimum losses of the principal in investments <input type="checkbox"/> Able to accept some losses to the principal in investments <input type="checkbox"/> The level of risk does not matter so long as the expected profit is high	
	Level of losses that can be tolerated <input type="checkbox"/> $\pm 0\%$ range of the principal <input type="checkbox"/> $\pm 0\%$ range of the principal <input type="checkbox"/> $\pm 0\%$ range of the principal <input type="checkbox"/> $\pm 0\%$ range of the principal	
	<b>Period that can be tolerated for principal recovery in case of loss occurrence</b> <input type="checkbox"/> 0~6 months <input type="checkbox"/> 6 months ~ 1 year <input type="checkbox"/> 1 year ~ 3 years <input type="checkbox"/> 3 years or more	
	<b>Attitude towards margin transaction and credit transaction</b> <input type="checkbox"/> Little understanding on margin or credit transactions <input type="checkbox"/> Do not wish to engage in margin or credit transactions, as making investments	

	<p>only with the assets held</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Intend to engage in margin or credit transactions for higher profits, although losses may be bigger</li> <li><input type="checkbox"/> Currently engaged in margin or credit transactions</li> </ul>	
<b>Management plan for financial investment instruments</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> will scale down</li> <li><input type="checkbox"/> will maintain the current level</li> <li><input type="checkbox"/> will scale up</li> </ul>	
<b>General investment period</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Less than 0 months</li> <li><input type="checkbox"/> 0 months or more ~ Below 0 years</li> <li><input type="checkbox"/> 0 years or more ~ Below 0 years</li> <li><input type="checkbox"/> 0 years or more ~ Below 0 years</li> <li><input type="checkbox"/> 0 years or more</li> </ul>	Identifying the general investment period.
<b>Family relation</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Has dependents</li> <li><input type="checkbox"/> No dependents</li> </ul>	
<b>Form of taxation</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Subject to consolidated taxation</li> <li><input type="checkbox"/> Subject to general taxation</li> </ul>	
<b>Age</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> the age of 0 or less</li> <li><input type="checkbox"/> Between the age of 0 and 0</li> <li><input type="checkbox"/> Between the age of 0 and 0</li> <li><input type="checkbox"/> Between the age of 0 and 0</li> <li><input type="checkbox"/> the age of 0 or more</li> </ul>	Able to confirm automatically with the resident registration number
<b>Vulnerable investors</b>	<p><b>Whether the investor is categorized as vulnerable investors</b> Yes <input type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> <li>- Investors aged 65 or over</li> <li>- Minors</li> <li>- Investors who experience difficulty in making normal judgments</li> <li>- People with no experience regarding financial investment instruments</li> <li>- Illiterates, etc.</li> </ul>	This information is identified with the purpose to strengthen the protection measures for vulnerable investors

**(Information of the “Current Propensities of Investments”)**

\* Please fill in the questionnaire below so that it best reflects the characteristic of the investment that you are currently wishing to make.

Classification	Sample Questions	Note
<b>Current investment purpose</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Prefer to make profits through aggressive trading and is willing to endure the risk of losses that exceeds the principal</li> <li><input type="checkbox"/> Aim to make profits through aggressive trading</li> <li><input type="checkbox"/> Aim to achieve a similar level of profit as the price fluctuation seen in the market (e.g. the stock price index)</li> <li><input type="checkbox"/> Aim to make profits similar to gains from bond coupons and stock dividends</li> <li><input type="checkbox"/> Aim to hedge risks on assets held</li> <li>※ The risk of losses increases as the expected profits increase</li> </ul>	<p>It can also be classified according to the characteristics of the investment funds, such as for retirements, to buy homes, for children education, to run a business, to make extra money, etc.</p>
	<p><b>Attitude towards investment profits and risks</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Investment profits matter, but preservation of principal is more important</li> <li><input type="checkbox"/> Preservation of principal matters, but investment profits are more important</li> <li><input type="checkbox"/> Regardless of the risk of losses, the investment profits are of greatest importance</li> </ul>	<p>This category is to address possibly unidentifiable issues, as investors would most likely to select 'high' when asked about the level of profits they pursue, and 'low' when asked about the level of losses they are willing to accept.</p>
	<p><b>Attitude towards investment profits and risks</b></p> <p><input type="checkbox"/> ±O% range   <input type="checkbox"/> ±O% range   <input type="checkbox"/> ±O% range   <input type="checkbox"/> ±O% range   <input type="checkbox"/> Over ±O% range</p>	<p>Identified according to the volatility of return on investment.</p>
	<p>Do you aim to preserve the principal of current investment?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Yes</li> <li><input type="checkbox"/> No</li> </ul>	<p>If checked “yes,” it is necessary to sell or recommend low-risk-graded or below instruments.</p>

<b>The instrument that you would like to invest in</b>	Name of the instrument you wish to invest in: (            )	
<b>Expected investment period for the current fund for investment</b>	<input type="checkbox"/> Less than 0 months <input type="checkbox"/> 0 months or more ~ Below 0 years <input type="checkbox"/> 0 years or more ~ Below 0 years <input type="checkbox"/> 0 years or more ~ Below 0 years <input type="checkbox"/> 0 years or more	Expected investment period for the current investment.
<b>Scale of the current investment</b>	Percentage of the assets that are currently being invested out of the total financial assets <input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%	

(hereinafter the same as '**(Ordinary Investor) Letter of Confirmation of Investor Information [Sample 1]**')

**Letter of Confirmation of Investor Information (Regarding (Discretionary Investment/Money Trust) [Sample 3]**

**<Instructions>**

- ▶ A company shall autonomously prepare a [letter of confirmation of investor information] that suits the characteristics of the company by referring to and/or making adjustments to the following categories to confirm investor information. *Provided*, That it is essential to identify ordinary investor information, including investment purposes, financial condition and investment experience (Paragraph 2 of [§46] of the Act), as well as the investor’s age, risk tolerance, investment purpose, income level, ratio of financial assets (Subparagraph 5 of [§4-77] Subparagraph 26 of [§4-93] of Regulations on Financial Investment Business). *Provided*, That if a professional investor does not wish to be investigated, the investor need not to be investigated and may choose his/her investment type.
- ☞ The provided sample is for reference only, and the questions need not be composed in the same way as suggested.
- ☞ It is also acceptable to construct a consultation report form, and in this case, the answers can be written in essay forms.
- ☞ The questions marked with an asterisk (\*) must be included, and if the main category heading is marked with an asterisk, at least one question in the category must be included. (*Provided*, That for the “Financial Condition” category, both the questions regarding the ’\*monthly (or yearly) income’ and “the ratio of financial assets to total assets” must be included.)
- ☞ In case of a corporation, the company should adjust the questions to fit itself regarding the investment purpose, financial condition and investment experience ([§46-2] of the Act), as well as the investor’s age, ability to bear investment risk, investment purpose, income level, ratio of financial assets (Subparagraph 5 of [§4-77] Subparagraph 26 of [§4-93] of Regulations on Financial Investment Business).
- ▶ **A company may autonomously decide whether it will set a validity period of investor information.**

*Provided,* That at least once every quarter the company needs to confirm whether there has been a change in the investor's financial condition and investment purpose.

※ The information inside the dotted-line box is only to be used as references by the company, and it should be excluded from the forms provided to the investors. (hereinafter the same)

- This letter of confirmation will be used to identify investor information of customers pursuant to the Financial Investment Services and Capital Markets Act and to provide proper investment recommendations accordingly. Please select the option that best describes the customer's circumstances.
  
- This letter of confirmation must be completed when the discretionary investment or money trust agreement is to be executed to classify a customer, thereby suitably service the customer according to the classification pursuant to [§4-77] and [§4-93] of Regulations on Financial Investment Business.

## Categories of Investor Information (Sample)

Classification	Sample Questions	Note
*Financial condition	<b>Percentage of assets that can be invested compared to monthly income</b> <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%	Category to be considered when making cumulative investments.
	<b>Whether there are any surplus funds</b> <input type="checkbox"/> For less than 0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> For 0 months~0 months <input type="checkbox"/> Over 0 months	Confirming the surplus funds that are applicable to the future household expenses to prepare for unexpected circumstances.
	<b>Status of monthly income</b> <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> 0 won or less <input type="checkbox"/> Over 0 won	
	<b>Expectation on the future financial status</b> <input type="checkbox"/> Will improve greatly <input type="checkbox"/> Will improve <input type="checkbox"/> Will remain very much similar <input type="checkbox"/> Will worsen <input type="checkbox"/> Will worsen greatly	
	<b>Expectation on the future source of income</b> <input type="checkbox"/> Currently receiving regular income, which is expected to remain the same or increase in the future <input type="checkbox"/> Currently receiving regular income, which is expected to decrease or become unstable in the future <input type="checkbox"/> Currently there is no regular income, and pension income is the main source of income	Financial status or source of income during the future investment period.
	<b>Total asset size (net asset)</b> <input type="checkbox"/> 0 mn won or less <input type="checkbox"/> Over 0 mn won	
	<b>Percentage of total investment instruments out of the total financial asset</b>	Category to identify the general propensity to

	<input type="checkbox"/> 0% or less <input type="checkbox"/> Over 0%	investment.
<b>*Investment experience</b>	<b>Financial investment instruments with investment experiences</b> (multiple choices allowed) <input type="checkbox"/> Stocks <input type="checkbox"/> ELW <input type="checkbox"/> Margin transactions <input type="checkbox"/> Foreign currency securities <input type="checkbox"/> Futures options <input type="checkbox"/> Bonds <input type="checkbox"/> Equity funds <input type="checkbox"/> Bond/hybrid funds <input type="checkbox"/> Overseas funds <input type="checkbox"/> Advisory-discretionary investment <input type="checkbox"/> Trusts <input type="checkbox"/> Others [     ]	In case of instruments with which an investor has investment experience, the mandatory explanation process can be simplified considering that the investor should have some understanding about the concerned instruments.
	<b>Financial investment instruments with investment experiences</b> (multiple choices allowed) <input type="checkbox"/> Government bonds, municipal bonds, obligation bonds, MMF, etc. <input type="checkbox"/> Bank debentures, corporate bonds with high credit ratings, bond funds, principal protected ELS, etc. <input type="checkbox"/> Corporate bonds with medium grade credit ratings, ELS with partial protection of the principal, hybrid funds, etc. <input type="checkbox"/> Corporate bonds with low credit ratings, stocks, ELS without principal protection, equity funds that pursue market return, etc. <input type="checkbox"/> ELW, future options, equity funds that pursue higher return than market return, derivative funds, margin transactions of stocks, etc.	
	<b>Investment experience for the financial investment instruments</b> <input type="checkbox"/> None <input type="checkbox"/> Less than 0 years <input type="checkbox"/> Below 0 years <input type="checkbox"/> Below 0 years <input type="checkbox"/> 0 years or more	
	<b>Experience of investing in derivatives, derivatives-linked securities without</b>	*Please refer to the definitions of

	<p><b>principal protection, or derivatives funds</b></p> <p><input type="checkbox"/> Investment period (      Yrs      Mths)</p>	<p>“derivatives, etc” in 2-1 of the references for companies.</p>
<p><b>*Investment purpose</b></p>	<p><input type="checkbox"/> Prefer to make profits through aggressive trading and willing to endure the risk of losses that exceeds the principal</p> <p><input type="checkbox"/> Aim to make profits through aggressive trading</p> <p><input type="checkbox"/> Aim to achieve similar level of profits as the trend of price fluctuation of the market (e.g. stock price index)</p> <p><input type="checkbox"/> Aim to make profits just as much as bond coupons and stock dividends</p> <p><input type="checkbox"/> Aim to hedge risks on the assets held</p> <p>※ The risk of losses increases as the expected profits increases</p>	<p>It can also be classified according to the characteristics of the investment funds, such as for retirement, to buy homes, for children education, to run a business, to make extra money, etc.</p>
	<p><b>Attitude towards investment profits and risks</b></p> <p><input type="checkbox"/> Investment profits matter, but preservation of principal is more important</p> <p><input type="checkbox"/> Preservation of principal matters, but investment profits are more important</p> <p><input type="checkbox"/> Regardless of the risk of losses, the investment profits are of greatest importance</p>	<p>This category is to address possibly unidentifiable issues, as investors would most likely to select 'high' when asked about the level of profits they pursue, and 'low' when asked about the level of losses they are willing to accept.</p>
	<p><b>Attitude towards investment profits and risks</b></p> <p><input type="checkbox"/> ±O% range   <input type="checkbox"/> ±O% range   <input type="checkbox"/> ±O% range</p> <p><input type="checkbox"/> ±O% range   <input type="checkbox"/> Over ±O% range</p>	<p>Identify according to the volatility of return on investment.</p>
<p><b>Level and understanding of financial knowledge</b></p>	<p><input type="checkbox"/> No experience of investing in financial investment instruments</p> <p><input type="checkbox"/> Have a moderate level of understanding of the structures and risks of widely known financial investment instruments (stocks, bonds, funds, etc.)</p> <p><input type="checkbox"/> Have a deep understanding of the structures and risks of widely known financial investment instruments (stocks,</p>	

	bonds, funds, etc.) <input type="checkbox"/> Have understanding about the structures and risks of most financial investment instruments, including the derivatives	
--	---	--

<b>*Level of loss tolerance</b>	<input type="checkbox"/> The principal in investments must be guaranteed under any circumstances <input type="checkbox"/> Able to accept the minimum losses of the principal in investments <input type="checkbox"/> Able to accept some losses to the principal in investments <input type="checkbox"/> The level of risk does not matter so long as the expected profit is high	
	<b>Level of loss tolerance</b> <input type="checkbox"/> ±0% range of the principal <input type="checkbox"/> ±0% range of the principal <input type="checkbox"/> ±0% range of the principal <input type="checkbox"/> ±0% range of the principal	
	<b>When more than a half of the contract period is left and in a short term (in a span of 1-2 month(s)) the actual loss exceeds the estimated loss limit:</b> <input type="checkbox"/> Sell all portfolio assets <input type="checkbox"/> Sell part of portfolio assets <input type="checkbox"/> No action <input type="checkbox"/> Invest additional capital	
<b>*Expected investment period</b>	<input type="checkbox"/> Below 0 months <input type="checkbox"/> 0 months or more ~ Below 0 years <input type="checkbox"/> 0 or more years ~ Below 0 years <input type="checkbox"/> 0 or more years ~ Below 0 years <input type="checkbox"/> 0 or more years	Expected investment period for the current investment.
<b>Family relation</b>	<input type="checkbox"/> Has dependents <input type="checkbox"/> No dependents	
<b>Form of taxation</b>	<input type="checkbox"/> Subject to consolidated taxation <input type="checkbox"/> Subject to general taxation	
<b>*Age</b>	<input type="checkbox"/> the age of 0 or less <input type="checkbox"/> Between the age of 0 and 0 <input type="checkbox"/> Between the age of 0 and 0 <input type="checkbox"/> Between the age of 0 and 0 <input type="checkbox"/> the age of 0 or more	Able to confirm automatically with the resident registration number.
<b>Vulnerable investors</b>	<b>Whether the investor is categorized as vulnerable investor</b> Yes <input type="checkbox"/> No <input type="checkbox"/> - Investors aged 65 or over - Minors - Investors who have the disability to make normal judgment - People without experience in financial investment instruments - Illiterates, etc.	The information is to be identified with the purpose to strengthen the protection measures on investors for vulnerable investors.

**<Reference for Classifying Investor Propensity>**

- ▶ A company may decide on the criteria for classifying investor propensity in view of its own criteria for determining suitability. For example, in cases when investors' propensities are determined based on the scoring method, the company may establish a separate criteria for classifying investor propensity in accordance with the investment information evaluation standards and results of each criterion.
- ▶ The company shall regularly assess\* the relevance and suitability of the questions
  - \* In the case where the distribution of investors is concentrated on certain types, or there are too many high-risk investments, it is necessary to regularly assess the questions, scoring standard, etc.
- ▶ Please refer to the following examples to classify investors by investment type (*Provided*, That the classification shall be done in five or more stages).

(Sample)

Aggressive investment type	Risk preference type	Stage 1	High Risk    Low Risk	Stage 1	Aggressive investment type
Active investment type	Aggressive type	Stage 2		Stage 2	Stock preference type
Risk/return neutrality type	Growth type	Stage 3		Stage 3	Equity fund preference type
Stable preference type	Stable growth type	Stage 4		Stage 4	High return bond type
				Stage 5	Hybrid investment type
				Stage 6	Stable investment preference type
Stable type	Risk-Averse type	Stage 5		Stage 7	Interest income type

## Letter of Confirmation of Investor Information

I hereby confirm the following in relation to the investor information provided to you.

1. The investor information provided to you are accurate information regarding my investment purpose, financial condition, and investment experience, etc.
2. I have been notified that you shall consider that my investor information will remain unchanged for the next OO months.
3. I have been explained that if there's a change in my investor information, I should notify this to you so that I can receive proper investment recommendation.

• Date:

(If necessary, the designated proxy's name:

• Customer's name:

Signature/Seal

Signature/Seal)

※ Applicable to the companies that set a validity period for investor information.

[Reference 2]

**Letter of Confirmation of Investor Information for OTC Derivatives**  
**(Corporation and Sole Proprietorship) (Sample)**

- ▶ In cases where a company recommends OTC derivatives to an investor who is an ordinary investor in accordance with relevant laws and regulations, the company must confirm investor information through interviews, questions, etc. beforehand and receive confirmation through the methods such as the affixed signature and seal of investors. Afterwards, the company must keep and manage the letter of confirmation and provide the confirmed content to the investors without any delay.
- ▶ The confirmed information is used to recommend appropriate derivatives to the investors.
- ▶ In addition, in cases where an ordinary investor wants to trade “derivatives, etc.” based on his/her own decision without the company’s recommendation, the company must confirm investor information through interviews, questions, etc., including the investment purpose, financial condition, investment experience, etc. If it is deemed such derivatives are not appropriate for the investor based on the investment (trading) purpose, financial condition, investment experience, etc., it is mandated by the relevant laws and regulations for the company to notify the investors of such facts and receive confirmation from investors through the methods such as signatures, etc.
- ▶ Please select the category that best suits investors' situation or that is closest to it. If the investor gives the wrong answer or insincere answer, it might invoke the company to refuse to trade OTC derivatives with the investor, or the investor being recommended with instruments that are not appropriate for him/her. Therefore, the risk the investor has to take will increase.

Type of investor	Listed company <input type="checkbox"/>	Unlisted company <input type="checkbox"/>	Sole Proprietorship <input type="checkbox"/>
------------------	---	---	--

**I. Financial Status of Investors**

**1. Financial status**

Total assets: \_\_\_\_\_ Total assets in foreign currency: \_\_\_\_\_  
Total debts: \_\_\_\_\_ Total debts in foreign currency: \_\_\_\_\_

Total annual exports: \_\_\_\_\_ Total annual imports: \_\_\_\_\_  
 Amount of financial investment assets held: \_\_\_\_\_

2. Types of transaction for derivatives that are currently being held and the balance of the contracts [including all financial institutions]

---



---

## II. Purpose of Trading

Investment Purpose	Yes	No
Do you wish to enter into the transaction below with the purpose of avoiding risks (hedging)?	<input type="checkbox"/>	<input type="checkbox"/>

## III. Type of OTC Derivatives you wish to trade

1. Please check the type of the underlying assets that you wish to trade.

Currency	Interest Rate	Commodity	Others
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Please write the breakdown, amount, and details of the underlying assets for which you wish to avoid risks (hedging).

---

#### IV. Level of Understanding about the Instrument

1. Highest decision-maker of OTC derivatives*			
Division:	Position:	Name:	
Relevant experience:	Relevant qualifications:		
Level of knowledge about OTC derivatives	High: (Professional level):	Medium:	Low:
2. Person in charge of signing the trading of OTC derivatives*			
Division:	Position:	Name:	
Relevant experience:	Relevant qualifications:		
Level of knowledge about the OTC derivatives	High: (Professional level):	Medium:	Low:
3. Are the representative of the investor and the aforementioned executives and employees fully understand the conditions of the OTC derivatives to be traded and the risks that accompany them?			
Yes:		No:	
4. Are the OTC derivatives the investor wishes to trade appropriate for the investor in view of the characteristics and the size of the risks the investor wants to avoid?			
Yes:		No:	

\* In the case where the investor is an organization like a corporation, as executives or employees other than the representative execute a transaction, the investor must report the personal data and the registered seal (authorized signature book) in a separate form.

## V. Risk Management Ability

Risk Management Ability	Yes	No	Note
1. Whether there's an organization and personnel exclusively responsible for risk management of OTC derivatives			Name of organization:  Number of employees:
2. Whether there are rules, compliance procedures, and work procedures for risk management of OTC derivatives			Name of rules:
3. Whether there's a separate computer system for risk management of OTC derivatives			Name of computer system:

## VI. Level of Financial Tradings

Please check the type, trading size, etc. of the OTC derivatives that you have traded until now.

Instrument Type	Whether there's experience	Number of cases	Number of years of trading	Trading size*
FX Forward				
FX Swap/Currency Swap				
Exotic FX Option: KIKO, etc.				
Interest Rate Swap				
Credit Default Swap				
Commodity Derivatives				
Other Types: Please provide the description				

\* Please write down the trading size in Korean won or U.S. dollars.

## Investor Confirmation

- I hereby confirm the following details regarding investor information provided to you:
1. I have provided you with accurate information about my investment purpose, financial condition, investment experience, etc.
  2. I have been notified of the fact that you will regard my investor information unchanged for the next 00 months.
  3. I have been told that I must notify you of any changes to my investor information if I want to receive proper investment recommendations from you.

Date of preparation: \_\_\_\_\_YY\_\_\_\_MM \_\_\_\_DD  
(Position) \_\_\_\_\_ (Person in charge)  
(Signature/Seal) \_\_\_\_\_  
(Name of corporation) \_\_\_\_\_

## Company Confirmation

- This letter of confirmation contains information identified in order to confirm whether the transaction is appropriate prior to trading OTC derivatives with the investor.

Date of preparation: \_\_\_\_\_YY\_\_\_\_MM \_\_\_\_DD  
(Name of Branch/Division, 00 company)  
(Person in charge) \_\_\_\_\_ (Signature/Seal) \_\_\_\_\_

### <Reference>

- ※ The example of the letter of confirmation of investor information for OTC Derivatives is a form written by the investor to provide the company with the information needed to make investment recommendations. If the investor wishes to trade derivatives without receiving investment recommendations, the company must receive confirmation from the investor by receiving a letter of confirmation in the form of a signature, etc. including the content specified in [Reference 1] (confirming the trading of inappropriate derivatives, etc.).
  
- ※ The company must seal the copy of this confirmation letter on which the customer has sealed (or signed), and send the copy to the customer. And the company keeps the original copy of this questionnaire on which the customer has sealed (or signed).

[Reference 3]

**Factors for Consideration to Evaluate Risk Levels of Financial Investment Instruments (Sample)**

\* The company must decide on the ratings of the risk levels and the details of the financial investment instrument for each rating by considering risk factors such as the profit and loss structure of the financial investment instrument, market situation, etc. in accordance with the internal policies of the company.

- **Quantitative factors** that can be referred to when setting and adjusting the risk levels

	Classification	Explanation
Quantitative Factors	Price volatility of underlying assets (Including foreign exchange risks)	Use the data for the past three years, including standard deviation, VaR, etc. * In the case of collective investment securities, it is possible to refer to the investment risk written on the investment prospectus.
	Extent to which potential loss of principal can occur	Classified into 100% protection type, partial protection type, and non-protection type depending on the extent to which the principal of the investment is guaranteed until the maturity.
	Credit rating	For a domestic issuer, the credit rating provided by a bond valuation agency is used as references. For a foreign issuer, the credit rating of foreign credit rating companies and the credit rating of the issuer's country can be taken into consideration.
	Time to maturity	In the case of bonds, the modified duration should be considered, and a higher risk level should be established for higher duration.
	Incorporated ratio of derivatives	Higher risk levels are established for derivatives with higher extent of incorporation.
	Criteria for the risk-adjusted returns	Information ratio (IR), sensitivity of benchmark, tracking error, Jensen's alpha, sharpe ratio, Treynor ratio, etc.

- **Qualitative factors** that can be referred to when setting and adjusting risk levels

	Classification	Explanation
Qualitative Factors	Structure of instruments	Established according to the simplicity or complication of the instrument's structure.
	Counter-party risk	Established according to the credit rating of the counter-party.
	Clarity of calculating the rate of return	Higher risk levels are established for the rate of return with complicated calculation method.
	Level of difficulty on understanding	Instruments that are difficult for the investors to understand are established with higher risk levels.
	Certain risks of structured instruments	Consider whether there's a potential for early redemption before maturity.
	Factors of liquidity	Higher risk levels are established for funds with lower liquidity.
	Type of funds	Consider whether it is accumulative or deferred.

\* The company makes investment recommendations by considering investor propensities classified according to the confirmation result of investor information and the result of classification of the risks for financial investment instruments according to the company's internal policies.

[Reference 4]

### Method of Judging Suitability (Sample)

#### **(Method 1) Method of Scoring Investor Propensity**

- Confirm the propensity of each investor by scoring the investor's answers for each question and then adding up all these scores.
  - The principle of suitability shall be applied by matching the identified investor propensity with the instruments with the risk levels that are suitable for investment recommendation.
  - Even if the scoring method is adopted, it is possible to classify and identify both “the information on the general propensities of ordinary investors” and “the information on the propensities of current investments” as it is shown in (sample 2) of [Reference 1].
- In such cases, “the information on the general propensities of ordinary investors” and “the information on the propensities of current investment funds” can each be scored and used to judge the suitability.

<Pros>

- ▶ Easy to identify the propensities of the investors through objective answers.

<Cons>

- ▶ If the scoring isn't correct, the result of the answers might not accurately reflect the actual propensities of the investors.
- ▶ A problem may occur when certain information, which is important to the investors, is not considered when making investment recommendations.

#### **(Method 2) Factor-out Method**

- Method of selecting a suitable instrument in consecutive orders through the investor's answers to questions on the information without confirming

the propensities of the investors.

- (Category-instrument matching) Decide on the instrument that is suitable for investment recommendation for each category beforehand.
- (Selecting suitable instrument) Select only the instruments that satisfy the conditions according to the result of answers for each category in order. The list of instruments that remains in the end are regarded to be suitable for investment recommendation.
- \* Question 1) 'Very high' understanding on financial instruments → All instruments can be recommended  
'Medium' understanding on financial instruments → Exclude derivatives and structured securities with complicated structures
- \* Question 2) Expected return on investment is 'the deposit and installment savings level' → Exclude the derivatives, stocks, equity funds, etc.

→ Easy to apply when the questions are simple and the number of answers that can be chosen for each question is small.

<Pros>

- ▶ With relatively simple questions, it is convenient to use at a counter because the list of instruments available for investment recommendation is easily accessible.
- ▶ It is very unlikely that the problem of misselling occurs later, because all factors of investor information are taken into consideration.

<Cons>

- ▶ A distributor must be equipped with standards and systems for analyzing the instruments it sells and for classifying categories of the questions in detail.

### **(Method 3) Hybrid Method**

- Use both the scoring method (Method 1) and the factor-out method (Method 2).
  - After classifying and identifying “the information on the general propensities of ordinary investors” and “the information on the propensities of current investments” as shown in (Sample 2) of [Reference 1],
    - Use the scoring method (Method 1) for “the information on the general propensities of ordinary investors” to identify the investor's propensity, and then decide on the type of instruments that are suitable for such propensity.
    - Among the type of instruments that are decided from above, extract suitable instruments in consecutive orders through the investors' answers to each category of “the information on the propensities of the current investments” (Method 2).
      - \* Sample) As a result of identifying through the scoring method for “the information on the general propensities of ordinary investors”, 'low-risk, low-return' type of instruments are suitable.
        - If the investment purpose of the current investment is for 'business funds' and the expected investment period is 'three months', only MMF among 'low-risk, low-return' type of instruments may be recommended.
- <Pros>
- ▶ The possibility of occurrence of misselling problem is lower than the scoring method, because the information such as the investment purpose of the current investments can be actively reflected.
  - ▶ The system is less complicated than the factor-out method and the establishment cost may be saved, because the standard for analyzing the instruments that are being sold only requires the information on the propensities of the current investments.
- <Cons>
- ▶ The procedures are more complicated than the scoring method for the

propensities of the investors, because the propensities of current investments has to be confirmed whenever making an investment recommendation.

#### **(Method 4) Method of Using Consultation Reports**

□ Method of recording the process and result of consulting investors to provide reasonable ground to judge whether proper investment recommendations have been made.

- (Recording consultation process and result) Along with investor information identified through consultation, make a detailed record of the reasons for making certain recommendations on the consultation report.

##### <Pros>

- ▶ Possible to have an in-depth consultation with investors and able to utilize the experience and know-how of sales employees.
- ▶ Possible to reflect the in-depth consultation details on investors' assets, portfolio status, attitude to risks, etc.
- ▶ Possible to complement weaknesses of the scoring method, which is suitable for investment recommendation of single financial investment instruments, and is suitable for recommending trusts, advisory, discretionary, portfolio investment, etc.

##### <Cons>

- ▶ Expertise of sales employees is required, because the consultation quality and the result of the investment recommendation are decided based on the ability of the sales employee.

□ Detailed Process

- Develop internal policies on the method of identifying investor propensity according to the consultation result and on the method of recommending investment according to the propensity (such as deciding on the type of unsuitable instruments that corresponds to the answers for each category).
- After acquiring the following investor information from investors, a

company recommends appropriate instrument or allocation of assets (portfolio).

### **Samples of Investor Information that should be Identified When Using Consultation Reports**

#### **【Personal Information】**

- ▷ Answers to an investor's name, age, family relation (whether there are dependents, etc.), etc.

#### **【Investment Purpose and Period】**

- ▷ Answers to the investment purpose of investors (such as regular income, retirement fund, education fund, increase of personal assets, etc.) and the expected investment period for such purposes, etc.
- ▷ Investors' investment experience and period, etc. on derivatives, derivatives-linked securities, and derivatives funds.

#### **【Financial Status】**

- ▷ Answers to an investor's investing amount, the ratio of invested amount to total financial assets, total asset status (such as financial assets, real estate, etc.), source of income (such as whether there's a fixed source of income, whether earning income as an employee or business owner, monthly income, expenses, etc.), the expectation on the financial status for the next five years, etc.

#### **【Investment Experience, Knowledge and Dependency on Investment Recommendation】**

- ▷ Answers to the investment experience of investors (i.e. identify the type and investment period of previously invested financial instruments including "derivatives, etc.") the level of knowledge on the investment in financial instruments, whether they received professional investment advice when making an investment decision, etc.

#### **【Attitudes to Risks】**

- ▷ Answers to investors' level of tolerance against the expected return and

loss on investment, the expected return on investment (provide various examples of potential rate of return) according to the market situation (e.g. trend of KOSPI), the level of preference to accumulated return rate caused by a large decline in the market or long-term market decline (shall provide various examples of hypothetical investment plans), the investment decision made at the moment (such as withdrawal of the whole investment fund, partial withdrawal, additional purchase, holding, etc.) after being provided with the rate of return for each hypothetical terms in a five-year investment period.

**【Others】**

- ▷ Write down any unusual information that may be found during the process of consulting investors (such as a plan to immigrate in two years, children planning to enter a university, a plan to send children abroad for studying, etc.).

**Samples for Preparing Consultation Reports**

**Sample 1)**

After consulting the investor, we concluded that the investor is seeking profit because he/she is making this investment to make extra money and is willing to accept certain level of risks.

Therefore, the appropriate financial investment instrument we recommend to the investor to invest in is 00 ELS No. 00 (derivatives-linked securities), of which the loss is restricted to 20% of the principal with the maturity of 00 YY 00 MM.

**Sample 2)**

After consulting the investor, we concluded that the investor is a thirty five

years old who has deep financial knowledge and experience and understands the risks of the stock market well. The investor wishes to make a profit that meets the level of a stock market and is willing to endure the risk of loss of principal up to approximately 1 million won out of his/her monthly income (about 4 million won). In other words, the investor wishes that the financial investment instrument will make a profit within a certain investment period, and is willing to endure the risk of stock market to make the profit.

Therefore, the appropriate allocation of assets recommended is to make an installment investment of 1 million won on the 00 equity fund every month.

**Sample 3)**

After consulting the investor, we concluded that the investor would like to minimize the loss of the principal, while aiming to make a safe investment such as gaining from interests or dividends. *Provided*, That even if there's some risk in the long run, the investor is willing to invest certain amount in a financial investment instrument that can make higher profits than deposits and installments savings in order to make funds for children's education.

Therefore, the appropriate allocation of assets recommended is for the investor to invest 100 million won he/she has in 00 government bond fund, which is a low-risk instrument. Also, it is recommended that the investor invest about 1 million won in the installment type 00 hybrid equity fund every month to prepare funds for the children who will be entering university three years later.

[Reference 4-1]

**Suitability Report (Sample)**

※ May be used after making adjustments to suit each companies' own documentation system.

**Suitability Report**

Customer name:	Customer number:
----------------	------------------

**■ Findings from letter of confirmation of investor information**

1. Age range of customer:	2. Expected investment period:
<i>※ Write down actual answers of customers for each category</i>	

**■ Investor propensity and recommended instruments for the investor**

Investor Propensity	Characteristics of investor propensity
OOO Type	(E.g.) OOO Type has a propensity of ..... <i>※ Definition of investor propensity classified by a company</i>
Recommended instruments	(E.g.) OO Securities' derivatives-linked securities No. X

**■ Reason of investment recommendation and key matters to be attended**

<b>Reasons for recommendation</b>	(E.g.) The customer's biggest concern in choosing instruments was to realize yearly profit of 5% or more, even though such instruments may bear a risk of principal loss. Therefore, the said derivatives-linked securities were recommended among recommendable instruments by reflecting the
-----------------------------------	--

	<p>investor's propensity, as the volatility of their underlying investments is relatively low.</p> <p>※ Write down <b>key reasons</b> why such instrument has been selected <b>considering the investor's demand</b></p>
<p><b>Key matters to be attended</b></p>	<p>※ Depending on personal situations of a customer (such as financial status, level of risk preference, expected investment period, etc.), write down matters that need particular attention (such as profit and loss structure of concerned investment and its underlying asset, etc.) or disadvantages (such as an increase of taxable income, etc.)</p>
<p>■ <b>Reference</b></p> <ul style="list-style-type: none"> <li>○ This document is prepared based on the information and request regarding investment provided by the customer. Therefore, please make a request for modification if different contents are included.</li> <li>○ 'Key matters to be attended' only contain matters that need the most attention considering characteristics of instruments concerned and the customer's situation. Therefore, please make sure to refer to the investment prospectus for general risk factors.</li> </ul>	
<p>(Write down necessary contents such as date of preparation, name of the preparer, etc.)</p>	

[Reference 5]

## **Protection Criteria for Selling Financial Investment Instruments to Senior Investors**

This criteria sets general standards and matters to be attended that need to be adhered when a financial investment company (hereinafter referred to as “the company”) sells financial investment instruments to senior investors.

When applying this criteria, the company may modify details to suit the company’ situation by considering the size of a company and sales office, distribution and characteristics of customers, etc., in order to develop a proper sales procedure of financial investment instruments for senior investors.

### **1. Necessity to Protect Senior Investors**

- Senior investors shall need to receive special attention, as their physical strength, memory and understanding may debilitate.
- In addition, most senior investors may struggle to make ends meet when they bear losses, as they do not have particular source of income and have relatively short investment period remained.
- Moreover, the need to protect senior investors has been growing, as they have difficulty understanding ever-more structured and advanced financial investment instruments.

### **2. Definition of Senior Investors**

- The company defines those of age 70 or above as senior investors, and among them, those of age 80 or above as super senior investors who are subject to more strengthened sales procedures.

- ▶ The age of senior investors and super senior investors may be defined younger if it is deemed necessary for investor protection.
- ▶ Even when an investor is not old enough to be defined as a senior investor, it is recommended to apply the sales procedures set for senior investors if the said investor is deemed to considerably lack the ability to make sensible judgement.
- ▶ In either case of an account holder not being a senior but his/her proxy being a senior, or vice versa, it is also recommended to apply the sales procedures for senior investors.

### **3. General Standards for Senior Investor Protection**

#### **(1) Establishment of a Designated Counter for Senior Investors**

- The company shall establish a counter designated for senior investors to provide consultation and financial services that suit the characteristics of senior investors in each sales office and call center.

- ▶ In case of a senior investor visiting an office for the first time, he/she shall be guided to visit such designated counter first, but it is also possible to go to other counters if the investor's purpose of visit is to consult certain employee or if the investor refuses to be consulted at such designated counter.
- ▶ The number of designated counters may differ depending on the size of an office or number of employees. Investors other than senior investors may also use the designated counter.
- ▶ It is desirable to set up and utilize audio/video recording devices at a designated counter if possible in order to respond to a conflict, etc. with a senior investor or his/her guardian.
- ▶ It is desirable to assign an employee with more than certain years of experience to a designated counter because a salesperson at a designated

counter should have enough experience encountering various customer groups.

- ▶ Team manager, who must objectively manage office work, needs to refrain from engaging in matters occur at a designated counter, unless it is absolutely necessary.
- ▶ Sales shall be withheld if it is deemed that a senior investor considerably lacks the ability to make sensible judgement.

※ The ability to make sensible judgement shall be holistically determined by referring to the following examples:

- If a person has difficulty understanding or processing a simple concept.
- If a person seems to have lost his/her memory.
- If a person has difficulty expressing an opinion or engaging in a conversation.
- If a person seems to struggle to understand the result of investment decision.
- If a person's behavior seems unstable.
- If a person rejects investment advice which is acknowledged to be necessary based on his/her investment purpose.
- If a person claims funds have disappeared from an account that has had no movement of funds.
- If a person does not recognize recent financial transaction history.
- If a person is confused about social relationship and surroundings.
- If a person seems untidy and forgetful unlike usual.

## **(2) Assignment of Designated Department and Personnel at Headquarters**

- The company shall assign a designated department and personnel at its headquarters that are in charge of developing protection policies, improving sales process and conducting training programs for executives and employees about senior investors.

- ▶ It is desirable to designate a department that deals with consumer protection.
- ▶ The designated personnel shall have more than certain years of experience of consumer protection work.

### **(3) Designation of “Instruments that Require Careful Recommendation”**

- The company shall designate financial investment instruments which have a complicated structure, high price volatility and limited liquidity as “instruments that require careful recommendation,” and shall apply strengthened the sales procedure in the case where it recommends such financial investment instruments.

- ▶ In general, financial investment instruments such as derivatives-linked securities, derivatives and structured securities that are generally traded over-the-counter may be considered “instruments that require careful recommendation.”

\* (Samples of instruments that require careful recommendation) Derivatives-linked securities, OTC derivatives, structured securities, contingent convertible bonds, subordinate securities and any financial investment instruments which mainly invest in the aforementioned instruments, etc.

- ▶ In general, financial investment instruments that are frequently traded on the exchange or any similar overseas exchange, in spite of having a complicated structure and high price volatility, may not be designated as “instruments that require careful recommendation,” considering that such instruments are well-known and there exists necessity to trade them depending on price fluctuation.

\* It shall be desirable to designate listed, but not frequently-traded instruments (e.g. listed deep out-of-the-money option, structured securities, etc.) as “instruments that require careful recommendation.”

#### **(4) Prior Confirmation Before Recommending “Instruments that Require Careful Recommendation”**

- In the case where executives and employees recommend instruments that require careful recommendation to senior investors, the company shall ensure that managers (such as the head of office, compliance manager, etc.) confirm the appropriateness of such recommendation in advance.
- A manager shall confirm appropriateness, etc. of the investment recommendation and the degree of customer’s understanding through a face-to-face conversation (by accompanying the executive or employee when the recommendation is made, etc.) or a phone call, and shall record and retain the confirmed content.
- As a result of the manager’s prior confirmation, if it is concluded that the customer significantly lacks the ability to make sensible judgement to understand the recommended instrument, execution of trading contract shall be suspended. In the case when it is deemed that the instrument is not suitable for the customer, the manager shall thoroughly explain the fact to the customer as well as the fact that the company cannot recommend such instrument.

- ▶ A manager shall need to mainly confirm the following:

- Whether investor information has changed recently (E.g. current status shall be inquired.)
- The characteristics of investments (E.g. whether such investments consist living expenses.)
- Legitimacy throughout the investment recommendation process (E.g. whether there has been any change in information for the purpose of misselling.)
- Whether the investor understands material information (such as possibility of loss and basic structure of the instrument.)
- Whether there has been any material change in the investor's ability to make sensible judgement (E.g. The way he/she speaks, level of memory, etc. may be considered.)

- ▶ In the case where an instrument was not properly explained but deemed to be appropriate for a customer, it is possible to sell such instrument by reaffirming the customer's investment intent after a manager provides additional explanation.
- ▶ In the case where it is deemed that a manager frequently contacts a customer so that the customer information such as health status, investment situation, etc. are adequately acquired, it is possible to simplify the prior confirmation procedure.
  - For instance, for a customer who repeatedly invests in the same type of instruments, it is possible to apply the procedure flexibly as once every three or four months.
  - *Provided*, That to simplify such prior confirmation procedure, it is desirable to record, retain and update the customer information regarding contact history, any unusual matters, etc.

**(5) Assessment of Sales Risk to Senior Investors for Development and Selling of Instruments**

- The company shall examine if there is any problem with regards to senior

investor protection when it develops new instruments that fall into the category of “instruments that require careful recommendation.”

- If they are deemed to be inappropriate to be sold to senior investors, such fact shall be reflected on the prospectus and sales policies of the company.

▶ Additional\* assessment categories of risk factors to senior investors shall be checked using a relevant checklist regarding instrument development in accordance with FSC “Standard Criterion for Financial Consumer Protection.”

\* Sample ) Is the instrument suitable to a senior investor?

Is there any information that must be notified to a senior investor?

- The company shall also examine if there is any problem with regards to senior investor protection in the case when it sells “instruments that require careful recommendation.” developed by any other company, and when it is deemed inappropriate to sell them to senior investors, the company shall put utmost effort to reflect such fact to its sales policies.

#### **4. Reinforcing Compliance Manual for Senior Investor Protection**

##### **(1) Preparation of Internal Policies and Training Reinforcement regarding Senior Investors**

- The company must establish internal policies which include methods to respond to senior investors, reinforced sales process, etc.
- The company must thoroughly explain content of its internal policies to executives and employees through multiple training sessions.

▶ In particular, it is necessary to regularly train designated employees at the designated counter or call center.

##### **(2) Regular Inspection on Compliance of Internal Policies, etc.**

- The company shall need to regularly identify, inspect, and keep records of

transactions with high possibility of misselling on senior investors through its audit department or compliance department.

▶ The transactions below need particular attention:

- In the case where a senior investor subscribe for “instruments that require careful recommendation” after executing a confirmation letter of inappropriateness.
- In the case when excessive margin transactions are executed or when an account has high commission ratios compared to the invested amount.
- Among all accounts of which the trading order agent, etc. have been recently designated or changed, any account of which the investment patterns (such as heightened investor propensity) have changed.
- Any account that trades highly-structured, high-risk instruments over certain amounts.

▶ For any sales that may be suspected to be misselling after inspection, swift responses are required.

▶ If a counselor has been designated, it is necessary to seek solution together with the counselor.

### **(3) Confirmation of Contact Information of Counselors such as Family Members, etc.**

- The company shall need to retain contact information of senior investors and ensure them to designate counselors, as they may experience an abrupt change in their health or condition.

▶ *Provided*, That only when a senior investor or his/her counselor gives consent for the purpose of privacy, etc.

▶ In practice, it is desirable to have the customer make a direct phone call to his/her counselor at the counter and record the phone call.

### **(4) Reinforcement of Compliance Manual for Marketing to Senior Investors**

- In the case where the company hosts any conference, seminar, etc. which mainly targets senior investors, the company shall need to pay close attention so that no false and/or misleading information and investment marketing materials that may deceive senior investors are used.

## **5. Additional Measures to Protect Super Senior Investors**

### **(1) Refrain from selling instruments that require careful recommendation**

- The company needs to refrain from recommending super senior investors investing in “instruments that require careful recommendation” and have a complicated structure, high price volatility or limited liquidity.

- The company needs to refrain from selling such instruments to super senior investors. For example, the company cannot recommend investing in the instruments that are described to be inappropriate for selling in the instructions or the company’s sales policy, and shall explain that some instruments are inappropriate for the customer even if he/she wants to buy them without investment recommendation from the executives or employees.

<ul style="list-style-type: none"><li>▶ In the case where the customer demands to buy such instruments notwithstanding the fact that the company has explained that the instruments are inappropriate for the customer and the company does not recommend the customer investing in them, the company may accept the request or reject it in accordance to its sales policy.</li></ul>
--

### **(2) Assistance from counselors (in the case where the company accepts the sale of instruments that require careful recommendation for super senior investors)**

- The company shall advise super senior investors to receive counseling from their families, etc. when the company wants to sell them “instruments that require careful recommendation.”

▶ The customer may receive assistance from counselors including his/her families, etc. by visiting the office with them, or by using communications devices such as the phone, etc.

▶ In the case where the customer receives assistance from counselors including his/her families, etc., it is desirable to get the signature from the counselor that confirms he/she listened to the explanation with the customer, or to tape-record such statement by obtaining informed consent.\*

\* There is no need to make a separate form to get a signature, and the company can have the counselor's signature next to the signature of the customer on the product subscription application form.

○ In the case where a super senior investor cannot receive assistance from counselors including his/her families, etc, or does not want to inform that he/she is making investment, a manager can assist the super senior investor on behalf of counselors including the families, etc., and confirm whether the investor understands the instruments.

### **(3) Strengthen ex-post monitoring**

○ The company needs to conduct ex-post monitoring by making a customer service phone call etc. in the case where the super senior customer has invested in “instruments that require careful recommendation.”

▶ Even in cases where the company reduces the size of the phone call monitoring by making calls to fewer customers depending on the size of investments, the company must conduct a phone call monitoring for super senior investors who invest in “instruments that require careful recommendation.”

▶ *Provided*, That in cases where the customer has explicit intention to refuse such calls, or a manager has pre-confirmed the validity of the act of sale, ect. (pursuant to “3.(4)” or “5.(2)”), a customer service phone call may be omitted.

## **6. Record and maintain consultation content**

○ It is desirable for the company to tape-record or video-record consultation content of super senior investors, etc., or for a sales employee or a manager to record and/or maintain the content in preparation for future disputes, etc.

[Reference 6]

**Method of Judging Suitability (OTC derivatives) (Sample)**

- ▶ In cases where the company makes investment recommendation on OTC derivatives, it should establish a separate standard for investment recommendation by referring to the details below in addition to the method of judging suitability stated in [Reference 4].
- 1. In the case of an individual who is an ordinary investor and is at least 65 years or older with less than one year of investment experience in OTC derivatives, the investment recommendation shall only be made for OTC derivatives with risk aversion purposes that fall into any of the following Items:
  - a. Interest rate swap; or
  - b. Purchase of options.
- 2. In the case of a stock-unlisted corporation and a sole proprietorship with less than three years of investment experience in OTC derivatives, a stock-listed corporation with less than one year of investment experience in OTC derivatives, and an individual who is below the age of 65 and an ordinary investor with less than one year of investment experience on OTC derivatives, or who is at least 65 years or older and an ordinary investor with at least one year and less than three years of investment experience in OTC derivatives, investment recommendation may be made for the OTC derivatives with risk aversion purposes that fall into any of the following Items. *Provided*, That if the company recognizes that the investor has a sufficient risk management ability, investment experience in OTC derivatives, knowledge about OTC derivatives, etc. (excluding the individuals who are ordinary investors), investment recommendation may be made for OTC derivatives with risk aversion purposes besides the following Items:
  - a. Interest rate/Currency swap;
  - b. Purchase/Sale of options; or
  - c. Forward trading.

Classification		Investment Experience in OTC Derivatives		
		Less than 1 year	At least 1 year ~ Less than 3 years	3 years or more
Individual	65 years or older	Interest rate swap, purchase of options	Interest rate swap, currency swap, purchase of options, sale of options, forward contracts trading	All OTC derivatives with other risk aversion purposes
	Below the age of 65	Interest rate swap, currency swap, purchase of options, sale of options, forward contracts trading	All OTC derivatives with other risk aversion purposes	
Corporation and sole proprietorship	Stock-unlisted corporation, sole proprietorship	Interest rate swap, currency swap, purchase of options, sale of options, forward contracts trading		All OTC derivatives with other risk aversion purposes
	Stock-listed corporation	Interest rate swap, currency swap, purchase of options, sale of options, forward contracts trading	All OTC derivatives with other risk aversion purposes	
<p>* In the case of OTC derivatives, it is classified into three stages, including “caution”, “warning” and “danger.” Refer to “Note for Companies 16-1” for examples of the financial investment instruments that apply to each risk level.</p> <p>* Among the investors who are suitable for the risk level of “warning,” those who are deemed to have a sufficient risk management ability, investment experience in OTC derivatives, knowledge about instruments, etc. may invest in all OTC derivatives with other risk aversion purposes.</p>				

[Reference 7]

**Matters to be Attended for Investors Using Robo-Advisors (Sample)**

1. **Robo-advisor** is a type of **online asset management service** that provides investment advisory and/or management services tailored to the propensities of investors **by analyzing algorithms and big data**, using computer programs.
2. Robo-advising is an advisory service that is delivered based on **average assumptions**, which does not reflect **all variables in financial markets, and may incur losses depending on market circumstances**.
  - **The current returns on investment** realized by robo-advisors **do not guarantee a return on investment in the future**.
3. As robo-advisors **give advice based on the results of investor propensities analysis, it is important for investors to provide accurate answers** to receive efficient investment advice, and exaggerated or inaccurate answers may produce wrong advice on the assets under management.
  - In addition, investors should make investment after thoroughly **understanding the characteristics of the algorithms**.
4. **Test-beds\*** are not procedures that verify the profitability and quality of algorithms, but procedures that confirm the legitimacy, legal compliance, and system stability.
  - \* The procedures that **confirm whether minimum rules and regulations are carried out properly to conduct investment advisory and/or discretionary work** such as investment diversification, investor propensity analysis, anti-hacking systems, etc.
  - Therefore, **robo-advisors that have passed the test-bed** might have more merits in terms of stability than those that have not, but **do not definitely guarantee higher profits**.
5. As human intervention is not prohibited during an advisory and/or

discretionary management process, human investment managers may intervene in decision making if necessary due to abrupt changes in the market, etc.  
(※ “5.” can be omitted from the form depending on the company’s policy on the intervention of professional personnel.)