

Internal Guidelines
Equity-Linked Deposits offered by Authorized Institution

The following documents must be submitted to the Commission for authorization/review:

1. Principal Brochure
2. Constitutive Documents (e.g. customer agreements, terms and conditions etc.)
3. Letter of No objection from the Hong Kong Monetary Authority

In addition, if the Offeror intends to issue any advertisements or other marketing documentation relating to an ELD, prior authorization from the Commission must be sought. Greater details regarding the contents of these documents are discussed below:

PRINCIPAL BROCHURE	
<i>Item for Disclosure</i>	<i>Comments</i>
Name of Deposit Account	- Name must be fair and not misleading
Name of Offeror	- Offeror must be authorized institution and prudentially regulated by the HKMA - If more than one offeror, must make clear how investors will be made aware of who the counterparty is
Nature of the Deposit Account	
(a) Minimum and maximum amount of deposit	(a) Whether amount of deposit fixed or, if subject to negotiation, the range available
(b) Currency of denomination	(b) HK\$, US\$ or any other currencies available
(c) Deposit period/maturity	(c) Generally, whether fixed at 1, 2, 3 months or, if subject to negotiation, then, the range available
(d) Financial instrument(s) linked to the account	(d) Available indices or stocks to choose from, e.g. any stocks in the Hang Seng Index constituents; Hang Seng Red Chips Index, etc.. If the list is limited and subject to change, then, a list of available stocks must be issued in conjunction with the PB
(e) Method of calculation of interest rate/benefits payable	(e) The formula for calculation must be clearly stated. A sample illustration must be given showing the best and worst case scenarios using a set of hypothetical assumptions. Where relevant, a diagrammatic presentation of the potential gains and losses
(f) Withdrawal restrictions, if any	(f) If the deposit cannot be terminated/withdrawn prior to maturity, must be clearly stated; if early withdrawal allowed, any penalties must be clearly disclosed
(g) Dealing time, if other than normal banking hours	(g) Actual hours, e.g. 10:00-12:30; 2:30-4:30 etc.
(h) Procedures for dealing	(h) Whether telephone banking accepted; Method of giving instructions on interest rates, strike price and other variables; how terms of the investment will be confirmed

Risk disclosures and Health Warning	<ul style="list-style-type: none"> - A sample illustration of possible outcomes, including best and worst case scenarios using a set of hypothetical assumptions. Normally, the best case scenario will be receipt of the predetermined interest; worst case would be loss of entire capital – these returns to be translated into percentage terms per annum. - Risk statements that give the effect: <ul style="list-style-type: none"> (a) Investors will incur market risk. Any shares received may be worth much less than the principal and investors may suffer a significant loss of principal. (b) The amount of gain is limited to the predetermined interest even if the investor's view of the market movement of the underlying is correct. (c) An equity-linked deposit is not the same as nor should it be treated as a substitute for normal fixed time deposits. (d) Investors should seek independent legal and financial advice
Fees and Charges	<ul style="list-style-type: none"> - All quantifiable fees and charges should be disclosed, e.g. clearing and settlement charges if shares are delivered on maturity - If there are no explicit fees and charges, must make a statement to the effect that "Although there are no explicit charges, any fees and charges incurred by the bank, whether to enter into underlying investments or hedging agreements or for operational or administrative purposes and profit margins, if any, are already inherently contained in and subsumed into the calculation of the interest rate and other variables under the Scheme
Comparison to Normal Fixed time deposit	<ul style="list-style-type: none"> - Must give an illustration of the expected return if a normal fixed time deposit is entered into for the same period with the same principal amount
Correspondence with clients	<ul style="list-style-type: none"> - Confirmations to be issued – e.g. after the deal is executed; after determination date as to whether cash or shares to be received on maturity
English and Chinese	<ul style="list-style-type: none"> - Both versions must be given equal weighting

CONSTITUTIVE DOCUMENTS	<ul style="list-style-type: none"> - As a general principle, all terms and conditions must be reasonable and in accordance with market practice - All constitutive documents must be issued in both English and Chinese and both languages must be given equal weighting.
<i>Document</i>	<i>Comments</i>
Application form	<ul style="list-style-type: none"> - Sometimes called "account-opening" form - States the name of the offeror and account number - Contain statement that the investor has read and understood the PB
Terms & Conditions	<ul style="list-style-type: none"> - to disclose all material terms and conditions relating to the deposit account, including, for example: <ul style="list-style-type: none"> (a) definitions of terms; (b) method for placing and accepting instructions (c) method of determination of interest, strike price, closing price etc. (d) method of calculating return/benefits (e) when agreed terms of the deposit may change – i.e. market disruption events;

Confirmation from Hong Kong Monetary Authority	<ul style="list-style-type: none"> - In addition to requirement that the offeror must be an authorized institution, the offeror must ask the HKMA to confirm that it has no objection to the offeror issuing the proposed product - Generally, the HKMA's letter will state that it has no objection to the proposed product being launched by the bank subject to formal approval of the product from the SFC
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Advertisements	<ul style="list-style-type: none"> - all advertisements to be approved prior to issue - ensure consistency with PB and not contain information that is false, biased, misleading or deceptive - Contain standard warnings to the effect that investment involves risk and further information should be sought from the principal brochure
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