



**BANGKO SENTRAL NG PILIPINAS**

**OFFICE OF THE GOVERNOR**

**CIRCULAR NO. 844**

Series of 2014

**Subject: Cross-selling of Collective Investment Schemes and Other Amendments to Circular No. 801 on Revised Cross-selling Framework**

The Monetary Board, in its Resolution No. 1207 dated 1 August 2014, approved the guidelines for the cross-selling of collective investment schemes and amendments of certain provisions of the Manual of Regulations for Banks (MORB), as provided under Circular No. 801 dated 27 June 2013 (Revised Cross-selling Framework).

**Section 1.** The following provisions of Circular No. 801 dated 27 June 2013 are amended, as follows:

1. Section X172 on the Statement of Principles is amended to read as follows:

**Section X172. Statement of Principles.** The Bangko Sentral ng Pilipinas (BSP) recognizes that bank premises may serve as the point for the presentation and distribution of a range of financial products. However, this distribution mechanism can give an understanding that these financial products are created by the bank and thus could lead to an impression that the bank ultimately bears the responsibility for their performance. The BSP therefore provides an enabling environment for cross-selling activities which defines the responsibilities of banks for managing the attendant risks and upholding consumer protection.

2. Subsection X172.1 on Definition is amended to read as follows:

**Subsection X172.1 Definition.** The following terms as used in this Section are governed by the following definition –

- a. Cross-selling means the presentation and/or sale of a financial product, other than bank's own financial product, to a bank client inside bank premises through written or verbal communications.
- b. Financial conglomerate refers to a group of interrelated entities providing significant services in at least two (2) different financial sectors (banking, securities and insurance). A banking group is subsumed within the context of a financial conglomerate. A financial product provider must have been disclosed and reported as part of the group structure pursuant to Section 6(a)(1) of Circular No. 749 dated 27 February 2012.

- c. Financial product of an allied undertaking under Section 20 of the General Banking Law refers to financial products created by a financial product provider belonging to the same financial conglomerate.
  - d. Financial product provider means a financial entity which creates the financial product. The financial product provider should be regulated or supervised by either the BSP, the Securities and Exchange Commission (SEC) or the Insurance Commission (IC).
  - e. Bank premises refer to the physical area occupied by the bank's head office, branches and other offices.
  - f. Investment risk refers to the potential loss of the principal amount (either full or partial) invested by the investor. It also refers to the possibility of not achieving targeted rate of returns for a given investment transaction.
3. Subsection X172.2 on Financial Products is amended to extend the coverage of "financial products" to include collective investment schemes. The Subsection now reads as follows:

***Subsection X172.2 Financial Products.*** Unless otherwise provided, financial products should be created by a financial product provider belonging to the same financial conglomerate. Moreover, such financial products should have been duly approved by the respective regulator, as provided under its rules, before these can be presented and/or sold inside bank premises.

Simple retail financial products which do not create exposure to investment risks may be cross-sold inside bank premises. These include:

- a. Retail lending or loan products such as credit cards, home mortgage loans, personal loans, auto loans and other related retail loan products;
- b. Other retail financial products such as cash cards, debit cards and other related products;
- c. Other similar financial products as may be authorized by the Monetary Board.

Simple insurance products such as traditional life (whole life, term, endowment), non-life (marine, fire, casualty, suretyship), and other similar protection-type insurance products, except variable insurance contracts, as governed by the Insurance Code are considered as simple retail financial products. These may be cross-sold inside bank premises regardless of whether the financial product provider belongs to the same financial conglomerate or not.

Collective investment schemes (CIS) of financial product providers belonging to the same financial conglomerate may be cross-sold inside bank premises. These refer to:

- a. Mutual funds registered with the SEC;
- b. Unit Investment Trust Funds (UITFs) as authorized by the BSP;
- c. Variable unit-linked life insurance policy (VULs) as governed by the Insurance Code or under the relevant rules and regulations as may be issued by the IC.

4. The provisions of Subsection X172.5 entitled Conditions on Cross-selling shall be merged with Subsection X172.3 on Governance. The Subsection now reads as:

***Subsection X172.3 Governance.*** The board of directors of the bank (or its equivalent in the case of foreign bank branches) shall oversee the implementation of its policies relating to cross-selling arrangements.

The bank shall exercise due care and diligence in carrying out cross-selling activities. This process shall extend to both the financial products and financial product providers. The bank shall put in place a formal written policy to assess the nature of the financial product and its suitability for target customer segments. This written policy should, at the very least, enable the bank to reach an objective assessment of the suitability of the financial product to be cross-sold.

The bank shall recognize the customers' right to product choice, to refuse bundled or tiered financial products or services under cross-selling arrangements, and to substitute equivalent financial products by reputable competitors.

The bank shall ensure that a mechanism is in place to address any complaints that may arise from cross-selling transactions. This mechanism shall form part of the agreement between the bank and the financial product provider.

The bank shall periodically review all of its cross-selling arrangements. In particular, the bank shall take into account operational and reputational risks that may arise in the arrangement. The results of the continuing review shall be reported to the board of directors of the bank. The bank shall likewise maintain a register of its cross-selling arrangements particularly on the list of financial products and financial product providers.

To avoid any impression that the fulfillment of promises of the CIS products cross-sold within bank premises are guaranteed by the bank, the following shall be observed, at all times:

1. Unless specifically trained and qualified for the purpose, the role of bank employees in cross-selling CIS shall be limited to the referral of bank

clients to the representatives of financial product providers. Clients should give prior consent before any such referral.

2. There shall be clear distinction between representatives of financial product providers who sell CIS and bank employees. Bank employees authorized to market and/or sell CIS shall be clearly identified.
  3. The presentation and/or sale of CIS shall be conducted in an area distinct from areas where own bank products are sold.
5. Subsection X172.4 of Circular No. 801 on Minimum Documentary Requirements is retained. Subsection X172.6 entitled Fair and Balanced View of the Product is not amended but renumbered as Subsection X172.5.
6. The new Subsection X172.6 shall contain the requirements specifically applicable to cross-selling of collective investment schemes. The new subsection is entitled Cross-selling of Collective Investment Schemes and Its Suitability to Customers. It reads as follows:

***Subsection X172.6 Cross-selling of Collective Investment Schemes and Its Suitability to Customers.*** In the cross-selling of collective investment schemes, enhanced consumer protection standards are necessary since bank clients who invest in these products are exposed to investment risk. At the onset, banks must ensure that collective investment schemes as financial products are compliant with relevant prudential regulations issued by the respective government bodies and agencies respectively governing their issuance before entering into any cross-selling arrangements. With respect to consumer protection features, a cross-selling bank must ensure that financial product providers observe the following minimum practices:

- a. **Product Highlight Sheet.** Potential clients must be provided with a Product Highlight Sheet (PHS). This succinct document summarizes the key information of the financial product which will be material to the proper understanding by the client of the product, its features and risks. The PHS should at least be a separate document but may form part of the prospectus or contract.

Among the key questions that must be covered in the PHS are:

1. What are you investing in and who are you investing with?
2. What are the key risks of this investment?
3. What are the fees and charges for this investment?
4. How often are valuations available?
5. How can you exit from this investment and what are the risks and costs in doing so?
6. How do you contact us?

7. What other important information should you know before you invest?

- b. Client Suitability Assessment.** A Client Suitability Assessment (CSA) of each client shall be undertaken prior to the acquisition of an investment product by the client. The CSA should determine the client's understanding of, tolerance for and capacity in managing various risks.
- c. Investment Policy Statement.** As a complement to a CSA, an Investment Policy Statement (IPS) must have been generated for a bank client. The IPS formalizes the investment philosophy of the client as well as any investment directive of the client with respect to the handling of his investible funds.
- d. Disclosure of Conflict of Interest.** Financial product providers should disclose any material information which can give rise to an actual or potential conflict of interest to the client. Financial product providers should take all reasonable steps to ensure fair dealings with client.
- e. Standard Disclosure Statement.** All promotional materials, product highlights sheet and contracts of collective investment schemes should contain a standard disclosure statement which reads as:

*"This is not a deposit product. Earnings are not assured and principal amount invested is exposed to risk of loss. This product cannot be sold to you unless its benefits and risks have been thoroughly explained. If you do not fully understand this product, do not purchase or invest in it."*

This disclosure statement shall be placed in the front cover of any material used within bank premises for cross-selling purposes. This is in addition to the minimum information provided in Subsection X172.5. The text should be in bold with a minimum font size of 12.

The cross-selling bank shall maintain adequate documentation, available for inspection by BSP examiners, to evidence that above requisites are properly undertaken.

7. Paragraph 4 of Subsection X172.7 of Circular No. 801 entitled Financial Product Providers is amended to read as:

**"Subsection X172.7 Financial Product Providers.** The bank shall exercise due care and diligence in selecting financial product providers. The bank shall consider the integrity, operational capability, financial capacity and track record of the financial product provider. In particular, the bank shall ensure that the financial product provider has in place a mechanism to resolve all queries, problems and other concerns arising from cross-selling activities.

It is the responsibility of the financial product provider to assess its representatives in terms of sufficient knowledge of the financial product, adequate training and necessary license, when required.

The BSP should be satisfied that the bank and the financial product provider belong to the same financial conglomerate, as applicable, before cross-selling arrangements may be allowed.

When the financial product provider is under the supervision of the BSP, the financial product provider must have a CAMELS composite rating of at least "3" or its equivalent.

8. Subsection X172.8 on Authority to Cross-sell is amended to include the requirements for cross-selling of collective investment schemes. It shall read as follows:

***"Subsection X172.8 Authority to Cross-sell.*** Banks with CAMELS composite rating of at least "3" or its equivalent and without major supervisory concerns may be given authority to engage in cross-selling activities.

The bank shall secure the approval of the Monetary Board before it can engage in cross-selling activities.

The application letter to engage in cross-selling activities shall be signed by the President, or the Country Officer in the case of foreign bank branches, and shall be submitted to the appropriate supervising department of the BSP. For the initial financial products for cross-selling, the application letter shall also contain an explanation of the relationship of the bank with the financial product provider in the context of the financial conglomerate, as applicable. It shall also contain brief description of the financial products and justification of the cross-selling arrangements.

In addition, the bank shall submit the following:

1. Notarized Secretary's Certificate on the approval of the board of directors of the cross-selling of financial products;
2. Notarized Certification signed by the bank's President or the Country Officer in the case of foreign bank branches and Compliance Officer of the bank's compliance with pertinent banking laws, rules and regulations on cross-selling.

Once approved, the bank may continuously undertake cross-selling activities unless otherwise ordered by the Monetary Board.

The bank may subsequently apply for additional financial products for cross-selling. The application shall be supported by a notarized certification as

indicated in item 2 above. Approval of the same is delegated to the SES Subsector Head with responsibility for the bank, except for the CIS-type financial products, the approval of which is delegated to the Deputy Governor, SES, provided that all such approvals under delegated authority are subject to confirmation by the Monetary Board prior to effectivity.

For any product approval, the BSP reserves the right to validate on the bank's representation of compliance with cross-selling rules and regulations as circumstances may warrant.

The Monetary Board may suspend any or all cross-selling activities whenever a bank no longer meets the original conditions of the approval and/or by virtue of any subsequent issuances by the BSP governing the conduct of cross-selling activities. The bank may re-submit an application to enter into cross-selling arrangements only when the CAMELS composite rating or its equivalent is at least "3" in the latest report of examination or any noted major supervisory concerns have been satisfactorily addressed as determined by the appropriate supervising department of the BSP.

9. The provision on Complaints Handling under Subsection X172.9 is amended to read as follows:

**Subsection X172.9 Complaints Handling.** The bank shall be jointly responsible with the financial product provider in the resolution of any complaint arising from cross-selling transactions. For this purpose, the bank shall establish an effective redress mechanism which shall specifically include processes and procedures for handling any complaint arising from cross-selling transactions.

10. Subsection X172.10 on Sanctions is revised as follows:

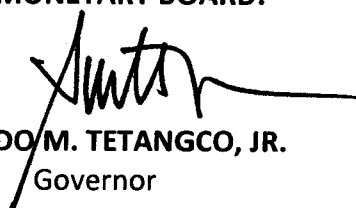
**Subsection X172.10 Sanctions.** Violations of the provisions of this Section shall constitute grounds for the imposition on the bank and/or its directors/officers of any or a combination of the following:

- a. Monetary penalty – Any amount as may be authorized by the Monetary Board not to exceed ₱30,000 a day for each violation from the time the violation was committed until it is corrected;
- b. Non-monetary sanction – Any that the Monetary Board may deem appropriate and allowed by law considering the gravity of the offense.

**Section 2. Repealing Clause.** Section 2 (Transitory Provision) of Circular No. 801 is hereby repealed.

**Section 3. Transitory Provisions.** This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation. Within thirty (30) calendar days from effectivity of this Circular, the bank shall review all its existing cross-selling arrangements and determine its compliance with the revised rules. All deviations shall be reported to the BSP within the same period. If the bank is fully compliant, it shall issue a certification to the BSP to this effect. All financial products that had been allowed and/or approved for cross-selling prior to the effectivity of this circular shall be given one (1) year within which to comply with the requirements as set forth under this Circular.

**FOR THE MONETARY BOARD:**

A handwritten signature in black ink, appearing to read 'Amto', with a long horizontal stroke extending to the right.

**AMANDO M. TETANGCO, JR.**  
Governor

11 August 2014