
**SMBC WORKING RULES ON
INVESTMENT
RECOMMENDATIONS**

SUMITOMO MITSUI BANKING CORPORATION

SEOUL BR.

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. General Provision

1. Purpose

The purpose of these 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 SMBC Seoul Br. as well as investment solicitors (hereinafter referred to as “executives and employees, etc.”) in 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 definition 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 laws, 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” means the act of making a recommendation to a specific investor to trade financial investment instruments or to make a contract for investment advising, discretionary investment, or for a trust (excluding a management-type trust contract and a trust contract with no investment risk; the same hereinafter). [§9(4)] of the Act
- 2) The term “portfolio investment” means investment in two or more financial investment instruments for the purpose of diversifying investment risks.
- 3) The term “derivatives, etc.” means financial investment instruments falling under any of the following: [§46-2(1)] of the Act
 - a. Derivatives; or
 - b. Financial investment instruments in each item of [§52-2(1)] of the Act's Enforcement Decree.

3. Investment Recommendation & General Principles of Sales

Executives and employees, etc. shall comply with the following when making investment recommendations or selling an instrument to investors.

- 1) Executives and employees, etc. shall comply with relevant laws, etc. and engage in their business in a fair manner in compliance with the duty of good faith. [§37(1)] of the Act
- 2) Executives and employees, etc. shall clearly explain the risks contingent upon 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 investors of the fact that they are required to make decisions related to an investment based on their own judgement and responsibility and that the result thereof is imputed to themselves.
- 4) Executives and employee, etc. shall not undermine the interest of an investor without a justifiable ground to enable themselves or a third party to make profit. [§37(2)] of the Act

. Classification, etc. of Investors

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 or not the investor desires investment recommendations.
- 2) Executives and employees, etc. shall not conduct an act falling under investment recommendation for an investor who does not desire investment recommendations, and shall provide only objective information that the investor wants.

5. Classification of Ordinary/Professional Investor

- 1) Executives and employees, etc. shall confirm whether an investor is an ordinary investor or a professional investor. [§46(1)] of the Act
- 2) Executives and employees, etc. shall, in cases where a professional investor who may switch over to an ordinary investor pursuant to [§9(5)] of the Act notifies the

business of its willingness to be treated as an ordinary investor by writing, agree with them except where there is a legitimate reason. [§9(5)] of the Act

- 3) A stock-listed corporation shall be regarded as an ordinary investor in cases where it trades over-the-counter derivatives with a business. However, the corporation shall be regarded as a professional investor in cases where it notifies the business of its willingness to be treated as a professional investor by writing. Item 4 of [§9(5)] of the Act

. Sales to Investors Who Do Not Desire Investment Recommendations

6. Duty to Protect Investors Who Do Not Receive Investment Recommendations

- 1) Executives and employees, etc. shall inform an investor of the fact that they cannot make investment recommendations in cases where the investor does not provide investors' information for the reason that the investor does not desire investment recommendations and receive Letter of Confirmation of Not Wanting to Receive Investment Recommendation from an investor to confirm that the investor does not desire investment recommendations. If an investor who desires to trade derivative products and etc. does not provide investors' information, executives and employees, etc. shall inform the investor that such trades are prohibited in accordance with applicable law.
- 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 to in relation to the investment, such as the fact that the risk of loss of the principal as well as profits and losses generated from the investment are imputed thereto.
- 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 or not they make an investment recommendation to the investor; provided that investors exempt from issuing an investment prospectus

pursuant to [§132] of the Act's Enforcement Decree are excluded. [§124(1)] of the Act

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, status of property and experience in investment of the investor (hereinafter referred to as "investors' 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 investors' information obtained pursuant to 1), inform the investor of the content of the derivatives, etc. concerned, risks involved in the investment concerned and of the fact that the investment concerned is not adequate in light of the investors' information, and shall receive a confirmation from the investor by obtaining his/her signature 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. through 12. [§46-2(2)] of the Act and Paragraphs (2) and (3) suitability thereof mentioned in Paragraphs (2) and (3) of [§52-2] of the Act's Enforcement Decree. in 10. through 12. criteria for dete

. Sales to Investors Who Desire Investment Recommendations

-1. Investor's Information

8. Acquisition of Investors' Information and Analysis of Propensity of Investors

- 1) Executives and employees shall, through interviews and inquiries, obtain investors'

information from an investor who desires an investment recommendation in accordance with a Letter of Confirmation of Investors' Information before making an investment recommendation thereto, and shall receive a confirmation from the investor by obtaining his/her signature, etc. to maintain/manage such information. [§46(2)] of the Act

- 2) Executives and employees, etc. shall provide, without delay, the content of the investors' information confirmed in accordance with 1). [§46(2)] of the Act
- 3) Executives and employees, etc. shall, in principle, obtain investors' information from the investors themselves. They, however, may obtain such information from investors' agents in cases where they bring documents, etc. proving their power of attorney such as a letter of confirmation of the real names of the investors and their proxies as well as a letter of delegation, etc. In this case, businesses shall confirm whether or not the authority to write investors' information is included in the scope of delegation.
- 4) Executives and employees, etc. shall regard an investor who does not provide investors' information as an investor who does not desire an investment recommendation although he/she desires investment recommendations, and notify to the investor that investment recommendation is not possible due to the reason that propensity of investment cannot be obtained, and shall follow the procedures for “ . Sales to Investors Who Do Not Desire Investor Recommendations.”
- 5) Executives and employees, etc. shall, in the case an investor intends to trade over-the-counter derivatives, use the “Letter of Confirmation of Investors' Information for Ordinary Investors” to obtain the investor's information.

9. Period of Validity of Investors' Information

- 1) Executives and employees, etc. may consider that investors' information has not changed for 12 months (period of validity of investors' information) since the day they had obtained investors' information unless there is a separate request from investors to change such information.
- 2) Executives and employees, etc. shall explain 1) to investors, tell them to report the content of any change in investors' information.
- 3) Executives and employees, etc. shall, in the case where they make an investment recommendation to an investor whose information is already known to the business concerned, confirm whether or not the period of validity of the information has

elapsed, and shall, in the case where such period has passed, obtain the information again. The moment to obtain the information again is the time when the first investment recommendation is made since the day the information has expired.

- 4) In the case where an investor has entered into a discretionary investment contract at least once every quarter, notwithstanding 1) through 3), the investor shall be asked whether there is any change in his/her financial status, purpose of investment, etc., while in the case where an investor has entered into a trust contract (excluding specific money trusts for which investors have specifically designated certain issues and proportions, etc.), it is also required to ask whether there has been any change in his/her financial status, etc. Item 6 of [§4-77] and Item 22 of [§4-93] of the Regulations on Financial Investment Business.

-2. Investment Recommendation

10. Investment Recommendation Procedure

- 1) Executives and employees, etc. shall not recommend an investor to make an investment that is recognized as being inadequate for the investor in light of the criteria for determining the suitability of an investment recommendation determined by the business concerned. (In SMBC Seoul br., Executives and employees shall obtain the investor's propensity of investment by Adequacy Standards Checklist.)
[§46(3)] of the Act
- 2) It is desirable that executives and employees, etc. inform investors whose information is already known to the business, of their propensity of investment together with the significance thereof before making an investment recommendation.
- 3) Executives and employees, etc. may, in the case where they believe that an investor's investment for the purpose of avoiding risks to his/her asset holdings or his/her investment in installments may reduce or avoid risks associated with an investment, make an investment recommendation by applying more relaxed consideration factors for the evaluation of the risk level of financial investment instruments.
- 4) Executives and employees, etc. shall, in the case where an investor intends to invest in a financial investment instrument that is deemed riskier than his/her propensity that a business has obtained, inform him/her of investor's propensity and risk level of

a financial investment instrument, and shall inform him/her that such investment is not tradable.

11. Special Rules for Over-the-Counter Derivatives

- 1) Executives and employees, etc. may, 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, conduct, regardless of whether or not they make an investment recommendation to such investor, a transaction for the purpose of reducing all or part of economic loss which is likely to be incurred to the assets, liabilities, contracts, etc. (hereinafter referred to as “objects of avoiding risk”) owned or to be owned by a person who intends to avoid risk, which meets all the following requirements.
 - a. The object of avoiding risk shall be owned or to be owned by the person; and
 - b. Any profit and loss which is likely to 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 are likely to be generated in the objects of avoiding risk.
- 2) In such a case, executives and employees, etc. shall confirm the type and amount of risk that the ordinary investor intends to avoid through trading over-the-counter derivatives and shall keep relevant materials. Item 1 of [§166-2(1)] of the Act and [§186-2] of the Act's Enforcement Decree
- 3) No executive or employee, etc. shall, in the case they recommend investment in over-the-counter derivatives, make an investment that is recognized as being unsuitable for the investor according to the standards in <Annexed Paper 1. Adequacy Standards on Over-the-Counter Derivatives>.

12. Matters to Be Attended to When Making Investment Recommendations

- 1) No executives and employee, etc. shall commit any of the following acts in making an investment recommendation. [§49] of the Act, [§54], [§55], [§68-5(3)] of the Act's Enforcement Decree 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 she/he had manifested his/her intent to reject investment recommendations: Provided, That each of the following acts shall be excluded herefrom:
 - (1) Recommending re-investment, after lapse of 1 month, to an investor who had manifested his/her intent to reject recommendation of investment; and
 - (2) Recommending investment in another type of financial investment instrument. In this case, each of the following type 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, derivative-linked securities, securities depository receipts, exchange-traded derivatives and over-the-counter derivatives.
 - (b) Investment advisory contracts or discretionary investment contracts:
 - An Investment advisory contract or a discretionary investment contract for securities;
 - An investment advisory contract or a discretionary investment contract for exchange-traded derivatives; and
 - An investment advisory contract or a discretionary investment contract for over-the-counter derivatives.
 - (c) Trust deeds:
 - A trust deed for the trust property under item 1 of [§103(1)] of the Act; and
 - A trust deed for the trust property under any items 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 credit extended under [§72(1)] of the Act) under the condition that a loan of money shall be granted, or the service of brokerage, intermediation, or agency for such loan shall be provided even without being asked for such service from the investor.
 - f. Providing or being provided with interest in property, such as money, goods and benefits, etc., without following the procedures determined by a business, such as relevant laws, etc.
- 2) Executives and employees, etc. may, in the case where they determined that long-term investment is more favorable to an investor considering his/her 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 items of financial investment instruments.

-3. Duty to Provide Explanation

13. Duty to Provide Explanation

- 1) Executives and employee, etc. shall, in the case they make an investment recommendation to an investor, explain the details of the financial investment instrument, the risks contingent upon the investment, structure and nature of investment risks of the financial investment instrument, matters concerning the fees shouldered by the investor, matters concerning the terms and conditions of early repayment, if such terms and conditions exist, etc. (hereinafter referred to as "matters to be explained about an investment, etc.") 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 one or more manners, by providing his/her signature, etc. [§47] of the Act and [§53] of the Act's Enforcement Decree
- 2) Executives and employees, etc. may, in the case they fulfill the duty to provide explanation in accordance with 1), offer different level of explanation to different investors taking into account the level of their understanding, such as their

experience in investment and the level of their knowledge about the financial investment instrument.

- 3) No executive or employee, 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 provide explanation pursuant to 1).
 - a. An investor refuses to receive the prospectus by signing or printing his/her name and affixing his/her seal thereon; or
 - b. 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 9(b) of [§ 4-20(1)] of the Regulations on Financial Investment Business
- 5) No executive or employee, etc. shall, in providing an explanation pursuant to 1), provide false or distorted information while explaining material facts that may produce a significant impact on the investor's reasonable judgement of the value of the financial investment instrument concerned or omit an explanation of any of the material facts. [§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.

. Classification of Degree of Risk of Financial Investment Instrumen

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14. Classification of Degree of Risk of Financial Investment Instruments

- 1) A business shall classify the degree of risk of each financial investment instrument taking into account the following elements, and shall set the standards on classifying the degree of the risks of over-the-counter derivatives separately from those on other financial investment instruments. <Annexed Paper 2. Classification of Degree of Risk of OTC Derivatives>

- a. Quantitative Factors : Variability of prices of the past, scope of potential loss of principal, types of underlying assets and component ratio thereof, credit rating, maturity, degree of leverage, and target period of investment in financial investment instruments, etc.
 - b. Qualitative Factors : Complexity of structure of instruments, risk of counter-party, potential for early redemption, and liquidity, etc.
- 2) A business may, in the case of classifying the degree of the risks of financial investment instruments, consider the standards on evaluation of risks prepared by an external institution.
 - 3) Executives and employees shall, in the case of a portfolio investment, use the degree of portfolio risks obtained by calculating the weighted average of the degree of the risks of individual financial investment instruments comprising the portfolio by applying the weight of the amount invested. However, in the case a professional group of their business decides the composition of the portfolio, management strategy and the degree of the risks thereof, etc., follow such decision.

. Other Matters to Be Attended to When Making Investment Recommendations

15. Delivery of Contract Documents and Cancellation of Contract

- 1) Executives and employees, etc. shall, upon executing a contract with an investor, deliver the contract documents 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. The relevant 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. The relevant investor manifests his/her intent to refuse to receive contract documents in writing;
 - c. The relevant investor expresses his/her wish to receive contract documents by mail

- or electronic mail in response to the investor's expression of willingness; or
- d. The Financial Services Commission determines and publicly notifies that there is no foreseeable threat to the protection of investors.
- 2) Executives and employees, etc. shall notify an investor who has entered into a contract that he/she may cancel the contract within seven days from the day on which the contract documents under 1) are delivered. Paragraphs (1) and (2) of [§59] of the Act and [§61] of the Act's Enforcement Decree

16. Prohibition on Compensation for Loss, etc.

No executive or employee, etc. shall commit any of the following acts in connection with the trading of financial investment instruments and other transactions: Provided, That cases where losses are compensated for or returns 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 sound trade practice and there is a justifiable ground are excluded.

- a. Promising in advance to compensate for all or part of 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 a certain amount in returns;
- d. Offering an investor a certain amount in returns after the fact.

[§55] of the Act

17. Prohibited Acts of Investment Traders and Investment Brokers

1) Prohibition of Recommendation of Churning

No executive or employee, etc. shall recommend an ordinary investor to trade financial investment instruments frequently or in an excessive scale without taking into account his/her investment purpose, status of property and experience in investment, etc. In this case, it shall be judged, considering the following facts, whether specific transactions constitute frequent or excessive trading:

- a. Total amount of fees that the investor has paid;
- b. Whether or not the transactions benefit the investor's status of property and purpose of investment;

- c. Whether or not the investor understands the risks accompanying the transactions, in light of his/her knowledge and experience in investment; and
- d. Whether or not the recommendation made for each transaction is reasonable.

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

2) Prohibition of Recommendation for Self-Account Transactions

No executive or employee, etc. shall recommend an investor to trade specific financial investment instruments for the purpose of trading financial investment instruments favorably to or for their own benefits for the account of their own or their business in the financial investment instruments market, except where trading with the investor as a counter-party. Item 5(b) of [§4-20(1)] of the Regulations on Financial Investment Business

3) Prohibition of Unfair Recommendation

- a. No executive or employee shall sell or purchase specific financial investment instruments by recommending investors to sell or purchase the financial investment instruments without informing investors of a known fact likely to have a significant impact on the value of the instruments. Item 5 of [§ 68(5)] of the Act's Enforcement Decree
- b. No executive or employee shall recommend an investor to trade the securities issued by their business. Item 9 of [§68(5)] of the Act's Enforcement Decree
- c. No executive or employee shall use a transaction of over-the-counter derivatives, a trust deed, or a linked transaction in order to avoid the prohibition or restriction under [§55] (Prohibition of Compensation for Loss, Etc.) and [§71] (Prohibition of Unsound Business Conduct) of the Act Item 11 of [§68(5)] of the Act's Enforcement Decree
- d. No executive or employee shall recommend an investor to trade specific financial investment instruments or to adopt a specific strategy or technique for management and diversification of property without any proper and reasonable ground, such as reliable information or theory or rational analysis, reasoning, or forecasting. Item 5(c) of [§4-20(1)] of the Regulations on Financial Investment Business
- e. No executive or employee shall recommend an investor to 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 the financial investment instruments due to any extraordinary reason (such as

execution of an underwriting contract by the business, guarantee for payment, holding a loan, relationship with an affiliated company, a target of corporate acquisition or merger promoted by the business, and holding one percent or more of the total number of outstanding stocks) other than ordinary interests arising from the business operation: Provided, That excluded herefrom are cases where an investor has been informed of such interests due to any of the following reasons:

- (1) The investor was aware of such interests or there is a reasonable ground to believe that the investor was aware of such interests at the time of recommending the transaction: Provided, That a recommendation of such transaction according to data of survey and analysis is excluded herefrom;
- (2) The executive or employee who recommended a transaction did not know such interests: Provided, That excluded herefrom are cases where the business instructed or induced the executive or employee to make a recommendation to trade such financial investment instruments without informing him/her of such interests; and
- (3) The recommendation of a transaction is considered as one for the investor's best interest: Provided, That a recommendation of such transaction according to data of survey and analysis is excluded herefrom.

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

- f. No executive or employee shall receive any property interest from a person who has an interest in specific financial investment instruments, such as the issuer of the recommended financial investments, the issuer's specially related person, or any similar person, in consideration for the recommendation of trading of the financial investment instruments. Item 5(h) of [§ 4-20(1)] of the Regulations on Financial Investment Business
- g. Executives or employees shall not conduct an act of inciting or encouraging an investor who does not want any transaction through extension of credit to do such transaction, and shall provide an explanation to an investor who wants a transaction through extension of credit.
- h. No executive or employee shall recommend a transaction through extension of credit, excessive or speculative transaction, or trading of financial investment instruments with high risks, such as futures and options, to an investor who depends heavily on their investment recommendations due to lack of experience in transactions, etc.

Adequacy Standards on Over-the-Counter Derivatives

In the case of a stock-unlisted corporation and an individual entrepreneur with less than three years of investment experience on OTC derivatives, a stock-listed corporation with less than one year of investment experience on OTC derivatives, the investment recommendation may be made for the OTC derivatives with risk aversion purposes that falls under any of the following Items. However, if the business recognizes that the investor has sufficient risk management ability, investment experience on OTC derivatives, knowledge about OTC derivatives, etc. (excluding the individuals who are ordinary investors), the 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; and
- c. Forward trading

| Classification | | Investment Experience on OTC Derivatives | | |
|---|---|--|---|---|
| | | Less than 1 year | More than 1 year ~ Less than 3 years | More than 3 years |
| Corporation and individual entrepreneur | Stock-unlisted corporation, individual entrepreneur | IRS, CRS, Option, FX Forward | | All OTC derivatives with other risk aversion purposes |
| | Stock-listed corporation | IRS, CRS, Option, FX Forward | 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”. The examples of the financial investment instruments that apply to each risk level should be referred to “<Annexed Paper 2> Classification of Degree of Risk of OTC Derivatives.”</p> <p>* Among the investors who are suitable for OTC derivatives investment classified 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 on all OTC derivatives with other risk aversion purposes.</p> | | | | |

Classification of Degree of Risk of OTC Derivatives

- 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 trading (instruments with a simple structure that may result in an unlimited extent of 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 extent of losses)