

China reiterates call for risk assessment in financial product sales

BEIJING, March 28 (Xinhua) -- China's banking supervisor reiterated on Friday that banks should fully evaluate investors' risk tolerance after difficult market conditions led to the liquidation of an investment fund product.

The China Banking Regulatory Commission (CBRC) said that it would require risk warnings to be highlighted in manuals and agreements for investment products.

The statement followed China Mingsheng Banking Corp.'s liquidation of a qualified domestic institutional investor (QDII) fund, which raised concern about a wider failure of QDII products. QDIIs were set up to allow Chinese investors to invest in overseas capital markets.

Minsheng sold 100 million shares in its QDII product at 1 yuan (14 U.S. cents) apiece last October. The product was attached to a Hong Kong-based Baring fund, which plunged amid the global credit crisis.

On March 19, Minsheng said that it would liquidate the fund and repay investors, as required if the fund's assets fell below 50 percent of their initial value.

CBRC said that banks should be more scrupulous about dealing with clients, notably the elderly and those with lower incomes.

Sources with the commission said that it was developing detailed rules to standardize financial product sales, noting that banks that failed to seriously consider investors' risk tolerance would face penalties.

Financial products mushroomed in 2007 as the mainland capital markets experienced an unprecedented boom. Many Chinese banks have emphasized high yields and low risks in selling these products, irrespective of clients' risk tolerance.

Chinese commercial banks have offered 1,302 Renminbi-dominated products and 1,760 foreign currency-dominated products, raising nearly 1 trillion yuan, according to a research paper released by the China Academy of Social Sciences.

The domestic financial markets, however, turned sour as the U.S. credit crisis began to unfold and spread, pushing many QDII funds and products into a loss.

The sluggish mainland share market, whose value has fallen more than 40 percent since October, also made it difficult for many banks to provide the stable returns they promised buyers of various financial products.

Further risks are surfacing in the commercial banks' financial product business, according to the director of the Banking Research Center of the Central University of Finance and Economics, Guo Tianyong, who said that banks should provide timely information and banking regulators should tighten oversight.

As early as 2005, the CBRC stipulated that banks should carefully weigh investors' risk

tolerance. Existing regulations, however, aren't explicit enough, said Guo.
