

Consideration towards sales of securitised products (ensuring the traceability of underlying assets)

Securitized products often have complex structures, making the risk of the underlying asset unclear, which can in turn lead to the lack of transparency of the financial system. While securitized products are mainly traded among professional investors (institutional investors) making disclosure obligations inapplicable, due to the systemic concerns, there is a need to be able to communicate the below items when required.

Further, even when a securities company is only involved in an intermediary role, so long as they communicate with investors, it is necessary to understand the following as well.

1. Prior to sales, carry out internal analysis of the underlying assets' contents and risk to enable the provision of appropriate information when required.
2. When selling securitized products, internal procedures and rules exist so that internal analysis of underlying assets' contents and risk, and liquidity risk not reflected in the rating is communicated internally. Merely depending on ratings is inappropriate when selling the product.
3. Ensuring that internal procedures and rules exist so as to enable information of the underlying assets' contents and risk to be available to customers/investors when requested.
4. Ensuring that even when the market value of the product is difficult to ascertain, procedures exist so as to enable smooth provision of information on the theoretical price and valuation when requested. Procedures should exist so that the valuation process is objective and appropriate.