



Monetary Authority of Singapore

**FINANCIAL ADVISERS ACT
(CAP. 110)**

**GUIDELINES ON SWITCHING OF DESIGNATED
INVESTMENT PRODUCTS**

Guideline No : FAA-G10
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GUIDELINES ON SWITCHING OF DESIGNATED INVESTMENT PRODUCTS

Purpose of the Guidelines on Switching of Designated Investment Products [“these Guidelines”]

1 These Guidelines are issued pursuant to section 64 of the Financial Advisers Act (Cap. 110) [“the Act”]. The aim of these Guidelines is to provide guidance on the controls, processes and procedures that the Monetary Authority of Singapore [“the Authority”] expects licensed financial advisers and exempt financial advisers to implement in order to monitor switching and ensure that their representatives do not advise clients to switch from one designated investment product [referred to as “original product”] to another designated investment product [referred to as “replacement product”] in a manner that would be detrimental to the clients.

2 These Guidelines do not apply to persons (including licensees, exempt financial advisers and their representatives) who are exempted from the requirements in the Notice on Recommendations on Investment Products (Notice No. FAA-N01) [“FAA-N01”].

[Amended on 1 July 2005]

3 These Guidelines are not intended to replace or override any legislative provisions under the Act. They should be read in conjunction with the provisions of the Act, subsidiary legislation made under the Act, as well as written directions, notices, codes and other guidelines that the Authority may issue from time to time.

Definitions

4 For the purposes of these Guidelines:

“collective investment scheme” has the same meaning as in section 2(1) of the Securities and Futures Act (Cap. 289);

“designated investment product” has the same meaning as in section 25(6) of the Act;

[Amended on 1 July 2005]

“financial adviser” means a licensed financial adviser or a person exempt from holding a financial adviser’s licence under section 23(1)(a), (b), (c), (d) or (e) of the Act;

[Amended on 1 July 2005]

“representative” has the same meaning as in section 2(1) of the Act;

“switching” includes a situation where a client disposes of, or reduces his interest in, all or part of an investment product to acquire, or increase his interest in, all or part of another investment product, and “switch” shall be construed accordingly; and

“unit” has the same meaning as in section 2(1) of the Securities and Futures Act (Cap. 289).

General Obligations

5 FAA-N01 stipulates that a financial adviser and its representatives shall not make a recommendation to a client to switch from an original product to a replacement product in a manner that would be detrimental to the client. FAA-N01 also provides that the financial adviser and its representatives making the switching recommendation shall –

- (a) comply with the “Know Your Client”, needs analysis, and documentation and record-keeping requirements set out in FAA-N01; and
- (b) disclose to the client any fee or charge the client would have to bear to switch from an original product to a replacement product.

6 A financial adviser should ensure that its representatives are conversant with their responsibilities and comply with all applicable laws, rules and regulations relevant to switching.

Disclosure Requirements

7 The disclosure guidelines in paragraphs 8 and 9 are intended to apply when a financial adviser or its representatives make a recommendation to a client to switch from an original product to a replacement product.

[Amended on 1 July 2005]

8 A financial adviser and its representatives should disclose to a client in writing and draw the attention of the client to any fee or charge the client would have to bear if the client were to switch from an original product to a replacement product. This is to ensure that the client is able to make an informed decision on the switching recommendation. Fees and charges to be disclosed include any fee associated with the disposal of, or reduction in interest in, all or part of the original product, and any fee incurred for the acquisition of, or increase in interest in, all or part of the replacement product.

9 A financial adviser should disclose to a client in writing the following:

- (a) any pecuniary or other disadvantages that the client will or may suffer (temporarily or otherwise) as a result of switching from the original product to the replacement product; and
- (b) a prominent warning containing words to the following effect:

“You may incur fees and charges as a result of (i) the disposal of, or reduction in interest in, an existing investment product; and (ii) the acquisition of, or increase in interest in, a new investment product. Before switching from one investment product to another, you should find out whether you are entitled to free switching and consider carefully whether any fees, charges or disadvantages that may arise from a switch would outweigh any potential benefits. Some of the disadvantages associated with switching include the following:

- (i) you may incur transaction costs without gaining any real benefit from the switch;

- (ii) the new investment product may offer a lower level of benefit at a higher cost or same cost, or offer the same level of benefit at a higher cost;
- (iii) you may incur penalties for terminating the existing investment product; and
- (iv) the new investment product may be less suitable for you.

You should seek the advice of your financial adviser when in doubt or if you require further clarification.”

Monitoring of Switching of Designated Investment Products

Front-End Monitoring Procedures

10 To facilitate the monitoring of switching that may be detrimental to a client’s interests, a financial adviser should require the client to declare in writing whether he had been advised by a representative of the financial adviser to dispose of, or reduce his interest in, all or part of an original product to acquire, or increase his interest in, all or part of a replacement product. The financial adviser should also ensure that the client’s declaration includes circumstances where the original product is –

- (a) a different type of designated investment product from the replacement product; and
- (b) purchased from other financial advisers.

11 If the client declares that he had been advised by a representative of the financial adviser to switch, the financial adviser should require the following additional declarations to be made in writing –

- (a) the client should declare –
 - (i) whether the representative has drawn his attention to the costs and possible disadvantages associated with the switch; and
 - (ii) whether he wishes to proceed with the switch notwithstanding that the fees, charges or

disadvantages that may arise from the switch could outweigh any potential benefits.

- (b) the representative should declare whether the client is entitled to any free switching, so that the client is fully informed of all free switching options.

12 FAA-N01 stipulates that a representative shall explain to his client the basis for his recommendation. The basis on which the representative is making the recommendation to the client should be documented.

13 Where the client declares that the representative has recommended a switch, the financial adviser should require the supervisor¹ of the representative to review the switching recommendation, and indicate in writing, whether he agrees with the recommendation made and if not, the actions that have been taken to rectify the situation. In considering whether a switch is appropriate, the supervisor should take into account the following factors stated in paragraph 23 of FAA-N01 –

- (a) whether the client suffers any penalty for terminating the original product;
- (b) whether the client will incur any transaction cost without gaining any real benefit from the switch;
- (c) whether the replacement product confers a lower level of benefit at a higher cost or same cost to the client, or the same level of benefit at a higher cost; and
- (d) whether the replacement product is less suitable for the client.

Back-End Monitoring Procedures

14 A financial adviser should institute controls, processes and procedures to effectively monitor and track the switching of designated investment products, such as² –

¹ “Supervisor” refers to a person who is responsible for the conduct of a representative and equipped to assess whether a switch is appropriate.

² One way to implement the procedures set out in paragraphs 14 (a) to (d) is to establish and maintain a register.

- (a) checking the past transactions and records of a client for each new purchase made so as to detect switches that are not declared by the client;
- (b) tracking the volume of switches so as to identify representatives with an unusually high volume of switching transactions;
- (c) putting in place procedures to ensure that each switch recommended by a representative is reviewed by a supervisor for appropriateness; and
- (d) implementing any other procedures and controls to identify any unusual trends in switching transactions.

15 Where a financial adviser detects a switch that is not declared by a client, the financial adviser should require the supervisor of the representative to review the switch and indicate in writing whether he agrees with the recommendation made (if any) and if not, the actions that have been taken to rectify the situation. In considering whether a recommended switch is appropriate, the supervisor should take into account the factors stated in paragraph 13.

16 The back-end controls, processes and procedures implemented should commensurate with the financial adviser's nature of business and risks.

Remuneration Structure

17 Any remuneration structure based solely on the sales volume generated by representatives may encourage product pushing and undesirable switching. A financial adviser should structure the remuneration package of its representatives to uphold their responsibility to provide good quality professional advice.