

CONSULTATION PAPER

P011 - 2017

June 2017

Provision of Digital Advisory Services

MAS

Monetary Authority of Singapore

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1 PREFACE

1.1 Digital advisory services refers to the provision of advice on investment products using automated, algorithm-based tools. There are two types of digital advisory tools: those that financial professionals use to help them service their clients (“**professional-facing tools**”), and those that clients can use directly (“**client-facing tools**”) with limited or no human adviser interaction. Digital advisers (also known as robo-advisers) provide digital advisory services using client-facing tools.

1.2 Globally, the take-up of digital advisory services, particularly for client-facing tools, is fast gaining popularity among the growing segment of technology-savvy and self-directed consumers. The Monetary Authority of Singapore (“**MAS**”) welcomes the offering of digital advisory services to complement the existing suite of advisory channels as it has the potential to improve consumers’ access to low-cost investment advice. Digital advisers typically charge lower advisory fees compared to conventional advisers or fund managers given that they adopt a passive investment strategy.

1.3 Digital advisers may operate under different business models. Besides the use of algorithms to deliver advice, it is common for digital advisory platforms to pass clients’ trade orders to brokerage firms for execution. Some may refer clients to open accounts directly with brokerage firms and do not handle clients’ moneys as part of the investment process, while others may pool together clients’ moneys or assets into client omnibus accounts. Many digital advisers also periodically and automatically adjust their clients’ investments to bring their investment portfolios back to the original recommended allocation.

1.4 Digital advisers seeking to offer their platforms to investors in Singapore will have to be licensed for fund management or dealing in securities under the Securities and Futures Act (Cap. 289), and/or providing financial advice on investment products under the Financial Advisers Act (Cap. 110). The type of licensing depends on the operating model of the digital adviser. The licensing and business conduct rules under the Securities and Futures Act (Cap. 289) and Financial Advisers Act (Cap. 110) can accommodate digital advisory services. That said, MAS recognises the need to review the current regulatory framework to ensure that the existing safeguards in the legislation continue to be relevant for the provision of digital advisory services.

1.5 This consultation paper sets out our assessment of the unique characteristics of and risks posed by digital advisory services, along with our regulatory expectations. We have also proposed amendments to our legislations to facilitate the provision of digital advisory services in Singapore. MAS invites interested parties to submit their views and comments on the proposals in this paper.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. Respondents who would like (i) their whole submission or part of it, or (ii) their identity, or (iii) both, to be kept confidential, must expressly state so in their submission to MAS. In addition, MAS reserves

the right not to publish any submission where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.6 Please submit your views and comments electronically to digitaladvice_consultation_2017@mas.gov.sg or by post to:

Capital Markets Intermediaries Department I
(Attention: Digital Advisory Working Group)
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

1.7 Please use this [template](#) for your submission and submit all comments to MAS by 7 July 2017.

2 INTRODUCTION

Digital advisory process

2.1 The digital advisory process typically begins with the client inputting an investment amount and answering a series of questions on his risk tolerance, financial objectives and investment time horizon. The digital adviser then analyses the client's responses using algorithms and generates a recommendation to invest into portfolios suited to the client's stated needs. If the client accepts the recommended portfolio, the digital adviser relays the client's trade orders directly to a brokerage firm for execution. Over time, due to market movements, the client's portfolio may deviate from its original recommended asset allocation. The digital adviser will then adjust the client's investments to bring his investment portfolio back to the original recommended allocation (referred to as "**rebalancing**"). This rebalancing of portfolios is automated and performed periodically.

Licensing and regulatory requirements

2.2 We have observed a range of business models for digital advisory services. In Singapore, the relevant regulatory framework applicable to a digital adviser would depend on the operating model of, and specific activities carried out by the digital adviser. Digital advisers which offer a platform for the execution of securities transactions, including for transactions that the digital advisers do not provide advice on, are caught as conducting dealing in securities under the Securities and Futures Act (Cap. 289) ("**SFA**"). Digital advisers that have discretion or control over clients' moneys or assets, including those that operate client omnibus accounts, are typically considered to be conducting fund management under the SFA. Both types of digital advisers are required to hold a capital markets service ("**CMS**") licence unless otherwise exempted. Digital advisers that are licensed under the SFA are required to lodge as exempt financial advisers ("**exempt FAs**") under section 23(1)(d) of the Financial Advisers Act (Cap. 110) ("**FAA**") and comply with the business conduct rules under the FAA.

2.3 MAS also notes that there are digital advisers which carry out limited SFA-regulated activities that are incidental to the provision of financial advice. Examples include digital advisers that relay clients' trade orders to a brokerage firm for execution after advising them¹, or those that rebalance their clients' portfolios to align the portfolios back to their original recommended allocation. In such cases, MAS proposes to allow such digital advisers to operate as licensed or exempt² financial advisers ("**FAs**") under the FAA, as the case may be, without the need for additional licensing under the SFA, subject to certain safeguards. Please refer to **Annex A** for a summary of the licensing requirements applicable to digital advisers.

2.4 MAS recognises that there are differences between the business models of digital advisers and that of conventional advisers, given the lack of human intervention in the online advisory process. MAS also notes that digital advisers typically provide advice on exchange

¹ The passing of clients' trade orders that is incidental to the advice provided (in paragraph 2.3) should be distinguished from the execution of clients' trade orders (in paragraph 2.2) that may be done without any advice rendered by the digital adviser.

² Examples of exempt FAs include licensed banks, merchant banks, finance companies, insurance companies and insurance brokers.

traded funds (“ETFs”) with limited use of derivatives (“**traditional ETFs**”)³, as opposed to a full suite of investment products. The risk of a client purchasing an ETF that is beyond his financial means is relatively contained as ETFs are low-cost and diversified investment products. As such, MAS is prepared to grant digital advisers case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11 of the Notice on Recommendations on Investment Products (“**FAA-N16**”) when advising on traditional ETFs, subject to certain conditions.

2.5 Some digital advisers may choose to outsource the development of their client-facing tools to a third party provider⁴. The third party provider does not need to be licensed by MAS if it does not provide financial advisory services directly to clients⁵. Digital advisers should nonetheless subject the third party provider to appropriate due diligence processes to assess the risks associated with the outsourcing arrangement⁶.

Unique characteristics and risks of digital advisers

2.6 At the same time, the business model of digital advisers carries with it unique risks not posed by conventional advisers. Both professional and client-facing tools rely on data obtained through a distinct set of questions and algorithms to generate a recommended portfolio for clients. However, with limited or no human intervention in the advisory process, client-facing tools are susceptible to the risk of erroneous or biased algorithms that may not be in the best interest of the client. In placing reliance on client-facing tools, the onus is on the digital adviser to ensure that the tool sufficiently collects and analyses all the information necessary to satisfy the requirements under the FAA. MAS will set out minimum expectations on the standard of governance and management oversight expected of digital advisers, including the responsibility of the Board and Senior Management for the monitoring and control of algorithms.

2.7 Digital advisers principally interact with their customers, transmit, store and process customer information, and generate and deliver investment recommendations electronically. As such, it is imperative that digital advisers meet the expectations in MAS’ Notice and Guidelines on Technology Risk Management to mitigate technology risks.

³ These are non-synthetic and unlevered ETFs, with limited use of derivatives for hedging purposes.

⁴ This refers to a situation where a third party provider offers white-labelling services for the use of its platforms or algorithms to a financial institution under a business-to-business arrangement.

⁵ Examples include arrangements whereby the third party provider is simply providing white-label technology to the digital adviser, where the advice is provided to clients through the digital adviser.

⁶ The Guidelines on Outsourcing set out MAS’ expectations of a financial institution that has entered into any outsourcing arrangement or is planning to outsource its business activities to a service provider.

Areas of consultation

2.8 This consultation paper is divided into two parts.

(i) Part A of the consultation paper touches on the unique characteristics of digital advisers and sets out MAS' expectations on the Board and Senior Management to address the risks posed, covering:

- Governance and supervision of algorithms [Section 3]

(ii) Part B of the consultation paper proposes changes to our legislation to facilitate the provision of digital advisory services, covering licensing and regulatory matters. Some of the issues apply to both digital advisers as well as conventional capital markets intermediaries and cover the following areas:

- Suitability of advice [Section 4]
- Portfolio management [Section 5]
- Execution of investment transactions [Section 6]

PART A

3 GOVERNANCE AND SUPERVISION OF ALGORITHMS

3.1 Client-facing tools are primarily algorithm-driven. A fault or bias in the algorithm, whether due to oversight or as a result of poor design, would adversely affect all the clients of the digital adviser.

Developing the client-facing tool

3.2 There are a few factors that digital advisers need to consider when developing their client-facing tools. Firstly, digital advisers need to ensure that the methodology of the algorithm behind the client-facing tool is sufficiently robust. In addition to ensuring that the tool *collects* all the necessary information, the algorithms must also be designed to sufficiently *analyse* the information to make a suitable recommendation. This includes being able to resolve contradictory or inconsistent responses from the client by asking additional questions or through other means such as by contacting the client to obtain further clarification on his response. Digital advisers must also ensure that the algorithms are able to identify and eliminate clients who are unsuitable for investing even for products such as traditional ETFs.

3.3 Prior to the launch of their client-facing tool, digital advisers should perform sufficient back-tests to ensure that the methodology reliably produces an output that is consistent with the intended investment recommendation. Further, digital advisers should perform a gap analysis against the requirements set out in the Notice and Guidelines on Technology Risk Management and ensure that all identified gaps are adequately mitigated before allowing their client-facing tool to go live. Back-testing and gap analysis should also be performed when changes are made to the tool.

3.4 Digital advisers are also expected to ensure that they are adequately staffed with persons who have the competency and expertise to develop⁷ and review the methodology of the algorithms.

Monitoring and testing of algorithms

3.5 Digital advisers are expected to have policies, procedures and controls to monitor and test their algorithms to ensure that they perform as intended. As a guide, digital advisers are minimally expected to have the following processes in place:

- (a) access controls to manage changes to the algorithms whenever necessary;
- (b) controls to suspend the provision of advice if an error or bias within the algorithm is detected; and

⁷ If the digital adviser has chosen to outsource the development of the tool to a third party service provider, the digital adviser would be expected to monitor the service provider in the development, management, or ownership of the algorithms used.

- (c) compliance checks on the quality of advice provided by the client-facing tool. Such checks should be conducted regularly and when there are changes to the algorithms. This should include post-transaction sample testing, and should be reviewed by a qualified human adviser to ensure compliance with the requirements under the FAA.

Providing information on algorithms and conflicts of interest

3.6 Digital advisers may base their algorithms on different methodological approaches (e.g. Modern Portfolio Theory). Each algorithm would have different assumptions, underlying rules and limitations. In addition, some digital advisers may override the automated algorithm or temporarily halt the digital advisory service in extreme market conditions.

3.7 We would like to seek views on the extent of information that the digital adviser should disclose on its algorithm to clients, including circumstances under which its algorithm may be overridden or its service suspended, and any adjustments to the algorithm. In particular, whether such disclosure would be useful for clients in making an informed decision on the digital adviser's services.

3.8 In addition, potential conflicts of interest may arise in situations where the algorithm of the client-facing tool is designed to favour or limit its recommendations to selected investment products for which the digital adviser or its affiliate would receive higher commissions. Under paragraph 23 of the Notice on Information to Clients and Product Information Disclosure ("**FAA-N03**"), FAs must disclose, in writing, to their clients any actual or potential conflict of interest arising from any connection to or association with any product provider, including any material information or facts that may compromise their objectivity or independence. Apart from the existing disclosure requirement on conflict of interest under FAA-N03, we also expect digital advisers to disclose to clients the reason for the selectivity and the limitations of the recommendations provided if any, including disclosing to clients that other investments not considered may have characteristics similar or superior to those being analysed. This recognises that without face-to-face interactions with human advisers, clients of a digital adviser may not have the opportunity to seek clarifications on the recommendations provided to them.

Responsibility of the board and senior management

3.9 It is the responsibility of the digital adviser's board⁸ and senior management to maintain effective oversight and governance of the client-facing tools, including putting in place systems and processes to ensure a sound risk management culture and environment, as well as compliance with the relevant rules and regulations. Specifically, MAS expects the board and senior management to be responsible for:

- (a) approving the design and methodology development of the client-facing tool and ensuring its proper maintenance;

⁸ The duties and responsibilities of a director and CEO are as set out in regulations 13 to 13C of the Securities and Futures (Licensing and Conduct of Business) Regulations ("**SF(LCB)R**") and regulation 14 to 14AA of the FAR.

- (b) approving the policies and procedures that apply to the systems and processes of the client-facing tool;
- (c) maintaining oversight over the management of the client-facing tool, such as designating appropriate personnel to approve changes to algorithms; and
- (d) ensuring that the requirements set out in the Notice and Guidelines on Technology Risk Management are adhered to.

Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:

- (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;
- (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;
- (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and
- (iv) the responsibilities of the board and senior management set out in paragraph 3.9.

PART B

4 SUITABILITY OF ADVICE

4.1 A licensed financial adviser is required to have a reasonable basis for recommending any investment product to a person who may reasonably be expected to rely on the recommendation. This requirement is provided under section 27 of the FAA, and also applies to exempt FAs such as capital markets services licence holders, banks, merchant banks, finance companies, insurance companies and insurance brokers in Singapore. In particular, the FAs are required to give due consideration to the person's investment objectives, financial situation and particular needs when making recommendations on investment products.

4.2 In order for an FA to make a recommendation that takes into account a client's investment objectives, financial situation and particular needs to satisfy the reasonable basis requirement under section 27 of the FAA, the FA is required to take reasonable steps to collect and document the following information from the client, as prescribed under paragraph 11 of the Notice on Recommendations on Investment Products ("**FAA-N16**"):

- (a) the financial objectives of the client;
- (b) the risk tolerance of the client;
- (c) the employment status of the client;
- (d) the financial situation of the client, including assets, liabilities, cash flow and income;
- (e) the source and amount of the client's regular income;
- (f) the financial commitments of the client;
- (g) the current investment portfolio of the client, including any life policy;
- (h) whether the amount to be invested is a substantial portion of the client's assets; and
- (i) for any recommendation made in respect of life policies, the number of dependants of the client and the extent and duration of financial support required for each of the dependants.

4.3 Client-facing tools rely solely on the information provided by the client through responses to a distinct set of questions to make an investment recommendation. MAS notes that generally, client-facing tools require clients to provide information on their financial objective, investment time horizon and risk tolerance. This may not satisfy all the requirements under paragraph 11 of FAA-N16, in particular, limbs (c) to (i) of paragraph 4.2 above.

4.4 We have received feedback from persons interested to offer digital advisory services that it may not be relevant to consider the financial circumstances of a client (i.e. limbs (c) to (i) of paragraph 4.2 above), given that clients have full discretion on the amount they wish to invest and are not subjected to any form of influence or active solicitation on their investment amount during the investment process.

4.5 MAS recognises that there are differences between the business models of digital advisers and that of conventional FAs or those employing professional-facing tools. In particular, clients of digital advisers tend to be self-directed. Further, some digital advisers seek to minimize the risks of providing unsuitable advice through the use of “knock-out” or threshold questions to identify and eliminate clients who are not suitable to participate in the digital advisory platform and may need to consider seeking investment advice from a human adviser. Examples include clients who indicate the need for capital preservation or who state that they cannot afford to lose their principal investment sum. MAS also notes that digital advisers typically provide advice on traditional ETFs, which are low cost and diversified investment products, as opposed to a full suite of investment products. Hence, it may be less crucial for digital advisers to collect all the information in limbs (c) to (i) of paragraph 4.2.

4.6 Having regard to paragraphs 4.4 and 4.5, MAS is prepared to grant case-by-case exemptions to **fully-automated client-facing tools**, i.e. those with no human adviser intervention in the advisory process⁹, from the need to collect full information on the **financial circumstances** of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 **when advising on traditional ETFs (“FAA-N16 Exemption”)**. This case-by-case exemption approach allows MAS to engage applicants on the specific safeguards that they intend to put in place to ensure the suitability of their recommendations in spite of incomplete information on the financial circumstances of their clients. As the digital advisory services landscape is still evolving, MAS will continue to monitor developments in this space and may consider revising the regulatory requirements in FAA-N16 in the future where appropriate.

4.7 When assessing such requests, MAS will consider whether a digital adviser’s online processes or algorithms exert any influence over the amount that a client will invest. We will also require digital advisers to demonstrate that their “knock-out” or threshold questions can effectively filter out unsuitable clients (e.g. clients who are unwilling to accept any losses to their investment sum) and reduce the risk of mis-buying. To ensure that clients are fully aware of the limitations of the advice provided by fully-automated digital advisory models, digital advisers seeking to apply for the FAA-N16 Exemption will be required to provide a risk disclosure statement to their clients, alerting them to the fact that the recommendation does not take into consideration their financial circumstances, existing investment portfolios or the affordability of the investment. We also expect digital advisers to have controls in place to identify inconsistent responses provided by the client, such as incorporating prompts (e.g. pop-up boxes) in the questionnaire to alert the client when his responses are inconsistent, or a backend data analysis process to automatically flag out inconsistent information provided by the client for follow up by the digital adviser.

⁹ A fully-automated digital adviser can still offer human interaction for customer service purposes.

4.8 For avoidance of doubt, digital advisers seeking the FAA-N16 exemption should still take reasonable steps to collect information on the client's financial objectives and risk tolerance to satisfy themselves that the investment recommendation is suitable.

Question 2. MAS seeks views on:

- (i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:
 - (a) fully-automated digital advisory models; and
 - (b) advising on traditional ETFs only; and
- (ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.

5 PORTFOLIO MANAGEMENT

Provision of fund management services that is incidental to the advice provided

5.1 Currently, a licensed FA is exempted from the need to hold a CMS licence for fund management, where the licensed FA conducts fund management activities that are deemed incidental to its advisory activities in respect of unlisted collective investment scheme (“CIS”)¹⁰. To rely on this licensing exemption, the licensed FA is required to, amongst other exemption conditions, obtain prior approval of its client in respect of each and every transaction.

5.2 The current scope of this licensing exemption is restricted to only unlisted CIS, and is only available to licensed FAs. MAS has received feedback from FAs that their clients are increasingly seeking their assistance to advise on investment portfolios consisting of listed CIS such as ETFs. As such, MAS proposes to allow both licensed and exempt FAs to manage their clients’ investment portfolios **comprising of both listed and unlisted CIS** in connection with their advisory activities. This licensing exemption will be available for both digital advisers and conventional financial advisers. In this regard, MAS intends to:

- (a) expand the scope of the current licensing exemption¹¹ to include listed CIS; and
- (b) extend the current licensing exemption to exempt FAs.

Portfolio rebalancing activities

5.3 Digital advisers typically offer rebalancing¹² of clients’ portfolios to address portfolio drift which entails bringing the portfolios back to their original recommended asset allocation. Portfolio rebalancing is considered incidental to the advice provided where it is solely for the purpose of aligning the portfolio back to its original recommended allocation and there is no change to the constituents of the portfolio. Such portfolio rebalancing activities are deemed as conducting fund management activities under the SFA and persons who conduct such activities are required to hold a CMS licence in fund management unless otherwise exempted. However, with the proposed exemption set out in paragraph 5.2, digital advisers which are licensed or exempt FAs will be exempted from holding a CMS licence in fund management to engage in portfolio rebalancing activities for portfolios that comprise solely of CIS.

5.4 MAS considers that the risks of rebalancing activities that are incidental to the provision of advice can be mitigated without the need for digital advisers to obtain their clients’ approval prior to each and every rebalancing transaction. As such, we intend to dispense with the requirement for digital advisers to obtain prior approval of the client in respect of each and every transaction, subject to safeguards. To ensure that clients agree with and understand what the rebalancing involves, FAs relying on this fund management licensing exemption would be required to disclose and obtain their clients’ **one-time prior acknowledgement** in writing of the fees and terms of their discretionary portfolio rebalancing services, including but not limited to

¹⁰ Under paragraph 5(1)(g) of the Second Schedule to the SF(LCB)R.

¹¹ This is to be differentiated from the proposed exemptions in paragraph 4.6 which will only apply to fully automated digital advisers, and when advising on traditional ETFs.

¹² As recommended portfolios typically comprise traditional ETFs or listed CIS, the rebalancing would also be in respect of such products.

details on the frequency, scope and methodology for rebalancing of the portfolio. MAS will also require the digital adviser to **notify** clients prior to each and every rebalancing transaction so that clients are given an opportunity to object to the rebalancing transaction, if they wish to.

5.5 In the interim, before the proposed legislative amendments are effected, MAS intends to allow licensed and exempt FAs to apply for the licensing exemptions stated in paragraphs 5.2 and 5.4 on a case-by-case basis.

Corporate track record requirement for retail fund managers

5.6 MAS recognises that some digital advisers whose activities fall into fund management and who intend to obtain a CMS licence in fund management to service retail investors may not be able to meet the five-year corporate track record requirement of managing funds for retail investors in a jurisdiction which has a regulatory framework that is comparable to Singapore. In addition, such digital advisers may not meet the criteria of having total assets under management (“**AUM**”) of at least S\$1 billion to qualify for such a licence. In order to support the provision of digital advisory services, MAS is prepared to admit digital advisers that do not meet the requisite track record and AUM requirements for a retail fund management company, subject to the following safeguards:

- (a) the key individuals need to have relevant collective experience in fund management and technology;
- (b) the recommended portfolios should comprise primarily (at least 80%) traditional ETFs, with a cap of 20% invested in listed shares, listed investment grade bonds and foreign exchange contracts for hedging purposes; and
- (c) the digital adviser must undergo a post-authorisation audit conducted by an independent third party at the end of its first year of operations on key risk areas. These include prevention of money laundering and countering the financing of terrorism, handling of client moneys and assets, technology risk and suitability of advice.

Question 3. MAS seeks views on the proposals to:

- (i) Amend the current licensing exemption for licensed FAs conducting fund management activity **with the client's prior approval** for each and every transaction (paragraph 5.2) as follows:
 - (a) expand the scope of the licensing exemption to include both listed and unlisted CIS;
 - (b) extend the licensing exemption to include exempt FAs;
- (ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and **without the need to obtain the client's approval** for each and every transaction, subject to safeguards (paragraph 5.4); and
- (iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).

Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B¹³.

¹³ Annex B sets out proposed legislative amendments to the Second Schedule of Securities and Futures (Licensing and Conduct of Business) Regulations which was published for consultation on 26 May 2017 as part of the Consultation Paper II on Draft Regulations Pursuant to the Securities and Futures Act.

6 EXECUTION OF INVESTMENT TRANSACTIONS

6.1 Digital advisers typically assist clients in the execution of recommended portfolios by passing clients' trade orders to brokerage firms for execution. Such an activity is caught as dealing in securities under the SFA and persons who carry out such activity are required to hold a CMS licence unless otherwise exempted.

6.2 Licensed and exempt FAs are currently exempted from the requirement to hold a CMS licence for dealing in securities when assisting clients to subscribe for or redeem units in unlisted CIS¹⁴. MAS had received industry feedback that this licensing exemption was too narrow as it only allowed licensed and exempt FAs to facilitate the subscription and redemption of unlisted CIS. Accordingly, MAS had in June 2015 consulted on the proposal to expand the licensing exemption for licensed and exempt FAs to help clients transact in both listed (e.g. ETFs) and unlisted CIS, provided such dealing is incidental¹⁵ to their advisory activities¹⁶. With this change, licensed and exempt FAs which assist clients by passing on trade orders of recommended portfolios in respect of listed and unlisted CIS to brokerage firms, will not be required to hold a CMS licence for dealing in securities.

6.3 We note that the risks posed by facilitating the execution of securities transactions other than CIS (e.g. bonds and stocks), are similarly low. However, licensed and exempt FAs which advise on securities other than CIS cannot rely on the same exemption to help their clients transact in these products. To allow licensed and exempt FAs to extend the same ancillary service of helping clients to transact in securities other than CIS which is incidental to their advisory activities, MAS proposes to extend the licensing exemption to any securities¹⁷ defined under the SFA, beyond CIS¹⁸.

6.4 In the interim, before the proposed legislative amendments are effected, MAS intends to allow licensed and exempt FAs to apply for the licensing exemption on a case-by-case basis.

6.5 With the proposal to allow licensed and exempt FAs to facilitate the passing of clients' securities orders beyond **unlisted** CIS to brokerage firms for execution, the licensed and exempt FA's obligations to assess a client's knowledge and experience for transacting in specified investment products ("**SIPs**") should similarly be expanded to include listed SIPs, in addition to

¹⁴ Under paragraph 2(j) of the Second Schedule to the SF(LCB)R.

¹⁵ Dealing by the licensed or exempt FA is considered incidental, if the licensed or exempt FA has made a recommendation to the client in respect of a particular CIS, the client accepts the recommendation, and the licensed or exempt FA helps the client to transact in the CIS in accordance with the recommendation.

¹⁶ The proposal to expand the licensing exemption for licensed and exempt FAs to help clients transact in both listed (e.g. ETFs) and unlisted CIS will take effect in the next round of amendments to the SF(LCB)R.

¹⁷ This is to be differentiated from the proposed exemption in paragraph 4.7, which will only apply to fully automated digital advisers, and when advising on traditional ETFs.

¹⁸ FAs who rely on this proposed exemption to facilitate order execution for any securities will still be required to meet the relevant SF(LCB)R conduct requirements. This includes regulations 44, 46, 46A, 47, 47B of the SF(LCB)R and regulation 19 of FAR.

unlisted SIPs¹⁹. Accordingly, MAS is proposing to extend the requirements under FAA-N16 for licensed and exempt FAs to assess their clients' knowledge and experience for transacting in **listed** SIPs.

6.6 Currently, as set out in paragraph 29D of the Notice on the Sale of Investment Products ("**SFA 04-N12**"), brokerage firms are required to provide a risk warning statement to clients before allowing them to transact in any overseas-listed investment product for the first time. This risk warning statement is set out in Annex 4 of SFA04-N12. With the proposal to allow licensed and exempt FAs to help pass clients' securities orders beyond unlisted CIS such as overseas-listed ETFs, it is important for licensed and exempt FAs to highlight to clients that the level of investor protection afforded may differ for such overseas-listed investment products that are not regulated by MAS. MAS therefore proposes to require licensed and exempt FAs to furnish a similar risk warning statement to their clients at the point of account opening when advising them on overseas-listed investment products. MAS proposes to include this requirement in FAA-N16.

Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).

Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.

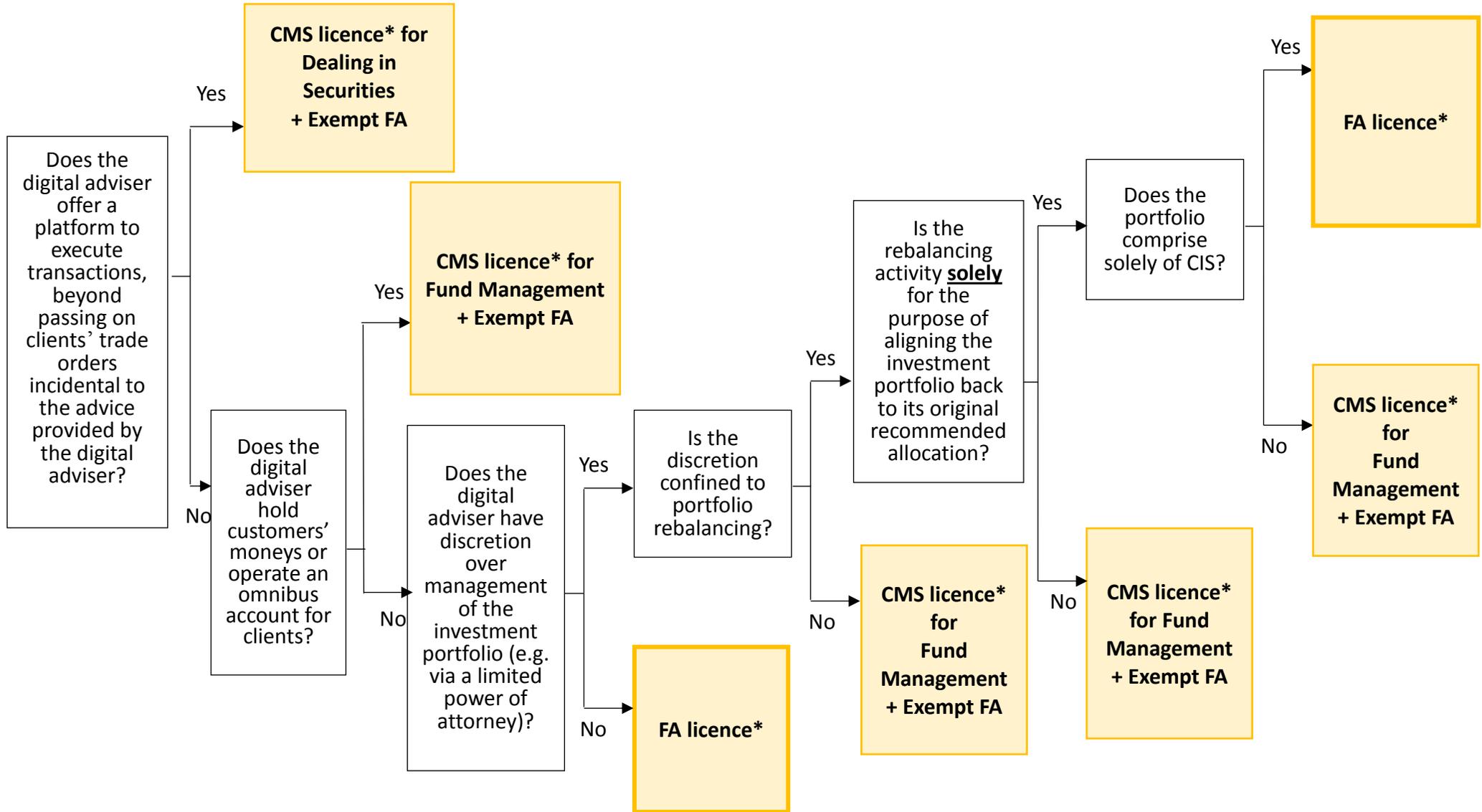
Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client's knowledge and experience for transacting in listed SIPs.

Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.

¹⁹ Currently, **FAA-N16** sets out requirements to assess a client's knowledge and experience for transacting in **unlisted** SIP. The requirements to assess the client's knowledge and experience for transacting in **listed** SIP are set out under **SFA04-N12**.

Annex A

Licensing Considerations for Digital Advisers



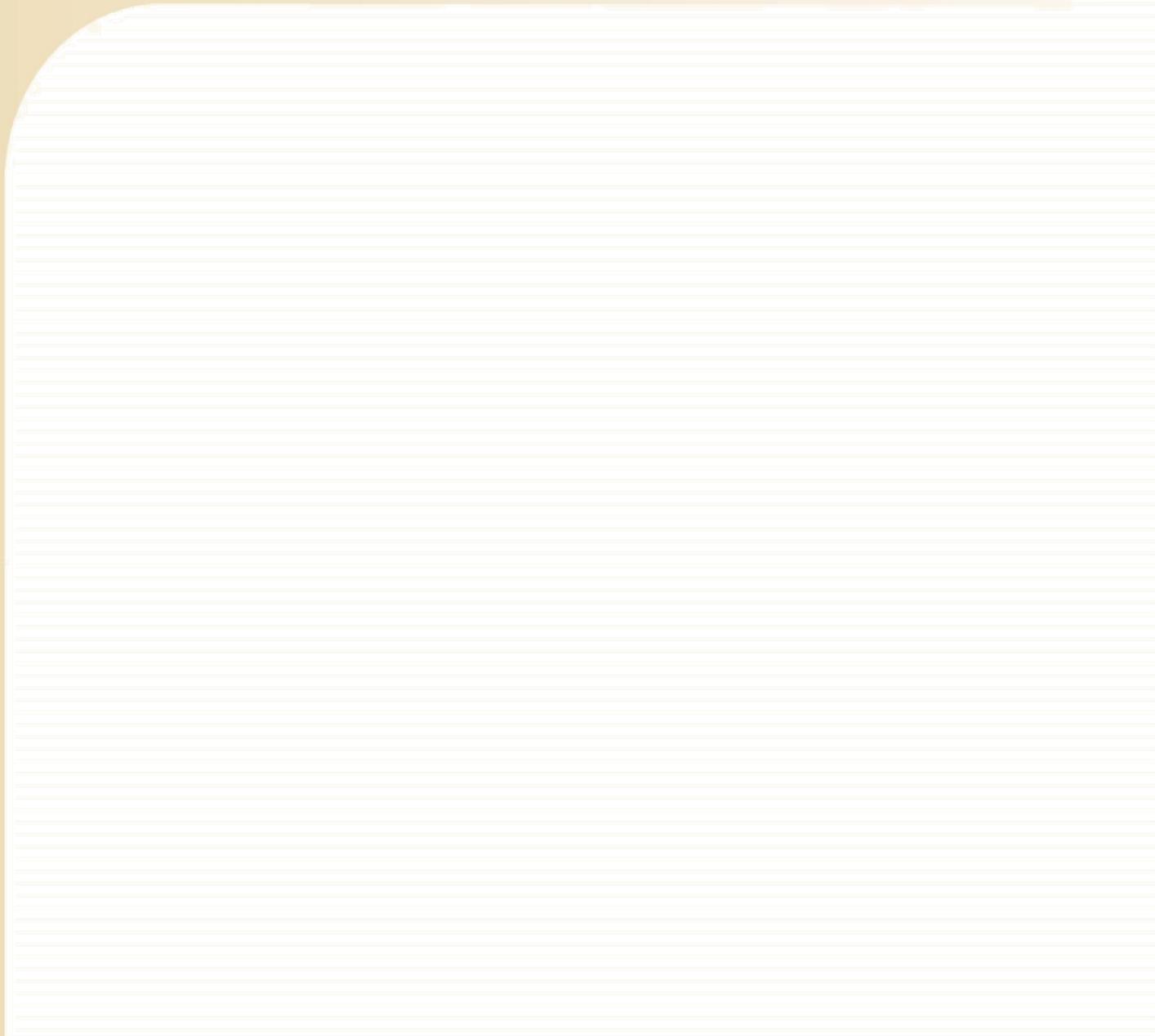
* Unless otherwise exempted

Annex B

Draft Amendments to the Securities and Futures (Licensing and Conduct of Business) Regulations

[DISCLAIMER: THIS VERSION OF THE AMENDMENTS IS IN DRAFT FORM AND SUBJECT TO CHANGE. IT IS ALSO SUBJECT TO REVIEW BY THE ATTORNEY-GENERAL'S CHAMBERS.]

[Link to draft SF\(LCB\) Regulations](#)



Monetary Authority of Singapore