

CONSULTATION PAPER

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Consultation on Execution of Customers' Orders

MAS

Monetary Authority of Singapore

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1 Preface

1.1 The Monetary Authority of Singapore ("MAS") is proposing to formalise expectations for holders of a capital markets services licence ("CMS licensees"), banks, merchant banks and finance companies to have in place policies and procedures to place and/or execute customers' orders on the best available terms (also known as "Best Execution") to support fair outcomes for customers. This is in tandem with MAS' earlier proposal¹ for a market operator to have in place measures to facilitate its members' execution of customers' orders in the customers' interests, and to ensure that its handling and execution of bids and offers is conducted on a fair and objective basis.

1.2 MAS also proposes an enhancement to the existing business conduct requirements, applicable to CMS licensees, banks, merchant banks and finance companies, relating to handling of customers' orders.

1.3 The proposed requirements are set out in Notice SFA02-NXX on Execution of Customers' Orders (the "Notice"), with further guidance provided in the guidelines to the Notice.

1.4 MAS invites comments from all financial institutions and other interested parties on the proposed Notice and guidelines.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.5 Please submit written comments by 18 December 2017 via email to cmi-reply@mas.gov.sg. We would appreciate that you use this [template](#) for your submission to ease our collation efforts.

2 Introduction

2.1 MAS expects all financial institutions conducting regulated activities under the Securities and Futures Act ("SFA") to conduct their activities fairly and act in the interests

¹As set out in Consultation Paper I on Draft Regulations pursuant to the Securities and Futures Act issued on 28 April 2017.

of their customers. This would encompass delivering the most favourable outcome for the customers who rely on the financial institutions to act in their interests. In this regard, many financial institutions already have established policies and procedures to ensure that they act in the interests of their customers.

2.2 To supplement existing conduct requirements on handling and execution of customers' orders and enhance investor protection, MAS proposes to require financial institutions to have in place measures to (a) consistently deliver Best Execution when placing and/or executing customers' orders and (b) handle comparable customers' orders in accordance with their time of receipt.

2.3 The proposals in this consultation paper are intended to be applied to CMS licensees, banks, merchant banks and finance companies that conduct the regulated activities of dealing in securities, trading in futures contracts, leveraged foreign exchange trading, fund management and/or real estate investment trust management under the SFA (collectively known as "Capital Markets Intermediaries").

3 Best Execution

3.1 To ensure that Capital Markets Intermediaries have in place adequate measures to achieve the best possible outcome for their customers, MAS proposes to introduce a requirement in the Notice for a Capital Markets Intermediary to establish and implement written policies and procedures to place and/or execute customers' orders on the best available terms.

3.2 To achieve the best available terms for customers' orders, a Capital Markets Intermediary should consider holistically different factors such as price, costs, speed, likelihood of execution and settlement, size and nature of the customer's order, where appropriate. The relative importance of the different factors should take into account the characteristics of the order, type of capital markets product as well as customer categorization. For example, the impact to the market which in turn affects the price at which a customer's order may be executed is more likely to be an important consideration in achieving Best Execution for a large order from an institutional customer, as compared to a retail customer's order.

3.3 The proposed Best Execution requirements are reflective of the current standard expected of managers of authorised funds when executing customers' orders. As the proposed Notice will apply to CMS licensees which include managers of authorised funds, paragraph 3.1(d) (*best execution*) in the Code on Collective Investment Schemes will be removed to eliminate duplication.

Scope of Best Execution Requirements

3.4 In general, the Best Execution policies and procedures should cover all customers' orders, regardless of the capacity which a Capital Markets Intermediary is acting in (i.e. whether as an agent or principal). Where a Capital Markets Intermediary places and/or executes an order following specific customer instructions, it would be regarded as having satisfied its Best Execution requirements in respect of the part or aspect of the order to which the customer instructions relate.

Monitoring of Best Execution Outcome

3.5 In addition to establishing and implementing Best Execution policies and procedures, MAS considers it important for a Capital Markets Intermediary to monitor the effectiveness of its Best Execution policies and procedures. A Capital Markets Intermediary should put in place a monitoring framework, commensurate with its size and complexity of operations, which can demonstrate that its Best Execution arrangements are sufficient to achieve the best available terms for its customers on a consistent basis.

3.6 Further guidance on the Best Execution requirements, as elaborated in paragraphs 3.2 to 3.5, is set out in the draft guidelines to the Notice in Annex 2.

Disclosure to Customers

3.7 To promote transparency and facilitate customers in making informed decisions on trading services, a Capital Markets Intermediary should provide adequate disclosure to customers on its Best Execution policy. A Capital Market Intermediary could consider including information, for example, on the relative importance of factors of consideration in its placement and/or execution of customers' orders for each class of capital markets products. Such information should be presented to customers in a clear and easily understood manner.

Question 1. MAS seeks comments on the Best Execution requirements in the draft Notice and the draft guidelines to the Notice, set out in Annex 1 and 2.

4 Handling of Comparable Customers' Orders

4.1 A Capital Markets Intermediary should accord fair treatment to all customers' orders. In order to achieve this, a Capital Markets Intermediary should not only prioritize customers' orders over its own orders, which is already required under Regulation 44 of the Securities and Futures (Licensing and Conduct of Business) Regulations, but should also handle comparable customers' orders in accordance with the time of receipt of such orders. MAS thus proposes to include a requirement in the Notice for a Capital Markets Intermediary to establish and implement written policies and procedures to place and/or execute comparable customers' orders (e.g. in terms of order size) in accordance with the time of receipt of such orders.

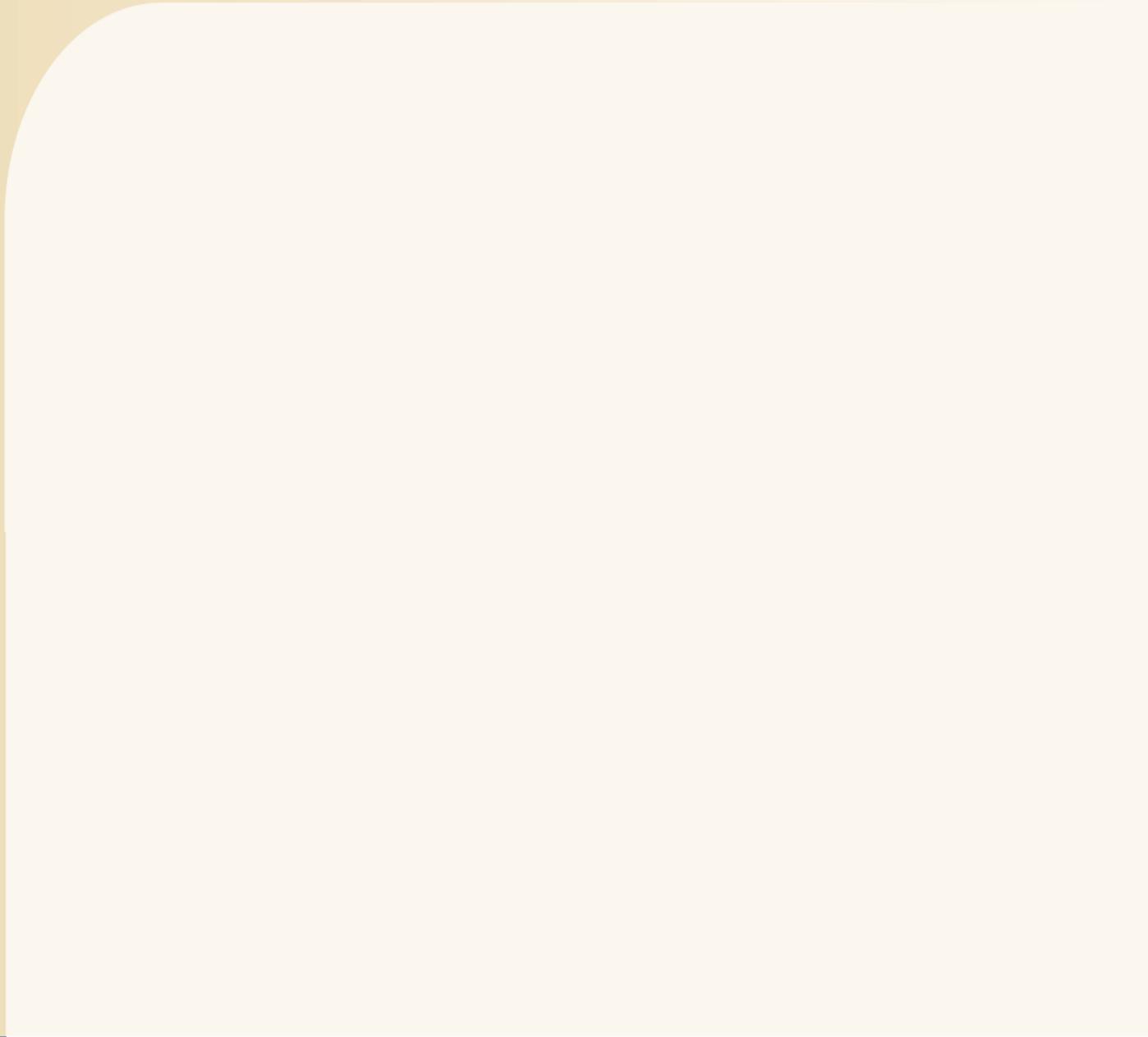
Question 2. MAS seeks comments on the handling of comparable customers' orders requirement set out in the draft Notice.

ANNEX A

LIST OF QUESTIONS

Question 1. MAS seeks comments on the Best Execution requirements in the draft Notice and the draft guidelines to the Notice, set out in Annex 1 and 2. 5

Question 2. MAS seeks comments on the handling of comparable customers' orders requirement set out in the draft Notice. 6



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