



Monetary Authority of Singapore

**PRACTICE NOTE ON THE SALE OF INVESTMENT
PRODUCTS**

Practice Note No : SFA PN-01
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PRACTICE NOTE ON THE SALE OF INVESTMENT PRODUCTS

Purpose

1 This Practice Note is issued pursuant to section 321 of the Securities and Futures Act (Cap. 289) [“SFA”] to provide guidance to licensed persons or exempt financial institutions, as well as their representatives, who carry on the regulated activity of dealing in securities, trading in futures contracts, leveraged foreign exchange trading, or any combination of these regulated activities in respect of dealing in Specified Investment Products for a customer who is an individual and who is not an accredited investor, institutional investor or expert investor (referred to in this Practice Note as “Customer”).

2 This Practice Note is to be read in conjunction with the provisions of the Notice on the Sale of Investment Products [SFA04-N12] [“the Notice”] and is not intended to override or to replace any provisions in the Notice. In this regard, representatives of a licensed person or an exempt financial institution are reminded that unless otherwise specified, a representative shall comply with any requirement imposed on a licensed person or an exempt financial institution when acting on its behalf, as stated in paragraph 5 of the Notice. The expressions used in this Practice Note shall, except where expressly defined in this Practice Note or where the context otherwise requires, have the same respective meanings as in the Notice.

Customer Account Review

Information on Customers’ Particulars

3 For the purpose of conducting the Customer Account Review as required under paragraphs 6 and 7 of the Notice, a licensed person or an exempt financial institution should not rely solely on a Customer’s declaration that the Customer possesses the relevant knowledge or experience in derivatives. The licensed person or exempt financial institution should make appropriate enquiries with the Customer to gather relevant information relating but not limited to the Customer’s educational qualifications,

investment experience and working experience. In this regard, the licensed person or exempt financial institution should maintain documentation of the information collected and assessment concluded.

4 For the purposes of paragraph 2 of Annex 2 of the Notice and subject to paragraph 5 of this Practice Note, a Customer may be deemed to possess knowledge to transact in a Specified Investment Product that is listed for quotation or quoted on a securities market or a futures market if the Customer is able to demonstrate sufficient understanding of the features and risks of derivatives by passing the assessment provided at the end of the SGX Online Education on Specified Investment Products, being a learning module provided by the Singapore Exchange Limited (referred to in this Practice Note as “SGX learning module”).

[Amended on 11 December 2012]

5 Where a Customer has passed the assessment at the end of the SGX learning module and intends to proceed to open a Specified Investment Product trading account, the licensed person or exempt financial institution concerned should not deem the Customer as possessing knowledge or experience in derivatives unless the licensed person or exempt financial institution has obtained and considered:

- (a) the Customer’s acknowledgement that the Customer has personally undergone and passed the assessment at the end of the SGX learning module;
- (b) the previous score(s) of every assessment at the end of the SGX learning module taken by the Customer, if any; and
- (c) information relating to the number of times the Customer has been refused the opening of a Specified Investment Product trading account by another licensed person or exempt financial institution.

6 Notwithstanding that a licensed person or an exempt financial institution has opened a Specified Investment Product trading account for a Customer, the licensed person or exempt financial institution should continue to provide product-specific information and investor education to the Customer to facilitate his understanding of the features and risks particular to a

Specified Investment Product that is listed for quotation or quoted on a securities market or a futures market operated by an approved exchange.

[Amended on 11 December 2012]

Additional Safeguards in respect of a Customer Assessed Not to Possess Knowledge or Experience in Derivatives

7 Where a licensed person or an exempt financial institution intends to proceed to open a Specified Investment Product trading account for a Customer referred to in paragraph 11 of the Notice, in accordance with paragraphs 12 to 14 of the Notice, the licensed person or the exempt financial institution should impose additional safeguards to ensure that the Customer understands the features and risks of the listed Specified Investment Product that he intends to transact in. Such additional safeguards include but are not limited to:

- (a) in respect of opening the Specified Investment Product trading account for the Customer, imposing a trading limit that is lower than the limit that the licensed person or exempt financial institution would otherwise impose on the same Customer based on his creditworthiness for the licensed person's or exempt financial institution's own credit and risk management purposes; and
- (b) obtaining the Customer's confirmation that he was assessed not to have the relevant knowledge or experience in derivatives and that he is responsible to ensure that he understands the features and risks of the listed Specified Investment Product that he intends to transact in. Such confirmation with the Customer should be obtained and documented each time the Customer transacts in listed Specified Investment Products until the Customer has transacted the requisite number of times in listed Specified Investment Products to be assessed as having the relevant knowledge or experience in derivatives under the Customer Account Review.

[Amended on 11 December 2012]

8 Where such confirmation referred to in paragraph 7(b) of this Practice Note is obtained via telephone, the licensed person or exempt financial

institution should maintain a record in the form of a file note or a tape recording of the telephone conversation.

Policies and Procedures

9 MAS expects all licensed persons and exempt financial institutions to put in place formal policies and procedures governing the opening of a Specified Investment Product trading account for a Customer. The policies and procedures should, at a minimum, contain and satisfy the requirements as set out in the Notice.

[Amended on 11 December 2012]

Customer Knowledge Assessment

Information on Customers' Particulars

10 For the purpose of conducting the Customer Knowledge Assessment as required under paragraphs 18 and 19 of the Notice, a licensed person or an exempt financial institution should not rely solely on a Customer's declaration that the Customer possesses the relevant knowledge or experience in unlisted Specified Investment Products. The licensed person or exempt financial institution should make appropriate enquiries with the Customer to gather relevant information relating but not limited to the Customer's educational qualifications, investment experience and working experience. In this regard, the licensed person or exempt financial institution should maintain documentation of the information collected and assessment concluded.

Grants of Unlisted Specified Investment Products – Employee Benefit Programme

11 For the avoidance of doubt, the requirement to conduct a Customer Knowledge Assessment under the Notice does not apply to a licensed person or an exempt financial institution where the licensed person or exempt financial institution grants an unlisted Specified Investment Product to any of its employees as part of an employee benefit programme and each of the benefited employee does not exercise investment discretion over the type of unlisted Specified Investment Product granted by the licensed person or exempt financial institution.

Additional Safeguards in respect of a Customer Assessed Not to Possess Knowledge or Experience in Unlisted Specified Investment Products

12 Where a licensed person or an exempt financial institution intends to allow its Customer, as referred to in paragraph 23 of the Notice and in accordance with paragraph 24 of the Notice, to proceed to transact in the unlisted Specified Investment Product, the licensed person or the exempt financial institution should impose additional safeguards to ensure that the Customer understands the features and risks of the unlisted Specified Investment Product that he intends to transact in. Such additional safeguards include but are not limited to where the Customer has to open a trading account to transact in the unlisted Specified Investment Product, imposing a trading limit that is lower than the limit that the licensed person or exempt financial institution would otherwise impose on the same Customer based on his creditworthiness for the licensed person's or exempt financial institution's own credit and risk management purposes.

[Amended on 11 December 2012]

Validity of the Outcome of Customer Knowledge Assessment

13 For the purpose of paragraph 26 of the Notice, the Customer Knowledge Assessment should also be conducted by the licensed person or exempt financial institution on the Customer in respect of the Customer's rollover transactions, the opening of a Regular Savings Plan, or when a new listed Specified Investment Product is selected for a Regular Savings Plan. For the avoidance of doubt, "transaction" referred to in this paragraph shall not have a corresponding meaning to the term "transact" as defined in paragraph 4A of the Notice.

[Amended on 11 December 2012]

Policies and Procedures

14 MAS expects all licensed persons and exempt financial institutions to put in place formal policies and procedures governing their sale of unlisted Specified Investment Products to a Customer. The policies and procedures should, at a minimum, contain and satisfy the requirements set out in the Notice.