

**FIRST DRAFT AMENDMENTS TO THE  
FINANCIAL ADVISERS REGULATIONS**

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**No. S 166**

**FINANCIAL ADVISERS ACT  
(CHAPTER 110)**

**FINANCIAL ADVISERS  
(AMENDMENT NO. 1) REGULATIONS 2015**

In exercise of the powers conferred by sections 9, 23 and 104 of the Financial Advisers Act, the Monetary Authority of Singapore hereby makes the following Regulations:

**Citation and commencement**

**1.** These Regulations may be cited as the Financial Advisers (Amendment No. 1) Regulations 2015 and shall come into operation on [effective date of legislation].

**Amendment of regulation 2**

**2.** Regulation 2 of the Financial Advisers Regulations (Rg 2) (referred to in these Regulations as the principal Regulations) is amended—

(1) by inserting, immediately after the definition “accredited investor” in paragraph (1) of the regulation, the following definition:

“ “adjusted net head office funds”, in relation to the licensed financial adviser, means its net head office funds after deducting the applicable items specified in —

- (a) an MAS notice that applies to the licensed financial adviser; and
- (b) if a notice referred to in regulation 16A is given to the licensed financial adviser, that notice;”;

(2) by inserting, immediately after the definition “advertisement” in paragraph (1) of the regulation, the following definition:

“ “base capital” in relation to an applicant for grant of a financial adviser’s licence or a licensed financial adviser, means the sum of—

- (a) the following items in the latest account of the applicant or the licensed financial adviser (as the case may be):
  - (i) paid-up ordinary share capital; and
  - (ii) paid-up irredeemable and non-cumulative preference share capital; and
- (b) any unappropriated profit or loss in the latest audited accounts of the applicant or the licensed financial adviser (as the case may be),

less any interim loss in the latest accounts of the applicant or the licensed financial adviser (as the case may be) and any dividend that has been declared since the latest audited accounts of the applicant or the licensed financial adviser (as the case may be);”;

- (3) by inserting, immediately after the definition “expert investor” in paragraph (1) of the regulation, the following definition:

“ “financial resources” has the meaning given to that expression in regulation 16;”;

- (4) by inserting, immediately after the definition “institutional investor” in paragraph (1) of the regulation, the following definitions:

“ “irredeemable and non-cumulative preference share capital” means preference share capital consisting of preference shares that satisfy all of the following requirements:

- (a) the principal of the shares is perpetual;
- (b) the shares are not callable at the initiative of the issuer of the shares or the shareholders, and the principal of the shares is never repaid outside of liquidation of the issuer, except in the case of a repurchase or other manner of reduction of share capital that is initiated by the issuer and permitted under written law; and
- (c) the issuer has full discretion to cancel dividend payments, and —
  - (i) the cancellation of dividend payments is not an event of default of the issuer under any agreement;
  - (ii) the issuer has full access to cancelled dividend payments to meet its obligations as they fall due; and
  - (iii) the cancellation of dividend payments does not result in any restriction being imposed on the issuer under any agreement,

except in relation to dividend payments to ordinary shareholders;

“MAS notice” means a notice issued by the Authority under regulation 2A;”;

- (5) by deleting the definition of “net asset value” in paragraph (1) of the regulation;
- (6) by inserting, immediately before the definition “Registered Fund Management Company” in paragraph (1) of the regulation, the following definition:

“ “qualifying subordinated loan” means a subordinated loan the terms of which are evidenced by a subordinated loan agreement between the licensed financial adviser concerned and a lender (referred to in this definition as the subordinated creditor) which expressly provides all of the following:

- (a) the subordinated loan has not less than 2 years to maturity at the time the loan is first drawn down;
- (b) that the subordinated creditor shall not claim or receive from the licensed financial adviser, by way of set-off or in any other manner, any subordinated loan repayment until after every senior debt has been paid or unless the licensed financial adviser has obtained the prior written approval of the Authority;
- (c) that the claims of the subordinated creditor are fully subordinated to the claims of all senior creditors;
- (d) an option for the licensed financial adviser to defer interest payment on the principal amount of the subordinated loan;
- (e) that the subordinated loan shall automatically be converted into capital to provide a cushion for losses to creditors if an appropriate reconstruction of the capital of the licensed financial adviser which is acceptable to the Authority has not been undertaken;
- (f) that, in the event of any payment or distribution of assets of the licensed financial adviser, whether in cash, in kind or in securities (referred to in this definition as a distribution), upon any dissolution, winding-up, liquidation or reorganisation of the licensed financial adviser —
  - (i) the senior creditors shall first be entitled to receive payment in full of the senior debts before the subordinated creditor

- receives any payment in respect of the subordinated debt;  
and
- (ii) any distribution to which the subordinated creditor would be entitled but for the provisions of the subordinated loan agreement shall be made by the liquidator, Official Assignee in bankruptcy or any other person making the distribution directly to the senior creditors rateably according to their senior debts until they have been paid in full (taking into account other distributions to the senior creditors);
- (g) a term that if, notwithstanding sub-paragraphs (b) to (f), any distribution is received by the subordinated creditor in respect of the subordinated debt, the distribution shall be paid over to the senior creditors for application rateably according to their senior debts until they have been paid in full (taking into account other distributions to the senior creditors) and, until such payment has been made in full, the distribution shall be held in trust for the senior creditors; and
  - (h) that no subordinated creditor may demand the early or accelerated repayment of the subordinated loan;
  - (i) that the subordinated loan agreement is not subject to any cross-default or negative pledge; and
  - (j) such other criteria as may be specified in or imposed by —
    - (i) an MAS notice applicable to the licensed financial adviser; and
    - (ii) any notice given to the licensed financial adviser by the Authority;”;
- (7) by deleting the word “.” at the end of the definition of “Registered Fund Management Company” in paragraph (1) of the regulation, and substituting with the word “;”;
- (8) by inserting, immediately after the definition “Registered Fund Management Company” in paragraph (1) of the regulation, the following definition:
- “ “senior creditor”, in relation to a qualifying subordinated loan, means a creditor to whom a senior debt is owed;
- “senior debt”, in relation to a qualifying subordinated loan, means a debt of the licensed financial adviser concerned that is outstanding at any time

during the period in which the qualifying subordinated loan is outstanding.”;  
and

- (9) by deleting paragraph (2) of the regulation.

#### **New regulation 2A**

3. The principal Regulations are amended by inserting, immediately after regulation 2, the following regulation:

##### **“MAS notices**

2A. The Authority may from time to time issue notices for the purposes of these Regulations, which shall be published on the Authority’s Internet website at <http://www.mas.gov.sg> (under “Regulations and Financial Stability”, “Regulations, Guidance and Licensing”, “Financial Advisers”).”.

#### **Deletion and substitution of regulation 15**

4. Regulation 15 of the principal Regulations is deleted and the following regulations substituted therefor:

##### **“Minimum financial requirements for grant of financial adviser’s licence**

15.—(1) For the purposes of section 9(1)(b) of the Act and subject to paragraph (2), the applicant shall meet the following minimum financial requirements for the grant of a financial adviser’s licence:

- (a) in the case of an applicant which intends to carry on a business of providing the financial advisory service of advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning any investment product –
  - (i) where the applicant is incorporated in Singapore, its base capital is not less than \$250,000; or
  - (ii) where the applicant is a foreign company, its net head office funds are not less than \$250,000;
- (b) in any other case, where the applicant is incorporated in Singapore, its base capital is or, where the applicant is a foreign company, its net head office funds, are not less than:

- (i) \$500,000; or
- (ii) \$300,000, subject to the condition that the applicant has in effect a professional indemnity insurance policy –
  - (A) which is in addition to the professional indemnity insurance policy required under regulation 17;
  - (B) which covers a limit of indemnity of an amount not less than \$500,000; and
  - (C) the amount of deductible allowed does not exceed 10% of the applicant's base capital.

(2) The Authority may vary the minimum financial requirements applicable to the applicant for the grant of a financial adviser's licence, by notice in writing, if the Authority considers it appropriate to do so in the circumstances of the case.

**Where base capital or net head office funds of licensed financial adviser falls below minimum financial requirements**

**15A.—** (1) A licensed financial adviser shall not cause or permit –

- (a) where it is incorporated in Singapore, its base capital; or
- (b) where it is a foreign company, its net head office funds,

to fall below the minimum financial requirements required under regulation 15, paragraph (2) or paragraph (3), as the case may be.

(2) If a licensed financial adviser, at any time during the currency of its licence, intends to commence or cease business in the provision of any financial advisory service, or change the scope of its business in the provision of any financial advisory service, such that a different minimum financial requirement shall apply to it, it shall obtain the prior written approval of the Authority to comply with the new minimum financial requirement applicable to it.

(3) The Authority may vary the minimum financial requirements applicable to a licensed financial adviser, at any time during the currency of its licence, by notice in writing, if the Authority considers it appropriate to do so in the circumstances of the case.

(4) If a licensed financial adviser fails to comply with paragraph (1) or

becomes aware that it will fail to comply with that paragraph, the licensed financial adviser shall immediately notify the Authority.

(5) If the Authority is notified by a licensed financial adviser under paragraph (4) or becomes aware that the licensed financial adviser has failed to comply with paragraph (1), the Authority may —

- (a) direct the licensed financial adviser to immediately do one or more of the following –
  - (i) operate its business in such manner and on such conditions as the Authority may impose; or
  - (ii) cease carrying on business in the provision of any or all of the financial advisory services authorised under its licence until such time the licensed financial adviser complies with paragraph (1); or
- (b) revoke the licence of the licensed financial adviser under section 19(2) of the Act.”.

### **Deletion and substitution of regulation 16**

5. Regulation 16 of the principal Regulations is deleted and the following regulations substituted therefor:

#### **“Financial resources**

**16.**—(1) For the purposes of regulations 16A to 16D, a reference to the financial resources of a licensed financial adviser is a reference to the sum of the following items in the latest available accounts of a licensed financial adviser, after deducting from those items such other items as may be specified in the MAS notice that applies to the licensed financial adviser and, if a notice referred to in regulation 16A is given to the licensed financial adviser, in that notice:

- (a) base capital;
- (b) paid-up irredeemable and cumulative preference share capital;
- (c) paid-up redeemable preference share capital;
- (d) revaluation reserves;
- (e) other reserves;
- (f) interim unappropriated profit; and
- (g) collective impairment allowances.



(2) Without prejudice to the definition of any of those items in regulation 2(1), the items in paragraph (1)(a) to (g) are those items in the latest available accounts of a licensed financial adviser that meet such criteria as may be specified in the MAS notice that applies to the licensed financial adviser.

(3) For the purposes of regulations 16A to 16D, if the sum of the items in paragraphs (1)(b) and 1(c) is more than the item in paragraph (1)(a), the excess amount shall be disregarded in determining the financial resources of the licensed financial adviser.

(4) Notwithstanding paragraphs (1) and (3) and subject to paragraph (5), the total of –

- (a) the excess amount referred to in paragraph (3); and
- (b) the amounts of all qualifying subordinated loans of the licensed financial adviser that remain outstanding during a temporary period,

(referred to in this regulation as the “total amount”) may be included in the financial resources of the licensed financial adviser for that temporary period for any purpose under regulations 16A to 16D, if (and only if) —

- (i) each temporary period in which the inclusion is made, and the aggregate of all the temporary periods in each calendar year in which the inclusion is made, do not exceed 90 days; and
- (ii) immediately after the inclusion, the licensed financial adviser notifies the Authority of that fact.

(5) For the purposes of paragraph (4), where the total amount exceeds the amount of the item in paragraph (1)(a), the total amount shall be deemed to be the amount of the item in paragraph (1)(a).

#### **Variation of adjusted net head office funds or financial resources**

**16A.** The Authority may, for the purpose of addressing the risks applicable to a particular licensed financial adviser, by notice in writing to the licensed financial adviser —

- (a) specify items to be deducted from the items referred to in regulation 16(1)(a) to (g) that are additional to those set out in the MAS notice applicable to the licensed financial adviser; or

- (b) specify items to be deducted from the adjusted net head office funds of the licensed financial adviser that are additional to those set out in the MAS notice applicable to the licensed financial adviser.

**Written directions to maintain financial resources in Singapore**

**16B.**—(1) The Authority may, from time to time, issue written directions to any licensed financial adviser or class of such licensed financial advisers, to require the licensed financial adviser or each licensed financial adviser of that class to maintain and hold such of its financial resources as the written direction may specify in Singapore, and the licensed financial adviser shall comply with such written direction.

(2) The written direction referred to in paragraph (1) may specify, in respect of the financial resources of any licensed financial adviser or class of licensed financial advisers —

- (a) the items that are to be maintained and held in Singapore;
- (b) the minimum value of any such items to be maintained and held in Singapore; and
- (c) the method of valuation of such items maintained and held in Singapore, including any deductions to be made in respect of those items.

**Financial resources or adjusted net head office funds of licensed financial adviser not to fall below continuing financial requirements**

**16C.**—(1) For the purposes of section 9(1)(b) of the Act, a licensed financial adviser —

- (a) which is incorporated in Singapore shall at all times maintain financial resources of not less than —
  - (i) in the case where it does not have an immediately preceding financial year, \$150,000; and
  - (ii) in any other case —
    - (A) one-quarter of its relevant annual expenditure of the immediately preceding financial year; or
    - (B) \$150,000,
 whichever is the higher; and

- (b) which is a foreign company shall at all times maintain adjusted net head office funds of not less than —
  - (i) in the case where it does not have an immediately preceding financial year, \$150,000; and
  - (ii) in any other case —
    - (A) one-quarter of its relevant annual expenditure of the immediately preceding financial year; or
    - (B) \$150,000,whichever is the higher.

(2) For the purposes of paragraphs (1), the relevant annual expenditure of a licensed financial adviser for the immediately preceding financial year means the total expenditure of the financial adviser for that year less the following —

- (a) staff bonuses (except to the extent that they are guaranteed);
- (b) employees' and directors' shares in profits (except to the extent that they are guaranteed);
- (c) any commission or fee paid to its representatives which is directly related to the commission or fee received by the licensed financial adviser.

(3) Every licensed financial adviser shall compute its financial resources in accordance with regulation 16 or adjusted net head office funds, as the case may be, in accordance with the MAS notice that applies to him, any notice referred to in regulation 16A given to the licensed financial adviser, or both (whichever is applicable) —

- (a) at such time and frequency as may be specified by the Authority by notice in writing; or
- (b) where the Authority does not so specify, at such time and frequency as may be necessary for determining whether at any time its financial resources or adjusted net head office funds (as the case may be) fall below its continuing financial requirements as set out in paragraph (1).

(4) If a licensed financial adviser fails to comply with paragraph (1) or (3) or becomes aware that it will fail to comply with that paragraph, the licensed financial adviser shall immediately notify the Authority.

(5) If the Authority is notified by the licensed financial adviser under paragraph (4) or becomes aware that the licensed financial adviser has failed to comply with paragraph (1) or (3) the Authority may revoke its licence under section 19 (2) of the Act.

**Where financial resources or adjusted net head office funds of licensed financial adviser fall below 120% of continuing financial requirements**

**16D.**—(1) A licensed financial adviser shall immediately notify the Authority, if —

- (a) in the case where the licensed financial adviser is incorporated in Singapore, its financial resources; or
- (b) in the case where the licensed financial adviser is a foreign company, its adjusted net head office funds,

fall below 120% of its continuing financial requirements.

(2) If the Authority is notified by the licensed financial adviser under paragraph (1) or becomes aware that the financial resources or adjusted net head office funds (as the case may be) of the licensed financial adviser have fallen below 120% of its continuing financial requirements, the Authority may —

- (a) direct the licensed financial adviser to immediately do one or more of the following:
  - (i) operate its business in such manner and on such conditions as the Authority may impose;
  - (ii) cease carrying on business in the provision of any or all of the financial advisory services authorised under its licence until such time that the licensed financial adviser has demonstrated that its financial resources or adjusted net head office funds (as the case may be) are not less than 120% of the continuing financial requirements of the financial adviser; or
- (b) revoke its licence under section 19(2) of the Act.”.

### **Deletion and substitution of regulation 17**

6. Regulation 17 of the principal Regulations is deleted and the following regulation substituted therefor:

#### **“Professional indemnity insurance**

17. – (1) For the purposes of section 9(1)(c) of the Act and subject to paragraph (3), the applicant which intends to carry on a business of providing any or all types of financial advisory services to a client who is not an accredited investor, an expert investor or an institutional investor, shall have in force a professional indemnity insurance policy which –

- (a) limit of indemnity to be covered is not less than the minimum professional indemnity insurance coverage requirements; and
- (b) amount of deductible is not more than the maximum professional indemnity insurance deductible requirements,

applicable to the applicant under the Fourth Schedule in respect of all types of financial advisory service to be provided or provided by the applicant for the grant of a financial adviser’s licence.

(2) The licensed financial adviser shall not, during the currency of its licence cause or permit the limit of indemnity to be covered and amount of deductible to be allowed under the professional indemnity insurance policy to fall below the minimum professional indemnity insurance coverage requirements and to be more than the maximum professional indemnity insurance deductible requirements applicable under paragraph (1) respectively.

(3) The Authority may vary the minimum professional indemnity insurance coverage requirements or maximum professional indemnity insurance deductible requirements, or both, as the case may be, applicable to the applicant or licensed financial adviser at any time during the currency of its licence, by notice in writing, if the Authority considers it appropriate to do so in the circumstances of the case.”.

### **Amendment of regulation 31**

7. Regulation 31 of the principal Regulations is amended –

- (1) by deleting the word “and” in paragraph (1)(a)(iii);

- (2) by deleting paragraph (1)(a)(iv) and substituting with the following sub-paragraphs –
- “(iv) where the introducer or any of its representatives is or will be remunerated by one or more introducees, the amount and basis of remuneration –
- (A) if the client is a retail client; and
  - (B) in any other case, if so requested by the client; and”
- “(v) whether the introducer, or any of its directors or shareholders is a substantial shareholder of the introducee, or whether the introducer has any other relationship with the introducee or any of its representatives;”;
- (3) by deleting paragraph (1)(c) and substituting the following paragraph–
- “(c) the introducer shall not —
- (i) receive or deal with client’s money or property; and
  - (ii) provide the client with any information other than the information referred to in paragraph (1)(a), in relation to the introducing activities; and”;

(4) by deleting the word “and” in paragraph (2)(a)(iv);

(5) by deleting paragraph (2)(a)(v) and substituting with the following sub-paragraphs –

“(v) where he or the introducer is or will be remunerated by one or more introducees, the amount and basis of remuneration –

    - (A) if the client is a retail client; and
    - (B) in any other case, if so requested by the client; and”

“(vi) whether he or the introducer, or any of the introducer’s directors or shareholders, is a substantial shareholder of the introducee, or whether he or the introducer has any other relationship with the introducee or any of its representatives;”;

(6) by deleting paragraph (2)(c) and substituting the following sub-paragraph –

“(c) shall not —

    - (i) receive or deal with client’s money or property; and
    - (ii) provide the client with any information other than the information referred to in paragraph (2)(a), in relation to the introducing activities.”;

- (7) by inserting, immediately after the words “section 23B(1)” in paragraph (3)(a), the words “of the Act”;
- (8) by deleting the word “and” in paragraph (3)(i)(C);
- (9) by deleting paragraph (3)(i)(D) and substituting with the following paragraphs –  
“(D) where he is or will be remunerated by one or more introducees, the amount and basis of remuneration –  
    (DA) if the client is a retail client; and  
    (DB) in any other case, if so requested by the client; and”  
  
“(E) whether he is a substantial shareholder of the introducee or whether he has any other relationship with the introducee or any of its representatives;”
- (10) by deleting paragraph (3)(iii) and substituting with the following subparagraph –  
“(iii) the individual shall not —  
    (A) receive or deal with client’s money or property; and  
    (B) provide the client with any information other than the information referred to in paragraph (3)(c)(i),  
    in relation to introducing activities.”;
- (11) by deleting the word “A” in paragraph (4) and substituting with the words “Subject to paragraph (4A), a”;
- (12) by inserting, immediately after paragraph (4), the following paragraph –  
  
“(4A) Paragraph (4) shall not apply to a licensed financial adviser who provides the same type of financial advisory service in respect of the same investment product or type of investment product as the introducee to whom the licensed financial adviser intends to introduce or introduces any retail client, unless –  
    (a) the introduction is done pursuant to an express request by the retail client for information in respect of the same investment product or type of investment product; and  
    (b) the licensed financial adviser has not made any reference to the same investment product or type of investment product to the retail client before the retail client’s express request.”;

(13) by deleting paragraphs (5) and (6) and substituting with the following –

“(5) An appointed or a provisional representative of a licensed financial adviser referred to in paragraph (4) shall be exempt from complying with sections 25, 27 and 36 of the Act in respect of all introducing activities he carries out on behalf of the financial adviser–

(a) in a case where he acts for the financial adviser when the financial adviser is carrying out introducing activities on its own behalf, subject to –

(i) the conditions specified in paragraph (2)(a) (i), (iii), (iv), (v) and (vii) and (c) which shall apply as if every reference in those conditions to the introducer were a reference to the financial adviser and every reference to “by one or more introducees” were deleted; and

(ii) the condition that, when carrying out introducing activities, he discloses to every client whether he is a substantial shareholder of the financial adviser, or whether he has any other relationship (other than as an appointed or provisional representative) with the financial adviser; and

(b) in a case where he acts for the financial adviser when the financial adviser is carrying out introducing activities for one or more introducees, subject to the conditions specified in paragraph (2) (a), (b) and (c) which shall apply as if every reference in those conditions to the introducer were a reference to the financial adviser.

(6) An employee of a licensed financial adviser referred to in paragraph (4) (not being an appointed or a provisional representative) shall be exempt from section 23B(1) of the Act in respect of all introducing activities he carries out on behalf of the financial adviser –

(a) in a case where he acts for the financial adviser when the financial adviser is carrying out introducing activities on its own behalf, subject to –

(i) the conditions specified in paragraph (2)(a) (i), (iii), (iv), (v) and (vii) and (c) which shall apply as if every reference in those conditions to introducer were a reference to the financial adviser and every reference to “by one or more introducees” were deleted; and



- (ii) the condition that, when carrying out introducing activities, he discloses to every client whether he is a substantial shareholder of the financial adviser, or whether he has any other relationship (other than as employee) with the financial adviser; and
  - (b) in a case where he acts for the financial adviser when the financial adviser is carrying out introducing activities for one or more introducees, subject to the conditions specified in paragraph (2) (a), (b) and (c) which shall apply as if every reference in those conditions to introducer were a reference to the financial adviser.”;
- (14) by deleting the word “A” and substituting with the words “Subject to paragraph (7A), a” in paragraph (7);
- (15) by inserting, immediately after paragraph (7), the following paragraph –
- “(7A) Paragraph (7) shall not apply to a person exempt from holding a financial adviser’s licence under section 23 (1) (a), (b), (c), (d) or (e) of the Act who provides the same type of financial advisory service in respect of the same investment product or type of investment product as the introducee to whom the licensed financial adviser intends to introduce or introduces any retail client, unless –
- (a) the introduction is done pursuant to an express request by the retail client for information in respect of the same investment product or type of investment product; and
  - (b) the person has not made any reference to the same investment product or type of investment product to the retail client before the retail client’s express request.”;
- (16) by deleting paragraph 8 and substituting with the following paragraph –
- “(8) A representative (other than a teller referred to in paragraph (8A)) of a person referred to in paragraph (7) shall be exempt from complying with sections 25, 27 and 36 of the Act in respect of all introducing activities he carries out on behalf of the person –
- (a) in a case where he acts for the person when the person is carrying out introducing activities on its own behalf, subject to –
    - (i) the conditions specified in paragraph (2) (a)(i), (iii), (iv), (v) and (vii) and (c) which shall apply as if every reference in those conditions to the introducer were a reference to the

- person and every reference to “by one or more introducees” were deleted; and
- (ii) the condition that, when carrying out introducing activities, he discloses to every client whether he is a substantial shareholder of the person, or whether he has any other relationship with the person; and
- (b) in a case where he acts for the person when the person is carrying out introducing activities for one or more introducees, subject to the conditions specified in paragraph (2)(a), (b) and (c) which shall apply as if every reference in those conditions to the introducer were a reference to the person.”;
- (17) by deleting the words “holding a representative’s licence” and substituting with the words “being notified as a representative under section 23B(1) of the Act” in paragraph (8A);
- (18) by deleting the words “paragraph (2)(a)(i) and (iii)” and substituting with the words “paragraph (2)(a)(i), (iii), (vi) and (vii)” in paragraph (8A)(c);
- (19) by deleting the words “paragraph (2)(a)(i), (ii) and (iii)” and substituting with the words “paragraph (2)(a)(i), (ii), (iii), (vi) and (vii)” in paragraph (8A)(d);
- (20) by inserting, immediately after paragraph (8A), the following paragraph –  
“(8B) An appointed or a provisional representative of 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, shall not enter into any arrangement with any introducer to carry out introducing activities.”;
- (21) by deleting the words “paragraph (1), (2) or (3)” and substituting with the words “paragraph (8B)” in paragraph (9);
- (22) by deleting sub-paragraph (b) of the definition of “introducing activity” in paragraph (12) and inserting the following sub-paragraph:  
“(b) the activity referred to in sub-paragraph (a) and recording the particulars of any client and forwarding such particulars to an introducee with the client’s consent,  
and “introduce” shall be construed accordingly;”;

(23) by inserting, immediately after the definition of “introducing activity”, the following definition:

““retail client” means a client or prospective client who is not an accredited investor, an expert investor or an institutional investor;”.

#### **New Fourth Schedule**

8. The principal Regulations are amended by inserting, immediately after the Third Schedule, the following schedule –

Regulation 17

**“FOURTH SCHEDULE**  
**MINIMUM PROFESSIONAL INDEMNITY INSURANCE COVERAGE**  
**REQUIREMENTS AND MAXIMUM PROFESSIONAL INDEMNITY**  
**INSURANCE DEDUCTIBLE REQUIREMENTS FOR AN APPLICANT FOR**  
**GRANT OF A FINANCIAL ADVISER LICENCE OR A LICENSED**  
**FINANCIAL ADVISER**

1. Subject to paragraph 2, the minimum professional indemnity insurance coverage requirement applicable to an applicant to be granted a financial adviser’s licence or licensed financial adviser (as the case may be) in respect of the type of financial advisory service in the First column of the table below shall not be less than that set out in the Second column of the table below.
2. Where more than one minimum professional indemnity insurance coverage requirement is applicable to the applicant or licensed financial adviser (as the case may be), the minimum professional indemnity insurance coverage requirement applicable to the applicant or licensed financial adviser (as the case may be) shall be the higher of the applicable minimum professional indemnity insurance coverage requirement.

<i>First column</i>	<i>Second Column</i>
<b>Type of Financial Advisory Service</b>	<b>Minimum Professional Indemnity Insurance Coverage Requirement</b>
(a) Advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning any investment product; or	\$500,000

<p>(b) Any other type of financial advisory service –</p> <p>(i) where the total annual revenue of the applicant or licensed financial adviser (as the case may be) in the immediately preceding financial year, based on the applicant’s or licensed financial adviser’s (as the case may be) latest audited financial statements, is \$5 million or less; or</p> <p>(ii) where the total annual revenue of the applicant or licensed financial adviser (as the case may be) in the immediately preceding financial year, based on the applicant’s or licensed financial adviser’s (as the case may be) latest audited financial statements, is more than \$5 million; or</p> <p>(iii) where the applicant or licensed financial adviser (as the case may be) does not have an immediately preceding financial year.</p>	<p>\$1 million</p> <p>The lower of –</p> <p>(i) 20% of the total annual revenue of the immediately preceding financial year, based on the applicant’s or licensed financial adviser’s (as the case may be) latest audited financial statements; or</p> <p>(ii) \$10 million.</p> <p>\$1 million</p>
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3. The amount of deductible allowed for any professional indemnity insurance policy maintained by an applicant or licensed financial adviser, as the case may be, shall not exceed 10% of the applicant’s or licensed financial adviser’s, as the case may be, base capital.

**Savings and transitional provisions for existing holders of licence**

9.—(1) Subject to paragraph (4), regulations 15, 15A and 16 to 16D of the principal Regulations (as amended by these Regulations) shall not apply to a specified holder for a period of 24 months from [effective date of legislation] (“specified period”); and regulations 15 and 16 of the principal Regulations as in force immediately before [effective date of legislation] shall continue to apply to the specified holder in the specified period.

(2) Subject to paragraph (4), regulation 17 of the principal Regulations (as amended by these Regulations) shall not apply to a specified holder for a period of 12 months from [effective date of legislation] (“notified period”); and regulation 17 of the principal Regulations as in force immediately before [effective date of legislation] shall continue to apply to the specified holder in the notified period.

(3) Subject to paragraph (4) and notwithstanding that regulation 17 of the principal Regulations (as amended by these Regulations) shall apply to a specified holder from the end of the notified period or such earlier period as may be notified to the Authority under paragraph (4) (“earlier period”), paragraph 3 of the Fourth Schedule to the principal Regulations (as amended by these Regulations) shall not apply to a specified holder for a period of 12 months from the end of the notified period or earlier period, as the case may be, and ending on the expiry of 24 months from [effective date of legislation] (“relevant period”), and the amount of deductible allowed for any professional indemnity insurance policy maintained by a specified holder in the relevant period shall not exceed 10% of the specified holder’s paid-up capital.

(4) A specified holder to which paragraph (1), (2) or (3) applies may at any time before the expiry of the specified period, notified period or relevant period, as the case may be, elect to comply with regulations 15, 15A and 16 to 16D of, regulation 17 of or paragraph 3 of the Fourth Schedule to the principal Regulations (as amended by these Regulations) by giving written notice of this intention to the Authority at least 14 days before the intended date of compliance as specified in the notice, and as from the intended date of compliance, regulations 15, 15A and 16 to 16D of, regulation 17 of or paragraph 3 of the Fourth Schedule to the principal Regulations (as amended by these Regulations), as the case may be, shall apply to the specified holder.

(5) In this regulation, “specified holder” means a person which has been granted a

financial adviser's licence under section 13 of the Act before [effective date of legislation].

### **Savings and transitional provisions for new holders of licence**

**10.** — (1) Subject to paragraph (4), regulations 15, 15A and 16 to 16D of the principal Regulations (as amended by these Regulations) shall not apply to a new holder for a period of 24 months from [effective date of legislation] (“specified period”); and regulations 15 and 16 of the principal Regulations as in force immediately before [effective date of legislation] shall continue to apply to the new holder in the specified period.

(2) Subject to paragraph (4), regulation 17 of the principal Regulations (as amended by these Regulations) shall not apply to a new holder for a period of 12 months from [effective date of legislation] (“notified period”); and regulation 17 of the principal Regulations as in force immediately before [effective date of legislation] shall continue to apply to the new holder in the notified period.

(3) Subject to paragraph (4) and notwithstanding that regulation 17 of the principal Regulations (as amended by these Regulations) shall apply to a new holder from the end of the notified period or such earlier period as may be notified to the Authority under paragraph (4) (“earlier period”), paragraph 3 of the Fourth Schedule to the principal Regulations (as amended by these Regulations) shall not apply to a new holder for a period of 12 months from the end of the notified period or earlier period, as the case may be, and ending on the expiry of 24 months from [effective date of legislation] (“relevant period”), and the amount of deductible allowed for any professional indemnity insurance policy maintained by a new holder in the relevant period shall not exceed 10% of the new holder's paid-up capital.

(4) A new holder to which paragraph (1), (2) or (3) applies may at any time before the expiry of the specified period, notified period or relevant period (as the case may be), elect to comply with regulations 15, 15A and 16 to 16D of, regulation 17 of or paragraph 3 of the Fourth Schedule to the principal Regulations (as amended by these Regulations) by giving written notice of this intention to the Authority at least 14 days before the intended date of compliance as specified in the notice, and as from the intended date of compliance, regulations 15, 15A and 16 to 16D of, regulation 17 of or paragraph 3 of the Fourth Schedule to the principal Regulations (as amended by these Regulations), as the case may be, shall apply to the new holder.

(5) In this regulation, “new holder” means a person which has made an application for

the grant of a financial adviser's licence under section 8 of the Act for a licence before [effective date of legislation] and the financial adviser's licence is granted under section 13 of the Act within 6 months from [effective date of legislation].

### **Savings and transitional provisions for existing persons carrying out introducing activities**

**11.** — (1) Subject to paragraph (2), regulation 31 of the principal Regulations (as amended by these Regulations) shall not apply to a specified person for a period of 6 months from [effective date of legislation]; and regulation 31 of the principal Regulations as in force immediately before [effective date of legislation] shall continue to apply to the specified person in that period.

(2) A specified person to which paragraph (1) applies may at any time before the expiry of the period referred to in paragraph (1), elect to comply with regulation 31 of the principal Regulations (as amended by these Regulations) by giving written notice of this intention to the Authority at least 14 days before the intended date of compliance as specified in the notice, and as from the intended date of compliance, regulation 31 of the principal Regulations (as amended by these Regulations) shall apply to the existing person.

(3) In this regulation, "specified person" means –

- (a) each of the following persons who has commenced introducing activities on its own behalf or on behalf of an introducer (as the case may be) before [effective date of legislation] –
  - (iii) an introducer referred to in regulation 31(1) of the principle Regulations;
  - (iii) an individual referred to in regulation 31(3) of the principle Regulations;
  - (iv) a licensed financial adviser; and
  - (v) a person exempt from holding a financial adviser's licence under section 23(1)(a), (b), (c), (d) or (e) of the Act (referred to in this regulation as the specified exempt financial adviser); and
- (b) each of the following persons who has commenced carrying out introducing activities before [effective date of legislation] –
  - (i) a representative of an introducer;
  - (ii) an appointed or a provisional representative or an employee of a licensed financial adviser;

- (iii) a representative of a specified exempt financial adviser (other than a teller referred to in sub-paragraph (iv)); and
- (iv) a teller referred to in regulation 31(8A) of the principle Regulations.