

**NEW NOTICE ON  
REQUIREMENTS FOR THE BALANCED SCORECARD FRAMEWORK  
AND INDEPENDENT SALES AUDIT UNIT**

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**Notice No: FAA-Nxx**

**Issue Date: xxx**

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FRAMEWORK AND INDEPENDENT SALES AUDIT UNIT**

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### **1 Introduction**

1.1 This Notice is issued pursuant to sections 44A, 44B, 23(4) read with 44A and 23(4) read with 44B of the Financial Advisers Act (Cap. 110) ["the Act"].

1.2 This Notice shall apply to all licensed financial advisers and exempt financial advisers, other than a financial adviser in respect of the activities, recommendations or transactions (as the case may be) set out under regulation 34A of the Financial Advisers Regulations ["FAR"].

1.3 This Notice sets out the requirements for the Independent Sales Audit Unit and the design and operation of the balanced scorecard framework which licensed financial advisers and exempt financial advisers shall put in place in their remuneration structures for their representatives and supervisors.

### **2 Definitions**

2.1 For the purposes of this Notice, unless the context otherwise requires:

“balanced scorecard grade” means the grade assigned to a representative or supervisor under the Representatives’ Grading Table or the Supervisors’ Grading Table;

“board” means the board of directors of a financial adviser;

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

“financial adviser” means a licensed financial adviser or an exempt financial adviser;

“infraction” in relation to a representative, means a failure by the representative to meet any of the non-sales key performance indicators;

“non-sales key performance indicator” or “non-sales KPIs” in relation to a representative, means the four principles as set out in Annex 1 to this Notice that the representative has to meet;

“percentage of total specified variable income” means the percentage of specified variable income determined based on the formula set out in footnote 1 of the Supervisors’ Grading Table;

“post-transaction” refers to the period of time from when a client’s application for a transaction has been accepted by a product manufacturer;

“Representatives’ Grading Table” refers to the table set out in paragraph 4.6.1 for grading a representative under the balanced scorecard framework;

“sampled transaction” in relation to transactions which have been effected in a calendar quarter, means a transaction which has been sampled by the Independent Sales Audit Unit to fulfil the requirements of the minimum sampling size as set out in paragraph 4.4.2.2;

“selected representative” means a representative –

- (a) who has been assigned a balanced scorecard grade B or worse under the balanced scorecard framework in the preceding 12 months;
- (b) who has adverse records in the preceding 5 years;
- (c) who has a two-year persistency rate that is lower than 75% for the sale of any contract of insurance in respect of life policies; or
- (d) who is subject to close supervision by his principal in relation to his provision of financial advisory services.

“specified variable income” –

- (a) in relation to a representative, means the proportion of variable income of the representative referred to in paragraph 4.3.1 which is measured against the non-sales key performance indicators; and
- (b) in relation to a supervisor, means the proportion of variable income of the supervisor referred to in paragraph 5.2.1 which is measured against the performance of the representatives of the supervisor under the balanced scorecard framework;

“Supervisors’ Grading Table” refers to the table set out in paragraph 5.4.1 for grading a supervisor under the balanced scorecard framework;

“transaction” means any purchase or sale of, or other dealings in connection with an investment product by a client, such as partial sales, redemptions or changes in the sum assured of a life policy;

“two-year persistency rate” means the annualised premiums still in force<sup>1</sup> from policies issued in a calendar year, i.e. year X, at the end of the subsequent calendar year, i.e. year X+1, as a percentage of the annualised new business premium in year X; and

“variable income” in relation to –

- (a) a representative, means the amount of remuneration provided or to be provided to the representative, whether on a periodic basis or otherwise, which varies and is directly dependent, wholly or partly, on one or more of the following –
  - (i) the volume or value of investment products in relation to which financial advisory services are provided by the representative to clients;
  - (ii) the volume or value of agreements, transactions or arrangements relating to any investment product, entered into by clients to whom the representative provided any financial advisory service;
  - (iii) the volume of fees or charges relating to any investment product, paid by clients to whom the representative provided any financial advisory service; or
  - (iv) the volume of premiums relating to any life policy, paid by clients to whom the representative provided any financial advisory service; and
- (b) a supervisor, means the amount of remuneration provided or to be provided to the supervisor, whether on a periodic basis or otherwise, which varies and is directly dependent, wholly or partly, on –
  - (i) the volume or value of investment products, in relation to which financial advisory services are provided by a representative, who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, to clients;
  - (ii) the volume or value of agreements, transactions or arrangements relating to any investment product, entered into by clients to whom a representative, who is under the supervision or management of the supervisor or any other

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<sup>1</sup> In calculating the annualised premiums, a financial adviser shall not include premiums from single premium policies. A policy is also considered to be no longer in force if the premium due is not paid by the end of the grace period allowed under the terms and conditions of the policy. However, if the lapsed policy is reinstated before 1<sup>st</sup> February in the following year, it is a policy in force.

- person whom the supervisor manages or supervises, provided financial advisory services;
- (iii) the volume of fees or charges relating to any investment product, paid by clients to whom a representative, who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, provided financial advisory services; or
- (iv) the volume of premiums relating to any life policy, paid by clients to whom a representative, who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, provided financial advisory services.

2.2 The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Act and the FAR.

### **3 The Independent Sales Audit Unit (“ISA Unit”)**

#### **3.1 *Persons comprising the ISA Unit***

3.1.1 A financial adviser shall have an ISA Unit comprising persons–

- (a) who are independent of the financial advisory services unit of the financial adviser;
- (b) who do not supervise or manage the conduct and performance of any representative or class of representatives of the financial adviser; and
- (c) who are competent in reviewing and assessing the quality of the financial advisory services provided by the representatives of the financial adviser, against the non-sales KPIs, and determining if infractions have been committed by the representatives.

3.1.2 A financial adviser may –

- (a) utilise its compliance or risk management function to carry out the responsibilities of the ISA Unit; or
- (b) outsource the responsibilities of the ISA Unit to a third party provider, if and only if–
  - (a) its compliance or risk management function or the third party provider, as the case may be, satisfies paragraph 3.1.1; and
  - (b) the financial adviser ensures that its compliance or risk management function, or the third party provider, as the case may be, complies with the requirements of this Notice which applies to the ISA Unit.

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### **3.2 Requirements of ISA Unit in relation to the balanced scorecard framework**

3.2.1 In relation to the balanced scorecard framework, a financial adviser shall ensure that the ISA Unit carries out the post-transaction checks as set out in paragraph 4.4.1, and samples transactions in accordance with the sampling methodology as set out in paragraph 4.4.2.

3.2.2 A financial adviser shall require the ISA Unit to submit reports on its audit of the quality of financial advisory services provided in every calendar quarter by the representatives of the financial adviser, directly to the board and chief executive officer of the financial adviser as at the end of the immediately subsequent calendar quarter.

## **4 Requirements of the balanced scorecard framework for representatives of a financial adviser**

4.1 A financial adviser shall, for every of its representatives and for every calendar quarter, –

- (a) ensure that the ISA Unit reviews and assesses the quality of financial advisory services provided by a representative in respect of the sampled transactions, against the non-sales KPIs, and determines if the representative has committed any infraction in respect of the sampled transactions, in accordance with the processes and methods as set out in paragraphs 4.4.1 and 4.4.2;
- (b) review and assess findings of mystery shopping exercises and complaints in relation to the performance of representatives, against the non-sales KPIs as set out in paragraphs 4.4.3 and 4.4.4;
- (c) ensure that the ISA Unit classifies the infraction(s) committed by the representative, as set out in paragraph 4.5;
- (d) determine the percentage or number of cases with infraction(s), as set out in the Representative's Grading Table;
- (e) assign the balanced scorecard grade to the representative under the Representative's Grading Table, which corresponds with the percentage or number of cases with infraction(s) referred to in sub-paragraph (d); and
- (f) if applicable, determine the percentage of specified variable income which the representative is entitled to under the Representative's Grading Table, which corresponds with the percentage or number of cases with infraction(s) referred to in sub-paragraph (d),

by the end of the immediately subsequent calendar quarter.

## **4.2      *Non-sales KPIs***

4.2.1      Every financial adviser shall incorporate the non-sales KPIs into its balanced scorecard framework.

4.2.2      In addition to the non-sales KPIs, a financial adviser may incorporate other key performance indicators in its balanced scorecard framework to meet its specific business objectives. However, the financial adviser shall not measure the specified variable income against the other key performance indicators.

## **4.3      *Specified variable income***

4.3.1      Subject to paragraph 4.3.3, in a calendar quarter, where a financial adviser remunerates a representative for his provision of financial advisory services by way of

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- (a)      variable income only, the financial adviser shall measure only 60% of the variable income provided or to be provided to the representative in the calendar quarter against the non-sales KPIs; or
- (b)      a fixed salary and a variable income component, the financial adviser shall measure all of the variable income provided or to be provided to the representative in the calendar quarter against the non-sales KPIs.

4.3.2      Where a financial adviser does not remunerate a representative for his provision of financial advisory services by way of any variable income in a calendar quarter, the financial adviser shall comply with paragraph 4.1(a) to (e), and factor the balanced scorecard grade assigned to the representative in the representative's appraisal, including the representative's remuneration and promotion reviews (if any).

4.3.3      Where any specified variable income of a representative has been measured against the non-sales KPIs for any calendar quarter, the financial adviser shall not measure the specified variable income against the non-sales KPIs in any other calendar quarter. For example, in relation to the calendar quarter of April to June 2016, if a representative has arranged a life policy on behalf of a client in June 2016 and in respect of this transaction, he is entitled to receive S\$1,500 of the specified variable income under the balanced scorecard framework but he will only be paid S\$1,000 in June 2016 and S\$500 in June 2017; the financial adviser must not measure the deferred payment of S\$500 in June 2017 against the non-sales KPIs in the calendar quarter of April to June 2017.



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**4.4 Processes and methods for reviewing and assessing representative's performance in his provision of financial advisory services against non-sales KPIs**

4.4.1 *Post-transaction checks by the ISA Unit*

4.4.1.1 A financial adviser shall, for each of its representatives, require the ISA Unit to carry out and complete the following checks ("post-transaction checks") on the sampled transactions in every calendar quarter in order to review and assess the quality of financial advisory services provided by the representative, by no later than the end of the immediately subsequent calendar quarter ("assessment quarter")<sup>2</sup> –

- (a) *Documentation review*: The ISA Unit must review all documentation, including fact-find, needs analysis and basis of recommendation, of every sampled transaction;
- (b) *Client surveys*: The ISA Unit must conduct client surveys on every sampled transaction.

4.4.1.2 In relation to the post-transaction checks, the ISA Unit should refer to the Guidelines on the Balanced Scorecard Framework, Reference Checks and Pre-Transaction Checks (FAA-GXXFAXX) on the Authority's expectations.

4.4.2 *Sampling methodology of the ISA Unit and sampled transactions*

4.4.2.1 A financial adviser shall ensure that the ISA Unit carries out up to three rounds of post-transaction checks in every calendar quarter.

4.4.2.2 In respect of each round of post-transaction checks referred to in paragraph 4.4.2.1, a financial adviser shall ensure that the ISA Unit samples –

- (a) the respective minimum sample sizes of all transactions which have been effected in the calendar quarter, as set out in paragraph 4.4.2.3; or
- (b) a minimum of one transaction which has been effected in the calendar quarter,

whichever is the higher, unless there are no transactions effected in the calendar quarter.

4.4.2.3 In any calendar quarter –

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<sup>2</sup> For example, in relation to the transactions effected in the calendar quarter of 1 January to 31 March 2016, the ISA Unit must carry out and complete the post-transaction checks on every sampled transaction by no later than the end of June 2016.

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- (a) First round of post-transaction checks - the financial adviser shall ensure that –
    - (i) in relation to a selected representative, the ISA Unit samples a minimum of 10% of all transactions effected in the calendar quarter by the selected representative; and
    - (ii) in relation to any other representative, the ISA Unit samples a minimum of 5% for all transactions effected in the calendar quarter by the representative;
  
  - (b) Second round of post-transaction checks - where the ISA Unit has discovered that any representative (including a selected representative) has committed one or more cases<sup>3</sup> with infraction(s) (regardless of the categorisation of the infraction as set out in paragraphs 4.5.1 to 4.5.4) in the first round of post-transaction checks, the financial adviser shall ensure that the ISA Unit –
    - (i) conducts a second round of post-transaction checks by sampling a minimum of an additional 10% of all transactions effected in the calendar quarter by the representative; and
    - (ii) samples transactions which are distinct from all sampled transactions in paragraph (a)(i) or (ii) (as the case may be); and
  
  - (c) Third round of post-transaction checks - where the ISA Unit has discovered that any representative (including a selected representative) has committed one or more cases with infraction(s) (regardless of the categorisation of the infraction as set out in paragraphs 4.5.1 to 4.5.4) in the second round of post-transaction checks, the financial adviser shall ensure that the ISA Unit –
    - (i) conducts a third round of post-transaction checks by sampling a minimum of an additional 20% of all transactions effected in the calendar quarter by the representative; and
    - (ii) samples transactions which are distinct from all the sampled transactions in paragraph (b)(i) and paragraph (a)(i) or (ii) (as the case may be).

4.4.2.4 For the avoidance of doubt, a financial adviser shall not count any rider attached to any life policy as a separate transaction from the life policy for purposes of the post-transaction checks.

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<sup>3</sup> Please refer to footnote 2 of the Representatives' Grading Table as set out in paragraph 4.6.1.

#### 4.4.3 *Findings from Mystery Shopping Exercises*

4.4.3.1 Where a financial adviser conducts any mystery shopping exercise or receives any information in relation to the findings of any mystery shopping exercise conducted by the Authority or any industry association, the financial adviser shall review and assess the findings of its mystery shopping exercise or the information received from the Authority or industry association, in relation to the quality of financial advisory services provided by its representatives, against the non-sales KPIs, so as to determine whether its representatives have committed any infraction in any calendar quarter.

#### 4.4.4 *Substantiated Complaints*

4.4.4.1 A financial adviser shall investigate every complaint lodged against a representative arising from any incident that occurs on or after [*date of issuance of Notice*]. Where a financial adviser is satisfied that a complaint against a representative is substantiated, the financial adviser shall review and assess the complaint in relation to the quality of financial advisory services provided by the representative, against the non-sales KPIs, so as to determine whether the representative has committed any infraction in any calendar quarter.

#### 4.5 *Classification of infractions: Category 1 infraction or Category 2 infraction*

4.5.1 A financial adviser shall ensure that the ISA Unit classifies every infraction committed by a representative as a Category 1 infraction or Category 2 infraction, by assessing the facts and circumstances (including any aggravating or mitigating factors) of the infraction.

4.5.2 A financial adviser should have regard to the examples of Category 1 infractions as set out in the Guidelines on the Balanced Scorecard Framework, Reference Checks and Pre-Transaction Checks (*FAA-Gxx*).

#### 4.5.3 *Category 1 infraction*

4.5.3.1 In relation to a sampled transaction of a client, a finding from a mystery shopping exercise or a substantiated complaint, a financial adviser shall ensure that the ISA Unit classifies an infraction as a Category 1 infraction if the ISA Unit determines that in relation to the financial advisory services provided by a representative to the client, the infraction –

- (a) has a material impact on the interests of the client; or
- (b) impinges on the fitness and propriety of the representative.

4.5.3.2 The Authority considers the following circumstances as having a material impact on the interests of a client or impinging on the fitness and propriety of the representative in relation to his provision of financial advisory services (as the case may be) –

- (a) where the representative recommends an investment product or class of investment products that is clearly unsuitable for a client, based on the information provided by the client to the representative during the fact-find process;
- (b) where the representative recommends that a client switches from one investment product to another investment product and the switch to the other investment product is unnecessary and wholly or partly for the representative's benefit;
- (c) where the representative fails to provide or explain information, or both, as the case may be, on an investment product to a client which, if had been disclosed to the client, would have resulted in the client not purchasing the investment product;
- (d) in relation to the provision of financial advisory services, where the representative fails to execute the client's instructions without valid cause and the representative's failure to do so results in the client incurring losses; or
- (e) in relation to the provision of financial advisory services, where the representative has carried out any act of misrepresentation, gross negligence, or serious misconduct.

#### 4.5.4 *Category 2 infraction*

4.5.4.1 A financial adviser shall ensure that the ISA Unit classifies any infraction which is not a Category 1 infraction, as a Category 2 infraction.

#### 4.5.5 *Rectification of infractions*

4.5.5.1 A financial adviser shall rectify all infractions uncovered by the ISA Unit.

### **4.6 *Grading Table for Representatives ("Representatives' Grading Table")***

4.6.1 A financial adviser shall incorporate the following Representatives' Grading Table in its balanced scorecard framework:

*Representatives' Grading Table*

<b>Balanced scorecard grade for a representative for a calendar quarter</b>	<b>Percentage<sup>1</sup> ("X") or number of cases<sup>2</sup> with infractions in a calendar quarter<sup>3</sup></b>	<b>Percentage of specified variable income that a representative is entitled to for a calendar quarter</b>
<b>A</b>	X < 5% or 1 case with Category 2 infractions	100%
<b>B</b>	5% ≤ X < 10% or 2 cases with Category 2 infractions	75% to less than 100%
<b>C</b>	10% ≤ X < 20% or 3 cases with Category 2 infractions	50% to less than 75%
<b>D</b>	20% ≤ X < 30% or 4 cases with Category 2 infractions	25% to less than 50%
<b>E</b>	(a) X ≥ 30% or 5 cases with Category 2 infractions; or (b) 1 or more cases with Category 1 infractions	0% to less than 25%

<sup>1</sup> The denominator to be used in the computation of the percentage of cases<sup>2</sup> with Category 2 infractions is calculated based on the sum of –

- (a) the total number of cases that would have been sampled in all three rounds of sampling under paragraph 4.4.2.3, notwithstanding that the ISA Unit may not have progressed to the second or third round of sampling of transactions in respect of a representative; and
- (b) the number of cases referred to under paragraphs (b) and (c) of footnote 2.

The financial adviser may refer to the worked examples as set out in Annex 3 for guidance.

<sup>2</sup> A "case" means –

- (a) a sampled transaction;
- (b) a substantiated finding which arises from any mystery shopping exercise in relation to a transaction, referred to in paragraph 4.4.3; or
- (c) a substantiated complaint in relation to a transaction, referred to in paragraph 4.4.4.

The calculation is based on the number of cases with infractions, and not the number of infractions uncovered by the ISA Unit in relation to a representative. For example, a case with multiple Category 2 infractions will be considered as one case with Category 2 infractions, whilst a case with one Category 1 infraction and

multiple Category 2 infractions will be considered as one case with a Category 1 infraction.

<sup>3</sup> Where a representative has committed only Category 2 infraction(s), the financial adviser shall calculate the percentage and the number of cases with infractions in a calendar quarter. Where the percentage of cases with Category 2 infractions and the number of cases with Category 2 infractions determined in a calendar quarter, corresponds to two different balanced scorecard grades under the Representatives' Grading Table respectively, the financial adviser shall assign the better of the two balanced scorecard grades to the representative. For example, in relation to a representative, where 2 out of 10 cases are found to have Category 2 infractions, and the financial adviser determines that a balanced scorecard grade D would be assigned in respect of the percentage of cases and a balanced scorecard grade B would be assigned in respect of the number of cases with infractions, the financial adviser shall assign the better of the two balanced scorecard grades i.e. grade B, to the representative for that calendar quarter.

4.6.2 A financial adviser shall, for every of its representatives and for every calendar quarter –

- (a) determine the percentage of cases with Category 2 infraction(s) or the number of cases with Category 1 infraction(s) or Category 2 infraction(s), based on footnotes 1 and 2 of the Representative's Grading Table;
- (b) subject to footnote 3 of the Representatives' Grading Table, assign the balanced scorecard grade to the representative as set out in the first column of the Representatives' Grading Table, which corresponds with the determined percentage of cases with Category 2 infraction(s) or number of cases with Category 1 infraction(s) or Category 2 infraction(s) referred to in sub-paragraph (a); and
- (c) determine the percentage of specified variable income that the representative is entitled to, based on the balanced scorecard grade assigned to the representative under sub-paragraph (b).

4.6.3 Where a financial adviser has paid any variable income in relation to a transaction to a representative for any calendar quarter before determining the percentage of specified variable income in relation to that transaction which the representative is entitled to for that calendar quarter under the balanced scorecard framework, the financial adviser shall only recover the percentage of specified variable income which the representative is not entitled to for that calendar quarter from the amount of variable income in relation to the transaction which has been paid to the representative, by no later than the end of the immediately subsequent calendar

quarter<sup>4</sup>. For example, where a representative is remunerated by way of variable income only and his variable income from the arrangement of a life policy for a client in January 2016 is S\$10,000 (i.e. the specified variable income measured against the non-sales KPIs is S\$6,000 for the calendar quarter of January to March 2016). The financial adviser pays the representative S\$2,000 (i.e. specified variable income paid out is S\$1,200) in relation to the transaction in February 2016 before determining in April 2016 that the representative is actually entitled to only 50% of his specified variable income (i.e. S\$3,000) in relation to the transaction for the calendar quarter of January to March 2016. The financial adviser shall recover 50% of S\$1,200 (i.e. S\$600), which has been paid to the representative, by the end of June 2016.

4.6.4 Where the payment of any amount of specified variable income is made in relation to financial advisory services provided by the representative over more than one calendar quarter (such as bonuses which are paid annually), the financial adviser shall apportion such specified variable income using any reasonable method over the calendar quarters. The financial adviser shall then determine the percentage of the apportioned specified variable income which the representative is entitled to in each calendar quarter based on the performance of the representative against the non-sales KPIs in the same calendar quarter. Please refer to worked examples 1 and 4 in Annex 3 for guidance.

4.6.5 For the avoidance of doubt, where a financial adviser has determined the percentage of specified variable income which a representative is entitled to for a calendar quarter but the payment of any amount of specified variable income is deferred by a financial adviser (including where bonuses are paid on an annual basis or commissions earned are spread and paid out over a number of years), the financial adviser shall only pay out the amount of specified variable income that the representative is entitled to.

## **5 Requirements of the balanced scorecard framework for supervisors of a financial adviser**

5.1 A financial adviser shall for every of its supervisors and for every calendar quarter –

- (a) determine the percentage of specified variable income which the supervisor is entitled to based on the percentage of specified variable income which a representative under his supervision or management is entitled to in the calendar quarter; and
- (b) assign the balanced scorecard grade to the supervisor set out in the first column of the Supervisors' Grading Table, based on the

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<sup>4</sup> For the avoidance of doubt, a financial adviser may recover the percentage of specified variable income which the representative is not entitled to for that calendar quarter after the immediately subsequent calendar quarter, but the financial adviser will do so in breach of the requirement under paragraph 4.6.3.

percentage of total specified variable income which is calculated based on the formula in footnote 1 of the Supervisors' Grading Table, by the end of the immediately subsequent calendar quarter. For the avoidance of doubt, where a financial adviser operates a tier structure for its representatives and supervisors, any supervisor who belongs to a second or higher tier and receives any variable income in relation to financial advisory services provided by a representative, shall be deemed to be a supervisor who is responsible for the supervision or management of the conduct and performance of that representative for the purpose of paragraphs (a) and (b).

## **5.2 Specified variable income**

5.2.1 Subject to paragraph 5.2.3, where a financial adviser remunerates a supervisor by way of –

- (a) variable income only in any calendar quarter and the representatives under the supervision or management of the supervisor are –
  - (i) remunerated by way of variable income, whether wholly or partly, the financial adviser shall measure only 60% of the variable income provided or to be provided to the supervisor in the calendar quarter against his representatives' performance under the balanced scorecard framework in the same calendar quarter; or
  - (ii) not remunerated by way of any variable income, the financial adviser shall assess the supervisor's performance in a calendar quarter against the performance of his representatives under the balanced scorecard framework in the same calendar quarter and factor the assessment into any appraisal of the supervisor, including variable income and promotion reviews; or
- (b) a fixed salary and variable income component in any calendar quarter, and the representatives under the supervision or management of the supervisor are –
  - (i) remunerated by way of variable income, whether wholly or partly, the financial adviser shall measure all variable income provided or to be provided to the supervisor in the calendar quarter against the representatives' performance under the balanced scorecard framework in the same calendar quarter; or
  - (ii) not remunerated by way of any variable income, the financial adviser shall assess the supervisor's performance in a calendar quarter against the performance of the representatives under the balanced scorecard framework in the same calendar quarter and factor the assessment into any appraisal of the supervisor, including variable income and promotion reviews.



5.2.2 Where a financial adviser does not remunerate a supervisor by way of any variable income and regardless of how the representatives under his supervision or management are remunerated, the financial adviser shall assess the supervisor's performance in a calendar quarter against the performance of his representatives under the balanced scorecard framework in the same calendar quarter and factor the assessment into any appraisal of the supervisor, including remuneration and promotion reviews.

5.2.3 Where any specified variable income of a supervisor has been measured against the performance of any of his representatives under the balanced scorecard framework in any calendar quarter, the financial adviser shall not measure the specified variable income of the supervisor against the performance of any his representatives under the balanced scorecard framework in any other calendar quarter. For example, based on the percentage of specified variable income which a representative is entitled to in the calendar quarter of April to June 2016, a supervisor is entitled to receive an amount of specified variable income of S\$1,500, but he will only be paid S\$1,000 in June 2016 and S\$500 in June 2017; the financial adviser must not measure the deferred payment of S\$500 to be paid to the supervisor in June 2017 against the performance of his representative under the balanced scorecard framework in the calendar quarter of April to June 2017.

### **5.3 *Percentage of specified variable income which supervisors are entitled to in a calendar quarter***

5.3.1 A financial adviser shall, for every calendar quarter and in respect of any variable income payable to a supervisor in relation to a transaction effected by a representative, whose supervision or management the supervisor is responsible for, pay the supervisor the percentage of specified variable income which is the same as the percentage of specified variable income which the representative is entitled to in relation to that transaction in the calendar quarter under the balanced scorecard framework, by the end of the immediately subsequent calendar quarter. For example, if a representative is entitled to 75% of the specified variable income in relation to a transaction effected in the calendar quarter of April to June 2016 under the balanced scorecard framework, the supervisor is entitled to 75% of the specified variable income in relation to the same transaction in the same calendar quarter; or if a representative is entitled to the full amount of the specified variable income in relation to a transaction effected in the calendar quarter of April to June 2016, the supervisor is entitled to the full amount of specified variable income in relation to the same transaction in the same calendar quarter.

5.3.2 Where a financial adviser has paid any variable income in relation to a transaction to a supervisor for any calendar quarter before determining the percentage of specified variable income in relation to that transaction which the supervisor is

entitled to for that calendar quarter under the balanced scorecard framework, the financial adviser shall only recover the percentage of specified variable income which the supervisor is not entitled to for that calendar quarter from the amount of variable income in relation to that transaction which has been paid to the supervisor, by no later than the end of the immediately subsequent calendar quarter<sup>5</sup>. For example, where a supervisor is remunerated by way of variable income only and his variable income in relation to the arrangement of a life policy for a client by a representative under his supervision or management in January 2016 is S\$10,000 (i.e. the amount of specified variable income of the supervisor in relation to the transaction which is measured against the performance of his representative under the balanced scorecard framework is S\$6,000 for the calendar quarter of January to March 2016). The financial adviser pays the supervisor S\$2,000 (i.e. specified variable income paid out is S\$1,200) in relation to the transaction in February 2016 before determining in April 2016 that the representative under the supervisor's supervision is actually entitled to only 50% of his specified variable income in relation to the transaction for the calendar quarter of January to March 2016, and correspondingly, the supervisor is entitled to only 50% of his specified variable income in relation to that transaction (i.e. S\$3,000). The financial adviser shall recover 50% of S\$1,200 (i.e. S\$600), which has been paid to the supervisor, by the end of June 2016.

5.3.3 Where the payment of any amount of specified variable income is made to a supervisor in relation to financial advisory services provided by representatives under the supervision or management of the supervisor over more than one calendar quarter (such as bonuses which are paid annually), the financial adviser shall apportion such specified variable income using any reasonable method over the calendar quarters. The financial adviser shall then determine the percentage of the apportioned specified variable income which the supervisor is entitled to in each calendar quarter based on his representatives' performance under the balanced scorecard framework in the same calendar quarter. Please refer to worked examples 2 and 5 in Annex 3 for guidance.

5.3.4 For the avoidance of doubt, where the financial adviser has determined the percentage of specified variable income which the representative is entitled to for that calendar quarter but the payment of any amount of specified variable income is deferred by a financial adviser (including where bonuses are paid on an annual basis or commissions earned are spread and paid out over a number of years), the financial adviser shall only pay out the amount of specified variable income that the supervisor is entitled to.

#### **5.4 Grading table for supervisors (“Supervisors’ Grading Table”)**

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<sup>5</sup> For the avoidance of doubt, a financial adviser may recover the percentage of specified variable income which the supervisor is not entitled to for that calendar quarter after the immediately subsequent calendar quarter, but the financial adviser will do so in breach of the requirement under paragraph 5.3.2.

5.4.1 A financial adviser shall incorporate the following Supervisors' Grading Table in the balanced scorecard framework:

*Supervisors' Grading Table*

<b>Balanced scorecard grade for a supervisor for a calendar quarter</b>	<b>Percentage of total specified variable income<sup>1</sup> from all representatives under his supervision that a supervisor is entitled to in a calendar quarter</b>
<b>A</b>	100%
<b>B</b>	75% to less than 100%
<b>C</b>	50% to less than 75%
<b>D</b>	25% to less than 50%
<b>E</b>	0% to less than 25%

<sup>1</sup> A financial adviser shall compute the percentage of total specified variable income that the supervisor is entitled to in a calendar quarter as follows:

*Percentage of total specified variable income*

= *(Sum of specified variable income which a supervisor is entitled to in a calendar quarter under the balanced scorecard framework, in respect of every representative under his supervision or x 100% management)*

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*(Sum of specified variable income of the supervisor in the same calendar quarter which is subject to the balanced scorecard framework, in respect of every representative under his supervision or management)*

For example, where the specified variable income of a supervisor is S\$5,000 and S\$10,000 from Representatives A and B respectively in the calendar quarter of April to June 2016; if Representative A is entitled to 75% of his specified variable income while Representative B is entitled to 100% of his specified variable income in the calendar quarter of April to June 2016, then the supervisor is entitled to S\$13,750 (i.e. 75% of S\$5,000 from Representative A and 100% of S\$10,000 from Representative B) in the same calendar quarter; the percentage of total specified variable income that the supervisor is entitled to in that calendar quarter will be 91.6% (i.e. S\$13,750/S\$15,000 x 100%).

5.4.2 A financial adviser shall, for every calendar quarter, assign to a supervisor the balanced scorecard grade as set out in the first column of the Supervisors' Grading Table which corresponds with the percentage of total specified variable income as set out in the second column of the Supervisors' Grading Table.

## **6 Avenue for appeal by representatives and supervisors**

6.1 A financial adviser shall put in place a process for addressing any appeal made by any representative or supervisor in relation to the balanced scorecard framework, including any appeal in relation to –

- (a) the review and assessment of the performance of the representative in relation to his provision of financial advisory services, against the non-sales KPIs and the determination of any infraction;
- (b) the classification of the infractions committed by the representative;
- (c) the percentage or number of cases of Category 1 or Category 2 infraction(s) committed by the representative;
- (d) the percentage or amount of specified variable income that the representative or supervisor is entitled to under the balanced scorecard framework;
- (e) the percentage of the total specified variable income of the supervisor; or
- (f) the balanced scorecard grade assigned to the representative or supervisor.

## **7 Record keeping**

7.1 A financial adviser shall keep records of its processes and methods undertaken, and every assessment and determination made under or in relation to the balanced scorecard framework for a period of not less than five years.

## **8 Responsibilities of board and senior management**

8.1 A financial adviser shall establish a management information framework for purposes of the board's and the senior management's monitoring of the operations of the balanced scorecard framework.

8.2 A financial adviser shall put in place measures, such as training or coaching to ensure that –

- (a) its representatives meet the non-sales KPIs; and
- (b) its supervisors carry out their duties or functions in their supervision or management of the conduct and performance of their representatives in a proper manner.

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## **9 Submission of reports to the Authority**

9.1 A financial adviser shall submit the following reports to the Authority in accordance with the respective formats as set out in Annex 2 to this Notice, within 14 days after the end of every assessment quarter or such longer period as the Authority may approve –

- (a) a report on the number of representatives who have been assigned balanced scorecard grades;
- (b) a report on the number of selected representatives and number of representatives who have been placed under close supervision;
- (c) a report on the details of representatives who have been recruited by the financial adviser with balanced scorecard grades of B or worse in the immediately preceding 12 months (including balanced scorecard grades assigned by previous principals of the representatives and the names of the previous principals);
- (d) a report on the balanced scorecard grades assigned to representatives of the financial adviser for any calendar quarter;
- (e) a report on the number of appeals made by representatives to the financial adviser in relation to the balanced scorecard framework, including the number of rejected, outstanding and successful appeals, and the outcomes of successful appeals;
- (f) a report on the details of the infractions committed by representatives (including the classification of the infractions and names of the representatives who committed the infraction) and the percentages or amounts of specified variable income which the representatives are not entitled to for any calendar quarter;
- (g) a report on the number of supervisors who have been assigned balanced scorecard grades;
- (h) a report on the details of supervisors who have been recruited by the financial adviser with balanced scorecard grades of B or worse in the immediately preceding 12 months (including balanced scorecard grades assigned by previous principals of the supervisors and the names of the previous principals);
- (i) a report on the balanced scorecard grades assigned to supervisors of the financial adviser for any calendar quarter;
- (j) a report on the amounts of specified variable income which the supervisors are not entitled to for any calendar quarter;
- (k) a report on the number of appeals made by supervisors to the financial adviser in relation to the balanced scorecard framework, including the number of rejected, outstanding and successful appeals, and the outcomes of successful appeals; and
- (l) a report on the statistics for client surveys conducted by the ISA Unit on sampled transactions for any calendar quarter.

**ANNEX 1**

***Non-sales Key Performance Indicators***

**Non-sales KPI 1: Understanding a client's needs**

- A representative must conduct sufficient fact-find to understand the circumstances and needs of his clients.
- In determining if a representative has conducted sufficient fact-find to understand the circumstances and needs of a client, a financial adviser shall take into account the following list of factors (which are non-exhaustive) –
  - (a) whether the representative properly collected all pertinent information from the client and correctly documented all the information collected from the fact-find process;
  - (b) whether the representative conducted the fact-find with the client before or after giving advice or making a recommendation, or both (as the case may be);
  - (c) whether the representative influenced the client's inputs or responses during the fact-find stage.

**Non-sales KPI 2: Suitability of product recommendations**

- A representative must have a reasonable basis for any recommendation made to a client and take into account the client's financial objectives, investment horizon, risk profile, financial situation and particular circumstances and needs.

**Non-sales KPI 3: Adequacy of information disclosure**

- A representative must have highlighted, explained and provided all material information in relation to the investment product or class of investment products to the client.
- A representative must ensure that any statement or representation to the client is not false or misleading.
- Material information to be highlighted, explained and provided to clients shall include, but is not limited to, the terms and conditions of the investment product, the benefits to be or likely to be derived from or the risks that may arise from purchasing the investment product, the premium, costs, expenses, investment horizon, fees and other charges that may be imposed in relation to the investment product, and the identity of the product manufacturer of the investment product.
- Financial advisers and their representatives should make reference to the Notice on Information to Clients and Product Information Disclosure (FAA-N03) on the type of information that must be disclosed to clients.

**Non-sales KPI 4: Standards of professionalism and ethical conduct in relation to the provision of financial advisory services**

- A representative must provide financial advisory services in a professional and ethical manner, and must not have engaged in any unprofessional or unethical acts.
- Unprofessional or unethical acts, other than those under non-sales KPIs 1 to 3, refer to –
  - (i) acts involving fraud, dishonesty, or other offences of a similar nature, misrepresentation, or acts involving non-compliance with regulatory requirements or serious breach of the financial adviser’s internal policy or code of conduct which would render the representative liable to demotion, suspension or termination of the representative’s employment or arrangement with the financial adviser; and
  - (ii) acts that impinge on the fitness and propriety of representatives as set out in the Guidelines on Fit and Proper Criteria (FSG-G01).

**ANNEX 2**

**NAME OF FINANCIAL ADVISER:**

**REPORT FOR CALENDAR QUARTER FROM:** \_\_\_\_\_ to \_\_\_\_\_

**SECTION A: FOR REPRESENTATIVES**

**Table 1 – Number of representatives**

<b>Total number of appointed representatives and provisional representatives (collectively referred to as “representatives”)</b>	
<b>Breakdown:</b>	
<b>1) Number of representatives who have been assigned balanced scorecard grades and are:</b>	
i) remunerated by way of variable income only	
ii) remunerated by way of a fixed salary and variable income component	
iii) not remunerated by way of variable income	
<b>2) Number of representatives who have not been assigned balanced scorecard grades due to the following reasons:</b>	
i) non-applicability of the balanced scorecard framework to the financial adviser in relation to the activity or activities, transactions or recommendations as set out in regulation 34A of the FAR	
ii) other reasons, please state: _____	

**Table 2(a) –**

**(I) Number of selected representatives**

<b>Total number of selected representatives in the calendar quarter</b>	
<b>Breakdown:</b>	
i) Number of representatives who has been assigned a balanced scorecard grade of ‘B’ or worse under the balanced scorecard framework in the preceding 12 months	
ii) Number of representatives with adverse records in the preceding 5 years	
iii) Number of representatives with a two-year persistency rate that is lower than 75% for the sale of any contract of	



	insurance in respect of life policies	
iv)	Number of representatives who are subject to close supervision by the financial adviser in relation to their provision of financial advisory services	
v)	Number of representatives who fall under more than one of the categories (i) to (iv) listed above	

**(II) Number of representatives to be placed under close supervision**

<b>Number of representatives to be placed under close supervision<sup>6</sup> by the financial adviser for a minimum period of three months based on their performance under the balanced scorecard framework in this calendar quarter</b>	
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**Table 2(b) – Recruitment of representatives with balanced scorecard grades of B or worse in the immediately preceding 12 months**

<b>Name<sup>7</sup> of representative</b>	<b>Name of former principal(s)</b>	<b>Balanced scorecard grades in the immediately preceding 12 months</b>

*Tables 3(a), (b) and (c) are only applicable to representatives who are remunerated by way of variable income, whether wholly or partly*

**Table 3(a) – Number of representatives based on each balanced scorecard grade and range of percentage of specified variable income that the representatives are entitled to under each grade** (e.g. If there are 10 representatives who obtained a balanced scorecard grade of B, and they are entitled to 80 – 90% of the specified variable income, please indicate “10 (80-90%)”. If there are 10 representatives who are not remunerated by way of any variable income, and have obtained a balanced scorecard grade of B, please indicate “10(N.A.)”)

<b>Balanced</b>	<b>Categories</b>	<b>Number of</b>
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<sup>6</sup> The financial adviser should refer to the Guidelines on the Balanced Scorecard Framework, Reference Checks and Pre-Transaction Checks (FAA-Gxx) on the Authority’s expectations in relation to close supervision of representatives.

<sup>7</sup> Name as reflected in MAS’ Register of Representatives.

<b>scorecard grade</b>		<b>representatives</b>
<b>A</b>	i) No infraction	
	ii) $X < 5\%$ of cases with Category 2 infraction(s)	
	iii) One case with Category 2 infraction(s)	
	iv) Satisfies both categories (ii) and (iii)	
<b>B</b>	i) $5\% \leq X < 10\%$ of cases with Category 2 infraction(s)	
	ii) Two cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
<b>C</b>	i) $10\% \leq X < 20\%$ of cases with Category 2 infraction(s)	
	ii) Three cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
<b>D</b>	i) $20\% \leq X < 30\%$ of cases with Category 2 infraction(s)	
	ii) Four cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
<b>E</b>	i) $X \geq 30\%$ cases with Category 2 infractions	
	ii) Five cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
	iv) One or more cases with Category 1 infraction(s)	
	v) One or more cases with Category 1 infraction(s) and Category 2 infraction(s)	

**Table 3(b) – Number of appeals handled by the financial adviser in the calendar quarter**

<b>Total number of outstanding appeals by representatives at the beginning of the calendar quarter</b>	
<b>Breakdown:</b>	
<b>1) Number of successful appeals which involve:</b>	
i) a reassignment from a balanced scorecard grade B or worse to grade A	
ii) a reassignment to a better balanced scorecard grade, other than as described in (i)	
iii) no reassignment of balanced scorecard grades but an increase in percentage entitlement to specified variable income	
iv) others, please describe: _____	
<b>2) Number of rejected appeals</b>	
<b>3) Number of outstanding appeals pending final outcome</b>	
<b>Total number of appeals submitted by representatives against the financial adviser’s assignment of balanced scorecard grades during the calendar quarter</b>	
<b>Breakdown:</b>	
<b>1) Number of successful appeals which involve:</b>	
i) a reassignment from a balanced scorecard grade B or worse to grade A	
ii) a reassignment to a better balanced scorecard grade, other than as described in (i)	
iii) no reassignment of balanced scorecard grade but an increase in percentage entitlement to specified variable income	
iv) others, please describe: _____	
<b>2) Number of rejected appeals</b>	
<b>3) Number of outstanding appeals pending final outcome</b>	
<b>Total amount of specified variable income returned to</b>	

<b>representatives in successful appeal cases (S\$)</b>	
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**Table 3(c) – Details of Category 1 infractions and 2 infractions committed by representatives**

<b>Name<sup>8</sup> of representative</b>	<b>Balanced scorecard grade</b>	<b>Category of infraction(s) / brief description of infraction(s)</b>	<b>Misconduct report number (if applicable)</b>	<b>Percentage of specified variable income that the representative is not entitled to</b>	<b>Amount of specified variable income that the representative is not entitled to (S\$)</b>
<b>Total amount of specified variable income that the representatives are not entitled to (S\$)</b>					

*Tables 4(a), (b) and (c) are only applicable to representatives who are not remunerated by way of any variable income*

**Table 4(a) – Number of representatives by balanced scorecard grade**

<b>Balanced scorecard grade</b>	<b>Categories</b>	<b>Number of representatives</b>
<b>A</b>	i) No infraction	
	ii) $X < 5\%$ of cases with Category 2 infraction(s)	
	iii) One case with Category 2 infraction(s)	
	iv) Satisfies both categories (ii) and (iii)	
<b>B</b>	i) $5\% \leq X < 10\%$ of cases with Category 2 infraction(s)	
	ii) Two cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	

<sup>8</sup> Name as reflected in MAS' Register of Representatives.

<b>C</b>	i) $10\% \leq X < 20\%$ of cases with Category 2 infraction(s)	
	ii) Three cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
<b>D</b>	i) $20\% \leq X < 30\%$ of cases with Category 2 infraction(s)	
	ii) Four cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
<b>E</b>	i) $X \geq 30\%$ cases with Category 2 infractions	
	ii) Five cases with Category 2 infraction(s)	
	iii) Satisfies both categories (i) and (ii)	
	iv) One or more cases with Category 1 infraction(s)	
	v) One or more cases with Category 1 infraction(s) and Category 2 infraction(s)	

**Table 4(b) – Number of appeals handled by the financial adviser in the calendar quarter**

<b>Total number of outstanding appeals by representatives at the beginning of the calendar quarter</b>	
<b>Breakdown:</b>	
<b>1) Number of successful appeals which involve:</b>	
i) a reassignment from a balanced scorecard grade B or worse to grade A	
ii) a reassignment to a better balanced scorecard grade, other than as described in (i)	
iii) others, please describe: _____	
<b>2) Number of rejected appeals</b>	
<b>3) Number of outstanding appeals pending final outcome</b>	
<b>Total number of appeals submitted by representatives against the financial adviser’s assignment of balanced scorecard grades during the calendar quarter</b>	
<b>Breakdown:</b>	

<b>1) Number of successful appeals which involve:</b>	
i) a reassignment from a balanced scorecard grade B or worse to grade A	
ii) a reassignment to a better balanced scorecard grade, other than as described in (i)	
iii) others, please describe: _____	
<b>2) Number of rejected appeals</b>	
<b>3) Number of outstanding appeals pending final outcome</b>	

**Table 4(c) – Details of Category 1 and 2 infractions committed by representatives**

Name <sup>9</sup> of representative	Balanced scorecard grade	Category of infraction(s) / brief description of infraction(s)	Misconduct report number (if applicable)

**SECTION B: FOR SUPERVISORS**

**Table 1 – Number of supervisors**

<b>Total number of supervisors</b>	
<b>Breakdown:</b>	
<b>1) Number of supervisors who have been assigned balanced scorecard grades and are:</b>	
i) remunerated by way of variable income only, and have representatives under their supervision who are remunerated by way of variable income, whether wholly or partly.	
ii) remunerated by way of a fixed salary and variable income component, and have representatives under their supervision who are remunerated by way of variable income, whether wholly or partly.	

<sup>9</sup> Name as reflected in MAS' Register of Representatives.

<b>2) Number of supervisors who have not been assigned balanced scorecard grades due to the following reasons:</b>	
i) non-applicability of the balanced scorecard framework to the financial adviser in relation to the activity or activities, transactions or recommendations, as set out in regulation 34A of the FAR	
ii) supervisors are not remunerated by way of variable income	
iii) supervisors are remunerated by way of variable income, whether wholly or partly, but the representatives under their supervision are not remunerated by way of variable income, whether wholly or partly	
iv) other reasons, please state _____	

**Table 2 – Recruitment of supervisors with balanced scorecard grades of B or worse in the immediately preceding 12 months**

<b>Name of supervisor</b>	<b>Name of former employer(s)</b>	<b>Balanced scorecard grades in the immediately preceding 12 months</b>

**Table 3(a) – Number of supervisors for each balanced scorecard grade and range of percentage of total specified variable income that the supervisors is entitled to under each grade (e.g. If there are 10 supervisors who have obtained a balanced scorecard grade of B, and they received 80 – 90% of the total variable income that they were entitled to, please indicate “10 (80-90%)”)**

<b>Balanced scorecard grade</b>	<b>Number of supervisors/ Range of percentage of total specified variable income which the supervisors are entitled to under each grade</b>
A	
B	

C	
D	
E	

**Table 3(b) – Amount of specified variable income that the supervisors are not entitled to**

	Amount (S\$)
<b>Total amount of specified variable income that supervisors are not entitled to</b>	

**Table 3(c) – Number of appeals handled by the financial adviser in the calendar quarter**

<b>Total number of outstanding appeals by supervisors at the beginning of the calendar quarter</b>	
<b>Breakdown:</b>	
<b>1) Number of successful appeals which involve:</b>	
i) a reassignment from a balanced scorecard grade B or worse to grade A	
ii) a reassignment to a better balanced scorecard grade, other than as described in (i)	
iii) no reassignment of balanced scorecard grades but an increase in percentage entitlement to variable income	
iv) others, please describe: _____	
<b>2) Number of rejected appeals</b>	
<b>3) Number of outstanding appeals pending final outcome</b>	
<b>Total number of appeals submitted by supervisors against the financial adviser’s assignment of balanced scorecard grades during the calendar quarter</b>	
<b>Breakdown:</b>	
<b>1) Number of successful appeals which involve:</b>	
i) a reassignment from a balanced scorecard grade B or worse to grade A	
ii) a reassignment to a better balanced scorecard grade, other than as described in (i)	



iii) no reassignment of balanced scorecard grades but an increase in percentage entitlement to variable income	
iv) others, please describe: _____	
<b>2) Number of rejected appeals</b>	
<b>3) Number of outstanding appeals pending final outcome</b>	
<b>Total amount of specified variable income returned to supervisors in successful appeal cases (S\$)</b>	

**SECTION C: GENERAL**

**Table 1 – Statistics for client surveys conducted by the ISA Unit on sampled transactions in the calendar quarter**

<b>Number of client surveys conducted using the following methods:</b>	
i) Phone surveys	
ii) Face-to-face interactions	
iii) Written surveys	
iv) others, please describe: _____	
<b>Number of responses from clients for client surveys conducted using the following methods</b>	
i) Phone surveys	
ii) Face-to-face interactions	
iii) Written surveys	
iv) others, please describe: _____	

**ANNEX 3**

**Worked Example 1**

**Applicable to a representative who is remunerated for his provision of financial advisory services by way of variable income only**

A representative would receive variable income of S\$15,000 from 10 transactions effected in the calendar quarter January to March 2016. The variable income is paid to the representative over the income payment period which is spread over 6 years. For the remaining 3 calendar quarters of the year, the representative earns variable income of S\$10,000 (April to June 2016), S\$10,000 (July to September 2016) and S\$15,000 (October to December 2016) from transactions effected in those calendar quarters respectively. The representative earns an annual bonus tied to sales volume in 2016 of S\$10,000.

During the checks conducted by the ISA Unit on transactions effected during the calendar quarter January to March 2016, 2 cases with Category 2 infractions were uncovered. The financial adviser also conducted a mystery shopping exercise in January 2016 and it was found that there was a case with Category 2 infraction. There were no cases with infractions uncovered in the remaining 3 quarters of the year.

***Part (I): Assignment of balanced scorecard grade to the representative for his performance in the calendar quarter of January to March 2016***

<b>Number of cases in calendar quarter of January to March 2016</b>	<b>Number of cases with infractions</b>	<b>Balanced Scorecard Grade</b>
<p>(a) Post-transaction checks by ISA Unit</p> <p>(Note: Sample size for 3 rounds of sampling First round: 1 case Second round: 1 case Third round: 2 cases Total sample size for 3 rounds of sampling = 4 cases)</p>	<p>First round of check: 1 case with Category 2 infractions</p> <p>Second round of check: No case with infractions</p> <p>(Note: The ISA Unit is not required to perform the third round of post-transaction checks.)</p>	<p>Percentage of cases with Category 2 infractions = <math>(2/5) \times 100\% = 40\%</math> (Grade: E)</p> <p>(Note: Denominator of 5 is derived from the total number of cases that would have been sampled in all three rounds of sampling, plus one substantiated mystery shopping finding.)</p>
<p>(b) Mystery shopping exercise was conducted and the rep was visited once by the mystery shopper.</p>	<p>1 case with Category 2 infractions</p>	<p>Number of cases with Category 2 infractions = 2 cases (Grade: B)</p>

			<p><b>Final Balanced Scorecard Grade: B</b></p> <p>[Note: Where the percentage of cases with Category 2 infractions and the number of cases with Category 2 infractions determined in a calendar quarter, corresponds to two different balanced scorecard grades under the Representatives' Grading Table respectively, the financial adviser shall assign the better of the two balanced scorecard grades to the representative.]</p>
(c) Number of substantiated complaints against representative	of	None	N.A.

***Part (II): Computation of representative's entitlement to variable income from transactions effected in the calendar quarter of January to March 2016***

Given that the representative has been assigned a balanced scorecard grade B, he will be entitled to 75% to less than 100% of his specified variable income. Assuming that the financial adviser determined that the representative is entitled to 75% of his specified variable income, the representative's entitlement to variable income will be computed as follows:

$$\text{Specified variable income} = 60\%^{10} \times \text{S\$15,000} = \text{S\$9,000}$$

$$\text{Amount of specified variable income affected by the balanced scorecard grade} \\ = (100\% - 75\%) \times \text{S\$9,000} = \text{S\$2,250}$$

$$\text{Amount of variable income that representative is entitled to for transactions} \\ \text{effected in the calendar quarter of January to March 2016} \\ = \text{S\$15,000} - \text{S\$2,250} = \text{S\$12,750}$$

***Part (III): Recovery or payment of specified variable income over the income payment period***

<sup>10</sup> 60% of a representative's variable income, based on the portfolio of transactions effected in the calendar quarter of January to March 2015, is measured against the non-sales KPIs.

Scenario A

Assume that the variable income earned by the representative for the calendar quarter of January to March 2016 is paid out annually and spread over an income payment period of 6 years as follows:

<b>Period</b>	<b>January to March 2016</b>	<b>January to March 2017</b>	<b>January to March 2018</b>	<b>January to March 2019</b>	<b>January to March 2020</b>	<b>January to March 2021</b>	<b>Total</b>
Percentage of variable income for the calendar quarter of January to March 2016, spread over 6 years	55%	20%	10%	5%	5%	5%	100%
Amount of variable income which the representative would receive (S\$)	8,250	3,000	1,500	750	750	750	15,000
Amount of specified variable income the representative would receive (S\$)	60% x 8,250 = 4,950	60% x 3,000 = 1,800	60% x 1,500 = 900	60% x 750 = 450	60% x 750 = 450	60% x 750 = 450	9,000

The amount of variable income to be recovered or paid out in each period after factoring the representative's performance against the non-sales KPIs under the balanced scorecard framework will be as follows:

<b>Period</b>	<b>January to March 2016</b>	<b>January to March 2017</b>	<b>January to March 2018</b>	<b>January to March 2019</b>	<b>January to March 2020</b>	<b>January to March 2021</b>	<b>Total (S\$)</b>
Amount of specified variable income affected by the	4,950 x 25% = 1,237.50	1,800 x 25% = 450	900 x 25% = 225	450 x 25% = 112.50	450 x 25% = 112.50	450 x 25% = 112.50	2,250

balanced scorecard grade (S\$)							
Amount of variable income that representative is entitled to (S\$)	8,250 – 1,237.50 = 7,012.50	3,000 – 450 = 2,550	1,500 - 225 = 1,275	750 – 112.50 = 637.50	750 – 112.50 = 637.50	750 – 112.50 = 637.50	12,750
Recovery of variable income affected by the balanced scorecard grade/ deferred payment of variable income which representative is entitled to	If the financial adviser had paid S\$8,250 to the representative before determining the percentage of specified variable income which the representative is entitled to in the calendar quarter of January to March 2016 i.e. S\$7,012.50, the financial adviser shall recover the percentage of specified variable income which the representative is not entitled to i.e. S\$1,237.50, by no later than end of June 2016.	Amount of variable income to be paid out in January to March 2017 = S\$2,550	Amount of variable income to be paid out in January to March 2018 = S\$1,275	Amount of variable income to be paid out in January to March 2019 = S\$637.50	Amount of variable income to be paid out in January to March 2020 = S\$637.50	Amount of variable income to be paid out in January to March 2021 = S\$637.50	12,750

Scenario B

Assume that the variable income is spread over the same income payment period as Scenario A. However, the variable income is paid out in equal monthly payments as follows:

Monthly payment over the 6 years from January 2016 to December 2021

= S\$15,000 / 6 years / 12 months = \$209 (rounded up to the nearest dollar)

The amount of variable income to be recovered or paid out in each period after factoring the representative's performance against the non-sales KPIs under the balanced scorecard framework will be as follows:

Extract of variable income which would be received, for example, over the 8 month period from January to August 2016								
Period	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016	July 2016	August 2016
Amount of variable income received or to be received (S\$) (rounded up to the nearest dollar)	209	209	209	209	209	209	209	209
Amount of specified variable income received or to be received (S\$) (rounded up to the nearest dollar)	209x 60%= 126	209 x 60%= 126	209 x 60%= 126	209 x 60%= 126	209x 60%= 126	209 x 60%= 126	209 x 60%= 126	209 x 60%= 126
Amount of specified variable income affected by the balanced scorecard grade (S\$) (rounded up-to the nearest dollar)	126 x 25% = 32	126 x 25% = 32	126 x 25% = 32	126 x 25% = 32	126 x 25% = 32	126 x 25% = 32	126 x 25% = 32	126 x 25% = 32
Amount of variable income that representative is entitled to (S\$)	209 – 32 = 177	209 – 32 = 177	209 – 32 = 177	209 – 32 = 177	209 – 32 = 177	209 – 32 = 177	209 – 32 = 177	209 – 32 = 177
Recovery of variable income affected by the balanced scorecard grade/ deferred payment of	If the financial adviser pays S\$1,254 (S\$209 x 6), from January to June 2016, to the representative and determines the percentage of specified variable income which the representative is entitled to for the calendar quarter of January to March 2016, by end June 2016, the financial adviser shall recover the percentage of specified variable income which the representative is not entitled to i.e. S\$192 (S\$32 x 6), by no later than end of June 2016.						Amount of variable income to be paid out in July 2016 = S\$177	Amount of variable income to be paid out in August 2016 = S\$177

variable income which representative is entitled to			
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**Part (IV): Computation of the amount of annual bonus tied to sales volume in 2016 which the representative is entitled to**

Given that the annual bonus is tied to the representative’s sales performance over the 4 calendar quarters in 2016, the representative’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the representative is entitled to will be computed as follows:

	January to March 2016	April to June 2016	July to September 2016	October to December 2016	Total
Variable income from transactions effected (S\$)	15,000	10,000	10,000	15,000	50,000
Weightage of variable income from transactions effected for each calendar quarter	30%	20%	20%	30%	100%
Amount of bonus tied to transactions effected in each calendar quarter (S\$)	30% x 10,000 = 3,000	20% x 10,000 = 2,000	20% x 10,000 = 2,000	30% x 15,000 = 4,500	10,000
Amount of bonus classified as specified variable income for each calendar quarter (S\$)	60% <sup>11</sup> x 3,000 = 1,800	60% x 2,000 = 1,200	60% x 2,000 = 1,200	60% x 4,500 = 2,700	6,000
Balanced scorecard grade for the calendar quarter and percentage entitlement to specified variable income	Grade B 75%	Grade A 100%	Grade A 100%	Grade A 100%	
Amount of bonus affected by the balanced scorecard grade (S\$)	(100%-75%) x 1,800 = 450	0% x 1,200 = 0	0% x 1,200 = 0	0% x 2,700 = 0	450
Bonus that representative is entitled to for each calendar quarter (S\$)	3,000 - 450 = 2,550	2,000 - 0 = 2,000	2,000 - 0 = 2,000	3,000 - 0 = 3,000	9,550

If the financial adviser had paid S\$10,000 to the representative before determining the amount of bonus that representative is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the representative is not entitled to i.e. S\$450, by no later than end of March 2017.

<sup>11</sup> The representative’s performance on non-sales KPIs will be factored into 60% of bonuses being the specified variable income earned from the portfolio of transactions effected each calendar quarter.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the representative is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (II). The bonus to be recovered in each calendar quarter will be as follows:

<b>Period</b>	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September 2016</b>	<b>October to December 2016</b>
Recovery of bonus affected by the balanced scorecard grade	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of June 2016.	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of September 2016.	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of December 2016.	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of March 2017.



**Worked Example 2**

**Applicable to a supervisor who is remunerated by way of variable income only and the representatives who are under his supervision or management, are remunerated by way of variable income, whether wholly or partly**

A supervisor would receive a variable income of S\$30,000 for the calendar quarter of January to March 2016. The variable income is paid to the supervisor over the income payment period spread over 6 years. For the remaining 3 calendar quarters of 2016, the supervisor earns variable income of S\$20,000 (April to June 2016), S\$20,000 (July to September 2016) and S\$30,000 (October to December 2016) respectively. The supervisor earns an annual bonus tied to the sales volume of the representatives under his supervision or management in 2016 of S\$50,000.

The supervisor has 4 representatives directly under his supervision and management. The amount of variable income earned by the supervisor for the calendar quarter of January to March 2016 which is dependent on the financial advisory services provided by each of the representative under his supervision or management is as follows:

- Representative A – S\$12,000
- Representative B – S\$6,000
- Representative C – S\$6,000
- Representative D – S\$6,000

Arising from the financial adviser’s assessment of the representatives’ performance against the non-sales KPIs for the calendar quarter of January to March 2016, it was determined that the representatives’ percentage entitlements to their specified variable income are as follows:

- Representative A – 75%
- Representatives B to C – 100%

All representatives were entitled to their full specified variable income for the remaining 3 quarters of the year.

***Part (I): Computation of the percentage of total specified variable income that the supervisor is entitled to in the calendar quarter January to March 2016***

<b>Representative</b>	<b>Variable income of the supervisor which is dependent on the financial advisory</b>	<b>Representatives’ entitled percentage of specified variable income</b>	<b>Supervisor’s specified variable income (S\$)</b>	<b>Supervisor’s entitlement to specified variable income (S\$)</b>

	services provided by each of the representative (S\$)			
A	12,000	75%	60% x 12,000 = 7,200	75% x 7,200 = 5,400
B	6,000	100%	60% x 6,000 = 3,600	100% x 3,600 = 3,600
C	6,000	100%	60% x 6,000 = 3,600	100% x 3,600 = 3,600
D	6,000	100%	60% x 6,000 = 3,600	100% x 3,600 = 3,600
<b>Total (S\$)</b>			18,000	16,200

Percentage of total specified variable income that supervisor is entitled to in the calendar quarter

$$= \text{S\$}16,200 / \text{S\$}18,000 = 90\%$$

According to the Supervisor's Grading Table, the supervisor will be assigned a balanced scorecard grade B.

***Part (II): Recovery or payment of specified variable income over the income payment period***

Amount of specified variable income which supervisor is not entitled to in the calendar quarter

$$= \text{S\$}18,000 - \text{S\$}16,200 = \text{S\$}1,800$$

Given that the variable income earned by the supervisor is paid to the supervisor over the income payment period spread over 6 years, the financial adviser shall apply the same method of recovery or deferred payment as described under Part (III) of Worked Example 1.

***Part (III): Computation of the amount of annual bonus tied to sales volume of representatives under the supervisor and recovery of such annual bonus that supervisor is not entitled to***

Given that the annual bonus is tied to the supervisor's variable income over the 4 calendar quarters in 2016, the supervisor's entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable

income he earns in each calendar quarter. The amount of bonus which the supervisor is entitled to will be computed as follows:

	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September 2016</b>	<b>October to December 2016</b>	<b>Total</b>
Variable income dependent on financial advisory services provided by representatives (S\$)	30,000	20,000	20,000	30,000	100,000
Weightage of variable income for each calendar quarter	30%	20%	20%	30%	100%
Amount of bonus tied to variable income in each calendar quarter (S\$)	30% x 50,000 = 15,000	20% x 50,000 = 10,000	20% x 50,000 = 10,000	30% x 50,000 = 15,000	50,000
Percentage of total specified variable income that supervisor is entitled to in each calendar quarter	90% (refer to Part (I))	100%	100%	100%	
Amount of bonus that supervisor is not entitled to (S\$)	(100%-90%) x 15,000 = 1,500	0% x 10,000 = 0	0% x 10,000 = 0	0% x 15,000 = 0	1,500
Bonus that supervisor is entitled to for each calendar quarter (S\$)	15,000 – 1,500 = 13,500	10,000 - 0 = 10,000	10,000 - 0 = 10,000	15,000 - 0 = 15,000	48,500

If the financial adviser had paid S\$50,000 to the representative before determining the amount of bonus that supervisor is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the supervisor is not entitled to i.e. S\$1,500, by no later than end of March 2017.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the supervisor is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (I). The bonus to be recovered each calendar quarter will be as follows:

<b>Period</b>	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September 2016</b>	<b>October to December 2016</b>
Recovery of bonus that	The recovery of the bonus that	The recovery of the bonus that	The recovery of the bonus that	The recovery of the bonus that

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supervisor is not entitled to	the supervisor is not entitled to is carried out or settled by no later than end of June 2016.	the supervisor is not entitled to is carried out or settled by no later than end of September 2016.	the supervisor is not entitled to is carried out or settled by no later than end of December 2016.	the supervisor is not entitled to is carried out or settled by no later than end of March 2017.
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**Worked Example 3**

**Applicable to a supervisor of supervisors, who is remunerated by way of variable income only and the representatives under his supervision or management are remunerated by way of variable income, whether wholly or partly**

A supervisor would receive variable income of S\$50,000 during the calendar quarter January to March 2016. The variable income is paid to the supervisor over the income payment period spread over 6 years. For the remaining 3 calendar quarters of the year, the supervisor earns variable income of S\$75,000 (April to June 2016), S\$75,000 (July to September 2016) and S\$50,000 (October to December 2016) respectively. The supervisor earns an annual bonus tied to sales volume of the representatives under his supervision or management in 2016 of S\$100,000.

The supervisor has 2 representatives under his supervision or management and 3 supervisors under his supervision or management, who collectively have 9 representatives under their supervision or management. The variable income which the supervisor would receive for the calendar quarter of January to March 2016 is relation to the financial advisory services provided by each of 11 representatives, and the supervisor is deemed to be the supervisor of the 9 representatives.

The respective amounts of variable incomes which the supervisor would receive in relation to the financial advisory services provided by the 11 representatives for the calendar quarter of January to March 2016 are as follows:

<b>Supervisor 1</b>	<b>Supervisor 2</b>	<b>Supervisor 3</b>	<b>Direct representatives</b>
Representative A – S\$4,000 Representatives B and C – S\$3,000 each	Representatives D, E and F – S\$5,000 each	Representatives G, H and I – S\$5,000 each	Representatives J and K – S\$5,000 each

Arising from the financial adviser’s review and assessment of each of the 11 representatives’ performance of the provision of financial advisory services against non-sales KPIs for the calendar quarter of January to March 2016, it is determined that the representatives are entitled to the following percentages of their specified variable income:

Representative A – 75%

Representatives B, C, D, E, F, G, H, I, J and K – 100%

All representatives were entitled to 100% of their specified variable income for the remaining 3 quarters of the year.

**Part (I): Computation of the percentage of total specified variable income that the supervisor is entitled to for the calendar quarter of January to March 2016**

Supervisor / Representative	Variable income which the supervisor would receive in relation to the financial advisory services provided by each of the representative (S\$)	Percentage of specified variable income which representatives are entitled to in the calendar quarter of January to March 2016	Supervisor's specified variable income subject to the balanced scorecard framework (S\$)	Supervisor's entitlement to specified variable income in the calendar quarter of January to March 2016 (S\$)	
1	A	4,000	75%	60% x 4,000 = 2,400	75% x 2,400 = 1,800
	B	3,000	100%	60% x 3,000 = 1,800	100% x 1,800 = 1,800
	C	3,000	100%	60% x 3,000 = 1,800	100% x 1,800 = 1,800
2	D	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000
	E	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000
	F	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000
3	G	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000
	H	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000
	I	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000
J	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000	
K	5,000	100%	60% x 5,000 = 3,000	100% x 3,000 = 3,000	
<b>Total (S\$)</b>				30,000	29,400

Percentage of total specified variable income that supervisor is entitled to in the calendar quarter

$$= \text{S\$}29,400 / \text{S\$}30,000 = 98\%$$

According to the Supervisor's Grading Table, the supervisor will be assigned a balanced scorecard grade B.

***Part (II): Recovery or deferred payment of variable income over the income payment period***

Amount of specified variable income which the supervisor is not entitled to  
= S\$30,000 - S\$29,400 = S\$600

Given that the variable income earned by the supervisor is paid to the supervisor over the income payment period spread over 6 years, the financial adviser shall apply the same method of recovery or deferred payment as described under Part (III) of Worked Example 1.

***Part (III): Computation of the amount of annual bonus tied to sales volume of representatives under the supervisor and recovery of such annual bonus that supervisor is not entitled to***

The financial adviser should apply the same method of computation as described under Part (III) of Worked Example 2.

#### Worked Example 4

#### Applicable to a representative who is remunerated for his provision of financial advisory services by way of a fixed salary and a variable income component

A representative earns variable income of S\$10,000 and fixed salary of S\$5,000 from 60 transactions effected in the calendar quarter of January to March 2016. There is no deferral of income payment. For the remaining 3 calendar quarters of the year, the representative earns variable income of S\$10,000 (April to June 2016), S\$15,000 (July to September 2016) and S\$15,000 (October to December 2016) from transactions effected in those calendar quarters respectively. The representative earns an annual bonus tied to sales volume in 2016 of S\$10,000.

During the post-transactional checks conducted by the ISA Unit on sampled transactions effected in the calendar quarter of January to March 2016, 2 cases with Category 2 infractions were uncovered. The financial adviser also investigated into a client complaint received in March 2016 in relation to a transaction which was effected in February 2016, and held the view that the complaint was substantiated; the case of the substantiated complaint was determined by the financial adviser to be 1 case with Category 2 infractions. There were no cases with infractions uncovered in relation to the representative in the remaining 3 quarters of the year.

#### *Part (I): Assignment of balanced scorecard grade to the representative for his performance in relation to financial advisory services provided in the calendar quarter of January to March 2016*

Number of cases for calendar quarter January to March 2016	Number of cases with infractions	Balanced Scorecard Grade
(a) Post-transaction checks by ISA Unit  (Note: Sample size for 3 rounds of sampling First round: 3 cases Second round: 6 cases Third round: 12 cases Total sample size for 3 rounds of sampling = 21 cases)	First round of check: 2 cases with Category 2 infractions Second round of check: No case with infractions  (Note: The ISA Unit is not required to perform the third round of post-transaction checks.)	Percentage of cases with Category 2 infractions $= \frac{3}{22} \times 100\% = 13.6\%$ (Grade: C)  (Note: Denominator of 22 is derived from the total number of cases that would have been sampled in all three rounds of sampling, plus one substantiated complaint.)
(b) Substantiated complaint	1 case with Category 2 infractions	Number of cases with Category 2 infractions = 3 cases (Grade: C)



		<b>Final Balanced Scorecard Grade: C</b>
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***Part (II): Computation of representative’s entitlement to variable income from transactions effected in the calendar quarter of January to March 2016***

Given that the representative has been assigned a balanced scorecard grade C, he will be entitled to 50% to less than 75% of his specified variable income. Assuming that the financial adviser determined that the representative is entitled to 50% of his specified variable income, the representative’s entitlement to variable income will be computed as follows:

Specified variable income = S\$10,000

Amount of specified variable income affected by the balanced scorecard grade  
 = (100%-50%) x S\$10,000 = S\$5,000

Amount of variable income that representative is entitled to for transactions effected in the calendar quarter of January to March 2016  
 = S\$10,000 - S\$5,000 = S\$5,000

***Part (III): Recovery of variable income affected by the balanced scorecard grade***

Given that there is no deferral of income payment, if the financial adviser had paid S\$10,000 of variable income to the representative before determining the percentage of specified variable income which the representative is entitled to for the calendar quarter of January to March 2016, the financial adviser shall recover the variable income which the representative is not entitled to i.e. S\$5,000, by no later than end of June 2016.

***Part (IV): Computation of the amount of annual bonus tied to sales volume in 2016 which the representative is entitled to***

Given that the annual bonus is tied to the representative’s sales performance over the 4 calendar quarters in 2016, the representative’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the representative is entitled to will be computed as follows:

	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September 2016</b>	<b>October to December 2016</b>	<b>Total</b>

Variable income from transactions effected (S\$)	10,000	10,000	15,000	15,000	50,000
Weightage of variable income from transactions effected for each calendar quarter	20%	20%	30%	30%	100%
Amount of bonus tied to transactions effected in each calendar quarter (S\$)	20% x 10,000 = 2,000	20% x 10,000 = 2,000	30% x 15,000 = 3,000	30% x 15,000 = 3,000	10,000
Amount of bonus classified as specified variable income for each calendar quarter (S\$)	2,000	2,000	3,000	3,000	10,000
Balanced scorecard grade for the calendar quarter and percentage entitlement to specified variable income	Grade C 50%	Grade A 100%	Grade A 100%	Grade A 100%	
Amount of bonus affected by the balanced scorecard grade (S\$)	(100%-50%) x 2,000 = 1,000	0% x 2,000 = 0	0% x 3,000 = 0	0% x 3,000 = 0	1,000
Bonus that representative is entitled to for each calendar quarter (S\$)	2,000 – 1,000 = 1,000	2,000 - 0 = 2,000	3,000 - 0 = 3,000	3,000 - 0 = 3,000	9,000

If the financial adviser had paid S\$10,000 to the representative before determining the amount of bonus that representative is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the representative is not entitled to i.e. S\$1,000, by no later than end of March 2017.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the representative is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (II). The bonus to be recovered in each calendar quarter will be as follows:

<b>Period</b>	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September 2016</b>	<b>October to December 2016</b>
Recovery of bonus affected by the balanced scorecard	The recovery of the bonus affected by the balanced scorecard grade	The recovery of the bonus affected by the balanced scorecard grade	The recovery of the bonus affected by the balanced scorecard grade	The recovery of the bonus affected by the balanced scorecard grade

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grade	is to be carried out or settled by no later than end of June 2016.	is to be carried out or settled by no later than end of September 2016.	is to be carried out or settled by no later than end of December 2016.	is to be carried out or settled by no later than end of March 2017.
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**Worked Example 5**

**Applicable to a supervisor who is remunerated by way of a fixed salary and a variable income component and the representatives under his supervision or management are remunerated by way of variable income, whether wholly or partly**

A supervisor earns variable income of S\$20,000 and fixed salary of S\$10,000 during the calendar quarter January to March 2016. There is no deferral of income payment. For the remaining 3 calendar quarters of the year, the supervisor earns variable income of S\$20,000 (April to June 2016), S\$30,000 (July to September 2016) and S\$30,000 (October to December 2016) respectively. The supervisor earns an annual bonus tied to sales volume of representatives under his supervision and management in 2016 of S\$50,000.

The supervisor has 4 representatives under his supervision or management. The amount of variable income earned by the supervisor during the calendar quarter January to March 2016 which is in relation to the financial advisory services provided by each of the representative under his supervision or management is as follows:

Representative A – S\$6,000  
 Representative B – S\$5,000  
 Representative C – S\$5,000  
 Representative D – S\$4,000

Arising from the financial adviser’s assessment of the performance of each representatives’ provision of financial advisory services against the non-sales KPIs for the calendar quarter of January to March 2016, it was determined that the representatives’ are entitled to the following percentages of specified variable income are as follows:

Representative A – 50%  
 Representatives B to D – 100%

All representatives were entitled to their full specified variable income for the remaining 3 quarters of the year.

***Part (I): Computation of the percentage of total specified variable income that the supervisor is entitled to in the calendar quarter of January to March 2016***

<b>Representative</b>	<b>Variable income of supervisor which is in relation to the financial advisory services provided by</b>	<b>Percentage of specified variable income which each representative is entitled to for the calendar</b>	<b>Supervisor’s specified variable income (S\$)</b>	<b>Specified variable income (S\$) which the supervisor is entitled to for the calendar quarter of January to</b>
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	each of the representatives for the calendar quarter of January to March 2016 (S\$)	quarter of January to March 2016		March 2016
A	6,000	50%	6,000	50% x 6,000 = 3,000
B	5,000	100%	5,000	100% x 5,000 = 5,000
C	5,000	100%	5,000	100% x 5,000 = 5,000
D	4,000	100%	4,000	100% x 4,000 = 4,000
<b>Total (S\$)</b>			20,000	17,000

Percentage of total specified variable income that supervisor is entitled to in the calendar quarter

$$= \text{S\$}17,000 / \text{S\$}20,000 = 85\%$$

According to the Supervisor’s Grading Table, the supervisor will be assigned a balanced scorecard grade B.

***Part (II): Recovery or payment of specified variable income over the income payment period***

Amount of specified variable income which supervisor is not entitled to  
 $= \text{S\$}20,000 - \text{S\$}17,000 = \text{S\$}3,000$

Given that there is no deferral of income payment, if the financial adviser had paid S\$20,000 of variable income to the supervisor before determining the percentage of specified variable income which the supervisor is entitled to for the calendar quarter of January to March 2016, the financial adviser shall recover the variable income which the supervisor is not entitled to i.e. S\$3,000, by no later than end of June 2016.

***Part (III): Computation of the amount of annual bonus tied to sales volume of representatives under the supervisor and recovery of such annual bonus that supervisor is not entitled to***

Given that the annual bonus is tied to the supervisor’s variable income over the 4 calendar quarters in 2016, the supervisor’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the supervisor is entitled to will be computed as follows:

	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September 2016</b>	<b>October to December 2016</b>	<b>Total</b>
Variable income dependent on financial advisory services provided by representatives (S\$)	20,000	20,000	30,000	30,000	100,000
Weightage of variable income for each calendar quarter	20%	20%	30%	30%	100%
Amount of bonus tied to variable income in each calendar quarter (S\$)	20% x 50,000 = 10,000	20% x 50,000 = 10,000	30% x 50,000 = 15,000	30% x 50,000 = 15,000	50,000
Percentage of total specified variable income that supervisor is entitled to in each calendar quarter	85% (refer to Part (I))	100%	100%	100%	
Amount of bonus that supervisor is not entitled to (S\$)	(100%-85%) x 10,000 = 1,500	0% x 10,000 = 0	0% x 15,000 = 0	0% x 15,000 = 0	1,500
Bonus that supervisor is entitled to for each calendar quarter (S\$)	10,000 – 1,500 = 8,500	10,000 - 0 = 10,000	15,000 - 0 = 15,000	15,000 - 0 = 15,000	48,500

If the financial adviser had paid S\$50,000 to the supervisor before determining the amount of bonus that supervisor is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the supervisor is not entitled to i.e. S\$1,500, by no later than end of March 2017.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the supervisor is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (I). The bonus to be recovered in each calendar quarter will be as follows:

<b>Period</b>	<b>January to March 2016</b>	<b>April to June 2016</b>	<b>July to September</b>	<b>October to December 2016</b>
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			<b>2016</b>	
Recovery of bonus that supervisor is not entitled to	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of June 2016.	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of September 2016.	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of December 2016.	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of March 2017.