Monetary Authority of Singapore

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INFORMATION PAPER ON GOOD PRACTICES FOR LICENSED AND EXEMPT FINANCIAL ADVISERS

CONTENTS

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INFORMATION PAPER ON GOOD PRACTICES FOR LICENSED AND EXEMPT FINANCIAL ADVISERS

1 INTRODUCTION

1.1 In the course of MAS' supervision of financial advisers ["FAs"], we observed that most FAs have taken active steps to put in place controls, processes and procedures to comply with the business conduct requirements under the Financial Advisers Act ["FAA"]. However, the standard of compliance varies across FAs. MAS has prepared an information paper to highlight the good practices we have observed in certain FAs. The aim of sharing this information is to assist FAs in enhancing their advisory and sales process, the competency level of their representatives, and the complaints handling and compliance functions.

1.2 This paper focuses on the financial advisory practices of FAs that deal primarily with retail clients. It is not intended to address FAs' business dealings with high net worth individuals, accredited investors, corporations, and persons whose business involves the acquisition and disposal of or holding of securities (whether as principal or agent). In addition, the paper does not cover the issuance or promulgation of research reports by FAs, where the research reports do not have regard to the investment objectives, financial situation and particular needs of clients.

1.3 The good practices set out in the paper are not intended to replace or override any legislative provision. However, where applicable, MAS has made references to the relevant statutory provisions of the FAA, to set out the context of the subject in question.

1.4 FAs are encouraged to review the good practices set out in this paper to assist them in designing their own internal compliance systems, controls and procedures. The measures to be implemented should commensurate with the FA's nature of business and risks. In addition, FAs and their representatives are reminded of the need to meet any relevant industry standards applicable to them.

2 ADVISORY AND SALES PRACTICES

2.1 Needs-based sales process

2.1.1 Section 36 of the FAA and Notice FAA-N16 set out the requirements for the conduct of a proper fact-find and needs analysis so that recommendations made by FAs have a reasonable basis and meet the needs of clients. In its inspections, MAS has found that the systems and procedures of some FAs did not always ensure that the information contained in the fact-find form and needs analysis were updated at the time of making recommendations to clients. This was particularly so where recommendations were being made some time after the fact-find and needs analysis were last conducted.

Section 36 of FAA; Notice FAA-N16; Notice FAA-N03

2.1.2 In order to address these concerns, MAS considers it important for FAs to have in place well-structured systems and procedures to ensure that the process of fact-find and needs analysis is of a high standard and is properly conducted, taking into account all current information before any recommendation is made.

2.1.3 These systems and procedures should be designed to enable all FA representatives to:

(a) gather enough information, through the use of questionnaires or other tools approved by the FA, about a client's investment objectives, financial situation, current investment portfolio, employment status, risk tolerance, and other relevant details;
(b) conduct a needs analysis based on the information gathered and recommend products that are suitable and meet the client's needs;
(c) ensure that the basis for the recommendation is clearly explained to the client and properly documented;
(d) ensure, through the use of checklists or other tools, that all requisite disclosures and documents are provided to the client; and
(e) document all declarations made by the client,

in accordance with the requirements stipulated in Notices FAA-N16 and FAA-N03.

2.2 Use of electronic financial planning tools

2.2.1 It is common practice among some FAs to conduct needs-based sales using electronic financial planning tools. However, not all FAs have taken active steps to ensure that the parameters used in the tools for generating recommendations are reasonable and that there are no programme flaws before allowing the tools to be used to provide advice to clients.

2.2.2 MAS considers it good practice for FAs using system-based financial planning tools to regularly test and update their tools to ensure that they remain relevant. It is also in the interest of FAs to ensure that all representatives are properly trained before they are allowed to provide advice to clients using the tools.

2.2.3 For FAs that employ both manual and electronic versions of their financial planning tools, it is important that they exercise care in ensuring that clients receive the same quality of advice regardless of which version of the financial planning tool is used.

2.2.4 The use of system-based financial planning tools does not alter the fact that FAs remain responsible for any recommendation made to clients under the FAA.

2.3 Sales conducted with clients with limited knowledge of investment products

2.3.1 Over the past few years, product innovation has resulted in the emergence of new and more complex investment products. Given the complexity of some investment products, certain groups of clients, which may include the elderly, illiterate, or those less conversant with the English language, may find it difficult to understand the features of these products. As a result, these groups may be more susceptible to buying products that may not suit their needs, such as high-risk products and products with longer tenors.

2.3.2 To protect the interests of these clients, some FAs have put in place additional safeguards in the advisory and sales process. Examples of good practices include:

(a) suggesting that the client be accompanied by a person who is able to explain to the client what is being presented or recommended by the representative, unless the client decides otherwise;

(b) requiring that the representative's supervisor be present during the sales presentation by the representative, where possible. The role of the supervisor is to ensure that the client fully understands all material facts necessary to make an informed decision including the product features, risks of the product, and the applicable fees and charges; or

(c) allowing the representative to execute the sales transaction only upon approval by the supervisor.

2.4 Sales involving use of Central Provident Funds ["CPF"] for investment

2.4.1 Given that CPF savings are for basic housing, healthcare and retirement needs, FAs are advised to take extra care when dealing with clients who use their CPF funds for investment. A good practice observed by MAS is where FAs require their representatives to inform the clients of the current interest rates payable under the CPF Ordinary and Special Accounts, and the minimum interest rate guaranteed under the CPF Act, so that clients fully understand the opportunity cost of using their CPF savings for investments. Some FAs also require their representatives to draw the clients' attention to the possibility that the recommended investments may yield lower returns than what they would otherwise receive from their CPF Accounts.

2.5 Sales conducted at seminars and promotional events

2.5.1 From time to time, FAs may hold seminars and promotional events to raise general awareness of, or market, their products and services.

2.5.2 To avoid situations of clients being pressured into making hasty investment decisions at seminars and promotional events, it is important for FAs to implement measures to ensure that representatives conduct a proper fact-find and needs analysis with clients and make the requisite disclosures to clients before concluding a sale at such events. This would include providing a place conducive for the conduct of the fact-find and needs analysis. In cases where this cannot be achieved, it would not be in the interest of FAs to conduct sales at such events. Instead, FAs should arrange to meet the clients at a more appropriate time and venue so that a proper fact-find and needs analysis can be done.

2.6 Use of gifts

2.6.1 Where gifts are offered to clients for conclusion of a sale, clients may be enticed to disregard a proper assessment of the investment and enter into a transaction that may not meet their needs. In view of this, it is good practice for FAs to have proper systems, processes and controls to ensure that the quality of fact-find and needs analysis, as well as the basis for any recommendation are not compromised as a result of offering gifts. Examples of good practices adopted by FAs include: (i) having policies to ensure that gifts offered are of nominal value relative to the amount invested by clients; and (ii) monitoring the conduct of representatives to ensure that gifts do not become the main focus of any transaction.

2.7 Review of basis for recommendations made by representatives

Section 36 of FAA; Notice FAA-N16

2.7.1 Notice FAA-N16 requires FAs to clearly explain to clients the basis for their recommendations, and to ensure that these are properly documented in the sales documents. Where clients decide to purchase products that are not recommended by the FAs, the FAs are required to document their clients' decision in the sales documents. Some FAs have adopted the practice of highlighting to their clients when, in their opinion, the product being purchased by the clients is not suitable for them or does not meet their needs.

2.7.2 To ensure that representatives exercise due care in their dealings with clients and have a reasonable basis for their recommendations, MAS considers it important for supervisors to review the recommendations made by representatives in a timely manner. A good practice adopted by some FAs is the requirement for supervisors to review the recommendations made by representatives for sales of unit trusts and life policies within the 7-day cancellation period and 14-day free-look period respectively. This enables the FA to take prompt corrective action should any recommendation be found to be unsuitable for the client.

2.8 Disclosure of information to clients

Sections 34 and 35 of FAA; Notice FAA-N16; Notice FAA-N03

2.8.1 Section 34 of the FAA and Notice FAA-N03 stipulate the information FAs are required to disclose to clients when they recommend an investment product.

2.8.2 Disclosure of information about FAs and the products they recommend is important in helping clients understand the products and make informed decisions. Some FAs have found it useful to provide their representatives with a checklist to guide them on the types of disclosures and documents to be provided to clients when conducting financial advisory activities.

2.8.3 To ensure on-going compliance with the provisions of the FAA, some FAs have found it beneficial to provide each client, at the outset of the advisory and sales process, with a document detailing the following:

(a) information about the FA and its representatives as stipulated in Notice FAA-N03;
(b) how the FA will be remunerated for the services provided, including whether it will receive commissions/fees from product providers on products purchased by the client, and whether it will charge a fee for the provision of financial advisory services;
(c) the rights of the client, including their entitlement to information on the products recommended, the 7-day cancellation period and 14-day free-look period for purchase of unit trusts and life policies respectively, as well as documents that the FA is required to provide to the client, as set out in Notice FAA-N03;
(d) how the needs-based sales process will be conducted and the differences in the four types of advice stated in paragraph 2.10;
(e) the importance for the client to provide complete and accurate information so that the representative can analyse the client's needs thoroughly and make recommendations that suit the client's objectives, as well as a warning that inaccurate or incomplete information provided may affect the suitability of recommendations, as stated in Notice FAA-N16; and
(f) avenues for the client to seek redress, including how to approach the relevant dispute resolution organisations, should the client be dissatisfied with the actions taken by the FA to resolve his dispute.

2.9 <u>Monitoring of sales practices of representatives</u>

2.9.1 From its inspections of FAs, MAS noticed variation in the way FAs monitor the sales practices of their representatives. Generally, FAs who have set out for their representatives clear guidelines and work procedures to follow when carrying out fact-find and needs analysis, and making recommendations to clients, have fewer complaints and compliance issues. Specifically, these FAs have put in place procedures to ensure that their representatives:

(a) always offer a client the option of a full fact-find at the outset of the advisory and sales process, and draw the client's attention to the importance of the fact-find process; and
(b) conduct a proper needs analysis and clearly document and explain to the client the basis for their recommendations.

2.9.2 Based on MAS' observation, FAs with good controls and systems to monitor the activities of their representatives, and those with remuneration structures that focus on provision of quality advice and compliance with the FAA, are able to consistently achieve more than 40% of sales with full or partial fact-find. MAS encourages all FAs to strive for more sales with full or partial fact-find by enhancing their controls and supervising closely the activities of their representatives, especially those with a lower percentage of sales with full or partial fact-find, and provide remedial training and coaching to improve their performance in this area.

2.10 <u>Maintaining records on types of advice</u>

2.10.1 In order to evaluate the performance of their representatives, it is good practice for FAs to put in place proper systems and controls to monitor the extent of needs-based advisory activities conducted by their representatives. The following is a useful way of categorising the types of advice provided by representatives:

(a) Full fact-find – a client discloses <u>all information</u> requested by the FA and wishes to receive recommendation on product suitability. To qualify as a full fact-find, the FA would need to gather information on the client's income and expenses, assets and liabilities, current investment portfolio, investment objectives, risk profile, personal priorities, retirement needs, and saving goals. The FA would then conduct a needs analysis based on the information collected, and recommend products suitable for the client;

(b) Partial fact-find – a client discloses only partially the information requested by the FA but wishes to receive recommendation on product suitability. To qualify as a partial fact-find, the information gathered by the FA from the client, while not complete, should be adequate in enabling the FA to conduct needs analysis and recommend products that meet the needs of the client based on the client's indicated priorities, preferences and expectations (e.g. protection for dependents);

(c) Product advice – a client does not wish to undergo full or partial fact-find and needs analysis but wishes to receive advice from the FA on a particular type of product based on his specific instructions. An example of product advice is where the client wishes to purchase an investment product that provides exposure to Chinese equities. The FA selects one or more unit trusts based on the client's specifications, and explains the features of the selected products to the client. Another example is where a client wishes to purchase a life policy to provide for his child's education and the FA selects one or more life insurance plans that meet the client's requirement, and advises the client on the differences among the plans selected; and

(d) No advice – a client does not wish to undergo fact-find, needs analysis, or receive recommendation on product suitability. The FA merely takes instructions from the client and assists him with the completion of the relevant forms.

2.11 Cancellations and switching of designated investment products

Section 36 of FAA; Notice FAA-N16; Guideline FAA-G10

2.11.1 Notice FAA-N16 stipulates that FAs shall not advise their clients to switch from one designated investment product to another designated investment product in a manner that would be detrimental to the clients. The Notice sets out the requirements for FAs making any switching recommendation, namely, the "know your client", needs analysis, documentation and record keeping requirements, as well as disclosure of fees or charges the client would have to bear for the switch.

2.11.2 MAS' inspections revealed that insufficient attention was being paid by FAs in monitoring the switching activities of their representatives. In order to fulfil their statutory obligations, FAs need to institute clear systems and procedures to ensure that their representatives do not make any switching recommendations that are detrimental to clients and that proper disclosures are made to clients when a switch is recommended. In this connection, FAs should refer to the Guidelines on Switching of Designated Investment Products ["FAA-G10"] for guidance on the controls, processes and procedures they are expected to implement in order to monitor switching.

2.12 <u>Measures to ensure quality of financial advisory services</u>

2.12.1 MAS is of the view that the mere review of sales documentation may not give an accurate account of what had transpired during the financial advisory process. Some FAs recognise this and have introduced additional measures such as mystery shopping and client callback exercises to get feedback on the sales process and quality of advice provided by their representatives as well as to assess the effectiveness of controls they have implemented.

2.12.2 To achieve maximum benefits, these exercises should involve a meaningful sample of representatives and/or clients, and should be designed to allow comparability of results over time. We note that some FAs had engaged the services of independent third parties to ensure objectivity in the exercises.

2.13 <u>Disclosure of remuneration by FAs</u>

Sections 34 and 35 of FAA; Notice FAA-N03; Practice Note FAA-PN01

2.13.1 Notice FAA-N03 requires FAs to disclose to clients the remuneration that they receive or will receive for making any recommendation in respect of an investment product, or executing a purchase or sale contract relating to a designated investment product on their clients' behalf.

2.13.2 The disclosure of remuneration increases transparency and assists clients in making better-informed investment decisions. FAs should refer to the Practice Note on the Disclosure of Remuneration by Financial Advisers ["FAA-PN01"] for guidance on how they can fulfill their obligations in respect of remuneration disclosure.

2.13.3 As a matter of good practice, FAs should provide their representatives with the necessary training to ensure that they understand the requirement for disclosure of remuneration, including what information needs to be disclosed, and how and when the disclosure should be made to clients.

2.14 Remuneration structure for representatives

Sections 34 and 35 of FAA; Notice FAA-N03

2.14.1 MAS considers that a remuneration structure for representatives based solely on the achievement of sales targets and quotas may encourage representatives to adopt aggressive sales tactics at the expense of quality of advice and suitability to clients' needs.

2.14.2 It is good practice for FAs to consider other key measures when formulating the remuneration structure for representatives. To create incentives for representatives to comply with the FAA provisions, consistently render high quality advice, and protect the interests of FAs and their clients, the remuneration structure should take into account factors such as the number of complaints received against representatives, persistency ratio for sales of life policies, records on cancellation/switching of designated investment products, proportion of transactions conducted with full or partial fact-find, and compliance records.

2.15 Introducing activities conducted by FAs

Regulation 31 of FAR; Notice FAA-N02

2.15.1 MAS has observed that, in cases where FAs acted as introducers for other FAs, clients often mistook the representatives providing advice to be representatives of the introducer. It is important for FAs acting as introducers to disclose clearly to clients their role as an introducer as required under Regulation 31 of the Financial Advisers Regulations ["FAR"]. For greater clarity, introducers should inform clients that the representatives providing advice are not representatives of the introducers. One way of achieving this is to ensure that such information is accurately reflected in the script used in conducting their introducing activities.

3 TRAINING AND COMPETENCY

3.1 Training and competency plan ["T&C plan"]

Notice FAA-N26

3.1.1 Notice FAA-N26 sets out the training and competency requirements for representatives of FAs. The purpose for requiring FAs to design and implement a comprehensive T&C plan is to ensure that representatives are kept abreast of developments in the financial advisory industry and have the skills and competence to give good quality advice to clients.

3.1.2 A well-conceived T&C plan helps to raise the standard of competency and professionalism of representatives. A good T&C plan includes details of the following:

(a) the roles and responsibilities of representatives, supervisors and management;
(b) training programmes for new and existing representatives, and supervisors;
(c) frequency and methods of competency assessment of representatives and supervisors;
(d) criteria for recruitment, retention, promotion, demotion and termination of representatives;
(e) penalties for non-compliance with requirements in the T&C plan;
(f) schedule for implementing, reviewing and updating the T&C plan; and
(g) manner of monitoring compliance with the T&C plan.

3.2 Structured training programme

3.2.1 A well-structured training programme, which sets out the training needs of representatives and supervisors, as well as minimum training hours required per year, ensures that all representatives and supervisors are equipped with adequate skills and knowledge to provide financial advisory services.

3.2.2 In order to ensure an adequate level of competence and professionalism, MAS considers it good practice for all representatives to undergo at least 30 hours of training[1] per year, as is currently the industry norm for representatives of the life

[1] The training hours should exclude coaching sessions and weekly/monthly meetings between supervisors and their representatives, as well as competency assessments done on new representatives.

insurance industry.

3.2.3 In the course of its inspection of FAs, MAS observed that a number of FAs have instituted a system that, among others, tracks training courses attended and training hours attained by each representative, to ensure that representatives fulfil the training requirements specified by the FAs. These FAs also ensure proper documentation of training undergone by their representatives by keeping attendance lists or copies of certificates awarded.

3.3 Controls to prevent unauthorised sales

Notices FAA-N12 and FAA-N26; Guideline FSG-G01

3.3.1 Notice FAA-N12 and Notice FAA-N26 stipulate that appointed representatives and provisional representatives must comply with the minimum entry and/or examination requirements, respectively, before they are allowed to commence the provision of financial advisory services. The Notices further require FAs to certify that their appointed and provisional representatives meet these requirements. In this connection, FAs should ensure that appointed representatives who are exempted from any module of the Capital Markets and Financial Advisory Services Examination ["CMFAS Exam"] have the relevant academic qualifications and/or past experience to qualify for exemption from the relevant module of the CMFAS Exam. If an FA discovers that a representative has commenced conducting financial advisory services before he is qualified to do so, it should take immediate action to prevent the representative from conducting further advisory and sales activities and report the matter to MAS immediately.

3.3.2 In its inspections, MAS noted that some FAs have instituted controls to ensure that representatives who have not satisfied the minimum entry and examination requirements do not commence providing financial advisory services. These controls take the form of: (i) access restriction to electronic-based financial planning tools; and/or (ii) system controls to reject, and alert supervisors to, any transaction that unauthorised representatives seek to conclude. These FAs have also put in place systems and procedures to review all unauthorised transactions to ensure that clients' interests have not been compromised, and to take prompt action to rectify any inappropriate recommendations made.

3.4 Competency assessment

3.4.1 A well-structured system to assess the competency level of representatives and properly document such assessments is key to ensuring that representatives are competent in their conduct of financial advisory services. In its inspections, MAS noted that some FAs did not define the competency requirements in the areas of skills and knowledge, taking into consideration the experience level of the representatives. Some FAs also failed to set out the frequency and methods for conducting competency assessments of their representatives.

3.4.2 It is important for new representatives to attain a satisfactory level of competence before they are allowed to commence advisory and sales activities independently. This includes the representatives having a good understanding of policies and procedures implemented by the FAs to comply with the provisions in the FAA, FAR, and Notices and Guidelines issued under the FAA.

3.4.3 In assessing whether new representatives are competent to conduct financial advisory services independently, MAS considers it good practice for supervisors to observe new representatives in the advisory and sales process until they are satisfied with the competence of the representatives. The supervisors' observations should cover the fact-find, needs analysis, and making of recommendations, and should be clearly documented to enable supervisors to monitor the representatives' progress in all these areas.

3.4.4 It is also important for supervisors to coach their representatives regularly to ensure that they remain competent in their conduct of financial advisory services and are up-to-date in product knowledge. In addition, it is good practice for FAs to conduct an annual competency assessment of all representatives. These coaching sessions and competency assessments should be properly documented to facilitate effective follow-up by the supervisors, which should include identifying the training needs of the representatives. In this connection, MAS is encouraged to note that some FAs have already adopted such practices in their financial advisory business.

3.5 <u>Span of control for supervision of representatives</u>

3.5.1 MAS is concerned about the ability of supervisors to effectively supervise and coach their representatives in instances where the number of representatives per supervisor is high. This will inevitably result in supervisors being unable to adequately supervise the sales activities conducted by representatives, including the recommendations made by the representatives.

3.5.2 MAS considers the recommendation in the Life Insurance Association's Guidelines on Company's T&C Plan for Life Insurance Advisors of having not more than 15 representatives per supervisor, and 10 supervisors per manager, as a good practice that FAs should consider adopting where applicable.

4 RECRUITMENT OF REPRESENTATIVES

4.1 <u>Recruitment process</u>

Section 26 of the FAA, Regulation 14A of the FAR; Guideline FSG-G01

4.1.1 Regulation 14A of the FAR requires FAs to ensure that its representatives are fit and proper persons, and Section 26 of the FAA requires FAs to provide a certification to MAS that individuals to be appointed as their appointed or provisional representatives are fit and proper persons. Guideline FSG-G01 set out the fit and proper criteria for FAs and their representatives. To comply with these Guidelines, FAs are expected to set out clearly their recruitment criteria, and put in place adequate systems and procedures to ensure that the persons they employ or appoint to conduct financial advisory services on their behalf are fit and proper. This serves to give the public confidence that participants in the financial advisory services industry have sound financial standing, are competent, efficient and honest, and are persons of integrity.

4.1.2 A good practice that a number of FAs have incorporated in their recruitment process is the conduct of reference checks with the applicants' previous employers on their conduct and integrity, before confirming the appointment. Where necessary, some FAs also conduct checks on the applicants against MAS' register of persons against whom a prohibition order has been made under – (a) Section 68(1) of the FAA (before the repeal of this provision); or (b) Section 7 of the Financial Services and Markets Act 2022.

4.2 <u>Maintenance of register for representatives</u>

4.2.1 FAs are encouraged to maintain a register for representatives.

4.2.2 A well-maintained register of representatives enables FAs to better monitor their sales force and respond to clients' queries regarding their representatives. The following are examples of good practices:

(a) procedures in place to update the register promptly so that accurate information are captured at all times;
(b) clear indication of the person(s) responsible for updating and maintaining the register;
(c) where a representative is exempted from complying with any module of the CMFAS Exam, proper documentation of the reasons for exemption in the register, and retention of copies of the relevant academic qualifications.

4.2.3 MAS noted that it is the practice of some FAs for different business units within the FA to keep their own copy of the register, either for the same group of representatives or for different groups of representatives. In such cases, it is common to find discrepancies in information captured in the registers. It is therefore good practice for FAs to set out clearly whose responsibility it is for maintaining and updating the registers so that information captured in the registers are accurate and consistent at all times.

5 COMPLAINTS HANDLING PROCESS

5.1 The Financial Advisers (Complaints Handling and Resolution) Regulations ["CHR Regs"] provide the requirements on FAs for handling of complaints. Guideline FAA-G04 also sets out the standards of conduct expected of FAs and their representatives in the provision of financial advisory services. These include, among others, the need for FAs to have in place adequate procedures and processes for handling complaints in a fair, timely, and appropriate manner.

CHR Regs, Guideline FAA-G04

5.2 MAS considers the following as important elements of an effective complaints handling process:

(a) a central unit to receive all complaints;
(b) a central register to record all complaints lodged

against the FA and/or its representatives;

(c) clearly laid down procedures on how complaints should be handled, including response times and mechanisms to inform the complainants about alternative ways to seek redress if the dispute with the FA cannot be resolved;

(d) a system to track and monitor the progress of each complaint from receipt to resolution;

(e) an independent party to oversee the investigation and resolution of complaints to ensure that complaints are handled objectively;

(f) an independent investigation process which allows the investigators to gather sufficient evidence to arrive at a satisfactory conclusion regarding the validity of a complaint and to take appropriate action. Such procedures may include interviews with the representative and client involved, as well as review of any recorded telephone conversations and sales documents;

(g) proper documentation to show clearly how the investigations are carried out, how the conclusions are arrived at, and actions taken by the FA. In this respect, the FA should keep proper records documenting the following: (i) a summary of the facts of the case; (ii) interviews with the representative, his supervisor and the client; (iii) documentary evidence of the alleged misconduct; (iv) the investigator's assessment and recommendation; and (v) actions taken by the FA, if any;

(h) guidelines on when a complaint would be serious enough to warrant escalation to management for them to provide appropriate direction on resolving the complaint; and

(i) regular updates to management about the complaints received so that trends or areas of weakness can be identified.

6 COMPLIANCE

6.1 A robust compliance function is essential to FAs in safeguarding their interests as well as those of their clients. It is inappropriate for FAs to delegate the compliance responsibility entirely to the operational units, given that there is an inherent conflict of interest in operational units carrying out this self-policing role. Giving operational units full responsibility for compliance may also give rise to inconsistent levels of compliance across different units of the FA.

6.2 To ensure that the compliance function is able to properly discharge its responsibilities, persons performing this function should possess the necessary competence. MAS considers the following as essential elements of an effective compliance function:

(a) a compliance programme approved by senior management that spells out, among others, the roles and responsibilities of the compliance unit, and the compliance audit schedule. The functions of the compliance unit should include conducting audits on the FA's compliance with the FAA requirements, as well as adherence to any policies and procedures that have been established by the FA to ensure compliance with regulatory requirements and applicable industry standards. As a good practice, FAs are expected to conduct compliance audit at least on an annual basis, taking into consideration the size of its operations and risks;
(b) formalised work procedures, processes and tools to aid compliance staff in carrying out their duties;
(c) segregation of duties between the compliance function and the advisory and sales function;
(d) independent reporting lines to management;
(e) sufficient resources for the proper discharge of compliance duties;
(f) active involvement of management on the findings of the compliance audits; and
(g) formalised guidelines on how instances of non-compliance would be dealt with.

7 CONCLUSION

7.1 Good internal controls and systems are essential to FAs in ensuring high quality and professional advice to clients. We hope that FAs find the good practices outlined in this paper useful guidance in their implementation of systems and processes for the provision of financial advisory services. MAS will update this paper as the rules and practices in the financial advisory industry evolve.