

RESPONSE TO FEEDBACK RECEIVED

8 October 2018

Response to Feedback Received – Provision of Digital Advisory Services

MAS

Monetary Authority of Singapore

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Annex A: List of respondents to the consultation paper on provision of digital advisory services

Annex B: Full submissions from respondents to the consultation paper on provision of digital advisory services

1 Preface

1.1 On 7 June 2017, MAS issued a consultation paper to seek comments on our proposals to facilitate the provision of digital advisory services¹ (also known as robo-advisory services) in Singapore.

1.2 The consultation ended on 7 July 2017, and MAS received responses from 43 parties. MAS would like to thank all respondents for their feedback. The list of respondents is set out in Annex A, and their detailed submissions are provided in Annex B.

1.3 MAS has carefully considered the feedback received, and has refined the final proposals in areas where we agreed with the feedback. Comments that are of wider interest, together with MAS' responses, are set out in sections 2 to 6.

2 Governance and Supervision of Algorithms

Testing of algorithms

2.1 There was broad support for the proposal that digital advisers perform sufficient back-tests to ensure that the methodology of the algorithms behind their client facing-tools reliably produce an output that is consistent with the intended investment recommendation. Several respondents suggested that MAS prescribe a minimum standard for back-testing so as to ensure consistency in the parameters used by digital advisers, and provide a level playing field for all players. Two respondents suggested that digital advisers should also perform stress testing in order to assess the performance of the recommended investment portfolios during historical major events or simulated extreme market circumstances. Two other respondents proposed that digital advisers disclose to clients the assumptions and results of their back-testing and stress testing.

MAS' Response

2.2 Digital advisers can employ algorithms of varying sophistication or complexity. It can be challenging to be prescriptive about the steps or standards which digital advisers should take or comply with when they test their algorithms. As such, MAS will not be prescribing the methods, standards or parameters for back-testing. MAS will also not mandate stress testing. Nonetheless, we will clarify MAS' expectations by setting out the key objectives and outcomes to be achieved when digital advisers perform testing on their

¹ Digital advisory services means the provision of advice on investment products using automated, algorithm-based tools which are client-facing, with limited or no human adviser's interaction.

algorithms in the Guidelines on Provision of Digital Advisory Services. Broadly, digital advisers should satisfy themselves that their algorithms consistently and reliably:

- (i) classify investors according to their risk profiles based on inputs provided by investors²; and
- (ii) produce the intended asset allocation and investment recommendation according to the digital adviser’s risk profiling methodology.

2.3 MAS will also not make it mandatory for digital advisers to disclose the assumptions and results of their back-testing at this stage, as it is unclear whether retail investors would benefit from such a disclosure which could contain highly technical details. Digital advisers are nonetheless expected to retain records of back-testing, and satisfy their own board and senior management, and MAS when called upon, that their algorithms are performing as intended based on the objectives set out above.

Oversight of algorithms by human advisers

2.4 Respondents supported MAS’ proposals for digital advisers to be adequately staffed by qualified human advisers with the competency and expertise to develop and review the methodology of the algorithms to ensure compliance with the requirements under the Financial Advisers Act (FAA) or Securities and Futures Act (SFA), as the case may be. A number of respondents sought clarification on MAS’ expectations with regard to being “adequately staffed” and having “qualified human advisers”. Some suggested that MAS prescribes a minimum number of persons to be responsible for the development and review of the methodology of algorithms. One respondent requested MAS to provide guidance on the minimum expected frequency of compliance checks on the quality of advice provided by the client-facing tool. Another respondent asked whether independent testing by auditors can meet the requirement of post-transaction sample testing.

MAS’ Response

2.5 MAS expects “human advisers” responsible for designing and reviewing the methodology and output of the algorithms (including the suitability of recommendations generated by the algorithms) to have the relevant competency and experience³ in financial advisory (“FA”) services in order to satisfactorily carry out their roles. MAS will not prescribe the minimum number of such personnel within each digital adviser or the

² Digital advisers are expected to test using hypothetical inputs to ensure that the risk profiles generated by their algorithms are in line with their risk profiling methodology. The testing should ensure that the algorithm scores and risk-profiles clients consistently and up to a rigorous level of confidence.

³ MAS would generally regard persons who held a managerial role or involved in the risk management or compliance function of a financial advisory firm as having relevant competency and experience.

frequency of compliance reviews. These should be commensurate with the size and complexity of the digital adviser's operations.

2.6 To ensure the effectiveness and robustness of post-transaction sample testing, MAS expects these tests and reviews to be carried out by an independent party not involved in the design, development and monitoring of algorithms. Examples of such independent parties include in-house compliance staff, external compliance consultants and internal or external auditors.

Providing information on algorithms and conflicts of interest

2.7 Most respondents agreed that digital advisers should disclose pertinent information on their algorithms. However, a number of respondents expressed concerns that the technical details of their algorithms are propriety information and should not be disclosed to clients. Some of them felt that such technical details are likely to be too complicated for most investors to understand. Several respondents suggested that digital advisers should give a high level overview of their algorithms by providing a description of the assumptions, limitations and risks of the algorithms. One respondent proposed that digital advisers disclose any third party involvement in the development and operation of the algorithms.

2.8 Some respondents also proposed to require digital advisers to disclose their risk profiling methodology, and provide a summary of the risk profiles under which clients would be classified based on their algorithms. This would allow clients to better assess the suitability of the risk profiles and recommendations provided by digital advisers and make informed decisions. Two of these respondents further suggested that digital advisers be required to prepare and publish a White Paper, detailing their investment methodology, execution, rebalancing, costs and any scenarios that may result in a deviation from their methodology.

2.9 A few respondents expressed concerns over the proposal to require digital advisers to disclose to clients reasons for the selectivity, if any, and the limitations of the recommendations provided (including any investments that were not considered), and sought further guidance on the scope and extent of this disclosure.

MAS' Response

2.10 MAS acknowledges that the technical details of a digital adviser's algorithms are propriety information, and such information may not be easily understood by retail investors. That said, investors should be provided with pertinent information regarding how the digital advisers' models or algorithms support their investment recommendations. In this regard, MAS expects digital advisers to minimally disclose the

assumptions, limitations and risks⁴ of the algorithms. Such disclosures should be presented in a clear, simple and easily understandable manner.

2.11 Digital advisers are responsible and accountable for their algorithms, regardless of whether these algorithms are developed in-house or sourced from third party developers. As such, MAS will not require digital advisers to disclose third party involvement in the development, monitoring and testing of their algorithms. In addition, MAS will not require digital advisers to publish a document detailing their investment approach (such as a White Paper) or disclose their risk profiling methodology. This approach takes into consideration the fact that we should not impose a higher level of requirement on digital advisers vis-à-vis conventional fund managers and financial advisers (“FAs”) that offer their services through non-digital channels. Nonetheless, digital advisers are not precluded from sharing their investment approach or risk profiling methodology with their clients.

2.12 MAS acknowledges that requiring digital advisers to disclose to clients “other investments not considered that may have characteristics similar or superior to those being analysed” could pose a challenge to digital advisers given the wide universe of products available. However, MAS is mindful that digital advisers may converge to a generic disclosure to clients without being able to be comprehensive about other “comparable products”, and such disclosure will not be meaningful. MAS also considered that FAs are already required to comply with the existing disclosure requirement on conflicts of interest as set out under the Notice on Information to Clients and Product Information Disclosure (“FAA-N03”). Accordingly, MAS agrees with the respondents that it is not necessary to require digital advisers to disclose any reasons for the selectivity and limitations of the recommendations provided (including any investments that were not considered).

Responsibilities of the Board and Senior Management

2.13 Several respondents asked whether the responsibilities of the Board can be delegated to Senior Management, as it may not be practical for the Board to maintain effective oversight of the client-facing tools on a day-to-day basis. A few respondents enquired as to whether Senior Management can delegate some of their responsibilities to other committees or personnel.

2.14 One respondent commented that the Board and Senior Management should be held personally accountable for the client-facing tools. Another respondent sought clarification on whether any personal liabilities would be imposed on the Board and Senior

⁴ This refers to description of scenarios or situations where the algorithms may or do not perform as intended, and the potential implication on customers.

Management. Two other respondents suggested for Senior Management attestation or sign-off on the client-facing tools.

MAS' Response

2.15 MAS expects the Board and Senior Management to be ultimately responsible and accountable for the management and conduct of the digital adviser's business operations, including putting in place systems and processes to ensure a sound risk management culture and environment in their firm. The Board may delegate the day-to-day operational oversight and governance of the client-facing tools to Senior Management. Nonetheless, it should exercise adequate oversight to ensure that the delegated responsibilities are effectively carried out. In addition, the Board and Senior Management should satisfy themselves on the robustness of the client-facing tools, in the manner that they deem fit. MAS considers that it is not necessary to prescribe the manner in which the Board and Senior Management should confirm the effectiveness of controls (such as through written attestations and sign-offs), as there could be other methods by which such confirmation can be provided. MAS has consulted on the Proposed Guidelines on Individual Accountability and Conduct, which will be applicable to digital advisers when finalised.

3 Suitability of Advice

3.1 Respondents' views were mixed on MAS' proposal to grant case-by-case exemption to digital advisers from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of the Notice on Recommendations on Investment Products ("FAA-N16 Exemption") conditional upon the digital advisers operating (i) fully-automated digital advisory models; and (ii) advising only on traditional Exchange Traded Funds⁵ ("ETFs"), subject to certain safeguards (elaborated in paragraph 3.7).

3.2 A few respondents who agreed with the proposal were of the view that the FAA-N16 Exemption should not be limited to digital advisers advising only on traditional ETFs. Some suggested that MAS extends the exemption to include collective investment schemes ("CIS") beyond traditional ETFs, while others sought clarification on whether traditional ETFs needed to be excluded investment products ("EIPs") and were limited to authorised or recognised schemes listed on the Singapore Exchange Ltd. Two respondents highlighted that ETFs were too broad to be classified as a single category, as the risks of ETFs may differ based on their respective benchmarks and market makers providing liquidity for that ETF. One respondent was of the view that it may be more practical to

⁵ As set out in the Consultation Paper, "traditional ETFs" refer to non-synthetic and unlevered ETFs, with limited use of derivatives for hedging purposes.

adopt a principles-based approach by highlighting the key attributes of allowable instruments under the FAA-N16 Exemption.

3.3 Respondents who disagreed with the proposal were of the view that the collection of all the information prescribed under paragraph 11 of FAA-N16 is necessary for digital advisers to provide appropriate and suitable recommendations to clients. The collection of such information is particularly important for retail clients who may not be able to rate their risk appetite accurately.

3.4 A few respondents proposed that MAS extends the FAA-N16 Exemption to conventional FAs. Several respondents sought clarification on the definition of “fully-automated” digital advisers, and the extent of human involvement permissible under a fully-automated digital advisory model. Some respondents questioned the feasibility of case-by-case exemptions as this approach may be onerous for MAS and approvals may not be given in a timely manner.

MAS’ Response

3.5 Following careful consideration of the views put forth for and against the FAA-N16 Exemption, MAS has decided to proceed with the proposal to grant a class exemption for paragraph 11(c) to (i) of FAA-N16 to fully-automated digital advisers instead of a case-by-case exemption. MAS will also widen the scope of investment products applicable for this exemption. Digital advisers are required to meet certain conditions to qualify for the class exemption. These conditions serve as safeguards to mitigate the risks of unsuitable advice.

3.6 MAS is of the view that there are good reasons to be less prescriptive on the types of information that digital advisers need to collect from clients, when the risks are low and safeguards are in place. Clients of fully-automated digital advisers are typically self-directed. As such, they are less likely to be subjected to undue influence and mis-selling from human advisers, including the investment amount and asset mix. For clarity, fully-automated digital advisers refer to digital advisers with no human adviser intervention in the advisory process before, during and after account opening. This is in contrast to hybrid models where there could be elements of human interactions that may influence or pressure a client to open an account or make an investment decision. MAS will not be extending the FAA-N16 Exemption to such hybrid models as well as conventional FAs.

3.7 In terms of product scope, MAS’ intent was to restrict the FAA-N16 exemption to simpler and diversified investment products such as traditional ETFs. MAS recognises that there are CIS such as unlisted passive index funds which exhibit similar characteristics as that of traditional ETFs. As such, MAS will expand the product suite for the FAA-N16

Exemption to CIS that are in substance EIPs. These refer to CIS that comply with the investment restrictions set out in paragraph 2 of the Schedule of the Securities and Futures (Capital Market Products) Regulations 2018, regardless of whether such binding investment restrictions are stated in the CIS documents.

3.8 We will amend FAA-N16 to provide a class exemption to all digital advisers to exempt them from the need to collect information on a client's financial circumstances prescribed under paragraph 11 (c) to (i) of FAA-N16, provided all of the following conditions are met:

- (i) the advice is fully-automated, with no human adviser's intervention in the advisory process⁶;
- (ii) there are in-built "knock-out" or threshold questions to effectively identify and eliminate unsuitable clients (e.g. clients who cannot afford to lose their principal investment sums);
- (iii) there are controls in place to identify and follow up on inconsistent responses provided by clients;
- (iv) a risk disclosure statement is provided to clients to alert them that the recommendation does not take into consideration their financial circumstances, at the point when the recommendations are provided to the clients; and
- (v) the advice is limited to CIS which are in substance EIPs.

3.9 For the avoidance of doubt, digital advisers relying on the FAA-N16 Exemption should still take reasonable steps to collect information on the client's financial objectives and risk tolerance prescribed under paragraph 11(a) and (b) of FAA-N16 to satisfy themselves that the investment recommendation is suitable for the client.

4 Portfolio Management

Provision of fund management services (including portfolio rebalancing) that is incidental to the advice provided

4.1 MAS had proposed to allow both licensed and exempt FAs to manage their clients' investment portfolios consisting of listed and unlisted CIS that are incidental to their advisory activities without the need to hold a capital markets services licence in fund management ("Fund Management Exemption"). FAs relying on the Fund Management Exemption will be required to obtain their clients' prior approval for each and every

⁶ Elements of human interaction is allowed for a fully automated digital adviser only if it is providing technical assistance to clients, assisting clients on IT-related queries/issues or clarifying with clients on their responses if inconsistencies are noted.

transaction carried out for the clients, with the exception of portfolio rebalancing activities to bring the clients' portfolio back to the original recommended asset allocation.

4.2 Most respondents were supportive of the proposal. Some of the respondents suggested that the scope of the Fund Management Exemption be expanded beyond CIS to include securities. Two respondents enquired whether the rebalancing of portfolio to the "original recommended asset allocation" referred to the last piece of recommendation acknowledged by the client or the "original" recommendation. One respondent suggested that licensed and exempt FAs relying on the Fund Management Exemption should have the discretion to rebalance the portfolio to what is suitable to the client at the point of rebalancing instead of being restricted to rebalancing back to the original recommended asset allocation.

MAS' Response

4.3 MAS will retain the scope of the Fund Management Exemption to only listed and unlisted CIS for rebalancing purposes, and will not extend the exemption to include securities. It is unlikely for a portfolio comprising individual securities to simply be rebalanced to the original weightage when there is portfolio drift over time. This is because the individual stock fundamentals would be highly dynamic at different points in time, and an FA will have to proactively re-consider the portfolio composition and weightage in the interest of the customers, instead of simply rebalancing and adjusting the portfolio back to the original allocation. This goes beyond rebalancing, and will require a capital market services licence in fund management.

4.4 On the feedback that the term "original recommended asset allocation" may not be clear as clients may have received advice from their FAs on multiple occasions, MAS will make clear that rebalancing activities refer to activities to bring the clients' portfolio back to the "most recent advice" provided to and suitable for the client on the asset allocation. For clarity, an action to adjust the portfolio composition to one that differs from the original recommended asset allocation or the most recent advice to the client would be considered as discretionary portfolio management. In such an instance, the financial institution is exercising its own determination of specific portfolio composition that has not been agreed with or provided as advice to and acknowledged by the client. This does not fall within the scope of Fund Management Exemption.

Notification prior to rebalancing

4.5 MAS had proposed that FAs relying on the Fund Management Exemption to carry out rebalancing activities be required to disclose and obtain their clients' one-time prior acknowledgement in writing of the fees and terms of their portfolio rebalancing services. The acknowledgement from clients should minimally include disclosures relating to the

frequency, scope and methodology for rebalancing of the portfolio. Such FAs would also have to notify clients prior to each and every rebalancing transaction so that clients are given an opportunity to object to a rebalancing transaction, if they wish to.

4.6 Most respondents were supportive of the proposal. Two respondents suggested that FAs should disclose information on the rebalancing, including the parameters, thresholds and frequency of rebalancing, as well as the costs and risks. One respondent suggested that there should be a maximum window of two days for clients to object to the rebalancing.

MAS' Response

4.7 MAS agrees that there should be sufficient disclosures on the rebalancing activities to allow clients to make an informed decision when providing the one-time acknowledgement. In this regard, MAS expects FAs to also disclose material information associated with periodic rebalancing, such as the scope, methodology and frequency of rebalancing, costs to be borne by clients, and follow-on procedures for opting out where applicable.

4.8 MAS will not prescribe the window period for clients to object to rebalancing transactions. However, FAs should inform clients of the advance notice period that they would provide to clients prior to carrying out the rebalancing activities, when they obtain the one-time prior acknowledgement from clients.

Corporate track record and assets under management requirements for retail fund managers

4.9 MAS had proposed to allow digital advisers which do not meet the requirements for a five-year corporate track record and minimum assets under management ("AUM") of S\$1 billion to serve retail investors, subject to safeguards. These safeguards include requiring the digital advisers to: (i) have key individuals with relevant collective experience in fund management and technology; (ii) offer recommended portfolios that comprise primarily (at least 80%) traditional ETFs, with a cap of 20% invested in listed shares, listed investment grade bonds and foreign exchange contracts for hedging purpose; and (iii) undergo a post-authorisation audit conducted by an independent third party on key risk areas.

4.10 There were mixed views on MAS' proposal to allow digital advisers which do not meet the five-year corporate track record and minimum AUM criteria to serve retail investors. Respondents who agreed with the proposal were of the view that it would facilitate the provision of digital advisory services to complement the existing suite of advisory channels available to consumers, and encourage innovation in the financial

industry. Some suggested that MAS provide digital advisers with greater flexibility to create investment portfolios, such as increasing the 20% cap and extending the allowable products to include CIS.

4.11 Respondents who disagreed with the proposal argued that corporate track record and AUM are important admission requirements for retail fund managers. They felt that these requirements have helped to ensure that only reputable and experienced retail fund managers operate in Singapore. Having the requisite track record is particularly important so that fund managers would not mis-advise retail investors. Some respondents suggested that MAS tighten the safeguards such that digital advisers that do not meet the corporate track record and minimum AUM requirements would not be allowed to recommend portfolios that comprise Specified Investment Products (“SIPs”), which are considered more complex products.

4.12 Some respondents sought guidance on the proposed scope of the independent audit and the list of service providers to conduct such audit. One respondent sought guidance on the follow-up required in the event that the digital adviser fails the independent audit.

MAS’ Response

4.13 Having weighed the arguments from all respondents, MAS has decided to proceed with the proposal to allow digital advisers that do not have a five-year corporate track record and AUM of S\$1 billion to manage funds for retail investors. These digital advisers will be subject to the proposed safeguards on the experience of key individuals in fund management and technology, and the post-authorisation audit. Digital advisers that are adequately staffed by seasoned professionals and that have good control and compliance arrangements should not be precluded from serving retail investors due to the lack of a corporate track record. By allowing a broader range of digital advisers to serve retail investors, MAS hopes to improve access to low-cost digital investment advice by a growing segment of technology-savvy consumers who make self-directed investments.

4.14 MAS agrees that digital advisers that do not meet the corporate track record and AUM requirements should only offer simple and diversified investment products, until they have demonstrated sufficient expertise in fund management. MAS will revise the product restriction to allow digital advisers to offer portfolios that comprise all CIS that are in substance EIPs (as defined in paragraph 3.7), including unlisted passive index funds that meet this characteristic. Digital advisers that do not meet the corporate track record and minimum AUM requirement will not be permitted to recommend portfolios that comprise products other than CIS which are in substance EIPs.

4.15 With greater flexibility in the selection of CIS to build the recommended portfolios, MAS will remove the 20% allowable allocation to listed shares, listed investment grade bonds and foreign exchange contracts in the recommended portfolios. Digital advisers that do not meet the corporate track record or AUM criteria will not be allowed to manufacture the underlying CIS in the recommended portfolio. In addition, the digital adviser's client-facing tools must be fully automated, to avoid undue influence on the advisory and portfolio construction process or the client's investment decision.

4.16 The post-authorisation audit should minimally cover the governance and controls over the development and maintenance of algorithms, handling of client moneys and assets, suitability of advice, technology risk and prevention of money laundering and countering the financing of terrorism. MAS will not prescribe a list of service providers that can conduct the independent post-authorisation audit. Digital advisers should carry out adequate due diligence on the service providers they intend to appoint, to satisfy themselves that the service provider has the expertise and skills to conduct the audit. Digital advisers will need to remediate any audit findings in a timely manner. MAS may require digital advisers to undergo follow-up audits, where there are significant unremediated findings.

5 Facilitating the Execution of Investment Transactions

5.1 Respondents were supportive of the proposal to allow licensed and exempt FAs to assist clients to pass trade orders for securities other than CIS to brokerage firms for execution without the need for them to hold a capital markets services licence for dealing in securities, if such dealing is incidental to their advisory activities ("Securities Dealing Exemption"). A few respondents sought clarification on the definition of "incidental".

5.2 Given that licensed and exempt FAs will now be allowed to pass on transactions for listed SIPs, there was broad support to require licensed and exempt FAs to (i) furnish a risk warning statement to clients for investments in overseas-listed investment products; and (ii) conduct Customer Account Review ("CAR") assessments to assess clients' knowledge and experience for transacting in listed SIPs. These are existing requirements that brokerage firms are subject to.

5.3 However, three respondents disagreed with imposing the CAR obligations on digital advisers. They felt that the proposal was not practical for digital advisers as digital platforms are meant to provide ease of access to self-assisted investing. A few

respondents enquired if MAS would be granting case-by-case exemptions to digital advisers from both CAR and Customer Knowledge Assessment (“CKA”)⁷ requirements.

MAS’ Response

5.4 MAS will proceed with the proposal to grant the Securities Dealing Exemption to licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities. MAS will also require FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.

5.5 MAS considers dealing activities to be incidental to an FA’s advisory activities if the FA has provided advice to a client on securities and subsequently assists the client to pass on the securities order. The Securities Dealing Exemption for such an FA will still apply even if the securities purchased by the client was not recommended by the FA. That said, FAs should ensure that there are safeguards in place, such as documenting the decision of the client and highlighting to the client in writing that it is the client’s responsibility to ensure the suitability of the securities selected, if the securities purchased by the client were not recommended by the FA.

5.6 It is important for digital advisers to have the means and framework to assess a client’s knowledge and experience in investing in listed and unlisted SIPs, regardless of whether the client is self-directed or not. If a client is assessed not to have the requisite knowledge and experience, the digital adviser should warn the client or offer to provide advice to the client concerning SIPs. MAS would ordinarily not expect to exempt digital advisers from complying with the CAR and CKA requirements, unless a digital adviser is able to satisfy MAS that it has an alternative but equivalent framework that will achieve the same effect and policy objectives as the CAR and CKA requirements in substance.

6 Other Feedback

Additional feedback on the CAR and CKA process

6.1 One respondent suggested that MAS grants exemption to FAs from the need to perform CAR assessment if the client has already been assessed by a brokerage firm. Some respondents provided feedback that the requirement for senior management to approve the opening of SIP trading accounts was procedurally cumbersome, and requested MAS to clarify our expectations on how this requirement may be satisfied in a digital context.

⁷ The CKA requirement imposes an obligation on FAs to assess a client’s knowledge and experience before making a recommendation on unlisted SIPs to the client.

MAS' Response

6.2 MAS agrees with the suggestion to allow licensed and exempt FAs (or other financial institutions) to rely on the CAR assessment conducted by another firm licensed or supervised by MAS. The same will apply to CKA assessment conducted by firms licensed or supervised by MAS. The onus will be on the firm placing the reliance to ascertain and satisfy itself that the CAR or CKA assessment performed by the other firm has been conducted in accordance with the requirements stated in SFA04-N12 and FAA-N16 respectively. MAS has amended SFA04-N12 and FAA-N16 to allow for such reliance.

6.3 The requirement for senior management⁸ to be involved in the CAR and CKA process is to ensure that clients are accorded the appropriate safeguards when transacting in SIPs.⁹ While senior management may delegate this duty, they remain accountable for this responsibility.¹⁰

6.4 To clarify MAS' expectation on senior management's operational involvement, MAS has amended SFA04-N12 and FAA-N16 so that intermediaries may put in place a framework approved by senior management to govern the SIP trading account opening or unlisted SIP transaction process. This framework is in lieu of approving each and every customer's SIP trading account or unlisted SIP transaction. Senior management remains responsible for ensuring that the framework is sufficiently robust to satisfy the requirements under SFA04-N12 or FAA-N16.

Applicability of the balanced scorecard framework to digital advisers

6.5 One respondent proposed to exempt digital advisers from the need to comply with the balanced scorecard framework ("BSC") requirements given that there are no human advisers involved in the solicitation process. The same respondent highlighted that recommendations are generated by the client-facing tools based on the underlying algorithms, with inputs from the clients. In the context of digital advisory service, the respondent felt that a qualified human adviser conducting the compliance checks on the quality of advice provided by the client-facing tools would serve the same purpose as that of an Independent Sales Audit Unit.

MAS' Response

6.6 The BSC framework is only applicable to FAs and representatives that provide recommendation or advice to clients directly.

⁸ This refers to the chief executive officer or executive director of the intermediary.

⁹ See paragraphs 9 and 14 of SFA04-N12 and paragraph 25 of FAA-N16.

¹⁰ See paragraphs 1.2.10 and 3.1.28 of MAS' Response to Policy Consultation on Regulatory Regime for Listed and Unlisted Investment Products (October 2010).

6.7 Digital advisers that do not have any representative providing advice or recommendations to clients directly (whether face-to-face or via technological devices) will not be subject to the BSC requirements.

6.8 Personnel who are appointed to design the firm's algorithms or review the suitability of the recommendations generated by the client-facing tools and who do not provide recommendations or advice directly to clients will also not be subject to the BSC requirements.

Disclosure of performance figures by digital advisers

6.9 One member of the public provided feedback to MAS that digital advisers may provide misleading simulated projected returns to clients, particularly if there is a lack of disclosure on the assumptions and basis of deriving projected returns.

MAS' Response

6.10 Digital advisers are required to comply with existing business conduct rules set out under regulation 46A and 46AD of the Securities and Futures (Licensing and Conduct of Business) Regulations and regulation 22 to 22D of the Financial Advisers Regulations relating to prohibition on making false or misleading statements in respect of advertisements. For example, if projected returns are disclosed, MAS expects digital advisers to highlight the probability of losses so as to provide a fair and balanced view. If past performance is disclosed, digital advisers should highlight in writing to clients that past performance is not necessarily indicative of future performance. MAS will also set out our expectations in the Guidelines on Provision of Digital Advisory Services.

MONETARY AUTHORITY OF SINGAPORE

8 October 2018

Annex A**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON
PROVISION OF DIGITAL ADVISORY SERVICES**

1. Asia Securities Industry & Financial Markets Association
2. Autowealth Private Limited
3. Bambu
4. Blackrock (Singapore) Limited
5. Capital Governance (S) Pte Ltd
6. Claire Travers, MSc London School of Economics
7. FIL Investment Management (Singapore) Limited
8. FPA Financial Corporation Pte. Ltd.
9. Great Eastern Holdings Limited
10. Investment Management Association of Singapore
11. Jachin Capital Pte Ltd
12. Kopal Agawal
13. Lymon Pte. Ltd.
14. Mercer Investment Solutions (Singapore) Pte. Ltd.
15. RHT Compliance Solutions Pte Ltd
16. Saxo Capital Markets Pte. Ltd.
17. Subhajit Mandal
18. Singcapital Private Limited
19. Stradegi Consulting Pte. Ltd.
20. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch
21. HSBC Bank (Singapore) Limited
22. HSBC Insurance (Singapore) Pte Limited
23. Thomson Reuters
24. Terence Goh
25. Unicorn Financial Solutions Pte Limited

26. Vanguard Investments Singapore Pte. Ltd.

27. Vincent Lee

28. Wong Partnership LLP

Note: This list only includes the names of respondents who did not request that their identity be kept confidential.

Please refer to Annex B for the submissions.

Annex B

FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON PROVISION OF DIGITAL ADVISORY SERVICES

Note: This table below only includes submissions for which respondents did not request confidentiality.

S/N	Respondent	Full Responses from Respondent
1	Asia Securities Industry & Financial Markets Association	<p>General Comments</p> <p>The Consultation Paper rightly observes the increasing adoption of digital advisory services that are fast gaining popularity among the growing segment of technology-savvy and self-directed consumers. We commend MAS for embracing digital advisory services as a complement to traditional advisory channels. However, it is important to recognise the paradigm shift that comes with an increasing adoption of digital advisory services. The success of digital advisers in certain jurisdictions such as the U.S. and China can be attributed to services that are tailored to consumers with simpler financial needs or circumstances that might have been previously underserved, and the lower cost and simpler process that digital advisers may offer over traditional advisory channels. MAS may wish to further consider the need to protect retail customers, as well as the need to impose regulatory requirements in a manner appropriate for different types of digital advisers, including traditional advisers that may be using some form of automated platform.</p> <p>Digital advisory tools can potentially deliver a more consistent approach, experience and outcome, across a range of clients, than a comparable human adviser. However, as algorithms are ultimately developed by humans and rely on historical data, there is the risk that an algorithm may reproduce inherent biases. That said, with knowledge and awareness of this risk at the forefront, digital advisers can practice fairness-by-design by ensuring that their client-facing tools have proper controls and processes in place, such as governance structures that provide oversight of model risk and development and continuous testing, to eliminate any biases or discrimination that can adversely affect the digital adviser's clients.</p> <p>Notwithstanding the above, we would highlight to MAS that algorithm-driven tools and other digital advisory services can equally be used by digital advisers as tools to eliminate human error and bias.</p> <p>We would also like to suggest that MAS consider whether (a) the existing customer account review and customer knowledge assessment requirements for financial institutions, and (b) the existing anti-money</p>

	<p>laundering / know-your-client regime for financial institutions, should be tailored to address the unique characteristics of digital advisers and the environment within which they interface with clients.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>We agree broadly with the expectations on the methodology of the algorithm behind the client-facing tool, in particular with respect to the collection and analysis of client information, and on the staff competency requirements in paragraph 3.4. For the methodology of the algorithms behind a client-facing tool to be considered "sufficiently.</p> <p>We are also glad to see that the Consultation Paper recognises that contact with the client may be a necessary option to resolve contradictory or inconsistent responses from the client or to determine the suitability of the client for a particular product or strategy.</p> <p>Many of our members are of the view that such contact with the client may be through the digital adviser's staff or other means, such as patterns of client behaviour from the client's bank accounts or other data provided by the client. Therefore, we would not want to see the expectation set out in paragraph 3.2 that algorithms, alone, be able to identify and eliminate clients who are unsuitable for investing, even for products such as traditional ETFs. We respectfully request that the last expectation set out in paragraph 3.2 take into consideration the fact that determinations of client suitability made by the algorithm may be supplemented with human input and/or other means.</p> <p>We agree that digital advisers should be required to be conduct back-tests and gap analysis prior to the launch of their client-facing tool. However, some of our members note that it may not always be practicable or appropriate for back-tests and gap analyses to be performed when only minor changes are made to the client-facing tool.</p> <p>Accordingly, we respectfully request that MAS leaves it to the determination of the digital adviser as to when back-tests and gap analyses should be performed after the client-facing tool is launched, on the basis of their ongoing obligations to monitor and test their algorithms to ensure that they perform as intended.</p> <p>In addition, we would like to note that it may not always be possible or appropriate for a methodology to produce an output consistent with an intended investment recommendation if the baseline recommendation is made by a human adviser. As such, we recommend that digital</p>
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	<p>advisers be able to retain flexibility in the choice of their methods, to ensure that the methodology put in place reliably produces an output that is consistent with the intended investment recommendation.</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>We agree generally with the minimum standards in paragraph 3.5 on monitoring and testing of algorithms used for client-facing tools.</p> <p>We would like to propose that digital advisers put in place policies, procedures and controls for the monitoring and testing of algorithms and that the records of testing results be maintained by the digital adviser for a specified period of time. The records may include, for example, (a) the results of the tests, (b) changes made to the algorithm in response to the results, and (c) the alternative changes that were available (but eventually rejected). Having access to such records would enable MAS to have the opportunity to "audit" or reconstruct the manner in which the digital adviser responded to the results in a methodical manner, and detect any bias or self-interested methodological choices the adviser might have made (e.g. alternative approaches that were not selected though they objectively appeared to be better for investors, but less beneficial to the firm).</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>As to the disclosures proposed by MAS in paragraph 3.7, we would not expect retail clients of digital advisers (i.e. persons that are not accredited investors or institutional investors) to be able to fully appreciate or understand detailed or technical disclosures relating to algorithms. Further, the making of such disclosures could give rise to associated intellectual property / trade secret issues if the algorithms were developed by a third party provider.</p> <p>However, we would like to suggest that disclosures of the following matters be made by the digital adviser, which would help a client make an informed decision on the digital adviser's services:</p> <ul style="list-style-type: none"> • information on the digital adviser's investment strategies and methods; • information on the methodology used by the digital adviser when applying the algorithm behind the client-facing tool (e.g. to make recommendations to clients, or to execute trades on behalf of clients), and how the algorithm works as applied to the products or services received or when rebalancing investments; • key assumptions of the algorithms; • information on how the digital advisory service and any other
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	<p>features operate;</p> <ul style="list-style-type: none"> • the circumstances (such as extreme market conditions) under • which the algorithm may be overridden (manually or otherwise) or its service suspended; • when any adjustments to the algorithm can be made, the type of adjustments, and whether clients will be given prior notice of the adjustments; • the range of types of investment products which the digital adviser will advise on and if a digital adviser cannot or will not advise on certain types of investment products, an explanation of the reason(s) why; • the time it will take for the digital adviser to recognise and incorporate any changes or updates made by the client to their investment profile or instructions; • the extent of availability (if any) of web chats or face-to-face interaction with the digital adviser; • whether a description of the nature or complexity of the recommended product will be available, and avenues available to the client if they would like more information on the product (e.g. via web chat or face-to-face interaction); • actual or potential conflicts of interests that may arise and how they will be mitigated or resolved; and • the transaction fees and costs of using the digital adviser's services. <p>We assume that the above information can be provided on the digital advisory platform together with the account opening documentation and other relevant information. It would be most helpful if MAS can provide explicit guidance on how digital advisers should provide information to clients, including product documentation, if not through the online platform.</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>We agree that the digital adviser's board and senior management should be responsible for maintaining effective oversight and governance of the client-facing tools. However, we respectfully request that MAS provide further clarity and guidance on the specific roles and responsibilities of the board and senior management with respect to the foregoing as well as the governance and controls expected to be put in place by a digital adviser. For instance, we would not expect the board of directors of a digital adviser to be best-placed to approve the design and methodology development of the client-facing tool and ensuring its maintenance, or to maintain management oversight of the client-facing tool. Senior management would be better-equipped to supervise such tasks.</p> <p>In addition, it would be helpful if MAS could also clarify the responsibilities, if any, of product issuers which use the digital advisory platforms of third parties.</p>
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	<p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>We generally support MAS' proposal to grant an exemption from the need to collect full information on the financial circumstances of a client in specified circumstances. We agree with MAS that it may be less crucial for digital advisers to collect all of the information listed under paragraphs 11(c) to (i) of FAA-N16, particularly in view of the limited services a digital adviser would provide.</p> <p>However, one of our members expressed concern that retail investors may not be able to rate their true risk appetite and therefore some of the information listed in paragraphs 11(c) to (i) of FAA-N16, such as whether the amount to be invested is a substantial portion of the client's assets, should be collected and built into the algorithm.</p> <p>Other members would like MAS to provide guidance on how the exemption would be applied, i.e., whether MAS will exempt a digital adviser from all of the information requirements listed under paragraphs 11(c) to (i) of FAA-N16, or if MAS intends to exempt a digital adviser from specific sub-paragraphs of FAA-N16 on a case by case basis. In the case of the latter, we would welcome guidance on the factors that MAS will consider when making such determination so as to avoid the situation where two fully-automated platforms that are quite similar to be subject to different information collection requirements.</p> <p>Further to the above, we would be grateful if MAS could clarify in guidelines what constitutes a "fully-automated" client-facing tool. For instance, would a hybrid client-facing tool with some human involvement limited to clarifying contradictory or inconsistent responses from a client not qualify for the case-by-case exemptions proposed in paragraph 4.6?</p> <p>We also would like to understand the reason for limiting the exemption to digital advisers advising on "traditional ETFs" only and what that term means, i.e. whether it includes only ETFs listed on the Singapore Securities Exchange Trading Limited (SGX) or also ETFs listed on foreign exchanges recognised by the MAS. Several of our members believe that including ETFs listed on foreign exchanges recognised by the MAS will broaden product choice and allow digital advisers to offer the best possible product range for portfolio construction for Singapore investors.</p>
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	<p>Some members also suggest including (a) plain vanilla funds which are broader in scope than just "traditional ETFs", but also pose less risk, (b) funds included in the CPF Investment Scheme as their funds have been thoroughly vetted on a number of dimensions, and/or (c) authorised or recognised traditional unlisted index funds, which are also low cost.</p> <p>One member noted, however, that even traditional ETFs vary a great deal, with some being broad market with physical securities that may be suitable for retail investors, while narrow ETFs may focus on riskier markets. Also, the risks of ETFs may differ depending on their respective benchmarks and/or the market makers providing the liquidity for that ETF.</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>We agree with MAS' proposal that digital advisers seeking to apply for the FAA-N16 Exemption be required to provide a risk disclosure to clients setting out the limitations of the adviser's recommendation.</p> <p>However, we respectfully request that MAS clarify in guidelines what it means by its reference to "a digital adviser's online processes or algorithms exert[ing] ... influence over the amount that a client will invest", and to provide illustrations or examples of such "influence".</p> <p>As the degree of human interaction between a digital adviser and its clients is limited, clients have fewer opportunities to obtain clarity and information on the investment recommendations, products and services provided by an adviser than in an offline environment. The requirements set out in FAA-N16 and SFA 04-N12 as currently drafted do not, however, take into consideration the unique characteristics of digital advisers and manner in which they interact with clients in an online environment.</p> <p>We respectfully request that MAS consider proposing amendments to notices FAA-N16 and SFA 04-N12 to address the unique characteristics of digital advisers, in particular, for purposes of the customer account review and customer knowledge assessment requirements.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>We support MAS' proposal to extend the current licensing exemption from the requirement to hold a capital markets services ("CMS") licence for fund management to include both listed and unlisted CIS, and to include exempt FAs.</p>
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	<p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>MAS has proposed to dispense with the requirement for digital advisers to obtain prior client approval in respect of each and every rebalancing transaction, subject to safeguards. In this regard, we understand that the "safeguards" referred to are limited to (a) the obligation to disclose and obtain clients' one-time prior acknowledgement in writing, and (b) the obligation to notify clients prior to each and every rebalancing transaction. We do not think that the latter is necessary if the rebalancing thresholds and frequency have been disclosed to the client in the first place.</p> <p>In addition, while paragraphs 5.3 to 5.5 focus on portfolio rebalancing activities, we note that other changes could be made to a client's portfolio, for instance, as a result of tax optimisation or regular automatic investment plans. In this connection, we respectfully request that MAS confirm that client prior approval is not required for such changes.</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>No comments.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>For greater clarity, we suggest the following drafting amendments to reflect MAS' proposals:</p> <p>5(g) a financial adviser — (i) who is licensed under the Financial Advisers Act (Cap. 110) or exempt under section 23 or 100 of that Act in respect of the provision of the financial advisory services specified in paragraphs 1 and 3 of the Second Schedule to the Act; and (ii) who carries on business in fund management for or on behalf of another person (referred to in this paragraph as the client) in connection with any advice that is given by the licensed financial adviser to the client concerning units in a collective investment scheme or a portfolio of units in various collective investment schemes, provided that —</p> <p>(A) the scope of such business is confined to the management of one or more portfolios comprising solely of units in one or more collective investment schemes;</p> <p>(B) in carrying on business in fund management for or on behalf of the client, the financial adviser obtains the prior approval of the client in</p>
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	<p>respect of each and every transaction for or on behalf of the client, except for —</p> <p>(BA) where the client's express agreement is obtained for realigning of the portfolio's assets weightings back to the financial adviser's original advice, <u>prior to or at</u> the point when the <u>financial adviser's</u> original advice is provided; and</p> <p>(BB) <u>the</u> client is notified of the transaction that is solely for the purpose of <u>realigning the portfolio's assets weightings under</u> sub-paragraph (BA), prior to each and every <u>such</u> transaction; and</p> <p>(C) where the financial adviser receives the client's money or property under sub-paragraph (B), such money or property, except to the extent that it is received wholly for services rendered by the licensee, shall be handed over to —</p> <p>(CA) the manager or trustee of the collective investment scheme;</p> <p>(CB) the holder of a capital markets services licence under the Act to provide custodial services which is authorised by the client to receive the client's money or property; or</p> <p>(CC) a person exempt under the Act from holding a capital markets services licence to provide custodial services which is authorised by the client to receive the client's money or property, not later than the business day immediately following the day on which the financial adviser receives the money or property or at a later date if, and only if, it has the client's prior written consent to do so;</p> <p>It is not clear from the proposed amendments to paragraph 5(g) of Annex B whether financial advisers relying on the exemption would be required to disclose and obtain their clients' one-time prior acknowledgment in writing of the fees and terms of their discretionary portfolio rebalancing services, including the frequency, scope and methodology for rebalancing of the portfolio. In this connection, we request that MAS set out such details in guidelines or FAQs for clarity.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We support MAS' proposal to extend the current licensing exemption from the requirement to hold a CMS licence for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We recommend the following drafting amendments for clarity: <i>2(1)(j) a financial adviser licensed under the Financial Advisers Act (Cap. 110), or a person exempted under section 23 or 100 of that Act, and its representatives in respect of providing the financial advisory service of advising others, either directly or through publications or writings, and</i></p>
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		<p><i>whether in electronic, print or other form, concerning any securities, units in a collective investment scheme, and specified exchange-traded derivative contracts that are specified products, and whose business of dealing in capital markets products that are securities, units in a collective investment scheme, or specified exchange-traded derivative contracts that are specified products, is solely incidental to its provision of that financial advisory service in respect of any securities, units in a collective investment scheme, and specified exchange-traded derivative contracts that are specified products;</i></p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>As noted in our responses to Question 2 above, we would be grateful if MAS could provide further clarity and guidance on the steps it expects digital advisers to take to</p> <p>Digital advisers have unique characteristics and engage with their clients in a manner that is different to traditional advisers. However, the requirements set out in FAA-N16 and SFA 04-N12 as currently drafted do not take into consideration such differences, and it may not be practicable or appropriate for digital advisers to comply with such requirements.</p> <p>With respect to MAS' proposal to extend the requirements under FAA-N16 to listed SIPs, we would be grateful if MAS could clarify if it intends to extend all of the requirements set out under FAA-N16 to listed SIPs, or only the Customer Knowledge Assessment requirements.</p> <p>We further request that MAS separately provide industry participants with the opportunity and time to consider and provide feedback on the proposed revisions to FAA-N16</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments.</p>
2	Autowealth Private Limited	<p>General Comments</p> <p>We are positive about MAS’s proposal to relax certain regulations with proper safeguards in place. The proposals will likely inspire further development and innovation in Singapore’s financial advisory industry and consequently benefit investors at large.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p>

	<p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>We support the proposed processes in para 3.2, 3.3, 3.4 and 3.5 as they contribute and ensure the robustness of client-facing tools.</p> <p>On the proposed disclosures for para 3.7, we are of the view that algorithms may be too complex for clients to apprehend. We counter-propose an alternative to explain and provide a summary of the profile that the algorithms classify the clients under so that clients are informed and are in a better position to assess the suitability of the profile and the corresponding recommendation.</p> <p>On the proposed disclosures for para 3.8, we are of the view that digital advisers who receive commissions from investment product providers should disclose that fact to clients so that clients are informed about the objectivity of the digital advisor.</p> <p>On the aspect of selectivity, we believe disclosing brief information about the selection criteria for the recommended investment products will enhance clients’ confidence in the digital advisor. Therefore, it is also in the commercial interest of the digital advisor to do so.</p> <p>On the aspect of disclosing limitations that other investments not considered may have characteristics similar or superior to those being analysed or selected, we are of the view that such a move may erode clients’ confidence in the digital advisor. We tend to believe digital advisers with more robust selection criteria will deliver superior outcomes in both investment performance and risk management. In today’s information-efficient environment, prospective clients will naturally have a selection bias towards digital advisers with a good track record of delivering superior outcomes. We further note that this natural selection bias for superior outcomes is somewhat reminiscent of the current state of the fund management industry where clients have a selection bias for fund managers or investment products that deliver superior outcomes for them.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p>
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	<p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>We strongly believe collecting information prescribed under para 11 of FAA-N16 enhances and affects the quality of advice significantly and holds a strong view that this should not be relaxed, saved for para 11(g) where clients’ current investment portfolio may be skewed by unique circumstances (eg. Previous liquidity needs where such needs may no longer be relevant or such needs may have now changed). We also do not envision excessive effort or inefficiency to collect the prescribed information.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>We do not have any material views on para 5.2.</p> <p>We support the proposal to exempt licensed and exempt FAs from holding CMS license in fund management for rebalancing activities. The proposal will strengthen the risk management of clients’ portfolios and allow clients to maintain a consistent risk profile. Besides, well-established researches including those documented in “Pioneering Portfolio Management [David F. Swensen, CIO of Yale Endowment Fund]” conclude that rebalancing exploit excessive price volatility to generate value-add returns (ie. alpha). We also note that it is operationally impractical to obtain clients’ approval for each rebalancing transaction.</p> <p>We support the proposal to allow digital advisers that do not meet the requisite corporate track record and AUM requirements to service retail clients, subject to safeguards. The proposal will likely inspire further development and innovation in the financial advisory industry and consequently benefit investors at large.></p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p>
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		<p>No comments</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We support the proposal as this will offer more investment alternatives to clients in general.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We support the proposed amendments in line with our responses in Question 5.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We support the proposal with the view that SIPs carry material risk and digital advisors should therefore consider if clients have adequate knowledge and experience to apprehend the inherent risks.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We support the proposal with the view that it is crucial to disclose the fact that the level of investor protection afforded may differ for overseas-listed investment products. Besides, the risk warning statement is about two pages long which is operationally practical to explain each warning statement one by one to clients.</p>
3	Bambu	<p>General Comments</p> <p>No comments</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p>

	<p>The terms for elimination of unsuitable clients should be clearly defined.</p> <p>Should differentiate clearly between algorithms used for discretionary portfolio management, and algorithms used for other purposes such as financial planning and risk profiling.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Should be tied to lack of minimum investment amount This assumes that appropriate "traditional" ETFs" are whitelisted for retail investors without additional certification by individuals Should be tied to integration with MyInfo data to validate suitability of client.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>Providers of Robo-Advisor technologies should be exempt of any licensing, as long as the underlying advice and investment strategy is clearly defined by the financial institution applying the technology This assumes that appropriate "traditional" ETFs" are whitelisted for retail investors without additional certification by individuals</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and</p>
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		<p>exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments</p>
4	Blackrock (Singapore) Limited	<p>General Comments</p> <p>BlackRock, Inc. is pleased to have the opportunity to respond to the “Provision of Digital Advisory Services” consultation paper, issued by the Monetary Authority of Singapore.</p> <p>BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.</p> <p>We welcome the opportunity to comment on the issues raised by this discussion paper and will continue to contribute to the thinking of the Monetary Authority of Singapore on any issues that may assist in the final outcome.</p> <p>Executive summary BlackRock is supportive of digital advisory services that help individual investors to have access to financial advice that can meet their needs. While digital advisors are subject to the same framework of regulation and supervision as traditional advisors, we believe that the following should be key areas of regulatory focus for digital advisory services: (i) disclosure standards and cost transparency, (ii) know your client and suitability requirements, (iii) algorithm design and oversight, (iv) trading practices, and (v) data protection and cybersecurity.</p> <p>Specific Comments More details on our views are contained in our response to the specific questions raised in the Consultation Paper. We welcome further discussion on any of the points that we have raised.</p>

	<p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>We wish to clarify the assumption in paragraph 3.2 that suggests a digital adviser would primarily rely on a questionnaire to determine client suitability. In particular, we wish to highlight that if other means of assessment are available, such as analyzing patterns from bank account or other available data (subject to the appropriate client consent and data privacy protection), these sources of data should not be precluded from helping a digital adviser make a suitable recommendation.</p> <p>In relation to proposed disclosures in paragraph 3.7 and 3.8, we agree that it is important for digital advisors to reasonably design their algorithms based on their stated investment strategies and methods and to make appropriate disclosures to clients concerning such investment strategies and methods. To help investors understand the risks and costs associated with the advisory service, digital advisors should disclose to clients the limits of their services and their dependence on client-provided information. We also endorse the requirement for a digital adviser to disclose circumstances under which its algorithm may be overridden or its service suspended. Digital advisers’ algorithms may contain circuit breakers which halt trading during market volatility events, hence clients may not be aware that their orders have not been executed if proper disclosure is not made.</p> <p>Asset allocation models should be based on generally accepted investment theories that take into account the historic returns of different asset classes, and key assumptions of the algorithms should be made available to investors. In addition, algorithms should be designed to consider a wide range of factors including performance, transaction costs, and management fees associated with various products. The algorithms should also factor in the level of risk that is appropriate for the consumer, especially if the consumer has limited financial knowledge and experience. Digital advisors should provide clear disclosure of the above to investors in order to allow them to make an informed evaluation considering the assumptions of the models.</p> <p>We agree that the board and senior management should have oversight over the design, management and controls of the client-facing tool. This</p>
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	<p>would also be consistent with good corporate governance principles. They should appoint appropriate personnel and implement proper governance structure over the development and maintenance of the financial advice tool. Digital advisors should ensure that their algorithms are managed under reasonably designed coding control procedures, including testing and review, prior to use. Testing and control of the algorithm should be a separate function from compliance or internal audit teams whose role is to challenge and advise those responsible for the design and operation of the algorithm on an ongoing basis. It is equally important to ensure appropriate governance and testing of the algorithms by investment and risk professionals.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>We support the proposal to allow for exemptions from the need to collect full information with respect to assessing client suitability provided these are subject to suitable safeguards. However, we note that the consultation has remained silent on product offering requirements and it is not entirely clear if digital advisors for retail clients are permitted to provide advice on traditional ETFs which may not be authorised or recognised in Singapore.</p> <p>If digital advisors are limited to providing advice to retail clients only on traditional ETFs which are authorised or recognised schemes listed on the SGX, digital advisers will be heavily constrained in providing the most suitable investment product to the client.</p> <p>In light of the above, we propose that MAS consider allowing traditional ETFs listed on foreign exchanges recognized by MAS to also be included in digital adviser models, and provide clarity in this regard under relevant legislation on offering of collective investment schemes to the public in Singapore.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of</p>
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	<p>portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>We agree with the proposals to expand the scope of the licensing exemptions indicated in Section 5.</p> <p>Notwithstanding, we wish to clarify that portfolio rebalancing activities may also take place as a result of tax optimisation or regular investment plans. While these reasons are more common in the US and Europe, we wish to clarify that portfolio transactions or activities for these reasons should also not be subject to prior approval requirements.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>We generally agree with the proposed legislative amendments in Annex B. However, we would propose additional wording on “realigning of the portfolio’s assets weightings back to the financial adviser’s original advice” in sub-paragraph (BA).</p> <p>In particular, we wish to suggest additional wording allowing for re-aligning of the portfolio’s assets for tax optimisation or regular investment plans also be included, as explained in our response to question 3.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We agree with the proposal to extend the scope of the licensing exemption to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We agree with the proposed legislative amendments in paragraphs 2(1)(j) 2(2) of Annex B.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We agree with the proposal to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p>
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		<p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We agree with the proposal to include a risk warning statement to clients for investments in overseas-listed investment products given that the level of investor protection afforded may not be the same as an investment product listed on SGX and regulated by the MAS.</p> <p>As stated in our response to Question 2, the offering regime for foreign collective investment schemes should facilitate the suggested intent here to allow clients to invest in overseas-listed ETFs.</p>
5	Capital Governance (S) Pte Ltd	<p>General Comments</p> <p>Nil</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>Nil</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Nil</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p>

	<p>(b) extend the licensing exemption to include exempt FAs; (ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and (iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>Nil</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>Nil</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>This proposal recognises the role and capacity of FAs in helping their clients in their investments and savings. However, it is opportune to also clarify the definition of “incidental to” in terms of the permitted or prohibited commercial arrangements between the broker and FA firms.</p> <p>It may also be discussed that paragraph 2(j) of the Second Schedule to the SF(LCB)R, is drafted in a way that is unclear that it is only allowing FAs the exemption if they are dealing in CIS – the first half of the paragraph could be construed as meaning that ALL FAs are exempted from ALL transactions in ALL capital markets products.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>Nil</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>This is good investor protection. In conjunction, the regulations must provide guidance on the frequency of updates to the assessment (eg. minimum annual?).</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p>
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		In a practical sense, many account opening forms and similar documents are inundated with legalistic text. MAS should provide guidance on the language of the risk warning statement and the extent of liability on FAs.
6	Claire Travers, MSc London School of Economics	<p>General Comments</p> <p>No comments</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>i Digital advisers should allow for a granular level of client categorisation and product segmentation to allow for the variation in customer risk appetites and capacity for loss. Care should be taken not to exclude certain product categories e.g. gilts, ETFs, and other low risk financial products from the range of products available to clients; which may be less profitable for Financial Institutions. By removing such product offerings, customers may be exposed to more risk than within their original risk appetite in order to gain financial advice. In addition to backtesting as alluded to in paragraphs 3.3, algorithms should be subject to stress testing. Stress testing a portfolio of financial instruments under stressed market conditions will indicate whether investors could potentially be exposed to greater loss than within their actual capacity for loss should the market be subject to extreme shocks. The results of stress testing a portfolio of financial instruments should inform whether these products are suitable for a given client category.</p> <p>ii In establishing the effectiveness of digital advisory models, the algorithms / logic embedded within the digital advisory models should be disclosed to highlight to disclose key assumptions, limitations with results of backtesting and stress testing. The digital advisory tool should be governed in the same way as any other model within a Financial Institution i.e. the model should be subject to model risk practices.</p> <p>iii FAs should disclose such conflicts of interest in a prominent manner as would other risk warnings. FAs should state whether they are independent or not and how this may affect the selection of</p>

	<p>financial products on a clients behalf.</p> <p>iv Senior Management should attest to the effectiveness of controls. This would include an attestation that models, including digital advisory tools are subject to appropriate model risk management including an annual validation cycle.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>No comments</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>No comments</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p>
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		<p>No comments</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments</p>
7	FIL Investment Management (Singapore) Limited	<p>General Comments</p> <p>In recent months, there have been a number of consultation papers which may impact the fund management industry. Given this, the response period of 1 month does not provide sufficient time for industry participants to thoroughly evaluate the proposals and to provide considered feedback to the MAS.</p> <p>While Singapore seeks to build its digital capabilities, there should be a level playing field between conventional and digital business models. We note the objective of this consultation paper is to fit the digital advisory model into the current regulatory regime. Instead of favouring one mode of service delivery against another, the MAS perhaps should review its regulatory regime and consider how it could ease of the overall costs of doing business. In so doing, both conventional and digital advisory models could flourish and deepen Singapore’s the financial services. The regulatory regime should seek to safeguard public interest and be indifferent to the mode of service delivery.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>(i) The extensive set of rules and regulations implemented by the MAS to address specific issues and to protect public interests should generally be relevant to digital advisory business model unless the</p>

		<p>MAS has undertaken a comprehensive study to determine otherwise. For instance, the digital advisory business model should be subject to measures introduced by the MAS following the Financial Advisory Industry Review (aka. FAIR) to raise competency standards, and to create a more competitive and efficient financial advisory industry. Besides instilling public's confidence, applying a consistent set of rules on both traditional and digital advisory business models ensures a level-playing field among industry participants.</p> <p>Our comments on the specific paragraphs in the consultation paper are as follows:</p> <p>a) <u>Paragraph 3.2</u> We agree with the factors (as set out in the consultation paper) that digital advisers need to consider when developing their client-facing tools. In addition, the digital advisers should consider and demonstrate that their tools are complying with the requirements under the FAA Notice on Recommendations of Investment Products (FAA-N16), the SFA Notice on the Sale of Investment Products (SFA 04-N12), and the Guidelines on Fair Dealing.</p> <p>b) <u>Paragraph 3.3</u> We agree with the processes (as set out in the consultation paper). Besides the requirement to conduct extensive back-testing and gap analysis against the Notice and Guidelines on Technology Risk Management prior to launching or changing the algorithm in the digital tools, the digital advisers should institute a robust review and approval process where the latter is being performed independently by a competent supervisor. Where the digital adviser outsources the development of the client-facing tool to a third party service provider or purchases an off-the-shelf solution, the digital adviser should consider the requirements under the Guidelines on Outsourcing.</p> <p>c) <u>Paragraph 3.4</u> The competency of the staff developing the client-facing tools will have a huge influence on the outcomes or quality of the advice provided by the tools. A poor outcome or advice will have adverse consequences on the consumers. Hence, digital advisers should not merely rely on IT professionals who do not possess the requisite financial knowledge to write the algorithms. They should ensure that the staff responsible for developing and overseeing the client-facing tools are fit and proper and meet the minimum competency requirements under the Guidelines on Fit and Proper Criteria. These include passing the relevant modules under the Capital Markets and Financial Advisory Services examinations, and being appropriately licensed.</p>
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	<p>(ii) We agree with the processes as set out in paragraph 3.5. In addition, we suggest that the MAS may wish to consider a modified Balanced Score Card regime for the digital advisers to track and monitor that the client-facing tools are fit for purpose, and that the person(s) responsible for the tools are carrying on their duties competently.</p> <p>(iii) While we are generally supportive of having the disclosures as set out in paragraphs 3.7 and 3.8, we are concerned that they may be buried among the large chunk of text under the standard “Terms and Conditions”. Even if such disclosures were to appear in a prominent manner, the methodologies or the financial assumptions behind each algorithm may be too technical for any ordinary consumers to understand or make sense of.</p> <p>Digital advisers that have discretion or control over clients’ monies or assets have fiduciary duties to always act in the best interest of their clients. As fiduciaries, they are expected to avoid putting themselves in situations of potential or actual conflicts of interest. Hence, we question the legality of the scenario as set out in paragraph 3.8 where the algorithm is designed to favour selected investment products for which the digital advisers would receive higher commissions.</p> <p>Further, we are of the view that whilst clients of digital advisers have no face to-face interactions with human advisers, digital advisers should provide their clients with the means and opportunity to call a qualified human adviser if they wish to seek clarifications on the recommendations/outcomes provided by the digital tools.</p> <p>(iv) We agree with the responsibilities of the board and senior management as set out in paragraph 3.9. In addition, we are of the view that the digital adviser’s board and senior management should be subject to the full scope of duties set out in Regulations 13 to 13C of the Securities and Futures (Licensing and Conduct of Business) Regulations, which conventional fund management companies are required to comply with.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>(i) The reasons provided in paragraph 4.5 to exempt digital advisers from limbs (c) to (i) of paragraph 4.2 seems inconsistent with our</p>
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		<p>understanding of the applicability of FAA-N16. The Notice prescribes that the requirements therein shall not apply to any transaction where only factual information is provided in respect of any Excluded Investment Product, and prior to such transaction no advice or recommendation is made by the financial adviser. Assuming the digital advisers limit the provision of services only to ETFs that are classified as Excluded Investment Products, their clients are still placing reliance on the advice or guidance provided by the client-facing tools. The quality of the advice offered by these tools depends on the design of the algorithms and the level of information furnished by the clients. It seems incongruent then that the MAS proposes an exemption for digital advisers but not provide the same for conventional advisers which may essentially be having the same modus operandi. Would the MAS provide similar exemption to conventional advisers whose advice is also through the use of “knock-out” or threshold questions?</p> <p>(ii) As commented above, the similar exemption from FAA-N16 should be provided to conventional advisers having the same modus operandi although the advice is provided in a non-digital medium. In such case, the safeguards would be equally applicable.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>(i) While we do not object to the proposal to exempt a licensed FA from holding a CMS licence in fund management, the prudential requirements that the holders of CMS licence are subject to under the SFA should also apply to the licensed FA.</p> <p>(ii) In addition to the proposed safeguards, the digital advisers should disclose to their clients the costs (e.g. brokerage fees, switching/redemption charges) associated with the rebalancing transactions. Given that they have discretion over clients’ monies and assets, the MAS should mandate that digital advisers should not put themselves in situations of conflicts of interest (e.g. gaining from</p>
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	<p>commissions through frequent churning or re-balancing of the client portfolios).</p> <p>(iii) Whilst digital advisers may not have a five-year corporate track record of managing funds for retail investors, we are of the view that at the very least, the key individuals should possess the minimum years of experience as set out under the Guidelines on Licensing, Registration and Conduct of Business for FMCs. In addition, the digital adviser should have in place adequate compliance and internal audit arrangements, robust risk management framework and sufficient professional indemnity insurance. This would provide its clients and the public with confidence in the strength of the digital adviser’s governance and sound practices.</p> <p>We are also of the view that digital advisers that cannot meet the requisite track record and AUM requirements should not be allowed to recommend portfolios that consist of SIPs. It is not prudent for a digital adviser that does not have the relevant credentials to recommend such high-risk products to retail investors.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>The proposed legislative amendments should take into consideration the above comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We agree with the proposed requirements.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We agree with the proposed requirement.</p>
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<p>8</p>	<p>FPA Financial Corporation Pte. Ltd.</p>	<p>General Comments</p> <p>No comments.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>Agree with the proposals</p> <p>Question 2. MAS seeks views on:</p> <ul style="list-style-type: none"> (i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating: <ul style="list-style-type: none"> (a) fully-automated digital advisory models; and (b) advising on traditional ETFs only; and (ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption. <p>Agree with the proposals</p> <p>Question 3. MAS seeks views on the proposals to:</p> <ul style="list-style-type: none"> (i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows: <ul style="list-style-type: none"> (a) expand the scope of the licensing exemption to include both listed and unlisted CIS; (b) extend the licensing exemption to include exempt FAs; (ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and (iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6). <p>(i)(a) Yes.</p>
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		<p>(i)(b) The comment is whether the exempt FAs are equipped to advise unlisted CIS? (ii) Yes (iii) This proposal of exempting requisite corporate track record is not fair to existing FAs who have been operating in the highly regulated landscape for the past 10 years. The requisite track record is important as those who have not been running a licensed FA would not have been attuned to the regulations and these may inadvertently cause potential problems for the industry like misadvising or worst, another unfortunate incident like the mini-bonds situation which was seen during the Lehman GFC.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>Yes, agreed.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>Yes, agreed.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>Yes, agreed.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Yes, that would be an important requirement.</p>
9	Great Eastern Holdings Limited	<p>General Comments</p> <p>Nil.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p>

	<p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>i) Paragraph 3.2: To ensure robustness of the methodology of the algorithm, the methodology can be certified by a subject matter expert, such as an experienced fund management professional.</p> <p>ii) Paragraph 3.3: The systems are modular i.e. split between the front-end and back-end algorithm engines. The effect of changes would appear differently for the 2 components e.g. changing the look-and-feel of the tool versus changing the digital advice dispensed. Should such changes require extensive back-test and gap analysis with Technology Risk Management (“TRM”), it would be better if the requirements for Presentation, Business and Data Layers to be separated via segregation of the front and back-end segments, with business and data layers belonging to the backend. Accordingly, staff competencies in handling the front and back-end algorithms will differ and be similarly impacted. Hence, Great Eastern is proposing exemptions for full back-testing and gap analyses be granted for the sandbox testing purposes of these algorithms. Additionally, we wish to clarify on definition of back-testing. If back-testing is referring to back-end testing, whilst full testing may be exempted, full cybersecurity testing on both front and back ends should be conducted</p> <p>iii) Paragraph 3.5: The errors and bias within the algorithms may not be easily detected via manual compliance checks. Hence, the proposed manual processes proposed in the Paper would be inadequate in detecting errors or biases.</p> <p>iv) Paragraphs 3.7:</p> <p>a. The algorithm is not for disclosure to clients because it is proprietary information. Could the Financial Advisory (“FA”) disclose the concepts or principles of the algorithm instead?</p> <p>b. The circumstances under which the algorithm may be overridden or service suspended may not be clearly defined at this point in time. Hence, Great Eastern proposes the use of a general disclosure (instead of disclosures for specific events) in the event where the algorithm is overridden or its service suspended. Furthermore, Great Eastern is of the view that such the overriding of the algorithm or suspension of its service should be considered a “black swan” event which required approval by an authorised person appointed by</p>
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		<p>Senior Management. Stress testing should also be considered to assess the extent of potential shock events and results.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>i) Would the requirement to provide full prospectus and PHS in accordance to para 36 of FAA-N16 change for digital platform as customers need to be notified only for transaction for discretionary portfolio services?</p> <p>ii) Paragraph 4.7: With regards to para 42 to 44 of FAA-N16 whereby switching of designated investment products may remain the same for digital advisory services; we would think that switching of designated investment products would be automatically done by the digital advisory platform to rebalance the portfolio in accordance with customers' overall investment objectives. As such, does the digital advisory platform be required to consider factors in paragraph 42 of FAA-N16 on whether the switch is detrimental to the customer for each and every transaction, or if this evaluation can be done based on the investment outcome on a portfolio basis?</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>(i) Paragraph 5.4: While the client may be notified, there could be certain scenarios when the customer may claim to not receive the notification. Should there a need for the client to agree to the rebalancing, which could be done conveniently via mobile devices.</p>
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	<p>(ii) We wish to seek MAS' further clarifications that "rebalancing of portfolios" will not be limited to just digital advisory; that it will be applicable to all types of FA.</p> <p>(iii) We have no comment.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B. We have no comment.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>This will be a welcome development, as this makes it easier for FA license holders' reps to also assist their clients who are keen to transact in securities such as stocks, listed specified investment products ("SIPs") via 3rd party or proprietary platforms, without having the need to apply for a capital markets service ("CMS") license.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We have no comment.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client's knowledge and experience for transacting in listed SIPs. Listed and Unlisted SIPs are both CIS, which are largely similar given that one is passively managed and traded in the exchange while the other is actively managed and traded Over-The-Counter ("OTC")(unlisted). The existing Customer Knowledge Assessment ("CKA") should suffice for all CIS types, listed or unlisted.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Paragraph 6.6: We wish to seek MAS' further clarification in the event if the overseas-listed investment products are purchased through a broker in Singapore licensed by MAS, would there also be a need to furnish the risk warning? We would like to propose our view that that the mentioned scenario should be similar to the purchase of overseas securities through a local brokerage.</p> <p>Other comment In the Annex B- SECOND SCHEDULE - EXEMPTIONS FROM SECTIONS 82(1) AND 99B(1) OF ACT, page 23 para (g)(ii), we note that the</p>
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		<p>requirement is as follows “(ii) who carries on business in fund management for or on behalf of another person (referred to in this paragraph as the client) in connection with any advice that is given by the licensed financial adviser to the client concerning units in collective investment scheme or a portfolio of units in various collective investment schemes,”</p> <p>We wish to seek for MAS’ clarification if it is MAS’ intention to remain the word “licensed” for this para as we notice this word has been crossed off in other paragraphs (i.e. para (B) in the same page).</p>
10	Investment Management Association of Singapore	<p>General Comments</p> <p>The range of exchange-traded funds (“ETFs”) is too broad to define them as a single category as in the Consultation Paper. Board market ETFs with physical securities may be suitable for retail investors, unlike synthetic ETFs or narrow ETFs which focus on riskier markets. Will the scope of traditional ETFs permitted to be transacted through the digital platform include both local and overseas ETFs? Do the overseas traditional ETFs need to be recognised by the MAS?</p> <p>We would also like to inquire the timeline which the MAS plans to include other types of investment vehicles, apart from traditional ETFs, such as unlisted collective investment schemes (“CIS”), as an approved product.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>(i) If the tool is purchased from a third party, the digital adviser should demonstrate that it fully understands the way the algorithm functions. There should also be a minimum number of qualified quantitative analysts who together have a full comprehension of the algorithms.</p> <p>Where digital advisers appoint a third-party provider to develop their client-facing tools, including arrangements where the third-party provider is providing white-label technology to the digital advisers, we note that this will be considered as outsourcing</p>

		<p>arrangements and the MAS Guidelines on Outsourcing will apply. We would like to ask if the MAS Guidelines on Outsourcing will apply where the design and methodology of the algorithm behind the client-facing tool (including the assumptions) are determined by the digital adviser and not the third-party provider, and where no customer information will be disclosed to the third-party provider.</p> <p>As evident at the end of the 2008 global financial crisis, the algorithms then were unable to factor in market sentiments in time to ride on the upward swing of investor confidence. The result of it led to underperformance of quantitative managers at the second half of 2009. Hence, it is essential to have relevant experts to safeguard the investments of retail investors by auditing or scrutinising the algorithms in due time, and by ensuring that the model react in time with market movements.</p> <p>Back-tests should cover the periods since the start of 1997 to include the 1997 Asian Financial Crisis and the Global Financial Crisis in 2008. The results of back-tests and assumptions used for backtesting should be part of the mandatory disclosures to investors.</p> <p>(ii) While the use of a computer model may yield cost savings for investors, it is essential to have a process, as well as an effective governance and supervisory framework, to monitor the risk and return relationship between quantitative factors amid dynamically shifting economic conditions.</p> <p>We believe that in-depth vetting and approval processes should be put in place to recurrently identify potential shortcomings of the algorithm model. The approval process should involve technology staff and senior management. Ongoing reviews and backtesting should also constantly be conducted to validate the robustness of the algorithm model and reliability of expected performance. In addition, the firm will need to identify individuals who are responsible for supervising the tools. Any adverse results should be reported to the senior management for their awareness.</p> <p>iii) In addition to the proposed disclosures in paragraphs 3.7 and 3.8, it is important to highlight to investors that the advice they receive about allocating assets and building a portfolio depends significantly on the investment approach embodied in the algorithms and underlying assumptions used by a digital advice tool. To the degree possible, the firm should highlight the investment approach and key assumptions to the investors to ensure that investors understand how the recommendations received are derived. We also suggest for the MAS to consider imposing certain restrictions on sharing the results of stress testing and modelling. The information provided to the investors should be subjected to similar regulatory restrictions imposed to human advisors.</p>
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		<p>When presenting backtesting results to show investors the nature of the investment process, we strongly believe that the digital adviser should not use these results to project expected returns over an arbitrary period and make that representation to the retail investors.</p> <p>The focus of the disclosure should be on the shortcomings of the model. Hence, we urge the MAS to prescribe a common standard on risk disclosures that are unique to digital advisers. For example, the reliance on the coding of the model may not be able to capture market sentiment effectively due to its unbiasedness.</p> <p>To eliminate conflicts of interest, we suggest for the algorithm model to be coded in a manner that it recommends products purely based on their alignments with the investor’s investment objectives, and not on elements (e.g. fees) that could potentially influence a human adviser.</p> <p>In addition, to help clients understand the robo-advisory investment intelligence of each digital adviser, we suggest having the digital adviser also issue a white-paper that covers its profiling methodology, investment methodology, execution, rebalancing, costs and any disclosures on special treatments which may result in a deviation from the proposed methods.</p> <p>(iv) We are of the view that there should be at least one computer or programmer expert among the board members who understand the language used to code the algorithm model, so as to ensure effective oversight. The expert should be able to scrutinise the modelling process, engage in effective discussions with relevant departments, as well as engage auditors who are responsible in providing independent attestation on the robustness of the model.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>A similar exemption should also be accorded to conventional financial advisers (“FAs”) and exempt FAs for the same set of capital market products. For example, if the digital advisor is able to perform a review on investors based of a sub-set of information which conventional FAs would usually collect, this exemption to collect full information should also be made available to the conventional FAs.</p>
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	<p>We also urge the MAS to consider expanding the scope of the FAA-N16 Exemption to include CIS with limited use of derivatives for hedging purposes, which may also be subject to the same specific safeguards as the traditional ETFs.</p> <p>The financial adviser’s obligations to assess a client’s knowledge and experience for transacting in specified investment products (“SIPs”) is spelled out under FAA-N16. In this regard, will the MAS be granting case-by-case exemptions to fully-automated client-facing tools from the need to perform the customer knowledge assessment (“CKA”) for unlisted SIPs and the customer account review (“CAR”) for listed SIPs under FAA-N16 when advising on traditional ETFs or CIS with limited use of derivatives for hedging purposes (subject to safeguards)? If the MAS cannot grant exemptions for CKA and CAR, we seek greater clarity with respect to the financial adviser’s obligation in complying with FAA-N16, in particular, where a client, who is assessed to be not possessing the knowledge or experience in the unlisted SIP, chooses to transact in an unlisted SIP which is not recommended by the financial adviser (paragraph 25 of the FAA-N16).</p> <p>Pertaining Annex A of the consultation paper, where a digital adviser is required to be licensed for fund management under the Securities Future Act (“SFA”) and exempt FA under the Financial Advisers Act (“FAA”), we enquire if the digital adviser is still required to obtain information (e.g. source of funds) as prescribed under paragraph 6.20 of the Notice on Prevention of Money Laundering and Countering the Financing of Terrorism – Capital Markets Intermediaries.</p> <p>In view of the increasing threat from money launderers and terrorists, money laundering risk should be addressed before any financial advice or service is rendered. We believe that digital advisors should not be exempted from the need to gather information on employment status (11c), source and amount of clients’ regular incomes (11e), and tax risk. Instead, we should leverage on this engagement (information gathering) with the client to identify any money laundering or tax risk at the earliest opportunity.</p> <p>We are concerned of the increased risk of money laundering and terrorist funding presented by online platforms, especially when advice is not provided face-to-face. Therefore, we seek greater guidance from the MAS on anti-money-laundering (“AML”) and countering of terrorist financing (“CTF”) for such digital advisory services.</p> <p>Retail investors may not be able to individually rate their true risk appetite accurately. Thus, we view that the information listed under paragraph 4.2 should remain as these are essential to provide sound and appropriate advice to investors. In addition, it may be prudent to collect “stop loss” threshold information from the investors and build it into the algorithm, for example, have the algorithm designed to stop</p>
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	<p>further investment or rebalancing if the loss of the principal sum is more than 50%.</p> <p>The range of exchange-traded funds (“ETFs”) is too broad to define them as a single category. Board market ETFs with physical securities may be suitable for retail investors, unlike synthetic ETFs or narrow ETFs which focus on riskier markets.</p> <p>ETFs carry the risk that they are defined by the specification of their benchmarks which may not always be suitable for all investors. We believe that funds included under the CPF Investment Scheme should also be allowed as these funds have been more rigorously vetted on several dimensions.</p> <p>Another risk an ETF carries and needed to be addressed is the market makers providing liquidity of the ETF. There may be a need to restrict the ETF universe based on an assessment of their market makers and their turnovers.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>In relation to the safeguards as listed in paragraph 5.4, we are of the view that the client should also be required to acknowledge the notification prior to the rebalancing transaction. If there is no requirement to acknowledge the notification, a reasonable time period should be provided to raise an objection before the digital adviser proceeds to rebalance the portfolio. The mode of notification is crucial in determining the time period, and it should also take into consideration of both the time sensitivity of the portfolio rebalancing and characteristics of the client’s lifestyle. Such details should also be made clear to the client during the “one-time prior acknowledgement”.</p> <p>Investing for retail investors is far more complicated than investing for experienced investors due to the very sizeable information asymmetry. We suggest for the MAS to consider publishing the safeguards or prerequisites for such exemptions on the MAS website, or for the digital</p>
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	<p>adviser to disclose the “one time prior acknowledgement” so that investors are aware of the exemptions given.</p> <p>By allowing digital advisers not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards, retail investors’ trust may be misguided in areas such as the minimum number of years of experience collectively in fund management and technology of the key individuals, and the type of tools available on the online platform. Hence, we urge the MAS to openly share such pre-requisites.</p> <p>Furthermore, we believe that the audit should also include an attestation on the algorithm of the model.</p> <p>On paragraph 5.6(b), as mentioned in our response to Question 2 above, the range of ETFs is too broad to define them as a single category. Broad market ETFs with physical securities may be suitable for retail investors, unlike narrow ETFs or synthetic ETFs. The risk that market makers are providing the liquidity of the ETF will also need to be addressed. For the purpose of paragraph 5.6(b), we also suggest the MAS to allow funds.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>We do not have comments on this question.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We note that, currently, a fund manager is exempted from the requirement to hold a CMS licence to deal in securities when dealing in units of CIS managed by the fund manager or its related corporations. Where a fund manager intends to deal in units of CIS managed by other “unrelated” fund managers, we would like to seek clarification if the fund manager will be exempted from the requirement to hold a CMS licence to deal in securities where the dealing is solely incidental to its provision of the financial advisory service of advising others concerning any securities or CIS.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We would like to request the MAS to provide guidance on para 2(1)(m) as soon as possible, so that the industry can promptly work on the transition arrangement from FAA (Marketing of CIS) to SFA (Dealing in CMP – CIS).</p>
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		<p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We urge the MAS to consider exempting the need for licensed and exempt FAs to perform the assessment if the investor has already been assessed by a brokerage firm. For example, investors could present a confirmation note issued by the brokerage firm to prove to the MAS that the assessment has been completed and that the results remain valid within the three-year period (para 16 of SFA 04-N12).</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Regardless of the mode of investment, investors are still subject to the risk posed by the underlying instruments. Hence, we believe that a risk warning statement should be furnished to clients for investments in overseas-listed investment products, especially when there is no or limited human adviser interaction.</p>
11	Jachin Capital Pte Ltd	<p>General Comments</p> <p>The definition of “professional-facing tools” and “client-facing tools” is important given that the general public may not be too familiar yet with the various digital advisory offerings. We suggest that consideration should also be given to defining the difference between providing professional financial advice and the technological ability provided by a digital platform for offering algorithm-based model portfolios, real-time order execution, performance updates and portfolio re-balancing.</p> <p>Regarding the use of ETFs, there has recently been an increase in market commentary about increasing risks in buying index--linked ETFs. We suggest that perhaps the proposal to allocate 80% to traditional ETF (which needs to be defined) should be reviewed.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9.

	<p>(i) Is a digital adviser with CMS license for fund management required to comply with this? Does it make a difference if the CMS license is for Accredited investors or retail investors?</p> <p>(ii) To achieve a minimum consistent mapping of client suitability to Products offered, perhaps a set of criteria can be agreed upon to set an industry benchmark or standard.</p> <p>(iii) Paragraph 3.5: If the development of the algorithms is outsourced, would it be sufficient for the digital adviser to ensure that the 3rd party provider has the required policies, procedures and controls in place to manage, monitor and test algorithms used in portfolios?</p> <p>(iv) Paragraph 3.7 & 3.8: It may be useful to describe the particular investing strategy used in an algorithm (for example, Trend Following, Factor Based; mathematical model-based (for instance, Black-Litterman)). Other information that clients may find useful – instruments used (whether public listed stocks; ETFs; mutual funds; certificates); industry or sector focus; weighting methodology; re-balancing frequency; potential risks associated with the algorithm methodology; liquidity of instruments used; whether clients have direct ownership of the instruments used or clients only have fractional ownership; annual management fees payable in both percentage and Singapore Dollar terms; brokerage and related transaction costs; custody charges and expense ratios for ETFs.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>(i) The term “traditional exchange traded funds” need to be defined.</p> <p>(ii) A “fully automated client-facing tool” is defined in the consultation paper as “those with no human adviser intervention in the advisory process”. However, a fully-automated digital adviser can still provide human interaction for client servicing purposes. Does “client servicing” include offering advice?</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p>
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	<p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>(i) Is there a need to define the re-balancing of portfolios based on a set of rules or algorithms from re-balancing that arises when reviewing a client’s specific asset allocation model or portfolio.</p> <p>(ii) Paragraph 5.6:</p> <ol style="list-style-type: none"> a. how will the “collective experience” of key individuals be determined? b. Is it possible for the Chief Executive Officer to be the only “key individual”? c. If the technology platform is outsourced to a 3rd party provider, is the collective experience in technology satisfied? d. Does the “recommended portfolio” refer to an algorithm based portfolio or to an asset allocation model? e. If a “recommended portfolio” refers to an algorithm based portfolio, are global listed ETFs and securities acceptable or only Singapore listed instruments? f. As mentioned earlier, there is a need to define “traditional ETFs”. Also, given the recent concerns highlighted by investment strategists, fund manager and market commentators about the increasing risk inherent in buying index-linked ETFs, should the 80% allocation to traditional ETFs be reviewed? <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>Sub---section(BA) it is not clear whether this refers to the instruments Held within a portfolio that is re-balanced or a re-balancing based on the original asset allocation advice given. If it is a re-balancing of the initial asset allocation advice given, is the client’s express agreement also required?</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments</p>
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		<p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>Agree that this should be included.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Agree that this should be included.</p>
12	Kopal Agawal	<p>General Comments</p> <p>With growing wealth and the digital native population in Asia, Robo advisory is set to grow. It's important to ensure that this service doesn't become an extension to gambling hence proper controls and governance is key in this sector. Additionally, given that the area is not very mature and digitally complex, AML standards also have to be aligned in context with cyber security.</p> <p>e.g. A suspicious client is on boarded on the platform (Weak AML screening) and is able to manipulate the platform by injecting unlawful transactions causing the platform to become</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>As the number of Digital native population grows, number of clients using Digital platform will grow as well. Over a period of time, there would be minimal difference between the number of clients using traditional process vs digital platform to manage their wealth. It's important to apply the lessons learnt from traditional banking into the digital platform where applicable.</p>

		<p>1) <u>Collect full Client information along the lines of traditional banking.</u></p> <p>Like the traditional relationship management, the digital platforms should perform thorough KYC. Unlike the traditional banking where the accountability is fairly personal and easily identifiable, in digital platforms, it's difficult to place the personal accountability. For example, if Robo advisory platforms use algorithms to assess the AML risk of the client and if a suspicious client is on boarded on the platform, it will be a tedious exercise to determine the point of control which went wrong (Technical Implementation or process etc). Hence, digital platforms should still collect the complete information about the client, corroborate the wealth and perform robust transaction monitoring.</p> <p>2) <u>Test algorithms not only for technical robustness but also on AML And Suitability standards using standard test scenarios applicable industry-wide.</u></p> <p>Algorithms should NOT only be tested for robustness but also for several AML & Suitability related scenarios, there should be standard test cases and expected outcomes to demonstrate how algorithms would identify the cases of terrorist financing. Frauds, misspelling etc. These test cases should be audited by independent Audit firms. Additionally, they should be reviewed & updated on a periodic basis, irrespective of the fact that the platform has been upgraded or not. The list of blacklisted Individuals, industries & countries should not be on-boarded similar to traditional banking.</p> <p>3) <u>It will not be useful to share the Algorithms with the client.</u></p> <p>Technical algorithms tend to be very complex for a lay man. They generally require basic understanding of basic Programming & basic Mathematics. These algorithms are also the backbone of competition. Like a traditional bank doesn't disclose their research mechanism it \Afoldn't be fair to the digital advisors to disclose the crux of their platform. However, there should be robust controls to identify any mis-selling in order to protect the clients.</p> <p>4) <u>The board and senior management should be personally accountable for the platform.</u></p> <p>Additionally there should be a communication model to notify the clients before and after the changes to the platform are made. It will be also be a good idea to set a minimum threshold for the impact the changes, beyond which a minimum percentage of the most impacted clients, have to approve the changes before they are implemented.</p>
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	<p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Financial information of the client is not only used to determine suitability but also to perform transaction monitoring and frauds.</p> <p><u>Any suspicious activity which is outside the financial circumstances of the client should be monitored.</u> For example - The client has indicated the time horizon for investment as 5 years however the transactions are either very short tenured or very long tenured should be reported and justified by the client. It is important to check if the client understands the asset class in order to determine the possibility of gambling versus investing.</p> <p><u>Periodic reviews</u> - The clients should attest if financial information provided at the time of on-boarding is still valid especially the income and indicative size of investments on the platform.</p> <p><u>Vulnerability Checks</u> - The platform should perform vulnerability checks to ensure that the clients are of sound mental health to make investment decisions. For example - A client can be advised by family or friend to use Robo advisory platform to invest their retirement money in the assets he/she doesn't understand. With lack of human interaction, there are possibilities that he / she ends up making not only a wrong investment decision but also human error when placing orders.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>Digital platforms should have corporate track record ratings. There can be following areas of assessment</p>
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		<p>1. AUM 2. Average portfolio Performance 3. Platform Robustness ~ Cybersecurity etc. 4. Business continuity plans 5. Client Service</p> <p>This can provide a bench mark to the retail clients while selecting the platform and also motivate the Platform owners to adhere to minimum standards. The concept is similar to Hotel ratings, credit ratings etc</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments</p>
13	Lymon Pte. Ltd.	<p>General Comments</p> <p>We note that the requirements set out in the Notice on Requirements for the BSC Framework (“Balanced Scorecard Framework”) for Representatives and Supervisors and Independent Sales Audit Unit (“ISA Unit”), as covered under section 38 and 39 of the Financial Advisers’ Act (“the Act”), currently apply to all licensed financial advisers and exempt financial advisers, other than a financial adviser in respect of the activities, recommendations or transactions set out under regulation 34A of the Financial Advisers Regulations (“FAR”).</p>

	<p>We note that the requirements in above Notice would apply our clients who are digital advisers.</p> <p>We would like to clarify if MAS is intending to grant an exemption to the above requirements for digital advisers who are licensed financial advisers or exempt financial advisers, for the following reasons:</p> <ol style="list-style-type: none"> 1) In the case of digital advisers, recommendations are issued by the client-facing tool based on inputs from the customer that are processed by the underlying algorithm. There would be no human adviser involved in the process. <p>We note that MAS has already indicated in section 3.5 of the Consultation Paper, the requirement for a qualified human adviser to conduct compliance checks on the quality of advice provided by the client-facing tool, and are of the view that this would serve the purpose of the ISA Unit in the context of digital advisory, i.e. to ensure the quality of the financial advisory services provided.</p> <ol style="list-style-type: none"> 2) We note that the requirement regarding the remuneration framework is intended to address potential conflicts of interest arising from human financial advisers and their supervisors' receipt of income, against making the most suitable recommendations to clients. <p>We note that MAS has already indicated in section 3.8 of the Consultation Paper its expectations of the disclosure to be given to clients, for the purpose of mitigating conflicts of interest arising from digital advisers' incentives for limiting recommendations to products for which higher commissions would be received, against making the most suitable recommendations to clients.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>We support MAS' proposed disclosures in paragraph 3.7 and 3.8 of the Consultation Paper regarding information on algorithms, and conflicts of interest.</p>
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	<p>In respect of paragraph 3.7, we are of the opinion that general disclosures should be made by the digital adviser, for instance, on extreme market events where algorithms would be overridden. Disclosure should not be extremely specific, in order to protect proprietary information on the algorithm's design. Moreover, disclosure of overly detailed information may be confusing for retail investors.</p> <p>We are of the view that digital advisers should be required to disclose adjustments to their algorithm only if the investment advice given by the algorithm would be affected materially as a result of the adjustments, for example, the change in investment advice will affect a certain threshold in their portfolio construction. It could be very onerous to disclose every single adjustment, which the average investor may not comprehend nor appreciate.</p> <p>We note that investors may be interested in specific characteristics of the underlying investments, for instance, the maximum spread at which the selected underlying investments typically trade, the maximum applicable commissions or expense ratio for a potential investment to be considered, the relative liquidity of the constituents in the underlying investments, the total size as a proportion of the portfolio of the 10 largest constituent assets in the invested ETF, and so on. A minimum level of such disclosure would be useful for clients in making an informed decision on the digital adviser's services.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>In relation to paragraph 4.7 of the Consultation Paper, we note that the current proposed approach is to provide a risk disclosure statement to note that the financial circumstances of the client, existing investment portfolios and affordability of the investment are not considered.</p> <p>However, we are of the view that digital advisers should consider the financial circumstances of the client, existing investment portfolios and affordability of the investment before making recommendations, as a safeguard for retail investors.</p> <p>Thus, we consider the factors identified in paragraph 4.2 (c) to (h) of the Consultation Paper would also be important information for the adviser to collect, as it would allow the digital adviser to better assess the suitability of the recommended portfolio for his/her financial situation, and suggest that paragraph 4.7 be modified to highlight general risks of investment, such as loss of investment and no guaranteed returns, etc</p>
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	<p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>We support MAS' proposal to amend the current licensing exemption for licensed FAs conducting fund management activity with the client's prior approval for each and every transaction as described in paragraph 5.2.</p> <p>Regarding paragraph 5.4, we would like to clarify if hedging activities fall under the definition of 'rebalancing' as well. For instance, the hedging of USD against SGD for US-denominated ETFs, in order to remove the fluctuations caused by foreign exchange rate changes.</p> <p>In respect of paragraph 5.6(a), we would like to clarify on the minimum threshold for number of years of relevant collective experience in fund management and technology, and whether the existing minimum competency requirements for retail LFCs would apply to digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company. For instance, the requirement for the CEO to have at least 10 years of relevant experience.</p> <p>We are of the view that the requirement for post-authorisation audit should apply to licensed retail financial advisers involved in the provision of digital advisory services as well.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>Nil</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>Nil</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p>
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		<p>Nil</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We support MAS’ proposal.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We support MAS’ proposal.</p>
14	Mercer Investment Solutions (Singapore) Pte. Ltd.	<p>General Comments</p> <p>No comments</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p><u>Response to Question 1 (i)</u></p> <p>Paragraph 3.2 discusses the need for digital advisers to:</p> <ol style="list-style-type: none"> 1. Ensure the methodology of the algorithm is robust 2. Collect necessary information 3. Analyse information provided by client to make suitable recommendation 4. Resolve inconsistent responses 5. Eliminate clients who are unsuitable for investing <p>We believe it necessary to distinguish between “Category (1)” digital advisers who do not engage in the provision of financial advice (i.e., providing a platform for execution-only services) and “Category (2)” digital advisers who provide some form of financial advice (including those with discretion/control over clients’ moneys or assets).</p> <p>Category 1 – No provision of financial advice/execution-only</p>

	<p>We believe that not all the features set out in Para 3.2 are applicable to Category 1 type of digital advisers. In particular, we believe (1), (2), and (4) are relevant.</p> <p>We believe that Category 1 digital advisers needs to highlight the importance of ensuring investment suitability to their clients given that there is no advice provided. However, there is no need to analyse the information provided by the client for purposes of making suitable recommendations or to identify clients who are unsuitable for investing (defined as the client being unable to take any investment risk). That being said, to fulfil their roles in the prevention of money laundering and countering the financing of terrorism, we believe that Category 1 digital advisers</p> <p>That being said, to fulfil their roles in the prevention of money laundering and countering the financing of terrorism, we believe that Category 1 digital advisers would still need to collect the necessary information from the client, such as the source and amount of their income, employment status. The type of information required here may be quite different from what is set out in Paragraph 11 of the Notice on Recommendations on Investment Products. The objective is to identify and prevent threats in relation to AML and terrorism financing, and not to arrive at a suitable investment recommendation. Certain information required under Paragraph 11 of the Notice on Recommendations on Investment Products, such as risk tolerance of the client and current investment portfolio may not be applicable. We also believe Category 1 digital advisers should be required to identify and resolve inconsistent responses given by the client.</p> <p><i>Category 2 – Provision of financial advice</i></p> <p>We are in consensus with the MAS that the client-facing tools of Category 2 digital advisers should have the above-mentioned features. As long as advice is provided, whether by a traditional adviser, such as banks and insurance companies, or digital advisers, it should be a necessity to satisfy the reasonable basis requirement under Section 27 of the FAA. Recommendations provided need to be based on the unique financial situation of each client; thus it is imperative that Category 2 digital advisers are able to collect client information and conduct robust analysis on it.</p> <p>Traditional advisers, such as banks and insurance companies, have been embracing the use of online tools for the conduct of their advisory businesses, with varying levels of adoption. Some advisors are already fully integrated, providing their representatives with digital hardware tools such as iPads for the conduct of the full advisory process. Clients are on-boarded and risk-profiled digitally. Suitable investment products are automatically identified for the representatives to assess and recommend based on the circumstances of the client. The process for</p>
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	<p>providing advice for digital advisers is very similar to that of the traditional advisers, with the key difference being the medium.</p> <p>The challenge for digital advisers is ensuring that the meaning of the terms is communicated clearly without a human adviser. Infographics, 24-hour instant chat support, video/audio illustrations are useful tools that we believe will help prevent the meaning of the terms getting lost in translation.</p> <p>Paragraph 3.3 discusses the need for digital advisers to perform sufficient back-tests and a gap analysis against the requirements the requirements set out in the Notice and Guidelines on Technology Risk Management before their client facing tool goes live and when changes are made to the tool.</p> <p>We believe these are sensible requirements to put in place</p> <p>Paragraph 3.4 discusses the need for digital advisers to ensure they are adequately staffed with persons who have the competency and expertise to develop and review the methodology.</p> <p>We believe these are sensible requirements to put in place. Digital advisers need to be staffed with people who are well-versed with the investments portion as well as the IT portion. This ensures that the correct investment methodology is translated accurately into the algorithms. Where digital advisers lack the IT capabilities, they should outsource these functions to competent 3rd party providers. The digital adviser should ensure the quality of the 3rd party providers, both in terms of the initial set up of the algorithms and the ongoing maintenance.</p> <p><u>Response to Question 1 (ii)</u></p> <p>Paragraph 3.5 sets out the processes that digital advisers are minimally expected to have in place to monitor and test their algorithms to ensure that they perform as intended.</p> <p>In addition to the controls proposed by the MAS, we believe the following safeguards should be put in place.</p> <p>a. Where an error or bias within the algorithm is detected, <u>digital advisers should conduct a comprehensive review</u> of past advice provided. Digital advisers need to contrast past advice provided under the erroneous algorithm against advice that would have been otherwise provided under the correct algorithm.</p> <p>b. The MAS may provide guidelines or protocols for the digital advisers to rectify the errors, and these will depend on the severity of the errors. Guidelines/protocols may:</p>
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	<p>i. Describe the time period in which the algorithm must be rectified and investors who received erroneous advice notified;</p> <p>ii. Make mandatory that digital advisers provide the correct advice for investors’ consideration;</p> <p>iii. Make mandatory that digital advisers provide a comparison of the correct advice versus the erroneous advice, and the implications of having invested in accordance with the erroneous advice.</p> <p><u>Response to Question 1 (iii)</u></p> <p>Paragraph 3.7 discusses the extent of information digital advisers should disclose on its algorithm to clients.</p> <p>Client Risk Profiling and Product Risk Rating Algorithms We believe it prudent to subject digital advisers to the same requirements as traditional advisers of updating existing investors in the event of changes being made to the investment process, such as the risk profiling or product risk rating algorithms, or a change in a product’s risk rating due to the occurrence of an event.</p> <p><u>Client Risk Profiling</u></p> <p>We propose that limited information about the mechanism is revealed to investors. This will enable the savvier investors to attempt to “game” the risk profiling. For example, if the Knockout mechanism is revealed, investors may intentionally avoid triggering it in order to gain a higher risk profile. Most traditional advisers are cautious about their relationship managers knowing too much about the risk profiling mechanism for the same reason.</p> <p>That being said, we do believe digital advisers have a greater role to play in the education of investment principles to their clients. Clients of digital advisers are much more proactive and willing to invest personal time into the management of their investments. As such, digital advisers may disclose the principles used in their risk profiling algorithms, such as the importance of measuring both the willingness and capacity of the investor to take risk. Digital advisers should be extremely cautious about how the principles could be interpreted as they may potentially influence a client’s responses to the risk profiling exercise. For example:</p> <p>Illustration A: A longer time horizon allows an investor to take higher risks.</p> <p>Illustration B: Higher risk investments tend to be more volatile and require a longer investment horizon to ride out any potential downturn.</p> <p>Illustration A may encourage an investor to indicate a longer time horizon in order to gain a higher risk profile. Illustration B provides a more factual description about the link between investment horizon and the investor’s capacity to take risk.</p>
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	<p>Currently, for traditional advisers, the results of an investor’s risk profiling may remain valid for one year. In other words, traditional advisers are required to administer the risk profiling exercise with their clients at least once a year. These requirements should be applied consistently to digital advisers administer risk profiling exercises as well. Digital advisers should be upfront about these requirements, as they ensure that any recommendation is in line with the most updated profile of the investor.</p> <p>Product Risk Ratings</p> <p>Traditional advisers are required to update the risk ratings at least once every year, and ensure that any situations that may cause a product’s risk rating to change are taken into account. The product risk rating mechanism may also be updated, and as a result, cause a product’s risk rating to change. Where risk ratings changed and rendered products unsuitable for clients who have already invested in them, digital advisers should be subject to the same requirements as traditional advisers in informing clients of the unsuitability. Clients should also be provided advice as to whether they should divest out of the unsuitable product, and their decisions documented.</p> <p>Suspension of services</p> <p>Where service are suspended, digital advisers should be upfront about the reasons without burdening the investors with excessive details. We are supportive of the current model traditional advisers have taken with their online platforms, where short, pop-up messages are used to inform and provide a quick summary of any updates to clients and a longer version is prepared and provided in another link for clients who wish to obtain more detailed information.</p> <p>Paragraph 3.8 discusses the need to disclose any potential conflicts of interest as required under paragraph 23 of the Notice on Information to Clients and Product Information Disclosure (“FAA-N03”).</p> <p>We agree with the MAS that digital advisers should be required to disclose any potential conflicts of interest in their algorithms, including the reason for the selectivity and limitations of the recommendations, as well as the fact that other investments not considered may have characteristics similar or superior to those being analysed. This requirement is especially important given digital advisers may have received aid, in one way or another, from product providers such as asset management companies or banks. Digital advisers who count product providers among their shareholders should also provide disclosure to the fact.</p> <p>We propose such disclosure be made to the client early. This is because these are material information that affects an investor’s selection of a digital adviser. The intention is to prevent inertia from setting in; given the lengthy client on-boarding process that an investor needs to go</p>
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	<p>through, he/she may ultimately decide to stay with a digital adviser even though its algorithms will favour or limit its recommendations to select investment products.</p> <p><u>Response to Question 1 (iv)</u> No comments</p> <p>Question 2. MAS seeks views on: (i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating: (a) fully-automated digital advisory models; and (b) advising on traditional ETFs only; and (ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Response to 2 (i) We broadly agree with the case-by-case exemption approach for digital advisers operating fully-automated digital advisory models and advising on traditional ETFs only. Previously in 2015, MAS has taken on board industry feedback that funds that make limited use of derivatives are relatively less complex and should be made accessible to retail investors. The exemption for digital advisers advising on traditional ETFs only is in line with the 2015 stance.</p> <p>Clients using traditional ETFs to track the market However, we note that it is important for digital advisers to be cautious about clients seeking to use traditional ETFs for purposes of “buying beta” or tracking the market. For bond markets, the only way for traditional ETFs to track the index, without using derivatives, is by sampling. This may result in significant tracking error and investors may observe significantly different performance vis-à-vis the market they are attempting to track. The universe of traditional ETFs for digital advisers may therefore be limited to asset classes where underlying securities are much more liquid and tradable, such as equity markets. Solutions that are fully implemented through traditional ETFs may be non-complex, but they may not be suitable for all clients. This is because different clients are suited for different asset classes, and not all asset classes are suitable for implementation via passive means such as through traditional ETFs. We believe there are asset classes that can benefit from active strategies; these are markets with high information inefficiency and correspondingly, high alpha potential. We find that active management in these markets is more suitable than being passive. Examples of such asset classes are global small cap equities and emerging market debt.</p> <p>While traditional ETFs are non-complex and can be easily understood by the average retail investor, ETFs are but one of the ways to gain exposure into underlying asset classes. We urge MAS to consider the</p>
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	<p>other implications of solutions that are 100% implemented using passive strategies, such as from an asset-class perspective.</p> <p>Vulnerable investors</p> <p>The exemption to collect information under paragraph 11(c) to (i) of FAA-N16 may be problematic in the provision of advice to vulnerable investors, especially for elderly investors. Their financial profiles can be vastly different. An elderly investor with regular passive income may be suitable for riskier investments, all else equal. We see ETFs as implementation vehicles. Digital advisers need to ensure suitability between the underlying asset class and the investor.</p> <ol style="list-style-type: none"> 1. ETFs being highly liquid does not equate to being suitable for investors with short investment horizon. 2. Riskier asset classes are generally more suited for investors with longer investment horizon to ride out the volatility. <p>Without collection and due consideration to the details under paragraph 11(c) to 11(i) of FAA-N16, perhaps with the exception of 11(g) for life policies only and 11(i), we are concerned of the ability to ensure suitability of advice provided, especially for vulnerable investors. As such, we propose that exemptions be granted in the collection of information in relation to the client’s insurance policies (excluding investment-linked policies).</p> <p>Response to 2 (ii)</p> <p>Paragraph 4.7 discusses the safeguards that MAS is proposing to consider when assessing cases that qualify for the FAA-N16 Exemption. This Exemption relieves fully-automated digital advisers who advise on traditional ETFs only from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11© to (i) of FAA-N16.</p> <p>We broadly agree with the safeguards laid out in paragraph 4.7. In our experience advising financial institutions about client investment suitability, we understand that most institutions have knockout features incorporated into their risk profiling mechanisms. These are used to identify clients who are not willing or able to take any losses to their capital. Some institutions have chosen to use the question assessing loss tolerance as the knockout feature, while others have chosen to use the question assessing volatility tolerance.</p> <p>We agree that digital advisers need to be able to identify and resolve inconsistent responses from the client. However, we suggest that the MAS provide guidance in terms of the methodology for resolving inconsistent responses. This is because digital advisers need to be extremely cautious about potentially guiding the client towards certain responses. In our experience, there is no standard industry practice even among the traditional advisers. Having a regulatory guideline to follow in this area would be extremely helpful.</p>
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	<p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>Response to 3(i)</p> <p>We agree with the proposal to expand the scope to include both listed and unlisted CIS, and that it should be available for both digital advisers and traditional advisers. In line with the feedback MAS has received from FAs, we have observed a shift, especially in the retail market, towards ETFs and other passive index-tracking products. There is growing demand for the current regulatory landscape to evolve and keep pace with the changing market structure.</p> <p>Response to 3(ii)</p> <p>We broadly agree with the proposal for licensed and exempt FAs to conduct portfolio rebalancing activities without the need to obtain the client’s approval for each and every transaction. Portfolio rebalancing is an important part in the provision of asset allocation advice, and in our experience advising traditional advisers who provide discretionary portfolio management services, the current regulatory requirements makes it difficult for the investors themselves. Most investors engage an adviser simply because they want to leave their portfolios in good hands. To the extent the advisers are acting in good faith for their client’s best interests, we believe the current regulatory requirements could be more flexible.</p> <p>In our capacity as investment consultants advising institutional investors in portfolio management issues, we’d like to highlight the following issues for MAS’ consideration.</p> <p>1. Investment horizon is one of the key aspects to consider when constructing a portfolio. Generally:</p> <ul style="list-style-type: none"> • Strategic asset allocation (“SAA”) is the construction of a portfolio with a longer investment horizon in mind, between 3 – 5 years; • Dynamic asset allocation (“DAA”) is shorter-term, between 1 - 3 years; • Tactical asset allocation (“TAA”) is the shortest, within months or even weeks.
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	<p>Digital advisers who provide advice on portfolio management will find that the rebalancing frequency should correspond with the investment horizon as well. Those providing SAA and DAA should not be rebalancing their clients’ portfolios too frequently.</p> <p>2. Depending on the algorithm, the portfolio advised at inception may be no longer be deemed suitable at the point of rebalancing. The question for the digital adviser is: should they rebalance to the original asset allocation (which is no longer suitable for the client, given his most updated financial situation) or should they rebalance to the new, suitable asset allocation?</p> <p>A sensible adviser, acting in good faith with his client’s best interests at heart, will want to rebalance his client’s portfolio to the new asset allocation deemed suitable that is based on his client’s most updated financial situation and market environment. Under MAS’ new proposal, advisers would find it very restrictive to act in good faith for their clients’ best interests.</p> <p>3. Portfolios that comprise of both listed and unlisted CIS should not be rebalanced on a frequent basis (e.g. daily or weekly). This is because:</p> <ul style="list-style-type: none"> a. Asset allocation advice should be provided with a medium-to-long term view, i.e., SAA or DAA; b. Listed and unlisted CIS are unsuitable implementation vehicles for advisers providing shorter term asset allocation advice, i.e., TAA; and c. The practice of switching in and out of funds is generally not seen as an act in the client’s best interests as the fees incurred from frequent subscription and redemption will eat into the client’s investment returns. <p>In summary, we believe that MAS’ proposal to define “portfolio rebalancing” as solely for the purposes of aligning the portfolio back to its original recommended portfolio is very restrictive. We propose that MAS relax this section, i.e., as long as there is no change to the constituents of the portfolio, and portfolio rebalancing is considered incidental to the advice provided, digital advisers would not need to obtain client’s approval for each and every transaction. We believe that this is reasonable, subject to the safeguards as outlined in Paragraph 5.4 and the need for digital advisers providing portfolio rebalancing advice to have a reasonable basis in accordance to Section 27 of the Financial Advisers Act.</p> <p>Response to 3 (iii) Paragraph 5.6 details the proposed safeguards for digital advisers who do not have the requisite 5-year corporate track record requirement and total assets under management (“AUM”) of at least S\$1 billion. MAS proposed three safeguards, namely:</p>
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	<p>Safeguard (a) – the key individuals need to have relevant collective experience in fund management and technology</p> <p>Safeguard (b) – the recommended portfolios should comprise primarily (at least 80%) traditional ETFs, with a cap of 20% invested in listed shares, listed investment grade bonds and foreign exchange contracts for hedging purposes</p> <p>Safeguard (c) – the digital adviser must undergo a post-authorisation audit conducted by an independent third party at the end of its first year of operations on key risk areas. These include prevention of money laundering and countering the financing of terrorism, handling of client moneys and assets, technology risk and suitability of advice.</p> <p>Safeguard (a)</p> <p>We believe Safeguard (a) is a prudent requirement, as it ensures that experienced personnel are “running the show” for digital advisers who are relatively new to the fund management industry.</p> <p>However, unless it is intended, we hope MAS will provide a more specific definition to this requirement. Below are the areas that we believe MAS should provide more specific guidance on.</p> <ol style="list-style-type: none"> 1. Would MAS only consider those involved in portfolio management, e.g., portfolio manager, research analysts, Chief Investment Officers, as relevant experience under fund management? 2. For those who were involved in portfolio management, but have since moved on to another non-portfolio management role, what is the maximum time lapse before MAS considers their experience as outdated and irrelevant? <p>In determining the answers to Questions 1 and 2, MAS needs to deliberate over the difficulty of identifying suitable candidates. The examples provided in Question 1 above, i.e., portfolio managers, research analysts, and Chief Investment Officers, are usually very senior personnel in traditional asset management firms and are in “short supply”. MAS may wish to consider other roles, such as support roles to front office/portfolio management, investment consultants, private bankers etc.</p> <p>We also recommend caution in the following areas:</p> <ol style="list-style-type: none"> 1. We caution against allowing the experience of key individuals to be considered collectively. We believe, at a minimum, key individuals should have 5 years of relevant experience each managing funds for retail investors in a jurisdiction which has a regulatory framework that is comparable to Singapore. This aligns digital advisers as closely as possible to the <p>requirements applicable to those who hold a CMS licence in fund management to service retail investors. This also prevents a group of relatively inexperienced individuals coming together to pool their collective experience to meet this requirement, e.g. 10 people with 0.5 years of experience each to meet a 5 year collective experience requirement.</p>
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	<p>2. We propose assessing fund management and technology experience separately. This can help assuage key-man risk.</p> <p>Safeguard (b) MAS may wish to consider the following issues:</p> <ol style="list-style-type: none"> 1. When does Safeguard (b) apply? At inception? 2. How often should digital advisers measure the value invested in traditional ETFs versus listed shares, listed investment grade bonds and foreign exchange contracts? 3. What is the operating band, beyond which, rebalancing back to the 80/20 guideline must be carried out? 4. How should foreign exchange contracts be accounted for in the computation of the valuation of the portfolio? <p>Safeguard (c) We agree with MAS’ proposal, and would like to elaborate on the following areas:</p> <ol style="list-style-type: none"> 1. Frequency of reviews/audits <p>We believe it is important for digital advisers to engage independent 3rd parties to review and audit their algorithms. This should not only be done at the end of their first year of operations, but also on a regular basis. It ensures that the digital adviser’s algorithms are in line with best practices in the industry.</p> <ol style="list-style-type: none"> 2. Ensuring suitability of advice <p>Client investment suitability is driven by 2 main factors: (1) the market environment and (2) the regulatory landscape. Using product risk rating as an example, advisers, digital or otherwise, should review their framework when:</p> <ul style="list-style-type: none"> • The risk rating of an investment product is impacted due to the occurrence of an event, such as a default on debt obligations (may be company-specific or country-specific) or a crisis (may be country-specific, regional or global); • Overall market environment has changed, such as a spike in volatility; • There are new regulatory requirements in this area <p>Depending on the severity of these events, they warrant ad-hoc reviews of the methodology behind the product risk rating framework, the assumptions, the data points that were used to construct the framework and other rules used (e.g. floors and ceilings). These are in addition to the regular reviews/audits that they should conduct, as elaborated in point 1.</p>
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	<p>3. Operational due diligence</p> <p>Advisers, digital or otherwise, should be expected to perform proper due diligence before on-boarding investment products. This includes both investment due diligence (“IDD”) and operational due diligence (“ODD”). IDD should be conducted on the investment product (e.g. using a robust product risk rating framework to risk rate the product) and ODD should be conducted on the ETF providers.</p> <p>Digital advisers need to conduct comprehensive ODDs on their ETF providers to minimize operational risk. In recent years, lax due diligence in the operations space have resulted in sizeable losses for investors, such as the Madoff Ponzi scheme. Given these are safeguards for digital advisers who service retail clients, the importance for ODD cannot be overemphasized.</p> <p>A comprehensive ODD assessment should benchmark the ETF provider’s operations and organizational governance against globally accepted safe and sound practices across a broad range of operating procedures, execution practices and internal controls. Where digital advisers have ODD expertise, they may consider conducting it in-house and having their ODD methodology and results reviewed regularly by 3rd party investment consultants. Where digital advisers lack ODD expertise, they should consider commissioning 3rd party investment consultants.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>We agree with the proposed legislative amendments in paragraph 5(g) of Annex B except Paragraph (BA). As stated in our response to Question 3(ii), we believe the proposal to define “portfolio rebalancing” as solely for the purposes of aligning the portfolio back to its original recommended portfolio is very restrictive. Accordingly, we would propose the following suggestions for Paragraph (BA):</p> <p>“where the client’s express agreement is obtained for the purposes of rebalancing the portfolio’s asset weightings to what the financial adviser, having a reasonable basis, believe is suitable for the client at the point of rebalancing, as long as there is no change to the constituents of the portfolio”.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>Response to Question 5</p> <p>We suggest that the extension of the licensing exemption to securities other than CIS be on an opt-in basis. This will provide greater flexibility to businesses in evaluating the pros and cons of potentially extending</p>
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		<p>their services beyond listed and unlisted CIS in terms of assessing a client’s knowledge and experience as proposed in Paragraph 6.5.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>Per our response to Question 5, we would suggest that the extension of the licensing exemption to securities other than CIS be on an opt-in basis.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>Response to Question 7</p> <p>We believe there is a need to separate listed CIS from the universe of listed SIPs. We suggest extending the requirements only if licensed and exempt FAs intend to facilitate the passing of clients’ securities orders beyond listed and unlisted CIS to brokerage firms for execution. This will provide greater flexibility to businesses in evaluating the pros and cons of potentially extending their services beyond listed and unlisted CIS. More importantly, it clearly draws the line between CIS (listed and unlisted) and any other securities. We believe it important not to burden advisers who do not intend to extend their services beyond listed and unlisted CIS with the requirement of assessing their clients’ knowledge and experience for other listed SIPs. Given that MAS is willing to consider granting case-by-case exemptions for fully-automated digital advisers advising on traditional ETFs to collect full information on the financial circumstances of a client, we may see a shift towards providing advice on traditional ETFs only. In this scenario, it would be extremely helpful if such advisers are not required to assessing their clients’ knowledge and experience for listed SIPs other than listed CIS.</p> <p>For the avoidance of doubt, we believe licensed and exempt FAs should be required to assess a client’s knowledge and experience for both listed and unlisted CIS when the proposal to expand the licensing exemption takes effect in the next round of amendments to the SF(LCB)R.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments</p>
15	RHT Compliance	General Comments

	<p>Solutions Pte Ltd</p>	<p>While we are broadly supportive of the proposed regime for Digital Advisors outlined in the Consultation Paper on Provision of Digital Advisory Services (the “CP”), we urge MAS to further consider the implications of certain points raised in the CP. We set out below our thoughts on some of the questions in the CP and include comments.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>The CP had mentioned that Digital Advisors (“DAs”) may outsource the development of the platform to a third party provider, who would be subjected to the appropriate outsourcing due diligence requirements. We suggest that MAS emphasize that outsourcing services to a third party does not mitigate the DA’s requirements set out in the Notice and Guidelines on Technology Risk Management, as we are concerned that there could be confusion on this issue in the market.</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>We suggest that MAS either (a) provide a principles-based approach to the issues of monitoring and testing or (b) set out a longer, more dispositive list of processes. The aim should be to mitigate market uncertainty by providing an underlying rationale (either by enunciated principles or a positive list that sheds light onto the underlying).</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>We agree that strong and robust disclosure is necessary to provide customers with full information on conflicts of interest. We also agree that full disclosure should be made for circumstances where the algorithm will be overridden or service suspended. However, we believe that more than simple notice disclosure at the time of changes or adjustments to the algorithm is unwise. While the customer should know that changes/adjustments to the algorithm may need to be made from time-to-time (as with all systems in a dynamic environment), the a priori setting out of circumstance upon which those changes/adjustments would be made seems to be an unwise limitation on what the DA can do to protect customer interests. As such, we suggest that MAS require only (a) a general statement at the time of onboard about the need for changes/adjustments in the future and (b) a subsequent notice at each instance of change/adjustment.</p>
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	<p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>No comments.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>No comments.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>No comments.</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>No comments.</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>To minimize market confusion, we suggest that MAS provide guidance on what “relevant collective experience in fund management and technology” entails, perhaps with examples. Also, as with all platforms that do not have much direct customer interaction, we suggest that MAS clarify what role an “appointed representative” has, if any.</p> <p>In addition, the CP would allow relatively inexperienced professionals to manage the rebalancing of portfolios that are comprise of at least 80% traditional ETFs. We are concerned that, in the event of a crisis, the liquidity of an ETFs may be eroded due to the underlying securities becoming illiquid. We would question the reasonableness of DA</p>
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		<p>managing portfolios given the lack of experience with portfolio management.</p> <p>We also wish to note that the current capital requirements of \$1 million for DAs offering retail services may be exceedingly onerous. We propose that MAS should consider implementing a sliding scale of capital requirements based on AUM. That way, a retail DA that has limited reach would not be required to put up \$1 million as paid up capital, but should it reach the scale, MAS can increase the capital requirements accordingly.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments.</p>
16	Saxo Capital Markets Pte. Ltd.	<p>General comments:</p> <ol style="list-style-type: none"> 1. Licensing – MAS is already doing a good job here with the CMS and FA modified licensing, as well as the Sandbox approach. The other points are the real road-blocks to this new industry. 2. Revisit SIP classifications – it is too broad today in some respects and too lax in other respects:

		<ul style="list-style-type: none"> • Digital Wealth Managers in general strive to provide individuals easy access to well diversified portfolios. Many of such portfolios are more efficiently created in the US market because of the following reasons: <ul style="list-style-type: none"> i. Listed products (Stocks, ETFs, Futures, etc) with the highest liquidity; ii. Most number of liquid stocks for every sector thereby allowing maximum diversification; iii. Most number of actively traded ETFs providing a wide array of exposures; and iv. Cheapest and most efficient execution of listed products. • Under the current SIP classification, it is very difficult for a retail client with no investment experience who wants a diversified portfolio of foreign Stocks/ETFs via a robo-advisor. And yet, he/she can easily purchase a similarly designed Mutual Fund. • In addition, an investment in a well-diversified portfolio of US Stocks is safer for an unexperienced investor compared to investing all of his/her life savings in a penny stock listed in Singapore. Yet, retail clients have easier access to the latter. • The actual risk is therefore not adequately captured by the SIP classification. • One suggestion could be to develop a SIP-type classification based on statistical measures instead. For e.g. <ul style="list-style-type: none"> i. Liquidity ii. Market Cap iii. Volatility <p>3. To have clear guidelines in affording Digital Wealth Managers the same investment status as Mutual Funds to be offered to CPF-OA, SRS and any other retiring / savings related plans:</p> <ul style="list-style-type: none"> • They are designed to be robust and efficient, i.e. very low costs so it makes a lot more sense that they can be offered in the same way as most Mutual Funds. • In conjunction, MAS could set limits to the amount investable in Digital Wealth Mangers via these accounts (For e.g. 20% of OA investments can be in DWM products). <p>4. Revisit Fixed Income products</p> <ul style="list-style-type: none"> • Bonds are an essential part of a more stable portfolio as compared with a portfolio consisting only of Stocks.
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		<ul style="list-style-type: none"> • By construction, investments in Bonds are more secure than investments in Stocks. They should be available especially to retail investors without any investment experience, more so than Stocks. • Digital Wealth Managers today struggle to include Bonds as part of their offering due to the current guidelines regarding suitability and size threshold. <ul style="list-style-type: none"> i. Providers cannot easily supply Bonds information without it being deemed as marketing to retail investors. ii. Retail investor threshold for investing in Bonds is currently minimum SGD\$ 200,000. Big ask for an average retail investor to put-up \$200,000 cash in a single bond whereas bond-sizes have started to become smaller (\$1,000) and will continue in that direction. • MAS should make it easier for retail clients to access information and invest in Bonds. Particularly Investment Grade bonds. <p>5. Cross-Border Recognition</p> <ul style="list-style-type: none"> • A Digital Wealth Manager needs to scale due to their low cost offering – cross-border recognition of licenses and investment services will help them achieve better scalability with Singapore as their hub. <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>No comments.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p>
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	<p>(b) advising on traditional ETFs only; and (ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>No comments.</p> <p>Question 3. MAS seeks views on the proposals to: (i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows: (a) expand the scope of the licensing exemption to include both listed and unlisted CIS; (b) extend the licensing exemption to include exempt FAs; (ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and (iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>No comments.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p>
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		No comments.
17	Subhajit Mandal	<p>General Comments</p> <p>With respect to holding assets in a custodian accounts - if DAs hold the assets in individual custodian accounts, it attracts high aggregate custody fees. Can all the assets be clubbed so that there are practical savings on the custody fees?</p> <p>In the example of the diagram at the last page - the path is very useful. One of the first decision boxes was in relation to managing client money. (Section 1.3) What is the MAS view, will there be a technical requirement to take the client directly to the relevant entities website that will hold the money?</p> <p>Comment with regards to audit requirement after a year of operation: It will be helpful if MAS sets up a list of approved vendors with defined audit scope that DAs can use after a year of operations. Comparisons for the review outcome could also be varied. Any clarifications on rates that these audit firms will also be helpful. Currently there is are no centralised information on these audit companies available.</p> <p>The consultation paper outlines that fund management companies that provide its clients with a digital advisory service that allows them to book the trades (based on the investment portfolio suggestions of the robo) with the brokerage through the (robo) platform will be required to have a CMS license for “dealing in securities”?</p> <p>a) Does this mean to say that the licenses (CMS, FA and Exempted FA) support only front end robo-advisors?</p> <p>b) What if the brokerage is effectively just plugged in as an API and the clients’ respective brokerage accounts are linked and the trades do not go through the corporate brokerage account of a company, does this still require the company to have a CMS license for dealing in securities?</p> <p>Some more clarity/guidelines on the various robo-advisory models and the different functionality would be helpful.</p> <p>It appears that the requirements to invoke the portfolio rebalancing requirements are not the same as those required to invoke the general exemption for FAs and exempt FAs that manage listed and unlisted CIS (the latter requiring prior approval for each transaction). What is the rationale for this?</p>

	<p>What are the specific track records that MAS is willing to consider waiving? Would other track record requirements be similarly waived (e.g. the experience of each of the key personnel, provided that some meet such track records)?</p> <p>How does one calculate “collective experience”?</p> <p>Does anyone need to be an “appointed representative” and if so, who will be an “appointed representative” (especially where there is full automation)?</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>There are various Robo-Advisors that are B2B and B2B2C - when banks are licensed to work as wealth advisors, will these rules impact these Robo-Advisors that are working in B2B and B2B2C format?</p> <p>How are algorithms defined?</p> <p>If the digital advisor is partnering with the bank whose prerogative is it to monitor and test the algorithm, the banks’ or the DAs’?</p> <p>Question 2. MAS seeks views on:</p> <ul style="list-style-type: none"> (i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating: <ul style="list-style-type: none"> (a) fully-automated digital advisory models; and (b) advising on traditional ETFs only; and (ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption. <p>Currently the paper looks towards roboadvisors towards ETFs and discretionary platform. Under the ETFs there is regulation for basis of recommendation. When recommendations are made for ETF or discretionary offering, is there no requirement to provide basis of recommendation?</p>
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	<p>What is the extent of the recommendations that DAs(with or without any human intervention) can make about other investment products besides ETFs? Is there any considerations to extend DAs beyond ETFs to other products exemptions for the future.</p> <p>In 4.7 it's said "...We also expect digital advisers to have controls in place to identify inconsistent responses provided by the client, such as incorporating prompts (e.g. pop- up boxes) in the questionnaire to alert the client when his responses are inconsistent, or a backend data analysis process to automatically flag out inconsistent information provided by the client for follow up by the digital adviser."</p> <p>While the requirement to identify inconsistencies in responses is very important, the last part about the DA having to "follow up" can also be solved through automation and additional information prompts for the customer. The DA should also have the option to develop a framework that takes a conservative approach to tailor the recommendation, taking into account inconsistencies.</p> <p>Essentially to follow the same process as a pragmatic financial adviser would follow - if a customer answers that they don't wish to loose money but also consider themselves as an aggressive investor, then the FA would clarify which one is correct. In the DA case they would automatically assume "the worst" (the most conservative) and tell the customer that this has been done, meaning they're continuing at their own will.</p> <p>When will a DA be considered "fully automated"? What happens if there is some human oversight over the platform? Is there any differentiation between DAs that are completely automated - some are hybrid, some allow execution, some do not? Will the term "traditional exchange traded funds" be defined? What are the scenarios where a Tool will "exert influence over amount to be invested".</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p>
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	<p>Can it be assumed that digital channels can be used for prior approvals, such as an online acceptance of the transaction?</p> <p>How would one differentiate between a scenario where there is a portfolio rebalancing and one where the FA is rebalancing the assets to be consistent with the agreed investment framework (which could have been recommended by the FA)?</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>Will FAs now be able to recommend DA platforms to their clients when the appropriate advice is to invest in diversified portfolios? Will DAs in the future be able to recommend insurance products as well?</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Since this regulation is retail focused, isn’t there a catch 22 where most ETFs which are considered safe in general by the finance community are not available to retail folks to Singapore? For example ETFs for S&P 500. The current list of EIPs is limited - http://www.sgx.com/wps/portal/sgxweb/home/products/securities/etfs/tools If MAS is trying to establish that certain global ETFs are 'safe' for investments. It may be worth exploring that these global ETFs can be exempted from the Customer Knowledge Assessment (CKA) and Customer Account Review (CAR) processes.</p>
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18	Singcapital Private Limited	<p>General Comments</p> <p>No comments.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>No comments.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>If the intent of digital advisers are to provide an online system where there is no or minimal human intervention, the case-by-case exemption from collecting full information for traditional ETFs only would be too restrictive. Case-by-case exemption should also be granted for clients who would like the option to select bonds, Securities (other than CIS) and CIS of their own choice.</p> <p>Notwithstanding, the digital advisory model should also give clients the option to select if they want full advice in constructing a portfolio of assets which may consist of different classes of investments. In such cases, full information will need to be collected.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of</p>
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	<p>portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>(i) Many FAs have added additional licensed activity - Advising on securities (other than CIS). This may include Bonds, stocks and shares as well. Increasingly, clients also request for bonds, stocks and shares to form part of their investment portfolios. We propose to expand the scope of licensing exemption to included listed and unlisted CIS, Securities (Other than CIS) provided that FAs have the license to advise on such investment classes of products. This should be for both digital and conventional Financial Advisers.</p> <p>(ii) Similarly, if the intent is that risks of rebalancing activities are incidental to the provision of advice which the Digital Adviser is licensed to conduct. This exemption should be granted for portfolios comprising of listed and unlisted CIS and Securities (other than CIS) for both digital and conventional advisers. FAs relying on this fund management licensing exemption would be required to disclose and obtain their clients' one-time prior acknowledgement, however, it may not be operationally viable to notify clients prior to each and every rebalancing transaction so that clients are given an opportunity to object to the rebalancing transaction, due to the volume of transactions and time sensitivity when executing the rebalancing of portfolios.</p> <p>(iii) For Digital Advisers who do not meet the requisite track record and AUM, key individuals have to have the relevant collective experience in fund management and technology. We propose that MAS considers fund management experience to also include individuals who have experience working in licensed Financial Advisers as researchers or in investment department. These individual would have experience in the constructing of company model portfolios which can comprise of shares, ETFs, bonds with regards to the clients risk appetite. We propose for MAS to defined what constitutes as experience in technology and to keep costs manageable, that both expertise can be outsourced subjected to safeguards and risks controls.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p>
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		<p>We strongly support this.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>Currently, FAs are already using Customer Knowledge Assessment (CKA) for such purposes. Can we have one standardised form instead of splitting this into CKA or Customer Account Review (CAR) forms since the intent of the form is similar?</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments.</p>
19	Stradegi Consulting Pte. Ltd.	<p>General comments:</p> <p>At the outset, we laud and welcome the efforts of MAS to promote and cultivate the fintech environment in Singapore. Initiatives that lead to cost simplification and drive overall efficiency in the industry are welcome. However, some of the proposed changes suggested in this consultation paper, we fear, introduce some degree of risk for the individual investor and in conjunction with certain market events, could irreparably damage the reputation of the overall investment industry in Singapore.</p> <p>Robo advisory offers a promise of higher levels of efficiency and cost reduction. They target a much wider audience than those targeted by financial advisors and banks. Therefore, additional checks and balances are necessary to ensure that the algorithms perform as expected and that these algorithms are protected from manipulation. In addition, these algorithms must appropriately match novice investors to products that address all their constraints while also taking into consideration their objectives and current financial situation. The robo advisory solution should be forward looking from a market risk perspective and assess the impact of future market disruption events.</p> <p>In view of this, we have provided our comments from an investor perspective, to ensure that the private investor gains not only from the ease and efficiency provided by the digital advisory platform, but is also well protected.</p> <ol style="list-style-type: none"> Narrow scope: The Consultation Paper on Provision of Digital Advisory Services is narrow in scope covering only digital-advisors providing passive investment strategies. Digital-advisors in the market are growing in number and changing their operating

		<p>models, and are already covering active investment strategies, investments in alternatives, commodities, etc. We propose that there be greater clarity on the licensing of the different digital advisor models based on:</p> <ul style="list-style-type: none"> i. <u>operating models</u> i.e., fully automated (no advice received from a human advisor), hybrid advisors (algorithm advice coupled with human advisor advice based on need) and guided advice (professional facing robots as identified in the consultation paper) ii. <u>investment scope</u> in terms of passive investment strategies, active investment strategies, etc. <p>2. Licensing of the human advisor in hybrid models: There must be guidelines on the human advisors who serve on the platform in the case of hybrid models. We propose that it is explicitly stated that advisors on the platform are required to be licensed as financial advisors or representatives as per the MAS regulations and who possess the necessary qualifications, expertise and experience to render advice to clients on the platform.</p> <p>3. Third party providers: From the paper, we understand that third party providers do not need licensing if they do not provide financial advisory to clients. There are cases where third parties develop the platform, design the algorithm, supply the strategies based on their proprietary investment frameworks and operationally run the digital advisor behind the scenes. We propose that the guidelines explicitly mention that the onus of due-diligence from an investment management perspective as well as the outsourcing perspective would fall on the license holder.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>Comments:</p> <ul style="list-style-type: none"> (i) (a) We propose that there is greater emphasis in the guidelines on back-testing. The digital advisors must maintain documentation on
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		<p>the back-testing of all strategies and details pertaining to back-testing period, scenarios, etc.</p> <p>It must also be validated that the strategies have been back-tested through at-least one investment cycle. Further, this must be ensured for every new strategy added by the digital advisor. This recommendation is particularly important due to the difficulty in otherwise validating the expertise of an algorithm.</p> <p>(b) There must be emphasis on the risk profiling tool/ algorithm of the digital advisor. The key focus areas must be whether the tool accurately assesses an investor’s risk profile and matches an investor to the right product. it should adequately reflect a client’s objectives, constraints and risk profile. There must be a system to oversee whether the algorithm performs as expected. This must be periodically tested and audited.</p> <p>(ii) (a) We agree with the MAS proposal regarding the ‘Monitoring and testing of algorithms’ section. Additionally, we propose that the digital advisor have a documented plan with regards to the scope and periodicity for testing of algorithms (including the details of test plans, test cases, and defect management).</p> <p>(b) Records of testing and the test results obtained must be maintained. Further, any client specific alteration to the algorithm (both the asset allocation as well as the risk profiling algorithm) must go through a full regression test.</p> <p>(iii) (a) We propose that the digital advisor have disclosures on limitations, risks and how its services are generated. This could be included in FAQs as well as a short must-read document before the first transaction through the digital advisor. This should include how the algorithm operates, what are the limitations, how the risk profiles are constructed, how different functionalities such as re-balancing and any specific features that the digital advisor may offer, operate.</p> <p>(b) Further, the degree of human involvement must be explained and it must be ensured that the human advisor is duly qualified to render such advice.</p> <p>(c) There must also be a disclosure stating how the digital advisor/algorithm would behave during a major market event such as a disruption and its consequences.</p> <p>(iv) Agreed. In this regard, we additionally propose that –</p> <p>(a) The senior board is responsible for the selection of investment products which would comprise the asset allocation portfolio. Due care and skill must be exercised in selection of investment products that are suitable for the digital advisor’s target audience.</p>
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	<p>(b) Qualifications for the senior board are clearly laid out i.e., it is incorporated with members with expertise in investment management, risk management and technology development.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>(i) In this regard, we believe while all information from 11(c) to 11(i) may not be required, it is still important to gather information on (e) “the employment status of the client”, (f) “financial commitments of the client”, and (h) “Whether the amount to be invested is a substantial portion of the client’s assets”. These are important in the context of fully-automated digital advisory models as well as advising on traditional ETFs only. Many digital advisers may be engaging novice investors (now or in the future), who may invest all their savings on a high-risk portfolio. Gathering the information may allow the algorithm to state the additional risk based on the financial capacity.</p> <p>There is a need to ensure that there is a proper alignment of the risk capacity of an investor with the risk willingness of an investor and this cannot be achieved through a mere disclosure. The risk profiling needs to protect the investor from their willingness to take on risk, if they do not have the capacity for such risk.</p> <p>(ii) While the disclosure is appropriate, would it be possible for the digital advisor to “knock-out” unsuitable investors merely based on their financial objectives and risk tolerance i.e., just 11(a) and (b)? Therefore, as highlighted in point (i) above, it is necessary to gather more information through 11(e), (f) and (h).</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p>
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	<p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>Comments:</p> <p>(i) In the case of basket of securities, complete cost breakdown of all the recommended underlying products must be disclosed by digital advisers.</p> <p>(ii) We propose that digital advisers disclose to the investors regarding the way rebalancing works, including the frequency of such rebalancing, additional costs that may be incurred due to the rebalancing, and risks associated with automatic rebalancing (such as automatic rebalancing occurring regardless of market conditions). The parameters, thresholds and frequency of rebalancing must be clearly disclosed.</p> <p>(iii) (a) We would like to understand how the minimum capitalisation requirement will be dealt with. Currently, while most digital advisers would not manage money and pass on trades to brokers, risks such as misselling, misappropriation of funds, fraud and liabilities due to malfunctioning of the algorithm would exist. While the minimum capitalisation threshold maybe far lower, as in the case of a financial advisors, we propose that MAS at least require that digital advisers have sufficient and adequate insurance to meet the above liabilities. This is to ensure that the digital advisor is duly accountable for the automated investing algorithm.</p> <p>(b) While track record for the company setting up the digital advisor may not be possible for all, such track record and necessary qualification or experience must be established for the senior board of the digital advisor. The management team of the digital advisor must have had the requisite investment management experience of at least 2-3 years and / or be appropriately qualified to be able to test, oversee the algorithm, develop strategies and make recommendations.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>Comments:</p>
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		<p>Pursuant to the proposal to extend the scope of the licensing exemption for dealing in securities, the following would need to be considered:</p> <ul style="list-style-type: none"> • ETFs can be illiquid, which could lead to poor execution. By allowing FAs to deal, the onus of assessing the risk and getting a good execution price would fall on the FAs. • FAs may not be qualified to understand the risks inherent in all types of securities, and may operate based on commission and tip-offs. <p>The valuation and controls around the valuation of CIS differ from stocks and bonds. CIS offers some protection to ensure fair valuation is applied, and this does not exist in the case of actual securities.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Comments: Agreed.</p>
<p>20 21 22</p>	<p>The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, HSBC Bank (Singapore) Limited, HSBC Insurance (Singapore) Pte. Limited</p>	<p>General Comments</p> <p>There should be clear guidance provided by the platform including:</p> <ol style="list-style-type: none"> a) what information the client should input into the decision tool [e.g. gross annual income versus net annual income, or how entering only one financial objective (e.g. retirement needs) versus multiple financial objectives could result in the range of financial output]; b) how client’s responses to the questions (e.g. their own assessment of their risk profile or risk appetite) will result in the range of suitable products; c) educating client on output produced by the decision tool is only valid for a certain time-frame based on client’s present situation inputted into the tool and such advice may be rendered unsuitable due to clients’ circumstances having changed over time. <p>We would also like to seek greater clarity from MAS on the scope of client-facing tools that would be considered as “digital advisory” in</p>

	<p>relation to foreign exchange contracts. We understand that under the Securities and Futures (Amendment) Bill (“SF(A)Bill”), FX derivatives would henceforth be in scope of capital markets products. However, the Consultation Paper focuses on activities relating to “dealing in securities”. With the revised definition of regulated activities in the SF(A)Bill, we would like to clarify if MAS intent to retain the scope of digital advisory to only securities product, or if it would be expanded to refer to all capital markets products.</p> <p>If the scope would be expanded to include all capital markets products, we would appreciate clarification on the extent of activity that would be considered as providing advice on foreign exchange contracts on an electronic platform. For instance, HSBC has an electronic platform providing algorithm based execution services on foreign exchange contracts for institutional or corporate clients. The FX products available on the platform includes spot, forward, swaps and options. Clients would be able to pre-set specific parameters of the algorithm to meet their execution needs for large volume FX. These include indicating the limit price, currency pair, amount for execution, expiry time and execution style (passive, neutral or aggressive). The system will then auto-execute a series of FX transactions, to meet the eventual FX volume, based on the algorithm. We note that the platform would be in scope of “dealing in derivatives contracts” if the extent of digital advisory is expanded to catch all capital markets products, other than securities. Nonetheless, we believe such activities would not be in scope of “financial advisory” as the algorithm is merely executing the transactions based on the client’s indicated preference. We would appreciate MAS clarification on the definition of what constitutes as providing financial advice on foreign exchange contracts, in particular spot foreign exchange contracts, as the scope and intent is not always as clear as that for securities.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>Generally, HSBCI is supportive of proposals for minimum standard of care required.</p> <p>- However, we seek clarity on whether the Authority will be providing further guidance on the minimum safeguards for algorithms to</p>
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		<p>identify and eliminate clients who are unsuitable for a certain product type.</p> <p>- <u>In addition, other than back-testing algorithms, we suggest additional minimum standard of care such as subjecting client-facing tools to reviews before deployment (minimally through robust documented governance process; including documentation on assumptions, justification of basis, etc) to ensure product suitability for adoption of such tools.</u></p> <p>Feedback on (i): On <u>paragraph 3.3</u>, in addition to back-testing, we would like to suggest to MAS whether such testing should also include forward implied testing so that changes in portfolio reflect anticipated capital market forecast for such portfolios. In allowing for such digital portfolio, MAS could also consider setting a threshold percentage such that costs of the digital portfolio to the client should not exceed certain % of the portfolio and any gains from such technology can be passed on to the client.</p> <p>Feedback on (iii): We propose that, besides the minimum disclosure suggested below, FIs should be given the discretion to disclose any other relevant information on the algorithms or methodological to clients as these may be too technical for clients’ understanding, and may also affect competitiveness amongst different digital advisers. The following should form the minimum disclosure:</p> <ul style="list-style-type: none"> (a) Objective/strategy of the algorithm; (b) Risk disclosure specific to the strategy (especially when it does not take into account a holistic financial planning); (c) Conflicts of interest; (d) Circumstances under which algorithm may be overridden or service suspended or any adjustment to be made to the algorithm (e.g. during extreme market conditions); and (e) How client’s personal data may be used. <p>As for the proposed disclosures in the following specific paragraphs, - Paragraph 3.7: HSBCI is of the view that a high level description of how the model is configured in arriving at a recommendation may be more appropriate in view that some models may be proprietary and a full disclosure may stifle innovation. - Paragraph 3.8: HSBCI suggests that for customers to make an informed decision, the digital adviser should disclose the full suite of products available even if the outcome of the recommendation is confined to the selected investments.</p> <p>Feedback on (iv): Digital advisory would be regarded as a new product/service offered by an FI and it should fall within the existing product governance framework of the FI; where the Board has delegated the approving</p>
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	<p>authority to Senior Management, there should be no explicit approval required by the Board. The responsibility of the Board in respect of the digital adviser will be no different from any other financial products/services offered by the FI.</p> <p>As to paragraph 3.9, we would like to seek MAS' clarification on whether there is any personal liabilities imposed on the Board and Senior Management of the digital adviser.</p> <p>The proposed responsibility for Board might appear repetitive as the current TRM guidelines already requires oversight of technology risks by the Board and Senior Management. In addition, the scope outlined in (a) to (c) seems more operational and procedural in nature; and can be delegated to the senior management team instead.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Feedback on (i):</p> <p>As highlighted by MAS, customers of digital advisers tend to be self-directed, and where digital advisers do not conduct holistic financial planning for a customer (review of one's savings, investment and protection needs), the relevant risk profiling could be done based on one's (i) financial objectives, (ii) risk tolerance and (iii) investment horizon. Given the above, we would like to seek MAS' consideration to grant blanket approval to exempt such digital advisers from the need to collect certain information on the financial circumstances of a client prescribed under <u>paragraph 11 of FAA-N16</u>; specifically, digital advisers to continue obtain information under <u>paragraph 11(a) & (b)</u>, but not information under <u>paragraph 11(c) to (i) of FAA-N16</u>. As appropriate, the relevant controls and safeguards will continue to be accorded to customers of digital-advisers; there could also be reminders/checkboxes or "knock-out" criteria, for example:</p> <p>(i) Customer must have set aside sufficient emergency funds to meet next x months of needs;</p> <p>(ii) The investment via digital adviser should not exceed x% of the clients total net assets.</p> <p>For digital advisers that could conduct holistic financial planning, we would expect all information set out in paragraph 11 of FAA-N16 to be obtained for analysis.</p>
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	<p>If this is not permissible, then we would like to request MAS to prescribe the format (i.e. what is the key information to be included in such proposal to MAS) to apply for such case-by-case exemption.</p> <p>Besides, HSBCI would like to clarify if MAS will also consider exemptions for other product categories deemed low risk.</p> <p><u>Definition of “fully-automated”</u></p> <p>We would like to seek clarification on definition of “fully-automated”. For instance, will it be considered “fully-automated” if human interaction or intervention occurs only during instances where client’s responses have been inconsistent?</p> <p><u>Customer Knowledge Assessment (“CKA”) and Customer Account Review (“CAR”) requirements</u></p> <p>With the introduction of digital advisory services, may we also seek MAS’ clarification on whether there will be similar amendments to the Notice on the Sale of Investment Products (SFA 04-N12) and Notice on Recommendations on Investment Products (FAA-N16) to clarify how the CKA and CAR requirements will be applied in a digital advisory model?</p> <p>Specifically, we would like more clarity in terms of whether:</p> <ul style="list-style-type: none"> (a) client must pass CKA or CAR before they can proceed to use or trade via the fully-automated digital advisory mode, and whether there is any exemption in terms of client profile (e.g. accredited investors exemption); (b) existing regulatory requirements under failed CKA or CAR apply (e.g. what are circumstances under which Senior Management approval is required); and (c) there are certain types of Specified Investment Products which cannot traded via digital advisory model. <p>Currently, under FAA-N16, if a customer passes the CKA, he/ she can proceed with the investment without advice and under such circumstances, they would not be able to rely on Section 27 of the FAA to file a civil claim in the event he suffered a loss. We would like to understand if this will be impacted/ modified given that information set out in paragraph 11(c) to (i) of FAA-N16 will be exempted under the proposed FAA-N16 exemption.</p> <p>Feedback on (ii):</p> <p>On paragraph 4.7, we would like to suggest to MAS to provide industry-wide guidance on the requisite competency requirements of staff developing and revising the methodological approaches which the algorithms of digital adviser are based on.</p>
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	<p>HSBCI noted that the proposed safeguards for FAA-N16 exemption in paragraph 4.7 relies heavily on the concept of whether the online algorithm or process will exert any influence on the amount a client invest. Please clarify if marketing/ discount campaigns on a tiered investment amount basis will be in-scope?</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>No comments.</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>Feedback on (ii):</p> <p>We welcome the proposal of dispensing with the need to obtain client’s prior approval before each and every transaction for re-balancing purposes subject to the safeguards mentioned in paragraph 5.4. However, to ensure that clients are not disadvantaged due to re-balancing at high frequency (i.e. concept of churning), we would like to suggest that guidelines be set to ensure re-balancing costs do not exceed certain maximum cost borne by customers.</p> <p>Also, given that customer has already given authority to re-balance the portfolio without prior approval, we propose that MAS allows post-notification, within a stipulated period, to ensure timeliness in market execution. The principle of the notification should be to keep customers aware of the changes made to the portfolio; otherwise, the customer should not have given the authority to FI to transact without approval.</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>No comments.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>Nil</p>
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		<p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We would like to clarify whether the exemption applies regardless whether the FI offers digital advisory.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>Nil</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We welcome the proposal.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>Nil</p>
23	Thomson Reuters	<p>General Comments</p> <p>Thomson Reuters welcomes the opportunity to provide a response to the MAS’s consultation on the <i>‘provision of digital advisory services’</i>. This is an increasingly important topic that is of relevance to Singapore and countries throughout the region as wealth management customers increasingly conduct their business online and financial institutions deploy sophisticated advisory services technology. Thomson Reuters provides solutions to firms across the wealth management industry including retail and institutional brokerage firms, financial advisors and individual investors. The following suggestions and comments are based on the knowledge and insights gained from working with the industry in Singapore and globally.</p> <p>First, the steps taken by MAS in this proposal are part of an important shift across Asia-Pacific and globally to ensure that regulations related to advisory services are relevant for the digital age. Regulators in Australia, Malaysia, Hong Kong and the U.S have introduced related regulations. While this is welcome, it can potentially lead to fragmentation and the creation of unnecessary barriers if regulations differ in each jurisdiction. Thomson Reuters would encourage MAS to ensure its requirements, especially related to suitability, are aligned with other jurisdictions in Asia-Pacific.</p>

	<p>As noted in the consultation, there are a wide variety of different business models utilized in digital advisory services. Overly prescriptive requirements can deter new technologies from being utilized without a relative improvement in risk management. We believe that the requirement 5.6b should be removed from the proposal and that specific percentage requirements for portfolios be avoided. The requirements 5.6a and 5.6c both ensure that digital advisors who are unable to meet the five year track record requirement ensure that advisors have appropriate experience and work with external advisors to ensure they are using risk based approaches to manage risks. We believe that a specific requirement related to the percentage that ETFs composed in a portfolio would be unnecessarily restrictive; limiting the ability of a digital advisor to construct a balanced portfolio, reducing customer choice and acting as a barrier for new entrants to the advisory market.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>Thomson Reuters is supportive of the proposed measures.</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>While supportive of the intent of paragraph ii, we have some concerns related to the actual implementation of this requirement. We encourage MAS to add more clarity regarding the data sets that should be provided to ensure that the information used in digital advisory processes is consistent and accurate. This is also an important element in ensuring that results are consistent within a different time window or with individuals that have a similar profile.</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>Regarding the proposed disclosures in 3.7 and 3.8, we believe it would be beneficial to provide more clarity regarding the appropriate amount of information disclosure required of a digital advisor’s algorithms.</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>Thomson Reuters is supportive of the responsibilities outlined in paragraph 3.9. To effectively follow these requirements board and senior management would require significant knowledge in this field to</p>
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	<p>provide effective oversight. We would encourage MAS to clarify how it intends to ensure that the board and senior managers have the required knowledge to follow these requirements.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>No comments.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>No comments.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p>
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		<p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We believe the industry has a responsibility to help educate the investor community to ensure they have the correct knowledge and judgement to make sound trades. As a result, Thomson Reuters agrees with the premise of paragraph 6.5 that the requirements to assess a client’s knowledge and experience should be extended to licensed and exempt FAs. We believe the standard should be applied widely to ensure client knowledge assessments and relevant information are being “checked” and “analyzed” accordingly for both listed and non-listed SIPs.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>While not appropriate for all products, a risk warning on certain higher risk products can serve an important purpose in educating investors that are a party to certain types of trades. We are supportive of the risk warning in this circumstance.</p>
24	Terence Goh	<p>General Comments</p> <p>Confidential</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>No comments on 3.2,3.3 and 3.4.</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>No comments.</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>On 3.7, while the traditional asset allocation and financial planning advice are based on the Modern Portfolio Theory, the finer aspects of selecting a security or ETF over another are usually proprietary. Requiring robo advisors to disclose such algorithm to investors (and consequently its competitors) will dissuade robo advisors from the</p>

	<p>Singapore market. Ultimately, the portfolio performance will make investors move their funds to the better robo advisor. On 3.8, most robo advisors have moved to a annual management fee model which include all the switching and brokerage related cost, therefore naturally the conflict of interest will be reduced as robo advisors will transform the brokerage industry from a commission based industry to a fee based model.</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>The rise and fall (default and defrauding) of P2P players in China provided a lesson for everyone where techies with little knowledge in risk management and finance tried to disrupt a traditionally highly regulated industry. I would encourage MAS to continue to set high standards in terms of the experience and qualifications required of exempt financial advisor’s board and senior management to be similar to that of traditional RMFD and CMS players.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>We support exemptions to require information under p.11(c) to (i) for digital advisers.</p> <p>(b) advising on traditional ETFs only; and</p> <p>Confidential</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Confidential</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>We note that para 5.2 only proposed to included unlisted and listed CIS while your questionnaire included listed securities. Per our earlier submission and in consideration of our Robo Advisory model, we would urge the MAS to allow the licensing exemption to include listed securities and not just listed CIS alone.</p>
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	<p>(b) extend the licensing exemption to include exempt FAs; (ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>We support if it includes listed securities under this section.</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>We urge the MAS to consider expanding 5.6(b) to have at least 80% invested in traditional ETFs AND listed shares. If MAS is concerned about the lack of diversification, it could perhaps require a minimum of 3 listed shares with a certain minimum market cap to form a portfolio.</p> <p>Q4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>We propose that the MAS can consider expanding the scope to not just CIS but listed single stocks as well.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We support this suggestion.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We support the proposed changes in 2(1)(j) have no further comments. With reference to 2(2)(b)(i), we suggest the counterparties to include any overseas custodian or broker in a major jurisdiction which is approved by MAS. [For execution of overseas listed securities and CIS, we will need to access the overseas brokers and custodians to safekeep such securities and CIS listed overseas] For 2(2)(b)(iii) and 2(2)(c)(i), we suggest to include listed shares apart from units in a CIS.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client's knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p>
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		<p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We support this requirement.</p>
25	Unicorn Financial Solutions Pte Limited	<p>General Comments</p> <p>No comments.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>No comments.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>No comments.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p>

	<p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>3i) Unicorn welcomes this change.</p> <p>3ii) This will be useful and appropriate for FAs who offer their clients standalone portfolios based on risk profile (eg, high, moderate and low risk) that can be independent of a financial plan. However, Unicorn is an FA (perhaps the only FA) which offers its clients full financial plans. The circumstances, objectives and risk-tolerance of clients are addressed in their financial plans. These plans enable clients to prioritise the allocations of their assets and cash flows to achieve their particular financial goals and objectives, which may lead to implementation of insurances, savings arrangements and investments. The Unicorn investment portfolio is therefore not sold as a product but as part of our financial planning service, aimed at achieving the desired overall outcome of wealth creation and management for the client. Our clients do not therefore need or want a portfolio with a fixed asset allocation: their allocation of assets is done at the higher, planning level. Their portfolios need to be adjusted to achieve the growth or income objectives incorporated in their plans. Therefore, while we support the change proposed in the consultation paper, it is not useful for the clients of a genuine financial planning house like Unicorn, who need the greater flexibility of adjusting the composition of the portfolio to respond to changing market conditions, performance, outlook and opportunities.</p> <p>3iii) We do not think it is in the interests of clients or the development of the Singapore market that this concession be allowed to advisers arriving from overseas but not to advisers born and bred in Singapore. We see no justification for overseas entrants being preferred in this way.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p>
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		<p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments.</p>
26	Vanguard Investments Singapore Pte. Ltd.	<p>General Comments</p> <p>Please refer to the comments to individual questions below.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>Item (i) – we broadly agree with the minimum standards expected of digital advisers in relation to developing the client-facing tool as specified in paragraphs 3.2 and 3.3 and with the staff competency requirements set out in paragraph 3.4. These suggestions largely align with our understanding of relevant regulations from the U.S. Securities and Exchanges Commission governing robo-advisers where Vanguard operates a digital advisory platform.</p> <p>However, in respect of the digital adviser’s ability to ensure that the algorithm is able to identify and eliminate clients who are unsuitable for investing, we would emphasise the role that human representatives can play within a digital advisory process. Many firms employ a hybrid model, combining human input with digital advice. Even firms who adopt purely “robo-adviser” models will often allow consumers to access human representatives to set up and service accounts. We believe that the risks of (i) clients making unsuitable decisions as a result of a lack of information or a reduced opportunity in seeking clarifications and (ii) clients receiving unsuitable advice as a result of not being made aware of how information they input is used by the automated tool, can be both mitigated by the role played by, and accessibility to, human representatives under hybrid advisory models.</p>

	<p>Accordingly, we suggest that client-facing tools be enhanced to provide for the capability to refer to servicing by human representatives.</p> <p>We also suggest that digital advisers require clients to update their financial information on the digital advisory platform periodically to ensure suitability of advice to cater for any change in the client’s financial circumstances after the initial information gathering stage at account opening.</p> <p>Item (ii) – we largely agree with the minimum standards set out in paragraph 3.5 in relation to the monitoring and testing of algorithms. As for paragraph 3.5(b), we believe that a more practical approach would be to disclose situations in which the digital advisor may override the algorithm instead of putting in place controls to suspend the provision of advice in the event of the detection of an error or bias in the algorithm. Some digital advisory platforms such as the Personal Advisory Platform operated by Vanguard in the U.S. are hybrid models which have built in features to refer the client to client servicing by persons (as opposed to being purely automated), therefore it may not be appropriate to mandate that all digital advisers have in place controls to suspend their services in the event of error or bias in the algorithm.</p> <p>Item (iii) – we believe that disclosure on when the algorithm used by a digital adviser’s platform may be overridden and suspended would be useful for clients in making an informed decision on the digital adviser’s services. We suggest that digital advisers also disclose any involvement by third parties in the generation, ownership or operation of the algorithm.</p> <p>In Vanguard, we provide extensive disclosure to clients on our digital advisory system operated in the U.S. through the Personal Advisory Service brochure detailing how the advice is generated and the conflicts of interests we have with our clients.</p> <p>Item (iv) - we agree that the responsibilities of maintaining oversight and governance of client-facing tools should rest with the board and senior management of the digital adviser as set forth in paragraph 3.9. However, it would be helpful to the industry if the MAS could clarify the responsibilities (if any) in respect of product issuers who use the digital advisory platforms of third-party service providers. Specifically, would the responsibility of oversight and governance rest only on the digital advisor and would there be any expectations from product issuers using the digital advisory platform to perform on-ongoing monitoring and oversight of the digital advisor.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p>
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	<p>(b) advising on traditional ETFs only; and (ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>Item (i) -We agree with the granting of case-by-case exemptions to fully-automated client-facing tools advising on traditional ETFs from the need to collect certain information on the info set out in (c) to (i) on the financial circumstances of a client. We suggest including traditional unlisted index collective investment schemes (“CIS”) (being index CIS with limited use of derivatives) that are authorised or recognised schemes as one of the products to be considered for exemption.</p> <p>We also suggest clarifying the reference of “traditional ETFs” to confirm whether it includes only those listed on the Singapore Stock Exchange (“SGX”) or whether it also includes ETFs listed on foreign exchanges. We believe that including ETFs listed on foreign exchanges will improve product choice and allow exempt advisers to offer the best possible product range and lower costs of ETFs for portfolio construction for Singapore investors.</p> <p>Even though clients have full discretion on the amount they wish to invest and are not subject to any form of influence or solicitation during the investment process, we suggest that items (c) (employment status of the client) and item (h) (whether the amount invested is a substantial portion of the client’s assets) should still be collected from clients. We believe that in finding out about the client’s employment status and whether he / she is investing a substantial portion of his / her assets will ensure suitability of the products being offered to clients. These items should not be particularly burdensome to obtain and may already be in the digital advisor’s possession as part of the know-your-client onboarding process.</p> <p>Given the infancy of the digital advisory industry, we believe that case-by-case exemptions will enable the MAS to maintain control the number of exemptions granted and appropriately enhance its supervision as the MAS gain a better understanding of the industry.</p> <p>Item (ii) – In relation to the proposed safeguards sets forth in paragraph 4.7, we suggest that further guidance be provided detailing what is required to be fulfilled by digital advisers in terms of these safeguards identified (for example, how does a digital advisory service provider demonstrate the effectiveness of “knock-out” or threshold questions). Such guidance will allow the industry to incorporate these features into the digital advisory system at the outset of the system’s design and to avoid the need of having to reconfigure the system to include these features after it has been substantially developed. The guidance should include minimum standards on the safeguards to be put in place to ensure consistency in implementation of such safeguards rather than leaving the safeguards to be interpreted at the discretion of individual digital service advisors.</p>
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	<p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client’s prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client’s approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>Item (i) - We support the position that the licensing exemption be amended to expand its scope to include both listed and unlisted CIS and to extend the licensing exemption to include exempt FAs.</p> <p>Item (ii) - We support the proposed exemption which only allow FAs to conduct rebalancing of portfolios comprising of listed and unlisted CIS without the need to obtain the client’s approval for each and every transaction.</p> <p>Item (iii) – In terms of the safeguards described in paragraph 5.6, items (a) and (c) are existing requirements which must be complied with by CMS licence holders, the only new requirement exempt FAs are required to comply with is item (b) on the restriction to the composition of the portfolio. We suggest that the recommended portfolio in item (b) be primarily comprised of traditional ETFs which are not only listed on the SGX but also on other foreign exchanges.</p> <p>We further believe that expanding the recommended portfolio to include traditional unlisted index CIS which are authorised or recognised schemes would be beneficial to Singapore investors. Notwithstanding the proposed safeguards, we are of the view that exempt advisers should be restricted to a smaller scope of fund management activities that they may perform. They should not be allowed to act as managers for CIS (whether it be for their own or third-party CIS) or to act as sub-managers or investment advisers to other fund managers. We support the MAS’ efforts to facilitate digital advisory services, however, given that exempt advisers will be subject to lower standards than holders of the full CMS, the scope of activities they are permitted to provide should correspondingly be limited.</p> <p>We understand that the Hong Kong Securities and Futures Commission (“SFC”) is also conducting a consultation on online distribution and advisory platforms which proposes to introduce a guideline on, amongst other things, the provision of robo-advice (the equivalent of</p>
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		<p>digital advisory services). By comparison, we note that the SFC has not introduced any exemptions for fund management activities engaged by digital advisors.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>We are comfortable with the proposed legislative amendments in paragraphs 5(g) of Annex B.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We agree with the proposals to extend the scope of the licensing exemption for dealing in securities by FAs if such dealing is incidental to advisory activities as proposed in paragraph 6.3.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We are also comfortable with the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We are agreeable to the proposal in paragraph 6.5 in extending the requirements for FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We are also agreeable with proposed requirements in paragraph 6.6 for FAs to furnish risk warning statements to clients for investments in overseas-listed investment products.</p>
27	Vincent Lee	<p>General Comments</p> <p>Dear MAS,</p> <p>I’m writing to you as an average retail investor.</p> <p>Robo/digital-advisory services that are available in more mature markets are true to its name where algorithms coupled with Artificial Intelligence or sophisticated machine learning make investment decisions based on the prevailing market conditions. Of course it is still humans that lend their experience and define rules for these algorithms</p>

	<p>to function but at least they remove the human element or interference.</p> <p>Having seen these robo-advisor products available here in Singapore, it seems that there's still a large portion of decision making that relies on a human being with their own bias, agenda and emotions. These services may collect the initial risk assessment and investment information to give an automated suggested mix of products but after that hands over to human fund managers for on-going management. My concern is these pseudo robo-advisors may take full advantage of the slightly relaxed framework in which they may now operate under the guise of being an automated innovative service.</p> <p>I would suggest that MAS fully understands the companies or products that may fall into this new category and verify to what extent a human fund manager or decision maker has influence on how the product or service's objectives are executed. Some form of back-testing to prove their algorithms work and produce a decent return which at least matches market or benchmark returns after all fees may also be required to give confidence to the potential investor. Perhaps also circuit breakers need to be in place to prevent the automated service from executing orders in extreme market conditions.</p> <p>I hope my suggestions will be taken to consideration. Do not hesitate to contact me for any further clarification.</p> <p>Thank you.</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p> <ul style="list-style-type: none"> (i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool; (ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5; (iii) the proposed disclosures in paragraphs 3.7 and 3.8; and (iv) the responsibilities of the board and senior management set out in paragraph 3.9. <p>No comments.</p> <p>Question 2. MAS seeks views on:</p> <ul style="list-style-type: none"> (i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating: <ul style="list-style-type: none"> (a) fully-automated digital advisory models; and (b) advising on traditional ETFs only; and
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	<p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p> <p>No comments.</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>No comments.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>No comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>No comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client's knowledge and experience for transacting in listed SIPs.</p> <p>No comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>No comments.</p>
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28	Wong Partnership LLP	<p>General Comments</p> <p>We thank you for this opportunity to provide our feedback to the Consultation Paper.</p> <p>As a law firm, the majority of our comments below focus on legal and regulatory issues that we think could potentially arise from MAS' proposals. Generally speaking, we do not have any feedback to questions relating to commercial or operational matters as we are not in a position to comment on such matters.</p> <p>We note that the proposed changes to the licensing framework in Singapore applicable to the provision of digital advisory services take into account the fact that digital advisers may operate under a different business model from that of a traditional fund manager or financial adviser. Further, it appears that the type of licence(s) required by a digital adviser would ultimately depend on its operating model and the specific activities carried out by it.</p> <p>As the operating models of digital advisers may involve a selection and combination of the key activities carried out by traditional execution brokers, financial advisers and fund managers, and it is possible that there will be other FinTech providers which would seek to carry out their own unique mix of such activities, it would be helpful if MAS could confirm our understanding of the possible licensing¹ requirements under the current Securities and Futures Act (Chapter 289 of Singapore) and Financial Advisers Act (Chapter 110 of Singapore) ("FAA") that could apply to each of such activities as set out in the table below:</p> <p>¹We understand that the precise licensing and regulatory requirements that would apply to any financial services provider would ultimately depend on its operating model and the specific activities carried out by it, and these have to be examined on a case-by-case basis. Nevertheless, we think it would be helpful to the financial and legal services industries if MAS could clarify its expectation of what licensing requirements could apply based on the key activities carried out by the financial services provider, taking into account the proposals in the Consultation Paper.</p> <table border="1" data-bbox="539 1518 1380 1980"> <thead> <tr> <th data-bbox="539 1518 852 1626">Type of key activity</th> <th data-bbox="857 1518 1114 1626">Possible licensing requirements</th> <th data-bbox="1118 1518 1380 1626">Remarks / Queries to MAS</th> </tr> </thead> <tbody> <tr> <td data-bbox="539 1632 852 1980">Execution-only trading (i.e. no financial or investment advice is given by the financial services provider)</td> <td data-bbox="857 1632 1114 1980">Capital markets services ("CMS") licence for dealing in securities, trading in futures contracts and/or leveraged foreign exchange trading, depending on the</td> <td data-bbox="1118 1632 1380 1980"></td> </tr> </tbody> </table>	Type of key activity	Possible licensing requirements	Remarks / Queries to MAS	Execution-only trading (i.e. no financial or investment advice is given by the financial services provider)	Capital markets services ("CMS") licence for dealing in securities, trading in futures contracts and/or leveraged foreign exchange trading, depending on the	
Type of key activity	Possible licensing requirements	Remarks / Queries to MAS						
Execution-only trading (i.e. no financial or investment advice is given by the financial services provider)	Capital markets services ("CMS") licence for dealing in securities, trading in futures contracts and/or leveraged foreign exchange trading, depending on the							

			financial instrument(s) being transacted.	
		Provision of financial or investment advice, followed by the execution of transactions based on the recommendation of the financial services provider (" Execution With Advice ")	<p>CMS licence for dealing in securities, trading in futures contracts and/or leveraged foreign exchange trading, depending on the financial instrument(s) being transacted.</p> <p>- Exempt financial adviser pursuant to Section 23(1)(d) of the FAA.</p>	<p>We note that MAS has proposed to exempt licensed and exempt financial advisers ("FAs") who assist clients in the execution of transactions in collective investment schemes ("CIS") and securities incidental to their Advisory services from the requirement to hold a CMS licence for dealing in securities.</p>
		Non-discretionary fund management (typically this would entail the fund manager advising and recommending a suitable investment portfolio to a client, and will proceed to construct the investment portfolio only if the client accepts the recommendation. Approval of the client is required for any execution of transactions)	<p>- CMS licence for fund management.</p> <p>- Exempt person for dealing in securities, trading in futures contracts and/or leveraged foreign exchange trading, where such activities are solely incidental to the carrying on of business in fund management activities.</p> <p>- Exempt financial adviser pursuant to</p>	<p>We understand that the difference between Execution With Advice and non-discretionary fund management (which also entails elements of financial advisory and trade execution) is that the latter involves the provision of advice on an investment portfolio and the execution of transactions to construct and maintain the investment portfolio².</p> <p>- We note that MAS</p>

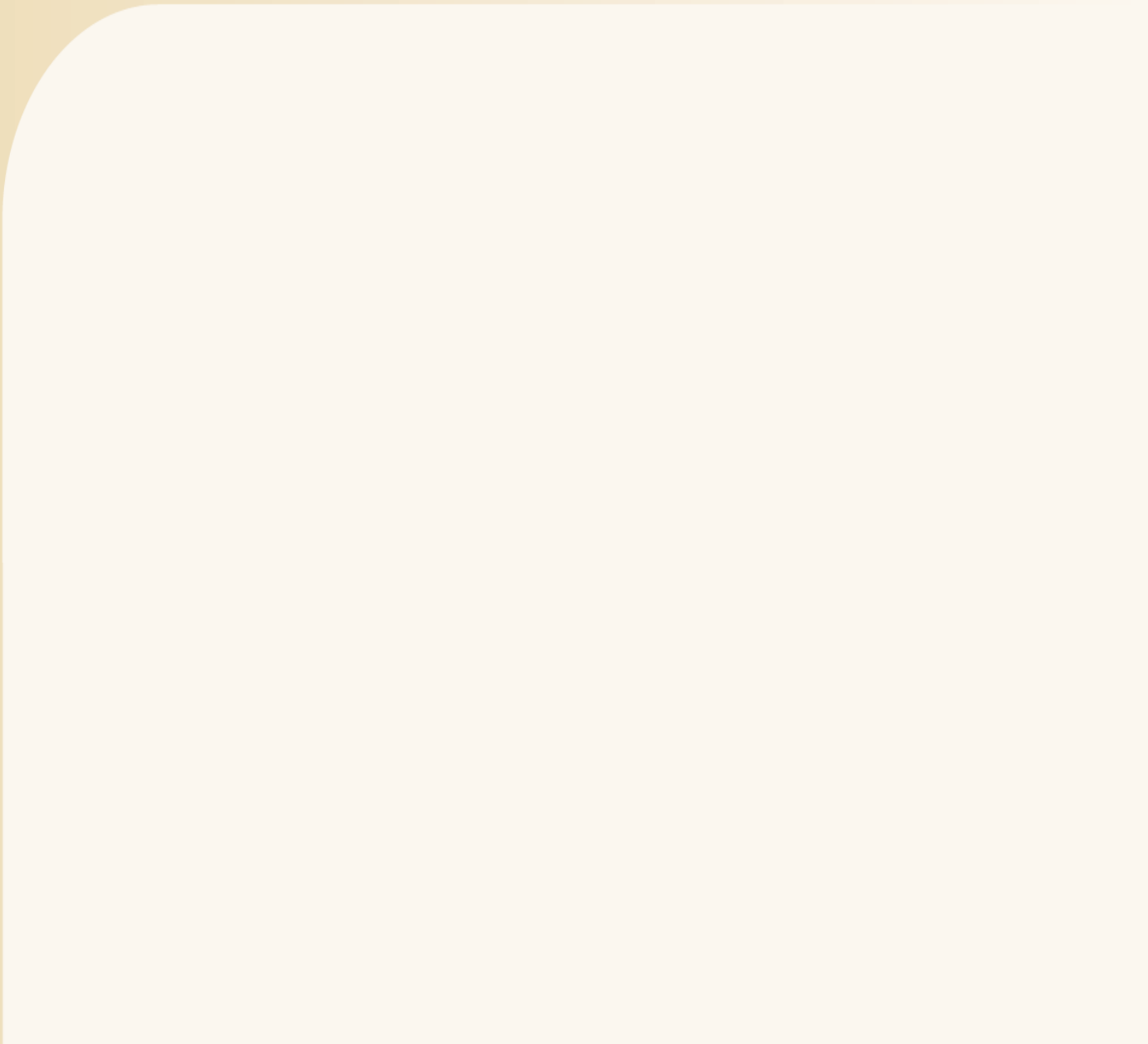
			<p>Section 23(1)(d) of the FAA.</p>	<p>has proposed to exempt licensed and exempt FAs from the requirement to hold a CMS licence for fund management when they manage investment portfolios comprising both listed and unlisted CIS in connection with their advisory activities (<u>"Proposed Fund Management Licence Exemption"</u>).</p> <p>- Could MAS clarify whether the exemptions from the requirement to hold a CMS licence for dealing in securities, trading in futures contracts and leverage foreign exchange trading, where such activities are solely incidental to the carrying on of business in fund management activities, would also apply to licensed and exempt FAs carrying on non-discretionary fund management activities in reliance on the Proposed Fund Management Licence</p>
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				Exemption?
		<p>Discretionary fund management (where the fund manager has discretion over the construction and management of a client’s investment portfolio. Approval of client is generally not required for the execution of transactions)</p>	<p>- CMS licence for fund management.</p> <p>- Exempt person for dealing in securities, trading in futures contracts and/or leveraged foreign exchange trading, where such activities are solely incidental to the carrying on of business in fund management activities.</p> <p>- Exempt financial advisor pursuant to Section 23(1)(d) of the FAA.</p>	<p>The flowchart in Annex A of the Consultation Paper seems to suggest that all discretionary fund managers would also require exempt FA status. Could MAS clarify whether it requires a discretionary fund manager that does not strictly speaking provide any financial advice or recommendations to clients (e.g. where the fund manager would simply construct and manage an investment portfolio based on the investment objectives provided by the client) to obtain exempt FA status?</p>
		<p>²This is based on paragraph 2.3 of the Guidelines on Licensing, Registration and Conduct of Business for Fund Management Companies, which provides that "[a] person that acts as investment advisor, sub-advisor or provides research to other investment managers (either in Singapore or overseas) would be considered to be conducting fund management activity if the person is able to exercise direct or indirect control over the management of the investment portfolio. In determining whether such a person is able to exercise control over the investment portfolio, MAS may consider factors such as whether the person is involved in the construction of the investment portfolio; has knowledge of, or access to the holdings of the portfolio beyond what is publicly available; or is named or referred to in the fund’s prospectus, offering documents or marketing materials."</p> <p>Question 1. MAS seeks views on the minimum standard of care that digital advisers should exercise. In particular, we would like to seek views on:</p>		

	<p>(i) expectations on the processes in paragraphs 3.2 and 3.3, and staff competency requirements in paragraph 3.4 when developing the client-facing tool;</p> <p>We have no comments.</p> <p>(ii) expectations on the processes that digital advisers should have in place over the monitoring and testing of algorithms used for their client-facing tool in paragraph 3.5;</p> <p>We have no comments.</p> <p>(iii) the proposed disclosures in paragraphs 3.7 and 3.8; and</p> <p>In relation to the proposed disclosures in paragraph 3.8, could MAS clarify whether such disclosures would also be required if a digital adviser does not, strictly speaking, provide any financial advice or recommendations to clients (e.g. where the digital adviser would simply construct and manage an investment portfolio based on the investment objectives provided by the client), and therefore may not be carrying out any financial advisory service as defined under the FAA?</p> <p>(iv) the responsibilities of the board and senior management set out in paragraph 3.9.</p> <p>We have no comments.</p> <p>Question 2. MAS seeks views on:</p> <p>(i) The proposal to grant case-by-case exemptions from the need to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 for digital advisers operating:</p> <p>(a) fully-automated digital advisory models; and</p> <p>(b) advising on traditional ETFs only; and</p> <p>Similar to our query in our response to Question 1(iii), could MAS clarify whether the requirements in Notice FAA-N16 on Recommendations on Investment Products would apply if a digital adviser does not, strictly speaking, provide any financial advice or recommendations to clients (e.g. where the digital adviser would simply construct and manage an investment portfolio based on the investment objectives provided by the client), and therefore may not be carrying out any financial advisory service as defined under the FAA?</p> <p>(ii) The proposed safeguards set out in paragraph 4.7 in order to qualify for the FAA-N16 Exemption.</p>
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	<p>Removing the requirement to collect full information on the financial circumstances of a client appears to be somewhat inconsistent with the requirement in paragraph 3.2 that a client-facing tool has to be sufficiently robust and collects all necessary information to make a suitable recommendation. Could MAS clarify whether the general requirement in paragraph 3.2 that a client-facing tool collects all necessary information to make a suitable recommendation would still apply notwithstanding that it may be exempted from the requirement to collect full information on the financial circumstances of a client as prescribed under paragraph 11(c) to (i) of FAA-N16 when advising on traditional ETFs?</p> <p>Question 3. MAS seeks views on the proposals to:</p> <p>(i) Amend the current licensing exemption for licensed FAs conducting fund management activity <i>with the client's prior approval</i> for each and every transaction (paragraph 5.2) as follows:</p> <p>(a) expand the scope of the licensing exemption to include both listed and unlisted CIS;</p> <p>We have no comments.</p> <p>(b) extend the licensing exemption to include exempt FAs;</p> <p>(ii) Allow licensed and exempt FAs to be exempted from holding a CMS licence in fund management in order to conduct rebalancing of portfolios comprising listed and unlisted CIS and <i>without the need to obtain the client's approval</i> for each and every transaction, subject to safeguards (paragraph 5.4); and</p> <p>We have no comments.</p> <p>(iii) Allow digital advisers that do not meet the requisite corporate track record and AUM requirements for a fund management company to service retail clients, subject to safeguards (paragraph 5.6).</p> <p>We have no comments.</p> <p>Question 4. MAS seeks views on the proposed legislative amendments in paragraph 5(g) of Annex B.</p> <p>We have no comments.</p> <p>Question 5. MAS seeks views on the proposal to extend the scope of the licensing exemption for dealing in securities to allow licensed and exempt FAs to deal in securities other than CIS, if such dealing is incidental to their advisory activities (paragraph 6.3).</p> <p>We note that MAS is proposing to exempt:</p> <p>(a) licensed and exempt FAs from the requirement to hold a CMS licence for dealing in securities when they assist clients in the execution of</p>
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		<p>transactions in CIS and securities incidental to their advisory services; and</p> <p>(b) licensed and exempt FAs from the requirement to hold a CMS licence for fund management when they manage investment portfolios comprising both listed and unlisted CIS in connection with their advisory activities.</p> <p>A consequence of these two sets of proposed exemptions appear to be that a licensed or exempt FA who recommends an investment portfolio comprising securities (which are not CIS), and assists clients in the execution of trades in such securities in order to construct and maintain the investment portfolio, would be exempt from the requirement to hold a CMS licence for dealing in securities, but would still be required to obtain a CMS licence for fund management. For consistency, MAS may wish to consider aligning the scope of these two sets of proposed exemptions to cover both listed/unlisted CIS and securities.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments in paragraphs 2(1)(j) and 2(2) of Annex B.</p> <p>We have no comments.</p> <p>Question 7. MAS seeks views on the proposal in paragraph 6.5 to extend the requirements for licensed and exempt FAs to assess a client’s knowledge and experience for transacting in listed SIPs.</p> <p>We have no comments.</p> <p>Question 8. MAS seeks views on the requirement in paragraph 6.6 for licensed and exempt FAs to furnish a risk warning statement to clients for investments in overseas-listed investment products.</p> <p>We have no comments.</p>
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Monetary Authority of Singapore