



Monetary Authority of Singapore

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**FINANCIAL ADVISERS ACT  
(CAP. 110)**

**FREQUENTLY ASKED QUESTIONS ON  
THE BALANCED SCORECARD (BSC) FRAMEWORK**

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**Disclaimer: These FAQs are meant to provide guidance to the industry on MAS' policy and administration of the Financial Advisers Act. They do not constitute legal advice. MAS expects industry participants to retain their independent legal counsel to advise them on how their business operations should be conducted in order to satisfy legal and regulatory requirements, and to advise them on all applicable laws, rules and regulations of Singapore.**

## **(I) Scope of the Balanced Scorecard (BSC) Framework**

### **1 Are standalone accident and health (A&H) policies included within the scope of the BSC framework?**

The BSC framework only applies to investment products, including life policies, under the Financial Advisers Act (FAA). As standalone A&H policies do not fall within the definition of investment products or life policies, such policies are excluded from the scope of the BSC framework.

### **2 If a financial advisory (FA) representative processes and submits a transaction on his own behalf i.e. the representative is also the client, will the variable income earned from such a transaction be subject to the BSC framework?**

The BSC framework applies to the representative's total portfolio of sales in any given measurement quarter, regardless of whether the sales were made by the representative for himself or for others. As such, the variable income that the representative earns from his own transaction is subject to the BSC framework.

In the selection of cases for sampling and assessment, the Independent Sales Audit Unit (ISA Unit) should, however, select cases where the client is not also the representative as the purpose of such checks is to ensure that the representative has given quality advice and provided proper recommendations to his clients.

### **3 Are trailer fees and wrap fees subject to the BSC framework?**

The BSC framework is meant to apply to volume-based remuneration (i.e. variable income) that may result in product pushing or aggressive selling. MAS does not prescribe specifically the types of remuneration caught under the definition of "variable income" given the wide range of terminology used in the industry. Financial advisers should assess whether a particular type of remuneration falls within the definition of "variable income", taking into consideration whether such remuneration poses conflicts with clients' interests.

For example, financial advisers may pay certain fees<sup>1</sup> to the representative periodically for as long as the client remains invested (commonly known as trailer fees) or for as long as the client wishes to be able to switch between funds without having to incur additional fees (commonly known as wrap fees). The payment of such fees to the representative does not pose conflicts with the clients' interests given that (i) trailer fees encourage the representative to provide good post-sales services; and (ii) wrap fees do

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<sup>1</sup> Such fees are calculated based on a percentage of total assets under advice by the representative. The total assets under advice will fluctuate according to market value of those assets.

not motivate the representative to induce the client to make unnecessary switches between funds since the representative is paid a flat fee by the client for switches between funds. Given the alignment of interest between the representative and the client, such fees will not be subjected to the BSC framework.

**(II) ISA Unit**

**4 Can the ISA Unit reside within the FA Services Unit if there are mitigating measures in place for the ISA Unit to submit BSC reports directly to the Board and/or the Chief Executive Officer?**

If the ISA Unit resides within the FA Services Unit and reports to the Head of the FA Services Unit, the financial adviser must ensure that the ISA Unit does not report matters relating to the BSC framework to the Head of the FA Services Unit. To mitigate any inherent conflict of interest given that the Head of the FA Services Unit has responsibilities over the advisory and sales function of the financial adviser, the financial adviser must ensure that all BSC matters be reported directly to the Board and/or the Chief Executive Officer, or to a unit which is independent from the FA Services Unit, such as the risk management or compliance unit.

**(III) Definitions of “Selected Client” and “Selected Representative”**

**5 If an FA representative was assigned the following BSC grades:**

- (A) First calendar quarter of the year - BSC grade “B” or worse; second calendar quarter - BSC grade “B” or worse; and third calendar quarter - BSC grade “A”.**
- (B) First calendar quarter of the year - BSC grade “B” or worse; second calendar quarter - not assigned a BSC grade as the FA representative did not effect any transaction in that quarter; and third calendar quarter - BSC grade “B” or worse.**

**Should he be regarded as a selected representative in the third and fourth calendar quarters?**

(A) In this case, the representative will be classified as a selected representative in the third calendar quarter only. He will not be considered as a selected representative in the fourth calendar quarter.

(B) The representative will not be classified as a selected representative in the third calendar quarter given that he had only been assigned a single BSC grade (i.e. for the first calendar quarter of the year). However, he will be considered as a selected representative in the fourth calendar quarter. This is because in assessing whether a

representative meets the definition of a “selected representative”, the financial adviser should refer to the preceding two calendar quarters with BSC grades, notwithstanding that both calendar quarters are not consecutive (i.e. first and third calendar quarter of the year).

**6 According to the definition of selected client, a client will not be considered as a selected client if a financial adviser has assessed the client to have adequate investment experience and knowledge to transact in the investment product recommended. For a client who is purchasing a particular investment product where he has been assessed to have satisfied the Customer Knowledge Assessment (CKA) for this product based on his past investment experience<sup>2</sup>, can the financial adviser consider the client as possessing adequate investment experience and knowledge to transact in this product for the purpose of determining if the client is a selected client?**

Yes, in determining if a client is a selected client, the financial adviser can rely on the outcome of the CKA to assess if the client has adequate investment experience and knowledge to transact in a particular investment product.

#### **(IV) Pre-transaction Checks by Supervisors**

**7 Is a financial adviser required to perform pre-transaction checks for transactions effected by a supervisor in his capacity as a representative if he is not under the supervision of any other person, i.e. he is a supervisor in the highest tier?**

There is no need to perform pre-transaction checks on transactions effected by a supervisor in the highest tier as such a supervisor is expected to be competent in performing his advisory and sales role. Notwithstanding this, post-transaction checks by the ISA Unit will still have to be conducted on transactions effected by such supervisors.

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<sup>2</sup> Under the MAS Notice FAA-N16 on Recommendations on Investment Products (FAA-N16), a client who possesses the following investment experience will be assessed as possessing the knowledge or experience in a Specified Investment Product (SIP) that is neither listed for quotation nor quoted on a securities market or futures market (unlisted SIP) for the purpose of the satisfaction of the Customer Knowledge Assessment (CKA) in the SIP concerned:

- (i) for transactions in collective investment schemes (CIS) and investment-linked life insurance policies (ILPs), the client has transacted in CIS or ILPs at least six times in the preceding three years; or
- (ii) for transactions in unlisted SIPs (excluding CIS and ILPs), the client has transacted in any unlisted SIPs (excluding CIS and ILPs) at least six times in the preceding three years.

**8 Is it necessary for a supervisor to conduct pre-transaction client call-back if the supervisor was present, together with the FA representative, during the advisory and sales process with the same client?**

The supervisor is not required to conduct the pre-transaction call-back with a client if the supervisor was also present during the advisory meeting between the representative and the same client.

**9 If the selected client is accompanied by another individual (commonly known as Trusted Individual) during the advisory and sales process, is the supervisor required to perform pre-transaction client call-back with the selected client? If so, will the call-back be made with the selected client or with the Trusted Individual?**

Yes, the supervisor is still required to perform pre-transaction client call-back. The pre-transaction client call-back acts as an additional safeguard to ensure that the selected client understood his purchase based on the translation or explanation of the Trusted Individual and the call-back should be conducted on the selected client first where possible. In the event that the selected client requests the call-back to be conducted with the Trusted Individual, the supervisor should minimally check on the Trusted Individual's understanding of the product and seek confirmation with him that the correct understanding has been relayed to the selected client.

**(V) Processes and Methods for Reviewing and Assessing the Performance of FA Representatives**

**10 Is it necessary for the ISA Unit to perform a second round of post-transaction checks on an FA representative who is found to have committed a case of Category 1 infraction in the first round of checks given that the representative would have already been assigned a BSC grade "E"?**

Any Category 1 infraction detected in the first round of post-transaction checks could be an indicator that the representative may have committed more cases of infractions. As such, this would warrant additional rounds of checks to be conducted.

**11 When determining the sample size, how should the ISA Unit determine the number of samples to review if the resultant calculation is in decimals (e.g. 1.01 case)?**

Where the resultant calculation is equal to or greater than 0.5, the ISA Unit is required to round up to the next whole number. For example, if the resultant calculation is equal to 1.5, the ISA Unit should sample two transactions. However, where it falls below 0.5,

the ISA Unit can choose to either round up or down, but this must be consistently applied in the calculation of sample size.

**12 If pre-transaction client call-backs for transactions involving selected representatives or selected clients are performed by the ISA Unit, is it still necessary for the ISA Unit to conduct post-transaction client surveys?**

Pre-transaction client call-backs are required to be performed for all transactions relating to selected clients or selected representatives. On the other hand, post-transaction client surveys involve conducting client surveys on a sampling basis on all transactions conducted by the representatives of the financial adviser. Given the difference, financial advisers should not do away with post-transaction client surveys. Where the ISA Unit has already performed pre-transaction client call-back for a sampled transaction, it will not be necessary for the ISA Unit to conduct post-transaction client survey for that particular sample.

**13 Mystery shopping is stated as one of the methods to determine an FA representative's BSC grade. Is it mandatory for financial advisers to conduct mystery shopping exercises?**

Under the BSC framework, there is no mandatory requirement for financial advisers to conduct mystery shopping exercises on their representatives. However, where financial advisers conduct mystery shopping exercises, they are required to factor the findings from these mystery shopping exercises into the representatives' performance under the BSC framework.

Notwithstanding the above, we strongly encourage all financial advisers to conduct mystery shopping exercises as such exercises allow financial advisers to assess the conduct of representatives when dealing with clients, which cannot be discerned from documentation reviews alone. As set out in paragraph 1.5.1 of the Guidelines on Fair Dealing - Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers (FAA-G11), "The Board and Senior Management should ensure that the financial institution establishes a management information framework to measure and monitor achievement of the fair dealing outcomes. This could include: monitoring complaints trends; conducting customer surveys; conducting mystery shopping exercises; and preparing compliance reports."

**(VI) Classification of Infractions**

**14 Is a financial adviser allowed to reclassify a Category 1 infraction as a Category 2 infraction if the financial adviser compensates the client such that there is no material impact on the interests of the client? Similarly, if an infraction is**

**discovered by the ISA unit but the client has exercised the free-look option, is the financial adviser allowed to regard this as a non-infraction?**

Under the BSC framework, financial advisers are required to assess the performance of representatives based on the non-sales key performance indicators (KPIs) set out in Annex 1 of the MAS Notice FAA-N20 on Requirements for the Remuneration Framework for Representatives and Supervisors (BSC Framework) and Independent Sales Audit Unit (BSC Notice). The assessment of the performance of the representative and the quality of his FA service is independent of the measures taken by the financial adviser to rectify the infractions, including any compensation to clients or whether the client has exercised the free-look option.

**15 Where an FA representative or supervisor, on his own accord, uncovers and rectifies an infraction after the submission of a transaction to the product manufacturer for processing but before the transaction is accepted by the product manufacturer (in the case of an investment product other than a life insurance policy) or before the policy is issued, takes effect or the cover has commenced, whichever is the latest (in the case of a life insurance policy), is the financial adviser allowed to regard this as a non-infraction and not take this into consideration in its assessment of the BSC grade of the representative and/or supervisor?**

In cases where the transaction has already been submitted to the product manufacturer but has yet to be effected and the representative or supervisor uncovers and rectifies an infraction during this period, the financial adviser has the discretion to not take the infraction into consideration in its assessment of the BSC grade of the representative and/or supervisor provided the financial adviser has assessed and is satisfied that the infraction is not serious and has no impact on the client's interest. For avoidance of doubt, any infractions uncovered after the transaction is submitted to the product manufacturer and effected should be factored into the BSC framework.

**(VII) Computation of FA Representative's Entitlement to Specified Variable Income**

**16 The Representatives' Grading Table sets out a percentage range of specified variable income that an FA representative is entitled to for each BSC grade. Are financial advisers free to determine the actual percentage that a representative is entitled to within the range for each grade?**

Yes. The purpose of setting a range for each BSC grade is to provide financial advisers with the flexibility to decide on the actual percentage of the specified variable income that a representative is entitled to, based on the specific facts and circumstances of each case. For example, if the representative is assigned a BSC grade "B" or worse for the first time, the financial adviser may consider giving the representative a percentage

entitlement that is at the higher end of the range for that grade. On the other hand, if this is not the first time that the representative has been assigned a BSC grade “B” or worse, the financial adviser may decide to give the representative a percentage entitlement that is at the lower end of the range for that grade.

**17 Can financial advisers choose not to apply the haircut allowed for substantiated complaints in determining the amount of variable income which an FA representative is not entitled to as set out under paragraph 4.6.3 of the BSC Notice?**

We note that a substantiated complaint may be in relation to an incident which occurred in a calendar quarter prior to the measurement quarter and that the representative’s variable income in that calendar quarter where the incident arose could be lower than the variable income in the measurement quarter. As such, in cases where the representative was earning less in the calendar quarter where the incident arose, the financial adviser can apply the haircut allowed for substantiated complaints which effectively subjects a smaller portion of the representative’s variable income in the measurement quarter to deduction under the BSC framework.

However, financial advisers can choose not to apply the haircut provided that this is clearly stipulated in the contracts/agreements with the representatives and has been properly explained to the representatives.

**18 If the transactions of an FA representative who has left the financial adviser (previous representative) are transferred to another representative (new representative) for on-going servicing and the financial adviser’s practice is to pay the remaining variable income for those transactions to the new representative, will the new representative be entitled to receive the remaining variable income for these transactions, even if infractions are found in those transactions?**

If the infractions detected were not due to lapses attributed to the services provided by the new representative, the new representative will be entitled to receive the remaining variable income for these transactions.

**19 How will the BSC framework be applied to the sale of an investment product conducted jointly by two FA representatives?**

In such instances, infractions (if detected) will apply to both representatives. However, if a financial adviser is able to attribute the infractions to a particular representative, the financial adviser should apply the infractions to that representative.



**20 When an FA representative transfers from an FA function to a non-FA function during the measurement quarter, can the financial adviser only subject the portion of the representative's income earned from his FA role to the BSC framework?**

For a representative who transfers from an FA function to a non-FA function, the financial adviser will only need to subject the portion of variable income that the representative earns from his FA function to the BSC framework, provided the financial adviser is able to segregate the amount of variable income derived from the representative's FA and non-FA functions.

For the avoidance of doubt, if a representative transfers from one FA function to another FA function, the variable income earned by the representative arising from both FA functions will be subject to the BSC framework.

**(VIII) Application of Requirements under the BSC Framework on Supervisors of FA Representatives**

**21 Are supervisors and managers of FA representatives subject to the BSC framework?**

Yes. As long as the supervisors and managers have responsibilities for the supervision or management of the conduct and performance of any representative, they will be subject to the BSC framework. This is regardless of whether they have direct or indirect responsibilities over the representatives or whether or not they are appointed representatives themselves.

**22 Where the supervisor has dual responsibilities in terms of acting in both capacities as an FA representative and as a supervisor, how should he be assessed under the BSC framework?**

The supervisor should be assigned two separate BSC grades, one for his role as a supervisor and the other for his role as an FA representative.

**23 If a supervisor carries out both FA and non-FA functions, will the portion of his variable income that is attributed to the non-FA function be subject to the BSC framework?**

If the financial adviser is able to segregate the portion of the supervisor's variable income derived from his FA function from his total variable income, the financial adviser will only need to subject this portion of his remuneration to the requirements under the BSC framework.

**24 For proxy or covering supervisors who assist other supervisors to sign off on transactions and who do not receive any variable income from such transactions, how are they affected if the transactions which they have signed off are found to have infractions?**

The infractions uncovered will not affect the proxy or covering supervisors' remuneration if these supervisors do not receive any variable income from the transactions. However, we expect financial advisers to factor these infractions into the proxy or covering supervisors' appraisal or performance review since they had failed to detect the infractions.

**(IX) Recovery of Specified Variable Income which FA Representatives or Supervisors are not Entitled To**

**25 Are financial advisers required to recover monies which FA representatives and supervisors are not entitled to from representatives and supervisors who have resigned? Will the financial advisers be in breach of any rules if they are unable to recover monies from such representatives and supervisors?**

We recognise that it may be difficult or impractical for financial advisers to recover monies from representatives and supervisors who have resigned. Financial advisers would not be in breach of the BSC requirements if they are unable to recover monies from such representatives and supervisors as long as they can demonstrate that they have taken reasonable steps to recover the monies or have a reasonable basis for not doing so.

**(X) Timelines**

**26 In respect of an FA representative who is assigned a BSC grade "E" for a measurement quarter, when should close supervision of the representative commence?**

Where the BSC grade for a measurement quarter is only finalised in the first calendar quarter immediately subsequent to the measurement quarter, close supervision of the representative should commence at the beginning of the second calendar quarter immediately following the measurement quarter. For example if a representative is assigned a BSC grade "E" in the calendar quarter of April to June 2016 for the measurement quarter of January to March 2016, he will have to be put on close supervision from the beginning of the calendar quarter of July to September 2016.

**27 In respect of a selected representative who has been assessed as having a BSC grade “B” or worse for two consecutive measurement quarters, when should the increased sampling for the selected representative commence?**

Where a representative is assessed as having a BSC grade “B” or worse for the two consecutive measurement quarters of, say January to March 2016 and April to June 2016, and the BSC grade for the second measurement quarter (i.e. April to June 2016) is assigned in the calendar quarter of July to September 2016, the financial adviser is required to implement the measures for selected representatives on this representative from 1 October 2016 (i.e. the financial adviser should implement increased post-transaction sampling size for the representative’s transactions in the calendar quarter of July to September 2016, and pre-transaction call-backs for the representative’s transactions in the calendar quarter of October to December 2016).

**(XI) Recruitment of FA Representatives**

**28 Do the measures for an FA representative who has been assigned a BSC grade “E” (E representative) and the measures for a selected representative apply if the E representative or the selected representative has left the FA industry to engage in non-FA activities before returning to the FA industry?**

There is no requirement for the financial adviser to apply the measures for an E representative or a selected representative on such a representative if the last employment of the E representative or the selected representative did not involve the provision of FA services. However, the financial adviser should make an assessment of whether such measures should nevertheless be applied to such a representative taking into account the period that the representative was away from the FA industry.

**29 If a financial adviser intends to recruit an FA representative with a BSC grade “E” in the most recent BSC assessment performed by his previous principal, will the requirements on close supervision for the E representative be applicable if the financial adviser recruiting the representative is only providing FA services to clients who are accredited investors, expert investors, institutional investors or clients which are not natural persons?**

Financial advisers who are only providing FA services to clients who are accredited investors, expert investors, institutional investors or clients which are not natural persons, are exempted from the requirements of the BSC framework. As such, these financial advisers will not need to subject any E representative whom they appoint to the BSC requirements. However, given that the financial adviser is aware that it is hiring an E representative, it may wish to consider imposing the BSC measures or other mitigating measures on such a representative.

**30 An FA representative resigned from his financial adviser (previous principal) in the fourth calendar quarter of the year before a BSC grade was assigned to him for that quarter. He joins another financial adviser (new principal) at the end of the first calendar quarter of the following year.**

**(A) In such a case, is the new principal required to (i) implement the measures for an E representative if the representative's last assigned BSC grade in the third calendar quarter is "E"; and (ii) implement the measures for a selected representative if the representative's last two assigned BSC grades in the second and third calendar quarters are "B" or worse?**

**(B) Is the new principal required to follow up with the previous principal on the representative's fourth calendar quarter's BSC grade which was not available to the new principal at the time when the new principal did the reference check with the previous principal?**

(A) The new principal is required to determine its measures for the representative based on the most recent BSC assessment(s) performed by the previous principal. Therefore, notwithstanding that the previous principal had not assigned a BSC grade to the representative for the fourth calendar quarter, the answer to both (i) and (ii) is yes, as the new principal should refer to the most recent BSC assessment(s) performed by the previous principal on the representative, i.e. the BSC grade in the third calendar quarter for (i) and the BSC grades in the second and third calendar quarters for (ii).

(B) While the new principal is not required to conduct a second reference check with the previous principal, the new principal is nonetheless encouraged to do so on its own accord.

**31 For the purpose of reference checks, should the previous principal of an FA representative disclose the most recent BSC grade assigned to the representative or the most recent BSC grade reported to MAS?**

The previous principal should disclose to the new principal the most recent BSC grade assigned to the representative.

**(XII) Avenue for appeal by representatives and supervisors**

**32 As part of the appeal process, can a financial adviser allow the same ISA Unit officer who reviewed the initial case to assess whether there are merits to the appeal before escalating the appeal to the relevant persons, such as the Appeals Committee?**

The ISA Unit officer who reviews the validity of the representative's appeal should not be the same person who reviewed the initial case.

**(XIII) General**

**33 Are non-monetary incentives given to FA representatives and supervisors considered as variable income under the BSC framework?**

Non-monetary incentives (e.g. shopping vouchers, sponsorships of overseas incentive trips or gifts) are not regarded as variable income under the BSC framework. However, MAS expects financial advisers to put in place proper self-governance measures on such incentives, including implementing internal guidelines to ensure that the amount of non-monetary incentives given:

- (i) does not constitute a significant proportion of a representative's or supervisor's total income;
- (ii) takes into account a representative's or supervisor's BSC grade; and
- (iii) takes into account the overall compliance track record of the representative or supervisor.