

# **PRIVATE BANKING IN SINGAPORE Code of Conduct (“Code”)**

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# Introduction

The Private Banking Advisory Group (“PBAG”), comprising senior industry leaders (representatives from the private banking industry), was established in January 2010 with the support of the Monetary Authority of Singapore (“MAS”) to further strengthen the competency and market conduct standards of the private banking industry in Singapore.

In this connection, the PBAG has developed this Code to foster professional standards, enhance transparency to clients and confidence in the private banking industry in Singapore. This Code sets out standards of good practice on competency and market conduct expected of financial institutions (including their staff) operating in the private banking industry in Singapore which are providing financial services to Accredited Investors (“AIs”)<sup>1</sup>.

This Code sets out the level of competency expected of staff in the private banking industry providing financial/wealth advisory services to AIs, and how this level of competency should be maintained on an ongoing basis. This Code also includes general standards of professional conduct relating to the way in which financial institutions and their staff are expected to carry out their business activities, especially with regard to due diligence, fair and transparent disclosure as well as operational and compliance practices.

Given the dynamic nature of the industry, this Code will be updated by the Private Banking Industry Group (“PBIG”)<sup>2</sup> from time to time to ensure continued relevance to the industry and its practitioners.

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<sup>1</sup> Refer to Section 4A of Securities and Futures Act (Chapter 289) and the Securities and Futures (Classes of Investors) Regulations 2018 for the definition of AIs.

<sup>2</sup> PBAG was re-constituted as PBIG in 2011. The PBIG will build upon the work of PBAG in shaping the growth of the private banking sector.

# Framework to the Code of Conduct

This Code comprises two main pillars:

1. Competency
2. Market Conduct

The scope of the two pillars is as follows:

## **Competency**

- Key relevant competencies required in the financial landscape.
- Assessment and/or continuous training standards for persons in the private banking industry of varying seniority in their provision of financial/wealth advisory services to Als.

## **Market Conduct**

- Market conduct standards to ensure professionalism, client due diligence, appropriate advisory standards and resolution of client complaints.

## Application

It is intended that this Code will provide guidance on standards of good practice that may be used by any financial institution or a division thereof in the private banking industry which is regulated by the MAS, where the financial institution or division provides services to AIs (“Covered Entity”).

A “Covered Person” shall refer to an individual who is in a client-facing role and provides financial/wealth advisory service(s), banking transactional service(s) (i.e. deposit taking/payments), brokerage service(s) and granting of loans/credit facilities to AIs on behalf of a Covered Entity.

Covered Persons may include, but would not be limited to, relationship managers (RMs)/client advisors, investment advisors/investment consultants/investment specialists, product specialists and wealth planners.

These standards are intended to provide broad guidance, and are not meant to be exhaustive or to replace any legislation, regulations or guidelines issued by the relevant authorities in Singapore. Further reference should always be made to applicable legislation, regulations or guidelines, which may include but would not be limited to the following:

- (a) Banking Act;
- (b) Securities and Futures Act;
- (c) Financial Advisers Act;
- (d) The Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act;
- (e) Terrorism (Suppression of Financing) Act; and
- (f) Subsidiary legislation, notices, guidelines and information papers issued by the relevant regulatory authorities, such as the following:
  - (i) The Monetary Authority of Singapore (Anti-terrorism

- Measures) Regulations 2002;
- (ii) Notices and Guidelines “Prevention of Money Laundering and Combating Terrorist Financing”;
  - (iii) Guidelines on Risk Management Practices;
  - (iv) Guidance on Private Banking Controls (June 2014);
  - (v) Guidelines on Outsourcing;
  - (vi) Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers; and
  - (vii) Guidelines on Fit and Proper Criteria.

The Board and senior management of Covered Entities are expected to ensure that appropriate policies and procedures as well as systems and controls are in place to observe these standards and ensure compliance with applicable laws and regulations, to the extent applicable.

# Competency

*The purpose of the competency framework is to establish standards relating to the assessment and continuous training for all Covered Persons.*

## 1. Key Principles

- 1.1. Covered Entities and their Covered Persons providing financial/wealth advisory services to AIs should conduct their business activities with integrity and professionalism and ensure that they possess a requisite level of competence and knowledge.
- 1.2. The competency framework comprises expected standards on:
  - Competency assessment; and
  - Continuing professional development.

## **2. Competency Assessment**

### **2.1 Competency Assessment – Client Advisor Competency Standards**

- 2.1.1 Subject to paragraphs 2.1.3 and 2.2, the Covered Person is expected to pass the Client Advisor Competency Standards (“CACS”) before he/she provides any financial/wealth advisory service to AIs on behalf of his/her Covered Entity.
- 2.1.2 This applies regardless of whether the Covered Entity for whom the Covered Person acts on behalf of has its own internal Institute of Banking and Finance (“IBF”) accredited program.
- 2.1.3 Notwithstanding paragraphs 2.1.1 and 2.1.2, the expectation to pass the CACS does not apply to:
- (a) Any Covered Person who is FICS-certified for the job family “Relationship Management – High Net Worth, Job Role IV” or above as at 1 September 2011; or
  - (b) Any Covered Person who possesses at least 15 years of relevant financial services-related experience as at 1 September 2011.
  - (c) Any Covered Person who is a wealth planner representing Covered Entities as at 31 December 2018.
- 2.1.4 In lieu of the CACS, any Covered Person under 2.1.3(b) is expected to complete a specified non-examinable course within 18 months from 1 September 2011.
- 2.1.5 With effect from 1 January 2019, any Covered Person who is a CFA® charterholder can be exempted from CACS Paper 2 (Industry & Product Knowledge).
- 2.1.6 The Compliance or Human Resource Department of the Covered Entity is expected to determine whether a Covered Person under 2.1.3(b)



possesses the relevant financial/wealth services-related experience.

2.1.7 The CACS will comprise questions relating to the knowledge dominant competencies within the IBF Standards Training Scheme framework that Covered Persons are expected to possess, including:

- Market Conduct
- Product Knowledge

2.1.8 The CACS will be centrally administered by the IBF.

## **2.2 Implications for Covered Persons who do not pass the CACS**

2.2.1 Any Covered Person, subject to paragraph 2.1.3, who does not pass the CACS, should not advise clients.

2.2.2 The Covered Entity is expected to have in place adequate systems and processes to monitor and address non-observance of paragraph 2.1, including appropriate rectification measures.

## 3. Continuing Professional Development

### 3.1 Continuing Professional Development

- 3.1.1 To ensure that knowledge and skills are kept current with industry and regulatory developments, continuing professional development (“CPD”) is a critical component to ensure the ongoing competency of Covered Persons.
- 3.1.2 All Covered Persons are expected to achieve a minimum of 15 hours<sup>3</sup> of CPD in each calendar year.
- 3.1.3 The appropriate combination of the CPD hours to be achieved by the Covered Persons is expected to be determined pursuant to the CACS CPD Information Advisory Note and by the Covered Entity for whom the Covered Person acts on behalf of.
- 3.1.4 In general, CPD activities should constitute formal documented learning, which may include but would not be limited to, attending courses, workshops, lectures or seminars as well as e-learning courses.
- 3.1.5 All Covered Persons are expected to maintain their own records of how the expected CPD hours are met. This should include:
- (a) name of the course attended;
  - (b) date of the course;
  - (c) whether it is held internally or externally; and
  - (d) number of hours attended.

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<sup>3</sup> For the pro-ration of CPD hours where applicable, please refer to Section 2 – CACS CPD Requirement in the CACS CPD [Information Advisory Note](#).

- 3.1.6 Covered Entities and Covered Persons are expected to maintain appropriate records for each Covered Person to allow for an audit to be conducted on the hours of CPD achieved by each Covered Person, and the relevance of the CPD activities undertaken.
- 3.1.7 Covered Entities should ensure that all Covered Persons who act on their behalf will meet the expected CPD hours by the end of each calendar year.
- 3.1.8 Covered Persons who act on behalf of a different Covered Entity within any calendar year can carry over their CPD hours earned at the former Covered Entity to the new Covered Entity for that calendar year.
- 3.1.9 CPD hours accumulated in any calendar year in excess of the minimum CPD hours may not be carried forward to the next calendar year.
- 3.1.10 Please refer to the CACS Information Advisory Note issued by the IBF for more information on the CACS CPD requirement.

# Market Conduct

*The purpose of the market conduct framework is to establish market conduct standards relating to professionalism, client due diligence, appropriate advisory standards and resolution of client complaints by the Covered Entities and Covered Persons.*

## **4. Key Principles**

- 4.1 Covered Entities should ensure that they and their staff conduct their business with utmost integrity and professionalism to serve the best interests of their clients, thus endeavouring to uphold good faith and trust in the industry.
- 4.2 In particular, they are expected to uphold appropriate standards of conduct to:
  - (a) Maintain standards of professionalism;
  - (b) Take reasonable care and use reasonable diligence in their dealings with the client; and
  - (c) Manage the key risks associated with their business.

## **5. Professionalism**

Covered Entities and their Covered Persons should act with professionalism and ensure that their activities are guided by appropriate ethical values, prudence and integrity.

In particular, Covered Entities and their Covered Persons are expected to:

### **5.1 Personal Conduct**

- 5.1.1 Promote the integrity and credibility of the financial system. Covered Persons' personal conduct and dealing should not reflect adversely on their professional reputation, integrity or competence. Covered Entities should incorporate in their codes of conduct or ethics guidelines and/or employment contracts, a statement of general principles governing personal account holdings and expected ethical values, including but not limited to, honesty and integrity, competence and diligence.
- 5.1.2 Exercise sound judgment and maintain a professional relationship with the client at all times. In particular, Covered Persons should conduct their activities in a manner which is in the best interests of the client and the Covered Entity, including addressing situations that may lead to any actual, perceived or potential conflicts of interest.
- 5.1.3 When in possession of inside information, not act upon it in a manner that includes but is not limited to the following ways:
  - (a) Influencing or inducing any client or any third party to enter into any transaction;
  - (b) Communicating such information to any client or third party; and
  - (c) Engaging in unauthorised transfer of inside information and/or insider trading.
- 5.1.4 Not engage in activities that are not in the best interests of the client such

as front-running or parallel-running of the client's transactions, amongst others. Where appropriate, Covered Entities may, amongst others:

- (a) Require designated staff to obtain prior approval to transact in securities for their own account or an account in which they have an interest;
- (b) Impose an appropriate timeframe for which the approval referred to in paragraph 5.1.4(a) is valid; and
- (c) Implement appropriate "black-out" periods during which trading in certain securities are prohibited, to ensure that the staff do not benefit from possession of certain price sensitive information about the security.

5.1.5 Take reasonable steps to ensure that client orders are executed on the best available terms, taking into account the relevant market, nature and size of transaction.

5.1.6 Allocate client orders in accordance with the Covered Entity's trade allocation policies and procedures.

5.1.7 Act in the best interests of clients and mitigate the risks of potential market abuse for sale and purchase transactions between client accounts i.e. cross trades. Where appropriate, Covered Entities should provide guidance on instances where cross trades may be prohibited.

## **5.2 Conflicts of Interest**

5.2.1 Manage any actual, perceived or potential conflicts of interest, including appropriate disclosures to the client under certain circumstances, to minimize any potential adverse impact to the client. The extent of relevant policies and procedures should be commensurate with the nature, scale and complexity of the business activities.

5.2.2 Ensure that the offering and receipt of gifts and entertainment between the client, counterparty, broker, financial institution or any other third party and the Covered Entity, including their staff, are appropriate and that no gifts or entertainment are offered to or received from public officials. Amongst others, there should be:

- (a) Appropriate records maintained of entertainment and gifts received and offered by the Covered Entity and their staff; and
- (b) Periodic reviews on (a) and the related policy by senior management of the Covered Entity.

## **6. Client Relationship Management**

Covered Entities should act professionally with integrity, knowledge and competence when conducting their business with the client. In particular, they are expected to take reasonable care and use reasonable diligence to know and understand the client and provide the client with relevant, timely and adequate information to make informed decisions. They are expected to also provide the client with appropriate avenues for resolution of complaints.

In this regard, Covered Entities are expected to:

### **6.1 Know Your Client (“KYC”)**

6.1.1 Play their part in preserving the integrity of the financial system. In particular, guarding against the use of its operations to knowingly or deliberately facilitate any transaction that is or may be connected with money-laundering, terrorist financing, proliferation financing, tax evasion, or the conduct of any other criminal activities.

6.1.2 Require all relevant staff to take steps, including defining the appropriate documentary information, to:

(a) establish and verify the identity of the client; and

(b) reasonably establish the source of funds to be legitimate, as part of the client acceptance procedures.

6.1.3 Require all accounts to be approved by persons other than the Covered Person(s) handling the specified relationship. Covered Entities should also identify situations where the risks including reputational risk are assessed to be higher than usual and set out the appropriate actions to be taken. These actions may include but shall not be limited to, additional due diligence checks and/or approvals by one or more senior person(s).



- 6.1.4 Implement monitoring procedures to identify and evaluate unusual and suspicious transactions, to ensure that such activities are detected and reported on a timely basis.
- 6.1.5 Ensure that client accounts are reviewed periodically and kept up-to-date.
- 6.1.6 For the Industry Sound Practices relating to the designation of serious tax offences as predicate offences to money laundering in Singapore, please refer to Addendum 1.

## **6.2 Advisory Standards**

- 6.2.1 Act in the best interests of their clients and take reasonable care and use reasonable diligence in the provision of financial advisory services on financial products to their clients.
- 6.2.2 Assess and understand the features and risk-reward characteristics of a financial product before recommending them to the client, which may include but not be limited to assessing the following:
  - (a) Nature of financial product and corresponding level of due diligence required for that product;
  - (b) Criteria for assessing key risks of the product from a client's perspective. Products for which the Covered Entity has an interest in should also be subject to the same assessment criteria;
  - (c) Target client segments;
  - (d) Any client segment for which the product is clearly not suitable;  
and

- (e) Ongoing reviews of products and relevant counterparties to ensure that the initial assessment remains appropriate to the product's underlying risks.

6.2.3 Assess whether the Covered Entity's existing systems and processes are able to support the sale of complex products and/or those with higher risk of loss such as leveraged or complex over-the-counter financial products. Where appropriate, Covered Entities should implement additional due diligence procedures to clients when recommending such products.

6.2.4 Ensure that Covered Persons understand the product features and risk-reward characteristics before marketing the product to the client.

6.2.5 Take into account the client's profile when recommending products to the client. In this regard, Covered Entities and their Covered Persons should understand, analyse and document the following information about the client's profile, including but not limited to:

- (a) Investment objectives;
- (b) Risk tolerance such as the use of leverage;
- (c) Investment experience and knowledge;
- (d) Investment time horizon;
- (e) Financial situation; and
- (f) Constraints such as investment preference and liquidity needs.

Covered Entities and their Covered Persons should remind the client that its overall assessment of the client's profile and product recommendation will be based on the information provided by the client.

6.2.6 Ensure that the Covered Person has a reasonable basis for recommending a particular product. In particular, the relevant features and risk-reward characteristics of the product should generally be

consistent with the client's profile, taking into account the client's overall investment portfolio.

- 6.2.7 Explain to the client any inconsistencies in the risk-reward characteristics between the product recommended and his/her profile, taking into account the client's overall investment portfolio, to enable the client to make informed decisions.
- 6.2.8 Implement appropriate sales surveillance and compliance monitoring tools to identify issues relating to sales practices and suitability, including grounds for escalation to senior management.
- 6.2.9 Maintain appropriate records to provide evidence of the client's instructions for relevant transactions. This is to facilitate the resolution of discrepancies and/or trade disputes on a timely basis.

### **6.3 Communication**

- 6.3.1 Take into account relevant laws and regulations and disclosure standards set out in paragraph 6.4 "Disclosure Standards" in their written and oral communication to the client. These standards may include and would not be limited to disclosure and documentation standards on:
  - (a) Relevant Covered Persons' communication with the client by way of telephone, facsimile, electronic mails and face-to-face meetings; and
  - (b) Statements, records and confirmation advices pertaining to the client's holdings and transactions.
- 6.3.2 Have all Covered Persons maintain proper documentation and records (such as call reports) of significant transaction-related communications with the client, including situations where verbal confirmation may be

required.

- 6.3.3 Ensure that all information and representations in advertisements and marketing materials to a client or prospective client, whether written or verbal:
- (a) Comply with applicable regulatory and legal requirements; and
  - (b) Meet the appropriate disclosure standards set out in paragraph 6.4.
- 6.3.4 Make available to the client information on the avenues by which the client may raise enquiries, complaints, suggestions and feedback.
- 6.3.5 Ensure that the translation of any document into another language (where carried out) is performed by appropriate competent persons and that the process is subject to approval by designated persons within the Covered Entity.

#### **6.4 Disclosure Standards**

- 6.4.1 Provide full and relevant disclosures on financial products in a fair manner. Statements and information should be presented to the client in plain language to enable them to understand the proposed transaction and make informed decisions about a particular product and/or transaction.
- 6.4.2 Take reasonable measures to ensure that information communicated to the client, whether in writing or verbally, are:
- (a) Clear – Information provided should be reasonably understandable, in plain language and not ambiguous. It should be clear on the purpose, features and risk-reward characteristics of the financial product, where relevant.

- (b) Adequate and relevant – Information provided should, to the extent possible, consider the needs of the particular target client segment(s).
  - (c) Not false and misleading – Information provided should be correct and balanced, and comply with applicable regulatory requirements.
  - (d) Timely – Information provided should be up-to-date and provided to the client on a timely basis, to the extent necessary. Clients should also be informed of any material changes that may affect the risks and returns of their financial products.
- 6.4.3 Have appropriate competent persons and/or departments review and approve formal written communication to the client, where appropriate.
- 6.4.4 Ensure that key terms of a transaction are disclosed to the client. This should include:
- (a) Fees, charges and other quantifiable benefits (for example, rebates, commissions, retrocessions and spreads) received or charged by a Covered Person or Entity;
  - (b) Capacity (principal or agent) in which a Covered Entity is acting;
  - (c) Affiliation of the Covered Entity with product issuers;
  - (d) Key risks associated with the transaction such as those associated with leverage and margin financing; and
  - (e) Termination clauses.
- 6.4.5 The Covered Entity should have adequate measures in place to ensure that the above information is provided to the client prior to or at the point of entering into the transaction.

- 6.4.6 The disclosure should be made in written form as far as practicable, prior to or at the point of entering into the transaction. Otherwise, the Covered Person should make a verbal disclosure and provide such information in writing to the client as soon as practicable after the conclusion of the transaction.

#### Communication of fees, charges and other quantifiable benefits to clients

- 6.4.7 A Covered Entity is expected to establish and implement procedures for effective communication of fees, charges and other quantifiable benefits to clients. This should include the mandatory dissemination of a fee schedule covering all investment product and service categories (including advisory and discretionary portfolio services) at the time of account opening.
- 6.4.8 Where fees, charges and other quantifiable benefits cut across different investment product or service categories, a Covered Entity should split and attribute them under different categories. Furthermore, if there are no fees, charges and other quantifiable benefits applicable for a particular category, a Covered Entity should state so.
- 6.4.9 A Covered Entity should not merely state to its clients that all fees, charges and other quantifiable benefits are subject to negotiation. At the minimum, it should set out the maximum (and minimum, if there is a floor) dollar amount or percentage range of all applicable fees, charges and other quantifiable benefits (for each investment product or service). Where a percentage-based fee, charge or quantifiable benefit is charged or received, it should state what the percentage is measured against.
- 6.4.10 Where a Covered Entity has standing or one-off bilaterally agreed pricing arrangements with clients that deviate from the standard fee schedule, it should establish governance frameworks and controls to ensure that the bilateral pricing arrangements are honoured as agreed with clients.

- 6.4.11 For transactions where fees, charges and other quantifiable benefits exceed a Covered Entity's indicated maximum amount or percentage range in the fee schedule or deviate from charges in bilaterally agreed pricing arrangements, the Covered Person or Entity should disclose this to clients and obtain their agreement prior to the transaction. Such deviations from agreed pricing arrangements should be subject to adequate oversight and internal controls.
- 6.4.12 A Covered Entity should disclose and agree with clients how price improvements arising from client transactions<sup>4</sup> should be allocated. Controls should be in place to ensure that such agreements are adhered to.
- 6.4.13 For transactions where a Covered Person or Entity receives and retains rebates for the sale or distribution of primary issuance of bonds, it should specifically disclose such benefits to the client prior to or at the point of sale.
- 6.4.14 For transactions where a Covered Person or Entity receives and retains rebates for the sale or distribution of SGD-denominated primary issue bonds, the rebates should be capped at 25 basis points.

Disclosure on retrocessions relating to products purchased under discretionary portfolio services

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<sup>4</sup> Some products offered by Covered Entities, such as bonds and structured notes, are traded in over-the-counter or inter-bank markets. Price improvements relative to the price quoted by Covered Persons to clients during order-taking could arise from favourable market movements or if the Covered Entity manages to execute the trade at a better price. This means that if the Covered Entity is buying (selling) a product on behalf of the client and it manages to buy (sell) it at a lower (higher) price than that quoted to the client with a spread, the Covered Entity will earn more if the benefit is not passed on to the client.

- 6.4.15 For discretionary portfolio services, where a Covered Entity has already charged the client a management or advisory fee for the service, the said Covered Entity should not receive and retain any retrocessions from product providers.
- 6.4.16 In circumstances where the Covered Entity receives and retains retrocessions for products purchased under discretionary portfolios, the Covered Entity should, to the extent possible, adjust the management or advisory fees, or rebate the retrocessions to the clients. Where this is not possible, specific disclosure must be provided to and agreed by the client.

#### Margin Accounts

- 6.4.17 Disclose to the client key information about the margin account, including but not limited to:
- (a) Details of margin requirements;
  - (b) Interest charges;
  - (c) Margin calls; and
  - (d) Circumstances under which the client's position may be closed-out and its implications, or the client's assets may be disposed of without the client's prior consent.
- 6.4.18 Give the client reasonable written notice before effecting any subsequent material variation in the terms and conditions of any written agreement or transaction.
- 6.4.19 Ensure that Covered Persons explain both the general and specific risks associated with the transaction before the transaction is entered into or carried out, taking into account the complexity of the transaction, financial



sophistication of the client and applicable regulatory requirements in the relevant jurisdictions, when recommending a particular product to the client. This could also include the provision of product fact sheets, pricing statements, offering documents, health warnings, scenario analysis, payout structures, investment strategy, or risk disclosure statements, as the case may be.

## **6.5 Client Confidentiality**

- 6.5.1 Ensure that the Covered Entity and their staff keep confidential all information about a client at all times, including information pertaining to the account, transactions and holdings, unless disclosure and/or use of the information is permitted by Singapore law and/or agreement of the client.
- 6.5.2 Provide adequate guidance to staff on the maintenance of confidentiality of information which the Covered Entity and their staff receive from the client, including:
- (a) Dealing with requests for information from third parties, including the Covered Entity's related entities, law enforcement agencies or regulatory authorities, whether local or overseas; and
  - (b) Ensuring that the staff is aware that his/her obligation of confidentiality continues even after he or she ceases to be employed by the Covered Entity.
- 6.5.3 Have all staff seek guidance from their supervisors, management or Legal & Compliance department on the release of information, when in doubt.

## **6.6 Client Complaints**

- 6.6.1 Handle complaints from the client in an independent, prompt and appropriate manner.
- 6.6.2 Have formalised policies and procedures to deal with and respond to complaints from the client. Amongst others, this includes the maintenance of:
  - (a) A register of complaints with details of complaints received and resolution; and
  - (b) Proper documentation and records of investigation, including documents reviewed and interviews conducted, where appropriate.
- 6.6.3 Set reasonable timeframes to acknowledge and complete the review of clients' complaints, and provide appropriate interim replies where a complaint cannot be resolved within the stipulated timeframe.
- 6.6.4 Have adequate resources to ensure that complaints are investigated promptly, effectively and independently, in particular there should be clear criteria for assessing the merits of each complaint to ensure that complaints are resolved fairly and reasonably.
- 6.6.5 Ensure that periodic reports on complaints are submitted to management so that timely rectification of systemic problems, if any, can be undertaken.

## 7. Operational Framework

Covered Entities should implement an operational framework that is commensurate with their business activities and operations, including specifying risk and control limits where relevant. Covered Entities should also take into account applicable laws and regulations relating to the specific business activities conducted in any jurisdiction.

In this regard, Covered Entities are expected to:

- 7.1.1 Document the key policies and procedures put in place to implement their operational framework and establish appropriate processes, systems and internal controls to ensure compliance with their operational framework.
- 7.1.2 Periodically evaluate the effectiveness of their internal policies and procedures in paragraph 7.1.1 to ensure that they remain relevant and appropriate to the Covered Entity's business model, size, target clientele and complexity of the business activities of the Covered Entity. Covered Entities should also take into account developments in international standards and typologies when reviewing and updating their internal policies and procedures.
- 7.1.3 Ensure that there is adequate segregation of duties between staff to mitigate the risk of unauthorized or fraudulent transactions, amongst others.
- 7.1.4 Define clearly the roles and responsibilities of staff, including the levels of authority required for various business activities and for undertaking any exposures. Amongst others, these may include:
  - (a) Assignment of approving limits and system access that are commensurate with the relevant staff's responsibilities and seniority; and

- (b) Periodic assessments and verifications to ensure that system access provided is commensurate with the relevant staff's current roles and responsibilities.

7.1.5 Establish appropriate management information systems to maintain awareness, monitor and oversee its operations, taking into account the complexity and diversity of the Covered Entity's operations. Amongst others, these may include and would not be limited to:

- (a) Self-assessment and review forums to identify, report and mitigate key risks and issues;
- (b) Independent structure to record, report and review exposures as well as profit and loss positions that may arise from trading and other operational activities;
- (c) Monitoring of compliance with internal policies and procedures, controls and regulatory requirements;
- (d) Assignment of designated persons to monitor and track the actions taken to address audit findings on a timely basis; and
- (e) Measures to ensure effectiveness of the control framework.

7.1.6 Have staff in risk-taking, risk management and risk control positions take mandatory audit leave for a continuous period each year, to facilitate compliance monitoring. Departures from this policy may be permitted under exceptional circumstances upon formal approvals from designated persons within the institution.

- 7.1.7 Have in place appropriate frameworks and policies on incentive structures<sup>5</sup>. Covered Entities should ensure that their performance evaluation and remuneration practices incentivise high ethical standards and conduct that take into account clients' best interests, prudent risk-taking for long-term financial soundness, as well as the standards of this Code. Performance evaluation should translate into a tangible impact on actual compensation awarded to staff as well as promotion decisions to reinforce positive behaviour and a healthy organisational culture.
- 7.1.8 Implement an appropriate new product approval process to assess the risks inherent in new business lines or products to the Covered Entity. This process may include but would not be limited to:
- (a) Drawing up a definition of "new product";
  - (b) Analyzing of the risks to the institution that may arise from the proposed activities and details of any risk management procedures and systems;
  - (c) Analyzing the risks to the client, if any. Please refer to paragraph 6.2 "Advisory Standards";
  - (d) Adopting appropriate accounting treatment and assessing any financial impact;
  - (e) Adopting processes to review and authorize variations to existing products; and
  - (f) Appointing a designated committee to be responsible for product approval.

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<sup>5</sup> MAS expects Covered Entities to benchmark themselves against MAS' [Information Paper](#) on "Incentive Structures in the Banking Industry – Fostering Sound Behaviour and Conduct" (March 2019).

- 7.1.9 Ensure that the valuation of assets is performed fairly and independent of Covered Persons. There should be appropriate documented methodology and management oversight on the identification, valuation and reporting of illiquid positions.
- 7.1.10 Take into consideration the following when dealing with inactive and dormant accounts, amongst others:
- (a) Definition of inactive and dormant accounts;
  - (b) Frequency of periodic reviews, in particular, circumstances where such accounts can be closed;
  - (c) Monitoring of such accounts to ensure that there are no unauthorized transactions; and
  - (d) Conditions for re-activating such accounts, including authenticating the identity of the client.

Please also refer to paragraph 6.1 “Know Your Client”.

- 7.1.11 Identify the security risks associated with their information assets such as client information and implement appropriate security solutions to address them, including the risks of data theft, loss and leakage. There should also be appropriate preventive and detective controls on unauthorized access and encryption of client and other confidential information before the information is transmitted to third parties and/or end-point storage devices. Please also refer to paragraph 6.5 “Client Confidentiality”.
- 7.1.12 Maintain accurate and complete records of transactions, including but not limited to accounting and client transactions. These records should be updated on a timely basis and maintained in an appropriate form and for a suitable retention period, taking into account relevant laws and regulations and applicable internal policies and procedures.

- 7.1.13 Maintain adequate controls over the recording and execution of transactions and establish appropriate policies and procedures on off-premises and after-hours trading, where relevant.
- 7.1.14 Implement appropriate independent verification and reconciliation procedures to ascertain the accuracy of transaction details and activities. Amongst others, staff performing verification should be independent of staff responsible for executing the transaction.
- 7.1.15 Ensure that transactions are confirmed promptly and independently to facilitate authentication of transactions and timely detection of erroneous or unauthorized transactions. In particular, trade reconciliation and confirmation should be performed as soon as practicable.
- 7.1.16 Implement appropriate controls to prevent unauthorized amendments to the confirmation documents, where the confirmation process is prepared manually.
- 7.1.17 Implement controls to prevent or detect over-charging of clients above fee schedules or bilaterally agreed pricing arrangements, as well as deviations from agreements on allocation of benefits from price improvements<sup>6</sup>. This could be in the form of (i) pre-trade system-enforced controls to trigger alerts or blocks<sup>7</sup> on such transactions, and/or (ii) post-trade checks and surveillance to facilitate timely detection of over-charging.

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<sup>6</sup> Refer to paragraphs 6.4.7 to 6.4.14 on expectations relating to communication of fees and charges to clients.

<sup>7</sup> System-enabled alerts or blocks are generated when fee or benefit allocation arrangements are exceeded. These alerts or blocks prevent the trade entered from being executed or processed in the system until appropriate approvals are obtained and the alert is cleared or block overridden.

- 7.1.18 Not offer hold-mail services for clients unless in exceptional circumstances and requested by clients. The request by clients for hold-mail services and any subsequent change to the arrangement should be verified and approved by parties independent of the RMs.
- 7.1.19 In the provision of hold-mail services in exceptional circumstances and upon request by the client, ensure that only that client or a person authorized by that client may collect hold-mail, and the RM should not in any circumstance be allowed to deliver hold-mail or account statements to the client. The Covered Entities should ensure that there are other appropriate controls for hold mail, which may include but would not be limited to, ensuring:
- (a) Periodic collection of documents; and
  - (b) Upon collection, appropriate acknowledgement and confirmation receipt of statements or records of the client's holdings and transactions.
- 7.1.20 Implement an outsourcing framework, where appropriate, to identify outsourcing arrangements and put in place appropriate controls and monitoring mechanisms to manage the risks associated with outsourcing.
- 7.1.21 Implement an appropriate business continuity policy and process, taking into account the complexity, nature, size of the business and any outsourced activities.
- 7.1.22 Establish a process which sets out well-defined criteria for approving new, an increase in and/or renewal of credit facilities, taking into account the Covered Entity's credit policies and guidelines.
- 7.1.23 Ensure that the relevant staff responsible for the approval of credit facilities is independent and free of conflicting interests, which may include but would not be limited to the following scenarios:



- (a) Granting approvals to themselves or their connected persons;  
and
- (b) Facing inappropriate pressure from third parties.

7.1.24 Implement appropriate controls governing margin accounts of the client, including margin maintenance, margin calls, top-up /close-out and enforcement of security. Amongst others, this may include paying attention to the client's willingness and ability to provide timely margin top-up.

7.1.25 Establish appropriate processes to manage market liquidity risks that may arise from its activities such as treasury and financial derivatives trading, if any.

7.1.26 Ensure that management of market liquidity risk, including re-valuation of positions, are carried out on a regular basis, using reliable and appropriate market data, taking into account the liquidity of the relevant markets as well as the scope, size and complexity of the Covered Entity's activities and corresponding market risk exposures.

## **Addendum 1 – Industry Sound Practices**

### **Private Banking Industry Group (PBIG) - Industry Sound Practices relating to the implementation of new FATF recommendations on the designation of serious tax offences as predicate offences to money laundering in Singapore (“Industry Sound Practices”)**

*The Industry Sound Practices provide broad guidance, and are not meant to replace any legislation, regulations or guidelines issued by the relevant authorities in Singapore. Further reference should always be made to applicable legislation, regulations or guidelines, including MAS Notices/Guidelines to financial institutions on Prevention of Money Laundering and Countering the Financing of Terrorism.*

#### **1. Key Objectives**

1.1 The Industry Sound Practices complement, enhance and provide broad guidance to assist Covered Entities in reviewing and supplementing where necessary internal programs (comprising policies, procedures and controls) related to, the existing Anti-Money Laundering laws, regulations and guidelines, in order to safeguard financial institutions from being used as a platform to harbor proceeds from serious tax crimes or as a conduit to disguise the flows of such funds.

#### **2. General Principles**

2.1 The Management of Covered Entities should enhance, implement and enforce internal policy guidelines and procedures to detect, prevent and deter any funds where there is suspicion that the funds are proceeds from serious tax crimes.

2.2 Covered Entities should inform clients of Singapore's firm stance against tax-illicit activities. Covered Entities should also communicate that clients are responsible for their own tax obligations.

- 2.3 Covered Entities should implement procedures to assess the bona fides of clients and carefully evaluate the tax-related risks. During the onboarding of clients and maintenance of the accounts, they should have relevant policies, processes and procedures to enhance vigilance against proceeds from serious tax crimes.
- 2.4 Covered Entities should continuously monitor and assess tax-related risks that may stem from the conduct of their business. Where necessary, Covered Entities should take timely steps to mitigate the potential legal, regulatory and reputational impact arising from such risks.
- 2.5 Covered Entities should establish independent reviews, clear escalation and approval policies and procedures for dealing with tax-related risks, and provide clear guidance on the handling of such cases, including remedial actions.
- 2.6 Covered Entities should maintain detailed documentation of all relevant policies, processes and procedures for handling tax-related risks, and should maintain proper records of decisions made and the basis of the decisions.
- 2.7 Where an External Asset Manager is involved in the management of the account, Covered Entities should assess and obtain confirmation that the External Asset Manager is adhering to standards that are equivalent to those set out in this framework. Likewise, the Covered Entities should subject clients of External Asset Managers to due diligence and know your client standards that are equivalent to those they apply to their own direct clients.

### 3. Role of Covered Entities

#### A. *Client Onboarding*

3.1 Prior to onboarding a client, Covered Entities should require all relevant staff to be familiar and to comply with their internal policy rules and procedures for assessing the tax-risk profile of the client, and determine whether there are any reasonable grounds for suspecting that the client's funds are proceeds from serious tax crimes. The following non-exhaustive list of circumstances provides guidance on the possible "red flag" indicators which may give rise to suspicion, thereby triggering Enhanced Due Diligence measures as required:

- i. Client requests for hold mail services without satisfactory reasons
- ii. Use of complex structures
- iii. Non-face-to-face business relationships
- iv. Negative tax-related reports from media or other credible information sources on the client or on client's jurisdiction of domicile or tax residence
- v. Any additional parameters that a Covered Entity considers pertinent for conducting its risk assessments and due diligence checks.

3.2 Where required, the Enhanced Due Diligence measures to be conducted by the Covered Entities and its staff should include the following non-exhaustive steps:

- i. Screen client against databases/3rd party checks for adverse tax-related news/internet search

- ii. Ask client additional questions and verify, where relevant, the client's representations to be reasonably assured that the purpose of opening an account with the Covered Entity is legitimate and there is no indication that the funds are proceeds from serious tax crimes
- iii. Tap on the wider knowledge base available within the Covered Entities' global network to obtain a greater degree of assurance, to the extent that is possible under foreign laws and regulations
- iv. Where complex structures are involved, to obtain clear identification and verification/documentation of Ultimate Beneficial Owners, including understanding the ownership and control structure, and to assess whether there are indications that these structures are used in connection with serious tax crimes and, where offered by the Covered Entity or one of its affiliates, establish that these structures are not used for purposes to launder proceeds from serious tax crimes.

3.3 Following completion of due diligence and where there are reasonable grounds to suspect that the client's funds are proceeds from serious tax crimes; or that the purpose of opening an account is illegitimate, the Covered Entity should not accept the client and a STR should be filed. Management of the Covered Entity should be kept informed of such instances.

3.4 Covered Entities should maintain proper records of decisions made and the basis of the decisions.

### ***B. Ongoing Monitoring***

3.5 Covered Entities should establish ongoing monitoring procedures of all existing accounts to affirm the bona fides of assets booked, and to detect tax-related risks arising from the conduct of their business.

3.6 The following non-exhaustive list of circumstances, provides guidance on the possible “red flag” indicators which may give rise to suspicion, thereby subjecting the account concerned to Enhanced Due Diligence for ongoing monitoring:

- i. Presence of "red flags" for Enhanced Due Diligence at onboarding
- ii. Specific transactions related to Dormant accounts
- iii. Hold mail not collected and client has not visited Singapore for an extended period of time
- iv. Actual amount of assets in account or passing through the account is larger than expected amount of assets indicated at account opening

3.7 The Ongoing Enhanced Due Diligence to be conducted by the Covered Entity should include the following non-exhaustive measures:

- i. Increased frequency of account review for tax concerns
- ii. Heightened transaction analysis/monitoring
- iii. Independent staff responsible for such checks
- iv. Mechanisms to ensure independence of such staff

3.8 Where there are reasonable grounds to suspect that the assets are proceeds from serious tax crimes, the Covered Entity should file a STR and where appropriate, discontinue the relationship. If the Covered Entity is inclined to continue the relationship, approval should be obtained from senior management (e.g. CEO or an independent committee). The CEO of the Covered Entity is ultimately responsible for the escalation and independent review process. At the same time, the account should be subjected to close monitoring.

3.9 Covered Entities should maintain proper records of decisions made and the basis of the decisions.

#### **4. Ensuring staff's adherence to policy guidelines and procedures**

4.1 Covered Entities should ensure that their staff adheres to all internal policies and procedures, which should include, but is not limited to, the following:

- i. Prior to any on-boarding of clients, the RM should assess that both (i) the purpose of the account to be opened and (ii) the source of funds are not illegitimate. The RM assessment should be documented, and clients' representation should be verified where relevant.
- ii. The RM should, in accordance with the Covered Entity's policy guidelines and procedures, inform the client of Singapore's firm stance against tax illicit activities.
- iii. The RM should confirm in writing, as per the Covered Entity's KYC policy requirements, that from the information provided by the client during the due diligence process at onboarding and during the maintenance of the account there is no indication that the funds are proceeds from serious tax crimes.
- iv. Where the RM is not able to arrive at a definitive assessment of the client, he/she should escalate the case to the appropriate approving authority.
- v. Notwithstanding the roles of the RM outlined in paragraphs 4.1 (i), (ii), and (iii), Covered Entities should have a separate process in place to establish that the funds to be deposited are legitimate.

- vi. The staff should not knowingly or deliberately facilitate any activity relating to serious tax crimes conducted by clients or prospects.

## **5. Additional Client Information**

- 5.1 At account-opening, clients should acknowledge in writing that they are responsible for their own tax affairs.
  
- 5.2 Clients should provide any information relating to their tax affairs, as may be required by the Covered Entity, including signing a declaration to confirm that they have, to the best of their knowledge, not committed or been convicted of any serious tax crimes.

## **6. Training of Staff**

- 6.1 Covered Entities are expected to provide adequate training to their staff and management to ensure that they are aware of their obligations, and are equipped with the relevant competencies. Staff should know when to escalate any tax-suspicious activities for management's review and decision, including suspicions that may give rise to the Covered Entities' filing of an STR.
  
- 6.2 As part of the training, Covered Entities should maintain an updated list of red flags or typologies that staff could look out for in performing their due diligence of clients for both onboarding and ongoing monitoring purposes.



## Annex: Summary of Changes to PB Code

| Effective Date   | Changes  | Reference   |
|------------------|--|---|
| 1 September 2020 | <p>Enhanced governance and disclosure standards in relation to bilaterally agreed pricing arrangements and allocation of benefits from price improvements (paragraphs 6.4.10 to 6.4.12)</p> <p>Enhanced standards on performance evaluation and remuneration practices (paragraphs 7.1.7)</p> <p>Enhanced standards on implementing controls to detect over-charging (paragraphs 7.1.17)</p> | <a href="#">Link to PB Code (effective from 1 September 2020)</a> |
| 18 March 2019    | <p>Updated reference to Accredited Investors and wealth advisory services (across the Code)</p>  | <a href="#">Link to PB Code (effective until 31 August 2020)</a>  |
| 1 November 2017  | <p>Revised disclosures standards in relation to SGD bonds (paragraph 6.4.12)</p>   |   |
| 31 March 2017    | <p>Enhanced disclosure of quantifiable benefits, mandatory dissemination of fee schedule, and prohibition of retrocessions for products purchased under discretionary portfolios (paragraphs 6.4.7 to 6.4.13)</p>  |   |
| 1 October 2016   | <p>Enhanced disclosure for bond rebates at transactional levels (paragraph 6.4.11)</p>   |   |
| 21 July 2014     | <p>Clarified on CPD and updated references to IBF Standards (across the Code)</p>  |   |
| 28 March 2013    | <p>Included addendum on Industry Sound Practices relating to the implementation of new FATF recommendations on the designation of serious tax offences as predicate offences to money laundering in Singapore (Addendum 1)</p>   |   |

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|------------------|---|--|
| 1 September 2011 | PB Code launched by Private Banking<br>Advisory Group in April 2011 |  |
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