

Association of Independent Asset Managers in Singapore's (AIAM) Response to the Consultation Paper on FAIR Recommendations

General Comment:

Overall, the AIAM (website: <http://www.aiam.org.sg>), whose members are either MAS CMS Registered or Licensed A/I Fund Managers, support the initiative to further professionalise the Investment Advisory environment in Singapore. Currently AIAM has 27 Ordinary Member firms and 16 Associate Members (more than double the number of our initial membership when we were first set up in March 2011 of only 10 firms) with an estimated US\$ 7 to 8 billion in Assets under Management booked in Singapore from high-net-worth accredited investors from around the world.

The proposed new FAA FAIR recommendations have been initiated with the main intent of protecting mass affluent/retail investors and covers mainly providers who are servicing such clients i.e. predominately the Independent Financial Advisors (most of them operating individually as opposed to belonging to a firm) whose primary activities are consulting in financial planning that involve insurance policies and investing into funds that are open to mass affluent/retail investors. IFAs are not I/EAMs.

AIAM members (I/EAMs) are either CMS Licencees or Registered Fund Management Companies restricted to handle **only** Accredited/Institutional Investors and are regulated under the CMS SFA rules. As Exempt Financial Advisors under Section 23 of the FAA for the advisory side of I/EAM business, the financial advisory activities will be governed by the FAA. As such some of the recommendations will impact AIAM Members (I/EAMs) {who offer alongside with the discretionary investment service regulated under CMS SFA, also advisory investment services and this advisory activities are operated under the Exempt Advisor status} without differentiating the business model and clientele served. Here below is some market perspective that should be considered by MAS to avoid a blanket imposition of some proposed amendments to the regulations on AIAM Member firms (i.e. I/EAMs):-

Point Number	Section heading	Question Number	AIAM's Questions/Comments
1	Raising the Competence of Financial Advisory Representatives	3: MAS seek views on the proposal to apply all the recommendation under Thrust One to all representatives of licensed and exempt financial advisers.	Currently, the minimum qualifications under the SFA and FAA are the same. Will the requirements under the SFA be similarly amended or will there be 2 different regimes since I/EAMs are mostly regulated under the SFA regime and have to comply with the standard set by SFA? Existing regulations state that representatives dealing with Accredited/Institutional investors are NOT required to pass any CMFAS modules. Will this exemption continue under the new FAA regime or will the SFA be amended to match the FAA regulations? The proposed regulations are suggesting that all FAs (exempt as well as licensed) be required to

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			<p>undergo formal training. Will this be expected to apply to those that deal with only Accredited/Institutional clients and in particular, will it apply to firms that are primarily governed under CMS SFA?</p> <p>In most AIAM member firms, staff that are involved in investment related activities have either had at least 5 years of real experience or are university graduates that have had relevant investment training (business/finance degree or doing or completed CFA). Those with front-line duties are all Registered Representatives of their firms. On-going training is part and parcel of the company culture and conducted whenever the opportunity arises.</p> <p>Based on AIAM's own experience, during the license application/renewal process, CMS holders would have provided MAS with details of their staff training records to demonstrate the companies' commitment to on-going staff training ensuring that staff are able to keep up with the ever changing financial landscape they are working in. Moreover, we believe that as part of the basic business acumen, all staff should be trained well to serve their clients.</p> <p>Since such a culture already exists and is monitored, we propose that MAS should allow firms that deal with only Accredited or Institutional clients (licensed and registered) to determine their own training needs (as opposed to fixing the number of hours) as it has been the case under the CMS SFA license regime.</p> <p>However, should MAS insist on having certain number of hours of CPD, it should align those to the recommended 15 hours as indicated in the Private Banking Industry Guidelines (PBIG) since I/EAMs activities are closely related to Private Banking activities, and the subjects covered should be related to the investment solutions that are offered to the clients that they serve. We are of the opinion that 30 fixed hours may be excessive and not necessarily effective and productive if people just attend training merely to meet the number required by MAS and not gain any useful knowledge to apply at work.</p>
3. II	Use of Introducers by FA Firms	13 (ii): MAS seek views on the proposal to Allow FA firms to enter into introducer agreements only	In general, we welcome the idea of imposing higher standards to ensure that Introducers meet Fit & Proper criteria and conduct themselves in a professional manner. We would expect no less. As registered or licensed AI FMCs, we only deal with accredited investors and the introducers that we use are themselves dealing mainly with HNWIs who expect a certain quality and competence from the people that help to look after their affairs. The imposition of higher

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		with corporations	<p>standards or quality of introducers is a norm.</p> <p>However, MAS has proposed to take this one step further and require Introducer agreements be signed only with Corporations and not with Individuals. We would like to propose that MAS allow the I/EAMs (who only deal with accredited/institutional investors) to continue to carry out their own Fit & Proper assessments of Introducers, and allow the I/EAM to determine if the Individual or Corporation meets the criteria before signing an agreement with the I/EAM. To re-iterate, I/EAMs only deal with AI investors, not retail investors. AI investors are referred to I/EAMs by individual introducers many of whom are themselves professionals like accountants, lawyers, seasoned retired investment/banking professionals or trustees or family offices who have come to know the needs of the HNWIs through their other professional dealings. A common scenario is one where a lawyer meets a client that is looking for an investment manager and the lawyer may know a few and will agree to pass on the contact details of such investment managers to the client for the client to investigate. Such lawyers will not discuss or try to give any advice on investments. They would leave that to the I/EAM who is qualified to speak about investments to conduct such discussions. The lawyer only helps to connect the 2 parties. If the introduction is successful, the Introducer may (subject to his/her agreement with the client/I/EAM) receive some remuneration from the I/EAM if the client and the I/EAM eventually enter into a business relationship. AIs do not choose I/EAMs based on products but their investment capability and advice. Clients will have to conduct their own evaluation of the I/EAMs' capability and may not always agree with the Introducer's referral. Only successful introductions are remunerated and it is based on the AUM and/or I/EAM management fee share.</p> <p>Moreover, such practices have been reviewed by various MAS inspection teams (between 2009-2012) who have conducted audits amongst the I/EAM/Exempt Fund Managers community that work only with Accredited/Institutional Investors. I/EAMs have demonstrated to the audit teams that they exercise great care in their due diligence of the Introducer, have legal contracts signed with the Introducer (which clearly state that the Introducer cannot provide investment advice) and are fully transparent with their clients about Introducer and related remuneration arrangements. For ease of reference, we have provided a sample of an agreement. Please note that this is not a template employed by all members, but most members of AIAM follow the same principles.</p>

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			<p>We strongly advocate that as long as the I/EAM has done its necessary <u>due diligence</u>, <u>remains transparent</u> to the client about the remuneration arrangement between the introducer and the I/EAM, ensures that it has a <u>formal agreement</u> with the introducer that clearly states that the introducer is not allowed to enter into any regulated activities with the client alongside the I/EAM (unless the introducer itself is a regulated license holder), and ensures that there would be no <u>conflict of interest</u>, they be allowed to continue to sign introducer agreements with individuals as well as corporations.</p>
3. II	Use of Introducers by FA Firms	<p>13 (v): MAS seek views on the proposal to Prohibit volume-based remuneration structures for introducers;</p> <p>14: MAS seeks views on the proposal to apply all recommendation under Thrust Three to all licensed and exempt financial advisers, and their representatives, irrespective of clientele type.</p>	<p>Under 3.18, MAS has proposed to amend the permissible remuneration structure for introducers. While we fully understand and appreciate that volume-based remunerations may raise potential conflict of interest issues, we would like to explain the model that is currently being employed by Independent/External Asset Managers (I/EAMs) :</p> <p>I/EAMs or often called Independent Asset Managers <u>are not IFAs</u> as they are wealth managers (who deal with AI clients) whose structure is more similar to the Fund Manager segment. They generally do not have partnerships or tie ups with any particular insurance, product or fund providers, nor do they create generic products to be marketed to clients. They offer investment services based on the client's profile and suitability (each client may require bespoke portfolio structures designed for them) and their clients' assets are held with an independent custodian bank chosen by the client whereby the I/EAM is given a Limited Power of Attorney to direct investment activities in the client's account but without the power of withdrawal or transfer of assets out of the client's account. Since they do not have affiliated "feeders" and are not selling generic investment products, the majority of the I/EAM's new business comes from introducers who have genuine clients looking for an investment professional that can help them manage their wealth (not clients looking to buy investment products per se) with alignment of interests and are independent of any product providers or custodian banks. Thus it is important to maintain the current referral structure (including the remuneration model) to maintain the source of new business to I/EAM firms.</p> <p>I/EAMs charge their clients an annual management fee (similar to that of Fund Manager) based on the assets under their management. Currently most introducers will have a formal agreement in place with the I/EAM and it can be in individual names or in corporate entities names and remunerations are set commonly in 2 ways:</p>

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			<p>i) Annual Finder Fee which is Asset based (paid once a year based on net new assets)</p> <p>ii) Ongoing Trailer Fee which is revenue based (I/EAM's management fee)</p> <p>The <u>Finder Fee</u> is a fee that is paid usually annually (percentage based) calculated on the total net new assets that the client has mandated the I/EAM to manage through the introduction of the Introducer/Finder (clients must usually stay with the I/EAM for at least a year) and such arrangement is commonly revealed to the client. I/EAMs only deal with Accredited/Institutional investors and the number of clients that I/EAMs deal with is much smaller than what retail financial advisors deal with (typically less than 100 if not mostly in the range of 20-50). The number of I/EAM introductions is far lower based on the fact that the client has to be an accredited investor and the organizational structure of the I/EAM is more a niche approach with boutique size of manpower (typically less than 10 people). Majority of I/EAM businesses come from introducers/referrals thus removing the current remuneration structure will have a detrimental impact on the sources of business for I/EAMs.</p> <p>We propose to continue to allow AI I/EAM introducers to be remunerated based on an annually paid fixed percentage of the total assets introduced to I/EAMs as the Finder Fee.</p> <p>The <u>Trailer Fee</u> is usually an on-going fixed rate fee (percentage based) of the total <i>management fees</i> that have been collected by the I/EAM. Annual management fees are generally calculated based on the assets being managed by the I/EAM as at specified dates (usually quarterly). The value of these assets is derived from the client's chosen custodian Bank Statements (and not based on arbitrary valuations done by the I/EAM) and the calculation is totally transparent to the client. Since management fees are not affected by transactional churn, there is no conflict of interest generated by inappropriate transactional volume and in fact it aligns the interests of the I/EAM and the client as the I/EAM will only earn more income if they have done a good job in growing the client's portfolio asset value. There are no product/transaction "kick backs" to introducers.</p> <p>Given the absence of a conflict of interest and the total transparency, we propose that AI I/EAMs be allowed to continue to remunerate their introducers with the current structure.</p>

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3II		<p>13 (iv): Prohibit FA firms from acting as introducers in respect of investment products for which they are authorised to provide advice (paragraph 3.16)</p>	<p>I/EAMs provide clients with advice on strategies as opposed to advice on specific products. Strategies may involve using a myriad of instruments ranging from options to listed equities to funds. So I/EAMs would be providing all their clients with advice on any instrument that is best suited and be used within the strategy. Does MAS propose to disallow I/EAMs to enter into EAM agreements with the Custodian banks with whom the clients place their assets?</p> <p>Due to the Asian market mentality, clients' acceptance of the fee-based model has been slow to take off. Instead of a full fee based model, many clients have agreed, for a lower fee from the I/EAM, to "allow" the I/EAM to receive "Net New Asset Bonuses" and "Revenue Sharing Fees" from the Custodian Bank to whom the I/EAM had introduced the client. Just as I/EAMs use introducers, I/EAMs themselves can be viewed as introducers to the banks. Net New Asset Bonuses are determined by the net flow of new assets into the bank while Revenue Sharing Fees are derived from a share of the brokerage and bank charges that have been paid by the client to the bank for activities in their account. Such arrangements are made known to the client from the outset, and require the client's signed agreement before they can be put in place. Such an agreement is commonly known as the Independent/External Asset Manager Agreement signed between the Bank and the I/EAMs.</p> <p>Since clients are <u>fully aware</u> of these arrangements and <u>have the option</u> to allow such an arrangement with the bank so that the I/EAM can in turn offer a lower management fee, (or choose not to allow revenue sharing with the bank in exchange for the originally set defaulted management fee rate); and <u>can monitor</u> the volume of transactions by virtue of the fact that they receive all trade advices and being kept informed of all activities, we do not see that there is a conflict of interest for the client. From a business point of view, this revenue sharing model is an ideal way to lower the burden of those clients <u>who have just started to "pay for advice"</u> and allows I/EAMs to <u>educate the investment community (i.e. client) over time</u> on the importance of paying for advice (as opposed to buying products and paying commissions) that helps them to make better investment decisions. Due to the spirit of such an open and transparent arrangement, the conflict of interest element is removed and since all parties (the bank, the client and the I/EAM) are all fully aware, the chances of a dispute are extremely unlikely.</p>