

RESPONSE TO CONSULTATION PAPER

Consultation topic:	Proposed Changes to the Complex Products Regime
Name/Organisation:	<p>Responses were collated from an e-roundtable held on November 25, 2021 as well as responses sent in to CFA Society Singapore.</p> <p>CFA Society Singapore:</p> <ol style="list-style-type: none">1. Chan Choong Tho, CFA2. Chan Fook Leong, CFA3. Chris Yoong, CFA4. Maurice Teo, CFA5. Tan Lay Hoon, CFA
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Response to consultation paper	<i>Submitted on 15 December 2021 via link provided by MAS:</i> https://form.gov.sg/6180f73502e9a70015c06944

Question 1. MAS seeks comments on the proposal to classify all authorised and recognised CIS as EIPs, except for a small group of more complex funds as described in paragraph 2.7 which are currently subject to additional disclosure requirements and enhanced distribution safeguards for SIPs.

We are in agreement to the proposed change. The change will allow investors a wider choice of investment products and greater access to professionally managed and well-diversified funds.

Question 2. MAS seeks comments on the proposal to classify debentures with the following features as SIPs:

- (a) Where the interest payment is not solely based on a single fixed or floating rate; or
- (b) Where the debentures are convertible.

We are in agreement to the proposal. Complex pay-out structures and convertible features are typically not fully understood by a certain segment of retail investors.

Question 3. MAS seeks comments on –

- (a) Whether perpetual securities should be classified as EIPs or SIPs;
- (b) Whether there is a need to enhance the marketing and disclosure requirements on perpetual securities to ensure that the key features and risks are adequately highlighted to investors. If so, what are your views on requiring intermediaries to provide a cautionary statement and what should be contained in such a statement; or
- (c) any other suggestions on safeguards for the sale of perpetual securities.

(a) Perpetual securities should be classified under SIPs. There is a tendency for retail investors in Singapore to invest in hybrid securities and perpetuals securities without a clear understanding of differing terms and conditions compared to plain vanilla securities.

(b) There is a need for enhanced disclosure requirements. Key features that are of interest to investors and differ significantly from plain vanilla securities should be highlighted as they are often misunderstood. Financial advisers should highlight these key features to clients.

(c) A skilled financial adviser is likely to understand the motivation of a client in investing in certain securities. For example, in Singapore, many clients are building up retirement funds as the population ages. Clients who do not have a long number of years to accumulate retirement funds tend to prefer lower risk and stable recurring income securities, especially if they are backed by reputable institutional investors or a sovereign.

To ensure clients have internalised the key features, financial advisers can take a step further by checking for understanding using question techniques such as requesting the client to explain what he or she understands by the issuer option of non-payment of dividends and non-redemption on scheduled call dates, and those implications to the clients' investment goals.

Checking for understanding can also take place via digital applications and ATMs. However, investors may check off boxes without truly understanding the key features, more so when they are subscribing for new issues at ATMs where a queue tends to form rather quickly.

Question 4. MAS seeks comments on

(a) whether to align the EIP/ SIP classification of preference shares with that of perpetual securities and subject the sale of these products to the same safeguards;

(b) any other suggestions on safeguards for issuance of preference shares.

(a) Perpetual securities should be classified under SIPs. There is a tendency for retail investors in Singapore to invest in preference shares without a clear understanding of differing terms and conditions compared to plain vanilla bond.

For example, a callable perpetual preference share (with no mandatory redemption date or dividend payment) can be mistaken to have features in a bond with fixed maturity, redemption date and interest payment.

On a separate note, we seek MAS classification on two other securities: 1) The upcoming SPACs in Singapore; and 2) paper gold.

(b) There is a need for enhanced disclosure requirements. See response to question 3(b) and 3(c).

Question 5. MAS seeks comments on the proposal to remove the CKA/CAR assessment for advised transactions. FAs may instead integrate the consideration of the customers' knowledge or experience in SIPs in the suitability assessment when making a recommendation on SIPs.

The proposal puts too much reliance on FAs to do a good and thorough job. CKA provides baseline assessment of client's investment knowledge and experience – it should be retained.

Should the proposal be adopted, financial institutions would have differing standards of assessment. And there may be a tendency to race to the bottom in simplifying the assessment to attract clients. If this were to be the case, it would not bode well in the longer term.

On a separate note, MAS may wish to consider rolling CAR and CKA into one to simplify the process of allowing clients to transact in an SIP.