

## **FREQUENTLY ASKED QUESTIONS GUIDELINES ON CONDUCT FOR CAPITAL MARKET INTERMEDIARIES**

### **APPLICATION OF THE CONDUCT GUIDELINES**

**1. What is the objective of the *Guidelines on Conduct for Capital Market Intermediaries (Conduct Guidelines)*?**

The Conduct Guidelines sets out the minimum standards of conduct that the SC expects from its capital market intermediaries (CMIs) with an aim to foster good business conduct and a good corporate culture within all CMIs.

**2. When does the Conduct Guidelines take effect?**

The Conduct Guidelines takes effect on 1 April 2022 (Effective Date).

**3. Does the Conduct Guidelines apply to all CMIs who carry on a capital market related service including financial institutions?**

Yes, the Conduct Guidelines applies to all Capital Markets and Services License (CMSL) holders, registered persons and capital market service providers who are registered pursuant to section 76A of the CMSA. This includes all financial institutions specified under the Third Column of Part I of Schedule 4 of the CMSA (e.g. licensed banks and Islamic banks) which carry out any of the regulated activities specified under the Second Column of Schedule 4 of the CMSA. Such institutions are registered persons for the purposes of the CMSA.

**4. Does the Conduct Guidelines also apply to a CMI's representatives?**

Yes, the Conduct Guidelines applies to representatives of a CMI who carry on a capital market related service for and on behalf of the CMI, particularly where such representatives have direct involvement and interaction with clients (front-office representatives). Back-office employees such as accountants and administrative assistants are not subject to the Conduct Guidelines but may be subject to a CMI's own code of conduct.

**5. How do CMIs demonstrate compliance with the Conduct Guidelines?**

In complying with the requirements of the Conduct Guidelines, CMIs are expected to apply and interpret these requirements in accordance with the spirit, intention and purpose of these requirements and in a way that best promotes the principles upon which they are based. Amongst others, in considering a CMI's compliance with the Conduct Guidelines, the establishment and implementation of controls and processes as well as the extent of its supervisory framework will be considered.

**6. Are the conduct requirements in the Conduct Guidelines similarly applicable where a CMI deals with or carries on a capital market related service for clients who are sophisticated investors?**

Yes, the Conduct Guidelines is equally applicable to CMIs who deal with or carry on a capital market related service for clients who are sophisticated investors. This is because the Conduct Guidelines seeks to ensure that services provided by a CMI meet certain minimum standards and these standards must be adhered to regardless of the type of clients the CMI serves.

**7. What is the relationship between the Conduct Guidelines and any other Guidelines that impose specific conduct requirements on a CMI?**

The Conduct Guidelines seeks to ensure that a CMI adheres to certain minimum standards of conduct such as honesty and fairness as well as care, skill and diligence in providing a capital market related service. The Conduct Guidelines is therefore in addition to and not in derogation of other guidelines that may impose specific conduct requirements on a CMI. Thus, where specific conduct requirements are imposed on a CMI by virtue of another Guidelines, it is expected that the CMI must also comply with the specific conduct requirements.

For example, the Conduct Guidelines sets out in broad terms that a CMI must identify and manage conflicts of interests. Meanwhile, in the *Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives* (Stockbroking Guidelines), it is specifically stated that a stockbroking company having sight of a research report must not purchase or sell securities in advance of the release of that research report as it would amount to a conflict of interest. In this instance, a CMI who is a stockbroker would have to comply with this specific requirement in the Stockbroking Guidelines in addition to the general requirement of identifying and managing any conflict of interest as set out in the Conduct Guidelines.

**8. Some of the requirements under the Conduct Guidelines may not be applicable to me. For example, I do not deal with client's assets. Do I still need to comply with the Conduct Guidelines?**

A CMI is expected to comply with all the requirements set out under the Conduct Guidelines. However, the application and extent of application of the requirements is dependent on, amongst others, the type of capital market related service the CMI carries on. As such, CMIs are expected to make a reasonable assessment on the application and extent of application of these requirements. If, for example, the CMI does not deal with clients' assets, then it follows that the requirements pertaining to client assets would not apply to the CMI.

## HONESTY AND FAIRNESS

### 9. What is the SC's expectation with regard to "honesty" and "fairness"?

A CMI and its representatives are expected to be "honest" at all times when dealing with clients. Thus, for example, it is expected that any information disclosed by a CMI to its clients must be clear and accurate. Similarly, a CMI must not mislead its clients into believing that a product or service is suitable for the client when in fact, it is not.

"Fairness" requires a CMI to look at its relationship with clients through the lens of the client and not purely from the CMI's perspective to ensure that the right outcomes are achieved for its clients. For example, a CMI should not exploit its clients' vulnerabilities, if any, or take advantage of any information asymmetry that exists between the CMI and its clients.

## DISCLOSURE OF FEES AND CHARGES

### 10. In relation to paragraph 5.02(f) of the Conduct Guidelines, which requires the CMI and its representatives to disclose to clients all fees and charges payable by the client and the basis for such fees and charges including any charges that may be payable in the future and which amount is not known at the time of the transaction –

#### (a) When should disclosure be made to clients?

All fees and charges should be disclosed to clients at the time of onboarding the client. The client must also be informed at the time of onboarding if any fees or charges imposed on the client is subject to any change. However, where there are changes or new fees or charges are imposed (e.g. arising from new tax imposed by government, charges on error trades and the corresponding settlement fees), the clients should be informed of such changes or new fees or charges prior to the change or new fees or charges being imposed.

#### (b) What is the nature and standard of disclosure required with regard to fees and charges for a capital market related service provided to clients?

There should be full disclosure of any fees or charges to be paid by the client. In this regard, the CMI must provide to its prospective clients a breakdown of all fees and charges that would have to be paid by the client. This includes any indirect fees that may be passed on by the CMI to its clients. The disclosure should also include any fees and charges which are not immediately payable or quantifiable. The breakdown of the fees and charges should result in the client knowing what the client is paying for and how much. Examples are brokerage fees, commission received from product issuers and fees payable by clients for advice.

Where fees or charges are disclosed in percentages or ranges (e.g. from 0.5% to 1.5% per annum), the CMI must disclose how such percentages or ranges would apply in relation to the transaction including what the percentage or range is charged against. However, clients must be informed of the exact fee or amount upon being charged.

## **ACCESSIBILITY DURING BUSINESS HOURS**

- 11. Pursuant to paragraph 9.02 of the Conduct Guidelines, a CMI is required to be accessible to clients during its business or operation hours. What is the SC's expectations, for instance, where derivatives brokers carry on night trading?**

It is up to the CMI to decide its own business or operation hours, during which time, clients must be able to contact the CMI or its representatives for any queries or complaints.

With regard to night trading, which has been introduced for derivatives brokers, the SC expects them to allocate resources effectively to ensure that the necessary support is provided to clients during these "night trading sessions", should any issues arise.

## **COMMUNICATION WITH REGULATORS**

- 12. In the event of CMIs becoming aware of breaches, what constitutes prompt reporting to the SC?**

In this regard, CMIs should make reference to the SC's *Guidance Note on Co-Operation and Self-Reporting*, which is available on the SC's website.