According to the Code of Conduct for the private banking industry in Singapore, Covered Entity and its Covered Persons are expected to:

[redacted]

- Promote the integrity and credibility of the financial system.
- Maintain a professional relationship with clients at all times.
- Allocate client orders in accordance with the Covered Entity's trade allocation policies and procedures.
- Exercise good judgment and maintain professionalism with clients at all times.

Explanation : (Chapter 2.1) According to the code, CEs and their CPs must promote the integrity and credibility of the financial system, maintain a professional relationship with clients at all times, allocate client orders in accordance with the Covered Entity's trade allocation policies and procedures, and exercise good judgment and maintain professionalism with clients at all times.

Which of the following is TRUE regarding retrocessions?

[redacted]

- Disclosures on retrocessions only apply to discretionary portfolio services which charge management fees
- Disclosures on retrocession apply only to hedge fund products
- Disclosures on retrocessions apply to all forms of investment services
- To avoid problems relating to conflicts of interest, all retrocessions should be discussed

Explanation : Retrocession refers to kickbacks, trailer fees or finders fees that asset managers pay to advisers or distributors. Covered Persons are required to declare all fees or quantifiable benefits received or charged. In a discretionary portfolio service, retrocessions should be rebate back to the client. Disclosures on retrocession apply to all investment services. Retrocessions are paid by distributors, so it cannot be discussed (negotiated) with the client. Although it is possible to discuss how much retrocession to be returned to the client, it is not required to discuss this for all of them.

Your client who is interested in investing asks you about a recently released investment product that you are unfamiliar with in terms of its features and risks. How should you assist him/her?

[redacted]

- Advise the client to read the product brochure and online information before they decide to purchase it.
- Discuss the product with the client so that both of you can have a common understanding of its characteristics, risks, and benefits.
- Advise the client about other products with similar features that you are more familiar with.
- Assess and understand the features and risks of the product before advising the client on the suitability of the product for them.

Explanation : A covered person must assess and understand the features and risk-reward characteristics of a financial product before recommending them to the client. Thereafter, he can discuss the product with the client if it is suitable.

You are a relationship manager and has a private banking client Michael, who was a CEO of a Fintech company. Michael's risk tolerance for his investments is extremely high. Recently you notice that Michael's health is getting poorer by the day. What should you do?

[redacted]

- Close his account
- Lower Michael's investment risk tolerance to low, in view of his deteriorated medical condition
- Discuss the matter with his spouse, and request her to take over the administration of his account
- Discuss the matter with his primary physician, to establish if Michael can continue on his previous risk tolerance

Explanation : In the spirit of acting in the best interest of Michael, discussing the matter with his spouse is the best choice, provided that Michael's relationship with his spouse is good and that he has given authorisation for you to speak to her. It is not upon you to adjust the risk tolerance, nor is it up to a doctor to decide. Closing the account is not helpful to Michael.

Which of the following may be considered red flag indicator(s) leading to relevant Enhanced Due Diligence measures?

[redacted]

- Client requests for hold mail services for two days without providing any satisfactory reason
- There are negative tax-related reports from media on the client
- In the case of non-face-to-face business relationships
- All of the above

Explanation : (Chapter 2.1) If the client requests for hold mail services without providing satisfactory reason, there are negative tax-related reports about the client, or in the case of non-face-to-face business relationships, EDD measures are required.

John (a Covered Person) provides investment advice to clients of KLG (a covered entity). John provides a fee schedule to his client Jane at the time of account opening with a guaranteed maximum fee of 0.1% of the transaction value. However, it is later found that the actual fees are likely to be 0.11%. In this context, which of the following statements is/are TRUE?

[redacted]

KLG cannot charge Jane higher than 0.1% fees under any circumstances.

KLG can charge Jane 0.11% fees if it informs Jane about the increase and obtains her agreement before executing any transaction.

KLG should analyse the reasons for the increase.

KLG should charge John the 0.01% difference because he committed the maximum percentage fees to Jane.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) 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.

John works in a client-facing role, providing financial advice to clients of KLG Bank (a CE). Jane, a 35 years old businesswoman, approaches KLG for wealth management services. John is tasked with onboarding Jane. Jane tells John that she wants 6% compounded growth of her investments over the next 20 years and prefers to trade in products without any leverage. She has good knowledge of finance and the capital markets. She may need money for her son's college education in 8 years. In this context, which of the following statements is/are TRUE?

[redacted]

John need not ask Jane about her husband's profession and his financial situation.

John should recommend a mix of bonds and stocks to Jane.

John should recommend option writing strategies to enhance her investment returns.

John should remind Jane that the information she provides will be the basis for his product recommendations.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) John should understand and analyse Jane's investment objectives, risk tolerance such as the use of leverage, investment experience and knowledge, investment time horizon, financial situation, and investment preference and liquidity needs. John must find more about Jane's family and her husband's profession, financial situation, etc. A portfolio of stocks and bonds may help Jane achieve her financial goals. Option writing strategies may not be suitable for Jane because they involve the use of leverage. John should remind Jane that its overall assessment of her profile and product recommendation will be based on the information provided by her.

John, working for covered entity KLG, suspects that his long-term client Jane is depositing proceeds from serious tax crimes in her trading accounts. What action should KLG take?

[redacted]

KLG must close Jane's trading account immediately.

KLG need not file an STR unless income tax officials specifically request for the same.

KLG should file an STR and may continue the business relationship with Jane after obtaining approval from its senior management.

KLG can continue the business relationship with Jane if John is confident that he will not allow any illegitimate transaction to take place in the future.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) In such a situation, the Covered Entity should file an 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. Therefore, KLG should file an STR and subject Jane's account to EDD and close monitoring if the business relationship is continued.

John recommends a structured product to his client Jane for investment. In this context, which of the following statements is/are TRUE?

[redacted]

John may inform Jane at the time of investment about any commission received by him for selling the product.

John may inform Jane before the investment transaction whether his covered entity will act as a principal or an agent in the transaction.

John should inform Jane about termination clauses.

John should provide the relevant information to Jane in writing. It's not allowed to tell Jane verbally and providing written information only after concluding the transaction.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) The Covered Entity should have adequate measures in place to ensure that key terms of the transaction are provided to the client prior to or at the point of entering into the transaction. 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.

John is a Covered Person working for KLG Limited (a covered entity). John handles the trading account of Jane. Jane tells John to buy 10,000 bonds of KLG. The bonds are traded in the OTC market. John checks the existing market price (SGD110) and informs Jane accordingly. Jane tells John to place the order at SGD108. John is able to execute the order at SGD107.50. In this context, which of the following statements is TRUE?

[redacted]

KLG can keep the SGD0.50 per bond difference.

KLG must pass on the SGD0.50 per bond difference.

The SGD0.50 price improvement should be shared equally between Jane and KLG.

The SGD0.50 price improvement should be disclosed and shared based on an agreement with Jane.

Explanation : (Private Banking Code of Conduct, Effective 1 Sep 2020) Some products offered by Covered Entities, such as bonds and structured notes, are traded in over-the-counter or interbank 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. Therefore, a Covered Entity should disclose and agree with clients how price improvements arising from client transactions should be allocated. Controls should be in place to ensure that such agreements are adhered to.

To better understand your client's risk appetite and investment objectives, you got him to complete a questionaire, in which he has to choose between 'Conservative Income', 'Balanced', 'Growth' and 'Aggressive Growth' for each of the 5 questions. This questionaire will help you decide how much weightage of equities and fixed income for his portfolio. Which of the following statements would be the MOST appropriate to include in your recommendation?

[redacted]

The recommendations do not take into account the specific investment objectives, financial situation or particular needs of the investor

The recommendations are based on the information provided by you. It is assumed that such information is correct and complete

The recommendations are based on the information provided by you. Any inaccurate or incomplete information provided by you is disregarded

The recommendations are based on the information provided by you

Explanation : The words added on behind could be subject to debate. For example, the words "It is assumed that such information is correct and complete" could invite controversy, such as how could the Covered Person assume so, and whether the Covered Person should perform verification, and to what extent to do so.

John is a Covered Person providing investment advice to accredited investors. John's client Jane is an experienced derivatives trader. John recommends an exotic derivative product to Jane. In this context, which of the following statements is/are TRUE?

[redacted]

John must explain the basics of options to Jane to reinforce the risks associated with option writing.

John should provide health warnings to Jane indicating the risks associated with holding risky trading positions.

John must provide a scenario analysis to Jane indicating the possible payoffs in various situations.

John should not allow Jane to trade in the exotic derivative product unless Jane has already traded in the product.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) John should 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, pay-out structures, investment strategy, or risk disclosure statements, as the case may be. Since Jane is an experienced derivatives trader, there is no need to explain the basics of options to Jane.

While providing financial advisory services on financial products to their clients, Covered Persons are required:

[redacted]

To maintain proper records of the client's instructions for relevant transactions.

To never recommend a product whose risk-reward characteristics are inconsistent with the client's profile.

To consider the client's profile while recommending products to clients.

Have a reasonable basis for recommending a particular product.

Explanation : (Chapter 2.1) A CP must maintain proper records of the client's instructions for relevant transactions, never recommend a product whose risk-reward characteristics are inconsistent with the client's profile, consider the client's profile while recommending products to clients and have a reasonable basis for recommending a particular product.

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 ____.

[redacted]

minimum 10 basis points

capped at 25 basis points

maximum 50 basis points

kept variable, based on the market conditions

Explanation : (Chapter 2.1) 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.

John, a Covered Person working for KLG Bank, manages the SGD20 million investment portfolio of Jane. Recently, there have been some reports in the media about raids by the income tax officials on the business premises of Jane. So far, Jane has not been prosecuted for any tax-related offence. Jane's track record with KLG has been good and there have been no suspicious transactions during the past 5 years. In this context, which of the following statements is/are TRUE?

[redacted]

John need not take any action in relation to Jane's account unless she is prosecuted.

KLG should freeze the funds in Jane's account immediately.

KLG should closely monitor Jane's account and screen her against databases.

Jane's account should be subjected to enhanced due diligence because of the adverse media reports.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) Possible red flag indicators which may give rise to suspicion of illegal activities, thereby triggering Enhanced Due Diligence measures, include client requests for hold mail services without satisfactory reasons, use of complex structures, non-face-to-face business relationships, and negative tax-related reports from media or other credible information sources on the client or on client's jurisdiction of domicile or tax residence. EDD measures may include screening clients against databases/3rd party checks for adverse tax-related news/internet search. Therefore, Jane's account should be subjected to enhanced due diligence because of the adverse media reports. Her account cannot be frozen unless she is on a designated person's list and the due process (e.g., obtaining a court order) is followed.

John (a CP) working for XYZ Limited (a CE) is the trading account manager for Jane. Jane is 28 years old and puts SGD100,000 in her trading account from her savings account. Jane also has shares and bonds worth SGD50,000 each. The shares were purchased a few years ago through another CE KLG. Jane closed her account with KLG recently. Jane is risk averse but wants a fast growth rate (>8% per annum) for her investments. Jane's father is an ex-minister who served the Singapore government in various capacities over the last 10 years. The economy is still in recession but recent data indicates the possibility of a sustainable turnaround in a few months. In this context, which of the following statements is TRUE?

[redacted]

John should recommend Jane to invest SGD100,000 in shares of blue chip companies.

John need not inform Jane about the expected economic turnaround and the resultant growth opportunities in equities because she is a risk averse investor.

John may advise Jane to rebalance her existing investment portfolio (built under KLG) in view of the changing economic outlook.

Jane's account should be subjected to simplified due diligence because her trading account has been funded from her savings account.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered Entities should act professionally with integrity, knowledge and competence when conducting business with clients. 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. These requirements are relevant for a client's existing portfolio as well because CEs/CPs should adopt a holistic approach to portfolio management based on the client's overall profile, with a view to furthering the client's goals. Jane's account should be subject to enhanced due diligence because her father is a politically exposed person. John should aim to build a balanced portfolio and not expose Jane's entire capital to the risks associated with one asset class (e.g., equities).

Under the Private Banking Code of Conduct (the Code), Covered Entities (CEs) and their Covered Persons (CPs) are expected to act with professionalism and ensure that their activities are guided by appropriate ethical values, prudence and integrity. Which of the following conduct is in accordance with such standards of professionalism?

[redacted]

XYZ Limited (a CE) provides guidance on instances where cross trades may be prohibited.

Without being aware of any insider information, John (a CP) purchases the shares of KLG Limited during a black-out period for such shares imposed by his CE XYZ.

John (a CP) provides information about the transactions entered into by his client Jane during the previous quarter to the MAS, without any request for such information by the MAS.

XYZ Limited (a CE) puts a blanket ban on giving gifts to government officials irrespective of the value of the gift.

Explanation : (Chapter 2.1.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Trading during a black-out period is strictly prohibited, irrespective of whether the person is in possession of insider information or not. John cannot provide client information to MAS, unless specifically requested by the MAS or required under any law. The other options give examples of proper professional conduct.

Mary is a relationship manager of Mr Lim. She had built up relationship with Mr Lim and his family and has known them for quite a long time. Recently Mary noticed Mr Lim is exhibiting signs of dementia. She subsequently spoke to Mr Lim's eldest child to discuss whether the control of the account should be switched. Was it appropriate for Mary to do that?

[redacted]

No. As Mary did not have medical report about Mr Lim's cognitive skills, she should continue to act in Mr Lim's best interest.

Yes, as Mr Lim's health is Mary's primary concern, she was starting on the wealth transfer process

Yes, she should act decisively as Mr Lim could experience a sudden decline in his cognitive skills

No, she should have waited for a complete decline in Mr Lim's cognitive skills

Explanation : There is no wealth transfer process mentioned. Even if there was, Mr Lim has only shown signs of dementia, not diagnosed to suffer from dementia so he should assumed to still be able to make decisions. While he is still capable of doing so, arrangements should be made quickly to prepare for the worst. This is the best answer in the spirit of acting in the best interest for the client.

John (a CP) becomes aware that his client Jane is an art collector and often purchases stolen paintings from the black market. Jane pays money for the paintings in cash withdrawn from her savings bank account. Jane never sells any of the paintings she owns. Jane's trading account with John's CE (XYZ Limited) is not involved in any transaction related to the stolen paintings. In this context, which of the following statements is TRUE?

[redacted]

John is not required to report about Jane's dealings outside the trading account to his seniors.

John must report about Jane's illegal transactions to his legal and compliance department immediately.

John must inform Jane that he may have to report her illegal transactions to his seniors.

John should close Jane's trading account and return any cash balance to her immediately.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) Jane's illegal transactions could be part of a money laundering operation. For example, she may be assisting others to dispose of ill-gotten money. Or, the payments made by Jane for purchase of the paintings could be used for terrorism financing or other crimes. Therefore, it is John's duty to report the matter to the relevant department. It does not matter whether any such money flows through the trading account or not. Moreover, such illegal transactions can be prosecuted under the CDSA. Tipping of Jane that the matter is being reported would also be a crime.

A Covered Person knows some favourable inside info of Company XYZ. His client asks him for his recommendation. He should:

[redacted]

Share the favourable information with his client as it is in the best interest of his client

Not disclose the inside info but provide his honest recommendations, even if it means recommending Company XYZ's stock

Not disclose the inside info but provide his honest recommendations, and refrain from mentioning Company XYZ's stock at all

Inform the client that he cannot provide advice as he is in possession of inside info

Explanation : (Chapter 2.1) The CP must not disclose the insider info but may provide his honest recommendations. He should refrain from mentioning Company XYZ"s stock.

Jane approaches KLG Limited for opening an investment account. John is the relationship manager and begins the onboarding process. In this context, which of the following statements is/are TRUE?

[redacted]

John should verify that Jane's purpose of opening the trading account is legitimate.

John should inform Jane about Singapore's firm stance against tax crimes.

If John confirms that there is no indication that Jane's funds are proceeds of tax crimes, KLG should allow the opening of the trading account without any additional processes.

John should obtain a written confirmation from Jane that she has not committed any serious tax crime.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) Prior to any on-boarding of clients, the RM should assess that both the purpose of the account to be opened and the source of funds are not illegitimate. The RM assessment should be documented, and clients' representation should be verified. The RM should inform the client of Singapore's firm stance against tax illicit activities. At account-opening, clients should acknowledge in writing that they are responsible for their own tax affairs and declare that they have, to the best of their knowledge, not committed or been convicted of any serious tax crimes. KLG must have an additional process to confirm the legitimacy of the funds. It cannot simply rely on John's assessment.

Robert approaches KLG Limited for opening a trading account. John is assigned the task of onboarding Robert. John ascertains that Robert owns several businesses through indirect holdings by companies in the Cayman Islands. Robert's bank account gets regular inflows as dividends and profits from foreign accounts. In this context, which of the following statements is/are TRUE?

[redacted]

John should subject Robert to enhanced due diligence because of the complex structure of his businesses.

John should follow the usual KYC and due diligence processes if Robert agrees to fund his trading account through the banking channel instead of cash.

John should identify the ultimate beneficial owners of his holdings in various companies.

John should open Robert's trading account without any special measures but monitor the activities closely.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) A covered persons should ask client additional questions and verify 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. Where complex structures are involved, it is important to obtain clear identification and verification or documentation of Ultimate Beneficial Owners and understanding the ownership and control structure. Such information can help ascertain whether there are indications that these structures are used in connection with serious tax crimes. Jurisdictions like the Cayman Islands are known for facilitating shell company structures that are used for avoiding tax. Therefore, enhanced due diligence measures are in order for Robert, especially in view of the complex holding structures.

John (a Covered Person) provides investment advice to clients of KLG (a covered entity). John provides a fee schedule to his client Jane at the time of account opening with a guaranteed maximum fee of 0.1% of the transaction value. However, John charges 0.15% to Jane in one of the transactions. Jane complains about the overcharging. What measures can KLG adopt to avoid a repeat of such a situation in the future?

[redacted]

The relevant software should send an alert to relevant managers of covered persons about any overcharging of fees in real time.

The relevant software should block the execution of a transaction where any overcharging of fees is attempted.

KLG should tell its clients that there could be some transactions where they may be charged beyond the agreed fees without notice.

KLG should have systems whereby approval of seniors may be required for any such overcharging of fees.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities must 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. This could be in the form of pre-trade system-enforced controls to trigger alerts or blocks on such transactions, and/or post-trade checks and surveillance to facilitate timely detection of over-charging. 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.

John (a CP) working for XYZ Limited (a CE) is approached by Jane for opening a trading account. John follows the KYC process as per the policies of XYZ. Jane is 35 years old with a high risk tolerance level and her father owns a chain of restaurants operating in Singapore and abroad. In this context, which of the following statements is/are TRUE?

[redacted]

John should be authorised to approve the opening of Jane's trading account because he has the maximum knowledge about Jane's background.

John should ensure that Jane trades in relatively risky products in accordance with her risk tolerance.

John's seniors should review Jane's profile before opening her trading account because her father is running a restaurant business.

John should ensure that a periodic review is conducted after Jane's trading account is opened.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) All accounts should be approved by persons OTHER THAN the Covered Person(s) handling the specified relationship. There is no requirement for John to recommend risky products to Jane purely based on her risk tolerance. Other aspects also need to be considered. Considering the fact that Jane's father owns a cash-intensive business, enhanced due diligence may be required before opening the account and the ongoing monitoring should also be done carefully.

Covered entities are expected to have staff in risk-taking, risk management and risk control positions take mandatory compliance leave for a continuous period each year. The leave is required for:

[redacted]

Giving a break to the staff

Effective compliance monitoring

Helping others to gain experience of different tasks

None of the above

Explanation : (Chapter 2.2) The leave is required for effective compliance monitoring.

The various types of misconduct generally relevant to a Covered Person include:

[redacted]

Acts involving inappropriate advice.

Acts involving advice leading to sub-optimal returns.

Acts involving fraud.

Acts involving misrepresentation.

Explanation : (Chapter 2.3) Acts involving advice leading to sub-optimal returns cannot necessarily be considered market misconduct.

John is a Covered Person providing investment advice to accredited investors. John handles several client accounts on a discretionary basis. John works for KLG Limited, a covered entity. John is approached by a structured product issuer XYZ's manager Jane. XYZ is a subsidiary of KLG. Jane asks John to provide the risk profile details of his clients so that she can make suitable product recommendations for the benefit of the clients. In the context of Client Confidentiality, which of the following statements is TRUE?

[redacted]

John can disclose client information to Jane if he thinks that such disclosures can help increase his clients' investment returns.

John can disclose client information to XYZ because it is a subsidiary of KLG.

John can ask each client for permission to disclose the information to XYZ and disclose information only in respect of the clients that agree.

If John leaves KLG and joins XYZ, he can disclose information about his previous clients to Jane.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered Entities and their staff must 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. There should be adequate guidance to staff on the maintenance of confidentiality of information which the Covered Entity and their staff receive from the client, including 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 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.

In the context of the Private Banking Code of Conduct, which of the following clients can DEFINITELY be considered vulnerable?

[redacted]

John, who is 63 years old, is a finance professional, and is proficient in English

Jane, who only understands Chinese, is a post graduate, and is 62 years old

Peter, who is 45 years old and is an MBA in human resource development.

Robert, who is a 62 years old business administration graduate, and can read English, but cannot speak or write it well

Explanation : (Chapter 2.1.2) A vulnerable client is any client who meets 2 of the following criteria: Is aged 62 years or older, not proficient in written or spoken English, or has an academic qualification below GCE O level or N level qualifications. Therefore, Jane and Robert are vulnerable clients.

A Covered Person should provide information about key terms of every transaction to the client. Which of the following is NOT required to be disclosed?

[redacted]

Applicable fees and charges

Annual performance bonus received by the covered person during the last 3 years

Any conflict of interest

Termination clauses

Explanation : (Chapter 2.1) Annual performance bonus received by the covered person is not required to be disclosed.

KLG Limited (a Covered Entity) has hundreds of accredited investor clients. One of its highly active clients Jane has suddenly stopped transacting. The account has been inactive for 4 weeks. In this context, which of the following statements is/are TRUE?

[redacted]

KLG should classify the account as inactive because Jane was previously very active.

KLG should refer to its policy on classification of dormant and inactive accounts and classify Jane's account accordingly.

KLG should monitor the account carefully to ensure that there is no unauthorised transaction.

KLG should freeze the money in Jane's account immediately.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities should take into consideration several aspects when dealing with inactive and dormant accounts. For example, it should have a clear definition of inactive and dormant accounts, stipulated frequency of periodic reviews, and circumstances where such accounts can be closed. It should monitor such accounts to ensure that there are no unauthorized transactions and prescribe conditions for re-activating such accounts, including authenticating the identity of the client.

As per the code of conduct for private banking Industry (the Code):

[redacted]

Covered persons are required to achieve minimum 15 hours of continuing professional development (CPD) in a month.

A covered entity is responsible to ensure that its covered persons meet the mandatory requirements related to CPD.

The CPD should be as per a format prescribed in the code.

Learnings in seminars and workshops are considered part of CPD.

Explanation : (Chapter 2.1) CPs must achieve minimum 15 hours of CPD in a YEAR. There is no specific format for the CPD in the Code.

What are the indicators that can be considered red flags when in the process of onboarding a client?

[redacted]

The client requests for hold mail services without providing any reason

The client is domiciled in Singapore

The client does not want to meet face-to-face

The client uses complex holding structures for his businesses

Explanation : Being domiciled in Singapore is NOT a red flag indicator. Client requests for hold mail services without satisfactory reasons, use of complex structures, and non-face-to-face business relationships are red flags.

The Code of Conduct for the private banking industry in Singapore (The Code) stipulates that covered entities and Covered Persons are expected to:

[redacted]

Promote the integrity and credibility of the financial system.

Allocate orders of the client as per the covered entity's relevant policies and procedures.

Act upon insider information only for the benefit of their clients.

Not engage in parallel-running of client's transactions.

Explanation : (Chapter 2.1) CEs and CPs must not act on insider info even for the benefit of the client.

Which of the following actions should be taken by XYZ Limited (a Singapore entity), a Covered Entity planning to create a new product specifically designed for UHNWIs who are Chinese nationals but secretly hold dual citizenships?

[redacted]

Analyze the risks to XYZ Limited that may arise for knowingly servicing and targeting such clients

Engage a professional law firm to conduct due diligence on the exact citizenships held by the clients.

Adopt appropriate accounting treatment and assess the financial impact

Appoint a designated committee to approve the new product

Explanation : There is no such requirement to conduct such due diligence check, nor that it has to be by a professional law firm.

Which of the following is/are required of a Covered Person under the Code of Conduct for Private Banking?

[redacted]

Pass at least one CMFAS module exam

Become FICs certified

Achieve at least 15 hours of CPD in a year

Pass the CACS exams

Explanation : (Chapter 2.1) Under the CODE, the CPs must complete the CPD hours and pass a CACS exam. Other exams are prescribed under MAS notices.

Jane worked as a Covered Person with ABC (a Covered Entity). Till September 2020, Jane had completed 15 hours of continuing professional development (CPD) for the calendar year 2020. The 15 hours training was done in a workshop that covered relevant market conduct requirements, product knowledge, skills/competencies, and compliance-related matters. Jane moves to another Covered Entity PQR Limited in October 2020. Jane:

[redacted]

can carry over her CPD hours earned at ABC to PQR for 2020.

must complete a minimum of 4 CPD hours in the area of Rules and Regulations, Compliance or Ethics at PQR, if not done as part of the 15 hours CPD with ABC.

must do a minimum of additional 15 hours of CPD at PQR before she can work as a Covered Person.

will be required to do an additional 3 hours of CPD at PQR to complete the minimum requirement.

Explanation : (Chapter 2.1) The Covered Person is expected to achieve the stipulated minimum of 15 hours a year through CPD activities comprising an appropriate combination of relevant market conduct requirements, product knowledge, skills / competencies, and compliance-related matters. A minimum of 4 CPD hours has to be in the area of Rules and Regulations, Compliance or Ethics. Covered Persons can carry their CPD hours earned within a calendar year to a new Entity from his / her previous Covered Entities for that calendar year.

In the event that a Covered Person identifies a red flag indicator in a client's account, what actions should they take?

[redacted]

File a notice with the appropriate national tax authority

Freeze the client's account and conduct investigations

Submit a Suspicious Transaction Report (STR)

Conduct ongoing enhanced CDD

Explanation : Enhanced customer due diligence measures are triggered if any red flag is detected. Freezing of accounts is required when the person is found to be listed on a designated persons list after screening. Suspicious Transaction Report is required if there are circumstances that indicate ML/TF transactions. There is no need to file a notice with the tax authorities when a red flag is indicated.

Robert approaches KLG Limited for opening a trading account. John is assigned the task of onboarding Robert. Based on the KYC and due diligence measures, John suspects that Robert's source of funds may be illegitimate. John suspects that Robert's businesses are not paying taxes properly and he is trying to launder illegitimate funds through trading. In this context, which of the following statements is/are TRUE?

[redacted]

KLG must file an STR in relation to Robert.

KLG cannot file an STR because the account has not been opened and no transactions have been executed.

KLG's management should allow the opening of the account but closely monitor the activities.

KLG should refuse to onboard Robert.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) 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 an STR should be filed. Management of the Covered Entity should be kept informed of such instances. Covered Entities should maintain proper records of decisions made and the basis of the decisions. Therefore, KLG should not onboard Robert and file an STR.

Jane requests KLG Bank margin account facility for trading in futures and options. Which of the following factors should KLG consider before granting her the facility?

[redacted]

Her experience at trading with derivatives.

Her knowledge about derivatives..

Her willingness to provide timely margin top-ups.

Her ability to provide timely margin top-ups.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities must implement appropriate controls regarding margin accounts of the client, including margin maintenance, margin calls, top-up/close-out and enforcement of security. The client's willingness and ability to provide timely margin top-ups should be considered.

John (a relationship manager) receives a request from his client Jane for hold-mail services for 6 months as she is going abroad on a personal trip. John has been managing Jane's investment portfolio for the past 2 years. Jane has recently liquidated most of her holdings and withdrawn the cash. John should:

[redacted]

approve the hold-mail service because he has worked on Jane's account for a long time.

agree to provide the hold-mail service if he is authorised to deliver the mail to an address designated by Jane.

decline Jane's request.

if Jane's request is approved, ensure that the mail is delivered to the authorized person periodically and proper acknowledgement is obtained.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities should 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. In the provision of hold-mail services in exceptional circumstances and upon request by the client, covered entities should 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 ensuring periodic collection of documents and upon collection, appropriate acknowledgement and confirmation receipt of statements or records of the client's holdings and transactions.

Which of the following is NOT considered a market misconduct?

[redacted]

Acts involving dishonesty

Acts involving inappropriate advice

Market rigging

Leveraged trading

Explanation : (Chapter 2.3) Leveraged trading is not a form of market misconduct but a normal practice.

As part of the KYC requirements, the covered entity is required to ensure that:

[redacted]

The relevant staff establishes and verifies the identity of the client.

The relevant staff reasonably establishes the source of funds.

All accounts are approved only by the covered person handling the specific relationship.

Its operations are not used to facilitate proliferation financing.

Explanation : (Chapter 2.1) All accounts should be approved by persons other than the CPs handling the specified relationship.

A client who lost USD50K writes a formal complaint letter against you on your misrepresentation of the inherent risks of a structured product you sold her and your lack of disclosure regarding 'hidden' fees in the pricing of the product. You feel aggrieved. What would you do?

[redacted]

You contact the client and offer to do anything to diffuse the dispute

You offer to compensate the client for her loss

You write to the client with point to point rebuttal to her accusations

You inform the management of the date/time of all relevant correspondences e.g. telephone records, e-mails, etc.

Explanation : (Chapter 2.1) It is important to submit the details of all the relevant communication to show whether the relevant info was communicated at the right time in the right manner.

KLG Bank provides wealth management services to accredited investors. KLG wants to offer a new structured investment product to its client. The product has been engineered by XYZ Limited, a subsidiary of KLG. In this context, which of the following statements is/are TRUE?

[redacted]

KLG should accept the product documentation provided by XYZ and present the same to its clients.

KLG need not approve the product formally because it has been created by its subsidiary.

KLG should adopt suitable accounting treatment for the product.

KLG should analyse the risks that the product may pose to its systems before recommending it to clients.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities should 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 drawing up a definition of a new product, analysing of the risks to the institution that may arise from the proposed activities and details of any risk management procedures and systems, analysing the risks to the client, if any, adopting appropriate accounting treatment and assessing any financial impact, adopting processes to review and authorize variations to existing products, and appointing a designated committee to be responsible for product approval. Therefore, KLG cannot simply accept XYZ's product documentation. It must conduct its analysis and accord a formal approval to the product before it can be recommended to clients.

John is a Covered Person providing investment advice to accredited investors. John works for KLG Limited, a covered entity. John's client Jane is an experienced futures trader. John allows Jane to trade in futures by putting up a 15% margin. However, in view of increased volatility, KLG suddenly imposes a 25% margin requirement for some shares. KLG is prompted to do so because of higher margin requirements imposed by the relevant exchange. Based on the increased margin, many of Jane's trades become under-funded and need to be closed out. In this context, which of the following statements is/are TRUE?

[redacted]

KLG cannot close out any of Jane's trading positions based on the new margin requirement unless Jane agrees to such higher margins.

Higher margins can be imposed by KLG for new trades in the relevant shares without giving any notice to Jane.

Higher margins can be imposed by KLG after informing Jane in writing before issuing any margin call or closing out.

KLG can close out Jane's positions in exceptional circumstances, if warranted by the relevant exchange.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) A covered person must disclose to the client key information about the margin account, including details of margin requirements, interest charges, margin calls, and the 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. The covered person should give the client reasonable written notice before effecting any subsequent material variation in the terms and conditions of any written agreement or transaction. Hence, KLG can close out Jane's position, or take some other required action, after informing Jane in writing about the change in margin percentage. There is no need to obtain Jane's permission.

Which of the following is required to be carried out as part of Covered Entities' client acceptance procedure?

[redacted]

Obtain a signed declaration that no money laundering is allowed

Confirm with the Police that the prospective client is not a criminal

Confirm with MAS that the prospective client is not blacklisted

Establish and verify the identity of the prospective client

Explanation : (Chapter 2.1) It is necessary to establish and verify the identity of the prospective client.

Kevin is a relationship manager with KLG Bank. During an audit, it was discovered that Kevin had in his possession many pre-signed forms from clients. He explained that the clients had signed them so that he could serve the client better, and that the pre-signed forms would be used only with verbal authorisation from the client. However, it was found that he had made trades using the forms without his client's prior knowledge or permission. What offences has Kevin committed under the SFA?

[redacted]

Insider Trading and Churning

Insider Trading and Securities Hawking

Securities Hawking and Churning

Unauthorised Trading and Fraud

Explanation : Insider trading involves trading on non-public price-sensitive information. Securities hawking means selling securities unsolicitedly. Kevin has made trades not without authorisation. It is considered fraud that he had made his client pre-sign on forms which his client had believed would be used with verbal authorisation but that he would misuse instead.

After coming into possession of adverse inside information about Company KLG, which is listed on the SGX, a Covered Person receives a request from a client for equity investment recommendations. In this situation, what would be the most suitable course of action for the Covered Person to undertake?

[redacted]

Not disclose the inside information but advise the client not to invest in KLG's shares

Assess the client's profile and make suitable recommendations, without mentioning KLG's equities

Tell the client that the covered person cannot advise the client because he has inside information about a listed company

Share the inside information with the client and ask him not to invest in KLG's shares

Explanation : Inside information must not be disclosed and the person having the inside information must not give advice to a client based on the inside information. Therefore, the covered person cannot ask the client not to invest in KLG's shares even if he does not share the inside information.

Which of the following statements regarding retrocession in a discretionary portfolio management (DPM) is TRUE?

[redacted]

The DPM customers were charged a management fee and accordingly, all retrocessions should not be retained by the principal

It is a fraudulent conduct by the private banking division and punishable under the criminal law

All legal documentation for the DPM product excluded all retrocessions to be repaid to customers

A retrocession is merely an internal charge within the bank

Explanation : DPM means charging the client a management or advisory fee instead of receiving commissions or retrocessions for products sold as an indirect way for you to be paid for your service. Since you are already paid a fee, you should not retain retrocessions but instead rebate it back to your client.

KLG Bank has several clients that trade in illiquid treasury derivatives. KLG should ensure that:

[redacted]

it has processes to manage market liquidity risks.

revaluation of positions is done after considering the liquidity of the relevant markets.

revaluation of positions is done based on the size of the positions.

revaluation of positions is carried out based on the discretion of the relevant covered person.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities should establish appropriate processes to manage market liquidity risks that may arise from its activities such as treasury and financial derivatives trading. The management of market liquidity risk, including revaluation of positions, should be carried out regularly, 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.

Which of the following statements is correct?

[redacted]

Retrocessions that your firm may receive for products purchased under a discretionary portfolio must be passed to the client by way of a rebate

Rebates that may be received from the sale or distribution of bonds in the secondary market must be disclosed to the customer

The rebates received from the sale or distribution of SGD bonds during their primary offering must not exceed 25 basis points

If disclosure of benefits such as retrocession was done verbally to the client, such information must be provided to the client as soon as practicable in writing after the deal

Explanation : There is no requirement to inform the customer of the possible rebates or commissions you might receive for the sale of the product on a secondary market.

John (a Covered Person) manages his client Jane's investment portfolio on a discretionary basis. John's works for covered entity KLG. John sells an investment product to Jane and KLG receives a retrocession from the product provider. KLG has already charged Jane a portfolio management fee. In this context, which of the following statements is/are TRUE?

[redacted]

KLG should be punished for misconduct because it cannot retain any such retrocession.

KLG can retain the retrocession, but should give a corresponding credit to Jane.

KLG can retain the retrocession but must disclose the amount to Jane.

If KLG is unable to reduce the management fee to give credit to Jane, it should inform Jane and obtain her agreement for the same.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) 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. 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.

John receives a telephonic order from his client Jane for selling 10,000 shares of KLG Limited for SGD10.00. The market price of the shares is SGD9. John notices that the share prices are moving up with high volumes. John searches for news reports on KLG and finds out that the share prices are likely to rise because of an expected bonus issue. John inputs Jane's order in the system. Jane calls John and asks him to withdraw the order because she expects a better price over the next few days. However, the order has already been executed. Jane files a complaint against John. In this context, which of the following statements is/are TRUE?

[redacted]

John should not have input Jane's order in the system because he was aware that the prices may move beyond SGD10.

It is John's duty to input Jane's order and Jane cannot complain about John's action.

John should keep proper records of the time of receipt of the order, input of the order and Jane's call to cancel the order.

John need not listen to Jane's verbal requests to cancel the order.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered Persons must 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. Such records may come in handy in situations such as the one described in the question. Jane cannot claim that John made a mistake by placing the order which she had given over the phone. John was right in placing the order.

If the number of hours spent on continuing professional development (CPD) in a year exceeds the minimum stipulated in the code of conduct for private banking industry:

[redacted]

The balance can be carried forward with the permission of the covered entity

The balance cannot be carried forward at all

The balance can be carried forward with the permission of MAS

None of the above

Explanation : (Chapter 2.1) The balance cannot be carried forward to the next calendar year.

You are a covered person working for JKL Bank. Your client Jane requests for hold mail service for 3 months and asks you to deliver the mail to her after that period. What should you do?

[redacted]

Deny the request as hold mail service is not allowed under any circumstances.

Tell the client that you have to ask the compliance department for approval of hold mail services.

Allow the hold mail service but refuse to deliver the email to the client.

Ask the client to authorize a nominee to collect the mail.

Explanation : Hold mail services may be offered upon request by clients, but such requests and any subsequent change to the arrangement must be verified and approved by parties independent of the relationship managers. The CE must ensure that only the client or a person authorized by that client may collect hold-mail, and the relationship manager should not in any circumstance be allowed to deliver hold-mail or account statements to the client.

Which of the following demonstrates conflict of interest?

[redacted]

Using financial jargons to illustrate the benefits of a product

Withholding inside info from the client when making product recommendations

Making product recommendations based on the analysis of a client's investment profile

None of the above

Explanation : (Chapter 2.1) None of the options is a conflict of interest scenario.

John is Jane's investment advisor. He works for KLG Bank (a CE). Jane is 35 years old and is allowed by KLG to trade in unlisted derivative products based on the relevant knowledge assessment. She has an investment horizon of 3 years. She can hold her investments because there are no liquidity needs. John recommends an OTC derivative product sold by a reputed product provider XYZ. Return of capital is guaranteed if the investment is held for 2 years. Else, the investment can be sold to XYZ based on the market value. Such a sale may result in significant losses. Considering Jane's investment horizon, John tells Jane that the capital is guaranteed. Jane invests SGD100,000 in the product. After a few months, there are newspaper reports that XYZ is not doing well financially because of some major losses it has suffered recently. In this context, which of the following statements is TRUE?	[redacted] John should check with the relevant managers of XYZ to understand whether the risks associated with the OTC product sold to Jane have changed significantly. John should recommend Jane to sell her investments immediately because XYZ may go bankrupt. John should not tell Jane about the change in the financial condition of XYZ because she intends to hold the investment for 2 years. John should not tell Jane about the change in the financial condition of XYZ because she is expected to be aware of such information. **Explanation :** (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) John should conduct ongoing reviews of products and relevant counterparties to ensure that the initial assessment remains appropriate to the product's underlying risks. Therefore, he must ascertain XYZ's financial condition directly from its managers and inform Jane about the matter.
Jane has a trading account with KLG Bank (a covered entity). John handles Jane's account and provides investment advice to Jane. Jane is a short-term shares trader. KLG has given her a credit line of SGD100K and she often uses the maximum allowed amount for trading. She always settles the due amount on time. Based on her analysis, Jane decides to increase her trading exposure to the shares of XYZ Limited. For this purpose, she requests John to increase the credit limit to SGD125K. In this context, which of the following statements is TRUE?	[redacted] John should approve the enhanced credit limit because it is a small increase. John should approve the enhanced credit limit because Jane has a good track record. KLG should have systems to ensure that independent persons approve such an increase in the credit limit. There is no need for approval of the enhanced credit limit if Jane is a connected person with respect to KLG. **Explanation :** (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) CEs should 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. CEs should ensure that the relevant staff responsible for the approval of credit facilities is independent and free of conflicting interests. Situations such as granting approvals to themselves or their connected persons and facing inappropriate pressure from third parties should be prevented. Therefore, Jane's request should be approved independently.
KLG Bank provides wealth management services to accredited investors. Which of the following remuneration or incentive policies can KLG implement to ensure adherence to the Private Banking Code of Conduct?	[redacted] KLG assures its covered persons that ethical behaviour may result in better working conditions in the office. The employment contract of the covered persons specifies a 20% bonus if there are no client complaints. The employment contract of the covered persons specifies 10% bonus if the employee is rated 5/5 by his customers. KLG announces a contest where the employee will be declared "Ethics Champion" if there are no customer complaints. **Explanation :** (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) 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. Therefore, the employment contract should specify tangible benefits. Promises for better working conditions or intangible awards ("Ethics Champion") may help, but are not strictly in accordance with the Code.
Mr. RichMan is a prominent philanthropist and he wants to open a new account with your Bank. He tells you that he has charitable interests in many foreign countries and wants to set up a complex holding structure in offshore jurisdictions (such as Cayman Island) for his funds. Mr. RichMan tells you that he has available funds of US$ 22 million in Singapore and wishes to transfer the funds to Petersberg. What should you do before providing assistance to Mr. RichMan on this matter?	[redacted] Inform and explain to Mr. RichMan of Singapore's firm stance against tax illicit activities. Engage a Tax advisor on Mr. RichMan's behalf to ascertain whether Petersberg is the most tax-efficient jurisdiction. Request that Mr. RichMan provide copies of Notice of Assessment for the previous three years. Discreetly check with the Tax Authorities on whether Mr. RichMan has paid taxes on his available funds of USD 22 million. **Explanation :** 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. Therefore, there is no need to engage a tax advisor, ask for copies of tax-related documents or check with tax authorities.

Penalties for market misconduct include:

[redacted]

Suspension.

Demotion.

Termination of employment.

Deportation.

Explanation : (Chapter 2.3) Deportation is not a penalty for market misconduct.

Which of the following statements about expectations from covered entities laid out in the PB Code of Conduct is/are TRUE?

[redacted]

Periodic valuation of client's assets should be done by the relevant covered person handling the client's account.

Illiquid positions should be valued based on the discretion of the relevant covered person, on a case-to-case basis.

Illiquid positions should be identified based on a documented methodology.

There should be appropriate management oversight over reporting of illiquid positions.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities should 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.

John is a senior manager in the risk management division of KLG Limited (a covered entity). In this context, which of the following statements is TRUE?

[redacted]

John must go on an audit leave once every year to facilitate compliance monitoring.

John must work with the audit team to assure them that he has followed all the relevant risk management rules and thresholds.

KLG must ensure that John does not go on leave when the internal audit team is checking compliance with risk management policies and processes.

John must supervise the audit of compliance with risk management policies and processes because he is a senior manager.

Explanation : (Chapter 2.2 and Private Banking Code of Conduct, Effective 1 Sep 2020) Covered entities are expected to 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. The audit must be independent and cannot be supervised by John.

Which of the following are Covered Entities under the ambit of the Private Banking Code of Conduct?

[redacted]

Company A, which provides finance courses to retail, sophisticated and accredited investors.

Company B, which is a financial institution that provides access to ETFs to retail and accredited investors.

Bank C, which provides financial advisory services to retail clients only.

Bank D, which provides financial advisory services to retail clients and accredited investors.

Explanation : The PB Code provides 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.

A prospective client, 66 years old housewife Jane, emails you to open a new account for USD 11 million with your bank.

Jane asks about fees earned by the Covered Entity from the sale of structured products. How should you respond as her relationship manager?

[redacted]

Explain verbally that there is a termination clause and Jane can unwind the structured product at any time.

Assure Jane that the fees are comparable with other banks and it is more important to consider the risks involved.

Advise Jane that the information she is seeking can be found in the product brochure.

Explain the fees that are received or charged by you and the financial institution.

Explanation : A covered person must ensure that key terms of a transaction are disclosed to the client. This should include fees, charges and other quantifiable benefits (for example, rebates, commissions, retrocessions and spreads) received or charged by a Covered Person or Entity.

Robert approaches KLG Limited for opening a trading account. John is assigned the task of onboarding Robert. During the KYC process, Robert tells John that he expects to place SGD50K in the account for trading. Robert indicates that he will trade in shares regularly, with a focus on short-term profits. Robert is onboarded by following the usual due diligence process. Immediately after onboarding, Robert funds the account with SGD50K and trades in shares of blue chip companies. A few months later, Robert puts SGD1 million in the account and stops trading. The account remains inactive for a few months and then the SGD1 million is transferred to another bank account. In this context, which of the following statements is/are TRUE?

[redacted]

John should consider the SGD1 million deposit as unusual only if the deposit is made largely in cash.

John should subject Robert's account to enhanced due diligence measures because the account activity is not commensurate with his profile.

John should subject Robert's account to enhanced due diligence only if the funds are transferred abroad.

KLG should ensure that Robert's account is subjected to enhanced transaction analysis by independent staff.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) Some red flag indicators which may give rise to suspicion, thereby subjecting the account concerned to Enhanced Due Diligence for ongoing monitoring, include specific transactions related to Dormant accounts, hold mail not collected and client has not visited Singapore for an extended period of time, and the actual amount of assets in account or passing through the account is larger than expected amount of assets indicated at account opening. The Ongoing Enhanced Due Diligence to be conducted by the Covered Entity should involve increased frequency of account review for tax concerns, heightened transaction analysis/monitoring by independent staff and mechanisms to ensure independence of such staff. Robert's account activity is not in accordance with what he said at the time of account opening. Also, there is a large transaction from his dormant account. Therefore, EDD measures and enhanced independent transaction analysis are in order.

Mr Q has requested for a US$20m facility in leveraged forex trading. The bank has just launched a third party, absolute returns hedge fund that is based on forex trading. It has performed very well in the past 5 years. The subscriptions are always taken up within weeks due to high popularity. Purchase commission is at 5% and an annual management fee is at 1.5% plus a performance fee of 10% for annual returns exceeding previous high watermarks that would be factored into the NAV.

What aspects should you reveal to Mr Q?

[redacted]

The purchase commission, annual management fee and the performance fee

All relevant investment info in the fund's prospectus, highlighting the risk-return suitability analysis and applicable charges/fees

The fund's strategy and its good performance in the past 5 years, all applicable fees/charges and the urgency to make an investment decision soon due to the high popularity and demand

All investment info about the fund except for the 10% performance fee so as to avoid confusion to Mr Q, since the charge would be bundled in the fund's NAV

Explanation : (Chapter 2.1) All relevant investment info in the fund's prospectus, highlighting the risk-return suitability analysis and applicable charges/fees should be disclosed.

John (a Covered Person) has been Jane's investment adviser for the past 6 years. Based on Jane's overall profile, John has invested Jane's money (about SGD500K) in AAA-rated bonds. Jane is not well-versed in finance and is risk-averse. The economy has been growing at a very slow pace over the past few years, but the outlook is improving. Inflation and interest rates are expected to rise. In this context, which of the following statements is TRUE?

[redacted]

John should shortlist alternative financial products based on Jane's risk profile in view of the changing economic conditions.

John should inform Jane that "the yield curve is likely to steepen" and she should take investment decisions accordingly.

John should wait for the inflation to actually pick up before discussing the matter with Jane.

John should ask Jane to sell her bonds and buy equities to take advantage of the expected economic upturn.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) John should take reasonable measures to ensure that information communicated to the client is clear (simple, without jargons), relevant and timely. John must inform Jane about any material changes that may affect the risks and returns of bonds. Therefore, John should not use jargon like steepening of the yield curve which Jane may not understand. He should inform Jane that bond prices may fall if the interest rates rise. They should take a decision to change the allocation of funds to other asset classes based on Jane's risk profile and the changing circumstances. 100% allocation to equities may not suit Jane because she is risk-averse.

Jane does 12 hours out of the CACS CPD requirement of 15 hours for 2020 by 31 Dec 2020. For 2021, Jane must do ____ hours of CPD.

[redacted]

21

15

3

18

Explanation : (Chapter 2.1) The Covered Person is expected to achieve the stipulated minimum of 15 hours a year through CPD activities. If a Covered Person is unable to fulfil his CACS CPD requirement by 31 Dec of any given calendar year, he will be required to make up the remaining CACS CPD hours and fulfil an additional 3 CACS CPD hours as penalty in addition to the following calendar year's requirement.

Which statement correctly describes the obligation of a Covered Person under the FAA?

[redacted]

Disclose all material information relating to a designated investment product when recommending the product.

Recommend only investment products that have been approved under the FAA.

Disclose rebates received by the CE for products only when asked.

Disclose affiliations of the CE with product providers only if asked by the client.

Explanation : All material information about recommended designated investment products must be disclosed. Investment products are not approved under the FAA. Rebates received by the CE and affiliations with product providers must be disclosed to the client even if the client does not ask for such disclosures.

What standards of disclosure should a Covered Person adhere to when providing advice to clients regarding their investment products?

[redacted]

Provide relevant information on investment in English and Chinese

Update clients on their investment's performance 6 months after any change has occurred

Highlight any affiliation that the covered entity has with the product issuers

Use a standard set of explanations for all clients

Explanation : Disclosure standards require a CP to inform the client in plain language so that he can clearly understand. Client's investment performance must be communicated in a timely manner (not 6 months after any change has occurred). The CP should not use a standard set of explanations for all clients. Explanations should be based on the client's questions and circumstances.

You are contacted by Mary representing a company incorporated in a tax haven. She wishes to open an account for the company, and explains that the corporate structure of this company is mainly to receive investment returns. When you asked about the ultimate beneficial owners, Mary became evasive and responded by highlighting to you that the owners of the company are two other companis incorporated in the North Atlantic. What would you be concerned with?

[redacted]

Evasiveness in providing the ultimate beneficial owners

The company was incorporated in a tax haven

The structure was for receipt of investment returns

Owners were 2 other companies, incorporated in the North Atlantic

Explanation : Evasiveness with providing info about UBOs is certainly a red flag. Tax havens usually have lax AML controls, and are also where corporate structures are built for the purpose of tax evasion. Receiving investment returns isn't a red flag. There are many countries in North Atlantic, many have strong AML regulations, so this does not raise a red flag.

John provides investment advice to clients of KLG (a covered entity). John discusses various structured products for investment with his client Jane at the time of account opening. John is likely to manage Jane's account on a discretionary basis because she does not have the time to monitor her investments. In this context, which of the following statements is TRUE?

[redacted]

Fee schedules for discretionary services need not be communicated to Jane in advance.

If there are no fees and charges for a particular product category, KLG should inform Jane accordingly.

KLG can simply tell Jane that all quantifiable benefits in relation to structured products are subject to negotiation.

KLG cannot agree to a bilateral pricing arrangement, different from the standard fee schedule, with Jane.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) A Covered Entity must provide its clients with a fee schedule covering all investment product and service categories (including advisory and discretionary portfolio services) at the time of account opening. It is not enough to state that the fees and charges are subject to negotiation. A maximum and minimum dollar amount or percentage range of all applicable fees and charges should be stated for each investment product or service. 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.

The Code of Conduct for the private banking industry in Singapore (The Code) specifies that:

[redacted]

A covered entity should ensure fair and independent valuations of assets by covered persons

There should be a proper documented methodology and management oversight on identification, valuation and reporting of illiquid assets

Both A and B

None of the above

Explanation : (Chapter 2.2) Valuation of assets must be performed fairly and independent of the CPs.

While providing financial advisory services on financial products to their clients, Covered Entities must:

[redacted]

Understand the features and risk-reward of the products

Analyse the client's profile

Ensure that the product has a low risk of loss

Ensure there exist a reasonable basis for recommending a particular product to a particular client

Explanation : (Chapter 2.1) It is not mandatory for the CE to ensure that the product has a low risk of loss. The riskiness of the product can vary based on client

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The Code requires the Covered Person to ____ when communicating information about financial products to clients.

[redacted]

present info clearly in plain, unambiguous language

present info in client's preferred language upon request

use charts and graphs

tape-record and document correspondences

Explanation : (Chapter 2.1) The Code requires CPs to present info clearly in plain, unambiguous language when communicating info about financial products to clients.

Today Ben, a Covered Person, in the course of his work, came to know about a yet-announced impending merger of his client with another corporation. The investment division of his employer, a Covered Entity, does make trades which may include this company's stock. Which of the following statements is/are TRUE?

[redacted]

Ben cannot divulge the information to any client or third party without exception as the information is non-public and price sensitive.

Ben may communicate this info with his colleagues from the investment division so that they can trade on the company's stock.

Ben cannot divulge the info to anyone except to colleagues who need the information to do their work.

Ben cannot make buy orders of the company's shares, but can make sell orders of the same.

Explanation : Covered Persons are not allowed to communicate inside information to any client or third party. In option C, it was not specified clearly what work did the colleague need to accomplish with that information. That colleague could be from the investment division who want to use the inside information to make profitable trades for the Covered Entity, which would constitute insider trading.

KLG Bank manages the investment portfolio of Jane who is an accredited investor. Management of some of Jane's assets is done by an external asset manager XYZ Limited. In this context, which of the following statements is/are TRUE?

[redacted]

KLG should ensure that XYZ adheres to the standards of the PB Code while managing Jane's account.

KLG should ensure that XYZ adheres to KLG's policies and practices while managing Jane's account.

KLG should ensure that Jane is subjected to due diligence and KYC based on the standards it applies to direct clients.

KLG need not adhere to the PB Code while managing Jane's account.

Explanation : (Chapter 2.1.5 and Private Banking Code of Conduct, Effective 1 Sep 2020) Where an External Asset Manager is involved in the management of a client's 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.

John is Jane's investment advisor. He works for KLG Bank (a CE). Jane is a 60 years old accredited investor, getting SGD5K per month as pension. She has her own apartment and SGD200K savings. She asks John to recommend a mix of assets in which to invest her money for decent returns. She does not want loss of capital under any circumstances. Jane also wants a smooth transfer of the investments to her only son Jack when she passes away. John begins to shortlist financial products for Jane to put her money. In this context, which of the following statements is/are TRUE?

[redacted]

John should recommend exchange-traded products rather than OTC products to Jane.

John should consider a product as safe if KLG has invested in the product.

John should assess each financial product to check whether KLG's systems and processes can support the sale of the product.

John should consider the product provider's recommendations on the appropriate target segments.

Explanation : (Chapter 2.1.4 and Private Banking Code of Conduct, Effective 1 Sep 2020) Products for which the Covered Entity has an interest in should also be assessed carefully from the client's perspective. John cannot presume that such products are safe from Jane's perspective. Exchange-traded products may be easier to transfer to the nominee than OTC products. The other statements are true.