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**NOTICE ON REQUIREMENTS FOR THE REMUNERATION FRAMEWORK
FOR REPRESENTATIVES AND SUPERVISORS (“BALANCED
SCORECARD FRAMEWORK”) AND INDEPENDENT SALES AUDIT UNIT**

CONTENTS

1	Introduction	1
2	Definitions	1
3	The independent sales audit unit (“ISA Unit”)	4
3.1	Persons comprising the ISA Unit	4
3.2	Requirements of ISA Unit in relation to the balanced scorecard framework	5
4	Requirements of the balanced scorecard framework for representatives of a financial adviser	5
4.1	Introduction	5
4.2	Non-sales key performance indicators (“non-sales KPIs”)	6
4.3	Specified variable income	7
4.4	Processes and methods for reviewing and assessing representative’s performance in his provision of financial advisory services against non-sales KPIs	7
4.5	Classification of infractions: Category 1 infraction or Category 2 infraction	12
4.6	Grading table for representatives	14
4.7	Recovery of specified variable income which representative is not entitled to in the calendar quarter	18
5	Requirements of the balanced scorecard framework for supervisors of a financial adviser	20
5.1	Introduction	20
5.2	Specified variable income	20
5.3	Percentage of specified variable income which supervisor is entitled to in a calendar quarter	22
5.4	Recovery of specified variable income which supervisor is not entitled to in the calendar quarter	22
5.5	Grading table for supervisors	23

6	Avenue for appeal by representatives and supervisors	24
7	Record keeping	25
8	Maintenance of register	25
9	Provision of balanced scorecard performance record to representatives and supervisors	25
10	Responsibilities of board and senior management	25
11	Submission of reports to the Monetary Authority of Singapore	26
12	Transitional arrangements for implementation of new reporting formats	27
13	Annex 1	28
14	Annex 2	30
15	Annex 3	41

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1 Introduction

1.1 This Notice is issued pursuant to sections 38, 39 and 58 of the Financial Advisers Act (Cap. 110) ("the Act").

1.2 This Notice shall apply to all licensed financial advisers and exempt financial advisers, other than a financial adviser in respect of the activities, recommendations or transactions set out under regulation 34A of the Financial Advisers Regulations (“FAR”).

1.3 This Notice sets out the requirements in relation to the design and operation of the balanced scorecard framework, and the independent sales audit unit (“ISA Unit”), which licensed financial advisers and exempt financial advisers shall put in place in their remuneration structures for their representatives and supervisors.

2 Definitions

2.1 For the purposes of this Notice, unless the context otherwise requires –

“balanced scorecard grade” means the grade assigned to a representative or supervisor under the Representatives’ Grading Table or the Supervisors’ Grading Table;

“board” means the board of directors of a financial adviser;

“dual currency investment” has the same meaning as in the Financial Advisers (Prescribed Investment Products and Exemption) Regulations 2005;

“exempt financial adviser” means a person exempt from holding a financial adviser’s licence under section 23(1)(a), (b), (c), (d) or (e) of the Act;

“financial adviser” means a licensed financial adviser or an exempt financial adviser;

“infraction” in relation to a representative, means a failure by the representative to meet any of the non-sales key performance indicators;

“measurement quarter” means any calendar quarter where a representative’s performance is measured against the non-sales key performance indicators;

“non-sales key performance indicators” or “non-sales KPIs”, in relation to a representative, means the principles set out in Annex 1 to this Notice that the representative has to meet;

“percentage of total specified variable income” means the percentage of specified variable income determined based on the formula set out in footnote 1 of the Supervisors’ Grading Table;

“post-transaction” refers to the period of time after –

- (a) in the case of a life policy –
 - (i) the policy is issued;
 - (ii) the policy takes effect; or
 - (iii) the cover has commenced,whichever is the latest; and
- (b) in the case of an investment product other than a life policy, a client’s application for a transaction has been accepted by a product manufacturer;

“Representatives’ Grading Table” refers to the table set out in paragraph 4.6.1 for grading a representative under the balanced scorecard framework;

“sampled transaction” means a transaction which has been sampled by the ISA Unit to fulfil the requirements of the minimum sampling size set out in paragraph 4.4.2.5;

“selected representative” means a representative who has been assigned a balanced scorecard grade B or worse under the balanced scorecard framework consecutively for two calendar quarters immediately preceding the measurement quarter;

“specified variable income” –

- (a) in relation to a representative, means the proportion of variable income of the representative referred to in paragraph 4.3.1 which is measured against the non-sales key performance indicators; and

- (b) in relation to a supervisor, means the proportion of variable income of the supervisor referred to in paragraph 5.2.1 which is measured against the performance of the representatives of the supervisor under the balanced scorecard framework;

“structured notes” has the same meaning as in regulation 2(1) of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005;

“Supervisors’ Grading Table” refers to the table set out in paragraph 5.5.1 for grading a supervisor under the balanced scorecard framework;

“transaction” means any purchase of an investment product by a client, and includes, in the case of any life policy, any increases in the sum assured involving the injection of new funds or any addition of riders to the life policy, but does not include the purchase leg of any switch of funds for an investment-linked policy or a collective investment scheme, which is free of charge or where no additional charge for the switch is borne by the client;

“variable income” in relation to –

- (a) a representative, means the amount of remuneration paid or payable to the representative, whether on a periodic basis or otherwise, which varies and is directly dependent, wholly or partly, on any or all of the following –
 - (i) the number or value of investment products in relation to which financial advisory services are provided by the representative to clients;
 - (ii) the number or value of agreements, transactions or arrangements relating to any investment product, entered into by clients to whom the representative provided any financial advisory service;
 - (iii) the total amount of consideration, paid by clients to whom the representative provided any financial advisory service for investment products; or
 - (iv) the total amount of premiums paid or payable under life policies, paid by clients to whom the representative provided any financial advisory service; and
- (b) a supervisor, means the amount of remuneration paid or payable to the supervisor, whether on a periodic basis or otherwise, which varies and is directly dependent, wholly or partly, on any or all of the following –
 - (i) the number or value of investment products, in relation to which financial advisory services are provided by a representative,

- who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, to clients;
- (ii) the number or value of agreements, transactions or arrangements relating to any investment product, entered into by clients to whom a representative, who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, provided financial advisory services;
 - (iii) the total amount of consideration, paid by clients to whom a representative, who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, provided financial advisory services for investment products; or
 - (iv) the total amount of premiums paid or payable under life policies, paid by clients to whom a representative, who is under the supervision or management of the supervisor or any other person whom the supervisor manages or supervises, provided financial advisory services.

2.2 The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Act, the FAR, the Notice on Recommendations on Investment Products (FAA-N16), the Notice on Information to Clients and Product Information Disclosure (FAA-N03), and the Guidelines on Switching of Designated Investment Products (FAA-G10).

3 The ISA Unit

3.1 *Persons comprising the ISA Unit*

- 3.1.1 A financial adviser shall have an ISA Unit comprising persons who –
- (a) are independent of the financial advisory services unit of the financial adviser;
 - (b) do not directly or indirectly supervise or manage the conduct and performance of any representative or class of representatives of the financial adviser; and
 - (c) are competent in reviewing and assessing the quality of the financial advisory services provided by the representatives of the financial adviser, against the non-sales KPIs, and determining if infractions have been committed by the representatives.

- 3.1.2 A financial adviser may –

- (a) utilise its compliance or risk management function to carry out the responsibilities of the ISA Unit; or
- (b) outsource the responsibilities of the ISA Unit to a third party provider, if and only if –
 - (i) its compliance or risk management function or the third party provider, as the case may be, satisfies paragraph 3.1.1; and
 - (ii) the financial adviser ensures that its compliance or risk management function, or the third party provider, as the case may be, complies with the requirements of this Notice which applies to the ISA Unit.

3.2 Requirements of ISA Unit in relation to the balanced scorecard framework

3.2.1 A financial adviser shall ensure that the ISA Unit carries out the post-transaction checks set out in paragraph 4.4.1, and samples transactions in accordance with the sampling methodology in paragraph 4.4.2.

3.2.2 A financial adviser shall require the ISA Unit to submit reports on its audit of the quality of financial advisory services provided in every calendar quarter by the representatives of the financial adviser, to either –

- (a) the board and chief executive officer of the financial adviser; or
- (b) a business function or unit of the financial adviser, which is independent from the financial advisory services unit of the financial adviser,

by the end of two calendar quarters immediately subsequent to the measurement quarter, or such longer period as the Authority may approve.

[FAA-N20 (Amendment) 2020]

4 Requirements of the balanced scorecard framework for representatives of a financial adviser

4.1 Introduction

4.1.1 Subject to paragraph 4.3.2, a financial adviser shall for each of its representatives, other than –

- (a) a representative who is exempt from the application of the balanced scorecard framework under regulation 34A of the FAR; or
- (b) a representative who ceases to provide financial advisory services during the relevant calendar quarter and where the financial adviser has assessed and documented its assessment in writing that it is not possible

for the financial adviser to comply with sub-paragraphs (i) to (vii) in respect of that representative,
satisfy all of the following requirements by the end of every calendar quarter immediately subsequent to a measurement quarter:

- (i) require the ISA Unit to review and assess the quality of financial advisory services provided by the representative in respect of his sampled transactions, in accordance with paragraphs 4.4.1 and 4.4.2;
- (ii) review and assess findings of mystery shopping exercises, if any, and substantiated complaints, if any, in relation to the performance of representatives, against the non-sales KPIs in accordance with paragraphs 4.4.3 and 4.4.4 respectively;
- (iii) ensure that the ISA Unit classifies any infraction committed by the representative, in accordance with paragraph 4.5;
- (iv) determine the percentage or number of cases with one or more infractions, set out in the Representatives' Grading Table;
- (v) assign the balanced scorecard grade to the representative under the Representatives' Grading Table, which corresponds with the percentage or number of cases with one or more infractions referred to in sub-paragraph (iv);
- (vi) if applicable, determine the percentage of specified variable income which the representative is entitled to under the Representatives' Grading Table, which corresponds with the percentage or number of cases with one or more infractions referred to in sub-paragraph (iv); and
- (vii) if applicable, determine the effective percentage of specified variable income which the representative is entitled to in accordance with paragraph 4.6.3.

4.2 *Non-sales key performance indicators*

4.2.1 Every financial adviser shall incorporate the non-sales KPIs into its balanced scorecard framework.

4.2.2 In addition to the non-sales KPIs, a financial adviser may incorporate other key performance indicators in its balanced scorecard framework to meet its specific business objectives. However, the financial adviser shall not measure the specified variable income of a representative against such other key performance indicators.

4.3 *Specified variable income*

4.3.1 Subject to paragraph 4.3.3, in a calendar quarter, where a financial adviser remunerates a representative for his provision of financial advisory services by way of –

- (a) variable income only, the financial adviser shall measure only 60% of the variable income provided or to be provided to the representative in the calendar quarter against the non-sales KPIs; or
- (b) a fixed salary and a variable income component, the financial adviser shall measure all of the variable income provided or to be provided to the representative in the calendar quarter against the non-sales KPIs.

4.3.2 Where a financial adviser does not remunerate a representative for his provision of financial advisory services by way of any variable income in a calendar quarter, the financial adviser shall comply with paragraph 4.1.1(i) to (v), and factor the balanced scorecard grade assigned to the representative in the representative’s appraisal, including the representative’s remuneration and promotion reviews (if any).

4.3.3 Where any specified variable income of a representative has been measured against the non-sales KPIs for any calendar quarter, the financial adviser shall not measure the specified variable income against the non-sales KPIs in any other calendar quarter. For example, in relation to the calendar quarter of April to June 2016, if a representative has arranged a life policy on behalf of a client in June 2016 and in respect of this transaction, he is entitled to receive S\$1,500 of the specified variable income under the balanced scorecard framework but he will only be paid S\$1,000 in June 2016 and S\$500 in June 2017; the financial adviser must not measure the deferred payment of S\$500 in June 2017 against the non-sales KPIs in the calendar quarter of April to June 2017.

4.4 *Processes and methods for reviewing and assessing representative’s performance in his provision of financial advisory services against non-sales KPIs*

4.4.1 *Post-transaction checks by the ISA Unit*

4.4.1.1 The ISA Unit has to carry out and complete the following checks (“post-transaction checks”) on the sampled transactions in order to review and assess the

quality of financial advisory services provided by a representative, by the end of the calendar quarter immediately subsequent to the measurement quarter¹–

- (a) in respect of sampled transactions which are rollovers of any dual currency investment or structured note relating to equities or commodities, or such other product as the Authority may approve on an exceptional basis, the ISA Unit is to review all call-logs of conversations held with clients of every sampled transaction;
- (b) in respect of other sampled transactions –
 - (i) *Documentation review*: The ISA Unit must review all documentation, including fact-find, needs analysis and basis of recommendation, of every sampled transaction; and
 - (ii) *Client survey*: The ISA Unit must conduct client surveys on every sampled transaction.

4.4.1.2 The ISA Unit should also refer to the Guidelines on the Remuneration Framework for Representatives and Supervisors (“Balanced Scorecard Framework”), Reference Checks and Pre-Transaction Checks (FAA-G14) on the expectations of the Authority on post-transaction checks. In addition, the ISA Unit must take into consideration all relevant facts and circumstances in relation to the sampled transactions in assessing the quality of the financial advisory services provided by the representative, and determining if the non-sales KPIs are met by the representative, in each calendar quarter.

4.4.2 *Sampling methodology of the ISA Unit and sampled transactions*

4.4.2.1 The ISA Unit is to carry out up to three rounds of post-transaction checks for each representative for every calendar quarter.

4.4.2.2 Subject to paragraphs 4.4.2.3 and 4.4.2.4, the ISA Unit has to determine the population for sampling using either of the following methods –

- (a) *Historical average transaction count method*: based on the quarterly average transaction count of each representative –
 - (i) over the past 12 months immediately preceding the measurement quarter; or
 - (ii) where a representative has provided financial advisory services for less than 12 months, over the past number of months immediately preceding the measurement quarter which the representative provided financial advisory services,

¹ For example, in relation to the transactions effected in the calendar quarter of 1 January to 31 March 2016, the ISA Unit must carry out and complete the post-transaction checks on every sampled transaction by no later than the end of June 2016.

- (b) *Actual transaction count method:* based on the actual number of transactions effected in a measurement quarter.

4.4.2.3 A financial adviser shall apply the actual transaction count method in determining the population for sampling for any –

- (a) new representative who has provided financial advisory service for less than 3 months; or
- (b) existing representative who has not effected any transactions in the past 12 months or less, immediately preceding the measurement quarter.

4.4.2.4 A financial adviser shall ensure that the ISA Unit applies the same method in determining the population for sampling across all representatives and from quarter to quarter. If the financial adviser intends to vary the method used in determining the population for sampling, it shall notify the Authority, in writing, of the reason for the change, at least seven days prior to effecting the change.

4.4.2.5 In respect of each round of post-transaction checks referred to in paragraph 4.4.2.1, the ISA Unit has to sample –

- (a) the respective minimum sample sizes of all transactions which have been effected in the measurement quarter, set out in paragraph 4.4.2.6; or
- (b) a minimum of one transaction which has been effected in the measurement quarter,

whichever is the higher, unless there are no transactions effected in the measurement quarter.

4.4.2.6 In any measurement quarter –

- (a) *First round of post-transaction checks -*
 - (i) in relation to a selected representative, the ISA Unit has to sample a minimum of 10% of the population for sampling;
 - (ii) in relation to a representative who only provides financial advisory services in relation to the rollovers of any dual currency investment or structured note relating to equities or commodities, or such other product as the Authority may approve on an exceptional basis, the ISA Unit has to sample a minimum of 2% of the population for sampling; and
 - (iii) in relation to any other representative, the ISA Unit has to sample a minimum of 5% of the population for sampling;
- (b) *Second round of post-transaction checks -* Where the ISA Unit has

discovered that any representative (including a selected representative) has committed one or more cases² with infraction (regardless of the categorisation of the infraction set out in paragraphs 4.5.1 to 4.5.4) in the first round of post-transaction checks, the ISA Unit has to –

(i) in relation to a representative who only provides financial advisory services in relation to the rollovers of any dual currency investment or structured note relating to equities or commodities, or such other product as the Authority may approve on an exceptional basis –

(A) conduct a second round of post-transaction checks by sampling a minimum of an additional 5% of the population for sampling; and

(B) sample transactions which are distinct from all sampled transactions in paragraph (a)(ii);

(ii) in relation to any other representative including a selected representative –

(A) conduct a second round of post-transaction checks by sampling a minimum of an additional 10% of the population for sampling; and

(B) sample transactions which are distinct from all sampled transactions in paragraph (a)(i) or (iii) (as the case may be); and

(c) *Third round of post-transaction checks* - Where the ISA Unit has discovered that any representative (including a selected representative) has committed one or more cases with infraction (regardless of the categorisation of the infraction set out in paragraphs 4.5.1 to 4.5.4) in the second round of post-transaction checks, the ISA Unit has to –

(i) in relation to a representative who only provides financial advisory services in relation to the rollovers of any dual currency investment or structured note relating to equities or commodities, or such other product as the Authority may approve on an exceptional basis –

(A) conduct a third round of post-transaction checks by sampling a minimum of an additional 10% of the population for sampling; and

(B) sample transactions which are distinct from all sampled transactions in paragraphs (a)(ii) and (b)(i)(A);

² Please refer to footnote 2 of the Representatives' Grading Table set out in paragraph 4.6.1.

- (ii) in relation to any other representative including a selected representative –
 - (A) conduct a third round of post-transaction checks by sampling a minimum of an additional 20% of the population for sampling; and
 - (B) sample transactions which are distinct from all the sampled transactions in paragraphs (a)(i) or (iii) (as the case may be) and paragraph (b)(ii)(A).

4.4.2.7 A financial adviser shall not count any rider that is purchased together with any life policy as a separate transaction from the life policy for purposes of the post-transaction checks.

4.4.3 *Findings from mystery shopping exercises*

4.4.3.1 Where a financial adviser conducts any mystery shopping exercise on or after 1 January 2016, or receives any information in relation to the findings of any mystery shopping exercise conducted by the Authority or any industry association on or after 1 January 2016, the financial adviser shall review and assess the findings of its mystery shopping exercise or the information received from the Authority or industry association, in relation to the quality of financial advisory services provided by its representatives, against the non-sales KPIs, so as to determine –

- (a) whether the findings of the mystery shopping exercise are substantiated; and
- (b) based on such findings, whether its representatives have committed any infraction in the calendar quarter.

4.4.3.2 A financial adviser shall factor any infraction committed by a representative and discovered in the circumstances set out in paragraph 4.4.3.1, into his performance under the balanced scorecard framework in the calendar quarter in which the review and assessment of the findings was completed³.

4.4.4 *Substantiated complaints*

4.4.4.1 A financial adviser shall investigate every complaint lodged against a representative arising from any incident that occurs on or after 1 January 2016. Where a financial adviser is satisfied that a complaint against a representative is substantiated,

³ For example, if the financial adviser conducts a mystery shopping exercise in February 2016 and completes the review and assessment of the mystery shopping findings in July 2016, any infraction committed by the representative will have to be factored into his performance under the balanced scorecard framework in the calendar quarter of 1 July 2016 to 30 September 2016.

the financial adviser shall review and assess the substantiated complaint in relation to the quality of financial advisory services provided by the representative, against the non-sales KPIs, so as to determine whether the representative has committed any infraction in the calendar quarter.

4.4.4.2 A financial adviser shall factor any infraction committed by a representative arising from any complaint into his performance under the balanced scorecard framework in the calendar quarter which the complaint was substantiated. For the avoidance of doubt, the financial adviser shall assess whether paragraph 4.6.3 applies when determining the amount of variable income which the representative is entitled to in the calendar quarter.

4.5 *Classification of infractions: Category 1 infraction or Category 2 infraction*

4.5.1 A financial adviser shall ensure that the ISA Unit classifies every infraction committed by a representative as a Category 1 infraction or Category 2 infraction, by assessing the facts and circumstances (including any aggravating or mitigating factors) of the infraction.

4.5.2 A financial adviser should have regard to the examples of Category 1 infractions set out in the Guidelines on the Remuneration Framework for Representatives and Supervisors (“Balanced Scorecard Framework”), Reference Checks and Pre-Transaction Checks (FAA-G14).

4.5.3 *Category 1 infraction*

4.5.3.1 In relation to an infraction arising from a sampled transaction of a client, a finding from a mystery shopping exercise, or a substantiated complaint, a financial adviser shall ensure that the ISA Unit classifies an infraction as a Category 1 infraction if the ISA Unit determines that in relation to the quality of the financial advisory services provided by a representative to the client, the infraction –

- (a) has a material impact on the interests of the client; or
- (b) impinges on the fitness and propriety of the representative.

4.5.3.2 The Authority considers the following circumstances as having a material impact on the interests of a client or impinging on the fitness and propriety of the representative in relation to the quality of the financial advisory services provided (as the case may be) –

- (a) where the representative recommends an investment product or class of investment products that is clearly unsuitable for a client, based on the information provided by the client to the representative during the fact-find process;

- (b) where the representative recommends that a client switches from one designated investment product to another designated investment product and the switch to the other designated investment product is unnecessary and wholly or partly for the representative’s benefit;
- (c) where the representative fails to provide or explain information, or both, as the case may be, on an investment product to a client which, if it had been disclosed to the client, would have resulted in the client not purchasing the investment product;
- (d) in relation to the quality of the financial advisory services provided, where the representative fails to execute the client’s instructions without valid cause and the representative’s failure to do so results in the client incurring material losses; or
- (e) in relation to the quality of the financial advisory services provided, where the representative has carried out any act of misrepresentation, gross negligence, or serious misconduct.

4.5.4 *Category 2 infraction*

4.5.4.1 A financial adviser shall ensure that the ISA Unit classifies any infraction which is not a Category 1 infraction, as a Category 2 infraction.

4.5.5 *Disregarded as infraction*

4.5.5.1 Where the ISA Unit uncovers minor lapses or administrative oversights in relation to —

- (a) a sampled transaction;
- (b) a finding from a mystery shopping exercise; or
- (c) a substantiated complaint,

which does not affect client’s interest or impinge on the fitness and propriety of the representative, the financial adviser may allow the ISA Unit to not consider such minor lapses, or administrative oversights, as infractions. For example, if the representative did not fill in the name of the dependants during a fact-find exercise conducted on a client and his failure to provide such information did not affect the results of the client’s financial needs analysis, the ISA Unit will not need to regard such an administrative oversight as an infraction under the balanced scorecard framework. However, where such minor lapses or administrative oversights are prevalent, the financial adviser should ensure that the ISA Unit assesses whether such lapses or oversights would impinge on the fitness and propriety of the representative.

4.5.6 *Rectification of infractions*

4.5.6.1 A financial adviser shall take all reasonable steps to rectify all infractions uncovered by the ISA Unit.

4.6 Grading Table for Representatives (“Representatives’ Grading Table”)

4.6.1 A financial adviser shall incorporate the following Representatives’ Grading Table in its balanced scorecard framework:

Representatives’ Grading Table

Balanced scorecard grade for a representative for a calendar quarter	Percentage ¹ (“X”) or number of cases ² with infractions in a calendar quarter ³	Percentage of specified variable income that a representative is entitled to for a calendar quarter
A	$X < 5\%$ or one case with Category 2 infractions	100%
B	$5\% \leq X < 10\%$ or two cases with Category 2 infractions	75% to less than 100%
C	$10\% \leq X < 20\%$ or three cases with Category 2 infractions	50% to less than 75%
D	$20\% \leq X < 30\%$ or four cases with Category 2 infractions	25% to less than 50%
E	(a) $X \geq 30\%$ or five or more cases with Category 2 infractions; or (b) One or more cases with Category 1 infractions	0% to less than 25%

¹ The denominator to be used in the computation of the percentage of cases² with Category 2 infraction is calculated based on the sum of –

- (a) the total number of cases that would have been sampled in all three rounds of sampling under paragraph 4.4.2.6, notwithstanding that the ISA Unit may not have progressed to the second or third round of sampling of transactions in respect of a representative; and
- (b) the number of cases referred to under paragraphs (b) and (c) of footnote 2 of the Representatives’ Grading Table.

The financial adviser may refer to the worked examples set out in Annex 3 for guidance.

² A “case” means –

- (a) a sampled transaction;
- (b) a finding arising from any mystery shopping exercise, if any, referred to in paragraph 4.4.3; or
- (c) a substantiated complaint, if any, referred to in paragraph 4.4.4.

The calculation is based on the number of cases with infractions, and not the number of infractions uncovered by the ISA Unit in relation to a representative. For example, a case with multiple Category 2 infractions will be considered as one case with Category 2 infractions, whilst a case with one Category 1 infraction and multiple Category 2 infractions will be considered as one case with a Category 1 infraction.

³ Where a representative has committed only Category 2 infractions, the financial adviser shall calculate the percentage and the number of cases with infractions in a calendar quarter. Where the percentage of cases with Category 2 infractions and the number of cases with Category 2 infractions determined in a calendar quarter correspond to two different balanced scorecard grades under the Representatives’ Grading Table respectively, the financial adviser shall assign the better of the two balanced scorecard grades to the representative. For example, in relation to a representative, where two out of ten cases were found to have Category 2 infractions, and the financial adviser determines that a balanced scorecard grade D would be assigned in respect of the percentage of cases and a balanced scorecard grade B would be assigned in respect of the number of cases with infractions, the financial adviser shall assign the better of the two balanced scorecard grades i.e. grade B, to the representative for that calendar quarter.

4.6.2 A financial adviser shall, for each of its representatives other than –

- (a) a representative who is exempt from the application of the balanced scorecard framework under regulation 34A of the FAR;
- (b) a representative who ceases to provide financial advisory services during the relevant calendar quarter and where the financial adviser has assessed and documented its assessment in writing that it is not possible for the financial adviser to comply with paragraphs 4.1.1(i) to (vii), in respect of that representative; or
- (c) a representative who has not effected any transaction and does not have any case with infractions referred to in footnote 2 of the Representatives’ Grading Table arising from findings from mystery

shopping exercises or substantiated complaints, during the relevant calendar quarter⁴ –

satisfy all of the following requirements by the end of every calendar quarter immediately subsequent to a measurement quarter:

- (i) determine the percentage of cases with Category 2 infractions or the number of cases with Category 1 infractions or Category 2 infractions, based on footnotes 1 and 2 of the Representatives' Grading Table;
- (ii) subject to footnote 3 of the Representatives' Grading Table, assign the balanced scorecard grade to the representative set out in the first column of the Representatives' Grading Table, which corresponds with the determined percentage of cases with Category 2 infractions or number of cases with Category 1 infraction or Category 2 infractions referred to in sub-paragraph (i);
- (iii) determine the percentage of specified variable income that the representative is entitled to, based on the balanced scorecard grade assigned to the representative under sub-paragraph (ii);
- (iv) apply the percentage of specified variable income that the representative is entitled to under sub-paragraph (iii) on the specified variable income in the measurement quarter to determine the amount of specified variable income which the representative is entitled to; and
- (v) compute the amount of specified variable income which the representative is not entitled to by taking the difference between the specified variable income that the representative is entitled to under sub-paragraph (iv) and specified variable income.

4.6.3 If –

- (a) any of the cases with Category 1 or Category 2 infraction arose from a substantiated complaint in relation to an incident which occurred in a calendar quarter which is prior to the measurement quarter; and
- (b) the financial adviser has ascertained that the representative's variable income in that calendar quarter where the incident arose is lower than his variable income in the measurement quarter, the financial adviser shall perform steps (a) to (e) to determine the final amount of specified variable income and the effective percentage of specified variable income which the representative is not entitled to:

Step (a): Apportion the amount of specified variable income under paragraph 4.6.2(v) between –

⁴ For the avoidance of doubt, a financial adviser shall not assign a balanced scorecard grade to a representative referred to in paragraph 4.6.2(c) for the calendar quarter in which the representative has not effected any transaction and does not have any case with infraction referred to in footnote 2 of the Representatives' Grading Table arising from findings from mystery shopping exercises or substantiated complaints.

- (i) case(s) with infractions arising from substantiated complaints (“Income X”); and
 - (ii) case(s) with infractions arising from post-transaction checks and findings of mystery shopping exercises (“Income Y”),
- based on the number of cases with infractions arising from the post-transaction checks, mystery shopping exercises and substantiated complaints. For example, the representative is found to have one case with Category 1 infraction arising from a substantiated complaint and two cases with Category 2 infraction arising from post-transaction checks. Based on the Representatives’ Grading Table, he is assigned a balanced scorecard grade E and determined not to be entitled to S\$18,000 (i.e. 75% of specified variable income of S\$24,000) of his specified variable income in the measurement quarter. Income X will be S\$6,000 (i.e. 1/3 of S\$18,000), whilst Income Y will be S\$12,000 (i.e. 2/3 of S\$18,000).

Step (b): Compute the proportion of past variable income in the calendar quarter where the incident resulting in the substantiated complaint arose (“past variable income”) to current variable income in the measurement quarter (“current variable income”) by taking the past variable income as a percentage of the current variable income. For the avoidance of doubt, the financial adviser shall apply the gross variable income⁵ in the computation of the proportion of past to current income. For example, if the incident resulting in the substantiated complaint took place in the calendar quarter January to March 2016 where the representative’s variable income was S\$12,000 and his variable income in the measurement quarter is S\$24,000, the percentage of past to current income will be 50% (i.e. $S\$12,000/S\$24,000 \times 100\%$).

Step (c): Apply the proportion of past to current income determined in step (b) on Income X to determine the amount of specified variable income that the representative is not entitled to after factoring cases with infractions arising from substantiated complaints (“Income Z”). For example, if the proportion of past to current variable income determined in step (b) is 50% and Income X is S\$6,000, the amount of specified variable income that the representative is not entitled to after factoring cases with infractions arising from substantiated complaints is S\$3,000 (i.e. 50% of S\$6,000).

⁵ Gross variable income refers to variable income before factoring in the following –

- (i) any amount which the representative is not entitled to under the balanced scorecard framework; and
- (ii) any subsequent changes to the transactions, such as termination of a life policy after inception.

Step (d): Compute the final amount of specified variable income which the representative is not entitled to by totalling Income Y and Income Z. For example, if Income Y is S\$12,000 and Income Z is S\$3,000, the final amount of specified variable income which the representative is not entitled to is S\$15,000.

Step (e): Compute the effective percentage of specified variable income that the representative is not entitled to by taking the final amount of specified variable income under step (d) as a percentage of specified variable income. In addition, compute the corresponding effective percentage of specified variable income that the representative is entitled to in the measurement quarter. For example, the final amount of specified variable income which the representative is not entitled to is S\$15,000 and the specified variable income is S\$24,000, the effective percentage of specified variable income that the representative is not entitled to will be 62.5% (i.e. $\text{S\$15,000} / \text{S\$24,000} \times 100\%$). The corresponding effective percentage of specified variable income that the representative is entitled to will be 37.5% (i.e. $100\% - 62.5\%$).

4.6.4 For the purpose of performing step (b) under paragraph 4.6.3, a financial adviser shall ensure that it keeps and maintains sufficient records of each representative’s past variable income. Where the financial adviser does not have record of a representative’s past variable income, it may place reliance on the balanced scorecard performance record which had been provided to the representative in the past to determine the representative’s past variable income. Where both the financial adviser and the representative do not have record of the representative’s past variable income, the financial adviser shall not apply steps (a) to (e) under paragraph 4.6.3. Instead, it shall use the variable income in the current calendar quarter to calculate how much the representative is entitled to, set out in paragraph 4.6.2.

4.7 *Recovery of specified variable income which representative is not entitled to in the calendar quarter*

4.7.1 Where a financial adviser has paid any variable income in relation to a portfolio of transactions to a representative for any calendar quarter before determining the percentage of specified variable income or effective percentage of specified variable income (as the case may be) in relation to that portfolio of transactions which the representative is entitled to for that calendar quarter under the balanced scorecard framework, the financial adviser shall only recover the percentage of specified variable income or effective percentage of specified variable income (as the case may be) which the representative is not entitled to for that calendar quarter from the amount of variable income in relation to the portfolio of transactions which has been paid to the

representative, by no later than the end of two calendar quarters subsequent to the measurement quarter, unless there are exceptional circumstances⁶ where the financial adviser has made an assessment that it is reasonable to recover the income over a longer period of time. For example, where a representative is remunerated by way of variable income only and his variable income from the arrangement of four life policies in the calendar quarter of January to March 2016 is S\$10,000 (i.e. the specified variable income measured against the non-sales KPIs is S\$6,000 for the calendar quarter of January to March 2016). The financial adviser pays the representative S\$2,000 (i.e. specified variable income paid out is S\$1,200) in relation to the portfolio of transactions in March 2016 before determining in June 2016 that the representative is actually entitled to only 50% of his specified variable income (i.e. S\$3,000) in relation to the portfolio of transactions for the calendar quarter of January to March 2016. The financial adviser shall recover 50% of S\$1,200 (i.e. S\$600), which has been paid to the representative, by the end of September 2016.

4.7.2 Where the payment of any amount of specified variable income is made in relation to financial advisory services provided by a representative over more than one calendar quarter (such as bonuses which are paid annually), a financial adviser shall apportion such specified variable income using any reasonable method over the calendar quarters. The financial adviser shall then determine the percentage of the apportioned specified variable income which the representative is entitled to in each calendar quarter based on the performance of the representative against the non-sales KPIs in the same calendar quarter. Please refer to worked examples 1 and 4 in Annex 3 for guidance.

4.7.3 For the avoidance of doubt, where a financial adviser has determined the percentage of specified variable income or effective percentage of specified variable income (as the case may be) which a representative is entitled to for a calendar quarter but the payment of any amount of specified variable income is deferred by a financial adviser (including where bonuses are paid on an annual basis or commissions earned are spread and paid out over a number of years), the financial adviser shall only pay out the amount of specified variable income that the representative is entitled to.

⁶ Exceptional circumstances may include situations where a representative is experiencing financial difficulty and is unable to make repayments.

5 Requirements of the balanced scorecard framework for supervisors of a financial adviser

5.1 Introduction

5.1.1 A financial adviser shall, for each of its supervisors, other than a supervisor who ceases to supervise or manage the conduct and performance of any representative during the relevant calendar quarter and in respect of whom, the financial adviser has assessed and documented its assessment in writing that it is not possible for the financial adviser to comply with sub-paragraphs (a) and (b) –

- (a) determine the percentage of specified variable income which the supervisor is entitled to based on the percentage of specified variable income or effective percentage of specified variable income (as the case may be) which a representative under his supervision or management is entitled to in the calendar quarter; and
- (b) assign the balanced scorecard grade to the supervisor set out in the second column of the Supervisors’ Grading Table, based on the percentage of total specified variable income which is calculated based on the formula in footnote 1 of the Supervisors’ Grading Table,

by the end of every calendar quarter immediately subsequent to a measurement quarter. For the avoidance of doubt, where a financial adviser operates a tier structure for its representatives and supervisors, any supervisor who belongs to a second or higher tier and receives any variable income in relation to financial advisory services provided by a representative, shall be deemed to be a supervisor who is responsible for the supervision or management of the conduct and performance of that representative for the purpose of paragraphs (a) and (b).

5.2 Specified variable income

5.2.1 Subject to paragraph 5.2.3, where a financial adviser remunerates a supervisor by way of –

- (a) variable income only in any calendar quarter and the representatives under the supervision or management of the supervisor are –
 - (i) remunerated by way of variable income, whether wholly or partly, the financial adviser shall measure only 60% of the variable income provided or to be provided to the supervisor in the calendar quarter against his representatives’ performance under the balanced scorecard framework in the same calendar quarter; or
 - (ii) not remunerated by way of any variable income, the financial adviser shall assess the supervisor’s performance in a calendar quarter against the performance of his representatives under the

balanced scorecard framework in the same calendar quarter and factor the assessment into any appraisal of the supervisor, including remuneration and promotion reviews; or

- (b) a fixed salary and variable income component in any calendar quarter, and the representatives under the supervision or management of the supervisor are –
 - (i) remunerated by way of variable income, whether wholly or partly, the financial adviser shall measure all variable income provided or to be provided to the supervisor in the calendar quarter against the representatives' performance under the balanced scorecard framework in the same calendar quarter; or
 - (ii) not remunerated by way of any variable income, the financial adviser shall assess the supervisor's performance in a calendar quarter against the performance of the representatives under the balanced scorecard framework in the same calendar quarter and factor the assessment into any appraisal of the supervisor, including remuneration and promotion reviews.

5.2.2 Where a financial adviser does not remunerate a supervisor by way of any variable income and regardless of how the representatives under his supervision or management are remunerated, the financial adviser shall assess the supervisor's performance in a calendar quarter against the performance of his representatives under the balanced scorecard framework in the same calendar quarter and factor the assessment into any appraisal of the supervisor, including remuneration and promotion reviews.

5.2.3 Where any specified variable income of a supervisor has been measured against the performance of any of his representatives under the balanced scorecard framework in any calendar quarter, the financial adviser shall not measure the specified variable income of the supervisor against the performance of any of his representatives under the balanced scorecard framework in any other calendar quarter. For example, based on the percentage of specified variable income which a representative is entitled to in the calendar quarter of April to June 2016, a supervisor is entitled to receive an amount of specified variable income of S\$1,500, but he will only be paid S\$1,000 in June 2016 and S\$500 in June 2017; the financial adviser must not measure the deferred payment of S\$500 to be paid to the supervisor in June 2017 against the performance of his representative under the balanced scorecard framework in the calendar quarter of April to June 2017.

5.3 *Percentage of specified variable income which supervisor is entitled to in a calendar quarter*

5.3.1 A financial adviser shall, for every calendar quarter and in respect of any variable income payable to a supervisor in relation to a portfolio of transactions effected by a representative, whose supervision or management the supervisor is responsible for, pay the supervisor the percentage of specified variable income which is the same as the percentage of specified variable income or effective percentage of specified variable income (as the case may be) which the representative is entitled to in relation to that portfolio of transactions in the calendar quarter under the balanced scorecard framework. For example, if a representative is entitled to 75% of the specified variable income in relation to his portfolio of transactions effected in the calendar quarter of April to June 2016 under the balanced scorecard framework, the supervisor is entitled to 75% of the specified variable income in relation to the same portfolio of transactions in the same calendar quarter; or if a representative is entitled to the full amount of the specified variable income in relation to his portfolio of transactions effected in the calendar quarter of April to June 2016, the supervisor is entitled to the full amount of specified variable income in relation to the same portfolio of transactions in the same calendar quarter.

5.4 *Recovery of specified variable income which supervisor is not entitled to in the calendar quarter*

5.4.1 Where a financial adviser has paid any variable income to a supervisor in relation to a portfolio of transactions effected by a representative under his supervision for any calendar quarter before determining the percentage of specified variable income which the supervisor is entitled to in relation to that portfolio of transactions effected by that representative for that calendar quarter under the balanced scorecard framework, the financial adviser shall only recover the percentage of specified variable income which the supervisor is not entitled to for that calendar quarter from the amount of variable income which has been paid to the supervisor in relation to that portfolio of transactions effected by that representative, by no later than the end of two calendar quarters subsequent to the measurement quarter unless there are exceptional circumstances⁷ where the financial adviser has made an assessment that it is reasonable to recover the income over a longer period of time. For example, where a supervisor is remunerated by way of variable income only and his variable income in relation to the arrangement of four life policies by a representative under his supervision or management for the calendar quarter January to March 2016 is S\$5,000 (i.e. the amount of specified variable income of the supervisor in relation to the portfolio of transactions which is measured against the performance of his representative under the balanced scorecard framework is S\$3,000 for the calendar quarter of January to March 2016).

⁷ Exceptional circumstances may include situations where a supervisor is experiencing financial difficulty and is unable to make repayments.

The financial adviser pays the supervisor S\$1,000 (i.e. specified variable income paid out is S\$600) in relation to the portfolio of transactions in February 2016 before determining in June 2016 that the representative under the supervisor’s supervision is actually entitled to only 50% of his specified variable income in relation to the portfolio of transactions for the calendar quarter of January to March 2016, and correspondingly, the supervisor is entitled to only 50% of his specified variable income in relation to that portfolio of transactions (i.e. S\$1,500). The financial adviser shall recover 50% of S\$600 (i.e. S\$300), which has been paid to the supervisor, by the end of September 2016.

5.4.2 Where the payment of any amount of specified variable income is made to a supervisor in relation to financial advisory services provided by representatives under the supervision or management of the supervisor over more than one calendar quarter (such as bonuses which are paid annually), the financial adviser shall apportion such specified variable income using any reasonable method over the calendar quarters. The financial adviser shall then determine the percentage of the apportioned specified variable income which the supervisor is entitled to in each calendar quarter based on his representatives’ performance under the balanced scorecard framework in the same calendar quarter. Please refer to worked examples 2, 3 and 5 in Annex 3 for guidance.

5.4.3 For the avoidance of doubt, where a financial adviser has determined the percentage of specified variable income which the supervisor is entitled to for a calendar quarter but the payment of any amount of specified variable income is deferred by the financial adviser (including where bonuses are paid on an annual basis or commissions earned are spread and paid out over a number of years), the financial adviser shall only pay out the amount of specified variable income that the supervisor is entitled to.

5.5 Grading table for supervisors (“Supervisors’ Grading Table”)

5.5.1 A financial adviser shall incorporate the following Supervisors’ Grading Table in the balanced scorecard framework:

Supervisors’ Grading Table

Percentage of total specified variable income ¹ from all representatives under his supervision that a supervisor is entitled to in a calendar quarter	Balanced scorecard grade for a supervisor for a calendar quarter
75% to 100%	Good
50% to less than 75%	Satisfactory

25% to less than 50%	Fair
0% to less than 25%	Unsatisfactory

¹ A financial adviser shall compute the percentage of total specified variable income that the supervisor is entitled to in a calendar quarter as follows:

Percentage of total specified variable income

$$= \frac{\text{(Sum of specified variable income which a supervisor is entitled to in a calendar quarter under the balanced scorecard framework, in respect of every representative under his supervision or management)}}{\text{(Sum of specified variable income of the supervisor in the same calendar quarter which is subject to the balanced scorecard framework, in respect of every representative under his supervision or management)}} \times 100\%$$

For example, where the specified variable income of a supervisor is S\$5,000 and S\$10,000 from Representatives A and B respectively in the calendar quarter of April to June 2016; if Representative A is entitled to 75% of his specified variable income while Representative B is entitled to 100% of his specified variable income in the calendar quarter of April to June 2016, then the supervisor is entitled to S\$13,750 (i.e. 75% of S\$5,000 from Representative A and 100% of S\$10,000 from Representative B) in the same calendar quarter; the percentage of total specified variable income that the supervisor is entitled to in that calendar quarter will be 91.7% (rounded up to 1 decimal place) (i.e. S\$13,750/S\$15,000 x 100%).

5.5.2 A financial adviser shall, for every calendar quarter, assign to a supervisor the balanced scorecard grade set out in the second column of the Supervisors’ Grading Table which corresponds with the percentage of total specified variable income set out in the first column of the Supervisors’ Grading Table.

6 Avenue for appeal by representatives and supervisors

6.1 A financial adviser shall put in place a process for addressing any appeal made by any representative or supervisor in relation to the balanced scorecard framework, including any appeal in relation to –

- the review and assessment of the performance of the representative in relation to his provision of financial advisory services, against the non-sales KPIs and the determination of any infraction;
- the classification of any infraction committed by the representative;
- the percentage or number of cases of Category 1 or Category 2 infractions committed by the representative;

- (d) the percentage or amount of specified variable income that the representative or supervisor is entitled to under the balanced scorecard framework;
- (e) the percentage of the total specified variable income of the supervisor; or
- (f) the balanced scorecard grade assigned to the representative or supervisor.

7 Record keeping

7.1 A financial adviser shall keep records of its processes and methods undertaken, and every assessment and determination made under or in relation to the balanced scorecard framework for a period of not less than five years.

8 Maintenance of register

8.1 A financial adviser shall maintain a register of all representatives who only provide financial advisory services in relation to the rollovers of any dual currency investment or structured note relating to equities or commodities, or such other product as the Authority may approve on an exceptional basis, for a period of not less than five years.

9 Provision of balanced scorecard performance record to representatives and supervisors

9.1 A financial adviser shall ensure that it provides a balanced scorecard performance record for each representative and supervisor (other than a representative referred to in paragraph 4.1.1(a) or (b) and a supervisor who ceases to supervise or manage the conduct and performance of any representative during the relevant calendar quarter) in respect of the representative's and supervisor's performance under the balanced scorecard framework in every calendar quarter by the end of two calendar quarters immediately subsequent to the measurement quarter. The balanced scorecard performance record shall minimally include details such as gross variable income, gross specified variable income, balanced scorecard grade, percentage entitlement to specified variable income, and amount of specified variable income that the representative or supervisor is entitled to.

10 Responsibilities of board and senior management

10.1 According to the Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers (FAA-G11), the board is responsible for charting the corporate policy and strategy to deliver the fair

dealing outcomes and promote a culture of fair dealing with clients. The board oversees the senior management of a financial adviser in implementing corporate policies and strategies approved by the board. The board and senior management are accountable for the implementation of the balanced scorecard framework which incentivises fair dealing conduct.

10.2 A financial adviser shall establish a management information framework for the purpose of allowing the board and senior management to monitor the operations of the balanced scorecard framework and measure the achievement of the fair dealing outcomes.

10.3 A financial adviser shall put in place measures, such as training or coaching to ensure that –

- (a) its representatives meet the non-sales KPIs; and
- (b) its supervisors carry out their duties or functions in their supervision or management of the conduct and performance of their representatives in a proper manner.

11 Submission of reports to the Authority

11.1 Subject to paragraph 12, a financial adviser shall submit the following reports for every measurement quarter to the Authority in accordance with the respective formats set out in Annex 2 to this Notice–

- (a) a report on the balanced scorecard grades assigned to representatives of the financial adviser for the measurement quarter, categorised according to representatives who do not perform any supervisory role, and representatives who performs supervisory roles as Tier 2 or Tier 3 supervisors;
- (b) a report on the total number of representatives who have been assigned balanced scorecard grades;
- (c) a report on the number of appeals made by representatives to the financial adviser in relation to the balanced scorecard framework, including the number of rejected, outstanding and successful appeals, and the outcomes of successful appeals;
- (d) a report on the number of successful appeals by representatives which involve a reassignment of balanced scorecard grades;
- (e) a report on the details of successful appeals involving a reassignment from a balanced scorecard grade E to a better grade;
- (f) a report on the details of the infractions committed by representatives who have been assigned a balanced scorecard grade E (including the classification of the infractions and names of the representatives who committed the infractions);

- (g) a report on the balanced scorecard grades assigned to supervisors of the financial adviser for any measurement quarter;
- (h) a report on the number of appeals made by supervisors to the financial adviser in relation to the balanced scorecard framework, including the number of rejected, outstanding and successful appeals, and the outcomes of successful appeals; and
- (i) a report on the number of successful appeals by supervisors which involve a reassignment of balanced scorecard grades.

[FAA-N20 (Amendment No. 2) 2020]

11.2 A financial adviser shall submit the reports for each measurement quarter to the Authority by the following dates, whichever is applicable:

- (a) in respect of reports for the measurement quarter ending 31 March, by 30 September of the same calendar year,
- (b) in respect of reports for the measurement quarters ending 30 June and 30 September, by 31 March of the following calendar year; and
- (c) in respect of reports for the measurement quarter ending 31 December, by 30 September of the following calendar year;

or such longer period as the Authority may approve.

[FAA-N20 (Amendment No. 2) 2020]

12 Transitional arrangements for implementation of new reporting formats

12.1 A financial adviser may submit the reports set out in paragraph 11.1 for measurement quarters which ended 31 March 2020, 30 June 2020 and 30 September 2020, to the Authority in accordance with the respective formats set out in Annex 2 to this Notice in force immediately before 5 October 2020.

[FAA-N20 (Amendment No. 2) 2020]

***Note on History of Amendments**

1. FAA-N20 (Amendment) 2020 with effect from 16 April 2020.
2. FAA-N20 (Amendment No. 2) 2020 with effect from 5 October 2020.

ANNEX 1

Non-sales Key Performance Indicators

Non-sales KPI 1: Understanding a client’s needs

- A representative must take reasonable steps⁸ to conduct sufficient fact-find to understand the circumstances and needs of his clients.
- In determining if a representative has taken reasonable steps to conduct sufficient fact-find to understand the circumstances and needs of a client, a financial adviser shall take into account the following list of factors (which are non-exhaustive) –
 - (a) whether the representative has taken reasonable steps to collect all pertinent information from the client and correctly documented all the information collected from the fact-find process;
 - (b) whether the representative conducted the fact-find with the client before or after giving advice or making a recommendation, or both (as the case may be);
 - (c) whether the representative influenced the client’s inputs or responses during the fact-find stage.

Non-sales KPI 2: Suitability of product recommendations

- A representative must have a reasonable basis for any recommendation made to a client and take into account the client’s financial objectives, investment horizon, risk profile, financial situation and particular circumstances and needs.

Non-sales KPI 3: Adequacy of information disclosure

- A representative must have highlighted, explained and provided all material information in relation to the investment product or class of investment products to the client.
- A representative must ensure that any statement or representation to the client is not false or misleading.
- Material information to be highlighted, explained and provided to clients shall include, but is not limited to, the terms and conditions of the investment product, the benefits to be or likely to be derived from or the risks that may arise from purchasing the investment product, the premium, costs, expenses, investment

⁸ A representative should collect as much relevant information as possible so as to understand the circumstances and needs of a client. Where a client does not wish to provide the information required during the fact-find process, the representative should clearly document the client’s decision.

horizon, fees and other charges that may be imposed in relation to the investment product, and the identity of the product manufacturer of the investment product.

- Financial advisers and their representatives should make reference to the Notice on Information to Clients and Product Information Disclosure (FAA-N03), the Notice on Dual Currency Investments (FAA-N11) and the Guidelines on Structured Deposits (FAA-G09) on the type of information that must be disclosed to clients.

Non-sales KPI 4: Standards of professionalism and ethical conduct in relation to the provision of financial advisory services

- A representative must provide financial advisory services in a professional and ethical manner, and must not engage in any unprofessional or unethical acts.
- Unprofessional or unethical acts, other than those under non-sales KPIs 1 to 3, refer to –
 - (a) acts involving fraud, dishonesty, or other offences of a similar nature, misrepresentation, or acts involving non-compliance with regulatory requirements or serious breach of the financial adviser’s internal policy or code of conduct which would render the representative liable to demotion, suspension or termination of the representative’s employment or arrangement with the financial adviser; and
 - (b) acts that impinge on the fitness and propriety of representatives set out in the Guidelines on Fit and Proper Criteria (FSG-G01).

ANNEX 2

NAME OF FINANCIAL ADVISER:

REPORT FOR MEASUREMENT QUARTER FROM: ____ to ____

SECTION A: FOR REPRESENTATIVES

This section is only applicable to representatives who are remunerated by way of variable income, whether wholly or partly

Table 1(a) – Number of representatives by balanced scorecard grade

Balanced scorecard grade	Number of representatives		
	Does not perform any supervisory role (i.e. Tier 1)	Performs supervisory role as a Tier 2 supervisor	Performs supervisory role as a Tier 3 supervisor
A			
B			
C			
D			
E			
Sub-total			
Total number of representatives			

Comments for Table 1(a) (if any)

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Table 1(b)(i) – Number of appeals handled by the financial adviser in the measurement quarter

Total number of outstanding appeals by representatives at the beginning of the measurement quarter	
Breakdown:	
1) Number of successful appeals which involve:	
(i) a reassignment to a better balanced scorecard grade (please provide a breakdown of the reassignment of grades under table 1(b)(ii))	
(ii) no reassignment of balanced scorecard grades but an increase in percentage entitlement to specified variable income	
(iii) others, please describe: _____	
2) Number of rejected appeals	
3) Number of outstanding appeals pending final outcome	
Total number of appeals submitted by representatives against the financial adviser’s assignment of balanced scorecard grades during the measurement quarter	
Breakdown:	
1) Number of successful appeals which involve:	

(i)	a reassignment to a better balanced scorecard grade (please provide a breakdown of the reassignment of grades under table 1(b)(ii))	
(ii)	no reassignment of balanced scorecard grades but an increase in percentage entitlement to specified variable income	
(iii)	others, please describe: _____	
2) Number of rejected appeals		
3) Number of outstanding appeals pending final outcome		

Table 1(b)(ii) – Number of successful appeals which involve a reassignment of balanced scorecard grades

		Revised balanced scorecard grades			
		A	B	C	D
Original balanced scorecard grades	B				
	C				
	D				
	E				

Comments for Table 1(b)(i) and 1(b)(ii) (if any)

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Table 1(c) – Details of successful appeals involving a reassignment from a balanced scorecard grade E to a better grade

S/N	Name of representative (Note: Name as reflected in the Register of Representatives)	Final balanced scorecard grade

Comments for Table 1(c) (if any)

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Table 1(d) – Details of infractions committed by representatives who have been assigned a balanced scorecard grade E

Name of representative (Note: Name as reflected in the Register of Representatives)	Category of infraction / brief description of infraction	Misconduct report number (if applicable)

Comments for Table 1(d) (if any)

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This section is only applicable to representatives who are not remunerated by way of any variable income

Table 2(a) – Number of representatives by balanced scorecard grade

Balanced scorecard grade	Number of representatives		
	Does not perform any supervisory role (i.e. Tier 1)	Performs supervisory role as a Tier 2 supervisor	Performs supervisory role as a Tier 3 supervisor
A			
B			
C			
D			
E			
Sub-total			
Total number of representatives			

Comments for Table 2(a) (if any)

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Table 2(b)(i) – Number of appeals handled by the financial adviser in the measurement quarter

Total number of outstanding appeals by representatives at the beginning of the measurement quarter	
Breakdown:	
1) Number of successful appeals which involve:	
i) a reassignment to a better balanced scorecard grade (please provide a breakdown of the reassignment of grades under table 2(b)(ii))	
ii) others, please describe: _____	
2) Number of rejected appeals	
3) Number of outstanding appeals pending final outcome	
Total number of appeals submitted by representatives against the financial adviser’s assignment of balanced scorecard grades during the measurement quarter	
Breakdown:	
1) Number of successful appeals which involve:	
i) a reassignment to a better balanced scorecard grade (please provide a breakdown of the reassignment of grades under table 2(b)(ii))	
ii) others, please describe: _____	
2) Number of rejected appeals	

3) Number of outstanding appeals pending final outcome

Table 2(b)(ii) – Number of successful appeals which involve a reassignment of balanced scorecard grades

		Revised balanced scorecard grades			
		A	B	C	D
Original balanced scorecard grades	B				
	C				
	D				
	E				

Comments for Table 2(b)(i) and 2(b)(ii) (if any)

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Table 2(c) – Details of successful appeals involving a reassignment from a balanced scorecard grade E to a better grade

S/N	Name of representative (Note: Name as reflected in the Register of Representatives)	Final balanced scorecard grade

Comments for Table 2(c) (if any)

Table 2(d) – Details of infractions committed by representatives who have been assigned a balanced scorecard grade E

Name of representative (Note: Name as reflected in the Register of Representatives)	Category of infraction / brief description of infraction	Misconduct report number (if applicable)

Comments for Table 2(d) (if any)

SECTION B: FOR SUPERVISORS

Table 1(a) – Number of supervisors by balanced scorecard grade assigned

Balanced scorecard grade assigned	Number of supervisors
Good	
Satisfactory	
Fair	
Unsatisfactory	

Comments for Table 1(a) (if any)

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Table 1(b)(i) – Number of appeals handled by the financial adviser in the measurement quarter

Total number of outstanding appeals by supervisors at the beginning of the measurement quarter	
Breakdown:	
1) Number of successful appeals which involve:	
i) a reassignment to a better balanced scorecard grade (please provide a breakdown of the reassignment of grades under table 1(b)(ii))	

ii) no reassignment of balanced scorecard grades but an increase in percentage entitlement to variable income	
iii) others, please describe: _____	
2) Number of rejected appeals	
3) Number of outstanding appeals pending final outcome	
Total number of appeals submitted by supervisors against the financial adviser’s assignment of balanced scorecard grades during the measurement quarter	
Breakdown:	
1) Number of successful appeals which involve:	
i) a reassignment to a better balanced scorecard grade (please provide a breakdown of the reassignment of grades under table 1(b)(ii))	
ii) no reassignment of balanced scorecard grades but an increase in percentage entitlement to variable income	
iii) others, please describe: _____	
2) Number of rejected appeals	
3) Number of outstanding appeals pending final outcome	

Table 1(b)(ii) – Number of successful appeals which involve a reassignment of balanced scorecard grades

		Revised balanced scorecard grade		
		Good	Satisfactory	Fair
Original balanced scorecard grades	Satisfactory			
	Fair			
	Unsatisfactory			

Comments for Table 1(b)(i) and 1(b)(ii) (if any)

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ANNEX 3

Worked Example 1

Applicable to a representative who is remunerated for his provision of financial advisory services by way of variable income only

A representative would receive variable income of S\$15,000 from 10 transactions effected in the calendar quarter January to March 2020 (i.e. the measurement quarter). The variable income is paid to the representative over the income payment period which is spread over 6 years. For the remaining 3 calendar quarters of 2020, the representative earns variable income of S\$10,000 (April to June 2020), S\$10,000 (July to September 2020) and S\$15,000 (October to December 2020) from transactions effected in those calendar quarters respectively. The representative earns an annual bonus tied to sales volume in 2020 of S\$10,000.

During the post-transaction checks conducted by the ISA Unit on sampled transactions effected during the calendar quarter January to March 2020, 2 cases with Category 2 infractions were uncovered. The financial adviser also investigated and substantiated a complaint against the representative in March 2020 in relation to a transaction which was effected in February 2016. The case of the substantiated complaint was determined by the financial adviser to be 1 case with Category 2 infractions. There were no cases with infractions uncovered in the remaining 3 quarters of 2020.

The variable income which the representative earned from 5 transactions effected in the calendar quarter January to March 2016 was S\$5,000.

Part (I): Assignment of balanced scorecard grade to the representative for his performance in the measurement quarter of January to March 2020

Number of cases in measurement quarter of January to March 2020	Number of cases with infractions	Balanced Scorecard Grade
<p>(a) Post-transaction checks by ISA Unit</p> <p>(Note: Sample size for 3 rounds of sampling First round: 1 case Second round: 1 case Third round: 2 cases Total sample size for 3 rounds of sampling = 4 cases)</p>	<p>First round of check: 1 case with Category 2 infractions</p> <p>Second round of check: 1 case with Category 2 infractions</p> <p>Third round of check: No case with infractions</p>	<p>Percentage of cases with Category 2 infractions = $(3/5) \times 100\% = 60\%$ (Grade: E)</p> <p>(Note: Denominator of 5 is derived from the total number of cases that would have been sampled in all three rounds of sampling, plus one substantiated complaint case.)</p> <p>Number of cases with Category 2 infractions = 3 cases (Grade: C)</p>
(b) Number of substantiated complaints against representative	1 case with Category 2 infractions	<p>Final Balanced Scorecard Grade: C</p>
(c) Mystery shopping	None conducted	<p>[Note: Where the percentage of cases with Category 2 infractions and the number of cases with Category 2 infractions determined in a measurement quarter, corresponds to two different balanced scorecard grades under the Representatives’ Grading Table respectively, the financial adviser shall assign the better of the two balanced scorecard grades to the representative.]</p>

Part (II): Computation of representative’s entitlement to variable income from transactions effected in the measurement quarter of January to March 2020

Given that the representative has been assigned a balanced scorecard grade C, he will be entitled to 50% to less than 75% of his specified variable income. Assuming that the financial adviser determined that the representative is entitled to 50% of his specified variable income, the representative’s entitlement to variable income will be computed as follows:

$$\text{Specified variable income} = 60\%^9 \times \text{S\$15,000} = \text{S\$9,000}$$

$$\begin{aligned} &\text{Amount of specified variable income affected by the balanced scorecard grade} \\ &= (100\% - 50\%) \times \text{S\$9,000} = \text{S\$4,500} \end{aligned}$$

Given that one of the cases with Category 2 infractions arose from a substantiated complaint in relation to a transaction effected in February 2016, which is prior to the measurement quarter January to March 2020, and as the variable income in the calendar quarter January to March 2016 was lower than that in the measurement quarter, steps (a) to (e) have to be performed:

Step (a): To apportion the amount of specified variable income affected by the balanced scorecard grade between –

- (i) case(s) with infraction arising from substantiated complaints
= $1/3 \times \text{S\$4,500} = \text{S\$1,500}$ (i.e. Income X)
- (ii) case(s) with infraction arising from post-transaction checks and findings from mystery shopping exercises
= $2/3 \times \text{S\$4,500} = \text{S\$3,000}$ (i.e. Income Y)

Step (b): Given that the variable income for the calendar quarter January to March 2016 (i.e. S\$5,000) was lower than the variable income in the measurement quarter (i.e. S\$15,000), to compute the proportion of past to current income as follows:

$$\begin{aligned} &\text{Proportion of past to current income} \\ &= \text{S\$5,000} / \text{S\$15,000} \times 100\% = 33.3\% \end{aligned}$$

⁹ 60% of a representative’s variable income, based on the portfolio of transactions effected in the measurement quarter of January to March 2020, is measured against the non-sales KPIs.

Step (c): To apply the proportion of past to current income on Income X as follows:

Amount of specified variable income representative is not entitled to after factoring cases with infractions arising from substantiated complaints
 $= 33.3\% \times \text{S\$}1,500 = \text{S\$}500$ (rounded to the nearest dollar) (i.e. Income Z)

Step (d): To compute the final amount of specified variable income affected under the balanced scorecard framework by totalling Income Y and Income Z as follows:

Final amount of specified variable income which representative is not entitled to
 $= \text{S\$}3,000 + \text{S\$}500 = \text{S\$}3,500$

Step (e): To compute the effective percentage of specified variable income the representative is entitled to as follows:

Effective percentage of specified variable income representative is entitled to
 $= (\text{S\$}9,000 - \text{S\$}3,500) / \text{S\$}9,000 \times 100\% = 61.1\%$

Note: Effective percentage of specified variable income representative is not entitled to
 $= 100\% - 61.1\% = 38.9\%$

Amount of variable income that representative is entitled to for transactions effected in the measurement quarter January to March 2020

$= \text{S\$}15,000 - \text{S\$}3,500 = \text{S\$}11,500$

Assuming that specified variable income in the calendar quarter January to March 2016 was S\$20,000, i.e. higher than specified variable income in the measurement quarter January to March 2020

Part (II): Computation of representative’s entitlement to variable income from transactions effected in the measurement quarter of January to March 2020

Given that the representative has been assigned a balanced scorecard grade C, he will be entitled to 50% to less than 75% of his specified variable income. Assuming that the FA firm determined that the representative is entitled to 50% of his specified variable income, the representative’s entitlement to variable income will be computed as follows:

Specified variable income = 60% x S\$15,000 = S\$9,000

Amount of specified variable income affected by the balanced scorecard grade
= (100%-50%) x S\$9,000 = S\$4,500

Amount of variable income that representative is entitled to for transactions effected in the measurement quarter
January to March 2020
= S\$15,000 - S\$4,500 = S\$10,500

Note: Steps (a) to (e) will not need to be performed.

Part (III): Recovery or payment of specified variable income over the income payment period

Scenario A

Assume that the variable income earned by the representative for the measurement quarter of January to March 2020 is paid out annually and spread over an income payment period of 6 years as follows:

Period	January to March 2020	January to March 2021	January to March 2022	January to March 2023	January to March 2024	January to March 2025	Total
Percentage of variable income for the measurement quarter of January to March 2020, spread over 6 years	55%	20%	10%	5%	5%	5%	100%
Amount of variable income which the representative would receive (S\$)	8,250	3,000	1,500	750	750	750	15,000
Amount of specified variable income the representative would receive (S\$)	60% x 8,250 = 4,950	60% x 3,000 = 1,800	60% x 1,500 = 900	60% x 750 = 450	60% x 750 = 450	60% x 750 = 450	9,000

The amount of variable income to be recovered or paid out in each period after factoring the representative’s performance against the non-sales KPIs under the balanced scorecard framework will be as follows:

Period	January to March 2020	January to March 2021	January to March 2022	January to March 2023	January to March 2024	January to March 2025	Total (S\$)
Amount of specified variable income affected by the balanced scorecard grade (S\$) (rounded to the nearest dollar)	$4,950 \times 38.9\% = 1,925$	$1,800 \times 38.9\% = 700$	$900 \times 38.9\% = 350$	$450 \times 38.9\% = 175$	$450 \times 38.9\% = 175$	$450 \times 38.9\% = 175$	3,500
Amount of variable income that representative is entitled to (S\$)	$8,250 - 1,925 = 6,325$	$3,000 - 700 = 2,300$	$1,500 - 350 = 1,150$	$750 - 175 = 575$	$750 - 175 = 575$	$750 - 175 = 575$	11,500
Recovery of variable income affected by the balanced scorecard grade/ deferred payment of variable income which representative is entitled to	If the financial adviser had paid S\$8,250 to the representative before determining the percentage of specified variable income which the representative is entitled to in the measurement quarter of January to March 2020 i.e. S\$6,325, the financial adviser shall recover the percentage of specified variable income which the representative is not entitled to i.e. S\$1,925, by no later than end of September 2020.	Amount of variable income to be paid out in January to March 2021 = S\$2,300	Amount of variable income to be paid out in January to March 2022 = S\$1,150	Amount of variable income to be paid out in January to March 2023 = S\$575	Amount of variable income to be paid out in January to March 2024 = S\$575	Amount of variable income to be paid out in January to March 2025 = S\$575	11,500

Scenario B

Assume that the variable income is spread over the same income payment period as Scenario A. However, the variable income is paid out in equal monthly payments as follows:

Monthly payment over the 6 years from January 2020 to December 2025

= S\$15,000 / 6 years / 12 months = \$209 (rounded up to the nearest dollar)

The amount of variable income to be recovered or paid out in each period after factoring the representative’s performance against the non-sales KPIs under the balanced scorecard framework will be as follows:

Extract of variable income which would be received, for example, over the 10 month period from January to October 2020										
Period	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020
Amount of variable income received or to be received (S\$) (rounded up to the nearest dollar)	209	209	209	209	209	209	209	209	209	209
Amount of specified variable income received or to be received (S\$) (rounded up to the nearest dollar)	209x 60%= 126	209 x 60%= 126	209 x 60%= 126	209 x 60%= 126	209x 60%= 126	209 x 60%= 126	209 x 60% = 126	209 x 60%= 126	209 x 60%= 126	209 x 60%= 126
Amount of specified variable income affected by the balanced scorecard grade (S\$) (rounded to the nearest dollar)	126 x 38.9% = 49	126 x 38.9% = 49	126 x 38.9% = 49	126 x 38.9% = 49	126 x 38.9% = 49	126 x 38.9% = 49	126 x 38.9 % = 49	126 x 38.9% = 49	126 x 38.9% = 49	126 x 38.9% = 49
Amount of variable income that representative is entitled to (S\$)	209 – 49 = 160	209 – 49 = 160	209 – 49= 160	209 – 49= 160	209 – 49= 160	209 – 49= 160	209 – 49= 160	209 – 49= 160	209 – 49= 160	209 – 49= 160

Extract of variable income which would be received, for example, over the 10 month period from January to October 2020										
Period	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020
Recovery of variable income affected by the balanced scorecard grade/ deferred payment of variable income which representative is entitled to	If the financial adviser pays S\$1,881 (S\$209 x 9), from January to September 2020, to the representative and determines the percentage of specified variable income which the representative is entitled to for the calendar quarter of January to March 2020, by end September 2020, the financial adviser shall recover the percentage of specified variable income which the representative is not entitled to i.e. S\$441 (S\$49 x 9), by no later than end of September 2020.									Amount of variable income to be paid out in October 2020 = S\$160

Part (IV): Computation of the amount of annual bonus tied to sales volume in 2020 which the representative is entitled to

Given that the annual bonus is tied to the representative’s sales performance over the 4 calendar quarters in 2020, the representative’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the representative is entitled to will be computed as follows:

	January to March 2020	April to June 2020	July to September 2020	October to December 2020	Total
Variable income from transactions effected (S\$)	15,000	10,000	10,000	15,000	50,000
Weightage of variable income from transactions effected for each calendar quarter	15,000/50,000 x 100% = 30%	10,000/50,000 x 100% = 20%	10,000/50,000 x 100% = 20%	15,000/50,000 x 100% = 30%	100%

	January to March 2020	April to June 2020	July to September 2020	October to December 2020	Total
Amount of bonus tied to transactions effected in each calendar quarter (S\$)	$30\% \times 10,000 = 3,000$	$20\% \times 10,000 = 2,000$	$20\% \times 10,000 = 2,000$	$30\% \times 10,000 = 3,000$	10,000
Amount of bonus classified as specified variable income for each calendar quarter (S\$)	$60\%^{10} \times 3,000 = 1,800$	$60\% \times 2,000 = 1,200$	$60\% \times 2,000 = 1,200$	$60\% \times 3,000 = 1,800$	6,000
Balanced scorecard grade for the calendar quarter and effective percentage entitlement to specified variable income	Grade C 61.1%	Grade A 100%	Grade A 100%	Grade A 100%	
Amount of bonus affected by the balanced scorecard grade (S\$) (rounded to the nearest dollar)	$(100\% - 61.1\%) \times 1,800 = 700$	$0\% \times 1,200 = 0$	$0\% \times 1,200 = 0$	$0\% \times 1,800 = 0$	700
Bonus that representative is entitled to for each calendar quarter (S\$)	$3,000 - 700 = 2,300$	$2,000 - 0 = 2,000$	$2,000 - 0 = 2,000$	$3,000 - 0 = 3,000$	9,300

If the financial adviser had paid S\$10,000 to the representative before determining the amount of bonus that representative is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the representative is not entitled to i.e. S\$700, by no later than end of June 2021.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the representative is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (II). The bonus to be recovered in each calendar quarter will be as follows:

Period	January to March 2020	April to June 2020	July to September 2020	October to December 2020
Recovery of bonus	The recovery of the bonus affected by the balanced	The recovery of the bonus affected by the balanced	The recovery of the bonus affected by the balanced	The recovery of the bonus affected by the balanced

¹⁰ The representative’s performance on non-sales KPIs will be factored into 60% of bonuses being the specified variable income earned from the portfolio of transactions effected each calendar quarter.

Period	January to March 2020	April to June 2020	July to September 2020	October to December 2020
affected by the balanced scorecard grade	scorecard grade is to be carried out or settled by no later than end of September 2020.	scorecard grade is to be carried out or settled by no later than end of December 2020.	scorecard grade is to be carried out or settled by no later than end of March 2021.	scorecard grade is to be carried out or settled by no later than end of June 2021.

Worked Example 2

Applicable to a supervisor who is remunerated by way of variable income only and the representatives who are under his supervision or management, are remunerated by way of variable income, whether wholly or partly

A supervisor would receive a variable income of S\$30,000 for the calendar quarter of January to March 2020 (i.e. measurement quarter). The variable income is paid to the supervisor over the income payment period spread over 6 years. For the remaining 3 calendar quarters of 2020, the supervisor earns variable income of S\$20,000 (April to June 2020), S\$20,000 (July to September 2020) and S\$30,000 (October to December 2020) respectively. The supervisor earns an annual bonus tied to the sales volume of the representatives under his supervision or management in 2020 of S\$50,000.

The supervisor has 4 representatives directly under his supervision and management. The amount of variable income earned by the supervisor for the calendar quarter of January to March 2020 which is dependent on the financial advisory services provided by each of the representative under his supervision or management is as follows:

Representative A – S\$12,000

Representative B – S\$6,000

Representative C – S\$6,000

Representative D – S\$6,000

Arising from the financial adviser’s assessment of the representatives’ performance against the non-sales KPIs for the calendar quarter of January to March 2020, it was determined that the representatives’ percentage entitlements to their specified variable income are as follows:

Representative A – 61.1%

Representatives B to D – 100%

All representatives were entitled to their full specified variable income for the remaining 3 quarters of the year.

Part (I): Computation of the percentage of total specified variable income that the supervisor is entitled to in the measurement quarter January to March 2020

Representative	Variable income of the supervisor which is dependent on the financial advisory services provided by each of the representative (S\$)	Representatives’ entitled percentage of specified variable income	Supervisor’s specified variable income (S\$)	Supervisor’s entitlement to specified variable income (S\$) (rounded to the nearest dollar)
A	12,000	61.1%	60% x 12,000 = 7,200	61.1% x 7,200 = 4,399
B	6,000	100%	60% x 6,000 = 3,600	100% x 3,600 = 3,600
C	6,000	100%	60% x 6,000 = 3,600	100% x 3,600 = 3,600
D	6,000	100%	60% x 6,000 = 3,600	100% x 3,600 = 3,600
Total (S\$)			18,000	15,199

Percentage of total specified variable income that supervisor is entitled to in the measurement quarter

$$= \text{S\$}15,199 / \text{S\$}18,000 = 84.4\%$$

According to the Supervisors’ Grading Table, the supervisor will be assigned a balanced scorecard grade of “Good”.

Part (II): Recovery or payment of specified variable income over the income payment period

$$\begin{aligned} &\text{Amount of specified variable income which supervisor is not entitled to in the measurement quarter} \\ &= \text{S\$}18,000 - \text{S\$}15,199 = \text{S\$}2,801 \end{aligned}$$

Given that the variable income earned by the supervisor is paid to the supervisor over the income payment period spread over 6 years, the financial adviser shall apply the same method of recovery or payment as described under Part (III) of Worked Example 1.

Part (III): Computation of the amount of annual bonus tied to sales volume of representatives under the supervisor and recovery of such annual bonus that supervisor is not entitled to

Given that the annual bonus is tied to the supervisor’s variable income over the 4 calendar quarters in 2020, the supervisor’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the supervisor is entitled to will be computed as follows:

	January to March 2020	April to June 2020	July to September 2020	October to December 2020	Total
Variable income dependent on financial advisory services provided by representatives (S\$)	30,000	20,000	20,000	30,000	100,000
Weightage of variable income for each calendar quarter	$30,000/100,000 \times 100\% = 30\%$	$20,000/100,000 \times 100\% = 20\%$	$20,000/100,000 \times 100\% = 20\%$	$30,000/100,000 \times 100\% = 30\%$	100%
Amount of bonus tied to variable income in each calendar quarter (S\$)	$30\% \times 50,000 = 15,000$	$20\% \times 50,000 = 10,000$	$20\% \times 50,000 = 10,000$	$30\% \times 50,000 = 15,000$	50,000
Amount of bonus classified as specified variable income for each calendar quarter (S\$)	$60\% \times 15,000 = 9,000$	$60\% \times 10,000 = 6,000$	$60\% \times 10,000 = 6,000$	$60\% \times 15,000 = 9,000$	30,000
Percentage of total specified variable income that supervisor is entitled to in each calendar quarter	84.4% (refer to Part (I))	100%	100%	100%	

Amount of bonus that supervisor is not entitled to (S\$)	$(100\% - 84.4\%) \times 9,000 = 1,404$	$0\% \times 6,000 = 0$	$0\% \times 6,000 = 0$	$0\% \times 9,000 = 0$	1,404
Bonus that supervisor is entitled to for each calendar quarter (S\$)	$15,000 - 1,404 = 13,596$	$10,000 - 0 = 10,000$	$10,000 - 0 = 10,000$	$15,000 - 0 = 15,000$	48,596

If the financial adviser had paid S\$50,000 to the supervisor before determining the amount of bonus that supervisor is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the supervisor is not entitled to i.e. S\$2,340, by no later than end of June 2021.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the supervisor is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (I). The bonus to be recovered each calendar quarter will be as follows:

Period	January to March 2020	April to June 2020	July to September 2020	October to December 2020
Recovery of bonus that supervisor is not entitled to	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of September 2020.	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of December 2020.	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of March 2021.	The recovery of the bonus that the supervisor is not entitled to is carried out or settled by no later than end of June 2021.

Worked Example 3

Applicable to a supervisor of supervisors, who is remunerated by way of variable income only and the representatives under his supervision or management are remunerated by way of variable income, whether wholly or partly

A supervisor would receive variable income of S\$50,000 during the calendar quarter January to March 2020 (i.e. measurement quarter). The variable income is paid to the supervisor over the income payment period spread over 6 years. For the remaining 3 calendar quarters of the year, the supervisor earns variable income of S\$75,000 (April to June 2020), S\$75,000 (July to September 2020) and S\$50,000 (October to December 2020) respectively. The supervisor earns an annual bonus tied to sales volume of the representatives under his supervision or management in 2020 of S\$100,000.

The supervisor has 2 representatives under his supervision or management and 3 supervisors under his supervision or management, who collectively have 9 representatives under their supervision or management. The variable income which the supervisor would receive for the calendar quarter of January to March 2020 is relation to the financial advisory services provided by each of 11 representatives, and the supervisor is deemed to be the supervisor of the 9 representatives.

The respective amounts of variable income which the supervisor would receive in relation to the financial advisory services provided by the 11 representatives for the calendar quarter of January to March 2020 are as follows:

Supervisor 1	Supervisor 2	Supervisor 3	Direct representatives
Representative A – S\$4,000 Representatives B and C – S\$3,000 each	Representatives D, E and F – S\$5,000 each	Representatives G, H and I – S\$5,000 each	Representatives J and K – S\$5,000 each

Arising from the financial adviser’s review and assessment of each of the 11 representatives’ performance of the provision of financial advisory services against non-sales KPIs for the calendar quarter of January to March 2020, it is determined that the representatives are entitled to the following percentages of their specified variable income:

Representative A – 61.1%

Representatives B, C, D, E, F, G, H, I, J and K – 100%

All representatives were entitled to 100% of their specified variable income for the remaining 3 quarters of the year.

Part (I): Computation of the percentage of total specified variable income that the supervisor is entitled to for the measurement quarter of January to March 2020

Supervisor / Representative		Variable income which the supervisor would receive in relation to the financial advisory services provided by each of the representative (S\$)	Percentage of specified variable income which representatives are entitled to in the measurement quarter of January to March 2020	Supervisor’s specified variable income subject to the balanced scorecard framework (S\$)	Supervisor’s entitlement to specified variable income in the measurement quarter of January to March 2020 (S\$) (rounded to the nearest dollar)
1	A	4,000	61.1%	$60\% \times 4,000 = 2,400$	$61.1\% \times 2,400 = 1,466$
	B	3,000	100%	$60\% \times 3,000 = 1,800$	$100\% \times 1,800 = 1,800$
	C	3,000	100%	$60\% \times 3,000 = 1,800$	$100\% \times 1,800 = 1,800$
2	D	5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
	E	5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
	F	5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
3	G	5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
	H	5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
	I	5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
J		5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
K		5,000	100%	$60\% \times 5,000 = 3,000$	$100\% \times 3,000 = 3,000$
		Total (S\$)		30,000	29,066

Percentage of total specified variable income that supervisor is entitled to in the measurement quarter

$$= \text{S\$}29,066 / \text{S\$}30,000 = 96.9\%$$

According to the Supervisors’ Grading Table, the supervisor will be assigned a balanced scorecard grade of “Good”.

Part (II): Recovery or deferred payment of variable income over the income payment period

$$\begin{aligned} &\text{Amount of specified variable income which supervisor is not entitled to} \\ &= \text{S\$}30,000 - \text{S\$}29,066 = \text{S\$}934 \end{aligned}$$

Given that the variable income earned by the supervisor is paid to the supervisor over the income payment period spread over 6 years, the financial adviser shall apply the same method of recovery or payment as described under Part (III) of Worked Example 1.

Part (III): Computation of the amount of annual bonus tied to sales volume of representatives under the supervisor and recovery of such annual bonus that supervisor is not entitled to

The financial adviser should apply the same method of computation as described under Part (III) of Worked Example 2.

Worked Example 4

Applicable to a representative who is remunerated for his provision of financial advisory services by way of a fixed salary and a variable income component

A representative earns variable income of S\$10,000 and fixed salary of S\$5,000 from 60 transactions effected in the calendar quarter of January to March 2020 (i.e. measurement quarter). There is no deferral of income payment. For the remaining 3 calendar quarters of 2020, the representative earns variable income of S\$10,000 (April to June 2020), S\$15,000 (July to September 2020) and S\$15,000 (October to December 2020) from transactions effected in those calendar quarters respectively. The representative earns an annual bonus tied to sales volume in 2020 of S\$10,000.

During the post-transaction checks conducted by the ISA Unit on sampled transactions effected in the calendar quarter of January to March 2020, 1 case with Category 2 infractions was uncovered. The financial adviser also investigated and substantiated a complaint against the representative in March 2020 in relation to a transaction which was effected in February 2016. The case of the substantiated complaint was determined by the financial adviser to be 1 case with Category 2 infractions. The financial advisor also conducted a mystery shopping exercise and it was found that there was a case with Category 2 infractions in January 2020. There were no cases with infractions uncovered in relation to the representative in the remaining 3 quarters of 2020.

The representative earned a variable income of S\$5,000 and fixed salary of S\$2,000 from 30 transactions effected in the calendar quarter January to March 2016.

Part (I): Assignment of balanced scorecard grade to the representative for his performance in relation to financial advisory services provided in the measurement quarter of January to March 2020

Number of cases for measurement quarter January to March 2020	Number of cases with infractions	Balanced Scorecard Grade
<p>(a) Post-transaction checks by ISA Unit</p> <p>(Note: Sample size for 3 rounds of sampling First round: 3 cases Second round: 6 cases Third round: 12 cases Total sample size for 3 rounds of sampling = 21 cases)</p>	<p>First round of check: 1 case with Category 2 infractions Second round of check: No case with infractions</p> <p>(Note: The ISA Unit is not required to perform the third round of post-transaction checks.)</p>	<p>Percentage of cases with Category 2 infractions = $3/23 \times 100\% = 13\%$ (Grade: C)</p> <p>(Note: Denominator of 23 is derived from the total number of cases that would have been sampled in all three rounds of sampling, plus one substantiated complaint and one mystery shopping finding.)</p> <p>Number of cases with Category 2 infractions = 3 cases (Grade: C)</p>
<p>(b) Mystery shopping exercise was conducted and the rep was visited once by the mystery shopper.</p>	1 case with Category 2 infractions	Final Balanced Scorecard Grade: C
<p>(c) Substantiated complaint</p>	1 case with Category 2 infractions	

Part (II): Computation of representative’s entitlement to variable income from transactions effected in the measurement quarter of January to March 2020

Given that the representative has been assigned a balanced scorecard grade C, he will be entitled to 50% to less than 75% of his specified variable income. Assuming that the financial adviser determined that the representative is entitled to 50% of his specified variable income, the representative’s entitlement to variable income will be computed as follows:

Specified variable income = S\$10,000

Amount of specified variable income affected by the balanced scorecard grade
= (100%-50%) x S\$10,000 = S\$5,000

Given that one of the cases with infraction arose from a substantiated complaint in relation to a transaction which was effected in February 2016 and prior to the measurement quarter, and as the variable income in the calendar quarter January to March 2016 was lower than that in the measurement quarter, steps (a) to (e) have to be performed:

Step (a): To apportion the amount of specified variable income affected by the balanced scorecard grade between –

- (i) case(s) with infraction arising from substantiated complaints
= $1/3 \times S\$5,000 = S\$1,667$ (i.e. Income X) (rounded to the nearest dollar)
- (ii) case(s) with infraction arising from post-transaction checks and findings from mystery shopping exercises
= $2/3 \times S\$5,000 = S\$3,333$ (i.e. Income Y) (rounded to the nearest dollar)

Step (b): Given that the variable income for the calendar quarter January to March 2016 (i.e. S\$5,000) was lower than the variable income in the measurement quarter (i.e. S\$10,000), to compute the proportion of past to current income as follows:

Proportion of past to current income
= $S\$5,000/S\$10,000 \times 100\% = 50\%$

Step (c): To apply the proportion of past to current income on Income X as follows:

Amount of specified variable income representative is not entitled to after factoring cases with infractions arising from substantiated complaints

$$= 50\% \times \text{S\$}1,667 = \text{S\$}834 \text{ (rounded to the nearest dollar) (i.e. Income Z)}$$

Step (d): To compute the final amount of specified variable income affected under the balanced scorecard framework by totalling Income Y and Income Z as follows:

Final amount of specified variable income which representative is not entitled to

$$= \text{S\$}3,333 + \text{S\$}834 = \text{S\$}4,167$$

Step (e): To compute the effective percentage of specified variable income the representative is entitled to as follows:

Effective percentage of specified variable income representative is entitled to

$$= (\text{S\$}10,000 - \text{S\$}4,167) / \text{S\$}10,000 \times 100\% = 58.3\%$$

Note: Effective percentage of specified variable income representative is not entitled to

$$= 100\% - 58.3\% = 41.7\%$$

Amount of variable income that representative is entitled to for transactions effected in the measurement quarter of January to March 2020

$$= \text{S\$}10,000 - \text{S\$}4,167 = \text{S\$}5,833$$

Part (III): Recovery of variable income affected by the balanced scorecard grade

Given that there is no deferral of income payment, if the financial adviser had paid S\$10,000 of variable income to the representative before determining the percentage of specified variable income which the representative is entitled to for the measurement quarter of January to March 2020, the financial adviser shall recover the variable income which the representative is not entitled to i.e. S\$4,167, by no later than end of September 2020

Part (IV): Computation of the amount of annual bonus tied to sales volume in 2020 which the representative is entitled to

Given that the annual bonus is tied to the representative’s sales performance over the 4 calendar quarters in 2020, the representative’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the representative is entitled to will be computed as follows:

	January to March 2020	April to June 2020	July to September 2020	October to December 2020	Total
Variable income from transactions effected (S\$)	10,000	10,000	15,000	15,000	50,000
Weightage of variable income from transactions effected for each calendar quarter	$10,000/50,000 \times 100\% = 20\%$	$10,000/50,000 \times 100\% = 20\%$	$15,000/50,000 \times 100\% = 30\%$	$15,000/50,000 \times 100\% = 30\%$	100%
Amount of bonus tied to transactions effected in each calendar quarter (S\$)	$20\% \times 10,000 = 2,000$	$20\% \times 10,000 = 2,000$	$30\% \times 10,000 = 3,000$	$30\% \times 10,000 = 3,000$	10,000
Amount of bonus classified as specified variable income for each calendar quarter (S\$)	2,000	2,000	3,000	3,000	10,000
Balanced scorecard grade for the calendar quarter and percentage entitlement to specified variable income	Grade C 58.3%	Grade A 100%	Grade A 100%	Grade A 100%	
Amount of bonus affected by the balanced scorecard grade (S\$)	$(100\% - 58.3\%) \times 2,000 = 834$	$0\% \times 2,000 = 0$	$0\% \times 3,000 = 0$	$0\% \times 3,000 = 0$	834
Bonus that representative is entitled to for each calendar quarter (S\$)	$2,000 - 834 = 1,166$	$2,000 - 0 = 2,000$	$3,000 - 0 = 3,000$	$3,000 - 0 = 3,000$	9,166

If the financial adviser had paid S\$10,000 to the representative before determining the amount of bonus that representative is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the representative is not entitled to i.e. S\$834, by no later than end of June 2021.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the representative is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (II). The bonus to be recovered in each calendar quarter will be as follows:

Period	January to March 2020	April to June 2020	July to September 2020	October to December 2020
Recovery of bonus affected by the balanced scorecard grade	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of September 2020.	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of December 2020.	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of March 2021.	The recovery of the bonus affected by the balanced scorecard grade is to be carried out or settled by no later than end of June 2021.

Worked Example 5

Applicable to a supervisor who is remunerated by way of a fixed salary and a variable income component and the representatives under his supervision or management are remunerated by way of variable income, whether wholly or partly

A supervisor earns variable income of S\$20,000 and fixed salary of S\$10,000 during the calendar quarter January to March 2020 (i.e. measurement quarter). There is no deferral of income payment. For the remaining 3 calendar quarters of the year, the supervisor earns variable income of S\$20,000 (April to June 2020), S\$30,000 (July to September 2020) and S\$30,000 (October to December 2020) respectively. The supervisor earns an annual bonus tied to sales volume of representatives under his supervision and management in 2020 of S\$50,000.

The supervisor has 4 representatives under his supervision or management. The amount of variable income earned by the supervisor during the calendar quarter January to March 2020 which is in relation to the financial advisory services provided by each of the representative under his supervision or management is as follows:

Representative A – S\$6,000

Representative B – S\$5,000

Representative C – S\$5,000

Representative D – S\$4,000

Arising from the financial adviser’s assessment of the performance of each representatives’ provision of financial advisory services against the non-sales KPIs for the calendar quarter of January to March 2020, it was determined that the representatives’ are entitled to the following percentages of specified variable income are as follows:

Representative A – 58.3%

Representatives B to D – 100%

All representatives were entitled to their full specified variable income for the remaining 3 quarters of the year.

Part (I): Computation of the percentage of total specified variable income that the supervisor is entitled to in the measurement quarter of January to March 2020

Representative	Variable income of supervisor which is in relation to the financial advisory services provided by each of the representatives for the measurement quarter of January to March 2020 (S\$)	Percentage of specified variable income which each representative is entitled to for the measurement quarter of January to March 2020	Supervisor’s specified variable income (S\$)	Specified variable income (S\$) which the supervisor is entitled to for the measurement quarter of January to March 2020
A	6,000	58.3%	6,000	$58.3\% \times 6,000 = 3,498$
B	5,000	100%	5,000	$100\% \times 5,000 = 5,000$
C	5,000	100%	5,000	$100\% \times 5,000 = 5,000$
D	4,000	100%	4,000	$100\% \times 4,000 = 4,000$
Total (S\$)			20,000	17,498

Percentage of total specified variable income that supervisor is entitled to in the measurement quarter

$$= \$17,498 / \$20,000 = 87.5\%$$

According to the Supervisors’ Grading Table, the supervisor will be assigned a balanced scorecard grade of “Satisfactory”.

Part (II): Recovery or payment of specified variable income over the income payment period

Amount of specified variable income which supervisor is not entitled to

$$= \$20,000 - \$17,498 = \$2,502$$

Given that there is no deferral of income payment, if the financial adviser had paid S\$20,000 of variable income to the supervisor before determining the percentage of specified variable income which the supervisor is entitled to for the measurement quarter of January to March 2020, the financial adviser shall recover the variable income which the supervisor is not entitled to i.e. S\$2,502, by no later than end of September 2020.

Part (III): Computation of the amount of annual bonus tied to sales volume of representatives under the supervisor and recovery of such annual bonus that supervisor is not entitled to

Given that the annual bonus is tied to the supervisor’s variable income over the 4 calendar quarters in 2020, the supervisor’s entitlement to his annual bonus is to be computed by assigning weights to each calendar quarter based on the amount of variable income he earns in each calendar quarter. The amount of bonus which the supervisor is entitled to will be computed as follows:

	January to March 2020	April to June 2020	July to September 2020	October to December 2020	Total
Variable income dependent on financial advisory services provided by representatives (S\$)	20,000	20,000	30,000	30,000	100,000
Weightage of variable income for each calendar quarter	$20,000/100,000 \times 100\% = 20\%$	$20,000/100,000 \times 100\% = 20\%$	$30,000/100,000 \times 100\% = 30\%$	$30,000/100,000 \times 100\% = 30\%$	100%
Amount of bonus tied to variable income in each calendar quarter (S\$)	$20\% \times 50,000 = 10,000$	$20\% \times 50,000 = 10,000$	$30\% \times 50,000 = 15,000$	$30\% \times 50,000 = 15,000$	50,000

	January to March 2020	April to June 2020	July to September 2020	October to December 2020	Total
Percentage of total specified variable income that supervisor is entitled to in each calendar quarter	87.5% (refer to Part (I))	100%	100%	100%	
Amount of bonus that supervisor is not entitled to (S\$)	$(100\% - 87.5\%) \times 10,000 = 1,250$	$0\% \times 10,000 = 0$	$0\% \times 15,000 = 0$	$0\% \times 15,000 = 0$	1,250
Bonus that supervisor is entitled to for each calendar quarter (S\$)	$10,000 - 1,250 = 8,750$	$10,000 - 0 = 10,000$	$15,000 - 0 = 15,000$	$15,000 - 0 = 15,000$	48,750

If the financial adviser had paid S\$50,000 to the supervisor before determining the amount of bonus that supervisor is entitled to for the calendar year, the financial adviser shall recover the amount of bonus that the supervisor is not entitled to i.e. S\$1,250, by no later than end of June 2021.

If bonuses are paid out every calendar quarter rather than annually, the amount of bonus that the supervisor is entitled to each calendar quarter will be computed in a similar manner as his entitlement to variable income under Part (I). The bonus to be recovered in each calendar quarter will be as follows:

Period	January to March 2020	April to June 2020	July to September 2020	October to December 2020
Recovery of bonus that supervisor is	The recovery of the bonus that the supervisor is not entitled to is carried out or	The recovery of the bonus that the supervisor is not entitled to is carried out or	The recovery of the bonus that the supervisor is not entitled to is carried out or	The recovery of the bonus that the supervisor is not entitled to is carried out or

not entitled to	settled by no later than end of September 2020.	settled by no later than end of December 2020.	settled by no later than end of March 2021.	settled by no later than end of June 2021.
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