

# **Safeguards When Purchasing Specified Investment Products**

## **– A Quick Guide for Consumers**

### **Introduction**

Investment products have been around for a while. Some products are already established in the market and generally understood by many retail investors. Others may be less established, and have features and risks that may be more difficult to understand.

For the second group of products (also known as “Specified Investment Products”), MAS announced new requirements relating to the sale of such products to retail investors. Specifically, from 1 January 2012 onwards, financial institutions that act as intermediaries for these products will be required to assess whether a retail customer has the relevant knowledge or experience to understand the risks and features of a Specified Investment Product before offering the product to them. Intermediaries include financial institutions such as broking firms, banks, insurers and financial advisers.

This is in addition to MAS’ current requirements for financial institutions to properly disclose the features and risks of investment products, ensure that their representatives offering investment products to customers meet certain requirements, and have a reasonable basis when recommending investment products to customers.

This guide provides an overview of what Specified Investment Products are; the additional safeguards for you when investing in or trading Specified Investment Products; and what you should look out for when dealing with intermediaries.

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### **Q1: What are Specified Investment Products? How are they different from other investment products?**

Specified Investment Products are likely to contain derivatives, and may have features, and risks that can be more difficult for retail consumers to understand. Examples include structured notes, exchange traded funds, exchange traded notes, investment linked insurance policies, warrants and options, futures, and certificates.

In fact, any investment product other than those listed below and any investment product that is only listed on an overseas exchange is classified as a Specified Investment Product.

- a) Shares
- b) Fully-paid depository receipts representing shares
- c) Subscription rights pursuant to rights issues
- d) Company warrants
- e) Units in business trusts
- f) Units in real estate investment trusts
- g) Debentures (other than asset-backed securities & structured notes)
- h) Life insurance policies (other than investment-linked life insurance policies)

- i) Contracts or arrangements for the purpose of foreign exchange trading (other than derivatives of foreign exchange contracts and leveraged foreign exchange trading)

**Q2: What are the new measures? How will they affect me?**

The following two new measures will apply to you if you wish to purchase a Specified Investment Product or open an account for trading Specified Investment Products:

(i) Assessing if you have relevant knowledge and experience

From 1 January 2012 onwards, intermediaries must assess if you have the relevant knowledge and experience before offering a Specified Investment Product to you or opening an account for you to trade Specified Investment Products listed on an exchange.

To do this, the intermediary will request information on your educational qualifications, investment experience and work experience.

Based on the information you have provided, the intermediary will assess whether you may proceed to purchase an unlisted Specified Investment Product or open an account to trade listed Specified Investment Products.

This new process is known as

- the “*Customer Account Review*” if you wish to open an account to trade Specified Investment Products listed on an exchange; and
- the “*Customer Knowledge Assessment*” if you wish to purchase a Specified Investment Product that is not listed on an exchange.

If the intermediary assesses that you do not have the relevant knowledge or experience to purchase the unlisted Specified Investment Product or to open an account to trade listed Specified Investment Products, they may suggest that you undergo learning modules to learn more about Specified Investment Products.

If you already have an account for trading listed products, please refer to Q4.

(ii) Offering you financial advice

Intermediaries must offer to provide you with financial advice on whether the Specified Investment Product is suitable for you, taking into account your knowledge and experience in the product.

If you decide not to take up the offer of advice or to invest in a Specified Investment Product that the intermediary did not recommend to you, you will have to be responsible for your own investment decision.

**Q3: Are all intermediaries authorized to provide financial advice?**

No. Only intermediaries that are authorized by MAS to provide financial advice may do so.

You can

- refer to the [Financial Institutions Directory](#) on the MAS website to check if an intermediary has a Financial Advisers' Licence or is an Exempt Financial Adviser, and the regulated activities the intermediary is authorized to conduct;
- ask your representative for his or her representative number, and check the [Register of Representatives](#) on the MAS website to verify if he or she is authorized to provide financial advice.

**Q4: What if I already have a trading account with my intermediary and want to trade Specified Investment Products?**

As of 1 January 2012, if you have an existing account and wish to continue trading Specified Investment Products through the account, the intermediary will be required to conduct a Customer Account Review before allowing you to proceed. Your intermediary may therefore contact you before 1 January 2012 to seek information for the Customer Account Review.

**Q5: How will the intermediary decide whether I can purchase Specified Investment Products?**

The intermediary will consider whether you have the relevant educational qualifications, work experience or investment experience in that product or similar products. They will also take into account whether you have demonstrated sufficient understanding of the product.

The intermediary is required to inform you of the outcome of the Customer Knowledge Assessment/ Customer Account Review if they assess that you do not possess the relevant knowledge or experience.

**Q6: What can I do if I still wish to purchase a product after the intermediary assesses that I may not have the relevant knowledge or experience?**

Consider carefully if you still wish to proceed. Remember that it is your responsibility to ensure that you have a full understanding of the product and that the product is suitable for you.

If you still wish to proceed, you can indicate this to the intermediary.

(i) For Specified Investment Products listed on an exchange

If you do not have a trading account, a member of senior management of the intermediary will

- review the account opening process; and
- decide whether to approve the opening of the account based on whether you understand the implications and consequences of proceeding with opening the trading account.

If the opening of the account is approved, do note that safeguards will be put in place. For example, the intermediary may impose a lower trading limit for your account than what the intermediary would otherwise have imposed on a customer with the same creditworthiness. Such safeguards will apply until the intermediary assesses that you have the relevant knowledge or experience to trade in listed Specified Investment Products. Do note that you can, at any time, request the intermediary for advice on a Specified Investment Product.

(ii) For Specified Investment Products that are not listed on an exchange

If you still wish to proceed with the purchase, the intermediary must provide advice on whether the product is suitable for you.

If the intermediary assesses that the product is not suitable for you but you still wish to proceed with the purchase, a member of senior management of the intermediary who is not involved in that particular transaction will be required to:

- confirm that the representative has properly informed you of the outcome of the Customer Knowledge Assessment and of the finding that the product is not suitable for you;
- confirm that you still wish to proceed with the transaction;
- confirm that you are aware of the implications and consequences of proceeding with the purchase; and
- satisfy himself of the above before deciding whether to approve the sale.

**Q7: If I have already gone through a Customer Account Review or a Customer Knowledge Assessment with an intermediary, must I go through the assessments again if I trade Specified Investment Products through another intermediary?**

Yes. Each intermediary has an obligation to conduct a Customer Account Review or Customer Knowledge Assessment as the case may be. The outcomes of assessments conducted with another intermediary cannot be transferred.

**Q8: How often will I need to go through the Customer Account Review / Customer Knowledge Assessment?**

The intermediary is required to conduct the Customer Account Review when you first open a trading account to transact in listed Specified Investment Products with that intermediary. However, for a Specified Investment Product trading account to be valid, you will need to have transacted in Specified Investment Products listed on an exchange through the account at least once in a period of three years. If you do not transact through that particular account for three consecutive years, the intermediary will need to conduct a new Customer Account Review before allowing you to transact through that account.

The intermediary is required to conduct the Customer Knowledge Assessment prior to any sale of an unlisted Specified Investment Product. However, if you are assessed to have knowledge or experience in an unlisted Specified Investment Product, that positive outcome of the Customer Knowledge Assessment is valid for a period of one year from the date of the assessment. The intermediary will not be required to conduct a Customer Knowledge Assessment on you when you buy the same or similar unlisted Specified Investment Products during the one year period. After a year has elapsed from when the Customer Knowledge Assessment was first conducted, the intermediary will need to conduct a new Customer Knowledge Assessment before allowing you to purchase an unlisted Specified Investment Product.

**Q9: What should I look out for when dealing with intermediaries before I purchase an investment product or open an account to trade an investment product?**

- (i) Check if the intermediaries you are dealing with are regulated by MAS and if they are authorized to provide financial advice. Refer to Q3 for details.
- (ii) Ask questions and understand the product recommended to you, and why it is suitable for you. Consider the following:
  - a. How can the product help you achieve your investment objective? Will it help increase or reduce the risk in your portfolio? What are the benefits and risks?
  - b. How well do you understand the risks? If things go wrong, how much can you lose? Can you withstand the loss?
  - c. How much time do you need to monitor the product's performance? Do you have the time?
  - d. Click [here](#) for more key questions you should ask yourself and the person recommending a product to you. Take time to shop around for, and compare other products that offer similar benefits and risks.
- (iii) Look out for warnings
  - a. Watch for warnings that indicate that a product may be complex or that you may lose some or your entire investment amount. Do not buy the product if you do not fully understand the product or are not comfortable with the risks.
  - b. Be careful of verbal promises and guarantees of high returns. Remember that if something sounds too good to be true, it probably is. Understand the risk-reward characteristics of that particular product. Ask the intermediary or its representative to refer you to the relevant clauses in the product documents that describe the verbal representations made.
- (iv) Remember that you have every right to decide not to purchase a product.
  - a. Even though intermediaries need to have a reasonable basis when recommending an investment product to you, you too need to consider the advice and recommendation carefully. Do not be induced by gifts or discounts, or be pressured to make a purchase decision.
  - b. Say "No" if you do not fully understand the product, disagree with the advice provided, or have doubts about the product or your dealings with the intermediary or its representative.
- (v) Note that if you decide not to take up the offer of financial advice or choose to invest in a product that the intermediary did not recommend to you, you will have to take responsibility for ensuring that product is suitable for you.

**Q10: Will there be other measures to protect consumers?**

Yes. MAS had on 21 October 2010 announced that it is introducing stronger measures and enhanced requirements to further safeguard retail customers' interests in the sale and marketing of investment products. Many of the measures have already been implemented, while the remaining measures will be implemented over the coming months. For more details, please refer to [Annex A](#) accompanying MAS' press release of 21 October 2010.