

# MOUNTING SCRUTINY CONFRONTS INDEPENDENT FIRMS IN SINGAPORE

AS PART OF THE SINGAPORE REGULATOR'S INTENT TO ENSURE A FULLY COMPLIANT WEALTH MANAGEMENT INDUSTRY, IT HAS RECENTLY TURNED ITS ATTENTION TO INDEPENDENT ASSET MANAGEMENT FIRMS. AUDITS ARE UNDERWAY TO ASSESS THE EXTENT OF THEIR COMPLIANCE PROCESSES, ESPECIALLY IN RELATION TO TAX REPORTING, SAYS ROLF HAUDENSCHILD, PRINCIPAL COMPLIANCE CONSULTANT AT MAROON ANALYTICS.

The increasing compliance burden on wealth management players of all types is now being felt more than ever before by the independent community in Singapore.

The obligations that independent asset management companies (IAMs) face, for example, require them to already consider multiple issues such as cross-border regulations, product suitability, derivatives reporting and general anti-money laundering (AML).

"How to keep up with and implement the many regulations is harder on smaller organisations than the larger ones," says Rolf Haudenschild, principal compliance consultant at Maroon Analytics.

In addition to changes in regulations, he explains, firms with a Capital Markets Services licence or a Financial Advisor's license also face a special audit by the Monetary Authority of Singapore (MAS).

"This is essentially to follow up on the AML tax-risk exercise the MAS did," says Haudenschild.

That required all wealth managers to evaluate the level of tax risk that each

of their clients posed, and then report by the end of July 2014 to the regulator about the tax risk of all their clients after reports on high tax risk in 2013.

"This review may assure MAS that this was done properly," he adds.

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## COMPOUNDING CONCERNS

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This adds to the demands on IAMs which are increasingly overwhelmed by the sheer amount of other reporting they must do.

Further, they need to conduct annual – or, at least, bi-annual – reviews of their clients to discuss whether their financial situation has changed.

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## CROSS-BORDER ISSUES

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Cross-border marketing restrictions are also at the forefront of the minds of IAMs.

"As soon as advisers [from these firms] start discussing an individual product with a client from overseas, then they will run into challenges," explains Haudenschild.



Rolf Haudenschild

Maroon Analytics

"It's all about the individual wealth managers offering their services in a foreign country, but it could even apply to services to a foreign national in the jurisdiction of the wealth manager," he adds.

An example, he explains, would be a Hong Kong financial intermediary

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which comes to Singapore and discusses with local clients the firm's products and services.

That would be considered in Singapore to be something that would require a fund management or financial advisory licence.

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The same may apply to a Singapore-licensed firm going to another market to meet a client or prospect.

While meeting clients for a social purpose is considered legal, as are generic conversations about the economy or financial markets, Haudenschild says that providing specific investment advice about a portfolio or product isn't.

“Basically, the issue comes about when there are multiple jurisdictions involved in the service or product offering,” he adds.

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### OTHER COMPLIANCE PAIN POINTS

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Other recent developments that impact independent firms in Singapore include proposals to introduce additional safeguards for investors.

Going forward, if the MAS implements its proposed changes, non-retail investors who were formerly treated as accredited investors once they met the relevant criteria would now have to “opt in” to become accredited investors. Otherwise they will remain retail investors and benefit from extra protections while being excluded from certain products and services.

Further, together with the MAS, the Ministry of Finance and the Inland Revenue Authority of Singapore proposed regulations to help financial institu-

tions (FIs) in Singapore comply with the US FATCA.

In short, to ease the compliance burden, Singapore is concluding a Model 1 Intergovernmental Agreement (IGA) with the US.

Plus, the MAS had released in mid-2014 a consultation paper on proposed amendments to its notices to FIs on AML and countering the financing of terrorism (CFT).

Key proposed amendments will, among other things, require FIs to perform an AML/CFT risk assessment at the wider institutional level, in addition to assessing the AML/CFT risk of individual customers, and formalise the need for FIs to screen customers and their connected parties.

Meanwhile, suitability continues to be a focus for all firms, even if not at the top of their list of current concerns, says Haudenschild. Issues in this respect, regarding non-conventional investment products and a complexity risk rating for investment products, he adds, are taken up in a recent MAS consultation paper. ■

