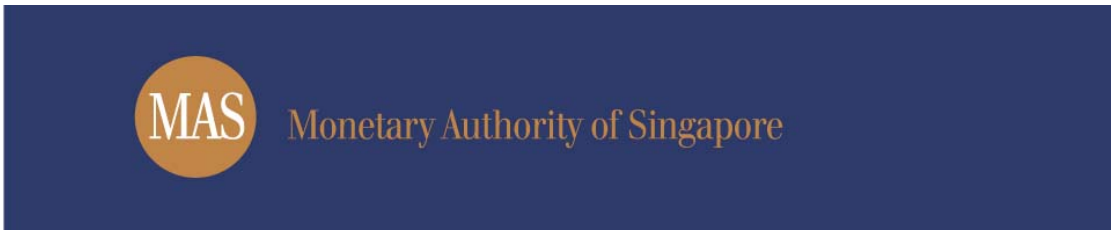

Investigation Report on the Sale and Marketing of Structured Notes linked to Lehman Brothers

7 July 2009

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EXECUTIVE SUMMARY

I. Background to the investigation

The bankruptcy filing of Lehman Brothers Holdings Inc. and Lehman Brothers Special Financing, Inc. resulted in the default or early redemption of the following credit-linked structured notes (the "Notes"):

a. Series 1, 2, 3, 5, 6, 7, 8, 9 and 10 of notes issued by Minibond Limited and arranged by Lehman Brothers Inc (in respect of series 1, 2, 3, 5 and 6) and Lehman Brothers Singapore Pte Ltd (in respect of series 7, 8, 9 and 10) (collectively, the "Minibond Notes") offered from 3 April 2006 to 25 July 2008;

b. High Notes 5 ("HN5") issued and arranged by DBS Bank Ltd ("DBS") offered from 30 March to 30 April 2007;

c. Series 3 LinkEarner Notes issued by Jubilee Global Finance Limited and arranged by Merrill Lynch (Singapore) Pte Ltd (the "Jubilee Notes") offered from 16 April to 18 May 2007; and

d. Series 9 and 10 of notes issued by Pinnacle Performance Limited and arranged by Morgan Stanley Asia (Singapore) Pte (the "Pinnacle Notes") offered from 29 October to 30 November 2007.

2. The total issue size of the Minibond Notes programme was $508 million, of which $373 million was sold to about 7,800 retail investors through nine distributors comprising two banks ABN AMRO Bank N.V. Singapore Branch ("ABN") and Malayan Banking Berhad Singapore Branch ("MBB"), finance company Hong Leong Finance Ltd ("HLF") and six stockbroking firms CIMB-GK Securities Pte Ltd ("CIMB"), DMG & Partners Securities Pte Ltd ("DMG"), Kim Eng Securities Pte Ltd ("KESPL"), OCBC Securities Pte Ltd ("OSPL"), Phillip Securities Pte Ltd ("PSPL") and UOB Kay Hian Pte Ltd ("UOBKH"). Over 1,000 retail investors bought $104 million worth of HN5 from DBS, who

was the arranger and sole distributor. For the Jubilee Notes, $18 million of the total $28 million notes issued were sold to about 350 retail investors through six distributors which were all stockbroking firms (CIMB, DMG, KESPL, OSPL, PSPL and UOBKH). The total issue size of the Pinnacle Notes was $25 million, sold to about 650 retail investors through five distributors comprising one finance company HLF and four stockbroking firms (DMG, KESPL, OSPL and UOBKH). A total of 10 financial institutions (collectively termed "the Distributors" and each termed a "Distributor") distributed the Notes.

II. The Authority's scope of investigations

3. The Monetary Authority of Singapore ("the Authority") investigated the 10 financial institutions ("FIs") that distributed the Notes. As part of the investigations into two of the Distributors[1], the Authority also investigated 10 licensed financial advisers[2] ("LFAs") that were appointed by these two Distributors to refer clients to them.

4. The investigations covered the FIs' due diligence on the Notes, the procedures in place at the point of sale, including how the FI ensured that the Notes were sold to clients whose investment objectives and risk tolerance matched the risk profile of the Notes, and the training and supervision of representatives and LFAs in relation to the Notes. The FIs investigated cooperated with the Authority during the course of the investigations.

5. The investigations focused on FI-wide issues in respect of the Notes. However, where in the course of the investigations the Authority identified issues relevant to the FIs' assessment of individual complaints, the Authority worked with the Independent Persons ("IPs") overseeing the complaints resolution process to ensure that these were incorporated into the complaints resolution framework.

6. The Authority is concurrently looking into specific cases where individuals involved in the sale and marketing of the Notes may have departed from the relevant regulatory

[1] OSPL and PSPL.
[2] Alpha Financial Advisers Pte Ltd, Cornerstone Planners Pte Ltd, Elpis Financial Pte Ltd, Financial Alliance Pte Ltd, Fin-exis Advisory Pte Ltd, GYC Financial Advisory Pte Ltd, IPP Financial Advisers Pte Ltd, Metropolitan Broking Services Pte Ltd, Optimus Financial Pte Ltd and Ray Alliance Financial Advisers Pte Ltd.

standards. Inquiries are ongoing and any regulatory action taken against individuals will be published in due course.

III. The Authority's general observations on the sale and marketing practices

7. The banks and finance company sold the Notes on an "advisory basis". The advisory process of each Distributor generally involved a representative of the Distributor offering to conduct a fact-find and needs analysis of the client's circumstances for the client, subject to the client's right to opt out of this exercise. The needs analysis form frequently contained an option for the client to elect whether to receive advice on a full, partial, product, or no advice basis. Generally, the representative would advise a client concerning an investment product in accordance with the client's assessed risk appetite and investment objectives as determined from the fact-find and needs analysis exercise and the client's choice as to which category of investment advice he wished to receive.

8. With one exception, the stockbroking firms who distributed the Notes asserted that they did not sell the Notes on an "advisory basis", but adopted an "execution-only" business model. The stockbroking firms generally stated that this meant that they did not actively market the Notes to clients. At most, they would inform clients of the availability of the Notes by sending them brochures or emails. Where a client expressed interest in purchasing the Notes, their role was only to process that order and did not extend to providing advice concerning the Notes to the client.

9. The Authority found that the Distributors did have in place policies, procedures and controls for the approval, sale and marketing of the Notes, in keeping with the different business models adopted by each Distributor. The Authority in the course of its investigations identified various forms of non-compliance by the Distributors with the Authority's Notices and Guidelines on the marketing and sale of investment products. The nature and extent of the non-compliance and their potential impact on the sales processes and clients differed for each Distributor.

10. A common finding for the Distributors was that the product briefing materials disseminated to their representatives did not highlight the fact that the performance of the

Underlying Securities was a source of risk to the performance of the Minibond Notes (except for series 5, 6, 7 and 9 where this was prominently highlighted in the briefing materials as a secondary risk) and/or the risk of significant loss of principal on early redemption of the Minibond Notes. This arose in situations which included a default on the Underlying Securities (except for series 5, 6, 7 and 9) or any of the issuer, the Swap Counterparty or the Swap Guarantor's inability to meet their obligations under the Swap Arrangements.

IV. The Authority's general observations on redress for individual investors

11. Although section 64 of the Financial Advisers Act (Cap. 110) ("FAA") provides that the failure of any FI to comply with the Guidelines issued under the FAA may be relied upon to establish liability against the FI in any criminal or civil proceedings, any such failure does not by itself render the FI liable for criminal sanctions or civil damages to an individual client. Section 27 of the FAA also requires that, for a client to make out a claim for damages where a recommendation was made without a reasonable basis, the client must show reliance on the recommendation and that it is reasonable, having regard to the recommendation and all other relevant circumstances, for that client to have purchased the Notes in reliance on the recommendation. Similarly, a claim in tort or contract for misrepresentation has to show reliance on the misrepresentations complained of. Whether a client bringing an action against the Distributor can prove that there was such reliance, whether such reliance was reasonable, and to what extent, if any, the recommendation could be shown to have affected the client's actual decision to invest is a matter that would need to be established by each client based on the specific facts and circumstances at the time of purchase. Establishing such a case in law would depend, among other things, on the oral and documentary evidence as to what transpired between the client and the representative of the Distributor and what documents the client signed as part of the transaction process.

12. All clients investing in the Notes were generally provided with, or asked to acknowledge receipt of or sign, documentation containing risk warnings and disclaimers in respect of the liability of a seller of the Notes. These included the client's acknowledgement in the application form that he or she had read, understood and agreed to the terms of the prospectus and pricing statement and that the Notes were subject to investment risk, including loss of capital invested.

13. Clients of some of the Distributors were also required to sign fact sheets, risk acceptance forms or bases of recommendation which clearly stated that the Notes were not a fixed deposit and/or not principal guaranteed and/or highlighted the product risks.

14. The account opening documentation used by stockbroking firms contained standard terms and disclosures stating that the firm generally provided an "execution-only" broking service and unless the client had a specific agreement with the firm for the provision of advisory services, the information that the client received was not in the nature of any advice or recommendation and was not to be relied on by the client in making investment decisions.

15. The Distributors generally took the view that the documentation signed by clients meant they do not have any legal liability to the client and, accordingly, would afford them a legal basis not to offer redress in many cases. Additionally, the Distributors highlighted their fiduciary obligations to shareholders and other stakeholders which as a matter of law they needed to take into account in making offers of settlement. Nonetheless, the Distributors generally agreed to adopt the Authority's recommendation not to take an overly legalistic approach in resolving client complaints. The Authority worked with the IPs appointed by the Distributors to oversee the complaints handling and resolution process to ensure that the issues identified in the course of investigations were incorporated into the assessment of individual complaints. The Distributors' assessment criteria therefore took into account whether there was a reasonable basis for recommending the product to the client, the extent to which it was properly explained to the client that the product was being sold on an advisory or "execution-only" basis and whether proper procedures were adhered to in the advisory and sales process. In deciding on the outcome of each complaint, the Distributors did not rely on any single factor but took into account a whole range of relevant factors including the investment experience of the client, the degree of reasonable reliance on the advice provided and the client's ability to understand the product and any documents signed during the sales process. In doing so, the Distributors also considered that, to the extent appropriate based on the specific circumstances of the complaint, there were clients who should also share responsibility for their purchase decisions based on the factors set out above. Such clients were offered either no or partial redress, in proportion to the Distributor's view of their level of responsibility. All offers of settlement were made by the Distributors on a voluntary basis

without any admission of liability. For the Minibond Notes, where a partial settlement is offered, the client will retain all or a portion of his notes. For the portion of the notes retained, he will get to keep the residual value arising from those notes, if there is any. The residual value is uncertain and will depend on the ultimate value of the Underlying Securities.

16. The Authority took into account the nature and impact of the non-compliance by the Distributors, the steps taken to rectify the non-compliance, and the extent to which they accepted responsibility and resolved complaints in deciding on the appropriate regulatory action.

V. The Authority's findings on individual Distributors

17. The Authority's key findings as regards each of the Distributors are summarised as follows[3]:

ABN

a. ABN distributed Minibond series 1, 2 and 3 between 3 April 2006 and 16 February 2007. A total of $100.2 million of Minibond Notes were sold to 870 retail clients.

b. ABN classified the Minibond Notes as a "Growth" product and communicated this to its Relationship Managers ("RMs") in respect of the launch of series 2 and 3 of the Minibond Notes. ABN also had enhanced internal control processes in place for series 2 and 3 which required that if the client's risk profile according to the risk profiling questionnaire deviated from the "Growth" portfolio, or if the sale of series 2 and 3 of the Minibond Notes was conducted on a "no advice" basis, then a separate review and sign-offs from Branch Managers were required.

[3] The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report and the Chapters for each of the Distributors.

c. However, ABN did not expressly communicate its internal product risk rating of "Growth" arrived at for the Minibond Notes to its RMs for series 1 of the Minibond Notes. Instead, for series 1, ABN relied on a general understanding among RMs, as communicated during training for other products, that non-capital protected products were to be rated "Growth". A total of 132 sales of series 1 Minibond Notes were made to clients whose risk profiles were rated below "Growth". ABN reviewed the sales made to these clients in accordance with its complaints resolution framework.

d. ABN kept records of the RMs who attended training by the product arranger. Those who missed the training were expected to be trained at the branch level by ABN's own investment consultants. ABN did not however monitor whether RMs who missed the arranger's briefings were briefed at the branch level.

e. One question in ABN's risk profile questionnaire used in its sales of the Minibond Notes was erroneously scored. As a result, 44 clients were given a risk profile that was higher than what they ought to have received. For the purposes of complaints handling, ABN reviewed these 44 cases based on the correct rating of the affected clients in accordance with its complaints resolution framework.

<u>DBS</u>

a. DBS issued, arranged and distributed HN5. A total of $103.7 million worth of HN5 were sold to 1,083 retail clients between 30 March and 30 April 2007.

b. DBS classified HN5 as a "Growth" product and targeted HN5 at DBS' "Treasures" and "Emerging Affluence" clients[4]. DBS had internal policies

[4] This refers to clients with more than $200,000 (for "Treasures") and $80,000 (for "Emerging Affluence") assets respectively under management by DBS although the "Emerging Affluence" definition also takes into consideration the client's income and occupation.

surrounding the process of selling and marketing HN5 which took into account HN5's risk and complexities. For example, Business Managers were required to review and validate all investments in HN5 by clients (i) above 62 years old, regardless of their risk profile; and (ii) whose personal risk profile was inconsistent with that suggested by DBS' due diligence for investing in HN5.

c. DBS required RMs to attend internal training and pass a test which was specific to HN5 before they could advise on and sell HN5. However, 28 RMs did not attend training and did not take the test while another 21 RMs attended training but did not take the test. The 49 RMs were nonetheless permitted to sell and had sold HN5 to 303 clients. Of the 28 RMs who did not attend product training, 19 had not attended training for earlier High Notes series that had a similar structure to HN5. These 19 RMs had sold HN5 to 108 of the 303 clients. DBS reviewed the sales made to these clients in accordance with its complaints resolution framework.

d. HN5's pricing statement and prospectus stated that HN5 was "not suitable for inexperienced investors". However, DBS did not explicitly communicate this to its RMs. A total of 54 clients with no investment experience were sold HN5. DBS reviewed the sales made to these clients in accordance with its complaints resolution framework.

<u>MBB</u>

a. MBB distributed Minibond series 1, 2, 3, 5 and 6 between 3 April 2006 and 8 June 2007. A total of $97.6 million worth of Minibond Notes were sold to 2,456 retail clients.

b. During the first nine days of the offer period for series 1 and the first two weeks of the offer period for series 2, MBB mis-communicated the classification of series 1 and 2 of the Minibond Notes as "Conservative" to its RMs. 64 sales were made during these periods to "Conservative" and

"Moderate" clients. MBB reviewed the sales made to these clients in accordance with its complaints resolution framework.

c. MBB's reclassifications of series 1 and 2 were solely by way of email. These constituted insufficiently robust measures to communicate the reclassifications to its RMs to prevent the Minibond Notes from being recommended to clients who did not match the correct risk profiles. After the reclassifications, a sale of series 1 was made to a "Conservative" client and 60 sales of series 2 were made to "Moderate" clients. MBB reviewed the sales made to these clients in accordance with its complaints resolution framework.

d. For series 1 and 2 of the Minibond Notes, MBB failed to sufficiently distinguish the Minibond Notes from bonds and in fact informed its RMs that the Minibond Notes were suitable for clients who wanted to diversify their portfolio with bonds.

e. MBB also did not provide sufficient guidance to its RMs on how to factor in a structured note such as the Minibond Notes into the client's portfolio.

f. MBB's client risk profiling scoring system did not allocate a numerical score to the client's investment experience towards computing his risk profile and suitability to purchase an investment product and no guidance was given to the RMs on the relevance of the client's investment experience in arriving at an appropriate client risk profile and suitability to purchase an investment product.

HLF

a. HLF distributed Minibond series 3, 5, 6, 7 and 9 and Pinnacle Notes between 8 January 2007 and 25 July 2008. A total of $86.3 million and $19.9 million worth of Minibond Notes and Pinnacle Notes were sold to 2,274 and 507 retail clients respectively.

b. HLF's "low to medium" risk classification for the Minibond and Pinnacle Notes was inconsistent with the prospectuses, which stated that the Minibond and Pinnacle Notes "can involve a high degree of risk" and the Pinnacle Notes "are only suitable for investors willing to take considerable risks". A total of 771 and 111 "Conservative" clients had bought the Minibond Notes and Pinnacle Notes respectively. HLF reviewed the sales made to these clients in accordance with its complaints resolution framework.

c. HLF did not specifically communicate to RMs its internal assessment that the Minibond and Pinnacle Notes were suitable for slightly more sophisticated clients, and management's direction to be very mindful that clients have "sufficient investment savvy" to fully understand the risks in respect of the Minibond Notes series 9. A total of 428 clients with no investment experience had bought the Minibond Notes and Pinnacle Notes. HLF reviewed the sales made to these clients in accordance with its complaints resolution framework.

d. HLF required all RMs to attend product briefings given by the arrangers of the Minibond and Pinnacle Notes before selling the products. HLF kept attendance records of these briefings. Four RMs missed the Minibond Note briefings during their employment. RMs who missed these sessions conducted by the arrangers were provided with in-house replacement briefing or coaching using the arrangers' presentation materials. However, no attendance records were maintained in respect of such replacement briefings or coaching.

e. HLF did not allocate a numerical score to the client's investment time horizon, experience and diversification needs towards computing that client's risk profile and suitability to purchase an investment product, nor were alternative forms of guidance provided to the RMs on how to factor in such information.

f. HLF failed to sufficiently differentiate in its sales documents structured notes such as the Minibond and Pinnacle Notes as a distinct asset class from bonds and equities, putting the Minibond and Pinnacle Notes under the bond fund

category. Further, HLF's portfolio allocation guidance according to client risk profile was in the form of a ratio of equity to bond funds and there was no guidance on how to factor in structured notes such as the Minibond and Pinnacle Notes.

CIMB

a. CIMB distributed Minibond series 3, 5 and 6 and Jubilee Notes between 8 January and 8 June 2007. A total of $6.0 million and $3.7 million worth of Minibond Notes and Jubilee Notes were sold to 162 and 55 retail clients respectively.

b. CIMB distributed the Notes both through its trading representatives ("TRs") on an "execution-only" basis and its financial advisory representatives ("FA Representatives") on an "advisory basis".

c. Although CIMB's FA Representatives were permitted to give full advice and make recommendations in respect of the Minibond and Jubilee Notes on an "advisory basis", CIMB did not conduct any product due diligence on the Minibond and Jubilee Notes or take any steps to check or ensure that the FA Representatives were equipped to make their own assessments of the product features and risks. No clients opted to receive full advice. One sale was made to a client who opted to receive partial advice and 113 sales were made to clients who opted for product advice.

d. CIMB allowed its representatives who did not attend the arrangers' product briefing sessions to sell the Notes.

e. It was communicated to some FA Representatives that the risk characteristics of the Minibond and Jubilee Notes were akin to an asset allocation with a "Moderate" risk portfolio. This was however inconsistent with the warnings in the prospectuses that the Minibond and Jubilee Notes could "involve a high degree of risk".

f. CIMB's portfolio allocation guidance did not give guidance on how to factor in structured notes such as the Minibond and Jubilee Notes.

DMG

a. DMG distributed Minibond series 2, 3, 5, 6, 7, 8, 9 and 10, Jubilee Notes and Pinnacle Notes between 24 July 2006 and 25 July 2008. A total of $2.3 million, $139,744 and $45,000 worth of Minibond Notes, Jubilee Notes and Pinnacle Notes were sold to 54, six and three retail clients respectively.

b. DMG distributed the Notes only through its TRs on an "execution-only" basis.

c. Although DMG permitted its TRs to express opinions on the Notes, DMG did not conduct any formal product due diligence on the Notes or take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks.

d. DMG allowed TRs who did not attend the arrangers' product briefing sessions to sell the Notes. There was no product briefing conducted by the arranger or independent in-house training conducted by DMG on Pinnacle Notes for its TRs.

KESPL

a. KESPL distributed Minibond series 2, 3, 5, 6, 7 and 8, Jubilee Notes and Pinnacle Notes between 24 July 2006 and 14 December 2007. A total of $6.2 million, $2.2 million and $355,000 worth of Minibond Notes, Jubilee Notes and Pinnacle Notes were sold to 161, 35 and 12 retail clients respectively.

b. KESPL distributed the Notes only through its TRs on an "execution-only" basis.

c. Although KESPL permitted its TRs to express opinions on the Notes, KESPL did not conduct any formal product due diligence on the Notes or take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks.

d. KESPL allowed TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

e. Write-ups on Minibond series 2 and 3 and Jubilee Notes emailed by KESPL's Equity Derivative and Structured Products Department to TRs contained a number of inaccurate or misleading statements that were inconsistent with the prospectuses and pricing statements.

OSPL

a. OSPL distributed Minibond series 1, 2, 3, 5, 6, 7, 8, 9 and 10, Jubilee Notes and Pinnacle Notes between 3 April 2006 and 25 July 2008. A total of $41.9 million, $5.3 million and $4.2 million worth of Minibond Notes, Jubilee Notes and Pinnacle Notes were sold to 985, 112 and 107 retail clients respectively.

b. OSPL distributed the Notes through its TRs on an "execution-only" basis.

c. Although OSPL permitted its TRs to express opinions on the Notes, OSPL did not conduct any formal product due diligence on the Notes or take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks.

d. OSPL allowed TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

e. OSPL did not provide its TRs or the Alternative Investment Specialist Desk with any instructions or guidelines on the types of opinions that could be provided to clients or that when providing such opinions it should be

highlighted to the clients that they were opinions, as opposed to statements of fact.

f. OSPL improperly used the FAA Introducer regime to sell the Notes through nine LFAs. Under their agreements with OSPL, the nine LFAs were prohibited from providing advice and could only introduce clients to OSPL. The Authority's rationale for allowing the use of Introducers was to allow financial advisers ("FA") to spend less time prospecting for clients and thereby enable the FAs to focus resources on providing higher value added financial advisory services to clients. As such, OSPL was expected to provide financial advisory service for referrals from Introducers. However, OSPL did not do so and acted as an "execution-only" broker in relation to the Notes.

PSPL

a. PSPL distributed Minibond series 1, 2, 3, 5 and 6 and Jubilee Notes between 3 April 2006 and 8 June 2007. A total of $22.1 million and $4 million worth of Minibond Notes and Jubilee Notes were sold to 642 and 70 retail clients respectively.

b. PSPL distributed the Notes through both its TRs and its FA Representatives.

c. PSPL did not conduct any formal product due diligence on the Minibond or Jubilee Notes or take any steps to check with its representatives to ensure that they were equipped to make their own assessments of the product features and risks, as PSPL's policy was that the Minibond and Jubilee Notes were to be transacted on an "execution-only" basis for both its TRs and FA Representatives. Yet, prior to Minibond series 3, this was not made clear to PSPL's FA Representatives. In fact, PSPL's internal communications to its FA Representatives before then suggested that they could advise as long as they had the necessary qualifications. The first time PSPL explicitly communicated to its FA Representatives that they were only allowed to brief

clients on the product features stated in the marketing materials was during the offer of Minibond series 3.

d. PSPL allowed its representatives who did not attend the arrangers' product briefing sessions to sell the Notes.

e. PSPL entered into agreements with two LFAs to refer clients who expressed interest in PSPL's investment products to PSPL after properly advising them. PSPL did not monitor the marketing of the Minibond or Jubilee Notes by the LFAs and was unaware that one LFA was not providing advice. 14 sales were made to clients through this LFA.

UOBKH

a. UOBKH distributed Minibond series 1, 2, 3, 5, 6, 7, 8, 9 and 10, Jubilee Notes and Pinnacle Notes between 3 April 2006 and 25 July 2008. A total of $10 million, $2.9 million and $550,000 worth of Minibond Notes, Jubilee Notes and Pinnacle Notes were sold to 230, 66 and 19 retail clients respectively.

b. UOBKH distributed the Notes only through its TRs on an "execution-only" basis.

c. Although UOBKH permitted its TRs to express opinions on the Notes, UOBKH did not conduct any formal product due diligence on the Notes or take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks.

d. UOBKH allowed TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

18. Information relating to the settlement offers made as at 31 May 2009 by the Distributors, in total and by individual institution, is summarised as follows:

Table 1: Settlement outcomes for Minibond Notes, HN5 and Pinnacle Notes by banks and finance company as of 31 May 2009

	ABN	**DBS**	**MBB**	**HLF**	**Total**
Number of investors	870	1083	2456	2781	7190
Cases received	637	873	1757	2284	5551
Cases decided	**637**	**866**	**1704**	**2145**	**5352**
Settlement outcomes for cases decided (% of cases decided)					
- **full or partial**	**262 (41.1%)**	**197 (22.8%)**	**1100 (64.6%)**	**2048 (95.5%)**	**3607 (67.4%)**
- full	91 (14.3%)	64 (7.4%)	325 (19.1%)	893 (41.6%)	1373 (25.7%)
- partial (50% and above)	123 (19.3%)	71 (8.2%)	172 (10.1%)	958 (44.7%)	1324 (24.7%)
- partial (below 50%)	48 (7.5%)	62 (7.2%)	603 (35.4%)	197 (9.2%)	910 (17%)
- **nil**	**375 (58.9%)**	**669 (77.2%)**	**604 (35.4%)**	**97 (4.5%)**	**1745 (32.6%)**
Amount invested for cases decided	$71.9m	$84.1m	$82.4m	$86.1m	$324.5m
Value of settlement offers (% of amount invested for cases decided)	**$14.1m (19.6%)**	**$7.6m (9%)**	**$25.3m (30.7%)**	**$57.6m (66.9%)**	**$104.6m (32.2%)**

Table 2: Settlement outcomes for Minibond Notes, Jubilee Notes and Pinnacle Notes by stockbroking firms as of 31 May 2009

	CIMB	**DMG**	**KESPL**	**OSPL**	**PSPL**	**UOBKH**	**Total**
Number of investors	217	63	208	1204	712	315	2719
Cases received	91	16	49	404	242	150	952
Cases decided	**88**	**15**	**49**	**377**	**213**	**147**	**889**
Settlement outcomes for cases decided (% of cases decided)							
- **full or partial**	**53 (60.2%)**	**1 (6.7%)**	**21 (42.9%)**	**128 (34%)**	**86 (40.4%)**	**8 (5.5%)**	**297 (33.4%)**
- full	3 (3.4%)	1 (6.7%)	2 (4.1%)	0 (0%)	3 (1.4%)	2 (1.4%)	11 (1.2%)
- partial (50% and above)	6 (6.8%)	0 (0%)	10 (20.4%)	18 (4.8%)	1 (0.5%)	2 (1.4%)	37 (4.2%)
- partial (below 50%)	44 (50%)	0 (0%)	9 (18.4%)	110 (29.2%)	82 (38.5%)	4 (2.7%)	249 (28%)
- **nil**	**35 (39.8%)**	**14 (93.3%)**	**28 (57.1%)**	**249 (66%)**	**127 (59.6%)**	**139 (94.5%)**	**592 (66.6%)**
Amount invested for cases decided	$4.6m	$0.5m	$2.9m	$23.1m	$9.2m	$8.9m	$49.2m
Value of settlement offers (% of amount invested for cases decided)	**$0.49m (10.7%)**	**$0.02m (4%)**	**$0.31m (10.7%)**	**$1.22m (5.3%)**	**$0.61m (6.6%)**	**$0.09m (1%)**	**$2.74m (5.6%)**

19. In the circumstances, the Authority has issued directions to ABN, DBS, MBB, DMG and UOBKH to (a) cease dealing in and providing financial advisory services for structured notes for a period of six months with effect from 1 July 2009 or until there are in place adequate measures to address the findings, whichever is later; (b) implement an action plan to rectify all the weaknesses identified in the investigations; (c) appoint an external person approved by the Authority to review the action plan and assess whether it has been properly implemented; and (d) appoint a member of the institution's senior management to oversee compliance with the direction.

20. The Authority's directions in respect of HLF, CIMB, KESPL, OSPL and PSPL are as mentioned above, save that CIMB, KESPL, OSPL and PSPL are to cease dealing in and providing financial advisory services for structured notes for a period of one year, and HLF for a period of two years, with effect from 1 July 2009 or until there are in place adequate measures to address the findings, whichever is later.

21. The Authority has also directed OSPL to cease the use of Introducers, when providing financial advisory services, with effect from 1 July 2009.

CHAPTER 1 OVERVIEW

I. Background to the investigation

1. On 15 September 2008 and 3 October 2008, Lehman Brothers Holdings Inc. ("LBHI") and Lehman Brothers Special Financing, Inc. ("LBSF") respectively filed for Chapter 11 bankruptcy protection in the United States of America (the "US"). This resulted in the default or early redemption of the following credit-linked structured notes (the "Notes"):

a. Series 1, 2, 3, 5, 6, 7, 8, 9 and 10 of notes issued by Minibond Limited and arranged by Lehman Brothers Inc (in respect of series 1, 2, 3, 5 and 6) and Lehman Brothers Singapore Pte Ltd (in respect of series 7, 8, 9 and 10) (collectively, the "Minibond Notes") offered from 3 April 2006 to 25 July 2008;

b. High Notes 5 ("HN5") issued and arranged by DBS Bank Ltd ("DBS") offered from 30 March to 30 April 2007;

c. Series 3 LinkEarner Notes issued by Jubilee Global Finance Limited and arranged by Merrill Lynch (Singapore) Pte Ltd (the "Jubilee Notes") offered from 16 April to 18 May 2007; and

d. Series 9 and 10 of notes issued by Pinnacle Performance Limited and arranged by Morgan Stanley Asia (Singapore) Pte (the "Pinnacle Notes") offered from 29 October to 30 November 2007.

2. Briefly, the key features of the Notes were as follows:

a. The Notes were scheduled to mature in a specified number of years at 100% of the principal amount of the notes with periodic interest at a certain fixed rate per annum;

b. The Notes were linked to the credit risks of a basket of entities (each termed a "Reference Entity" and collectively termed as "Reference Entities") on a first-to-default basis. These Reference Entities included financial institutions, multi-national companies and sovereign states;

c. On the occurrence of a credit event (for example bankruptcy, failure to pay, or restructuring) to any one of the Reference Entities, the Notes would be redeemed early. In return for the investors bearing these risks, a third party (called the "Swap Counterparty[5]") made periodic payments which formed part of the interest payments to investors (the "Swap Arrangements");

d. The proceeds of the Notes were used to purchase other securities ("Underlying Securities"). The Underlying Securities generated periodic payments which formed part of the interest payment to investors. Except for Minibond Notes Series 9 and 10[6], the Underlying Securities to the Notes were portfolio credit-linked notes (often termed "Synthetic Collateralised Debt Obligations" or "Synthetic CDOs") that met certain criteria, including holding a credit rating of AA or AAA;

e. Each Synthetic CDO was linked to the credit risk of a portfolio of about 100 to 150 reference entities ("Synthetic CDO Reference Entities") and secured by highly rated bonds. The portfolio would suffer losses if the Synthetic CDO Reference Entities experienced credit events. If these losses exceeded a certain amount, the Notes would be redeemed early;

f. Should the Swap Counterparty (and the Swap Guarantor, if any) fail to meet its obligations under the Swap Arrangements, resulting in an event of default under the Notes or termination of the Swap Arrangements, the Notes would also be redeemed early; and

[5] The swap counterparty may have its obligations guaranteed by a related company, called a "Swap Guarantor", which was a highly rated financial institution.
[6] The Underlying Securities for Minibond Notes series 9 and 10 were senior unsecured bonds of Wachovia Corporation.

g. In the event the Notes had to be redeemed early, investors would receive a redemption amount which would likely be less, and could be significantly less, than the principal amount.

3. The bankruptcy of LBHI and LBSF affected the Notes in the manner set out below.

a. For the Minibond Notes, LBSF and LBHI were respectively the Swap Counterparty and the Swap Guarantor of the Minibond Notes. As a result of LBSF and LBHI's failure, the Swap Counterparty and the Swap Guarantor were unable to perform their obligations under the Swap Arrangements. The issuer, Minibond Limited, having not received the scheduled payments from the Swap Counterparty and the Swap Guarantor, was unable to make interest payments under the Minibond Notes to investors. Accordingly, events of default occurred under the respective series of the Minibond Notes as the interest payments fell due. The trustee for the Minibond Notes, HSBC Institutional Trust Services (Singapore) Limited, has appointed three partners from PricewaterhouseCoopers Singapore as receivers for all series of the notes.

b. For HN5, LBHI was one of the Reference Entities to which the HN5 was credit-linked on a first-to-default basis. LBHI's filing for Chapter 11 bankruptcy protection in the US constituted a credit event under the terms of the notes. As a result, the notes were redeemed early. DBS has determined the early redemption amount payable to investors of HN5 to be zero.

c. For Jubilee Notes, similar to HN5, LBHI was one of the Reference Entities to which the Jubilee Notes was credit-linked on a first-to-default basis. An early redemption event was triggered when LBHI filed for Chapter 11 bankruptcy protection. Merrill Lynch has determined the early redemption amount on the Jubilee Notes to be zero.

d. For Pinnacle Notes, credit events occurred to five[7] of the 100 Synthetic CDO Reference Entities securing the Pinnacle Notes. One of the five was LBHI. The losses from such credit events exceeded the specified threshold and triggered an early redemption of the notes. Morgan Stanley has determined the early redemption amount on the Pinnacle Notes to be zero.

4. The total issue size of the Minibond Notes programme was $508 million, of which $373 million was sold to about 7,800 retail investors through nine distributors comprising two banks ABN AMRO Bank N.V. Singapore Branch ("ABN") and Malayan Banking Berhad Singapore Branch ("MBB"), finance company Hong Leong Finance Ltd ("HLF") and six stockbroking firms CIMB-GK Securities Pte Ltd ("CIMB"), DMG & Partners Securities Pte Ltd ("DMG"), Kim Eng Securities Pte Ltd ("KESPL"), OCBC Securities Pte Ltd ("OSPL"), Phillip Securities Pte Ltd ("PSPL") and UOB Kay Hian Pte Ltd ("UOBKH"). Over 1,000 retail investors bought $104 million worth of HN5 from DBS, who was the arranger and sole distributor. For the Jubilee Notes, $18 million of the total $28 million notes issued were sold to about 350 retail investors through six distributors which were all stockbroking firms (CIMB, DMG, KESPL, OSPL, PSPL and UOBKH). The total issue size of the Pinnacle Notes was $25 million, sold to about 650 retail investors through five distributors comprising one finance company HLF and four stockbroking firms (DMG, KESPL, OSPL and UOBKH). A total of 10 financial institutions (collectively termed "the Distributors" and each termed a "Distributor") distributed the Notes.

5. Over 80% of the holders of the Minibond Notes, Jubilee Notes and Pinnacle Notes invested $50,000 or less in these products. More than half of HN5 investors bought $50,000 or less.

6. As of 31 May 2009, the Distributors of the Notes had received 6,503 complaints from investors of the Notes.

7. The Monetary Authority of Singapore (the "Authority") set out a three-step dispute resolution process for the handling of complaints by investors in the Notes. First, an affected

[7] Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Kaupthing Bank hf., Landsbanki Islands hf. and LBHI.

investor should lodge a complaint directly with the Distributor that sold him the product. Second, the affected investor should provide full details of his case to the Distributor to allow it to make a fair assessment of the case. Third, the affected investor could choose to accept the decision of the Distributor, or refer the matter to the Financial Industry Disputes Resolution Centre ("FIDReC").

8. The Authority required the Distributors to appoint Independent Persons ("IPs") to oversee their complaints handling and resolution process. The Authority worked closely with the appointed IPs to ensure that the Distributors' processes were serious, consistent and impartial, and that each Distributor had a robust assessment framework to offer fair financial settlement where appropriate. In each Distributor, the Authority required that the assessment of complaints be made by an internal review panel chaired by the Distributor's Chief Executive Officer, in accordance with the framework agreed with the IP.

II. Regulatory framework

9. The Financial Advisers Act (Cap. 110) ("FAA") regulates the provision of financial advisory services in Singapore. A person engaging in any activity or conduct that is intended to or likely to induce the public in Singapore or any section thereof to use any financial advisory service provided by the person, is required to obtain a financial adviser's ("FA") licence under the FAA unless he qualifies as an exempt FA under section 23 of the FAA or is specified in the First Schedule to the FAA. Banks, finance companies and stockbroking firms are exempt FAs under section 23 of the FAA. Exempt FAs are held to the same standards of conduct for financial advisers as licensed FAs.

10. The various types of regulated financial advisory services are set out in the Second Schedule to the FAA as follows:

a. Advising others, either directly or through publications or writings, and whether in electronic, print or other form, concerning any investment product[8], other than

(i) in the manner set out in (b); or

(ii) advising on corporate finance within the meaning of the Securities and Futures Act (Cap. 289) ("SFA");

b. Advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning any investment product;

c. Marketing of any collective investment scheme; and

d. Arranging of any contract of insurance in respect of life policies, other than a contract of reinsurance.

11. Structured notes[9] linked to Lehman Brothers fall within the definition of securities as defined in section 2(1) of the SFA, and are investment products regulated under the FAA.

12. Under section 27 of the FAA, the FA must have a reasonable basis for his recommendation with respect to any investment product, including structured notes. Section

[8] "Investment product", as defined in the FAA means any securities as defined in section 2(1) of the Securities and Futures Act (Cap. 289), futures contracts, contracts or arrangements for the purposes of foreign exchange trading or leveraged foreign exchange trading, any life policy and structured deposit.

[9] "Structured notes", as defined in the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 means any type of debentures or units of debentures –

(a) which are issued –

(i) pursuant to a synthetic securitisation transaction; or

(ii) by a specified financial institution; and

(b) in respect of which

(i) either or both of the principal sum and any interest are payable;

(ii) one or more of the underlying securities, equity interests, commodities and currencies are to be physically delivered; or

(iii) either or both of the principal sum and any interest are payable, and one or more of the underlying securities, equity interests, commodities and currencies are to be physically delivered,

in accordance with a formula based on one or more of the following:

(A) the performance of any type of securities, equity interest, commodity or index, or of a basket of more than one types of securities, equity interests, commodities or indices;

(B) the credit risk or performance of any entity or a basket of entities;

(C) the movement of interest rates or currency exchange rates.

27 requires the FA to give such consideration to and conduct such investigation of the subject matter of the recommendation as is reasonable in the circumstances. In other words, the FA must conduct a reasonable investigation of or due diligence on the product to determine its riskiness and the target client segment or profile for whom the product is suitable ("product due diligence").

13. Section 27 also requires the FA to consider information provided by the client to him with regards to the client's investment objectives, financial situation and particular needs. This would include his risk tolerance. The FA must collect and document this information in accordance with the know-your-client requirements set out in the Notice on Recommendations on Investment Products ("FAA-N01").

14. In order to arrive at a reasonable basis, the recommendation must be based on the investigation and consideration referred to above, in accordance with the needs analysis requirements set out in FAA-N01.

15. However, section 27 of the FAA and FAA-N01 do not apply if the FA did not provide that client with any recommendation on an investment product. This may arise where the client chose to receive no advice or where the FA was not in the business of providing advice on certain investment products, for example, where the FA offered "execution-only" services or was only involved as an introducer[10].

16. Other key regulatory obligations and standards applicable to FAs are set out in the Notice on Information to Clients and Product Information Disclosure ("FAA-N03") and the Guidelines on Standards of Conduct for Financial Advisers ("FAA-G04"). In particular:

a. An FA is expected to ensure any statement made to its clients is not false or misleading (paragraph 10 of FAA-N03);

[10] "Execution-only" services and introducers are discussed further at paragraphs 28(e) and 18 below.

b. Warnings and important information such as the nature and risks of the product should be prominently presented and clearly explained to the client (paragraph 11(b)(ii) of FAA-N03);

c. Where an opinion is expressed, there should be a reasonable basis for expressing the opinion and it should be unambiguously stated that it is a statement of opinion (paragraph 11(c)(iii) of FAA-N03);

d. An FA should distinguish between facts and opinion in his presentation of recommendations to the client (paragraph 6.6 of FAA-G04);

e. An FA and its representatives are required to disclose to their clients the type(s) of financial advisory services that they are authorised to conduct (paragraphs 12 and 13 of FAA-N03);

f. An FA shall disclose to the client all remuneration it has or will receive that is directly related to the making of a recommendation in respect of an investment product (paragraph 16 of FAA-N03);

g. An FA should act with competence and strive to maintain the necessary knowledge and expertise in its business activities (paragraph 4.1 of FAA-G04);

h. An FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possesses the relevant professional training, and also provide its representatives with relevant training so as to enhance their competence, knowledge and skills (paragraphs 4.3 and 4.4 of FAA-G04);

i. An FA should act with due care and diligence in conducting its business activities (paragraph 5.1 of FAA-G04);

j. An FA should have adequate systems and processes in place to ensure proper supervision of its representatives and their activities (paragraph 5.4 of FAA-G04);

k. An FA should make adequate disclosure of all material risks and draw the client's attention to warnings, exclusions and disclaimers in all documents, advertising materials and literature relating to an investment product it is recommending to the client (paragraphs 6.3 and 6.4 of FAA-G04);

l. An FA should ensure that information provided to the client is clear, adequate and not false or misleading (paragraph 6.5 of FAA-G04); and

m. An FA should take all reasonable steps, including the establishment of internal procedures, to ensure that any person it employs to conduct business with clients complies with all applicable laws, rules and regulations relevant to its business activity (paragraph 10.2 of FAA-G04).

17. Regulation 14A of the Financial Advisers Regulations (Rg 2) ("FAR") requires an exempt FA under section 23(1)(a) to (ea) of the FAA to ensure that its representatives are fit and proper persons. The Guidelines on Fit and Proper Criteria ("MCG-G01" applicable until 6 September 2007 and thereafter "FSG-G01") set out the expected standards in relation to fitness and propriety, including honesty, integrity and reputation and competence and capability. On competence and capability, representatives conducting financial advisory services must satisfy the Notice on Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers ("FAA-N07"). They are expected to keep abreast of developments in the industry and acquire new skills and knowledge relevant to their activities through continuing education.

18. Certain persons ("Introducers") may introduce a client to an FA in relation to the provision by the FA of any type of financial advisory services. Under regulation 31 of the FAR, Introducers are exempted from holding an FA licence when they confine their activities to effecting introduction of clients to the FA and do not conduct specified activities, such as giving advice on investment products, other than to the extent of carrying out introducing

activities[11]. The Notice on Appointment and Use of Introducers by Financial Advisers ("FAA-N02") sets out the standards to be maintained by the FA with respect to its appointment and use of Introducers.

19. The rationale for allowing the use of Introducers under regulation 31 of the FAR was to allow the FA to spend less time prospecting for clients and thereby enable the FA to focus resources on providing higher value added financial advisory services to clients. This rationale was clearly stated in the Frequently Asked Questions to the Financial Advisers Act and Financial Advisers Regulations 2002. As such, the FA is still expected to provide financial advisory service for referrals from Introducers.

III. The Authority's scope of investigations

20. The Authority investigated the 10 financial institutions ("FIs") that distributed the Notes[12]. As part of the investigations into two of the Distributors[13], the Authority also investigated 10 licensed financial advisers[14] ("LFAs") that were appointed by these two Distributors to refer clients to them.

21. The Authority's investigations focused on compliance with the requirements of the law, particularly the FAA, adherence with the standards stipulated in the Notices and Guidelines issued by the Authority pursuant to the FAA, adequacy of internal systems and controls relating to sales of the Notes within the FIs, and sales practices adopted by the FIs and their representatives.

[11] "Introducing Activity", as defined in regulation 31(12) of the FAR means –
(a) introducing any client to an introducee in relation to the provision of any type or types of financial advisory service by the introducee; or
(b) the activity referred to in (a) and either or both of the following:
(i) recording the particulars of any client and forwarding such particulars to an introducee with the client's consent;
(ii) providing factual information to any client on investment products, including (where applicable) information on the name of the investment product, the product provider, the date on which the product is launched, the minimum subscription amount and any fee or charge which may be imposed.

[12] ABN, DBS, MBB, HLF, CIMB, DMG, KESPL, OSPL, PSPL and UOBKH.

[13] OSPL and PSPL.

[14] Alpha Financial Advisers Pte Ltd, Cornerstone Planners Pte Ltd, Elpis Financial Pte Ltd, Financial Alliance Pte Ltd, Fin-exis Advisory Pte Ltd, GYC Financial Advisory Pte Ltd, IPP Financial Advisers Pte Ltd, Metropolitan Broking Services Pte Ltd, Optimus Financial Pte Ltd and Ray Alliance Financial Advisers Pte Ltd.

22. Investigations spanned approximately seven months. For the investigations, the FIs were required to furnish information and documents relevant to the sale of the Notes to the Authority for review. The Authority also conducted interviews with senior management, representatives and staff of the FIs.

23. The investigations covered the FIs' due diligence on the Notes, the procedures in place at the point of sale, including how the FI ensured that the Notes were sold to clients whose investment objectives and risk tolerance matched the risk profile of the Notes, and the training and supervision of representatives and Introducers. The FIs investigated cooperated with the Authority during the course of the investigations.

24. The investigations focused on FI-wide issues. However, where in the course of the investigations the Authority identified issues relevant to the FIs' assessment of individual complaints, the Authority worked with the IPs overseeing the complaints resolution process to ensure that these were incorporated into the complaints resolution framework.

25. The FIs were issued preliminary findings and invited to respond to those findings. All the FIs responded with representations. Having duly and carefully considered those representations, the Authority issued its final decision on the appropriate action in light of its findings, as described in this report.

26. The purpose of the action that the Authority has taken is to promote high standards of regulatory conduct by deterring persons who have failed to meet regulatory standards from continued failure and encouraging remedial action by such persons, and deterring other persons from such failure.

27. Apart from investigations into FI-wide issues, the Authority is concurrently looking into specific cases where individuals involved in the sale and marketing of the Notes may have departed from the relevant regulatory standards. Inquiries are ongoing and any regulatory action taken against individuals will be published in due course.

IV. The Authority's general observations on the sale and marketing practices

28. As a matter of industry practice, services provided by FAs in relation to investment products fall typically into one of the following categories:

a. Provision of full advice / full fact-find. This category of advice is for investors who are willing to disclose all information requested by the FA and wish to receive recommendations on investment products that are suitable for them. To qualify as a full fact-find, the investors would need to disclose information on their income and expenses, assets and liabilities, current investment portfolio, investment objectives, risk profile, personal priorities, retirement needs, and saving goals. The FA conducts a needs analysis based on the information collected and recommends investment products suitable for the individual investor;

b. Provision of partial advice / partial fact-find. This category of advice is for investors who are willing to disclose only partially the information requested by the FA but nonetheless wish to receive recommendations on investment products that are suitable for them. To qualify as a partial fact-find, the investors would need to disclose information that, while not complete, is nonetheless adequate to enable the FA to conduct a needs analysis and recommend investment products that meet the needs of the individual investor based on the investor's indicated priorities, preferences and expectations;

c. Provision of product advice. This category of advice is for investors who do not wish to undergo full or partial fact-find and needs analysis but wish to receive advice from the FA on a particular type of investment product based on his specific instructions;

d. Provision of no advice. The FA is willing to offer advice concerning the investment product, but the investor does not wish to undergo fact-find, needs analysis or receive a recommendation on product suitability. No advice concerning investment products is therefore provided, though the investor may

receive factual information on the investment product derived from materials such as the product's prospectus and pricing statement. The FA merely takes instructions from the investor and assists him with the completion of the relevant forms; and

e. "Execution-only" transactions. No advice is offered by the FA concerning the investment product, though the investor may receive factual information on the investment product derived from materials such as the product's prospectus and pricing statement. The FA merely takes instructions from the investor and assists him with the completion of the relevant forms.

29. The individual Distributors generally took the following steps before the distribution, sale and marketing of the Notes:

a. The Distributor met the arrangers of the Notes to discuss the possible distribution of the Notes;

b. A relevant division within, or a responsible officer of, the Distributor undertook some form of product assessment or due diligence;

c. The management of the Distributor approved its distribution of the Notes based on the product assessment or due diligence mentioned above;

d. At the request of the Distributor, the arrangers of the Notes briefed the Distributor's representatives about the Notes; and

e. The Distributor disseminated information about the Notes and any impending launch of the Notes to its representatives.

30. The depth and formality of the product assessment or due diligence conducted in respect of the Notes varied among the Distributors:

a. Most of the Distributors that envisioned selling the Notes on an "advisory basis", i.e. accompanied by the provision of full, partial or product advice, conducted formal product due diligence. They considered the product features and generated an internal risk rating for the Notes, which was frequently described in terms of the optimal risk appetite that a client should have in order to invest in the Notes. Some of the Distributors further identified segments of their client base for whom the Notes were regarded as suitable investments. Before any launch of the Notes or a particular series of the Notes, the Distributors would communicate to their representatives involved in marketing the Notes the risk rating and features of the Notes and the segment of clients for whom the Notes were suitable investments; and

b. The Distributors that envisioned selling the Notes on an "execution-only" basis did not conduct any formal product assessment or due diligence. No internal risk rating was generated or communicated to their representatives.

31. Most Distributors did not conduct further internal training in respect of the Notes for their staff beyond the briefing that was given by the arrangers of the Notes to their representatives. Some of the Distributors had internal policies where a relevant division or responsible officer of the Distributor conducted make-up sessions for representatives who did not attend the arrangers' product briefings. These make-up sessions employed materials used in the arrangers' product briefings. Some Distributors made attendance at product briefings conducted by the arrangers or at an internal make-up session compulsory before their representatives could market and sell the Notes to clients.

32. The banks and one finance company sold the Notes on an "advisory basis". The advisory process of each Distributor was generally as follows:

a. A representative of the Distributor offered to conduct for the client a fact-find and needs analysis of the client's circumstances, subject to the client's right to opt out of this exercise;

b. Assuming the client did not opt out, the client would complete a questionnaire (also called the needs analysis form) for purposes of the fact-find or needs analysis. The questionnaire assigned a varying numeric score to the client's answers to questions regarding, for instance, his investment timeframe, experience and objectives, risk tolerance, and quantum of investible assets. The total point score arrived at determined the client's risk appetite and investment profile. Some Distributors' questionnaires were more comprehensive than others and the factors taken into account and weightings given to the various factors differed among the various Distributors;

c. If a client's assessed risk appetite and investment profile as determined from his fact-find exercise or needs analysis form matched the risk rating assigned by the Distributor to the product, under the Distributor's internal guidelines, a representative of the Distributor could offer the Notes as a possible investment to the client;

d. If the client's risk profile was more conservative than the product risk rating, most of the Distributors allowed the client to purchase the Notes if the client made an informed decision to do so. A few of the Distributors required their representatives to document that the investment in a product which did not match the client's assessed personal risk rating was indeed made based on the client's choice, and some had additional procedures post-sale to ensure that the client fully understood the risk of an investment notwithstanding the mismatch;

e. Generally, the needs analysis form also set out expressly the Distributor's recommended investment portfolio allocation to help clients decide how much of a certain type of investment was optimal considering their investment needs, risk appetite, investible assets and existing investments. All the Distributors recommended that the Notes should only form a certain proportion of the client's portfolio;

f. The needs analysis form frequently contained an option for the client to elect whether to receive advice on a full, partial, product, or no advice basis; and

g. Generally, the representative would advise a client concerning an investment product in accordance with the client's assessed risk appetite and investment profile as determined from the fact-find and needs analysis exercise and the client's choice as to which category of investment advice he wished to receive.

33. With one exception, the stockbroking firms who distributed the Notes asserted that they did not sell the Notes on an "advisory basis", but rather adopted an "execution-only" business model. The stockbroking firms generally stated that this meant that they did not actively market the Notes to clients. At most, they would inform clients of the availability of the Notes by sending brochures or emails containing purely factual information. Where a client expressed interest in purchasing the Notes, their role was only to process that order and did not extend to providing advice concerning the Notes to clients. The stockbroking firms considered that the adoption of an "execution-only" model of selling the Notes did not require them to perform a formal product assessment or due diligence necessary to enable them to properly advise their clients. In particular, most of them did not arrive at or assign an internal risk rating to the Notes before selling them.

34. There were some differences among the stockbroking firms:

a. Some firms sold the Notes solely through their trading representatives ("TRs") while others sold the Notes through both TRs and representatives in their financial advisory arms. Representatives in one of the stockbroking firms' financial advisory arms were allowed to advise clients on the Notes;

b. A number of firms implemented internal policies which permitted their representatives to give opinions on the Notes if clients requested the representatives to do so; and

c. Two of the stockbroking firms entered into agreements with various LFAs in respect of sales of the Notes by the relevant stockbroking firms. One of the two stockbroking firms, OSPL, engaged nine LFAs as Introducers, purportedly in accordance with the Introducer regime established under regulation 31 of the FAR ("the FAA Introducer Regime"). The other firm,

PSPL, entered into agreements with two LFAs to refer to PSPL for purposes of transacting a purchase of the Notes, any clients who decided to purchase the Notes after receiving advice from the LFAs.

35. Where the stockbroking firms permitted their representatives to express opinions concerning the Notes, the firms and their representatives were expected to adhere to the relevant regulatory standards for the expression of opinions. This applied even if the firms otherwise adopted an "execution-only" model in selling the Notes. The relevant regulatory standards included, for example, a requirement that where an opinion was expressed, there should be a reasonable basis for expressing the opinion and it should be unambiguously stated that it was a statement of opinion (paragraph 11(c)(iii) of FAA-N03).

36. The Authority found that the Distributors did have in place policies, procedures and controls for the approval, sale and marketing of the Notes, in keeping with the different business model adopted by each Distributor. The Authority in the course of its investigations identified various forms of non-compliance by the Distributors with the Authority's Notices and Guidelines on the marketing and sale of investment products. The nature and extent of the non-compliance and their potential impact on the sales processes and clients differed for each Distributor. The detailed findings for each Distributor are set out in the following chapters and are specific to that Distributor.

37. A common finding for the Distributors is that the product briefing materials disseminated to their representatives did not highlight the fact that the performance of the Underlying Securities was a source of risk to the performance of the Minibond Notes (except for series 5, 6, 7 and 9 where this was prominently highlighted in the briefing materials as a secondary risk) and/or the risk of significant loss of principal on early redemption of the Minibond Notes. This arose in situations which included a default on the Underlying Securities (except for series 5, 6, 7 and 9) or any of the issuer, the Swap Counterparty or the Swap Guarantor's inability to meet their obligations under the Swap Arrangements. The Distributors thereby failed to meet the standards set out in paragraph 10.2 of FAA-G04 by not taking all reasonable steps to ensure that their representatives complied with paragraphs 6.3

of FAA-G04 and paragraph 11 of FAA-N03 to give adequate disclosure and explanation of the risks of the investment product.

V. The Authority's general observations on redress for individual investors

38. Although section 64 of the FAA provides that the failure of any FI to comply with the Guidelines issued under the FAA may be relied upon to establish liability against the FI in any criminal or civil proceedings, any such failure does not by itself render the FI liable for criminal sanctions or civil damages to an individual investor. Section 27 of the FAA also requires that, for an investor to make out a claim for damages where a recommendation was made without a reasonable basis, the investor must show reliance on the recommendation and that it is reasonable, having regard to the recommendation and all other relevant circumstances, for that investor to have purchased the Notes in reliance on the recommendation. Similarly, a claim in tort or contract for misrepresentation has to show reliance on the misrepresentations complained of. Whether an investor bringing an action against the FA can prove that there was such reliance, whether such reliance was reasonable, and to what extent, if any, the recommendation could be shown to have affected the investor's actual decision to invest is a matter that would need to be established by each investor based on the specific facts and circumstances at the time of purchase. Establishing such a case in law would depend, among other things, on the oral and documentary evidence as to what transpired between the client and the representative of his FA and what documents the client signed as part of the transaction process.

39. All clients investing in the Notes were generally provided with, or asked to acknowledge receipt of or sign, documentation containing risk warnings and disclaimers in respect of the liability of a seller of the Notes:

a. The application form from the respective issuer of the Notes required the client's acknowledgement that he or she had read, understood and agreed to the terms of the prospectus and pricing statement and that the Notes were subject to investment risk, including loss of capital invested; and

b. The prospectus and pricing statement, in turn set out the features and risks associated with the Notes, including the fact that the Notes were not principal protected or capital guaranteed. Specifically, page 17 of the base prospectus dated 30 March 2006 and page 19 of the base prospectus dated 26 June 2008 for the Minibond Series and page 8 of the base prospectus dated 15 November 2006 for the Jubilee Series stated that "*[t]he Notes are sophisticated instruments and can involve a high degree of risk*"; and page 8 of the base prospectus dated 7 August 2006 of the Pinnacle Series stated that "*[t]he Notes are sophisticated instruments and involve a high degree of risk*" and "*[g]iven the highly specialised nature of these Notes, the Issuer and the Arranger consider that they are only suitable for investors willing to take considerable risks, who are able to determine for themselves the risk of an investment linked to derivatives and who can absorb a partial or complete loss of principal*". Page 9 of the pricing statement for HN5 dated 29 March 2007 stated that "*[a]n investment in structured products such as the Notes involves substantial risks*" and "*[s]tructured products such as the Notes issued under the Programme are not suitable for inexperienced investors*".

40. Clients who purchased the Notes on an "advisory basis" were also required to sign and acknowledge the category of investment advice they were receiving (including instances when they elected for "no advice"), their risk profiles, the representative's basis of recommendation and their acceptance of such recommendations. Where clients accepted the recommendation to buy the Notes based on the information they had provided to the Distributors, there were also clear warnings that any inaccurate or incomplete information from the client could affect the suitability of the recommendation. Clients of some of these Distributors were also required to sign fact sheets, risk acceptance forms or bases of recommendation which clearly stated that the Notes were not a fixed deposit and/or not principal guaranteed and/or highlighted the product risks.

41. There were other risk disclaimers in forms used by the stockbroking firms when they distributed the Notes on an "execution-only" model. For instance, a questionnaire called the Customer Investment Profile ("CIP") form commonly used by stockbroking firms to elicit information about a client before the firm could make recommendations or provide advice in

relation to capital markets products warned that if the client failed to complete and return the form, the client would be solely responsible for his own suitability determinations for his investments and the stockbroking firm's obligation to ensure the suitability of the investment only arose where the firm provided specific advice to the client. Additionally, all investors purchasing the Notes through stockbroking firms had to have a trading account with the firm. The account opening documentation contained standard terms and disclosures stating that the firm generally provided an "execution-only" broking service and unless the client had a specific agreement with the firm for the provision of advisory services, the information that the client received was not in the nature of any advice or recommendation and was not to be relied by the client in making investment decisions. A number of the stockbroking firms also furnished the clients with additional forms or documents which further disclaimed responsibility for the assessment of the risks, merits and suitability of the Notes for the clients.

42. The Distributors generally take the view that the documentation signed by clients mean they do not have any legal liability to the client and, accordingly, afford them a legal basis not to offer redress in many cases. The Distributors also take the view that they were not liable for statements of opinion expressed in good faith. Additionally, the Distributors highlighted their fiduciary obligations to shareholders and other stakeholders which as a matter of law they needed to take into account in making offers of settlement. Nonetheless, the Distributors generally agreed to adopt the Authority's recommendation not to take an overly legalistic approach in resolving client complaints. The Authority worked with the IPs appointed by the Distributors to oversee the complaints handling and resolution process to ensure that the issues identified in the course of investigations were incorporated into the assessment of individual complaints. The Distributors' assessment criteria therefore took into account whether there was a reasonable basis for recommending the product to the client, the extent to which it was properly explained to the client that the product was being sold on an "advisory" or "execution-only" basis and whether proper procedures were adhered to in the advisory and sales process. In deciding on the outcome of each complaint, the Distributors did not rely on any single factor but took into account a whole range of relevant factors including the investment experience of the client, the degree of reasonable reliance on the advice provided and the client's ability to understand the product and any documents signed during the sales process. In doing so, the Distributors also considered that, to the extent

appropriate based on the specific circumstances of the complaint, there were clients who should also share responsibility for their purchase decisions based on the factors set out above. Such clients were offered either no or partial redress, in proportion to the Distributor's view of their level of responsibility. All offers of settlement were made by the Distributors on a voluntary basis without any admission of liability. For the Minibond Notes, where a partial settlement is offered, the client will retain all or a portion of his notes. For the portion of the notes retained, he will get to keep the residual value arising from those notes, if there is any. The residual value is uncertain and will depend on the ultimate value of the Underlying Securities.

VI. The Authority's findings and regulatory action against individual Distributors

43. The Authority's findings from this investigation, and the action taken by the Authority, in respect of each Distributor, are set out in the subsequent chapters. The Authority took into account the nature and impact of the non-compliance by the Distributors, the steps taken to rectify the non-compliance, and the extent to which they accepted responsibility and resolved complaints in deciding on the appropriate regulatory action.

CHAPTER 2 ABN AMRO BANK N.V. SINGAPORE BRANCH ("ABN")

1. ABN is licensed as a bank under the Banking Act (Cap. 19). By virtue of section 23(1)(a) of the FAA, ABN is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. ABN distributed various series of the Minibond Notes: series 1 between 3 April and 5 May 2006, series 2 between 24 July and 18 August 2006 and series 3 between 8 January and 16 February 2007. A total of $100.2 million of Minibond Notes were sold to 870 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including ABN, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. Before distributing the Minibond Notes in 2006, formal internal approval had been obtained in 2003 for ABN's distribution of structured notes generally as a new product class. The proposal was prepared by Investments and Specialised Products, a department within Consumer Banking and approved by the Heads of Operations, Information Technology, Finance, Compliance, Legal, Credit Risk, Market Risk and Operational Risk.

(ii) Product due diligence

5. When series 1 was distributed, ABN had three classifications for rating the riskiness of investment products namely "Conservative (low risk)", "Balanced (medium risk)" and "Growth (high risk)". In the course of conducting formal assessment and due diligence on the Minibond Notes, ABN took into account the fact that they were more complex investment

products and were not principal protected in arriving at an internal product risk rating of "Growth".

6. ABN categorised its clients into corresponding investment risk profiles. A client's investment risk profile determined which investments would be recommended to that client as part of his portfolio. There were three possible portfolio models for ABN's clients:

Rating (referred to by ABN as the "Model Portfolio")	**Description**	**Recommended Asset Allocation (referred to by ABN as the "Strategic Allocation")**
Conservative	The primary objective is to receive a consistent, secure cashflow coming from reliable sources in debt capital market and inflation protection. In order to satisfy income requirements, the client is willing to accept a low level of capital risk, due to the fluctuation in the level of interest rates and some equities.	10% - money market 70% - debt capital market 10% - equities 10% - alternative investments
Balanced	The primary objective is to obtain above-average returns in a period of three to five years. To obtain capital appreciation, the client is willing to accept certain volatility in market prices. Equity and debt capital markets take a dominant role in the asset composition. The reinvestment of interest will also represent a significant portion of the total return.	10% - money market 40% - debt capital market 40% - equities 10% - alternative investments
Growth	The primary objective is to obtain	10% - money market

	growth of capital with a higher return in a period of three to five years. In order to obtain the desired superior returns, the client must be willing to accept a substantial risk and large market fluctuations in capital.	20% - debt capital market 50% - equities 20% - alternative investments

7. Any investment product which was not a money market, debt capital market or equities instrument was considered by ABN to be alternative investments. The Minibond Notes were thus considered alternative investments.

8. A client whose risk profile was "Conservative" or "Balanced" could buy products of a higher risk classification, such as the Notes, provided such clients acknowledged that they were purchasing a product that deviated from their risk profile.

9. When distributing series 2, ABN used both the 3-category risk classification above as well as a new investment product risk categorisation with five categories, namely "Conservative", "Moderate", "Balanced", "Growth" and "Aggressive". When ABN distributed series 3, it had fully adopted the newer 5-category risk classification. Under the expanded 5-category classification for series 2 and 3, the Minibond Notes continued to be rated as "Growth". There were no asset allocations recommended specifically for "Moderate" or "Aggressive" investment risk profiles. Rather, depending on a "Moderate" or "Aggressive" client's stated objectives and investment time horizon, ABN would recommend one of the "Conservative", "Balanced" or "Growth" asset allocations.

10. ABN communicated this "Growth" product risk rating to its Relationship Managers ("RMs") in respect of the launch of series 2 and 3 of the Minibond Notes. However, before distributing series 1 of the Minibond Notes, ABN did not expressly communicate to its RMs that series 1 of the Minibond Notes carried a "Growth" risk rating. Instead, ABN relied on the general understanding among its RMs, which would have been communicated to the RMs during training for other products, that non-principal protected structured notes were rated "Growth". A total of 132 sales of series 1 of the Minibond Notes were made to clients whose

risk profiles were rated below "Growth". ABN reviewed the sales made to these clients in accordance with its complaints resolution framework.

11. Given the importance of informing its RMs what level of risk an investment product carried in ensuring a proper sales process, the Authority finds that ABN thereby failed to meet the standards set out in paragraph 5.1 of FAA-G04 to act with due care and diligence in carrying out its activities and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with section 27 of the FAA which states that where a recommendation is made, there should be a reasonable basis for making the recommendation.

(iii) Product briefings

12. ABN arranged briefings by the product arranger for its RMs on the product features of the Minibond Notes. ABN kept attendance records at the briefings conducted by the arranger and there were opportunities for RMs who did not attend the product briefings conducted by the arranger to be briefed by ABN's Investment Consultants about the product internally at branch level.

13. ABN did not require compulsory attendance of its RMs at product briefings provided by the arranger before permitting the RMs to sell the Minibond Notes. However, RMs who had not attended either product briefings by the arranger or the Investment Consultants were not allowed to sell the Notes without an Investment Consultant present during the sales process to guide the RM along. Based on ABN's records, around 40%, 78% and 68% of RMs attended the product briefings delivered by the arranger for series 1, 2 and 3 respectively. ABN did not however monitor whether RMs who missed the arranger's briefings were briefed at branch level.

14. The Authority finds that ABN thereby failed to meet the standards set out in paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed and provide its representatives with relevant training so as to enhance their competence, knowledge and skills.

(iv) Risk profiling and investor suitability

15. In advising on sales of the Minibond Notes, ABN employed a fact find document called the "Financial Needs Analysis for Wealth Management Account – Fact Find" ("FNA"). Information asked for in the FNA include, the amount of the client's investible assets and the percentage of his investible assets that he was prepared to invest on that occasion. The FNA contained a risk profiling questionnaire to enable its RMs to determine the investment risk profile of each client. A higher score indicates that the client has a lower risk tolerance level.

16. The risk profiling questionnaire in the FNA contained an error. Question 11 of Risk Preference in page 6 of the FNA asked what proportion of assets with ABN the client wished to invest in instruments other than risk-free deposits. A higher score was given if a client wished to invest a higher proportion of assets to such instruments. However such investment instruments carry more risk than risk-free deposits. The scoring for question 11 was therefore erroneous because a higher score was being given to clients with a higher risk appetite and a lower score was being given for lower risk appetites, when it should have been the other way round. As a result, 44 clients were given a risk profile that was higher than what they ought to have received. For the purposes of complaints handling, ABN reviewed these 44 cases based on the correct rating of the affected clients in accordance with its complaints resolution framework. The Authority finds that ABN failed to meet the standards set out in paragraph 5.1 of FAA-G04 which states that an FA should act with due care and diligence in conducting its business activities and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with section 27 of the FAA which states that where a recommendation is made there should be a reasonable basis for making the recommendation.

17. ABN had enhanced internal control processes in place for series 2 and 3 which required that if the client's risk profile according to the FNA risk profiling questionnaire deviated from the "Growth" portfolio, or if the sale of series 2 and 3 of the Minibond Notes was conducted on a "no advice" basis, then a separate review and sign-offs from Branch Managers were required. ABN's clients were also required to sign off on a Fact Sheet, which highlighted that the Minibond Notes were not principal protected. The Fact Sheet was prepared by ABN as a generic document, containing general information about structured or

retail notes and was meant to be a supplement to the base prospectus and pricing statement. Additionally, all sales of the Minibond Notes were validated by the RM's supervisor.

II. ACTION BY THE AUTHORITY

18. In response to the Authority's findings, ABN took steps to enhance its sales process, including introducing for all new product launches a product risk suitability sign-off by clients, and presenting the key benefits and risk warnings in an easier-to-read form. ABN has since November 2008 rectified its FNA and now allows only RMs who have recorded attendance at product trainings or one-on-one follow up training at branch levels to sell specific investment products.

19. ABN put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. As of 31 May 2009, ABN had completed the review of all 637 complaint cases received. It had decided on settlement offers to 262 clients, representing 41.1% of cases decided by ABN as at 31 May 2009. Full settlement has been offered to 91 clients, or 14.3% of cases reviewed by ABN. A further 123 (19.3%) and 48 (7.5%) clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively. The settlement offers made by ABN amount to $14.1 million.

20. In the circumstances, the Authority directed ABN to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual (excluding those served by the private banking unit) for all structured notes with effect from 1 July 2009 for a period of six months, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of ABN's measures (including setting out ABN's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of ABN's

internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of ABN's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require ABN's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of ABN's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of ABN's existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by ABN, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that ABN's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of ABN's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by ABN in the advisory and sales process including the FNA forms and risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by ABN's representatives including conducting audits of the FNA forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by ABN in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review ABN's action plan; confirm that the action plan addresses the requirements set out in paragraph 20 (b) and prepare a report on his assessment ("First Report"); and assess whether ABN has properly implemented the action plan referred to in paragraph 20 (b) and prepare a report of his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of ABN's senior management to have oversight over ABN's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 3 DBS BANK LTD ("DBS")

1. DBS is licensed as a bank under the Banking Act (Cap.32). By virtue of section 23(1)(a) of the FAA, DBS is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. DBS issued and arranged HN5. It distributed HN5 between 30 March and 30 April 2007. DBS sold a total of $103.7 million worth of HN5 to 1,083 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including DBS, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to offer

4. The proposal to offer credit linked notes with a first-to-default structure and CDOs generally as a new product class was prepared in 2004 and 2005 by Deposits, Investment and Insurance Strategy, a department within DBS' Consumer Banking Group. The proposal was cleared by various functional departments, including Group Compliance, Group Risk and Legal, and approved by the Head of the Consumer Banking Group.

(ii) Product due diligence

5. DBS conducted a formal assessment and product due diligence specifically on HN5. This determined that HN5 carried a "Growth" risk rating on the basis that HN5 was not principal protected and HN5 was targeted at DBS' "Treasures" and "Emerging Affluence"

clients[15]. The product risk rating and target client segments were communicated exclusively to its RMs who serviced "Treasures Onshore", "Treasures" and "Emerging Affluence" client segments before HN5 was launched.

6. DBS categorised its clients into five different risk profiles:

Profile	Profile Description in Financial Needs Analysis Form
Conservative	I prefer to take very little investment risk such that when the time comes to access my investments, I will not experience a sudden fall in its value. I am able to take small short term price changes to my investments in exchange for a return that is slightly higher than time deposits.
Moderate	I would like the returns on my savings and investments to keep pace with rises in the cost of living. I am able to take some short term price changes to my investments in exchange for potential returns that are moderately higher than time deposits.
Balanced	I would like to balance having stable savings and investments with the aim of achieving some capital growth over a longer period. I am able to accept price changes to my investments over 2 to 3 years in exchange for potential returns that are higher than time deposits.
Growth	I would like my savings and investments to grow over a medium time horizon. I am able to accept price fluctuations to some of my investments within a time frame of 3 years or more, in exchange for a potential return that is much higher than time deposits.
Aggressive	I would like to achieve a high level of returns on my investments. I am able to accept sharp fluctuations in the value of my investments over 3 years or more, in order to increase the potential of high returns. I recognise that there is potential risk of capital loss for some of the investments I undertake.

[15] This refers to clients with more than $200,000 (for "Treasures") and $80,000 (for "Emerging Affluence") assets respectively under management by DBS although the "Emerging Affluence" definition also takes into consideration the client's income and occupation.

7. DBS had internal policies surrounding the process of selling and marketing HN5 which took into account HN5's risk and complexities, namely it required that:

a. all sales of HN5 were to be made on an advisory basis only with a fact-find of the client's circumstances having been conducted;

b. counter staff should not mention HN5 to clients who came in for banking transactions or refer clients to RMs to purchase HN5;

c. RMs were to inform their Business Managers ("BM") of investments in HN5 by clients (i) above 62 years old, regardless of their risk profile; (ii) whose personal risk profile was inconsistent with that suggested by DBS' due diligence for investing in HN5; (iii) who had opted against completing a fact-finding exercise; or (iv) with large investment size of more than $200,000 if they were "Treasures" clients and $80,000 if they were "Emerging Affluence" clients; and

d. BMs were required to review and validate all investments in HN5 by clients (i) above 62 years old, regardless of their risk profile; and (ii) whose personal risk profile was inconsistent with that suggested by DBS' due diligence for investing in HN5.

(iii) Product briefings for RMs

8. DBS conducted internal training for its RMs on the sales process and operations procedures to be adhered to in the distribution of HN5 and internally administered a product-specific test on these matters. DBS required RMs to attend the training and pass the test before being allowed to advise and sell HN5. DBS communicated to its RMs HN5 product information illustrating how HN5 worked and its risks e.g. the credit risk of DBS, the 8 Reference Entities, the collateral securities, and the fact that HN5 carried higher risk compared to investments in a single bond/credit linked note or bond fund/basket of bonds because of exposure to the worst credit in the basket.

9. Despite having in place HN5-specific training and testing requirements, 28 RMs did not attend DBS' internally administered product training and take the required HN5-specific test. A further 21 RMs attended product training but did not take that test. The 49 RMs were nevertheless permitted to sell HN5 and had sold the product to 303 clients. Of the 28 RMs who did not attend product training, 19 had not attended training for earlier High Notes series that had a similar structure to HN5. These 19 RMs had sold HN5 to 108 of the 303 clients. DBS reviewed the sales made to these clients in accordance with its complaints resolution framework.

10. Further, while BMs were to ensure compliance by the RMs with the sales guidelines laid down for selling HN5, which included monitoring RMs' attendance at compulsory product training and their passing of the required test, the RMs' training attendance and test results did not appear to have been disseminated to the BMs.

11. The Authority finds that DBS thereby failed to meet the standards in paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possess the relevant professional training, and provide its representatives with relevant training to enhance their competence, knowledge and skills.

(iv) Risk profiling and investor suitability

12. In advising on sales of investments, DBS employed a fact finding document called the "Financial Needs Analysis - Form A" ("FNA"). Information asked for in the FNA include, the client's financial objectives and needs, investment time horizon, investment experience and financial situation. The FNA contained a risk profiling questionnaire to enable RMs to determine the investment risk profile of each client. A higher score indicates that the client has a higher risk tolerance level. The investment risk profile determined by the FNA determined which investments would be recommended to a client.

13. A client whose risk profile according to the FNA was "Conservative", "Moderate" or "Balanced" could buy HN5, provided such clients acknowledged that they were purchasing a product that deviated from their risk profile. In addition, BMs were required to review and

validate such investments, including confirming with clients that they understood the product features and risks. HN5 was sold to 41 clients with risk profiles rated below "Growth".

14. HN5's pricing statement and prospectus stated that HN5 was "not suitable for inexperienced investors". However, DBS did not explicitly communicate this to its RMs. A total of 54 clients with no investment experience were sold HN5. DBS reviewed the sales made to these clients in accordance with its complaints resolution framework. The Authority finds that DBS failed to meet the standards set out in paragraph 5.1 of FAA-G04 to act with due care and diligence, and paragraph 10.2 of FAA-G04 for not taking reasonable steps to ensure that its RMs complied with:

a. Section 27 of the FAA which states that where a recommendation is made, there should be a reasonable basis for making the recommendation;

b. Paragraph 11(b)(ii) of FAA-N03 which states that warnings and important information such as the nature and risks of the product should be prominently presented and clearly explained to the client; and

c. Paragraph 6.4 of FAA-G04 which states that an FA should draw the client's attention to warnings, exclusions and disclaimers in all documents, advertising materials and literature relating to an investment product it is recommending to the client.

II. ACTION BY THE AUTHORITY

15. In response to the Authority's findings, DBS refined its sales process to eliminate the risk of lapses identified by the Authority and assured the Authority that it would continuously review its documentation standards and practices, ensure that clients are treated fairly and would act appropriately where lapses were identified. Examples of refinements to DBS' sales process are, increased focus on investor education and training and monitoring of training and testing of sales staff including mystery shopping, additional care for vulnerable clients and reviewing of the minimum cooling off period.

16. DBS put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. As of 31 May 2009, DBS had completed the review of 866 cases. It had decided on settlement offers to 197 clients, representing 22.8% of cases decided by DBS as at 31 May 2009. Full settlement has been offered to 64 clients, or 7.4% of total cases reviewed by DBS. A further 71 (8.2%) and 62 (7.2%) clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively. The settlement offers made by DBS amount to $7.6 million.

17. In the circumstances, the Authority directed DBS to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual (excluding those served by the private banking unit) for all structured notes with effect from 1 July 2009 for a period of six months, or until the Authority is satisfied that it has put in place adequate measures to address the findings whichever date is the later;

b. Prepare and properly implement an action plan of DBS' measures (including setting out DBS' manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of DBS' internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of DBS' existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require DBS' representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of DBS' representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of DBS' existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by DBS, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that DBS' representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of DBS' existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by DBS in the advisory and sales process including the FNA forms and risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by DBS' representatives including conducting audits of the FNA forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by DBS in connection with its provision of any financial advisory service by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review DBS' action plan; confirm that the action plan addresses the requirements set out in paragraph 17(b) and prepare a report on his assessment ("First Report"); and assess whether DBS has properly implemented the action plan referred to in paragraph 17(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of DBS' senior management to have oversight over DBS' compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 4 MALAYAN BANKING BERHAD SINGAPORE BRANCH ("MBB")

1. MBB is licensed as a bank under the Banking Act (Cap. 19). By virtue of section 23(1)(a) of the FAA, MBB is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. MBB distributed various series of the Minibond Notes: series 1 between 3 April and 5 May 2006, series 2 between 24 July and 18 August 2006, series 3 between 8 January and 16 February 2007 and series 5 & 6 between 14 May and 8 June 2007. MBB sold a total of $97.6 million worth of the Minibond Notes to 2,456 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including MBB, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. The proposal to distribute series 1 was prepared by MBB's Retail Financial Services, later renamed Consumer Banking, and approved by MBB's Singapore Management Committee, which comprises its Department Heads. The distribution of the other series was approved by the Head of Retail Financial Services.

(ii) Product due diligence

5. MBB classified investment products as being suitable for clients within one of the following client investment risk profiles, namely: (a) Very Conservative; (b) Conservative; (c) Moderate; (d) Moderately Aggressive; (e) Aggressive; and (f) Very Aggressive. Depending on the client investment risk profile and if requested by the client, MBB also

recommended how clients' assets should be allocated to different asset classes. However, the recommended asset allocation was only in respect of three asset classes, namely cash, global bonds and global/regional equities. Details of the various client investment risk profiles and the corresponding recommended asset allocation used by MBB are as follows:

Category	Risk Profile	Asset Allocation
Very Conservative	One who can take low risk investment and can tolerate low fluctuations in investment values for potentially higher investment returns.	25% - global bonds 75% - cash
Conservative	Same as a conservative investor except for different weighting in asset allocation between cash, bonds and equities.	45% - global bonds 20% - global/regional equities 35% - cash
Moderate	One who can take moderate risk investment and can tolerate moderate fluctuations in investment values for potentially higher investment returns.	40% - global bonds 40% - global/regional equities 20% - cash
Moderately Aggressive	Same as a moderate investor except for different weighting in asset allocation between cash, bonds and equities.	40% - global bonds 60% - global/regional equities
Aggressive	One who can take high risk investment and can tolerate high fluctuations in investment values for potentially higher investment returns.	20% - global bonds 80% - global/regional equities
Very Aggressive	Same as an aggressive investor except for different weighting in asset allocation between bonds and equities.	75% - global equities 25% - regional equities

6. MBB's formal assessment and product due diligence on the Minibond Notes determined the Minibond Notes to be "alternative; structured notes" or alternative

investments and classified the Minibond Notes together with bonds as one asset class for asset allocation purposes.

7. During the first nine days of the offer period for series 1, that is, from 3 to 11 April 2006, MBB classified the Minibond Notes as "Conservative". This was communicated to its RMs via email. A sale was made during this period to a "Conservative" client. MBB later recognised that this classification was inappropriate given the statements in the prospectus as to the risk characteristics and client suitability of the Minibond Notes. MBB therefore reclassified series 1 as "Moderate" on 12 April 2006. This was again communicated to RMs via email. For series 2, 3, 5 and 6, MBB classified the Minibond Notes as "Moderately Aggressive". However, during the first two weeks of the offer period for series 2, that is, from 24 July to 7 August 2006, MBB mis-communicated, via email, the classification of series 2 as "Conservative" to its RMs. 63 sales were made during this period to "Conservative" and "Moderate" clients. MBB reviewed the sales made to these clients in accordance with its complaints resolution framework. MBB subsequently rectified the error and communicated, via email, the classification of "Moderately Aggressive" for series 2 to its RMs on 8 August 2006. When series 1 and 2 were reclassified, MBB did not direct its RMs to go over the sales already made to ensure that the risk profile of the clients who bought the Notes still matched the higher risk reclassification of the two Notes.

8. The Authority finds that MBB thereby failed to meet the standards in paragraph 5.1 of FAA-G04 which states that an FA should act with due care and diligence in conducting its activities and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with section 27 of the FAA, which states that when a recommendation is made, there should be a reasonable basis for making that recommendation.

9. As noted above, MBB's reclassifications of series 1 and 2 were solely by way of emails. These constituted insufficiently robust measures to communicate the reclassifications to its RMs to prevent the Minibond Notes from being recommended to clients who did not match the correct risk profiles. After the reclassifications, a sale of series 1 was made to a "Conservative" client and 60 sales of series 2 were made to "Moderate" clients. MBB reviewed the sales made to these clients in accordance with its complaints resolution framework.

10. The Authority finds that MBB thereby failed to meet the standards set out in paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and activities and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with section 27 of the FAA which states that where a recommendation is made, there should be a reasonable basis for making the recommendation.

(iii) Product briefings for RMs

11. MBB had in place requirements for its RMs to attend product briefings for new products. MBB made it compulsory for all RMs to attend a product briefing for each series of the Minibond Notes before they were allowed to sell them and the attendance of the RMs was monitored. All briefings, including materials, were conducted and provided by the arranger of the Minibond Notes.

(iv) Risk profiling and investor suitability

12. MBB's financial planning system involved its clients completing a risk profiling questionnaire which its RMs used to determine the investment risk profile of each client. The questionnaire featured a scoring system based on that client's investment goals and circumstances. The questionnaire asked for the client's age and the older a client, the lower the score and his risk tolerance. A higher score indicated that the client had a higher risk tolerance level.

13. The questionnaire also asked for the client's investment experience. However, this factor was not allocated a numerical score towards computing his risk profile and suitability to purchase an investment product and no guidance was given to the RMs on the relevance of the client's investment experience in arriving at an appropriate client's risk profile and suitability to purchase an investment product. As such, each RM in making a recommendation was left to factor in information about the client's investment experience on his or her own without any guidance. This could lead to subjective assessment by each RM

and the risk of inconsistency as to the types of investment products recommended to clients who objectively fell into the same broad risk profile.

14. MBB had determined the Minibond Notes to be alternative investments during its product due diligence. For series 1 and 2 of the Minibond Notes, MBB failed to sufficiently distinguish the Minibond Notes from bonds and had in fact informed its RMs that the Minibond Notes were suitable for clients who wanted to diversify their portfolio with bonds.

15. MBB also did not provide sufficiently bespoke guidance to its RMs on how to factor in a structured note such as the Minibond Notes in the client's portfolio. This could lead RMs to inadequately convey to clients the nature of the Minibond Notes and might cause inappropriate concentration of the Notes within a client's portfolio.

16. On the basis of the facts set out in paragraphs 12 to 15 above, the Authority finds that MBB thereby failed to meet the standards set out in paragraph 5.1 of FAA-G04 to act with due care and diligence in conducting its activities, and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with:

a. Section 27 of the FAA and paragraph 11(c)(iii) of FAA-N03, which state that where a recommendation is made, there should be a reasonable basis for making the recommendation;

b. Paragraphs 10 and 11(b)(ii) of FAA-N03 which state that an FA is expected to ensure any statement made to its clients is not misleading and important information, such as the nature of the product, should be clearly explained; and

c. Paragraphs 6.3 and 6.5 of FAA-G04 which state that when making a recommendation on an investment product, an FA should make adequate disclosure of all material facts relating to the key features of the product, including the nature of the product and ensure that information provided to the client is clear and not misleading.

17. MBB has since reclassified structured products as a distinct asset class and has informed its RMs that for clients profiled to be suitable to invest in structured products, no more than 20% of the client's investible assets should be allocated for such purposes.

18. MBB's financial planning system allowed its RMs to recommend a product of a higher risk category than the risk profile of the client. This would be documented in and form part of the basis of recommendation in the needs analysis form to be signed by the client. When subscribing for the Minibond Notes, clients had to sign a Risk Disclosure Statement acknowledging that they were aware the Minibond Notes were not principal protected and were subject to investment risk, including the possible loss of principal.

II. ACTION BY THE AUTHORITY

19. MBB had begun to identify and rectify certain deficiencies on its own accord before the onset of investigations. In response to the Authority's findings, MBB promptly reviewed its framework on the sale and marketing of investment products and implemented enhanced measures in light of the deficiencies identified in its sales process. The new measures include the introduction of a risk disclosure summary page for clients and usage of a product suitability matrix factoring in clients' risk appetite, age and investment experience, safeguards for vulnerable clients, and compulsory 15 hours of continuing professional development for its representatives in addition to regular monthly coaching by supervisors.

20. MBB put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. As of 31 May 2009, MBB had completed the review of 1,704 cases. It had decided on settlement offers to 1,100 investors, representing 64.6% of cases decided by MBB. Full settlement has been offered to 325 clients, or 19.1% of total cases reviewed by MBB. A further 172 (10.1%) and 603 (35.4%) clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively. The settlement offers made by MBB amount to $25.3 million.

21. In light of the findings, the Authority directed MBB to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of six months, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of MBB's measures (including setting out MBB's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of MBB's internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of MBB's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require MBB's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of MBB's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of MBB's existing training programmes and training materials for its representatives and their supervisors on the

needs-based sales process and investment products offered by MBB, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that MBB's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of MBB's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by MBB in the advisory and sales process including any financial needs analysis forms and the risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by MBB's representatives including conducting audits of the financial needs analysis forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by MBB in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review MBB's action plan; confirm that the action plan addresses the requirements set out in paragraph 21(b) and prepare a report on his assessment ("First Report"); and assess whether MBB has properly implemented the action plan referred to in paragraph 21(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of MBB's senior management to have oversight over MBB's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 5 HONG LEONG FINANCE LIMITED ("HLF")

1. HLF is licensed as a finance company under the Finance Companies Act (Cap. 108). By virtue of section 23(1)(e) of the FAA and Finance Companies (Exemption from sections 23(1) and 25(2)) Regulations 2009, HLF is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. HLF distributed various series of the Minibond Notes and Pinnacle Notes at different periods: Minibond series 3 between 8 January and 16 February 2007, Minibond series 5 & 6 between 14 May and 8 June 2007, Minibond series 7 between 19 November and 14 December 2007; Minibond series 9 between 30 June and 25 July 2008; and Pinnacle Notes between 29 October and 30 November 2007. HLF sold a total of $86.3 million worth of Minibond Notes to 2,274 retail clients and $19.9 million worth of Pinnacle Notes to 507 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including HLF, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. The proposal to distribute each series of the Minibond or Pinnacle Notes was prepared by the Wealth Management Department. The distribution was approved by the President of HLF and HLF's Senior Executive Vice President of Corporate & Consumer Business.

5. As an exempt person pursuant to section 23(1)(e) of the FAA, HLF was required to lodge with the Authority a notification (Form 21) regarding details of any new type of financial advisory service or financial advisory service in respect of a new type of investment product offered no later than 14 days after the date of the new service or new investment

product offered. However, HLF failed to lodge Form 21 to notify the Authority that it had commenced distributing the Minibond and Pinnacle Notes, which amounted to advising on securities (other than collective investment schemes), in breach of regulation 37(1)(c) of the FAR. HLF did however file a similar form, Form 27 under the SFA, notifying the Authority of the commencement of its distribution and marketing of structured products.

(ii) Product due diligence

6. HLF determined the Minibond and Pinnacle Notes to be suitable for slightly more sophisticated clients. These would include those who had prior investment experience in unit trusts, dual currency products or structured products. HLF did not assign a formal risk rating but had considered the products as having "low to medium" risk and subsequently described them as "Moderately Conservative".

7. In approving the distribution of Minibond series 9, HLF's President had taken the view given the market context at the time that the RMs should be very mindful that any applicant should have "sufficient investment savvy" to fully understand the risks of these deals.

8. There were no contemporaneous documents to substantiate how HLF arrived at a "low to medium" risk classification for the Minibond and Pinnacle Notes. Instead, HLF subsequently justified the classification on the basis of the high credit ratings of the reference entities and the underlying collateral of the Minibond and Pinnacle Notes, the low statistical likelihood of default associated with such high credit ratings, the standing of the international credit rating agencies carrying out the credit ratings, the status of the arranger/swap counterparty group as a highly rated top tier investment bank and general economic outlook at the time. A "low to medium" risk classification was however inconsistent with the prospectuses, which stated that the Minibond and Pinnacle Notes "can involve a high degree of risk" and the prospectus of Pinnacle Notes that they "are only suitable for investors willing to take considerable risks". The number of "Conservative" clients who bought the Minibond Notes and Pinnacle Notes was 771 and 111 respectively. HLF reviewed the sales made to these clients in accordance with its complaints resolution framework.

9. The descriptions and recommended equity to bond allocations for HLF's client risk profile ratings are set out in the table below:

Risk Profile	Risk Profile Description	Recommended Equity to Bond Ratio
Conservative	Wants low returns, stable and low-risk investment that require minimal action and monitoring.	20:80
Moderately Conservative	Wants reasonably good returns and are able to bear some risks.	35:65
Balanced	Wants reasonably good returns and are able to bear medium amount of risks.	50:50
Moderately Aggressive	Wants good returns and able to withstand fluctuations in their investments.	70:30
Aggressive	Wants very high returns and able to handle higher risks and fluctuations in their investments.	90:10

10. HLF communicated the "low to medium" risk classification for the Minibond and Pinnacle Notes to its RMs, who in turn sold the products to clients on the same basis. While HLF communicated to its RMs the potential for risk of loss of principal of the notes, HLF did not specifically communicate to the RMs (a) its internal assessment that the Minibond and Pinnacle Notes were suitable for slightly more sophisticated clients; and (b) management's direction to be very mindful that clients have "sufficient investment savvy" to fully understand the risks in respect of the Minibond Notes series 9. A total of 428 clients with no investment experience had bought the Minibond Notes and Pinnacle Notes. HLF reviewed the sales made to these clients in accordance with its complaints resolution framework.

11. The Authority finds that HLF thereby failed to meet the standards set out in paragraph 5.1 of FAA-G04 to act with due care and diligence and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with:

a. Section 27 of the FAA which states that where a recommendation is made, there should be a reasonable basis for making the recommendation;

b. Paragraph 11(b)(ii) of FAA-N03 which states that warnings and important information such as the nature and risks of the product should be prominently presented and clearly explained to the client; and

c. Paragraphs 6.3 and 6.4 of FAA-G04 which state that an FA should make adequate disclosure of the risks and draw the client's attention to the warnings in all documents relating to an investment product it is recommending to the client.

(iii) Product briefings to RMs

12. HLF required all RMs to attend product briefings given by the arrangers of the Minibond and Pinnacle Notes before selling the products. HLF kept attendance records of these briefings. Four RMs missed the Minibond Note briefings during their employment. RMs who missed these sessions conducted by the arrangers were provided with in-house replacement briefing or coaching using the arrangers' presentation materials. However, no attendance records were maintained in respect of such replacement briefings or coaching. In this regard, the Authority finds that HLF thereby failed to meet the standards in paragraph 4.3 of FAA-G04 which states that an FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possess the relevant professional training.

(iv) Risk profiling and investor suitability

13. In advising on sales of investment products, HLF employed a fact find document called the "Wealth Management Planner" ("WMP"), which consisted of two main sections: (a) "Data Taker"; and (b) "Collective Investment Scheme Recommendations". Information asked for in the WMP include, the client's financial objectives and needs, investment time horizon, investment experience and financial situation.

14. HLF determined a client's risk profile primarily from his financial objectives without any objective measure to assess other important factors. Although HLF's clients were required to provide information relating to their investment time horizon, experience and diversification needs, unlike practices observed in other financial institutions, these factors were not allocated a numerical score towards computing a particular client's risk profile and suitability to purchase an investment product nor were alternative forms of guidance provided to the RMs on the relevance of these factors in arriving at an appropriate client's risk profile and suitability to purchase an investment product. As such, each RM in making a recommendation was left to factor in information about the client's investment time horizon, experience and diversification needs on his or her own without any guidance. This could lead to subjective assessment by each RM and the risk of inconsistency as to the types of investment products recommended to clients who objectively fell into the same broad risk profile.

15. HLF also failed to sufficiently differentiate in its sales documents structured notes such as the Minibond and Pinnacle Notes as a distinct asset class from bonds and equities. The WMP's recommendation section was entitled "Collective Investment Scheme Recommendations". The investment categories provided in the document were only in respect of equity and bond funds and HLF put the Minibond and Pinnacle Notes under the bond fund category. Further, HLF's portfolio allocation guidance according to client risk profile was in the form of a ratio of equity to bond funds and there was no guidance on how to factor in structured notes such as the Minibond and Pinnacle Notes.

16. The Authority finds that HLF thereby failed to meet the standards set out in paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its RMs complied with:

a. Section 27 of the FAA which states that where a recommendation is made, there should be a reasonable basis for making the recommendation;

b. Paragraph 11(b)(ii) of FAA-N03 which states that warnings and important information such as the nature and risks of the product should be prominently presented and clearly explained to the client; and

c. Paragraphs 6.3 and 6.5 of FAA-G04 which state that when making a recommendation on an investment product, an FA should make adequate disclosure of all material facts relating to the key features of the product, including the nature of the product and ensure that information provided to the client is clear and not misleading.

(v) Corporate Disclosure

17. HLF's Corporate Disclosure document provided to clients stated that HLF was authorised to provide financial advisory services on collective investment schemes and that its representatives are authorised to provide financial advisory services on collective investment schemes, life and general insurance. The document did not disclose that HLF could also provide financial advisory services on securities and therefore did not accurately disclose the FAA activities that HLF and its representatives are authorised to conduct. Further, the document did not disclose all remuneration HLF has or will receive that is directly related to the making of a recommendation in respect of an investment product. The Authority finds that HLF thereby failed to meet paragraphs 12 and 16 of FAA-N03 which state that an FA is required to disclose to its clients the FAA activities that it is authorised to conduct and all remuneration that it will receive that is directly related to the making of any recommendation in respect of an investment product to the client.

II. ACTION BY THE AUTHORITY

18. HLF suspended providing financial advisory services on structured products issued by third parties since November 2008. In response to the Authority's findings, HLF indicated a willingness to put in place appropriate measures to address these concerns, including amending the Corporate Disclosure document, working towards having a point system for ascertaining client risk profile and establishing a documented process for post transaction reviews and client call back verifications.

19. HLF put in place procedures to review complaints in accordance with the Authority's requirements for all Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, HLF had completed the review of 1,708 cases. It had decided on settlement offers to 1,623 clients, representing 95% of cases decided by HLF as at 31 May 2009. Full settlement has been offered to 817 clients, or 47.8% of cases reviewed by HLF. A further 676 (39.6%) and 130 (7.6%) clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively.

Pinnacle Notes

b. As of 31 May 2009, HLF had completed the review of 437 cases. It had decided on settlement offers to 425 clients, representing 97.3% of cases decided by HLF as at 31 May 2009. Full settlement has been offered to 76 clients, or 17.4% of cases reviewed by HLF. A further 282 (64.5%) and 67 (15.3%) clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively.

20. The settlement offers made by HLF amount to $57.6 million.

21. In the circumstances, the Authority directed HLF to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any person for all structured notes with effect from 1 July 2009 for a period of two years, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of HLF's measures (including setting out HLF's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of HLF's

internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of HLF's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require HLF's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of HLF's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of HLF's existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by HLF, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that HLF's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of HLF's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by HLF in the advisory and sales process including the WMP;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by HLF's representatives including conducting audits of the WMPs completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by HLF in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review HLF's action plan; confirm that the action plan addresses the requirements set out in paragraph 21(b) and prepare a report on his assessment ("First Report"); and assess whether HLF has properly implemented the action plan referred to in paragraph 21(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of HLF's senior management to have oversight over HLF's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 6 CIMB-GK SECURITIES PTE LTD ("CIMB")

1. CIMB is a holder of a capital markets services licence ("CMSL")[16] issued under the SFA. By virtue of section 23(1)(d) of the FAA, CIMB is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. CIMB distributed various series of the Minibond Notes and Jubilee Notes at different periods: Minibond series 3 between 8 January and 16 February 2007, Minibond series 5 & 6 between 14 May and 8 June 2007 and Jubilee Notes between 16 April and 8 May 2007. CIMB sold a total of $6.0 million worth of Minibond Notes to 162 retail clients and $3.7 million worth of Jubilee Notes to 55 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including CIMB, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. CIMB's distribution of Minibond series 3 was approved by CIMB's Deputy Chief Executive Officer, Minibond series 5 & 6 by the Chief Executive Officer and Head of Wealth Management Group and Jubilee Notes by the Head of Retail Equities.

(ii) Sales process

5. CIMB's distribution of the Minibond and Jubilee Notes was through:

[16] CIMB is licensed to conduct the following regulated activities: (1) Dealing in Securities; (2) Trading in Futures Contracts; (3) Fund Management; (4) Securities Financing; (5) Providing Custodial Services for Securities.

a. Trading representatives ("TRs"); and

b. Financial advisory representatives ("FA Representatives") from the Wealth Management Group.

6. Sales of the Minibond and Jubilee Notes by TRs were made on an "execution-only" basis. No needs analysis was conducted nor was any recommendation or advice given to the client, other than advice that was purely incidental to the execution of the purchase.

7. Sales of the Minibond and Jubilee Notes by FA Representatives were made on an "advisory basis". As part of the advisory process, FA Representatives would require the client to complete and go through with the client a needs analysis document called the Needs Assessment Form ("NAF"). Where clients sought advice from the FA Representatives, the NAF would be used for the purposes of disclosure of information relating to the product and recording the basis of recommendation. One sale was made to a client who filled in the NAF and opted to receive partial advice and 113 sales were made to clients who opted for product advice.

8. The information obtained from the client such as his assets and liabilities, income and expenses and existing investments were documented in the NAF. The NAF also contained a questionnaire to assist the FA Representative in determining the investment risk profile of each client. CIMB did not identify any specific target clientele for the Minibond and Jubilee Notes and sales were not restricted to clients of any particular risk profile.

(iii) Product due diligence

9. Although its FA Representatives were permitted to give full advice and make recommendations, including recommendations on the Minibond and Jubilee Notes, CIMB did not conduct any product due diligence on the Minibond and Jubilee Notes. CIMB also did not take any steps to check with the FA Representatives that they had conducted the necessary due diligence or were equipped to make their own assessments of the product features and risks. Indeed, CIMB allowed its representatives who did not attend the arrangers' product briefing sessions to sell the Notes.

(iv) Product briefings

10. Prior to CIMB's distribution of the Minibond and Jubilee Notes, all product briefings were conducted by the arrangers of the Minibond and Jubilee Notes. CIMB encouraged its representatives to attend the briefings but did not make attendance compulsory before the representatives could sell the Notes.

11. On the basis of the facts set out in paragraphs 9 and 10 above, the Authority finds that CIMB failed to meet the standards set out in:

(a) Paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed and provide its representatives with relevant training so as to enhance their competence, knowledge and skills;

(b) Paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and their activities; and

(c) Paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its representatives complied with section 27 of the FAA which states that where a recommendation is made there should be a reasonable basis for making the recommendation.

(v) Risk profiling and investor suitability

12. An analyst from CIMB's team in charge of research and investments assessed the Minibond and Jubilee Notes and communicated to FA Representatives who approached him for guidance that the risk characteristics of the Minibond and Jubilee Notes were similar to those of a mix of bonds/fixed income and equities which was akin to an asset allocation with a "Moderate" risk portfolio. The analyst had arrived at his view based on his review of a

typical structure of the Notes, i.e. a certain number of Reference Entities, an underlying CDO basket and their favourable credit ratings as stated in the prospectuses.

13. The internal risk rating classification methodology[17] utilised by CIMB was as follows:

1	2	3	4	5
(Conservative)	(Moderate)	(Balanced)	(Growth)	(Aggressive)
Money Markets Funds (SGD, regional, global)	Fixed Income Funds (SGD, regional, global)	Asset Allocation Funds (global)	Asset Allocation Funds (single country, regional)	Equity Funds (single country, regional, global)
Short Term Fixed Income Funds (SGD, regional, global)	Fixed Income Funds (corporate - SGD, regional, global)		Fixed Income Funds (global emerging market)	Equity Funds (global industry sector)

14. The "Moderate" rating was however inconsistent with the warnings in the prospectuses that the Minibond and Jubilee Notes could "involve a high degree of risk".

15. CIMB's portfolio allocation guidance according to client risk profile was in the form of a specified ratio of fixed income, equities and cash. There was no guidance on how to factor in structured notes such as the Minibond and Jubilee Notes.

16. On the basis of the facts set out above, the Authority finds that CIMB thereby failed to meet the standards set out in paragraph 5.1 of FAA-G04 to act with due care and diligence in conducting its activities and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its FA Representatives complied with section 27 of the FAA which states that where a recommendation is made there should be a reasonable basis for making the recommendation.

[17] The methodology appeared only to cater to unit trusts and not equities or structured notes.

II. ACTION BY THE AUTHORITY

17. In response to the Authority's findings, CIMB reviewed its process and procedures on sale and marketing of investment products and is in the process of implementing measures in light of the deficiencies identified. The new measures relate to risk disclosure, target client segment, product suitability, safeguards for vulnerable clients, oversight of sales and advisory process, training and competency of representatives and the complaints handling process.

18. CIMB put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, CIMB had completed the review of 57 cases. It had decided on settlement offers to 36 clients, representing 63.2% of cases decided by CIMB as at 31 May 2009. Full settlement has been offered to one client, or 1.8% of total cases reviewed by CIMB. Four (7.0%) clients have been offered partial settlements of 50% and above, while 31 (54.4%) clients have been offered partial settlements below 50%. Breakdown of the settlement outcomes for CIMB's FA Representatives and TRs is as follows:

	FA Representatives	**TRs**	**Total**
Number of investors	119	43	162
Cases received	40	20	60
Cases decided	39	18	57
Settlement Outcomes			
Full	1 (2.6%)	0	1
Partial (50% and above)	4 (10.3%)	0	4
Partial (below 50%)	26 (66.6%)	5 (27.8%)	31
Nil	8 (20.5%)	13 (72.2%)	21
Total	39	18	57

Jubilee Notes

b. As of 31 May 2009, CIMB had completed the review of 31 cases. It had decided on settlement offers to 17 clients, representing 54.8% of cases decided by CIMB as at 31 May 2009. Full settlement has been offered to two clients, or 6.5% of total cases reviewed by CIMB. Two (6.5%) clients have been offered partial settlements of 50% and above, while 13 (41.9%) clients have been offered partial settlements below 50%. Breakdown of the settlement outcomes for CIMB's FA Representatives and TRs is as follows:

	FA Representatives	**TRs**	**Total**
Number of investors	38	17	55
Cases received	25	6	31
Cases decided	25	6	31
Settlement Outcomes			
Full	2 (8%)	0	2
Partial (50% and above)	2 (8%)	0	2
Partial (below 50%)	12 (48%)	1 (16.7%)	13
Nil	9 (36%)	5 (83.3%)	14
Total	25	6	31

19. The settlement offers made by CIMB amount to $491,750, of which $417,750 (85%) is for sales made through the FA Representatives.

20. In the circumstances, the Authority directed CIMB to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of one year, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of CIMB's measures (including setting out CIMB's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of CIMB's internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of CIMB's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require CIMB's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of CIMB's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of CIMB's existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by CIMB, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that CIMB's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of CIMB's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by CIMB in the advisory and sales process including the NAF;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by CIMB's representatives including conducting audits of the NAFs completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by CIMB in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review CIMB's action plan; confirm that the action plan addresses the requirements set out in paragraph 20(b) and prepare a report on his assessment ("First Report"); and assess whether CIMB has properly implemented the action plan referred to in paragraph 20(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of CIMB's senior management to have oversight over CIMB's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 7 DMG AND PARTNERS SECURITIES PTE LTD ("DMG")

1. DMG is a holder of a CMSL[18] issued under the SFA. By virtue of section 23(1)(d) of the FAA, DMG is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. DMG distributed various series of the Notes at different periods: Minibond series 2 between 24 July and 18 August 2006; Minibond series 3 between 8 January and 16 February 2007; Minibond series 5 & 6 between 14 May and 8 June 2007; Minibond series 7 & 8 between 19 November and 14 December 2007; Minibond series 9 & 10 between 30 June and 25 July 2008; Jubilee Notes between 16 April and 18 May 2007; and Pinnacle Notes between 29 October and 30 November 2007. DMG sold a total of $2.3 million worth of Minibond Notes to 54 retail clients; $139,744 of Jubilee Notes to six retail clients; and $45,000 of Pinnacle Notes to three retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including DMG, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. The distribution of the Notes was approved by DMG's management team, comprising its former Executive Director, Business Development, Executive Director for Finance, Administration and Operations and DMG's former Managing Director, after an evaluation by the Directors of Business Development and Sales.

[18] DMG is licensed to conduct the following regulated activities: (1) Dealing in Securities; (2) Trading in Futures Contracts; (3) Securities Financing; (4) Providing Custodial Services for Securities; (5) Advising on Corporate Finance.

(ii) Sales process

5. DMG distributed the Notes only through its TRs, on an "execution-only" business model. This meant it merely carried out clients' instructions to buy the Notes without making any recommendation or giving any advice in relation to the Notes, other than advice that was purely incidental to the execution of the purchase.

6. DMG's "execution-only" business model permitted a TR to provide his client with the TR's opinions on that particular security or investment product, when requested by the client. The Authority considers this to constitute advising others concerning any investment product and therefore a type of financial advisory service as defined under the Second Schedule of the FAA.

(iii) Product due diligence

7. Although DMG permitted its TRs to express opinions on the Notes, DMG did not conduct any formal product due diligence on the Notes. DMG also did not take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks. Indeed, DMG allowed TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

(iv) Product briefing for TRs

8. DMG invited the relevant arrangers for the Minibond and Jubilee notes to conduct product briefings for its TRs. TRs were "strongly advised" to attend the product briefings but attendance was not compulsory. TRs who did not attend the product briefings were allowed to sell the Notes. There was no product briefing conducted by the arranger for Pinnacle Notes for DMG's TRs. Neither did DMG conduct any independent in-house training on the Pinnacle Notes for its TRs.

9. On the basis of the facts set out in paragraphs 7 and 8 above, the Authority finds that DMG thereby failed to meet the standards set out in:

a. Paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed and provide its representatives with relevant training so as to enhance their competence, knowledge and skills,

b. Paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and activities; and

c. Paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its TRs complied with paragraph 11(c)(iii) of FAA-N03, which states that where an opinion is expressed, there should be a reasonable basis for expressing the opinion.

II. ACTION BY THE AUTHORITY

10. In response to the Authority's findings, DMG promptly reviewed its processes and procedures in relation to the sale of over-the-counter structured notes. Briefly, DMG has put in place the following measures to address the concerns highlighted by the Authority:

a. Requiring TRs to ensure that their clients understand the risks before signing on the Risk Disclosure Statement;

b. Issuing clients who are aged 55 and above with an "Additional Client Acknowledgment" to highlight that structured products may not be suitable for them;

c. Providing clients with a checklist of documents to ensure that they have received the important documents; and

d. Counterchecking of the application forms to ensure that the necessary forms are complete before further processing.

11. DMG put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, DMG had completed the review of 12 cases and offered full settlement to one client.

Jubilee Notes

b. As of 31 May 2009, DMG had completed the review of 3 cases, for which none were awarded any settlement offers.

Pinnacle Notes

c. As of 31 May 2009, DMG has not received any Pinnacle Notes series 9 & 10 complaints.

12. The settlement offers made by DMG amount to $19,817.

13. In the circumstances, the Authority directed DMG to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of six months, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of DMG's measures (including setting out DMG's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of DMG's internal processes and procedures for the provision of financial advisory

services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of DMG's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require DMG's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of DMG's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of DMG's existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by DMG, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that DMG's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of DMG's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by DMG in the advisory and sales process including any financial needs analysis forms and risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by DMG's representatives including conducting audits of the financial needs analysis forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by DMG in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review DMG's action plan; confirm that the action plan addresses the requirements set out in paragraph 13(b) and prepare a report on his assessment ("First Report"); and assess whether DMG has properly implemented the action plan referred to in paragraph 13(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of DMG's senior management to have oversight over DMG's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 8 KIM ENG SECURITIES PTE LTD ("KESPL")

1. KESPL is a holder of a CMSL[19] issued under the SFA. By virtue of section 23(1)(d) of the FAA, KESPL is exempted from holding an FA licence in respect of any financial advisory service in Singapore.

2. KESPL distributed various series of the Notes at different periods: Minibond series 2 between 24 July and 18 August 2006; Minibond series 3 between 8 January and 16 February 2007; Minibond series 5 & 6 between 14 May and 8 June 2007; Minibond series 7 & 8 between 19 November and 14 December 2007; Jubilee Notes between 16 April and 18 May 2007; and Pinnacle Notes between 29 October and 30 November 2007. KESPL sold a total of $6.2 million worth of Minibond Notes to 161 retail clients; $2.2 million of Jubilee Notes to 35 retail clients; and $355,000 of Pinnacle Notes to 12 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including KESPL, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. The distribution of the Notes was approved by KESPL's product specialist department for structured products, the Equity Derivative and Structured Products Department ("EDSP").

[19] KESPL is licensed to conduct the following regulated activities: (1) Dealing in Securities; (2) Trading in Futures Contracts; (3) Securities Financing; (4) Providing Custodial Services for Securities.

(ii) Sales process

5. KESPL distributed the Notes only through its TRs, on an "execution-only" business model. This meant to KESPL that its TRs would go no further than describing the Notes in accordance to what was stated in the respective prospectuses, pricing statements and factsheets provided by the issuers.

6. Having said that, KESPL permitted its TRs to express opinions on the Notes, which the Authority considers to constitute advising others concerning any investment product and therefore a type of financial advisory service as defined under the Second Schedule of the FAA.

(iii) Product due diligence

7. Although its TRs were permitted to express opinions, KESPL did not conduct any formal product due diligence on the Notes. KESPL also did not take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks. Indeed, KESPL allowed its TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

(iv) Product briefings for TRs

8. All product briefings and briefing materials for the TRs were conducted and provided by the respective arrangers of the Notes. It was not compulsory for the TRs to attend the product briefings before they could sell or advise on the Notes.

9. On the basis of the facts set out in paragraphs 7 and 8 above, the Authority finds that KESPL failed to meet the standards set out in:

a. Paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed

and provide its representatives with relevant training so as to enhance their competence, knowledge and skills;

b. Paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and their activities; and

c. Paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its TRs complied with paragraph 11(c)(iii) of FAA-N03 which states that where an opinion is expressed, there should be a reasonable basis for expressing the opinion.

(v) EDSP's write-ups on certain Notes

10. EDSP prepared write-ups for Minibond series 2 and 3 and Jubilee Notes ("the Three Notes") and emailed them to the TRs after the Three Notes were launched. The write-ups were not product evaluations. Rather, they were intended as summaries to facilitate the TRs' understanding and sales of the Three Notes. Similar write-ups were not prepared for Minibond series 5, 6, 7 and 8 and Pinnacle Notes because KESPL took the view that they had similar product features as the Three Notes that were launched earlier.

11. The write-ups prepared by EDSP contained a number of inaccurate or misleading statements that were inconsistent with the prospectuses and pricing statements of the Three Notes. The write-ups:

a. Stated that the Three Notes were of very low risk and a low risk alternative to term deposits. Such characterization was inconsistent with the prospectuses, which warned that the Notes were "[s]ophisticated instruments and can involve a high degree of risk". There was also no reference to such warnings in the write-ups;

b. Stated that investors would be able to receive the promised coupons and recover their investment principal in the Three Notes as long as none of the Reference Entities experienced a credit event during their respective tenures. They omitted to mention the other circumstances where investors of the Three Notes could lose their entire or substantial amount of their investment principal as described in the prospectuses;

c. For Minibond series 2 and 3, stated that they were structured debt securities backed by a portfolio of corporate debt. This was materially false and inconsistent with the pricing statements which stated that the Notes would be backed by a portfolio of credit-linked notes or Synthetic CDOs; and

d. Stated that the proceeds from the subscription of the Three Notes would be invested in a portfolio of credit issues linked to the basket of Reference Entities. This was materially false and inconsistent with the pricing statements of the Notes which stated that the proceeds would be invested into a portfolio of credit-linked notes or Synthetic CDOs.

12. In this regard, the Authority finds that KESPL thereby failed to meet the standards set out in paragraph 5.1 of FAA-G04 which states that an FA should act with due care and diligence in conducting its activities and paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its TRs complied with:

a. Paragraphs 6.3 and 6.4 of FAA-G04 which state that an FA should make adequate disclosure of the risks and draw the client's attention to the warnings in all documents relating to an investment product it is recommending to the client;

b. Paragraph 6.5 of FAA-G04 which states that an FA should ensure that any representation made and information provided to the client is clear, adequate and not false or misleading; and

c. Paragraphs 10 and 11(b)(ii) of FAA-N03 which state that an FA is expected to ensure any statement made to its clients is not false or misleading and warnings and important information such as the nature of the product should be prominently presented and clearly explained.

II. ACTION BY THE AUTHORITY

13. KESPL put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, KESPL had completed the review of 33 cases. It had decided on settlement offers to 14 clients, representing 42.4% of cases decided by KESPL. Full settlement has been offered to two clients, or 6.1% of total cases reviewed by KESPL. Six clients (18.2%) have been offered partial settlements of 50% and above, while another six (18.2%) clients have been offered partial settlements below 50%.

Jubilee Notes

b. As of 31 May 2009, KESPL had completed the review of 13 cases. It had decided on settlement offers to six clients, representing 46.2% of cases decided by KESPL. Four (30.8%) clients have been offered partial settlements of 50% and above, while two (15.4%) clients have been offered partial settlements of below 50%.

Pinnacle Notes

c. As of 31 May 2009, KESPL had completed the review of three cases and offered one client a partial settlement of below 50%.

14. The settlement offers made by KESPL amount to $311,000.

15. In the circumstances, the Authority directed KESPL to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of one year, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of KESPL's measures (including setting out KESPL's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of KESPL's internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of KESPL's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require KESPL's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of KESPL's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of KESPL's existing training programmes and training materials for its representatives and their supervisors on the

needs-based sales process and investment products offered by KESPL, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that KESPL's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of KESPL's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by KESPL in the advisory and sales process including any financial needs analysis forms and risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by KESPL's representatives including conducting audits of the financial needs analysis forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by KESPL in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review KESPL's action plan; confirm that the action plan addresses the requirements set out in paragraph 15(b) and prepare a report on his assessment ("First Report"); and assess whether KESPL has properly implemented the action plan referred to in paragraph 15(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of KESPL's senior management to have oversight over KESPL's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 9 OCBC SECURITIES PTE LTD ("OSPL")

1. OSPL is a holder of CMSL[20] issued under the SFA. By virtue of section 23(1)(d) of the FAA, OSPL is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. OSPL distributed various series of the Notes: Minibond series 1 between 3 April and 5 May 2006, Minibond series 2 between 24 July and 18 August 2006, Minibond series 3 between 8 January and 16 February 2007, Minibond series 5 & 6 between 14 May and 8 June 2007, Minibond series 7 & 8 between 19 November and 14 December 2007 and Minibond series 9 & 10 between 30 June and 25 July 2008; Jubilee Notes between 16 April and 18 May 2007; and Pinnacle Notes between 29 October and 30 November 2007. OSPL sold a total of $41.9 million worth of Minibond Notes to 985 retail clients; $5.3 million worth of Jubilee Notes to 112 retail clients; and $4.2 million worth of Pinnacle Notes to 107 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including OSPL, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. OSPL's distribution of each series of the Notes was assessed and approved by the Head of the Alternative Investment Specialist ("AIS") Desk. The AIS Desk served as an information source centre for OSPL's TRs, clients, customer service counter, as well as Introducers.

[20] OSPL is licensed to conduct the following regulated activities: (1) Dealing in Securities; (2) Trading in Futures Contracts; (3) Leveraged Foreign Exchange Trading, (4) Fund Management; (5) Securities Financing; and (6) Providing Custodial Services for Securities.

(ii) Sales process

5. OSPL's distribution of the Notes was through:

a. its TRs; and
b. nine LFAs engaged by OSPL as its Introducers.

6. OSPL verbally communicated to all its TRs during internal training and compliance briefing sessions that the relationship between OSPL and its clients is one of "execution-only", which meant that the TRs were not authorised to give advice to clients.

7. Having said that, OSPL permitted its TRs and AIS Desk to express opinions on the Notes, which the Authority considers to constitute advising others concerning any investment product and therefore a type of financial advisory service as defined under the Second Schedule of the FAA.

(iii) Product due diligence

8. Although its TRs and AIS Desk were permitted to express opinions, OSPL did not conduct any formal product due diligence on the Notes. OSPL also did not take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks. Indeed, OSPL allowed its TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

9. OSPL did not provide its TRs or the AIS Desk with any instructions or guidelines on the types of opinions that could be provided to clients or that when providing such opinions, it should be highlighted to the clients that they were opinions of the TR concerned or the AIS Desk, as opposed to statements of fact.

10. On the basis of the facts set out in paragraphs 8 and 9 above, the Authority finds that OSPL thereby failed to meet the standards set out in:

a. Paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possesses the relevant professional training, and provide its representatives with relevant training to enhance their competence, knowledge and skills;

b. Paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and activities; and

c. Paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its TRs complied with paragraph 11(c)(iii) of FAA-N03 which states that where an opinion is expressed, there should be a reasonable basis for expressing the opinion and it should be unambiguously stated that it is a statement of opinion.

(iv) Product briefings for TRs

11. All the product briefings for OSPL's TRs were conducted by the arrangers of the Notes. OSPL encouraged its TRs to attend these product briefing sessions but did not make attendance compulsory for selling the Notes. OSPL did not retain the records of the attendance of its TRs at these sessions.

12. The Authority finds that OSPL thereby failed to meet the standards in paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possesses the relevant professional training, and provide its representatives with relevant training to enhance their competence, knowledge and skills.

(v) Introducer agreements with LFAs

13. Apart from its TRs, OSPL also sold the Notes through nine LFAs, namely (i) Alpha Financial Advisers Pte Ltd; (ii) Cornerstone Planners Pte Ltd; (iii) Elpis Financial Pte Ltd; (iv) Financial Alliance Pte Ltd; (v) Fin-exis Advisory Pte Ltd; (vi) GYC Financial Advisory Pte Ltd; (vii) IPP Financial Advisers Pte Ltd; (viii) Optimus Financial Pte Ltd; and (ix) Ray Alliance Financial Advisers Pte Ltd.

14. OSPL entered into Introducer agreements (collectively the "Agreements") with each of the nine LFAs in respect of investment products (which included the Notes) that it distributed. Under the Agreements:

a. The scope of the introducing activity (defined as "Introducing Activity") in the Agreements mirrored limb (b)(i) and (ii) of the definition of "introducing activity" in regulation 31(12) of the FAR;

b. The mandatory disclosure obligations for the LFAs set out in the Agreements mirrored the obligations set out in regulation 31(1)(a)(i) and (ii)(A) of the FAR;

c. The Introducer undertook to strictly adhere to a sample sales script when carrying out Introducing Activity, which stated the role of an Introducer and the fact that the Introducer was not permitted to advise the client and if the client required advice this would be available from a licensed representative of OSPL; and

d. The Introducer undertook to ensure that it was "in full compliance with the provisions of any act, regulation or statutory instrument of the Government of Singapore and with any administrative guideline, ruling or determination of a judicial, semi-judicial or statutory authority (***including but not limited to Regulation 31 of the Financial Advisers Regulations and the Notice on Appointment and Use of Introducers by Financial Advisers*** issued by the

Monetary Authority of Singapore as amended, modified, revised or replaced from time to time)." (emphasis added)

15. Pursuant to these Agreements, the practices of the nine LFAs were generally as follows:

a. The LFAs did not conduct any fact-find or risk profiling or provide any recommendations to clients considering investing in the Notes, on the basis that they were not permitted to advise clients under the Agreements;

b. The LFAs communicated to their representatives their respective roles as Introducers and representatives of the Introducers in relation to the Notes and the fact that the LFAs and their representatives were not allowed to provide recommendations or advice in relation to the Notes; and

c. The LFAs required clients introduced to OSPL to complete a "Consent for Disclosure" form created by OSPL. This form stated that the LFA was only acting as an Introducer in transactions involving the Notes and was paid an Introducer fee for each completed transaction between OSPL and the client.

16. As highlighted above, the Agreements between OSPL and the nine LFAs made reference to regulation 31 of the FAR and FAA-N02 and clearly stated that OSPL would be undertaking the role of an FA in relation to the Notes. Similarly, the LFAs confirmed to the Authority that they had acted as Introducers for OSPL under regulation 31 of the FAR and FAA-N02, and as such, expected OSPL to perform the role of FA to the clients introduced by them.

17. Despite the above, OSPL acted as an "execution-only" broker in relation to the Notes. In other words, while OSPL appeared to comply with the requirements of regulation 31 of the FAR by purporting to provide financial advisory services, it was in reality doing no such thing. Not only was OSPL not providing higher value added financial advisory services to its clients, by prohibiting the LFAs from providing advice and OSPL itself acting as an "execution-only" broker, it was in effect depriving clients of the opportunity of receiving any

financial advisory service from either the LFAs or OSPL. This is clearly an improper use of the FAA Introducer Regime.

II. ACTION BY THE AUTHORITY

18. In response to the Authority's findings, OSPL stopped the sale of investment products such as the Notes, is reviewing its processes and procedures relating to the sale of such products and is making appropriate changes to ensure adherence to its zero tolerance policy for non-compliance.

19. OSPL put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, OSPL had completed the review of 278 cases. It had decided on settlement offers to 92 clients, representing 33.1% of cases decided by OSPL as at 31 May 2009. 11 clients (4.0%) have been offered partial settlements of 50% and above, while 81 (29.1%) clients have been offered partial settlements below 50%.

Jubilee Notes

b. As of 31 May 2009, OSPL had completed the review of 53 cases. It had decided on settlement offers to 17 clients, representing 32.1% of cases decided by OSPL as at 31 May 2009. Two clients (3.8%) have been offered partial settlements of 50% and above, while 15 (28.3%) clients have been offered partial settlements below 50%.

Pinnacle Notes

c. As of 31 May 2009, OSPL had completed the review of 46 cases. It had decided on settlement offers to 19 clients, representing 41.3% of cases decided by OSPL as at 31 May 2009. Five clients (10.9%) have been offered partial settlements of 50% and above, while 14 (30.4%) clients have been offered partial settlements below 50%.

20. The settlement offers made by OSPL amount to $1.22 million.

21. In the circumstances, the Authority directed OSPL to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of one year, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Cease the use of Introducers when providing financial advisory services with effect from 1 July 2009;

c. Prepare and properly implement an action plan of OSPL's measures (including setting out OSPL's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of OSPL's internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of OSPL's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require OSPL's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of OSPL's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess

the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of OSPL's existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by OSPL, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that OSPL's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of OSPL's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) review and validate the adequacy and appropriateness of all documents used by OSPL in the advisory and sales process including any financial needs analysis forms and risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by OSPL's representatives including conducting audits of the financial needs analysis forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by OSPL in connection with its provision of any financial advisory services by 30 September 2009;

d. Appoint an external person approved by the Authority by 31 July 2009 to review OSPL's action plan; confirm that the action plan addresses the

requirements set out in paragraph 21(c) and prepare a report on his assessment ("First Report"); and assess whether OSPL has properly implemented the action plan referred to in paragraph 21(c) and prepare a report on his assessment ("Second Report");

e. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

f. Appoint a member of OSPL's senior management to have oversight over OSPL's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 10 PHILLIP SECURITIES PTE LTD ("PSPL")

1. PSPL is a holder of a CMSL[21] issued under the SFA. By virtue of section 23(1)(d) of the FAA, PSPL is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. PSPL distributed various series of the Minibond Notes and Jubilee Notes at different periods: Minibond series 1 between 3 April to 5 May 2006; Minibond series 2 between 24 July and 18 August 2006; Minibond series 3 between 8 January and 16 February 2007; Minibond series 5 & 6 between 14 May and 8 June 2007; and Jubilee Notes between 16 April and 18 May 2007. PSPL sold a total of $22.1 million worth of Minibond Notes to 642 retail clients and $4 million worth of Jubilee Notes to 70 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including PSPL, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. The proposal for PSPL's distribution of the Minibond and Jubilee Notes was put up by PSPL's Debt Capital Markets department ("DCM") and approved by PSPL's board.

[21] PSPL is licensed to conduct the following regulated activities: (1) Dealing in Securities; (2) Trading in Futures Contracts; (3) Advising on Corporate Finance; (4) Fund Management; (5) Securities Financing; (6) Providing Custodial Services for Securities.

(ii) Sales process

5. PSPL's distribution of the Minibond and Jubilee Notes was through 4 main channels:

a. TRs;
b. PSPL's FA Representatives;
c. LFAs engaged by PSPL, namely Metropolitan Broking Services Pte Ltd ("Metropolitan") and Optimus Financial Pte Ltd ("Optimus"); and
d. PSPL's internet trading platform.

6. PSPL's policy was that structured products would be transacted on an "execution-only" basis. Although PSPL had a Financial Advisory arm that was involved in the distribution of the Minibond and Jubilee Notes, the FA Representatives were not allowed to advise on the Minibond and Jubilee Notes.

(iii) Product due diligence

7. PSPL did not conduct any formal product due diligence on the Minibond or Jubilee Notes. PSPL also did not take any steps to check or ensure that its representatives were equipped to make their own assessments of the product features and risks, as PSPL's policy was that the Minibond and Jubilee Notes were to be transacted on an "execution-only" basis. Yet, prior to Minibond series 3, this was not made clear to PSPL's FA Representatives. In fact, PSPL's internal communications to its FA Representatives before then suggested that they could advise as long as they had the necessary qualifications.

8. The first time PSPL explicitly communicated to its representatives that they were only allowed to brief the client on the product features stated in the marketing materials was during the offer of Minibond series 3.

9. On the basis of the facts set out in paragraphs 7 and 8 above, the Authority finds that PSPL thereby failed to meet the standards set out in:

a. Paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed, and provide its representatives with relevant training so as to enhance their competence, knowledge and skills; and

b. Paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and their activities.

(iv) Product briefings for representatives

10. All the product briefings for PSPL representatives were conducted by the arrangers of the Minibond and Jubilee Notes, except for one in-house session on Minibond series 3 for PSPL's FA Representatives, which was conducted by DCM. Representatives were encouraged to attend the product briefings but it was not compulsory for selling the Minibond and Jubilee Notes and no attendance was taken.

11. In this regard, the Authority finds that PSPL thereby failed to meet the standards set out in paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs to conduct business with clients is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed, and provide its representatives with relevant training so as to enhance their competence, knowledge and skills.

(v) Licensed Financial Advisers

12. PSPL entered into agreements with two LFAs; Metropolitan and Optimus. The role of the LFA was to refer clients who expressed interest in PSPL's investment products to PSPL

after properly advising them. The LFA would receive a share of the commission from the sale of the product to the client.

13. Metropolitan proceeded to recommend the Minibond Notes to one of its clients. Optimus on the other hand, took the view that it was not licensed to advise on structured products and so its FA Representatives were not allowed to offer any opinions or recommendations on the Minibond or Jubilee Notes. 14 sales were made to clients through Optimus.

14. PSPL did not monitor the marketing of the Minibond or Jubilee Notes by the LFAs or discuss with them how the Minibond or Jubilee Notes should be marketed. Thus, it was unaware that Optimus was not providing any financial advice on the Minibond and Jubilee Notes. In this regard, the Authority finds that PSPL thereby failed to meet the standards set out in paragraph 5.1 of FAA-G04 to act with due care and diligence in conducting its activities.

II. ACTION BY THE AUTHORITY

15. In response to the Authority's findings, PSPL is reviewing its processes and procedures on the sale and marketing of investment products. These include:

a. Reviewing its fact find form, the marketing approval process, training requirements and emails to notify representatives, to further ensure clarity of disclosure to clients;

b. Enhancing its due diligence on products before distribution and establishing procedures to ensure adequate documentation of the due diligence and approval process;

c. Enhancing its training programme for representatives and putting in place procedures to ensure proper record keeping and documentation of all trainings; and

d. Enhancing controls and due diligence process on training materials used by issuers or third parties for training of representatives.

16. PSPL put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, PSPL had completed the review of 176 cases. It had decided on settlement offers to 71 clients, representing 40.3% of cases decided by PSPL as at 31 May 2009. Two clients (or 1.1% of total cases reviewed by PSPL) have been offered full settlement. A further one (0.6%) and 68 (38.6%) clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively.

Jubilee Notes

b. As of 31 May 2009, PSPL had completed the review of 37 cases. It had decided on settlement offers to 15 clients, representing 40.5% of cases decided by PSPL as at 31 May 2009. One client (or 2.7% of total cases reviewed by PSPL) has been offered full settlement. A further 14 (37.8%) clients have been offered partial settlements below 50%.

17. The settlement offers made by PSPL amount to $608,311.

18. In the circumstances, the Authority directed PSPL to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of one year, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of PSPL's measures (including setting out PSPL's manpower resource allocation and a schedule for the

implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of PSPL's internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of PSPL's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require PSPL's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of PSPL's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of PSPL's existing training programmes and training materials for its representatives and their supervisors on the needs-based sales process and investment products offered by PSPL, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that PSPL's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of PSPL's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by PSPL in the advisory and sales process including PSPL's "FA Representative's Recommendation/Disclosure" form which PSPL's internal policy required to be submitted with any application for structured notes ("FAR Form");

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by PSPL's representatives including conducting audits of the FAR Forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by PSPL in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review PSPL's action plan; confirm that the action plan addresses the requirements set out in paragraph 18(b) and prepare a report on his assessment ("First Report"); and assess whether PSPL has properly implemented the action plan referred to in paragraph 18(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of PSPL's senior management to have oversight over PSPL's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.

CHAPTER 11 UOB KAY HIAN PTE LTD ("UOBKH")

1. UOBKH is a holder of a CMSL[22] issued under the SFA. By virtue of section 23(1)(d) of the FAA, UOBKH is exempted from holding an FA licence in Singapore in respect of any financial advisory service.

2. UOBKH distributed various series of the Notes at different periods: Minibond series 1 between 3 April and 5 May 2006; Minibond series 2 between 24 July and 18 August 2006; Minibond series 3 between 8 January and 16 February 2007; Minibond series 5 & 6 between 14 May and 8 June 2007; Minibond series 7 & 8 between 19 November and 14 December 2007; Minibond series 9 & 10 between 30 June and 25 July 2008; Jubilee Notes between 16 April and 18 May 2007; and Pinnacle Notes between 29 October and 30 November 2007. UOBKH sold a total of $10 million worth of Minibond Notes to 230 retail clients, $2.9 million worth of Jubilee Notes to 66 retail clients and $550,000 worth of Pinnacle Notes to 19 retail clients.

3. The following should be read together with the regulatory framework for the provision of financial advisory services under the FAA and the Authority's general observations on the steps taken by the Distributors, including UOBKH, before the distribution, sale and marketing of the Notes and the advisory and sales process, including the documentation signed by clients, as set out in Chapter 1 of this Report.

I. FINDINGS FROM THE AUTHORITY'S INVESTIGATIONS

(i) Approval to distribute

4. Approval for UOBKH's distribution of the Notes was obtained from the Managing Director and the then Deputy Managing Director of UOBKH.

[22] UOBKH is licensed to conduct the following regulated activities: (1) Dealing in Securities; (2) Trading in Futures Contracts; (3) Securities Financing; and (4) Providing Custodial Services for Securities.

(ii) Sales process

5. The Notes were only sold through UOBKH's TRs, on an "execution-only" basis. However, if in deciding whether to buy or sell an investment product, clients asked TRs for their opinions about an investment product or its features, TRs were permitted to answer clients' questions by providing their honest opinions to facilitate the clients' decision whether to buy or sell that investment product. The Authority considers this to constitute advising others concerning any investment product and therefore a type of financial advisory service as defined under the Second Schedule of the FAA.

(iii) Product due diligence

6. Although its TRs were permitted to express opinions, UOBKH did not conduct any formal product due diligence on the Notes. UOBKH also did not take any steps to check or ensure that its TRs were equipped to make their own assessments of the product features and risks. Indeed, UOBKH allowed TRs who did not attend the arrangers' product briefing sessions to sell the Notes.

(iv) Product briefings for representatives

7. UOBKH invited the respective arrangers of the Notes to conduct product briefings for its representatives during the respective Notes launches. Attendance at these briefings was not compulsory and TRs who had not attended them were allowed to sell the Notes.

8. On the basis of the facts set out in paragraphs 6 and 7 above, the Authority finds that UOBKH failed to meet the standards set out in:

a. Paragraphs 4.3 and 4.4 of FAA-G04 which state that an FA should ensure that any person it employs is suitably qualified and competent and possesses the relevant professional training or experience to act in the capacity so employed and provide its representatives with relevant training so as to enhance their competence, knowledge and skills;

b. Paragraphs 5.1 and 5.4 of FAA-G04 which state that an FA should act with due care and diligence in conducting its activities and should have adequate systems and processes in place to ensure proper supervision of its representatives and their activities; and

c. Paragraph 10.2 of FAA-G04 for not taking all reasonable steps to ensure that its TRs complied with paragraph 11(c)(iii) of FAA-N03, which states that where an opinion is expressed, there should be a reasonable basis for expressing the opinion.

II. ACTION BY THE AUTHORITY

9. UOBKH put in place procedures to review complaints in accordance with the Authority's requirements for all the Distributors involved. The details are as follows:

Minibond Notes

a. As of 31 May 2009, UOBKH had completed the review of 103 cases. It had decided on settlement offers to eight clients. Two clients have been offered full settlement. A further two and four clients have been offered partial settlements of 50% and above, and partial settlements below 50%, respectively.

Jubilee Notes

b. As of 31 May 2009, UOBKH had completed the review of 30 cases, for which none were awarded any settlement offers.

Pinnacle Notes

c. As of 31 May 2009, UOBKH had completed the review of 14 cases, for which none were awarded any settlement offers.

10. The settlement offers made by UOBKH amount to $85,500.

11. In the circumstances, the Authority directed UOBKH to:

a. Cease to carry on business in dealing in and providing any financial advisory services in respect of any new transactions to any individual for all structured notes with effect from 1 July 2009 for a period of six months, or until the Authority is satisfied that it has put in place adequate measures to address the findings, whichever date is the later;

b. Prepare and properly implement an action plan of UOBKH's measures (including setting out UOBKH's manpower resource allocation and a schedule for the implementation of such measures) to rectify all the weaknesses identified in the investigation findings including the significant strengthening of UOBKH's internal processes and procedures for the provision of financial advisory services. The action plan shall include the formulation and implementation of measures by 31 December 2009 to:

(i) Review the adequacy of UOBKH's existing processes for new product approval and the carrying out of due diligence for the distribution of investment products, identify any deficiencies, and enhance the existing processes;

(ii) Require UOBKH's representatives and their supervisors to attend a refresher course on the needs-based sales process as well as product training on all investment products;

(iii) Establish a process to identify the competencies required of UOBKH's representatives and their supervisors in respect of their provision of financial advisory services and institute a process to review and assess the competencies of such representatives and their supervisors on a regular basis;

(iv) Review the adequacy of UOBKH's existing training programmes and training materials for its representatives and their supervisors on the

needs-based sales process and investment products offered by UOBKH, identify any deficiencies, and make improvements to the training programmes and training materials to ensure that UOBKH's representatives and their supervisors are well-equipped and have adequate knowledge to provide advice and make appropriate recommendations;

(v) Review the adequacy of UOBKH's existing processes for the approval of training materials and marketing materials, identify any deficiencies, and enhance the existing processes;

(vi) Review and validate the adequacy and appropriateness of all documents used by UOBKH in the advisory and sales process including any financial needs analysis forms and the risk profiling questionnaire;

(vii) Ensure the proper implementation of processes and procedures for the sale and marketing of all investment products by instituting regular compliance reviews of the provision of financial advisory services by UOBKH's representatives including conducting audits of the financial needs analysis forms completed by the representatives and conducting regular mystery shopping exercises;

(viii) Carry out a review of all current training and marketing materials used by UOBKH in connection with its provision of any financial advisory services by 30 September 2009;

c. Appoint an external person approved by the Authority by 31 July 2009 to review UOBKH's action plan; confirm that the action plan addresses the requirements set out in paragraph 11(b) and prepare a report on his assessment ("First Report"); and assess whether UOBKH has properly implemented the action plan referred to in paragraph 11(b) and prepare a report on his assessment ("Second Report");

d. Furnish the external person's First Report and Second Report to the Authority by 15 September 2009 and 31 December 2009 respectively; and

e. Appoint a member of UOBKH's senior management to have oversight over UOBKH's compliance with these directions and furnish to the Authority by 28 August 2009 a detailed list of the measures that the appointed person will be taking to carry out his oversight role.