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GOOD RECRUITMENT PRACTICES IN THE HIRING OF FINANCIAL ADVISORY REPRESENTATIVES

EXECUTIVE SUMMARY

Recruitment is an integral part of Financial Advisory (FA) industry. Hence, upholding fitness and propriety standards, addressing the issue of "rolling bad apples"¹ and maintaining trust in the FA industry are shared goals of both the Monetary Authority of Singapore (MAS) and the industry.

Over the years, the MAS has issued guidelines, engaged with FA firms, and taken enforcement actions against errant individuals in its efforts to uphold high standards. This includes the issuance of **MAS Guideline No: FSG-G01** and **Circular No: CMI 01/2011**². Key highlights are detailed out in Annex 1.

The FA industry is equally accountable and responsible for upholding stringent recruitment standards as employing individuals who are not fit and proper can lead to reputational and business risks; thereby eroding consumers' trust in the industry.

Nonetheless, there have been feedback from LIA member companies on seemingly uneven recruitment standards across the industry. For instance, some firms hired ex-representatives who were terminated with cause by their previous FA firm.

Such feedback is also a manifestation of inconsistent standards and practices across the industry. This is probably due to varying levels of oversight and controls that were put in place by each FA firm, as each firm may have its own standards and considerations when operationalising **MAS Guideline No: FSG-G01** and **Circular No: CMI 01/2011**².

Clearly, there is an opportunity to enhance recruitment practices by calibrating appropriate and adequate oversight and controls. This will promote greater transparency, improve overall effectiveness, and mitigate potential risks. These are the desired outcomes of this paper.

In essence, this paper advocates the adoption of good recruitment practices among LIA members so as to yield greater consistency. In doing so, LIA members aim to contribute to the improvement of the overall fitness and propriety standards of our FA professionals within the industry.

¹ Example: Movement of individuals with a history of misconduct across FAs

² CMI 01/2011: Due diligence checks and documentation in respect of appointed, provisional and temporary representatives.

RECOMMENDED RECRUITMENT PRACTICES

Each FA firm develops its own recruitment process and practices, underpinned by **MAS Guideline No: FSG-G01** and **Circular No: CMI 01/2011**².

Anchoring on the same underpinnings, three key practices that are proposed for adoption are:

1. Categorize adverse findings.
2. Deliberate and escalate for decision making.
3. Enhanced supervision with heightened controls.

These three recommended practices are not mutually exclusive. Rather, each practice is a “cog in the wheel”; with interdependency that ultimately aims to drive more structured and consistent recruitment practices.

1. Categorize adverse records

In conducting due diligence checks and assessing a potential recruit’s fitness and propriety, it is not uncommon for a FA firm to uncover adverse records of the potential Recruit in relation to the dimensions of:

- (a) honesty, integrity and reputation;
- (b) competence and capability; and
- (c) financial soundness.

Adverse records can manifest in a wide variety of ways such as offences of an administrative nature, offences relating to market conduct or general conduct matters and offences relating to fraud. It is recommended that FA firms categorize adverse records in accordance with the level of severity and its impact on a potential recruit’s fitness and propriety. It should also account for multiple adverse records of a single representative in making the hiring decision given that it may be possible for a recalcitrant representative to have multiple adverse records stemming from the same type of misconduct. While each adverse record may not be severe when viewed individually, there may be grounds to not hire a potential recruit when viewed holistically. FA firms should always take a holistic approach in its assessment rather than applying it mechanistically. An example of such categorization is illustrated in the table below.

Holistic Assessment Process (HAP)

While each FI will establish its own hiring assessment processes, it is recommended that the assessment process should always involve at least one staff who has oversight in the compliance with both MAS and the FI’s own recruitment requirements to ensure holistic consideration. The staff should not have sales and recruitment targets to ensure independence and holistic consideration.

This should be a baseline practice that’s embedded in every hiring assessment process. In doing so, it facilitates corresponding course of actions and decisions for each category; meeting regulatory requirements and aligning with the firms’ values.

Categorization of individual adverse records - Illustration:

Adverse Records Categories	Description	Hiring Assessment	Examples of Relevant Offences
A	<ul style="list-style-type: none"> • These records are not considered to materially affect the fitness and propriety of a potential recruit nor significantly increase the risk of undermining a potential client’s interest during the financial advisory process. 	<ul style="list-style-type: none"> • Given the nature of this category, an FI may possibly pre-determine and set up its own listing and hiring decision to increase its operational consistency, effectiveness and efficiency. • If that is being done, do regularly review and update such a listing to maintain its relevance and recency. • Whether an FI adopts a pre-determined listing approach or on a case-by-case assessment approach, HAP should also be in place 	<ul style="list-style-type: none"> • Offences of an administrative nature such as but not limited to non-fulfilment of Continuing Professional Development (CPD) requirements; non-completion of mandatory training etc.
B	<ul style="list-style-type: none"> • These records cast doubts on the fitness and propriety of a potential recruit. • By extension, this may increase the risk of undermining a potential client’s interest during the financial advisory process. 	<ul style="list-style-type: none"> • The hiring assessment should undergo deliberation and escalation protocol (referenced below). • Any decision to proceed with hiring should logically be taken with the imposition of Enhanced supervision with heightened controls. 	<ul style="list-style-type: none"> • Offences of non-administrative nature but not involving fraud, dishonesty, illegal monetary gains or other offences of a similar nature such as but not limited to offences related to prospecting; sales; personal conduct etc. • Referring to MU 82/22 – Appendix A for further details: <ol style="list-style-type: none"> i. Breach of regulatory requirements ii. Breach of insurer's internal guidelines
C	<ul style="list-style-type: none"> • These records affirm that the potential recruit’s fitness and propriety has been compromised. • Consequently, it poses significant risk of undermining a potential 	<ul style="list-style-type: none"> • The hiring assessment should undergo deliberation and escalation protocol (referenced below). • It is almost certain that such potential recruits should not be recruited 	<ul style="list-style-type: none"> • Offences involving fraud, dishonesty, illegal monetary gains or other offences of a similar nature such as but not limited to cheating; forgery; misappropriation of

Adverse Records Categories	Description	Hiring Assessment	Examples of Relevant Offences
	client's interest during the financial advisory process.	to prevent damages to the FI's and industry's reputation.	monies; criminal breach of trust; bribery; money laundering; tax evasion; sub-agency; pooling activities ³ ; finance premiums for customers involving illegal monetary gains, etc. <ul style="list-style-type: none"> • Referring to MU 82/22 – Appendix A for further details: <ul style="list-style-type: none"> i. Criminal offences

For potential recruits who are undergoing investigations by any government agencies and/or his/her previous FA firm, it is recommended that the hiring FA firm await the completion of the investigation. The closure of investigation facilitates categorization of adverse records and hence allows for a more thorough fit & proper assessment by the hiring FA firm.

Finally, it is important to note that ***“Categorize adverse records”*** is an ongoing journey that is highly dependent on the outcome of the ***“Deliberate and escalate for decision making”***.

2. Deliberate and escalate for decision making

Assessment of a potential recruit's fitness and propriety, especially with the emergence of adverse records can be subjective and complex.

Hence, it is recommended that FA firms leverage the collective wisdom of diverse stakeholders' perspectives to derive optimal decisions that are regulatorily compliant as well as anchored on the firm's values and culture.

As deliberation, particularly complex cases, can result in a stalemate, it is also recommended that an FA firm establishes an escalation protocol to address such situations with example, appointment of reps, supervisors with adverse record. Afterall, the board and senior leadership has overall accountability for the FA firm.

An example of a deliberation and escalation protocol is as follows.

³ MAS Bans Four Former Representatives and One Other Individual for Unlawful Sub-Agency Activities, www.mas.gov.sg/regulation/enforcement/enforcement-actions/2023/mas-bans-four-former-representatives-and-one-other-individual-for-unlawful-sub-agency-activities

Hiring Approving Authority (HAA)

Level 1 Approval

Approval should be from C-suite representatives across a minimum of 2 different functions, including of at least one from a function that should not have sales or recruitment targets – e.g. Distribution and Compliance.

In the event where a unanimous decision cannot be reached

Level 2 Approval

Chief Executive Officer

Deliberation is a crucial practice.

It facilitates organisational learning and evolution of an FA firm's Fit and Proper assessment. The deliberated outcome in turn strengthens the categorization of adverse records and the implications on recruitment decision; thereby yielding consistency over time. Hence, the assessment and recruitment decisions should be properly documented.

3. Enhanced supervision with heightened controls

It is recommended that FA firms enforce enhanced supervision with heightened controls over a suitable monitoring period for recruits who are hired with adverse records categorised under Category B. This is to prevent and mitigate misconduct risks. This could include points i to point viii below. It is also recommended that FA Firms implement independent sample checks by another function to ensure that monitoring is conducted appropriately and on a timely basis.

- i. An enhanced monitoring (EM) period of at least 6 months for recruits with controls such as providing additional coaching and closer supervision to guide and ensure ethical conduct.
- ii. During the EM, depending on the nature of the adverse record, an FA firm should consider imposing the following measures including - additional pre-transaction checks (PTC) which could include documentation checks on appropriate needs-based selling; or call-backs to customers to identify and review potential sales anomalies; additional post-transaction checks by BSC review team; credit bureau checks to reduce unsecured debts and closer monitoring of complaints records.
- iii. Recruits exit criteria from EM is to be determined by FA firm and it should be aligned with the corporate values and culture. The EM exit criteria should be made known to the HAA.
- iv. Recruits under EM would need to meet the exit criteria. Failing which, the FA firm can consider extending the period of EM or terminating the recruit. Assessment of EM exits should be properly documented for accountability and audit trail. A proper escalation approval process should also

be put in place for extension of EM. Any decision to extend the period of EM should be made known to the HAA.

- v. Until the Recruit is released from EM, he/she should not be permitted to assume any supervisory role. This measure is in place to ensure that individuals with history of adverse records undergo the necessary monitoring and demonstrate their adherence to the established controls before being entrusted with supervisory responsibilities. By implementing this restriction, it helps to safeguard against potential misconduct and maintain the integrity of supervisory positions within the organization.
- vi. On exceptional basis, where an FA firm wishes to consider appointing the Recruit to a supervisory role at the point of direct appointment, the escalation protocol should apply. In such scenarios, the team of representatives under the supervisor's direct supervision should also be subject to EM measures. The EM measures on the representatives should be conducted by an individual other than the supervisor who himself/herself is subject to EM measures.
- vii. In the event that the Recruit who is under EM is unable to meet the exit criteria of the EM after an 18-month period, it is recommended that the FA firm terminate the Recruit. In event the FA firm decides not to terminate the Recruit, the escalation protocol should apply.
- viii. FA Firms are also recommended to implement monitoring processes that include trend analysis to identify sales anomalies from recruits with adverse record. Additionally, FA Firms should track and monitor agencies' recruitment statistics and extend enhanced monitoring controls to existing agencies with a higher proportion of representatives with adverse records.

CONCLUSION

In conclusion, the above recommendations seek to address uneven recruitment outcomes and inconsistent practices observed. The intent is to elevate the recruitment standards and practices in the FA industry. LIA will conduct reviews and updates of these practices, considering any changes in regulatory rules and market conditions, to ensure they continue to be relevant and appropriate.

LIA SECRETARIAT

Annex 1 – Key Highlights of Regulatory Actions by MAS

i. Issue of prohibition orders against errant individuals.

MAS took robust enforcement actions to safeguard the integrity of our financial sector. These included issuing reprimands against major FA firms for breaches of business conduct rules, imposing significant composition penalties on financial institutions (FIs) for poor anti-money laundering and countering the financing of terrorism (AML/CFT) controls, as well as pursuing criminal charges against perpetrators of market misconduct such as false trading⁴.

From July 2020 to December 2021, MAS had imposed \$2.4 million in composition penalties for AML/CFT control breaches and \$150,000 in civil penalties. 20 prohibition orders were issued against unfit representatives. Together with the Attorney-General's Chambers, MAS successfully secured the criminal convictions of seven individuals for market misconduct or related offences⁵.

ii. Guidance on fit and proper criteria and due diligence checks.

Under the Guidelines on Fit and Proper Criteria (Guideline No: FSG-G01), MAS expects a relevant person to be competent, honest, to have integrity and to be of sound financial standing. This provides MAS with the assurance that the relevant person is willing and able to fulfil its or his obligations under any written law. This also underpins the requirements that the relevant person performs the activities regulated under the relevant legislation efficiently, honestly, fairly and acts in the best interests of its or his stakeholders and customers.

As FA firms are mandated to ensure that recruited personnel meet the Fit and Proper Criteria, MAS has introduced CMI 01/2011: Due diligence checks and documentation in respect of appointed, provisional and temporary representatives (Circular No: CMI 01/2011). This is to provide guidance to FA firms in their conduct of due diligence checks and documentation relevant to the fit and proper certification of representatives under the Representative Notification Framework.

iii. Consulted on mandatory reference check requirements on firms.

There is a heightened emphasis on addressing the issue of “rolling bad apples”, to deter and prevent the perpetuation of misconduct by individuals at different FA firms. In line with this focus, MAS has proposed to make it mandatory for recruiting FA firms to conduct reference checks on their prospective representatives. Such reference checks should be conducted with all previous employers of the representative including principal companies which are FA firms regulated by MAS as well as companies not regulated by MAS. This proposal is outlined in the Consultation Paper on “Revisions to Misconduct Reporting Requirements and Proposals to Mandate Reference Checks for Representatives”⁶ which was issued in July 2018. Firms can also refer to the response to the consultation issued on 14 May 2021⁷. On the same day, MAS also issued a consultation paper on Proposals to Mandate Reference Check to extend reference check requirements to financial institutions on other classes of employees⁸. To ensure consistency, MAS will take into

⁴ MAS Enforcement Report July 2020 – 2021, www.mas.gov.sg/-/media/MAS/News-and-Publications/Monographs-and-Information-Papers/ENF-Report-20202021-PDF.pdf

⁵ MAS Reports Strong Enforcement Outcomes and Publishes Updates on Major Investigations, www.mas.gov.sg/news/media-releases/2022/mas-reports-strong-enforcement-outcomes-and-publishes-updates-on-major-investigations

⁶ www.mas.gov.sg/-/media/MAS/News-and-Publications/Consultation-Papers/Consultation-Paper-on-Revisions-to-Misconduct-Reporting-Requirements-and-Proposals-to-Mandate-Reference-Checks-for-Representatives.pdf

⁷ www.mas.gov.sg/publications/consultations/2018/consultation-paper-on-revisions-to-misconduct-reporting-requirements-and-proposals-to-mandate-reference-checks-for-representatives

⁸ www.mas.gov.sg/publications/consultations/2021/consultation-paper-on-proposals-to-mandate-reference-checks

consideration feedback received from this consultation when implementing the reference check requirements for representatives, where appropriate.

iv. Conducted supervisory engagements with individual firms on recruitment.

MAS has initiated interactions or assessments with specific FA firms to oversee and regulate their recruitment practices. This likely entails a review of how institutions handle their hiring processes to ensure they are fair, compliant with regulations, and aligned with the desired ethical and professional standards. The supervisory engagements aim to maintain the integrity of the financial industry by ensuring that recruitment practices are conducted in a manner that upholds transparency, accountability, and adherence to industry standards.