



# CUSTOMER KNOWLEDGE ASSESSMENT (CKA) FOR SPECIFIED INVESTMENT PRODUCTS

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**T**he Monetary Authority of Singapore (MAS) has introduced new requirements to provide safeguards for retail investors who wish to purchase investment products that are classified as Specified Investment Products (SIPs).

With effect from 1st January 2012, financial institution intermediaries such as broking firms, banks, insurers and financial advisers are required to conduct a Customer Knowledge Assessment (CKA) before selling SIPs to retail customers.

Under the new requirements, all representatives of First Principal Financial Pte. Ltd. are required to formally assess a retail customer's investment knowledge and experience before selling these investment products to the customer. Such an assessment also allows the financial advisory representative to get to know the customer better and to recommend suitable investment products for that particular customer, especially if he or she does not have the relevant investment knowledge or experience to make an informed decision.

## WHAT ARE SPECIFIED INVESTMENT PRODUCTS (SIPs)?

SIPs are likely to contain derivatives, and may have features and risks that can be more difficult for retail consumers to understand.





SIPs are divided into two general types, Listed and Unlisted SIPs. First Principal Financial only deals with products in the Unlisted category.

Listed SIPs	Unlisted SIPs
<p><b>1</b></p> <p><b>LISTED ON SGX:</b></p> <ul style="list-style-type: none"> <li>• Certificates</li> <li>• Exchange Traded Funds (ETFs)</li> <li>• Exchange Traded Notes (ETNs)</li> <li>• Futures</li> <li>• Structured Warrants</li> <li>• Options</li> </ul>	<ul style="list-style-type: none"> <li>• Unit Trusts &amp; Mutual Funds</li> <li>• Investment-linked Products (ILPs)</li> </ul>
<p><b>2</b></p> <p>Any products not listed or being traded on an approved exchange in Singapore but listed or being traded on foreign exchanges or foreign market operators.</p>	

## WHO DOES THE CKA APPLY TO?

Retail investors who wish to invest in SIPs. Such customers are required to complete the Customer Knowledge Assessment.

## WHO IS EXEMPTED?

The following categories of investors are not subject to the above assessment:

- Accredited Investor
- Institutional Investor
- Expert Investor
- Corporation
- Unincorporated Entity
- Partnership
- Trust

## WHAT ARE THE NEW REQUIREMENTS?

The following two requirements will apply when initiating the purchase of a SIP:

### (I) ASSESSING IF THE CUSTOMER HAS THE RELEVANT KNOWLEDGE AND EXPERIENCE

Intermediaries must assess if the customer has the relevant knowledge and experience before offering a SIP to them.

To do this, the representative will request the customer provide information of his or her educational qualifications, investment experience and work experience. Based on the information provided, the representative will assess whether the customer may proceed to purchase a SIP.

If the representative assesses that the customer does not have the relevant knowledge or experience, the representative will explain to the customer why the SIP is not suitable for him or her.

### (II) OFFERING THE CUSTOMER FINANCIAL ADVICE

The representative must offer to provide the customer with advice on whether the SIP is suitable, taking into account the customer's knowledge and experience in the product.

If the customer decides not to take up the offer of advice and decides to invest in a SIP that the representative did not recommend to the customer, the customer will have to take note that he or she will have to be responsible for the investment decision. The customer will not be able to rely on Section 27 of the Financial Advisers Act to file a civil claim against the intermediary.

## PERIOD OF VALIDITY OF THE CKA

If the customer is assessed to have knowledge or experience pertaining to a SIP, that positive outcome of the CKA is valid for a period of one year from the date of assessment.

The intermediary will not be required to conduct another CKA on the customer when he or she buys the same or a similar SIP during the one-year period.

After a year has elapsed from when the CKA was first conducted, the intermediary will need to conduct a new CKA before allowing the customer to purchase another SIP.

The new requirements may seem cumbersome with these additional steps to be undertaken in the fact-finding and needs analysis process. However we believe that the assessment is necessary as it allows the representative to get to know the customer better, and also allows the customer and representative to note the importance of Section 27 of the FA Act, where representatives are to conduct proper fact-finding and needs analysis so that recommendations made have a reasonable basis and meet the needs of customers.



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