

Ong Chong Tee: Strengthening trust in our capital market

Keynote speech by Mr Ong Chong Tee, Deputy Managing Director (Financial Supervision) of the Monetary Authority of Singapore, at My Money Seminar, Singapore, 16 November 2019.

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1 Ladies and gentlemen, good afternoon. It is my pleasure to join you in this afternoon's My Money public seminar. My Money was an initiative back in 2009 of the national financial education programme MoneySense, in collaboration with the Association of Banks in Singapore (ABS), the Securities Investors Association of Singapore (SIAS), and the Singapore Management University's (SMU) Sim Kee Boon Institute for Financial Economics.

2 The name of the programme itself, My Money, underscores the importance of taking personal responsibility for one's own finances— be it spending, savings or investments.

3 This afternoon, I will focus my remarks around some issues related to the retail investor. A retail investor must know his or her own return objective and risk tolerance. He should understand the products that he is looking to invest in, and how these products can achieve his investment goals.

4 Other stakeholders also have an important part to play. These will include the banks, fund managers and other financial service providers that are involved in the creation, marketing and sale of financial products. Regulators like MAS and SGX RegCo are of course also integral in that they set the ground rules for participants in the marketplace.

5 There are three important enablers:

- ♦ a culture of fostering customers' trust in the financial industry;
- ♦ strong market discipline that incentivises right behaviours; and
- ♦ adequate and timely public disclosures of pertinent information.

Engendering trust in the financial industry

6 Let me start with the theme of trust. It was a decade ago that we had the Global Financial Crisis. With a suite of regulatory reforms that followed, the global financial system is generally safer and stronger. Just being safe is not good enough. A vibrant financial sector must be able to support the smooth functioning of credit and money flows. It should meet the savings, investment and insurance protection needs of the people. Investors on their part want to have the confidence that they are treated fairly by financial institutions and that their savings are safe. This is why building trust in our financial institutions is so important. That trust goes beyond doing what is legally required, to include what is good and what is right.

7 Some of you may have seen recent reports on the Royal Commission review in Australia that investigated widespread misconduct issues in its banking industry. Financial institutions in Singapore are generally well regarded. But we have our share of malpractices too, such as the mis-selling of Lehman Minibonds and other structured or complex products.

8 Financial institutions have a duty to act in the best interests of their customers. However, in our supervisory reviews, we have uncovered lapses in conduct. These cases often reflected misaligned incentives and insufficient attention paid to remediation actions and staff training.

9 Even back in 2009, MAS issued our Fair Dealing Guidelines. These require financial institutions and their representatives to recommend products and services that are suitable for their target customer segments. The Guidelines include supporting customers with clear, timely and relevant information to make informed investment decisions.

10 MAS expects boards and management of financial institutions to stand behind these commitments. We have recently proposed guidelines to strengthen the accountability of senior managers in charge of key functions within a firm. Under these enhanced guidelines, boards must clearly designate the officers who are responsible and those who are accountable for the conduct and business operations in their organisations. The measures will include having a clear governance and oversight framework.

11 To avoid a situation where individuals with a pattern of misconduct and transgressions simply move from one financial institution to another, or what is referred to in regulatory circles as “rolling bad apples”, MAS will further require that financial institutions conduct reference checks with the previous employers of their representatives. Carrying out reference checks is already a long-standing industry practice. MAS’ proposal will harden this requirement.

12 MAS will also step up our monitoring of financial advisory practices in the industry. One example is our mystery-shopping exercises where we send researchers to “live test” the sales and advisory processes in sampled financial institutions. We will carry out more thematic reviews of financial advisory firms’ consequence management frameworks to assure us that investor complaints are investigated in a fair and timely manner.

13 The reality of course, is that no amount of regulations nor supervision can prevent wrongdoings. To try to do so would require a large volume of pre-emptive rules as well as unlimited supervisory resources. Both situations are neither possible nor desirable.

14 This is why MAS also places importance on our enforcement actions. We will not hesitate to investigate and take errant financial institutions or their representatives to task for breaches of our law and regulations. We have issued prohibition orders against individuals for a range of misconduct, from mis-selling to dishonesty and fraud. Our message is clear— improper or illegal conduct have no place in our financial sector.

Importance of market discipline

15 This brings me to the second topic. Market discipline.

16 As with our enforcement actions, market discipline can play an important role in shaping behaviour. It creates a strong incentive for financial institutions to conduct their business in a fair, transparent and responsive manner. A firm or its representatives with a poor record will deter prospective clients and investors. Similarly, investors will avoid companies that have poor standards of governance and disclosures. In other words, investors will penalise those that have fallen short, and reward those that have fared well.

17 To allow market discipline to work, different participants in the eco-system must play their part. Let me use the equity market as an example and outline a few key roles.

18 MAS is the statutory financial regulator. We implement and administer the laws and regulations that govern activities in the capital market, and as mentioned, will carry out enforcement actions against those who run afoul of them.

19 SGX RegCo is the frontline market regulator for listed issuers. It is responsible for ensuring that the market operates in a fair, orderly and transparent manner. SGX RegCo administers the listing rules that require listed issuers to, among other things, provide full, timely and accurate disclosures on material information. Listed issuers are also required to have in place sound governance frameworks and practices.

20 Listed issuers are central to market discipline. Having tapped the public markets for capital, they have a duty to run their business honestly and competently, and to update investors on relevant information promptly. It is incumbent on them to strive for high standards of corporate

governance and to engage proactively with all stakeholders.

21 There are also market intermediaries and other professionals. These include:

- ♦ Issue managers and sponsors who bring issuers to the market and are responsible for proper due diligence and in guiding issuers to furnish the relevant and appropriate disclosures. Issue managers have a key gatekeeping role in our capital markets, as they are most familiar with the issuers. They can judge the quality and suitability of a prospective issuer for public markets.
- ♦ Auditors have an important responsibility to perform checks on financial statements and provide assurance that these are reliable.
- ♦ Lawyers and consultants provide advice to help issuers ensure that their business dealings and corporate actions comply with laws and rules.
- ♦ Other professionals such as academia and financial journalists can also play a constructive role when they query or opine on matters relating to a listed company's financial statements, strategy or governance.

22 So it is an ecosystem of many different stakeholders. There are other official agencies involved too. The Accounting and Corporate Regulatory Authority (ACRA) regulates financial reporting, audits and auditors. ACRA has in place a Financial Reporting Surveillance Programme where it reviews financial statements to ascertain compliance with accounting standards, as well as the Practice Monitoring Programme where it inspects the public accountants for the quality of their audit work.

23 There is also the Commercial Affairs Department (CAD) of the Singapore Police Force. CAD is Singapore's principal white-collar crime investigation agency. Under the MAS-CAD joint investigation arrangement, MAS and CAD will jointly investigate offences to bring the full weight of our law against violations and abuses in our financial system.

24 While each regulatory or investigation agency has its distinct role, there is a shared responsibility in ensuring that the market is well-regulated, that corporate malfeasance is thoroughly investigated and that appropriate actions are taken against wrongdoers.

25 Some have asked why investigations into potential wrongdoings can take a long time. Let me explain. The time needed to complete an investigation varies according to the complexity of each case. In complex cases, issues often cut across the domain of several agencies. Take for instance, a case of alleged corporate irregularities. These could range from issues of mis-selling to inadequate or false disclosures, or improper application of accounting rules, or there may also be breaches of fiduciary duties. A single case could span potential breaches of different regulations and laws, such as financial advisory regulations, securities law, company law, listing rules, accounting rules, and the Penal Code. Often, our investigators have to retrieve and review a lot of data. Where a case has a cross-border dimension, the relevant agencies will also have to seek the assistance and support from our foreign counterparts. Our investigations must be thorough and rigorous to be fair to all parties concerned.

26 MAS will strengthen our co-ordination with ACRA and CAD in the surveillance of our capital markets and in investigations. We have set up a joint forum between MAS and ACRA to review accounting-related and disclosure issues. As mentioned earlier, MAS' enforcement team already has a joint investigation arrangement with CAD where our investigators collaborate closely. Our agencies will, in addition, work closely with SGX RegCo as they are the frontline marketplace regulator.

27 Industry groups also have a role as advocates of good governance and practices. SIAS, ABS and the Singapore Institute of Directors (SID) are good examples. It is encouraging that we see the active participation of academic researchers, journalists, analysts and even whistle-blowers,

who are prepared to comment on and query corporate actions or decisions. In some sense, this demonstrates a growing maturity in our capital markets.

28 At the same time, SGX RegCo has introduced some affirmative initiatives. For instance, RegCo implemented the Fast Track programme that allows listed issuers with good history of compliance and corporate governance standards to enjoy faster processing times for corporate submissions.

Making disclosures more accessible and understandable

29 Let me turn to the final section of my remarks on disclosure. Ultimately, the best form of investor protection is to empower investors by raising the level of financial literacy.

30 Clear and meaningful disclosures to the retail investor is a necessity here. MAS is working on a number of measures to make disclosures easier to understand and more accessible. For example, we are working with the local banks to consider how to improve the delivery of important information to investors for investment applications through ATMs for non-complex products. An important thing to bear in mind is that relatively simple products do not mean these have low market or credit risks. One idea is for easier access to product disclosure documents via a QR code; another could be clear summary highlights of key product class risk attributes in the ATM screen page. Such initiatives will have to weigh the objective of improved disclosure of pertinent information versus convenience and effectiveness considerations.

31 We are also working to improve the Product Highlights Sheet, or PHS. As background, MAS requires issuers to set out clearly in their offering documents information pertaining to their business, operating environment, financial position and prospects, key risks as well as salient terms of the instruments offered. A full prospectus can run into hundreds of pages. We know many retail investors are likely to find it hard to digest all the information in a prospectus, especially since some of these are written in a technical and legalistic manner.

32 MAS has therefore required issuers to furnish a PHS, which is a summary of the key information presented in a clear and concise manner.

- ♦ It started well. But over the years, we noticed a creep where the form and content of the PHSes put out by issuers have become increasingly technical and legalistic. This picture is a sample PHS that we typically see today. Despite our efforts to encourage issuers to simplify the language and use more visual aids, we have found that most PHSes are still very cluttered and difficult to read.
- ♦ We are reviewing how to improve the way useful information is presented in the PHS. What you see is a prototype of an improved PHS that we are considering. We have incorporated consumer-friendly message design, clear and simple language and the use of effective diagrams and infographics. We will seek feedback on these with the industry.

33 I will now turn to the topic of financial scams, a concern of some retail investors. MoneySense runs regular campaigns to remind investors of the need to be on guard against investment scams. I have highlighted here a web page capture of an earlier campaign where MAS had put out an advertisement to resemble a typical online investment scam. The advertisement showed an island property investment. When a consumer navigated to the scam website and indicated interest to invest, he would be told that the island property investment was a scam and he would have lost money if he had invested. He could then learn about how to spot red flags and protect himself when investing. You may be surprised that quite a few people had actually “clicked” to invest into this. Thankfully, there were others who contacted us to alert on this suspicious investment scheme.

34 Some fraudulent websites have also attempted to solicit investments using fabricated information attributed to well-known personalities. Both MAS and the police have issued

advisories on these scams.

35 To safeguard your monies, you should approach all investment propositions with a healthy scepticism and challenge exaggerated claims. As it is often said, if it sounds too good to be true, it is probably not true.

36 Financial education and advisories issued by the authorities will not stop those who are out to cheat investors. Strong enforcement action is necessary so that offenders pay for the consequences of their illegal activities. The authorities recognise the need for firm actions to investigate and punish wrongdoers to deter illegal behaviour. As part of our stepped-up surveillance, MAS officers had visited some so-called investment seminars. Where we have found breaches of securities law, enforcement actions have been taken. We have also referred cases involving potential Penal Code offences to the CAD. In recent months, following investigations by CAD, an individual behind a company RBI Holding Pte Ltd was charged with multiple counts of forgery and cheating offences for his involvement in fraudulent investment schemes. In a separate case, an individual was charged with cheating offences for promoting schemes that promised investors a 97% return on their investment.

37 I have mentioned the MAS-CAD joint investigation. The police has also set up a centralised anti-scam centre in CAD to tackle all forms of scams so as to enable them to intervene quickly to disrupt scammers' operations.

38 Finally, it is worth reiterating that one should not plunge into an investment just because it promises a high return. Avoid buying a product on impulse or herd instinct or name-familiarity. Construct a well-diversified investment portfolio that is aligned with your investment objective and risk tolerance. Today's seminar will certainly cover these investing principles in more detail.

Conclusion

39 Let me conclude. All stakeholders in the capital marketplace have a role in good corporate governance and effective market discipline.

40 On MAS' end, we will continue our financial education efforts as an integral part of our regulatory and supervisory work. These will encompass heightened surveillance, investigation and enforcement actions with other authorities.

41 It leaves me to reiterate that investors should always seek to understand the issuer and product before investing in them. Remember to "Ask. Check. Confirm". There will be a short half-minute video on this at the end of my remarks. Do also visit the pop-up exhibition booth outside the theatre to learn more about the resources available to help you.

42 Thank you for your attention.