PWMA

Private Wealth
Management
Association

Private Wealth Management Association Limited
Room 519, 5/F., Prince's Building, Central, Hong Kong
Telephone: 3758 2272 Facsimile: 3107 0170
Email: info@pwma.org.hk Web: www.pwma.org.hk

22 February 2017

Securities and Futures Commission
35/F Cheong Kong Center
2 Queen's Road Central
Hong Kong

Dear Sir/Madam,

Consultation Paper on Proposals to Enhance Asset Management Regulation and Point-of sale Transparency

Thank you for the opportunity to provide our industry feedback in relation to the captioned consultation paper.

Please find enclosed the feedback of our members for your consideration.

Yours faithfully,

For and on behalf of
Private Wealth Management Association

Encl.

PWMA Comments on Consultation Paper on Proposals to Enhance Asset Management Regulation and Point-of sale Transparency (the "Consultation Paper")

Note: Terms not defined herein shall have the meaning ascribed to them in the Consultation Paper.

	Consultation Question	Concerns / Comments / Clarification needed
Part I Fund Manager Code of Conduct (the "FMCC")		
Q1.	Do you have any comments on the proposed clarification that the FMCC applies to the business activities carried out by fund managers which would include the management of discretionary accounts?	There are a number of fundamental differences between the roles of fund managers that manage collective investment schemes and the roles of discretionary account managers that manage discretionary accounts in accordance with an investment mandate or pre-defined model portfolio which operate within private banks ("**PB DPM**"). It is our concern that the FMCC has not taken into account such fundamental differences and adopts a largely unified approach to regulating fund managers and PB DPM. As a result, our members are of the view that a majority of the requirements in the proposed FMCC are not appropriate for PB DPM. This will be apparent from the members' responses to the consultation questions below but members wish to highlight three examples here. **Custody** It has been proposed in the FMCC that discretionary account managers should exercise due skill, care and diligence in the selection, appointment and ongoing monitoring of the custodians. On an ongoing basis, discretionary account managers should satisfy themselves of the continued suitability and financial standing of any appointed custodian. The FMCC has also set out a list of factors which discretionary account managers should consider as part of their selection process for custodians. However, a selection process for custodians may not be necessary for circumstances where the banks themselves or the banks' affiliates are the custodians. Clients of private banks typically evaluate a broad range of factors, including the brand, reputation, financial standing and range of services before they decide to establish relationships and open accounts with private banks, and as part of their evaluation, they would also

	Consultation Question	Concerns / Comments / Clarification needed
		consider the custody services – and be happy to deposit their assets with the relevant private banks or their affiliates. In fact, the cash and securities account offerings are usually one of the prime factors for clients when choosing a private banking relationship. Generally, fund investors would typically not choose a fund product based on the custodian, and would have limited visibility on the custody arrangements. If the SFC is concerned with whether there are sufficient safeguards on clients' assets, consideration may be given that banks or their affiliates that act as custodians are already subject to stringent global standards and regulatory oversight by relevant regulatory authorities and are required to comply with all prudential laws, rules and regulations issued by their home and host regulators. **Risk Management** Members support the proposals for PB DPM to implement appropriate risk management policies applicable to portfolios under management (in fact, members are already managing their clients' accounts in accordance with the members' risk management policies, which are subject to independent oversight by the members' risk departments). However, members think that it is not appropriate for the FMCC to specifically prescribe the factors which PB DPM needs to take into account in managing discretionary accounts. This is because private banks typically assess the risk profile of clients on an account level, and not purely in respect of discretionary accounts. Moreover, specific investment restrictions and leeways will always be discussed with clients and included as part of the mandate as applicable. Hence the members are of the view that the suggested risk-management control techniques and procedures for discretionary account in appendix 2 are not entirely relevant to PB DPM. **Minimum Content of Discretionary Client Agreement** The FMCC provides that a discretionary client agreement should contain at least, amongst others, a statement of the client's investment policy and

	Consultation Question	Concerns / Comments / Clarification needed
		objectives, including asset classes, geographical spread, performance benchmark, risk profile of the target portfolio and any limitations or prohibition on asset classes, markets or instruments (e.g. use of derivatives). However, a PB DPM will typically agree on a number of matters set out above (but not necessarily all of them) in the discretionary mandate or investment management agreement between the parties. For example, a PB DPM and the client may not necessarily agree to use a performance benchmark in assessing performance of the portfolio. The parties may use other factors, such as the appreciation of value of assets under management. The prescriptive provisions of the proposed FMCC do not take into account the nature of PB DPM. Against this backdrop, members urge the SFC to consider creating a standalone code for PB DPM. If the SFC is not minded to consider this proposal, members propose that the SFC excludes or adapts provisions of the FMCC, taking into account the business model of PB DPM (for example, by way of issuing additional guidance in the form of frequently asked questions). Examples of areas where the SFC would be expected to exclude or adapt provisions of the FMCC include: • paragraph 1.3 headed "functional separation" should be adapted (please refer to our responses to question 12 for further information); • paragraph 1.10 headed "delegation" should be adapted (please refer to our responses to question 2 for further information); • paragraph 3.11.1 headed "risk management" should be adapted. Specifically, there should be clarification that a PB DPM is not required to comply with the risk management requirements under the FMCC provided that the members have appropriate risk management policies in place on an account level); • paragraph 3.14.1 (a) to (d) headed "liquidity management" should be adapted. This is because PB DPMs would typically

	Consultation Question	Concerns / Comments / Clarification needed
		agree with their clients on the investment strategies to be followed (including the liquidity profile of the underlying assets) with respect to the discretionary accounts; • paragraphs 4.1.2, 4.2.1, 4.2.2, 4.3.1 to 4.3.3 should be dis-applied in respect of a PB DPM that acts as the custodian or where an affiliate of the PB DPM acts as the custodian; • paragraph 5.2.3 should be dis-applied (please refer to our responses to question 15 for further information); and • clarification that PB DPM are not required to comply with paragraph (b) of the minimum content of the discretionary client agreement. Members suggest the SFC to also specify in the FMCC that the interpretation of the provisions of the FMCC as they apply to discretionary account managers that operate within private banks should be principles-based. **Grandfathering of Existing Discretionary Client Agreements** Members also request the grandfathering of all existing discretionary agreements signed before the effective date of the FMCC. This is because discretionary client agreements are typically subject to heavy negotiation between PB DPM and their clients and both parties would want the agreed terms to continue until the termination of the mandate to avoid disruption to both the PB DPM's business operations and clients' experience. Practically speaking, members would not be able to impose such fundamental changes unilaterally. **Corporate Professional Investors and Institutional Professional Investors** We also propose there should be clear carve-outs in the FMCC for funds

	Consultation Question	Concerns / Comments / Clarification needed
		whose investors are institutional professional investors and corporate professional investors (on the basis that corporate professional investors meet the assessment requirements to provide comfort that they are sufficiently knowledgeable and experienced). This is consistent with the Code of Conduct, where qualified investors are entitled to certain exemptions.
Q2.	Under the current proposal, some of the proposed enhancements are not applicable to all Fund Managers but only to those responsible for the overall operation of a fund or having de facto control of the oversight or operation of the fund. Do you agree with such an approach? If so, do you have any views on which of the proposed enhancements should only be applicable to those Fund Managers who are responsible for the overall operation of a fund or have de facto control of the oversight or operation of the fund? Please explain your views.	The note to appendix 1 headed "requirements for licensed or registered persons conducting discretionary accounts management" provides that "in relation to certain principles and requirements [...] that are only applicable to a Fund Manager who is responsible for the overall operation of a fund, and has de facto control of the oversight or operation of the fund, discretionary account managers should also observe these principles and requirements, where applicable, and to the extent relevant to the functions and powers of the discretionary account manager". Applying the above, PB DPM is likely to be considered as having "de facto control" and will be required to comply with the more onerous requirements under the FMCC. However, it is not clear how this will work where members have delegated management of discretionary accounts to a fund manager based outside Hong Kong[1]. Specifically, members note paragraph 1.10 headed "delegation" of the FMCC provides that "[...] where functions are delegated to third parties, there should be ongoing monitoring of the competence of delegates, to ensure that the *principles of this Code* is followed". Offshore portfolio managers are likely to be already subject to applicable local laws, rules and regulations. In circumstances where members have delegated portfolio management responsibilities to offshore portfolio managers, members propose the SFC to allow offshore licensed sub-portfolio managers to conduct their day-to-day operations in accordance

[1] Members would like to highlight it is a fairly common practice for PB DPM to enter into discretionary client agreements with clients in Hong Kong, which will in turn delegate investment management responsibilities to other portfolio managers within the banks' network (e.g. portfolio managers in Singapore or London). This is because it is common for international banking groups to centralise the operation of their portfolio management business in one/two locations where the expertise is located, amongst other factors.

	Consultation Question	Concerns / Comments / Clarification needed
		with their local regulations. Specifically, members seek SFC's clarification that the PB DPM will retain the ultimate responsibility for the portfolio management activities carried out by their offshore affiliates but it will be sufficient if offshore portfolio managers comply with the applicable laws, rules and regulations in conducting portfolio management activities without superimposing an additional layer of obligations prescribed under the FMCC.
Q3.	Do you have any comments on the above proposals which will be applicable to a Fund Manager which engages in securities lending, repo and similar OTC transactions on behalf of the funds it manages?	The proposals in the Consultation Paper appear to be very specific to securities lending, repo and similar OTC activities carried out by the investment manager on behalf of the funds or portfolios it engages. Many of our members offer PB DPM as part of their "overall relationship with the bank", as opposed to the bank providing services at a "fund" level. Therefore, this requirement is not applicable to many of our members. Members also request the SFC to clarify the term "similar OTC transactions". Members suggest that the term "similar OTC transactions" should be interpreted as OTC transactions which achieve a similar economic effect as securities lending/repo transactions.
Q4.	Do you have any views or comments on the proposal that Fund Managers should design their haircut methodologies which should reflect the standards set by the FSB in its recommendations?	See response to Q3.
Q5.	Is the requirement to disclose details of non-cash collateral re-hypothecation sufficient to enable investors to understand the relevant risks and exposures to the fund? Please explain your views.	See response to Q3.
Q6.	Do you have any comments on the proposed requirements on reporting to fund investors? In particular, do you have any comments on the minimum disclosure requirements proposed?	See response to Q3.

	Consultation Question	Concerns / Comments / Clarification needed
Q7.	Do you have any comments on the above proposals regarding custodian and safe custody of fund assets?	Paragraph 4.2.1 of the FMCC lists various factors that a discretionary account manager should consider as part of the selection process for custodians (e.g. the custodian's financial resources, the custodian's management of potential conflicts of interest, the custodian's organization capabilities and where appointment of sub-custodians is allowed, the custodians will use due skill, care and diligence in the selection and monitoring of its sub-custodians). For PB DPM, the custodian is typically the bank itself or the bank's affiliates and PB DPM will typically not appoint an independent custodian. Members would like to seek clarification on whether some of the factors could be waived or "flexibly" applied, using a risk based approach in relation to a custodian which is an entity within the same group. Specifically, members seek clarification on the following: (a) **Financial Resources** – if the custodian used by the PB DPM is locally licensed to conduct custody activities and is subject to prudential supervision by the local regulator, would it be sufficient for the purpose of this criterion? (b) **Custodian's management of potential conflicts** – if the appointed custodian for a discretionary account is the bank or an affiliated entity within the same group and is subject to the same group policy on conflicts of interest, would it be sufficient to meet this criterion? (c) **Custodian's selection and monitoring of its sub-custodians** – if the appointed (main) custodian is the bank or an affiliated entity within the same group and is subject to the same group policy (e.g. an outsourcing policy which governs the selection and monitoring of service providers), would this suffice for the purpose of this criterion? In addition, if the main custodian has a "network management team" (or similar function) which is responsible for, amongst others, the selection or ongoing

	Consultation Question	Concerns / Comments / Clarification needed
		monitoring of sub-custodians within the network, would the discretionary account manager be entitled to rely on the network management team to satisfy this criterion?
Q8.	Do you have any comments on the above proposals regarding liquidity risk management?	N/A
Q9.	Do you have any suggestions on any particular liquidity management measures which a Fund Manager should put in place for effective liquidity management, for example, in terms of setting liquidity targets or stress testing?	N/A
Q10.	Do you consider it appropriate for Fund Managers to disclose the maximum leverage of the fund it manages to fund investors?	N/A
Q11.	Do you have any comments on how leverage should be calculated?	Members submit that PB DPM should retain flexibility in determining the basis of calculation of leverage, as the appropriate approach to measuring leverage will vary depending on the type of instrument involved and the purpose for which it is employed. There is no one-size-fits-all measure for different types of funds and asset classes. In addition, the discretionary portfolio mandate will typically set out whether leverage will be used and if so, to what extent. Clients would have mandated what they want and agreed.

	Consultation Question	Concerns / Comments / Clarification needed
Q12.	Do you have any comments on the other amendments proposed to the FMCC?	A. Selection and appointment of third-party delegates Paragraph 1.10 of the FMCC requires that "[the discretionary account manager] should exercise due skill, care and diligence in the selection and appointment of third-party delegates. Where functions are delegated to third parties, there should be ongoing monitoring of the competence of delegates, to ensure that the principles of this Code are followed. Although the investment management role of the Fund Manager may be sub-contracted, the responsibilities and obligations of the Fund Manager to the funds it manages may not be delegated." Members would like to seek clarification on whether there are specific due diligence requirements in the selection and delegation of investment management responsibilities to a sub-manager. B. Mark-ups levied on transactions on behalf of a client fund In connection with profits generated on transactions on behalf of a discretionary account where the discretionary account manager is acting as principal, paragraph 8.2(b) of the FMCC requires the circumstances to be disclosed to the discretionary account clients and transactions to be reported in periodic statements. Members would like to seek clarification as to whether the disclosure is one-off and could be disclosed at account opening. In the existing FMCC paragraph 8.2(b), it states that where the Fund Manager is "acting as principal, the circumstances should be disclosed in the Client Agreement and transactions reported in periodic statements." The intention of existing wording seems to suggest disclosure at inception of the client agreement. Hence, this is a reiteration that disclosure of mark-up should remain at client agreement level. In addition, instead of reporting such principal transactions in the periodic statements, members would like to seek guidance on whether it would be acceptable to disclose that the intermediary is acting as principal in

	Consultation Question	Concerns / Comments / Clarification needed
		transaction advice. C. Issuance of advertisements and marketing materials Paragraph 7.2 of the FMCC states that a Fund Manager should ensure all advertisements and marketing materials are authorized as required by the SFC before they are issued. Members suggest the SFC make it explicit in the FMCC that PB DPM can be exempted from this requirement provided PB DPM complies with the applicable statutory requirements regarding the offer of investments. D. Delegation of discretionary authority to another Fund Manager not licensed/registered with the SFC Please refer to the members' responses to question 2 above. E. Functional Separation The revised paragraph 1.3 of the FMCC provides that "[w]here a Fund Manager is undertaking or (our emphasis added) is part of a group of companies which undertake other financial activities such as advising on corporate finance, banking or broking (our emphasis added), it should ensure there is an effective system of functional barriers (Chinese Walls) in place to prevent the flow of information that may be confidential and/or price sensitive between the different areas of operations". Banks usually have Chinese walls in place to ensure proper functional separation. In the private bank sector, a "full service" private wealth manager typically offers brokerage, advisory and discretionary asset management services for clients. It is usually not practicable to separate the discretionary asset management and brokerage functions because clients may require both services and expect an integrated, holistic service from its private wealth manager, particularly given the importance placed on the personal nature of the relationship between each relationship

	Consultation Question	**Concerns / Comments / Clarification needed**
		manager and its clients.
Q13.	Under the existing requirement, where a client's order has been aggregated with a house order, the client's order must take priority in any subsequent allocation of partially filled orders. Are there any circumstances where it is in the best interests of clients to aggregate their orders with house orders? What are those circumstances which justify that they are in the best interests of clients? Are there any circumstances in which an institutional professional investor should be able to request pro rata allocation of aggregated but partially filled orders, on the terms specified by such an investor? What are those circumstances? Does the investor who request pro rata allocation have concerns that the flexibility can be abused by the licensed manager?	Generally speaking, private banks do not carry out proprietary trading. However, some private banks may instruct affiliated brokers to execute trades for their clients, and the affiliated brokers may combine trades executed by clients of different business divisions of the banks, as well as the banks proprietary trades (in other words, the trades flow to the same desk). In such scenarios, it may actually work in the client's favour to combine both house and clients' orders as banks may execute larger trades on more favourable terms.
Q14.	Do you have any comments on the suggested risk-management control techniques and procedures as set out in Appendix 2?	See response to Q1.
Q15.	Do you have any comments on the requirements set out in Appendix 1?	It is unclear how some of the requirements are applied in a PB DPM context and members suggest that the SFC provide further guidance. Specifically, members have queries on the following: A. Auditors and audited accounts Paragraph 5.2.1 of the FMCC requires a discretionary account manager to appoint an independent auditor to perform an audit of the financial

	Consultation Question	Concerns / Comments / Clarification needed
		statements of the discretionary account manager. For banks that offer discretionary mandates, the banks will not appoint an independent auditor to audit the financial statements of the discretionary account manager. This is because the portfolio managers may sit within a business division of a bank, amongst other reasons. Paragraph 5.2.3 of the FMCC states that "the accounting information given in the annual report for each of the [discretionary account] should be prepared in accordance with generally accepted accounting principles and with the accounting rules set out in the constitutive documents of the [discretionary account]". Members note that paragraph 5.2.2 (which requires an independent audit of the financial statements of the discretionary account for the purpose of the annual report) has been identified as being non-applicable to discretionary account managers. By extension, members would like to clarify that paragraph 5.2.3 is also not applicable to PB DPM, as PB DPM typically do not provide annual reports or financial statements. However, members do provide statements to clients in such frequency as agreed between the members and the clients. B. Performance review Members would like to confirm if the requirements can be satisfied by review performed either by the portfolio managers operate within private banks or the relationship managers. This is because relationship managers typically perform performance review with clients (subject to having the requisite licence or registration). C. Minimum contents of discretionary client agreement PB DPM should be allowed to omit certain items that are less relevant to the discretionary mandates e.g. performance benchmark and geographical spread (e.g. where the mandate is not managed with reference to any performance benchmark, monthly statements would show detailed

	Consultation Question	**Concerns / Comments / Clarification needed**
		holdings instead of stating the geographical spread in the agreement). Standard model portfolios are often used whereby clients follow the same model portfolio with an indicative Strategic Asset Allocation ("**SAA**"). In order to allow the PB DPM to optimize investment opportunities within the SSA, a more flexible approach of disclosing the asset allocation should be allowed e.g. disclosing a range in the discretionary client agreements, for example "equities 50-75%", as well as giving PB DPM the flexibility to operate within a tactical range of the SAA. Otherwise, PB DPM may not be able to efficiently manage their portfolios based on prevailing market conditions without triggering a significant re-papering exercise.
Q.16	Do you think a 6-month transition period following gazettal of the final form of the amendments to the FMCC is appropriate? If not, what do you think would be an appropriate transition period and please set out your reasons.	In the members' view, this transition period is too short. This is because members need to conduct gap analysis, draft new policies and procedures, update or change their existing processes, provide new disclosures, enhance their operational systems, establish corresponding internal controls and monitoring policies and provide training to their front line staff, amongst others. Members believe a transition period of 18-24 months is more appropriate.
Part II – Intermediaries conduct		
Q17.	What is your view on a pay-for-advice model for Hong Kong? Do you have any comments on our suggested approach to addressing the inherent conflicts of interest arising from receipt of commissions by intermediaries from other parties including product issuers?	Pay-for-advice model does not seem to have gained popularity in Hong Kong. Further market surveys can be performed to gauge investors' preference. Whilst not all investors might be interested in the pay-for-advice model, some members believe the model may ultimately be the best outcome for investors. Therefore, to the extent commercially viable, alternatives from intermediaries should be made available to investors.
Q18.	Do you have any comments on the proposed disclosure requirement in relation to independence set out above?	Existing requirements in paragraph 8.3A of the SFC Code of Conduct already require both the disclosure of monetary benefits received as well as affiliation of the intermediary with the product issuer. The additional requirement to disclose whether or not the licensed or registered person is "independent" (with reference to the requirements set out in paragraph

	Consultation Question	Concerns / Comments / Clarification needed
		10.2 of the SFC Code of Conduct) is repetitive. Interpretation of "independence" Referring to paragraph 94 of the Consultation Paper, members would like to seek more detailed guidance on the restrictions of representation by an intermediary as being "independent" or the use of any other terms(s) with similar reference. Specifically, apart from the term "independence", members suggest the SFC specifically set out the terms which the SFC does not wish members to use if they were not considered to be independent. Similar reference is too vague. Given the broad scope of "any links or other legal or economic relationship with product issuer", most global organizations would not represent themselves as "independent". Having said that, members would like to seek further guidance from the SFC as to what could be considered as links or relationships. In practice, the chain of parties involved can potentially be very long and hard to track or control for compliance purposes. Intermediaries not claiming to be independent Members suggest proposed disclosure requirements in paragraphs 8.3A(a)(iii), 8.3A(b), 10.2 and Schedule 9 in the SFC Code of Conduct to be simplified by putting in restrictions and mandating disclosure standards when intermediaries describe themselves as independent, but not prescribing mandatory disclosure for intermediaries not claiming to be independent.
Q19.	Do you have any comments on the enhanced disclosure proposed with regard to monetary benefits received or receivable by intermediaries that are not quantifiable prior to or at the point of entering into a transaction (and in particular, in relation to specific types of investment products)?	Monetary benefits received or receivable by intermediaries that are not quantifiable prior to or at the point of entering into a transaction are not always static and can fluctuate, depending on, amongst others, the amount of asset under management ("**AUM**"). The range and dollar amount of such receivables are often determined by the outstanding AUM of the product when it is valued after members start to distribute the product, at

	Consultation Question	Concerns / Comments / Clarification needed
		different intervals as members agree with different issuers. Since the range of receivables may be negotiated for different products or in respect of different share classes of the same fund even if such products are issued by the same issuer, disclosure on a pre-trade transaction basis is somewhat difficult for members to comply with. If this proposal is adopted, this would require substantial system enhancements and the introduction of complex parameters. Should the enhanced disclosure proposals go ahead, members suggest that the disclosure only be applied to trailer fees which members receive from fund managers (or the fund managers' affiliates), and do not to extend to other products at this stage until and unless more detailed guidance for other products is available. Moreover, for reasons set out below, members suggest that the disclosure should only be limited to informing clients on the existence, nature and fee/percentage range of the non-quantifiable monetary benefits.
Q20.	Do you have any comments on the suggested manner of disclosure of trailer fees (in the context of funds) set out in the sample disclosure above? Do you have any other suggestions to ensure the disclosure of non-quantifiable monetary benefits relating to other types of investment products will be clear, fair, meaningful and easily understood by investors?	Members would like to highlight the following: • From a client's perspective, it is important to be aware of the fact that distributors may receive remuneration from fund managers or product issuers in return for distributing these products, as it will help such client make an informed decision. Whilst generally support increased transparency, members are also of the view that disclosure to clients is only "part of the equation". The "other part of the equation" is having appropriate policies and procedures and providing training to ensure front-line staff will not recommend or solicit a product to a client solely based on potential commissions (in fact, front-line staff does not normally know the trailer fee provided by fund houses as the distribution agreements are negotiated by the members themselves). To that end, members have already developed adequate policies and procedures in this regard; • it is industry practice for fund managers to provide rebates in the

	Consultation Question	Concerns / Comments / Clarification needed
		form of trailer fees to distributors if the latter distribute interests in funds that meet the AUM thresholds as agreed between the fund managers and the distributors. One of the key objectives of trailer fees is to allow distributors to partially recover some of the administrative fees which they incur for providing continuous after-sales service to clients. The payment of trailer fees is more common for funds, as clients typically hold interests in funds for a longer period. Examples of administrative fees which distributors may incur include notifying clients of corporation actions, distributing annual reports etc. Trailer fees are not given to the distributors purely for rewarding their efforts in distributing the funds; and • one of the key challenges with the proposal is to ensure clients are provided with adequate and consistent information so that they can make a meaningful comparison between different product providers. For reasons set out below, it is questionable as to whether disclosure of the range and maximum dollar amount of trailer fees receivable by members will provide much additional value to the clients: • the payment of trailer fees to the distributor will not directly affect the performance of the fund itself; • it is debatable whether disclosure of the range of trailer fees receivable by intermediaries will make such a material difference to the clients' decision when subscribing to the funds. For funds commonly distributed in the market, the range is unlikely to be materially different among intermediaries. Clients should rely on the information provided by the fund house and intermediaries such as the key facts statement, prospectus, and the funds' performance compared to its peers to decide on whether funds are suitable to invest in;

	Consultation Question	Concerns / Comments / Clarification needed
		- as the maximum dollar amount disclosed is only indicative based on assumptions and variables and may not be the exact amount that the intermediary will actually receive from fund managers, disclosing the dollar amount does not add too much value to clients but is an onerous requirement for members to comply with; and - there is a constant dialogue between clients and the relationship managers. It is not appropriate to use the same disclosure standards as for intermediaries that solely act as distributors of funds. Against this backdrop, members propose that the disclosure of trailer fee should be in line with, and not be more stringent than the current disclosure requirement applicable to quantifiable monetary benefits under paragraph 8.3 of the Code of Conduct. Specifically, members suggest that the disclosure should only be limited to informing clients on the existence, nature and fee/percentage range of the non-quantifiable monetary benefits.
Q21.	Do you think a 6-month transition period following gazettal of the final form of the amendments to the Code of Conduct is appropriate? If not, what do you think would be an appropriate transition period and please set out your reasons.	In the members' view, this transition period is too short. This is because members need to conduct gap analysis, draft new policies and procedures, update or change their existing processes, provide new disclosures, enhance their operational systems, establish corresponding internal controls and monitoring policies and provide training to their front line staff, amongst others. Members believe a transition period of 18-24 months is more appropriate.