

## Stand out for the right reasons:

### Pricing and disclosure practices

#### Background Context

In the private banking industry, pricing and disclosure practices have typically focused on whether firms were fulfilling their regulatory obligations in respect of pre-trade and post-trade monetary benefit disclosures.

The recent enforcement actions taken by the Securities and Futures Commission (“SFC”) and the Monetary Authority of Singapore (“MAS”) have shown that these are not being met. In addition, broader concerns exist in relation to potential conduct issues. This has forced firms to re-evaluate whether they:

- are exposed to similar conduct issues;
- are meeting their regulatory obligations; and
- have adequate controls in the first and second lines of defence to prevent and detect instances of misconduct and regulatory breaches.

The nature of client relationships mean that individual relationship managers have significant authority and discretion in pricing agreement and the method of such communication. This coupled with limitations in systems of control and the range of disclosure methods employed have created significant challenges in identifying and monitoring compliance with bespoke pricing arrangements.

#### Key Regulatory Requirements

In Hong Kong and Singapore, the regulatory obligations specific to pricing and disclosure are embedded within various forms of guidance issued by the regulators. The overarching aim of these regulations are to provide greater transparency to clients in the context of pricing and disclosure.

These pronouncements give rise to general obligations to act fairly, honestly and in the best interests of clients, avoid conflicts of interest and to provide adequate disclosure of relevant material information in client dealings.

These regulations also set out specific obligations including:

Types of benefits subject to disclosure requirements
The basis and level of granularity of disclosure
The timing of disclosure (pre-trade or post-trade)
The frequency of disclosure
The method of disclosure (verbal or in writing); and
Disclosure of acting capacity (principal or agent)

While these obligations may appear straightforward, the challenge is operationalising these into systems, controls and processes in a sustainable manner.

Key regulatory obligations relevant to pricing related disclosures	
Hong Kong	Singapore
<ul style="list-style-type: none"><li>Code of Conduct for Persons Licensed by or Registered with the SFC</li><li>Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules</li><li>Circular on Enhanced Disclosure Requirements on Sale of Structured Products not Regulated by the Securities and Futures Ordinance ("SFO") issued by the Hong Kong Monetary Authority ("HKMA")</li><li>Circular on Disclosure Requirements Applicable to Non-SFO-regulated Structured Investment Products under Discretionary Accounts issued by the HKMA</li></ul>	<ul style="list-style-type: none"><li>Private Banking Code of Conduct in Singapore issued by the Association of Banks in Singapore</li><li>Securities and Futures (Licensing and Conduct of Business) Regulations</li><li>Guidelines FAA-G04 on Standards of Conduct for Financial Advisers and Representatives</li><li>Practice Note FAA PN-01 on Disclosure of Remuneration by Financial Advisers</li><li>Notice FAA-N03 on Information to Clients and Product Information Disclosure</li></ul>



## How PwC can help

We have broad experience in reviewing firms' pricing and disclosure practices, both as a management driven initiative and at the direction of the regulators. These reviews have included look-back reviews, current control framework assessments, remediation support and client impact / compensation analysis. We would welcome the opportunity to discuss how we can draw on this experience to support you.

### Examples of Relevant Misconduct

The type of misconduct observed will vary from firm to firm depending on the opportunities afforded by the control environment and the level of transparency associated with the product. Some of the generic types of relationship managers' misconduct include:

- Charges in excess of standard fee disclosures;
- Charges in excess of bilateral arrangements with clients;
- Increasing spread post trade execution to take advantage of favourable price movements;
- Misreporting of the execution price / spread to clients; and
- Misreporting of price / fees charged in contract notes or customer statements.

In many cases, the innocuous questions asked by relationship managers of how to handle specific pricing or order execution matters are the first indication of problematic behaviours. Consequently, Business, Compliance and Operations teams may already be aware of certain types of behaviour but they may be unaware of their implications or severity.

### Other Areas of Concern

In addition to look-back reviews to identify potential instances of misconduct, firms are also performing detailed reviews of:

- **System infrastructure** – To evaluate whether hard blocks have been appropriately implemented.
- **Order handling processes** – To determine whether orders are being appropriately input and monitored for post trade amendments.
- **Trading Capacity** – To determine if internal and external disclosure of trading capacity is clear, consistent and adheres to relevant disclosure requirements
- **Client documentation** – To evaluate the sufficiency, consistency and granularity of disclosures to meet regulatory requirements.
- **Training and policies and procedures** – To meet regulatory obligations in respect of the method, timing and the granularity of disclosures.

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