External asset managers and custodian banks

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The model

An external asset manager, often called an independent asset manager, manages the portfolios of private clients without holding their assets. The assets remain in an account in the client's name at a private bank, which acts as custodian and executes the transactions that the manager orders. The model originated in Switzerland, where the Geneva volume traces it to managers who left the banks in the 1970s and 1980s to found their own firms and took part of their clientele with them.[1] In Singapore the model grew with the private banking sector, often through the same career path. Relationship managers left international private banks and established small firms, which continued to book their clients' assets with their former employers or with competitors.

For the client, the model offers continuity with a trusted adviser, independence from the products of a single bank and the possibility of spreading assets over several custodians. For the banks, external asset managers are a channel that brings in assets without the cost of employing relationship managers. For the manager, the

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model allows a small team to use the infrastructure of large banks. The weaknesses are equally clear. A small firm has limited resources for research, technology and compliance, while its continuity often depends on one or two people.

The regulatory status of the external asset manager

Singapore has no special licence for external asset managers. A firm that manages client portfolios on a discretionary basis carries on fund management and needs a capital markets services licence like any other manager.[2] Since almost all clients of such firms are accredited investors, most operate as A/I managers with base capital of S$250,000. Before August 2024 many smaller firms operated as registered managers. The repeal of that regime forced them to convert to a licence, merge with a licensed firm or close.

The licence does not cover every service that such a firm might offer. Where an external asset manager advises clients on investment products outside the mandate, it must consider whether this constitutes financial advice under the Financial Advisers Act. MAS states that factual information about products managed by the firm or its related companies does not amount to financial advice, provided it does not take account of a particular client's objectives or circumstances.[3] Advice tailored to the client on third-party products raises a different question, which the firm must resolve with its legal and compliance advisers.

The tripartite relationship

The relationship between client, manager and bank rests on three contracts. The client and the manager sign an investment management agreement, which defines the mandate, the strategy, the restrictions and the fees. The client gives the manager a limited power of attorney over the bank account, which allows the manager to give investment instructions without any power to transfer assets to third parties. The bank and the manager conclude a cooperation agreement that sets out their respective duties. MAS illustrates the arrangement in its frequently asked questions on outsourcing. For a manager of segregated accounts, the mandate and the limited

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power of attorney link the manager to its clients, while the private bank or custodian holds the assets. Custody and client reporting by the bank are not treated as outsourcing by the manager.[4]

The arrangement satisfies the requirement of independent custody in a natural way, since the bank and the manager are separate entities. It also creates a double control. The bank knows the client, holds the assets and monitors the transactions, while the manager decides the investments and supervises the portfolio. Each can detect irregularities that the other overlooks. The protection works only if both parties take their roles seriously and if neither assumes that the other has done the checks.

What the custodian bank expects

Private banks in Singapore treat external asset managers as a distinct risk. The Private Banking Code of Conduct, developed by the industry with the support of MAS, sets standards of competence and market conduct for institutions that serve accredited investors. It was launched by the Private Banking Advisory Group in April 2011 and took effect on 1 September 2011. On 28 March 2013 the industry added a set of sound practices on the designation of serious tax offences as predicate offences to money laundering.[5] These sound practices address external asset managers directly. Where an external asset manager is involved in the management of an account, the bank should obtain confirmation that the manager applies equivalent standards. The bank should also subject the manager's clients to the same due diligence and know-your-client standards as its own direct clients.[6]

The bank therefore performs its own customer due diligence on each client introduced by a manager. It also examines the manager: its licence, ownership, track record, compliance arrangements and reputation. The red flags listed in the sound practices, such as requests for hold mail without good reason, complex structures, non-face-to-face relationships and negative tax-related reports, apply equally to clients introduced by external managers.[7] The money laundering case of 2023, which Chapter E.VI examines, has given these checks additional weight. For the external asset manager, the custodian bank thus acts as a second supervisor alongside MAS.

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Conflicts of interest and remuneration

The most sensitive point of the model is remuneration. External asset managers are usually paid a management fee by the client and sometimes a performance fee. They may also receive a share of the fees that the bank earns on the client's account, or payments from product providers. Such payments create an incentive to trade more, to choose a particular bank or to prefer particular products. The Guidelines require every manager to put in place measures to mitigate actual and potential conflicts of interest, to disclose them where appropriate and to document its assessment for MAS. The disclosure of fees and of the terms of termination is a minimum requirement for every account.[8]

The private banking industry has set itself a stricter benchmark for discretionary mandates. Since 31 March 2017 the Private Banking Code of Conduct provides that an institution which already charges a management or advisory fee for a discretionary portfolio should not receive and retain retrocessions from product providers. Where it does retain them, it should adjust its fees or rebate the payments to the client, failing which it must obtain the client's agreement after specific disclosure.[9] Beyond these standards, the question is governed in Singapore by the general law of agency and fiduciary duties, under which an agent must account to his principal for undisclosed benefits. A client who appoints a Singapore external asset manager should therefore request a written statement of all payments the manager receives from banks or product providers in connection with the account.

The boundary with family offices

The line between an external asset manager and a family office is not always clear. A multi-family office that manages the assets of several unrelated families carries on fund management and needs a licence. A single family office that manages only the assets of one family may rely on a licensing exemption, which is set out in paragraph 5(1)(ba) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations.[10] The conditions of that exemption and the tax

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incentives under sections 13O and 13U of the Income Tax Act are examined in Chapter E.III. A family office that begins to accept money from unrelated families crosses the line into licensed fund management.

Notes

1. *Genève, place financière internationale*, chapter E.VII, section "Les gestionnaires de fortune indépendants : origine et modèle". ↩
2. MAS Guidelines SFA 04-G05, paras 2.1 and 3.7.2: a company carrying on business in fund management needs a CMS licence; the Guidelines treat "external asset management" as one of the business models of a licensed FMC. ↩
3. MAS, *FAQs on the Licensing of Fund Management Companies*, last updated June 2026, Q17: the provision of factual information on investment products managed by an FMC or its related corporations "is not considered to be a financial advisory activity". ↩
4. MAS, *FAQs on the Licensing of Fund Management Companies*, last updated June 2026, outsourcing FAQ, Scenario C ("FMC managing segregated accounts or mandates"): contracts consisting of an "Investment management mandate and LPOA"; "Private bank or Custodian"; examples of outsourced activities include research and advisory, risk management, internal audit, compliance and IT; "Examples of Activities Not Considered Outsourcing: Client reporting, Custody". ↩
5. Private Banking Industry Group, *Private Banking Code of Conduct*, effective 1 September 2020, introduction: the Private Banking Advisory Group was established in January 2010 with the support of MAS and re-constituted as the Private Banking Industry Group (PBIG) in 2011; Annex ("Summary of Changes to PB Code"): "1 September 2011 PB Code launched by Private Banking Advisory Group in April 2011"; "28 March 2013 Included addendum on Industry Sound Practices". ↩

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6. *Private Banking Code of Conduct*, effective 1 September 2020, Industry Sound Practices, para. 2.7: "Where an External Asset Manager is involved in the management of the account, Covered Entities should assess and obtain confirmation that the External Asset Manager is adhering to standards that are equivalent to those set out in this framework. Likewise, the Covered Entities should subject clients of External Asset Managers to due diligence and know your client standards that are equivalent to those they apply to their own direct clients." ↩
7. *Private Banking Code of Conduct*, effective 1 September 2020, Industry Sound Practices, para. 3.1: red flags include client requests for hold mail without satisfactory reasons, use of complex structures, non-face-to-face business relationships and negative tax-related reports. ↩
8. MAS Guidelines SFA 04-G05, para. 4.1.3: an FMC "shall put in place measures to mitigate any actual or potential conflicts of interest", disclose them where appropriate and document the assessment; para. 4.1.4 (ii): disclosure of "the terms with respect to fees, termination or exit". ↩
9. *Private Banking Code of Conduct*, effective 1 September 2020, paras 6.4.15–6.4.16; Annex: change of 31 March 2017 introducing the "prohibition of retrocessions for products purchased under discretionary portfolios"; the Code applies to MAS-regulated institutions in the private banking industry that serve accredited investors ("Covered Entities"). ↩
10. MAS, *FAQs on the Licensing of Fund Management Companies*, last updated June 2026, Q18–Q19: SFOs must satisfy all conditions of the licensing exemption under paragraph 5(1)(ba) of the Second Schedule to the SF(LCB)R; MAS "will generally not grant case-by-case exemptions to SFOs unless there are exceptional reasons" (updated in June 2026). ↩

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