

RES 3 – Rules, Ethics and Skills for Fund Management

Summary of Updates

(December 2024 – Version 1.2)

The updates made to the RES 3 (November 2024 – Version 1.1) are summarized as follows:

**Additions / updates / corrections are indicated in blue italics.*

Deletions are indicated in strikethrough.

Section and page references relate to the updated study guide.

A. GENERAL EDITS TO BE APPLIED ACROSS ALL CHAPTERS IN THIS STUDY GUIDE

S/N	Items to be Mapped and Replicated for all Chapters in the Study Guide where applicable
1	To remove all Registered Fund Management Companies (RFMC) related content due to the RFMC regime repealed on 1 Aug 2024

B. SUMMARY OF KEY EDITS

Chapter/Title	Section	Key edits (by CFP Board) to be reviewed	Page No.
<p>Chapter 1: The Capital Markets and Fund Management Industry in Singapore</p>	<p>1.2 Overview of the Fund Management Industry in Singapore</p>	<p>Proposed updated para:</p> <p><i>After a challenging 2022 presented a challenging environment for global investors, with global assets under management (AUM) increased by 12% on the back of gains in global bonds and equities falling by 10%. Singapore's asset management industry also declined grew by 10% to S\$4.9 5.4 trillion. Singapore remains serves as a key gateway for global asset managers and investors to tap the region's growth opportunities, with 889% of total AUM invested outside Singapore. Within Asia Pacific, 20% of AUM was invested in Southeast Asia.</i></p> <p>Generally, capital markets participants, including fund managers, are regulated by MAS under the CMS licensing regime under the Securities and Futures Act 2001 (SFA).</p> <p>A corporation that carries on business in fund management in Singapore would need to either be:</p> <ul style="list-style-type: none"> i. A licensed FMC holding a CMS licence for fund management (LFMC); or ii. Registered with MAS as a registered FMC (RFMC). <p>There are two main classes of LFMCs: Retail LFMCs which may serve all types of investors including retail investors and Accredited/Institutional LFMCs which can serve only accredited or institutional investors.</p> <p>As RFMCs are not CMS licence holders, they are not subject to some of the stringent CMS licensing requirements and on-going obligations imposed on CMS licence holders. However, they are still required to comply with certain specified admission criteria and business conduct rules. RFMCs generally have a narrower reach and are only allowed to act for certain categories of investors. FMCs which qualify for the RFMC regime are limited to no more than 30 qualified investors (or 15 funds or limited partnership fund structures) and must cap its managed assets to a maximum of S\$250 million.</p> <p>In addition to Retail and Accredited/Institutional LFMCs and/or RFMCs (as described above), MAS has also implemented a separate regulatory regime for Venture Capital Fund Managers (VCFMs). VCFMs are still required to be licensed by MAS. However, VCFMs are subject to less stringent licensing criteria (e.g. no capital adequacy or compliance arrangement requirements) and ongoing business conduct requirements as compared to traditional LFMCs and RFMCs.</p>	<p>4</p>

Chapter 2: Fund Management Rules, Regulations and Guidelines	2.1 Introduction	Proposed updated para: All fund management companies (FMCs) are licensed by or registered with the MAS. The MAS has regulatory oversight over <i>LFMCs</i> ' activities and dealings with clients/ investors, external vendors, custodian banks (for asset custody and trade settlement), and financial intermediaries/counterparts for trade execution and settlement (refer to Figure 2.1). <i>LFMCs</i> are required to notify MAS of and/or seek MAS approval on various matters, including inability to meet minimum capital requirements, insolvency, and change of control, moratoriums, or compulsory transfers. Refer to Chapter 4 for further details.	13
	2.2.1 The Securities and Futures Act	Proposed updated para: The SFA also sets out the requirements for the licensing of fund managers. <i>management companies</i> . A person who carries on the business of fund management in Singapore or holds himself out to do so may operate as a holder of a capital markets services licence for fund management (LFMC) or as a registered fund management company (RFMC) . Refer to Section 3.2 of Chapter 3 for further details.	14
	2.2.3 MAS Guidelines	Proposed update on item a.: a. Guidelines on Licensing Registration and Conduct of Business for Fund Management Companies (SFA 04-G05) (FMC Licensing Guidelines);	16

<p>Chapter 3: Licensing Requirements for Fund Management</p>	<p>3.1.3 General Exemptions</p>	<p>Proposed updated para:</p> <p>The last limb (vii) is a general provision that grants MAS powers to exempt other persons from CMS licensing requirements. Such exemptions may be granted through regulations or notices to the relevant person(s). The SFR(LCB) currently contains exemptions for various classes of persons. Fund management companies (FMCs) exempted from CMS licensing requirements include FMCs which carry on business in fund management only for or on behalf of any of its related corporations; <i>and</i> licensed and exempt financial advisers (FAs) which conduct fund management activities that are incidental to its advisory activities in respect of CIS.; and FMCs which qualify for the registered FMC (RFMC) regime generally – i.e. FMCs which limit its customers to no more than 30 qualified investors (or 15 funds or limited partnership fund structures) and cap its managed assets to a maximum of S\$250 million.</p> <p>Managers of CIS which invest in physical assets will only be subject to the CMS licensing requirements where the CIS units are offered to retail customers.</p> <p>In this regard, Regulation 5(1)(h) of the Second Schedule to the SFR(LCB) contains an exemption from CMS licensing requirements for managers and operators of a CIS which comprises only of assets such as real estate that are not capital markets products, and where the participants in the CIS are qualified investors.</p> <p>It should be noted that banks, merchant banks and finance companies, while exempted from the licensing requirement for conducting regulated activities under the SFA, are still required to comply with certain business conduct rules in relation to that regulated activity, as specified under Regulation 54 of the SFR(LCB). Similarly, RFMCs are also required to comply with certain business conduct rules as specified in Regulation 54A of the SFR(LCB).</p>	<p>21</p>
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	<p>3.2 Regulatory Regime for Fund Management Activities</p>	<p>Proposed updated para:</p> <p>Under the Guidelines on Licensing Registration and Conduct of Business for Fund Management Companies (SFA 04-G05) (FMC Licensing Guidelines), a corporation that carries on business in fund management in Singapore would need to either be: <i>hold</i></p> <ul style="list-style-type: none"> i. A licensed FMC holding a CMS licence for fund management (LFMC), <i>); or</i> ii. Registered with MAS as a RFMC <p>unless otherwise exempted under the SFA.</p> <p>Table 3.2 summarises the categories of LFMCs and their permissible activities.</p> <p style="text-align: center;"><u>Table 3.2: Categories of LFMCs and Their Permissible Activities</u></p> <table border="1" data-bbox="475 909 1410 1798"> <thead> <tr> <th colspan="2" style="background-color: #d9ead3;">Categories</th> <th style="background-color: #d9ead3;">Permissible Activities</th> </tr> </thead> <tbody> <tr> <td rowspan="3" style="text-align: center;">LFMCs</td> <td>Retail LFMCs</td> <td>LFMCs who may serve <i>Carry on business in fund management with</i> all types of investors including retail investors (i.e. non-accredited and non-institutional investors).</td> </tr> <tr> <td>Licensed Accredited/ Institutional LFMCs (A/I LFMCs)</td> <td>LFMCs who may serve <i>Carry on business in fund management with</i> qualified investors only. without restriction on the number of qualified investors.</td> </tr> <tr> <td><i>Venture Capital Fund Managers (VCFMs)</i></td> <td><i>Carry on business in fund management in respect of venture capital funds that are offered to qualified investors only.</i></td> </tr> <tr> <td colspan="2" style="text-align: center;">RFMCs</td> <td>RFMC whose assets under management (AUM) does not exceed SGD 250 million and may serve not more than 30 qualified investors, of which not more than 15 are funds or limited partnership fund structures, which include closed-end funds and CIS.</td> </tr> </tbody> </table> <p>MAS has issued a public consultation on 24 October 2023 to seek public feedback on its proposal to streamline the regulatory framework for fund managers. Specifically, MAS intends to repeal the regulatory framework for RFMCs and is seeking feedback on the proposed transitional arrangements for existing RFMCs to continue operating fund management businesses following the repeal as LFMCs. The consultation ended on 31 December 2023.</p>	Categories		Permissible Activities	LFMCs	Retail LFMCs	LFMCs who may serve <i>Carry on business in fund management with</i> all types of investors including retail investors (i.e. non-accredited and non-institutional investors).	Licensed Accredited/ Institutional LFMCs (A/I LFMCs)	LFMCs who may serve <i>Carry on business in fund management with</i> qualified investors only. without restriction on the number of qualified investors.	<i>Venture Capital Fund Managers (VCFMs)</i>	<i>Carry on business in fund management in respect of venture capital funds that are offered to qualified investors only.</i>	RFMCs		RFMC whose assets under management (AUM) does not exceed SGD 250 million and may serve not more than 30 qualified investors, of which not more than 15 are funds or limited partnership fund structures, which include closed-end funds and CIS.	<p>21- 22</p>
Categories		Permissible Activities														
LFMCs	Retail LFMCs	LFMCs who may serve <i>Carry on business in fund management with</i> all types of investors including retail investors (i.e. non-accredited and non-institutional investors).														
	Licensed Accredited/ Institutional LFMCs (A/I LFMCs)	LFMCs who may serve <i>Carry on business in fund management with</i> qualified investors only. without restriction on the number of qualified investors.														
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	<p>3.2.1 Licensing Criteria for Venture Capital Fund Managers and Digital Advisers Servicing Retail Clients</p>	<p>Proposed updated para:</p> <p>In addition to the above categories, MAS has also implemented a separate regulatory regime for Venture Capital Fund Managers (VCFMs). VCFMs are still required to be licensed as an LFMC; however, VCFMs are subject to less stringent licensing admission criteria (e.g. no capital adequacy or compliance arrangement requirements) and ongoing business conduct requirements (e.g. no capital adequacy or compliance arrangement requirements) (VCFM Regime). In order to qualify for the VCFM Regime, the VCFM FMG in question must meet the following criteria:</p> <p>a. Invests at least 80% of committed capital (excluding fees and expenses) in specified products that are directly issued by an unlisted business venture that has been incorporated for no more than 10 years at the time of initial investment. Any follow-on investment in such investments will remain as qualifying, even if the portfolio company has been incorporated for more than 10 years at the point of follow-on investment;</p> <p>a. Invests <i>no more than up to</i> 20% of <i>each fund's</i> committed capital (excluding fees and expenses) in other unlisted business ventures that do not meet sub-criterion (i), i.e. they have been incorporated for more than 10 years at the time of the initial investment, and/or the investment is made through acquisitions from other investors (e.g. other venture capital funds and existing owners) in the secondary market (<i>i.e. non-qualifying investments</i>);</p> <p>b. <i>Other than non-qualifying investments of no more than 20% of each fund's committed capital, any investments from the remaining committed capital (excluding fees and expenses) must be in specified products that are directly issued by unlisted business ventures that have been incorporated for no more than ten years at the time of initial investment ("qualifying investments"). Any follow-on investment in such qualifying investments will remain as qualifying, even if the portfolio company no longer meets the under-10 year vintage at the point of the follow-on investment;</i></p>	<p>22- 23</p>
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	<p>3.2.2 Choosing the Right Category of LFMC</p>	<p>Proposed updated para:</p> <p>The category should accommodate the LFMC's needs over a reasonable timeframe, especially given that A/I LFMC, RFMCs and VCFMs encompass a limited scope of activities. RFMCs, A/I LFMCs and VCFMs should not target retail investors through the use of investment structures that circumvent clientele class restrictions. <i>A/I LFMCs and VCFMs may also carry on business in fund management with their employees only if these employees meet the definition of an accredited investor (AI) or are investment professionals employed by the FMC or employed within the same corporate group. Where the LFMC carries on business with employees who are not AIs, then it will need to implement the safeguards prescribed under the MAS Guidelines on Licensing, Registration and Conduct of Business for Fund Management Companies (SFA 04-G05).</i></p> <p>The following example illustrates how RFMCs and A/I LFMCs may carry on business in fund management. RFMCs, A/I LFMCs and VCFMs may carry on business in fund management with their employees only if these employees meet the definition of an accredited investor (AI) or are investment professionals employed by the FMC or employed within the same corporate group. Where the FMC carries on business with employees who are not AIs, then it will need to implement the safeguards prescribed under the MAS Guidelines on Licensing, Registration and Conduct of Business for Fund Management Companies (SFA 04-G05).</p> <p>Example – How an FMC can carry on business as a RFMC or A/I LFMC</p> <p>In limited partnership fund structures, the general partner will typically be an FMC, with third party investors participating as limited partners. On occasion, the general partner may be a company controlled by the FMC, rather than the FMC itself. In the latter circumstance, as long as the general partner is ultimately owned by the key officers and/or shareholders of the FMC, the FMC may continue to manage the fund as an RFMC or A/I LFMC, even though the general partner does not meet the requirements of an AI or institutional investor (II).</p>	<p>23-24</p>
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	<p>3.2.3 Specific Classes of Investors. Bullet point 3.</p>	<p>Proposed updated para:</p> <p>Qualified investor means:</p> <p>(a) An accredited investor, other than:</p> <p>(i) One who is a participant in a CIS referred to in (b);</p> <p>(ii) One who is a holder of a unit in a closed-end fund or an arrangement mentioned in (aa) of the definition of "closed-end fund" in section 2(1) of the SFA referred to in (c); or</p> <p>(iii) One which is a corporation with net assets exceeding S\$10 million in value (or such other amount as MAS may prescribe), as determined by the most recent audited balance sheet of the corporation or where the corporation is not required to prepare audited accounts regularly, a balance sheet of the corporation certified by the corporation as giving a true and fair view of the state of affairs of the corporation as of the date of the balance sheet, which date must be within the last 12 months, or an entity (other than a corporation) with net assets exceeding S\$10 million in value, or an entity that has opted to be treated by a counterparty as an accredited investor for all the consent provisions:</p> <p>(A) Which is related to or controlled by a RFMC, or a key officer or substantial shareholder of such person; and</p> <p>(B) The shares or debentures of which are offered to any non-accredited investor after 28 May 2008; or</p> <p>(iv) (iii) A corporation or an entity which is a CIS, or a closed end fund the units of which are, offered to any non-accredited investor after 28 May 2008;</p>	25
	<p>3.2.5 Exceeding the Limit of Managed Assets</p>	<p>Section to be removed.</p> <p>If a FMC chooses to be a RFMC, it should:</p> <p>a. Monitor the size of the AUM to ensure that it is adhering to the prescribed limit of S\$250 million; and</p> <p>b. Consider potential changes in the size of the AUM arising from prospecting of new investors or investment mandates.</p> <p>RFMCs which manage private equity investments or funds that operate on committed capital basis, should consider the total committed capital of the fund when monitoring whether their business models meet the thresholds for RFMCs.</p>	26

	<p>3.3 Criteria for Licensing or Registration of FMCs</p>	<p>Proposed updated para:</p> <p>Under the FMC Licensing Guidelines, the general criteria for licensing of FMCs are summarised as follows:</p> <ul style="list-style-type: none"> a. Singapore incorporated company; All FMCs (i.e. LFCs and RFCs (whether or not they qualify for VCFM Regime)); b. Have a permanent physical office in Singapore; All FMCs; and c. Competency of Key Individuals as listed in Table 3.3. 	<p>26- 28</p>
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Column RFMC in table 3.3 to be removed:

	Requirements	VCFM	RFMC	A/I LFMC	Retail LFMC
(A)	Directors				
(i)	Minimum number (includes Executive Directors and excludes nominee directors)	2	2	2	2
(ii)	Minimum number of Executive Directors (i.e. directors employed full time in the day-to-day operations of the FMC)	1	1	1	1
(iii)	Minimum number of years of relevant experience (including managerial experience or experience in a supervisory capacity)	N.A.	5	5	5
(iv)	Executive Director to be resident in Singapore	Yes	Yes	Yes	Yes
(B)	Chief Executive Officer (CEO)				
	Minimum number of years of relevant experience (including managerial experience or experience in a supervisory capacity)	N.A.	5	5	10
(C)	Relevant professionals (includes directors, CEO, representatives)				
(i)	Minimum number	2	2	2	3
(ii)	Minimum number of years of relevant experience	N.A.	5	5	5
(D)	Representatives				
	Minimum number of representatives residing in Singapore (include CEO and directors)	2	2	2	3

<p>3.3.2 Fit and Proper</p>	<p>Proposed update to para:</p> <p>The shareholders, directors, representatives and employees, as well as the LFMC itself, must satisfy the fit and proper criteria. Please refer to Section 3.5.2 for details.</p> <p>In order to establish that an LFMC is fit and proper, it should also satisfy MAS that all of its substantial shareholders, directors and CEO, or equivalent persons meet the fit and proper criteria. The LFMC should also ensure that it has in place appropriate recruitment policies, internal control systems and procedures that would reasonably ensure that the persons that it employs, authorises or appoints to act on its behalf, meet the fit and proper criteria.</p> <p>In the case of a RFMC, to establish that it is fit and proper, it should also satisfy MAS that all of its key officers, substantial shareholders, equivalent persons and persons who have control or decision-making authority meet the fit and proper criteria. The RFMC must also ensure that it has in place appropriate recruitment policies, adequate internal control systems and procedures that would reasonably ensure that the persons that it employs, authorises or appoints to act on its behalf, meet the fit and proper criteria.</p>	<p>28</p>
<p>3.3.7 Internal Audit</p>	<p>Proposed update to para:</p> <p>Except for <i>With the exception of</i> VCFMs, MAS expects all FMC's business activities of LFMCs to be subject to adequate internal audit. The internal <i>audits arrangements should be</i> commensurate with the scale, nature and complexity of its operations.</p>	<p>29</p>
<p>3.3.8 Independent Annual Audits</p>	<p>Proposed update to para:</p> <p>LFMCs, other than VCFMs, must meet annual audit requirements under the SFA and SFR(LCB).</p> <p>LFMCs must appoint an auditor to audit its accounts and prepare a true and fair profit and loss account and a balance sheet for each financial year. The account and balance sheet must be lodged with MAS within 5 months after the end of the financial year, together with the auditor's report on the account and balance sheet.</p> <p>RFMCs must submit an auditor's report, no later than 5 months after the end of the financial year.</p>	<p>30</p>
<p>3.3.9 Professional Indemnity Insurance (PII)</p>	<p>Proposed update to para:</p> <p>MAS may impose a licence condition requiring a Retail LFMC to obtain PII that complies with certain prescribed minimum requirements set out in the FMC Licensing Guidelines. All LFMCs other than VCFMs and RFMCs are strongly encouraged to maintain adequate PII coverage. LFMCs should disclose its PII arrangements to all potential and existing customers, or the absence of such arrangements.</p>	<p>30</p>

	<p>3.3.11 Other Factors</p>	<p>Proposed update to para:</p> <p>When assessing applications for a CMS licence in fund management (save for applications in respect of VCFMs), MAS may consider other factors such as:</p> <ul style="list-style-type: none"> i. Track record of the LFMC or its holding company or related corporation (where applicable): <ul style="list-style-type: none"> a. A Retail LFMC must show that it or its shareholders have at least a 5-year track record of managing funds for retail investors in a jurisdiction which has a comparable regulatory framework to Singapore; b. A Retail LFMC and its related corporations should also manage total assets of at least S\$1 billion; ii. Whether the LFMC, its holding company or related corporations are subject to proper supervision by a competent regulatory authority; iii. Commitment of the LFMC's holding company to the LFMC's operations in Singapore; and iv. Commitment from the LFMC's shareholders, as demonstrated <i>for example</i> through seed investments in <i>the</i> funds managed by the FMC. 	
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<p>3.3.13 Frequently Asked Questions on Registration and Licensing Requirements</p>	<p>3.3.13.1 <u>Dealing in Capital Markets Products – What type of licence is required for an LFMC that intends to market funds to end investors or intermediaries, or if it acts upon client instructions in executing trades? Are there any exemptions available for these activities?</u></p> <p>LFMCs that engage in the marketing of funds are considered to be dealing in capital markets products that are units in a CIS under the SFA and would need to add the regulated activity of dealing in capital markets products that are units in a CIS to their CMS licence unless they may rely on an applicable exemption. These exemptions include:</p> <ol style="list-style-type: none"> i. Where the LFMC markets funds which it manages, or funds that are managed by its related corporations (paragraph 2(m) of the Second Schedule to the SFR(LCB). The definition of a related corporation is set out in the Companies Act 1967. Two corporations are considered related if one is a subsidiary of the other, or if both corporations are subsidiaries of a common holding company; and ii. Where the LFMC’s marketing activity is limited to only CIS it is responsible for, which are authorised (under Section 286 of the SFA), recognised (under Section 287 of the SFA) or offered under a relevant offering exemption (under Subdivision (4) of Division 2 of Part 13 of the SFA) (paragraph 2(k) of the Second Schedule to the SFR(LCB)). <p>An LFMC that deals in any capital markets products based on customer instructions given to the LFMC on an unsolicited basis is considered to be dealing in capital markets products. For example, the LFMC could operate an online platform for customers to enter their own trade orders. Such an LFMC would have to add the regulated activity of dealing in capital markets products to its CMS licence.</p> <p>3.3.13.2 <u>Clientele Restrictions – My Company holds a CMS licence to conduct fund management activity; we are restricted by our licence condition to manage investment funds only for AIs or IIs (an A/I LFMC). Are there situations where we can manage or provide advice to funds offered to non-AIs and non-IIs (i.e. retail investors)?</u></p> <p>There are three situations where an A/I LFMC is allowed to be involved with retail funds:</p> <ol style="list-style-type: none"> 1. Where the A/I LFMC performs the role of a sub-manager or adviser to another regulated fund manager which meets the definition of an AI or II and is authorised or licensed to manage investment funds for retail investors in the jurisdiction where the funds are offered. 2. Where the A/I LFMC performs the role of an investment manager, sub-manager or adviser to a fund which another pension fund or fund-of-funds invests in. This other pension fund or fund-of-funds must be managed by another fund manager and has to meet the definition of an AI or II and may have retail investors. 3. Where the A/I LFMC wishes to manage investment funds which are authorised by a foreign regulator to be offered to retail investors in a foreign jurisdiction, the A/I LFMC may approach MAS to review the clientele restrictions on its licence. Before requesting MAS for the review, the A/I LFMC should ensure 	<p>32 - 34</p>
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that it has obtained the requisite approval from the foreign regulator who is aware of the A/I LFMC's clientele restriction in Singapore.

Other than the three situations above, if an A/I LFMC wishes to manage funds offered to retail investors in Singapore, it may approach MAS to request a review of its licence condition. However, it should satisfy itself that it has met the admission criteria for a retail FMC; these are set out in the FMC Licensing Guidelines. *In this instance, the* The A/I LFMC should also have or have plans to invest in resources and systems to handle retail investment funds.

In assessing whether an A/I LFMC is ready to manage funds for retail investors, MAS considers various factors including the ability and willingness of the A/I LFMC to commit resources to handle retail funds, the quality of governance and controls implemented by the A/I LFMC, as well as the adequacy of its compliance and audit arrangements. The A/I LFMC should consult MAS early on its plans.

3.3.13.3 Lapsing of CMS Licence or Registration – What happens to my company's licence or registration if my company delays the commencement of fund management activity?

The CMS licence ~~or registration status~~ of an LFMC will lapse if it has not commenced business in fund management within 6 months from the date of issuance of the CMS licence ~~or registration~~, as the case maybe. *In the meantime, As* the relevant regulatory obligations apply upon the grant of *the* CMS licence, ~~or registration status~~, and LFMCs should ensure that they are complied with at all times.

When a *the* CMS licence ~~or registration~~ of a FMC has lapsed, MAS will take steps to remove the LFMC from the Financial Institution Directory as soon as practicable. The LFMC is also no longer permitted to hold itself out to be permissible to carry out regulated activities. It follows that any physical documentary record of past licensing ~~or registration status~~, including the licence, ~~registration approval~~ or its duplicates, should not be retained, displayed or used in any other form that could give any person the wrong impression that *it* the FMC still has the requisite regulatory status.

3.3.13.4 Provision of Financial Advice – Is the provision of information on investment products managed by an LFMC or its related companies considered financial advice? What kind of notification does the LFMC have to file with MAS?

An LFMC may in the course of managing funds provide factual information on investment products managed by the LFMC or its related corporations. Factual information in this context refers to information which do not consider the specific investment objectives, financial situation and the particular needs of any person who may receive the information. The provision of factual information is not considered to be a financial advisory activity. LFMCs are not required to file the notification with MAS to operate as an Exempt Financial Adviser for providing factual information on its investment products to customers.

3.3.13.5 Central Dealing – Is an LFMC allowed to conduct central dealing activity for funds managed by its related entities?

		<p>Yes; an LFMC that conducts central dealing activity for funds managed by its related entities should apply to add to its licence the regulated activity of dealing in capital markets products and indicate the type of financial instruments to be traded or dealt in. The LFMC should ensure that it has met the relevant licensing requirements applicable to these activities, and has the requisite risk management systems and controls that are commensurate with the scale and complexity of the central dealing function.</p> <p>3.3.13.5 Central Dealing –Is an FMC allowed to conduct central dealing activity for funds managed by its related entities?</p> <p>Yes; an LFMC that conducts central dealing activity for funds managed by its related entities should apply to add to its licence the regulated activity of dealing in capital markets products and indicate the type of financial instruments to be traded or dealt in. The LFMC should ensure that it has met the relevant licensing requirements applicable to these activities, and has the requisite risk management systems and controls that are commensurate with the scale and complexity of the central dealing function.</p> <p>A RFMC should not engage in central dealing for funds managed by other persons, including its related entities.</p>	
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	<p>3.4 Lapsing, Revocation and Suspension of Licence</p>	<p>Proposed update to para:</p> <p>An LFMC should note that u Under various circumstances, the CMS licence may cease to be valid, and under such circumstances, the LFMC will be held liable for an offence should they continue to engage in fund management activities, as provided under SFA Section 99B (S99B Requirement). Refer to Section 3.5.</p> <p>A RFMC licence may cease to be valid under the following circumstances:</p> <p>its base capital (for a Singapore incorporated company) or its net head office funds (for a foreign company) falls below S\$250,000;</p> <p>the FMC employs less than 2 persons, each of whom should have at least 5 years' experience that is relevant to the fund management activities it is carrying out;</p> <p>and</p> <p>the total value of the managed assets exceeds S\$250 million at any time.</p> <p>A RFMC must immediately notify MAS and cease any increase in positions, and not accept funds for fund management, until such time as advised by MAS, when the RFMC fails to comply with any of paragraph (i) to (iii), or it becomes aware that it will likely fail to comply with any of paragraph (i) to (iii).</p> <p>Any of the following conditions may cause t The CMS licence of the <i>an LFMC</i> to be either lapsed, be revoked, or be suspended <i>when the LFMC</i>:</p> <ol style="list-style-type: none"> <li data-bbox="470 1149 1465 1211">i. When the FMC i Is wound up or dissolved whether in Singapore or elsewhere; <li data-bbox="470 1256 1465 1319">ii. Failed to discharge duties efficiently, honestly and fairly. ‡ <i>This</i> applies to the CMS licence holder as well as its representatives; <li data-bbox="470 1364 1465 1426">iii. Did not act in the best interest of its customers. (Expected behaviour in carrying out the fund management services as covered in Chapter 9); or <li data-bbox="470 1471 1465 1498">iv. When there are b Breaches in the <i>a</i> conditions of its <i>CMS</i> licence. 	<p>34</p>
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	<p>3.5 Registration of Representatives</p>	<p>Proposed update to para:</p> <p>Individuals intending to conduct fund management, (other than those doing so on behalf of RFMCs or VCFMs) or any other type of regulated activity under SFA have to be an appointed representative, temporary representative or provisional representative in respect of that type of regulated activity under the Representative Notification Framework (RNF) unless otherwise exempted under S99B Requirement. They can only commence dealings in regulated activities after they have satisfied the competency requirements for that type of regulated activity under the SFA and their names have been entered into the Public Register of Representatives on the MAS' website, where applicable.</p> <p>The obligation is on both the individual working for the LFMC and the LFMC to ensure that the S99B Requirement has been complied with for the applicable regulated activity. For example, a portfolio manager, an individual who distributes or markets CIS managed by the LFMC or its related corporations on behalf of the LFMC, and an individual who engages only in dealing for funds managed by the LFMC must be appointed as a representative for the regulated activity of fund management under the RNF. An individual who is engaged in central dealing for funds managed by related entities of the LFMC must be appointed as a representative in respect of dealing in capital markets products, depending on the assets or markets covered by the individual.</p>	35
	<p>3.5.1 Acting for One Principal</p>	<p>Proposed update to para:</p> <p>A representative can act for only one principal unless it has the approval of MAS to act for more than one principal, or if the principals are related corporations. MAS may require a representative who is applying to act for more than one principal to furnish relevant information or documents to support the application.</p> <p>The objectives of the one-representative-one-principal rule are two-fold:</p> <ol style="list-style-type: none"> 1. To provide clarity to investors on the status of the representatives, the principals they represent, and more importantly, where responsibility rests for complaints and redress; and 2. To ensure that a principals is fully responsible for closely monitoring and supervise supervising their a representatives at all times. 	36

	<p>3.5.3 Due Diligence Checks</p>	<p>Proposed update to para:</p> <p><i>L</i>FMCs are expected to conduct rigorous and independent checks on the fitness and propriety of their representatives as the onus is on them to establish that their representatives are fit and proper persons. Prior to appointing an individual as its representative, the <i>L</i>FMC is expected to carry out the following due diligence checks on the proposed representative:</p> <ol style="list-style-type: none"> i. Probity checks on the representative’s identity by obtaining a copy of his current identity documentation (e.g. National Registration Identity Card, Foreign Identification Number or Passport) to verify his identity. <p>If the proposed representative is a foreigner, the FMC is expected to verify that he has the relevant employment pass or has sought approval from the relevant authorities to work in Singapore.</p> <ol style="list-style-type: none"> ii. Probity checks of the representative’s past records including checks with the proposed representative’s previous employers to confirm that he has not been dismissed or asked to resign, and to ask if he has any material adverse record with the previous employer. <p>The <i>L</i>FMC is also expected to check the Public Register of Representatives on MAS website and conduct probity searches, including but not limited to publicly available registers provided by enforcement and regulatory agencies, self-regulatory organisations, and any professional body or association, to verify the proposed representative’s past records of employment and regulatory status, including any past criminal or disciplinary records under any law or rule in any jurisdictions.</p> <ol style="list-style-type: none"> iii. Probity checks on the representative’s financial status. At a minimum, the <i>L</i>FMC should obtain the proposed representative’s records from the Ministry of Law’s Insolvency and Public Trustee’s Office Online Portal to ensure that he is not an undischarged bankrupt. If the proposed representative was self-employed, the <i>L</i>FMC should obtain the individual’s records from the Central Provident Fund (CPF) Board to verify that he is not in arrears of his contributions to the CPF Board as required under the CPF Act 1953. <p>The <i>L</i>FMC should also conduct checks with credit agencies, including bankruptcy status in overseas jurisdictions as well as requesting the proposed representative to provide a search result of his credit status with the Credit Bureau (Singapore) Pte Ltd.</p>	<p>38 -39</p>
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	<p>3.5.5 Representative Notification Framework (RNF)</p>	<p>Proposed update to para:</p> <p><i>With the exception of VCFMs, LFMCs can register individuals as appointed, provisional or temporary representatives with MAS through the RNF. The RNF allows LFMCs to lodge notifications with MAS electronically via the online system for their representatives who intend to conduct regulated activities. As part of the notification, LFMCs are to certify that the representatives whom they intend to appoint are fit and proper and meet the competency, financial soundness and integrity standards required. Once a registration has been processed, the name of the proposed representative would be published on the Public Register of Representatives on MAS website.</i></p> <p>3.5.5.2 <u>Importance of RNF Number</u></p> <p>All representatives are assigned a unique representative number, which will stay with them even if they change principal companies. Members of the public may verify the representatives whom they are dealing with against the Public Register of Representatives, using the unique representative number or the name of the representative, thereby reducing their risk of dealing with unregulated individuals. LFMCs are encouraged to make the unique representative numbers of their representatives readily available for consumers to verify the representatives' regulatory status. It is thus important for representatives to know and maintain records of their own RNF number.</p> <p>3.5.5.3 <u>Cessation of Status of Representatives</u></p> <p>The status of an appointed representative in respect of any regulated activity is valid until it ceases under the following circumstances:</p> <ul style="list-style-type: none"> i. The LFMC notifies MAS of such cessation; ii. The appointed representative has ceased to act as a representative for a continuous period of 1 month, and the LFMC has not notified MAS of his cessation as a representative; iii. MAS has revoked the status of the appointed representative; iv. The LFMC ceases to carry on business in that type of regulated activity; or v. The LFMC's licence lapses, MAS revokes the licence, or a prohibition order is issued by MAS against the LFMC prohibiting it from carrying out that type of regulated activity. 	<p>39-40</p>
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<p>Chapter 4 The Conduct of Business in Fund Management</p>	<p>4.1 Introduction</p>	<p>Proposed update to para:</p> <p>Aside from complying with the licensing and registration requirements, licensed fund management companies (LFMCs) are required to comply, on an ongoing basis, with requirements relating to their conduct of business and dealings with customers.</p> <p>A simplified regime has been introduced for fund managers of venture capital funds (VCFMs) which satisfy the criteria as described in Section 3.2.1. This simplified regime is intended to improve access to funds for local start-up businesses and also foster growth and vibrancy of the venture capital eco-system in Singapore. VCFMs will not be subject to competency, risk-based capital and ongoing business conduct requirements as described in Sections 4.2 to 4.9 , save for section 4.4.1 (maintenance of base capital), section 4.4.3.1 (requirement to obtain MAS' approval for share capital reduction), paragraph section (requirement to notify MAS prior to issuance of preference shares), section 4.4.6.1 (requirement to notify MAS of certain changes), section 4.6.2 (requirement to keep books), and section 4.8 (best practices in relation to outsourcing arrangements).</p>	<p>46</p>
	<p>4.4.2 Compliance with Risk Based Capital Framework</p>	<p>Proposed update to para:</p> <p>In general, all CMS license holders, including LFMCs; (other than VCFMs), are required to comply with the risk based capital (RBC) framework and maintain sufficient financial resources or adjusted net head office funds to meet their total risk requirement (TRR).</p>	<p>52</p>

	<p>4.4.4 Liquidity Risk Management Practices</p>	<p>Proposed update to para:</p> <p>Effective liquidity risk management of collective investment schemes (CIS) is important to safeguard the interests of investors. MAS, with a view to supplementing the foregoing requirement, has issued in August 2018 a set of Guidelines which are specific to the management of liquidity risk in CIS. This set of Guidelines are applicable to LFMCs and RFMCs which manage open-ended CIS. In particular, LFMCs which are responsible for portfolio management and have discretionary authority for making investment or trading decisions for an open-ended CIS should implement the liquidity risk management practices set out in the Guidelines.</p> <p>The Guidelines provide that:</p> <ol style="list-style-type: none"> i. Governance. The liquidity risk management process must be an integral part of <i>an LFMC's</i> broader risk management process. Regulation 13B(1)(a) of the Securities and Futures (Licensing and Conduct of Business Regulations (SFR(LCB))) requires FMCs to put in place a risk management framework to identify, address and monitor the risks associated with customer assets that they manage. This includes the liquidity risks associated with the CIS managed by FMCs. An LFMC's liquidity risk management process must be supported by sound governance. In this regard, the Board and senior management of the LFMC should ensure that the LFMC has a liquidity risk management function, and subject it to effective oversight. There should be clear responsibility and accountability in an LFMC for implementing its liquidity risk management framework, and monitoring and managing the liquidity risks associated with its CIS. LFMCs which manage retail CIS with daily dealing are expected to have in place a dedicated and independent risk management function whose responsibility includes liquidity risk management. Other LFMCs that do not offer products to retail investors and have assessed that the CIS they manage have less frequent redemption terms, are minimally to designate a senior staff to be responsible for liquidity risk management; ii. Initial design of product. The evaluation of liquidity risks that the CIS may face throughout its life cycle should begin at the product design stage. In particular, the LFMC should ensure that the CIS' dealing (subscription and redemption) arrangement is aligned with its investment strategy and liquidity profile. In addition, the LFMC should consider liquidity management tools that may be used, and provide adequate disclosure to investors on the terms, circumstances and implications of these tools. The dealing frequency of the CIS should reflect the overall liquidity of the underlying assets held by the fund, and vice versa. The LFMC should assess that the subscription and redemption policy of the CIS is realistic and appropriate, taking into consideration the profile of the underlying investors of the CIS, as well as the investment strategy and liquidity of the assets that the CIS will invest in, and the tools in place to manage the CIS' liquidity; iii. Ongoing liquidity risk management. After the launch of the CIS, an LFMC is expected to monitor and manage the liquidity risk of a CIS throughout its life cycle. This includes ongoing monitoring of investors' profile and redemption patterns and conducting regular assessments on the liquidity profile of the CIS' liabilities and assets. This is to facilitate the LFMC's ability to anticipate 	<p>56</p>
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or identify an emerging liquidity shortage before it occurs and take appropriate steps to minimise disruption or detriment to investors. The assessment of the profile and liquidity needs of investors could include reviews of the investors' historical redemption patterns and expected future liquidity demands of the CIS at different stages of its life cycle under varying market conditions. The investment strategy, liquidity profile and redemption policy of the CIS are also relevant factors which have implications for the LPMC's ongoing liquidity risk management process. Where the CIS is distributed through third party distributors and granular investor information is not available to the LPMC, the LPMC should take reasonable steps to monitor aggregated information about funds flows, overall investor profile and concentration of the CIS, such as through establishing arrangements with fund platforms and distributors to keep abreast of subscriptions and redemptions via the various distribution channels and customer segments;

- iv. **Stress testing.** An LPMC should also satisfy itself that the CIS can withstand liquidity stresses during extended periods of market disruptions or idiosyncratic concerns. The LPMC should complement its liquidity risk management tools with regular stress testing. Liquidity stress testing of the CIS should be performed at a frequency relevant to the specific CIS. An LPMC is strongly encouraged to perform more regular stress tests on CIS with daily dealing, or CIS which are more susceptible to varying market conditions, such as those which invest in thinly traded markets.

In addition, the Code on CIS has been amended to impose additional portfolio requirements for money market funds (MMF) due to their systemic relevance in the event of a crisis. In particular, the Code on CIS has been amended to:

- i. make reference to the MAS Guidelines on Liquidity Risk Management Practices for Fund Management Companies (SFA 04-G08) and to emphasise the responsibility of LPMCs to put in place sound liquidity risk management practices; and
- ii. require MMFs to hold a minimum amount of liquid assets to limit asset-liability mismatches and strengthen their ability to meet redemptions, and impose additional portfolio weighted average maturity requirements on an MMF.

<p>Chapter 5 <u>Market</u> <u>Conduct</u></p>	<p>5.17.2 Vigilant Practices against Market Misconduct</p>	<p>5.17.2.2 Collaboration and Reporting Suspicious Activities and Incidents of Fraud</p> <p>Proposed update to para:</p> <p>In addition, CMS licence holders and registered fund management companies are reminded to lodge with the MAS a report in Form F1 "Suspicious Activities & Incidents of Fraud Report" set out in MAS Notice on Reporting of Suspicious Activities and Incidents of Fraud (CMG-N01) not later than 5 working days after the discovery of any suspicious activity or incident of fraud. The suspicious transaction reports shall also be filed to the Suspicious Transaction Reporting Office, Commercial Affairs Department of the Singapore Police Force, as required under the various Prevention of Money Laundering and Countering the Financing of Terrorism Notices applicable to it. A police report shall be lodged for incidents of fraud and a copy of the report shall be submitted to the MAS.</p>	<p>123</p>
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