
THE MONETARY AUTHORITY OF SINGAPORE

Practice Note: ID 1/06

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ADMINISTRATION PROCEDURES FOR UNDERTAKING FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (“UCITS”) III SCHEME CONVERSION

Introduction

1. This Practice Note provides guidance to any direct insurer that is registered to carry on life business and offers investment-linked policies (“ILPs”) where any of its ILP sub-fund feeds into a UCITS I or UCITS III Scheme. Such insurers are expected to observe the provisions of this Practice Note where such underlying funds have been converted or will be converted from a UCITS I Scheme to a UCITS III Scheme.
2. Under Directive 2001/108/EC of the European Parliament and of the Council, UCITS I Schemes will discontinue and will be replaced by UCITS III Schemes with effect from 13 February 2007. Accordingly, all existing UCITS I Schemes are required under the Directive to be converted to UCITS III Schemes by that date. UCITS III extends the range of investible assets permitted under UCITS I. It also sets out more stringent requirements in relation to exposure limits, risk management processes and disclosures to investors.

Interpretation

3. The expressions used in this Practice Note have the same respective meanings as in the Insurance Act or MAS Notice 307 on Investment-Linked Life Insurance Policies dated 2 September 2004 (as amended from time to time) (“MAS Notice 307”), except where expressly defined herein or where the context otherwise requires.
4. For the purpose of this Notice:

“underlying UCITS I Scheme” means a UCITS I Scheme into which an insurer’s ILP sub-fund feeds;

“underlying UCITS III Scheme” means a UCITS III Scheme into which an insurer’s ILP sub-fund feeds.

Disclosure in Marketing Material

5. An insurer is required under MAS Notice 307 to ensure that the product summary of an ILP contains clear disclosures on the general risks of investing in the ILP and each ILP sub-fund. Accordingly, where an underlying UCITS I Scheme which is converted into a UCITS III Scheme –

- (a) intends to use financial derivatives for investment and not just for hedging or efficient portfolio management purposes; or
- (b) is expected to experience a high volatility in its net asset value, owing to its chosen investment policies or portfolio management techniques,

the insurer concerned should include a prominent statement drawing attention to the intention described in sub-paragraph (a) above or the possibility described in sub-paragraph (b) above (as the case may be) in the product summary of the relevant ILP.

Notification to Policyholders

Where there is no significant change to the underlying scheme

6. Where there would be no significant change to an underlying UCITS I Scheme upon its conversion to a UCITS III Scheme, the insurer concerned should notify affected policyholders of the conversion in the next semi-annual or annual report of the relevant ILP sub-fund.

Where there will be significant change made to the underlying scheme

7. Where there would be any significant change to an underlying UCITS I Scheme upon its conversion to a UCITS III Scheme, the insurer concerned is required under MAS Notice 307 to notify affected policyholders of the change not later than one month before the change is to take effect.

8. The notice to policyholders referred to in paragraph 7 above should clearly set out the significant change to the underlying UCITS I Scheme upon its conversion to a UCITS III Scheme, including any changes in the investment objective, policy and scope, as well as any mandated risk disclosures required under UCITS III conversion.

Notification to the Authority

Conversion to the UCITS III Scheme on or after 2 May 2006

9. Where an underlying UCITS I Scheme has not been converted to a UCITS III Scheme as at 1 May 2006, the insurer concerned should notify the Authority within 14 days after the insurer is notified of such conversion of the underlying UCITS I Scheme.

10. Any insurer to whom paragraph 9 above applies should also submit the following to the Authority within one month after the conversion of the underlying UCITS I Scheme to a UCITS III Scheme or one month after the insurer is notified of the conversion, whichever is later:

- (a) evidence that the proposed changes arising from the conversion to a UCITS III Scheme have been authorised in its home jurisdiction;
- (b) statement from the underlying UCITS III Scheme manager on whether conditions or restrictions in relation to the authorisation have been imposed by the home regulator, and clearly setting out such conditions or restrictions (if any); and
- (c) documentation of the underlying UCITS III Scheme's risk management process, filed with and approved by the home regulator, for its risks undertaken via investments in financial derivative instruments.

11. Where there would be any significant change to an underlying UCITS I Scheme upon its conversion to a UCITS III Scheme, the insurer concerned is required under MAS Notice 307 to seek written approval from the Authority for such change. Such approval should be sought not later than one month before the date on which the change is proposed to be effected. In addition, the insurer should provide the Authority with a copy of its notification to policyholders referred to in paragraph 7 above.

12. When in doubt, an insurer should consult the Authority on whether the proposed change constitutes a "significant change" to an underlying UCITS I Scheme in respect of an ILP sub-fund.

Conversion to UCITS III Scheme before 2 May 2006

13. Where an underlying UCITS I Scheme has been converted to a UCITS III scheme on or before 1 May 2006, the insurer concerned should submit the following to the Authority the not later than 2 June 2006:

- (a) the items set out in paragraph 10(a) to (c) above; and
- (b) the date of conversion of the underlying UCITS I Scheme.