



Monetary Authority of Singapore

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**NOTICE TO MANAGERS OF COLLECTIVE  
INVESTMENT SCHEMES CONSTITUTED AS  
UNIT TRUSTS  
SECURITIES AND FUTURES ACT (ACT 42 OF 2001)**

**CANCELLATION PERIOD FOR COLLECTIVE  
INVESTMENT SCHEMES CONSTITUTED AS  
UNIT TRUSTS**

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**DISCLAIMER:** This version of the Notice is in draft form and subject to change.

**Notice No:**

**Issued on:**

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**Introduction**

1 This Notice is issued pursuant to section 101 of the Securities and Futures Act (Act 42 of 2001) ["the Act"]. It sets out the obligations of a manager of a collective investment scheme constituted as a unit trust in relation to a cancellation of purchase of units in a unit trust by an investor.

**Definitions**

2 For the purposes of this Notice:

“collective investment scheme” has the same meaning as in section 2(1) of the Act, but only includes a scheme which is authorised under section 286 of the Act;

“manager”, in relation to a collective investment scheme, has the same meaning as in section 2(1) of the Act, which is a person, by whatever name called, who is responsible for managing the property of, or operating, the collective investment scheme;

“prospectus” has the same meaning as in section 283(1) of the Act;

“unit trust” has the same meaning as in section 283(1) of the Act, which is a collective investment scheme under which the property is held on trust for the participants;

### **Application**

1 This Notice applies to:

- (a) a manager of a unit trust; and
- (b) a person (other than the manager), when selling to any person units in a unit trust which he has bought or redeemed as principal.

#### Guidance

The person referred to in paragraph 1(b) shall include a corporation that arranges for units in a unit trust to be held on behalf of clients in a nominee account or company or in trust.

2 The manager or the person referred to in paragraph 1(b) shall be referred to as “the firm” in this Notice.

3 For the avoidance of doubt, any sub-fund of an umbrella fund shall constitute a single unit trust in this Notice.

### **Right to Cancel**

4 The firm shall give an investor a right to cancel an agreement to purchase units in a unit trust.

5 The right to cancel need not be given in any of the following circumstances:

- (a) The investor is not a natural person;
- (b) The agreement represents a subsequent purchase of units in a unit trust made by an existing participant of that same scheme; and
- (c) In the case where the investor participates in a regular savings plan, the second and any subsequent payment.

6 Where a investor has a right to cancel, that right must be exercised within 7 days, beginning on the date the investor signs the agreement to purchase units (referred to in this Notice as “cancellation period”).

Example

If an investor enters into an agreement to purchase units in a unit trust on Tuesday, the firm would need to receive the investor’s notice to cancel no later than Monday of the following week. In the event that the 7th day falls on a Sunday or public holiday, the cancellation period shall be extended to the next business day.

7 The firm shall not be permitted to contract out of or alter the investor’s rights as specified under this Notice by the terms and conditions of the purchase agreement between the investor and the firm.

8 The firm may give the investor a longer cancellation period (i.e., more than 7 days) and it shall disclose in the agreement the investor’s rights for the extended period (i.e., for the period after the 7<sup>th</sup> day).

### **Giving the investor notice of the right to cancel**

9 The firm shall give the investor, in writing, clear and prominent notice of his right to cancel before the agreement is concluded.

10 The notice shall state the following:

- (a) That the investor has a right to cancel the agreement;
- (b) The duration of the cancellation period, including the point in time where the cancellation period begins;
- (c) The steps the investor has to take to cancel the agreement, including details of how and where he can exercise his cancellation right;
- (d) The relevant day for calculating the amount to be refunded will be the date of receipt of the cancellation request by the firm, i.e., as determined by the firm's time-stamp or any other reasonable means;
- (e) The effect of cancelling the agreement, including any adjustment to the amount to be repaid; and
- (f) The restriction imposed on the investor in relation to redemption during the cancellation period, as stated at paragraphs 18

and be accompanied by a form to enable the investor to effect the cancellation request.

#### Guidance

This notice may take the form of disclosure in the relevant application form for unit trust. However, the application form should prominently feature words like: “**IMPORTANT:** information about your right to cancel this agreement is enclosed.”

### **Exercising the right to cancel**

11 The firm should specify reasonable means by which the investor could exercise his right to cancel. In the case where the cancellation request is sent by post, the relevant day for determining whether the right to cancel is exercised within the cancellation period will be the date on which such request is posted by the investor (i.e., as determined by the postmark). The investor is entitled to send the cancellation request by ordinary post.

12 A cancellation request is valid only when it is served on the firm or any agent of the firm with authority to accept notice on the firm's behalf.

### **Calculation of the amount to be repaid**

13 When an investor has made a payment for his purchase of units in a unit trust and subsequently exercises his right to cancel, the firm shall pay to the investor the amount the investor has paid to the firm in connection with the agreement (i.e., in full).

14 Notwithstanding the above, a firm is entitled to make the following adjustments:

- (a) If, on the day on which the firm receives notification from the investor exercising his right to cancel, the purchase price applicable to that day is **less than** the purchase price applicable to the day on which the agreement was entered into, the amount that would otherwise be repaid may be **reduced by the difference**; and

- (b) If, on the day on which the firm receives notification from the investor exercising his right to cancel, the purchase price applicable to that day is **greater than** the purchase price applicable to the day on which the agreement was entered into, the amount that would otherwise be repaid will be the **original amount** paid by the investor. The resultant difference shall be retained in the unit trust.

The purchase price of a unit in a unit trust shall be ascertained in accordance with the valuation and pricing rules stated in the prospectus of the unit trust.

Example

1,000 units are purchased at a price of \$1.00 and the purchase price is (or, in the case of a forward price, is subsequently ascertained to be) \$0.95 as at the time when the firm receives notification of cancellation served by the investor. The amount to be repaid, therefore, is \$1,000 minus market adjustment  $[1,000 \times (\$1.00 - \$0.95)] = \$950$ .

If the purchase price is \$1.05 as at the time the firm receives notification served by the investor, the amount to be repaid is \$1,000.

15 Where the amount the investor has paid to the firm has not yet been invested or is held in a demand deposit account (or similar), the firm should refund the investor in full within 2 business days after receiving a valid cancellation request. In all other cases, the firm should pay the investor in compliance with the requirements under the Code of Collective Investment Schemes in respect of payment of redemption proceeds as modified by any exemption granted to the relevant unit trust, as if the cancellation was a redemption.

**Defraying of expenses incurred by the firm**

16 The firm is not expected to recover any expense it incurred as a result of any cancellation from the investor or the unit trust. These costs should be borne by the firm as part of business costs.

17 For the avoidance of doubt, in the event that the investor exercises his right to cancel, any sales charge or front-end load fee imposed by the firm shall not be chargeable to the investor. In addition, the firm shall be prohibited from imposing any penalty on the investor for the termination of the agreement. However, the firm shall be entitled to demand the refund of the moneys it paid to the person who markets the unit trust on its behalf.

**Redemption and Switching**

18 During the cancellation period, an investor may choose to redeem his units, rather than exercise his cancellation right. In such a case, the redemption procedures as stated in the prospectus of the unit trust will apply. The firm shall make it clear to the investor that:

- (a) The investor will not be able to enjoy the benefits of cancellation in the event that he chooses to redeem his units (i.e., no refund of initial sales charge) and that the proceeds that the investor will receive may be lower than the amount being refunded in the event of cancellation if the appreciation in the value of the unit trusts is less than the initial sales charge; and
- (b) The published prices are indicative in nature and can change during the period between the submission and processing of the redemption request.

Comments to be obtained

Some unit trusts allow an investor to switch his units to another unit trust or class within the same unit trust (i.e., a sub-fund within an umbrella fund). We would like to solicit views on whether switching should be disallowed during the cancellation period or be left to the firms to decide on a case-by-case basis. We note that should the firm decide to maintain an investor's right to switch during the cancellation period, the firm should have in place proper measures to ensure that the investor will not be worse-off in doing so as compared to cancelling his initial purchase and subsequently buying the other unit trust or class within the same unit trust. We would appreciate receiving comments on how this will be best implemented.

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