

# CONSULTATION PAPER

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## Consultation Paper on Proposed Amendments to the Code on Collective Investment Schemes

MAS

Monetary Authority of Singapore

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## 1 Preface

1.1 On 21 July 2014, the Monetary Authority of Singapore (“MAS”) consulted on the proposal to give retail investors access to collective investment schemes that invest solely in gold, silver and platinum (“Precious Metals Funds”). The consultation closed on 1 September 2014 and MAS published its response to the feedback on 22 September 2015<sup>1</sup>. MAS is now consulting on the proposed amendments to the Code on Collective Investment Schemes (“CIS Code”) to effect the policy proposal set out in our response paper.

1.2 In addition, MAS is consulting on proposals to amend the CIS Code as part of our ongoing efforts to enhance and refine the regulatory framework for collective investment schemes in three key areas (i) enhance transparency and market discipline; (ii) improve operational effectiveness and (iii) provide greater clarity to market practitioners.

1.3 To safeguard the interest of policyholders of Investment Linked Policies (“ILP”) as well, these proposals will similarly apply to ILP sub-funds issued by insurers under MAS 307. This will ensure consistency in the regulatory requirements for collective investment schemes and ILP sub-funds.

1.4 MAS invites comments from interested parties on the proposals made in this consultation paper.

**Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.**

Please submit written comments by 12 December 2016 via email to: [ciscode@mas.gov.sg](mailto:ciscode@mas.gov.sg).

1.5 We would appreciate that you use this suggested format for your submission to ease our collation efforts. You can access the template [here](#).

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<sup>1</sup> MAS’ response to feedback received on this proposal is set out at paragraphs 4.29 and 4.33 of our response paper dated 22 September 2015. URL: <http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2014/Consultation-on-Proposals-to-Enhance-Regulatory-Safeguards-for-Investors-in-the-Capital-Markets.aspx>.

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Defined Terms

AGM	Annual general meeting
Authorised	An “authorised” fund refers to a collective investment scheme that is constituted in Singapore and authorised by MAS for offer to retail investors under section 286 of the SFA
CBPA	Code of Best Practices in Advertising Collective Investment Schemes and Investment-Linked Life Insurance Policies jointly issued by IMAS and the Life Insurance Association
Circular	MAS Circular No. CMD 01/2009 “Treatment of Refinancing under the Aggregate Leverage Limit”
CIS Code	Code on Collective Investment Schemes
CRAs	Credit rating agencies
IMAS	Investment Management Association of Singapore
LBMA	London Bullion Market Association
LPPM	London Platinum & Palladium Market
MAS	Monetary Authority of Singapore
NAV	Net asset value
PFA	Appendix 6 of the Code on Collective Investment Schemes
Precious Metals Funds	Authorised funds that invest solely in gold, silver and platinum
RDPA	Recommended Disclosures to Support the Presentation of Income Statistics in Advertisements issued by IMAS
Recognised	A “recognised” fund refers to a collective investment scheme that is constituted outside of Singapore and recognised by MAS for offer to retail investors under section 287 of the SFA
REIT	A collective investment scheme that invests primarily in real estate and real estate-related assets as specified in the CIS

	Code, and all or any units of which are listed for quotation on an MAS-approved securities exchange
SFA	Securities and Futures Act (Cap. 289)
SFR	Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005
SGX	Singapore Exchange Limited
WALE	Weighted average lease expiry

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## 2 Precious Metals Funds

2.1 As part of the proposals to enhance regulatory safeguards for investors in the capital markets, MAS had in September 2015 indicated that it will develop specific rules in the CIS Code for Precious Metals Funds. This is because such assets are fairly liquid and are recognised as financial instruments, just as transferable securities are.

2.2 In other jurisdictions where regulated retail collective investment schemes are permitted to invest in precious metals, the investment restrictions provide for investments in gold only. These gold funds are subject to the same basic requirements as other retail funds, namely:

- (a) the fund is managed by a regulated fund manager;
- (b) there are prospectus requirements; and
- (c) there is proper safekeeping of fund assets.

2.3 The additional requirements imposed specifically on funds that invest in precious metals are as follows:

- (a) In Ireland, a retail fund may invest in gold but not other precious metals. The prospectus of the fund must also contain prominent statement that, “The price of gold varies considerably over time. This makes investment in gold high risk, particularly for the medium to long term investor. If the price of gold falls considerably, as it has in the past, you could face a significant loss on your investment.”
- (b) In the United Kingdom, a retail fund may invest up to 10% of its NAV in gold.
- (c) In India, to qualify as a gold exchange-traded fund, a fund must hold only gold and gold-related instruments. The underlying investments of these funds must be priced using London Bullion Market Association (“LBMA”) gold prices and must meet the Good Delivery Rules for Gold and Silver Bars published by LBMA.

2.4 In line with international practice, MAS proposes to impose additional requirements on Precious Metals Funds in addition to the requirements for fund approval and prospectus registration which apply to all retail offers of units in a collective investment scheme. The proposed additional requirements are:

- (a) Where a Precious Metals Fund invests in gold and silver, the fund must follow the LBMA prices and good delivery rules;
- (b) Where a Precious Metals Fund invests in platinum, the fund must follow the London Platinum & Palladium Market (“LPPM”) prices and good

delivery rules<sup>2</sup>; and

- (c) The prospectus of a Precious Metals Fund should clearly state that an investment in the Precious Metals Fund carries risks of a different nature from other types of funds which invest in transferable securities and that it is not intended to be a complete investment programme for any investor.

2.5 MAS had proposed to allow Precious Metals Funds to invest in gold, silver and platinum as all three metals are considered as comparable to financial assets<sup>3</sup>. However, MAS notes that retail funds in other jurisdictions are only allowed to invest in gold, but not in silver or platinum. Therefore MAS seeks views on (i) imposing an NAV cap on a Precious Metals Fund's investments in silver and/or platinum; or (ii) only allowing a Precious Metals Fund to invest in gold, for a start.

**Question 1.** MAS seeks comments on the proposed requirements for Precious Metals Funds. MAS also seeks views on (i) imposing an NAV cap on Precious Metals Fund's investments in silver and/or platinum; or (ii) only allowing a Precious Metals Fund to invest in gold, for a start.

### **3 Enhance transparency and market discipline**

#### Manager's credit risk assessment process

3.1 Chapter 3.1(g) of the CIS Code states, among other things, that a fund manager should not rely solely or mechanistically on ratings issued by credit rating agencies ("CRAs"), but should, where possible, make its own credit assessments to verify ratings issued by CRAs. To facilitate investors' understanding of the manager's rating verification process, MAS proposes to require the manager to detail its credit assessment process in the prospectus of the fund. Such details should include:

- (a) the scope of the internal credit assessment, including the extent to which the manager will rely on credit ratings issued by credit rating agencies;
- (b) the use of other tools or metrics (other than credit ratings) in the internal credit assessment; and

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<sup>2</sup> The good delivery rules refer to the specifications on weight, dimensions, fineness (or purity) and identifying marks as prescribed by LBMA and LPPM.

<sup>3</sup> As mentioned in MAS' consultation paper dated 21 July 2014, gold, silver and platinum are considered as comparable to financial assets, and have also been granted goods and services tax (GST) exempt status by IRAS. Only gold, silver and platinum that (i) meet purity standards, (ii) are tradable on the international bullion market, (iii) bear a mark or characteristic that is internationally accepted as guaranteeing quality, and (iv) is not a decorative bar, ingot or wafer or a collector's bar, ingot or wafer will qualify for the GST exemption.

- (c) the events that will trigger a review of internal credit assessments that had been performed.

**Question 2.** MAS seeks comments on the proposed disclosure requirements on a fund manager's credit assessment practices.

### Securities lending and repurchase transactions

3.2 Paragraph 8.9 of Appendix 1 of the CIS Code provides that where a fund intends to carry out securities lending or repurchase transactions ("repo"<sup>4</sup>), the semi-annual and annual report should contain disclosures on the total value of the transferable securities lent and salient details of the collateral holdings. Such information allows investors to understand the extent of their exposure to securities lending or repo.

3.3 Securities lending and repo allow fund managers to access leverage on their clients' portfolios. Timely disclosure of appropriate information on such activities are thus necessary to enable investors to select their investments with due consideration of the risks taken by fund managers. In some cases, fund managers will in turn rely on reporting by lending agents (e.g. custodian banks) in order to provide this information to end-investors<sup>5</sup>.

3.4 In line with international best practices, MAS proposes to require the following additional disclosures in the semi-annual and annual reports to enhance the transparency of securities lending and repo reporting to end-investors and to ensure level playing field:

- (a) the amount of securities on loan as a proportion of total lendable assets and of the fund's assets under management, and the absolute amounts of the repo book and the reverse repo book;
- (b) the top 10 collateral securities received by fund, and the top 10 counterparties of securities lending and repo;
- (c) the transaction profile broken down by (i) collateral type<sup>6</sup>, (ii) currency, (iii) maturity tenor, (iv) geographical location of counterparty, (v) proportion of cash versus non-cash collateral, (vi) maturity of non-cash collateral and (vii) settlement/clearing (tri-party, bilateral or central clearing party, where

<sup>4</sup> Repurchase transactions ("repo") refer to both repurchase and reverse repurchase transactions.

<sup>5</sup> Financial Stability Board, "Strengthening Oversight and Regulation of Shadow Banking", 29 August 2013, pp 11-12, Para. 2.5 URL: [http://www.fsb.org/wp-content/uploads/r\\_130829b.pdf](http://www.fsb.org/wp-content/uploads/r_130829b.pdf)

<sup>6</sup> At an appropriate level of detail: for example, for fixed income securities, the breakdown would give the share of government bond, investment grade non-financial corporate bonds, sub-investment grade non-financial corporate bonds, investment grade financial corporate bonds, sub-investment grade financial corporate bonds, covered bonds etc.



- applicable);
- (d) the share of collateral received that is re-used or re-hypothecated, compared to the maximum authorised amount if any, and information on any restrictions on type of securities;
  - (e) the split between the return from securities lending and repo and the return from cash collateral reinvestment;
  - (f) the number of custodians and the amount of assets held by each custodian; and
  - (g) the way securities received by the counterparty are held (i.e. in segregated accounts or pooled accounts).

**Question 3.** MAS seeks comments on the proposal to require additional disclosures on securities lending or repo in the fund’s semi-annual and annual reports.

### Applying disclosure requirements to Recognised funds

3.5 The Third Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 (“SFR”) sets out the information that must be disclosed in a prospectus of an Authorised or Recognised fund. In addition, the CIS Code requires additional disclosures<sup>7</sup> of features and risks that are specifically associated with funds that are specialised or that engage in more complex activities such as investing in financial derivatives or charges performance fees (“additional disclosures”). Such additional disclosures serve to empower investors to make informed investment decisions.

3.6 The additional disclosure requirements in the CIS Code currently do not apply to Recognised funds. Nevertheless, in practice, these disclosures are made in the prospectus of Recognised funds, which make up a majority of the number of retail funds offered in Singapore. To ensure that retail investors have access to the same quality of information whether they invest in Authorised or Recognised funds, MAS proposes to extend the additional disclosure requirements under the CIS Code to Recognised funds.

**Question 4.** MAS seeks comments on the proposal to extend the additional

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<sup>7</sup> The additional disclosures are to be made:

- in the prospectus (under Chapter 3.6(c) of the CIS Code) where performance fees are payable;
- in the prospectus, semi-annual and annual report and marketing material (under paragraph 8.3, 8.4, 8.5, 8.6 and 8.7 of Appendix 1 of the CIS Code) where the fund invests in financial derivatives;
- in the prospectus and semi-annual and annual report (under paragraph 8.8 and 8.9 of Appendix 1 of the CIS Code) where the fund carries out securities lending or repurchase transactions; and
- in the prospectus (under paragraph 7 of Appendix 5 of the CIS Code) where the fund is an index fund.

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disclosure requirements under the CIS Code to Recognised funds.

### Advertisement on a fund

3.7 Regulation 21 of the SFR states that an advertisement on a fund shall not contain any information that is (a) false or misleading or (b) cannot be justified on the facts known to the person responsible for the advertisement, at the time the advertisement is published. While advertisements thus far have not been in breach of this requirement, MAS has observed that some advertisements on funds may not have provided a “fair and balanced”<sup>8</sup> view, and have an excessive focus on the potential yield.

3.8 MAS has worked with the Investment Management Association of Singapore (“IMAS”) to develop specific guidance on presentation of a fund’s income statistics (e.g. yield). The new guidance note, Recommended Disclosures to Support the Presentation of Income Statistics in Advertisements (“RDPA”), was issued by IMAS on 20 October 2016. The RDPA supplements the existing Code of Best Practices in Advertising Collective Investment Schemes and Investment-Linked Life Insurance Policies (“CBPA”), which is jointly issued by IMAS and the Life Insurance Association.

3.9 To better protect retail investors, and ensure a level playing field, MAS proposes to require managers of Authorised and Recognised funds to ensure that advertisements on such funds are prepared in accordance with the CBPA. In addition, MAS proposes to require illustrations of income statistics in the advertisements to be prepared in accordance with the RDPA. The proposed requirements will complement any regulations on “fair and balanced” advertising by providing operational guidance on fund advertising.

**Question 5.** MAS seeks comments on the proposal to require managers of Authorised and Recognised funds to ensure that advertisement on such funds are prepared in accordance with the CBPA and the RDPA.

### WALE disclosures

3.10 Under Paragraph 11.1(c)(v) of Appendix 6 of the CIS Code (“PFA”), a REIT should disclose in its annual report, the weighted average lease expiry (“WALE”) of both the REIT’s portfolio and new leases entered into during the past financial year (and the

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<sup>8</sup> In response to feedback received on MAS’ consultation in March 2009, MAS had stated its intentions to require advertisements for investment products to give a fair and balanced view of a product and comply with advertising restrictions. The regulations to prescribe the advertising restrictions are currently being finalised.

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proportion of revenue attributed to these leases). This requirement is to allow investors to assess the lease expiry profile and the refinancing needs of a REIT.

3.11 MAS has received feedback that there is no standardised practice for calculating WALE. In particular, WALE may be calculated based on the date of commencement of the leases or the date of signing of lease agreements. MAS is of the view that the date of commencement of the lease would more accurately reflect the date of commencement of the revenue attributed to the lease. To facilitate comparability of the lease expiry profile across REITs, MAS proposes to require a REIT to calculate WALE based on the date of commencement of the leases.

**Question 6.** MAS seeks comments on the proposal to require a REIT to calculate WALE based on the date of commencement of the leases.

## **4 Improve operational effectiveness**

### REIT Meetings

4.1 An annual general meeting (“AGM”) of a REIT is a formal channel of communication between a REIT manager and REIT unitholders. It also serves to strengthen the manager’s accountability to unitholders.

4.2 REITs are required to hold an AGM once every calendar year and not more than 15 months from the last preceding AGM. However, a newly formed REIT need not hold its AGM in the year of its constitution or in the following year if it holds its first AGM within 18 months from its constitution. The 18-month grace period is intended to give a new REIT sufficient time to build up a meaningful track record before engaging in a formal discussion with unitholders.

4.3 In recent years, MAS has received feedback that the 18-month grace period may not be sufficient if a REIT’s initial offer period is postponed (e.g. due to unfavourable market conditions). As a REIT is only operational after receiving MAS’ authorisation to make offers to the public, MAS proposes to require a REIT to hold its first AGM within 18 months of its authorisation instead of its constitution.

**Question 7.** MAS seeks comments on the proposed requirement for a REIT to hold its first AGM within 18 months of its authorisation.

### Redemption period for bond and money market funds

4.4 Chapter 3.2(a) of the CIS Code requires redemption proceeds to be paid out to a

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fund's participants within 4, 6 or 7 business days depending on the fund type<sup>9</sup>.

4.5 MAS notes that other major fund jurisdictions have a single redemption period for all types of funds<sup>10</sup>. MAS has also received feedback that the current 4 business-day redemption period for bond and money market funds presents operational difficulties. In order to comply with this rule, fund manager need to maintain higher cash positions. However, holding excess idle cash may negatively impact fund performance.

4.6 In view of the above, MAS proposes to align the periods for payment of redemption proceeds, and to allow all funds, except property funds and hedge funds, to pay out redemption proceeds within 7 business days from the receipt of the redemption request.

**Question 8.** MAS seeks comments on the proposal to allow all funds, except property funds and hedge funds, to pay out redemption proceeds within 7 business days from the receipt of the redemption request.

## 5 Provide greater clarity to market practitioners

### Clarification on “passing rent”

5.1 Paragraph 11.1 (o) of the PFA states that where income support is embedded in a master lease, a REIT should disclose in its annual report, the difference between the amount of rents derived under the master lease and the actual amount of rents from the underlying leases during the financial year. This requirement is to enable investors to clearly distinguish between a REIT's stable sources of revenue and the payments derived from income support.

5.2 For the purpose of this requirement, a master lease will be considered to have an embedded income support arrangement if the rent under the master lease arrangement is higher than the passing rents of the underlying sub-leases. In this regard, MAS has received requests to provide guidance on the term “passing rent”.

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<sup>9</sup> The redemption period is –

- 4 business days for bond and money market funds;
- 6 business days for other types of funds other than property funds and hedge funds; and
- 7 business days for a fund which invests all, or substantially all, of its NAV in another fund.

<sup>10</sup> In the United Kingdom, the United States and Ireland, redemption proceeds should be paid out within 4, 7 and 10 business days from the receipt of redemption request, respectively.

5.3 MAS would like to clarify that the term “passing rent” as used in the PFA refers to market rent at the time of entry or renewal of the master lease arrangement. To provide greater clarity to market practitioners, MAS proposes to replace the phrase “passing rents of the underlying sub-leases” with the phrase “market rents of the underlying sub-leases at the time of entry or renewal of the master lease arrangement”. MAS also proposes to define the term “market rent” using existing valuation standards<sup>11</sup>, i.e. as the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

**Question 9.** MAS seek comments on the proposal to replace the phrase “passing rents of the underlying sub-leases” in the CIS Code with the phrase “market rents of the underlying sub-leases at the time of entry or renewal of the master lease arrangement”, where “market rent” is defined using existing valuation standards.

### Issuing summary financial statements

5.4 The annual report of a REIT typically contains more information than that required under the PFA and contained in the annual reports of equity and fixed income funds. This is due to the additional disclosure requirements that Singapore Exchange Limited (“SGX”) imposes on listed entities. In this regard, SGX’s listing rules expressly allow an issuer to issue a summary financial statement in place of the full financial statements and report, in accordance with the Companies Act<sup>12</sup>.

5.5 REITs are authorised under the SFA, subject to compliance with the CIS Code. However, the CIS Code does not explicitly allow a REIT to issue summary financial statements. In this regard, MAS has received feedback that the CIS Code should be aligned with the Companies Act, which allows for a summary financial statement to be sent in place of the full financial statements and report, and allow REITs to issue summary reports to unitholders. To provide clarity to market practitioners, MAS proposes to clarify in the PFA that an SGX-listed REIT may issue summary financial statements to unitholders in place of the full financial statements and report, similar to SGX-listed companies<sup>13</sup>.

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<sup>11</sup> Singapore Institute of Surveyors and Valuers, “Valuation Standards and Practice Guidelines, 2015 Edition”, p 35.

<sup>12</sup> The listed company is still required to prepare full financial statements and report.

<sup>13</sup> A unitholder would still have the right to request free of charge for a copy of the annual reports by notifying the REIT manager, in accordance with regulation 3 of the Companies (Summary Financial Statements) Regulations.

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**Question 10.** MAS seeks comments on the proposal to allow an SGX-listed REIT to issue summary financial statements to unitholders in place of full financial statements and report.

### Sending annual reports by electronic means

5.6 Chapter 2.3(b) of the CIS Code provides that the accounts and reports of a fund may be sent or made available to participants by electronic means<sup>14</sup>. In this regard, MAS has received requests to provide guidance on whether this is similarly applicable to a REIT.

5.7 To provide clarity to industry participants, MAS proposes to clarify that a REIT may also send its accounts and reports to unitholders by electronic means.

**Question 11.** MAS seeks comments on the proposals to allow a REIT to also send its accounts and reports to unitholders by electronic means.

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<sup>14</sup> Electronic means include:

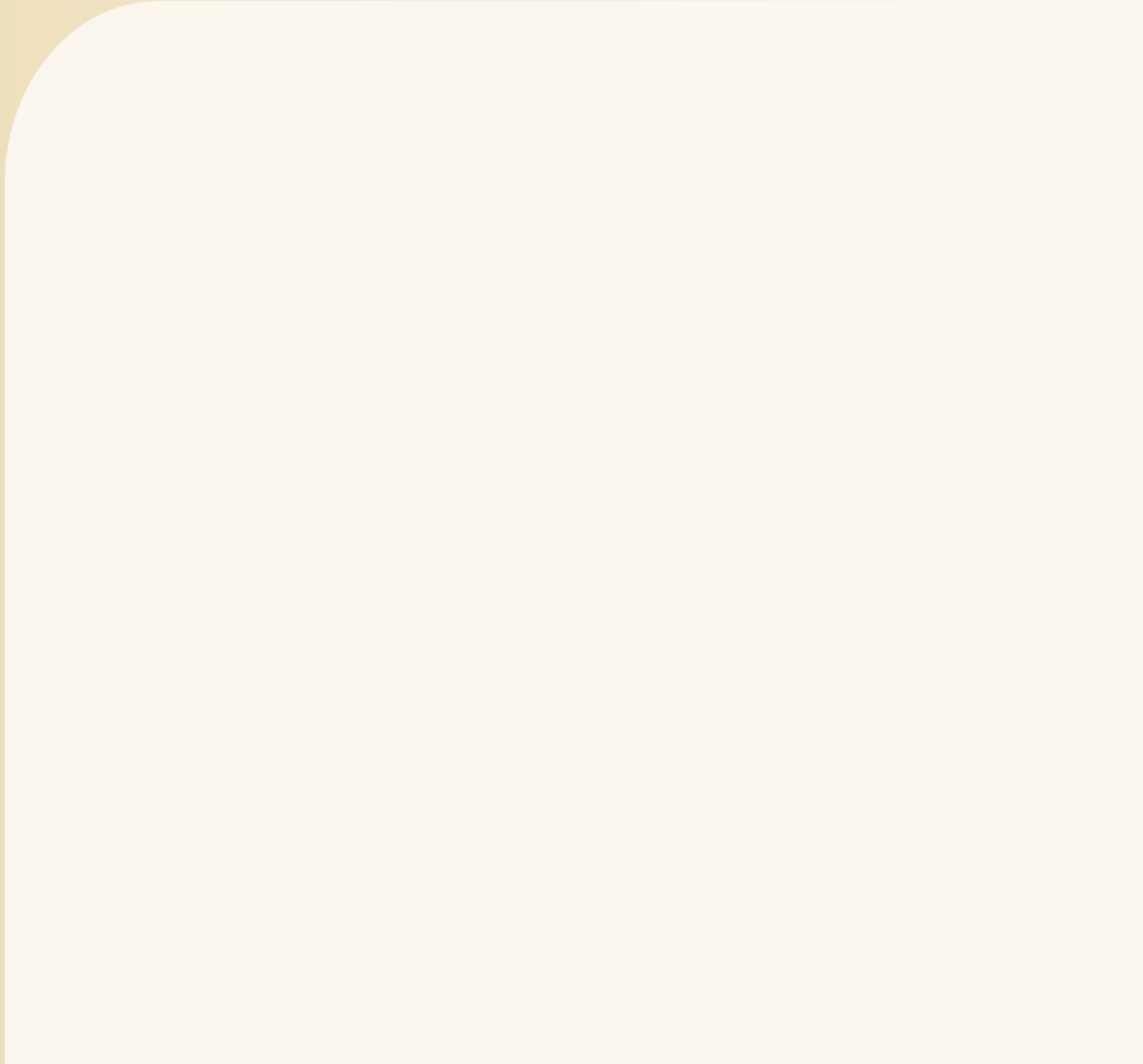
- transmitting via email with softcopy attachments to the email address provided by the unitholders for correspondence purposes;
- making available via an electronic storage medium (e.g. CD-ROM); and
- posting on a website where the accounts and reports would remain posted on that website for at least 12 months from the date of posting.

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**Annex A**

**LIST OF QUESTIONS**

- Question 1.** MAS seeks comments on the proposed requirements for Precious Metals Funds. MAS also seeks views on (i) imposing an NAV cap on Precious Metals Fund’s investments in silver and/or platinum; or (ii) only allowing a Precious Metals Fund to invest in gold, for a start.....7
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- Question 6.** MAS seeks comments on the proposal to require a REIT to calculate WALE based on the date of commencement of the leases. ....11
- Question 7.** MAS seeks comments on the proposed requirement for a REIT to hold its first AGM within 18 months of its authorisation.....11
- Question 8.** MAS seeks comments on the proposal to allow all funds, except property funds and hedge funds, to pay out redemption proceeds within 7 business days from the receipt of the redemption request. ....12
- Question 9.** MAS seek comments on the proposal to replace the phrase “passing rents of the underlying sub-leases” in the CIS Code with the phrase “market rents of the underlying sub-leases at the time of entry or renewal of the master lease arrangement”, where “market rent” is defined using existing valuation standards. ....13
- Question 10.** MAS seeks comments on the proposal to allow an SGX-listed REIT to issue summary financial statements to unitholders in place of full financial statements and report..... 14
- Question 11.** MAS seeks comments on the proposals to allow a REIT to also send its accounts and reports to unitholders by electronic means.....14
- MAS also welcomes feedback on the application of these proposed amendments to ILP sub-funds issued by issuers under MAS 307.*



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