

## SECURITIES AND FUTURES ACT (CHAPTER 289) FREQUENTLY ASKED QUESTIONS

### **PART XIII OFFERS OF INVESTMENTS**

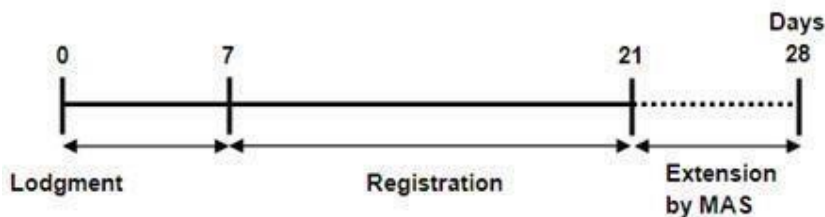
- PUBLIC EXPOSURE OF PROSPECTUSES

- FAQs SPECIFIC TO COLLECTIVE INVESTMENT SCHEME (CIS)

## **PUBLIC EXPOSURE OF PROSPECTUSES**

**Q: What is the prospectus<sup>1</sup> registration process?**

**A:** The prospectus registration process is depicted in the flowchart below:



<u>After lodgment</u>	<u>Registration</u>
<ul style="list-style-type: none"> <li>• Public exposure of prospectus on MAS' website (OPERA)</li> <li>• Public can submit comments on lodged prospectus to MAS</li> <li>• MAS' regulatory review</li> <li>• Issuer can conduct roadshow presentations to institutional and accredited investors and commence book-building exercise</li> </ul>	<ul style="list-style-type: none"> <li>• MAS will register prospectus within 7-21 days of lodgment unless: <ul style="list-style-type: none"> <li>○ MAS extends time period (max. 28 days)</li> <li>○ Issuer requests registration at later date</li> <li>○ MAS decides to refuse registration</li> </ul> </li> <li>• Issuer can launch offer and distribute registered prospectus after registration</li> </ul>

<sup>1</sup> Where the issuer applies for listing on SGX Mainboard, the prospectus is registered by MAS. Where the issuer applies for listing on SGX Catalist, the prospectus is registered by SGX, acting as agent to MAS. Please refer to FAQs for Catalist listings under the section "Others". References to 'prospectuses' in other sections of this FAQ are to prospectuses lodged with MAS for registration in relation to an offer and listing on SGX Mainboard.

**Q: If lodged prospectuses are exposed before the final versions are registered, is there any danger of the public being misled into making an investment decision based on false or outdated information in the lodged prospectuses instead of the registered prospectus? Is there any way to prevent investors from applying for securities, securities-based derivatives contracts or units in a CIS on the basis of the lodged prospectus which is published on OPERA?**

**A:** The purpose of exposing the prospectus for public comment is to allow MAS to tap market expertise, especially in areas where we do not have specialist knowledge. Offerors are prohibited by law from using the lodged prospectus to offer securities, securities-based derivatives contracts or units in a CIS. It is also an offence for an offeror to accept applications before its prospectus is registered by MAS.

OPERA (the prospectus database on MAS' website) is the only means by which the public will have access to lodged prospectuses. There are clear warnings on OPERA that the lodged prospectus is not registered and that investors should not make investment decisions on the basis of the lodged prospectus. Such unregistered prospectuses will not be allowed to be put up on any other website or disseminated in any other way.

As a further safeguard, no application forms can be attached to lodged prospectuses on OPERA for public exposure. Also, no facilities can be provided to enable the public to apply for securities, securities-based derivatives contracts or units in a CIS before the prospectus is registered.

**Q: With the regime whereby the public can comment on prospectuses lodged, will this lead to MAS being inundated with comments, some of which may be baseless or even malicious? How will MAS deal with the comments? Can the comments be seen by the public?**

**A:** MAS is of the view that the benefits of giving the public an opportunity to examine and comment on a prospectus lodged and drawing on market expertise in deciding whether to register the prospectus outweigh the disadvantages of the potential for irresponsible comments to be received. To this end, we will carefully review comments received. Where comments appear to be baseless or malicious, we will not act on them.

To discourage baseless and malicious comments, we require the fields for names and contact details to be entered before comments can be submitted online. It is also an offence for any person to give false or misleading information to MAS.

Comments given by the public will be kept strictly confidential and cannot be accessed by the public.

**Q: Will the minimum 7-day exposure period before prospectus registration cause uncertainty to issuers and underwriters and a delay in offers of securities, securities-based derivatives contracts or units in a CIS?**

**A:** The prospectus registration regime provides a specified timeframe within which a prospectus must be registered or be refused registration. To ensure fair treatment of all issuers, applications for registration will be dealt with on a first-come-first-served basis, except where there are specific issues with a prospectus that require further scrutiny.

We do not expect any delay in most cases. This is because issuers are allowed to conduct road shows and start book building after lodging preliminary prospectuses with MAS. MAS will have completed the necessary compliance review to decide on registration of the prospectuses

lodged when issuers are ready to launch formal offers. We understand that the average prospectus review period in other major markets is generally between 3 to 4 weeks.

**Q: Are preliminary prospectuses, supplementary prospectuses, replacement prospectuses and offer information statements (for rights issues) subject to the minimum 7-day exposure period?**

**A:** Supplementary prospectuses, replacement prospectuses and offer information statements are not subject to MAS' registration or the minimum 7-day exposure period. These documents can be distributed to the public once they are lodged with MAS.

Similarly, preliminary prospectuses need not be registered or subject to public exposure before they can be distributed to institutional and accredited investors as part of the issuer's bookbuilding exercise.

**Q: How do the provisions on debenture issuance programmes operate?**

**A:** To facilitate bond issuance, an issuer is allowed to make multiple offers of separate tranches of similar debentures under a debenture issuance programme, provided that it registers with MAS a base prospectus that is applicable for the entire programme. Such base prospectus will be valid for a period of 2 years from the date of its registration.

For each offer of debentures under the programme during this 2-year period, the issuer would need to register with MAS only a brief pricing statement containing information specific to that particular offer without having to re-register the base prospectus. As the information that can be included in a pricing statement is limited to simple offer-specific information (e.g. price and quantity of the securities being offered, the offer period) or information that is already contained in the registered base prospectus, the pricing statement need not be subject to the minimum 7-day public exposure period before registration.

**Q: Why are issuers not allowed to distribute preliminary prospectuses to the general public if there is nothing to stop members of the public from downloading the preliminary prospectus from OPERA?**

**A:** A preliminary prospectus does not contain certain material information about an offer, such as the price and quantity of securities, securities-based derivatives contracts or units in a CIS being offered. If such a document is distributed to the general public (particularly retail investors), it could potentially mislead them. Instead, the SFA provides an exception for preliminary prospectuses to be distributed to institutional and accredited investors, who are the usual participants in book building exercises.

Unlike an issuer who can 'push' the preliminary prospectus to many persons if there are no restrictions in the law, only persons visiting OPERA and who choose to view the preliminary prospectus will see it. The potential audience is therefore much smaller. Even then, there is prominent disclosure on OPERA that the preliminary prospectus has not been registered by MAS, and that investors should not apply for shares on the basis of the preliminary prospectus.

**Q: Are prospectuses posted indefinitely on OPERA?**

**A:** All prospectuses and related documents lodged with MAS under the SFA are accessible to the public through OPERA only during the period for which they are current (i.e. for 6 months

after registration of prospectuses for securities or securities-based derivatives contracts, 12 months after registration of prospectuses for units in a CIS and 2 years after registration of base prospectuses for debenture issuance programmes).

## **Stop Orders & Supplementary/Replacement Prospectuses**

**Q: Will MAS be hesitant about issuing stop orders because such an action will reflect badly on the Singapore issuers and their advisers?**

**A:** The prospectus registration regime under the SFA is intended to enhance market accountability, and raise the standard of prospectus disclosure. The stop order provision is important for efficient and effective enforcement and a key mechanism for investor protection in such a disclosure-based regulatory regime. It provides added impetus for the issuer and its advisers to ensure that a prospectus is up to scratch before lodgment with MAS. Over time, this would have the effect of raising the standard of disclosure in public offer documents in Singapore.

**Q: Will the stop order cause uncertainty for issuers and underwriters as well as the investing public, given that a public offer can be halted at any time after registration of the prospectus?**

**A:** SFA provides that a stop order will not be served after the securities, securities-based derivatives contracts or units in a CIS, to which the prospectus relates, have been listed on an approved exchange and trading in them has commenced. A stop order will also not be served unless a registered prospectus is deficient in a material way.

More importantly, MAS will give the person who lodged the prospectus an opportunity to be heard before serving a stop order. When an interim stop order is served, the issuer is not required to return the monies received from investors unless MAS has decided, after a hearing, to convert the interim stop order to a final stop order.

**Q: If the profile statement is found to be deficient after registration, but not the prospectus, will the whole offer be stopped?**

**A:** No. But the issuer and its agents must stop distributing the profile statement and take steps to inform prospective investors that they should not rely on the profile statement. For those investors who have submitted applications on the basis of the profile statement, the issuer must give them the option to withdraw their applications.

## **MAS' Review of Lodged Prospectuses**

**Q: Does MAS review every prospectus? What does MAS' review entail?**

**A:** MAS reviews lodged prospectuses solely for compliance with the statutory disclosure requirements. Where a lodged prospectus is found to be deficient in complying with statutory disclosure requirements, MAS will indicate to the issuer in general terms where and how the prospectus does not comply with the law. MAS does not vet prospectuses to determine whether they contain inaccuracies in information or factual errors. Issuers and their advisers are solely responsible for ensuring accurate and adequate disclosure in prospectuses.

In line with international best practice and our risk-focused approach, MAS will devote more regulatory resources to offers that may pose higher risks to investors. These may include offers by companies with no profit record, those involving novel issues or where the promoter's probity is doubtful.

**Q: As MAS reviews prospectuses only for compliance with legal requirements on prospectus disclosure and the public may not point out deficiencies in a prospectus during the exposure period, there may be instances where a prospectus that has already been registered is deficient. How can MAS minimise such deficient prospectuses and how does MAS deal with them?**

**A:** MAS does not vet prospectuses to determine if they contain any inaccurate information or factual errors. Issuers and their advisers must bear full responsibility for ensuring adequate and accurate disclosures, and will be subject to civil and criminal liabilities for false or misleading statements in or omissions from a prospectus.

The law provides for an issuer who discovers a material misleading statement in or an omission of information from a registered prospectus to lodge a supplementary or replacement document to correct the deficiency. He may do so at any time before the close of an offer without attracting any liability. Investors who have applied for securities, securities-based derivatives contracts or units in a CIS on the basis of the deficient prospectus may have their application monies refunded at the option of the issuer or the applicants. Further, MAS has the power to serve a stop order to prevent offers under a deficient prospectus where no supplementary or replacement document to rectify the deficiency is issued. Where a final stop order is issued, investors will be protected as the SFA will require issuers to return monies received for the subscription or purchase of securities, securities-based derivatives contracts or units in a CIS under the deficient prospectus.

Where a registered prospectus is found to be deficient after the securities, securities-based derivatives contracts or units in a CIS have been issued and trading has commenced, MAS will not issue a stop order. However, the issuer, its directors, the issue manager and underwriter for the offer could still be liable under the SFA for false or misleading information in the prospectus if they are found to be responsible for the deficiency. Investors who have suffered loss or damage as a result of the deficiency may also commence civil action to claim compensation from these persons.

**Q: Will MAS' review and registration of prospectuses lead to moral hazard?**

**A:** The registration process is a safeguard for MAS to detect deficient prospectuses before they are distributed to the public. Registration, however, does not mean that all the relevant

requirements under the SFA, SF Regulations or any other legal or regulatory requirements, have been complied with. The responsibility for ensuring adequate and accurate disclosure lies with the issuer and its advisers who have an interest and a duty to conduct proper due diligence. Registration also does not prevent MAS from taking any regulatory action if the registered prospectus is later found to be deficient.

**Q: What is the standard for prospectus disclosure?**

**A:** The SFA provides that an issuer must disclose in its prospectus all the information that investors and their professional advisers would reasonably need to make an informed investment decision. This general disclosure test is supplemented by prospectus disclosure checklists in the [Securities and Futures \(Offers of Investments\) \(Securities and Securities-based Derivatives Contracts\) Regulations 2018](#) and the [Securities and Futures \(Offers of Investments\) \(Collective Investment Schemes\) Regulations 2005](#). The detailed checklists guide issuers and practitioners as to what information must be disclosed, in addition to the general disclosure test.

Our general disclosure test is modeled on that in Australia's Corporations Act. Having introduced this requirement before us, there is a wealth of Australian case law on what compliance with the general disclosure test entails.

## **Others**

**Q: Does the SFA apply to offers of securities, securities-based derivatives contracts or units in a CIS made through ATMs, mobile phones or other platforms, such as the internet?**

**A:** Yes.

*Offers through ATMs and Mobile Phones*

Offers through ATMs or mobile phones fall within the regulatory ambit, and are subject to the same legal requirements as offers made through conventional channels. However, it would be impractical for offers made through ATMs to make available prospectuses to prospective investors at the point of application through the ATMs. The SFA therefore exempts the offer from being made in or accompanied by a prospectus and profile statement. This is subject to the requirement that prospective investors be alerted to the availability of the prospectus and be advised to read the prospectus before proceeding to apply for the securities, securities-based derivatives contracts or units in a CIS through the ATMs.

*Offers through the internet (e.g. crowd funding websites)*

A person who raises funds through the internet (e.g. through a crowd funding platform) may be subject to the requirements under the SFA if it involves an offer of securities, securities-based derivatives contracts or units in a CIS to investors in Singapore. Under the SFA, any person who makes an offer of securities, securities-based derivatives contracts or units in a CIS to investors in Singapore, whether through a crowd funding platform or otherwise, will be required to provide a prospectus (in respect of the offer) that is registered with MAS, unless an exemption applies.

Depending on its business model, the operator of a crowd funding platform may also be subject to other requirements in the SFA if it engages in other regulated activities (e.g. carrying on the business of dealing in capital markets products that are securities, securities-based derivatives contracts or units in a CIS, advising on corporate finance, or operating an organised market).

You may refer to the FAQs on Crowd Funding from the [MoneySENSE website](#) for more information on crowd funding.

**Q: What are the tangible benefits of a disclosure-based regime for companies and their shareholders?**

**A:** A disclosure-based regulatory regime helps raise the standard of corporate disclosure. Apart from helping our investors make informed investment decisions, it instills market confidence and attracts more foreign investors to Singapore. This would translate to better valuations for our companies and greater market liquidity for investors in those companies. The approach also allows more innovative products to be introduced in our market, subject to proper disclosure. All these help create a more vibrant capital market in Singapore.

**Q: What is SGX's role in the prospectus registration regime?**

**A:** SGX reviews the prospectus to assess the eligibility of an issuer to list on SGX.

**Q: What is the process for listing application and prospectus registration?**

**A:** Although the SFA does not prohibit lodgment of preliminary prospectuses with MAS prior to SGX granting eligibility-to-list (ETL), issuers normally submit their listing applications to SGX first. Based on the submission, and subject to SGX's listing process<sup>2</sup>, SGX will indicate to the issuer whether it is eligible for listing on SGX.

Once the issuer obtains the ETL from SGX, the issuer will lodge its prospectus with MAS for registration and commence book-building to gauge market interest in the issue. Once MAS registers the prospectus, the issuer will be able to launch its public offer. Upon the close of the offer, the securities, securities-based derivatives contracts or units in a CIS will be allotted to successful applicants, following which trading on SGX will commence.

To reduce the time-to-market and enhance the attractiveness of Singapore as a listing destination, the concurrent review process for IPO prospectuses was initiated in 1 March 2010. Under this concurrent review process, issuers may submit their draft prospectuses to MAS for pre-lodgment review at the same time as the submission of their listing applications to SGX. To further shorten the time-to-market, MAS has also reduced the public exposure period for such prospectuses which have been subject to pre-lodgment review from 14 days to 7 days. The prospectus will not be subject to further review during this time unless there are new developments or public comments that have material impact on the issuer or the offering. MAS and SGX will review the process from time to time.

**Q: Are offer documents for SGX's Catalist listings lodged on MAS' OPERA website?**

**A:** No. Issuers seeking a Catalist listing are required to lodge their preliminary offer document on the Catalist website, Catalodge.

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<sup>2</sup> Please refer to SGX website ([http://www.sgx.com/wps/portal/sgxweb/home/listings/getting\\_started/listing\\_process](http://www.sgx.com/wps/portal/sgxweb/home/listings/getting_started/listing_process)) for more information.

**Q: What are the key features of Catalist and where can I find information on how to list on the Catalist?**

**A:** Prospective issuers applying to list on Catalist must appoint a sponsor to advise on the listing application and continuous compliance with Catalist rules after listing. Information on the Catalist listing process and the continuing obligations applicable to issuers post listing can be found at this [link](#).

**Q: Do Catalist offer documents have to comply with the requirements under the SFA? How is MAS involved in a Catalist listing?**

**A:** Yes, Catalist offer documents must comply with Parts II to XI of the Fifth Schedule of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 and the requirements of the SGX Listing Rules. Issuers seeking a Catalist listing do not have to lodge the offer documents with MAS. MAS does not review offer documents pertaining to prospective Catalist listings. The offer document will be registered under section 240(1)(a)(iii) of the SFA by SGX, acting as an agent for MAS. Civil and criminal liability provisions under the SFA for false or misleading statements or omissions in a prospectus will also apply to the offer document.



# **FAOs SPECIFIC TO COLLECTIVE INVESTMENT SCHEME (CIS)**

## **Foreign Funds**

**Q: What is the rationale for allowing the direct sale of foreign funds to the Singapore public and how will investors be protected?**

**A:** Before the SFA came into effect, foreign funds could not be offered directly to the public in Singapore as they did not meet the requirements of the Companies Act, which governed the offer of unit trusts previously. A foreign fund could only be offered through a feeder fund, which is a Singapore-based fund with a Singapore manager and trustee investing in the foreign fund. A feeder fund structure results in additional costs, estimated at 1% of the value of the fund annually. It was envisaged that allowing the direct offer of foreign funds would lead to foreign fund managers offering more funds in Singapore, thereby giving more investment choice to Singapore investors.

To ensure that foreign funds sold directly in Singapore meet high standards, MAS will only recognise foreign funds from jurisdictions which regulate funds as rigorously as we do in Singapore.

**Q: What kind of foreign funds will MAS recognise?**

**A:** We will only recognise foreign funds which are regulated and supervised in a manner comparable to Singapore schemes. We have recognised foreign funds that are constituted as Undertakings for Collective Investments in Transferable Securities (UCITS) in Luxembourg, the United Kingdom, Ireland, France, and Germany and funds that have been assessed as suitable to be a qualifying CIS under the ASEAN CIS framework.

**Q: Are foreign funds allowed under the CPFIS?**

**A:** Foreign funds that meet the criteria set by CPF Board may be offered under CPFIS. The criteria include the fund management company being included under CPFIS, and the foreign fund being invested in accordance with the CPFIS. More information on the admission criteria can be found at [www.cpf.gov.sg](http://www.cpf.gov.sg).

## **Real Estate Investment Trusts (REITs)**

**Q: How is the offer of bonds by REITs treated under the offer of investment provisions in the SFA?**

**A:** Under section 2 of the SFA, the definition of securities includes debentures which includes a bond issued by a trustee of the REIT in its capacity as trustee of the REIT. Hence, an offer of bonds by REITs will be treated as an offer of securities.

## **Restricted Schemes**

### **Q: What is the difference in treatment of collective investment schemes offered to only institutional and accredited investors?**

**A:** Funds which are offered to only institutional investors are not required to be authorised or recognised, nor is an offering document required. This is because such investors are able to evaluate offers of collective investment schemes on their own and are in a position to demand information from the offeror.

Unlike funds offered to institutional investors, those offered to accredited investors (and other relevant persons listed in section 305 of the SFA) (known as restricted schemes) are subject to regulation, albeit less stringent than that for retail schemes.

Restricted schemes are not subject to authorisation or recognition requirements, or requirement for a prospectus to be registered by us. However, the offeror of the restricted scheme is required to submit an online notification to us through the CISNet portal at <https://eservices.mas.gov.sg/cisnet/home/CISNetHome.action>. We may, upon receipt of the notification, enter the restricted scheme in the list of restricted schemes maintained by us. The list of restricted schemes is publicly available on the CISNet Portal.

The key requirements for a restricted scheme to be entered into the above list are that:

- (a) the manager of the scheme is licensed or regulated to manage the assets of the restricted scheme in the jurisdiction of its principal place of business and be fit and proper; and
- (b) the offer is made in or accompanied by an information memorandum that contains salient information about the restricted scheme. A copy of the information memorandum must be submitted to us for our records through the CISNet portal.

### **Q: How is a restricted scheme that does not invest in capital market products different from other restricted schemes?**

**A:** There are three kinds of restricted schemes: (1) a “restricted Singapore scheme” - a restricted scheme constituted in Singapore; (2) a “restricted foreign scheme” - a restricted scheme constituted outside Singapore; and (3) a “restricted Non-CMP scheme” - a restricted scheme that does not invest in capital markets products regardless of its place of constitution. A restricted Non-CMP scheme, unlike the other restricted schemes, is not required to have a licensed or regulated manager to manage the underlying assets.

A restricted Non-CMP scheme that does not have a licensed manager may make an offer to accredited and other relevant investors in Singapore if it submits the required information through CISNet. However, it will not be entered into any official list of restricted schemes. As a condition for ongoing exemption, all restricted schemes must lodge an annual declaration every 12 months.

A restricted Non-CMP scheme that has a licensed manager and wishes to be entered into the list of restricted scheme may do so by submitting the online notification required for other restricted schemes.

## **Trustees**

**Q: What is the rationale for requiring trustees to have professional indemnity insurance or to provide MAS with a letter of undertaking?**

**A:** The purpose of this requirement is to ensure that a trustee has adequate insurance cover if it is sued, so that it can continue discharging its duties and responsibilities.

## **High fees and high expense ratios of unit trusts**

**Q: Can MAS intervene in cases where a fund manager charges unreasonably high fees, despite poor fund performance?**

**A:** We do not regulate the amount of fees charged by fund managers to unit trusts. The fees should be determined by free market forces. We require details of fees to be fully disclosed in the prospectus of each fund, so that an investor can decide whether to invest in that fund taking into account relevant factors, including the fee it charges. Fund managers are also required to disclose the amount of trailer fees payable (i.e. the fees paid by the fund manager to its financial adviser/distributor), as a percentage of the management fees charged, in the Product Highlights Sheet.

**Q: It has been suggested that some of the small size unit trusts in Singapore have high expense ratios and the bulk of these costs is passed down to the investors. Is MAS planning to close down these cost inefficient small funds?**

**A:** In line with international practice, MAS does not compel unit trust managers to close down unit trusts on account of small fund size or high expense ratio. However, the managers of such funds should consider options such as reducing expenses, winding up the funds or merging the funds with other funds.

MAS has issued recommended practices to help managers reduce fund expenses and require periodic disclosure of expense ratio by unit trusts:

- (a) Foreign funds are now allowed to be sold directly to the public in Singapore. Such foreign funds no longer have to set up local feeder funds, which result in another layer of costs.
- (b) With effect from 1 July 2002, fund managers are disallowed from charging marketing or promotion expenses to unit trusts. This may help to reduce fund expenses.
- (c) Unit trusts are required to disclose their expense ratios in semi-annual reports. Before investing, the public should ask for such information and factor the expense ratio and other relevant considerations into their decisions.

Investors in small-sized funds with high expense ratios have the option of switching to larger funds managed by the same manager, where appropriate, at little or no cost. As a last resort, investors can also redeem their units and reinvest in larger funds with the same investment focus managed by other firms.

## **Scope of 'collective investment schemes'**

**Q: What is the scope of "collective investment schemes" that will be regulated under the SFA?**

**A:** The amended definition in the SFA defines a collective investment scheme as an arrangement in respect of property which satisfies the following elements:

- (a) Participants have no day-to-day control over the management of the property;
- (b) Either:
  - (i) the property is managed as a whole by or on behalf of the scheme operator; or
  - (ii) participants' contributions and profits/income of the scheme from which payments are to be made to the participants are pooled; and
- (c) purpose or effect (or purported purpose or effect) of the arrangement is to enable participants to participate in profits arising from the scheme property.

**Q: Will closed-end funds, such as venture capital funds and private equity funds, be regulated under the SFA?**

**A:** Real estate investment trusts (REITs) and closed-end funds that are constituted after 1 July 2013 and satisfy the characteristics set out in sub-paragraph (aa) of the definition of a closed-end fund in section 2(1) of the SFA are regulated as CIS. Such funds will be subject to authorisation or recognition as well as prospectus requirements that are applicable to all CIS.

## **Advertisements**

**Q: Can an advertisement show only a fund's return on a bid-to-bid basis when its past performance is compared with an index?**

**A:** When the past performance of a fund is compared with an index, the comparison may be made on an offer-to-bid basis or a bid-to-bid basis. The basis on which the comparison is made must be stated in the advertisement.

**Q: There have been advertisements for certain funds which highlight their maximum possible returns but fail to disclose the conditions necessary for achieving those returns. Is MAS concerned about such advertisements?**

**A:** Fund advertisements must be fair and balanced, and not false or misleading, in order for prospective investors to form an accurate understanding of the fund they could be investing in. Publishing an advertisement that is not fair and balanced is an offence under the SFA. The Ninth Schedule of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 further clarifies that an advertisement will be regarded as not fair and balanced if the advertisement –

- (a) contains a statement (the “statement”) on any return of the principal sum invested in units, or benefit of holding units, and
- (b) does not –
  - (i) provide an unbiased description of risks associated with the units; or
  - (ii) does not give a proportionate level of prominence to any warning, disclaimer or qualification disclosed in relation to the statement.

## **Leveraged/Inverse Products (“L/I Products”)**

L/I Products structured as listed funds are gaining popularity in various markets, including Asia. These products are a form of collective investment schemes. L/I Products typically aim to deliver a daily return that is based on a multiple or opposite of the daily return of the underlying index that is tracked. The following FAQs provide guidance to the industry on the Authority’s requirements for L/I Products.

**Q: Can L/I Products be offered to retail investors in Singapore?**

**A:** L/I Products would need to meet the applicable eligibility requirements to be offered to retail investors in Singapore.

**Q: What are the applicable eligibility requirements for L/I Products? Are there specific requirements that are applicable to L/I Products?**

**A:** L/I Products must comply with the authorisation/recognition and disclosure requirements for collective investment schemes. These are set out in the Securities and Futures Act (Cap.289) (“[SFA](#)”), the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 (“[SFR](#)”) and the Code on Collective Investment Schemes, including Appendices 1 and 5 (“[CIS Code](#)”).

Listed L/I Products are also subject to the rules of the approved exchange.

**Q: Can fund managers classify units in L/I Products as Excluded Investment Products (EIPs), which can then be distributed by intermediaries to individual retail investors without the enhanced regulatory safeguards applicable to more complex investment products (termed as Specified Investment Products, or SIPs) as set out in the Notice on the Sale of Investment Products [SEA 04-N12] and the Notice on Recommendations on Investment Products [FAA-N16]?**

**A:** Fund managers can only classify units in a fund as EIP if it falls within the EIP-definition as set out in Annex 1 of SFA 04-N12 and FAA-N16. Broadly, units in a fund that invests in derivatives as part of its investment strategy (i.e. not purely for hedging or efficient portfolio management purposes), would not fall within the EIP-definition.

**Q: Are there restrictions on the investment strategies that an L/I Product may pursue to achieve its investment objective?**

**A:** An L/I Product may pursue its investment objective by using any of the strategies set out in Appendix 5 of the CIS Code. The manager should consult the Authority if it intends to pursue other investment strategies.

**Q: Are L/I Products labelled differently from other conventional exchange traded funds (“ETFs”)?**

**A:** In Singapore, the term “ETF” is generally associated with a traditional listed fund that tracks the unlevered performance of its underlying index. On the other hand, an L/I Product aims to track a multiple or the opposite of the daily return of its underlying index. To prevent confusion among investors, L/I Products should be clearly differentiated from traditional ETFs. The name of an L/I Product should not contain the term “ETF”, or any other derivative or form of such term. The leveraged/inverse and daily performance reset features of an L/I Product, as well as its leveraged/inverse factor should also be evident in the name of the product.

Listed L/I Products should also have a distinguishing marker on SGX’s trading platform. Further details on the trading counter identification requirements can be found on SGX’s website.

**Q: Are there restrictions on the underlying indices of L/I Products?**

**A:** L/I Products may track any underlying index that complies with Appendix 5 of the CIS Code.

**Q: Are there restrictions on the features of L/I Products?**

**A:** To facilitate better understanding of such products by investors, the Authority expects fund managers to adopt a phased approach in developing and offering such products to investors, starting with L/I Products with lower leverage/inverse factors. A fund manager should consult the Authority if it intends to offer an L/I Product that exhibits more novel characteristics or provides a high leverage factor, such as one that targets a return of three times or more of the returns of the underlying index on a daily basis.

**Q: Are there additional requirements on the management and marketing of L/I Products compared to traditional ETFs?**

**A:** No. However, as with all other retail investment products, the Authority expects the offering documents to contain clear and prominent disclosures and to highlight key information that investors would reasonably require to make an informed decision. As with all products which may be new or less familiar to investors, investor education should be provided.

- The prospectus for an L/I Product should include a box for important information to facilitate investors' assessment of the unique daily reset features and the difference in risk profile of these products as compared to traditional ETFs. The box should feature prominently before the specific disclosure on the investment objective of the L/I Product.
- The information in the box should stress that the L/I Product is meant for sophisticated investors who manage their portfolios on a daily basis and that it is not appropriate for long term investment.
- The prospectus should also contain prominent disclosures that the L/I Product may be completely uncorrelated to the percentage change of the relevant underlying index over a period beyond one day, especially in periods of volatility.
- Further explanations of how the performance of the L/I Product may vary from the returns of the relevant underlying index for periods longer than a day should also be included in the prospectus to allow investors to understand the nature of the L/I Product. The use of diagrams such as tables and graphs is encouraged.

The product highlights sheet of an L/I Product should also provide the above information.

**Q: Are there any additional requirements on the format and timeline for submissions for authorisation or recognition of L/I Products?**

**A:** L/I Products will be subject to the same submission format and timeline as other collective investment schemes.

## **ASEAN CIS Framework**

**Q: Where can I find information on the regulatory requirements under the ASEAN CIS Framework?**

**A:** Information on the ASEAN CIS Framework can be found in the following documents which are available on the official website of the ASEAN Capital Markets Forum, [http://www.theacmf.org/ACMF/webcontent.php?content\\_id=00017](http://www.theacmf.org/ACMF/webcontent.php?content_id=00017):

- (i) Standards of Qualifying CIS,
- (ii) Handbook for CIS Operators of ASEAN CISs, and
- (iii) Frequently Asked Questions on the ASEAN CIS Framework