INVESTMENT MANAGEMENT
ASSOCIATION OF SINGAPORE

FEEDBACK TO THE MAS CONSULTATION PAPER

PROPOSED AMENDMENTS TO CODE ON COLLECTIVE INVESTMENT SCHEMES

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RESPONSE TO CONSULTATION PAPER

Consultation Topic:	Proposed Amendments to Code on Collective Investment Schemes
Name[1]/Organisation: [1]if responding in a personal capacity	Investment Management Association of Singapore (IMAS)

General comments:

We are generally supportive of the proposed amendments to the Code on Collective Investment Schemes ("CIS Code"). We also believe that these proposed amendments should be applied to investment-linked products ("ILP") sub-funds issued under the MAS 307 so that there is a levelplaying field. This will also help to eliminate any ambiguity as some ILPs may feed into unit trusts which are complying with the CIS Code.

To improve the operational effectiveness of collective investment schemes ("CIS"), we would like to propose the allowance to issue a prospectus with no expiry date. The Securities Commission of Malaysia ("SC") has recently adopted this approach under its Enhanced CIS Framework. We suggest for the MAS to consider adopting a similar approach so as to reduce the administrative burden on fund management companies ("FMC").

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.

We are of the view that a Precious Metals Fund should be able to invest in more than one type of precious metal, otherwise it is no different from a gold fund which currently exists. This allows for risk diversification in the event that gold supply is disrupted while the supplies of other precious metals remain unchanged.

In view of the fact that the risks associated with silver/platinum may be less understood than the risks associated with gold, and that retail investors may be less familiar with these precious metals, an NAV cap on a Precious Metals fund's direct investments in silver and/or platinum for a start is sound. For greater clarity, we would like to propose that this limit is confined to direct exposure to the precious metals (including derivatives or arrangements involving precious metals), and excludes securities of companies whose business relates to silver and/or platinum. In our view, an investment in such equities should be treated as an investment in equity. There is currently no sector-specific restriction in the CIS Code restricting equity investments.

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

Credit assessment is an important part of managing a portfolio, usually relating to fixed income investments. However, there are other important factors that affect the investment decisionmaking process (such as investment guidelines, valuation/yield, duration, coupon, issuer concentration, issuer industry, currency risk, country risk, and benchmark where applicable). We are of the view that a detailed description of the investment manager's internal credit assessment process in every fixed income fund's prospectus is not meaningful. Such descriptions may be relevant to money market funds or to high-quality fixed income funds, where credit quality is central to its investment strategy. "High quality" typically refers to fund strategies that invest primarily in debt securities rated at least AA-/Aa3. Additionally, under (b) and (c), we are concerned that there may be too much information disclosed as a fund manager should be allowed the flexibility to keep its proprietary credit assessment model confidential. Moreover, this "mechanical" exercise to disclose credit assessment practices is likely to result in too much overly-complex information that may confuse and/or be disregarded by investors – contradicting the very spirit of the MAS' plain and simple language requirements. Also, introducing and maintaining the disclosures in the Prospectus would translate to unnecessary additional fees charged to the end investors. In consideration of the costs and benefits involved, we are not in favour of this proposal.

Instead, we suggest for investment managers to communicate its internal credit assessment process with the fund trustees, rather than having such details written in a prospectus. This is the current practice for US-domiciled money market funds. We are not aware of any other jurisdictions (US, UK, Europe, Australia) where it is currently a requirement to disclose the investment manager's internal credit assessment process in fund prospectuses.

In the event if the requirements were to be effected, we believe that these disclosure requirements should not be extended to funds solely invested in other instruments, such as equity or financial derivatives. We also seek the MAS' confirmation that any subsequent changes to a fund manager's credit assessment practices will not be deemed as a change that may materially affect the risks and returns of a CIS, which the fund manager will need to inform the MAS and existing participants of the change as soon as practicable, in accordance with Chapter 3.2e) ii) of the CIS Code.

Additionally, for clarification, we would like to better understand the MAS' expectation on the level of details required for disclosure. For instance, while disclosing events that would trigger a review may be useful, tools and metrics used in each credit assessment may be technical and sensitive corporate information. Also, would the MAS expect such disclosures to be included in the Product Highlight Sheets ("PHS")?

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.

We believe that some FMCs can find it operationally challenging to extract and report such detailed data breakdown as certain granular details proposed under paragraph 3.4 (c) and (d) are

not common data stored or captured by financial systems / applications. Depending on the scale of the fund manager's business activities and operations in Singapore, not all fund managers have the system capabilities to reflect the securities lending and repo transactions of their CIS. Only the books of their service providers (i.e. custodians and fund administrators) would reflect the securities being lent out. Furthermore, we question the value of the additional proposed disclosure requirements to end investors. Given the technical nature of the additional proposed data to be disclosed, the data may not be meaningful and useful to the end investors to help them make appropriate investment decisions.

We are concerned about the lack of consistency with the rules regulating overseas markets. Based on our knowledge, some of the foreign regulators (for example, the Securities and Futures Commission ("SFC") in Hong Kong) recognise that the financial reports of funds domiciled in certain overseas jurisdictions (for example, Luxembourg) may vary in content, and they would generally review such reports on the basis that they have already complied in substance with the local disclosure contents. Imposing additional disclosure requirements to the financial report of Recognised schemes would invariably add to the fund's reporting / auditing costs (therefore decreasing investors' returns) and may also give rise to other potential issues regarding disclosure requirements of the home regulator. Given that numerous fund houses' operations are global in nature, disclosure requirements for securities lending and repo transactions should be harmonised across jurisdictions for consistency.

We believe that the current disclosure requirements on securities lending and repo transactions carried out by fund managers set out in Paragraph 8.8 and 8.9 of Appendix 1 - Investment: Core Requirements of the MAS Code on CIS (which are in line with the required disclosures in major jurisdictions such as the EU and Hong Kong) are sufficient. To further enable end investors to assess the risks with respect to securities lending and repo transactions undertaken by funds, the MAS can instead consider requiring investment managers to disclose information that is simple and easily understandable. For example, information on the percentage of securities lending and repo transactions out of the total AUM of the fund, etc.

Should the proposed requirements become effective, we seek clarification on the following:

1. Would the additional disclosure cover reverse repo?
2. What would constitute as acceptable collateral?
3. For the top 10 collateral securities, should this be based on the dollar value turnover of collateral, OR the largest market value collateral held at a specific point in time?
4. For the top 10 counterparties of securities lending and repo, please clarify the basis to determine the ranking.

Question 4: MAS seeks comments on the proposal to extend the additional disclosure requirements under the CIS Code to Recognised funds.

For Recognised funds, some of the proposed disclosures and reporting requirements are different from the funds' home jurisdictional requirements. For example, disclosure of legal opinion regarding the enforceability of netting provisions is not a requirement in the United States.

Currently, additional information is disclosed in the wrapper prospectus to assist Singapore investors to make informed decisions before they invest into these Recognised funds. In relation to annual reports and/or semi-annual reports, they are prepared in accordance to the accounting requirements in the home jurisdictions. There is only one set of annual reports prepared and this report is used for all investors globally. It does not make sense to impose the additional disclosure requirements in the annual and semi-annual r

eports as the premise for recognition of offshore funds is that the MAS is comfortable with the regulations imposed by the home jurisdictions of these offshore funds. It seems contrary that we force the offshore funds to comply with the local requirements by asking them to prepare the annual or semi-annual reports of Recognised funds according to Singapore requirements.

There will also be practical challenges in obtaining additional information because they are not required to be disclosed at the funds' home jurisdictions. For instance, we mentioned of the proposed disclosure earlier (stipulated in paragraph 3.5 of the consultation, referring to paragraph 8.6 of the CIS Code) requiring fund managers to obtain legal opinion. In the case of Recognised funds, we understand that this is currently not a practice / requirement for the funds' home jurisdictions. When implemented in Singapore, we are concerned whether obtaining such an opinion for widely distributed funds can be achieved, and if so, the cost involved. Since this affects Recognised funds, obtaining a legal opinion on such scale could also pose implementation challenges.

One suggestion would be to have a carve-out where the governing law of the International Swaps and Derivatives Association ("ISDA") and the counterparty is domiciled in a jurisdiction where the enforceability of ISDA netting provisions is well-recognised (such as the United States and the European Union). In these cases, it should not be necessary for a separate legal opinion to be obtained.

In view of the above-mentioned, we would like to request the MAS to consider not implementing this proposal.

In the event should this proposal be implemented, we would like to seek clarification whether the proposals will only be applied to newly added Recognised funds, or whether they will also be extended to existing Recognised funds which have been renewed just before the issuance of the revised CIS Code.

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.

IMAS is of the view that as far as best principles are concerned, the RDPA has achieved its objective to provide best principles without being overly-prescriptive on definitions and computation methods. As there is no one-size-fits-all approach, firms need to make their own assessments on which method is most appropriate and justifiable, for their circumstances. IMAS members generally agree that the RDPA is useful to the industry. Some members have raised the following feedback and concerns, for the MAS' consideration.

Timeline - As the RDPA is a freshly issued document which is being tested by the industry, there should be opportunities provided for the RDPA to undergo relevant fine-tuning to enable an optimal outcome for investors and product issuers. Furthermore, the disclosures are not currently requirements of the Recognised funds' home jurisdictions, and a lot of time and efforts are anticipated to be needed in collating and generating the data. We would like to suggest an implementation timeline of at least 6 months from the issuance of the revised CIS Code to provide us with sufficient lead time to prepare the needful.

Interpretation and clarification on disclosures - Members sought more guidance on the RDPA, for the MAS' consideration.

Clarity on terminology

Members sought further clarity on the following terms:

- "Income" and "capital" — The current definition of "income statistics" in the RDPA refers to "numbers, percentages, ratios and figures describing the investment returns of a CIS" and seems broader than the term "income" would suggest. Would performance figures disclosed in fund factsheets, for instance, be captured within the definition of "income statistics"?

- Annualised volatility of total return of the strategy — Should it be volatility of the fund instead?

- Underlying portfolio yield;

- Computational method of average distribution since inception;

- Computational method of "net distributable income" —

  For example, in the document from the SFC (Hong Kong) — "Frequently Asked Questions on the Code on Unit Trusts and Mutual Funds", they have prescribed "net distributable income" as set out below. Is this an acceptable understanding (of this income statistic)?

  "Net distributable income" means net investment income (i.e. dividend income and interest income net of fees and expenses) attributable to the relevant share class and may also include net realized gains (if any) based on unaudited management account. However, "net distributable income" does not include net unrealized gains. "Net distributable income" which is not declared and paid as dividends in a period of a financial year would be carried forward as net distributable income for the next period(s) within the same financial year. "Net distributable income", for the purpose of this dividend composition information document does not include any income equalisation adjustments.

Further clarifications

i. Can marketing materials sent to investors located overseas and materials used for training fund distributors / intermediaries be exempted from compliance to the disclosure requirements? If this can be exempted, it would be useful for the industry to know, so as to ensure consistency across fund managers.

ii. Would the MAS be including the salient points mentioned in the RDPA and CBPA in the Third Schedule to the Securities and Futures (Offers of Investments) ("CIS") Regulations 2005 for prospectus?

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

We have no comment on this proposal.

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

We have no comment on this proposal.

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.

We support the proposal to have most funds subject to the same redemption cycle for operational simplicity. Under normal circumstances, a redemption cycle of 7 business days works well. However, feeder funds are put under very tight timeline constraints when a public holiday occurs in the market where the underlying fund is domiciled. Redemption monies from the underlying fund may potentially be delayed, resulting in a knock-on effect for the feeder fund and down the line from the fund manager to the distributor. This in turn will negatively affect the distributors' ability to credit the redemption monies to the end-investor clients within the 7 business days' timeline.

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.

We have no comment on this proposal.

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.

We have no comment on this proposal.

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

We have no comment on this proposal.

END