

Notice No.: MAS Notice FHC-N125 (Amendment) 2024

Issue Date: 3 December 2024

NOTICE TO DESIGNATED FINANCIAL HOLDING COMPANIES FINANCIAL HOLDING COMPANIES ACT 2013

INVESTMENT ACTIVITIES

Introduction

- 1 For presentational purposes, the amendments in this document are compared against the version of the MAS Notice FHC-N125 on Investment Activities dated 29 June 2022.
- 2 This document shall be interpreted as follows:
 - (a) Text which is coloured and struck through represents deletion which will not appear in the untracked version of MAS Notice FHC-N125 revised on 3 December 2024, which is published on MAS' website www.mas.gov.sg ("Published Version"); and
 - (b) Text which is coloured and underlined represents insertion which will appear in the Published Version.
- 3 The amendments reflected in this document shall take effect on 1 January 2025.
- 4 This document is to be used for reference only. In the event of discrepancies between the amendments in this document and the Published Version, the Published Version shall prevail.

MAS Notice No.: FHC-N125

Issue Date: 29 June 2022

Last revised on 3 December 2024

NOTICE TO DESIGNATED FINANCIAL HOLDING COMPANIES FINANCIAL HOLDING COMPANIES ACT 2013

INVESTMENT ACTIVITIES

Introduction

1. This Notice is issued pursuant to section 60(1) of the Financial Holding Companies Act 2013 (the “Act”) and applies to all designated financial holding companies that have a subsidiary that is a licensed insurer incorporated, formed or established in Singapore (“DFHC (Licensed Insurer)”).

1A. This Notice must be read in conjunction with the provisions of the Act. It is not intended to override any provision of the Act.

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2. This Notice sets out the basic principles that governs a DFHC (Licensed Insurer)’s oversight of the investment activities within the FHC group, including the investments of any entity that is not regulated by the Authority within the FHC group.
3. Paragraphs 12 to 13 and 20 to 29 do not apply in respect of the unit reserves of investment-linked policies in Singapore or the equivalent of such reserves elsewhere of any entity within the FHC group.

[MAS Notice FHC-N125 (Amendment) 2024]

Definitions

4. In this Notice:

“annual report” means a report of a DFHC (Licensed Insurer), including any statement of account, for each financial year issued to the members of the DFHC (Licensed Insurer).

“counterparty” has the same meaning as in regulation 2(1) of the Insurance (Valuation and Capital) Regulations 2004;

“derivative” has the same meaning as in MAS Notice [FHC-N133](#);

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“economic capital” means the capital needed by the FHC group on a consolidated basis to satisfy the risk tolerance and support the business plans of the FHC group and which is determined from an economic assessment of the FHC group’s risks on a consolidated basis, the relationship of these risks and the risk mitigation in place;

“efficient portfolio management”, in relation to a derivative transaction, has the meaning given in paragraph 27;

“hedging” means the reduction of investment risk through engaging in a transaction for a derivative on an investment where there is a high degree of negative correlation between the changes in value of the derivative and changes in value of the hedged investment;

“liquid assets” means assets that are readily converted into cash at a value close to its fair price under normal market condition.

5. The expressions used in this Notice, except where expressly defined in this Notice or where the context otherwise requires, have the same meanings as in the Act.

Board of Directors and Senior Management Oversight

6. A DFHC (Licensed Insurer) must establish an investment policy for the FHC group and ensure that the investment policy is approved by the board of directors of the DFHC (Licensed Insurer). The DFHC (Licensed Insurer) must also ensure that its board of directors, at all times, exercises oversight to ensure that the interests and rights of stakeholders¹ are not compromised.
7. A DFHC (Licensed Insurer) must ensure that the investment policy for the FHC group includes the elements set out in Appendix A [and ensure that its investments are carried out in accordance with its investment policy](#).

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¹ For example, policyholders and shareholders.

8. A DFHC (Licensed Insurer) must establish a committee that is approved by its board of directors to oversee the investment activities within the FHC group (the "Investment Committee").
9. A DFHC (Licensed Insurer) must ensure that the Investment Committee comprises of members of the DFHC (Licensed Insurer)'s senior management.
10. A DFHC (Licensed Insurer) must ensure that all members of the Investment Committee have the appropriate expertise on investments and insurance risks.
11. A DFHC (Licensed Insurer) must ensure that its board of directors reviews at least annually, the adequacy and relevance of its investment policy for the FHC group in terms of overall risk tolerance, long-term risk-return requirements and solvency position and ensures that it is appropriate for the FHC group's activities and risk profile.

Reports to the Board of Directors

12. A DFHC (Licensed Insurer) must ensure that the Investment Committee prepares the reports on the investment activities of the FHC group and reports at least once every quarter, to ~~its~~^{the} board of directors. If the board of directors delegates authority to the Investment Committee to make investment decisions on its behalf, the DFHC (Licensed Insurer) must ensure that the Investment Committee reports any decision of material consequence –

- (a) at the next meeting of the board of directors; and
- (b) within three months of such decision made by the Investment Committee.

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13. In addition to the above reports, a DFHC (Licensed Insurer) must ensure that the Investment Committee reports to the board of directors, as soon as (and in any case no later than 2 weeks after) any investment-related activity of material consequence arises, with details of the various issues and the impact on the DFHC (Licensed Insurer) and the FHC group.

Duties of the Investment Committee

14. A DFHC (Licensed Insurer) must ensure that the Investment Committee carries out its duties, which must include, but is not limited to, the following:
- (a) reviewing the investment policy of the FHC group on a regular basis so that it remains appropriate, recognising among other things, changes in business in-force and the economic environment;
 - (b) monitoring and managing investment risk exposures of the FHC group on an aggregated basis;
 - (c) monitoring and managing intra-group investments, in particular, where investment losses incurred by any entity within the FHC group have the ability to weaken the solvency position or reputation, of another entity within the FHC group or the FHC group as a whole;
 - (d) taking into account the impact of liquidity, transferability of assets and fungibility of capital within the FHC group on group solvency and capital requirements;
 - (e) where investments of an entity within the FHC group are managed centrally, ensuring that the investment management unit within the FHC group –
 - i) possesses the requisite knowledge and skills to assess and manage the risks of these investments; and
 - ii) manages the investments with due regard to the needs of both the entity and the FHC group as a whole;
 - (f) deliberating and documenting the basis of asset allocation where investments decisions are made collectively for a few or all of the entities within the FHC group;
 - (g) monitoring the performance of any entity within the FHC group against the FHC group's approved policies and procedures;
 - (h) ensuring resources dedicated to the investment activities of the FHC group are sufficient and equipped with the appropriate skills and knowledge to implement and manage the approved investment policy and any other activities requested by the board of directors;

- (i) establishing, and having oversight of, procedures to ensure that each entity within the FHC group maintains an investment policy that is consistent with the investment policy of the FHC group and which is commensurate to its size, nature and complexity of the business of the entity, unless otherwise exempted by the DFHC (Licensed Insurer) based on clear and documented criteria;
 - (j) establishing, and having oversight of, procedures to ensure that risk management functions and internal controls of each entity within the FHC group are adequate and appropriate for the entity's investment activities.
15. For the purposes of paragraph 14(j), a DFHC (Licensed Insurer) must ensure that each entity within the FHC group implements and maintains adequate risk management systems and controls in respect of the investments of the entity. ~~These, which~~ must ~~include, at the minimum but not be limited to, include~~ ensuring that:—
- (a) there are proper segregation of execution, monitoring and performance measurement functions;
 - (b) the authority of persons entering into, performing or otherwise dealing in investments for and on behalf of any entity within the FHC group, and limits of such authority, are clearly delineated;
 - (c) there are proper performance monitoring procedures;
 - (d) there are continuous risk monitoring procedures;
 - (e) there is timely reporting to management;
 - (f) the investments of ~~the each~~ entity within the FHC group are handled by qualified and properly trained persons capable of assessing the nature, scale and complexity of the associated risks; and
 - (g) there are sound audit procedures to ensure compliance with the FHC group-level and entity-level policies and procedures as well as the applicable statutory requirements.

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Asset-Liability Management

16. A DFHC (Licensed Insurer) must implement policies that are approved by its board of directors in relation to asset-liability management (“ALM”) for the FHC group (“ALM policies”).
17. The DFHC (Licensed Insurer) must ensure that the ALM policies –
 - (a) take into consideration the FHC group’s investment management, product development and pricing functions;
 - (b) are appropriate to the nature, scale and complexity of the risks associated with the assets and liabilities of the individual entity within the FHC group;
 - (c) recognise the interdependence between all of the assets and liabilities of entities within the FHC group and take into account the correlation of risk between different asset classes as well as the correlation between different products and business lines, while recognising that correlations may not be linear; and
 - (d) take into account any off-balance sheet exposures that any entity within the FHC group may have or that the DFHC (Licensed Insurer) may have on an aggregated basis, and the contingency that risks transferred may revert to the entity within the FHC group.
18. A DFHC (Licensed Insurer) must ensure that each entity within the FHC group maintains ALM policies that is consistent with the ALM policies of the FHC group and commensurate to the entity’s size, nature and complexity of the business, unless otherwise exempted by the DFHC (Licensed Insurer) based on clear and documented criteria. The ALM policies maintained by each entity within the FHC group must include [all of the following:—](#)
 - (a) the relationship between the investment strategy and the liability profile of the entity;
 - (b) how the liability cash flows are met by the cash inflows for the entity; ~~and~~
 - (c) how the economic valuation of assets and liabilities for the entity change under an appropriate range of different scenarios.

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19. A DFHC (Licensed Insurer) must ensure that its board of directors reviews, at least annually, the adequacy and relevance of the ALM policies of the FHC group and ensures that it is appropriate for the FHC group's activities and asset-liability profile. If a senior management level committee, other than the Investment Committee, is delegated this responsibility, the DFHC (Licensed Insurer) must ensure that its board of directors defines and documents the roles and responsibilities of the two committees, and their respective reporting structures to ~~the~~its board of directors.

[\[MAS Notice FHC-N125 \(Amendment\) 2024\]](#)

Permitted Derivatives Activities

20. A DFHC (Licensed Insurer) must ensure that each entity within the FHC group only carries out investments in derivatives when the entity is capable of assessing the nature, scale and complexity of the risks associated with those investments.
21. A DFHC (Licensed Insurer) may enter into or effect derivative transactions only for the purposes of hedging or efficient portfolio management for the risk exposures of the FHC group on an aggregated basis.
22. A DFHC (Licensed Insurer) must ensure that any entity within the FHC group that enters into or effects any derivative transaction on behalf of the FHC group does so only for the purposes of hedging or efficient portfolio management for the risk exposures of the FHC group on an aggregated basis.

[\[MAS Notice FHC-N125 \(Amendment\) 2024\]](#)

23. A DFHC (Licensed Insurer) must disclose in its annual report, its accounting policies and exposure to derivatives for the FHC group on a consolidated basis.

[\[MAS Notice FHC-N125 \(Amendment\) 2024\]](#)

Hedging

24. A DFHC (Licensed Insurer) must –
- (a) clearly identify any derivative transaction entered into for hedging purposes;

- (b) ~~ensure that the derivative transaction entered into continues to have the effect of hedging at any stage during the period of the derivative contract, promptly unwind the transaction if the transaction does not have the effect of hedging at any stage during the period of the derivative contract;~~ and
- (c) exercise extra caution whilst hedging foreign currency risk where the underlying investment does not have a fixed payment schedule².

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- 25. ~~A DFHC (Licensed Insurer) must ensure that each entity within the FHC group complies with paragraph 24 as if the reference to DFHC (Licensed Insurer) in that paragraph were a reference to an entity within the FHC group.~~[Deleted by Notice FHC-N125 (Amendment) 2024]
- 26. For the purposes of paragraphs 21, 22, and 24(a), a DFHC (Licensed Insurer) may treat a derivative transaction as having been entered into for hedging purposes if it is not entered into for the main purpose of generating returns and has all the following characteristics:
 - (a) ~~it is not aimed at generating a return;~~ [Deleted by Notice FHC-N125 (Amendment) 2024]
 - (b) it results in an overall verifiable reduction of risk;
 - (c) it reduces the ~~general and specific~~ risks linked to the underlying investment being hedged;
 - (d) it relates to the same asset class being hedged; and
 - (e) it is able to meet its hedging objectives² in all market conditions relevant to the risks being hedged.

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26A. A DFHC (Licensed Insurer) must ensure that each entity within the FHC group complies with paragraph 24 and 26 as if the reference to DFHC (Licensed Insurer) in the paragraphs were a reference to an entity within the FHC group.

² For example, equities.

Efficient Portfolio Management

27. For the purposes of paragraphs 21 and 22, a DFHC (Licensed Insurer) may treat a derivative transaction as having been effected for the purpose of efficient portfolio management if it has the following characteristics:
- (a) it is economically appropriate;
 - (b) its exposure is fully covered such that the DFHC (Licensed Insurer) is able to meet any obligation to pay or deliver;
 - (c) it has one or more of the following aims:
 - i) reduction of risk;
 - ii) reduction of cost with no increase in risk or a minimal increase in risk;
 - iii) generation of additional economic capital or income with no increase or a minimal increase in risk.
28. For the purposes of paragraph 27(a), in determining if the derivative transaction is economically appropriate, a DFHC (Licensed Insurer) must be of the view that –
- (a) where the derivative transaction is entered into for the purpose of reducing risk or cost to the DFHC (Licensed Insurer) or both, it would diminish a risk or cost that is sensible to reduce;
 - (b) where the derivative transaction is entered into for the purpose of increasing economic capital or generating income for the FHC group or any entity within the FHC group, the FHC group or entity within the FHC group, as the case may be, would (barring events that are not reasonably foreseeable) derive a benefit from the transaction.

Prohibitions

29. A DFHC (Licensed Insurer) must not take, and must ensure that the entities within the FHC group do not take, uncovered positions in derivatives. Subject to paragraphs 21

and 22, a DFHC (Licensed Insurer) must ensure that a derivative transaction that gives rise, or may give rise, to future commitments, is covered as follows:

- (a) in the case of a derivative transaction that will, or may at the option of the DFHC (Licensed Insurer) or the entity referred to in paragraph 22, as the case may be, be cash settled, the DFHC (Licensed Insurer) must ensure that the FHC group holds sufficient liquid assets at all times to cover the exposure; and
- (b) in the case of derivative transactions that will, or may at the option of the counterparty, require physical delivery of the underlying assets, the DFHC (Licensed Insurer) must ensure that the FHC group holds the underlying assets in sufficient quantities to meet the delivery obligation at all times. If the DFHC (Licensed Insurer) or the entity referred to in paragraph 22, as the case may be, deems the underlying assets to be sufficiently liquid, the DFHC (Licensed Insurer) or that entity, as the case may be, may hold as coverage other liquid assets in sufficient quantities, provided that such alternative assets can be readily converted into the underlying asset at any time to meet the delivery obligation.

Effective Date

30. This Notice takes effect on 1 July 2022.

Notes on History of Amendments

1. [MAS Notice FHC-125 \(Amendment\) 2024 dated 3 December 2024 with effect from 1 January 2025.](#)

Appendix A

Main Elements of a Written Investment Policy for an FHC Group

The written investment policy for an FHC group must include the following:

- 1 Policy relating to the determination of the strategic asset allocation. This must be done with due regard to asset-liability management³, overall risk tolerance⁴, long-term risk-return requirements and the respective solvency positions of the [DFHC \(Licensed Insurer\) and other](#) entities within the FHC group ~~and the FHC group~~.

[\[MAS Notice FHC-N125 \(Amendment\) 2024\]](#)

- 2 Policy relating to the establishment of limits for the allocation of assets by [type of asset, credit rating](#), geographical area, markets, sectors, counterparties and currency for the FHC group. In establishing the limits, a DFHC (Licensed Insurer) must ensure adequate diversification within a risk category and between different risk categories. Diversification within a risk category occurs where risks of the same type are pooled (e.g. shares relating to different companies). Diversification between risk categories is achieved through pooling different types of risk (e.g. when two asset portfolios whose performances are not fully correlated are combined, the exposure to the aggregated risks will generally be lower than the sum of the exposures to the risks in the individual portfolios).

[\[MAS Notice FHC-N125 \(Amendment\) 2024\]](#)

- 3 Overall policy on the selection of individual securities and other investment titles. A DFHC (Licensed Insurer) must ensure that the overall policy for the FHC group results in investments where the associated risks of the asset can be properly managed by the DFHC (Licensed Insurer) or any other entity within the FHC group responsible for managing the investments of the group, including but not limited to identifying, measuring, monitoring, controlling and reporting those risks and appropriately taking them into account in the FHC group's own risk and solvency assessment. In particular, a DFHC (Licensed Insurer) must identify and analyse assets that are lacking in transparency, including those inherent to the investment structure. A DFHC (Licensed

³ A DFHC (Licensed Insurer) should consider investment guarantees and embedded options that are contained in its policies, and the currency or currencies of its liabilities and the extent to which they are matched by the currencies of the assets.

⁴ A DFHC (Licensed Insurer) should consider various types of risks, including but not limited to, risk of counterparty default, deterioration in value (including currency risk).

Insurer) must ensure that all entities within the FHC group identify and adequately cover potential obligations to make future payments under such assets.

- 4 Policy for the adoption of passive or more active investment management⁵ in relation to each level of decision-making. In the case of active management, the policy must define the scope for investment flexibility, usually through the setting of quantitative asset exposure limits.
- 5 Policy relating to the holding or restriction in holding, of some types of assets⁶ and the levels at which such investments can be held by the FHC group on a consolidated basis.
- 6 Policy for maintenance of proper books of account relating to each entity within the FHC group and framework of accountability for all asset transactions. The DFHC (Licensed Insurer) must ensure that the policy for maintenance of proper books of account and framework of accountability for all asset transactions, include a requirement for the books of accounts and framework of accountability to be audited at least yearly.
- 7 Policy for safe-keeping of assets, including custodial arrangements and the conditions under which investments may be pledged or lent, at both the entity and FHC group levels.
- 8 Policy relating to risk management in respect of the investment activities of all entities within the FHC group.
- 9 Policy guiding investments of the entities within the FHC group, with due regard to regulatory requirements relating to ALM, overall risk tolerance and solvency position of the entities within the FHC group.

⁵ Passive management refers to the situation where investment transactions are undertaken in order to maintain a predefined strategic mix between asset categories, or within an asset category, possibly in accordance with market indices. Active management, on the other hand, refers to the situation where transactions are undertaken in order to deliberately deviate from the predefined strategic mix to achieve a risk-return profile different from that implied by the strategic portfolio composition. This may take place at various levels, for example by changing the portfolio mix between equities and fixed income investment; altering the geographical allocation; or, in an equity portfolio, over- and underweighting of shares against an index; and, in a fixed income portfolio, increasing or decreasing the duration of the portfolio.

⁶ For example, the disposal of the asset could be difficult due to the lack of liquidity of the market or where independent (i.e. external) verification of pricing is not available.

10 Consideration of whether the formulation of a counterparty risk appetite statement is necessary. The factors to be taken into consideration must include (but not be limited to):

- (a) considerations of the size of the counterparty exposures of the DFHC (Licensed Insurer) and entities within the FHC group, both in absolute terms and relative to the FHC group's portfolio, according to type of asset, credit rating, geographical area, markets, sectors, counterparties and currency, as well as the complexity and form of these exposures;
- (b) whether the counterparty is a financial sector counterparty, as these counterparties are more likely to contribute to the build-up of systemic risk, and
- (c) off-balance sheet exposures or commitments of the DFHC (Licensed Insurer) and entities within the FHC group, which may be more likely to arise during events of stress⁷.

[MAS Notice FHC-N125 (Amendment) 2024]

11 Where the formulation of the counterparty risk appetite statement is necessary, the content of such statement⁸. The DFHC (Licensed Insurer) and entities within the FHC group must set out the level of risk⁹ that it is willing to accept when a counterparty is unable to meet its obligations as they fall due in its counterparty risk appetite statement.

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⁷ For example, severe economic or market conditions.

⁸ For example, the DFHC (Licensed Insurer) can consider whether the counterparty risk appetite statement should include appropriate limits for certain industries, economic sectors and geographic regions to manage concentration risk.

⁹ For example, reductions in fair value or impairment of investments, loss of reinsurance cover, open market exposures or the loss of securities that have been loaned.