



Circular No. CFD 01/2023

31 October 2023

To:

All holders of a capital markets services licence in respect of fund management

Dear Sirs

MODIFICATION TO THE ACCEPTABLE INDEX REQUIREMENTS AND THE BENCHMARK LIMITS UNDER THE CODE ON COLLECTIVE INVESTMENT SCHEMES

1 The Code on Collective Investment Schemes (the “**Code**”) currently allows an authorised scheme whose reference benchmark complies with sections 4 and 5 of Appendix 5 of the Code (the “**acceptable index**”) to avail itself of higher single entity and group limits (“**Benchmark Limits**”) where the scheme may invest in a transferable security that is a constituent of the reference benchmark, up to the higher of the 10% single entity limit¹ or two percentage points above its benchmark weight, where the weighting of such constituent in the benchmark should not exceed 20%. Where the foregoing single entity limit is in excess of the 10% single entity limit, the group limit² of 20% may be raised to 25% of the scheme’s NAV.

2 MAS has received feedback from the industry that authorised schemes may face constraints in availing themselves of the Benchmark Limits in markets where certain issuers are highly dominant. In these markets, widely-accepted market benchmarks may not be able to qualify as an acceptable index given the requirement for an acceptable index to be “sufficiently diversified”². Existing authorised schemes that had used the Benchmark Limits to construct their portfolios to closely replicate the weighting of the constituents of their reference benchmarks also face challenges when their reference benchmarks cease to be an acceptable index due to an increase in the weight of a dominant constituent in the benchmark.

¹ Paragraph 2.1 of Appendix 1 of the Code states that investments in transferable securities or money market instruments issued by a single entity should not exceed 10% of the scheme’s net asset value (“**NAV**”); and aggregate investments in a group of entities should not exceed 20% of the scheme’s NAV.

² This refers to the requirement under Paragraph 4(e)(i) of Appendix 5 of the Code for the index to be sufficiently diversified such that the maximum weighting per constituent does not exceed 20%.

3 Taking into account the challenges faced by authorised schemes in selecting reference benchmarks that comply with the acceptable index requirement, MAS will raise the threshold for the “sufficiently diversified” requirement for an acceptable index to allow the maximum weighting for one (1) single “exceptional” constituent to be raised to 35%. The remaining constituents’ weights will still be capped at 20% each. This higher maximum weighting limit will only apply under exceptional conditions³ in markets where certain securities are highly dominant.

4 For the avoidance of doubt, an authorised scheme whose reference benchmark is an acceptable index may only avail itself up to the Benchmark Limits under paragraph 1 of this Circular, unless the scheme falls within the scope of an Index Fund as defined in paragraph 1 of Appendix 5 of the Code⁴, in which case the scheme may invest in the transferable security that is the one (1) single “exceptional” constituent, up to two percentage points above the benchmark weight subject to a cap of 35%.

Yours faithfully

KEE RUI XIONG
EXECUTIVE DIRECTOR
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³ The prospectus of the scheme should contain disclosures on the manager’s justification of the exceptional conditions in the relevant market.

⁴ This refers to a scheme whose principal objective is to track, replicate or correspond to an index on permissible investments, commodities, interest rates, foreign exchange rates or currencies, with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the index.