Code on
Collective Investment Schemes

Issued by:

The Monetary Authority of Singapore

FIRST EDITION
23 May 2002

(Last updated 28 September 2007)

Contents

Appendices

Incorporated 22 Dec 2006

1 Introduction

This Code on Collective Investment Schemes ("**Code**") is issued by the Monetary Authority of Singapore ("**Authority**") pursuant to section 321 of the Securities and Futures Act (Cap. 289) ("**SFA**"). This Code is nonetheless non-statutory in that a failure by any person to comply with any requirement in this Code shall not of itself render that person liable to criminal proceedings. However, a breach of this Code by the responsible person of a scheme may be taken into account by the Authority in determining whether to revoke or suspend the authorisation/recognition of the scheme under section 286/287 of the SFA and/or to refuse to authorise/recognise new schemes proposed to be offered by the same responsible person. Similarly, a breach of this Code by an approved trustee may be taken into account by the Authority in determining whether to revoke approval granted under section 289 of the SFA or to prohibit the approved trustee from acting as trustee for any new scheme.

1.2 This Code sets out best practices on the management, operation and marketing of schemes that managers and trustees are expected to observe.

1.3 This Code will come into operation on 1 July 2002.

2 Interpretation

2.1 Unless the context otherwise requires, the terms in this Code shall have the same meaning as defined in the SFA or the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2002 ("**SFR**").

2.2 For the purposes of this Code,

a) **Deposited property** means the total value of the underlying assets of the scheme.

b) **Discretionary funds** refer to funds managed in-house by the manager, where the manager has substantial input in the investment management process and/or authority to make investment decisions.

c) **Efficient portfolio management** ("EPM"): A transaction is deemed to be for EPM if:
   i) it is economically appropriate;
   ii) the exposure is fully covered (to meet any obligation to pay or deliver); and
   iii) it has at least one of the following aims:
      - reduction of risk;
      - reduction of cost with no increase or a minimal increase in risk; or

- generation of additional capital or income for the scheme with no increase or a minimal increase in risk.

In determining if a transaction is economically appropriate, the manager should have a reasonable belief that:

i) where it is undertaken to reduce risk or cost (or both), it will diminish a risk or cost which is sensible to reduce; and

ii) where it is undertaken to generate additional capital or income, the scheme is certain (barring events which are not reasonably foreseeable) to derive a benefit from this transaction.

d) **Expense ratio** refers to the operating expenses incurred in the management of a scheme, expressed as a percentage of its net assets. It should be calculated in accordance with the guidelines issued by the Investment Management Association of Singapore. Those guidelines require that charges and costs arising from the acquisition and disposal of investments, their capital appreciation or depreciation and the income of a scheme should be excluded from the calculation. All other expenses relating to the ongoing management and operation of the scheme should be included.

e) **Fellow subsidiary**: C, but not X, is a fellow-subsidiary of B in the following corporate group structure: A company has two subsidiary companies B and C by way of a direct shareholding. C in turn has a subsidiary company X.

f) **Holding company**: The holding company of a company or other corporation shall be read as a reference to a corporation of which that last-mentioned company or corporation is a subsidiary. *Incorporated 22 Dec 2006*

g) **Net asset value** ("NAV") means the total assets less total liabilities (excluding unitholders' interest if this is classified as a liability). *Revised 1 Mar 2004*

h) **Quoted securities** means listed securities and unlisted debt securities that are traded on an organised over-the-counter market which is of good repute and open to the public. *Incorporated 1 Mar 2004*

i) **Related corporation** refers to any corporation, including any bank, which is related (as defined in section 6 of the Companies Act, Cap.50) to the manager.

j) **Soft dollar commissions/arrangements** (hereinafter referred to as "soft dollars") refer to arrangements under which products or services other than the execution of securities transactions are obtained from or through a broker in exchange for the direction by the manager of transactions to the broker. Soft dollars includes research and advisory services, economic and political analyses, portfolio analyses, market analyses, data and quotation

services, and computer hardware and software used for and/or in support of the investment process of managers.

k) **Subsidiary**: A company is a subsidiary of another company if that other company holds more than half of the issued share capital of the first-mentioned company. *Incorporated 22 Dec 2006*

l) **Turnover ratio** means the number of times per year that a dollar of assets is reinvested. It should be calculated based on the lesser of purchases or sales of underlying investments of a scheme expressed as a percentage of daily average NAV.

Authorised Schemes

3 The Trustee

3.1 Conditions for appointment

The trustee should be independent of the manager.

3.2 Functions and responsibilities

The trustee should conduct all transactions with or for a scheme at arm's length.

3.3 Operational obligations

Informing the Authority of breaches

a) The trustee should inform the Authority of any breach of section 289(3) of the SFA within 3 business days after the trustee becomes aware of the breach.

Sending of accounts and reports *Incorporated 22 Dec 2003*

b) The trustee should send, or cause to be sent, to participants –

i) the semi-annual accounts and semi-annual report relating to the scheme within 2 months from the end of the period covered by the accounts and report; and

ii) the annual accounts, report of the auditors on the annual accounts and annual report relating to the scheme within 3 months from the end of each financial year of the scheme.

Such accounts and reports may be sent to participants by electronic means if the participants have given consent to receive them in such a manner. *Incorporated 21 Mar 2005*

Submissions to the Authority on termination or maturity of schemes *Incorporated 21 Mar 2005*

c) The trustee should send to the Authority, within 2 weeks of the termination date of the scheme (i.e. such termination date as stated in the notification sent to participants to inform them of the proposed termination of the scheme) or, in the case of a scheme with a fixed maturity date, within 2 weeks of the maturity date of the scheme –

i) a statement to the effect that all assets of the scheme as at the date of termination or maturity have been realised and the resultant proceeds (net of outstanding liabilities) have been distributed to participants in the same proportion as their holdings of units in the scheme. Where liabilities have not been settled but have been accrued to the scheme and excluded from final distribution made to participants, the trustee should include:

- a statement of that fact;

- a description of those outstanding liabilities; and
- where the amount accrued is an estimate, a statement of how the trustee intends to settle the balance between that estimate and the final liability amount; and

ii) a statement affirming that since the end of the financial year covered by the last set of annual accounts and annual report, the manager has, in all material respects, managed the scheme in accordance with the limitations imposed on the investment and borrowing powers set out in the trust deed, laws and regulations and otherwise in accordance with the provisions of the trust deed.

d) A copy of the statements should be kept by the trustee at its registered office for a period of 6 years and made available to any participant (who was a participant of the scheme during the period between the end of the financial year covered by the last set of annual accounts and annual report, and the termination or maturity date) at the request of the participant.

4 The Manager

4.1 Functions and responsibilities

Records to be kept

a) The manager should maintain a record of the instructions, if any, to the trustee as to how votes in relation to investments of a scheme should be exercised.

b) The manager should maintain a record of all soft dollars received.

Payments from the property of the scheme

c) The manager should not pay or cause to be paid any fees out of the property of the scheme that have not been provided for in the constitutive documents of the scheme.

d) The manager should not pay or cause to be paid any marketing or promotion expenses out of the property of the scheme. Such expenses include those for advertisements in the media, mailers, fact sheets, but exclude those for the preparation, printing, lodgement and distribution of prospectuses or profile statements.

Transactions with related parties

Revised 1 Mar 2004

e) The manager should not invest the monies of the scheme in the manager's own securities or those of any of its related corporations. For the avoidance of doubt, this prohibition does not extend to collective investment schemes managed by the manager or its related corporations. The manager of a scheme which is benchmarked against a widely accepted index constructed

by an independent party and approved by the Authority may invest the monies of the scheme in the manager's own securities or those of any of its related corporations up to the weight of those securities in such index.

f) The manager should not lend monies of the scheme to related corporations. For the purposes of this requirement, deposits made with banks licensed under the Banking Act, Cap.19 and any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction, in the ordinary course of business of the scheme, shall not be construed as monies lent.

g) The manager should not purchase real estate assets owned by the manager or its related corporations for the scheme unless such purchases are allowed by the Property Fund Guidelines.

Transactions at arm's length

h) The manager should conduct all transactions with or for a scheme at arm's length.

Arrangements for participants to receive accounts, reports and statements

Incorporated 29 Aug 2002

i) For participants who purchase units in the scheme through a distributor and whose names will not be entered on the register of the scheme, the manager should require the distributor to put in place arrangements for such participants to receive the accounts, reports or statements (as applicable) referred to in regulation 8(1)(b)(iii) of the SFR.

4.2 Operational obligations

Payment of redemption proceeds

a) The manager should pay out, or cause to be paid out, redemption proceeds to the participants of a scheme within T+4 business days for bond and money market schemes and T+6 business days for other types of schemes, or within such longer period as the Authority may allow for the foregoing types of schemes. For a scheme which invests all or substantially all of its deposited property in another scheme, the manager should pay out redemption proceeds within T+7 business days. For property funds, the manager should pay out redemption proceeds within the period allowed under the Property Fund Guidelines. For hedge funds, the manager should pay out redemption proceeds according to what is stated in the prospectus as required under Appendix 4 of the Third Schedule of the SFR as amended by Amendment No.2 on 5 Dec 2002. A redemption request is considered received on day T if it is received with all requisite documents and information by the close of dealing as specified in the prospectus. Proceeds are considered paid on the day the account of the participant is credited or a cheque is mailed to the participant. [For the avoidance of doubt, a "participant" means the end-investor who is the beneficial owner of

Revised 21 Mar 2005

the units and not a distributor or a Central Provident Fund ("CPF") Agent Bank.]

Preparation of accounts and reports

Revised 21 Mar 2005

b) The manager should prepare, or cause to be prepared, the semi-annual accounts, annual accounts, semi-annual report and annual report relating to the scheme in accordance with paragraph 7 below. The manager should prepare and furnish to the trustee the accounts and reports in sufficient time for the trustee to cause them to be audited (where an audit is required) and sent to participants within the time stipulated in paragraph 3.3(b).

Exercise of voting rights where there are conflicts of interest

Revised 22 Dec 2006

c) The manager should, in respect of voting rights relating to investments of a scheme where the manager would face conflicts of interests, cause these votes to be exercised in consultation with the trustee.

Notice to existing participants of significant changes

d) The manager should inform existing participants of any significant change to be made to a scheme not later than one month before the change is to take effect.

Incorporated 22 Dec 2006

Examples of significant changes include, but are not limited to, the following:

i) a change in the investment objective or focus of the scheme or in the investment approach of the manager as stated in the prospectus or trust deed, where "investment approach" refers to how the manager selects securities for the portfolio of the scheme;

ii) an increase in the remuneration payable to the manager or trustee (even where the remuneration is not increased beyond the maximum amount provided for in the trust deed or prospectus) or a change in the basis upon which such remuneration is determined;

iii) an increase in any other fees or charges payable out of the scheme property that are substantial (i.e. fees that are 0.1% or more of the scheme's NAV) or in any fees or charges payable by the participants, unless the trustee certifies that the increase in such fees or charges are not material;

iv) an amendment to the trust deed or prospectus to allow a new form of remuneration or expense payable out of the scheme property;

v) the replacement, removal or appointment of a new manager, sub-manager, investment adviser or trustee to the scheme;

vi) a variation in the rights or obligations of participants as set out in the trust deed and prospectus, where the variation is materially prejudicial to participants. Where there is doubt as to whether such variation would be prejudicial to participants, advance notification to participants is not required if the trustee certifies that the variation is not materially prejudicial to participants;

vii) a change from direct investment to feeder fund structure or vice versa;

viii) a change referred to in sub-paragraphs (i) to (vii) in relation to an underlying fund into which the scheme feeds substantially (i.e. 30% or more of the NAV of the scheme), where the underlying fund is offered by the manager or one of its related parties. The manager must take reasonable steps to obtain prior notification of any material change in relation to the underlying scheme. Where such prior notification is neither possible nor practicable, the manager should notify participants of the change in relation to the underlying scheme as soon as he becomes aware of the change.

Extraordinary resolution of participants for changes to the trust deed

e) The manager should obtain an extraordinary resolution of participants for any modification of the trust deed unless the trustee certifies that: *Incorporated 22 Dec 2006*

i) the modification does not materially prejudice the interests of participants and does not release to any material extent the manager from any responsibility to the participants; or

ii) the change to the scheme or rights or obligations of participants, which requires a modification to the trust deed, is necessary in order to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law); or

iii) the modification is made to remove obsolete provisions or to correct manifest errors.

Report of breaches

f) The manager should inform the Authority of any breach of the Guidelines set out in the Appendices including those on borrowing limits and investments which are due to circumstances beyond its control, such as those arising from appreciation or depreciation of the deposited property of the scheme. The manager should do so within 3 business days after the manager becomes aware of the breach. Any breach of the investment guidelines and borrowing limits for which a time period for rectification has been provided for in the relevant Appendix to this Code, need not be reported to the Authority so long as the breach is rectified within the time *Revised 21 Mar 2005*

allowed by the Authority. This also applies to any obligation of the trustee under regulation 7(1)(a) of the SFR.

Cash rebates and soft dollars

g) The manager should not retain for its own account, cash or commission rebates arising out of transactions for the scheme executed in or outside Singapore.

h) The manager should not receive soft dollars in the management of the scheme unless the following requirements are met:

i) the soft dollars received can reasonably be expected to assist in the manager's provision of investment advice or related services to the scheme;

ii) transactions are executed on the best available terms, taking into account the market at the time for transactions of the kind and size concerned; and

iii) the manager does not enter into unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft dollars.

The receipt of goods and services such as travel, accommodation and entertainment do not fall within the definition of "soft dollars" and is therefore prohibited.

Incorporated 21 Mar 2005

CPF failed trades

i) The manager should not charge any costs arising from CPF failed trades to the scheme.

4.3 Management of scheme property by another fund manager; Investment of scheme property in schemes offered by other fund managers

4.3.1 The manager of a scheme seeking authorisation:

a) may contract for part or all of the deposited property of the proposed scheme to be managed by another fund manager ("a sub-managed scheme"); or

b) may invest part or all of the deposited property of the proposed scheme in one or more schemes managed by another fund manager ("a feeder scheme").

$500 million funds managed criteria

4.3.2 The manager applying for authorisation of:

a) a feeder scheme where more than 10% of the deposited property of the scheme will be invested in schemes authorised or registered in a foreign jurisdiction; or

b) a sub-managed scheme where more than 10% of the deposited property of the scheme will be sub-managed abroad;

should, together with its related companies, already be managing at least S$500 million of discretionary funds in Singapore.

Revised 21 Mar 2005

Investment of more than 10% in foreign schemes

4.3.3 In assessing an application for a feeder scheme intending to invest more than 10% of its deposited property in a scheme authorised or registered in a foreign jurisdiction, the Authority will consider whether:

a) the laws and practices of the jurisdictions under which the scheme is constituted and regulated affords to participants in Singapore protection at least equivalent to that afforded to participants of schemes which are wholly managed in Singapore;

b) the scheme is registered in a jurisdiction where the core investment and borrowing requirements for non-specialised or specialised schemes as the case may be are substantially the same as those set out in the relevant Appendix to this Code; and

c) the manager of the foreign scheme is reputable and supervised by an acceptable regulator.

4.3.4 The manager of the foreign scheme should not retain for its own account, cash or commission rebates arising out of transactions for the foreign scheme executed in or outside Singapore.

Sub-management of more than 10% of a scheme abroad

4.3.5 In assessing an application for a sub-managed scheme where more than 10% of a scheme is to be sub-managed abroad, the Authority will consider whether:

a) the sub-manager is reputable and supervised by an acceptable regulator; and

b) the portion of the Singapore scheme being sub-managed will be invested in full compliance with the investment guidelines and borrowing limits set out in the relevant Appendix of this Code.

4.3.6 The sub-manager should not retain for its own account, cash or commission rebates arising out of transactions for the scheme executed in or outside Singapore.

5 Investments: Core Requirements

5.1 The investment guidelines and borrowing limits for non-specialised and specialised schemes are set out in the Appendices to this Code. Where the manager proposes to offer a scheme for which no investment guidelines or borrowing limits are set out in this Code, the Authority should be consulted as to the investment guidelines and borrowing limits that should apply.

6 Use of Forecasts in Advertisements and Prospectuses

Regulation 28(3) and paragraph 62 of the Third Schedule of the SFR provides that the Authority may by notice in writing allow an advertisement, publication or prospectus of a scheme to include a forecast. For this purpose, the Authority will not consider applications made in respect of schemes other than property funds.

7 Accounts and reports

Revised 22 Dec 2003

7.1 Accounts

7.1.1 The manager should prepare the half-yearly financial statements and the audited financial statements, for the semi-annual report and annual report respectively, in the manner prescribed by the Institute of Certified Public Accountants in Statement of Recommended Accounting Practice 7: Reporting Framework for Unit Trusts.

Incorporated 21 Mar 2005

7.1.2 The semi-annual report or annual report need not be prepared, audited (where applicable) and sent where they cover –

a) a period ending 3 months or less from the start of the initial launch period of a scheme. However, the first semi-annual and annual reports prepared, audited (where applicable) and sent to participants should cover the period from the start of the initial launch period; or

Revised 22 Dec 2006

b) a period ending before the termination or maturity date of a scheme if they are due to be sent to participants within one month of the termination or maturity date. For example, the annual report for a scheme for the financial year ending 31 December 2004 is due to be sent to participants on 31

March 2005. The annual report need not be prepared, audited and sent if the termination or maturity date of the scheme is on or before 30 April 2005.

7.2 Reports

7.2.1 The semi-annual report and annual report, based on a scheme's financial year, should contain the following (where relevant):

a) investments at market value and as a percentage of NAV as at the end of the period under review classified by:

   i) country;

   ii) industry;

   iii) asset class such as equities, debt securities and cash; and

   iv) credit rating of debt securities such as "A", "B", "C" and "unrated";

b) the top 10 holdings at market value and as a percentage of NAV as at the end of the period under review and a year ago;

c) exposure to derivatives:

   i) market value of derivative contracts and as a percentage of NAV as at the end of the period under review;

   ii) net gains/losses on derivative contracts realised during the period under review;

   iii) net gains/losses on outstanding derivative contracts marked to market as at the end of the period under review;

d) amount and percentage of NAV invested in other schemes as at the end of the period under review;

e) amount and percentage of borrowings to NAV at the end of the period under review;

f) amount of redemptions and subscriptions for the period under review;

g) amount of related-party transactions for the period under review;

h) the performance of the scheme and where applicable, the performance of the benchmark, in a consistent format, covering the following periods of

time: 3-month, 6-month, 1-year, 3-year, 5-year, 10-year and since inception of the scheme. Returns should be calculated on a bid-to-bid basis with dividends reinvested at the bid price. Where there has been a change in the benchmark used, this should also be disclosed;

i) expense ratios for the period under review and a year ago. A footnote should state that the expense ratio does not include (where applicable) brokerage and other transaction costs, performance fee, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other schemes and tax deducted at source or arising out of income received;

j) turnover ratios for the period under review and a year ago;

k) any material information that will adversely impact the valuation of the scheme such as contingent liabilities of open contracts;

l) where the scheme invests more than 30% of its deposited property in another scheme, the following key information on the second-mentioned scheme ("the underlying scheme")[1] should be disclosed as well:

   i) top 10 holdings at market value and as a percentage of NAV as at the end of the period under review and a year ago;

   ii) expense ratios for the period under review and a year ago. A footnote should state (where applicable) that the expense ratio does not include brokerage and other transaction costs, performance fee, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other schemes and tax deducted at source or arising out of income received; and

   iii) turnover ratios for the period under review and a year ago; and

m) a statement describing the soft dollars received from each broker which executed transactions for the scheme. If the broker also executed trades for other schemes managed by the manager, a statement to that effect may be included. The manager should also confirm that the goods and services received were for the benefit of the scheme, the trades were executed on the best available terms and there was no churning of trades.

[1] Where the underlying scheme is managed by a foreign manager which belongs to the same group of companies as, or has a formal arrangement or investment agreement with, the Singapore manager, the above information should be disclosed on the underlying scheme. In other cases, such information on the underlying scheme should be disclosed only if it is readily available to the Singapore manager.

8. Valuation

Incorporated 1 Mar 2004

8.1 Valuation based on NAV

8.1.1 Subject to paragraph 8.1.2, the units in a scheme should be issued, redeemed or repurchased at a price arrived at by dividing the NAV of the scheme by the number of units outstanding. The price of units may be adjusted by adding or subtracting, as the case may be, fees and charges, provided that such fees and charges are disclosed in the scheme's prospectus or trust deed.

8.1.2 At the maturity of capital guaranteed schemes which comply with Appendix 5, the units should be redeemed at a price equal to the higher of the guaranteed amount and the NAV of the scheme divided by the number of units outstanding.

8.1.3 Paragraph 8.1.1 shall not apply during the initial offer period of the scheme. *Incorporated 22 Dec 2006*

8.2 Calculation of NAV using Market Quotations and Fair Value

8.2.1 The value of the assets of a scheme, in the case of quoted securities, should be based on:

a) the official closing price or the last known transacted price on the securities exchange or overseas securities exchange on which the securities are listed or an organized over-the-counter market on which the securities are traded; or *Amended on 27 Jul 2004*

b) the transacted price on the securities exchange or overseas securities exchange on which the securities are listed or an organized over-the-counter market on which the securities are traded at a cut-off time specified in the scheme's prospectus and applied consistently by the manager,

unless such price is not representative or not available to the market. The manager of a scheme should be responsible for determining, with due care and in good faith, whether the price should be considered representative.

8.2.2 For quoted securities where the transacted price is not representative or not available to the market and for assets which are not quoted securities, valuation should be based on the fair value of the assets. For this purpose, the fair value of an asset should be the price that the scheme would reasonably expect to receive upon the current sale of the asset. The fair valuation should be determined with due care and in good faith. The basis for determining the fair value of the asset should be documented.

8.2.3 Except for quoted securities, all the assets of a scheme should be valued by a person approved by the trustee of the scheme as qualified to value such assets.

8.2.4 When the fair value of a material portion of the assets of a scheme cannot be determined, the manager should suspend valuation and trading in the units of the scheme.

8.3 Calculation of NAV using basis other than market quotations

8.3.1 The NAV of a scheme, such as a money market fund that complies with Appendix 3, may be determined using methods other than those specified in paragraph 8.2 above, provided that the trustee agrees with the alternative method at the time the scheme is authorised. Such a valuation may be performed by a person approved by the trustee of the scheme as qualified to value the scheme's assets.

8.4 Frequency of Valuation

8.4.1 Generally, a manager should value the units of a scheme every business day. Exceptions are allowed for:

a) Funds which invest in structured products as defined in paragraph 1 of Annex 1a: To be valued every regular dealing day, but in any event, at least once a month;

b) Hedge funds which comply with Appendix 4: To be valued every regular dealing day, but in any event, at least once every quarter;

c) Property funds which comply with Appendix 2: To have a full valuation at least once yearly.

8.4.2 For avoidance of doubt, the NAV of exchange traded funds; i.e., the value of shares comprising the creation basket and the estimated cash component divided by the number of units in the creation basket, should be calculated at least daily.

8.5 Rounding Differences

8.5.1 When calculating the price at which the units in a scheme may be issued, redeemed or repurchased, it may be necessary to round up or down the resultant figure in order to obtain a finite dollar value. (Please see Example 1.) When calculating the number of units to be issued to an investor, it may also be necessary to round up or down the resultant figure in order to obtain a finite number of units. Rounding differences arising from calculating the price of units in a scheme or arising from calculating the number of units to be issued should be credited to the scheme.

Revised on 21 Mar 2005

Example 1: Crediting of Rounding Differences

Price per unit = NAV / Number of units outstanding
= $122.4 million / 100 million
= $1.224

Assuming an investor with 10,000 units redeems all his units at $1.22 per unit, the scheme should then be credited with a rounding difference of:

$(1.224 - 1.22) \times 10,000 = $0.004 \times 10,000
= $40.

8.6 Valuation Errors and Compensation

8.6.1 When a manager of a scheme becomes aware of an error in the calculation of a scheme's NAV per unit, the manager should notify the Authority and the trustee of the scheme of the error as soon as practicable. A revised valuation should be performed, by the person responsible for the valuation, for each valuation date during the period when the error occurred to ascertain the size of the error.

Revised on 21 Mar 2005

8.6.2 When a valuation error represents 0.5% or more of the scheme's NAV per unit after adjustment for the error, the manager should compensate investors and the scheme for any losses incurred by them as a result of the valuation error. The trustee of the scheme should notify the Authority when the manager has completed such compensation satisfactorily. The requirement to compensate investors does not apply if the amount of compensation due to any single investor does not exceed $20. For the avoidance of doubt, the requirement to compensate the scheme for any losses incurred would apply in all circumstances where the valuation error represents 0.5% or more of the scheme's NAV per unit.

8.6.3 When a valuation error represents less than 0.5% of the scheme's NAV per unit, there is no requirement for the manager to compensate investors or the scheme for any losses incurred by them as a result of the valuation error. However, if the manager chooses to compensate one or more investors, then the manager must compensate all other investors in the scheme on the same basis.

8.6.4 The manager should not pay or cause to be paid out of the property of the scheme any expenses incurred as a result of effecting compensation for a valuation error.

8.7 Transition Provisions

Existing schemes have to comply with the guidelines in paragraphs 8.1 – 8.6 by 1 July 2004.

9 Recognised Schemes

Besides the legal requirements set out in the SFA, a manager of a scheme (or its related company) should be managing at least S$500 million of *discretionary* funds in Singapore.

10 Recognised UCITS III Schemes And Authorised Schemes That Feed Into Underlying UCITS III Schemes

Incorporated 6 June 2005

10.1 Disclosure in marketing material

10.1.1 Where a recognised UCITS III scheme or an underlying UCITS III scheme which an authorised scheme feeds into intends to use or invest in financial derivative instruments, a prominent statement drawing attention to this intention should be included in the marketing material of the recognised UCITS III scheme or authorised scheme.

10.1.2 Where the net asset value of a recognised UCITS III scheme or an underlying UCITS III scheme which an authorised scheme feeds into is likely to have a high volatility due to its investment policies or portfolio management techniques, a prominent statement drawing attention to this possibility should be included in the marketing material of the recognised UCITS III scheme or authorised scheme.

10.2 Ongoing notification requirement

10.2.1 Where the home regulator of a recognised UCITS III scheme or an underlying UCITS III scheme which an authorised scheme feeds into imposes or varies any condition or restriction in relation to its authorisation, the Authority should be informed as soon as practicable, but no later than fourteen days after the condition or restriction has been imposed or varied in the case of a recognised UCITS III scheme or no later than fourteen days after the responsible person of the authorised scheme is notified of the condition or restriction so imposed or varied.

10.2.2 Where, subsequent to the authorisation by the home regulator of a recognised UCITS III scheme or an underlying UCITS III scheme which an authorised scheme feeds into, the documentation of its risk management process

is revised, the revised documentation should be submitted to the Authority as soon as practicable, but no later than one month after it has been filed with and approved by the home regulator in the case of a recognised UCITS III scheme or no later than one month after the responsible person of the authorised scheme is notified of the revised documentation of the underlying UCITS III scheme.

Appendix 1: Non-Specialised Funds

The following investment and borrowing guidelines apply only to collective investment schemes which invest in equities and/or fixed income instruments and do not fall within the categories of specialised schemes set out in Appendices 2, 3, 4, 7 and 8 of this Code.

1 Unlisted Securities

1.1 Investments in unlisted securities including unlisted derivatives should not exceed 10% of the deposited property of the scheme. This 10% limit does not apply to shares offered through an initial public offering which have been approved for listing and unlisted debt securities that are traded on an organised over-the-counter market which is of good repute and open to the public.

1.2 Up to an additional 10% of the deposited property of the scheme may be invested in unlisted debt securities which are of investment grade (i.e. rated at least BBB by Fitch Inc, Baa by Moody's or BBB by Standard and Poor's, including such sub-categories and gradations therein) but for which there is no ready secondary market.

1.3 Exceptions to the 10% unlisted securities rule are also allowed for **structured products** subject to the criteria set out in Annex 1A. *Incorporated 27 Jul 2004*

2 Single Issuer and Group Limits

Revised 22 Dec 2006

2.1 Investments in securities issued by a single issuer should not exceed 10% of the deposited property of the scheme ("single issuer limit"). Further, investments in securities issued by a group of companies (a group of companies is defined as a company, its subsidiaries, fellow subsidiaries and its holding company) should not exceed 20% of the deposited property of the scheme ("single group limit").

2.2 Notwithstanding the "single issuer limit" and "single group limit" set out in paragraph 2.1, investments in any security that is a component of a scheme's reference benchmark may be up to the benchmark weighting of the issuer, with an additional absolute overweight allowance of two percentage points above the benchmark weight. The reference benchmark should be one which is widely accepted and constructed by an independent party.

2.3 Investments in securities issued by and deposits placed with an issuer, as well as securities of that same issuer which have been lent, should be aggregated in computing the single issuer and group limits. If the scheme holds as collateral

securities issued by the aforementioned issuer, these should also be included in computing the scheme's exposure to that issuer.

2.4 Exposure to the underlying of a financial derivative has to be included in the calculation of the single issuer and group limits.

2.5 The single issuer limit of 10% in paragraph 2.1 may be raised to 35% of the deposited property of the scheme where: *Incorporated 21 Mar 2005*

a) the issuer is, or the issue is guaranteed by, either a government, government agency, or supranational that has a minimum long-term issuer rating of BBB by Fitch Inc, Baa by Moody's or BBB by Standard and Poor's (including such sub-categories or gradations therein); and

b) except for schemes with a fixed maturity, not more than 20% of the deposited property of the scheme may be invested in any single issue of securities by the same issuer.

2.6 The single issuer limit in paragraphs 2.1 and 2.2 does not apply where: *Incorporated 5 Dec 2002*

a) the issuer is, or the issue has the benefit of a guarantee from, either a government, government agency, or supranational that has a minimum long-term issuer rating of AA by Fitch Inc, Aa by Moody's or AA by Standard and Poor's (including such sub-categories or gradations therein); and

b) except for schemes with a fixed maturity, not more than 20% of the deposited property of the scheme may be invested in any single issue of securities by the same issuer.

2.7 Exceptions to the single issuer and group limits are also allowed for **structured products** subject to the criteria set out in Annex 1A.

2.8 For the avoidance of doubt, the single issuer and group limits do not apply to placement of short-term deposits arising from: *Incorporated 5 Dec 2002*

a) subscription monies received at any point in time pending the commencement of investment by the scheme; *Revised 22 Dec 2006*

b) liquidation of investments pending reinvestment; or

c) liquidation of investments prior to the termination or maturity of a scheme, where the placing of these monies with various institutions would not be in the interests of participants. *Revised 21 Mar 2005*

2.9 Scenarios illustrating the application of the single issuer and group limits are set out in Annex 1B. *Incorporated 22 Dec 2006*

2.10 A scheme may not hold more than 10% of any single issue of securities by the same issuer.

3 Securities Lending

3.1 Up to 50% of the deposited property of the scheme may be lent provided adequate collateral, in the form of instruments consistent with the investment objective and character of the scheme and with a remaining term to maturity of not more than 366 days, is taken. If cash received as collateral is invested, these should be invested in the form of instruments described above.

3.2 Irrevocable letters of credit and banker's guarantees are acceptable as collateral if the issuer has a credit rating of at least F-1 by Fitch Inc, Prime-1 by Moody's or A-1 by Standard & Poor's. *Incorporated 21 Mar 2005*

3.3 The 366-day maturity requirement in paragraph 3.1 does not apply to debt securities taken as collateral where: *Incorporated 21 Mar 2005*

a) such debt securities are rated at least A by Fitch Inc, A by Moody's or A by Standard & Poor's (including such sub-categories and gradations therein); and

b) the securities lending transaction is conducted through an institution with a credit rating of at least A by Fitch Inc, A by Moody's or A by Standard & Poor's (including such sub-categories and gradations therein) and the institution indemnifies the scheme in the event of losses due to failure by the securities borrower to return the borrowed securities.

3.4 In addition, securities lending is subject to the following conditions:

a) the collateral is marked to market daily; and

b) the trustee or its representative takes delivery of the collateral immediately.

3.5 Where the scheme is also entitled at all times to immediately recall the securities lent without penalty, up to 100% of the deposited property of the scheme may be lent. *Incorporated 29 Aug 2002*

4 Financial Derivatives

Revised 22 Dec 2006

4.1 Schemes that make use of financial derivatives should ensure that the risks related to such financial instruments are duly measured, monitored and managed.

4.2 The exposure of the scheme to financial derivatives should not exceed 100% of the deposited property of the scheme at any time. Such exposure should be calculated by converting the derivative positions into equivalent positions in the underlying assets embedded in those derivatives. Other methods for calculating exposure may be allowed subject to prior consent from the Authority. In its application, the manager should describe the proposed method, the rationale for using the method and demonstrate that the method has taken into account the current value of the underlying assets, future market movements, counterparty risks and the time available to liquidate the positions.

4.3 The prospectus should include:

(i) a statement as to whether financial derivatives are used for the purposes of hedging or meeting the investment objectives of the scheme or both;

(ii) where the exposure of the scheme to financial derivatives is calculated using a method other than the method suggested in paragraph 4.2, a description of the method used and how it differs from the method suggested in paragraph 4.2.

(iii) a description of the risk management and compliance procedures and controls adopted; and

(iv) a statement that the manager will ensure that the risk management and compliance procedures and controls adopted are adequate and that it has the necessary expertise to control and manage the risks relating to the use of financial derivatives.

4.4 Schemes investing in financial derivatives as an asset class will have to comply with paragraphs 4.2 – 4.3 above by 22 March 2007. Schemes investing in financial derivatives for purposes of hedging existing positions in a portfolio or EPM, provided that derivatives are not used to gear the overall portfolio, have to comply with the guidelines in paragraphs 4.2- 4.3 above by 22 December 2007.

5 Prohibited Investments and Activities

5.1 The scheme should not invest in:

a) metals including gold, commodities and their derivatives; or

b) infrastructure projects and real estate.

5.2 The scheme should not engage in:

a) direct lending of monies or the granting of guarantees;

b) underwriting; or

c) short selling except where this arises from financial derivative transactions and exposures are appropriately covered in accordance with paragraph 4. *Revised 22 Dec 2006*

6 Borrowings

The scheme may borrow only for the purposes of meeting redemptions and short-term (not more than 4 weeks) bridging requirements. Aggregate borrowings for such purposes should not exceed 10% of the deposited property of the scheme at the time the borrowing is incurred.

7 Breach of Limits

The unlisted securities, single issuer and group, securities lending and borrowing limits in paragraphs 1, 2, 3 and 6 are applicable at the time the transactions are entered into. Where any of these limits is breached as a result of:

i) the appreciation or depreciation of the deposited property of the scheme;

ii) any redemption of units or payments made from the scheme;

iii) any changes in the total issued nominal amount of securities of a company arising for example from rights, bonuses or benefits which are capital in nature; or

iv) the reduction in the weight of a security in the benchmark being tracked by a scheme.

the manager should not enter into any transaction that would increase the extent to which the relevant limit is breached. In addition, the manager should within a reasonable period of time but no later than 3 months from the date of the breach, take action as is necessary to rectify the breach. This period may be extended if the manager satisfies the trustee that it is in the best interest of participants. Such extension should be subject to monthly review by the trustee.

Annex 1a: Non-Specialised Funds

Exceptions to Rules in Appendix 1 for Structured Products

This Annex sets out guidelines on when:

- the 10% limit on investments in unlisted securities under paragraph 1 of Appendix 1 may be increased to one-third of the deposited property of the scheme; and
- the single issuer and group limits under paragraph 2 of Appendix 1 may be increased to one-third of the deposited property of the scheme or entirely lifted for structured products.

1 Definition

Structured products are tailor-made for a scheme such that the issuer(s) of the securities and/or instruments, or an entity other than the issuer(s) (referred to in this Annex as the "Third Party"), stands ready to unwind the product(s) at prevailing market prices so as to enable the scheme to meet redemptions on each dealing day.

2 Issuer and Counter-party Requirements

2.1 The unlisted securities limit may be increased to one-third of the deposited property of the scheme only for investing in unlisted derivatives that form part of a structured product and only if the counterparty and, where applicable, the Third Party in the transaction meet the minimum ratings set out in paragraph 2.2.

Incorporated 27 Jul 2004

2.2 For the single issuer and group limits to be increased to one-third of the deposited property of the scheme:

a) in the case where the issuer of the security is a corporation, government, government agency or supranational, it should have a minimum long-term issuer rating of A by Fitch Inc, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein).

b) in the case where a deposit is placed with a financial institution ("FI"), the FI should have a minimum individual rating of B by Fitch Inc or a financial strength rating of B by Moody's (including such sub-categories or gradations therein).

Incorporated 29 Aug 2002

2.3 For the single issuer and group limits to be entirely waived, the issuer should be, or the issue should have the benefit of a guarantee from, either a

government, government agency, or supranational that has a minimum long-term issuer rating of AA by Fitch Inc, Aa by Moody's or AA by Standard and Poor's (including such sub-categories or gradations therein).

2.4 An entity that stands ready to unwind more than 10% of the deposited property of the scheme should have the ratings specified in paragraph 2.2. *Incorporated 21 Mar 2005*

2.5 Where the entity that stands ready to unwind the product is also the issuer of a bond, equity or derivative component that forms part of the structured product, the prospectus of the scheme should state this fact. *Incorporated 21 Mar 2005*

3 Revision in Ratings of Issuer or Counter-party

3.1 Where the rating of the issuer referred to in paragraph 2.2(a) or of the Third Party:

a) falls to BBB by Fitch Inc, Baa by Moody's or BBB by Standard and Poor's (including such sub-categories or gradations therein), no action need be taken; or

b) falls below those specified in (a) above or if the issuer or Third Party ceases to be rated, the manager should within 3 months from the occurrence of such event take action to comply with the single issuer and group limits. The 3-month period may be extended if the manager satisfies the trustee that it is in the best interests of the participants. Such extension should be subject to monthly review by the trustee.

3.2 Where the rating of the FI referred to in paragraph 2.2(b) or of the Third Party: *Incorporated 29 Aug 2002*

a) falls to an individual rating of C by Fitch Inc or a financial strength rating of C by Moody's (including such sub-categories or gradations therein), no action need be taken; or

b) falls below those specified in (a) above or if the issuer or Third Party ceases to be rated, the manager should within 3 months from the occurrence of such event take action to comply with the single issuer and group limits. The 3-month period may be extended if the manager satisfies the trustee that it is in the best interest of the participants. Such extension should be subject to monthly review by the trustee.

3.3 Where the rating of the issuer referred to in paragraph 2.3:

a) falls to A by Fitch Inc, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein), no action need be taken; or

b) falls below those specified in (a) above or if the issuer ceases to be rated, the manager should within 3 months from the occurrence of such event take action to comply with the single issuer and group limits. The period may be extended if the manager satisfies the trustee that it is in the best interest of the participants. Such extension should be subject to monthly review by the trustee.

Annex 1b: Non-Specialised Funds

Scenarios illustrating the Application of the Single Issuer and Group Limits in Appendix 1

Scenarios for Application of Single Issuer and Group Limits

Incorporated 22 Dec 2006

Suppose companies A and B are both subsidiaries of Company X (X and its subsidiaries to be collectively known as a "Group").

(I) Assume that both A and B are not included in the reference benchmark.

A CIS may invest up to 10% of its deposited property in securities issued by A and another 10% of its deposited property in securities issued by B. The CIS may invest up to 20% of its deposited property in securities issued by companies in this Group.

(II) Assume that A and B are included in the reference benchmark with weights of 2% and 5% respectively.

A CIS may invest up to 10% of its deposited property in securities issued by A and another 10% of its deposited property in securities issued by B. The CIS may invest up to 20% of its deposited property in securities issued by this Group.

(III) Assume that A and B are included in the reference benchmark with weights of 2% and 14% respectively.

(a) A CIS may invest up to 16% [14+2] of its deposited property in B. As the total weight of A and B in the benchmark is less than the 20% single group limit, the 20% single group limit applies. Hence, the fund may invest up to 4% in either A or any non-reference benchmark securities issued by the Group or a combination thereof.

(b) If the CIS invests, say, up to 2% of its deposited property in securities issued by A and 16% of its deposited property in securities issued by B, it may invest a further 2% of its deposited property in non-reference benchmark securities issued by the Group.

(IV) Assume that A and B are included in the reference benchmark with weights of 12% and 14% respectively.

A CIS may invest up to 14% [12+2] of its deposited property in securities issued by A and another 16% [14+2] of its deposited property in securities issued by B. However, as the single group limit has been reached, no investments in non-reference benchmark securities issued by the Group may be made.

Appendix 2: Property Funds

1 Scope and Definitions

1.1 These Guidelines apply to a collective investment scheme that invests or proposes to invest primarily in real estate and real estate-related assets (hereinafter referred to as "a property fund"). The property fund may or may not be listed on the Singapore Exchange ("SGX"). *Revised 28 Sep 2007*

1.2 For the purposes of this Appendix:-

a) **Associate**: *Revised 28 Sep 2007*

i) in relation to any director, chief executive officer, or controlling shareholder of the Manager, or controlling unitholder of the property fund (being an individual), means:

A) his immediate family[1];

B) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; or

C) any company in which he and his family together (directly or indirectly) have an interest of 30% or more;

or

ii) in relation to the controlling shareholder of the Manager, or the Manager, the Trustee or controlling unitholder of the property fund (being a company) means any other company which is its subsidiary or holding company, or is a subsidiary of such holding company, or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more.

b) **Cash equivalent items** means instruments or investments of such high liquidity and safety that they are as good as cash.

---

[1] This refers to his spouse, child, adopted child, stepchild, sibling and parent.

c) **Controlling unitholder** means a person who:

Revised 28 Sep 2007

i) holds directly or indirectly 15% or more of the nominal amount of all voting units in the property fund. MAS may determine that such a person is not a controlling unitholder; or

ii) in fact exercises control over the property fund.

d) **Deposited property** means the value of the property fund's total assets based on the latest valuation.

e) **Desktop valuation** means a valuation based on transacted prices/yields of similar real estate assets, without a physical inspection of the property.

f) **Interested party** means:

Revised 28 Sep 2007

i) a director, chief executive officer or controlling shareholder of the Manager, or the Manager, the Trustee or controlling unitholder of the property fund; or

ii) an associate of any director, chief executive officer or controlling shareholder of the Manager, or an associate of the Manager, the Trustee or any controlling unitholder of the property fund.

g) **Real estate-related assets** means listed or unlisted debt securities and listed shares of or issued by property corporations, mortgage-backed securities, other property funds, and assets incidental to the ownership of real estate (e.g. furniture).

2 The Manager of a Property Fund

Revised 20 Oct 2005

2.1 The Manager of a listed property fund should be a corporation with a physical office in Singapore, and have minimum shareholders' funds of S$1 million. The Manager in Singapore should have:

a) a resident chief executive officer; and

b) at least two full-time professional employees[2].

[2] Professional employees refer to employees who are engaged in the investment management, asset management, financing, marketing and investor relations functions on behalf of the Manager.

2.2 The Manager, as well as its chief executive officer, directors and professional employees should meet the fit and proper criteria as set out in the "Guidelines on Fit and Proper Criteria" [Guideline No: MCG-G01][3] issued by the Authority. In addition, the Manager should:

a) have at least 5 years of experience in managing property funds;

b) appoint, with the approval of the Trustee, an adviser who has at least 5 years of experience in investing in and/or advising on real estate; or

c) employ persons who have at least 5 years of experience in investing in and/or advising on real estate.

2.3 Where the Manager has appointed an adviser pursuant to paragraph 2.2 (b), that adviser need not be independent of the Manager, and may act as agent in seeking out buyers/sellers of real estate or in managing the property fund's real estate assets. However, where the adviser has been appointed as the marketing agent for a property, that adviser may recommend the property fund to purchase that property only if:

a) the adviser has disclosed to the Manager that it is the marketing agent for that property; and

b) the adviser is not an associate of the Manager.

Revised 28 Sep 2007

2.4 Commissions or fees paid by the property fund to the adviser should not be higher than market rates.

2.5 The Singapore office should play a meaningful role in the business activities of the Manager. In the Authority's assessment of the role of the Singapore office, the following factors are relevant, but not exhaustive:

a) the composition and mandates of the board of directors and management committees; and

b) the extent to which the chief executive officer and directors based in Singapore participate in the formulation of investment strategies and financing activities.

2.6 The Manager of a listed property fund should perform the following activities in Singapore:

---

[3] A copy of the "Guidelines on Fit and Proper Criteria" may be found at: "http://www.mas.gov.sg/legislation_guidelines/securities_futures/sub_legislation/SFA_Guidelines.html"

a) accounting;

b) compliance; and

c) investor relations.

2.7 The Manager of a property fund seeking authorisation for the fund under section 286(1) of the Securities and Futures Act (Cap. 289) should complete and submit the form appended in Annex 2A.

2.8 The Manager may choose to enter into a management agreement with the property fund at the time of listing of the property fund on a securities exchange. If the management agreement contains a compensation provision for early termination of the management agreement, the compensation provision should be clearly related to commercial services provided in the performance by the Manager of its duties and the compensation amount should be determined on an objective basis. Any such arrangements need to be carefully considered by the Manager in the context of the Manager's responsibilities to act in the interests of participants. In any case, the term of such a compensation provision should not be more than five years and the compensation amount payable to the Manager should not exceed the sum of the fixed component of unearned management fees (excluding variable and performance fees) over the remaining term of the provision. Compensation should not be payable to the Manager if the Manager's services are terminated for just cause such as fraud, insolvency or negligence.[4]

Incorporated 28 Sep 2007

3 The Trustee of a Property Fund

Incorporated 20 Oct 2005

3.1 The Trustee should exercise due care and diligence in discharging its functions and duties, including safeguarding the rights and interests of participants.

3.2 Amongst others, the Trustee should exercise reasonable care in ensuring that:

a) the property fund has proper legal and good marketable titles to the real estate assets owned by the property fund;

b) material contracts (such as rental agreements) entered into on behalf of the property fund are legal, valid, binding and enforceable by or on behalf of the property fund in accordance with its terms. Material contracts include contracts which constitute 5% or more of the revenue of the property fund

Revised 28 Sep 2007

[4] A management agreement with other terms and compensation provisions may in exceptional circumstances be allowed if it can be clearly demonstrated to be in the interest of participants and does not materially restrict the ability of participants to remove the Manager. In such cases, prior consent from the Authority should be sought.

or which are not entered into in the ordinary course of business of the property fund; and

c) the Manager arranges adequate insurance coverage in relation to the real estate assets of the property fund.

4 Trust Deed Provisions for Removal of Manager and Convening of Meetings

4.1 The trust deed of a property fund should contain the following provisions: *Incorporated 20 Oct 2005*

a) the Manager may be removed by way of a resolution passed by a simple majority of participants present and voting at a general meeting, with no participant being disenfranchised; and

b) a general meeting may be convened at the request in writing of not less than 50 participants or participants representing not less than 10% of the issued units of the property fund.

4.2 Further to paragraph 4.1(a), there should not be any arrangement that materially restricts the ability of participants to remove the Manager, at the time of listing of the property fund on a securities exchange. Such an arrangement may be introduced after the listing of the property fund subject to the following conditions: *Incorporated 28 Sep 2007*

a) the arrangement should be specifically approved by way of a resolution passed by a simple majority of participants present and voting at a general meeting. The Manager, its associates and other interested parties should not vote on the resolution; and

b) there should be an opinion from an independent financial adviser, appointed by the Trustee, stating whether the arrangement is on normal commercial terms and is prejudicial to the interests of participants.

5 Interested-party Transactions

5.1 A property fund may acquire assets from or sell assets to interested parties, or invest in securities[5] of or issued by interested parties, *Revised 20 Oct 2005*

if:

---

[5] A mortgage-backed security issued by a special purpose vehicle does not come within the ambit of this paragraph.

a) adequate disclosures are made in the prospectus (if it is at the first launch/offer of the property fund) or circular (if it is during the life of the property fund), stating –

   i) the identity of the interested parties and their relationships with the property fund;

   ii) the details of the assets to be acquired or sold, including a description of these assets and their location;

   iii) the prices at which these assets are to be acquired or sold;

   iv) the details of the valuations performed (including the names of the valuers, the methods used to value these assets and the dates of the valuations) and their assessed values;

   v) the current/expected rental yield;

   vi) the minimum amount of subscriptions to be received, if the transactions are conditional upon the property fund receiving the stated amount of subscriptions; and

   vii) any other matters that may be relevant to a prospective investor in deciding whether or not to invest in the property fund or that may be relevant to a participant in deciding whether or not to approve the proposed transactions;

b) for transactions entered into at the first launch/offer of the property fund, the property fund has entered into agreements to buy those assets at the prices specified in sub-paragraph (a)(iii) from the interested parties. If the transactions are conditional upon the property fund receiving a stated minimum amount of subscriptions, the agreements should reflect this;

c) two independent valuations of each of those real estate assets, with one of the valuers commissioned independently by the Trustee, have been conducted in accordance with paragraph 8; *Incorporated 20 Oct 2005*

d) each of those assets is acquired from the interested parties at a price not more than the higher of the two assessed values, or sold to interested parties at a price not less than the lower of the two assessed values; and *Incorporated 20 Oct 2005*

e) the Trustee provides written confirmation that it is of the view that the transaction is on normal commercial terms and not prejudicial to the interests of participants where participants' approval for the transaction is not required and: *Revised 28 Sep 2007*

i) in the case of an acquisition, the transaction price is more than the average of the two valuations; or

ii) in the case of a disposal, the transaction price is less than the average of the two valuations.

5.2 A property fund should: *Revised 28 Sep 2007*

a) where a proposed transaction is equal to or greater than 3% of the property fund's NAV, announce[6] the transaction immediately; or

b) where a proposed transaction is equal to or greater than 5% of the property fund's NAV, announce the transaction immediately and obtain a majority vote at a participants' meeting. A person who has an interest, whether commercial, financial or personal, in the outcome of the transaction, other than in his capacity as a participant, will not be allowed to vote on the resolution to approve the transaction.

5.3 For the purpose of paragraph 5.2, the value of all transactions with the same interested party[7] during the current financial year should be aggregated. However, a transaction which has been approved by participants, or is the subject of aggregation with another transaction that has been approved by participants, need not be included in any subsequent aggregation. *Revised 28 Sep 2007*

5.4 For the purpose of paragraphs 5.1 to 5.3, the agreement to buy or sell the assets should be completed:

a) where the interested-party transaction is entered into at the first launch/offer of the property fund, within 6 months of the close of the first launch/offer; or

b) where the interested-party transaction is entered into after the first launch/offer and:

(i) the transaction is less than 5% of the property fund's NAV, within 6 months of the date of the agreement; or

(ii) the transaction is equal to or greater than 5% of the property fund's NAV, within 6 months of the date of the participants' approval referred to in paragraph 5.2(b); or

---

[6] For listed property trusts, announcements should be made to the exchange for public release as stated in SGX's listing requirements. For unlisted property trusts, announcements should be made either through paid advertisements in at least one newspaper that is circulated widely in Singapore, or by sending a circular to participants.

[7] For this purpose, transactions between the property fund and interested parties who are members of the same group are deemed to be transactions with the same interested party.

c) where there is more than one interested-party transaction entered into during the current financial year and the latest transaction results in the 5% threshold referred to in paragraph 5.2(b) being exceeded, within 6 months of the date of participants' approval in respect of that latest transaction.

5.5 A property fund is not prohibited from engaging an interested party as property management agent or marketing agent for the property fund's properties provided that any fees or commissions paid to the interested party are at not more than market rates.

5.6 In instances where the Manager receives a percentage-based fee when the property fund acquires and disposes of real estate assets from/to interested parties, such a fee should be in the form of units issued by the property fund at prevailing market price(s). The units should not be sold within one year from their date of issuance. *Incorporated 20 Oct 2005*

6 Permissible Investments

6.1 Subject to the restrictions and requirements in paragraph 7, a property fund may only invest in:

a) Real estate, whether freehold or leasehold, in or outside Singapore. An investment in real estate may be by way of direct ownership or a shareholding in an unlisted special purpose vehicle ("SPV") constituted to hold/own real estate. An investment in another property fund that is authorised under section 286(1) of the Securities and Futures Act (Cap. 289) and this Appendix will be considered as an investment in real estate; *Revised 28 Sep 2007*

b) Real estate-related assets, wherever the issuers/assets/securities are incorporated/located/issued/traded;

c) Listed or unlisted debt securities and listed shares of or issued by local or foreign non-property corporations;

d) Government securities (issued on behalf of the Singapore Government or governments of other countries) and securities issued by a supra-national agency or a Singapore statutory board; and

e) Cash and cash equivalent items.

6.2 A property fund may invest in local or foreign assets, subject to the terms of its trust deed. Where an investment in a foreign real estate asset is made, the Manager should ensure that the investment complies with all the applicable laws and requirements in that foreign country, for example, those relating to foreign ownership and good title to that real estate.

6.3 When investing in leasehold properties, the Manager should consider the remaining term of the lease, the objectives of the property fund, and the lease profile of the property fund's existing property portfolio.

6.4 When investing in real estate as a joint owner, the property fund should make such investment by investing directly in the real estate as a tenant-in-common, or by acquiring shares or interests in an unlisted SPV constituted to hold/own the real estate[8]. The property fund should have freedom to dispose of such investment. The joint venture agreement, memorandum and articles of association and/or other constitutive documents should provide for:

Revised 28 Sep 2007

a) a specified minimum percentage of distributable profits that will be distributed. The property fund should be entitled to receive its *pro rata* share of such distributions;

b) veto rights over key operational issues, including:

i) amendment of the joint venture agreement, memorandum and articles of association or other constitutive documents;

ii) cessation or change of the business;

iii) winding up or dissolution;

iv) changes to the equity capital structure;

v) changes to the dividend distribution policy;

vi) issue of securities;

vii) incurring of borrowings;

viii) creation of security over the assets;

ix) transfer or disposal of the assets;

x) approval of asset enhancement and capital expenditure plans for the assets; and

xi) entry into interested party transactions;

---

[8] Other ownership arrangements may be allowed if the arrangements are necessary for the purposes of meeting legal or regulatory requirements in a foreign jurisdiction, or when there are other valid justifications. In such cases, prior consent from the Authority should be sought.

c) a mode for the resolution of disputes between the property fund and joint venture partners.

6.5 Financial derivatives may only be used for the purpose of:

a) hedging existing positions in a portfolio; or

b) EPM, provided that derivatives are not used to gear the overall portfolio.

7 Restrictions and Requirements on Investments/Activities

7.1 A property fund should comply with the following restrictions/ requirements:

a) Subject to paragraph 7.5, at least 75% of the property fund's deposited property should be invested in income-producing real estate; *Revised 28 Sep 2007*

b) A property fund should not undertake property development activities whether on its own, in a joint venture with others, or by investing in unlisted property development companies, unless the property fund intends to hold the developed property upon completion. For this purpose, property development activities do not include refurbishment, retrofitting and renovations; *Incorporated 20 Oct 2005*

c) A property fund should not invest in vacant land and mortgages (except for mortgage-backed securities). This prohibition does not prevent a property fund from investing in real estate to be built on vacant land that has been approved for development or other uncompleted[9] property developments; *Incorporated 20 Oct 2005*

d) The total contract value of property development activities undertaken and investments in uncompleted property developments[10] should not exceed 10% of the property fund's deposited property; and *Incorporated 20 Oct 2005*

e) For investments in permissible investments under paragraph 6.1(c), (d) or (e) (except for deposits placed with eligible financial institutions and investments in high-quality money market instruments or debt securities[11]), not more than 5% of the property fund's deposited property can be invested in any one issuer's securities or any one manager's funds. A corporation and its subsidiary companies are regarded as one issuer or manager. Investments in other property funds should not be made with a view to *Revised 28 Sep 2007*

---

9 An uncompleted property is one that has not been granted a Temporary Occupation Permit or equivalent by the relevant authorities.

10 For the purpose of this paragraph, the value of the investment refers to the contracted purchase price and not the value of progress payments made to date.

11 "Eligible financial institutions" and "high-quality money market instruments or debt security" have the same meaning as in Appendix 3 (Money Market Funds).

circumvent the letter or spirit of the prohibition on interested-party transactions set out in paragraph 5.

7.2 A property fund should not derive more than 10% of its revenue from sources other than[12]: *Incorporated 28 Sep 2007*

a) rental payments from the tenants of the real estate held by the property fund[13]; or

b) interest, dividends, and other similar payments from SPVs and other permissible investments of the property fund.

7.3 The Manager of a property fund may declare a distribution to the participants of the property fund. If the Manager declares a distribution that is in excess of profits, the Manager should certify, in consultation with the Trustee, that it is satisfied on reasonable grounds that, immediately after making the distribution, the property fund will be able to fulfil, from the deposited property of the property fund, the liabilities of the property fund as they fall due. The certification by the Manager should include a description of the distribution policy and the measures and assumptions for deriving the amount available to be distributed from the deposited property of the property fund. The certification should be made at the time the distribution is declared. *Incorporated 28 Sep 2007*

7.4 The investment restrictions/requirements in paragraphs 7.1(d) and (e) are applicable at the time the transactions are entered into. A property fund is not required to divest any assets that breach the restrictions/requirements if such breaches were a result of:

a) the appreciation or depreciation of the value of the property fund's assets;

b) any redemption of units or distributions made from the property fund; or

c) in respect of investments in listed shares of or issued by property and non-property corporations (local or foreign), any changes in the total issued nominal amount of securities arising from rights, bonuses or other benefits that are capital in nature.

7.5 Where as a result of divestment or new issue of units by the property fund, a property fund's investments in real estate fall below 75% of its deposited property, the property fund should increase the proportion of its real estate investments to 75% within: *Revised 28 Sep 2007*

---

12 The expected proportion of revenue from these sources should be fairly stable and not subject to significant fluctuations. If this requirement is breached, the Manager should not take any action that would increase the extent of the breach.

13 This includes income that is ancillary or incidental to the leasing of real estate such as income from use of signage space and advertising contributions by tenants.

a) 12 months if the real estate investments fall to a level between 50% and 75% of the property fund's deposited property; or

b) 24 months if the real estate investments fall below 50% of the property fund's deposited property.

7.6 Paragraph 7.5 would not apply if:

a) in the case of divestment, the property fund offers to return (by way of redemption) or distributes *at least* 70% of the proceeds of the divestment in cash within 12 months [in the case of paragraph 7.5(a)] or 24 months [in the case of paragraph 7.5(b)];

b) in the case of a new issue of units, the property fund offers to return *at least* 70% of the subscription moneys received from such new issue within 12 months [in the case of paragraph 7.5(a)] or 24 months [in the case of paragraph 7.5(b)]; or

c) in the case of either divestment or new issue of units, the property fund is in the process of being wound up.

8 Valuation of the Property Fund's Real Estate Investments

8.1 A full valuation of each of the property fund's real estate assets should be conducted by a valuer *at least* once a year, in accordance with any applicable Code of Practice for such valuations.

8.2 Where the Manager proposes to issue new units for subscription or redeem existing units, and the property fund's real estate assets were valued more than 6 months ago, the Manager should exercise discretion in deciding whether to conduct a desktop valuation of the real estate assets, especially when market conditions indicate that real estate values have changed materially. *Revised 28 Sep 2007*

8.3 A valuer for the purpose of paragraph 8, be it for a full or desktop valuation, should: *Revised 28 Sep 2007*

a) not be a related corporation of or have a relationship with the Manager, adviser or other party/parties whom the property fund is contracting with which, in the opinion of the Trustee, would interfere with the valuer's ability to give an independent and professional valuation of the property;

b) disclose to the Trustee any pending business transactions, contracts under negotiation, other arrangements with the Manager, adviser or other party/parties whom the property fund is contracting with and other factors

that would interfere with the valuer's ability to give an independent and professional valuation of the property. The Trustee should then take such disclosure into account when deciding whether the person concerned is sufficiently independent to act as the valuer for the property fund;

c) be authorised under any law of the state or country where the valuation takes place to practise as a valuer;

d) have the necessary expertise and experience in valuing properties of the type in question and in the relevant area; and

e) not value the same property for more than 2 consecutive years.

8.4 For the avoidance of doubt, an adviser appointed by the Manager pursuant to paragraph 2.2(b) should not value the properties that it recommends to be bought or sold by the property fund. However, that adviser may value the property after it has been acquired by the property fund.

8.5 Subject to paragraph 5.1(d) in respect of interested-party transactions, a property fund should purchase or sell real estate assets at a reasonable price. A "reasonable price" means:

a) in the case of acquisitions, a price not more than 110% of the assessed value (valuer to be commissioned by the property fund) and which assessment is not more than 6 months old; or

b) in the case of disposals, a price not less than 90% of the assessed value assessed (valuer to be commissioned by the property fund) and which assessment is not more than 6 months old.

8.6 For the purpose of paragraph 8.5, the date of acquisition or disposal means the date of the sale and purchase agreement. Where there is more than one valuation conducted by more than one valuer for the same real estate asset, the Manager should use the average of the assessed values.

8.7 Where a real estate asset is to be bought or sold at a price other than that specified in paragraph 8.5, *prior approval* should be obtained from the Trustee.

8.8 Notwithstanding paragraphs 8.1 and 8.2, a valuation of the property fund's real estate assets may be conducted if the Trustee or Manager is of the opinion that it is in the best interest of participants to do so.

9 Aggregate Leverage Limit

Revised 20 Oct 2005

9.1 Borrowings[14] may be used for investment or redemption purposes. A property fund may mortgage its assets to secure such borrowings.

9.2 The total borrowings and deferred payments[15] (together the "aggregate leverage") of a property fund should not exceed 35% of the fund's deposited property. The aggregate leverage of a property fund may exceed 35% of the fund's deposited property (up to a maximum of 60%) only if a credit rating of the property fund from Fitch Inc., Moody's or Standard and Poor's is obtained and disclosed to the public. The property fund should continue to maintain and disclose a credit rating so long as its aggregate leverage exceeds 35% of the fund's deposited property.

9.3 If borrowings are to be used to fund partly or wholly the purchase of a new property, the value of the deposited property used for determining the aggregate leverage may include the value of the new property that is being purchased, provided that:

a) the borrowings are incurred on the same day as that on which the purchase of the property is completed; OR if the borrowings are incurred before the purchase of the property is completed, those borrowings are kept in a separate bank account that is established and kept by the property fund solely for the purpose of depositing such monies;

b) the monies raised by such borrowings are utilised solely for the purchase of the property including related expenses such as stamp duties, legal fees and fees of experts and advisers (all of which must be determined on an arm's length basis) and for no other purpose; and

c) if borrowings are incurred before the new property is purchased and the manager subsequently becomes aware or ought reasonably to have become aware that the purchase will not take place, the manager must return the monies raised by such borrowings as soon as practicable.

9.4 The aggregate leverage limit is not considered to be breached if due to circumstances beyond the control of the manager the following occurs:

a) a depreciation in the asset value of the property fund; or

b) any redemption of units or payments made from the property fund.

---

[14] Bonds, notes, syndicated loans, bilateral loans or other debt. Bonds/notes may be issued, directly by the fund or indirectly via an SPV.

[15] Deferred payments include deferred payments for assets whether to be settled in cash or in units of the property fund.

If the aggregate leverage limit is exceeded as a result of (a) or (b) above, the manager should not incur additional borrowings or enter into further deferred payment arrangements.

9.5 For the purpose of calculating the aggregate leverage to determine compliance with the aggregate leverage limit, if a property fund invests in real estate through shareholdings in unlisted SPVs, the aggregate leverage of all SPVs held by the property fund shall be aggregated on a proportionate basis based on the property fund's share of each SPV. For the avoidance of doubt, the assets of such SPVs should also be aggregated on a proportionate basis based on the property fund's share of each SPV.

10 Redemption Requirements for Unlisted Property Funds

Revised 20 Oct 2005

10.1 In respect of unlisted property funds, Managers should offer to redeem units *at least* once a year in accordance with paragraphs 10.2 and 10.3.

10.2 Any offer to redeem units pursuant to paragraph 10.1 should be sent to participants with adequate notice, and should state:

a) the indicative price at which each unit will be redeemed;

b) the period during which the offer will remain open (this period should last for *at least* 21 calendar days, but in no case should it remain open for more than 35 calendar days, after the offer is made);

c) the assets and/or borrowings that will be used to satisfy the minimum amount of redemption requests stipulated in paragraph 10.3 or a greater amount proposed by the Manager, as the case may be. In the case of non-cash assets, the amount of money that is expected to be available from the sale of such assets should be stated;

d) subject to the minimum amount stipulated in paragraph 10.3, that if the money available (from cash, sale of non-cash assets and/or borrowings earmarked in sub-paragraph (c)), is insufficient to satisfy all redemption requests, the requests are to be satisfied on a pro-rata basis. For this purpose, no redemption requests made pursuant to the offer may be satisfied until after the close of the offer period;

e) that the actual price at which the units will eventually be redeemed (as determined by reference to the latest valuations available of the property fund's portfolio of assets after deducting appropriate transaction costs) may differ from the indicative price in sub-paragraph (a) due to changes in the values of the property fund's assets during the offer period;

f) that the participant should elect, at the same time, whether or not he wishes to proceed with the redemption if his entire redemption request cannot be met; and

g) that redemption requests made pursuant to the offer will be satisfied within 30 calendar days after the closing date of the offer. Such period may be extended to 60 calendar days after the closing date of the offer if the Manager satisfies the Trustee that such extension is in the best interest of the property fund. The redemption period may be extended beyond 60 calendar days after the closing date of the offer if such extension is approved by participants.

10.3 In respect of any offer to redeem units pursuant to paragraph 10.1, *at least* 10% of the property fund's deposited property should be offered. Where the total amount of redemption requests received by the Manager is for less than 10%, all redemption requests should be met in full.

11 Disclosure Requirements

11.1 Paragraph 3.3(b), 4.2(b), 7.1 and 7.2 of this Code (in respect of the sending, preparation and content of semi-annual reports) will not apply to a property fund. *Revised 22 Dec 2003*

11.2 An annual report should be prepared by the manager at the end of each financial year, disclosing:

a) details of <u>all</u> real estate transactions entered into during the year, including the identity of the buyers/sellers, purchase/sale prices, and their valuations (including the methods used to value the assets);

b) details of <u>all</u> the property fund's real estate assets, including the location of such assets, their purchase prices and latest valuations, rentals received and occupancy rates, and/or the remaining terms of the property fund's leasehold properties[16] (where applicable); *Revised 20 Oct 2005*

c) the tenant profile of the property fund's real estate assets, including the: *Incorporated 20 Oct 2005*

   i) total number of tenants;

---

[16] In order to facilitate more meaningful comparisons between different Property Funds, the annual report should disclose details of the property fund's investments in leasehold properties. The disclosure should be informative and meaningful, so that participants are provided details of the unexpired lease terms of leasehold properties. One approach would be to provide the proportion of the property fund invested in leasehold properties and the weighted average unexpired lease term of these assets.

ii) top ten tenants, and the percentage of total gross rental income attributable to each of these top ten tenants;

iii) trade sector mix of tenants, in terms of the percentage of total gross rental income attributable to major trade sectors; and

iv) lease maturity profile, in terms of the percentage of total gross rental income, for each of the next five years;

d) in respect of the other assets of a property fund, details of the:

i) 10 most significant holdings (including the amount and percentage of fund size at market valuation); and

ii) distribution of investments in dollar and percentage terms by country, asset class (e.g. equities, mortgage-backed securities, bonds, etc.) and by credit rating of all debt securities (e.g. "AAA", "AA", etc.);

e) details of the property fund's exposure to financial derivatives, including the amount (i.e. net total aggregate value of contract prices) and percentage of derivatives investment of total fund size and at market valuation;

f) details of the property fund's investment in other property funds, including the amount and percentage of total fund size invested in;

g) details of borrowings of the property fund;

h) details of deferred payment arrangements entered into by the property fund (if applicable); *Incorporated 20 Oct 2005*

i) the total operating expenses of the property fund, including all fees and charges paid to the Manager, adviser and interested parties (if any), and taxation incurred in relation to the property fund's real estate assets;

j) the performance of the property fund in a consistent format, covering various periods of time (e.g. 1-year, 3-year, 5-year or 10-year) whereby:

i) in the case of an <u>unlisted</u> property fund, such performance is calculated on an "offer to bid" basis over the period[17]; or

[17] For the purpose of comparing the property trust's performance with an index or other property funds, such comparisons should be made based on the requirements set out in Regulation 26 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005.

ii) in the case of a listed property fund, such performance is calculated on the change in the unit price transacted on the stock exchange over the period[18].

Calculation of fund performance should include any dividends/distributions made assuming that they were reinvested into the property fund on the day they were paid out[19];

k) its NAV per unit at the beginning and end of the financial year; and

l) where the property fund is listed, the unit price quoted on the exchange at the beginning and end of the financial year, the highest and lowest unit price and the volume traded during the financial year.

11.3 The Third Schedule of the SFR requires the prospectus to disclose the risks specific to investing in property funds. Some examples of such risks (list is not exhaustive; to be explained in relation to the property fund being offered, where appropriate) include the following: *Incorporated 28 Mar 2003*

a) *Diversification* – Property funds tend to be less well-diversified than general securities funds.

b) *High gearing* – Property funds tend to be more highly geared than general securities funds. This could be risky if interest rates rise sharply.

c) *Valuation* – Property valuation, which affects the offer price of units in a property fund, is subjective.

d) *Illiquidity of properties* – The underlying properties in a property fund are often illiquid. Property may have to be sold to make distributions if market conditions change, or to meet redemptions if the fund is unlisted or delisted; the property fund may be unable to do this expediently where the need arises.

11.4 Where the Manager intends to charge or has received a fee upon the property fund's acquisition of real estate assets, the following should be disclosed, in percentage terms and/or dollar value and in tabular form, in the offering document, circular to participants or other relevant reports or documents to participants: *Incorporated 20 Oct 2005*

---

[18] This should be based on the closing price on the last day of the preceding reporting period (or in the case of a new fund, the opening price on the first day of trading) compared with the closing price on the last day of the current period.

[19] The price at which dividends/distributions are assumed to be reinvested should be the bid price (in the case of an unlisted property fund) or the closing price of the unit traded on SGX (in the case of a listed property fund) on the ex-dividend or ex-distribution date.

a) acquisition fee payable to the Manager; and

b) if a profit forecast is made,

i) the expected incremental income to the property fund; and

ii) the expected incremental base and performance fee payable to the Manager.

11.5 Where the Manager intends to charge or has received a fee upon the property fund's disposal of real estate assets, such fee (in percentage terms and/or dollar value) should be disclosed in the offering document, circular to participants or other relevant reports or documents to participants. An explanation of how the disposal would be in the interests of participants should also be included. *Incorporated 20 Oct 2005*

11.6 Where forecasts of distribution yields are provided in offering documents, circulars, announcements, marketing materials or other relevant reports or documents to participants, there should be clear and prominent disclosure of any existing or proposed arrangement that materially enhances short-term yields while potentially diluting longer-term yields. In addition, for offering documents and circulars, disclosures should include the risks associated with such arrangements and an analysis of how the arrangements may affect current and future yields. The analysis should include a computation of the forecast distribution yield assuming that the arrangements are not in place.[20] *Incorporated 28 Sep 2007*

11.7 Where there is a management agreement between the property fund and the Manager, there should be clear and prominent disclosure of the terms of the management agreement and the basis for computing the compensation, if any, due to the Manager for termination of services during the term of the management agreement. Such disclosure should be made in offering documents, circulars or other relevant reports or documents to participants. *Incorporated 28 Sep 2007*

12 Discounts

Incorporated 28 Sep 2007

12.1 Discounts should not be offered to any institutional investor for subscribing for units in the property fund at the time of listing of the property fund. Where subscriptions by the institutional investors are made prior to the listing and such investors assume risks of non-completion of the listing and/or have to pay for the units regardless of whether the property fund is subsequently listed, this prohibition will not apply.

---

[20] For the avoidance of doubt, the requirements in this paragraph do not apply to arrangements that are entered into purely for hedging purposes.

13 Consultation with Authority

Revised 28 Sep 2007

13.1 Where the Manager intends to incorporate features which may be inconsistent with the principle that all participants should be treated fairly and equitably or which may make less apparent the value of a proposed transaction, the Authority should be consulted in advance.

Annex 2A: Information on the Property Fund and the Manager

Revised 22 Dec 2006

I Explanatory Notes

1. The manager of a property fund should submit this form together with Form 1 of the Securities and Futures (Offers of Investments)(Collective Investment Schemes) Regulations when making an application for authorization of a property fund under section 286(1) of the Securities and Futures Act (Cap. 289).
2. All questions must be answered. If a question is not applicable, please mark "N.A." in the space provided.
3. Please tick (✓) in the relevant boxes where appropriate.
4. This form is to be completed by the manager of the property fund and signed by 2 directors or a director and a secretary of the manager.

II Information on the Property Fund Manager

If the answer to any of the following questions is in the negative, please attach annexes and supporting documents, where appropriate, to provide all relevant particulars.

1. Is the manager a corporation that has a physical office in Singapore?

   Yes ❑ No ❑

2. Does the manager have shareholders' funds of at least S$1 million?

   Yes ❑ No ❑

3. Does the manager have a designated chief executive officer ["CEO"] who is based in Singapore?

   Yes ❑ No ❑

4. Does the manager have at least 2 full-time professional employees [1] in Singapore?

   Yes ❑ No ❑

[1] Professional employees refer to employees who are engaged in the investment management, asset management, financing, marketing and investor relations functions on behalf of the property fund manager.

5. Please indicate which of the following activities[2] are conducted by the manager solely in Singapore. For activities that are not carried out solely in Singapore, please describe the role of the Singapore office in these activities.

❑ Financing	❑ Compliance
❑ Investment Management	❑ Accounting
❑ Asset Management	❑ Investor Relations

6. Please set out any additional information on the manager that is relevant or material.

III Information on the Shareholders, Chief Executive Officer, Directors and Professional Employees of the Property Fund Manager

If the answer to any of the following questions is in the affirmative, attach annexes and supporting documents, where appropriate, to provide all relevant particulars.

1. Within the past 10 years, has the property fund manager or any of its shareholders who is an individual or a corporation (including the corporation's related corporations), or any director or CEO and professional employees of the manager-

(a) been licensed, registered or approved under a law in any jurisdiction which requires licensing, registration or approval in relation to any regulated activity?

Yes ❑ No ❑

(b) been licensed, registered, or otherwise authorised by law to carry on any trade, business (including sole proprietorships and partnerships) or profession (including, accountancy, engineering, law and architecture) in any jurisdiction?

Yes ❑ No ❑

(c) been a shareholder of any corporation which holds membership of any class or description of any operator of a market or clearing facility?

Yes ❑ No ❑

---

[2] For ease of reference the definition for some of the activities are:

Financing	– refers to the raising of debt and equity
Investment Management	– refers to the identification and evaluation of new investment opportunities
Asset Management	– refers to the management of the existing real estate portfolios
Compliance	– refers to the function of overseeing adherence to the various listing requirements and rules required by the applicable authorities
Investor Relations	– refers to the maintenance of communication channels and relationships with investors

(d) carried on business under any name other than the name stated in this application?

Yes ❑ No ❑

(e) been refused the right or restricted in their right to carry on any trade, business or profession for which a specific licence, registration or other authorisation is required by law in any jurisdiction?

Yes ❑ No ❑

(f) been issued a prohibition order under any Act administered by the Authority or been prohibited from operating in any jurisdiction by any financial services regulatory authority?

Yes ❑ No ❑

(g) been censured, disciplined, suspended or refused membership or registration by the Authority, any other regulatory authority, operator of a market or clearing facility, professional body or government agency, in Singapore or elsewhere?

Yes ❑ No ❑

(h) been the subject of any complaint made reasonably and in good faith, relating to activities that are regulated by the Authority or under any law in any jurisdiction?

Yes ❑ No ❑

(i) been the subject of any proceedings of a disciplinary or criminal nature or been notified of any potential proceedings or of any investigation which might lead to those proceedings, under any law in any jurisdiction?

Yes ❑ No ❑

(j) been convicted of any offence, or is being subject to any pending proceedings which may lead to such a conviction, under any law in any jurisdiction?

Yes ❑ No ❑

(k) had any judgment (including a finding of fraud, misrepresentation, or dishonesty) entered against him in any civil proceedings or is a party to any pending proceedings which may lead to such a judgment, under any law in any jurisdiction?

Yes ❑ No ❑

(l) had any civil penalty enforcement action taken against him by the Authority or any other regulatory authority under any law in any jurisdiction?

Yes ❑ No ❑

(m) contravened or abetted another person in breach of any laws or regulations, business rules or codes of conduct, in Singapore or elsewhere?

Yes ❑ No ❑

(n) been the subject of any investigations or disciplinary proceedings or been issued a warning or reprimand by the Authority, any other regulatory authority, operator of a market or clearing facility, professional body or government agency, in Singapore or elsewhere?

Yes ❑ No ❑

(o) been refused a fidelity or surety bond, in Singapore or elsewhere?

Yes ❑ No ❑

(p) been a director, partner or concerned in the management of a business that has been censured, disciplined, suspended or refused membership or registration by the Authority, any other regulatory authority, operator of a market or clearing facility, professional body or government agency, in Singapore or elsewhere?

Yes ❑ No ❑

(q) been a director, partner or concerned in the management of a business that has gone into insolvency, liquidation or administration during the period, or within a period of one year, when he was a director, partner or concerned in the management of the business, in Singapore or elsewhere?

Yes ❑ No ❑

(r) been dismissed or asked to resign from office, employment, a position of trust, or a fiduciary appointment or similar position, in Singapore or elsewhere?

Yes ❑ No ❑

(s) been subject to disciplinary proceedings by their current or former employer(s), in Singapore or elsewhere?

Yes ❑ No ❑

(t) been disqualified from acting as a director or disqualified from acting in any managerial capacity, in Singapore or elsewhere?

Yes ❑ No ❑

(u) been an officer found liable for an offence committed by a body corporate as a result of the offence having proved to have been committed with the consent or connivance of, or neglect attributable to, the officer, in Singapore or elsewhere?

Yes ❑ No ❑

(v) been declared an undischarged bankrupt, entered into a compromise or scheme of arrangement with their creditors or made an assignment for the benefit of their creditors, in Singapore or elsewhere?

Yes ❑ No ❑

2. Is/has the property fund manager or any of its individual substantial shareholders, corporate substantial shareholders, or any director, CEO or professional employees of the manager-

(a) unable to fulfill any of their financial obligations, in Singapore or elsewhere?

Yes ❑ No ❑

(b) entered into a compromise or scheme of arrangement with their creditors, being a compromise or scheme of arrangement that is still in operation, in Singapore or elsewhere?

Yes ❑ No ❑

(c) subject to a judgment debt which is unsatisfied, either in whole or in part, in Singapore or elsewhere?

Yes ❑ No ❑

(d) in the course of being wound-up or otherwise dissolved, in Singapore or elsewhere?

Yes ❑ No ❑

(e) a corporation that has a receiver, receiver and manager, judicial manager, or such other person having the powers and duties of a receiver, receiver and manager, or judicial manager, appointed in relation to, or in respect of any property of, the corporation, in Singapore or elsewhere?

Yes ❑ No ❑

(f) the subject of a bankruptcy petition or been declared a bankrupt and the bankruptcy is undischarged, in Singapore or elsewhere?

Yes ❑ No ❑

IV Additional Information on the Chief Executive Officer, Directors and Professional Employees of the Property Fund Manager

1. Please provide the personal particulars, educational and professional qualifications, employment history, and directorship and shareholdings of the CEO, directors and professional employees in the format set out in pages five to eight. Please use one copy for each appointee and attach as many copies as may be needed.

   (a) Personal Particulars

(i)	Full name of appointee, including any alias and other names (underline family name)	
(ii)	Nature of appointment	❑ CEO ❑ Director (state nature of appointment: _____) ❑ Employee (state designation: _____)
(iii)	Residential Address	
(iv)	Contact No(s).	
(v)	E-mail Address	
(vi)	Date of Birth (dd/mm/yy)	
(vii)	Sex	❑ Male ❑ Female
(viii)	Place of Birth	

(ix)	Nationality (for non-Singapore citizens, state whether you are a Singapore permanent resident)	
(x)	Identity Card No.	
(xi)	Passport No. (for non-Singapore citizen)	
(xii)	Unique Identification No. (UIN, for Singapore permanent resident where applicable)	
(xiii)	For appointee who is not a Singapore citizen or permanent resident, has the appointee obtained Employment Pass (EP)?	❑ Yes Immigration Ref. No.: _____ Date of grant of EP: _____ Expiry date of EP: _____ ❑ No but has applied for EP. Date of application for EP: _____ ❑ No and has not applied for EP. Reason(s) for not applying: _____

(xiv) Whether appointee is permanent resident in another country and if so which country	
(xv) Name of appointee's spouse (underline family name)	
(xvi) Date of Birth (dd/mm/yy)	
(xvii) Place of Birth	
(xviii) Nationality (for non-Singapore citizens, state whether spouse is a Singapore permanent resident)	
(xix) Identity Card No.	
(xx) Passport No. (for non-Singapore citizen)	
(xxi) Occupation	
(xxii) Name of employer	

(b) Educational and Professional Qualifications

(i) Set out below details of highest academic and professional qualifications attained and enclose copies of all relevant certificates.

Name and location of school/college/university	Period (mm/yy)		Certificate/diploma/ degree awarded
	From	To	
Professional qualifications	Institution		Year conferred

(c) Employment History

(i) Set out details of the appointee's employment history (including periods of part-time employment or unemployment), business and other activities during the past 10 years. *For professional employees currently employed by a corporation other than the property fund manager, state when the employee will resign from the current employment.*

Name and address of employer (if self-employed, state so)	Nature of business of employer	Designation and Department	Brief description of duties	Period (mm/yy)	
				From	To

(d) Directorship and Shareholdings

(i) Set out details of any directorship or shareholdings where 5% or more of the total number of voting shares are held by the person in any corporation in Singapore or elsewhere.

Name of corporation and place of incorporation	Nature of business	Directorship (executive/ non-executive)	Date of appointment	Percentage shareholding in corporation

(ii) Is there/will there be any potential areas of conflicts of interest arising from the person's proposed duties with the property fund manager and his directorship(s) and shareholding(s) as stated above? If yes, please elaborate. Yes ❑ No ❑

(iii) Does the person or any corporation in which the person controls not less than 20% of the total number of voting shares, have a beneficial interest, at the time of submission of this form, whether direct or indirect, in not less than 5% of the total number of voting shares of any corporation listed for quotation or quoted on a securities exchange? Yes ❑ No ❑

V Information on the Property Fund

1. Please provide a list of real estate assets (including the address and value) held/to be held by the property fund and state whether each of them is held directly or indirectly through a shareholding in a special purpose vehicle.

_____

Section 329(3) of the Securities and Futures Act (Cap. 289) requires any person who signs a document lodged with the Authority to use due care in ensuring that the document is not false or misleading in any material particular. Any person who fails to do so shall be guilty of an offence and shall be liable on conviction to a fine not exceeding $50,000 or to imprisonment for a term not exceeding 2 years or to both.

We declare to the best of our knowledge and belief that all information given in this form and in the attached annex(es) is true and correct.

Dated this _____ day of _____ 20 _____.

Signature: _____ Signature: _____

_____ _____

(Name of Director) (Name of Director/Secretary*)

*Please delete whichever is inapplicable

Appendix 3: Money Market Funds

1 Scope and Definitions

1.1 This Appendix sets out, among other things, the permissible investments, term to maturity of investments, single party and borrowing limits for money market funds. A money market fund is a collective investment scheme whose objective is to invest primarily in high-quality short-term money market instruments and debt securities and/or place short term deposits with well-rated financial institutions and not to gain from changes in exchange rates.

1.2 This Appendix does not apply to schemes that invest in money market instruments and debt securities as part of a diversified portfolio and those whose objective is to invest in riskier, higher interest-yielding money market instruments and debt securities. The applicable provisions for such schemes are set out in Appendix 1.

2 Name and Description of Scheme

2.1 The name of a money market fund should not appear to draw a parallel with the placement of cash on deposit.

2.2 A scheme that does not comply with the guidelines in this Appendix should not hold itself out as a money market fund in any communication (including marketing material) relating to the scheme. Such a scheme should not adopt the term "money market" as part of its name, or a name that suggests that it is a money market fund or the equivalent of a money market fund e.g. names with terms such as "cash" or "liquid" are not allowed.

3 Definitions

For the purposes of this Appendix,

a) **Permissible investments** are deposits with financial institutions and money market instruments or debt securities such as government and corporate bonds, Treasury bills, bank certificates of deposit, banker's acceptances, floating rate notes, commercial papers, trade bills, asset backed securities and repurchase agreements;

b) A **high-quality money market instrument or debt security** is one:

   i) with either a minimum short-term credit rating of F2 by Fitch Inc or A2 by Standard and Poor's (including such sub-categories or

gradations therein), or where it only has a long-term credit rating, such a rating of A by Fitch Inc, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein);

ii) issued by supranational agencies or other foreign entities and rated other than by the credit rating organisations specified in b(i) above, for which the manager has satisfied the trustee that the quality of the security is comparable to those with the ratings specified in b(i) above; or

iii) issued by a Singapore entity, including the Singapore Government and statutory boards, and is not rated, for which the manager has satisfied the trustee that the quality of the security is comparable to those with the ratings specified in b(i) above.

c) An **eligible financial institution** is

i) a financial institution with either a minimum short-term issuer credit rating of F2 by Fitch Inc or A2 by Standard and Poor's, or a minimum short-term bank deposit rating of Prime-2 by Moody's (including such sub-categories or gradations therein); or

ii) a financial institution rated other than by the credit rating organisations specified in c(i) above for which the manager has satisfied the trustee that its short-term issuer credit rating is comparable to the ratings in c(i) above ; or

iii) a Singapore-incorporated bank licensed under the Banking Act (Cap.19) which is not rated, but has been approved under the Central Provident Fund ("CPF") Investment Scheme to accept fixed deposits.

d) An **organised market** is an exchange or over-the-counter market that is of good repute, open to the public or a substantial number of market participants and on which money market instruments or securities are regularly traded and any government securities market.

4 Permissible Investments

4.1 A money market fund can only invest in permissible investments. At least 90% of the deposited property of a money market fund must be deposited with eligible financial institutions and/or invested in high-quality money market instruments and debt securities traded on an organised market. The remainder of up to 10% of the deposited property of a money market fund may be invested in

high-quality debt instruments and money market instruments not traded on an organised market.

4.2 Where a money market fund invests in repurchase agreements these should be fully collateralised, and such collateral can either be in cash and/or permissible investments. In addition, the following conditions should be met:

a) the collateral should be marked to market daily;

b) the trustee (or its representative) should take delivery of the collateral; and

c) cash collateral should be invested only in permissible investments.

5 Use of Financial Derivatives

The scheme may only invest in financial derivatives for the purpose of:

a) hedging existing positions in a portfolio; or

b) EPM, provided that derivatives are not used to gear the overall portfolio.

6 Term to Maturity of Investments

6.1 At least 90% of the deposited property of a money market fund must be invested in permissible investments which have a remaining term to maturity of not more than 366 calendar days. The remainder of up to 10% of the deposited property of a money market fund may be invested in permissible investments with a remaining term to maturity of not more than 732 calendar days.

6.2 “Remaining term to maturity” in the case of

i) an investment in another money market fund, is that period of time within which the acquired money market fund is required to make payment upon redemption of units;

ii) an investment in an instrument with a put option, is the period remaining to the exercise date of the option.

7 Single Party Limits

For the purposes of paragraph 7, a corporation and its subsidiaries are regarded as one party.

7.1 Except as provided for in paragraph 7.2 and 7.3:

a) not more than 10% of the deposited property of a money market fund should consist of obligations of the same party;

b) where a money market fund places Singapore-dollar deposits with a bank in Singapore as defined in the Banking Act, Cap.19 ("Singapore-dollar deposits with a bank in Singapore") such deposits may constitute 20% of the deposited property of the money market fund; or

c) where a money market fund places Singapore-dollar deposits with, and invests in other instruments ("non-deposit investments") issued by, a bank in Singapore, the combined value of the deposits and non-deposit investments should not exceed 20% of the deposited property of the money market fund and the non-deposit investments should not exceed 10% of the deposited property of the money market fund.

7.2 The 20% limit in paragraph 7.1(b) and (c) can be increased to 30% if:

a) the Singapore-dollar deposits are placed with a bank in Singapore which has or in the case of a branch in Singapore, where the foreign bank has either a minimum short-term issuer rating of F-1 by Fitch Inc or A-1 by Standard & Poor's, or a minimum short-term bank deposit rating of Prime-1 by Moody's; and

b) the law in the foreign bank's place of incorporation (in the case of a bank in Singapore which is a branch of a foreign bank) accords domestic and foreign depositors equal priority to claims on the assets of the bank in the event of insolvency.

7.3 The 10% single party limit in paragraph 7.1(a) does not apply to securities issued or guaranteed by a government, supra-national agency or public authority where the securities have received:

a) either short-term credit ratings of at least F1 by Fitch Inc or A1 by Standard and Poor's; or

b) where they only have long-term credit ratings, either ratings of at least AAA by Fitch Inc, Aaa by Moody's or AAA by Standard and Poor's.

For these securities, no more than 30% of the deposited property of the money market fund should be invested in the same issue of securities and the scheme's holding of each issue should not in any case be more than 10% of the size of that issue. For the avoidance of doubt, different issues under the same note or bond programme are considered as separate issues unless they carry the same terms and have the same maturity date.

8 Borrowings

A money market fund may borrow only for the purposes of meeting redemptions and short-term (not more than 4 weeks) bridging requirements. Aggregate borrowings, including repurchase agreements entered into by the money market fund, for such purposes should not exceed 10% of the deposited property of the scheme at the time the borrowing is incurred.

9 Breach of Limits

9.1 The permissible investments, term to maturity of investments, single party and borrowing limits in paragraphs 4.1, 6.1, 7 and 8 are applicable at the time the transactions are entered into. Where any of these limits are breached as a result of:

a) the appreciation or depreciation of the value of the scheme's assets; or

b) any redemption of units or distributions made from the scheme,

the manager should not enter into any transaction that would increase the extent to which the relevant limit is breached. In addition, the manager should, within a reasonable period of time but no later than 3 months from the date of the breach, take action as is necessary to rectify the breach. This period may be extended if the manager satisfies the trustee that it is in the best interest of the participants. Such extension should be subject to monthly review by the trustee.

9.2 Where:

a) an investment of a money market fund ceases to be a high-quality money market instrument or debt security or where the ratings of a debt security falls below those set out in paragraph 7.3;

b) a money market fund has placed deposits with a financial institution:

   i) which ceases to be an eligible financial institution; or

   ii) whose rating falls below those specified in paragraph 7.2;

c) there is a default with respect to an instrument or security in the portfolio of the scheme; or

d) an event of insolvency occurs with respect to the issuer of an instrument or security in the portfolio of the scheme,

the manager should within 1 month from the date of the specified event dispose of such instrument or security or withdraw such deposit, *unless* the manager has satisfied the trustee that it is not in the best interest of the participants to do so, in which case, such disposal or withdrawal should be carried out as soon as the circumstances permit or as soon as it is not commercially punitive.

10 Disclosure Requirements

Revised 22 Dec 2003

In addition to the disclosure provisions set out in this Code, the manager should disclose in the semi-annual and annual reports to the participants:

a) the distribution of investments in dollar and percentage terms by:

   i) the type of money market instruments and debt securities; and

   ii) the credit rating of all money market instruments such as “AAA”, “AA”, “A” etc; and

b) general details on the term to maturity profile of the scheme’s portfolio of investments, such as the distribution of investments grouped by similar maturities, e.g. up to 30 days, 31 - 60 days, 61 - 90 days, 91 - 120 days, 121 - 180 days, etc.

Revised
5 Dec 2002

Appendix 4: Hedge Funds

A. General

1 Scope

There are different characteristics and investment strategies that define hedge funds. In general, a hedge fund seeks to deliver an "absolute" return independent of the directional move of equity, fixed income or cash markets. In considering whether a fund falls within these Guidelines, the Authority would look at, among other aspects, the following:

a) strategies that use leverage, short selling, arbitrage, derivatives; and

b) investment in non-mainstream asset classes i.e. investments other than listed equities, bonds and cash.

2 Disclosure

Prospectus

2.1 Appendix 4 of the Third Schedule of the SFR requires the prospectus to state the material differences between the hedge fund and other types of collective investment schemes. Some examples of material differences (list is not exhaustive) that should be highlighted, where applicable, include:

a) some of the underlying investments may not be actively traded and there may be uncertainties involved in the valuation of such investments;

b) compared to other types of schemes, relatively little information on how the hedge fund and underlying hedge funds are managed will be available;

c) there is limited liquidity;

d) the redemption price may be affected by fluctuations in value of the underlying investments from the time a redemption request is submitted and the date the redemption price is determined;

e) most of the underlying hedge funds are subject to minimal regulation;

f) the performance of the hedge fund is dependent substantially on individual fund managers; and

g) the hedge fund of funds manager receives compensation from the managers to which it is allocating.

2.2 Disclosure in the prospectus should be clear and in plain English.

Marketing material

2.3 All marketing material for a hedge fund should:

a) state the fees and charges payable,

b) state that an investment in the hedge fund carries risks of a different nature from other types of collective investment schemes which invest in listed securities and do not engage in short selling. The hedge fund may not be suitable for persons who are averse to such risks;

c) state that in the case where the hedge fund is:

i) not capital guaranteed or capital protected, investors **may lose all or a large part of their investment** in the hedge fund; or

ii) capital guaranteed or capital protected, investors are subject to the credit risk of the guarantor or default risk of the issuer of the securities providing the protection;

d) state that an investment in the hedge fund is not intended to be a complete investment programme for any investor and prospective investors should carefully consider whether an investment in the hedge fund is suitable for them in the light of their own circumstances, financial resources and entire investment programme; and

e) make reference to the other inherent risks of investing in the hedge fund.

Accounts and reports

Incorporated 21 Mar 2005

2.4 The manager should prepare the accounts and reports in the manner prescribed in Annex 4a: Reporting for Hedge Funds.

B. Single Hedge Funds

1 Minimum Subscription Requirement

Single hedge funds should be offered with a minimum initial subscription of S$100,000 per investor. The minimum holding at any one time should be the

lesser of S$100,000 or the number of units purchased for S$100,000 at the time of subscription.

2 Manager

2.1 The manager of a single hedge fund should have expertise in managing such schemes. Where investment decisions are outsourced to a sub-manager or adviser, the sub-manager or adviser should have expertise in managing such schemes.

2.2 In assessing expertise, the Authority would consider the professional experience, qualifications, assets under management and performance history of the manager or its sub-manager or adviser.

2.3 The manager, or where investment decisions are outsourced to a sub-manager or adviser, the sub-manager or adviser, should have at least 2 executives who each have at least 5 years of experience in the management of hedge funds.

3 Investment in Another Scheme

A Singapore single hedge fund may invest in another single hedge fund which is not a feeder fund.

4 Risk Management and Monitoring Procedures and Internal Controls

4.1 The manager of a hedge fund should have in place proper risk management and monitoring procedures and internal controls.

4.2 The Authority will require senior management of a hedge fund manager to certify annually that the procedures and controls for monitoring the management and risk of the fund are as set out in the prospectus.

5 Borrowings

A single hedge fund may be leveraged up to the extent disclosed in the prospectus.

6 Dealing

There must be at least one regular dealing day per quarter. In addition, redemption proceeds must be paid to the end investor within 95 days from the dealing day the redemption request is accepted.

7 Limited Liability

The liability of investors must be limited to their investment in the scheme. For this purpose, the constitutive documents of the scheme should contain a provision limiting the liability of investors to their investment in the scheme.

C. Hedge Fund-Of-Funds ("FOHF")

1 Definition of a FOHF

An FOHF is a portfolio in which a professional manager will allocate capital across a range of hedge funds, which in turn may invest in a wide range of investment markets using differing techniques. The manager will be responsible for deciding which investment strategies should be invested in as well as selection of the most appropriate hedge funds for the chosen strategy.

2 Minimum Subscription Requirement

An FOHF should be offered with a minimum initial subscription of S$20,000 per investor. The minimum holding at any one time should be the lesser of S$20,000 or the number of units purchased for S$20,000 at the time of subscription.

3 Diversification

3.1 An FOHF should have diversification as one of its key objectives. The manager should have in place strategies to achieve adequate diversification and ensure that the fund is so diversified at all times.

3.2 In submitting an application to the Authority for a FOHF, the manager should set out the:

a) method of diversification or intended diversification (in the case of new schemes) e.g. by investing in various strategies or investment styles;

b) objective criteria which the manager would adhere to in ensuring that diversification is achieved e.g. not more than x% will be invested in any one strategy or investment style; and

c) for existing funds, past data demonstrating the said diversification.

3.3 An FOHF should be diversified across at least 15 hedge fund managers or have not more than 8% allocated to a single hedge fund manager.

4 Manager

4.1 The manager of an FOHF should have expertise in managing such schemes. Where investment decisions are outsourced to a sub-manager or adviser, the sub-manager or adviser should have expertise in managing such schemes.

4.2 In assessing expertise, the Authority would consider the professional experience, qualifications, assets under management and performance history of the manager or its sub-manager or adviser.

4.3 The manager, or where investment decisions are outsourced to a sub-manager, the sub-manager, of an FOHF should have at least 2 executives who each have at least 5 years of experience in the management of hedge funds, of which at least 3 years must be in the management of FOHFs.

5 Investment in Another Scheme

A Singapore FOHF may invest in another FOHF which should only invest directly in other hedge funds and not through another FOHF or a feeder fund.

6 Risk Management and Monitoring Procedures and Internal Controls

6.1 The manager of a hedge fund should have in place proper risk management and monitoring procedures and internal controls. In particular, for an FOHF, the manager must have a proper due diligence process for the selection of the underlying managers and funds and ongoing monitoring of the underlying manager's management of the funds.

6.2 The Authority will require senior management of a hedge fund manager to certify annually that the procedures and controls for monitoring the management and risk of the fund are as set out in the prospectus. Where a Singapore FOHF invests in other FOHFs, the manager of the underlying FOHF must also submit such certification.

7 Borrowings

The underlying funds of an FOHF may be leveraged up to the extent disclosed in the prospectus. An FOHF may borrow only for the purposes of meeting redemptions and short-term (not more than 3 months) bridging requirements. Aggregate borrowings for such purposes should not exceed 25% of the deposited property of the FOHF at the time the borrowing is incurred.

8 Dealing

There must be at least one regular dealing day per quarter. In addition, redemption proceeds must be paid to the end investor within 95 days from the dealing day the redemption request is accepted.

9 Limited Liability

The liability of investors must be limited to their investment in the scheme. For this purpose, the constitutive documents of the scheme should contain a provision limiting the liability of investors to their investment in the scheme.

D. Capital Protected or Capital Guaranteed Single Hedge Funds and FOHF

1 Scope

1.1 The requirements for single hedge funds and FOHF in Parts B and C respectively apply to such funds which are capital protected or capital guaranteed.

1.2 *However, capital guaranteed and certain capital protected hedge funds are less risky in that the initial capital invested will normally be returned to investors at maturity of the scheme. Hence, the minimum subscription requirement for single hedge funds and FOHF may be waived where certain criteria are met.*

1.3 Protection covering at least 100% (less front end charges) of the amount invested by an investor is required for the minimum subscription requirement of $100,000 (single hedge funds) or $20,000 (FOHF) to be waived.

2 Capital Protected Hedge Funds

2.1 Capital protection should be afforded to an investor by way of fixed income instruments where up to 10% of the deposited property of the scheme may consist of fixed income instruments issued by any entity, except that:

a) in the case of structured products only, up to one-third of the deposited property of the scheme may be invested or placed with:

i) an issuer which is a corporation, government, government agency or supranational that has a minimum long-term issuer rating of A by Fitch Inc, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein); or

ii) a financial institution with a minimum individual rating of B by Fitch Inc, a financial strength rating of B by Moody's or a long-term issuer rating of AA by Standard and Poor's; or

iii) up to 100% of the deposited property of the scheme may be invested with an issuer if the issuer is, or the issue has the benefit of a guarantee from, either a government, government agency, or supranational that has a minimum long-term issuer rating of AA by Fitch Inc, Aa by Moody's or AA by Standard and Poor's (including such sub-categories or gradations therein).

2.2 The proportion to be invested in fixed income instruments must at maturity return the capital invested less the front-end load, where applicable.

3 Capital Guaranteed Hedge Funds

A third party guarantee may be used to ensure that capital is returned to an investor at a specified date. Where there is a third party guarantor which meets the requirements for capital guaranteed funds set out in Appendix 5 of this Code, the applicable minimum subscription and, for FOHF, the borrowing restriction on FOHF in paragraph 7 of Section C does not apply.

Revised 28 Mar 2003

Annex 4a: Reporting for Hedge Funds

Incorporated 21 Mar 2005

1 Introduction

1.1 This annex sets out guidelines on the information to be contained in periodic reports of hedge funds. These guidelines constitute the minimum disclosure standards and additional information may be disclosed to enable participants to better understand the nature, risks and performance of the scheme.

2 Frequency of reporting

2.1 The manager should prepare annual audited accounts and reports, semi-annual accounts and reports, and quarterly reports for each of the four quarters of each financial year. The manager should prepare and furnish to the trustee the accounts and reports in sufficient time for the trustee to cause them to be audited (where an audit is required) and sent to participants within the periods stipulated in paragraph 2.5 of this Annex.

2.2 The requirement to prepare quarterly reports does not apply to capital protected and capital guaranteed hedge funds.

2.3 Where the manager prepares monthly reports and incorporates the required contents for quarterly reports in the monthly reports, the manager need not prepare separate quarterly reports.

2.4 Where the manager incorporates the required contents for quarterly reports in the semi-annual report, the manager need not prepare a separate quarterly report for the second quarter of the financial year.

2.5 The trustee should send, or cause to be sent, to participants –

a) the annual audited accounts and report within 3 months from the end of each financial year of the scheme;

b) the semi-annual accounts and report within 2 months from the end of the period covered by the accounts and report; and

c) the quarterly report within 1 month from the end of the period covered by the report. (For an FOHF, the quarterly report should be sent within 45 days from the end of the period covered by the report.) For the avoidance of doubt, where the quarterly report for the second quarter of the financial year is incorporated in the semi-annual report in accordance with paragraph 2.3 of this Annex, the timeframe within which the semi-annual report should be sent to participants continues to be 2 months.

3 Contents of Annual and Semi-Annual Reports

3.1 The manager should prepare the semi-annual accounts and the annual audited accounts, for the semi-annual report and annual report respectively, in the manner prescribed by the Institute of Certified Public Accountants in Statement of Recommended Accounting Practice 7: Reporting Framework for Unit Trusts.

3.2 The semi-annual report and annual report, based on a scheme's financial year, should (where applicable) contain the disclosure items listed in paragraph 7 of this Code, subject to the following modifications:

Portfolio statement and top 10 holdings

a) The requirement to disclose the portfolio statement and top 10 holdings is waived where the manager and trustee are of the view that such disclosure is prejudicial to the interests of the scheme.

b) Where the portfolio statement and top 10 holdings are not disclosed, the aggregate exposure for the scheme categorised according to country, industry, asset class and/or credit rating of debt securities should be disclosed. Such exposures should be broken down into gross long and short positions. For an FOHF, the number of underlying schemes or managers and the percentage of NAV under each hedge fund strategy should also be disclosed.

c) The portfolio statement for an FOHF should list the investments of the scheme at market value and as a percentage of NAV as at the end of the period under review classified by hedge fund strategy. This is in addition to the classifications (where appropriate) by country, industry, asset class and credit rating of debt securities.

Performance fees

d) The performance fees paid or payable by the scheme for the period under review should be disclosed.

4 Contents of Quarterly Reports

4.1 The quarterly report should contain the following (where applicable):

Qualitative disclosure

a) A qualitative report by the manager providing appropriate information to give participants an overview of the management and investments of the scheme for the past quarter and going forward. The report should include the scheme's financial performance, style drifts, market outlook, changes in key investment personnel and factors that contributed to them;

Quantitative disclosure

Performance

b) Performance of the scheme and where applicable, the performance of the benchmark, in a consistent format, covering the following periods of time: 3-month, 6-month, 1-year, 3-year, 5-year, 10-year and since inception of the scheme. Returns should be calculated on a bid-to-bid basis with dividends reinvested at the bid price. Where there has been a change in the benchmark used, this should also be disclosed;

Risk

c) Annualised standard deviation[1] and modified Sharpe ratio[2] each year for the past 3 years and since inception;

d) Highest and lowest NAV per unit each year for the past 3 years and since inception;

e) Amount of borrowings and other sources of leverage as at the end of the period under review;

Current Exposure

f) Fund size and NAV per unit as at the end of the period under review;

g) Aggregate exposure for the scheme classified by country, industry, asset class and/or credit rating of debt security as at the end of the period under review. For an FOHF, the number of underlying schemes or managers and the percentage of NAV under each hedge fund strategy should also be disclosed;

h) Illiquid holdings[3] as at the end of the period under review; and

i) Amount of seed money[4] as at the end of the period under review.

4.2 The calculation basis, definition and any assumptions used should be

[1] Defined as the square root of the squared deviations of the actual returns from the simple average return based on the dealing days of the scheme, divided by the number of observations, shown on an annualised basis.

[2] Defined as annual return divided by annualised standard deviation.

[3] Defined as assets for which there are no readily available market values to be transacted between knowledgeable and willing parties in an arm's length transaction, or with no registered turnover in the last 30 days prior to and including the reporting date. For an FOHF, investments in an underlying scheme need not be classified as illiquid as long as redemptions for the underlying scheme are not suspended, notwithstanding that the frequency of redemption may be less than once every 30 days. For an FOHF, the manager must disclose the name, acquisition cost and latest status of underlying schemes suspended during the reporting period.

[4] Defined as the percentage of NAV of the scheme contributed by the manager or its related parties.

disclosed, wherever appropriate.

5 Transitional Provisions

Existing hedge funds have to comply with the guidelines in Annex 4a for accounts and reports covering periods ending on or after 1 July 2005.

Appendix 5: Capital Guaranteed Funds

1 Scope

1.1 For the purposes of this Appendix, a capital guaranteed fund means a collective investment scheme that uses the word "guarantee", “assured”, “insured” or “warranty” in its name or in its promotion/description. The provisions in this Appendix apply only to schemes which fall within such definition.

1.2 A scheme that does not comply with the provisions in this Appendix, such as a scheme which guarantees income only (with or without a guarantor) or which relies solely or largely on investments to meet a guaranteed return of capital (without a guarantor), should not adopt/use the word “guarantee”, “assured”, “insured” or “warranty” in its name or in its promotion/description, nor should the scheme hold itself out as a capital guaranteed fund in any communication relating to the scheme. The provisions in this Appendix do not preclude, however, the use of words which suggest some form of protection for investors (such as “safeguard”, “safety risk”, “secure” or “protected”) in a scheme’s name so long as it is clearly stated that such a scheme is not a capital guaranteed fund.

1.3 The provisions in this Appendix apply in addition to other relevant provisions of and appendices to this Code which a capital guaranteed fund is subject to. For example, a capital guaranteed money market fund should comply with the provisions in this Appendix as well as Appendix 3 on money market funds.

2 The Guarantor

2.1 Every capital guaranteed fund should have an eligible guarantor. For this purpose, an eligible guarantor should not be the issuer of securities which constitute more than 10% of the deposited property of the scheme. For this purpose, the issuer, its subsidiaries, fellow subsidiaries and holding company should be regarded as one entity. In addition, an eligible guarantor should have:

a) in the case of a financial institution, an individual rating of at least B by Fitch Inc, a financial strength rating of at least B by Moody’s or a long-term issuer credit rating of at least AA by Standard and Poor’s (including such sub-categories or gradations therein). Where the guarantor is a Singapore-incorporated bank, no rating is required if the bank is approved under the CPF Investment Scheme to accept fixed deposits; or

b) in all other cases, a long-term credit rating of AAA by Fitch Inc, Aaa by Moody’s or AAA by Standard and Poor’s.

2.2 For the purposes of paragraph 2.1(a), where the rating of the guarantor:

a) falls but is still above C by Fitch Inc, above C by Moody's or above BBB by Standard and Poor's, no action need be taken; or

b) falls below those specified in (a) above or if the guarantor ceases to be rated, except as provided for in paragraph 3.8, the manager should within 6 months, or sooner if the trustee considers it to be in the best interest of the participants, enter into a new agreement with a new guarantor which satisfies the rating criterion specified in paragraph 2.1. For this purpose, such new guarantee should, in the opinion of the trustee, provide the same level of guarantee to the participants as the original guarantee.

2.3 For the purposes of paragraph 2.1(b), where the rating of the guarantor:

a) falls, but is still above BBB by Fitch Inc, above Baa3 by Moody's or above BBB by Standard and Poor's, no action need be taken; or

b) falls below those specified in (a) above or if the guarantor ceases to be rated, except as provided for in paragraph 3.8, the manager should within 6 months, or sooner if the trustee considers it to be in the best interest of the participants, enter into a new agreement with a new guarantor which satisfies the rating criterion in paragraph 2.1. For this purpose, such new guarantee should, in the opinion of the trustee, provide the same level of guarantee to the participants as the original guarantee.

3 The Guarantee

3.1 A written agreement should be entered into between the guarantor and the trustee for an unconditional guarantee to be provided by the guarantor. The guarantee should be a first-demand guarantee and should be legally enforceable in Singapore against the guarantor by the trustee on behalf of the participants. In addition, provision should be made in the agreement for the guarantee to ensure that the accrued rights of the trustee, on behalf of the participants, are <u>not</u> affected or prejudiced by the termination of such guarantee. Where the agreement is governed by foreign law, the trustee should ensure and be satisfied that the agreement is legally enforceable in Singapore against the guarantor by the trustee on behalf of the participants.

3.2 The guarantee should be in respect of not less than 100% of the <u>capital</u> invested by the participants. For this purpose, a guarantee:

a) in respect of 100% of the capital invested *less* initial sales charges or front-end loads; and/or

b) that applies only on a particular date(s) or after a specified period of time;

would be acceptable *subject to* the prominent disclosure in the prospectus of such limitation.

3.3 The quantum and duration of the guarantee given by the guarantor should correspond to that stated in the prospectus and marketing material. For example, if the scheme guarantees 100% of the amount invested by participants (less front-end loads of, say, 3%) upon redemption at 30 June 2002, and the total subscriptions received from the initial launch of the scheme were $30m, the manager should have obtained after the dose of the launch an unconditional guarantee for at least $29.1m (i.e. $30m less 3% in front-end loads) and which provides for payment on 30 June 2002.

3.4 There should be no variation to the agreement for the guarantee if, in the opinion of the trustee, such variation is detrimental to the interest of existing participants. Other changes to the agreement for the guarantee should be subject to the approval of the trustee *unless* such changes are, in the opinion of the trustee, material, in which case such changes should be made with the sanction of an ordinary resolution at a meeting of the participants.

3.5 For the purposes of paragraph 3.4, if the amount guaranteed is reduced or increased due to the redemption of existing units or the subscription of new units, this will not be considered a variation to the agreement for the guarantee.

3.6 The guarantee may be terminated:

a) by the trustee, if the guarantor goes into liquidation (excluding a voluntary liquidation for the purposes of reconstruction or amalgamation);

b) by the guarantor or trustee, if a new legal or regulatory requirement comes into force which renders the agreement for the guarantee illegal or which, in the opinion of the trustee, renders it impracticable to continue with the guarantee; and/or

c) by the guarantor or trustee, if the capital guaranteed fund is voluntarily terminated.

3.7 If, in the opinion of the trustee, the retirement, removal or replacement of the manager affects the guarantee to the participants in a material way, a new agreement for the guarantee may be entered into if it provides the same level of guarantee to the participants as the original guarantee.

3.8 For the purposes of paragraphs 2.2(b), 2.3(b), 3.6(a) and 3.7, where the trustee is of the opinion that the cost of obtaining a new guarantee significantly outweighs the benefit of such guarantee to existing participants, the trustee may, with the sanction of an extraordinary resolution at a meeting of the participants:

a) terminate the capital guaranteed fund; or

b) allow the capital guaranteed fund to continue without a guarantee, in which case the scheme should not:

i) use the word “guarantee” as part of its name, or use a name that suggests that it is a capital guaranteed fund or the equivalent of a guaranteed fund; or

ii) hold itself out as a capital guaranteed fund in any communication (whether in the form of marketing material or otherwise) relating to the scheme.

4 Notification to Participants

4.1 The manager of a capital guaranteed fund that provides a guarantee which applies only on a particular date(s) or after a specified period of time should notify the participants of the guaranteed redemption value and the date(s) on or period after which the guarantee applies:

a) where the guarantee applies only on a particular date(s), *at least* 30 days before such particular date(s); or

b) where the guarantee applies after a specified period of time, *at least* 30 days before the first day that the guarantee applies. Where the manager imposes a minimum period for the participants to submit their requests for redemption of units at the guaranteed value, the manager should notify the participants of the guaranteed redemption value at least 30 days before the start of such period.

4.2 For the purposes of paragraph 4.1, such notification should be by way of a notice sent to the participants.

5 Disclosure Requirements

5.1 A scheme offering a guarantee not in accordance with the guidelines set out in this Appendix should have a prominent statement in any communication relating to the scheme that it is not a capital guaranteed fund for the purposes of this Appendix.

5.2 A scheme whose capital is substantially guaranteed (although not for 100%) and is otherwise in compliance with these guidelines will be allowed to state that the scheme has a guarantee, provided that:

a) it is stated clearly and prominently wherever the term guarantee is used that the guarantee covers **only xx%** of the capital invested; and

b) the name of the scheme does not contain the words “guarantee”, “assured”, “insured”, or “warranty”, nor does the scheme hold itself out as a guaranteed scheme in any other way.

Appendix 6: Fund-of-Funds ("FOF")

Appendix incorporated 29 Aug 2002

1 Scope

1.1 The investment and borrowing guidelines set out in this Appendix are only applicable to a scheme which adopts the term "fund-of-funds" or "multi-manager" as part of its name or a name that suggests that it is the equivalent of an FOF or a multi-manager fund ("MMF"), or which holds itself out as an FOF or MMF in any communication (including marketing material) relating to the scheme. (A scheme which does not hold itself out as an FOF or an MMF need not comply with these guidelines.)

1.2 The provisions in this Appendix apply in addition to other relevant provisions of and appendices to this Code which an FOF is subject to. For example, a non-specialised FOF should comply with the provisions in this Appendix as well as Appendix 1 on non-specialised funds.

1.3 This Appendix does not apply to a fund of hedge funds which is dealt with separately.

2 Definition

An FOF is a collective investment scheme whose objective is to invest all or substantially all of its assets with different fund managers to be managed on a dedicated basis or to be invested in pooled investments or schemes. An FOF manager must have the expertise and resources to select and monitor a group of fund managers.

3 Permissible Managers and Schemes

An FOF should:

a) place its funds with or invest in schemes managed by managers which are licensed by the Authority (in the case of fund managers whose operations are in Singapore), or which are licensed or regulated by a regulator of good standing and which are reputable (in the case of foreign fund managers); and

b) where it invests in other schemes, invest in underlying schemes which are authorised (in the case of Singapore schemes) or which are registered in acceptable jurisdictions (in the case of foreign schemes). These schemes should also be invested substantially in line with the investment guidelines in the Appendices to this Code.

*<u>Guidance</u>**:*** *In assessing an application for authorisation of an FOF, the Authority would take into consideration:*

a) how the managers of underlying schemes or those appointed to manage funds of the FOF on a dedicated basis are regulated in their home jurisdictions. Future investments in schemes managed by:
(i) managers from the same jurisdictions but not similarly regulated; or
(ii) managers from other jurisdictions,
will not be allowed unless specifically approved by the Authority.

b) how schemes in which the FOF intend to invest in are regulated in their home jurisdictions. Future investments in:
(i) other types of schemes from those jurisdictions; or
(ii) schemes from other jurisdictions,
will not be allowed unless specifically approved by the Authority.

4 Multiple Layers of Feeding Prohibited

A Singapore FOF may feed substantially into another FOF. The latter FOF should invest in another scheme directly (i.e. not through another FOF or a feeder fund).

5 Single Scheme Exposure

Up to 20% of the deposited property of an FOF may be invested in a single underlying scheme.

6 Financial Derivatives

An FOF may use financial derivatives for the purposes of hedging its existing exposure or EPM provided that derivatives are not used to gear the overall portfolio. The use of financial derivatives should only be a temporary measure (not more than 3 months) to employ the resources of the FOF when an investment has been divested and the manager is looking for an alternative.

7 Borrowings

An FOF may borrow only for the purposes of meeting redemptions and short-term (not more than 4 weeks) bridging requirements. Aggregate borrowings for such purposes should not exceed 10% of the deposited property of the FOF.

8 Breach of Limits

The single scheme exposure for an FOF and the borrowing limits in paragraphs 5 and 7 are applicable at the time the transactions are entered into. Where any of these limits is breached as a result of:

a) the appreciation or depreciation of the deposited property of the FOF; or

b) any redemption of units or payments made from the FOF,

the manager should not enter into any transaction that would increase the extent to which the relevant limit is breached. In addition, the manager should within a reasonable period of time but no later than 3 months from the date of the breach, take action as is necessary to rectify the breach. This period may be extended if the manager satisfies the trustee that it is in the best interest of participants. Such extension should be subject to monthly review by the trustee.

Appendix 7 – Futures and Options Funds ("FAOF")

Appendix incorporated 5 Dec 2002

1 Scope and Definitions

1.1 These Guidelines apply to a scheme whose primary objective is to invest in financial and/or commodity derivatives contracts.

1.2 For the purposes of this Appendix:

a) **Combined margin requirement** means the initial margins paid by the FAOF in respect of its open positions in futures contracts and/or option contracts written, as determined by the exchange or clearing house. The initial margins paid do not include amounts paid subsequently by the FAOF to meet margin calls in respect of its open positions;

b) **Dedicated FAOF** means a scheme whose primary objective is to invest in futures and options contracts of a single underlying financial instrument or commodity or a specific class of underlying financial instruments or commodities;

c) **Delta** means the change in price of a call option for every one-point move in the price of the underlying security.

d) **Exchange** includes any exchange that is of good repute, open to the public or a substantial number of market participants and on which futures and/or options contracts are regularly traded;

e) **Eligible counter-party** means a financial institution that:

i) is regulated by a securities, futures, insurance and/or banking regulatory authority; and

ii) has received a long-term issuer credit rating of above BB+ by Standard and Poor's, an individual rating of above C by Fitch Inc or a financial strength rating of above C by Moody's. Where the counter-party is a Singapore-incorporated bank, no rating is required if the bank is approved under the Central Provident Fund ("CPF") Investment Scheme to accept fixed deposits.

f) **Eligible money market instruments and debt securities** means money market instruments and debt securities:

i) with remaining maturity of not more than 366 calendar days; *and*

ii) either a minimum short-term credit rating of F2 by Fitch Inc or A2 by Standard and Poor's (including such sub-categories or gradations therein), or where it only has a long-term credit rating, such a rating of A by Fitch Inc, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein).

Where a money market instrument or debt security is issued by a supranational agency or other foreign entity and rated other than by the credit rating organisations specified in f(ii) above, the manager must satisfy the trustee that the quality of the security is comparable to those with the aforementioned ratings.

Where a money market instrument or debt security is issued by a Singapore entity, including the Singapore Government and statutory boards, and is not rated, the manager must satisfy the trustee that the quality of the security is comparable to those with the aforementioned ratings.

g) **Gold** includes gold certificates, gold savings accounts, and physical gold of at least .999 fineness.

h) **Money market instruments and debt securities** include deposits with financial institutions and money market instruments or debt securities such as government and corporate bonds, Treasury bills, bank certificates of deposit, banker's acceptances, floating rate notes, commercial papers, trade bills, asset-backed securities and repurchase agreements.

i) **Option series** means options (including warrants) on the same security, financial instrument or commodity that are of the same class, strike price and maturity. For the avoidance of doubt, put and call options are considered as different classes.

2 Limited Liability

The liability of investors should be limited to their investment in the scheme. For this purpose, the constitutive documents of the scheme should contain a provision limiting the liability of investors to their investment in the scheme.

3 The Manager

3.1 The manager of a FAOF should have expertise in managing such schemes. Where investment decisions are outsourced to a sub-manager or

adviser, the sub-manager or adviser should have expertise in managing such schemes.

3.2 The manager, or where investment decisions are outsourced to a sub-manager or adviser, the sub-manager or adviser, should have at least 1 executive who has at least 5 years of experience in the investment (including experience in connection with advising, trading and arbitraging) of financial and, where applicable, commodity futures and/or options.

4 Permissible Investments

An FAOF may invest in:

a) exchange-traded futures and options contracts, including those in respect of commodities;

b) over-the-counter ("OTC") options, forwards and swaps which are entered into with an eligible counter-party;

c) listed securities of or issued by local and foreign corporations;

d) money market instruments and debt securities;

e) gold; and

f) cash.

5 Requirements on Investments

Revised 27 Jul 2004

5.1 Exposure arising from investments specified in paragraphs 4(a) and 4(b) should be calculated taking into account the daily marked-to-market value of the contract and an add-on/haircut to account for factors such as future market movements, the time needed to liquidate positions, the current values of the underlying assets and the credit risk of the counterparty. If the foregoing approach is not appropriate, the exposure should be calculated based on an estimate of the maximum potential replacement cost of the contract.

5.2 The scheme's exposure should be calculated based on the following parameters:

a) The exposure should be calculated at least once every business day, using not less than a 99th percentile and one tailed confidence interval, and

b) The exposure should be calculated assuming a holding period of not less than one month for each position.

5.3 The method used for determining scheme's exposure should be disclosed in the prospectus and be subject to an assessment by the manager's in-house risk management experts or an independent expert.

5.4 Exposure arising from investments specified in paragraphs 4(a) and 4(b) should not exceed 20% of the net asset value of the FAOF.

5.5 An FAOF should only write options which are exchange-traded and are "fully covered". For this purpose, an option is "fully covered" if the FAOF holds the underlying financial instrument or commodity which is the subject of the option and such instrument or commodity is sufficient in value or amount to match the *delta* exposure which exists or may arise as a result of the option.

5.6 While the FAOF may invest in exchange-traded derivative contracts and OTC options, the premiums paid for OTC options should not exceed 10% of the net asset value of the FAOF. This 10% limit does not include forwards and swaps, which may only be entered into by the FAOF for the purpose of hedging the scheme's currency exposure.

6 Diversification of Investments

6.1 Except in the case of a dedicated FAOF, the manager of an FAOF should ensure that the scheme's exposure to futures and options is reasonably diversified, for example, in terms of maturity profile, the underlying financial instruments or commodities, and the potential commitments on the scheme's open positions in futures and options contracts.

<u>By futures contract month or option series</u>

6.2 An FAOF should not

a) hold open positions in a futures contract month or option series; or

b) acquire an OTC option series

where the combined margin requirement and premiums paid exceeds 5% of the net asset value of the FAOF. For example,

i) An FAOF, with a net asset value of $10 million, may hold an open position in the Three-Month Eurodollar (Jun 03) Futures contract, up to a limit of $500,000 in terms of initial margins paid; or

ii) That same FAOF may also write Options on Eurodollar (Jun 03) Futures up to a limit of $500,000 in terms of initial margins paid.

By underlying financial instrument or commodity

6.3 An FAOF should not hold open positions in futures or options contracts concerning a single underlying financial instrument or commodity for which the combined margin requirement and premiums paid exceed 20% of the net asset value of the FAOF, regardless of which exchange they are traded on. In the example of the FAOF used as an illustration in paragraph 6.2,

i) the FAOF may hold open positions in Three-Month Eurodollar Futures contracts (regardless of contract month), up to a limit of $2 million in terms of initial margins paid. The FAOF may choose to hold $500,000 in open positions in the Three-Month Eurodollar (Jun 03) Futures contract, $500,000 in Three-Month Eurodollar (Aug 03) Futures contract, $500,000 in Three-Month Eurodollar (Sep 03) Futures contract, and $500,000 in Three-Month Eurodollar (Dec 03) Futures contract; *or*

ii) the FAOF may write Options on Eurodollar Futures (of different strike prices or maturity dates), up to a limit of $2 million in terms of initial margins paid.

Dedicated FAOFs

6.4 Where the FAOF is a dedicated FAOF, the scheme's marketing material should state clearly that the scheme will invest in futures and options contracts concerning only a single underlying financial instrument or commodity or a specific class of underlying financial instruments or commodities and that it will not have a diversified portfolio of investments in futures and options.

6.5 Paragraphs 6.2 and 6.3 do not apply to a dedicated FAOF.

7 Minimum Liquidity Reserve

Revised 27 Jul 2004

An FAOF should maintain at least 20% of its net asset value in a liquidity reserve, which should be in the form of cash and/or *eligible* money market instruments and debt securities. This 20% liquidity reserve does not include the borrowings of an FAOF and may be used to meet margin calls or provide cover for options written by the FAOF.

8 Borrowings

There should be no borrowings other than for the purposes of meeting redemptions of units and short-term (not more than 4 weeks) bridging requirements. Aggregate borrowings for such purposes should not exceed 10% of the net asset value of the FAOF at the time the borrowing is incurred.

9 Breach of Limits

9.1 Where the minimum liquidity reserve has been drawn down below the 20% specified in paragraph 7, the manager should within a reasonable period of time, but in no event later than 3 months, take action such that the minimum liquidity reserve is restored. The period may be extended if the manager satisfies the trustee that it is in the best interest of the participants. Such extension should be subject to monthly review by the trustee.

9.2 The minimum liquidity reserve and borrowing limit in paragraphs 7 and 8 are applicable at the time a transaction is entered into. Where any of these limits are breached as a result of:

a) the appreciation or depreciation of the value of the scheme's assets; or

b) any redemption of units or distributions made from the scheme,

the manager should not enter into any transaction that would increase the extent to which the relevant limit is breached. In addition, the manager should, within a reasonable period of time but no later than 3 months from the date of the breach, take action as is necessary to rectify the breach. This period may be extended if the manager satisfies the trustee that it is in the best interest of the participants. Such extension should be subject to monthly review by the trustee.

10 Disclosure Requirements

In addition to the disclosure provisions set out in this Code, the manager should disclose in semi-annual and annual reports to the participants:

Revised 22 Dec 2003

a) the total amount of realised net gain/loss on positions liquidated during the period;

b) the change in unrealised net gain/loss on open positions during the period;

c) the total amount of net gain/loss from all other transactions in which the FAOF engaged during the period, including interest and dividends earned; and

d) the total transaction costs incurred for the period, including management fees, investment advisory fees (if any), brokerage commissions and all clearance fees paid to exchanges and self-regulatory organisations.

Appendix 8: Currency Funds

Appendix incorporated 27 Jul 2004

1 Scope and Definitions

1.1 These Guidelines apply to a scheme whose primary objective is to invest in currencies and/or in currency derivatives.

1.2 For the purposes of this Appendix:

a) **Delta** means the change in the price of a call option for every one basis point move in the price of the underlying currency.

b) **Eligible counter-party** means a financial institution that:
   i) is regulated by a securities, futures, insurance and/or banking regulatory authority; and
   ii) has received a minimum short-term rating of Prime-1 by Moody's, A-1 by Standard & Poor's or F-1 by Fitch Inc.

c) **Eligible money market instruments or debt securities** means money market instruments or debt securities:
   i) with remaining maturity of not more than 366 days; and
   ii) either a minimum short-term credit rating of F-2 by Fitch Inc. or A-2 by Standard and Poor's (including such sub-categories or gradations therein), or where it only has a long-term credit rating, a rating of A by Moody's, A by Fitch Inc. or A by Standard and Poor's (including such sub-categories or gradations therein).

   Where a money market instrument or debt security is issued by a supranational agency or other foreign entity and rated other than by the credit rating organisations specified in c(ii) above, the manager must satisfy the trustee that the quality of the security is comparable to those with the aforementioned ratings.

   Where a money market instrument or debt security is issued by a Singapore entity, including the Singapore Government and statutory boards, and is not rated, the manager must satisfy the trustee that the quality of the security is comparable to those with the aforementioned ratings.

2 The Manager

2.1 The manager of a scheme should have expertise in managing such schemes. Where investment decisions are outsourced to a sub-manager or adviser, the sub-manager or adviser should have expertise in managing such schemes.

2.2 The manager, or where investment decisions are outsourced to a sub-manager or adviser, the sub-manager or adviser, should have at least 1 executive who has at least 5 years of experience in currency investment and management.

3 Risk Management & Monitoring Procedures & Internal Controls

3.1 The manager of a scheme should have in place proper risk management and monitoring procedures and internal controls. The risk management process employed must enable the manager to monitor and measure, at any time, the exposure of the positions and their contribution to the overall risk profile of the portfolio.

3.2 The Authority will require senior management of a manager to certify annually in the annual report of the scheme that the procedures and controls for monitoring the management and risk of the scheme are as set out in the prospectus.

4 Permissible Investments

The scheme may:

a) enter into deliverable or non-deliverable currency forward contracts with an *eligible counter-party* using internationally standardized agreements;

b) enter into swap contracts with an *eligible counter-party* using internationally standardized agreements;

c) invest in currency options written by an *eligible counter-party* using internationally standardized agreements;

d) invest in currency futures;

e) write currency options that are fully covered;

f) place deposits with a bank licensed under the Banking Act, Cap. 19 or an equivalent law in a foreign jurisdiction;

g) invest in money market instruments or debt securities such as government or supranational bonds, Treasury bills, bank certificates of deposit, banker's acceptances, floating rate notes, commercial papers, trade bills, asset backed securities and repurchase agreements, and

h) purchase units of a scheme which invests in the instruments listed in 4(f) and 4(g). Such investments would be subject to provisions in paragraph 4.3 of the Code, where applicable.

Forwards, swaps and options contracts entered into must be those which can be sold, liquidated or closed at their fair value by an offsetting transaction at any time.

5 Measure of Cover for Options Written & Risk Capital for Forwards and Swaps

5.1 For the purpose of determining if options written are “fully covered” [referred to in paragraph 4(e)], outstanding options written by the scheme as at the close of a business day, T, should be fully covered by underlying currencies held by the scheme at the close of business the preceding day, T-1. This means that the amount of underlying currencies held must be sufficient to match the *delta* exposure which exists or may arise as a result of the outstanding options written.

5.2 To meet the potential losses that could arise as a result of the scheme's forward and swap contracts, the manager should also hold sufficient quantities of:

a) the contract's underlying currencies; or

b) currencies that are highly liquid; or

c) *eligible money market instruments or debt securities*.

The amount proposed to be set aside (including the type of currency) should be disclosed in the prospectus.

6 Minimum Capital Reserve

6.1 The scheme should maintain at least 20% of its net asset value in a capital reserve which should be in the form of deposits placed with a bank licensed under the Banking Act, Cap. 19 or an equivalent law in a foreign jurisdiction and has received a minimum short-term rating of Prime-2 by Moody’s,

A-2 by Standard and Poor's or F-2 by Fitch Inc. or *eligible money market instruments or debt securities*. This minimum capital reserve may be used to meet margin calls.

6.2 The borrowings of the scheme, the cover for options and the risk capital for forwards and swaps may not be counted towards this minimum capital reserve.

7 Exposure Limits of Scheme

7.1 The scheme's exposure arising from a forward, swap, option or futures contract should be calculated taking into account the daily marked-to-market value of the contract and an add-on/haircut to account for factors such as future market movements, the time needed to liquidate positions, the current values of the underlying currencies and the credit risk of the counterparty. If the foregoing approach is not appropriate, the exposure should be calculated based on an estimate of the maximum potential replacement cost of the contract.

7.2 The scheme's exposure should be calculated based on the following parameters:

a) The exposure should be calculated at least once every business day, using not less than a 99th percentile and one tailed confidence interval, and
b) The exposure should be calculated assuming a holding period of not less than one month for each forward, swap, option or futures position.

7.3 The method used for determining scheme's exposure should be disclosed in the prospectus and be subject to an assessment by the manager's in-house risk management experts or an independent expert.

7.4 The total exposure of the scheme to a counterparty, whether that counterparty is the issuer of securities or a party to any contract, should not exceed 10% of the net asset value of the scheme. For avoidance of doubt, the exposure of the scheme to investments listed in 4(f), 4(g) and 4(h) would be the full notional value of the investment.

7.5 The total exposure arising from the options written by the scheme should not exceed 10% of the net asset value of the scheme.

7.6 The total exposure arising from the scheme's non-deliverable forward contracts should not exceed 10% of the net asset value of the scheme.

7.7 The total exposure arising from the scheme's investments in forward, swap, option and futures contracts should not exceed 20% of the net asset value of the scheme.

8 Borrowing

There should be no borrowing other than for the purposes of meeting redemptions of units and short term bridging requirements. Aggregate borrowings for such purposes should not exceed 10% of the net asset value.

9 Limited Liability

The liability of investors should be limited to their investment in the scheme. For this purpose, the constitutive documents of the scheme should contain a provision limiting the liability of investors to their investment in the scheme.

10 Disclosure Requirements

10.1 Where the scheme intends to use forwards, swaps or options as part of its investment strategies, a prominent statement to that effect must be included. The impact of the use of currency derivatives on the risk profile and volatility of the return of the scheme should also be disclosed.

10.2 The manager should disclose in the prospectus information on:

a) the scheme's quantitative risk management limits;

b) the manager's risk management process;

10.3 The manager should disclose in the semi-annual and annual reports to the participants:

a) the total amount of realized net gain/loss on positions liquidated during the period;

b) the change in unrealized net gain/loss on open positions during the period;

c) the total amount of net gain/loss from all other transactions in which the scheme engaged in during the period, including interest and dividends earned;

d) the total transaction costs incurred for the period, including management fees, investment advisory fees (if any) and commissions.

11 Breach of Limits

11.1 Where the minimum capital reserve has been drawn down below the 20% specified in paragraph 6, the manager should within a reasonable period of time, but in any event no later than 3 months, take action to restore the minimum capital reserve. The period may be extended if the manager satisfies the trustee that such extension is in the best interest of participants. Such extension should be subject to monthly review by the trustee.

11.2 The minimum capital reserve, exposure limits and borrowing limit in paragraphs 6, 7 and 8 respectively are applicable at the time a transaction is entered into. Where any of these limits are breached as a result of:

a) the appreciation or depreciation of the value of the scheme's assets; or

b) any redemption of units or distributions made from the scheme,

the manager should not enter into any transaction that would increase the extent to which the relevant limit is breached. In addition, the manager should, within a reasonable period of time but no later than 3 months from the date of the breach, take action as is necessary to rectify the breach. This period may be extended if the manager satisfies the trustee that it is in the best interest of participants. Such extension should be subject to monthly review by the trustee.