RESPONSE TO FEEDBACK RECEIVED - CONSULTATION PAPER ON DRAFT GUIDELINES FOR VALUATION OF COLLECTIVE INVESTMENT SCHEMES

On 22 August 2003, MAS issued a Consultation Paper inviting comments on draft guidelines (the "Guidelines") for the valuation of collective investment schemes ("CIS").

The objective of the Guidelines is to formalize the current industry practice of using net asset value ("NAV") to value collective investment schemes.

The consultation period closed on 22 September 2003. Comments were received from 14 respondents, of which 3 requested confidentiality. MAS has considered carefully all the comments received and incorporated them in the Guidelines where appropriate.

MAS thanks all respondents for their feedback furnished in response to the consultation of the Guidelines. The comments that are of wider interest and our responses are highlighted below:

1. Valuation based on NAV

Some respondents sought clarification as to whether the requirement for valuation to be based on NAV meant that all CIS transactions (whether purchases or redemptions) must be conducted at a single price and that bid and offer prices would not be allowed.

<u>MAS' Response:</u> The proposal is not intended to require single unit pricing for CIS but to formalize the practice of valuing units in all CIS based on their net asset values. Bid and offer prices will continue to be permitted, i.e. fees and charges such as distribution and realization charges can still be added to or subtracted from the NAV to determine the price at which units are transacted.

2. Valuation of quoted investments

For quoted investments, some respondents proposed that we consider the guidance for valuation of investments set out for accounting purposes i.e. investments held are generally valued using the current bid price while investments to be acquired (a short or liability position) are generally valued using the current offer price.

<u>MAS' Response:</u> We propose to retain the original proposal to value investments based on their last transacted prices, in line with international practice.

3. Person performing valuation

In respect of unquoted investments where valuation is to be based on fair value, there is feedback that the requirement for such valuation to be done by a professional person may lead to higher cost for the CIS.

<u>MAS' Response:</u> MAS notes the feedback and will amend the Guidelines so that a person ascertained by the trustee as qualified to value unquoted investments may establish the fair value for the fund's unquoted investments.

4. Frequency of valuation

The respondents agreed that, in general, units should be valued every business day, with exceptions provided for certain fund types. One respondent suggested that the frequency of valuation should coincide with the dealing frequency.

<u>MAS' Response:</u> We propose to retain the original proposal to require a fund to be valued every business day in line with international practice. We will, however, amend the Guidelines to clarify that valuation may be performed in respect of each dealing day (instead of every business day) for certain funds (e.g. funds investing in structured products, hedge funds) which

provide for less frequent dealing.

5. Computation error and compensation

There were suggestions that, in addition to the proposed threshold of 0.5% of NAV, MAS should set a floor on the absolute amount of compensation below which a unit-holder need not be compensated.

MAS' Response: MAS recognizes the need to balance the administrative cost of paying compensation against the amount of compensation due to unit-holders. Nonetheless, to maintain parity for all investors, regardless of the size of their investments, we would require compensation for all unit-holders unless the amount due to any unit-holder does not exceed $20. MAS has further consulted and obtained the concurrence of industry participants on the revised proposal.

6. Whether managers can recover losses from investors for computation errors

The responses were divided. Some respondents were of the view that managers should not be prevented from recovering their losses from those investors who have benefited from errors in NAV calculations while others held an opposing view.

MAS' Response: As this is a commercial matter for the managers, MAS would leave it to the managers to decide if they wish to recover their losses from investors who have benefited from valuation errors.

Note:

The Guidelines will form part of the Code on Collective Investment Schemes (the "Code").

The Code was first issued on 23 May 2002 and has since been amended periodically to fine-tune the regulatory framework, taking into account developments in the Singapore and international markets.

MAS is currently reviewing other provisions in the Code, including the following:

- collateral requirements for securities lending transactions
- single party limit for investment in sovereign debt securities
- requirement to prepare and send to unit-holders the annual and semi-annual reports and financial statements
- reporting requirements for hedge funds

MAS has also been monitoring the efforts undertaken in foreign markets to deal with the issue of market timing[1], including the following:

- **Forward Pricing:** The Australian industry body, Investment and Financial Services Association, has updated their principles on fund pricing to encourage managers to consider adopting forward pricing.
- **Fair Valuation and Pricing Controls:** The UK Financial Services Authority ("FSA") has consulted on requiring funds to do fair valuation should the last transacted price of securities in a fund's portfolio be un-representative. The FSA has also suggested that fund managers should observe certain pricing controls.
- **Prospectus Disclosure:** The US Securities and Exchange Commission is currently consulting on requiring a fund to disclose in its prospectus the risks, if any, that frequent purchases and redemptions of fund shares by shareholders may present for other shareholders and whether the fund has adopted policies and procedures with respect to such frequent purchases and redemptions.

MAS will consult the industry before proposing any amendments to the Code relating to the above matters.

MONETARY AUTHORITY OF SINGAPORE
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[1] Market timing involves the short-term buying and selling of units in funds to gain from inefficiencies in pricing. Such practices may be detrimental to the long-term interests of other investors, particularly if fund managers give selected investors privileged information or access to more frequent trading.