

## **Response To Feedback Received - Consultation Paper On Amendments To The Code On Collective Investment Schemes**

On 7 April 2004, MAS issued a Consultation Paper inviting comments on proposed amendments to the Code on Collective Investment Schemes (the "Code").

The objective of the proposed amendments is to improve the operating environment for collective investment schemes, taking into account market developments and investor protection concerns.

The consultation period closed on 8 May 2004 and comments were received from 17 respondents (listed in the Annex). MAS has carefully considered all the comments received and incorporated them in the Code where appropriate.

MAS thanks all respondents for their views on the proposals in the Consultation Paper. The comments that are of wider interest and MAS' responses are highlighted below:

### **Chapter I: Collateral taken during Securities Lending Transactions**

**Q1:** MAS proposed to remove the 366-day maturity requirement for debt securities taken as collateral if:

- a) such debt securities are rated at least A by Moody's, A by S&P or A by Fitch Inc; and
- b) the securities lending transaction is conducted through an institution with a credit rating of at least A by Moody's, A by S&P or A by Fitch Inc and the institution indemnifies the scheme in the event of losses due to failure by the securities borrower to return the borrowed securities

*Public Comments:* A respondent suggested abolishing the maturity requirement for debt securities bought using cash collateral.

*MAS' Response:* The 366-day maturity requirement for debt securities bought using cash collateral will be retained. The market for long-dated debt securities may be less liquid and subject to greater price fluctuations, hence the 366-day maturity requirement serves to minimise losses arising from the immediate liquidation of the debt securities when the scheme is called upon by the borrower to return the cash collateral. On the other hand, where debt securities are taken as collateral, the scheme would return the debt securities when it is called upon by the borrower to return the collateral. The scheme will not be exposed to price fluctuations of the debt securities as it is not necessary to liquidate the debt securities.

**Q2:** MAS proposed to permit LCs and BGs as acceptable collateral only if their issuers have a credit rating of at least Prime-1 by Moody's, A-1 by S&P or F-1 by Fitch Inc.

*Public Comments:* A respondent suggested imposing the following conditions as additional safeguards:

- a) Letters of credit to be irrevocable;
- b) No more than a certain percentage of the portfolio be subjected to the guarantee or letter of credit of a single financial institution; and
- c) Issuer of the letters of credit or banker's guarantee is not an entity controlled by the securities borrower.

*MAS' Response:* We agree that letters of credit accepted as collateral should be irrevocable.

As the single party limits under the investment guidelines in the Code would apply to the issuer of the letter of credit or bank guarantee, it is not necessary to specify a separate limit for letters of credit or bank guarantees to be provided by a single financial institution.

We are of the view that the stringent minimum credit rating requirements would sufficiently mitigate the additional risks involved in accepting (irrevocable) letters of credit and banker's guarantees as collateral, without the need for further specifications.

### **Chapter II: Single Party Limit for investment in Sovereign Debt Securities.**

**Q3:** MAS proposed to raise the single party limit to the higher of 20% and the benchmark weight of the issuer if the issuer is, or the issue has the benefit of a guarantee from, a government, government agency or supranational, which has a minimum long-term issuer rating of Baa by Moody's, BBB by S&P or BBB by Fitch Inc.

*Public Comments:* A respondent suggested allowing investment of up to 35% of a scheme's deposited property in sovereign debt

securities with the above-mentioned credit ratings. This would further align with the UCITS regime in Europe.

*MAS' Response:* We agree to allow managers to invest up to the higher of 35% or the benchmark weight of the issuer if the issuer is, or the issue has the benefit of a guarantee from, a government, government agency or supranational, which has a minimum long-term issuer rating of Baa by Moody's, BBB by S&P or BBB by Fitch Inc. Non-investment grade sovereign debt securities will continue to be subjected to a 10% single party limit.

*Public Comments:* A respondent recommended extending the 20% limit to corporate bonds, so as to give more flexibility to absolute return bond funds.

*MAS' Response:* Corporate bonds are inherently more risky than sovereign bonds. We are in line with international practice in not allowing a higher single party limit for corporate bonds.

### **Chapter III: Accounts and Reports**

**Q4:** MAS proposed to require the manager of a fund to prepare and furnish to the trustee the semi-annual and annual accounts and reports in sufficient time for the trustee to cause them to be audited (where an audit is required) and send them to unitholders within the stipulated periods.

*Public Comments:* There were divergent views on this proposal. Some respondents recommended that a definite timeframe be set for the manager to prepare and furnish to the trustee the reports. Others commented that deadlines need not be set for managers as trustees and managers work closely in preparing the financial statements and reports. There was also a suggestion to require joint responsibility of the manager and trustee to send out such reports to ensure that the manager shares the same sense of commitment.

*MAS' Response:* The trustee is currently responsible to send (or caused to be sent) the semi-annual and annual reports and accounts to unitholders. We are introducing this rule to ensure that the manager prepares the accounts and reports on time.

We prefer to let the trustee and manager work out an appropriate timeframe between themselves. This is also consistent with the current practice for auditors to furnish directors of companies with the companies' accounts in sufficient time for presentation at annual general meetings. Whether the manager has prepared and furnished to the trustee the accounts in sufficient time is a matter of fact that depends on the circumstances of each case.

*Public Comments:* Some respondents questioned the necessity of requiring semi-annual reports. One respondent suggested to instead require quarterly reports that incorporate the disclosure items listed in paragraph 7 of the Code, as these items are more useful to investors. Another respondent suggested that regulations should only require 1 report per annum, and to allow fund managers to decide whether to prepare more frequent reports. He commented that web pages that allow for daily updates mean that semi-annual reports become less relevant.

*MAS' Response:* The semi-annual report is a requirement in major fund markets such as the USA, UK, Luxembourg, Ireland and Hong Kong. The semi-annual and annual reports constitute the minimum reporting standards that funds are subject to; managers have the prerogative to circulate other types or reports (e.g. monthly factsheets or quarterly reports).

**Q5:** MAS proposed not to require the relevant accounts and report to be prepared, audited and sent where they would have covered a period ending 3 months or less from the start of the initial launch period.

*Public Comments:* Some respondents suggested that the period for reporting start from the first valuation date instead. This is because during the initial launch period, subscription monies are usually held in cash and there are no investments made, thus there may not be useful information to report. The first valuation date may be more appropriate as it usually takes place shortly after the offer period is over.

Others suggested that there should not be a requirement to prepare accounts and reports where these would have covered a period ending 6 months or less from the start of the initial launch period. They were of the view that it may be more justifiable, from a cost perspective, to generate a report with coverage of at least a 6-month period compared with the proposed 3-month period.

*MAS' Response:* We are of the view that the transactions of a scheme during the period from the launch date (including the use of subscription monies) should be properly accounted for and reported expeditiously to unitholders. Setting the period for reporting at 6 months or more from the start of the initial launch date is tantamount to waiving the requirement to prepare the first semi-annual or annual report. The original proposal will be retained.

---

**Q6(A):** MAS proposed not to require the last semi-annual or annual accounts, auditor's report (where applicable) and semi-annual or annual report for the period ending immediately before the termination date if they are due one month or less before the termination date.

*Public Comments:* A respondent suggested inserting a requirement for the manager to prepare a final report detailing the holdings of the scheme immediately before termination and the market value at which the holdings were terminated, and the funds' performance for the period before termination.

*MAS' Response:* We are of the view that further reporting requirements are not necessary. The proposed requirement for trustees to submit to MAS the statements below will provide assurance that the assets of schemes have been properly distributed upon termination.

*Public Comments:* Another respondent requested clarification on whether this proposal would also extend to maturing schemes.

*MAS' Response:* This proposal would extend to maturing schemes.

**Q6(B):** MAS proposed that trustees be required to submit to MAS within 2 weeks after the termination of any funds:

- (a) a statement to the effect that all the assets of the scheme as at the date of termination have been realised, liabilities settled and the resultant proceeds distributed to unitholders in the same proportion as their holdings of units in the scheme; and
- (b) a statement affirming that the manager has managed the scheme in accordance with the investment guidelines and other requirements of the SFA and Code on Collective Investment Schemes since the set of accounts and report last sent to unitholders, a copy of which should be kept by the trustee at its registered office for a period of 6 years and made available to any unitholder (who was a unitholder at the time the last set of accounts and report were sent) at the unitholder's request.

*Public Comments:* Several respondents were concerned that 2 weeks would not be sufficient as the liquidation phase of funds may be a long drawn process. There was also a request to clarify the definition of termination date.

*MAS' Response:* The comments that the 2-week period is not sufficient may have arisen because of differences in the interpretation of the "termination date". To clarify, the termination date of a scheme is that when liquidation of the scheme is completed and it ceases to exist. We have amended the requirement to provide greater clarity.

In relation to the proposed statement (a), we understand that trustees may face difficulty in settling all liabilities of the fund within the stipulated 2-week period. Such liabilities may include lawyers' and auditors' fees. It would be sufficient for trustees to submit a statement to the effect that all assets of the scheme as at the date of termination have been realised and the resultant proceeds (net of outstanding liabilities) have been distributed to unitholders 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 unitholders, trustees should include:

- a) a statement of that fact;
- b) a description of those outstanding liabilities; and
- c) 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.

*Public Comments:* A respondent suggested that statement (b) from the trustee be confined to affirming (as in the Statement of Recommended Accounting Practice 7: Reporting Framework for Unit Trusts) that 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.

*MAS' Response:* We agree with the suggestion.

*Public Comments:* There was a suggestion to require both statements to be made available to unitholders

*MAS' Response:* We agree that both statements should be made available to unitholders upon their request.

**Q7:** MAS proposed to allow the trustee to send the relevant accounts and reports to unitholders by electronic means in soft copy form where the unitholder has given his express consent to receive the documents in such manner.

Public Comments: Some respondents suggested an 'opt-out' system where unitholders who want a hard copy of the reports must write in to request for them by a stipulated date.

MAS' Response: We do not agree with an 'opt-out' system as not all unitholders would want, or have the facility, to receive soft copies of accounts and reports. Unless unitholders have given express consent to receive the documents by electronic means in soft copy form, they should be entitled to hard copies sent by post.

Public Comments: A respondent proposed that "electronic means" include the posting of the reports on the distributors', fund managers' or trustees' website and furnishing a URL link to the unitholders.

MAS' Response: Furnishing to unitholders a URL link to the relevant accounts and reports is acceptable if the unitholders have consented to be informed in such a manner.

Public Comments: There was a request to clarify the extent we would accept that the trustee has complied with the requirements to send out the accounts and reports (e.g. where emails sent to unitholders are rejected, and the extent of follow up action that the trustee should take).

MAS' Response: The trustee should take reasonable steps to ensure that the accounts and reports are received by unitholders. The trustee should maintain evidence of sending the accounts and reports to unitholders at the email address provided by the unitholders and that there was no delivery failure. In the event of a delivery failure, the trustee should send hard copies to the unitholders.

## **Chapter IV: Reporting for Hedge Funds**

**Q8:** MAS proposed to require quarterly reports to be prepared and sent to investors for each of the first, third and fourth quarters.

Public Comments: A respondent remarked that most managers already provide monthly factsheets updating investors on the performance and investments of the fund. Existing mandatory annual and semi-annual reports, together with the monthly factsheets, should be sufficient in ensuring that the managers constantly keep investors informed on the management of the fund.

MAS' Response: We are aware that monthly factsheets are usually provided to investors. However, the information provided in monthly factsheets may not be comparable across funds. A uniform set of information would facilitate comparison between different hedge funds.

Public Comments: One respondent sought clarification as to whether a Singapore constituted fund feeding into a fund-of-hedge-funds would be bound by the rules.

MAS' Response: A Singapore constituted fund that feeds into a fund-of-hedge-fund would have to comply with these reporting requirements.

**Q9:** MAS proposed to incorporate the report for the second quarter in the semi-annual report.

Public Comments: A respondent suggested that managers should be given the option to incorporate the report for second quarter in the semi-annual report or issue the 2 reports separately so long as in substance, the information disclosed to unitholders is the same.

MAS' Response: We agree with the suggestion.

**Q10:** MAS proposed a time frame for the sending of quarterly reports. For single hedge funds, quarterly reports are to be sent to investors within 1 month of the end of the quarter. For fund of hedge funds, quarterly reports are to be sent to investors within 45 days.

Public Comments: Respondents agreed with the proposal.

**Q11:** MAS sought feedback on whether the existing requirements on the content of semi-annual and annual reports for funds in general are relevant to hedge funds. MAS also sought views on the proposals relating to adherence to RAP 7, classification of investments, individual holdings and performance fees and inclusion of the annual certification in the annual report.

Public Comments: Several respondents sought clarification on whether the disclosures in relation to the classification of

investments and performance fees for a fund-of-hedge-funds (FOHF) apply only at the Singapore fund level or at the underlying fund level as well.

MAS' Response: For a single hedge fund or a FOHF that invests directly in other hedge funds, the disclosures relating to the classification of investments should be at the Singapore fund level. The actual performance fees paid or payable by the fund to the Singapore fund manager should be disclosed.

For a FOHF that feeds into a foreign FOHF(s), the disclosures relating to the classification of investments should be in respect of both the Singapore constituted FOHF and the underlying FOHF(s) that it feeds into. The actual performance fees paid or payable by the fund to the Singapore fund manager and to the fund manager of the underlying FOHF should be disclosed.

We also encourage the disclosure of the investments made by the underlying hedge funds (that a FOHF invests in), and the actual amount of performance fees paid or payable to the fund managers of the underlying hedge funds.

Public Comments: There was a comment that the current certification (as to the monitoring and management of risk) by the manager in the prospectus is sufficient as it is provided on an annual basis in updated prospectuses. Annual certification in the annual report may not be necessary as it is generally issued once a year, three months after year-end and covers the previous financial year.

MAS' Response: Certification in the annual report serves as ex-post confirmation to existing unitholders of the adequacy of the procedures and controls for management of the hedge fund in accordance with its stated objectives on an ongoing basis. Unitholders may not access the prospectus.

**Q12:** MAS sought views on the proposed content for quarterly reports and suggestions as to other items that should be disclosed.

Public Comments: A respondent sought clarification on the definition of 'seed money'. He suggested removing this requirement as such information may not be readily available and may be sensitive to disclose.

MAS' Response: We have defined seed money to be the percentage of the net asset value of the scheme contributed by the manager or its related parties. Our intention is to enable investors to have a sense of the manager's stake in the fund and to provide a measure of the extent of alignment of the manager's interest with that of the investor.

Public Comments: A respondent commented that the requirement to report illiquid holdings is onerous, as the manager would have to monitor the market turnover of any holdings for classification purposes.

MAS' Response: The amount of illiquid holdings in a scheme is important information because they may pose significant risks, especially within concentrations of illiquid strategies. We do not consider the requirement onerous as the manager needs only monitor investments for which there are no available market values and report them at cost.

Public Comments: A respondent suggested requiring the disclosure of other risk measures (e.g. VAR, economic leverage, etc.), and also the credit quality of principal holdings. He also remarked that the Sharpe ratio should be defined as annual return net of risk free rate divided by annualised standard deviation.

MAS' Response: We have only set out the minimum disclosures that have to be made. Managers may disclose additional measures of risk.

We agree with the suggestion to require the disclosure of the credit quality of principal holdings viz. the credit rating of debt securities. This is in line with the requirement in the semi-annual and annual reports.

The risk free rate may be subjective. We adopt a zero risk-free rate for the calculation of the Sharpe ratio to provide a consistent and easily understandable methodology for investors.

Public Comments: A respondent suggested that the report on performance adopt a format that is consistent with other funds which are not hedge funds.

MAS' Response: In order to be consistent with other funds (which are not hedge funds) the revised Code will apply the disclosure of returns covering the following periods to hedge funds: 3-month, 6-month, 1-year, 3-year, 5-year, 10-year, and since inception.

**Q13:** MAS proposed not to require managers of capital protected or capital guaranteed hedge funds to prepare quarterly reports.

Public Comments: Respondents agreed with the proposal.

## **ANNEX**

### **LIST OF RESPONDENTS**

1. AIG Global Investment Corporation (Singapore) Ltd
2. Ascendas-MGM Funds Management Limited
3. British & Malayan Trustees Ltd
4. DBS Asset Management Ltd
5. Dexia Trusts Services Singapore Limited
6. First State Investments (Singapore)
7. Great Eastern Life Assurance Company Limited
8. Investment Management Association of Singapore
9. KPMG Singapore
10. Life Insurance Association, Singapore
11. Navigator Investment Services Ltd
12. Pan Asia Securities Lending Association
13. Schroder Investment Management (Singapore) Ltd
14. SG Asset Management (Singapore) Ltd
15. Temasek Holdings (Pte) Ltd
16. The Singapore Society of Financial Analysts

One respondent requested confidentiality.

Last modified on 30/3/2007