



RESPONSE TO FEEDBACK RECEIVED – CONSULTATION ON PROPOSED ENHANCEMENTS AND DRAFT LEGISLATIVE AMENDMENTS TO GIVE EFFECT TO THE REGULATORY REGIME FOR FUND MANAGEMENT COMPANIES

1 Introduction

1.1 On 27 September 2011, MAS conducted a consultation on the proposed enhancements and draft legislative amendments to give effect to the regulatory regime for Fund Management Companies (“FMCs”).

1.2 The consultation closed on 27 October 2011. We thank all respondents for their comments on the proposals. A list of respondents is attached in Annex 1. MAS’ responses to comments which are of wider interest are set out below.

2 Renaming of Notified FMCs to Registered FMCs

2.1 Respondents welcomed the change of nomenclature from “Notified” to “Registered” FMCs (“RFMCs”) as this better reflected the regulatory status and obligations imposed on the FMCs. Some respondents noted that exempt fund managers were prohibited from representing themselves as being licensed, regulated, supervised or registered by the MAS. The respondents enquired as to whether RFMCs would be allowed to represent themselves as being regulated by MAS.

MAS’ Response

2.2 Under the enhanced regime, RFMCs will be registered with MAS if they meet the eligibility criteria and are able to comply with the conduct of business requirements. MAS will not prohibit RFMCs from representing themselves as being regulated or registered by the MAS. However, they may only represent themselves as such, or solicit or invest monies, if they have been listed as a RFMC on the MAS directory of financial institutions, which is available on the MAS website.

3 Risk management framework for FMCs

3.1 Respondents supported the formalization of the requirement for FMCs to implement a risk management framework. Various respondents sought guidance as to how the risk management framework should be implemented, while some suggested that a “one-size-fits-all”

approach should not be taken for the framework. Other respondents asked if FMCs could outsource the risk management function to related entities or third parties.

MAS' Response

3.2 MAS recognizes that risk management is already an established industry practice, being integral to the business of fund management, and that FMCs would have a wide range of risk management arrangements, depending on their business model or investment strategy. For example, some FMCs may have centralised risk management functions at their head office or regional office. MAS has no objections to these arrangements, as long as the FMC retains ultimate responsibility for the risk management of the assets it manages and the arrangements are in line with MAS' outsourcing guidelines.

3.3 In view of the diversity of business models and risk profiles of FMCs, there are a wide variety of risk management practices and processes. MAS does not intend to prescribe risk management processes or models, which are business decisions driven by the investment model of the FMC. The requirement for FMCs to establish a risk management framework is to formalize existing practices, and ensure that FMCs' risk management processes are appropriate, clear, documented and subject to management oversight. Essentially, FMCs would be expected to provide for:

- Proper governance and organisation of the risk management function;
- Effective identification and measurement of risks associated with the assets managed by the FMC, utilizing tools or metrics appropriate to the nature, scale and complexity of the assets;
- Documented risk management policies and procedures, which reflect the size and scale of the FMC's operations and assets managed; and
- Monitoring and timely reporting of identified risks to management and investors, where appropriate.

3.4 We note industry feedback requesting additional clarification, and will provide additional guidance on the risk management framework. We will also continue to finetune our guidance over time as additional feedback is taken on board.

4 Independent annual audits for Registered Fund Management Companies

4.1 Respondents sought clarification on the requirement for RFMCs to appoint an auditor to audit their financial statements and provide an auditor's report to MAS on the RFMC's compliance with key requirements. Some respondents asked about the responsibilities of the auditor and the scope of audit reporting – in particular, with regard to the proposed risk management framework for FMCs. Respondents also expressed concerns as to the potential costs involved in meeting the audit requirements.

MAS' Response

4.2 MAS recognizes that the requirement for an independent audit may involve additional costs to certain RFMCs who are currently not subject to statutory audit. However, the requirement would also benefit RFMCs by further strengthening investor confidence in them. Aside from the requirement that the audit firm be registered with ACRA, MAS does not intend to restrict the type of auditor which RFMCs may appoint. Nonetheless, MAS expects RFMCs to appoint auditors whose experience and expertise are commensurate with the scope and complexity of the RFMC's operations.

4.3 The auditor will be responsible for certifying the RFMC's compliance with the registration criteria and conduct of business requirements – for example, whether the RFMC has documented risk management policies and limits, as well as procedures to monitor these policies and limits.

5 Examination requirements for representatives of Licensed Retail FMCs

5.1 Many respondents expressed concerns over the proposal to require representatives of Licensed Retail FMCs to pass the new CMFAS examination module on securities and futures product knowledge (Module 6A), which incorporates product knowledge on Specified Investment Products ("SIPs"). Respondents highlighted that Licensed Retail FMCs typically pursued a business model of distributing funds through intermediaries and do not have direct contact with end investors. To address the objective of raising competency while minimizing potential disruptions to industry operations, respondents suggested that the Module 6A be applied only to representatives who have direct face-to-face dealings with investors on SIPs.

MAS' Response

5.2 MAS is cognizant of the role played by representatives conducting fund management activities, and appreciates that the business model of a Licensed Retail FMC as product manufacturer, is distinct from the role played by intermediaries who distribute investment products to, and have direct contact with the end investor. In addition, MAS notes that the track record of a fund can be considered an indicator of the competency of the portfolio managers in carrying out their fund management activities. This is transparent to the end investor through fund offering documents such as the fund prospectus, fact sheet and annual report. On balance, MAS has considered the merits and costs of the proposal and decided that representatives conducting fund management activities will not be required to take Module 6A, so long as they do not have direct contact with the end investor. Representatives of Licensed Retail FMCs who engage in marketing or advising on funds that are SIPs directly to retail investors are considered to be providing financial advisory services, and are required to pass the CMFAS examination module on collective investment schemes (Module 8A).

LIST OF RESPONDENTS TO THE CONSULTATION ON PROPOSED ENHANCEMENTS AND DRAFT LEGISLATIVE AMENDMENTS TO GIVE EFFECT TO THE REGULATORY REGIME FOR FUND MANAGEMENT COMPANIES

1. Alternative Investment Management Association
2. Association of Independent Asset Managers
3. Baker & McKenzie.Wong & Leow
4. Bamboo Capital Pte Ltd
5. Boswell Capital Management Pte Ltd
6. Clifford Chance Pte. Ltd
7. Colin Ng & Partners LLP
8. DBS Vickers Securities (Singapore) Pte Ltd
9. Drew & Napier LLC
10. Duxton Asset Management Pte Ltd
11. Dymon Asia Capital (Singapore) Pte Ltd
12. Emerging Markets Private Equity Association
13. Ernst & Young LLP
14. FIL Investment Management (Singapore) Ltd
15. Firth Investment Management Pte Ltd
16. Fullerton Fund Management Company Ltd
17. High Value Management Pte Ltd
18. Investment Management Association of Singapore
19. KhattarWong
20. Mr. Geoffrey Kung
21. Lighthouse Advisors
22. Lucrum Capital Pte Ltd
23. Octagon Capital Management Pte Ltd
24. Optionality Consulting Pte Ltd
25. Rajah & Tann LLP
26. RSR Capital Pte Ltd
27. Singapore Venture Capital Association
28. White & Case Pte. Ltd.
29. Wong Partnership LLP
30. Mr. Yeo Seng Chong