

**RESPONSE TO  
FEEDBACK RECEIVED**

December 2017

**Consultation Paper on  
Proposed  
Amendments to the  
Code on Collective  
Investment Schemes**

**MAS**

Monetary Authority of Singapore

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## **1 Preface**

1.1 On 10 November 2016, the Monetary Authority of Singapore (“MAS”) published a consultation paper on the proposed amendments to the Code on Collective Investment Schemes (“CIS Code”). The paper introduced requirements for retail funds that invest solely in gold, silver and platinum. MAS also proposed to amend the CIS Code as part of our ongoing efforts to (i) enhance transparency and market discipline; (ii) improve operational effectiveness and (iii) provide greater clarity to market practitioners. The consultation closed on 12 December 2016.

1.2 MAS would like to thank all respondents for their contributions. MAS has carefully considered the feedback received, and our responses to comments that are of wider interest are set out below. The list of respondents is set out in Annex A and the full submissions are provided in Annex B.

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## Defined Terms

AGM	Annual general meeting
Authorised	An “authorised” fund refers to a collective investment scheme that is constituted in Singapore and authorised by MAS for offer to retail investors under section 286 of the SFA
CBPA	Code of Best Practices in Advertising Collective Investment Schemes and Investment-Linked Life Insurance Policies jointly issued by IMAS and the Life Insurance Association
CIS	Collective Investment Schemes
CIS Code	Code on Collective Investment Schemes
ILP	Investment-linked policies
IMAS	Investment Management Association of Singapore
IOSCO	International Organisation of Securities Commission
LBMA	London Bullion Market Association
LPPM	London Platinum & Palladium Market
MAS	Monetary Authority of Singapore
NAV	Net asset value
PFA	Appendix 6 of the CIS Code
Precious Metals Funds	Authorised/ Recognised funds that invest solely in gold, silver and platinum
RDPA	Guidance Notes on Recommended Disclosures to Support the Presentation of Income Statistics in Advertisements issued by IMAS
Recognised	A “recognised” fund refers to a collective investment scheme that is constituted outside of Singapore and recognised by MAS for offer to retail investors under section 287 of the SFA

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REIT	A collective investment scheme that invests primarily in real estate and real estate-related assets as specified in the CIS Code, and all or any units of which are listed for quotation on an MAS-approved securities exchange
SFA	Securities and Futures Act (Cap. 289)
SFR	Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005
SGX	Singapore Exchange Limited
WALE	Weighted average lease expiry

## **2 Precious Metals Funds**

### Requirements for Precious Metals Funds

2.1 MAS proposed to impose requirements on Precious Metals Funds in addition to the requirements for fund approval and prospectus registration which apply to all retail offers of units in a CIS. The additional requirements are:

- (a) Where a Precious Metals Fund invests in gold and silver, the fund must follow the LBMA prices and good delivery rules;
- (b) Where a Precious Metals Fund invests in platinum, the fund must follow the LPPM prices and good delivery rules; and
- (c) The prospectus of a Precious Metals Fund should clearly state that an investment in the Precious Metals Fund carries risks of a different nature from other types of funds which invest in transferable securities and that it is not intended to be a complete investment programme for any investor.

2.2 Some respondents sought clarification on whether the proposed additional requirements would extend to a fund's investments in companies or funds that invest solely in gold, silver and/or platinum. One respondent suggested to extend the permissible set of benchmarks beyond LBMA and LPPM if a benchmark is able to comply with the IOSCO benchmark principles.

### MAS' Response

2.3 MAS would like to clarify that the intention is for Precious Metals Funds to invest solely and directly in physical commodities. Therefore, Precious Metals Funds are allowed to invest only in physical gold, silver and/or platinum. The additional requirements do not apply to a non-Precious Metals Fund's investments in companies or funds that invest solely in gold, silver and/or platinum.

2.4 With regard to the permissible benchmarks, MAS only allows LBMA and LPPM as permissible benchmarks for Precious Metals Funds at this juncture. MAS will monitor the developments in other major jurisdictions and consider updating the list of permissible benchmarks where necessary.

### Investment caps on gold, silver and/or platinum

2.5 MAS sought views on (i) imposing an NAV cap on Precious Metals Fund's investments in silver and/or platinum; or (ii) only allowing a Precious Metals Fund to invest in gold, for a start.

2.6 Respondents were generally of the view that Precious Metals Funds should be allowed to invest in gold, as well as silver and platinum, without any investment cap on these precious metals. For example, one respondent was of the view that this allows for risk diversification in the event that gold supply is disrupted while supplies of other precious metals remain unchanged.

MAS' Response

2.7 Given the feedback, MAS will allow Precious Metals Funds to invest in gold, silver and/or platinum without imposing any limits.

### **3 Enhance transparency and market discipline**

Manager's credit assessment process

3.1 MAS proposed to require the manager to detail its credit assessment process in the prospectus of the fund including:

- (a) the scope of the internal credit assessment, including the extent to which the manager will rely on credit ratings issued by credit rating agencies;
- (b) the use of other tools or metrics (other than credit ratings) in the internal credit assessment; and
- (c) the events that will trigger a review of internal credit assessments that had been performed.

3.2 Majority of the respondents felt that the disclosures are overly specific and technical and would not help retail investors to make investment decisions. There might also be operational challenges and frequent updates to the prospectus as a result.

3.3 As an alternative, some respondents suggested a principle-based disclosure statement or a statement that the manager has credit assessment processes in place to ensure that investments made falls within the investment mandate and meets their internal credit rating standards. One respondent further suggested that investors be provided, upon request, with the quantitative limits applied to the risk management of the fund, the methods used in relation to them and any recent development of the risk and yields of the main categories of investment.

3.4 One respondent felt that a fund manager should be allowed to keep its proprietary credit assessment model confidential, and that disclosure of credit assessment practices was excessive and overly-complex. The respondent also cautioned

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that the prospectus disclosures would translate to additional costs to be borne by end investors.

### MAS' Response

3.5 MAS agrees that the intent of the proposal to ensure that fund managers disclose information on their credit assessment processes, to facilitate investors' understanding of the manager's rating verification process, can similarly be achieved with a statement based on an outcome that the manager would be able to justify. Therefore, MAS will instead require the fund manager to:

- (a) establish a set of internal credit assessment standards and put in place a credit assessment process to ensure that its investments are in line with these standards, and provide a statement in the prospectus disclosing the foregoing fact; and
- (b) provide a statement in the prospectus that information on its credit assessment process would be made available to investors upon request.

3.6 For avoidance of doubt, the manager is allowed to enter into agreements with the investor to keep the disclosed information confidential. To give managers sufficient time to set up the credit assessment standards and process and provide the necessary disclosures in their prospectuses, MAS will extend the effective date of these requirements to 1 July 2018. In the case of disclosures in an existing prospectus, the effective date will be such time when the prospectus is next registered by MAS on or after 1 July 2018.

### Securities lending and repurchase transactions

3.7 Where a fund intends to carry out securities lending or repurchase transactions ("repo"), MAS proposed to require the following additional disclosures in the semi-annual and annual reports:

- (a) the amount of securities on loan as a proportion of total lendable assets and of the fund's assets under management, and the absolute amounts of the repo book and the reverse repo book;
- (b) the top 10 collateral securities received by fund, and the top 10 counterparties of securities lending and repo;
- (c) the transaction profile broken down by (i) collateral type, (ii) currency, (iii) maturity tenor, (iv) geographical location of counterparty, (v) proportion of cash versus non-cash collateral, (vi) maturity of non-cash collateral and (vii) settlement/clearing (tri-party, bilateral or central clearing party, where applicable);



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- (d) the share of collateral received that is re-used or re-hypothecated, compared to the maximum authorised amount if any, and information on any restrictions on type of securities;
  - (e) the split between the return from securities lending and repo and the return from cash collateral reinvestment;
  - (f) the number of custodians and the amount of assets held by each custodian; and
  - (g) the way securities received by the counterparty are held (i.e. in segregated accounts or pooled accounts).

3.8 Majority of the respondents disagreed with the proposal, claiming that it was not in line with international practice. Some respondents cited difficulties in extracting some of the required information which are currently not available. Two respondents commented that the disclosures are onerous or overly detailed. One respondent suggested that MAS instead regulate the use of securities lending and repo by funds or require simple disclosures.

#### MAS' Response

3.9 MAS wishes to highlight that the proposed requirements are in line with recommendations by the Financial Stability Board in August 2013 and international practices such as the Securities Financing Transactions Regulation in Europe. In order to enhance the transparency of securities lending and repo reporting to end-investors and to ensure level playing field, MAS will proceed to require the additional disclosure requirements in the semi-annual and annual reports. MAS has assessed that the impact on Singapore managers is likely to be low due to their low participation in securities lending and repo transactions. Nonetheless, to give affected managers sufficient time to put in place the necessary compliance systems and processes, MAS has decided to extend the effective date of these additional requirements to the first annual reports relating to the year period ending on or after 31 December 2018.

#### Applying disclosure requirements to Recognised funds

3.10 Currently, the additional disclosure requirements under the CIS Code only apply to Authorised funds. MAS proposed to extend the additional disclosure requirements under the CIS Code to Recognised funds.

3.11 Most respondents agreed that the additional disclosure requirements should apply to prospectuses, but not for semi-annual and annual reports ("Periodic Reports") as, unlike prospectuses, Recognised funds prepare and despatch the same Periodic Reports to all investors globally. Hence it would not be equitable for Singapore investors

to receive any additional disclosures over and above the other investors. They also cautioned that it would be too onerous and cost-ineffective to tailor Periodic Reports for compliance with the CIS Code solely for Singapore investors. One respondent was of the view that the proposal to require equivalent disclosures in Periodic Reports of Recognised funds may, lead to fewer offerings of Recognised funds in Singapore. Another respondent suggested that existing Recognised funds be grandfathered.

#### MAS' Response

3.12 Given the issues and difficulties with requiring additional disclosures in Periodic Reports of Recognised funds and the potential impact it could have on the availability of Recognised funds in Singapore, MAS will only extend the additional disclosure requirements under the CIS Code to prospectuses but not to Periodic Reports. These additional disclosure requirements will take effect on 1 February 2018, or in the case of an existing prospectus, such time when the prospectus is next registered by MAS on or after 1 February 2018.

#### Advertisement on a fund

3.13 MAS proposed to require managers of Authorised and Recognised funds to ensure that advertisements on such funds are prepared in accordance with the CBPA. In addition, MAS proposed to require illustrations of income statistics in the advertisements to be prepared in accordance with the RDPA.

3.14 Most respondents did not express opposition to the proposal. In particular, a few respondents were supportive of the proposal as they felt that it would create a level playing field for advertising.

3.15 However, some respondents were of the view that REITs should not be subject to requirements that are not imposed on companies and business trusts that are listed on SGX. A few respondents sought clarity on the terms used in the RDPA. One respondent requested for a transition period for funds to comply with the requirements.

#### MAS' Response

3.16 MAS' intent is to ensure a level playing field for advertising by extending the scope of the CBPA and RDPA to all the managers of retail funds, including Recognised funds and REITs. While companies and business trusts will not be subject to the CBPA and RDPA, they will nonetheless be subject to upcoming regulations that require advertisements for all public offering vehicles to be "fair and balanced". In this regard, CBPA and RDPA provides additional guidance to funds, which includes REITs. IMAS has

also published a set of frequently asked questions to clarify the terms used in the RDPA. Therefore, MAS will proceed to require Authorised and Recognised funds to ensure that advertisement on such funds are prepared in accordance with the CBPA and the RDPA.

3.17 To provide managers of Authorised and Recognised funds sufficient time to update their advertising materials, MAS will extend the effective date of these additional requirements to 1 July 2018.

### WALE disclosures

3.18 Currently there is no standard practice for calculating WALE. MAS proposed to require a REIT to calculate WALE based on the date of commencement of the leases.

3.19 Majority of the respondents agreed with the proposal. One respondent commented that leases are negotiated over the entire lease term and as an incentive to tenants to take up a lease, the initial few months of some leases could be rent-free. As such the respondent sought clarity on whether such “rent-free period” should be included in WALE calculation.

### MAS’ Response

3.20 MAS notes respondents’ agreement that WALE should be calculated based on date of commencement of the leases to facilitate comparability of the lease expiry profile across REITs. Therefore MAS will proceed with this proposal. To give existing REITs sufficient time to comply with the new WALE calculation methodology, MAS has decided to extend the effective date of this proposal to the first annual report relating to the financial year ending on or after 31 December 2018.

3.21 With regard to “rent-free period” in leases, MAS agrees that WALE is a metric used to measure the average period in which the leases in a REIT’s portfolio will expire. Accordingly, the focus is on the remaining length of the existing lease rather than the rental stream. Therefore, rent-free periods should be included in WALE calculation.

## **4 Improve operational effectiveness**

### REIT Meetings

4.1 Respondents were supportive of MAS’ proposal for a REIT to hold its first AGM within 18 months of its authorisation instead of its constitution.

### MAS’ Response

4.2 MAS will proceed with the proposal.

#### Redemption period for bond and money market funds

4.3 Respondents were supportive of MAS' proposal to align the periods for payment of redemption proceeds, and to allow all funds, except property funds and hedge funds, to pay out redemption proceeds within 7 business days from the receipt of the redemption request.

#### MAS' Response

4.4 MAS will proceed with the proposal.

### **5 Provide greater clarity to market practitioners**

#### Clarification on "passing rent"

5.1 A master lease arrangement is considered to have an embedded income support arrangement if the rent under the master lease arrangement is higher than the passing rents of the underlying sub-leases. MAS had clarified that the "passing rent" as used in the PFA refers to market rent at the time of entry or renewal of the master lease arrangement. At the same time, MAS proposed to replace the phrase "passing rents of the underlying sub-leases" in the CIS Code with the phrase "market rents of the underlying sub-leases at the time of entry or renewal of the master lease arrangement", where "market rent" is defined using existing valuation standards<sup>1</sup>.

5.2 Respondents were generally supportive of the proposal. One respondent sought clarification on whether "market rent" refers to actual rent of the underlying sub-leases. The respondent also sought clarification as to whether valuation reports are required each time a master lease arrangement is entered into or whether alternative methods may be used, to justify that the rent is at market rates. Another respondent asked if the income support disclosure is to be made at the point of entry or renewal of the master lease arrangement, or if it is to be made annually.

#### MAS' Response

5.3 MAS will proceed with the proposal. MAS would like to clarify that the intent of this proposal is for master lease rent to be compared against market rent (e.g. rents of comparable properties that valuers may use when valuing properties) and not actual rent.

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<sup>1</sup> Singapore Institute of Surveyors and Valuers, "Valuation Standards and Practice Guidelines, 2015 Edition", p 35.

MAS will not prescribe the methods for justifying whether the master lease rent is at market rate. However each time a master lease arrangement is entered into or an existing master lease arrangement is renewed, the REIT manager should take steps to justify that the rent is at market rates. In this regard, MAS understands that the use of valuation reports and official databases are currently accepted industry practices. For the avoidance of doubt, the income support disclosures is to be made annually in the REIT's annual report.

### Issuing summary financial statements

5.4 MAS proposed to clarify in the PFA that an SGX-listed REIT may issue summary financial statements to unitholders in place of the full financial statements and report, similar to SGX-listed companies<sup>2</sup>.

5.5 Respondents were generally supportive of the proposal. However, one respondent felt that summary financial statements may not provide sufficient information on the REIT's operation and outlook. Another respondent felt that the cost of additional review by auditors and other preparations outweigh the benefits of preparing a separate set of summary financial statements.

### MAS' Response

5.6 MAS intends to clarify that REIT managers may prepare summary financial statements to supplement the full financial statements and report. The REIT manager should still prepare the full financial statements and report as MAS would require unitholders to be given the option to request for copies of the full financial statements and report within one month from the notification of the availability of the statements and reports. Unitholders should also be allowed to opt for hardcopies of the full financial statements and reports for future financial years at no cost to them.

### Sending annual reports by electronic means

5.7 MAS proposed to clarify that a REIT may also send its accounts and reports to unitholders by electronic means.

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<sup>2</sup> A unitholder would still have the right to request free of charge for a copy of the full financial statements and report by notifying the REIT manager, in accordance with regulation 3 of the Companies (Summary Financial Statements) Regulations.

5.8 Some respondents sought clarity on the acceptable manner in which reports may be transmitted electronically. One respondent asked if it is possible to use only electronic means (i.e.: CD-ROMs / website) to distribute the annual reports, without the need for hardcopies.

MAS' Response

5.9 MAS does not intend to prescribe a list of permissible means of electronic transmission of reports. Emails, electronic storage medium and websites are some possible methods of electronic transmission. Other methods could also be used.

5.10 With regard to the suggestion to do away with the need for hardcopies of the annual report, MAS would like to clarify that while REITs may distribute electronic copies instead of hardcopies, unitholders should still be given the option to request for hardcopy accounts and reports within one month from the notification of the availability of the accounts and reports. The trustee should also make available, or cause to be made available, hardcopies of the accounts and reports to any unitholder who requests for them within two weeks of the request. Unitholders should also be allowed at any time to opt for hardcopies for all future reports and accounts at no cost to them.

Naming of index funds

5.11 MAS will also be making an editorial amendment to the CIS Code provision on the naming of index funds to remove the term "ETF". The edit is made to avoid any misinterpretation that index funds must always be traded on an organised exchange or that funds traded on an organised exchange must be index funds.

## **6 Applicability to investment-linked policies**

6.1 Respondents were generally supportive of MAS' proposal to apply the proposed amendments to ILP sub-funds issued by insurers under MAS 307.

MAS' Response

6.2 MAS will proceed with the proposal.



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**Annex A**

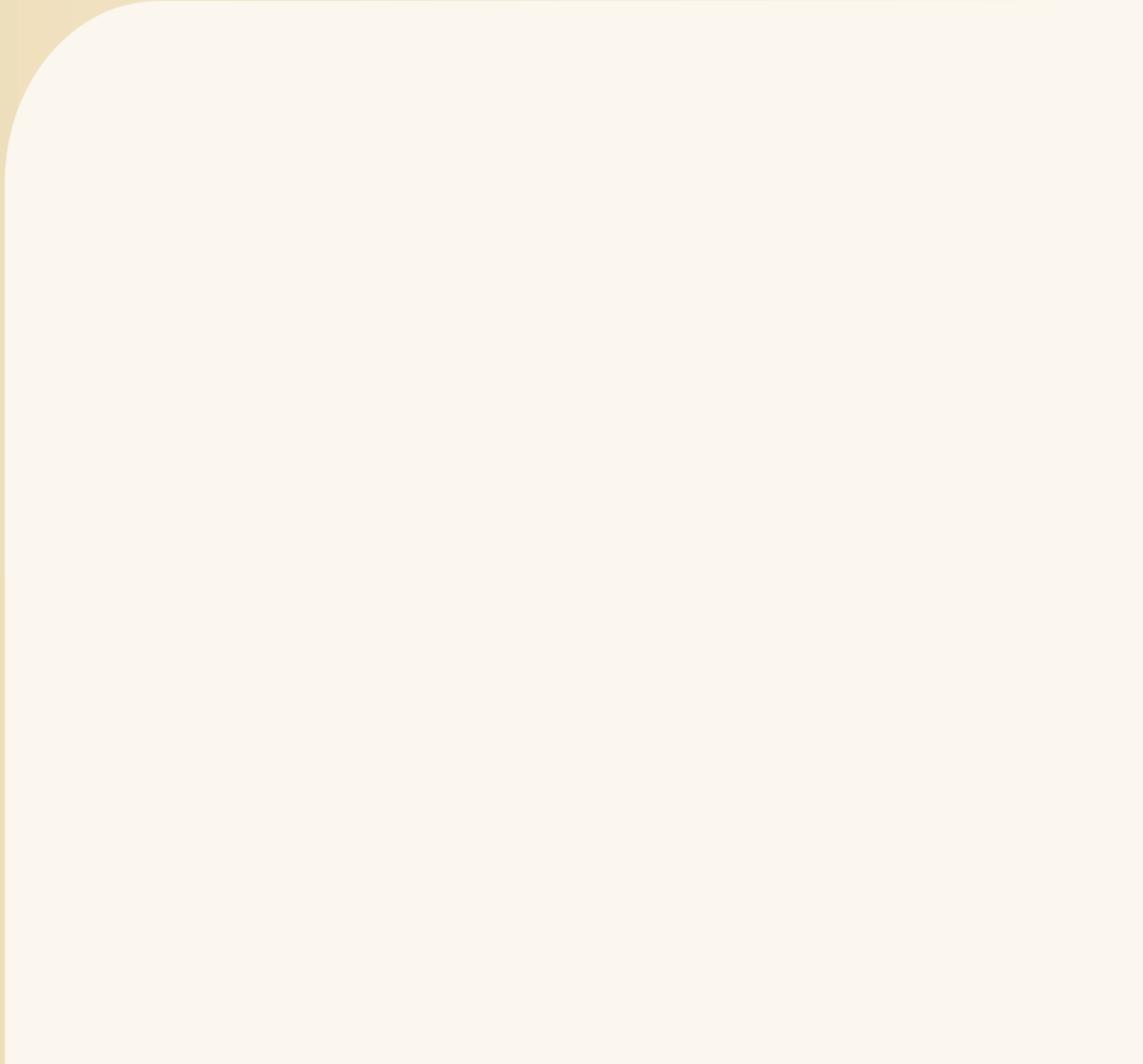
**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED  
AMENDMENTS TO THE CODE ON COLLECTIVE INVESTMENT SCHEMES**

1. ABN AMRO Bank N.V., Singapore Branch
2. Allianz Global Investors Singapore Limited
3. Asia Pacific Real Estate Association Limited
4. BlackRock (Singapore) Limited
5. BNP Paribas Trust Services Singapore Limited
6. Cambridge Industrial Trust Management Limited
7. CFA Society Singapore Advocacy Committee
8. Chan & Goh LLP
9. Clifford Chance Pte Ltd
10. DBS Bank Ltd.
11. Eastspring Investments (Singapore) Limited
12. Fidelity International
13. Fullerton Fund Management Company Ltd.
14. Great Eastern Life Assurance Company Limited
15. Investment Management Association of Singapore
16. Legg Mason Asset Management Singapore Pte. Limited
17. Prudential Assurance Company Singapore (Pte) Ltd
18. RHB Asset Management Pte. Ltd.
19. Shook Lin & Bok LLP
20. Sidley Austin LLP
21. Respondent A requested for confidentiality of identity.
22. Respondent B requested for confidentiality of identity.
23. Respondent C requested for confidentiality of identity.
24. Respondent D requested for confidentiality of identity.
25. Respondent E requested for confidentiality of identity.



26. 6 respondents requested for confidentiality of their identity and submission.

27. HSBC Institutional Trust Services (Singapore) Limited requested for confidentiality of submission.



Monetary Authority of Singapore