Monetary Authority of Singapore

# Code on Collective Investment Schemes

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# PREAMBLE

The Code on Collective Investment Schemes ("Code") is issued by the Monetary Authority of Singapore (the "Authority") pursuant to section 321 of the Securities and Futures Act 2001 ("SFA"). The Code sets out the best practices on management, operation and marketing of schemes, that managers, approved trustees, directors of a VCC and custodians of a VCC or a sub-fund thereof, are expected to observe.

The Code is non-statutory in nature. A failure by any person to comply with any requirement in this Code will not of itself render that person liable to criminal proceedings although any such failure may, in any proceedings whether civil or criminal, be relied upon by any party to the proceedings as tending to establish or to negate any liability which is in question in the proceedings.

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 or recognition of the scheme under section 286 and 287 of the SFA respectively or to refuse to authorise or recognise new schemes proposed to be offered by the same responsible person. Similarly, a breach of this Code by a trustee or custodians of a VCC or a sub-fund thereof 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 trustee or custodian from acting as trustee or custodian for any new scheme.

The Code was first issued on 23 May 2002 and last revised on 26 November 2026 ~~2 July 2026~~.

Transitions and Implementations:

The effective date of this revised Code is 26 November 2026 ~~2 July 2026~~.

For the purposes of the revisions made to Chapter 2.3(d), Chapter 5, Chapter 6.4(b), paragraphs 7.8, 7.9 and 7.10 of Appendix 3 and paragraphs 4.1, 4.3, 8.1, 11.1 and 11.2 of Appendix 6 of the Code on 28 November 2025, authorised schemes are to comply with the revised Code no later than their respective financial years ending on or after 31 December 2028.

For the purposes of the revisions made to paragraph 3.2(b) of Appendix 2 of the Code on 2 July 2026, authorised schemes are to comply with the revised Code no later than 2 January 2027.

# CHAPTER 1

## 1 Interpretation

1.1 Unless the context otherwise requires, the terms in this Code have the same meaning as defined in the SFA or the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 (as amended) ("SFR").

1.2 For the purposes of this Code,

aa) **Constituent document**,

i) in relation to a scheme constituted as a unit trust, refers to the trust deed of the scheme;

ii) in relation to a scheme constituted as a VCC or a sub-fund thereof, refers to constitution of the VCC, as defined under section 2 of the VCC Act.

a) **Deposits** refer to deposits as defined in section 4B(4) of the Banking Act 1970.

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

c) **Efficient portfolio management** ("EPM"): A transaction is deemed to be for the purpose of 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:

A) reduction of risk;

B) reduction of cost with no increase or a minimal increase in risk; or

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

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

i) reduce risk or cost or both, it would diminish a risk or cost which is sensible to reduce; or

ii) increase capital or generate income, the scheme would (barring events which are not reasonably foreseeable) derive a benefit from the 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 for the disclosure of expense ratios issued by the Investment Management Association of Singapore.

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) **Financial derivative** refers to a financial instrument which derives its value from, or whose value depends on, the characteristics of one or more underlying assets, reference rates or indices.

g) **Hedging** refers to the use of combinations of trades on transferable securities, money market instruments, units in other schemes or financial derivatives which are concluded with the sole purpose of offsetting risks linked to positions taken through other transferable securities, money market instruments, units in other schemes or financial derivatives.

h) **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.

i) **Liquid** means the ability of a financial instrument to be readily converted into cash at a value close to its fair price under normal market conditions. In determining if a financial instrument is liquid, the manager should also take into account the following factors:

i) transaction costs;

ii) bid-offer spread;

iii) size of the holding relative to issue size;

iv) settlement time;

v) number of market participants; and

vi) characteristics or nature of the instrument.

The manager should have a reasonable belief that the financial instrument does not impair the scheme's ability to comply with its redemption obligations set out in chapter 3.2(a) as well as meet other payment commitments.

*Guidance*
*Other payment commitments may include margin calls or collateral requirements from the use of derivatives.*

j) **Net asset value** ("NAV") means the total assets less total liabilities (excluding participants' interest if this is classified as a liability).

k) **Organised exchange** refers to an exchange that is an organised market;

l) **Organised market** refers to an exchange, over-the-counter market or government securities market:

(i) that is of good repute;

(ii) that is open to the public or a substantial number of market participants; and

(iii) on which financial instruments are regularly traded.

m) **Quoted** means being listed for quotation, quoted or traded on an organised market.

n) **Related corporation** has the same meaning as in section 4(1) of the Companies Act 1967.

o) **Repurchase transactions** refer to both repurchase and reverse repurchase transactions.

p) **SFRS(I)** refers to the Singapore Financial Reporting Standards (International) issued by the Accounting Standards Committee.

q) **Soft dollar commissions/arrangements** ("soft dollars") refer to arrangements under which products or services other than the execution of transactions involving securities, securities-based derivatives contracts, or units in a collective investment scheme that are obtained from or through a broker in exchange for the direction by the manager of transactions to the broker. Forms of soft dollars would include research and advisory services, economic and political analyses, portfolio analyses, market analyses, data and quotation services, and computer hardware and software used for or in support of the investment process of managers.

r) **Subsidiary** has the same meaning as defined in section 5 of the Companies Act 1967.

s) **Turnover ratio** means a ratio of 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.

t) **VCC** means a Variable Capital Company incorporated under the VCC Act.

u) **VCC Act** means the Variable Capital Companies Act 2018 (No. 44 of 2018).

v) **VCC Custodian** means an entity to which the assets of a collective investment scheme constituted as a VCC or a sub-fund of a VCC are entrusted for safekeeping.

w) **VCC Director** means a director of a VCC.

# AUTHORISED SCHEMES

## CHAPTER 2

## 2 The Trustee

This Chapter shall apply to all schemes constituted as a unit trust.

### 2.1 Condition for Appointment

a) The trustee should be independent of the manager.

*Guidance*
*The trustee may not be considered independent of the manager if any person who has an interest in 20% or more of the shares issued by the trustee also has an interest in 20% or more of the shares issued by the manager or its related corporations. Such interest would include deemed interest in the shares of the trustee or manager as the case may be under section 4(4) and (5) of the SFA.*

### 2.2 Functions and Responsibilities

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

### 2.3 Operational Obligations

Breach of section 289(3) of the SFA

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

Sending of accounts and reports

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 two 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 three months from the end of each financial year of the scheme.

c) The accounts and reports may be sent or made available to participants by electronic means. Examples of electronic means include:

(A) transmitting via email with softcopy attachments to the email address provided by the participant for correspondence purposes;

(B) making available via an electronic storage medium; and

(C) posting on a website where the accounts and reports would remain posted on that website for at least 12 months from the date of posting.

For the purposes of chapter 2.3(c)(B) and (C), the participants should be notified by either a hardcopy letter or an email if the participant had previously provided an email address for correspondence purposes, that the accounts and reports are available and how they may be accessed (e.g. by stating the URL).

d) In the case of a property fund that is listed on an approved exchange, a summary financial statement that is prepared in accordance with the relevant provisions of the Companies Act 1967 may be sent in lieu of the annual report. For the avoidance of doubt, the property fund should still prepare a full set of financial statements and report. The property fund's financial statements should be prepared in accordance with chapter 5.1.1 of this Code. The financial statements should be duly audited and accompanied by the auditor's report.

*Guidance*
*The participants should be given the option to request for copies of the full annual financial statements and auditors' report on those financial statements within one month from the notification of the availability of the statements and reports. Participants should also be allowed at any time to opt for copies of the full annual financial statements and auditors' report on those financial statements for future financial years at no cost to them.*

e) The participants should 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 make available, or cause to be made available, hardcopies of the accounts and reports to any participant who requests for them within two weeks of the request. Participants should also be allowed at any time to opt for hardcopies for all future reports and accounts at no cost to them.

Termination or maturity of schemes

f) The trustee should send to the Authority, within two weeks of the termination date of a scheme (i.e. the 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 two 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) 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; 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 constituent document of the scheme, laws and regulations and otherwise in accordance with the provisions of the constituent document of the scheme.

g) a copy of the statements should be kept by the trustee at its registered office for a period of six 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.

# CHAPTER 2A

## 2A The VCC, VCC Directors and the VCC Custodian

This Chapter shall apply to all schemes constituted as a VCC or is a sub-fund thereof.

### 2A.1 Conditions for Appointment

Appointment of VCC Directors

a) At least one VCC Director should be independent of:

i) any business relationships involving the VCC;

ii) the manager and its related corporations;

iii) the VCC Custodian; and

iv) the substantial shareholders in the VCC.

*Guidance 1*
*A substantial shareholder in a VCC is a person who has substantial shareholding in a corporation under section 2(4) to (6) of the SFA.*

*Guidance 2*
*An independent director of a VCC should not be a substantial shareholder, a director or an executive officer of the VCC Custodian or its manager in the current or immediately preceding financial year.*

Appointment of VCC Custodian

b) The VCC Custodian should be independent of the VCC and the manager.

*Guidance*
*The VCC Custodian may not be considered independent of the VCC or the manager if any person who has an interest in 20% or more of the shares issued by the VCC Custodian also has an interest in 20% or more of the shares issued by the VCC, the manager, or their related corporations. Such interest would include deemed interest in the shares of the VCC, the VCC Custodian or the manager, as the case may be, under section 4(4) and (5) of the SFA.*

### 2A.2 Functions and Responsibilities / Operational Obligations

Conduct of Transactions

a) The VCC, VCC Directors, and the VCC Custodian, should conduct all transactions with or for a scheme at arm's length.

Managing Conflicts of Interest

b) The VCC Directors should avoid situations where conflicts of interest may arise, including any actual or potential conflicts that may arise between different parties, in respect of the VCC. Where conflicts of interests cannot be avoided, the VCC should have effective arrangements in place to manage such conflicts of interests.

Obligations of a VCC

c) The following provisions shall apply to a VCC as they apply to a trustee or a manager of a scheme, as the case may be:

i) Chapter 2.3(b), (c), (e), (f) and (g);

ii) Chapter 3.1(e);

iii) Chapter 3.2(a), (b) and (e); and

iv) Chapter 3.2(d), subject to the following modifications:

A) a reference in chapter 3.2(d)(ii) and (v) to the trustee shall be replaced with the VCC Custodian and the VCC Directors; and

B) a reference in chapter 3.2(d)(iii) to the trustee shall be replaced with the VCC Directors.

d) A VCC or a sub-fund thereof may invest in assets located in a jurisdiction that does not have a cellular structure only after taking reasonable measures to mitigate cross-cell contagion risk.

*Guidance*
*The VCC and its manager should take reasonable measures to manage cross-cell contagion risk. The measures which would be considered reasonable will depend on the facts and circumstances of each case. For example, the manager should consider whether it would be appropriate to subject agreements governing the VCC's overseas assets to the laws of jurisdictions which uphold segregation of assets and liabilities across sub-funds or to include terms in a contract which limit a creditor's claim to the relevant sub-fund.*

Obligations and functions of a VCC Custodian

e) A VCC Custodian should take reasonable care to ensure that the investment and borrowing guidelines set out in Part I of this Code are complied with.

f) A VCC Custodian should not reuse the property of a VCC without prior consent from the VCC.

*Guidance*
*Reusing comprises any transaction of property held in custody including transferring, pledging, selling and lending.*

g) A VCC Custodian may delegate to third parties the functions referred to in Regulation 7A(1)(b) or Regulation 7B(1)(b) of the SFR, only where:

i) the VCC Custodian has exercised all due skill, care and diligence in the selection and the appointment of any third party to whom it intends to delegate its functions, and continues to exercise all due skill, care and diligence in the periodic review and ongoing monitoring of the third party delegate;

ii) the third party delegate to whom the VCC Custodian appoints is licensed, registered or authorised to act as a custodian in the country or territory where the account is maintained; and

iii) the third party delegate will hold the property of the scheme in the manner described in Regulations 7A(1)(d) and 7A(1)(e), or Regulations 7B(1)(d) and 7B(1)(e) of the SFR, as the case may be.

h) Notwithstanding that the VCC Custodian's functions are delegated in accordance with chapter 2A.2(g), the VCC Custodian remains ultimately responsible and accountable for the safekeeping of the property entrusted to it by a VCC.

# CHAPTER 3

## 3 The Manager

### 3.1 Functions and Responsibilities

Best interest

aa) The manager should, at all times, act in accordance with the constituent document of a scheme and in the best interest of participants.

Records retention

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. In the case of a scheme constituted as a VCC or is a sub-fund thereof, the VCC should maintain a record of the instructions, if any, 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.

Transactions

c) The manager should:

*Transactions with related corporations*

i) not invest the monies of the scheme in the manager's own securities or securities-based derivative contracts, or those of any of its related corporations unless the securities are constituents of the scheme's reference benchmark, which is constructed by an independent party, and the scheme complies with paragraph 2.3 of Appendix 1;

*Guidance*

*For the avoidance of doubt, this prohibition does not extend to schemes managed by the manager or its related corporations.*

ii) not lend monies of the scheme to its related corporations;

*Guidance*

*For the avoidance of doubt, deposits made with banks licensed under the Banking Act 1970, finance companies licensed under the Finance Companies Act 1967, merchant banks licensed under the Banking Act 1970 or 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 to such institutions.*

iii) not purchase real estate assets owned by the manager or its related corporations for the scheme unless such purchases are allowed by Appendix 6: Property Funds;

*Transactions at arm's length*

iv) conduct all transactions with or for a scheme at arm's length; and

*Transactions consistent with scheme's objective and approach*

v) acquire permissible investments and enter into transactions which are consistent with the investment objective and approach of the scheme.

Best execution

d) The manager should ensure that Notice SFA 04-N16 on Execution of Customers' Orders is complied with when placing orders and/or executing transactions for the scheme.

Arrangements for participants to receive accounts, reports and statements

e) 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 (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should require the distributor to put in place arrangements for such participants to receive the accounts, reports or statements, if applicable.

Use of financial derivatives

f) For schemes which use financial derivatives, the manager should ensure that the risks related to such financial instruments are duly measured, monitored and managed on an ongoing basis. The manager should not act as the counterparty of an OTC financial derivative that is invested into by the scheme. For the avoidance of doubt, the manager should ensure that Notice SFA 04-N16 on Execution of Customers' Orders is complied with in dealing with any other counterparty (including its related corporation).

Use of credit ratings

g) The manager should not rely solely or mechanistically on ratings issued by credit rating agencies. The manager should 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. For the purposes of the Code, the manager should, where possible, make its own credit assessments to verify ratings issued by credit rating agencies. In the event of a difference between the ratings issued by credit rating agencies, or between such external ratings and the manager's internal credit assessment, the lowest rating should be used. For the avoidance of doubt, all ratings used should be based on a rating scale that is globally comparable.

h) Where the manager relies on ratings issued by credit rating agencies, the manager should provide the following in the scheme's prospectus:

i) a statement that the manager has established a set of internal credit assessment standards and has put in place a credit assessment process to ensure that its investments are in line with these standards; and

ii) a statement that information on the manager's credit assessment process would be made available to investors upon request.

*Guidance*
*For the purpose of Chapter 3.1(h)(ii), the manager may enter into agreements with the investor to keep the disclosed information confidential.*

Significant influence

i) The manager should not, through the scheme, carry out its investment activities in a manner which would enable it to exercise significant influence over the management of an issuer of permissible investments.

Liquidity risk management

j) The manager should assess and adopt the liquidity risk management practices that are set out in the Guidelines on Liquidity Risk Management Framework for Fund Management Companies, on a proportionate basis that is commensurate with its role and the scale and complexity of its operations and the schemes that it manages.

## 3.2 Operational Obligations

Payment of redemption proceeds

a) 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. The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should pay out, or cause to be paid out, redemption proceeds to the scheme's participants within T+7 business days.

For property funds, the manager should pay out redemption proceeds within the period allowed under the guidelines in Appendix 6: Property Funds. For hedge funds, the manager should pay out redemption proceeds according to its prospectus as required under Appendix 4 of the Third Schedule of the SFR. Proceeds are deemed to be paid on the day the participant's account is credited or a cheque is mailed to the participant.

*Guidance*
*A participant refers to the end-investor who is a beneficial owner of the units and excludes a distributor or a Central Provident Fund ("CPF") Agent Bank.*

Preparation of accounts and reports

b) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) 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 chapter 5 and the Appendices. 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 chapter 2.3(b).

Exercise of voting rights

c) Where the manager may face conflicts of interests exercising voting rights relating to investments of a scheme, the manager should cause these votes to be exercised in consultation with the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof).

Notification of significant changes

d) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should inform the Authority and existing participants of any significant change to be made to a scheme not later than one month before the change is to take effect. 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 constituent document of the scheme, where "investment approach" refers to how the manager selects investments 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 constituent document of the scheme or prospectus) or a change in the basis upon which such remuneration is determined;

iii) an increase in any other fees or charges payable by the scheme 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 constituent document of the scheme or prospectus to allow a new form of remuneration or expense payable by the scheme;

v) the replacement, removal or appointment of a 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 constituent document of the scheme and prospectus, where the variation is materially prejudicial to participants;

*Guidance*
*Where there is doubt as to whether such variation would be prejudicial to participants, advance notification to the Authority and participants is not required if the trustee or the VCC Directors, in the case of a scheme constituted as a VCC or a sub-fund thereof, 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 in the collateral policy from that disclosed in the prospectus; or

ix) a change referred to in chapter 3.2(d)(i) to (viii) in relation to an underlying fund into which the scheme feeds substantially (i.e. 30% or more of the scheme's NAV).

*Guidance*
*The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should 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, notification should be made in accordance with chapter 3.2(e).*

*Guidance*
*Notifications should be made in clear and simple language that participants can easily understand. Managers (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should avoid using technical terms but where the use of such terms is unavoidable, participants should be provided with clear explanations.*

e) Notwithstanding chapter 3.2(d), where a significant change cannot be determined by the manager at least one month in advance, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should inform the Authority and existing participants of the significant change as soon as practicable. Examples of such changes include, but are not limited to, the following:

i) suspension and resumption of dealings as a result of exceptional circumstances;

ii) any change which may materially affect the risks and returns of a scheme;

*Guidance*
*Changes which cannot be determined at least one month in advance but may materially affect the risks and returns of a scheme include significant unexpected changes in general market conditions, the industry, sector or country or specific aspects of the financial instruments which the scheme invests in.*

iii) any change which may materially affect the ability of any key counterparty of an over-the-counter ("OTC") financial derivative, securities lending or repurchase transaction to fulfil its obligations to the scheme; or

*Guidance*
*For example, the counterparty of an OTC financial derivative used by an index fund to replicate an index would be considered a key counterparty.*

iv) the cessation of market making activity by designated market makers.

Modifications to the trust deed

f) The manager should obtain an extraordinary resolution of participants for any modification of the trust deed unless the trustee certifies that:

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.

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 retain soft dollars in the management of the scheme unless the following conditions 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) best execution is carried out for the transactions; and

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

i) The receipt of goods and services such as travel, accommodation and entertainment does not meet the condition set out at chapter 3.2(h)(i) and is prohibited.

Schemes admitted under the CPF Investment Scheme

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

### 3.3 Delegation

a) Where a scheme's NAV is sub-managed, the manager should ensure that the scheme is invested in accordance with the Code and there are:

i) adequate procedures in place to monitor the conduct of its delegate and to ensure that the function delegated or outsourced is performed in a proper and efficient manner; and

ii) controls in place to ensure compliance with the constituent document of the scheme, laws, and regulations.

b) Where more than 10% of the scheme's NAV is sub-managed abroad, the manager should, together with its related corporations, already be managing at least S$500 million of discretionary funds in Singapore.

c) In assessing an application for a scheme where more than 10% of a scheme's NAV is sub-managed abroad by another manager, the Authority will consider whether the sub-manager is reputable and supervised by an acceptable financial supervisory authority.

### 3.4 Investments in Other Schemes

Where more than 10% of the scheme's NAV is invested in other schemes which are registered in a foreign jurisdiction, the manager should, together with its related corporations, already be managing at least S$500 million of discretionary funds in Singapore.

### 3.5 Payments

a) No payment should be made from the scheme if it is unfair to, or materially prejudices the interests of, any participant or prospective participant.

b) The manager should not pay or cause to be paid any fees from the scheme that have not been provided for in the constituent document of the scheme.

c) The manager should not pay or cause to be paid any marketing or promotion expenses from 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, profile statements or product highlights sheets.

### 3.6 Performance Fees

a) Performance fees payable should meet the following requirements:

i) the calculation of performance fees payable should be equitable to all participants;

ii) the performance fee should be calculated and paid after consideration of all other payments;

iii) the period over which the performance fee accrues and the frequency with which it crystallises should be appropriate. Crystallisation of performance fee should be no more frequent than once a year;

Calculation method

iv) the performance fee should be calculated based on a:

A) fulcrum fee; or

B) high water mark

arrangement;

v) where chapter 3.6(a)(iv)(A) applies, the fulcrum fee should increase or decrease proportionately with the investment performance of the scheme as compared to the specified benchmark and be limited to between zero and 200% of the base fee;

*Guidance*
*The fulcrum fee, as a percentage of the NAV per unit of the scheme, should be applied in a symmetric manner. For example, where the base fee is 1.5%, the fulcrum fee should range from 0 to 3.0%*

vi) where chapter 3.6(a)(iv)(B) applies, the high water mark should be reset to the NAV of the scheme only when the NAV of the scheme reaches a new historical high at the end of each performance period; and

*Guidance*
*The high water mark should be reset to the scheme's NAV whenever a historical high is reached at the point of performance fee calculation. Therefore, the high water mark of a scheme with performance fee that is calculated yearly should be reset to the scheme's NAV at the year end when the performance fee is calculated, regardless of whether a performance fee accrues or crystallises.*

vii) the performance fee should be calculated based on an appropriate benchmark such as an index, a defined positive rate of return which may be fixed or variable or any other factor given the scheme's investment objectives and consistently applied.

b) The manager should consult the Authority if it intends to use a performance fee calculation method other than those specified in chapter 3.6(a)(iv).

Disclosure requirements

c) Where performance fees are payable, the prospectus should contain disclosures on:

i) the fact that a performance fee is payable and to whom it is payable;

ii) the fact, if applicable, that a performance fee can be levied even if the return of the scheme is negative;

iii) the maximum amount or percentage of the scheme's NAV that the performance fee might represent in an annual accounting period;

iv) illustrations, such as numerical examples, of how the performance fee is calculated; and

v) whether the scheme:

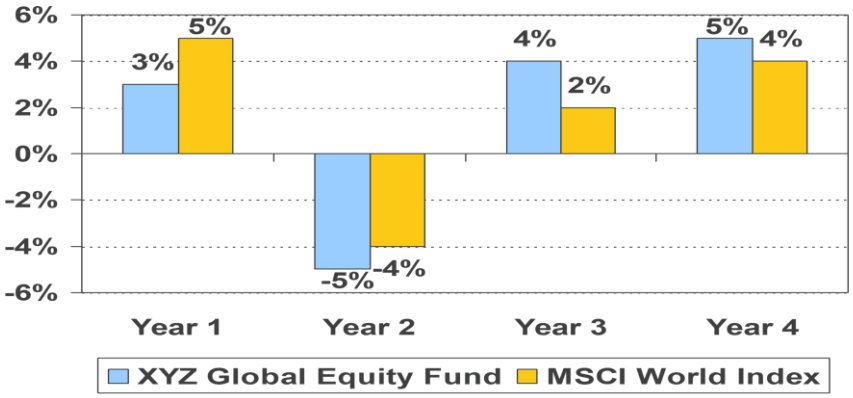
A) achieves equalisation of performance fees; or

B) where it does not achieve equalisation of performance fees, to state the fact and how the absence of equalisation may affect the amount of performance fees borne by the participant.

Example: Fulcrum Fee Arrangement

The XYZ Global Equity Fund adopts the fulcrum fee arrangement for calculating its performance fees. The benchmark is the MSCI World Index return. The scheme charges a base fee of 2% and a performance fee of 10%.

Assume that the returns of the fund and benchmark over the next 4 years follow the chart below.




The calculations of both the management and performance fees are shown in the table below.

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Base Fee | 2.0% | 2.0% | 2.0% | 2.0% |
| Performance fee | (3 - 5)% x 10% = -0.2% | [(-5) - (-4)]% x 10% = -0.1% | (4 - 2)% x 10% = 0.2% | (5 - 4)% x 10% = 0.1% |
| Fulcrum fee | 2.0% - 0.2% = 1.8% | 2.0% - 0.1% = 1.9% | 2.0% + 0.2% = 2.2% | 2.0% + 0.1% = 2.1% |

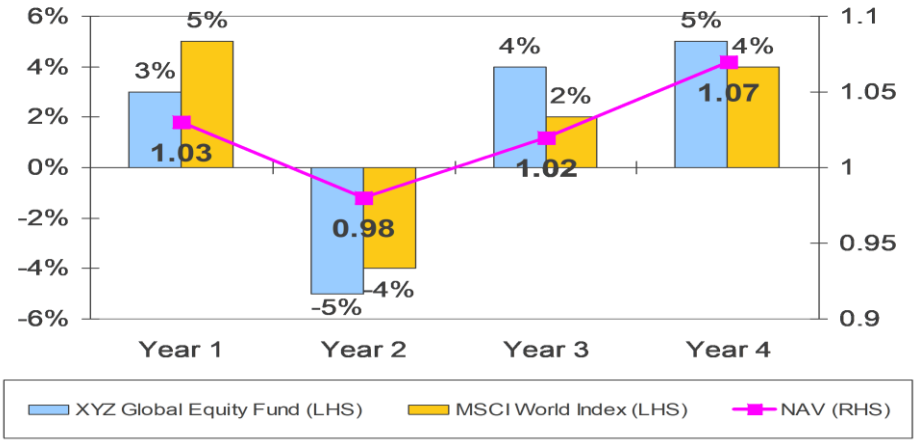
For simplicity, the above example assumes that the base fee and performance fees are calculated based on year end NAV per unit.

**Illustration 1: Fulcrum Fee Arrangement**

Example: High Water Mark Arrangement

The XYZ Global Equity Fund adopts the high water mark ("HWM") arrangement for calculating its performance fees. The scheme's benchmark is the MSCI World Index and its hurdle rate is the return of the MSCI World Index. The scheme charges a management fee of 2% and a performance fee of 10%.

Assume the returns of the fund and benchmark over the next 4 years follows the chart below.




The calculations of both the management and performance fees are shown in the table below.

| | **Year 1** | **Year 2** | **Year 3** | **Year 4** |
|---|---|---|---|---|
| Above HWM? | HWM = 1.00, Yes | HWM = 1.03, No | HWM = 1.03, No | HWM = 1.03, Yes |
| Above Hurdle? | No | No | Yes | Yes |
| Performance Fee | None | None | None | (1.07 – 1.03) x 10% = $0.004 |
| Management Fee | 2.0% x 1.03 = $0.0206 | 2.0% x 0.98 = $0.0196 | 2.0% x 1.02 = $0.0204 | 2.0% x 1.07 = $0.0214 |
| Total Fee | $0.0206 | $0.0196 | $0.0204 | $0.004 + $0.0214 = $0.0254 |

For simplicity, the above example assumes that the management fees and performance fees are calculated based on year end NAV per unit.

The high water mark for a scheme with performance fee is reset to the NAV of the scheme only when the NAV of the scheme reaches a new historical high at the year end when the performance fee is calculated, regardless of whether a performance fee accrues or crystallises. Only the NAV at the point of performance fee calculation is used for determining the high water mark.

**Illustration 2: High Water Mark Arrangement**

# CHAPTER 4

## 4 The Scheme

### 4.1 Name of Scheme

a) The scheme's name should:

i) be appropriate;

ii) not be undesirable; and

iii) not be misleading.

b) In assessing whether a name is undesirable or misleading, the Authority will consider factors including whether the name:

i) is substantially similar to the name of another scheme;

ii) implies that the scheme has merits which are not, or might not be, justified;

iii) implies that the manager has particular qualities, which may not be justified;

iv) is inconsistent with the scheme's investment objective or approach;

v) implies that the scheme is not a collective investment scheme (for example, describing the scheme as a "plan" or "account"); or

vi) might mislead prospective participants into thinking that persons, other than the manager, the VCC or the VCC Directors, as the case may be, are responsible for the scheme.

For the avoidance of doubt, the use of acronyms in names is permissible provided that they are appropriate.

*Guidance 1*
*The name of a scheme is appropriate if it reflects the scheme's geographical focus, asset type and sector focus and is in line with the scheme's investment objective, approach and investment universe. The use of acronyms which reflect an index provider, a credit rating agency or geographical region (e.g. "MSCI", "S&P" or "BRIC") may be acceptable if it is consistent with the scheme's investment objectives or approach.*

*Guidance 2*
*In assessing whether it is appropriate to include the term 'fund-of-funds' in the name of a scheme, the Authority would consider it acceptable if the scheme's primary investment approach is to invest all or substantially all of its assets into five or more underlying funds via the fund-of-funds investment approach.*

*Guidance 3*
*In the case where the scheme's name includes or uses a term (e.g. "capital guaranteed") which belongs to any category of schemes that is prescribed in the Appendices, the scheme should comply with those relevant guidelines. Conversely, if a scheme's name uses a term which is prescribed in the Appendices but does not comply with those guidelines, the name would be deemed inappropriate.*

*Guidance 4*
*Where a scheme includes or uses environmental, social and governance ("ESG") related terms in its name, the scheme should observe the relevant requirements under the circular on Disclosure and Reporting Guidelines for Retail ESG Funds (MAS Circular No. CFC 02/2022), including the Good Disclosure Practices for Retail ESG Funds.*

c) The name of a scheme's class of unit should not be undesirable or misleading.

d) The use of the following terms, or any other derivative or form of such terms, in a scheme's name and description is prohibited:

i) "capital protected"; and

ii) "principal protected".

### 4.2 Prohibited Activities

A scheme should not engage in:

a) direct lending of monies;

b) the granting of guarantees;

c) underwriting; or

d) short selling except where this arises from financial derivatives which are invested in accordance with sections 4 and 5 of Appendix 1.

### 4.3 Limited Liability

The liability of participants should be limited to their investment in the scheme. For this purpose, the constituent document of the scheme should contain a provision limiting the liability of participants to their investments in the scheme.

### 4.4 Investment: Core Requirements

a) The core investment guidelines and borrowing limits which the scheme should adhere to are set out in the Appendices. Where the scheme contains a novel or new structure, risk or investment policy and/or does not adhere to the core investment guidelines and borrowing limits, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof), should consult the Authority prior to its application for authorisation.

b) The Authority may modify or amend the application of the core investment guidelines and borrowing limits for any scheme, or type of schemes, having considered relevant factors, including the following:

i) compliance with relevant requirements in the SFA, the Code and any other relevant guidelines or circulars, which incorporate the standards and best practices issued by the International Organisation of Securities Commissions;

ii) the listing and offer history of the scheme, or type of scheme; and

iii) the measures that will be put in place by the manager to mitigate risks arising from the novel or new structure, risk or investment policy, and deviation from the requirements under the relevant Appendix of the Code, such as investment controls, enhanced disclosures and distribution arrangements.

### 4.5 Advertisements

Advertisements in relation to a scheme should be prepared in accordance with the Code of Best Practices in Advertising Collective Investment Schemes and Investment-Linked Life Insurance Policies jointly issued by Investment Management Association of Singapore and the Life Insurance Association. Illustrations of income statistics in advertisements should also be prepared in accordance with the Guidance Notes on Recommended Disclosures to Support the Presentation of Income Statistics in Advertisements issued by the Investment Management Association of Singapore.

# CHAPTER 5

## 5 Accounts and Reports

### 5.1 Accounts

5.1.1 The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should prepare the half-yearly financial statements and the annual audited financial statements, for the semi-annual report and annual report respectively, in accordance with SFRS(I).

*Guidance 1*
*Half-yearly financial statements of unlisted and listed schemes should be prepared in accordance with the relevant accounting standards for interim financial reports under SFRS(I), as the case may be.*

*Guidance 2*
*In the event of a difference between SFRS(I) and the Code in relation to the preparation of financial statements, the requirements under SFRS(I) shall prevail.*

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

a) a period ending three 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

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 prior to the termination or maturity date.

*Guidance*
*For example, the annual report for a scheme for the financial year ended 31 December 20X1 (i.e. due to be sent to participants on 31 March 20X2) need not be prepared, audited and sent if the termination or maturity date of the scheme is on or before 30 April 20X2.*

### 5.2 Reports

Contents of semi-annual and annual reports

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

a) investments at fair value and as a percentage of the scheme's NAV as at the end of the reporting period classified by:

i) country;

ii) industry;

iii) asset class; and

iv) credit rating;

b) the top 10 holdings at fair value and as a percentage of the scheme's NAV as at the end of the reporting period and the comparative period;

c) exposure to financial derivatives:

i) net gains or losses on financial derivative contracts realised during the reporting period; and

ii) net gains or losses for the reporting period arising from outstanding financial derivative contracts measured at fair value as at the end of the reporting period;

d) amount and percentage of the scheme's NAV invested in other schemes as at the end of the reporting period;

e) amount and percentage of borrowings to the scheme's NAV as at the end of the reporting period. Such borrowings should be broken down into secured and unsecured borrowings;

f) amount of redemptions and subscriptions for the reporting period;

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

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 reporting period and the comparative period. A footnote should state that the expense ratio does not include (where applicable) brokerage and other transaction costs, performance fee, foreign exchange gains or 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 reporting period and the comparative period;

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

l) where the manager invests 30% or more of the scheme's NAV in another scheme, the following key information on the underlying scheme should be disclosed:

i) top 10 holdings at fair value and as a percentage of the scheme's NAV as at the end of the reporting period and the comparative period;

ii) expense ratios for the reporting period and the comparative period. A footnote should state (where applicable) that the expense ratio does not include brokerage and other transaction costs, performance fee, foreign exchange gains or 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 reporting period and the comparative period;

*Guidance*
*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.*

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 made on a best execution basis and there was no churning of trades; and

n) where the scheme offers pre-determined payouts, an explanation on the calculation of the actual payouts received by participants and any significant deviation from the pre-determined payouts.

o) where the scheme is a VCC or a sub-fund thereof, the annual report of the VCC should disclose:

  i) the VCC Directors' fees for the reporting period; and

  ii) where a scheme is a sub-fund of a VCC and invests in another sub-fund of the same VCC, information on cross sub-fund investments conducted during the reporting period, including:

    A) the name of the sub-fund invested into; and

    B) the holdings at fair value and as a percentage of the scheme's NAV as at the end of the reporting period and the comparative period.

p) in the case of the annual report:

  i) the report of the auditors on the financial statements;

  ii) in the case of a scheme constituted as a unit trust, a report signed by the trustee stating:

    A) the trustee is responsible for taking into custody and holding assets of the scheme on trust for the unitholders;

    B) the trustee shall oversee the manager's compliance with the limitations imposed on the investment and borrowing powers as set out in the trust deed for each annual reporting period and provide a report thereon to unitholders in an annual report; and

    C) to the best knowledge of the trustee, the manager has, in all material respects managed the scheme during the reporting period, in accordance with the limitations imposed on the investment and borrowing powers as set out in the trust deed;

  iii) in the case of a scheme constituted as a VCC or is a sub-fund thereof, a statement of directors that is prepared in accordance with the VCC Act; and

  iv) a statement signed by the manager stating whether in its opinion the accompanying financial statements comprising the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, or their equivalent variants, and notes to the financial statements are drawn up so as to present a true and fair view of the financial position of the scheme as at the end of the reporting period, and the financial performance of the scheme, changes in net assets attributable to unitholders and cash flows of the scheme for the reporting period covered in accordance with SFRS(I) and whether at the date of the statement there are reasonable grounds to believe that the scheme will be able to meet its financial obligations as and when they materialise.

Contents of financial statements

5.2.2 The half-yearly financial statements and the annual audited financial statements should contain the following (where relevant):

a) portfolio holdings of the scheme:

i) as primary reporting, the value of each holding at fair value and as a percentage of the scheme's NAV as at the end of the reporting period. The holdings should be broken down into quoted and unquoted investments. Percentages of the aggregate value of the holdings by the primary category for the reporting period and the comparative period should be disclosed.

ii) as secondary reporting, the aggregate value of the holdings at fair value and as a percentage of the scheme's NAV by the other category as at the end of the reporting period. Percentages of the aggregate value of the holdings by the secondary category for the reporting period and the comparative period should be disclosed.

*Guidance*

*The primary reporting of the scheme should be determined based on the primary investment objectives of the scheme. For example, a predominantly single-country scheme should report by industry, and a scheme that invests predominantly in a particular industry should report by geography. For secondary reporting, the scheme should disclose in tabular form the aggregated value of the holdings (i) by geography where the primary reporting is by industry, and (ii) by industry where primary reporting is by geography.*

b) each of the following expenses for the reporting period and the comparative period:

i) Management fee (with gross amount less rebate, if any);

ii) Performance fee;

iii) Trustee fee;

iv) Directors' fee;

v) Valuation fee;

vi) Custodian fee; and

vii) Audit fee.

c) in the case of the annual audited financial statements:

i) amount of transactions with the trustee for the reporting period and balances with the trustee as at the end of the reporting period and the comparative period;

ii) a reconciliation of any material differences between the NAV per unit used for issuing and redeeming of units and the scheme's NAV per unit per the financial statements as at the end of the reporting period and the comparative period; and

iii) where a scheme has different classes of units:

A) NAV per unit of each class at the beginning and the end of both the reporting period and the comparative period;

B) amount of distributions attributable to each class for the reporting period and the comparative period; and

C) a description of the different rights and terms attached to each class, including the rights on winding-up and the policy for allocating taxation and distributable income.

# CHAPTER 6

## 6 Dealing and Valuation

### 6.1 Dealing in Units

The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should deal in units in the scheme in accordance with the scheme's constituent document and the prospectus, and in any event, at least one dealing day a month.

### 6.2 Suspension of Dealings

a) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof), may suspend dealings in units only in exceptional circumstances, after having determined that a suspension is in the best interest of participants.

*Guidance*
*Difficulties in realising scheme assets or temporary shortfalls in liquidity may not, on their own, be sufficient justification for suspension.*

b) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should immediately notify participants and the Authority if the dealing in units is suspended, stating the reasons for the suspension.

*Guidance*
*The manager or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof is considered to have notified the participants if a notice on the suspension is sent to the distributors of the scheme for dissemination to the participants.*

c) The suspension should cease as soon as practicable when the exceptional circumstances cease to exist, and in any event, within 21 days of the commencement of the suspension. The period of suspension may be extended if the manager satisfies the trustee or in the case of a scheme constituted as a VCC or is a sub-fund thereof, the VCC Directors are satisfied, that it is in the best interest of participants for the dealing in units to remain suspended. Such extension should be subject to weekly review by the trustee or the VCC Directors, as the case may be, who shall document their reason for extension.

### 6.3 Resumption of Dealings

The trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify the Authority when the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) has resumed the dealing in units. In addition, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify participants when the dealing in units has resumed.

*Guidance*
*The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) is considered to have notified the participants if a notice on the resumption is sent to the distributors of the scheme for dissemination to the participants.*

## 6.4 Valuation

Valuation of units in a scheme

a) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should issue, redeem or repurchase units in a scheme at a price arrived at by dividing the scheme's NAV 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, in compliance with the scheme's prospectus or constituent document. Where a closed-end scheme is listed on an approved or overseas exchange, the manager or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof should issue, redeem or repurchase units in a closed-end scheme in accordance with the applicable listing requirements of the approved or overseas exchange.

b) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should ensure that the scheme's NAV is calculated on a consistent basis and based on the scheme's accounting policies in accordance with SFRS(I).

*Guidance*

*Where third parties are appointed to perform valuation services (such as valuation agents), the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should conduct initial and periodic due diligence on such third party valuation service providers.*

c) At the maturity of capital guaranteed schemes which comply with Appendix 4: Capital Guaranteed Funds, the units should be redeemed at a price equal to the higher of the guaranteed amount and the scheme's NAV, divided by the number of units outstanding.

d) Chapter 6.4(a) does not apply during the initial offer period of the scheme.

Valuation of assets of a scheme

e) The value of the assets of a scheme, in the case of quoted investments, should be based on:

i) the official closing price or last known transacted price on the organised market on which the investment is quoted; or

ii) the transacted price on the organised market on which the investment is quoted at a cut-off time specified in the scheme's prospectus and applied consistently by the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof);

unless such price is not representative or not available to the market. The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should be responsible for determining, with due care and in good faith, whether the price should be considered representative.

f) The value of the scheme's assets, in the case of unquoted investments and quoted investments where the transacted prices are not representative or not available to the market, should be based on the fair value. The fair value should be the price that the scheme would reasonably expect to receive upon the current sale of the investment. Fair value should be determined with due care and in good faith, and the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should ensure that the basis for determining the fair value of the investment is documented.

g) Except for quoted investments, all the investments of a scheme should be valued by a person approved by the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) as qualified to value such assets.

h) When the market value or fair value of a material portion of the scheme's assets cannot be determined, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should suspend valuation and dealing in the units in the scheme.

Basis other than market quotations

i) The value of the assets of a scheme may be determined using methods other than those specified in chapter 6.4(e) and (f) above provided that the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) agrees with the alternative method. Such a valuation may be performed by a person approved by the trustee (or the VCC Directors) as qualified to value the scheme's investments.

Frequency of valuation

j) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should ensure that the units in a scheme are valued every business day. Where the scheme:

i) does not offer dealing every business day, it should be valued every regular dealing day, but in any event, at least once a month; and

ii) is a property fund which complies with Appendix 6: Property Funds, it should have a full valuation at least once a year.

k) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should, subject to chapter 6.4(j), publish the value of a unit of the scheme at least once every dealing day.

Rounding Differences

l) 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 Illustration 3.) When calculating the number of units to be issued to a participant, 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.

Example: Crediting of Rounding Differences

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

Assuming a participant 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) × 10,000 | = | $0.004 × 10,000 |
| | = | $40. |

**Illustration 3: Crediting of Rounding Differences**

## 6.5 Valuation Errors and Compensation

a) When a manager becomes aware of an error in the calculation of a scheme's NAV per unit, the manager should notify both the Authority and the trustee by using the template set out in Illustration 4 of the error as soon as practicable. In the case of a scheme constituted as a VCC or is a sub-fund thereof, when the VCC becomes aware of an error in the calculation of a scheme's NAV per unit, the VCC should notify the Authority, by using the template set out in Illustration 4 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.

b) When a valuation error represents 0.5% or more of the scheme's NAV per unit after adjustment for the error, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should compensate:

i) affected participants and notify them of the compensation made; and

ii) the scheme for any losses incurred as a result of the valuation error.

The requirement to compensate participants does not apply if the amount of compensation due to any single participant 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.

c) When a valuation error represents less than 0.5% of the scheme's NAV per unit, there is no requirement for the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) to compensate participants or the scheme for any losses incurred by them as a result of the valuation error. However, if the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) chooses to compensate one or more participants, then the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should compensate all other participants in the scheme on the same basis.

d) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should not pay or cause to be paid from the scheme any expenses incurred as a result of effecting compensation for a valuation error.

e) The trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify the Authority when the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) has completed such compensation satisfactorily.

## VALUATION ERROR REPORT TEMPLATE

The valuation error report should be made using the manager's company or the VCC's letterhead and sent via electronic means. The report should contain the following information:

1. State the name of the scheme and class(es) of units affected by valuation error.

2. Describe the nature of the error (e.g. overvalued or undervalued) and state the magnitude of error as a percentage of the scheme's Net Asset Value (NAV).

3. Attach a calculation of the valuation error.

4. State when and how the valuation error was discovered.

5. Provide detailed reasons for the valuation error.

6. Name the entities responsible for the valuation error.

7. State the time period over which the valuation error occurred.

If compensation (i.e. valuation error represents 0.5% or more of the scheme's NAV per unit) is required:

8. State the number of affected Singapore participants (as recorded in the fund register) who (a) subscribed; and (b) redeemed, during the time period over which the valuation occurred, if any.

9. State the amount of compensation to be paid to (a) participants; and (b) the scheme, if any.

10. State the name of the entity that pays for the compensation.

11. Attach a calculation of the total compensation to be made.

12. Describe the measures taken, or to be taken, to improve internal controls and prevent the occurrence of similar incidents.

**Illustration 4: Valuation Error Report Template**

# CHAPTER 7

## 7 Breaches

### 7.1 Rectification

The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should take all necessary action to rectify any breach of the Code as soon as practicable. The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should not enter into any transaction that would increase the extent of the breach.

### 7.2 Notification

a) The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should inform the Authority within three business days after it becomes aware of any breach of the guidelines or limits set out in Parts I, ~~and Part~~ II, III and IV of this Code. For the avoidance of doubt, this requirement also applies to the obligation of the trustee under regulation 7(1)(a) of the SFR and the VCC Custodian under Regulation 7A(1)(a) or Regulation 7B(1)(a) of the SFR where applicable.

b) Notwithstanding chapter 7.2(a), any breach as a result of any:

i) appreciation or depreciation in the value of the scheme's underlying investments;

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

iii) change in the capital of a company;

*Guidance*
*Examples of changes in the capital include changes in the total outstanding shares of a company arising from the issuance of (pro-rata) rights or bonuses.*

iv) reduction in the weight of a constituent in the benchmark being tracked by a scheme; or

v) downgrade in or cessation of a credit rating,

need not be reported to the Authority as long as such breach is rectified in accordance with chapter 7.1 but no later than three months from the date of the breach unless otherwise specified in Part I of this Code. This period may be extended if the manager satisfies the trustee, or in the case of a scheme constituted as a VCC or is a sub-fund thereof, the VCC Directors are satisfied that it is in the best interest of participants. Such extension should be subject to monthly review by the trustee or the VCC Directors, as the case may be.

# RECOGNISED SCHEMES

# CHAPTER 8

## 8 Schemes Recognised under Section 287 of the SFA

### 8.1 Assets under Management

In addition to the legal requirements set out in the SFA, a manager of a scheme (together with its related corporations) should be managing at least S$500 million of discretionary funds in Singapore. This requirement does not apply where any of the units in the scheme has been approved for listing for quotation on an approved exchange and will be traded on the approved exchange.

### 8.2 Disclosure requirements

Recognised schemes should, where applicable, comply with the prospectus disclosure requirements in Chapter 3.6(c), paragraphs 2.5, 8.3, 8.7 and 8.9 of Appendix 1, paragraphs 7.1 and 7.2 of Appendix 3, paragraph 7 of Appendix 5, paragraphs 11.2 to 11.7 of Appendix 6 and paragraph 5.1 of Appendix 7, and the applicable disclosure requirements under Appendix 8 of this Code.

# CHAPTER 9

## 9 Recognised Schemes and Authorised Schemes which Feed into an Underlying Scheme

### 9.1 Disclosure in Marketing Material

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

b) Where the NAV of a recognised scheme or the underlying 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 scheme or authorised scheme which feeds into an underlying scheme.

### 9.2 Ongoing Notification

a) Where the home financial supervisory authority of a recognised scheme or the underlying 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 14 days after the condition or restriction has been imposed or varied in the case of a recognised scheme or no later than 14 days after the responsible person of the authorised scheme which feeds into an underlying scheme is notified of the condition or restriction so imposed or varied.

b) The documentation of the scheme's risk management process (if applicable) should be submitted to the Authority whenever it 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 financial supervisory authority in the case of a recognised scheme or no later than one month after the responsible person of the authorised scheme which feeds into an underlying scheme is notified of the revised documentation of the underlying scheme.

# CHAPTER 10

## 10 Schemes Offered Under the ASEAN CIS Framework

### 10.1 Definitions

For the purpose of this Chapter,

"ACMF" means the ASEAN Capital Markets Forum.

"ACMF Member" means the securities regulator of the respective ASEAN jurisdiction, and collectively, the "ACMF Members".

"ASEAN CIS Framework" means the streamlined authorisation framework for the cross-border offer of ASEAN collective investment schemes developed pursuant to the ACMF's Implementation Plan endorsed at the 13th ASEAN Finance Ministers' Meeting.

"ASEAN SRFS" means the ASEAN Sustainable and Responsible Funds Standards as agreed (and as may be amended from time to time) amongst the ACMF Members.

"ASEAN Sustainable and Responsible Fund" means a scheme that complies with the ASEAN SRFS.

"MOU" means the Memorandum of Understanding in respect of the ASEAN CIS Framework dated 1st October 2013.

"Member Jurisdiction" means the jurisdiction of an ACMF Member which is a Signatory, and collectively, the "Member Jurisdictions".

"Signatory" means the ACMF member which is listed in Appendix A of the MOU and who has signed on to the ASEAN CIS Framework, and collectively, the "Signatories".

"Standards of Qualifying CIS" means a set of rules and regulations as agreed (and as may be amended from time to time) amongst the ACMF Members, which governs the operation of the ASEAN CIS Framework, and published at http://www.theacmf.org/.

### 10.2 Offer of a Scheme (Constituted in Singapore) in other Member Jurisdictions

a) A responsible person may offer a scheme in other Member Jurisdictions pursuant to the ASEAN CIS Framework only if:

i) the scheme is constituted in Singapore and has been authorised by the Authority under section 286 of the SFA;

ii) the scheme has been assessed by the Authority as suitable to be a Qualifying CIS;

iii) units in the scheme have been offered, or will be concurrently offered, in Singapore;

iv) in the case of:

A) a scheme constituted as a unit trust, the scheme, the manager, and the trustee; or

B) a scheme constituted as a VCC or is a sub-fund thereof, the scheme, the manager, the VCC, the VCC Custodian and the VCC Directors;

satisfy the relevant requirements in the SFA or the VCC Act, the Code and any other applicable guidelines or circulars; and

*Guidance*
*Where a scheme seeks to qualify as an ASEAN Sustainable and Responsible Fund, the scheme should observe the relevant requirements under the Disclosure and Reporting Guidelines for Retail ESG Funds (MAS Circular No. CFC 02/2022).*

v) in the case of:

A) a scheme constituted as a unit trust, the scheme, the manager, and the trustee; or

B) a scheme constituted as a VCC or is a sub-fund thereof, the scheme, the manager, the VCC, the VCC Custodian and the VCC Directors;

satisfy the Standards of Qualifying CIS and, where the scheme seeks to qualify as an ASEAN Sustainable and Responsible Fund, the ASEAN SRFS.

b) Chapter 3.2(a) of the Code does not apply to an authorised scheme that is offered in other Member Jurisdictions pursuant to the ASEAN CIS Framework.

*Guidance*
*The responsible person should ensure that the offering of a scheme in other Member Jurisdictions complies with all applicable laws and regulations of those jurisdictions.*

### 10.3 Offer of a Scheme (Constituted Outside Singapore) in Singapore

a) A foreign manager may offer a scheme in Singapore pursuant to the ASEAN CIS Framework only if:

i) the scheme is constituted in a Member Jurisdiction and is permitted to be offered to the general public of that Member Jurisdiction.

ii) the scheme has been assessed by a Member Jurisdiction as suitable to be a Qualifying CIS;

iii) the scheme has been recognised by the Authority under section 287 of the SFA;

iv) units of the scheme have been offered, or will be concurrently offered, in the jurisdiction in which the scheme is constituted;

v) the scheme, the manager and the trustee/supervisor satisfy the relevant requirements in the SFA, the Code and any other applicable guidelines or circulars; and

vi) the scheme, the manager and the trustee/supervisor satisfy the Standards of Qualifying CIS, and where the scheme is an ASEAN Sustainable and Responsible Fund, the ASEAN SRFS.

b) Chapter 8 of the Code does not apply to a recognised scheme that is offered in Singapore pursuant to the ASEAN CIS Framework.

# PART I

The following investment guidelines and borrowing limits apply to all authorised schemes unless otherwise stated in the relevant Appendices. For the avoidance of doubt, this Part does not apply to property funds and precious metals funds.

# APPENDIX 1

## INVESTMENT: CORE REQUIREMENTS

### 1 Permissible Investments

1.1 The scheme's underlying investments may only consist of the following permissible investments:

a) transferable securities;

b) money market instruments;

c) eligible deposits;

d) units in other schemes;

e) financial derivatives; and

f) shares or securities equivalent to shares that are not listed for quotation or quoted and have not been approved for listing for quotation or quotation on an organised exchange.

1.2 For the purpose of paragraph 1.1,

a) "transferable securities" refer to:

i) shares or securities equivalent to shares; and

*Guidance*
*Shares include units in a business trust.*

ii) bonds or other securitised debt instruments,

that meet the requirements of paragraph 1.3 but do not include:

A) money market instruments; or

B) any security the title to which cannot be transferred or can be transferred only with the consent of a third party.

b) "eligible deposits" refer to deposits with banks licensed under the Banking Act 1970, finance companies licensed under the Finance Companies Act 1967, merchant banks licensed under the Banking Act 1970 or any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction.

Requirements of transferable securities

1.3 Transferable securities should meet the following requirements:

a) the maximum potential loss which may be incurred as a result of the investment is limited to the amount paid for it;

b) the investment is liquid;

c) the investment is subject to reliable and verifiable valuation on a daily basis; and

d) there is appropriate information available to the market on the investment or, where relevant, on the portfolio.

*Guidance*

*In determining whether information on a transferable security is appropriate, the manager should consider if the information available on the market is regular and accurate, as well as sufficient to analyse the investment. For example, reliance on annual or financial reports is acceptable if the manager is of the view that it is appropriate.*

Requirements on investments in other schemes

1.4 A scheme may invest in other schemes only if the underlying scheme is:

a) an authorised or recognised scheme;

*Guidance*

*Notwithstanding paragraph 1.4(a), the scheme should not invest in an underlying scheme which is a hedge fund or fund-of-hedge funds even if the underlying scheme complies with Appendix 3 of the Code.*

b) a scheme which:

i) is constituted and regulated in a jurisdiction where the laws and practices afford to participants in Singapore protection at least equivalent to that afforded to participants of schemes which are wholly managed in Singapore;

ii) adheres to investment guidelines and borrowing limits which are substantially similar to those set out in the relevant Appendices of the Code; and

iii) has a manager that is reputable and supervised by an acceptable financial supervisory authority; or

*Guidance*

*For example, a scheme that complies with the circular on Guidance on requirements that are applicable to Exchange Traded Funds Participating in the SZSE-SGX and SSE-SGX ETF Links (MAS Circular No. CFC 03/2022).*

c) a scheme which is invested in permissible investments, commodities or real estate, meets the requirements set out in paragraph 1.3(a) to (d) and, for the purposes of this paragraph, the units in the scheme are listed for quotation and traded on an organised exchange.

*Guidance*

*Restricted schemes may be acceptable as underlying investments if they can meet the conditions in paragraph 1.4(b) or (c).*

1.5 A scheme may feed substantially into an underlying fund-of-funds but the underlying fund-of-funds should invest in other schemes directly and not through another fund-of-funds.

Requirements of financial derivatives

1.6 Financial derivatives should meet the following requirements:

a) the underlying consists of instruments referred to in paragraph 1.1, commodities, indices which meets the requirements in Appendix 5: Index Funds, interest rates, foreign exchange rates or currencies. In the case of financial derivatives on commodities, such transactions should be settled in cash at all times. The manager should also undertake in the trust deed or in the contractual arrangement with the VCC (in the case of a scheme constituted as VCC or is a sub-fund thereof), to settle such transactions in cash and disclose the fact in the prospectus;

b) the financial derivatives are liquid;

c) the financial derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value; and

d) the financial derivatives should not result in the delivery of investments other than those described in paragraph 1.1(a) to (f).

*OTC financial derivatives*

1.7 In the case of OTC financial derivatives, reliable and verifiable valuation stated in paragraph 1.6(c) of this Appendix refers to:

a) a valuation made by the manager based on a current market value; or

b) where such value is not available, a fair value based on an appropriate valuation model which is checked at an appropriate frequency by an independent party.

The valuation by the manager should not be based solely on a valuation provided by the counterparty to the transaction.

*Guidance*
*The party who carries out the verification should be independent of the counterparty as well as the manager's fund management function.*

## 2 Spread of Investments

Single entity limit and group limit

2.1 A scheme should comply with the following limits:

a) Investments in:

i) transferable securities; or

ii) money market instruments

issued by a single entity should not exceed 10% of the scheme's NAV ("single entity limit").

b) Aggregate investments in, or exposures to, a group of entities through:

i) transferable securities;

ii) money market instruments;

iii) eligible deposits; and

iv) counterparty risk exposures arising from the use of OTC financial derivatives

should not exceed 20% of the scheme's NAV ("group limit"). For the purposes of this paragraph, a group of entities refers to an entity, its subsidiaries, fellow subsidiaries and its holding company.

*Guidance 1*
*Investments in transferable securities and money market instruments issued by a trust should be included in the single entity limit and group limit.*

*Guidance 2*
*The group of entities referred to in the group limit also applies to aggregate investments in, or exposures to, special purpose vehicles (SPVs) where the substance of the relationship between a sponsor and its SPV, determined in accordance with the Interpretation of Financial Reporting Standard 12, indicates that the SPV is controlled by that sponsor.*

Short-term deposits

2.2 The group limit does not apply to placements of eligible deposits arising from:

a) subscription monies received at any point in time pending the commencement of investment by the scheme; or

b) 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.

Benchmark limit

2.3 Where the scheme and its reference benchmark comply with sections 4 and 5 of Appendix 5: Index Funds, the scheme may invest in a transferable security that is a constituent of the reference benchmark, up to a single entity limit as specified in paragraph 2.1(a) of this Appendix or two percentage points above the benchmark weight, whichever is higher. Where the foregoing single entity limit is in excess of the limit in paragraph 2.1(a) of this Appendix, the group limit of 20% may be raised to 25% of the scheme's NAV.

*Guidance*

*For the avoidance of doubt, a scheme referred to in paragraph 1 of Appendix 5: Index Funds may invest in a transferable security that is a constituent of the reference benchmark, up to a single entity limit as specified in the circular on Modification to the Acceptable Index Requirements and the Benchmark Limits under the Code (MAS Circular No. CFD 01/2023).*

Government and other public debt securities / money market instruments ("Public Debt Instruments")

~~2.4 The single entity limit of 10% may be raised to 35% of the scheme's NAV where:~~

~~a) the issuing entity or trust is, or the issue is guaranteed by, either a government, government agency or supranational, that has a minimum long-term rating of BBB by Fitch, 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 scheme's NAV may be invested in any single issue of transferable securities or money market instruments by the same entity or trust.~~

~~2.5 If there is a downgrade in rating to that below the minimum rating as stated in paragraph 2.4(a), or if the rating agencies no longer rate the entity or the guarantor, the single entity limit should revert to 10%.~~

~~2.6 The single entity limit of 10% does not apply where:~~

~~a) the issuing entity or trust is, or the issue is guaranteed by, either a government, government agency or supranational, that has a minimum long-term rating of AA by Fitch, 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 scheme's NAV may be invested in any single issue of transferable securities or money market instruments by the same entity or trust.~~

~~2.7 If there is a downgrade in rating to that below the minimum rating as stated in paragraph 2.6(a) of this Appendix, or if the rating agencies no longer rate the entity or the guarantor, the single entity limit as specified in paragraph 2.1(a) or 2.4 of this Appendix, as the case may be, should apply accordingly.~~

2.4 The single entity limit of 10% does not apply where:

a) the Public Debt Instruments are issued by, or the issue is guaranteed by, either a government, government agency or supranational that has Public Debt Instruments that are constituents of a well-recognised international index; and

*Guidance*

*In determining whether the index is a well-recognised international index, the Authority will consider the extent of its use as a benchmark by market participants and the length of its operational history. The index should also track the performance of Public Debt Instruments of multiple countries or jurisdictions.*

b) the scheme should invest in at least six different issuances of Public Debt Instruments issued by, or guaranteed by, the government, government agency or supranational referred to in paragraph 2.4(a), with each issuance not exceeding 30% of the scheme's NAV.

*Guidance*
*Where paragraph 2.4 of this Appendix applies, index funds will also be deemed to have met paragraph 4(e) of Appendix 5 of the Code.*

*Prospectus*

2.5 Where paragraph 2.4 of this Appendix applies, the prospectus of the scheme should contain clear and prominent disclosures of the following:

a) where applicable, a statement that the scheme invests most, if not all, of its assets in transferable securities or money market instruments issued by the government of a single country. Therefore, any political or economic changes in the relevant country, changes in the financial condition of the issuer, or changes in economic or political conditions that affect the issuer may have an adverse impact on the value of the instruments held by the scheme, which may lead to significant or total loss of investment; and

b) the scheme's characteristics and risks associated with investing in such a scheme (e.g. sovereign credit risks, country specific risks, and concentration risks).

Unrated and non-investment grade corporate debt securities

2.6 The single entity limit of 10% in paragraph 2.1(a) for bonds and other securitised debt instruments is lowered to 5% of the scheme's NAV if the issuing entity or trust:

a) is not rated; or

b) has a long-term rating below that of BBB by Fitch, Baa by Moody's or BBB by Standard and Poor's (including such sub-categories or gradations therein).

2.7 Notwithstanding paragraph 2.6~~8~~(a), the manager may rely on:

a) the rating of an unrated issuer's parent company provided that an explicit guarantee by the parent company for the issuer is in place; or

b) its internal rating of an unrated issuer if the manager has satisfied the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) that its internal rating is comparable to a rating issued by Fitch, Moody's or Standard & Poor's.

*Guidance*
*For the purpose of paragraph 2.7~~9~~(b), the trustee (or the VCC Directors) may consider the manager's internal rating methodology.*

Commodity-backed debt securities

2.8 A scheme may invest in debt securities that are undated, secured by physical commodities, listed for quotation and traded on an organised exchange, subject to the limit in paragraph 2.11~~13~~.

Investment in other schemes

2.9 A scheme may invest up to 100% of its NAV in another scheme only if the underlying scheme satisfies paragraph 1.4(a) or (b).

2.10 Investments in an underlying scheme which does not satisfy paragraph 1.4(a) or (b) but satisfies:

a) paragraph 1.4(c) and is invested in permissible investments or real estate should not exceed 10% of the scheme's NAV; or

*Guidance*
*For example, investments in a real estate investment trust which do not satisfy paragraph 1.4(a) or (b) but satisfy the requirements in paragraph 1.3(a) to (d) should not exceed 10% of the scheme's NAV.*

b) paragraph 1.4(c) and is invested directly in commodities is subject to the limit in paragraph 2.11~~13~~.

*Guidance*
*Investments in a commodity-backed exchange-traded fund which satisfies the requirements in paragraph 1.3(a) to (d) will be subject to the limit in paragraph 2.11~~13~~.*

Alternative exposure limit

2.11 Investments in:

a) shares or securities equivalent to shares that are not listed for quotation or quoted, and have not been approved for listing for quotation or quotation, on an organised exchange;

b) debt securities which are undated, secured by physical commodities, listed for quotation and traded on an organised exchange; and

c) underlying schemes which do not satisfy paragraph 1.4(a) or (b) but satisfy paragraph 1.4(c) and are invested directly in commodities,

are subject to an aggregate limit of 10% of a scheme's NAV.

Concentration limit

2.12 A scheme should not invest in more than:

a) 10% of the total outstanding shares, or securities equivalent to shares, of any single entity or trust;

*Guidance*
*For the avoidance of doubt, this requirement does not apply to investments in units in other CIS.*

b) 10% of each individual issuance of debt securities of any single issuing entity or trust, where such issuance is not part of a debt issuance programme; or where debt securities are issued under a debt issuance programme, 20% of each tranche, subject to a limit of 10% of the overall programme size; and

c) 10% of the money market instruments of a single issuing entity or trust.

## 3 Global Exposure

3.1 The global exposure of a scheme to financial derivatives or embedded financial derivatives should not exceed 100% of the scheme's NAV at all times.

3.2 The manager should calculate the global exposure of a scheme based on the:

a) Commitment Approach; or

b) Value at Risk (VaR) Approach (including any other variants of the VaR Approach), subject to prior consultation with the Authority.

Commitment Approach

3.3 The global exposure of a scheme is calculated as the sum of:

a) the absolute value of the exposure of each individual financial derivative not involved in netting or hedging arrangements;

b) the absolute value of the net exposure of each individual financial derivative after netting or hedging arrangements; and

c) the sum of the values of cash collateral received pursuant to:

i) the reduction of exposure to counterparties of OTC financial derivatives; and

ii) EPM techniques relating to securities lending and repurchase transactions,

and that are reinvested.

*Netting arrangements*

3.4 Netting arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.

3.5 A scheme may net positions between:

a) financial derivatives on the same underlying assets, even if the maturity dates are different; or

b) financial derivatives and the same corresponding underlying asset, if those underlying assets are transferable securities, money market instruments or units in other schemes.

*Hedging arrangements*

3.6 Hedging arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.

3.7 The marked-to-market value of transferable securities, money market instruments or units in schemes involved in hedging arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.

3.8 For the purposes of paragraphs 3.6 and 3.7 of this Appendix, the hedging arrangement should:

a) not be aimed at generating a return;

b) result in an overall verifiable reduction of the risk of the scheme;

c) offset the general and specific risks linked to the underlying being hedged;

d) relate to the same asset class being hedged; and

e) be able to meet its hedging objective in all market conditions.

*Guidance*

*Strategies which seek to offset the beta (market risk) but do not aim to offset the specific risks linked to the underlying investment and keep the alpha would not comply with the requirements in paragraph 3.8. Such strategies would include market neutral or long/short strategies.*

3.9 Notwithstanding paragraph 3.8, financial derivatives used for the purposes of hedging currency exposure may be netted when calculating the global exposure.

*Exposure arising from reinvestment of cash collateral*

3.10 A scheme which reinvests cash collateral received from counterparties of OTC financial derivatives, securities lending or repurchase transactions to generate a return in excess of high quality 3-month government bonds should include in its global exposure calculations the cash amount reinvested.

VaR Approach or its variants

3.11 The manager may apply to the Authority to use the VaR Approach or its variants to calculate the global exposure of a scheme instead of the Commitment Approach.

3.12 The global exposure of the scheme should also take into account exposures arising from the reinvestment of cash collateral.

3.13 The manager should comply with guidelines in Annex 1B in lieu of paragraphs 4.9 to 4.14 of this Appendix.

*Risk management process*

3.14 In its submission, the manager should provide the Authority with the following information in the risk management process document:

a) details of all financial derivatives to be used in the scheme, the purpose of the use and the risks the financial derivatives might pose to the scheme;

b) description of the valuation and pricing methodology for financial derivatives;

c) description of the risk management processes and systems used in relation to financial derivatives;

d) description of the VaR methodology (including whether the model has been verified by an independent party such as a financial supervisory authority) and any other risk measures used;

e) details of the entities, units and personnel responsible for risk management;

f) description of systems and technology used, including description of stress testing and back-testing methodologies;

g) details of the manager's policies on expertise required to trade financial derivatives as well as manage their related risks including how they are monitored and validated; and

h) description of how the relevant guidelines in the Code are adhered to.

## 4 Use of Financial Derivatives

Spread of underlying assets

4.1 The exposure of a scheme to the underlying assets of financial derivatives should be sufficiently diversified on a portfolio basis.

4.2 In the case where the underlying assets are:

a) transferable securities, money market instruments, eligible deposits or units in other schemes, the limits in section 2 of this Appendix, except for the concentration limits, apply;

b) commodities, the limits in section 4 of Appendix 5: Index Funds apply; and

*Guidance*

*In determining whether the underlying assets of financial derivatives are sufficiently diversified, exposures to commodities through investments referred to in paragraph 2.8~~10~~ and paragraph 2.10~~12~~(b) of this Appendix should also be included.*

c) indices, paragraphs 4.2(a) and (b) of this Appendix apply to each constituent of the index, where applicable,

on a portfolio basis.

Embedded financial derivatives

4.3 Where a transferable security or money market instrument embeds a financial derivative, the requirements in sections 3 and 4 apply to the embedded financial derivative.

4.4 Where the counterparty risk of the embedded derivative is or may be transferred to the scheme, the requirements in section 5 also apply to the embedded financial derivative.

4.5 A transferable security or money market instrument is considered to be embedding a financial derivative if it contains a component which fulfils the following criteria:

a) the component results in some or all of the cash flows that otherwise would be required by the transferable security or money market instrument which functions as host contract to be modified according to a variable including but not limited to a specified interest rate, price of a financial instrument, foreign exchange rate, index of prices or rates, credit rating or credit index, and therefore vary in a way similar to a stand-alone financial derivative;

b) the component's economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and

c) the component has a significant impact on the risk profile and pricing of the transferable security or money market instrument.

4.6 A transferable security or a money market instrument should not be regarded as embedding a financial derivative where it contains a component which is contractually transferable independently of the transferable security or the money market instrument. Such a component should be deemed to be a separate financial instrument.

4.7 Where an instrument is structured as an alternative to an OTC financial derivative or tailor-made to meet the specific needs of a scheme, the instrument should be deemed as embedding a financial derivative.

Cover

4.8 A transaction in financial derivatives which gives rise, or may give rise, to a future commitment on behalf of a scheme should be covered as follows:

a) in the case of financial derivatives which will, or may at the option of the scheme, be cash settled, the scheme should hold, at all times, liquid assets sufficient to cover the exposure;

*Guidance 1*

*The term "exposure" refers to any transaction in financial derivatives that may give rise to a future commitment by the scheme to make contractually required payments. As such, exposure would include, among others, any cash settlement of contracts, margin calls, and interest payments.*

*Guidance 2*

*Liquid assets refer to cash or permissible investments that can satisfy the requirements in chapter 1.2(i) of the Code. The quantity of such liquid assets held as cover should however be determined after the application of appropriate safeguards such as haircuts.*

b) in the case of financial derivatives which will, or may at the option of the counterparty, require physical delivery of the underlying assets, the scheme should hold the underlying assets in sufficient quantities to meet the delivery obligation at all times. If the manager deems the underlying assets to be sufficiently liquid, the scheme may hold as coverage other liquid assets in sufficient quantities, provided that such alternative assets may be readily converted into the underlying asset at any time to meet the delivery obligation.

Exposure to financial derivatives – Commitment Approach

4.9 The exposure of the scheme to financial derivatives under the Commitment Approach in paragraph 3.3 of this Appendix is described below. Exposure is determined by converting the positions in financial derivatives into equivalent positions in the underlying assets.

*Calculation methods*

4.10 Table 1 below sets out the methods for calculating the exposure of various financial derivatives under the Commitment Approach.

4.11 The exposure to financial derivatives under the Commitment Approach should be converted into the base currency of the scheme by using the spot rate.

4.12 Where a currency financial derivative has two legs that are not in the base currency of the scheme, the exposure to both legs should be accounted for under the Commitment Approach.

4.13 For financial derivatives not covered in Table 1 below or where the methods do not provide an adequate and accurate assessment of the risks relating to the financial derivatives, the manager should inform and justify to the Authority of the alternative method applied.

4.14 The calculation methodology of the alternative method referred to in paragraph 4.13 should be based on the market value of the equivalent position in the underlying asset, although the notional value or price of the financial derivative may be used if it is more conservative. Where a more conservative calculation is used, hedging and netting arrangements, as set out in paragraphs 3.4 to 3.9, should not be taken into account to reduce the exposure to the financial derivative involved if it results in an underestimation of the global exposure.

*Guidance*

*Financial derivatives which do not qualify for the standard conversion method are, for instance, digital options, barrier options, or more complex options with a highly volatile delta.*

| Types of financial derivatives | Method for calculating exposure |
|---|---|
| **Plain Vanilla Options (Include bought/sold puts and calls)** | |
| Bond option | No. of contracts x face value x underlying price x delta |
| Currency option | Contract's notional value (of currency leg) x delta |
| Equity option | No. of contracts x no. of equity shares x underlying price x delta |
| Index option | No. of contracts x contract's notional value x index level x delta |
| Interest rate option | Contract's notional value x delta |
| Warrant and Rights | No. of shares/bonds x market value of underlying referenced asset x delta |
| **Futures** | |
| Bond future | No. of contracts x contract's notional value x market value of the future; or<br><br>No. of contracts x contract's notional value x market price of the cheapest bond to deliver, adjusted by the conversion factor |
| Currency future | No. of contracts x contract's notional value |
| Equity future | No. of contracts x contract's notional value x market price of underlying equity share |
| Index future | No. of contracts x value of 1 point x index level |
| Interest rate future | No. of contracts x contract's notional value |

| Types of financial derivatives | Method for calculating exposure |
|---|---|
| Commodity future | No. of contracts x contract's notional value |
| **Swaps** | |
| Contract for differences | No. of shares/bonds x market value of underlying referenced instrument |
| Credit default swap | Protection buyer: market value of the underlying reference asset<br><br>Protection seller: the higher of the market value of the underlying reference asset or the notional value of the credit default swap |
| Currency swap | Notional value of currency leg(s) |
| Interest rate swap | Market value of underlying; or<br><br>Notional value of the fixed leg |
| Total return swap | Underlying market value of reference asset(s) |
| **Forwards** | |
| Forward rate agreement | Notional value |
| FX forward | Notional value of currency leg(s) |

**Table 1: Calculation Methods**

## 5 Counterparty of Financial Derivatives

OTC financial derivatives

5.1 The counterparty of an OTC financial derivative should be subject to prudential supervision by a financial supervisory authority in its home jurisdiction.

5.2 Subject to the group limit in paragraph 2.1, the maximum exposure of a scheme to the counterparty of an OTC financial derivative may not exceed:

a) in the case of an eligible financial institution described in paragraph 5.3, 10% of the scheme's NAV; or

b) in any other case, 5% of the scheme's NAV

("counterparty limits").

5.3 For the purpose of paragraph 5.2 of this Appendix, an eligible financial institution should have a minimum long-term rating of A by Fitch, A by Moody's or A by Standard and Poor's (including sub-categories or gradations therein). Alternatively, where the financial institution is not rated, the scheme should have the benefit of a guarantee by an entity which has a long-term rating of A (including sub-categories or gradations therein).

5.4 The exposure to a counterparty of an OTC financial derivative should be measured based on the maximum potential loss that may be incurred by the scheme if the counterparty defaults and not on the basis of the notional value of the OTC financial derivative.

Calculation method

5.5 The exposure to a counterparty of an OTC financial derivative should be calculated as follows:

a) Stage 1: Determine the current replacement cost of each OTC financial derivative by carrying out a valuation at market price.

b) Stage 2: Derive the "add-on factor" by multiplying the notional principal amount or the market value of the underlying asset of the OTC financial derivative, whichever is more conservative, by the percentages in Table 2 to reflect the potential credit risk:

| Residual Term | Interest rate contracts | Exchange rate contracts | Equity derivative contracts | Other contracts |
|---|---|---|---|---|
| 1 year or less | 0% | 1% | 6% | 10% |
| > 1 year and < 5 years | 0.5% | 5% | 8% | 12% |
| > 5 years | 1.5% | 7.5% | 10% | 15% |

**Table 2: Add-on Factors**

i) For total return swaps and credit default swaps, the relevant percentage is 10% regardless of the residual term.

ii) In the case of credit default swaps where the scheme acts as protection seller, the relevant percentage may be set at 0% unless the credit default swap contract incorporates a provision on closeout upon insolvency. In the latter case, the amount to be taken into account for the add-on factor will be limited to the premium or interest to be received (i.e. unpaid premium at the time of the calculation).

c) The counterparty exposure arising from an OTC financial derivative contract is the sum of the positive replacement cost computed in Stage 1 and the add-on factor computed in Stage 2.

d) The total exposure to a single counterparty, or group of counterparties, is calculated by summing the exposures arising from all OTC financial derivative transactions entered into with the same counterparty or group.

Recognition of collateral

5.6 The exposure to a counterparty may be construed as being lower if collateral is tendered to the scheme. The collateral should meet the following requirements:

a) it is marked-to-market daily;

b) it is liquid;

c) it is taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;

d) it is not issued by the counterparty or its related corporations;

e) it is held by a custodian which is:

i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and

ii) independent of the counterparty;

f) it is legally secured from the consequences of the failure of the custodian, counterparty and their related corporations;

g) it can be fully enforced by the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) at any time;

*Guidance*

*Paragraph 5.6(g) does not prevent the trustee or the scheme from receiving collaterals from a counterparty which may be subject to resolution stay regulations.*

h) it is free from all prior encumbrances; and

i) it cannot be sold or given as security interests.

*Guidance 1*
*Security interests include, among others, charges, pledges or hypothecations.*

*Guidance 2*
*For the purpose of paragraph 5.6(i) of this Appendix, the collateral cannot be sold or given as security interests except where it is required by applicable laws and regulatory requirements in the jurisdiction where the collateral is held.*

5.7 Collateral may only consist of:

a) cash;

b) money market instruments; or

c) bonds.

5.8 For the purpose of paragraph 5.7 of this Appendix, money market instruments and bonds should be issued by, or have the benefit of a guarantee from, a government, government agency or supranational, that has a long-term rating of AAA by Fitch, Aaa by Moody's or AAA by Standard and Poor's (including sub-categories or gradations therein).

5.9 Notwithstanding paragraph 5.7 of this Appendix, securitised debt instruments as well as money market instruments or bonds with embedded financial derivatives are not eligible as collateral.

5.10 The manager should ensure that it has the appropriate legal expertise to put in place proper collateral arrangements, as well as appropriate systems and operational capabilities for proper collateral management.

5.11 Additional collateral should be provided to the scheme no later than the close of the next business day if the current value of the collateral tendered is insufficient to satisfy the counterparty limits in paragraph 5.2.

*Guidance*
*A marked-to-market shortfall on day T should be rectified by the receipt of additional collateral by T+1 business days. For the purpose of this guidance, business days should be based on those of the counterparty's.*

Reinvestment of collateral

5.12 Collateral obtained in the form of cash by the scheme may be reinvested subject to the following requirements:

a) it is invested in financial instruments consistent with paragraphs 5.7 and 5.8 of this Appendix;

b) the investments are taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;

c) the investments are held by a custodian which is:

i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and

ii) independent of the counterparty;

d) the investments are legally secured from the consequences of the failure of the custodian, counterparty and their related corporations;

e) the investments cannot be sold or given as security interests; and

f) the manager is reasonably satisfied that any investment of cash collateral by the scheme will enable the scheme to meet its redemption obligations and other payment commitments.

5.13 Notwithstanding paragraph 5.12 of this Appendix, the cash collateral obtained should not be invested in transferable securities issued by, or placed on deposit with, the counterparty or its related corporations.

5.14 Non-cash collateral obtained by the scheme may not be reinvested.

Recognition of netting

5.15 For the purpose of paragraph 5.2 of this Appendix, a scheme may net its OTC financial derivative positions with the same counterparty through bilateral contracts for novation or other bilateral agreements between the scheme and its counterparty provided that such netting arrangements satisfy the following conditions:

a) in the case of a bilateral contract for novation, mutual claims and obligations are automatically amalgamated in such a way that this novation fixes one single net amount each time novation applies and thus creates a legally binding, single new contract extinguishing former contracts;

b) the scheme has a netting arrangement with its counterparty which creates a single legal obligation, covering all included transactions, such that, in the event of the counterparty's failure to perform owing to default, bankruptcy, liquidation or any other similar circumstance, the scheme would have a claim to receive or an obligation to pay only the net sum of the positive and negative mark-to-market values of the individual included transactions;

c) the manager obtains written and reasoned legal opinions to the effect that, the netting arrangement is legally enforceable by the scheme against its counterparty, and in particular, in the event of a legal challenge, the relevant courts and administrative authorities would find that the scheme's claims and obligations would be limited to the net sum, as described in paragraph 5.15(b), under:

   i) the law of the jurisdiction in which the counterparty is incorporated and, if a foreign branch of an entity is involved, also under the law of the jurisdiction in which the branch is located;

   ii) the law that governs the individual included transactions; and

   iii) the law that governs the netting agreement;

d) the manager has procedures in place to ensure that the legal validity of the netting arrangement is kept under review in the light of possible changes in the relevant laws; and

e) the manager is reasonably satisfied that the netting arrangement is legally valid under the law of each of the relevant jurisdictions.

Exchange-traded financial derivatives

5.16 Financial derivatives which:

a) are transacted on an exchange where the clearing house performs a central counterparty role; and

b) have trades which are characterised by a daily marked-to-market valuation of the financial derivative positions and subject to at least daily margining,

would not be subject to the counterparty limits in paragraph 5.2 of this Appendix.

Margins

5.17 Any exposure arising from initial margin posted and the variation margin receivable from a counterparty relating to OTC or exchange-traded financial derivatives, which is not protected against insolvency of the counterparty, is to be included in the counterparty limit.

*Guidance*

*The exposures from margins held with brokers need not be included if the margins are maintained in trust accounts.*

## 6 Efficient Portfolio Management Techniques

Securities lending and repurchase transactions

6.1 A scheme may carry out the following activities for the sole purpose of EPM:

a) securities lending; and

b) repurchase transactions.

6.2 The scheme may lend transferable securities and money market instruments:

a) directly;

b) through a standardised lending system facilitated by a clearing house which performs a central counterparty role; or

c) through securities lending agents, who are recognised as specialists in securities lending.

6.3 Securities lending and repurchase transactions should be effected in accordance with good market practice.

Counterparty

6.4 The counterparty to a securities lending agreement or repurchase transaction should:

a) be a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and

b) have a minimum long-term rating of A by Moody's, A by Standard and Poor's or A by Fitch (including sub-categories or gradations therein). Alternatively, where the counterparty is not rated, it is acceptable if an entity which has and maintains a rating as stated above indemnifies the scheme against losses suffered as a result of the counterparty's failure.

6.5 Where the manager engages in securities lending and repurchase transactions with any of its related corporations, the manager should have effective arrangements in place to manage potential conflicts of interest.

6.6 The agreement between the scheme and the counterparty, either directly or through its agent, should require the counterparty to provide additional collateral to the scheme or its agent no later than the close of the next business day if the current value of the eligible collateral tendered is insufficient.

*Guidance*

*A marked-to-market shortfall on day T should be rectified by the receipt of additional collateral by T+1 business days. For the purpose of this guidance, business days should be based on those of the counterparty's.*

Recognition of collateral

6.7 The collateral should meet the following requirements:

a) it is marked-to-market daily;

b) it is liquid;

c) it exceeds the value of the transferable securities or money market instruments transferred;

*Guidance*
*Eligible collateral provided should take into consideration exchange rate or market risks inherent to the eligible collateral.*

d) it is taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;

e) it is not issued by the counterparty or its related corporations;

f) it is held by a custodian or agent which is:

i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and

ii) independent of the counterparty;

g) it is legally secured from the consequences of the failure of the custodian, counterparty or agent and their related corporations;

h) it can be fully enforced by the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) at any time;

*Guidance*
*Paragraph 6.7(h) does not prevent the trustee or the scheme from receiving collaterals from a counterparty which may be subject to resolution stay regulations.*

i) it is free from all prior encumbrances; and

j) it cannot be sold or given as security interests.

*Guidance 1*
*Security interests include, among others, charges, pledges or hypothecations.*

*Guidance 2*
*For the purpose of paragraph 6.7(j) of this Appendix, the collateral cannot be sold or given as security interests except where it is required by applicable laws and regulatory requirements in the jurisdiction where the collateral is held.*

6.8 For the purposes of securities lending and repurchase transactions, collateral may only consist of:

a) cash;

b) money market instruments; or

c) bonds.

6.9 For the purpose of paragraph 6.8, money market instruments and bonds should be issued by, or have the benefit of a guarantee from, an entity or trust that has a minimum long-term rating of A by Fitch, A by Moody's or A by Standard and Poor's (including sub-categories or gradations therein) (collectively, "eligible collateral").

6.10 Notwithstanding paragraph 6.8, securitised debt instruments as well as money market instruments or bonds with embedded financial derivatives are not eligible as collateral.

Settlement

6.11 The scheme or its agent should receive eligible collateral before, or simultaneously with, the transfer of ownership of the transferable securities lent.

6.12 Upon termination of the securities lending or repurchase transaction, the eligible collateral may be remitted by the scheme or its agent after, or simultaneously with the restitution of the transferable securities lent.

Reinvestment of collateral

6.13 Collateral obtained in the form of cash by the scheme or its agent may be reinvested subject to the following requirements:

a) it is invested in financial instruments consistent with paragraphs 6.8 and 6.9;

b) the investments are taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;

c) the investments are held by a custodian which is:

i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and

ii) independent of the counterparty;

d) the investments are legally secured from the consequences of the failure of the custodian, counterparty or agent and their related corporations;

e) the investments cannot be sold or given as security interests; and

f) the manager is reasonably satisfied that any investment of cash collateral by the scheme or its agent, will enable the scheme to meet its redemption obligations and other payment commitments.

6.14 Notwithstanding paragraph 6.13, the cash collateral obtained should not be invested in transferable securities issued by, or placed on deposit with, the counterparty or its related corporations.

6.15 Non-cash collateral obtained by the scheme or its agent may not be reinvested.

Liquidity

6.16 The manager should ensure that:

a) the volume of securities lending or repurchase transactions is kept at an appropriate level; and

b) the scheme or its agent is entitled to terminate the securities lending or repurchase transaction and request the immediate return of its transferable securities lent without penalty, in a manner which enables the scheme to meet its redemption obligations and other payment commitments.

## 7 Borrowings

7.1 The scheme may borrow, on a temporary basis, for the purposes of meeting redemptions and bridging requirements.

7.2 The scheme may only borrow from banks licensed under the Banking Act 1970, finance companies licensed under the Finance Companies Act 1967, merchant banks licensed under the Banking Act 1970 or any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction.

7.3 The borrowing period should not exceed one month.

7.4 Aggregate borrowings for the purposes of paragraph 7.1 should not exceed 10% of the scheme's NAV at the time the borrowing is incurred.

*Guidance*
*Credit balances (e.g. cash) may not be offset against borrowings when determining the percentage of borrowings outstanding.*

## 8 Disclosure Requirements

8.1 The use of back-testing or simulated past performance data for disclosure of performance figures in the prospectus, reports and marketing materials is prohibited.

8.2 Where the scheme's NAV 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 scheme.

Use of financial derivatives

*Prospectus*
8.3 Where a scheme intends to use or invest in financial derivatives, the prospectus should include the following:

a) whether financial derivatives employed in the scheme are used for the purposes of hedging, EPM, optimising returns or a combination of all three objectives;

b) the method used to determine the scheme's exposure to financial derivatives (i.e. commitment approach, relative VaR or absolute VaR), a description of the method and:

   i) if the VaR Approach is used, the expected level of leverage, based on the sum of the notional of the derivatives used, and the possibility of higher leverage levels should be included;

   ii) if the relative VaR Approach is used, the reference portfolio (or benchmark) and the rationale for using the reference portfolio (or benchmark) should be included; and

   iii) if the absolute VaR Approach is used, the absolute VaR limit and the rationale for the absolute VaR limit should be included; and

c) a statement that the manager will ensure that the risk management and compliance procedures are adequate and has been or will be implemented and that it has the necessary expertise to manage the risk relating to the use of financial derivatives.

*Semi-annual and annual report*
8.4 Where a scheme uses or invests in financial derivatives, the semi-annual and annual reports should include the following:

a) the method and a description of the method used to calculate the global exposure;

   *Guidance*
   *The description of the VaR Approach should include at least the lowest, highest and average utilisation of the VaR limit calculated during the relevant period, as well as the model and inputs used for calculation.*

b) information on the reference portfolio (or benchmark) where the relative VaR Approach is used; and

c) the level of leverage employed, based on the sum of the notional value of the derivatives used, during the relevant period where the VaR Approach is used.

*Marketing material*

8.5 Where a scheme intends to use or invest in financial derivatives, a prominent statement drawing attention to this intention should be included in the marketing material of the scheme.

Counterparty of financial derivatives

*Semi-annual and annual report*

8.6 Where collateral is used to mitigate the scheme's exposure to the counterparty of OTC financial derivatives, the scheme's semi-annual and annual reports should provide a description of the collateral holdings, including the:

a) nature of the collateral;

b) identity of the counterparty providing the collateral;

c) marked-to-market value of the non-cash collateral with a breakdown by asset class and credit rating (if applicable); and

d) value and types of investments made with the cash collateral with a breakdown by asset class and credit rating (if applicable).

EPM techniques

*Prospectus*

8.7 Where the scheme intends to carry out securities lending or repurchase transactions, the prospectus should contain disclosures on:

a) all the securities lending or repurchase transactions that the scheme may participate in;

b) the purpose of the securities lending or repurchase transactions, as well as the conditions and limits within which they are conducted;

c) any conflicts of interest and how they are mitigated, as well as whether the manager intends to lend the securities of the scheme to its related corporations;

d) the inherent risks of the securities lending or repurchase transactions; and

e) the revenue sharing arrangement between the scheme and the manager if any of the income from securities lending also accrues to the manager.

*Semi-annual and annual report*

8.8 Where the scheme carries out securities lending or repurchase transactions, the scheme's semi-annual and annual report should contain disclosures on the:

a) total value of the transferable securities lent;

b) amount of securities on loan as a proportion of total lendable assets and of the scheme's assets under management, and the absolute amounts of the repurchase transactions;

c) description and nature of the collateral holdings;

d) top 10 collateral securities received by the scheme, and the top 10 counterparties of securities lending and repurchase transactions;

e) marked-to-market value of non-cash collateral with a breakdown by asset class and credit rating (if applicable);

f) value and types of investments made with the cash collateral with a breakdown by asset class and credit rating (if applicable);

g) breakdown of securities lending and repurchase transactions 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);

*Guidance*
*Collateral type should be disclosed at an appropriate level of detail. For example, for fixed income securities, the breakdown would give the share of government bond, investment grade non-financial corporate bonds, sub-investment grade non-financial corporate bonds, investment grade financial corporate bonds, sub-investment grade financial corporate bonds, covered bonds etc.*

h) share of the collateral received that is re-used or re-hypothecated, compared to the maximum authorised amount if any, and information on any restrictions on the type of securities;

i) identity of the counterparty providing the collateral;

j) number of custodians and the amount of assets held by each custodian;

k) way the securities received by the counterparty are held (i.e. in segregated accounts or pooled accounts);

l) revenue earned by the scheme and the manager arising from securities lending for the scheme's financial year (if applicable); and

m) split between the return from securities lending and repurchase transactions and the return from cash collateral reinvestment.

Commodity exposures

*Prospectus*

8.9 Where the scheme will have exposures to commodities through financial derivatives or investments referred to in paragraph 2.8~~10~~ or 2.10~~12~~(b) of this Appendix, the prospectus should include a description of the commodities which would be highly correlated and therefore treated as giving exposure to the same commodity when applying the limits in section 4 of Appendix 5: Index Funds, and how such correlation is determined.

# ANNEX 1A

## ILLUSTRATION OF BENCHMARK LIMIT

For the purpose of paragraph 2.3 of this Appendix, suppose companies A and B are both subsidiaries of Company X (X and its subsidiaries to be collectively known as a "Group") and the scheme as well as the reference benchmark comply with sections 4 and 5 of Appendix 5.

Example 1: Assume that both A and B are not included in the reference benchmark

A scheme may invest up to 10% of its NAV in transferable securities issued by A and another 10% of its NAV in transferable securities issued by B. The scheme may invest up to 20% of its NAV in transferable securities issued by companies in this Group.

Example 2: Assume that A and B are included in the reference benchmark with weights of 2% and 5% respectively

A scheme may invest up to 10% of its NAV in transferable securities issued by A and another 10% of its NAV in transferable securities issued by B. The scheme may invest up to 20% of its NAV in transferable securities issued by this Group.

Example 3: Assume that A is included in the reference benchmark with weight of 20% and B is a deposit-taking institution with which the scheme has placed deposits

A scheme may invest up to 22% [20+2] of its NAV in transferable securities issued by A and another 3% [25-22] in deposits with B.

**Illustration 5: Illustration on Benchmark Limit**

# ANNEX 1B

## ALTERNATIVE APPROACH FOR CALCULATING GLOBAL EXPOSURE – VAR APPROACH

### 1 Scope

1.1 These guidelines apply to a scheme which elects to use the VaR Approach for calculating the scheme's exposure to financial derivatives arising from all the positions of the scheme's portfolio. For the avoidance of doubt, all EPM exposures as a result of reinvestment of cash collateral are to be included in the calculation of VaR.

1.2 Where an internal VaR model is used by the manager, there should be verification by an operationally independent party of its VaR model at an appropriate frequency.

1.3 The manager should consult the Authority on any material changes to the risk management process document referred to in paragraph 3.14 of Appendix 1 at least one month in advance.

### 2 Calculation Methodology

2.1 The exposure of a scheme to financial derivatives may be determined using the VaR Approach described below. The exposure of the scheme should be limited as follows:

a) where a reference portfolio (or benchmark for the scheme) can be determined, the scheme should use a relative VaR calculation where the VaR of the scheme should not be more than 1.5 times the VaR of the reference portfolio. The manager should explain the rationale for the reference portfolio (or benchmark) used in the risk management process document submitted to the Authority.

b) where there is no reference portfolio (or benchmark for the scheme), an absolute VaR limit should be used. The global exposure of a scheme based on the absolute VaR Approach should generally not exceed 20% of its NAV. The choice of the absolute VaR limit should be commensurate with the investment objective, approach and investment universe of the scheme. The manager should explain the rationale for the absolute VaR limit used in the risk management process document submitted to the Authority.

2.2 Under the VaR Approach, the following parameters should be used:

- One-tailed confidence level: 99%
- Holding period: one month (20 business days)
- Observation period: one year (250 business days), unless a shorter period is justified by a significant increase in volatility
- Update of the data: quarterly
- Calculation frequency: daily

A different confidence interval or holding period may be used with prior approval of the Authority provided a conversion is made to bring the VaR to an equivalent value.

### 3 Stress Tests

3.1 The manager should perform a rigorous program of stress tests on the scheme at a frequency which is in line with the scheme's risk profile, but at a minimum, monthly.

3.2 The program should:

a) cover all the risk factors having a non-negligible influence on the scheme's NAV; and

b) take into account correlation changes between risk factors.

## 4 Back-Tests

4.1 The manager should back-test its VaR model, with a frequency which is in line with the scheme's risk profile, but at a minimum, monthly.

4.2 Back-testing is the comparison of daily profit or loss ("trading outcomes") with model-generated risk measures. The back-testing policy should conform to the following standards:

a) the back-tests to be applied should compare whether the observed percentage of outcomes covered by the risk measure is consistent with a 99th percentile, one-tailed confidence interval calibrated to a one-day holding period;

b) trading outcomes used for back-testing should be based on the hypothetical changes in the scheme's NAV which would occur if end-of-day positions were to remain unchanged over the one-day holding period. This hypothetical profit and loss does not account for other factors such as fees, commissions, bid-ask spreads, net interest income and intra-day trading;

c) computation of VaR for the purpose of back-testing should be performed on a daily basis using at least 250 business days of observed results. On a quarterly basis, the manager should analyse the back-testing exceptions and submit a report to senior management;

d) the results of back-testing and any follow-up action taken should be clearly documented. All back-testing exceptions, i.e. where trading outcomes are not covered by the risk measure, should be investigated and accounted for on a timely basis;

e) back-testing exceptions generated should be classified as follows:

   i) basic integrity of the model;

   ii) model accuracy can be improved;

   iii) market moved in a fashion unanticipated by the model;

f) back-testing exceptions relating to the basic integrity of the risk measurement model should be reported to the manager's board of directors and senior management immediately and rectified as soon as practicable; and

g) a back-testing report should be prepared for the manager's board of directors and senior management on a quarterly basis, incorporating an analysis of the back-testing results and exceptions and any implications for the scheme.

4.3 The manager should perform back-tests using actual trading outcomes. If there are significant back-testing exceptions using actual trading outcomes, the manager should implement additional risk measures to monitor its intra-day trading risk in line with sound risk management practices.

4.4 The following are some examples which may be classified under the three exception categories described in paragraph 4.2 (e):

a) Basic integrity of the model:

   i) the systems of the scheme are not capturing the market risk of the positions; or

   ii) model volatilities or correlations are calculated incorrectly.

b) Model accuracy can be improved: the risk measurement model is not assessing the risk of some instruments with sufficient precision (e.g. too few maturity buckets or an omitted spread); and

c) Market moved in a manner unanticipated by the model:

i) random chance (i.e. a very low probability event);

ii) markets moved by more than the model predicted was likely (i.e. volatility was significantly higher than expected); or

iii) market did not move together as expected (i.e. correlations were significantly different than what was assumed by the model).

4.5 The manager should classify its back-testing outcomes into three zones depending on the number of exceptions arising from back-testing.

| Zone | Number of exceptions | Cumulative probability |
|---|---|---|
| Green Zone | 0 | 8.1% |
| | 1 | 28.58% |
| | 2 | 54.32% |
| | 3 | 75.81% |
| | 4 | 89.22% |
| Yellow Zone | 5 | 95.88% |
| | 6 | 98.63% |
| | 7 | 99.60% |
| | 8 | 99.89% |
| | 9 | 99.97% |
| Red Zone | 10 or more | 99.99% |

The table defines the Green, Yellow and Red Zones used to assess back-testing results of the scheme. The boundaries shown in the table are based on a sample of 250 observations. For other sample sizes, the Yellow Zone begins at the point where the cumulative probability equals or exceeds 95%, and the Red Zone begins at the point where the cumulative probability equals or exceeds 99.99%. The cumulative probability is the probability of obtaining equal or less than a given number of exceptions in a sample of 250 observations when the true coverage level is 99%. For example, the cumulative probability shown for four exceptions is the probability of obtaining between zero and four exceptions.

4.6 The manager should notify the Authority within three business days whenever exceptions arise. In the event that the scheme enters the:

a) Green Zone [4 or less exceptions]: the manager need not make any changes to its VaR model;

b) Yellow Zone [5 - 9 exceptions]: the manager is to investigate and propose to the Authority the remedial actions; or

c) Red Zone [10 or more exceptions]: the manager should stop adding new positions and wind down existing positions in order to reduce market risks.

Where the scheme enters the Red Zone, the Authority may require the scheme to revert to the Commitment Approach.

*Guidance*

*Although results within the Green Zone are preferred, a market risk measurement model which constantly yields little or no back-testing exceptions may suggest that the model is too conservative. If the model shows no exceptions for long periods of time, the manager should reassess its model to determine if it overstates risk.*

4.7 Where the market risk measurement model is found to be inadequate for modeling the risks involved, the manager may continue investing in such financial instruments only if the manager is reasonably satisfied that it is prudent to do so. If the problem with the model is significant, the manager should cease trading in those financial instruments immediately.

# APPENDIX 2

## INVESTMENT: MONEY MARKET FUNDS

### 1 Scope

1.1 This Appendix applies to a scheme which invests primarily in high quality debt securities and money market instruments or places eligible deposits with eligible financial institutions.

1.2 This Appendix does not apply to schemes which invest in debt securities and money market instruments or places eligible deposits as part of a diversified portfolio and those whose objective is to invest in riskier and higher yielding debt securities. The applicable guidelines for such schemes are set out in Appendix 1.

1.3 The provisions in sections 1 to 4 (other than paragraphs 1.3, 1.6, 1.7, 4.1 and 4.8) of Appendix 1 do not apply to a money market fund.

### 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 which 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.

*Guidance*
*For example, names with terms such as "cash" or "liquid" are not allowed for schemes which do not comply with the guidelines in this Appendix.*

2.3 A scheme which adopts the term "Short-Term Money Market Fund" as part of its name or has a name that suggests that it is the equivalent of a short-term money market fund, or which holds itself out as a short-term money market fund in any communication, including marketing material, relating to the scheme, should comply with paragraphs 5.5 to 5.8 of this Appendix. For the avoidance of doubt, a short-term money market fund should comply with all other provisions in this Appendix.

### 3 Permissible Investments

3.1 For the purposes of this Appendix, a money market fund's underlying investments may only consist of the following:

a) high quality bonds and other securitised debt instruments (including government bonds, corporate bonds, floating rate notes and asset-backed securities);

b) high quality money market instruments (including bank certificates of deposit, banker's acceptances, commercial papers, trade bills and Treasury bills)

(collectively, "non-deposit investments");

c) deposits placed with eligible financial institutions ("eligible deposits"); and

d) financial derivatives.

*Guidance*
*A debt security or money market instrument which embeds a financial derivative is not a permissible investment.*

3.2 For the purposes of paragraph 3.1 of this Appendix:

a) a "high-quality" debt security or money market instrument is one:

i) with either a minimum short-term rating of F-2 by Fitch, P-2 by Moody's or A-2 by Standard and Poor's, or where it only has a long-term rating, such a rating of A by Fitch, 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 paragraph 3.2(a)(i), for which the manager has satisfied the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) that the quality of the debt security or money market instrument is comparable to those with the ratings specified in paragraph 3.2(a)(i); 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 (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) that the quality of the debt security or money market instrument is comparable to those with the ratings specified in paragraph 3.2(a)(i) above;

b) "eligible deposits" refer to deposits with banks licensed under the Banking Act 1970, finance companies licensed under the Finance Companies Act 1967, merchant banks licensed under the Banking Act or any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction; and

*Guidance*
*Eligible deposits made by a money market fund are expected to be repayable on demand or with the right to be withdrawn by the money market fund at any time. In considering early withdrawals of deposits, the money market fund should also consider pertinent factors such as penalties or other costs associated with early withdrawal of deposit.*

c) an "eligible financial institution" is:

i) a financial institution which has a minimum short-term rating of F-2 by Fitch, P-2 by Moody's or A-2 by Standard and Poor's (including such sub-categories or gradations therein);

ii) a financial institution rated other than by the credit rating organisations specified in paragraph 3.2(c)(i) above for which the manager has satisfied the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) that its short-term rating is comparable to the ratings in paragraph 3.2(c)(i) above; or

iii) a Singapore-incorporated bank licensed under the Banking Act 1970 which is not rated, but has been approved under the Central Provident Fund Investment Scheme to accept fixed deposits.

## 4 Spread of Investments

Exposure limit

4.1 A money market fund should invest at least 90% of its NAV in:

a) high-quality debt securities and money market instruments traded on an organised market; and

b) eligible deposits placed with eligible financial institutions.

For the avoidance of doubt, the remainder of up to 10% of the money market fund's NAV may be invested in high-quality debt instruments and money market instruments not traded on an organised market.

Group limit

4.2 Aggregate investments in, or exposures to, a group of entities through:

a) non-deposit investments;

b) eligible deposits; and

c) counterparty risk exposures arising from the use of OTC financial derivatives,

should not exceed 10% of the money market fund's NAV ("group limit"). For the purposes of this paragraph, a group of entities refers to an entity, its subsidiaries, fellow subsidiaries and its holding company.

*Guidance 1*
*Non-deposit investments issued by a trust should be included in the group limit.*

*Guidance 2*
*The group of entities referred to in the group limit also applies to aggregate investments in, or exposures to, special purpose vehicles (SPVs) where the substance of the relationship between a sponsor and its SPV determined in accordance with the Interpretation of Financial Reporting Standard 12, indicates that the SPV is controlled by that sponsor.*

Group limit with respect to banks in Singapore

4.3 The group limit in paragraph 4.2 may be raised to 20% of the money market fund's NAV where the money market fund invests in non-deposit investments issued by, and places Singapore-dollar deposits with, an eligible financial institution which is a bank in Singapore as defined in the Banking Act 1970.

4.4 The group limit in paragraph 4.2 may be raised to 30% of the money market fund's NAV where the money market fund invests in non-deposit investments issued by, and places Singapore-dollar deposits with, an eligible financial institution which is a bank in Singapore as defined in the Banking Act 1970 and has a minimum short-term rating of F-1 by Fitch, P-1 by Moody's or A-1 by Standard & Poor's (including such sub-categories or gradations therein).

4.5 Notwithstanding paragraphs 4.3 and 4.4, aggregate investments in, or exposures to, a group of entities through:

a) non-deposit investments; and

b) counterparty risk exposures arising from the use of OTC financial derivatives

should not exceed 10% of the money market fund's NAV.

Group limit with respect to government and other public bodies

4.6 The group limit in paragraph 4.2 does not apply where the issuing entity or trust is, or the issue has the benefit of a guarantee from, a government, government agency or supranational agency that has:

a) a minimum short-term rating of F-1 by Fitch, P-1 by Moody's or A-1 by Standard and Poor's (including such sub-categories or gradations therein); or

b) where the government, government agency or supranational agency only has a long-term rating, a minimum long-term rating of AAA by Fitch, Aaa by Moody's or AAA by Standard and Poor's (including such sub-categories or gradations therein).

4.7 Notwithstanding paragraph 4.6, not more than 30% of the money market fund's NAV may be invested in any single issue of non-deposit investments by the same entity or trust.

Short-term deposits

4.8 The group limit does not apply to placements of eligible deposits arising from:

a) subscription monies received at any point in time pending the commencement of investment by the money market fund; or

b) liquidation of investments prior to the termination or maturity of a money market fund, where the placing of these monies with various institutions would not be in the interests of participants.

Concentration limit

4.9 A money market fund should not invest in more than:

a) 10% of each individual issuance of debt securities of any single issuing entity or trust, where such issuance is not part of a debt issuance programme; or where debt securities are issued under a debt issuance programme, 20% of each tranche, subject to a limit of 10% of the overall programme size; and

b) 10% of the money market instruments of a single issuing entity or trust.

## 5 Liquid Asset Holdings

5.1 A money market fund may only invest in non-deposit investments with a remaining term to maturity of not more than two years.

5.2 A money market fund should maintain a dollar-weighted average portfolio life that does not exceed 12 months. This should be weighted based on the market value of each non-deposit investment, and calculated based on the non-deposit investment's remaining term to maturity.

5.3 A money market fund should maintain a dollar-weighted average portfolio maturity that does not exceed 6 months. This should be weighted based on the market value of each non-deposit investment, and calculated based on the non-deposit investment's remaining term to maturity or to the next interest reset, whichever is shorter.

5.4 A money market fund should invest at least 10% of its NAV in daily maturing liquid assets, and at least 20% of its NAV in weekly maturing liquid assets.

Short-Term Money Market Fund

5.5 A short-term money market fund may only invest in non-deposit investments with a remaining term to maturity of not more than 397 calendar days.

5.6 A short-term money market fund should maintain a dollar-weighted average portfolio life that does not exceed 120 calendar days. This should be weighted based on the market value of each non-deposit investments, and calculated based on the non-deposit investment's remaining term to maturity.

5.7 A short-term money market fund should maintain a dollar-weighted average portfolio maturity that does not exceed 60 calendar days. This should be weighted based on the market value of each non-deposit investments, and calculated based on the non-deposit investment's remaining term to maturity or to the next interest reset, whichever is shorter.

5.8 A short-term money market fund should invest at least 10% of its NAV in daily maturing liquid assets, and at least 20% of its NAV in weekly maturing liquid assets.

*Guidance 1*

*For the purpose of paragraphs 5.4 and 5.8 of this Appendix, daily maturing liquid assets include deposits or securities that will mature or are exercisable and payable within one business day, i.e. the scheme can receive cash within T+1 business day. Weekly maturing liquid assets include deposits or securities that will mature or are exercisable and payable within five business days, i.e. the scheme can receive cash within T+5 business days. A deposit that can be withdrawn with a penalty cost can be regarded as "exercisable" provided the penalty cost does not exceed the amount of interest accrued prior to the withdrawal.*

*Guidance 2*
*The manager may include daily maturing liquid assets when calculating weekly maturing liquid assets.*

## 6 Use of Financial Derivatives

6.1 A money market fund may only invest in financial derivatives for the purpose of hedging existing positions in the portfolio.

6.2 For the purposes of paragraph 6.1 of this Appendix, the hedging arrangements should:

a) not aim to generate a return;

b) result in an overall verifiable reduction of the risk of the scheme;

c) offset the general and specific risks linked to the underlying being hedged;

d) relate to the same asset class being hedged; and

e) be able to meet its hedging objective in all market conditions.

6.3 The limits in paragraphs 4.2 to 4.7 of this Appendix should apply to the underlying assets of financial derivatives.

## 7 Efficient Portfolio Management Techniques

7.1 A money market fund may carry out securities lending and repurchase transactions for the sole purpose of EPM.

7.2 A money market fund may not reinvest collateral received pursuant to securities lending or repurchase transactions to generate a return in excess of high quality 3-month government bonds.

## 8 Downgrade in Rating or Event of Default

8.1 Notwithstanding chapter 7.2(b), where:

a) a non-deposit investment ceases to be of high-quality;

b) the rating of the government, government agency or supranational agency that issues or guarantees the non-deposit investment falls below those set out in paragraph 4.6;

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

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

   ii) whose rating falls below those specified in paragraph 4.4;

d) there is a default with respect to a permissible investment in the portfolio of the money market fund; or

e) an event of insolvency occurs with respect to the issuer of a non-deposit investment in the portfolio of the money market fund,

the manager should within one month from the date of the specified event dispose of such non-deposit investment or withdraw such deposit unless the manager has satisfied the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) 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. Such extension should be subject to monthly review by the trustee (or the VCC Directors).

## 9 Disclosure Requirements

9.1 The money market fund's semi-annual and annual reports should contain disclosures on:

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

i) type; and
ii) credit rating; and

b) the term to maturity profile of the money market fund's underlying investments, such as the distribution of investments grouped by similar maturities.

*Guidance*
*For example, up to 30 days, 31 – 60 days, 61 – 90 days, 91 – 120 days and 121 – 180 days.*

# APPENDIX 3

## INVESTMENT: HEDGE FUNDS

### 1 Scope

1.1 This Appendix applies to hedge funds. A hedge fund generally refers to a scheme which aims to achieve a high return through the use of advanced investment strategies. In assessing whether a scheme falls within this Appendix, the Authority would consider, among other aspects, the following:

a) the use of advanced investment strategies which may involve financial instruments which are not liquid, financial derivatives, concentration of investments, leverage or short selling; and

*Guidance*
*Advanced investment strategies include market directional, corporate restructuring, convergence trading or opportunistic strategies.*

b) the use of alternative asset classes.

*Guidance*
*This Appendix would also apply to a fund which invests all, or substantially all, of its NAV in a hedge fund (i.e. feeder schemes).*

1.2 For the purposes of this Appendix, a Fund-of-Hedge-Funds ("FOHF") refers to a scheme which the manager makes strategic or tactical asset allocations across a range of hedge funds.

1.3 The guidelines in sections 1 to 8 of Appendix 1 do not apply to a hedge fund.

1.4 Notwithstanding chapter 4.2(d), a hedge fund may carry out short selling provided that the transaction is covered.

### 2 Name of Scheme

The name of the scheme should reflect the nature of a hedge fund or FOHF, where appropriate.

### 3 Prime Broker

3.1 The prime broker of a hedge fund should be subject to prudential supervision by a financial supervisory authority in its home jurisdiction.

3.2 Where the prime broker is a related corporation of the manager, the manager should have effective arrangements in place to manage potential conflicts of interest.

### 4 Single Hedge Funds

Minimum subscription requirement

4.1 A single hedge fund should be offered with a minimum initial subscription of S$100,000 per participant. 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.

Manager

4.2 The manager 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.

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

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

Investment in other hedge funds

4.5 A single hedge fund may only invest directly in another single hedge fund which is not a feeder scheme. No further layer of feeding is allowed.

Risk management, monitoring procedures and internal controls

4.6 The manager should have in place proper risk management and monitoring procedures as well as internal controls.

4.7 The manager should certify annually to the Authority that the procedures and controls for monitoring the management and risk of the fund are as set out in the prospectus.

Borrowings

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

Dealing

4.9 There should be at least one regular dealing day per month.

4.10 Redemption proceeds should be paid to the participant (who is the beneficial owner of the units) within 90 days from the dealing day the redemption request is accepted.

## 5 Fund-of-Hedge-Funds

Minimum subscription requirement

5.1 A FOHF should be offered with a minimum initial subscription of S$20,000 per participant. 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.

Investment in other FOHFs

5.2 A FOHF may only invest in an underlying FOHF only if the latter scheme invests directly in other single hedge funds (i.e. not through another FOHF or a feeder scheme). No further layer of feeding is allowed.

Diversification

5.3 A FOHF should be sufficiently diversified as follows:

a) it invests in at least 15 hedge funds; and

b) it does not have more than 8% allocated to a single hedge fund.

*Guidance*

*In submitting an application to the Authority for authorisation of 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% of the scheme's NAV will be invested in any one strategy or investment style; and*

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

Manager

5.4 The manager 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.

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

5.6 The manager, or where investment decisions are outsourced to a sub-manager, the sub-manager, should have at least two executives who each have at least five years of experience in the management of hedge funds, of which at least three years should be in the management of FOHFs.

*Guidance*

*The managers of the underlying hedge funds of a FOHF should similarly have at least two executives who each have at least five years of experience in the management of hedge funds.*

Risk management, monitoring and internal controls

5.7 The manager should have in place proper risk management and monitoring procedures as well as internal controls, including:

a) having a due diligence process for the selection of the underlying hedge funds; and

b) ongoing monitoring of the underlying hedge funds and its activities.

5.8 The manager should certify annually to the Authority that the procedures and controls for monitoring the management and risk of the FOHF are as set out in the prospectus. Where the FOHF invests in other FOHFs, the manager of the underlying FOHF should submit a similar certification.

Borrowings

5.9 The underlying hedge funds of the FOHF may be leveraged to the extent disclosed in the prospectus.

5.10 An FOHF may only borrow, on a temporary basis, for the purposes of meeting redemptions and bridging requirements.

5.11 The borrowing period should not exceed three months.

5.12 Aggregate borrowings for such purposes should not exceed 25% of the FOHF's NAV at the time the borrowing is incurred.

Dealing

5.13 There should be at least one regular dealing day per month.

5.14 Redemption proceeds should be paid to the participant (who is the beneficial owner of the units) within 90 days from the dealing day the redemption request is accepted.

## 6 Capital Guaranteed Single Hedge Funds and FOHFs

6.1 The minimum subscription requirement for a single hedge fund or FOHF is waived where the guarantor and guarantee meets the requirements for capital guaranteed funds set out in Appendix 4: Capital Guaranteed Funds.

6.2 In the case of a capital guaranteed FOHF, the borrowing limit set out in paragraph 5.12 does not apply.

## 7 Disclosure Requirements

Prospectus

7.1 The prospectus of a hedge fund or FOHF should include:

a) a statement that the manager will ensure that the risk management and monitoring procedures as well as internal controls are adequate;

b) a statement that the manager has the necessary expertise to control and manage the risk; and

c) the profile and role of the prime broker, if applicable.

7.2 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. Examples of material differences that should be highlighted, if 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) the underlying hedge funds may be subject to minimal regulation;

f) the performance of the hedge fund may be heavily dependent on the skill of the individual fund manager(s); and

g) the fact that the manager of a FOHF receives compensation from the managers to which it is allocating.

Accounts and reports

*Frequency of reporting*

7.3 The manager should prepare:

a) annual audited accounts and reports;

b) semi-annual accounts and reports; and

c) quarterly reports for each of the four quarters of each financial year.

7.4 The manager should prepare and furnish to the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) the accounts and reports in sufficient time for the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) to cause them to be audited (where an audit is required) and sent to participants within the periods stipulated in paragraph 7.7.

7.5 Notwithstanding paragraph 7.3, the requirement to prepare quarterly reports does not apply to capital guaranteed hedge funds or FOHFs.

7.6 Where the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) incorporates the required contents for quarterly reports set out in paragraph 7.10:

a) in the monthly report, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) need not prepare separate quarterly reports; or

b) in the semi-annual report, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) need not prepare a separate quarterly report for the second quarter of the financial year.

7.7 The trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should send, or cause to be sent, to participants:

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

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

c) the quarterly report within one month 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 7.6(b), the timeframe within which the semi-annual report should be sent to participants continues to be two months.

*Guidance*
*For an FOHF, the quarterly report should be sent within 45 days from the end of the period covered by the report.*

*Contents of accounts and reports*

7.8 The manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) 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 SFRS(I).

7.9 The semi-annual report and annual report, based on a scheme's financial year, should (where applicable) contain the disclosure items listed in chapter 5, subject to the following modifications to the disclosure of portfolio statement and top 10 holdings:

a) the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) need not disclose the portfolio statement and top 10 holdings where the manager and trustee, or where the VCC Directors (in the case of a scheme constituted as a VCC or is a sub-fund thereof), are of the view that such disclosure is prejudicial to the interest 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 or credit rating of debt securities should be disclosed. Such exposures should be broken down into gross long and short positions. For a FOHF, the number of underlying schemes or managers and the percentage of the scheme's NAV under each hedge fund strategy should also be disclosed; and

c) where the portfolio statement and top 10 holdings are disclosed, the portfolio statement for a FOHF should list the investments of the scheme by hedge fund strategy, market value and as a percentage of the scheme's NAV as at the end of the reporting period. This is in addition to the classifications (where appropriate) by country, industry, asset class and credit rating of debt securities.

*Contents of quarterly reports*

7.10 The quarterly report should include the following:

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 an investment outlook for the next quarter. The report should include the scheme's financial performance, style drifts, market outlook, changes in key investment personnel and factors that contributed to them;

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 fact should also be disclosed;

c) Sharpe ratio for each of the past three years and since inception;

d) annualised standard deviation for each of the past three years and since inception;

e) highest and lowest NAV per unit each year for each of the past three years and since inception;

f) amount of borrowings and other sources of leverage as at the end of the reporting period;

g) fund size and NAV per unit as at the end of the reporting period;

h) aggregate exposure for the scheme classified by country, industry, asset class or rating of the debt security (if applicable) as at the end of the reporting period. For a FOHF, the number of underlying schemes or managers and the percentage of NAV under each hedge fund strategy should also be disclosed;

i) holdings which are not liquid as at the end of the reporting period;

j) amount of seed money as at the end of the reporting period; and

k) the basis of calculation, definition and any assumptions used, wherever appropriate.

7.11 For the purposes of paragraph 7.10 of this Appendix:

a) the "annualised standard deviation" is defined as the square root of the sum 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;

b) the "Sharpe ratio" is defined as the annual return in excess of the risk free return divided by annualised standard deviation; and

c) "seed money" is defined as the percentage of scheme's NAV contributed by the manager or its related corporations.

*Guidance*
*Paragraphs 7.3 to 7.11 are the minimum disclosure standards for periodic reporting by hedge funds and FOHFs to participants. Additional information may be disclosed to enable participants to better understand the nature, risks and performance of the hedge fund or FOHF.*

Marketing material

7.12 All marketing material for a single hedge fund or FOHF should state:

a) the fees and charges payable;

b) that an investment in the hedge fund carries risks of a different nature from other types of collective investment schemes and that the hedge fund may not be suitable for persons who are averse to such risks;

*Guidance*
*Examples of such risks may include capacity constraints, use of excessive leverage, ability to engage in covered short-selling, limited liquidity and reliance on the skill of a particular individual.*

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

ii) not capital guaranteed, participants may lose all or a large part of their investment in the hedge fund; or

iii) capital guaranteed, participants are subject to the credit risk of the guarantor;

d) that an investment in the hedge fund is not intended to be a complete investment programme for any participant and prospective participants 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) any other inherent risks of investing in the hedge fund.

# APPENDIX 4

## INVESTMENT: CAPITAL GUARANTEED FUNDS

### 1 Scope

1.1 This Appendix applies to a scheme which guarantees the return of capital invested by participants at a pre-determined date in the future. For the avoidance of doubt, the provisions in this Appendix apply in addition to other relevant Appendices to this Code which the scheme is subject to.

*Guidance*
*For example, a capital guaranteed hedge fund should comply with the requirements in this Appendix and Appendix 3 on hedge funds.*

### 2 Name of Scheme

2.1 Where a scheme does not comply with the provisions in this Appendix, it should not adopt the word "guarantee", "assured", "insured" or "warranty" in its name or in its promotion and description. Such a scheme should not hold itself out as a capital guaranteed fund in any communication relating to the scheme.

*Guidance*
*A scheme which guarantees income only or which relies solely or largely on investments to meet a guaranteed return of capital are not deemed to be capital guaranteed funds.*

### 3 The Guarantor

3.1 A capital guaranteed fund should have an eligible guarantor.

3.2 For the purposes of paragraph 3.1 of this Appendix, an eligible guarantor should:

a) in the case of a financial institution, have a minimum long-term rating of AA by Fitch, Aa by Moody's or AA by Standard and Poor's (including such sub-categories or gradations therein); or

b) in all other cases, have a minimum long-term rating of AAA by Fitch, Aaa by Moody's or AAA by Standard and Poor's (including such sub-categories or gradations therein).

3.3 For the purposes of paragraph 3.2 of this Appendix, where the long-term rating of the guarantor:

a) falls but the minimum long-term rating is A by Fitch, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein), no action needs to be taken; or

b) falls below those specified in paragraph 3.3(a) or if the guarantor ceases to be rated, except as provided for in paragraph 4.8, the manager should within six months, or sooner if the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) 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 3.2. For this purpose, such new guarantee should, in the opinion of the trustee (or the VCC Directors), provide the same level of guarantee to the participants as the original guarantee.

3.4 An eligible guarantor should not be the issuer of transferable securities and money market instruments which constitute more than 10% of the scheme's NAV. For this purpose, the issuer, its subsidiaries, fellow subsidiaries and holding company is regarded as one entity.

## 4 The Guarantee

4.1 A written agreement should be entered into between the guarantor and the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) 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 (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) 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 (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof), on behalf of the participants, are not affected or prejudiced by the termination of such guarantee. Where the agreement is governed by foreign law, the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should ensure and be satisfied that the agreement is legally enforceable in Singapore against the guarantor by the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) on behalf of the participants.

4.2 The guarantee should be in respect of not less than 100% of the capital 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; or

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

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

4.3 The quantum and duration of the guarantee given by the guarantor should correspond to that stated in the prospectus and marketing material.

*Guidance*

*For example, if the scheme guarantees 100% of the amount invested by participants (less front-end loads of 3%) upon redemption at 30 June 20X0, and the total subscriptions received from the initial launch of the scheme were $30m, the manager should have obtained after the close 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 20X0.*

4.4 There should be no variation to the agreement for the guarantee if, in the opinion of the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or a sub-fund thereof), 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 (or the VCC Directors) unless such changes are, in the opinion of the trustee (or the VCC Directors), material, in which case such changes should be made with the sanction of an ordinary resolution at a meeting of the participants.

4.5 For the purposes of paragraph 4.4 of this Appendix, 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.

4.6 The guarantee may be terminated:

a) by the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof), if the guarantor goes into liquidation (excluding a voluntary liquidation for the purposes of reconstruction or amalgamation);

b) by the guarantor or trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof), 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 (or the VCC Directors), renders it impracticable to continue with the guarantee; or

c) by the guarantor or trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof), if the capital guaranteed fund is voluntarily terminated.

4.7 If, in the opinion of the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof), 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 only if it provides the same level of guarantee to the participants as the original guarantee.

4.8 For the purposes of paragraphs 3.3(b), 4.6(a), and 4.7 of this Appendix, where the trustee (or the VCC Directors, in the case of a scheme constituted as a VCC or is a sub-fund thereof) is of the opinion that the cost of obtaining a new guarantee significantly outweighs the benefit of such guarantee to existing participants, the trustee (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) may, with the sanction of an extraordinary resolution at a meeting of the participants:

a) terminate the scheme; or

b) allow the scheme to continue without a guarantee, in which case the scheme should no longer:

i) use the word "guarantee", "assured", "insured" or "warranty" in its name, promotion and description, 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.

## 5 Notification to Participants

5.1 Where the guarantee applies only on any particular date(s) or after a specified period of time, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify the participants, by way of a notice sent to the participants, of the guaranteed redemption value and the date(s) on or period after which the guarantee applies.

5.2 For the purposes of paragraph 5.1 of this Appendix,

a) where the guarantee applies only on any particular date(s), the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify participants at least 30 days before such date(s); or

b) where the guarantee applies after a specified period of time, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify participants at least 30 days before the first day that the guarantee applies. If the scheme imposes a minimum period for the participants to submit their requests for redemption of units at the guaranteed value, the manager (or the VCC, in the case of a scheme constituted as a VCC or is a sub-fund thereof) should notify the participants of the guaranteed redemption value at least 30 days before the start of such period.

## 6 Disclosure Requirements

6.1 Where a scheme offers a guarantee which is not in accordance with this Appendix, all communication relating to the scheme should carry a prominent statement that it is not a capital guaranteed fund.

6.2 A scheme which complies with this Appendix but offers a guarantee covering less than 100% of capital invested by the participant may state that the scheme has a guarantee, provided that:

a) it is stated clearly and prominently that the guarantee covers only x% of the capital invested; and

b) the scheme's name does not contain the words "guarantee", "assured", "insured", or "warranty", nor does the scheme hold itself out as a capital guaranteed fund in any other way.

# APPENDIX 5

## INVESTMENT: INDEX FUNDS

### 1 Scope

This Appendix applies to a scheme whose principal objective is to track, replicate or correspond to an index on permissible investments, commodities, interest rates, foreign exchange rates or currencies, with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the index.

### 2 Name of Scheme

The name of the scheme should reflect the nature of an index fund. The words “index”, “tracking” or “tracker”, should appear in the name of the scheme, where appropriate.

### 3 Index Tracking Strategies

3.1 An index fund may seek to track an index by any of the following strategies:

a) full replication by investing all or substantially all of its assets in the constituents of the underlying index, broadly in proportion to the respective weightings of the constituents in the index;

b) optimisation approach by investing in a portfolio featuring high correlation to the index to minimise index tracking error;

c) sampling approach by stratifying or dividing an index into manageable risk elements or buckets to replicate the underlying index performance; or

d) synthetic replication through the use of financial derivatives or embedded financial derivatives to replicate the index performance.

3.2 For the optimisation and sampling approaches where certain investments of the fund are not constituents of the index, such approaches may be used only if the resultant fund characteristics closely match or correspond to the characteristics of the index.

3.3 The Authority should be consulted if the manager intends to use a strategy other than those specified in paragraph 3.1.

### 4 Acceptable Indices

The underlying index should meet the following characteristics:

Representative benchmark

a) it has a clearly defined objective or the market or sector which it aims to represent is clearly defined;

b) it adequately reflects the characteristics of the market or sector which it aims to represent in an appropriate manner;

*Guidance*

*For example, the index should reflect the price movements in its underlying constituents and change the composition and weightings of these constituents to reflect changes in the underlying market or sector. The index should also be*

*revised or rebalanced periodically to ensure that it continues to reflect the markets to which it aims to represent, following methodology which is publicly available.*

c) be investable;

*Guidance*
*The constituents should be liquid to enable the scheme (or investors) to replicate the index. Indices composed of constituents which are not liquid are generally not investable.*

Sufficiently diversified

d) price movements or trading activities of each constituent should not unduly influence the performance of the whole index;

e) be sufficiently diversified such that:

i) the maximum weighting per constituent does not exceed 20%, or

ii) where an index is composed solely of constituents which are non-entities, the maximum weighting of a single constituent does not exceed 35% with the remaining constituents each not exceeding 20%; and

*Guidance 1*
*Non-entity constituent would include commodities.*

*Guidance 2*
*Constituents of a commodity index which are highly correlated should be deemed as giving exposure to the same commodity for the purpose of paragraph 4(e) of this Appendix.*

*Guidance 3*
*For the purpose of paragraph 4(e) of this Appendix, an index that complies with the circular on Modification to the Acceptable Index Requirements and the Benchmark Limits under the Code on Collective Investment Schemes (MAS Circular No. CFD 01/2023) will be considered sufficiently diversified.*

Transparent

f) be transparent and information on the index is published in an appropriate manner.

*Guidance 1*
*Composition of the index and information on the methodologies used to: construct the index; select the constituents; collect the price data of constituents; and rebalance the index, should be readily accessible by participants.*

*Guidance 2*
*The collection of prices and calculation of index value should be based on sound procedures. These procedures should include pricing procedures for index components where market prices are not readily available.*

*Guidance 1*
*The index should not be constructed with a view to circumvent the letter or spirit of the investment guidelines set out in the Code.*

*Guidance 2*
*For the avoidance of doubt, hedge fund indices are prohibited.*

## 5 Use of Related Party Indices

Where the index is constructed by an index provider which is a related corporation of the manager, the manager should have effective arrangements in place to manage potential conflicts of interest.

*Guidance*
*For example, such arrangements would include proper segregation of function or roles such that the operations of each entity are conducted without regard for the interests of the other.*

## 6 Notification Requirements

6.1 If the index is likely to cease or has ceased to meet the requirements in section 4 of this Appendix, the manager should immediately notify the Authority and propose remedial actions.

6.2 Significant changes relating to the index fund should be notified to participants as soon as practicable. These may include:

a) a change in the methodology or rules regarding the:

   i) construction, compilation or calculation of the index;

   ii) selection of the constituents of the index;

   iii) collection of the price data of constituents; or

   iv) rebalancing of the index;

b) a change in the objective or characteristics of the index; or

c) a change in the index tracking strategy of the index fund.

*Guidance*
*Where the index fund is listed on an organised exchange, notification may be made by way of an announcement on the exchange.*

## 7 Disclosure

The prospectus of an index fund should include the following:

a) a description of the market or sector which the index aims to represent;

b) a description of the index methodology or the means by which participants may obtain such information (for example, by providing the website address of the index provider);

   *Guidance*
   *A description of the index methodology should include but not be limited to information on the criteria used for selecting and allocating weights to constituents, and information on the index rebalancing process.*

c) a description of the characteristics and composition of the index;

d) the names and weightings of the top 10 largest constituents of the index as of a date within a month of the date of the prospectus;

e) a description of the constituents of a commodity index which are highly correlated and therefore treated as giving exposure to the same commodity for the purpose of paragraph 4(e) of this Appendix, and how such correlation is determined;

f) the means by which participants may obtain the latest information on the index;

g) a statement of the strategies used by the index fund to track the index and provide a description of the strategies used;

   *Guidance*
   *A description of the strategies should include a diagrammatic illustration if appropriate.*

h) a statement that there is no assurance that the index fund will be able to fully track the performance of the index, a description of the circumstances that may lead to tracking errors, and the methods used in minimising such errors;

i) a statement on whether the index provider and the manager are related to each other and if so, the means by which potential conflicts of interests are managed;

j) circumstances that may affect the accuracy and completeness in the calculation of the index;

k) a warning that the investments of the index fund may be concentrated in a particular market or sector, if applicable;

l) a warning that the index composition may change;

m) a warning on the lack of discretion of the manager to adapt to market changes and that a fall in the index may result in a corresponding fall in the scheme's NAV;

n) a warning of any material licensing condition in relation to the use of the index which may prevent the index fund from achieving its objective; and

o) a description of the contingency plan in the event that the index is no longer available for use by the scheme.

# PART II

This Part is applicable to property funds. For the avoidance of doubt, the manager and trustee of a property fund are to comply with the requirements set out in chapters 1 to 7 except for chapters 2.3(b), 3.2(b), 5.1 and 5.2 in respect of the sending, preparation and content of semi-annual and annual reports, 3.6 on performance fees and 4.2(b) on requirements of the scheme.

# APPENDIX 6
# INVESTMENT: PROPERTY FUNDS

## 1 Scope and Definitions

1.1 This Appendix applies to a scheme which invests or proposes to invest primarily in real estate and real estate-related assets ("property fund"). The property fund may or may not be listed on an approved exchange.

1.2 For the purposes of this Appendix:

a) **Associate**:

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 spouse, child, adopted child, stepchild, sibling or parent;

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 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.

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

i) holds directly or indirectly 15% or more of the nominal amount of all voting units in the property fund. The Authority 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 or yields of similar real estate assets, without a physical inspection of the property.

f) **EBITDA** means earnings before interest, tax, depreciation and amortisation (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation).

g) **Interest coverage ratio** (**or ICR**) means a ratio that is calculated by dividing the trailing 12 months' earnings before interest, tax, depreciation and amortisation (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation), by the trailing 12 months' interest expense, borrowing-related fees and distributions on hybrid securities.

*Guidance*
*The term "trailing 12 months" refers to the 12-month period ending on the date of the latest reported financial results. For example, a property fund that is reporting its financial results for the period ended 31 March 20X1 would compute its interest coverage ratio using the trailing 12 months' data for the period from 1 April 20X0 to 31 March 20X1.*

h) **Interested party** means:

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.

i) **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).

j) **Property development activities** means the execution of any material change to a building or property (including erection and demolition activities), where such change results in the property fund being unable to receive or be entitled to any rental income from the building or property during the period of the change, but do not include refurbishment, retrofitting and renovations.

## 2 The Manager of a Property Fund

2.1 The manager may choose to enter into a management agreement with the property fund at the time of listing of the property fund on an approved exchange. Where the management agreement contains a compensation provision for early termination of the management agreement, the compensation provision should:

a) 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;

b) 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; and

c) not be payable to the manager if the manager's services are terminated for just cause such as fraud, insolvency or negligence.

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.

2.2 Performance fee payable to the manager should meet the following requirements:

a) crystallisation of the performance fee should be no more frequent than once a year;

b) the performance fee should be linked to an appropriate metric which takes into account the long-term interest of the property fund and its participants; and

c) the performance fee should not be linked to the property fund's gross revenue.

## 3 The Trustee of a Property Fund

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 The trustee should exercise reasonable care in ensuring, amongst others, 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 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 Provisions in the Constituent Document for Removal of Manager and Convening of Meetings

4.1 The constituent document of a property fund should contain the following provisions:

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;

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 in the property fund.

c) a general meeting to be called the "annual general meeting" should, in addition to any other meeting, be held once in every calendar year and not more than 15 months after the holding of the last preceding annual general meeting, but so long as a property fund holds its first annual general meeting within 18 months of its date of authorisation, it need not hold it in the year of its constitution or in the following year;

d) the statement of total return for the period since the preceding account (or in the case of the first account, since the constitution of the property fund) made up to a date not more than four months before the date of the meeting should be laid before the annual general meeting, accompanied by a balance sheet as at the date to which the statement of total return is made up, being a balance sheet that gives a true and fair view of the state of affairs of the property fund as at the end of the reporting period to which it relates;

e) the statement of total return and balance sheet presented at the annual general meeting should be accompanied by a statement signed by the manager stating whether in its opinion the statement of total return gives a true and fair view of the results of the business of the property fund for the reporting period covered, whether the balance sheet exhibits a true and fair view of the state of affairs of the property fund as at the end of that reporting period, and whether at the date of the statement there are reasonable grounds to believe that the property fund will be able to pay its debts as and when they fall due;

*Guidance*

*For the purpose of paragraphs 4.1(d) and (e), the terms "statement of total return" and "balance sheet" also refer respectively to the statement of profit or loss and other comprehensive income and the statement of financial position, or their equivalent variants.*

f) at each annual general meeting, a person or persons should be appointed to be the auditor or auditors of the fund, and any auditor or auditors so appointed should hold office until the

conclusion of the next annual general meeting, unless he resigns or is removed by a resolution passed at a general meeting, and a new auditor or auditors are appointed in his place; and

g) the fees and expenses of the auditor or auditors should be fixed by the general meeting or, if so authorised by participants at the last preceding annual general meeting, by the manager.

4.2 In the convening and conduct of general meetings, regard should be had where appropriate to the relevant provisions of the Companies Act 1967 and principles in the Code of Corporate Governance 2012.

*Guidance*

*For the avoidance of doubt, a property fund may hold electronic meetings provided it observes the relevant provisions in the Companies Act 1967, the listing requirements of its approved exchange and its trust deed relating to the convening and conduct of general meetings.*

4.3 The financial statements presented at the annual general meeting should comply with the requirements on financial statements in chapter 5.1.1 of this Code, and be duly audited and accompanied by the auditor's report to the manager.

4.4 For the purposes of paragraph 4.1(a) of this Appendix, 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 an approved exchange. Such an arrangement may be introduced after the listing of the property fund subject to the following conditions:

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 of or issued by interested parties, if:

a) adequate disclosures are made in the prospectus (if it is at the first launch or offer of the property fund) or the 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 or 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 or 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 fact;

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;

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

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:

   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.

f) in the case of a disposal, the audit committee of the manager provides written confirmation that it has undertaken due process to ensure that the terms of the disposal are generally in line with that which have been obtained had the assets been sold to a non-interested party.

For the avoidance of doubt, a mortgage-backed security issued by a special purpose vehicle does not fall within the ambit of this paragraph.

5.2 A property fund should:

a) where a proposed transaction is equal to or greater than 3% of the property fund's NAV, announce 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.

*Guidance*

*For property funds listed on an approved exchange, announcements should be made to the exchange for public release as stated in the exchange's listing requirements. For unlisted property funds, 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.*

5.3 For the purposes of paragraph 5.2 of this Appendix, the value of all transactions with the same interested party 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.

*Guidance*

*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.*

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

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

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

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

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 six 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:

a) any fees or commissions paid to the interested party are at not more than market rates; and

b) the agreement with the interested party does not contain any term that materially restricts the ability of the property fund to remove the agent.

*Guidance*

*Terms that give the manager the right to remove the agent for cause would not, on their own, be sufficient to comply with the requirement that the agency agreement does not contain any term that materially restricts the ability of the property fund to remove the agent.*

5.6 The audit committee of the manager should:

a) satisfy itself at least once every two to five years, and more frequently if the agent's compliance record is assessed to be poor, that the manager has:

i) periodically reviewed the compliance of the agent with the terms of the agreement; and

ii) taken remedial actions where necessary; and

b) document the reasons for its conclusion.

*Guidance*

*The audit committee's review interval should be commensurate with the tenure of the agency agreement.*

5.7 Where the manager receives a percentage-based fee when the property fund acquires and disposes of real estate assets from or to interested parties, such a fee should be in the form of units issued by the property fund at the prevailing market price. The units should not be sold within one year from their date of issuance.

## 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 or own real estate. An investment in another property fund that is authorised under section 286(1) of the Securities and Futures Act 2001 and this Appendix will be considered as an investment in real estate;

b) real estate-related assets, wherever the issuers/assets/securities/units in a property fund are incorporated/located/issued/traded (as the case may be);

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 supranational 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 constituent document. 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:

a) investing directly in the real estate as a tenant-in-common, or

b) by acquiring shares or interests in an unlisted SPV constituted to hold or own the real estate.

The property fund should have freedom to dispose of such investment. 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.

6.5 For the purposes of paragraph 6.4 of this Appendix, the joint venture agreement, memorandum and articles of association or other constitutive documents should include:

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 or securities-based derivatives contracts;

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;

xi) entry into interested party transactions;

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

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

a) hedging existing positions in a portfolio; or

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

## 7 Restrictions and Requirements on Investments and Activities

7.1 A property fund should comply with the following restrictions and 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;

*Guidance*
*A property would be considered income-producing if its yield (without any arrangement which could artificially enhance the yield of the property) is greater than the risk-free rate. For this purpose, the risk-free rate will be taken as the highest yield of 5-year Singapore Government Securities for the 12 months preceding the date of the draft valuation report that is submitted to the Authority at the time of application for authorisation.*

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.

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 property developments.

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

d) the total contract value of property development activities undertaken and investments in uncompleted property developments should not exceed 10% of the property fund's deposited property. The total contract value of property development activities may exceed 10% of the property fund's deposited property (subject to a maximum of 25% of the property fund's deposited property) only if:

(i) the additional allowance of up to 15% of the property fund's deposited property is utilised solely for the redevelopment of an existing property that has been held by the property fund for at least three years and which the property fund will continue to hold for at least three years after the completion of the redevelopment; and

(ii) the property fund obtains the specific approval of participants' at a general meeting for the redevelopment of the property.

*Guidance*
*For the avoidance of doubt, specific approval from participants should be sought each time the additional 15% allowance is utilised. The manager should cite the relevant real estate assets that would be utilising the additional 15% allowance when seeking participants' approval.*

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; and

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), not more than 5% of the property fund's deposited property may 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 circumvent the letter or spirit of the prohibition on interested party transactions set out in paragraph 5.

*Guidance*
*"Eligible financial institutions" and "high-quality money market instruments or debt security" have the same meaning as in Appendix 2: Money Market Funds.*

7.2 A property fund should not derive more than 10% of its revenue from sources other than:

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

*Guidance*
*Rental payments include 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.*

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

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.

7.3 The manager 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.

7.4 The investment restrictions and 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 or 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:

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 financial year, in accordance with any applicable code of practice for such valuations.

*Guidance*
*For the avoidance of doubt, valuations conducted for the purpose of paragraph 8.1 may not, on their own, be sufficient to comply with relevant accounting standards under SFRS(I).*

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 six 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.

8.3 A valuer for the purpose of paragraph 8, be it for a full or desktop valuation, should:

a) not be a related corporation of or have a relationship with the manager or any other party 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 or any other party 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 two consecutive financial years. A property fund may appoint a valuer to value the same property for a third consecutive financial year only if that financial year ends on or before 31 December 2020 and this fact is disclosed in the property fund's annual report.

*Guidance*
*Notwithstanding paragraph 8.3(e), a property fund may appoint a valuer who had valued a property of the property fund for the past two consecutive financial years to perform a desktop valuation of the same property for the purposes of interim financial reporting in the third financial year pursuant to the circular on the Appointment of the Same Independent Valuer for Performing Desktop Valuation under Financial Reporting Guidance 3 (MAS Circular No. CFC 01/2022). For the avoidance of doubt, the annual full valuation for the third consecutive financial year would need to be performed by a different valuer as required under paragraph 8.3(e).*

8.4 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 six 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 six months old.

8.5 For the purpose of paragraph 8.4, 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.

8.6 Where a real estate asset is to be bought or sold at a price other than that specified in paragraph 8.4, prior approval should be obtained from the trustee.

8.7 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 and Interest Coverage Requirements

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

*Guidance 1*
*Borrowings include guarantees, bonds, notes, syndicated loans, bilateral loans or other debt.*

*Guidance 2*
*Bonds or notes may be issued, directly by the fund or indirectly via an SPV.*

*Guidance 3*
*A loan agreement may contain 'change of control' covenant if (a) the covenant is required solely by lenders; (b) the covenant can be waived with the consent of lenders; and (c) the covenant is disclosed in accordance with the listing requirements of an approved exchange. A 'change of control' covenant refers to a condition in a loan agreement which makes reference to the interests of any controlling unitholder or place restrictions on any change of control of the property fund and the breach of such a condition or restriction will cause a default in respect of the loan agreement.*

9.2 The total borrowings and deferred payments (collectively, the "aggregate leverage") and the interest coverage ratio of a property fund should meet the following requirements:

a) the aggregate leverage of a property fund should not exceed 50% of the fund's deposited property; and

*Guidance 1*
*Deferred payments include deferred payments for assets whether to be settled in cash or in units in the property fund.*

*Guidance 2*
*Hybrid securities may be excluded from the calculation of aggregate leverage for the purpose of paragraph 9.2 if:*
- *a) the securities have a perpetual term;*
- *b) the redemption is at the sole discretion of the property fund;*
- *c) the distributions are non-cumulative;*
- *d) there are no features that will have the effect of incentivising the property fund to redeem its units (e.g. step-up in interest rates); and*
- *e) the securities are deeply subordinated in the event of liquidation.*

b) the property fund should have a minimum interest coverage ratio of 1.5 times.

*Guidance*

*Where the ICR of the property fund has fallen below 1.8 times, the manager should take steps and/or have plans in place to improve the ICR of the property fund, and disclose this additional information in the property fund's interim and full-year financial result announcements, and annual reports for any financial period ending on or after 31 March 2025.*

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 should 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 should 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.

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.

*Guidance*

*In the case of a property fund that is listed on an approved exchange, the manager should notify participants of any breach of the aggregate leverage limit in accordance with the applicable listing requirements of the approved exchange.*

9.5 For the purpose of paragraph 9.2(b) of this Appendix, the minimum ICR requirement is not considered to be breached if it is due to circumstances beyond the control of the manager. However, the manager should not incur additional borrowings or enter into further deferred payment arrangements.

*Guidance*

*For example, circumstances that are beyond the control of the manager would include situations where the business operation of the property fund is substantially interrupted or closed due to nationalisation, expropriation, currency restrictions, pestilence, widespread communicable and infectious diseases, acts of war, terrorism, insurrection, revolution, civil unrest, riots, strikes, nuclear fusion or fission or acts of God.*

9.6 Refinancing of existing borrowings is not construed as incurring additional borrowings. A property fund may raise debt for refinancing purposes earlier than the actual maturity date of the borrowing to be refinanced without having to count such funds raised for the purposes of the aggregate leverage limit, provided that the funds are set aside solely for the purpose of repaying the maturing borrowing. The trustee must place these funds in a separate trust account which shall be drawn on only to repay the maturing borrowing.

9.7 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 should 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

10.1 In the case of unlisted property funds, the manager 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 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 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

Contents of annual reports

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

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

b) details of all the property fund's real estate assets, including the location of such assets, their purchase prices and latest valuations, rentals received and occupancy rates, or the remaining terms of the property fund's leasehold properties, where applicable;

*Guidance*
*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.*

c) the tenant profile of the property fund's real estate assets, including the:

i) total number of tenants;

ii) top 10 tenants, and the percentage of total gross rental income attributable to each of these top 10 tenants;

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

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

v) weighted average lease expiry of both the property fund's portfolio and new leases entered into during the year (and the proportion of revenue attributed to these leases). The weighted average lease expiry should be calculated based on the date of commencement of the leases;

*Guidance*
*Rent-free periods should be included in the calculation of weighted average lease expiry.*

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 including the maturity profile of the borrowings;

h) details of deferred payment arrangements entered into by the property fund, if applicable;

i) the aggregate leverage and ICR of the property fund, with an explanation on how the manager is managing the property fund's aggregate leverage and ICR levels;

*Guidance*
*In the case of a property fund that is listed on an approved exchange, such information should also be disclosed in the property fund's interim and full-year financial result announcements for any financial period ending on or after 31 March 2025.*

j) sensitivity analyses on the impact to the ICR of the property fund under each of the following scenarios:

i) a 10% decrease in the EBITDA of the property fund; and

ii) a 100 basis point increase in the weighted average interest rate of the property fund;

*Guidance*
*In the case of a property fund that is listed on an approved exchange, such information should also be disclosed in the property fund's interim and full-year financial result announcements for any financial period ending on or after 31 March 2025.*

k) where there has been an increase in the property fund's aggregate leverage as at the end of the financial year compared to its aggregate leverage as at the end of the immediately preceding financial year, the manager's views of how the increase in aggregate leverage would impact the risk profile of the property fund;

l) the total operating expenses of the property fund, including all fees and charges paid to the manager and interested parties (in both absolute terms, and as a percentage of the property fund's net asset value as at the end of the financial year) and taxation incurred in relation to the property fund's real estate assets;

m) the distributions declared by the property fund for the financial year;

n) 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 unlisted property fund, such performance is calculated on an "offer to bid" basis over the period; or

*Guidance*
*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 SFR.*

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.

*Guidance*
*The calculation 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.*

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

*Guidance*
*The price at which dividends or 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 an approved exchange (in the case of a listed property fund) on the ex-dividend or ex-distribution date.*

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

p) 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;

q) the amount of income support payments received by the property fund during the financial year and the effect of these payments on the property fund's distribution per unit ("DPU");

r) where the income support arrangement is embedded in a master lease arrangement, the difference between the amount of rents derived under the master lease arrangement during the financial year and the projected market rents of the underlying leases for that financial year as computed at the time of entry or renewal of the master lease arrangement; and

*Guidance*

*A master lease arrangement will be considered to have an embedded income support arrangement if the rent under the master lease arrangement is higher than the market rents of the underlying sub-leases at the time of entry or renewal of the master lease arrangement, where "market rent" refers to the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.*

s) any material deviation of actual DPU from forecast DPU, together with detailed explanations for the deviation.

t) the report of the auditors on the financial statements;

u) a statement signed by the manager stating whether in its opinion the accompanying financial statements of the property fund and, where applicable, its subsidiaries (collectively, the "group") comprising the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, or their equivalent variants, and notes to the financial statements are drawn up so as to present a true and fair view of the financial position of the group as at the end of the reporting period, and the financial performance, changes in net assets attributable to unitholders and cash flows of the group for the reporting period covered in accordance with SFRS(I) and whether at the date of the statement there are reasonable grounds to believe that the group will be able to meet its financial obligations as and when they materialise; and

v) a statement signed by the trustee stating:

   i) the trustee is responsible for taking into custody and holding assets of the group on trust for the unitholders;

   ii) the trustee shall oversee the manager's compliance with the limitations imposed on the investment and borrowing powers as set out in the trust deed for each annual reporting period and provide a report thereon to unitholders in an annual report; and

   iii) to the best knowledge of the trustee, the manager has, in all material respects managed the group during the reporting period, in accordance with the limitations imposed on the investment and borrowing powers as set out in the trust deed.

Contents of financial statements

11.2 The annual audited financial statements should contain the following (where relevant):

*Guidance 1*

*In the case of a property fund that is listed on an approved exchange, such information should also be disclosed in the property fund's half-yearly and full-year financial statements in the financial results announcements.*

*Guidance 2*

*For the purpose of paragraph 11.2, the disclosures should be presented on a consolidated basis, including the property fund's subsidiaries (where applicable), in accordance with the relevant accounting standards.*

a) portfolio holdings of the property fund:

   i) as primary reporting, the value of each holding at fair value and as a percentage of the property fund's NAV as at the end of the reporting period. Percentages of the aggregate value of the holdings by the primary category for the reporting period and the comparative period should be disclosed.

   ii) as secondary reporting, the aggregate value of the holdings at fair value and as a percentage of the property fund's NAV by the other category as at the end of the reporting period. Percentages of the aggregate value of the holdings by the secondary category for the reporting period and the comparative period should be disclosed.

*Guidance*

*The primary reporting of the property fund should be determined based on the primary investment objectives of the property fund. For example, a predominantly single-country property fund should report by industry, and a property fund that invests predominantly in a particular industry should report by geography. For secondary reporting, the property fund should disclose in tabular form the aggregated value of the holdings (i) by geography where the primary reporting is by industry, and (ii) by industry where primary reporting is by geography.*

b) each of the following expenses for the reporting period and the comparative period:

i) Management fee (with gross amount less rebate, if any);

ii) Performance fee;

iii) Trustee fee;

iv) Directors' fee;

v) Valuation fee;

vi) Custodian fee; and

vii) Audit fee;

c) amount of transaction with the trustee for the reporting period and balances with the trustee as at the end of the reporting period;

d) the names of the valuer of each of the real estate assets held by the property fund together with details of the basis of valuation, and the date of the most recent full valuation of each asset, and a statement stating that each of the valuers comply with paragraph 8.3 of this Appendix; and

e) details of distribution of the property fund as at the end of the reporting period and the comparative period. An illustration on the details of distribution is set out in Illustration 6.

11.3 The Third Schedule of the SFR requires the prospectus to disclose the risks specific to investing in property funds. Examples of such risks include, but are not limited to, the following:

Diversification

a) property funds tend to be less diversified than general securities funds.

High gearing

b) property funds may be highly geared. This could be risky if interest rates rise sharply.

Valuation

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

Illiquidity of properties

d) the underlying assets in a property fund are often illiquid. Properties 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 sell properties 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 or dollar value and in tabular form, in the prospectus, circular to participants or other relevant reports or documents to participants:

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 or dollar value) should be disclosed in the prospectus, 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.

11.6 Where fees are payable out of the deposited property of the property fund, the justifications for each type of fees payable should be disclosed in the prospectus (if it is at the first launch or offer of the property fund) or the first annual report relating to the financial year ending on or after 31 Dec 2015 (in the case of existing property funds) and the circular (if it is during the life of the property fund). Where performance fees are payable, the prospectus or circular should also contain disclosures on:

a) the methodology for computing performance fees; and

b) the justification of how such methodology takes into account the participants' long term interest.

*Guidance*

*The disclosures should comply with the guidelines in Annex 2 of this Appendix.*

11.7 Where forecasts of distribution yields are provided in prospectuses, circulars, announcements, marketing materials or other relevant reports or documents to participants of a property fund, there should be clear and prominent disclosure of any existing or proposed arrangement that materially enhances short-term yields while potentially diluting long-term yields. In the case of prospectuses 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. For the avoidance of doubt, the requirements in this paragraph do not apply to arrangements that are entered into purely for hedging purposes.

11.8 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 prospectuses, circulars or other relevant reports or documents to participants.

Example: Details of distribution of the property fund for the reporting period ending 31 December 20X1 and the comparative period

| | **20X1 $'000** | **20X2 $'000** |
|---|---|---|
| Amount available for distribution to unitholders at the beginning of the reporting period | | |
| Profit for the reporting period attributable to unitholders before distribution | | |
| Net tax adjustments | | |
| Taxable income | | |
| Other adjustments (if applicable)* | | |
| Tax exempt income | | |
| **Income available for distributions to unitholders** | | |
| Other adjustments (if applicable)* | | |
| **Amount available for distribution to unitholders** | | |
| Distributions to unitholders: | | |
| Distribution of xx cents per unit for the period from xx to xx | | |
| Distribution of xx cents per unit for the period from yy to yy | | |
| Amount available for distribution to unitholders at the end of the reporting period | | |
| Distribution per unit (cents) | | |

**Adjustments to be itemised if material.*

**Illustration 6: Illustration on details of distribution**

## 12 Discounts

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 or have to pay for the units regardless of whether the property fund is subsequently listed, this prohibition will not apply.

## 13 Stapled Securities Structure

A property fund may, in connection with its listing on an approved exchange, staple its units with the securities of an entity with active operations only if that entity:

a) has business operations that are in the same industry segment as the property fund; or

b) is operating a business or providing a service that is ancillary to the assets held by the property fund.

## 14 Consultation with Authority

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 2

## GUIDANCE ON DISCLOSURE OF FEES PAYABLE TO THE MANAGER OUT OF DEPOSITED PROPERTY OF A PROPERTY FUND

### 1 Scope

1.1 These guidelines aim to provide general guidance on the fee disclosure requirements under paragraph 11.6 of Appendix 6 of the Code on Collective Investment Schemes. If any clarification is needed, the Authority may be consulted.

### 2 General principles

2.1 The disclosures should be clear, reasonable, informative and meaningful.

2.2 The disclosures should provide participants with details of how the various types of fees that are payable to the manager out of the deposited property of the property fund co-exist, and serve their respective purposes.

### 3 Explanation and Justification for fees payable to the manager

3.1 To promote and facilitate the understanding by participants of the nature, type, extent and quantum of the fees, the disclosures should include a discussion of the following:

a) rationale and purpose that is specific to each type of fee payable to the manager (including without limitation base fee, performance fee, acquisition fee, divestment fee and development management fee); and

b) how each type of fee is computed and paid out (including the form of payment, i.e. in cash or units), with references to the relevant clauses in the constituent document.

3.2 The rationale and purpose for each type of fee referred to in paragraph 3.1 (a) of this Annex should be distinct. There should not be overlaps between the different types of fees.

3.3 Where one type of fee payable to the manager could cover part of the services rendered for another type of fee payable to a party other than the manager, the manager should explain how this could arise and how this is justified.

### 4 Additional disclosures on performance fees

4.1 In the case of any performance fees payable to the manager, the manager should clearly explain how the methodology for computing performance fee would:

a) incentivise the manager to enhance the long-term value and prospects of the property fund for the benefit of participants as a whole; and

b) not encourage the manager from taking excessive short-term risks.

4.2 For the purpose of paragraph 4.1 of this Annex, it would not be considered as a satisfactory explanation to have a statement to the effect that the performance fees are computed in accordance with the terms of the constituent document or that the performance fee methodology is consistent with industry practice.

# PART III

This Part is applicable to precious metals funds. For the avoidance of doubt, the manager, trustee, the VCC, VCC Directors and the VCC Custodian, where applicable, of a precious metals fund are to comply with the requirements set out in chapters 1 to 7.

# APPENDIX 7

## INVESTMENT: PRECIOUS METALS FUNDS

### 1 Scope

1.1 This Appendix applies to a scheme which invests solely in physical precious metal(s) ("precious metals fund").

1.2 This Appendix does not apply to schemes which invest in precious metal(s) through financial derivatives or investments referred to in paragraph 2.8~~10~~ or 2.10~~12~~(b) of Appendix 1. The applicable guidelines for such schemes are set out in Appendix 1.

*Guidance*
*This Appendix also does not apply to a non-precious metals fund's investments in companies or schemes that invest solely in gold, silver and platinum.*

### 2 Name of Scheme

The name of the scheme should reflect the nature of a precious metals fund.

### 3 Investments Requirements

3.1 A precious metals fund may only invest in gold, silver and platinum.

3.2 For the purposes of paragraph 3.1 of this Appendix:

a) "gold" refers to gold bars that conform to the specifications for a good delivery gold bar set by the London Bullion Market Association ("LBMA") and certificates thereon;

b) "silver" refers to silver bars that conform to the specifications for a good delivery silver bar set by the LBMA and certificates thereon; and

c) "platinum" refers to platinum plates or ingots that conform to the specifications for good delivery set by the London Platinum & Palladium Market ("LPPM") and certificates thereon.

### 4 Valuation

4.1 The value of the assets of a precious metals fund should be based on the following:

a) in the case of gold, the LBMA gold price that is administered by ICE Benchmark Administration;

b) in the case of silver, the LBMA silver price that is administered by ICE Benchmark Administration; and

c) in the case of platinum, the LBMA platinum price that is administered by the London Metal Exchange by agreement with the LBMA.

### 5 Disclosure Requirements

5.1 The cover page of a precious metals fund prospectus should clearly state that:

a) an investment in a precious metals fund carries risks of a different nature from other types of collective investment schemes which invest in transferable securities and a precious metals fund may not be suitable for persons who are adverse to such risks; and

*Guidance*
*The disclosure should be accompanied by a cross reference to the risk disclosures in the prospectus.*

b) an investment in a precious metals fund is not intended to be a complete investment programme for any investor. As a prospective investor, you should carefully consider whether an investment in a precious metals fund is suitable for you, taking into account, your investment objectives, risk appetite and the potential price movements of precious metals. You are responsible for your own investment choices.

# PART IV

This part is applicable to non-traditional funds. For the avoidance of doubt, the manager, trustee, the VCC, VCC Directors and the VCC Custodian, where applicable, of a scheme offered under this Part are to comply with the requirements set out in chapters 1 to 7. The investment guidelines and borrowing limits under Appendix 1 of this Code also apply to schemes offered under this Part unless otherwise stated.

# APPENDIX 8

# INVESTMENT: NON-TRADITIONAL FUNDS

## 1 Scope

This Appendix applies to a scheme where the Authority has, pursuant to Chapter 4.4(b), expressly modified the application of the investment guidelines and borrowing limits under Appendix 1 of the Code for the scheme, or type of schemes, under this Appendix.

## 2 Description of Scheme

The cover page of the prospectus and product highlights sheet, and marketing materials relating to the scheme should also carry a clear and prominent statement that the scheme is offered under this Appendix as a non-traditional fund.

## 3 Futures-based single-commodity fund

3.1 The requirements relating to the spread of underlying assets (i.e. commodities) of financial derivatives of a scheme in paragraphs 4.1 and 4.2(b) of Appendix 1 of this Code do not apply to a futures-based single-commodity fund.

3.2 The requirements in paragraphs 3, 4 (excluding paragraphs 4(d) and 4(e)), 5, 6 and 7 of Appendix 5: Index Funds shall apply to a futures-based single-commodity fund, where applicable.

Investment Requirements

3.3 A futures-based single-commodity fund must track a well-recognised futures price index of the relevant commodity.

*Guidance*
*In determining whether the index is a well-recognised futures price index, the Authority will consider the extent of its use as a benchmark by market participants and the length of its operational history.*

3.4 A futures-based single-commodity fund's exposure to one of the permitted commodities, namely gold, silver, platinum, crude oil and iron ore, must be at least 90% of its NAV. For the avoidance of doubt, the remainder of up to 10% of the scheme's NAV may only consist of eligible deposits and/or units of commodity exchange traded funds of the same commodity.

3.5 A futures-based single-commodity fund may only invest in futures on gold, silver, platinum, iron ore and crude oil that are listed for quotation and traded on an organised exchange. The scheme's global exposure to financial derivatives, calculated based on the commitment approach, should not exceed 100% of its NAV.

Name of Scheme

3.6 The name of a futures-based single-commodity fund should refer to the type of commodity futures invested in, and contain the term "futures" or any derivative or form of such a term so that it is clearly differentiated from an exchange traded fund ("ETF") that is directly invested in physical commodities.

Disclosure Requirements

3.7 The prospectus of a futures-based single-commodity fund should contain clear and prominent disclosures of the following:

a) the fact that the scheme is a futures-based fund and is particularly subject to risks associated with futures contracts such as risks arising from the rolling of futures contracts, as well as volatility, leverage and liquidity risks;

b) the concentration risk to the single commodity, as well as the key features and inherent risks of the underlying commodity and its futures market; and

c) description of the scheme's methodology for rolling futures contracts. Illustrations, such as numerical examples, of how contango and backwardation may affect the scheme's performance under different market conditions, should be included, where appropriate, to help participants better understand the scheme's risks and performance.

# LIST OF CIRCULARS ISSUED UNDER THE CODE

*List of circulars currently in force that are not under Appendix 8 of the Code*

| S/N | Published date | MAS Circular No. | Title |
|---|---|---|---|
| 1. | 29 June 2022 | CFC 01/2022 | Appointment of same independent valuer for performing desktop valuation in respect of interim financial reporting under Financial Reporting Guidance 3 |
| 2. | 28 July 2022 | CFC 02/2022 | Disclosure and Reporting Guidelines for Retail ESG Funds |
| 3. | 09 October 2023 | CFC 03/2022 | Guidance on requirements that are applicable to Exchange Traded Funds participating in the SZSE-SGX and SSE-SGX ETF Links |
| 4. | 31 October 2023 | CFD 01/2023 | Modification to the Acceptable Index Requirements and the Benchmark Limits under the Code on Collective Investment Schemes |

*List of circulars currently in force under Appendix 8*

| S/N | Published date | MAS Circular No. | Title |
|---|---|---|---|
| 1. | - | - | - |