

---

# ***Straight away***

## **Enhanced Regulatory Regime for Fund Management Companies**

### **What is new?**

The Monetary Authority of Singapore (“MAS”) has issued the much anticipated enhanced regulatory regime for fund management companies (“FMCs”). These took effect from 7 August 2012, with certain transition provisions.

Overall, it is a progressive regulation. It reinforces the professional duty of care that fund managers have to their investors and the important role that they must play in ensuring the sustainability of Singapore’s fund management industry, which is in turn critical to ensuring the long term success or otherwise of their own businesses.

The enhanced regime codifies certain base-line safeguards for investors. Investors must continue to have confidence in entrusting assets to be placed and managed in Singapore. It levels the playing field in favour of serious players and will pose potentially difficult questions for those players who are not able to or not prepared to meet the minimum entry requirements to operate in Singapore. In the longer run, this enhanced regime will help further promote and strengthen global recognition of Singapore’s quality and trusted fund management industry and Singapore’s position as a leading asset management centre in Asia. This can only be in the longer term, in the interest of industry players too as their sustainability and growth ambitions in part relies on the continued support and growth from foreign investor assets.

**8 August 2012**

### **How the new regime impacts FMCs?**

#### **Which FMC category do you fall into?**

FMCs will need to evaluate which of the 3 categories of FMCs they now fall into – Retail Licensed FMCs (“Retail LFMCs”), Accredited Investor Licensed FMCs (“A/I LFMCs”) and Registered FMCs (“RFMCs”). Licensing and regulatory requirements vary depending on categories an FMC falls into.

RFMC replaces the Exempt Fund Manager (“EFM”) regime. RFMCs may serve up to 30 Qualified Investors and manage up to S\$250 million in assets under management. EFMs will immediately need to evaluate if they now require licensing, or register as RFMCs. They must do so within the time limit stipulated.

All other FMCs shall be Licensed FMCs - either as Retail LFMCs or A/I LFMCs.

It is worth highlighting that certain ambiguities surrounding “assets under advisory”, “sub-advisor”, “sub-fund manager” or other similar activities have been clarified by the MAS. Entities conducting these activities should similarly evaluate the need for registration or licensing.

### What are the enhanced requirements for FMCs?

The principles behind the enhanced requirements should be familiar to those in the industry. If anything, it is merely the codification of a set of base-line generally accepted good practices. Broadly, the enhanced requirements cover the following areas:

- Safeguards on effective governance and against incompetent professionals.
- Safeguarding of client assets (e.g. independent custody and valuation of assets).
- Safeguarding against improper or unacceptable business and market conduct (e.g. having effective compliance and risk management framework, and anti-money laundering requirements).
- Financial safeguards (i.e. capital requirements).
- Independent monitoring (e.g. governance requirements, internal audit and external audit).

The following sets out some highlights:

#### *Enhanced Capital Requirements for Licensed FMCs*

FMCs will need to comply with base (minimum) capital requirements – S\$250,000, S\$500,000 or S\$1,000,000, depending on criteria. Risk-based requirements additionally apply to Retail and A/I LFMCs.

#### *New Competency Requirements of Key Individuals*

All FMCs are required to have a minimum of 2 directors, and must meet minimum criteria. For example, a director must possess a minimum of 5 years' relevant experience. The CEO of a Retail LFMC must have a minimum of 10 years' relevant experiences.

#### *Compliance Arrangements*

It is now a written requirement that all FMCs must have an independent and dedicated compliance function. Staff must be suitably qualified. Retail FMCs must have the independent and dedicated compliance function in Singapore. Where applicable, help from external service providers may be considered but it is clarified that responsibilities cannot be outsourced/delegated. The CEO and directors are ultimately responsible.

#### *Risk management framework*

All FMCs are to implement an effective risk management framework to identify, address and monitor the risks associated with customer assets that it manages. This includes a risk management function independent of fund management role, monitoring processes and documentation standards (e.g. written policies and procedures).

#### *Independent Annual Audits and Internal Audit*

The MAS expects adequate internal auditing. All FMCs are subject to annual external audit. The external auditors will be required to report to the MAS on, among others, compliance with laws and regulations, including business conduct rules.

### *Ongoing business conduct rules*

All FMCs are required to put in place process and controls, on an ongoing basis, in key operational areas such as:

- Independent custody of assets
- Independent valuation
- Measures to mitigate identified conflicts of interest
- Appropriate disclosures to customers

### **Next steps**

We expect FMCs will face the following challenges in varying degrees:

- Inventorising all requirements
- Assessing and operationalising implications (e.g. need to hire resource and organisation chart changes)
- Developing clear action plan to meet compliance requirements (e.g. implement monitoring programme for capital requirements).

We expect that:

- EFM's will face the biggest challenge, as it could mean re-visiting the business strategy, including looking at joint business alliances. Help may be needed to identify key implications of requirements to business strategy, business model, profitability/cost, and people/resource.
- Time and resource to get things done may be a challenge and help is needed, even though the issues may not be difficult. It could mean as simple as resource to document policies and procedures, and organising independent audits and compliance services.
- Many of the requirements are principles-based. There will be challenges to define the standards that is not only reasonable to meet the principle prescribed. Help may be needed to, for example, benchmark standards to industry and provide a basis for FMCs to meet the expectations of the regulators.

**If you require help, please contact the following Financial Services subject matter experts, or your usual PwC contact persons**

---

#### **Financial Services Regulations**

---

Kwok Wui San   Partner	+65 6236 3087	<a href="mailto:wui.san.kwok@sg.pwc.com">wui.san.kwok@sg.pwc.com</a>
------------------------	---------------	--

---

Sheri Chee   Associate Director	+65 6236 4315	<a href="mailto:sheri.fc.chee@sg.pwc.com">sheri.fc.chee@sg.pwc.com</a>
---------------------------------	---------------	--

---

<b>Asset Management</b>	+65 6236 3288	<a href="mailto:paul.s.pak@sg.pwc.com">paul.s.pak@sg.pwc.com</a>
Paul Pak   Partner		

---

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2011 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent.

