# RES 3 – Rules, Ethics, and Skills for Fund Management

## Chapter 1 – Capital Markets & Fund Management Industry in SG

### Basic features of the capital markets

* 1. **Primary markets**: Platform for businesses to raise capital through issuance of shares, bonds, company warrants (i.e., securities issued by companies that grant holder the right to buy/sell shares), funds, unit trusts and REITs. In SG, this falls under the purview of SGX-ST.
  2. **Secondary markets**: Platform for investors to manage or transfer their risks to others through futures, options (issued by 3rd parties), warrants and leverage certificates. In SG, futures and options fall under SGX-DT, while warrants and leverage certificates are under SGX-ST.
  3. **Exchanges**: Both primary and secondary market activities can either take place over-the-counter (OTC; call-around) or on regulated exchanges.

### Types of Capital Market Intermediaries (CMIs), business activities and CMS licensing (Chapter 3)

|  |  |  |
| --- | --- | --- |
| CMI | Business Activities | CMS Licensing Requirement |
| Banks   1. Qualifying Full Banks 2. Wholesale Banks 3. Merchant Banks | 1. Full suite of services 2. Restricted deposit taking activities (<= SGD250K) 3. Deposit taking activities restricted to those in Merchant Banks Regulations | Exempted under Banking Act |
| Other financial institutions/companies | 1. Provides corporate finance advisory (e.g., IPOs) 2. Deposit taking/lending services | 1. Yes 2. Exempted under Finance Companies Act |
| Fund Management – LFMC | Manages CIS, portfolio of capital market products (incl. OTC derivatives) that are not related to REITs. | Yes, licensed under either Retail LFMC (services open to all investors) or A/I LFMC (services open to only qualified investors[[1]](#footnote-2))  Note #1: Digital Advisers can still apply for fund management license under Retail LFMC. They would be exempted from 5-year track record and $1B AUM requirements.  Note #2: Insurance companies that manage funds to carry out insurance business are exempted under Insurance Act. |
| Fund Management – VCFM | * Investments in unlisted assets only, i.e., no investments in listed or IPO securities, where < 20% of capital is invested in unlisted firms that are more than 10 years old, while >= 80% of the remaining capital should be invested in unlisted firms that are less than or equal 10 years old * Fund must not be continuously available for subscription and must not be redeemable at investors’ discretion * Fund is only made available to qualified investors | Yes |
| REIT Management | A type of CIS that is invested into real estate | Yes; However if the CIS is only made up of real estate with no other capital market products and it is only offered to qualified investors (i.e., accredited or institutional), then it can be exempted. |
| Product Financing | Provides loan financing facility (e.g., margin) to fund customer’s purchase or subscription of a product/security/share | Yes |
| Credit review agencies | Evaluate the creditworthiness of an entity, debt security or an issuer. | Yes |
| Others   1. Broker/Dealers 2. Custodians | 1. Match buyers and sellers 2. Maintain records of movements in specified products (i.e., securities, derivative contracts, CIS units) | 1. Yes, if they deal with capital market products 2. Yes |
| Approved exchanges and clearing houses by MAS |  | Exempted by MAS |

### Roles of each regulatory body in the regulation of capital markets

* 1. **MAS**: Central bank that manages monetary policy and foreign reserves, administers legislations (e.g., SFA, Financial Services and Markets Act) and provides oversight over capital markets and financial services.
  2. **SGX**: Provides oversight on capital markets through its subsidiaries, such as SGX RegCo (oversees all front-line regulatory functions), SGX-ST (enforces trading rules by trading members), SGX-DT (enforces futures and options trading rules), CDP (enforces rules on clearing, settlement and depository)

## Chapter 2 – Fund Management Regulations & Guidelines

Except for Legislations (e.g., SFA and SF Regulations that regulate markets, clearing houses and CMIs, as well as market conduct and prospectus registration requirements) and Notices, other documents (e.g., Codes, Practice Notes, MAS Guidelines) are not legally binding and are considered “rules” and “best practices”. A contravention in the latter categories might not give rise to a criminal offence but it might draw disciplinary actions (e.g., public censures) and/or impact company’s reputation.

### IMAS Code of Ethics & Standards of Professional Conduct for Fund Managers (key take-aways, best practices)

All IMAS members must comply with IMAS Code of Ethics & Standards.

#### Business Conduct

* **Compliance should be independent** of other business functions and should report directly to senior management. Function should be staffed with competent and qualified individuals.
* **Segregation of business activities** (aka Chinese walls) **to prevent potential exchange/leakage of price-sensitive information** across different individuals, functions, companies. Examples include segregation of (i) front and back offices, (ii) investment decision making and dealing, (iii) compliance and audit, (iv) proprietary investment activities (own trading) and client activities.
* **Uphold personal conduct**: (i) Proper records and archival (up to 5 years) to demonstrate compliance, (ii) Obtain compliance approval for any buy-sell activities (except gov bonds, regular savings plans and unit trusts) of connected persons, (iii) Prioritize client needs over personal interests.

#### Investment Management Process

* **Familiarization**: Fund managers should provide adequate information about the firm (e.g., address, how business is conducted), while clients should disclose their identities (and any beneficiary owners), financial profiles, source of wealth (to comply with ML/TF), investment goals and risk appetite etc.
* **Investment Planning**: Fund managers should draft an investment management agreement that considers the appropriateness and suitability of each investment in relation to client needs/objectives and sets out performance measurements/benchmarks. Also, they should include all relevant fees and costs that would be charged to clients. Any direct brokerage arrangements/restrictions should also be documented.
* **Promotion/Distribution**: Clearly identify any historical performance information used with appropriate disclaimers and risk disclosures. Also, include all relevant fees in investment management agreements or prospectus (refer to Code on CIS Advertisement for more details). For any distributor carrying out promotion and selling of fund managers’ products (on behalf of fund managers), fund managers should ensure that the distributor is licensed, and periodic due diligence reviews are carried out to identify potential issues (e.g., late trading[[2]](#footnote-3), market timing[[3]](#footnote-4), ML/TF violations etc.). A distribution agreement would facilitate this process.
* **Investment Conduct**:
  + Fund managers should ensure the client investment goals are not compromised and take reasonable steps to obtain the best execution (in terms of price, cost, speed, size etc.) for clients.
  + Any cross-trades between clients (e.g., Client A intends to sell security, while Client B intends to buy security) are documented prior to execution (together with clients’ consent in writing) and the trades are executed at arm’s length.
  + Fund managers should not trade excessively (e.g., churning to earn commissions). Also, they should not participate in activities that would generate fees from underwriters. Lastly, related party transactions are allowed provided they are fair and conducted at arm’s length.
  + Controls to limit insider trading (e.g., maintenance of lists, restricted lists for those issuers that fund managers have insider information and/or use of blackout periods) should be implemented.
  + Any soft dollar commissions, rebates, fees received etc. should be documented and disclosed to clients on an annual basis (via semi-annual and annual reports) and accrued to clients.
  + Any conflicts of interests must be recorded, managed appropriately and disclosed to the client.
* **Asset Custody**: Fund managers should ensure assets entrusted are safeguarded. For custodial arrangements, fund managers should ensure that custodian is properly qualified, and client assets are segregated (at each client) in custodian’s books and maintained with the custodian.
* **Reporting:** Reporting of these assets should be fair, timely and accurate. The Global Investment Performance Standards (GIPS) sets out the measurement and reporting. For unlisted or unquoted securities, fund managers should disclose the basis of valuation. Lastly, LFMC should include all the assets that it has agreement to provide fund management services to the client in its reporting. For example, if LFMC is managing $10M of assets for client and part of it (e.g., $3M) is outsourced to other LFMCs/sub-advisors, it should still include $10M under its AUM reporting.
* **Disciplinary actions**: (i) Stage 1 Improvement Notice (kept on record for 6 months); (ii) Stage 2 – First Warning Letter (kept on record for 1 year); Stage 3 – Final Warning Letter (kept on record for 1 year); Stage 4 Dismissal of Membership (kept on record for 1 year). Any appeals must be lodged within 5 working days.

### IMAS Guidelines on Corporate Governance

* Managers should satisfy to themselves about the extent of compliance by their investee companies with the recommendations of the Code of Corporate Governance issued by MAS –
  + Clear policy on the evaluation of corporate governance activities of investee companies in their written corporate governance policies
  + Exercise voting rights actively during meetings
  + Clear voting policies and procedures to ensure proxies are voted in the best interest of their clients

### IMAS Guiding Principles for Investment Risk and Performance Analysis Functions

* **Governance**: This unit sits independently from the investment function to provide information on the investment firm’s exposures, concentrations and strategies, which could be used to maintain ongoing policies.
* **Investment Risk Management**: Independently measured and monitored for these areas –
  + Implement portfolio and execution risk controls
  + Understand risk concentrations
  + Portfolios should be regularly stress-tested, and scenario analysis should be performed
  + Portfolio liquidity risks should be measured and monitored
  + Risk models should be back-tested on a regular basis to ascertain the goodness of fit, and independently reviewed and authorized
* **Performance Analysis**:
  + Fund performance should be reviewed regularly with both pure ex-post performance statistics (i.e., historical) and ex-ante risk measures (i.e., based on estimations/predictions using current data and assumptions).
  + Regular performance attribution to identify over-/under- performance

## Chapter 3 – Licensing Requirements for Fund Management

### 1. General Licensing Criteria

* + **Substantive fund management**: Must be carrying out substantive fund management activities (i.e., research, portfolio management and/or trading). Note that any companies acting as a conduit would fail the substantive test.
  + **Legal Structure and Office**: Must be incorporated in Singapore and has a permanent physical office in Singapore.
  + **Staffing**: Office must be adequately staffed with competent key individuals (i.e., collective experience in asset classes, markets, investment strategies, portfolio management, risk management, operations and compliance):

|  |  |
| --- | --- |
| Individuals | Requirements |
| Directors | * Total Number (include Executive and exclude nominee) >= 2 * Executive Directors and residing in SG >= 1 * Tenure (excludes VCFM) >= 5 years |
| CEO | Tenure (excludes VCFM)   * Retail LFMC: >= 10 years * A/I LFMC: >= 5 years |
| Representatives | Number of representatives with SG Residence   * Retail LFMC: >=3 * A/I LFMC and VCFM >= 2 * VCFM: >= 2 |
| Relevant professionals (includes directors, CEO, representatives) | Total number (based on numbers above)   * Retail LFMC: >=3 * A/I LFMC and VCFM: >= 2   Tenure (excludes VCFM) > = 5 |

* + **Base capital threshold:**
    - **CIS offered to retail investors**: $1M
    - **Non-CIS offered to retail investors**: $500K
    - **Fund management activities outside of (i) and (ii), e.g., VCFM**: $200K
    - Base Capital = Paid-up Common Shares + Preference Shares + Unappropriated P/L – Distributions (or losses for recent period)
    - If LFMC fails to maintain its base capital, it must notify MAS immediately. MAS may get LFMC to (i) cease any increase in positions or business until it complies with base capital requirement; (ii) transfer its positions to other unrelated LFMCs, or (iii) revoke its license.
  + **Risk-Based Capital**: All LFMCs shall always meet the Risk-Based Capital (RBC; aka Total Risk Requirement or TRR) threshold, by having Financial Resource that are at least 120% of TRR (Note that Calculation of TRR would not be discussed here). If LFMC is not subject to RBC/TRR, then it would be subject to ORR (aka Operational Risk Requirement).
    - TRR covers operational risk, counterparty risk, position risk, underwriting risk, exposure risk.
    - Financial Resource = Base Capital + Other Capital (e.g., revaluation reserves) – deductibles (e.g., intangibles or non-current assets)
    - Average Adjusted Asset = (AM1 + AM2 + AM3)/3, where AM (aka Asset Measure) = On balance sheet assets + Off balance sheet assets - deductibles
    - If Average Adjusted Asset exceeds the min ($10M, 5 \* Financial Resource), then it is subject to RBC/TRR. Otherwise, it is only subject to ORR, which is max (X% applied to average gross income in last 3 years, $100K)
      * + 5% if any average gross income in last 3 years <= $10M
        + 2% if any average gross income in last 3 years > $10M
  + **Risk management framework**:Supported by sound governance and has liquidity risk management function/framework to manage CIS liquidity on an ongoing basis (based on investment strategy, dealing frequency, redemption policy, aggregated fund flows etc.).
  + **Audits**: Subject to adequate internal audits and arrange for annual external audits of assets and provide audit reports to clients
  + **Retail LFMC Requirements (in addition to above)**:
    - All Retail LFMCs must have at least 5-year track record and have at least $1B AUM (through the LFMC and its related corporations).
    - For Digital Advisors applying to be Retail LFMCs, the company can be exempted from 5-year track record and $1B AUM requirements, subject to the following safeguards:
      * All key personnels (CEO, directors) must have experience in fund management and technology to ensure sound risk management culture (e.g., policies, review/approval processes, controls etc.) and effective oversight and governance of their client-facing tools.
      * **CIS offered to retail clients**:
        + Units in a CIS that is constituted as a trust
        + CIS is not allowed to participate in any securities lending/repurchase (unless for EPM purposes).
        + Can only invest in (i) Excluded Investment Products (stocks / shares by listed corporations, business unit trust, other CIS units, real estate and related assets, debentures excluding ABS/structured notes), (ii) deposits, and (iii) gold.
      * The company should not manufacture the underlying CIS used to build the model portfolios offered on their digital advisory platforms.
      * All client-facing tools should be fully automated to eliminate any undue influence. Any methodology of the algorithm should be robust, documented and rigorously tested on an ongoing basis to ensure sanity.
  + **A/I LFMC Requirements to be involved in retail customers/funds:**
    - Where the A/I LFMC acts as a sub-manager/advisor to another regulated fund manager who meets the definition of A/I is licensed to manage retail funds
    - Where the A/I LFMC acts as a sub-manager/advisor to a fund which another pension fund or fund-of-funds invests in. The latter must be managed by another fund manager who meets the definition of A/I and is licensed to manage retail funds
    - Where the A/I LFMC wishes to manage investment funds which are authorized by a foreign regulator to be offered to retail investors in a foreign jurisdiction

### 2. Other take-aways

* **Representative Notification Framework**:
  + Any individual intending to conduct fund management must be an appointed representative, temporary representative or provisional representative. Failure to comply is a criminal offence.
  + The representative can only act for one principal or multiple principals for related corporations. Related corporations include (i) LFMC’s subsidiaries, (ii) LFMC’s holding companies (>50% voting shares, thus effective control), (iii) subsidiaries of LFMC’s holding companies.
  + The representative must be at least (i) 21 years of age, (ii) attain 4 GCE O Level credit passes (or 2 GCE O Level credit passes with 3 continuous years of experience in a 5 year-period before 1980), (iii) pass CMFAS RES 3, (iv) be a fit and proper person
  + Any change in personal particulars of representative must be made to the LFMC within 7 days of the change. The LFMC must lodge the change with MAS within 14 days of the change.
* **Effects Doctrine and Exemptions**:
  + To facilitate the regulation of cross-border financial services to persons in SG, the Effects Doctrine governs that for acts taking place wholly outside Singapore, the effect of the act in Singapore would have to be both substantial (e.g., affecting a large number of people in Singapore; have adverse effects on the financial stability of SG) and reasonably foreseeable (e.g., targeting persons in SG; entering contractual relationships with persons in SG; accepting SGD orders from persons in SG). Once the Effects Doctrine is established, the foreign entity would fall under MAS regulatory scope.
  + For business dealings between a foreign branch and its related SG entity, MAS has allowed this under its Exemption Framework, i.e., not subject to Effects Doctrine. The SG entity is requirement to notify MAS of this arrangement within 14 days. Also,
    - SG entity must be licensed
    - Foreign branch must be licensed in the country that it is operating from
    - Restricted to non-retail clients
    - The SG entity must have internal controls to oversee the conduct of foreign branch and its representatives
    - Audit certification that the boundary conditions have been complied with

## Chapter 4 – Conduct of Business in Fund Management

### General Duties of CMS license holders, LFMCs, VCFMs

* **CMS license holders:**
  + This applies to all licensees under the 7 regulated MAS activities. CEOs and directors are ultimately responsible for the below tasks.
    - Implementing and ensuring compliance with written policies/documentation
    - Ensuring effective controls and segregation of duties, including setting out in writing the limits of discretionary powers of each officer, committee etc.
    - Putting in place a compliance function and internal audit arrangements
    - Identifying, addressing and monitoring risks
    - Ensuring accuracy, correctness and completeness for any report submitted to MAS
* **LFMC** 
  + These are additional tasks on top of being a CMS license holder that are relevant to fund management(Also see General Licensing Criteria under Chapter 3).
    - Implement a risk management framework
    - Hold client asset under management under trust/custody[[4]](#footnote-5) and segregate from LFMC’s proprietary assets (except when the assets are not listed or quoted)
    - Ensure independent party to assess AUM
    - Subject to adequate internal audits and arrange for annual external audits of assets and provide audit reports to clients
    - Avoid conflict of interest and prioritize client needs over others
* **VCFM** 
  + These are additional tasks on top of CMS license holder that are relevant to VC fund management.
    - Disclose to clients that VCFM is not subject to all regulatory requirements
    - Avoid conflict of interest and prioritize client needs over others

### Key LFMC events subject to MAS approval

* **Appointments:** 
  + For LFMC, MAS approval is required to (i) appoint any CEOs or directors and (ii) changing the nature of Non-Executive Director to Executive Director.
  + For VCFM, MAS approval is not required. However, MAS would review the CEO and directors to ensure that they must be fit and proper (i.e., honest, integrity and reputation; competence and capabilities; financial soundness).
* **Removals**:MAS may direct the LFMC to remove a director or executive officer from their office if the individual (i) has willfully caused the LFMC to contravene the SFA/MAS Act, (ii) has failed to secure the compliance of LFMC with SFA/MAS Act, (iii) has failed to discharge their duties set out in Section 4.1, (iv) is undischarged bankrupt. Note that failure to discharge duties under Section 4.1 is punishable by fine. If negligence or willful consent is established, the directors/CEOs are criminally liable.
* **Take-overs:**
  + MAS approval is also required in any LFMC’s takeover for any individual that has effective control. The effective control test assesses if the individual (together with other connected persons) owns at least 20% of the LFMC’s paid-up capital. The take-over scenario and test does not apply to VCFMs
  + Once the effective control test is established, MAS would review the applicant’s fit and proper eligibility and assess if the LFMC is still likely to conduct its business prudently and in compliance with SFA, before giving its approval.
* **Reduction of Share Capital** (i.e., both ordinary and preference share capital)
* **Preference Share Capital**: MAS approval is required before (i) LFMC issues more preference shares and/or (ii) repays the principal of preference shares through any repurchase or redemption exercise (3 months lead notification time is required).
* **Repayment of Qualifying Subordinated Loan Principals**, be it partial or in full.

### LFMC Compliance & Disclosure Obligations

* **Listed Specified Products**: All LFMCs and their representatives must disclose their interests (including any changes/updates) in all listed products (e.g., securities, derivatives contracts, CIS units, trust units, debenture units) into a register within 7 days of acquisition and kept on record for at least 5 years from the date of entry.
* **Change of LFMC/VCFM Business Records**: If LFMC/VCFM makes any changes to its name, address, regulated activities and the types of capital market products, it must inform MAS within 14 days of the change.
* **LFMC/VCFM Cessation**:
  + In a total cessation (either voluntary or involuntarily by MAS), the LFMC/VCFM must return the license within 14 days.
  + Note that the CMS license of the LFMC will lapse or be revoked or suspended by MAS if the LFMC:
    - Is insolvent, wound up or dissolved
    - Does not commence fund management business within 6 months of license issuance
    - Fail to discharge duties efficiently
    - Did not act in the best interests of its customers
  + MAS may use its power to get LFMC to (i) refrain from doing any more business, (ii) transfer its business and/or shares to another unrelated LFMC, or (iii) engage in restructuring of share capital.
* **Change of Representative’s Records**: Under the Representative Notification Framework (See Other take-aways in Chapter 3), any change in personal particulars of representative must be made to the LFMC/VCFM within 7 days of the change. The LFMC/VCFM must lodge the change with MAS within 14 days of the change.
* **Cessation of Representative**: If the representative resigns or ceases to carry on any business in the regulated activity that he is appointed, then LFMC/VCFM must lodge the change with MAS within the next business day.
* **Product Advertisements**:
  + Any advertisement employed to promote any capital market products must not be false or misleading and must be clear, fair and balanced. In terms of clearness,
    - The body font size used must be at least 10-point Times New Roman
    - The footnote font must be Times New Roman. Footnote size must be 10 for Body Font Size <= 20. For Body Font Size between 20 and 28, the footnote size must be half the Body Font Size used. For Body Font Size above 28, then default footnote size is 14.
  + Include a liner that says, “This advertisement has not been reviewed by MAS”.
  + Note that the advertisement requirements do not apply to prospectus, profile statement or product highlights sheet (PHS). See Chapter 6 for more details.
  + Approval must be sought from senior management, agent/committee of the holder of CMS license etc., before the advertisement can be disseminated. This approval must be kept on record for at least 5 years from the date of approval.
* **Execution**: As prescribed under IMAS Code (See Chapter 2), fund managers should ensure the client investment goals are not compromised and take reasonable steps to obtain the best execution (in terms of price, cost, speed, size etc.) for clients.
* **Soft Dollar Arrangements**: As prescribed under IMAS Code (See Chapter 2), any soft dollar commissions, rebates, fees received etc. should be documented and disclosed to clients on an annual basis (via semi-annual and annual reports) and accrued to clients.
  + The soft dollar arrangement must be carried out in accordance with best execution practices.
  + The soft dollar arrangement must not be excessive (e.g., churning).
* **Receipts of customers’ monies and assets**: The monies and assets should be deposited or paid in accordance with customer’s pre-agreed arrangements and shall not be commingled with the LFMC’s assets.
  + Monies should be deposited in a trust account within the next business day. The trust account must be maintained with a bank, merchant bank or finance company. Note that the LFMC can also choose to hold these monies in the form any SG or foreign government debt securities, instead of in the form of cash.
  + Assets should be deposited in a custody account within the next business day. The custody account must be maintained with a bank, merchant bank, finance company, depository agent (e.g., CDP), an approved trustee (for CIS), any custodians licensed under MAS regulated activities.
  + Disclosure must be made to retail customers for monies or assets belonging to them held under these trust or custody accounts and the risk(s) arising from commingling monies or assets with other retail customers.
* **Withdrawals of customers’ monies and assets**:
  + Monies can be drawn down to pay to the person, brokerage or LFMC arising from the investments (including any charges incurred).
  + Assets can be drawn down to transfer the asset to any person entitled to the account, meet customers’ obligations, securities lending or mortgages for an amount owed by the customer to LFMC.
* **Transfer of customers’ monies and assets**: Note that any transfer of rights, interests of retail customers’ monies and assets are strictly prohibited unless they are used for securities lending purposes. Any securities lending must be accompanied by a prior written agreement and backed by collaterals of at least 100% (105% under SGX-ST rules) borrowed securities market value (collaterals only applicable to retail investors, but not qualified investors). In the same agreement, it must provide for the calculation of lending/borrowing fees and whether the assets lent/borrowed are marked to market.
* **Account Statements and Book-Keeping**:
  + LFMC must perform daily computation of customers’ cash.
  + LFMC must perform daily computation of customers’ assets for those stored with CDP and monthly computation of assets for those stored outside CDP.
  + LFMC must provide a statement of account to each customer on monthly basis (or as soon as practicable when such request is made), unless there are no changes to any particulars or the customer is a qualified investor.
  + LFMC must submit its (i) unaudited quarterly returns within 14 days of quarter’s end and (ii) audited annual returns within 5 months of financial year end. VCFM must submit its annual declaration within 1 month of its financial year end.
  + LFMC must also keep all books (e.g., written agreement/acknowledgements, client transactions, accounts, financial statements etc.) on record for at least 5 years.

### LFMC Outsourcing arrangements

* Except for those 3rd party services that are designated (e.g., custodial arrangements as prescribed under MAS), LFMCs can outsource their services in accordance with the Outsourcing Guidelines provided that due diligence is carried out on those 3rd parties. When outsourced, the control is passed over to the outsourcing party.
* LFMC should maintain a register of all its outsourcing arrangements and submit to MAS on an annual basis or upon request. Any material outsourcing arrangements (i.e., material impact on LFMC’s operations and/or customers) should be kept in another register that is readily accessible to senior management.

### LFMC investees that are listed entities

* Directors and CEOs of listed entities (including new appointments) are obliged to disclose their interests (including any changes/updates) in the securities (e.g., shares, debentures, rights, options etc.) of that corporation within 2 business days.
* Listed investees should disclose material information via SGXNet (including any restricted information disclosed at meetings with analysts, i.e., not released to general public) as required by SGX-ST listing rules. Such disclosures must be released timely to prevent false market and unfair/insider trading activities. Examples include M&A activities, purchase/sale of significant assets, stock dividends/splits, litigation etc. However, non-disclosure is allowed if there is a (i) breach of law or (i) all the following 3 conditions are met:
  + A reasonable person would not expect it to be disclosed; and
  + The information is kept confidential; and
  + The information concerns (i) an incomplete proposal, (ii) speculation, conjecture or supposition, (iii) internal management purposes or (iv) trade secret.
  + Listed investees may request a trading halt or suspension to facilitate the dissemination of material information during trading hours. In essence, trade orders can still be modified during trading halts, while trade orders may be removed during suspensions.
  + If there is unusual trading activity in a listed security, SGX-ST would dictate the issuer to review the causes and make a public announcement if the unusual trading activity cannot be explained by known factors.

## Chapter 5 – Market Conduct

### Types of Market Misconduct

* **False Trading and Market Rigging (S197 SFA)**: Transactions designed to create the false impression of significant market activity so as to influence prices through (i) wash trades/matching orders/pre-arranged trading (i.e., buy and sell transactions without change of beneficial ownership), (ii) window dressing (i.e., employed by fund manager to improve fund performance).
* **Market Manipulation (S198 SFA)**: Taking part in multiple transactions that have the effect of stabilizing/destabilizing security prices through (i) “greenshoe” option (during IPOs), (ii) cornering the market (i.e., Acquiring monopolistic control of securities and driving up their prices artificially to create short squeezes), (iii) “pump and dump” / “short and distort” through spreading falsehoods.
* **False or Misleading Statements (S199 SFA)**: Information that is materially fraudulent or inaccurate that impact investment decision-making.
* **Fraudulent inducement (S200 SFA)**: The intent to induce another person to deal in capital market products must be clearly established. Essentially, the quality or type of information (i.e., S199 SFA) would not be the priority.
* **Manipulative or Deceptive Devices (S201 SFA)**
* **Dissemination of information about illegal transactions (S202 SFA)**
* **Insider Trading (S218 SFA)**:
  + To convict someone of insider trading offence, these steps are followed –
    - First, it must be proven that the inside information (i.e., privileged/confidential/non-public price information) is passed on to them or in their possession.
    - Second, there is a need to establish whether they knew the information is non-public and price sensitive. Distinction is made between connected persons (i.e., insider who can be an officer, substantial shareholder, family members, issuer’s lawyers, accountants etc.) vs. non-connected persons (i.e., tippee) –
      * Connected persons – Automatically assumed that they know the information is non-public and price sensitive
      * Non-connected persons – Need to prove that the information is non-public and price sensitive. The source where they obtain the inside information is irrelevant.
    - Once a person is established to possess inside information and know the information is non-public and price sensitive, the intention of use (of the inside information) is automatically established. In other words, no proof is required that the person intends to use the inside information to commit insider trading.
  + However, individuals can rely on (i) “Chinese wall” or (ii) “the information is known to anyone who commonly invests” as a defense to insider trading.
  + Tipping-off offence would arise when a person with inside information communicates the inside information to another party if the former knows or reasonably knows the latter would likely to deal in the securities.
* **Bucketing (S201A SFA)**: Usually occurs in derivative contracts when the representative takes an opposite side of a customer’s order in his own account.
* **Pre-arranged trades (SGX-DT Trading Rules)**: Any pre-arranged trades outside the system are prohibited.
* **Front Running (SGX-DT Trading Rules)**: Representatives are prohibited from prioritizing their own trading over customer’s orders.
* **Cross trades (SGX-DT Trading Rules)**: If representatives receive buy and sell orders from different customers at the same time and price, they are not allowed to match/cross the 2 orders internally. Instead, they should enter the order which has the better price than the last traded price.

### Other Market Conducts

* **Short-Selling**:
  + To counter naked short selling (aka uncovered short selling, where there are no plans to buy back whatever has been shorted), CDP would buy securities on behalf of short sellers and charge additional penalty for short sellers who failed to deliver the securities.
  + All market participants are required to disclose their short positions and short sell orders (separate from their normal sell orders) to SGX-ST.
  + Any short positions above specified threshold (i.e., Lower of 0.2% of total issued shares and $2M) are required to be reported to MAS within 2 business days after each Friday.

### Vigilant Practices to combat Market Misconducts

* **LFMCs** should not blindly accept instructions from customers at face value when an unusual order is received. Instead, it should conduct the following due diligence processes to obtain reasonable assurance –
  + Review the history or recent trading of the customer to ensure consistency.
  + Consider whether proposed transactions are suspicious or manipulative. LFMCs are required to report any suspicious activities within 5 working days.
  + Consider whether the multiple or large orders give rise to false trading.
  + Evaluate the timing of those transactions (e.g., transactions at or near the close of trading day might be manipulative).
  + Repeated removal of orders before execution may indicate no genuine interest but to entice markets.
  + Unrealistic buy orders above market price may signal pump and dump strategy.
* **SGX** has regulatory tools, e.g., (i) “Public Query”, (ii) “Trade with Caution” announcements, (iii) Trading halts/suspensions/circuit breakers (i.e., trading within assigned price bands), (iv) “Designated Instruments”, (v) Declaring a corner to regulate trading activities.

### Penalties

* Any contravention will result in criminal and civil penalties (between $100K and max(3 times the amount of profit, $2M), civil liabilities, financial and reputational loss or license suspension. Note that both the individuals and corporation (if all the directors connive to engage in the offence) can be liable.
* **Extra-Territorial Jurisdiction**: Note that any acts committed outside Singapore would be deemed to be carried out in Singapore if the person (i) does it partly in and partly outside Singapore, or (ii) covered under Effects Doctrine (see Chapter 3 – Other take-aways) where the effect of the act in Singapore is both substantial (e.g., affecting a large number of people in Singapore; have adverse effects on the financial stability of SG) and reasonably foreseeable (e.g., targeting persons in SG; entering contractual relationships with persons in SG; accepting SGD orders from persons in SG).

## Chapter 6 & 7 – Collective Investment Schemes (CIS)

### Type of Investors

* **Accredited investors (AI)**:
  + They can be
    - Individuals whose net personal assets exceed $2M (with their primary residence contributing up to $1M, net of any outstanding loans)
    - Individuals whose financial assets (includes deposits, investment product etc. that are net of related liabilities) exceed $1M
    - Individuals whose annual income exceed $300K (i.e., $25K per month)
    - Corporations with net assets exceeding $10M in latest audit balance sheet
    - Trustee
  + **Before Apr 2019**: The AI-eligible persons would be deemed automatically as AIs if they meet the AI definition. They would be required to opt out of the AI category. If the AI-eligible stays silent, then he would continue to be assessed as AI until 8 July 2020, where the opt-in provision below would apply.
  + **After Apr 2019**: The person who is AI-eligible would be given the opportunity to opt-in by giving written consent. The AI-eligible investor may choose to be treated AI by one party but opt not to be treated as AI by another party.
* **Expert Investors**: (i) Person whose business involves buying/selling of capital market products, (ii) Trustee
* **Institutional investors**: Includes licensed banks, merchant banks, finance companies, Government, statutory bodies, CIS, sovereign wealth funds etc.
* **Qualified Investors**: Both accredited and institutional investors.

### CIS Definition & General Structure

* **Definition**: CIS are investment pooling vehicles used by investors to invest alongside other investors to benefit from the advantages of investing as a group. In general, (i) participants do not have management control (i.e., managed wholly by a manager), and (ii) the economic benefits arising from the CIS flow into the pooled vehicle. Examples include REITs and certain closed-end funds that meet the above definitions.
* **Structure**:

A diagram of a company

AI-generated content may be incorrect.

* + Any authorization or recognition of CIS must be accompanied by prospectus/profile statement made to MAS, assuming the CIS is not offered to qualified investors. MAS can also suspend/refuse/revoke any authorization or recognition if (i) the information presented is false, misleading or against public interest or (ii) the offeror is an undischarged bankrupt. In the event of revocation, MAS would -
    - Grant the manager (or any responsible person) to appeal to the Minister against such decisions within 30 days.
    - Failing which, MAS may direct the manager (or any responsible person) to wind up the CIS (involuntarily) and refund all the monies contributed by participants, assuming there are sufficient property/assets to be liquidated.
  + For any voluntary windups, the trustee must summon a meeting of the CIS participants by giving notice at least 21 days before the proposed wind-up and obtain at least 75% approval. The manager (or any responsible person) would then be required to notify MAS at least 7 days before its proposed wind-up, while the trustee is required to submit a declaration statement to affirm the CIS proceeds/liabilities. All records are to be kept at the trustee for a period of 6 years.
* **Permissible CIS Securities**:
  + **Transferable securities**: They must be liquid, verifiable (through market, annual reports etc.) and maximum loss is limited to the amount bought. Examples include shares, bonds, securitized debt instruments etc.
  + **Money market instruments**
  + **Eligible deposits** (banks, wholesale banks, merchant banks, finance companies)
  + **Units in other schemes**: Under the Code on CIS, a scheme may invest in other schemes if the underlying scheme is
    - (a) An authorized or recognized scheme, excluding HFs and FoHFs; or
    - (b) Constituted and regulated in a jurisdiction that affords protection equivalent to those constituted in Singapore and comply with core investment guidelines and borrowing limits; or
    - (c) Invested into transferable securities, commodities[[5]](#footnote-6) and real estate that are listed for quotation.
  + **Financial derivatives**
    - The purpose of the financial derivatives in CIS are used for the purposes of hedging, efficient portfolio management and optimizing returns. The underlying would include commodities, index funds, interest rates, FX and currencies.
    - All financial derivatives should be settled in cash. As such, the scheme should ensure sufficient liquid assets to cover the exposure.
    - The financial derivatives are subject to reliable and verifiable valuation on a daily basis (i.e., Manager should conduct its own valuation, instead of solely relying on counterparty). Valuation can be based on current market value or fair value based on an appropriate valuation model.
  + **Unlisted/unquoted securities**
* **Permissible Specialized CIS Funds**: Focuses on a specific investment strategy or asset class, which may or may not be offered to the public. Specialized CIS includes (i) MMFs, (ii) HFs and FoHFs, (iii) Capital Guaranteed Funds, (iv) Index Funds, (v) Property Funds and (vi) Precious Metal Funds.
  + **MMFs**:
    - **Definition**: Invests into (i) high-quality debt securities and securitized debt instruments (including government bonds, corporate bonds, FRNs and ABS with long-term credit rating of A, i.e., high credit quality), (ii) high-quality money market instruments (including certificates of deposit, banker’s acceptance, commercial papers, T-bills with long-term credit rating of A, i.e., high credit quality), (iii) eligible deposits, (iv) financial derivatives (for the purpose of hedging). In total, at least 90% of the fund’s NAV must be invested into (i) – (iii), while the remaining 10% can be invested into high-quality (i)-(ii) not actively traded or quoted.
    - **Structure**:
      * Group limit involving non-deposit investments, eligible deposits and counterparty risks arising from OTC financial derivatives would be fixed at 10%. This threshold would be raised to 30% if the non-deposit investments are with a Singapore bank or the collective investments are guaranteed by government or other public bodies with long-term credit rating of highest quality (i.e. AAA).
      * Note that all MMFs’ non-deposit investments must have a remaining maturity of less than 2 years, and the dollar-weighted average portfolio maturity of all investments must not exceed 6 months.
  + **HFs and FoHFs**:
    - **Definition**: Involves the use of advanced investment strategies (including market directional, corporate restructuring, convergence trading or opportunistic) and alternative assets.
    - **Structure**: For FoHFs, it can only invest in an underlying FoHF if the latter invests directly into other single HFs (i.e., no further layering is required). A FoHF should invests in at least 15 HFs, with each of them not exceeding 8%.
    - **Borrowings**: Any borrowings should not exceed 25% NAV and must be repaid within 3 months.
    - **Reporting**:
      * LFMC must submit its (i) unaudited quarterly report within 1 month of quarter’s end, and unaudited semi-annual accounts/reports within 2 months of period’s end, (iii) audited annual accounts/reports within 3 months of financial year end.
      * The manager should certify to MAS that there are adequate risk management procedures annually.
  + **Capital Guaranteed Funds:**
    - **Definition**: Guarantees the return of capital invested by participants at a future date. Such funds should –
      * Have an eligible guarantor that has a minimum long-term rating of investment grade AA (for financial institutions)/AAA (for non-financial institutions).
      * Guarantor should not be the issuer of transferable securities and money market instruments for > 10%.
      * Guarantee should be at least 100% of capital invested, less initial sales charges or front-end loads. There should be no variation of the guarantee unless approved by trustees or participants at ordinary meeting. Guarantee can be terminated if the guarantor goes into liquidation or if the capital guaranteed fund is voluntarily terminated.
      * The trustee may also, at an extraordinary meeting with participants, terminate the scheme or allow the scheme to continue without guarantee if the cost of obtaining a new guarantee outweighs the benefit of such guarantee.
      * The manager should notify participants at least 30 days in advance where the guarantee applies only on a particular date.
    - **Borrowings**: May borrow from licensed banks (including merchant banks) and financed companies not exceeding 10% NAV and must repay the debt within one month.
    - The fund is prohibited from naming itself as a capital guaranteed fund if it violates any of the definitions.
  + **Index Funds**:
    - **Definition**: Replicate the performance of commodities, interest rates, FX and currencies, and should meet the following characteristics –
      * Representative benchmark with a clearly defined objective, adequately reflects the characteristics of the market and be investable.
      * Sufficiently diversified where the maximum weight of each constituent does not exceed 20% / 35% (for non-entities only which include commodities).
      * Transparency of information
  + **Property Funds:**
    - **Definition**: The property fund may or may not be listed on an approved exchange, and it can only invest in the following –
      * Global Real Estate, provided by the trust deed
      * Real estate related assets (i.e., listed or unlisted debt securities / shares issued by property corporations, MBS, other property funds and assets incidental to the ownership of real estate).
      * Listed or unlisted debt securities and listed shares issued by local or foreign non-property corporations
      * Global government securities
      * Cash and cash equivalents

At least 75% of the property fund’s deposited property should be invested in income-producing real estate. It should not undertake property development activities and vacant land and mortgages. If the proportion falls below 75%, it has 12 (level between 50% and 75%) / 24 (level below 50%) months to pump in more investments to revert to 75% threshold. For the last 3 types of securities that are not related to real estate, there is a single entity limit of 5%.

* + - **Trustee**: Should ensure that the manager arranges adequate insurance coverage in relation to the real estate assets of the property fund.
    - **Trust Deed**:
      * Should allow simple majority of participants to remove the manager.
      * Manager should state whether the audited statement of total return (accompanied by audited balance sheet and auditor’s report) provides a true and fair view of the state of affairs of the property fund for the FYE. The same statement and balance sheet should be duly audited.
      * Allow the appointment of auditors at a general meeting and fixing the associated fees and expenses.
    - **Interested Party Transactions**:
      * Any acquisition or sale of assets from interested parties should have 2 independent valuations, with one of the valuers commissioned independently by the trustee. The reasonable price is determined as follows:
        + Acquisition price should not be more than 110% of the average assessed value (i.e., average values derived by both valuers).
        + Sale price should not be less than 90% of the average assessed value (i.e., average values derived by both valuers).
      * The agreement to buy / sell should be announced immediately if the transaction exceeds 3% of fund NAV and the transaction must be completed within 6 months.
    - **Valuation**: A full valuation should be conducted by an independent professional valuer at least once a financial year. To ensure independence and objectivity, the valuer should not value the same property for more than 2 consecutive financial years.
    - **Borrowings**: May mortgage its assets to secure borrowings (e.g., bonds, notes) not exceeding 45%/50% (only if Interest Coverage Ratio is 2.5 times) NAV and must repay the debt within one month. Once the 45%/50% threshold is breached, the property fund cannot undertake more borrowings.
    - **Redemptions**: In the case of unlisted property funds, the manager should offer to redeem units at least once a year. The period of redemption should be between 21 and 35 days after the offer is made. At least 10% of the property fund’s deposited property should be offered.
    - **Reporting**: An annual report should be prepared by the manager at the FYE that details all the RE transactions that are entered into and all the property fund’s RE assets. Also, the fund’s performance (1Y, 3Y, 5Y, 10Y), distributions, total operating expenses, borrowings etc. should be disclosed in the same report.
  + **Precious Metal Funds:**
    - **Definition**: Invests in physical gold, silver and/or platinum, i.e., Does not include precious metals through financial derivatives.
* **Single and Group Entity Limit**:
  + **All scenarios**: Investments into a single entity should not exceed 10% NAV. This limit would only apply to transferable securities and money market instruments.
  + **All scenarios**:Investments into a group entity (i.e., entity, subsidiaries, holding company) should not exceed 20%. This limit would only apply to transferable securities, money market instruments and eligible deposits, OTC financial derivatives.
  + **Benchmark scenario**: When the scheme invests into transferable securities that are constituents of its benchmark, the single and group entity limit would continue to apply under such scenarios. However, if the benchmark weight is above 10% (e.g., 22%), the Code allows the revisions of the single entity limit to the min (benchmark weight, 25%) and the group entity limit to 25%.
  + **Transferable Securities that are Investment Grade Government Debt**:When the investment is going into government and other public debt securities/money market instruments that has a minimum long-term rating of investment grade (BBB by Fitch, Baa by Moody’s or BBB by S&P), then the single entity limit can be revised to 35%. If the rating is downgraded, then the single entity limit would be reduced back to 10%.
  + **Transferable Securities that are unrated or non-IG Corporate Debt**:The single entity limit is revised downwards to 5%.
  + **Investments in other schemes**:A scheme may invest 100% of its NAV into another scheme assuming the underlying scheme is –
    - (a) An authorized or recognized scheme, excluding HFs and FoHFs; or
    - (b) Constituted and regulated in a jurisdiction that affords protection equivalent to those constituted in Singapore and comply with core investment guidelines and borrowing limits; or

However, if the underlying scheme is invested into (c) transferable securities, commodities and real estate that are listed for quotation, then the single entity limit of 10% would apply.

* + **Alternatives**: For unlisted securities, commodities etc., the single entity limit of 10% would apply.
* **Global Exposure**: The manager should calculate the global exposure of a scheme based on Commitment Approach or Value-at-Risk (VaR; upon consultant with MAS).
  + **Commitment Approach**:
    - The exposure to financial derivatives should be converted into the base currency of the scheme at the spot rate. The generic formula (for option) is given by no. of contracts \* notional value \* underlying price \* delta
    - For OTC financial derivatives, it is also important to calculate the exposure to financial derivatives for counterparties, since they could default on their obligations. Collaterals can be used to offset the exposure, provided they are liquid (i.e., cash or highest credit quality AAA government-back securities), marked-to-market daily, not issued by the counterparty or its related entities, and must be held by a custodian.
  + **VaR Approach**:
    - Where a reference portfolio (or benchmark for the scheme) can be determined, the scheme can use a relative VaR approach where the VaR of the scheme should not be more than 1.5 times the VaR of the relative portfolio.
    - Where a reference portfolio is not available, then the absolute VaR approach would be used, which should not exceed 20% of the scheme’s NAV.
    - Under the VaR approach, these parameters would apply: (i) One-tailed 99% confidence interval, (ii) 20 business days (or one month) as holding period, (iii) 250 business days as observation period, (iv) quarterly data updates, (v) daily calculations.
    - The manager should stress test on the scheme and back-test its VaR model at least monthly. The manager should notify MAS of any exceptions that arise from back-testing within 3 business days.
* **Efficient Portfolio Management (EPM)**: The scheme may lend transferable securities and money market instruments under EPM. The counterparty to a securities lending agreement must be a (i) financial institution with (ii) a minimum long-term rating of high credit quality (A by Fitch/Moody’s/S&P) and provide collateral that are liquid (i.e., cash or high credit quality A securities that may or may not be government-backed), marked-to-market daily, not issued by the counterparty or its related entities, and must be held by a custodian.

### Responsibilities of Manager & Trustee

* The CIS manager and trustee must be deemed to be fit and proper. In addition, the CIS manager must be licensed for fund management The CIS trustee would oversee the CIS manager’s compliance with the Code on CIS (i.e., independent from CIS manager with <20% voting shares in CIS manager) to safeguard the interest of CIS participants/unitholders (since CIS are constituted as unit trusts).
* A trust deed governs the T&Cs and responsibilities of the manager and the trustee, i.e., to act in the best interests of the CIS participants, adhere to the Code on CIS, maintain proper records etc. –
  + **Manager Role**:
    - Calculates NAV and NAV per unit using (i) market quotations (for listed securities), (ii) fair value (for unlisted securities; expected realized value upon sale), or (iii) other alternative methods. This valuation must be done every business day, except CIS with irregular trading (at least once a month) and property funds (at least once a year).
    - Any valuation error must be reported to MAS and CIS trustee. Compensation is required if valuation error is at least 0.5% of CIS NAV per unit.
    - Manager should also prepare the half-yearly financial statements and annual audited financial statements. Such requirement can be waived if it covers
      * A period of 3 months or less from the initial launch date; or
      * A period ending before CIS termination/maturity (e.g., for FYE 31 Dec 2024) but the reports are due to be sent/disseminated 1 month before CIS termination/maturity. For example, for FYE 31 Dec 2024 report, the manager should send the report by 31 Mar 2025. But if the CIS is due to be terminated/matured on 30 Apr 2025, the FYE 31 Dec 2024 report need not be prepared by the manager. Note the duty to send those reports lie with the trustee.
    - Under the Code on CIS, manager should include the following into the semi-annual and annual report, e.g., (i) Investments at market value (bucketed at country, asset class, industry etc.) as a % of CIS NAV, (ii) top 10 holdings, (iii) financial derivatives exposure (including the method to calculate global exposure), counterparty risks and collaterals used, (iv) securities lending / borrowings, (v) related party transactions, (vi) CIS performance (1Y, 3Y, 5Y, 10Y, LTD), (vii) expense ratios, (viii) turnover ratios, (ix) contingent liabilities etc.
    - Manager should also maintain a record of (i) instructions of how votes should be exercised and the (ii) soft dollars received.
    - Manager is prohibited from paying marketing or promotion expenses from the CIS, except for the preparation of prospectus, profile statement or product highlight sheet.
    - Manager is also prohibited from using CIS monies to (i) invest in own securities (assuming the manager is a listed entity), (ii) lend monies to its related parties, (iii) purchase real estate assets owned by the manager.
    - Manager is also responsible for creating its own internal credit assessment standards and establishing its credit assessment process to ensure its investments are aligned with the standards, instead of relying solely on credit ratings produced by rating agencies.
    - Any redemption proceeds should be paid out by the manager within 7 business days.
    - Manager should obtain an extraordinary resolution of participants for any trust deed modifications unless the trustee waives the requirement (e.g., correcting typos and change does materially prejudice the participants’ benefits).
  + **Trustee Role**:
    - In the event where fair value is used to assess NAV, the trustee must approve the valuer used by the manager. Trustee must also approve any alternative methods used by managers.
    - In the event of any valuation error with compensation, the trustee is required to notify MAS upon completion of the compensation.
    - Must maintain a register of the CIS participants, which records their name, address, holding %, date of participant enrolment, date of participant cessation (if any).
    - Trustee should ensure that they send (i) semi-annual accounts/reports within 2 months of period end and (ii) annual audited accounts/annual reports and auditor reports within 3 months of FYE.
    - Notify MAS of any breaches on (i) investment guidelines/limits (e.g., borrowings or concentration limits) set out in Code on CIS and (ii) financial requirements within 3 business days.
    - Takes custody or control of all CIS properties and hold it in trust on behalf of CIS participants.

### Differences between Authorized & Recognized schemes

* **Authorized CIS:**
  + **Structure**:
    - Constituted in Singapore with the manager managing at least $500M discretionary funds in Singapore.
    - Must comply with core investment guidelines and borrowing limits as set out in Code on CIS. Quantum depends on underlying CIS funds (e.g., specialized vs. non-specialized).
    - Ensure all CIS properties are properly accounted for and separated from trustees’ assets.
* **Recognized CIS:**
  + **Structure**:
    - Constituted outside Singapore with the manager managing at least with at least $500M discretionary funds in Singapore.
    - MAS may recognize a CIS if it offers at least equivalent protection to that provided by comparable authorized schemes in Singapore.
    - The recognized CIS must also appoint a representative who is an (i) individual resident in Singapore or (ii) a company registered under the Companies Act.
  + **Representative Role (on top of Authorized CIS)**:
    - Facilitate the issue and redemption of CIS units
    - Facilitate the sending of reports to CIS participants
    - Maintain a register of participants for inspection
    - Notify MAS in writing within 14 days of any change (i) in the representative’s particulars or (ii) new conditions/restrictions imposed by home financial supervisory authority on CIS authorization (in its home country).

### Prospectus, Profile Statement & Product Highlights Sheet

* **Prospectus/Profile statement (abridged version of prospectus)**:
  + **General Prospectus**: Should include (i) basic information (e.g., name and place of constitution), (ii) manager (e.g., name, address, track record), (iii) representative (for recognized CIS; name and address), (iv) trustee/custodian, (v) CIS structure, (vi) investment objectives, (vii) fees and charges, (viii) general and specific risks, (ix) CIS historical performance[[6]](#footnote-7) (1Y, 3Y, 5Y, 10Y, LTD – if applicable), (x) expense ratio, (xi) turnover ratio (i.e., number of buy-sell transactions), (xii) soft dollar commissions/arrangements.
  + If the scheme intends to carry out securities lending, the manager should disclose (i) the purpose of those transactions (including conditions and limits), (ii) inherent risks and (iii) mitigation of conflict of interests.
  + Should not include any exaggerated/biased manager performance or future/predicted CIS performance.
  + Must be signed by every director and every person who is named as a proposed director.
  + If the prospectus uses an expert’s opinion, the expert’s written consent must be lodged with MAS.
  + MAS will register the prospectus any day between 7th and 21st day from the date of lodgment.
  + The offeror may lodge a supplementary or replacement version after a prospectus or profile statement is registered but before the earlier of (i) close of the offer or (ii) the expiration of 12 months from MAS registration date. Regardless the nature, the offeror would be required to disclose at the beginning the nature this new version (i.e., supplement or replacement) and the part that it seeks to supplement or replace in the original prospectus/profile statement.
  + The prospectus/profile statement is valid for only 12 months from MAS registration date. If the CIS is offered on an ongoing basis, the latest prospectus/profile statement would have to be renewed.
  + Even after the prospectus has been registered with MAS, MAS can still –
    - Issue a stop order to get the offeror to stop issuing or selling units. Upon receiving the stop order, any contributions made by participants should be refunded and any units should be redeemed in accordance with the CIS.
    - Issue an interim stop order if the manager has previously appealed to be heard. The interim stop order dictates units cannot be issued or sold during the 14-day period.
  + **MMF**:
    - The first page of the prospectus must clearly state that –
      * The purchase of unit in MMF is not the same as placing funds on deposit with a bank. Note that deposit with banks are government insured up to $100K.
      * There is no assurance that the manager would be able to maintain or preserve the principal value.
      * The MMF is not a guaranteed fund.
    - Also in subsequent pages, it must disclose the max % of derivatives exposure used for hedging or efficient portfolio management.
  + **HFs and FoHFs**:
    - The cover page must clearly state that
      * The Code does not prescribe investment guidelines for HFs
      * An investment in the hedge fund carries different risk from other CIS
      * The frequency of redemption
    - Subsequent pages should disclose details of HF’s risk management and monitoring procedures and internal controls, and whether they are adequate.
  + **Capital Guaranteed Funds**: (i) Name and place of business, (ii) material terms of the guarantee, (iii) statement that the guarantee does not provide assurance on the future solvency of the guarantor etc.
  + **Futures and Options Funds:** 
    - Cover page has the same requirements as HFs.
    - Subsequent pages should disclose the type of financial future contracts and strategies used to achieve proper diversification.
  + **Currency Funds**:Should disclose the (i) fund’s intention to use currency derivatives, (ii) the impact of currency derivatives on the risk profile/volatility of the fund, (iii) the manager’s risk management process, (iv) the amount and denomination of the contract’s underlying currencies and (v) the method for determining the currency fund exposure.
  + **Undertakings for Collective investment in Transferable Securities (UCITS)**: Should disclose the (i) appropriate risk disclosures of the investment policies and portfolio management techniques, (ii) intention to invest in financial derivatives instruments and whether it would be used for hedging and efficient portfolio management etc.
  + **Property Funds**:
    - **Interested Parties**: A property fund may acquire or sell assets to interested parties (or invest in securities issued by interested parties). Adequate disclosures arising from such transactions should be made in the prospectus, which would include the details (e.g., acquisition / sale prices, valuation processes), current or expect rental yield etc.
    - **Risks**: The manager should also disclose its risks arising from (i) diversification (e.g., property funds may be less diversified), (ii) high gearing / high debt-to-equity (e.g., high interest rates may impact this), (iii) illiquidity etc.
    - **Fees**:
      * The manager should also disclose any fees received (or would be charged) upon the property fund’s disposal of real estate assets.
      * Manager performance fees paid out of the property fund’s deposited property and its associated computation / methodology should also be disclosed.
    - **Proceeds to be returned or reinvested**
    - **Frequency of valuation**
  + **Precious Metal Funds**: Cover page should disclose an investment in the fund carries different risk from other CIS.
* **Product Highlights Sheet (PHS)**:
  + 3 scenarios where PHS is required to be submitted with the prospectus/profile statement –
    - Debenture units issued pursuant to ABS and securitized notes (including exchange-traded notes)
      * Securitized notes are issued pursuant to synthetic securitization transaction where (i) either or both the principal sum and any interest are payable, (ii) one or more of the underlying securities or securities-based derivative contracts need to be physically delivered, (iii) the physical delivery is in accordance with a formula based on its performance, credit risk or the movement of interest rates or currency exchange rates.
    - Unlisted CIS and exchange traded funds
    - CIS where multiple sub-funds are covered by a single prospectus
  + There is a designated PHS template for each of the 3 scenarios above. The information in the PHS must provide a fair and balanced view, adopt 10-point Arial and contain these components: (i) Introduction, (ii) Product Details, (iii) Product Suitability, (iv) Key Product Features, (v) Key Risks, (vi) Fees and Charges, (vii) Valuation and Exiting Investments, (viii) Contact Information, (ix) Glossary containing all the technical terms. Any key information must be clearly disclosed in the PHS without needing the investors to look elsewhere (e.g., prospectus) for the information.
  + The PHS would not be fair and balanced if it (i) contains a biased description of the risks associated, (ii) does not give a proportionate level of prominence to any warning, (iii) does not issue a statement that clearly highlights that the return of the full principal is not unconditionally guaranteed for CIS units that is structured with the objective of returning the full principal sum, (iv) does not name the guarantor, or (v) gives investor the impression that he can profit without risk etc.

### CIS Advertisement Restrictions

* If CIS is required to submit a prospectus to make the offer of its units, the offeror cannot use an advertisement (as a substitute of the prospectus) to induce people to subscribe to the offer.
* Historical simulations for performance disclosures are forbidden in the prospectus.
* Where a scheme intends to invest in financial derivatives, it should disclose (i) whether those financial derivatives are used for the purposes of hedging, EPM or optimizing returns, (ii) the method to determine exposures (e.g., Commitment, VaR), and (iii) statement confirming the adequacy of risk management procedures.
* **After registration of prospectus/profile statement**: Advertisement employed to promote any capital market products must not be false or misleading and must be clear, fair and balanced. In terms of clearness,
  + - The body font size used must be at least 10-point Times New Roman
    - The footnote font must be Times New Roman. Footnote size must be 10 for Body Font Size <= 20. For Body Font Size between 20 and 28, the footnote size must be half the Body Font Size used. For Body Font Size above 28, then default footnote size is 14.
    - Include a liner that says, “This advertisement has not been reviewed by MAS”.
    - Approval must be sought from senior management, agent/committee of the holder of CMS license etc., before the advertisement can be disseminated. This approval must be kept on record for at least 5 years from the date of approval.
    - Having said that, some advertisements would not be subject to the above regulations, e.g., regulatory disclosures, notice or report of a proposed meeting of participants, news report or genuine comment made by a person not associated with the offeror.

### Product Suitability

* **CIS offered to retail investors**:
  + Units in a CIS that is constituted as a trust and is only invested into quoted securities and real estate
  + The CIS is not allowed to participate in any securities lending/repurchase (unless for EPM purposes).
  + Can only invest in Excluded Investment Products (i.e., listed stocks / shares, business unit trust, CIS units, real estate and related assets, debentures excluding ABS/structured notes), deposits and gold.

Any CIS not classified as Excluded Investment Product would be classified as Specified Investment Product (SIP).

* + Before the SIP can be offered to retail investors, the representative must carry out a Customer Knowledge Assessment (CKA) to ensure the retail investor meets any of the following conditions –
    - Holds at least a diploma related to Finance, Economics and Accounting.
    - Has a professional finance-related qualification.
    - Has transacted in CIS at least 6 times in the preceding 3 years.
    - Has a minimum of 3 consecutive years of working experience in the past 10 years working in risk management or treasury activities.
  + Each CKA is only valid for 1 year. The retail investor must be reassessed next year if he wishes to continue transacting in SIP. Having said that, the CKA can be waived provided that the retail investor has (i) 3 consecutive years of working experience in the past 10 years working in risk management or treasury activities or he (ii) has transacted in CIS at least 6 times in the preceding 3 years.
  + If the retail investor does not pass the CKA, he would be required to undergo a learning module offered by MAS or he could go ahead to transact in SIP with certain safeguards.

### ASEAN CIS Framework

* Under the framework, fund managers in Singapore, Malaysia and Thailand can offer CIS constituted in their home jurisdictions directly to retail investors in the other 2 ASEAN countries under a streamlined authorization process. A manager of an authorized CIS in Singapore, who wishes to tap into this arrangement, would need to apply to MAS and the SEC of Thailand/Security Commissions of Malaysia for approval, accompanied by a prospectus.

## Chapter 8 – CPF Investment Scheme (CPFIS)

### CPFIS Overview

* The CPFIS is made up of CPFIS-OA and CPFIS-SA, where different products are made available under each scheme. CPF members can invest in CIS under the CPFIS.
* Eligibility criteria: (i) At least 18 years old, (ii) Not undischarged bankrupts, (iii) Have more than $20K in CPF OA (for CPFIS-OA) or more than $40K (for CPFIS-SA), (iv) Have completed the CPFIS Self-Awareness Questionnaire w.e.f. October 2018.
* CPF members may only invest excess amounts above $20K (for OA)/$40K (for SA). For OA investments, only 35% of OA investible savings can be invested in shares, property funds and corporate bonds, and max. 10% into gold ETFs and other gold products.

### LFMC Requirements to be included in CPFIS

* **Admission Criteria**:
  + **License**: LFMC should be licensed (i.e., CMSL) for fund management. For foreign LFMC of a recognized CIS, it should hold an equivalent license in its home country.
  + **Track Record**: LFMC should have a minimum track record of 1 year in Singapore (or 3 years for group and foreign LFMC).
  + **AUM**: LFMC and its related companies must manage at least $500M discretionary funds in SG or $1B discretionary funds globally (especially for LFMCs that offer funds that are recognized CIS). Fund can be authorized or recognized CIS.
  + **Sound financial position and good compliance records**
  + **Member of IMAS**: For foreign LFMC, the appointed representative must be a member.
* **Application Review**: It will be a 2-stage review process –
  + **1st stage**: Review by CPF Board against the admission criteria.
  + **2nd stage**: Review by external investment consultant appointed by CPF Board, who would conduct due diligence on applicant’s track record, quality of investment management (e.g., stability of fund management team, corporate culture, talent retention).

### Fund Requirements to be included in CPFIS

* **General Criteria**:
  + **Active Funds**:
    - Be in the top 25th percentile in global peer group based on similar asset class / strategy
    - Have a Total Expense Ratio not exceeding the cap in its risk category
    - Have 0% sales charges
    - Fund has a track record of at least 3 years
  + **Passive Funds**:
    - Good prospects of tracking index with low tracking error
    - Have a Total Expense Ratio not exceeding the cap in its risk category
    - Have 0% sales charges
    - Physical replication (full or partial)
    - ETF listed on SGX
    - Fund has a track record of at least 3 years
  + **Property Funds**:
    - Listed property funds that invest directly into real estate or properties need not comply with CPF Investment Guidelines (CPFIG). However, CPF member is only allowed to invest 35% of investible savings. Property funds enrolled under CPFIS-OA must be
      * Offered by a company incorporated in SG
      * Denominated in SGD
      * Listed on SGX Mainboard
  + **ETFs**: Listed on SGX Mainboard (i.e., not Catalist).
  + **Commodity Murabaha Funds**: Does not need to seek approval from CPF Board if (i) the underlying is base metals that are traded on exchanges at spot prices, (ii) risk-return profile mirrors a deposit, (iii) FI has a financial strength rating of above C, (iv) adequate disclosures on the structure and risks of the product.
  + **FOFs and multi-manager products**: Reviewed on a case-by-case basis.
* **Unit Trusts**: Are included in CPFIS under different categories of risk – Equity Risk and Concentration/Focus Risk. These broad sub-groups allow comparisons across unit trusts that are roughly similar in geographic focus.
* **Submission**: For each fund that wishes to be included into CPFIS, LFMC is required to provide information on the following, so the external investment consultant can evaluate whether the product can reasonably achieve out-performance against the benchmark –
  + **People Pillar**: Quality of product investment team, e.g., individual expertise, resources etc.
  + **Process Pillar**: Performance objective, investment process
  + **Parent Pillar**: Support from parent in areas of capacity management, risk management, talent recruitment/retention, corporate culture of stewardship etc.
* **Application Process**:
  + **Authorized CIS**:
    - **Fund is wholly managed in SG**: LFMC and its related companies must manage at least $500M discretionary funds in SG.
    - **Fund invests partially or fully in CIS not included in CPFIS**:
      * LFMC and its related companies must manage at least $1B discretionary funds globally.
      * A list of investments in the underlying CIS that deviates from CPFIG, and the proposed compliance / monitoring procedures to ensure at least 95% NAV complies with CPFIG.
      * Confirmation that manager does not retain any cash rebates.
    - **Fund is partially or fully sub-managed in SG or abroad**:
      * LFMC and its related companies must manage at least $1B discretionary funds globally.
      * A list of investments in the underlying CIS that are sub-managed.
      * A list of investments in the underlying CIS that deviates from CPFIG, and the proposed compliance / monitoring procedures to ensure at least 95% NAV complies with CPFIG.
      * Confirmation that the foreign sub-manager does not retain any cash rebates.
  + **Recognized CIS**:
    - * LFMC and its related companies must manage at least $1B discretionary funds globally.
      * A list of investments in the recognized CIS that deviates from CPFIG, and the proposed compliance / monitoring procedures to ensure at least 95% NAV complies with CPFIG.
      * Confirmation that the manager does not retain any cash rebates.

### Compliance & Disclosure Requirements under CPFIS

* **Compliance Matters**:
  + Comply with regulations and guidelines under SFA, CPFIG
  + Implement appropriate compliance, internal controls and operational systems
  + Ensure regular submissions of following reports –
    - **Annual external auditor’s report on the fund**: 3 months after FYE for authorized / recognized CIS
    - **Annual external auditor’s report on operations relating to unit of CPF members**: Within 5 months after FYE
    - **Returns to confirm continuing compliance with admission criteria by the LFMCs**: 1 month after the end of each quarter
    - **Notification of breach of CPFIG**: Within 14 calendar days
    - **Notification of Trustee’s approval to extend deadline to rectify breach**: Within 7 calendar days
    - **Notification of rectification of breach**: Within 7 calendar days
* **Prospectus Disclosures**:
  + The LFMC should disclose (i) the list of countries and assets that the fund intends to invest in, (ii) the benchmark to be measured against, (iii) the intention to invest in derivatives and/or securities lending, (iv) trailer fees (range and median) that is payable to distributors.
  + Any prospectus updates must be submitted within 10 working days. If there are no changes to the prospectus, LFMCs are required to email CPF Board within 10 working days after the end of June/December.
* **Disclosure Requirements for Performance and Risk Monitoring of CIS**: LFMCs are required to furnish analytical data (i.e., AUM, NAV per unit, monthly benchmark returns, information on unit split or dividend, half-yearly expense ratios) to selected Funds Tracking Companies upon request by CPF Board. Such requests must be fulfilled within 1 week.
* **Notification of any significant events**: Must be completed within 5 working days. Events include changes to investment processes, changes to organizational structure, regulatory violations, change of portfolio manager etc.

### CPF Investment Guidelines (CPFIG)

* Note that any CIS enrolled into CPFIS would have to comply with CPFIG and Code on CIS.
* **List of permissible investments**:
  + Listed and unlisted shares, deposits with financial institutions, money market instruments, debt securities eligible under CPFIG (i.e., convertible bonds, perpetual bonds, securitized debt), CIS units, cash.
    - **Deposits held with financial institutions**: FI must have either Baseline Credit Assessment of above a3 by Moody’s or viability ratings of above BBB by Fitch. Branches of financial institutions adopt the same rating as parent, but subsidiaries are required to have their own credit ratings. When FI’s credit ratings takes a hit, the placement would be classified as a prohibited investment and will fall under the deviation limit of 5%.
    - **Debt securities**:
      * LFMC may invest in corporate and sovereign debt securities that are rated at least investment grade BBB. When the entity’s credit ratings take a hit, then the placement would be classified as a prohibited investment and will fall under the deviation limit of 5%. However, for those bonds that are now rated as non-investment grade bonds arising from rating downgrade, there is a special 5% sub-limit (i.e., outside of the 5% deviation limit) that LFMC can use for this purpose.
      * Unlisted debt securities do not fall under this 5% deviation limit.
    - **Unlisted shares**:Allowed within the 5% deviation limit.
    - **Financial Derivatives**: Allowed for hedging and EPM. Otherwise, it will fall under the deviation limit of 5%.
    - **Securities Lending**: Max. 50% of NAV may be lent at any time for the sole purpose of EPM.
    - **Borrowing Limit**: Borrowing limit of 10% under MAS must be adhered to.
* **5%** **Deviation Limit from CPFIG**:
  + If the 5% deviation limit is exceeded due to (i) Fund NAV appreciation/depreciation, (ii) Changes in capital, (iii) Weight reduction in benchmark constituent, (iv) Downgrade of credit ratings, LFMC must sell securities / units to bring the fund back in compliance within 3 months.
  + If the 5% deviation limit is exceeded not due to the events above or is exceeded because of acquisitions of more prohibited investments, then LFMC must sell investments and/or reduce borrowings to bring the fund back in compliance immediately.
  + For LFMCs that are not able to comply with the above, they must –
    - Still report the breach within 14 calendar days
    - Cease to accept subscriptions from CPFIS-OA and CPFIS-SA with immediate effect
    - Provide within 3 months the notice to each CPF member invested in the fund the impact of the breach and give them the option to redeem or switch to another fund under CPFIS without any additional charges.

## Chapter 9 – Ethics, Codes and Standards of Professional Conduct

* **Ethical Framework**:
  + Understanding and comprehension of the products and services and their risks
  + Analyze risks by taking into consideration risk tolerance and financial capacity of clients
  + Execute solutions in a fair and transparent manner
  + Serving clients by prioritizing their needs and interests
* **Application**:
  + Prioritizing client needs first
  + Earning integrity, competence, diligence and respect
  + Exercise care and independent professional judgment
  + Building trust in clients and following market conduct
  + Disassociating oneself from transactions
  + Consult compliance and legal when in doubt
* **Identifying Potential Ethical Dilemmas**:
  + **Self-Interest**: A personal interest could negatively affect the behavior and judgment
  + **Self-Review**: Inherent bias in favoring and approving work done by oneself
  + **Influence**: Influence from other individuals / group might impair personal judgment and decision-making.
* **Preservation of confidentiality**: Representatives should keep information about current, former, and prospective clients confidential unless:
  + Information concerns illegal activitiesby the existing or prospective client
  + Disclosure is required by law
  + Client permits disclosure of the information

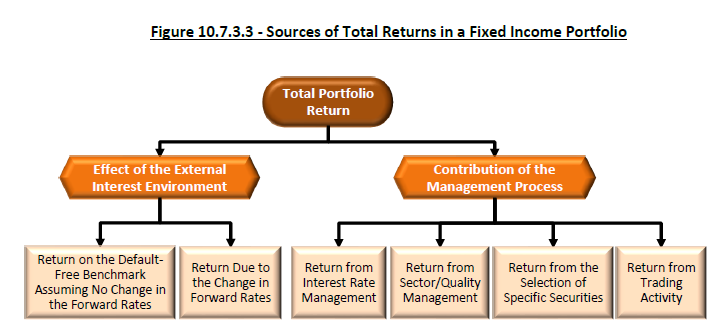
## Chapter 10 – Fund Management Practice & Skills

### Overview of Investment Management Process

* **Planning**:
  + The Investment Policy Statement (IPS) serves as a strategic guide to the planning and implementation of an investment program. It is tailored for each client based on their needs (objectives, restrictions, tolerances etc.) and reviewed on an annual basis. The client needs can be solicited through questionnaires.
  + A good IPS contains the following –
    - Confirming portfolio objectives
    - Protecting the portfolio from ad-hoc changes
    - Staying on track in achieving long-term performance
    - Distancing from inappropriate short-term strategies
  + As clients might solicit inputs from a variety of other professionals, it is prudent for managers to develop relationships with these people so that they do not undermine the investment policy.
* **Investor Management Selection**:
  + **Skills Depth and Ethics**: Besides professional qualifications and experience, it is also important to assess the manager’s integrity, objectivity and professionalism.
  + **LFMC’s Investment Philosophy**: The firm’s investment philosophy, risk management function, stock selection process and portfolio construction process are also important considerations.
  + **Performance and Fees**: A fund’s overperformance over its target benchmark (consistently) has a high correlation with the reasonableness of the fees charged. The competitiveness of the market might yield better manager alternatives in terms of performance and fees.
* **Trade Execution**:
  + Buy-side traders are employed by managers to place trades that execute the decisions of fund managers. Trades can be fulfilled using –
    - **Market order**: Current available prices
    - **Limit order**: Determined by price levels set
    - **Stop losses**: A target price set to sell shares to cut losses due to selling activities
    - **Stop buys**: A target price set to buy shares
  + **Costs of trading**:
    - **Explicit**: Broker commission costs, taxes, stamp duties, exchange fees
    - **Implicit**: Bid-ask spread, missed trade opportunity cost due to failure to execute trade in a timely manner, slippage due to size and liquidity of markets.
    - The implicit costs can be measured using either Volume-Weighted Average Price (VWAP; where trade price is weighted by the day’s volume) or Implementation Shortfall (i.e., difference between the return using investment decision price vs. actual return).
      * Implementation Shortfall is not vulnerable to gaming and captures all transaction costs (i.e., both implicit and explicit). Implementation Shortfall is “front-loaded” by attempting to exploit market liquidity in the trading day.
    - Sometimes a large buy order might create a upward impact on prices. Breaking the order into smaller chunks may therefore yield a lower average price.

### Performance Measurement, Attribution & Appraisal Process

* **Performance Measurement**: Calculation of returns for an account. Usually, a time-weighted rate of return [(1+r1)(…)(1+rn)-1] is preferred to money-weighted rate of return (aka IRR), because the former removes the impact of external cash flows.
* **Performance Attribution**: Identifies the sources of variation from benchmarks returns and their impacts on an account’s performance.
  + **Macro Attribution Analysis**: Attribution involves assigning / calculating the returns in these buckets: (i) Net Contribution, (ii) Risk-Free Rate, (iii) Asset Class Benchmarks, (iv) Manager Benchmarks, (v) Actual Manager Performance (i.e., excess returns over manager benchmark), (vi) Allocation Effects.
  + **Fixed Income Attribution**:



* **Performance Appraisal**: The ability of the manager to perform beyond his selected benchmark. Usually, we can use risk-adjusted measures (e.g., Sharpe, Treynor and Jensen’s alpha) to measure the manager’s performance.
* **Presentation of Performance Results**: These are reflected in the form of monthly, quarterly and annual reports that comprise of (i) Performance Summary, (ii) Performance by Account, (iii) Contributions/Withdrawals, (iv) Asset Mix, (v) Top 10 holdings, (vi) Realized Gains/Losses, (vii) Sector/Country Allocations.

### Best Practices in Fund Management

* **Changes in Economic Conditions**: Monitoring market and economic changes can be beneficial (e.g., Changes in yield curves reflect changes in bond values and ultimately affect the market demand for bonds vs. equities; Inflation can affect stock markets) in evaluating whether the existing portfolio mix can continue to attain client investment objectives.
* **Best Execution**: Balance between price, speed, cost and likelihood of execution to achieve the best trading outcome. Even if a trade has not been executed at the best possible price, this does not necessary constitute a violation of best execution practices.
* may reflect investors’ required returns at various maturities. The ability of the manager to perform beyond his selected benchmark. Usually, we can use risk-adjusted measures (e.g., Sharpe, Treynor and Jensen’s alpha) to measure the manager’s performance.

## Chapter 11 – Prevention of Financial Crimes

### Types of Financial Crimes

* **Money Laundering (ML)**: A process intended to mask the proceeds obtained from criminal activities, e.g., drug tracking and other serious crimes, so that they appear to have come from a legitimate source.
* **Terrorist Funding (TF)**: Provides fund to terrorists to carry out acts of terrorism to influence / compel governments into particular course of action / intimidate the public. The funds can be from legitimate (e.g., donations, sale of publications etc.) and illegitimate (e.g., robbery, drug trafficking, kidnapping, hacking etc.) sources.
* ML/TF funds can be laundered through 3 steps
  + **Placement**: Physical deposits with FIs.
  + **Layering**: Create layers of financial transactions aimed at disguising the source of funds.
  + **Integration**: Place laundered funds back into the financial system to legitimize them.
* **Embargos and Sanctions**: Embargo is a complete ban or prohibition of trade or financial dealings with a particular country. Sanctions are the trade prohibition on certain types of products, services (aka as partial embargo) etc.
  + Embargos affecting all relations with a particular country, e.g., North Korea
  + Embargos affecting named individuals or entities: Specifically Designated Names (SDN)
  + Embargos on certain sectors
  + Economic sanctions (e.g., tariffs, full blockage etc.)
* **Fraud**: Deception and dishonesty to benefit at the expense of others.

### Laws & Regulations Deterring Financial Crimes

* **Corruption, Drug Trafficking and Other Serious Crimes Act (CDSA)**: Aimed at regulating money laundering activities, which includes drug dealing/trafficking, prostitution, gambling, bribery, counterfeiting, terrorist financing, tax evasion etc.
  + **Conviction on Drug Dealing**: Need to prove that the person knows the property (part or whole) represents the economic benefits derived from drug dealing activities.
    - **Individuals**: $500K fine or 10Y imprisonment or both
    - **Entities**: Max($1M, Twice the value of benefits from the drug deal) fine
  + **Conviction on Tipping off**: $250K fine or 3Y imprisonment or both
  + **Conviction on Failure to Make Suspicious Transaction Reporting (STR)**:
    - **Individuals**: $250K fine or 3Y imprisonment or both
    - **Entities**: $500K fine
    - Note that the CDSA provide statutory protection to an institution and its employees in making STRs. No actions would be taken against a FI that complies with an order to disclose a client’s account under the law. Also, the CMI/LFMC does not need to prove beyond doubt that a customer is involved in criminal activity before an STR is filed.
  + In the CDSA investigation, a Search Warrant might be produced by the Court. Anybody who contravenes/obstructs this would be liable for $10K fine or 2Y imprisonment or both. The same penalties would apply for contravention of a production order.
* **Mutual Assistance in Criminal Matters Act (MACMA)**: Provides mutual assistance to other countries to combat cross-border ML/TF crimes.
* **Terrorism (Suppression of Financing) Act (TSOFA)**: Criminalizes TF and allows for seizure and confiscation of property related to terrorism purposes.
  + **Conviction on TSOFA**:
    - **Individuals**: $500K or 10Y imprisonment or both (same as Drug Dealing above)
    - **Entities**: Max($1M, Twice the value of property and services rendered) fine
* **MAS Notice to all FIs on Sanctions**: FIs should do enhanced due diligence (EDD) and pay attention to business relations / transactions with person in sanctioned countries.
* **MAS Regulations on Targeted Financial Sanctions related to ML/TF**:Require FIs to
  + Freeze funds immediately of designated individuals and entities;
  + Prohibit financial transactions and financial assistance to designated individuals and entities; and
  + Notify MAS of any assets or economic resources owned/controlled by the designated individuals and entities
* **Designation of Tax Crimes as ML Predicate Offences**: Fraudulent tax evasion, giving false information/records are deemed ML predicate activities and are liable under the law. Thus, FIs must adequately identify and assess tax-related risks and act to mitigate those risks.

A Capital Markets Intermediary (CMI) found to be non-compliant would be fined $1M. To avoid paying the price for any of these financial crimes, it has the responsibility to conduct the necessary due diligence. However, these issues often complicate the due diligence process –

* + Layering through many subsidiaries/shell companies/SPVs to mask the audit trail of Beneficiary Owner (BO; The natural person who ultimately owns or controls the customer or the natural person on whose behalf a transaction is conducted, or business relations are established and includes any person who exercises ultimate effective control over a legal person or legal arrangement).
  + BO may change over time especially if the ownership of companies are “bearer” shell companies and not registered (i.e., In this case, the company BO is the one who holds the share certificate).

### Know Your Customer (KYC)

* To tackle the due diligence issues above, CMIs/FMCs have strong AML/CFT processes to conduct the necessary reviews.
* During client onboarding by CMI/LFMC, it is important to gather personal information –
  + **Individual**: Age, Address, Employment, Source of wealth from individual’s original identification records, official subscribed databases etc.
  + **Entity/Legal Person/Legal Arrangement**: Type of business (to better understand source of revenue), Country of Incorporation, Full name of connected persons from individual’s original identification records, business constitution documents, board resolutions, trust deed, official subscribed databases etc.
    - **Connected person for Legal Person** (i.e., company): Directors or any natural person with executive authority
    - **Connected person for partnership**: Managing partner
    - **Connected person for legal arrangement**: Any natural person with executive authority on the legal arrangement
  + Good policy for CMI/LFMC to reject companies with bearer shares or nominee shareholders as clients because of the inability to know the identity of the BO.
  + If the CMI/LFMC wishes to undertake any transactions >$20K with any customer that has no existing business relations, it should take reasonable steps to screen their customers as soon as practicable. If the customer is not a natural person, the CMI/LFMC should investigate the customer’s business and ownership structure, connected parties and identify the ultimate BOs. However, if the customer falls into any of these categories, there is no need to determine BO –
    - Entity listed under SGX or other foreign exchanges
    - Certain financial institutions supervised by MAS
    - FIs incorporated outside Singapore but subject to AML/CFT requirements consistent with standards set Financial Action Task Force (FATF)
    - Investment vehicles created by the last 2 categories
    - Singapore Government entities
  + On a periodic basis, the CMI/LFMC should also (i) screen the customer against the latest list of designated individuals and entities, (ii) monitor any changes/updates in customers’ status or risks (e.g., change in connected parties), and (iii) assess whether to impose additional ML/TF risk mitigation measures.
* **Risk-based Customer Due Diligence (CDD)**: MAS allows for a risk-based approach to be adopted by CMIs/LFMCs, i.e., Risk-based CDD. Under this approach, CMIs are required to accord risk scores to different customers based on their characteristics.
  + **Politically Exposed Person** **(PEP), including Singapore PEP**: Accorded high risk.
    - **Note #1**: There is a need to obtain senior management’s approval to continue business relations with a customer or BO who is a PEP.
  + **Country Risk Rating**: North Korea, Myanmar and Iran are accorded high risk because they have poor AML/CFT measures and are found in FATF blacklist.
  + **Business Risk Rating that are accorded high-risk**:
    - Businesses that are involved in (i) personal investments, (ii) gambling, (iii) remittance/money services, (iv) precious metals/diamonds and (v) cash intensive operations (e.g., pawnshop, restaurant, convenience shop, money changers)
    - Businesses that accept large cash payment, i.e., above $20K.
    - Businesses that have an ownership structure that appears unusual or excessively complicated.
    - Companies that have nominee shareholders or shares in bearer form
    - Legal persons or legal arrangements that are personal asset holding vehicles.
    - BO of the customer is from a country where FATF has called for countermeasures (i.e., FATF blacklist; North Korea, Iran and Myanmar)
    - **Note #1**: There is a risk that accountants, lawyers, notaries, trustees etc. may become conduits for ML/TF (where the BO makes use of their credibility to perform ML/TF activities).
    - **Note #2**: Businesses involved in the import/export of retail items, shipping etc. can also be used for trade-based ML through false trade pricing, fictitious invoicing etc.
* **Simplified CDD**: For those customers rated as low-risk under the Risk-Based CDD, Simplified CDD can be implemented. Notable examples would include –
  + Entity listed under SGX or other foreign exchanges
  + Certain financial institutions supervised by MAS
  + FIs incorporated outside Singapore but subject to AML/CFT requirements consistent with standards set Financial Action Task Force (FATF)
  + Investment vehicles created by the last 2 categories
  + Singapore Government entities

Where a CMI/LFMC applies simplified CDD, it shall document the details and perform ongoing monitoring of business relations. Having said that, if there are reasonable doubts, a full due diligence should still be conducted.

* **CDD on joint accounts**: CMI/LFMC should conduct due diligence on all joint account holders as if each of them was individually customers of the CMI/LFMC. If the joint account holders conspire to break the transaction into smaller transactions (e.g., each transaction falls below $20K), the CMI/LFMC must aggregate the values for the purpose of AML/CFT and CDD.
* **Enhanced CDD**: Where the risk score is high, an Enhanced CDD must be carried out on an annual basis. Under this approach, CMI/LFMC must take reasonable steps to establish and corroborate their source of wealth/funds (vs. not a requirement under CDD for low-medium risk customers) –
  + Obtain reliable supporting documents (e.g., annual financial statements, payslips, tax returns etc.) from customer.
  + Validate above supporting documents against independent sources of information (e.g., financial reports of similar scale companies, salary benchmarking reports).
  + Document its assessment of the plausibility of its customers’ wealth.
  + After high-risk client onboarding, continue with enhanced monitoring procedures on an ongoing basis.
* **Retention**: All documents of checks and transactions (i.e., Financial Transaction Documents (FTDs)) with customers should be kept for audit purposes and retained for 5 years after the completion of each transaction. Examples include account opening/closing (5Y from account closing), deposit box opening/closing (5Y from deposit box cessation) etc. Any FIs that contravene this would be liable for $10K fine.
* **STR Reporting**: If CMI/LFMC has reasonable grounds to suspect the BO is SDN/sanctioned and/or source of customer’s wealth/funds are proceeds that are prohibited under CDSA,
  + It should not deal with the customer and file a STR with CAD/STRO within 15 business days and extend a copy to MAS. The authorities might request all documents of checks and transactions (e.g., FTDs) to be furnished.
  + However, if it continues to deal with customer, then the CMI/LFMC must (i) substantiate and document the reasons and (ii) perform EDD measures and enhanced monitoring on an ongoing basis.
* There could be instances where the CMI/LFMC would start business relations with customer even though the verifications are ongoing. In such cases, CMI/LFMC is required to implement appropriate safeguards (e.g., limits, type and value of transactions, closer monitoring etc.) and ensure that the verification is completed within 30 days after the establishment of business relations.
  + **Incomplete verification after 30 days**: Suspend all business relations with customer and refrain from carrying out further transactions
  + **Incomplete verification after 120 days**: Terminate business relations.
* **Tax-Related ML Risk**: CMI/LFMC should be alert to any changes in tax residencies of customers and request for corroborative evidence of the tax legitimacy of the funds, where applicable.

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### Enterprise-wide Risk Assessment

* **Process**: The CMI/LFMC must identify and assess ML/TF risks on an enterprise-wide level once every 2 years. The results must be documented and approved by senior management, even if there are no significant changes. This includes a qualitative and quantitative assessment of its ML/TF risks across all business units, product lines and delivery channels.
* **Risk Factors**: (i) Target customer segments/markets (including countries/jurisdictions), (ii) CMI’s/LFMC’s country exposures in relation to business units, product lines and delivery channels.

### Best Practices and Framework

* **Governance**:
  + Board and senior management need to set a strong tone at the top, set a clear risk appetite and develop a compliance culture to foster strong AML/CFT practices and oversight.
  + Create **3 lines of defense**:
    - Business Units
    - AML/CFT and Compliance Teams (e.g., CDD/EDD checks, alert on any potential breaches or ML/TF risks etc.)
    - Internal Audit (e.g., conduct independent and periodic evaluations on risk management framework, procedures and controls to ensure adequacy and effectiveness).
  + Ensure timely reporting and remediation on key ML/TF risks and challenges.
* **Risk Awareness**:
  + Develop clear guidance tailored for various AML/CFT functions, e.g., nature of ML/TF risks, potential red flags, appropriate escalation and risk mitigation measures.
  + Implement staff training once every 2 years tailored for different functions to foster strong AML/CFT practices.
* **Execution**:
  + Periodically review and enhance policies and procedures to ensure alignment with regulatory requirements.
  + Implement ongoing risk-based monitoring framework to ensure EDD measures are applied on high-risk customers.
  + Set up system and processes for identification, reporting (e.g., STR filing) and mitigation of ML/TF risks.

## Sample Questions

**Chapter 2 – Fund Management Regulations and Guidelines**

1. The key legislation governing the securities industry of Singapore is the:

a. Exchanges Act.

b. Local Treasury Bills Act.

c. Banking Act.

d. Securities and Futures Act.

2. Which of the following does NOT comply with Investment Management Association of Singapore (IMAS) recommended practice for allocating clients’ orders?

a. Having a procedure in place to allocate orders given to clients fairly.

b. Recording the intended basis of allocation of block orders before the transaction is effected.

c. Recording executed allocations one day after the transaction date.

d. Providing clear documentation to support reasons why initial order allocations are revised.

3. Under the IMAS Code of Ethics and Standards of Professional Conduct, members may receive goods or services (i.e. soft dollars) from a broker in consideration of directing transaction business on behalf of their clients to the broker only if:

a. The goods or services can reasonably be expected to assist in the provision of the investment services to Members’ clients generally.

b. Transactions are executed on the best available terms, considering the market at the time for transactions of the kind and size concerned.

c. Members do not enter into unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft dollars.

d. Members maintain a record of soft dollar arrangements and activities.

▪ (a), (b) and (c).

▪ (a) and (b).

▪ (c) and (d).

▪ (b), (c) and (d).

4. Under the IMAS Standards of Professional Conduct, Best Execution refers to executing trades:

a. At the best available terms for the client.

b. On recognized stock exchanges.

c. With brokers or counterparties with good credit standing.

d. With brokers or counterparties that are not related parties.

5. Under the IMAS Standards of Professional Conduct on Relevant Legislation, members should establish internal procedures that ensure knowledge and compliance with the applicable laws and rules. These internal procedures would apply to:

a. All staff.

b. All directors only.

c. All front office staff only.

d. All back-office staff only.

6. Which of the following practices complies with the IMAS Standards of Professional Conduct?

a. The fund manager hears a rumor of a potential takeover of a major public company from one of the employees of the public company and proceeds to invest in that company for his/her clients.

b. The fund manager hears a rumor of a potential takeover of a major public company. The fund manager believes that the stock is a good investment despite the rumor based on his/her own research of the company and invest in that company for his/her clients in accordance with the investment mandate granted by the clients.

c. The fund manager buys securities from the clients’ account.

d. The fund manager trades excessively for the clients’ account.

7. All of the following practices are discouraged under the IMAS Standards of Professional Conduct

EXCEPT:

a. The fund manager allows the client to undertake late trading in funds.

b. The fund manager allows the client to trade in their funds to take advantage of discrepancies.

c. The fund manager makes an untrue statement with regard to the funds’ performances.

d. The fund manager includes risk warnings in the presentations on fund performances to clients.

8. Which of the following is an acceptable practice under the IMAS Standards of Professional Conduct?

The fund manager:

a. Changes a client’s portfolio twice a month with completely different securities with a related company.

b. Directs clients’ trades to a broker that is also distributor of its funds.

c. Does not observe the client’s investment guidelines when managing the client’s portfolio.

d. Should not deposit or borrow funds on behalf of a client with a related company.

9. Assume you are a fund manager marketing a balanced unit trust to an investor for his CPF Investment Scheme (CPFIS) account. Which of the following statements would comply with the IMAS Standards of Professional Conduct?

a. “I am certain that this fund will appreciate at the same rate of return as it has in the past five years.”

b. “I am so certain of this investment for your CPF Ordinary Account that I will guarantee any downside.”

c. “While the fund has shown gains in the past ten years, I cannot guarantee that it will continue to perform as in the past.”

d. “This is a suitable investment for your CPFIS account as its price can only continue to increase.”

10. The IMAS Standards of Professional Conduct recommends which TWO of the following should be included in the Investment Mandate?

a. Reception and transmission of orders.

b. Investment objectives.

c. Performance measurements and appropriate benchmarks.

d. Disclaimers.

▪ (a) and (b).

▪ (b) and (c).

▪ (c) and (d).

▪ (a) and (d).

11. The IMAS Standards of Professional Conduct recommends which of the following methods should be used by a fund manager to avoid an appearance of conflict of interest by its employees?

a. A policy which states that clients’ interests receive priority over the interests of the employees.

b. A procedure that requires employees to disclose their directorships in companies.

c. A procedure that requires employees to disclose of substantial shareholdings in companies.

d. A procedure that requires the fund manager to disclose portfolio risk to its clients.

▪ (a) and (b).

▪ (a), (b) and (c).

▪ (c) and (d).

▪ (a) and (d).

12. A fund manager must take reasonable steps to ensure that a client is given adequate information about the firm. Which of the following are NOT required by the IMAS Standards of Professional Conduct?

a. Details of awards worn by the firm.

b. Its business addresses.

c. The identity and status of employees with whom he has contact.

d. The relevant conditions or restrictions under which the fund manager's business is conducted.

▪ (a).

▪ (a), (b) and (c).

▪ (b) and (c).

▪ (c) and (d).

13. Which of the following principles captures the principles of the IMAS’ Code of Ethics? The fund manager should:

a. Achieve long term risk-adjusted investment performance record.

b. Provide friendly service.

c. Act with competence.

d. Conduct himself with integrity and professionalism.

• (a).

• (a), (b) and (c).

• (b) and (c).

• (c) and (d).

14. Which of the following comply with the IMAS Standards of Professional Conduct on Segregation of Business Activities?

a. The fund manager segregates its proprietary investment activities from its clients’ investment activities.

b. The fund manager has “China Wall” arrangements in place to limit the flow of confidential and price sensitive information that might prevent the firm from dealing in particular securities or with particular clients.

c. The fund manager’s front office is not physically separated from its back office.

d. The fund manager has designated centralized dealing officers who are not part of the fund management or investment decision making process.

▪ (a) and (c).

▪ (b) and (c).

▪ (a), (b) and (c).

▪ (a), (b) and (d).

**Chapter 3 - Licensing**

15. The Securities and Futures Act (SFA) administers a single license for regulated activities. This license is the:

a. Capital Markets Services (CMS) License.

b. Investment Adviser’s License.

c. Dealer’s License.

d. Futures Trading License.

16. Which of the following is NOT one of the regulated activities under the Capital Markets and Services

(CMS) License?

a. Dealing in securities.

b. Providing custodial services for securities.

c. Advising on corporate finance.

d. Providing banking services.

17. Which of the following must hold a CMS license?

a. A bank licensed under the Banking Act that is managing funds for its private banking clients.

b. A clearing house that performs a regulated activity because of its clearing facilities.

c. A finance company licensed under the Finance Companies Act who provides securities financing.

d. A company which plans to manage unit trusts in Singapore.

18. Which of the following appointments must be approved by MAS prior to their appointment?

a. Directors.

b. Chief Executive Officer.

c. Company Secretary.

d. Compliance Officer.

▪ (a) and (b).

▪ (b) and (c).

▪ (c) and (d).

▪ (a), (b) and (c).

19. Which of the following is NOT part of the Fit and Proper Test for Directors of Capital Markets and Services (CMS) license holders?

a. Financial Soundness.

b. Honesty and Integrity.

c. Competence and capability.

d. Influence.

**Chapter 4 - Conduct of Business**

20. Under Regulation 4 of the Securities and Futures (Licensing and Conduct of Business) Regulations, Capital Markets Services (CMS) license holders and their representatives are required to record their investments and sales of listed specified products in a:

a. register of shares.

b. register of listed specified products.

c. register of holdings.

d. register of investments.

21. Interests or changes to interests in listed specified products held by employees who are representatives of Capital Markets and Services (CMS) license holders must be updated in their register of securities within:

a. 2 days.

b. 5 days.

c. 7 days.

d. 10 days.

22. The Securities and Futures Act (SFA) only allows for the registers of listed specified products to be maintained in all the following manners EXCEPT:

a. The CMS license holder can maintain the register of listed specified products at any of its places of business.

b. The CMS license holder can maintain the register of listed specified products at the principal place of business.

c. The individual can maintain the register of listed specified products in an electronic format in his home’s computer.

d. The individual can maintain the register of listed specified products in electronic format at employer’s principal place of business.

23. A person who ceases to be a license holder must notify MAS within \_\_\_\_ days of cessation.

a. 5 days.

b. 7 days.

c. 10 days.

d. 14 days.

24. What should CMS license holders try to observe when maintaining records in compliance with the Securities and Futures Act (SFA)?

a. The records should be maintained for a minimum period of 10 years.

b. The records should enable convenient and proper audit.

c. The records should be prepared in accordance with IMAS guidelines.

d. The records should be prepared in accordance with the Company’s Act.

25. Which of the following statements relating to Record Keeping Requirements is FALSE?

a. Records kept should facilitate convenient and proper audit.

b. Records kept should enable true and fair profit and loss and balance sheet accounts to be prepared on the business.

c. Records kept should sufficiently explain the transactions and financial position of the fund manager.

d. Records kept should be retained for a minimum period of 7 years.

26. Which of the following information is NOT required to be maintained under Record Keeping Requirements provisions under the SFA?

a. All powers of attorney authorizing the fund manager to manage the account on a discretionary basis.

b. All details of proprietary transactions undertaken by the fund manager.

c. All details of gifts received by the fund manager from its counterparties.

d. All confirmations of securities transactions carried out by its representatives.

27. The Business Conduct provisions specify that all moneys must be paid by a CMS holder (“licensee”) into the customer’s account within the specified time. This EXCLUDES:

a. Proceeds from sale of customers’ assets.

b. Fees owed by the customer to the licensee.

c. Amounts received for customer’s account from purchase of assets.

d. Amounts received from customer’s account for purchase of assets.

**Chapter 5 - Market Conduct**

28. Under which of the following Acts is market misconduct an offence?

a. Banking Act.

b. Companies Act.

c. Securities and Futures Act.

d. Fire Safety Act.

29. Which of the following are false trading or market rigging transactions?

a. A wash trade.

b. A matched order.

c. Buy a security on one exchange and sell the same security on another exchange a few days later.

d. Churning a client’s portfolio.

▪ (a) and (d).

▪ (a) and (b).

▪ (b) and (c).

▪ (b) and (d).

30. Peter placed a number of orders to buy a total number of 22,000 shares in Sunway Company through one broker and placed a number of orders to sell 22,000 shares in Sunway Company through another broker. There is no change of beneficial ownership. Which of the following BEST describes the market misconduct that Peter has engaged in?

a. Window dressing.

b. Matching orders.

c. Securities hawking.

d. Wash trade.

31. If a person deliberately spreads information on a security that is false in order to mislead other investors

to invest in that security, he would be charged with:

a. False trading.

b. Insider trading.

c. Making false and misleading statements.

d. Securities market manipulation.

32. Which of the following is NOT a typical technique used in the circulation of false or misleading statements and information?

a. Using electronic means such as message boards or other electronic media to spread rumors about a security to raise or lower its price.

b. Passing around ‘hot tips’ by word of mouth.

c. Sending the audited annual report of a company to a client.

d. Putting out favorable but unverified information about a particular security via media sources.

33. Insider information can be described as information that is:

a. Not generally available.

b. Observable.

c. Might have a material effect.

d. Made public.

▪ (a) and (c).

▪ (b) and (c).

▪ (a) and (d).

▪ (b) and (d).

34. Mr. Lim enters his friend’s office and overhears a conversation between his friend who is an investment banker talking on the speaker phone to his client. The client is the Chief Finance Officer of a major public company and tells the friend that the Chief Executive Officer of the company is about to be replaced. This information will be made public this evening. Mr. Lim immediately tells his clients of this news and advises them to liquidate their holdings in that company. Which of the following statements is TRUE?

a. Mr. Lim did not have insider information.

b. Mr. Lim is a tippee.

c. Mr. Lim was free to pass this information to his clients.

d. Mr. Lim was obligated to pass this information to his clients.

35. Which of the following are considered a form of market misconduct under the Securities and Futures Act (SFA)?

a. Insider Trading.

b. False Trading.

c. Over-Trading.

d. Under-Trading.

▪ (a) and (b).

▪ (b) and (c).

▪ (c) and (d).

▪ (b) and (d).

36. Which of the following statements are TRUE in relation to excessive trading/churning? Excessive trading/ churning is:

a. Defined as intentional trading for the sole purpose of generating commissions for the broker.

b. Done to create large commissions by entering into many trades which generate little or no profit for the customer.

c. Allowed if the customer gives his consent.

d. An offence under the Securities and Futures Act (SFA) and SGX-ST Rules.

▪ (a), (b) and (c).

▪ (a) and (c).

▪ (c) and (d).

▪ (a), (b) and (d).

37. What types of penalties/liabilities will a person face for committing market misconduct offences under the Securities and Futures Act (SFA)?

a. Criminal penalties.

b. Civil penalties.

c. Criminal liabilities.

d. Civil liabilities.

▪ (b) and (c).

▪ (b) and (d).

▪ (a), (b) and (d).

▪ (a) and (b).

**Chapter 6 - Collective Investment Schemes (CIS)**

38. A CIS constituted in Singapore that is offered to the public must be:

a. Authorized by MAS.

b. Constituted as a unit trust.

c. Be marketed to sophisticated investors only.

d. A closed-end fund.

39. A UK based fund manager plans to offer a CIS constituted in United Kingdom to Singapore retail investors. Before it can do so, it should apply to MAS for the CIS to be:

a. Authorized.

b. Recognized.

c. Restricted.

d. Acknowledged.

40. Which of the following would apply for a European constituted fund to be recognized under the Securities and Futures Act (SFA)?

a. The foreign fund manager must be a member of IMAS.

b. The foreign fund manager must be managing at least SGD 500 million of discretionary funds in Singapore (unless any of the units in the CIS is approved for listing for quotation on a securities exchange and will be traded on the securities exchange).

c. The fund must appoint a representative in Singapore.

d. The European constituted fund must have unique features that are not found in other CIS

constituted in Singapore.

▪ (a) and (b).

▪ (b) and (c).

▪ (a) and (d).

▪ (c) and (d).

41. Which party is responsible for reporting breaches of investment guidelines by authorized CIS?

a. MAS.

b. Fund Manager or the Trustee.

c. External Auditor.

d. IMAS.

42. Under the covenants in a CIS trust deed, the manager is required to perform all the following functions EXCEPT:

a. Keeping books for convenient and proper audit.

b. Purchasing units in the scheme from participants based on the net asset value of the scheme or in accordance with the Code on CIS.

c. Redeeming units in the scheme from participants based on the net asset value of the scheme or in accordance with the Code on CIS.

d. Sending reports relating to the scheme to its participants.

43. In the event there are rounding differences when calculating the price of a unit in a CIS, the round difference should be credited to the:

a. Fund manager.

b. Investor.

c. CIS.

d. Senior sales investment manager.

44. Which of the following CIS should be valued every business day?

a. Regional equity fund.

b. Private equity fund (which do not offer dealing every business day).

c. Structured product fund (which do not offer dealing every business day).

d. Property fund.

45. Which of the following is NOT a function or responsibility of the trustee of Authorized CIS?

a. To conduct all transactions for the CIS at arms’ length.

b. To send annual reports of the CIS to the participants.

c. To prepare annual reports of the CIS.

d. To report regulatory breaches by the fund manager of the CIS to MAS.

46. Which of the following are NOT acceptable practices under the Code on CIS?

a. Deducting marketing or promotion expenses from the deposited property of the CIS

b. Receiving cash rebates.

c. Lending moneys to the manager’s related corporations.

d. Receiving soft dollar commissions.

▪ (a) and (c).

▪ (b) and (c).

▪ (a) and (d).

▪ (b) and (d).

47. Which of the following parties is responsible for winding up a CIS when its authorization has been

revoked by MAS?

a. Responsible Person.

b. Lawyers.

c. Auditors.

d. Company secretary.

48. Which of the following is FALSE in relation to a meeting of CIS’s participants (in respect of a proposed winding up of the CIS)?

a. A meeting should be summoned if the responsible person is in liquidation, to determine appropriate course of action.

b. Notice of a meeting can be given in writing at least 10 days before the date of proposed meeting to each participant.

c. Resolutions to wind up the CIS can be tabled at such meetings.

d. Notice of a meeting can be given by publishing at least 21 days before the date of proposed meeting on newspapers.

49. Which of the following statements are TRUE in respect of the safeguards that a financial institution is required to put in place when they market and sell CIS units to retailers?

a. The financial institution should maintain a register containing information on their marketing arrangements at public places.

b. Representatives do not need to disclose upfront their identities and the financial institution they represent, when they prospect for clients.

c. The financial institution is not required to examine the compliance record of the representative when determining whether a representative is able to conduct marketing and distribution activities at retailers and public places.

d. The financial institution should conduct surveys or call back for all customers within the cooling off period to ensure the customers understood their purchase at such locations.

▪ (a) and (c).

▪ (b) and (c).

▪ (a) and (d).

▪ (b) and (d).

50. Potential and existing conflicts of interests have to be declared in the prospectus. Such examples include:

a. Any possibility of the manager acquiring an interest in the CIS.

b. Whether the manager manages other CIS with a similar transaction focus.

c. Any affiliation with entities that provide services to the CIS.

d. The nature and extent of the interests of the manager in respect of the CIS.

▪ (a), (b) and (c).

▪ (b) and (c).

▪ (b) and (d).

▪ (a), (b), (c) and (d).

51. What must be clearly stated in a hedge fund prospectus?

a. The material differences between the hedge fund and other types of CIS.

b. Like other types of CIS, the Code prescribes investment guidelines for hedge funds.

c. The risks of investing in a hedge fund is no different from other types of CIS which invest in listed securities.

d. The hedge fund is capital guaranteed and not subject to any credit risk.

52. What restrictions apply to the use of the term “Guaranteed fund” under the Code of CIS?

a. The scheme must comply with the Code of CIS’s provisions in respect of Capital Guaranteed Funds.

b. The scheme must guarantee income but need not have a guarantor.

c. The scheme must guarantee return of capital of not less than 80%.

d. The scheme must only invest in fixed deposits.

53. A prospectus will be registered between 7 to 21 days from the date of lodgment. Which of the following will NOT be a ground for an extension of that period?

a. The person making the offer applies in writing to extend the period.

b. MAS is of the view that the prospectus includes information that is false or prohibited.

c. MAS gives notice to the person making the offer of an extension, which may be longer than 28 days from the date of lodgment.

d. MAS gives the person making the offer notice of an opportunity to be heard in respect of MAS’s refusal to register the prospectus.

54. Money Management Ltd (Money) has been issued with a stop order with regard to a CIS that it has offered to retail investors in Singapore. Under the SFA, Money may be asked to do all the following EXCEPT:

a. Liquidate investments in the CIS and refund proceeds to applicants.

b. Refund all moneys received from new applicants relating to applications for the CIS.

c. Void all applications for units received for the CIS before the issue of the stop order.

d. Transfer the investments in the CIS to another scheme with similar investment objectives.

55. The prospectus has a validity period of \_\_\_ months from the date of its registration.

a. 6.

b. 12.

c. 24.

d. 36.

**Chapter 7 – Guidelines on Product Highlights Sheet**

56. Who is NOT responsible for preparing the Product Highlight Sheet (PHS) in accordance with the PHS Guidelines?

a. Issuers.

b. For schemes constituted as a corporation, the corporation.

c. Manager of the scheme.

d. Trustee of the scheme.

57. Who is NOT considered a “Responsible Person” for a CIS?

a. The manager of the authorized CIS.

b. The trustee of authorized schemes.

c. The corporation in the case of recognized schemes constituted as corporations.

d. The manager of recognized schemes.

58. Which of these products require a PHS to be prepared and furnished to investors?

a. Debentures and structured notes.

b. Sub-funds where multiple sub-funds are covered in a single prospectus.

c. Unlisted CIS and exchange-traded funds.

d. Ordinary shares.

▪ (a) and (b).

▪ (b) and (c).

▪ (a) and (c).

▪ (a), (b) and (c).

59. The templates for the PHS \_\_\_\_\_\_\_\_\_\_\_.

a. set out information which an issuer can opt to disclose in the PHS.

b. serve as a minimum standard which must be complied with under law.

c. are to be used by an issuer for reference only.

d. cannot be varied in any way (including the font color or type).

60. Mr. Tan is in the midst of preparing a PHS in relation to an exchange-traded fund. Which of the following must he include in the PHS?

a. A one-liner on how investments are valued.

b. His own contact information in font size of 8-point.

c. Glossary to explain any technical terms used.

d. Information about the investment strategy and parties involved.

▪ (a) and (b).

▪ (b) and (c).

▪ (c) and (d).

▪ (b), (c) and (d).

61. The following are categories of key risks that must be explained to investors EXCEPT:

a. Operational risks.

b. Liquidity risks.

c. Market and credit risks.

d. Product-specific risks.

**Chapter 8 – Central Provident Fund Investment Scheme (CPFIS)**

62. A fund manager who wishes to be included under CPFIS must satisfy all of the following criteria EXCEPT:

a. Have a good regulatory compliance record.

b. Be a member of IMAS.

c. Have a pre-tax profit of at least SGD 1 million for the last 3 years.

d. A minimum of 3 fund managers, one of whom must have at least 5 years of fund management experience.

63. A fund management company that is already included under CPFIS is planning to offer an authorized CIS that is sub-managed by its subsidiary in France. In order to be eligible to include this scheme under the CPFIS, the fund management company (together with its related group of companies) must be currently managing at least:

a. S$1 billion of discretionary funds worldwide.

b. S$1 billion of discretionary funds in Singapore.

c. S$500 million of discretionary funds in Singapore.

d. S$500 million of discretionary funds worldwide.

64. Which of the following parties is responsible for conducting due diligence on a fund manager to determine if the fund manager and its products are suitable for CPFIS?

a. CPF.

b. CPF’s Investment Consultant.

c. MAS.

d. IMAS.

65. Which of the following conditions apply to an application for a recognized fund constituted outside Singapore to be included under the CPFIS?

a. The recognized fund must have procedures in place to ensure that at least 95% of the value of the fund will be invested in accordance with the CPF Investment Guidelines.

b. The foreign fund manager provides a confirmation that it does not retain cash rebates for its own account in its management of the fund.

c. The foreign fund manager must have a minimum 5 years’ experience in the management of CIS.

d. The CPF Board must be able to conduct due diligence on the foreign fund manager.

▪ (a) and (b).

▪ (b) and (c).

▪ (c) and (d).

▪ (b), (c) and (d).

66. Which of following funds need NOT observe the 95% compliance with the CPF Investment Guidelines?

a. Recognized Funds.

b. Property Funds that invest in real estate and infrastructure.

c. Capital Guaranteed Funds.

d. Exchange Traded Funds.

67. The CPFIS risk classification system measures the risk of the portfolio by the proportion of assets invested in stocks. This risk is known as:

a. Focus risk.

b. Equity risk.

c. Market risk.

d. Interest rate risk.

68. The following are examples of returns to the CPF Board by the fund manager EXCEPT:

a. Annual external auditor’s report on the CPFIS fund.

b. Annual external auditor’s report on the fund manager’s operations in relation to the unit holdings.

c. Returns to confirm continuing compliance with the admission criteria by the fund manager.

d. Returns to confirm compliance with the IMAS Code of Ethics and Standards of Professional Conduct.

69. Which of the following descriptions are discouraged by the CPF Board as it may mislead CPF investors as to the suitability of an investment product offered by the fund manager?

a. The unit trust is included under the CPF Investment Scheme.

b. The unit trust is CPF registered.

c. The unit trust is CPF approved.

d. The unit trust is CPF recognized.

70. Which of the following must be provided by Fund Management Companies to Funds Tracking Companies in providing performance information?

a. Quarterly expense ratios on an annualized basis for the past year.

b. Net asset value (NAV) per unit in Singapore dollars for each year.

c. Total asset size of fund as at the end of the relevant reporting period.

d. Analytical data necessary to enable proper disclosure of the performance of the funds they manage.

▪ (a) and (b).

▪ (b) and (d).

▪ (a), (b) and (c).

▪ (c) and (d).

71. Which of the following statements relating to investments by funds included under the CPFIS is FALSE?

a. Borrowings may be allowed for meeting redemptions.

b. Investments in unlisted shares are prohibited.

c. Funds should seek diversification in their investments.

d. Funds may invest in structured products subject to certain criteria.

72. A fund’s underlying investments may only consist of which of the following permissible investments?

a. Money market instruments.

b. Debt securities eligible under the CPF Investment guidelines (CPFIG).

c. Cash.

d. Any debt security.

▪ (a) and (b).

▪ (a) and (c).

▪ (a), (b) and (c).

▪ (c) and (d).

73. Mr. Tan, a fund manager, invests in a bank stock, resulting in a unit trust that is included under the CPFIS, exceeding the single party limit for that issuer. Mr. Tan should:

a. Rectify the breach immediately.

b. Rectify the breach within 14 days from the date of the transaction.

c. Rectify the breach within 3 months from the date of the transaction.

d. Rectify the breach within 1 year from the date of the transaction.

74. Which of the following actions must be taken by a fund manager who fails to rectify a breach of the CPF Investment Guidelines by a CIS within the stated period? Assume that the fund manager is unable to obtain an extension.

a. Report the breach to the CPF Board within 14 calendar days of the occurrence of the breach.

b. Cease to accept new subscriptions for the CIS with immediate effect.

c. Seek to exclude the fund from CPFIS.

d. Report the breach to the CPF Board within 28 working days of the occurrence of the breach.

▪ (a) and (b).

▪ (b) and (c).

▪ (b), (c) and (d).

▪ (a), (b) and (c).

75. The fund manager must notify the CPF Board of breaches to investment guidelines by the CIS within

\_\_\_\_\_\_ of an occurrence of breach.

a. 7 days.

b. 14 days.

c. 3 months.

d. 1 year.

**Chapter 9 – Ethics, Codes and Standards of Professional Conduct for Fund Management**

76. Why do people engage in unethical behavior?

a. Lack of understanding or inexperience of rules that are expected when carrying out job functions.

b. Personal desire to make financial gains or recognition or attain a position that overrides any

ethical and moral considerations.

c. Peer influence.

d. Client pressure that violates the ethical rules of the firm and industry code.

▪ (a) and (b).

▪ (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b), (c) and (d).

77. Miko San is a fund manager with Nippon Fund Limited (NFL). In order to increase the price of his holdings in Japan Railway Company (JRC), Miko San spreads rumors in the internet that JRC is expanding its rail network. He further adds this is in anticipation of increasing revenue from expanding profitable traffic and obtaining subsidies from the government. What type of market manipulation did Miko San commits?

a. Pump and Dump Strategy.

b. Pump and Dry Strategy.

c. Smurfing Strategy.

d. Sharing and Distort Strategy.

78. Which of the following are the broad areas covered by the IMAS Guiding Principles for Investment Risk and Performance Analysis Functions?

a. Governance.

b. Investment Risk Management.

c. Performance Analysis.

d. Business Continuity Report.

▪ (a) and (b).

▪ (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b) and (c).

79. When a fund manager is analyzing and making an investment decision, he should:

a. Have a reasonable basis for his investment decision and maintain a record of the recommendation.

b. Conceal the investment’s limitations and risks associated from potential clients.

c. Ensure that the recommendation will yield the most profits for his fund management firm.

d. Use facts and opinions interchangeably in his investment analysis and recommendations.

80. In the ethical framework for the Capital Markets Professional, which of the following sentences BEST

describes the term "Execute solutions"?

a. The solution has to be executed in a transparent, fair, and just manner.

b. The solution has to be executed in the best interest of the representative.

c. The solution should be executed without the client’s understanding and risk tolerance.

d. The solution has to implemented without any errors.

81. Fund management representatives should be guided by an ethical code of conduct, which include the following:

a. Act with integrity, competence, diligence, and respect.

b. Practice and encourage others to practice in a professional and ethical manner.

c. Use reasonable care and exercise independent professional judgment when conducting investment activities.

d. Maintain and improve their professional competence.

▪ (a) and (b).

▪ (a), (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b) and (c).

82. If a representative faces an ethical dilemma, which of the following are appropriate steps to follow?

a. The representative should exercise care and independent professional judgement.

b. The representative should ensure that their actions are conducted with integrity, competence, diligence and respect.

c. The representative should put clients’ interest first.

d. The representative should seek clarification from MAS.

▪ (a) and (b).

▪ (a), (c) and (d).

▪ (c) and (d).

▪ (a), (b) and (c).

83. Representatives must keep information about current, former, and prospective clients confidential unless the:

a. representative received the information from a third party.

b. disclosure is required by law.

c. client permits disclosure of the information.

d. representative received the information from his previous employment.

▪ (a) and (b).

▪ (a), (c) and (d).

▪ (c) and (d).

▪ (b) and (c).

84. Julie is a fund manager. One of her firm’s clients has told Julie that he will compensate her beyond the compensation provided by her firm on the basis of the capital appreciation of his portfolio each year. Julie should:

a. Turn down the additional compensation because it will result in conflicts with the interests of other clients’ accounts.

b. Turn down the additional compensation because it will create undue pressure on her to achieve strong short-term performance.

c. Obtain permission from her employer prior to accepting the compensation arrangement.

d. Accept the compensation arrangement since it is a private arrangement between the client and her.

85. Brenda is a representative for a licensed fund management company. Goh, a new client of the firm, is meeting Brenda for the first time. Goh used another counselling firm for financial advice for years, but she has switched her account to Brenda’s firm. After spending a few minutes getting acquainted, Brenda explains to Goh that she has discovered a highly exciting new fund that offers large potential gains. She recommends that Goh purchase the fund. Brenda has committed a violation of the Standards of Professional Conduct. What should she have done differently?

a. Brenda should have determined Goh’s needs, objectives, and tolerance for risk before making a recommendation of any type of fund.

b. Brenda should not have accepted Goh as a client at the first meeting.

c. Brenda should have explained her qualifications, including her education, training, and experience.

d. Brenda should have requested for Goh's to place moneys with her before recommending the fund.

**Chapter 10 – Fund Management Practice and Skills**

86. Marketing representatives of licensed fund management companies should take into consideration of the certain criteria when designing the client’s investment policy statement. Which of the following criteria must be considered in the investment policy statement?

a. Client’s objectives.

b. Client’s risk appetite.

c. Client’s willingness and ability to invest in the long or short term.

d. Client’s investment experience and knowledge.

▪ (a) and (b).

▪ (a), (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b) and (c).

87. Which of the following is not a purpose of performance evaluation of an investment program:

a. It acts as a feedback and control mechanism.

b. It attributes the fund’s investment results to various key decisions.

c. It helps to focus on the attention on poorly performing operations.

d. It ensures policies are in place to reward a manager's contribution.

88. An investor’s risk tolerance is the capacity to accept risk. This capacity is a function of:

a. the investor’s willingness to take risk.

b. the investor's ability to take risk.

c. both the investor’s willingness and ability to take risk.

d. the fund manager's risk appetite.

89. In a Fund of Funds (FOF) strategy, the selection of investment managers is important. The following are typical selection criteria EXCEPT:

a. Performance of the fund.

b. The investment process, philosophy and style.

c. The organization’s structure, size and experience.

d. The number of large investors in their funds.

90. The volume-weighted average price (VWAP) participation strategy is best used when:

a. There is a large order on hand, which could move the market price.

b. The security is thinly traded, and volume pattern is erratic.

c. The market is highly liquid with high volume.

d. The historical volume pattern is not consistent.

91. What are the key components of a performance evaluation?

a. Attribution.

b. Measurement.

c. Presentation.

d. Appraisal.

▪ (a) and (b).

▪ (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b) and (d).

92. In the event of a sharp market sell-off, the following are appropriate immediate actions taken by a fund manager EXCEPT:

a. evaluate the performance of the portfolio.

b. review the shift in the portfolio's asset allocation due to the sell-off.

c. rebalance the portfolio if needed.

d. redeem all units from investors of the fund which is affected by the sharp market sell-off.

**Chapter 11 – Prevention of Financial Crimes**

93. Sources of terrorism financing may be derived from \_\_\_\_\_\_\_\_\_\_\_\_\_.

a. Kidnapping.

b. Extortion.

c. Donations.

d. Sale of publications.

▪ (a) and (b).

▪ (a), (b), (c) and (d).

▪ (c) and (d).

▪ (b) and (c).

94. Sources of terrorism financing are \_\_\_\_\_\_\_\_\_ and involve amounts that are \_\_\_\_\_\_\_\_\_\_.

a. always illegitimate, not always large.

b. always illegitimate, always large.

c. not always illegitimate, not always large.

d. not always illegitimate, always large.

95. To whom does the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act apply to?

a. All persons.

b. Only Holders of CMS license.

c. Only CMS license for Fund management.

d. All financial institutions.

96. Money laundering is an offence in Singapore under the \_\_\_\_\_\_\_\_\_.

a. Securities Futures Act.

b. Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act.

c. Banking Act.

d. Companies Act.

97. Which of the following are money laundering offences under the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act?

a. Assisting another to retain benefits of drug trafficking or criminal conduct.

b. Acquiring, possessing, using, concealing or transferring benefits of drug dealing or criminal conduct.

c. Acquiring illegal benefits for no or inadequate consideration.

d. Disclosing to any other person information about an investigation known to be conducted under the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act that is likely to prejudice that investigation.

▪ (a) and (b).

▪ (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b), (c) and (d).

98. Which of the following are TRUE concerning the MAS Notice on Prevention of Money Laundering?

a. CMS licensees should have adequate procedures to identify ML/TF risks.

b. A fund manager does not have to undertake the identification procedure of a client if the client is from Singapore.

c. A fund manager must undertake money laundering training for its staff, including those who hold supervisory or managerial responsibilities.

d. A fund manager is required to retain documentation on all its business relations and transactions with its customers such that any transaction undertaken by the fund manager can be reconstructed so as to provide, if necessary, evidence for prosecution of criminal activity.

▪ (a) and (b).

▪ (a), (c) and (d).

▪ (c) and (d).

▪ (b) and (c).

99. A marketing officer is currently applying Know Your Customer procedures for the opening of a new fund management account. Which of the following are considered critical elements?

a. Proper identification and verification of client’s identity.

b. Identifying the client’s source of funds.

c. Determining the marital status of the client opening the account.

d. Determining the types of business activity of the client.

▪ (a) and (b).

▪ (b), (c) and (d).

▪ (c) and (d).

▪ (a), (b) and (d).

100. The recommended checks to verify the identity of a prospective customer who has sent in an application for account openings by post include all the following EXCEPT:

a. Contacting the customer at the telephone number in the application form to confirm the customer’s identity, without any independent verification of the telephone number.

b. Contacting the customer’s employer at a listed business number to confirm the customer’s employment.

c. Requesting the customer’s salary details represented on recent bank statements.

d. Verifying the identity of a customer with a secure digital signature.

**Additional Questions**

**Chapter 1 – The Capital Markets and Fund Management Industry in Singapore**

Which of the following entities typically acts as a financial intermediary by matching selling interest with buying interest in the secondary market?

1. Brokers
2. Central banks
3. Mutual funds
4. Retail investors

Businesses raise capital through the issuance of various securities instruments such as:

SELECT ALL OPTIONS THAT APPLY

1. Common stock
2. Bonds
3. Company warrants
4. Unit trusts

Marcus is an experienced investor focusing on the secondary market. He's interested in managing his investment risk and is considering trading in futures or derivatives. He believes these instruments can offer him opportunities to hedge against market volatility risk. However, Marcus is also aware of the complexities and risks associated with these financial instruments. What should Marcus consider when trading in derivatives in the secondary market?

SELECT ALL OPTIONS THAT APPLY

1. The potential for high returns
2. The liquidity of the instruments
3. The complexities and risks involved
4. The historical performance of the underlying asset

Which of the following markets is known as the "call around" market?

1. All regulated secondary market exchanges
2. All primary markets
3. OTC markets
4. All clearing houses

Alex, a financial advisor, is assisting a client in investing in the primary market. The client is interested in a new IPO but is unsure about the role of financial intermediaries in the process. Alex explains that financial intermediaries, such as banks or financial institutions with a capital market license are often appointed as issue managers due to their expertise in managing complex processes and reaching out to potential investors. What roles do financial intermediaries play in Alex’s explanation?

1. Providing investment advice to retail investors
2. Facilitating the IPO process for businesses
3. Offering custodial services for securities
4. Managing investments on behalf of investors

**Chapter 2 – Fund Management Rules, Regulations and Guidelines**

Which of the following is referred to as the 'IMAS Code'?

1. Bye-laws to regulate the professional conduct of its members.
2. Code of Ethics and Standards of Professional Conduct
3. Code of ethics which members must fully observe and comply with.
4. None of the above

Which one of the following instruments issued by the MAS has the force of law?

1. Codes.
2. Notices.
3. Guidelines.
4. Practice Notes.

Contravention of the provisions of which of the following documents is most likely to be considered a criminal offence?

1. Guidelines
2. Codes
3. Practice notes
4. Notices

Which of the following statements about Rules, Regulations and Guidelines under the SFA is TRUE?

1. Guidelines primarily impose legally binding requirements on a specified class of financial institutions or persons
2. Notices do not have the force of law.
3. Codes set out principles or "best practice standards" that govern the conduct of specified institutions or persons.
4. Practice Notes issued by MAS are meant to guide specified institutions or persons on admin procedures related to certain matters.

Which of the following has the force of law that financial institutions or other specified persons have to adhere to?

1. Practice Notes
2. Subsidiary Legislation
3. Guidelines
4. Codes

**Chapter 3 – Licensing Requirements for Fund Management**

John is 30 years old and sat for GCE O Level Examination in 2013. Which of the following achievements will help him meet the required educational qualifications?

1. 4 GCE O Level credit passes.
2. 2 GCE O Level credit passes with 4 years of relevant and continuous work experience over the past 5 years in respect of the regulated activity
3. 3 GCE O Level credit passes with 4 years of relevant and continuous work experience over the past 5 years in respect of the regulated activity
4. 2 GCE O Level credit passes.

John is an appointed representative for PQR Limited (a CMSL holder). John can apply to the MAS to simultaneously act as an appointed representative for which of the following entities? Presume that the other entity is also a CMSL holder for the same regulated activity.

SELECT ALL OPTIONS THAT APPLY

1. PQR's subsidiary.
2. PQR's holding company.
3. PQR's substantial shareholder company.
4. A company that is a subsidiary of PQR's holding company.

John and Jane work as appointed representatives for LMN Bank. LMN deals in capital market products. John fails to pay a personal loan and receives a court order to pay the lender. Jane is suspended because she has violated LMN's internal code of conduct. LMN discovered that its ex-representative Julie was involved in insider trading. Julie had resigned from LMN to join another CMSL holder 9 months ago. In this context, LMN:

1. Need not file a Report on Misconduct of Representative for Jane because it is a violation of the internal code of conduct leading to suspension, not termination.
2. Must file a Report on Misconduct of Representative for John to the MAS within 21 days of the date when it discovered that John ceased to be fit and proper.
3. Must file a Report on Misconduct of Representative for Julie to the MAS within 14 days of the date when it discovered that John ceased to be fit and proper.
4. LMN need not file the Report on Misconduct of Representative for any of the representatives because it is an exempt institution.

An appointed, provisional or temporary representative is required to inform \_ of any change in his residential address or other personal particulars within \_ after the date of change of the particulars.

1. his principal company; 7 days
2. his principal company; 14 days
3. MAS; 7 days
4. MAS; 14 days

LMN corporation wants to apply for a CMSL for dealing in capital markets products. PQR Corporationis LMN's holding company. Which of the following persons/entities must be "fit and proper" for LMN to be considered for grant of the licence?

SELECT ALL OPTIONS THAT APPLY

1. LMN Corporation
2. PQR Corporation
3. Vendors that supply and maintain critical IT infrastructure for LMN
4. LMN's employees

**Chapter 4 – Conduct of Business for Fund Management**

John is the CEO of CMSL holder LMN Corporation. John files for bankruptcy. In this context, which of the following statements is TRUE?

1. MAS has the power of authority to remove John as CEO of LMN.
2. MAS can only suggest that LMN should remove John as its CEO immediately.
3. MAS must obtain a court order to remove John as LMN's CEO.
4. John must step down on his own immediately.

A CMSL holder must inform the MAS within \_\_\_\_ of any change in particulars if it ceases to carry on business in the regulated activity it is licenced for.

1. 7 days
2. 14 days
3. 6 weeks
4. 2 months

Which of the following statements is NOT CORRECT?

1. A LFMC may appoint its chief executive officer without the MAS' prior approval.
2. If a LFMC has obtained MAS approval for the appointment of a director, the director may subsequently be reappointed immediately upon the expiry of his earlier term without approval of MAS.
3. A LFMC must obtain the approval of MAS before changing the nature of the appointment of a person from a non-executive to an executive director.
4. A LFMC need not obtain the approval of MAS for the appointment of a director of a foreign company, if at the time of the appointment, the director does not reside in Singapore and is not directly responsible for the LFMC's business in Singapore.

The register of Listed Specified Products should be easily accessible and retained for at least:

1. 5 years after the date of each specific entry.
2. 5 years after the date of the last entry.
3. 7 years after the date of each specific entry.
4. 7 years after the date of the last entry.

**Chapter 5 – Market Conduct**

John, a reputed financial analyst, releases a report forecasting the rise in profits of WiseKid Limited over the next few years. The forecast is based on publicly available economic data about the prospects of the relevant industry in which WiseKid operates. John recommends investor to buy WiseKid’s shares. Has John committed any market misconduct under the SFA.

SELECT ALL OPTIONS THAT APPLY

1. Yes, if he knows that forecasts cannot be totally relied upon.
2. No, unless he knows that the underlying data is erroneous and unreliable.
3. Yes, if he wants others to buy based on his recommendation.
4. No, if John has published the report in good faith and clearly mentions in the report that the forecast may not come out to be true.

A person sells 1 million shares of a company to a company which is controlled by him through the SGX. This is an example of:

SELECT ALL OPTIONS THAT APPLY

1. False appearance of active trading.
2. Trading without change in beneficial ownership.
3. Wash sales.
4. Matching orders.

Which of the following categories of individuals or situations may not be considered as insider trading?

SELECT ALL OPTIONS THAT APPLY

1. A CEO who notices an abnormal increase in trading volume of the shares of his company and buys or sells its shares to take advantage.
2. Redemption by trustees in respect of a registered collective investment scheme.
3. Director who transacts in the shares of his company based on a public report on the prospects of the company by a brokerage house.
4. Underwriters performing their roles.

If insider information is in the hands of a connected person, what presumptions can be automatically made?

SELECT ALL OPTIONS THAT APPLY

1. The insider should have been made aware of the impact of the information on the price of the securities.
2. The insider intended to use the information to his benefit.
3. The insider disseminated the information to his friends or relatives to help them take advantage.
4. The insider reasonably ought to have known that the information was not generally available.

Which of the following statements about insider trading is/are FALSE?

SELECT ALL OPTIONS THAT APPLY

1. A connected person is not deemed to possess material price sensitive insider information.
2. For a non-connected person, the onus of proof that he was in possession of material price-sensitive information lies with the prosecution.
3. Nature of information is less important compared to the source of information.
4. It must be proven that the person having insider information intended to use it.

**Chapter 6 – Collective Investment Schemes**

Under the Reporting Framework for Unit Trusts, in what instance is the semi-annual report or annual report need not be prepared or sent?

1. If they cover a period ending after the termination date
2. If they cover a period ending after the maturity date
3. If they cover periods ending 3 months or less from the start of the initial launch period of a CIS
4. None of the above

Which of the following should be clearly stated on the first page of a money market fund prospectus?

1. The purchase of a unit in the MMF is not the same as placing funds on deposit with a bank or deposit-taking company.
2. Although the manager may seek to maintain or preserve the principal value of the MMF, there can be no assurance that the fund will be able to meet this objective.
3. The MMF is not a guaranteed fund, in that there is no guarantee as to the amount of capital invested or return received.
4. All of the above.

Which of the following are permitted to be disseminated without being subject to the advertising requirements in the SFR-CIS?

1. If the advertisement or publication consists solely of a disclosure, notice or report required under the SFA
2. If the advertisement or publication consists solely of a notice or report of a meeting of the participants of the CIS
3. If the advertisement or publication consists solely of a report about the CIS or proposed CIS that is prepared in accordance to the Code
4. All of the above

What is referred to as Collective Investment Schemes that invest in real estate and related assets?

1. Property corporations
2. Mortgage-backed securities
3. Property funds
4. None of the above

An accredited investor includes a corporation with net assets exceeding \_ in value.

1. $10M
2. $25M
3. $50M
4. $3M

**Chapter 7 – Guidelines on Product Highlights Sheet (PHS\_**

Under PHS guidelines, which of the following statements about the features of structured notes is/are True?

1. They are debentures or units of debentures.
2. They are issued pursuant to a synthetic securitization transaction or by a specified financial institution
3. Either or both the principal sum and any interest are payable
4. All of the above

Issuers should furnish investors with a PHS for offers of:

SELECT ALL OPTIONS THAT APPLY

1. Asset-backed securities where the offer is made without a prospectus
2. Exchanged-traded structured notes where the offer is accompanied by a prospectus
3. Exchanged-traded funds where the offer is accompanied by a prospectus
4. Unlisted CIS where the offer is made without a prospectus

Which of the following statements about the requirements of the PHS guidelines is FALSE?

1. Issuers must adhere to the relevant templates in the appendices of the guidelines.
2. Issuers must stick to the headings mentioned in the templates and avoid using subheadings.
3. Issuers may include links to online copies of disclosure documents, educational resources or explanatory materials.
4. The PHS should inform the investors about the return objectives of the product and whether the principal is at risk

Under PHS guidelines, which of the following statements about the features of structured notes is/are True?

SELECT ALL OPTIONS THAT APPLY

1. Physical delivery of one or more of the underlying equity interests
2. Physical delivery of one or more of the underlying commodities
3. Cash settlement of one or more of the underlying currencies
4. Cash settlement of one or more of the underlying securities

Under PHS guidelines, the features of structured notes include settlement based on a formula, which is based on:

1. The performance of the underlying securities, equity interest, commodity or index, or a basket of these.
2. The credit risk or performance of any entity or a basket of entities.
3. The movement of interest rates or currency exchange rates
4. All of the above

**Chapter 8 – CPF Investment Scheme (CPFIS) Requirements**

To be admitted into the CPFIS, funds have to meet the benchmark at the top \_ percentile of funds in their global peer group.

1. 10
2. 15
3. 20
4. 25

The CPFIS comprises of:

1. CPFIS – Ordinary Account
2. CPFIS – Special Account
3. CPFIS Debt Scheme
4. CPFIS Equity Scheme

For being included in CPFIS, if a LFMC or its related companies intend to offer an authorised fund that is wholly managed in Singapore, it should manage at least \_ worth of funds.

1. $200M
2. $300M
3. $400M
4. $500M

If a LFMC intends to offer recognised funds constituted outside Singapore directly, it should manage at least \_ globally to be included in the CPFIS.

1. $500M of discretionary funds
2. $1B of discretionary funds
3. $2B of discretionary funds
4. 1K clients

For evaluating the suitability of LFMC for CPFIS inclusion, the CPF Board Investment Consultant will:

SELECT ALL OPTIONS THAT APPLY

1. Screen the LFMC to see whether it meets the eligibility criteria
2. Consider the stability in the fund management team of the LFMC
3. Consider the LFMC’s corporate culture
4. Consider the LFMCS’s ability to retain good fund managers

**Chapter 9 – Ethics, Codes and Standards of Professional Conduct for Fund Management**

Henry, who is working for Global Investments, is part of a team advising on a large merger. During the process, he overhears plans about significant layoffs that have not been disclosed to the employees or the public. Henry is concerned about the ethical implications of withholding this information. What should Henry do to navigate this ethical dilemma while respecting his professional obligations?

SELECT ALL OPTIONS THAT APPLY

1. Immediately disclose the layoff plans to the affected employees
2. Consult with his superiors about the ethical implications of withholding the information
3. Recommend that the client disclose the layoff plans as soon as possible
4. Ignore the information as it is not his place to intervene

Frank, a senior analyst at Quantum Financial, is evaluating the ethical framework of a new client, TechForward, as part of Quantum Financial’s due diligence process. He discovers that TechForward has a history of aggressive tax avoidance strategies and has been criticised for its labour practices in overseas factories. Frank is aware that Quantum Financial prides itself on ethical investing. What actions should Frank recommend based on his findings?

SELECT ALL OPTIONS THAT APPLY

1. Continue the partnership with TechForward without any conditions
2. Recommend a thorough review of TechForward’s tax and labour practices
3. Suggest Quantum Financial to conditionally proceed with the partnership, requiring TechForward to address these ethical concerns
4. Advise Quantum Financial against partnering with TechForward due to ethical misalignments

Grace, a compliance officer at Elite Advisory, is tasked with developing a training program for new hires on the importance of ethics in corporate finance. She plans to include real-world scenarios that highlight potential ethical dilemmas they might face. Which topics should Grace include in her training program to cover a broad range of ethical considerations?

SELECT ALL OPTIONS THAT APPLY

1. The importance of transparency in client communications
2. How to handle confidential information
3. The impact of personal conflicts of interest on professional judgment
4. Strategies for maximising short-term profits regardless of ethical implications

Nathan, working at Premier Capital, is responsible for advising clients on corporate finance transactions. One of his clients, EcoBuild, is considering a merger with another company that has a history of environmental violations. EcoBuild’s management is unaware of these violations. Nathan believes that disclosing this information might jeopardize the merger but also recognizes the potential reputational risk to EcoBuild. How should Nathan navigate this ethical dilemma?

SELECT ALL OPTIONS THAT APPLY

1. Withhold the information to facilitate the merger process
2. Disclose the environmental violations to EcoBuild’s management
3. Recommend EcoBuild conduct its own due diligence on the potential partner
4. Consult with Premier Capital’s ethics committee on how to proceed

Caroline, an investment banker at Global Capital Solutions, is working on a deal that involves a company known to have environmental compliance issues. The client insists that these issues are not material and should not be disclosed in the deal documentation. Caroline is concerned that omitting this information could mislead investors and potentially harm Global Capital Solutions’ reputation. How should Caroline proceed to ensure her actions are ethical?

1. Omit the information as per the client’s request to maintain a good relationship
2. Disclose the environmental issues in the deal documentation despite the client’s objections
3. Consult with Global Capital Solutions’ legal and compliance departments for guidance on how to proceed
4. Suggest to the client to delay the deal until the environmental issues are resolved

**Chapter 10 – Fund Management Practices and Skills**

During a portfolio review meeting, Marcus, a financial advisor at Elite Wealth Management, discusses with his client, Sophia, her investment objectives, particular focusing on her desire for stable income in retirement while also expressing concerns about inflation eroding her savings. Marcus considers various investment options to align with Sophia’s objectives and constraints. Which investment options should Marcus consider for Sophia’s portfolio to ensure it meets her return objectives and risk tolerance?

SELECT ALL OPTIONS THAT APPLY

1. Dividend-paying equities for potential income generation
2. Inflation-protected securities (TIPS) to guard against inflation
3. Commodities as a hedge against inflation
4. High-yield bonds for higher income potential

Grace, the head of an institutional investor firm, is in the process of selecting a new external manager for the firm’s emerging market debt portfolio. She has received multiple proposals and is using a detailed questionnaire to evaluate each manager’s investment process, risk management strategies, and performance history. Grace wants to ensure that the selected manager aligns with her firm’s investment philosophy and has a proven track record of managing EMDs. Which criteria should Grace include in her questionnaire to effectively evaluate the external managers?

SELECT ALL OPTIONS THAT APPLY

1. The colour scheme used in the managers’ marketing materials
2. The managers’ investment philosophy and process
3. The managers’ performance relative to their benchmarks
4. The average annual portfolio turnover for the past three years

During the annual review of investment managers, Elena (CIO) is assessing the performance and investment strategies of their current equity fund managers. She is particularly concerned about one of the funds that has consistently underperformed its benchmark. Elena decides to send out a detailed questionnaire to all equity fund managers, focusing on understanding their investment processes, risk management strategies, and how they adapt to changing market conditions. What specific areas should Elena’s questionnaire cover to effectively evaluate the equity fund managers?

SELECT ALL OPTIONS THAT APPLY

1. The managers’ investment philosophy and process
2. The future vacation spots of the fund managers
3. The managers’ performance relative to their benchmarks
4. The average annual portfolio turnover for the past three years

**Chapter 11 – Prevention of Financial Crimes**

Adam owns 50% of Company A and 20% of Company B. Company A owns 60% of Company B. Company B owns 30% of Company C. What’s Adam ultimate beneficial ownership of Company C?

1. 1.8%
2. 9%
3. 15%
4. 18%

Ruby is a police officer and comes to know that her colleagues from another unit would be raiding a well-known businessman’s office premises on suspicions of drug trafficking. Ruby tells this fact to her husband who is a trader. In this context, which of the following statements is True?

1. Ruby is guilty of tipping-off offence because she disclosed vital information about the impending raid to her husband
2. Ruby will be guilty of tipping-off offence only if her husband discloses the information to the businessman
3. Ruby’s husband is guilty of tipping-off offence along with Ruby because they discussed vital information about the impending raid
4. If the raid is successful and proof of drugs smuggling is discovered, then Ruby will not be guilty of tipping-off offence

Which of the following businesses may be considered as cash intensive businesses for the purpose of facilitating money laundering?

1. Restaurant
2. Convenience stores
3. Money changers
4. All of the above

Which of the following business activities are likely to be used as conduits for money laundering?

SELECT ALL OPTIONS THAT APPLY

1. Accountants
2. Notaries
3. Doctors
4. Engineers

Which of the following is the CMS license holder not required to verify the identity of the ultimate beneficiary owner (BO)? Assume that there is no suspicion of ML/TF.

SELECT ALL OPTIONS THAT APPLY

1. An entity listed on SGX
2. All holders of money changers’ license
3. A financial institution established outside Singapore which is not subject to AML/CFT requirements based on standards stipulated by FATF
4. A Singapore government entity

**Appendix**

Which of the following statements about enterprise-wide risk assessment is True?

1. Enterprise-wide risk assessment refers to the consolidated assessment of a CSML holder’s ML/TF risks
2. Enterprise-wide risk assessment should only be quantitative and not involve qualitative analysis
3. The results of any risk assessment review need not be documented and approved by senior management even if there are no changes
4. Enterprise-wide risk assessment must be reviewed at least once every 5 years

Which of the following transactions are suspicious transactions under AML/CFT laws?

1. Settlement of securities transactions through large 3rd party cheques endorsed in favour of the customer
2. Routine requests made to a CMI by a customer for holding his securities in safe custody
3. All cross-border transactions involving property acquisition
4. All of the above

Which of the following transactions should normally be considered as suspicious transactions under AML/CFT laws?

SELECT ALL OPTIONS THAT APPLY

1. Frequent changes of authorised signatories with respect to a customer account
2. Frequent changes to customers’ addresses
3. A relative high proportion of equity in the portfolio of a 60 year old client
4. Customer being reluctant to disclose the names of the Ultimate Beneficiary Owners

Which of the following CANNOT be considered as examples of suspicious transactions under AML/CFT laws?

1. Frequent cash payments made by a business to an unrelated entity
2. Every cash settlement of securities transactions
3. Providing large amounts of funds for fund management in cash
4. None of the above

Which of the following statements regarding suspicious transactions involving large amounts of cash under AML/CFT laws is/are TRUE?

SELECT ALL OPTIONS THAT APPLY

1. Cash payments for $200K should evoke suspicion.
2. Margin collateral of $1M in cash should evoke suspicion
3. Large cash withdrawals 2 years after receipt of a credit from a large foreign multinational company should not evoke suspicion
4. Payments made using counterfeit notes should not evoke suspicion

1. Qualified investors are made up of both accredited and institutional investors. [↑](#footnote-ref-2)
2. Late trading refers the ability of investors to subscribe, cancel or redeem any units/shares in CIS after the dealing deadline (i.e., where NAV is calculated). Late trading would dilute CIS units/shares and arbitrage opportunities might arise to take advantage of fluctuations among speculators. Although this does not constitute to a market misconduct or an offence, this practice is discouraged under the IMAS Code. [↑](#footnote-ref-3)
3. Market timing refers to short-term trading to take advantage of short-term discrepancies between the “stale” value of assets with a mutual fund’s portfolio (since MF prices are only updated at the close of market) and the current market value of those assets. Similarly, market timing would dilute CIS units/shares and should not be allowed. [↑](#footnote-ref-4)
4. For assets that are not maintained in a trust or custody account, the LFMCs must disclose the fact and obtain clients’ acknowledgement. [↑](#footnote-ref-5)
5. While commodities can provide strong returns and hedge against inflation, their prices are volatile and can fluctuate significantly. Not ideal for stable income portfolios. [↑](#footnote-ref-6)
6. Note that any historical performance should not contain simulated/back-tested results. [↑](#footnote-ref-7)