# RESPONSE TO FEEDBACK RECEIVED

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# Public Consultation on Liquidity Risk Management Framework for Fund Management Companies

MAS

Monetary Authority of Singapore

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## 1 Preface

1.1 On 26 October 2017, the Monetary Authority of Singapore ("MAS") issued a consultation paper to seek feedback on a proposed set of guidelines on liquidity risk management framework for fund management companies ("FMCs") with respect to the collective investment schemes ("CIS") that they manage. Specifically, the *Guidelines on Liquidity Risk Management Practices for Fund Management Companies* ("the Guidelines") aim to promulgate sound liquidity risk management practices that FMCs should adopt, where appropriate, to minimise the risk of investor detriment due to mismatches in the liquidity profile of the assets in the CIS and its redemption terms.

1.2 MAS also proposed to amend the Code on Collective Investment Schemes ("CIS Code") to impose additional portfolio requirements for money market funds ("MMFs"). The amendments seek to enhance MMF's resilience to liquidity risks and strengthen their ability to meet redemption requests from investors, especially during stressed market situations.

1.3 The consultation closed on 27 November 2017. MAS would like to thank all respondents for their comments and feedback.

1.4 MAS has considered carefully the feedback received, and has made further revisions to the Guidelines where appropriate. The list of respondents is in Annex A and the full submissions with the names of respondents can be found in Annex B. Comments that are of wider interest, together with MAS' responses, are set out in this paper.

## 2 Applicability of the Guidelines

2.1 MAS proposed to apply the Guidelines to licensed and registered FMCs which are responsible for portfolio management and have discretionary authority for making investment or trading decisions for an open-ended CIS.

FMCs with responsibility for Recognised CIS

2.1.1 Some respondents sought clarifications on the applicability of the Guidelines to FMCs in Singapore which have been: (a) delegated investment management responsibility, or (b) appointed as the responsible person for a foreign-domiciled CIS[1] (e.g. UCITS) which is recognised under the Securities and Futures Act[2]. These respondents highlighted that some foreign-domiciled CIS (e.g. UCITs) are subject to similar liquidity risk management requirements imposed by the regulator of the jurisdiction where the CIS is domiciled. Further, a Singapore FMC acting as a sub-manager may face difficulties in applying the full set of Guidelines to the foreign-domiciled CIS, given that the FMC only manages a portion of the CIS.

MAS’ response

2.1.2 The comparability of the regulatory requirements in the jurisdictions in which foreign CIS are constituted to MAS’ regulatory requirements is relevant in the context of recognised CIS. In this regard, MAS does not expect FMCs which act as representative for recognised CIS, which are constituted in jurisdictions with comparable requirements on liquidity risk management (e.g. UCITs), to duplicate the requirements for these CIS in Singapore. However, these FMCs should ensure that there is adequate disclosure to investors on the liquidity risk management approach applied to the CIS. These FMCs should also put in place arrangements to keep themselves apprised of developments that have an impact on ability of the CIS to meet redemption requests from investors in Singapore, for example, the activation of gates or suspension of redemptions.

2.1.3 MAS recognises that sub-managers that manage a portion of a CIS may not have influence or control over the overall strategy or redemption terms of the CIS. MAS expects FMCs that are sub-managers to operate the CIS in line with the liquidity risk management parameters set out by the main manager, and to monitor the liquidity risks of the portion of the CIS which has been delegated to the FMC. In this regard, sub-managers may refer

[1] Foreign funds that are constituted as Undertakings for Collective Investments in Transferrable Securities (“UCITS”) in Luxembourg, the United Kingdom, Ireland, France, and Germany and funds that have been assessed as suitable to be a qualifying CIS under the ASEAN CIS framework.

[2] Under section 287 of the Securities and Futures Act.

to the main manager's liquidity risk management policies and procedures, instead of having an entire distinct set of policies. Further, it is possible for FMCs that are sub-managers to adopt only certain parts of the Guidelines. For example, to that extent that sub-managers are not involved in the design of a CIS, the requirements relating to initial product design will not be applicable. If there are other sections of the Guidelines for which FMCs have valid reasons for not adopting, these FMCs should document these reasons as part of their liquidity risk management program.

2.1.4 Conversely, FMCs that are main managers and delegate investment management to other FMCs should convey the liquidity profile and redemption terms of the CIS to the sub-manager, and retain overall responsibility for liquidity risk management of the CIS.

### CIS Offered to Non-Retail Investors

2.1.5 One respondent asked that the Guidelines be applied to CIS offered to retail investors only while another respondent asked for carve-outs for CIS that are only offered to institutional investors. The latter highlighted that institutional investors that invest in private funds understand the liquidity terms and would have the bargaining power to negotiate for an appropriate level of investor protection.

2.1.6 A respondent highlighted that liquidity risk should be regulated at the level of the CIS and not imposed on the FMC. The respondent suggested that the Guidelines not be applied to alternative fund vehicles which are not established in Singapore.

### MAS' Response

2.1.7 Open-ended CIS that are offered to retail investors typically provide them the right to redeem units on a daily basis, and with little or no advance notification. On the other hand, open-ended CIS that are offered to institutional investors and/or accredited investors could have less frequent redemption cycles but typically invest in a wider range of assets including less liquid or distressed assets.

2.1.8 Further, while institutional investors may have bargaining power to influence the design of the CIS at the outset, FMCs are expected to maintain sound liquidity risk management practices that are supported by sound governance and controls, over the entire life cycle of the CIS. FMCs should ensure that the CIS is able to meet its redemption obligations as agreed with the investors.

2.1.9 On balance, MAS will retain the proposal for the Guidelines to be applicable to FMCs that manage all types of open-ended CIS, regardless of the investor types. The Guidelines will provide flexibility for FMCs to put in place liquidity risk management processes that are best suited to the investor and liquidity profile of the CIS, relative to its redemption terms.

2.1.10 MAS does not agree that liquidity risks should be regulated only at the level of the CIS, and to disapply the Guidelines to FMCs of private or alternative funds. Among other things, the role of an FMC is to manage CIS on a day-to-day basis, which includes portfolio and risk management of the CIS. In this regard, FMCs are expected to manage the CIS' liquidity risks as part of the FMC's ongoing risk management of the CIS.

### Closed-ended CIS and CIS with lock-up periods

2.1.11 One respondent asked for the Guidelines to include carve-outs for closed-ended CIS. The same respondent sought clarification on the applicability of the Guidelines to segregated mandate and funds-of-one.

### MAS' Response

2.1.12 While liquidity risk management is less critical for closed-ended CIS and CIS with lock-up periods, MAS expects FMCs managing these CIS to be mindful of potential sources of liquidity risks at certain stages of the CIS' life cycle. For example, FMCs which manage illiquid funds should consider their ability to liquidate assets in order to meet their obligations to customers or other counterparties at the point of expiry of the lock-up period, termination or divestment of the fund.

2.1.13 The Guidelines are not applicable to segregated mandates and funds-of-one which are set up for a single institutional investor.

### Applicability to Exchange-traded Funds (ETFs)

2.1.14 A few respondents enquired on the applicability of the Guidelines to ETFs. One respondent is of the view that ETFs should be excluded as they have different liquidity characteristics. Another respondent proposed to allow FMCs to have the flexibility to adopt the principles set out in the Guidelines based on the characteristics and features of the ETFs.

### MAS' Response

2.1.15 The Guidelines are applicable to FMCs that manage ETFs. MAS recognises the heterogeneity in the business model of FMCs and the CIS structures they employ. ETFs may have additional liquidity considerations as compared to non-listed open-ended CIS. Hence, FMCs that manage ETFs are expected to consider the liquidity of both the underlying assets and the liquidity of the ETFs in the secondary market as part of their liquidity risk management framework. Some relevant considerations include the mode of redemption, the availability of Authorised Participants (“APs”), the efficiency of the arbitrage function performed by the APs and the prices at which the ETFs trade in the secondary market.

2.1.16 MAS will continue to keep in view the international regulatory developments in this area, and review the regulations where appropriate.

# 3 Key Areas Covered in the Guidelines and the CIS Code

## 3.1 Governance

3.1.1 The proposed Guidelines set out guidance that would facilitate FMCs to embed their liquidity risk management process into their broader risk management process, and emphasises the need for effective oversight by the Board and management of an FMC. The proposed Guidelines also set out examples of areas to be covered in FMCs’ liquidity risk management policies and procedures, which should be kept updated to cover the entire product life cycle of a CIS.

3.1.2 The Guidelines specify that all FMCs should ensure that there is clear responsibility and accountability for implementing their liquidity risk management framework, and for monitoring and managing liquidity risks associated with the CIS they manage. FMCs which manage retail CIS with daily dealing are expected to have a dedicated liquidity risk management function. On the other hand, FMCs with smaller set-ups or managing CIS with less frequent dealing and/or only offered to accredited or institutional investors are minimally expected to designate a senior staff to be responsible for liquidity risk management.

3.1.3 Some FMCs that leverage on their global risk management functions enquired if the dedicated risk management function can be part of a global risk management function. One respondent asked if there was a specific size threshold and frequency of CIS dealings such that the FMC can designate a senior staff to be responsible for the FMC’s liquidity risk management instead of having a dedicated risk management function.

MAS’ Response

3.1.4 FMCs can leverage on global risk management functions where relevant, and do not need to replicate the function in Singapore. FMCs that do not offer products to retail investors, and manage CIS with less frequent redemption terms, are minimally expected to designate a senior staff to be responsible for liquidity risk management. MAS does not intend to prescribe size or redemption frequencies beyond which a dedicated risk management function is mandated. The Guidelines are aimed at providing FMCs with guidance and the flexibility for assessing the need for a dedicated risk management function having regard to their set-up, scale and complexity of operations.

## 3.2 Initial design of product and ongoing liquidity risk management

3.2.1 The evaluation of liquidity risks that the CIS may face throughout the product cycle and the implementation of arrangements to set the foundation for effective liquidity risk management should begin at the product design stage. Thereafter, it is important that FMCs continue to monitor and manage the CIS' liquidity risks during its life cycle. The proposed Guidelines set out good practices that FMCs could adopt, where appropriate, to ensure that the CIS' dealing arrangements are aligned with the investment strategy and liquidity profile of the CIS, and to enable FMCs to anticipate emerging liquidity risks and take steps to minimise investor detriment. For MMFs in particular, the CIS Code amendments will address liquidity risks by introducing additional portfolio requirements.

### Obtaining information and monitoring trends on investor profile and concentration

3.2.2 Large and unexpected redemptions by investors are a key source of liquidity risk. As such, FMCs are encouraged to take steps to understand the CIS' investor profile and concentration, and investors' historical and expected redemption patterns so that they are able to assess how these would affect the liquidity of the CIS. For example, FMCs could have an agreement with key investors to provide advance notice for large redemptions, and regularly engage these key investors to review their liquidity needs. This will enable FMCs to minimise adverse liquidity implications on the CIS and take timely action to manage redemptions in an orderly manner. In addition, FMCs are also expected to regularly monitor and assess trends in the CIS' investor profile and concentration, and investors' redemption patterns, so that the FMCs are able to identify potential liquidity issues on a timely basis.

3.2.3 Some respondents highlighted practical constraints faced by FMCs in obtaining information on the investor profile of CIS distributed through third party distributors, where granular investor information is not available to the FMC. The lack of granular information also makes it difficult for FMCs to regularly monitor and assess trends in investor profile and concentration, as well as historical and expected redemption patterns of the CIS.

3.2.4 In addition, a few respondents were of the view that having agreements with key investors to provide advance notice before they make any large redemptions was not feasible and unfairly prejudices these key investors.

MAS' Response

3.2.5 MAS recognises the practical constraints faced by FMCs in obtaining granular information on the underlying investors who invest in CIS via third party distributors. We do not intend to prescribe the type and granularity of information that FMCs should collect on these underlying investors. For example, if there are difficulties in obtaining granular information on underlying investors, FMCs could consider obtaining from their distributors aggregated information, such as fund flows and changes to overall investor profile and concentration, to support the FMCs' analysis of redemption patterns and trends.

3.2.6 MAS appreciates the respondents' feedback that tying key investors down to formally provide advance notice could prejudice them vis-à-vis other investors. We have refined the Guidelines to more accurately reflect our intent for FMCs to have regular engagements with key investors, which is what most fund managers already do as part of investor relations. FMCs could seek to gauge the intent of key investors to make any large redemption as part of these regular engagements, assess its implication on the liquidity needs of the CIS, and take appropriate steps to manage the redemption in an orderly manner. FMCs may also consider other measures that are more suitable for the nature of the portfolio and investor profile of the CIS that they manage.

Disclosures relating to the liquidity of the CIS

3.2.7 Under the proposed Guidelines, disclosures relating to the liquidity of the CIS allow investors to make an informed determination as to whether their risk appetite matches the liquidity risk profile of the fund. Investors should be informed about the measures that the FMC may take in the event of a liquidity problem and how these may affect them. This should include clear and simple-to-understand disclosures in the CIS' offering documents to explain the specific liquidity management tools that may be activated in the event of a liquidity problem, and the impact that such tools may have on investors' redemption rights.

3.2.8 One respondent was of the view that the disclosure of the specific steps and approaches taken by the FMC when under liquidity pressure is too prescriptive and onerous. Another respondent commented that FMCs should be allowed to explain how their existing liquidity risk management frameworks meet the Guidelines, instead of imposing additional disclosure requirements.

MAS' Response

3.2.9 MAS does not intend to prescribe specific disclosure requirements through the Guidelines. FMCs are not expected to disclose the specific and detailed measures that they would take to mitigate a liquidity problem. Instead, they are encouraged to include relevant disclosures in the CIS' offering documents to explain the general approach that FMCs may take and/or the liquidity risk management tools that may be employed, and the impact such tools may have on investors' redemption rights.

*(i) Portfolio weighted average maturity limits for MMFs*

3.2.10 MAS proposed to impose a portfolio weighted average maturity limit of 60 calendar days for a short-term MMF and six months for other MMFs. The limit should be weighted based on the market value of each of the fund's non-deposit investment, and calculated based on the non-deposit investment's *remaining term to maturity or remaining term to the next interest reset* whichever is shorter.

3.2.11 A few respondents commented that the proposal could result in a tightening of the existing portfolio weighted average maturity limit that MMFs are subject to.

MAS' Response

3.2.12 MAS would like to clarify that the existing weighted average portfolio maturity limit [3] is weighted based on the market value of each of the fund's non-deposit investment, and calculated based on the non-deposit investment's *remaining term to maturity* (i.e. the remaining "life" of the portfolio). This existing limit is intended to address the risks that may arise from liquidity or maturity mismatch i.e. investors may redeem their investments on demand while the MMF's assets are longer term.

3.2.13 The proposed limit, which focuses on the portfolio duration to the next interest reset, seeks to lower MMFs' exposure to changes in money market interest rates. The two types of limits are thus complementary and serve to address different risks faced by MMFs. MAS will therefore proceed with the proposal. To better reflect the objectives of these limits, MAS will re-label the existing limit as "portfolio weighted average life" and the new limit as "portfolio weighted average maturity" in line with international convention.

*(ii) Liquid asset holdings for MMFs*

3.2.14 MAS proposed to require an MMF to invest at least 10% of its net asset value ("NAV") in daily maturing liquid assets and 20% of its NAV in weekly maturing liquid assets. Two respondents felt that the proposed requirement would likely result in lower returns for MMFs. One respondent suggested lower thresholds of 5% for daily maturing assets

[3] A short term MMF is currently subject to a weighted average maturity limit of 120 calendar days. The corresponding limit for other MMFs is 12 months.

and 10% for weekly maturing assets. Some respondents sought clarity on the interpretation of the term "exercisable and payable within one business day", especially in the context of fixed deposits.

MAS' Response

3.2.15 MAS notes that MMFs are normally marketed as investment funds that seek to preserve capital and provide daily liquidity, while offering returns in line with money market interest rates. As MMFs function as a cash management tool for investors, it is important for MMFs to hold a sufficient amount of liquid assets in order to meet redemption requests from investors. The proposed requirement for MMF to maintain minimum liquid asset holdings are comparable to the requirements in other major jurisdictions including the US and the European Union. MAS will proceed with the proposal.

3.2.16 MAS will clarify in the CIS Code that liquid assets will be considered "exercisable and payable within one business day" if the MMF can receive cash from the sale of the assets within the next business day after the sale. In the case of deposit that can only be withdrawn with a penalty cost, the deposit will be considered as "exercisable and payable within one business day" if the penalty cost does not exceed the amount of interest accrued before the withdrawal.

## 3.3 Stress Testing

3.3.1 The proposed Guidelines set out factors that FMCs can consider during the design of liquidity stress test as well as the good practices that FMCs should adopt, where appropriate, when performing the stress test. A good liquidity risk management framework does not only consider redemptions in a business-as-usual setting. Therefore, it is important for FMCs to satisfy itself that the CIS can withstand liquidity stresses during periods of market disruptions or idiosyncratic concerns.

3.3.2 For stress tests to be effective, the FMC is strongly encouraged to take into account a combination of stress factors and specific features of the CIS, including the investors' profile, the CIS' dealing frequency and the behaviour of other market participants that are also relevant during the product design and ongoing monitoring processes.

3.3.3 Respondents generally supported the principles-based approach for fund level stress testing. One respondent was of the view that it would be challenging to incorporate the behaviour of other market participants in stress tests of CIS as FMCs may not have the ability to predict such behaviour. Another respondent proposed not to incorporate specific features of the CIS such as investor profile and concentration due to difficulties in obtaining information on investor profile.

MAS' Response

3.3.4 When considering the factors to be incorporated into the stress test, FMCs are encouraged to take into account a combination of stress factors that can happen concurrently (e.g. a sudden increase in redemptions may coincide with or contribute to the worsening of market liquidity for the underlying CIS assets and the ease of unwinding the portfolio). This could be based on backward-looking historical market conditions and redemption patterns of the CIS, or hypothetical scenarios.

3.3.5 In considering the behaviour of investors and other market participants, FMCs could consider relevant factors such as the highest historical redemption rate of the CIS or redemption rate of each distributor during past stressed periods, if any. As set out in paragraph 3.2.5, MAS recognises the difficulty FMCs may face in obtaining granular information on underlying investors who had invested via third party distributors, and do not intend to prescribe the type and granularity of information that FMCs should collect. FMCs could consider obtaining aggregated information from their distributors for analysis on redemption patterns and their ability to meet redemptions at various levels.

## 3.4 Suspension and Redemption of Dealings

3.4.1 Currently, the manager and the trustee of a CIS are required to notify MAS of suspension and resumption of dealing in units in a CIS. MAS will be amending the CIS Code to require participants of the CIS to be notified of such situations as well. This is to ensure that investors are kept informed whenever regular dealing in units in a CIS is interrupted.

## 4 Implementation and Transitional Arrangements

4.1 MAS proposed to provide a transitional period of 3 months from the issuance of the Guidelines and additional portfolio requirements for MMFs under the CIS Code. FMCs would be required to assess and adopt the sound practices in the Guidelines, where appropriate, and comply with the revised CIS Code.

*Transition Period*

4.2 Most respondents were of the view that the proposed transition period of 3 months may be insufficient for FMCs to implement the liquidity requirements and requested to extend the transition period to 6 months instead. One respondent enquired if it is acceptable for FMCs to include the necessary disclosures on liquidity risk management for retail CIS at the next annual relodgement of prospectus.

MAS' Response

4.3 MAS expects FMCs to start incorporating liquidity considerations in its product design process for new funds that are launched after the issuance of the Guidelines. MAS notes the feedback that FMCs may require a longer period to put in place processes for ongoing liquidity risk management and stress testing, where applicable. Hence, MAS will provide a transition period of 6 months so as to allow the FMCs more time to enhance their systems and institute new processes. MMFs will also be given a transition period of 6 months to rebalance their portfolios to comply with the new CIS Code requirements. For the avoidance of doubt, it is acceptable for FMCs to include the necessary disclosures on liquidity risk management in the prospectus for retail CIS at the next annual relodgement, if needed.

**Annex A**

# LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON LIQUIDITY RISK MANAGEMENT PRACTICES FOR FUND MANAGEMENT COMPANIES

1. Investment Management Association of Singapore
2. Alternative Investment Management Association
3. Association of Independent Asset Managers Singapore
4. CFA Society Singapore Advocacy Committee
5. State Street Asia Limited
6. Eastspring Investments (Singapore) Limited
7. BlackRock, Inc.
8. Fullerton Fund Management Co Ltd
9. Allen & Gledhill LLP
10. Chan & Goh LLP
11. Stradegi Consulting Pte. Ltd.
12. Respondent A who requested confidentiality of identity and comments
13. Respondent B who requested confidentiality of identity and comments
14. Respondent C who requested confidentiality of identity and comments
15. Respondent D who requested confidentiality of identity and comments

Please refer to Annex B for the full submissions from respondents.

**Annex B**

## FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION PAPER ON LIQUIDIITY RISK MANAGEMENT FRAMEWORK FOR FUND MANAGEMENT COMPANIES

*Note: The table below only includes submissions for which respondents did not request confidentiality.*

| S/N | Respondent | Full Response from Respondent |
|---|---|---|
| 1 | Investment Management Association of Singapore | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-end CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>There is a broad agreement that the applicability of the Guidelines remains vague, with the language used in certain key wordings requiring further elaboration from the MAS. These include those under the new chapter 3.1(i) of the CIS Code on how FMCs can manage open-ended CIS on a "proportionate basis" that commensurate with their roles and the scale and complexity of their operations and whether the new Chapter applies only to Singapore domiciled, authorised schemes/recognised funds under the CIS Code, or also applies to offshore open-ended CIS offered in Singapore (e.g. UCITs) that are subjected to their own liquidity risk management requirements or from the managers' and sub-managers' home jurisdictions (e.g. IOSCO member countries), or applicable to funds not offered in Singapore notwithstanding that FMCs may be appointed as managers or sub-managers of these funds.<br><br>Other questions raised include: (a) whether a listing of recognised/equivalent funds' jurisdictions, such as those covering Irish UCITS, can be made available to FMCs to avoid placing additional regulatory burden on established fund regimes? (b) for open-ended CIS funds feeding into Master Funds for which FMCs have no discretionary authority, whether these funds are still required to comply with the Guidelines? (c) whether FMC sub-managers managing a small portion of recognized /equivalent funds (e.g. 10% of overall portfolio) are subjected to the full set of Guidelines as it would be unreasonable and impractical?<br><br>We welcome the MAS' intention to create and to apply a common set of industry guidelines in liquidity risk management for FMCs, based on |

| S/N | Respondent | Full Response from Respondent |
|---|---|---|
| | | similar best practices by IOSCO. From members' experiences, we anticipate there will be varying degrees of deviations among FMCs in implementing the common guidelines.<br><br>These deviations include the clarification of responsibility for liquidity risk management that appears to have been removed from those managing assets within their portfolios, and in respect of who would be the appropriate people within their firms managing a portion of the portfolio, that should have the delegated authority to assess and to adopt the said Guidelines. Other areas of deviations include the different levels of liquidity risk oversights applied by FMCs concerning terminations or divestments for closed-ended CIS assets and those for open-ended CIS assets.<br><br>To allow the FMCs to assess and to align their existing internal processes to the practices of the Guidelines, we propose to lengthen the proposed transitional period of 3 months to one year.<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>(i) <u>Governance</u><br>The section covering governance are too prescriptive in requiring a liquidity risk management function. There should be more emphasis to ensure there is a proper framework and oversight over managing liquidity risk, as against the need for a standalone risk management function.<br><br>In this regard, we seek confirmation from the MAS on whether FMCs that are part of a global organisation, should be allowed to continue to leverage on their existing global liquidity risk management frameworks, or does the MAS expect the liquidity risk management frameworks to reside within FMCs in Singapore?<br><br>We propose for the frequency to review, especially the key assumptions covered under sections 4.1 and 4.2, to be made on annual basis, as there are little to benefit in having more frequent reviews.<br><br>(ii) <u>Initial Design of Product</u><br>We wish to highlight there are potential conflicts of interests for FMCs in not treating all investors fairly, as it is challenging and not practical to arrange for agreements with key investors to provide advance notices before large redemptions are being made. In addition, the evaluation of historical and expected redemption levels would be challenging especially for new funds which do not have historical data available for evaluation purposes, and the benefits in gathering investor profiles do not always outweigh the resources that are required to obtain them. |

| S/N | Respondent | Full Response from Respondent |
|---|---|---|
| | | There is a need for adequate disclosure by the CIS that manages 'less liquid' assets such as high yield ETFs marketed to retail of their ability to redeem under stress conditions or the potential impact on the CIS price.<br><br>For the CIS distributed through third party distributors with granular investor information not available to the FMC, we seek the MAS clarification and direction on how the FMC can take reasonable steps to enquire and obtain such information. There should be some examples provided so that FMCs can be made aware of the level of expectations set by the MAS.<br><br>(iii) Ongoing Liquidity Risk Management<br>We seek clarification from the MAS as to who are the representatives, within each FMC, that will be responsible to monitor and manage the ongoing liquidity risk management in the CIS post-launch.<br><br>We wish to understand whether the people who are responsible for asset allocation, buying private equity funds with no obligations or providing research and advisory services, will have any role in managing ongoing liquidity risks.<br><br>There is also a need to consider the appropriate haircuts for collaterals, based on different market conditions, including those collaterals are held by FMCs themselves and those posted by FMCs.<br><br>We propose not to publicly disclose the liquidity risk metrics as these are currently not well established, tested and standardized across the industry. For the same fund type/asset class, we expect to see large variations of these Metrics reported by FMCs, and publicly disclosing them could potentially be subject to misinterpretations and may lead to false conclusions drawn by stakeholders.<br><br>(iv) Stress Testing<br>For section 5.1, we propose to include additional words "extended period" into the second sentence to read: "The FMC should also satisfy itself that the CIS can withstand liquidity stresses during extended period of market disruptions or idiosyncratic concerns". This is to take into consideration the ability of FMCs to withstand liquidity stresses during market disruption that could last over periods of time as these include their abilities to withstand 'stressed' withdrawals before and after implementation of 'liquidity management tools', including suspending redemption, redemption gates etc.<br><br>Additional liquidity management tools may also be required to be deployed including a 10% or 15% funds outflow restrictions etc.<br><br>For section 5.2, we propose not to correlate between stress test scenarios and the specific features of the CIS such as investor profiles and concentrations of the CIS as there are difficulties in obtaining, |

| S/N | Respondent | Full Response from Respondent |
|---|---|---|
| | | aggregating and consolidating them owing to banking secrecy obligations in certain jurisdictions, and many FMCs having to use fund platforms and appoint distributors to distribute their funds who are not obligated to collect this information. With regards to FMCs could consider using stress test scenarios based on backward-looking historical market conditions and the redemption patterns of the CIS, we seek the MAS guidance by providing either an example or an illustration on how redemption patterns should be considered and included on stress test scenarios.<br><br>**Question 3. MAS seeks comments on the proposed additional portfolio requirements for MMFs under the CIS Code as set out in Annex C.**<br><br>1. <u>Portfolio Weighted Average Maturity ("WAM")</u><br>We believe that the proposed WAM is reasonable and in line with industry practice.<br><br>2. <u>Liquid Asset Holdings</u><br>We believe the proposed NAVs are reasonable and will be dependent on FMCs' strategies.<br><br>With reference to section 2.1(a), some members seek to confirm with the MAS on the definition of "within one business day" refer to "payment at T+1 day".<br><br>3. <u>Alternative Portfolio requirements</u><br>We wish to explore with the MAS on an alternative portfolio requirement for MMFs to maintain a minimum level of investments in Singapore Treasury Bills and/or MAS Bills. |
| 2 | Alternative Investment Management Association | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-end CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>*Applicability to private funds*<br>We appreciate that MAS recognises that the extent to which the Guidelines would be applicable to fund managers would depend on the substance of the manager's role in managing the portfolio of an open-end CIS (at para. 1.6 of the Guidelines).<br><br>We are concerned however that management of liquidity risk should concern the fund more than the manager, and which therefore should be regulated at the fund level. It is of crucial importance to make this distinction as most of the alternative fund vehicles managed or advised by our members are not established in Singapore and hence are not – and should not be – subject to the MAS's regulation. Given that the |

| S/N | Respondent | Full Response from Respondent |
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| | | Guidelines are primarily concerned with retail open-ended CIS, it would be preferable for liquidity risk management requirements to be provided in the Code on Collective Investment Schemes (the "CIS Code") instead, which only apply to authorised CIS.<br><br>The Guidelines (at para. 1.3) also refer to proposals by the International Organisation of Securities Commissions ("IOSCO") in its Final Report on Principles of Liquidity Risk Management for Collective Investment Schemes dated March 2013 ("IOSCO Report"). We note that the IOSCO Report contains some useful principles for liquidity risk management. However, it is clear that its main focus is on open-ended CIS. The IOSCO Report concedes this by suggesting that responsible entities for closed-ended CIS "should consider which principles are relevant to them".<br>The IOSCO Report is also focused on retail funds, and many of its assumptions do not take into account the structure and operation of professional investor funds. For example, the IOSCO Report assumes daily liquidity and the absence of lock-up periods and of gates.<br><br>Many of the recommendations in the IOSCO Report are therefore not suitable for professional investor funds. The IOSCO Report acknowledges this by stating that for private funds, these principles may be considered as "best practices" for the entities responsible for operating those CIS, as appropriate under the facts and circumstances (footnote 6 on page 2 of the IOSCO Report). We would suggest that the MAS's implementation of requirements for liquidity risk management should be similarly focused on authorised CIS and would urge the liquidity risk management requirements to be provided in the CIS Code instead.<br><br>In the event that the LRM Framework applies to all fund managers, the Guidelines should include carve-outs for (i) any fund where there are no redemptions at the option of the investor i.e. closed-ended funds, and (ii) for any fund that is only offered to institutional investors. Given its focus on retail open-ended fund, the principles in the IOSCO Report is not a universal minimum standard which should apply to all fund managers regardless of the type of fund they manage. By way of example, principle 4 of the IOSCO Report states that fund should not be managed in such a way that the investment strategy relies on the availability of exceptional measures, citing side pockets as one of the exceptional measures. Unlike retail funds where daily dealing is a common feature, such liquidity measures are not exceptional in the context of alternative funds. Private funds structure investors' redemption rights in light of the strategy and liquidity of their portfolios and use a variety of liquidity risk management tools (discussed in more detail below) to manage and mitigate liquidity risk.<br><br>These features are standard in certain types of alternative investment fund and the implications of these measures are well understood by the institutional investors which invest in such funds, and which would have |

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| | | the bargaining power to negotiate for the appropriate level of investor protection.<br><br>In many cases, the effective execution of the investment strategy will rely on the possibility to impose fund-level or investor-level gates, as well as lock-up periods. Furthermore, market standards for gating of redemptions, as well as disclosure of the same to investors, are recognised by market participants, and the use of such liquidity management tools in the private funds context is unlikely to compromise the fair treatment of investors, unlike in the case of retail funds. Given that the terms (including redemption terms) of alternative funds are typically heavily negotiated between the fund and/or its manager and its investors (typically institutional), it is submitted that the LRM Framework should not apply to alternative funds offered predominantly to institutional investors.<br><br>*Role of sub-managers and sub-advisors*<br>AIMA is concerned that the Guidelines may not adequately circumscribe the role of a sub-manager or sub-advisor in respect of the overall liquidity risk management of a fund, and this may lead to conflicts. The fund may already be subject to regulations in its jurisdiction of establishment.<br><br>Moreover, Singapore managers often are part of international firms with operations also in the US and/or Europe, and they are seldom exclusive managers of a fund. In most cases, Singapore licensed corporations are merely sub-managers or sub-advisors of a fund, responsible for only part of the portfolio of a fund, while a fund manager established outside Singapore will be responsible for the overall investment management of a fund.<br><br>*Segregated accounts*<br>We understand from the discussion during our meeting that the LRM Framework is focused on collective investment schemes, and does not intend for the LRM Framework to apply to segregated accounts, which are essentially bilateral arrangements between the manager and the investor. We note that the Consultation Paper does not refer to segregated accounts. Where liquidity risk management requirements are concerned, the same treatment should apply to funds-of-one even though funds-of-one are technically open-ended collective investment schemes. We propose that MAS clarifies that the LRM Framework would not apply to either segregated accounts or funds-of-one given the bilateral nature of these arrangements.<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>While AIMA agrees that fund managers should have a liquidity management policy, liquidity management should be fund-specific and it will need to be tailored to the redemption policy of the fund, which is |

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| | | set by the fund's board of directors (or relevant governing body). We welcome the fact that the Guidelines are not prescriptive as regards the contents of a liquidity management policy, but are concerned that the Guidelines may be inappropriate for alternative funds given its focus on retail funds.<br><br>For instance, para. 3.3 of the Guidelines refer to managers "[taking] steps to understand the CIS' distribution channels." We would like to point out that adapting the liquidity policy to distribution channels is not something that will generally apply to alternative fund managers. The discussion on distribution channels in paragraph 3.3 appear to be focused on retail fund distribution, whereas managers of private funds would seldom rely on external distribution channels or on regular investor inflow to manage liquidity – many alternative funds are closed to additional money or only raise money sporadically.<br><br>As mentioned above, the Guidelines also do not appropriately delineate the role of sub-managers and sub advisers. Paragraph 3.2 of the Consultation Paper explains that "FMCs which are sub-managers with delegated authority to manage a portion of the portfolio are expected to assess and adopt the Guidelines to the extent possible" and that "The Guidelines would not apply to FMCs which do not have discretionary authority." This however is not reflected in the Guidelines, as paragraph 1.6 states that sub-managers "should take into account the principles set out in these Guidelines, where relevant," and that the Guidelines would be "less relevant" to FMCs without discretionary authority. Paragraph 1.6 of the Guidelines should therefore be revised to reflect the position stated in paragraph 3.2 of the Consultation Paper. Where a sub-manager has discretionary authority over a portfolio within a larger fund, the Guidelines should clarify that the Singapore sub-manager would not be required to assume more responsibility for the liquidity risk management of the fund than would be possible for the sub-manager.<br><br>In addition, as discussed above, the Guidelines appear to draw heavily from the IOSCO Report, which focuses on retail funds, and consequently the Guidelines do not make a distinction between retail funds and alternative funds. What is an exceptional measure for retail funds (such as gates, lock-ups or side pockets) are not necessarily exceptional for alternative funds. Such redemption restrictions are inherent features of alternative funds and form the basis on which investors will have invested in the fund. It would also be necessary to consider the broader implications of using certain tools for deliberately illiquid, long locked-up or closed ended funds.<br><br>Consequently, in the context of the liquidity management tools available to alternative funds, no regulatory intervention would be necessary because the institutional investors in such funds have the means to conduct due diligence on the liquidity management tools |

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| | | available to alternative funds, and have the bargaining power to negotiate a level of protection for themselves above the protection that may be offered to investors through general regulation. The Guidelines should therefore acknowledge that in the context of alternative funds that are predominantly invested into by institutional investors, the use of liquidity measures would be unlikely to compromise fair treatment to investors.<br><br>We acknowledge however that in the case of open-end funds with a higher proportion of investors who are high net worth individuals, a concomitant level of investor protection may not apply, as such investors may not be able to conduct the extensive due diligence that an institutional investor would typically conduct. Consequently, we support the proportionate stance taken in paragraph 3.4 of the Guidelines, while also reiterating our call for appropriate carve outs discussed in our response to question 1 above.<br><br>*Liquidity risk management function*<br>Concerning the requirements for a liquidity risk management function to be put in place by fund managers (para. 2.3 of the Guidelines), we are concerned that the prescriptions may not take into consideration institutions where risk management is dealt with on a group basis, and the officer with responsibility for liquidity risk management may not be within the Singapore office of the institution. It would be preferable for the Guidelines to provide an acknowledgement to this effect.<br><br>Paragraph 4.5 of the Guidelines refers to "liquidity thresholds". We welcome the fact that MAS has not attempted to define what the liquidity thresholds should be, as it would be extremely challenging to define in a manner that would apply to all types of strategies, particularly in the alternative funds context.<br><br>*Stress testing*<br>In relation to stress testing, AIMA agrees that it is necessary for fund managers to conduct regular stress testing, and we consider that fund managers should have flexibility to devise their own methodology for stress testing. Because every fund manager (and every fund) will apply stress tests somewhat differently depending on the circumstances of the particular fund, we consider that it would be difficult for the MAS to give specific guidance on the type and content of stress-testing it expects.<br><br>We therefore welcome the fact that MAS has refrained from prescriptive requirements in relation to how fund managers should conduct their stress tests. AIMA also highlights that for smaller fund management companies, the requirement for regular stress testing is a very onerous requirement. For such managers, more guidance from |

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| | | MAS and a longer period to implement liquidity risk management requirements may be necessary.<br><br>*Product design*<br>Concerning the issue of product design and ongoing liquidity risk management, as discussed during the meeting, we would be grateful for greater clarity in the Guidelines that alternative fund managers would not be expected to go to the extent of renegotiating redemption terms with investors for the sake of complying with the Guidelines.<br><br>The redemption terms in alternative funds are typically already disclosed in and form an important part of the fund documents themselves, and it would not be productive for either the fund or the investors for these terms to be revisited frequently. The Guidelines should not restrict the ability of managers or alternative funds to invest in illiquid asset classes, and alternative fund managers should have the flexibility to set a liquidity risk management policy that is appropriate given the particular class of investor and assets in the fund.<br><br>**Question 3. MAS seeks comments on the proposed additional portfolio requirements for MMFs under the CIS Code as set out in Annex C.**<br><br>AIMA has no comment on the proposed requirements for money market funds.<br><br>We set out below our views on other related issues.<br><br>**Transition Period**<br><br>Paragraph 5.1 of the Consultation Paper proposed for the Guidelines to be issued in Q1 2018, with a transition period of three months.<br><br>As explained during our meeting, our members tend to have a very heavy workload during the first quarter of a year, as it often coincides with the year-end reporting deadline for many funds. We therefore propose a longer transition period of at least six months given that the Guidelines may require significant changes to the risk management policies of fund managers, especially in view of the focus in the Guidelines on stress testing, which would typically be a resource-intensive endeavour.<br><br>**Examples of Liquidity Management Tools**<br><br>During our meeting, we discussed a number of contractual tools to manage capital outflows that are used by open-ended private funds. These tools include the following:<br><br><u>Limited investor redemption rights:</u> Hedge funds have established redemption periods, sometimes monthly, and more often quarterly, |

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| | | annually, or even less frequently, depending on the fund's investment strategy.<br><br>Lock-up periods: Hedge funds also often limit investors' ability to withdraw some or all of their investments for periods of time after their initial investment. For example, a fund that normally allows for quarterly redemptions may institute an initial one-year lock-up period during which investors are not able to redeem their interests.<br><br>Advance notice requirements: Hedge funds require investors to notify the fund manager of their desire to redeem a specified number of days (usually 30 to 90 days) prior to the requested withdrawal date. Advance notice provides managers time to prepare to meet redemption requests.<br><br>Fees for early redemptions: Some funds provide investors with the ability to redeem earlier if they pay an early redemption fee. That fee not only deters investors from making premature redemptions, but, as it is often returned to the fund, not the manager, also serves to defray any costs associated with the sale of assets for the benefit of the remaining investors.<br><br>Side pockets: Hedge funds' contracts may also allow managers to establish side pockets to hold investments that are illiquid or difficult to value. Side pockets have more restrictive redemption provisions than their associated main funds, and redemptions from side pocket vehicles are generally only allowed when realisations occur.<br><br>Gates: If redemption requests in a given redemption period exceed a certain specified threshold (e.g., 10% of assets), a fund may have a so-called "gating" mechanism that limits redemptions beyond the threshold level. In subsequent periods, the gate can be triggered again until all redemption requests can be met or the fund is wound down.<br><br>Although the precise terms of gates can vary from fund to fund, common types of gates include fund-level gates, which limit the percentage of assets a fund is obligated to redeem on any given redemption date, and investor level gates, which are applied on an investor-by-investor basis and limit the amount any one investor can redeem at a time (e.g., 25% of its investment per quarter). These gates are clearly stated in investor subscription agreements, and it was not uncommon for funds to apply gates during the global financial crisis.<br><br>Limited suspensions of redemptions: Fund agreements often permit the board or general partner of a fund to suspend redemptions during the course of unusual events (e.g., a significant market disruption such as severe market-wide liquidity issues or market dislocations) at the manager's discretion. This kind of provision is used infrequently in |

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| | | practice but provides another tool to manage acute liquidity issues that can arise during periods of severe market stress.<br><br>Redemptions in-kind: Fund agreements often permit redemptions in-kind. If a fund does not have enough cash on hand to meet redemptions in cash or believes that redeeming in-kind is in the best interest of all fund investors (e.g., to avoid selling assets at depressed prices to the detriment of redeeming and remaining investors), the manager may distribute the assets held by the fund to redeeming investors on a pro rata basis. We note that this is extremely rare in practice, as the other liquidity mechanisms discussed above are usually more than sufficient to allow the manager to ensure that any outflows are orderly.<br><br>Although hedge funds, to various degrees, have implemented the tools described above to address liquidity risks related to investor redemptions, managers generally avoid using tools such as side pockets, suspensions of redemptions or redemptions in-kind unless, pursuant to their fiduciary obligations, the fund's interests as a whole would be better protected. In fact, private fund managers are obligated to make decisions with respect to redemptions that are in the best interests of their clients. |
| 3 | Association of Independent Asset Managers Singapore | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-end CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>FMCs that manage open ended CIS that are already subject to liquidity risk requirements under foreign regulations e.g. Undertakings for Collective Investment in Transferable Securities (UCIT) should be exempted from the Guidelines especially those from popular jurisdictions like Singapore, EU, the UK, HK, BVI and Cayman Islands etc.<br><br>Alternatively, if persons other than the FMC is involved in managing the fund (e.g. a UCITs management company based in the EU) but since the Fund is already under strict regulatory stress tests (UCITs/MiFID), the liquidity is tightly monitored under the respective statutory requirements thus there should have no need to request additional comfort letter to demonstrate such compliant. However, for those jurisdictions that may not have such practice in place, a comfort letter showing that those other parties involved in managing the fund have systems in place to manage liquidity risk of the fund should be permissible evidence that the FMC has complied with the Guidelines. |

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| 4 | CFA Society Singapore Advocacy Committee | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-ended CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>We agree with MAS' proposal.<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>Section 3 – Initial Design of Product<br><br>Paragraph 3.4 discusses examples of liquidity management tools, i.e. suspension of redemptions, redemption gates and swing pricing, which can be activated during a stressed situation.<br><br>Comment: Fund managers could also consider temporary borrowings or credit lines as other liquidity management tools. The fund manager should also consult the trustee/custodian before the use of liquidity risk management tools.<br><br>Paragraph 3.5 of the proposed Guidelines states that investors should also be informed about the measures that the Fund Management Company may take in the event of a liquidity problem and how these may affect them.<br><br>Comment: We suggest that MAS also update SFA 13–G10 Guidelines on the Product Highlights Sheet to reiterate or make reference to the relevant disclosures stipulated in the Guidelines on Liquidity Risk Management Framework.<br><br>Section 4 – Ongoing Liquidity Risk Management<br><br>Paragraph 4.6 of the proposed Guidelines states that the decision to suspend redemptions should be reviewed and approved by the senior management and/or Board of the Fund Management Company and notified to MAS immediately.<br><br>Comment: We seek MAS' clarification whether MAS acknowledgement or concurrence has to be received by the Fund Management Company before informing the distributors and other service providers of the suspension.<br><br>**Question 3. MAS seeks comments on the proposed additional portfolio requirements for MMFs under the CIS Code as set out in Annex C.** |

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| | | Section 2 prescribes the minimum percentages of a MMF's NAV in daily or weekly maturing liquid assets that will mature or are exercisable and payable within one or five business dates respectively.<br><br>Comment: Fund Management Companies should further take into account the situations that could cause the holdings of a MMF's NAV in liquid assets to fall and the timeframe (depending on the scale of fall) needed to bring it up again. For example, the holdings of a MMF's NAV in liquid assets can fall due to redemptions and Fund Management Companies should put in place a process to bring up the liquid assets to the prescribed daily or weekly minimum percentages. |
| 5 | State Street Asia Limited | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-end CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>3.1 Application of the Guidelines<br><br>The consultation proposes to apply the Guidelines to FMCs which manage open-ended CIS. Specifically, this would include licensed FMCs and registered FMCs which are responsible for the portfolio management of an open-ended CIS. Specifically, Sections 3.1 and 3.2 state:<br><br>*[Page. 4] 3.1 "The determination of the applicability of these Guidelines should be based on the substance of the FMC's role in relation to the open-ended CIS. FMCs which have discretionary authority for making investment or trading decisions for a CIS should implement the liquidity risk management practices set out in these Guidelines."*<br><br>*[Page. 5] 3.2 "FMCs which are sub-managers with delegated authority to manage a portion of the portfolio are expected to assess and adopt the Guidelines to the extent possible, taking into account the liquidity risk management policies of the main manager. The Guidelines would not apply to FMCs which do not have discretionary authority for the fund, such as FMCs which provide research or non-discretionary advice to another FMC."*<br><br>The quoted text indicates the amendment will be applied to the FMCs with portfolio management responsibilities and highlights managers with discretionary authority over making investment and trading decisions.<br><br>Liquidity risk management is the responsibility of both a Main Manager and the Sub-Manager with the investment authority. For example: |

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| | | 1. Consider where the Main Manager, FMC, delegates the discretionary authority for making investment or trading decisions to another Sub-Manager (FMC). The Manager may be responsible for disclosures to investors, might have control over the distribution channels, etc. The responsibility of managing liquidity lies with both the Main Manager and the Sub-Manager.<br><br>2. Consider where the Main Manager, FMC, delegates the discretionary authority for making investment or trading decisions to multiple Sub-Managers (FMCs). In these cases it is the Sub-Managers who cannot have individual responsibility for managing the overall liquidity risk of the Fund. The Main Manager has proportionally greater responsibility in this case.<br><br>State Street Recommendation: The proposed Guidelines should apply primarily to the Main Manager and the Sub-Manager to the extent that liquidity risk management is addressed in the contractual agreement between the Main Manager and the Sub-Manager given:<br><br>1. The Sub-Manager does not have the authority to influence the setting of liquidity risk policy as the Main Manager. In particular if a foreign domiciled product is delegated to the Sub-Manager, it will be difficult to apply specific MAS regulations to a product domiciled outside of Singapore.<br><br>2. We believe that the MAS Outsourcing Guidelines have adequately addressed requirements for investment management delegated to Sub-Manager by the Main Manager. The oversight of Sub-Manager, including any obligations on the Sub-Manager's part to observe liquidity risk management policies and provisions as documented in the contractual agreement between the Sub-Manager and the Main Manager, should be undertaken by the Main Manager.<br><br>3. We appreciate for MAS's clarification on whether the proposed Guidelines will apply to collective investment schemes domiciled outside of Singapore but registered with the MAS.<br><br>*[Page. 5] 3.3 "While liquidity risk management may be less critical to closed-ended CIS, FMCs which manage closed-ended funds should be mindful of liquidity issues which may arise at the point of termination of the CIS or divestment of the CIS' assets."*<br><br>State Street agrees that closed-ended CIS should also be mindful of liquidity issues that arise from the investments they make, particularity in the use of leverage and where there may be collateral requirements.<br><br>*[Page. 6] (ii) "Initial design of product. The evaluation of liquidity risks that the CIS may face throughout its life cycle should begin at the product design stage. In particular, the FMC should ensure that the CIS' dealing (subscription and redemption) arrangement is aligned with its* |

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| | | *investment strategy and liquidity profile. The FMC should consider the appropriateness of liquidity management tools that may be used in the event of a liquidity problem. Liquidity management tools should only be used where fair treatment of investors is not compromised."*<br><br>*[Page. 6] (ii) "Initial design of product. The evaluation of liquidity risks that the CIS may face throughout its life cycle should begin at the product design stage. In particular, the FMC should ensure that the CIS' dealing (subscription and redemption) arrangement is aligned with its investment strategy and liquidity profile. The FMC should consider the appropriateness of liquidity management tools that may be used in the event of a liquidity problem. Liquidity management tools should only be used where fair treatment of investors is not compromised."*<br><br>State Street Recommendation: The proposed Guidelines should apply to the both the Main Manager and the Sub-Manager on a proportionate basis that is commensurate with the FMCs role, contractual agreements, and the scale and complexity of its operations and the schemes that it manages.<br><br>*[Page. 6] 5.1 "The Guidelines and additional portfolio requirements for MMFs under the CIS Code are targeted to be issued in Q1 2018. MAS proposes to provide a transitional period of three months for FMCs to assess and adopt the sound practices in the Guidelines, where appropriate, and for MMFs to comply with the revised CIS Code."*<br><br>FMCs would have to have a compliant framework in place sometime between April 1, 2018 and June 30, 2018 depending when the rule is issued. This does not leave much time for the industry to comply.<br><br>State Street Recommendation: State Street proposes extending the transitional period to a minimum of six months for FMCs to assess and adopt the sound practices in the Guidelines, where appropriate, and for MMFs to comply with the revised CIS Code.<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>1. Introduction<br><br>*[Page. 10] 1.6 "In addition, FMCs may be appointed to different roles in the management of a CIS (e.g. investment manager, sub-manager or advisor). The applicability of these Guidelines to an FMC should be determined based on the substance of the FMC's role in managing the investment portfolio of the open-ended CIS. FMCs which are responsible for the portfolio management of open-ended CIS and have discretionary authority for making investment decisions for the CIS are expected to implement the liquidity risk management practices set out in these Guidelines. Sub-managers of open-ended CIS which have delegated authority for a portion of the portfolio should take into account the* |

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| | | *principles set out in these Guidelines, where relevant, as well as the liquidity risk management standards imposed by the main manager of the CIS. On the other hand, these Guidelines will be less relevant to FMCs which do not have discretionary authority over the management of the investment portfolio."*<br><br>As noted in previous sections, the Main Manager may have responsibilities to manage liquidity risk even where there is no direct authority over the investment decisions as those have been outsourced to a Sub-Manager.<br><br>State Street Recommendation: The proposed Guidelines should apply to the both the Main Manager and the Sub-Manager on a proportionate basis that is commensurate with the FMCs role, contractual agreements, and the scale and complexity of its operations and the schemes that it manages.<br><br>2. Governance<br><br>*[Page. 11] 2.3 "There should be clear responsibility and accountability in an FMC for implementing its liquidity risk management framework, and monitoring and managing the liquidity risks associated with its CIS. FMCs which manage retail CIS with daily dealing are expected to have in place a dedicated risk management function whose oversight includes liquidity risk that is independent of the portfolio management function. FMCs with smaller set-ups or managing CIS with less frequent dealing and/or only offered to accredited or institutional investors are minimally expected to designate a senior staff to be responsible for liquidity risk management. It is important that the liquidity risk management function has sufficient stature to discharge its duties effectively. The liquidity risk management function should also have direct access to the Board and the senior management to highlight issues or concerns in carrying out their duties."*<br><br>A dedicated risk management function independent of the portfolio management function is costly to create and maintain. The text above makes it mandatory for daily dealing FMCs to have in place a dedicated risk management function. The requirement for a dedicated risk function should rather be assessed based on scale and complexity of the FMCs operations and the schemes that it manages. In general, large FMCs leverage their global infrastructure and capability for global functions such as risk management.<br><br>3. Initial Design of Product<br><br>*[Page. 13] 3.5 "Disclosures relating to the liquidity of the CIS allow investors to make an informed determination as to whether their liquidity risk appetite matches the liquidity risk profile of the fund. Investors should also be informed about the measures that the FMC may take in the event of a liquidity problem and how these may affect* |

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| | | *them. As such, the FMC should include clear and simple-to-understand disclosures in the CIS' offering documents to explain the specific liquidity management tools that may be activated in the event of a liquidity problem, and the impact that such tools may have on investors' redemption rights. Where the CIS is distributed through third-party distributors, the FMC should work with its distributors to communicate to end investors the liquidity issues concerning the CIS that they have invested in."*<br><br>While State Street generally supports adequate liquidity risk disclosures, we believe the disclosure regime should be proportionate to the benefits gained by investors. State Street agrees that transparency is important to educate investors and some hypothetical scenarios are appropriate for disclosure. However, the guidance is too prescriptive and does not achieve this goal. For example, we do not support disclosing in the offering documents the specific approach that CIS will take when under liquidity pressure from a heightened level of net redemption requests. Much of this information should remain confidential and should not be detailed in offering documents. In many circumstances, heightened levels of net redemption requests are complex matters and experienced professionals should be provided some flexibility and latitude during their decision making process.<br><br>State Street therefore recommends that disclosures in offering documents describe potential liquidity options and approaches during heightened levels of net redemption requests but not prescribe the exact steps to be taken. Allowing necessary flexibility through less prescriptive guidance protects confidentially and the unintended disclosure of too much information.<br><br>State Street Recommendation: Please clarify that disclosures should not be too prescriptive and that disclosures in offering documents specifically should describe potential liquidity options and approaches during heightened levels of net redemption requests but should not prescribe the exact steps to be taken.<br><br>4. Ongoing Liquidity Risk Management<br><br>*[Page. 12] 4.2 "The FMC should regularly monitor and assess trends in the CIS' investor profile and concentration, and investors' redemption patterns. This should be done with a view to maintain alignment between the CIS' investment strategy and its liquidity profile, and to verify that the assumptions made at the CIS design stage remain relevant. Other sources of liquidity risks, such as liabilities to counterparties should also be considered. Besides considering historical trends, the FMC should also take into account expected future liquidity demands of the CIS at different stages of its life cycle under varying market conditions."* |

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| | | Section 4 relates to the incorporation of relevant data and factors into the liquidity risk management process in order to create a robust and holistic view of the possible risks. The Consultation seeks to enhance the related guidance by requiring entities to make reasonable efforts to understand the investor base by considering CIS marketing and distribution channels; analysing historical redemption patterns by different types of investors; analysing investor profiles and the potential impact these characteristics have on the level of redemptions under different scenarios; analysing data on liabilities such a collateral needs and potential margin calls; and also analysing potential redemption demands.<br><br>State Street believes that although theoretically the proposed guidance for Section 4 may be the appropriate approach for CIS to assess its redemption obligations and liabilities, it will be difficult to implement practically. As discussed previously, one of the biggest challenges industry faces is the lack of information in the marketplace. Currently, the marketplace lacks such granular data on investor base characteristics. There exists uncertainty in future investor behavior both in normal market conditions and more significantly, in stressed market conditions.<br><br>Therefore, State Street recommends that Section 4.2 be modified to state:<br><br>*From: "The FMC should regularly monitor and assess trends in the CIS' investor profile and concentration, and investors' redemption patterns."*<br><br>*To: "The FMC should be able to incorporate, to the extent reasonably practicable, relevant data and factors related to the CIS investor profile into its liquidity risk management process in order to create a robust and holistic view of the possible risks."*<br><br>This modification to this recommendation will allow institutions the necessary flexibility to take into account data on investor base characteristics, if it is reasonably available.<br><br>State Street Recommendation: Modify to state that "The FMC should be able to incorporate, to the extent reasonably practicable, relevant data and factors related to the CIS investor profile into its liquidity risk management process in order to create a robust and holistic view of the possible risks."<br><br>*4.4 "In order to facilitate the FMC's ability to meet its redemption obligations and other liabilities, the FMC should integrate liquidity as one of the relevant considerations in the FMC's investment management decisions. The FMC should also regularly assess and evaluate the liquidity of the underlying assets of the CIS, individually and* |

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| | | *on a portfolio basis. For example, in performing the assessment, FMCs could:*<br><br>*(a) Use appropriate liquidity metrics or indicators, such as the number of days and cost to liquidate assets without significant market impact and redemption coverage ratio; …"*<br><br>State Street supports the use of liquidity metrics and indicators such as days to liquidate and redemption coverage ratios as a component of a robust liquidity risk framework. Liquidity metrics aid determining the liquidity of underlying assets and assessing the effectiveness of the liquidity risk management program such that investors' redemption requests can be met in a timely and orderly manner. While supporting the use of liquidity metrics liquidity metrics for internal monitoring and setting internal thresholds against, we are against prescriptive regulatory mandates that might force the adoption of multiple, different liquidity frameworks across various jurisdictions.<br><br>State Street Recommendation: We support a principles-based approach for assessing and evaluating the liquidity of the underlying assets of the CIS, individually and on a portfolio basis. State Street discourages and advises against a prescriptive approach when it relates to liquidity metrics and/or indicators.<br><br>5. Stress Testing<br><br>*[Page. 15] 5.1 "A good liquidity risk management framework does not only consider redemptions in a business-as-usual setting. The FMC should also satisfy itself that the CIS can withstand liquidity stresses during periods of market disruptions or idiosyncratic concerns. The FMC should complement its liquidity risk management tools with regular stress testing. Liquidity stress testing of the CIS should be performed at a frequency relevant to the specific CIS. For example, an FMC is strongly encouraged to perform more regular stress tests on CIS with daily dealing, or CIS which are more susceptible to varying market conditions, such as those which invest in thinly traded markets. For CIS that employ similar investment strategy or invest into similar underlying assets, the FMC can consider performing stress testing of such CIS in aggregate."*<br><br>The additional guidance in Section 5 in the Consultation provides: requirements for stress testing related to strong and effective governance; appropriate documentation; appropriate stress testing based on normal and stress scenarios, reliable and up-to-date information, and other market risks and factors; implementing additional liquidity management tools; utilizing feedback from back-testing; utilizing stress testing results in all stages of the CIS product life cycle; and carrying out stress testing in a frequency relevant to the specific CIS. |

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| | | State Street agrees with the stress testing considerations articulated in the consultation. However, although we believe that fund level stress testing carried out by asset managers is good practice, we strongly discourage the adoption of bank-like stress testing. Unlike a bank, which conducts financial activity on its balance sheet, FMCs manage risk for their clients in a fiduciary capacity. The resulting profit and loss belongs to the investor and not the FMC and therefore, a crucial difference exists between an FMC's fiduciary responsibility and bank-like activities.<br><br>State Street supports the use of fund level stress testing and supports a more principles-based approach which will allow the necessary flexibility for funds conducting their fund level stress testing. Additionally, regulators need to be mindful that investors benefit from accessing securities such as high yield, bank loans and small cap equities, which although are known as less liquid strategies, market liquidity still exists with these securities. Regulators should be careful not to design regulation that will make these attractive investment options unavailable to investors that do not have access to separate accounts.<br><br>State Street Recommendation: We support a principles-based approach for fund level stress testing, discourage bank-like stress testing, and advise against a one-size-fits-all approach when it relates to asset management stress testing. |
| 6 | Eastspring Investments (Singapore) Limited | **General comments:**<br><br>We note that the MAS has proposed to provide a transitional period of three (3) months for FMCs to assess and adopt the sound practices in the Guidelines and for MMFs to comply with the revised CIS Code. Given some time would be required for FMCs to assess their existing liquidity risk management practices against the proposed Guidelines, as well as to review their MMF's investing strategy to comply with the proposed requirements under the CIS Code, we respectfully suggest that MAS provides a transitional period of at least six (6) months.<br><br>We also note that the proposed Guidelines will supplement the existing Guidelines on Risk Management Practices - Liquidity Risk issued by MAS in March 2013, which sets out the principles of sound liquidity risk management and supervision. We respectfully suggest that MAS considers streamlining its existing and proposed liquidity risk guidelines into a one set of guidelines that are applicable to the Asset Management Industry.<br><br>**Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-ended CIS on a proportionate basis that is commensurate with** |

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| | | **their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>We would appreciate MAS' confirmation that the Guidelines would be applied to FMCs which are responsible for the portfolio management of an open-ended CIS, regardless of the CIS being an authorised scheme or recognised scheme under the Securities and Futures Act ("SFA").<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>To promote and facilitate adherence to the Guidelines, we respectfully suggest that MAS list out all the relevant SFA provisions, the relevant SF(LCB)R regulations, the relevant CIS Code sections as well as the specific areas of FAQs that should be read in conjunction with the Guidelines so as to help expedite and better manage the regulatory change management process by the Asset Management Industry.<br><br>We would also appreciate MAS' confirmation, where discretionary fund management for open-ended CIS is delegated to a sub-manager in a jurisdiction which takes into account international recommendations promulgated by the FSB and IOSCO, that confirmation from the sub-manager that it has adopted policy and/or procedures that commensurate with the guidance from its local authority would suffice under the outsourced arrangement.<br><br>**Question 3. MAS seeks comments on the proposed additional portfolio requirements for MMFs under the CIS Code as set out in Annex C.** |

| MAS' Proposals | EISL's comments |
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| **1. Portfolio Weighted Average Maturity**<br>1.1 A short-term MMF should maintain a portfolio weighted average maturity (WAM) that does not exceed 60 calendar days.<br><br>1.2 A MMF should maintain a portfolio WAM that does not exceed six months. | With respect to the proposed paragraph 1.1 on short-term MMF, we note that the existing paragraph 5.4 of Appendix 2 to the CIS Code sets out that "A short-term money market fund should maintain a dollar-weighted average portfolio maturity that does not exceed 120 calendar days." In this regard, we would like to seek MAS' clarification if the proposed paragraph 1.1 is to replace the existing paragraph 5.4 of Appendix 2 to the CIS Code and whether there is any impact on the existing paragraph 5.3 of Appendix 2 to the CIS Code |

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| | | | relating to the definition of short-term MMF.<br><br>In addition, with respect to the proposed paragraph 1.2 on MMF, we note that the existing paragraph 5.2 of Appendix 2 to the CIS Code sets out that “A money market fund should maintain a dollar-weighted average portfolio maturity that does not exceed 12 months.” In this regard, we would like to seek MAS’ clarification if the proposed paragraph 1.2 is to replace the existing paragraph 5.2 of Appendix 2 to the CIS Code and whether there is any impact on the existing paragraph 5.1 of Appendix 2 to the CIS Code relating to the definition of MMF.<br><br>Furthermore, we are of the view that a six month weighted average maturity will potentially restrict the portfolio to shorter term securities, which is restrictive given the limited choice and availability of shorter dated SGD instruments. |
| | | **2. Liquid Asset Holdings**<br>2.1 A MMF (including a short-term MMF) should invest:<br><br>(a) at least 10% of its NAV in daily maturing liquid assets, such as cash or securities, that will mature or are exercisable and payable within one business day; and<br><br>(b) at least 20% of its NAV in weekly maturing liquid assets, such as cash or securities, that will mature or are exercisable and payable within five business days. | With respect to the proposed paragraph 2.1(a) and (b), we would appreciate MAS’ clarification on whether this bucket includes securities that are readily saleable and can be sold in a business day or 5 business days respectively. Alternatively, if the “exercisable and payable” is based on the number of days until maturity to monitor the proposed requirement, we would appreciate MAS’ specific guidance in this area. |

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| | | In addition, we would appreciate MAS' clarification on whether these proposed requirements would apply to a MMF that invests 100% in time deposits. If so, we would like to further seek MAS' clarification on whether we should use the tenor of time deposits to monitor this proposed requirement. For instance, would this mean that for a fund that invests 100% in time deposits, at least 10% of the fund would need to be invested in overnight deposits?<br><br>Separately, we are of the view that the proposed requirements would likely result in lower returns for the fund investors as more funds would be required to be invested in shorter dated securities or assets. This could potentially lead to unintended redemption pressure. As such, we respectfully suggest that MAS lowers the threshold to 5% in overnight assets and 10% for assets with maturity of five days or less. |
| 7 | BlackRock, Inc. | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-ended CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>Exchange-traded funds ("ETFs") and open-end mutual funds have different redemption characteristics. While most open-end mutual fund investor redemptions are met by redeeming fund shares for cash, ETF investors buy and sell shares on exchanges without directly impacting the actual ETF portfolio's holdings. Imbalances between ETF buyers and sellers impact the exchange price, but do not directly lead to purchases or sales of ETF holdings.<br><br>In fact, because many ETFs actively trade on exchanges at tight bid-ask spreads with significant volume, many portfolio managers view ETFs as liquid assets. ETFs are sometimes held by open end mutual funds as a |

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| | | way to maintain market exposures while ensuring sufficient liquid asset holdings. In this respect, ETFs are much more comparable to single-company exchange traded equities, rather than open-end mutual funds.<br><br>In view of the above, BlackRock proposes that the MAS permit the adoption of the Guidelines as FMCs see fit based on the characteristics and features of ETFs.<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br><u>Paragraph 2.5</u><br><br>BlackRock agrees that the FMC's internal policy should articulate clearly the decision –making process in the event of a liquidity issue, including the identification of decision-makers. However, BlackRock seeks clarification from the MAS that "the steps to be taken in in the event of liquidity issues" will not be prescriptive on the specific LRM tool to be deployed. It is difficult to predict with precision the circumstances of liquidity events. It is therefore important that the decision-making process combines portfolio manager experience, judgement, and market insights with quantitative analysis and product knowledge and that the FMC's flexibility in choosing the appropriate strategy is preserved.<br><br><u>Paragraph 3.3</u><br><br>Having an agreement with key investors to provide advance notice before they make any large redemptions was provided as an example on what an FMC could do to take steps to understand the CIS' distribution channels and investor profile. However, from a practical point of view, it may not be feasible to expect large investors to agree to provide advance notice before making large redemptions. BlackRock proposes the MAS consider other more commonly used tools to deal with large and unexpected redemptions by investors. One example is for the FMC to have the flexibility to pace the redemptions over a longer period of time or satisfy requests on a partial basis if redemptions exceed a certain percentage of the fund.<br><br>This paragraph also provides that where the CIS is distributed through third-party distributors and granular investor information is not available to the FMC, the FMC should take reasonable steps to enquire and obtain information about the investor profile and concentration of the CIS. For this to be an effective tool, BlackRock proposes the MAS consider imposing a regulatory requirement on the distributors to provide such information when requested by FMCs.<br><br><u>Paragraph 5.1</u> |

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| | | Paragraph 5.1 provides that for CIS which employ similar investment strategy or invest into similar underlying assets, the FMC can consider performing stress testing of such CIS in aggregate. As Mutual funds are separate legal entities, BlackRock is in the opinion that they should not be stress tested in aggregate as if they are one unit. Each CIS has its own investment objective and guidelines/constraints and hence investing into similar underlying assets is not a reasonable premise to presume they will adopt similar trading patterns. The result of performing stress testing of such CIS in aggregate could potentially mislead investment teams and, to the larger extent, the public market.<br><br><u>Paragraph 5.2</u><br><br>Paragraph 5.2 provides that for stress tests to be effective, the FMC is strongly encouraged to take into account the correlation between related scenarios and specific features of the CIS, including the behaviour of other market participants. BlackRock is in the opinion that modelling the behaviour of market participants will be particularly challenging and the FMC might not have the ability to predict the behaviour of market participants.<br><br>Liquidity stress tests are designed to test whether a fund could meet the redemption demands of its shareholders under hypothetical stressed conditions using parameters that assume a marketwide liquidity event. Any attempt to not only predict a fund's ability to sell assets at a certain price in a given timeframe, but to also forecast the potential behaviour of other market participants who may or may not act in a similar manner to the fund in question, would necessarily require a variety of simplifying assumptions to the analysis, reducing its utility as an analytical tool since the results will be almost totally assumption driven. |
| 8 | Fullerton Fund Management Co Ltd | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-ended CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>1) <u>Implementation and transitional arrangements</u><br><br>The policies and procedures of an FMC should follow the Guideline. However, the compliance of its policies will require the support of its liquidity tools. It may be more practical for an FMC to start with an "internal guideline" for its liquidity risk management while its liquidity tools are under development? The internal guideline will eventually be enhanced to become the policy in due course. We would propose a transitional period of 6 months instead of 3 months as mentioned in 5.1 (Pg 6). |

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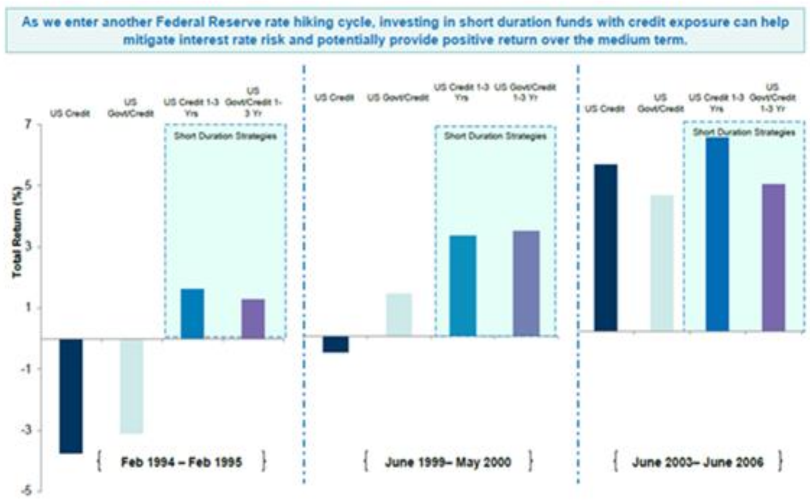
2) Consultation paper on liquidity risk management came timely; will be helpful for FMCs. The potential of more US rate hikes in 2018 and past trends in Fed cycle (see screenshot), points to the likelihood of active in and outflows activities and complexities for MMFs in coming quarters.


Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.
1) While we noted that there are specific guidelines for MMFS on page 17 in Annex C, is there any recommended reference for internal liquidity thresholds establishment for funds other than MMFS?
2) There is no mention of illiquid investments such as private equity and hedged funds. It would be helpful if we could get some guidance on this area.
3) We noted on same observation in Annex B para 1.5; where redemptions are done regularly and with little advance notification. For material redemptions and reference to para 3.4, we agree on need to have Redemption Gates and Swing Pricing. Having a standardized percentage on Redemption Gates will be helpful (eg 10% for all MMFs). As for Swing Pricing, FMCs should also make assessment on threshold and effective deployment (eg MMF may not have commission and bid/off spreads like Equities but may consider replacement cost or penalty cost for breaking deposits).
Question 3. MAS seeks comments on the proposed additional portfolio requirements for MMFs under the CIS Code as set out in Annex C.
1) <u>Annex C, Point 1</u>
Noted the additional proposed requirements for MMFs (as below) are to shorten the WAM from existing 120days and 12months, to 60days
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| | | and 6months, for short-term MMF and MMF respectively. While this would align the MMF definition closer to global standards, the WAM shortening would lead to lower MMF yields. Suggest to adopt the 60day WAM for short-term MMF for investors who want minimal duration exposure, while maintaining MMF WAM at 12 mths.<br><br>2) <u>Annex C, Point 2</u><br><br>We would like to seek clarification on the definition of “exercisable”. For cases where premature fixed deposits can be withdrawn with a penalty cost, is this considered as “exercisable” by MAS definition?<br><br>3) A) Weight Average Maturity (WAM) may vary across MMFs, and based on the fund’s liquidity and investment needs. Noted on proposed WAM not exceeding 60days (Annex C para 1.1) but for comparison purpose, worth noting major MMF products in HK aim to not exceed 90 days (see screenshots).<br><br>B) Many MMFs have twin objectives which can be polar end in nature; ie to provide liquidity and return to investors. Paper’s proposal on 10% and 20% limit (para 2.1a and 2.1b) means returns for fund may be lower in future and adding more challenges in managing MMFs (eg Basel III’s impact on products below 30 days, and central banks’ ample short term liquidity). |


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| 9 | Allen & Gledhill LLP | **Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>In respect of paragraph 3.5 of Annex B, please clarify if the disclosure requirements for offering documents are intended to apply to all authorised CIS or if they will only apply to authorised CIS which are money market funds ("MMFs").<br><br>In addition, we wish to highlight that the offering documents of a CIS are usually prepared by the main manager and not by a sub-manager. Please clarify to what extent a sub-manager needs to ensure compliance with the disclosure requirements in paragraph 3.5 (including in cases where the sub-manager is a FMC sub-managing a foreign recognised CIS and is not responsible for preparing the offering documents of the foreign recognised CIS).<br><br>Separately, we note that the Authority is looking at a transitional period of 3 months for FMCs to assess and adopt the Guidelines and for MMFs to comply with the CIS Code. In respect of retail CISs, please clarify if FMCs will be able to include the necessary disclosures required under paragraph 3.5 at the next annual relodgement of prospectus for the relevant CIS. |
| 10 | Chan & Goh LLP | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-ended CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>**<u>Applicability of the Guidelines to licensed (accredited / institutional investors) and registered FMCs</u>**<br><br>MAS currently differentiates between retail and non-retail investors in terms of regulatory protection. The full range of regulatory safeguards (under both the Securities and Futures Act (SFA) and the Financial Advisers Act) applies when issuers and intermediaries deal with retail investors. Non-retail investors are considered to be better informed and better able to access resources to protect their own interests and therefore require less regulatory protection.<br><br>Should MAS not adopt the same approach and apply the Guidelines to CISs that are offered to retail investors only?<br><br>**<u>Applicability of the Guidelines to Restricted Schemes</u>**<br><br>Assuming it is MAS' intention to protect both retail and non-retail investors, why are the Guidelines not applicable to 'open-ended' restricted schemes that are offered by foreign fund management companies to non-retail investors in Singapore (given that the |

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| | | Guidelines are currently applicable to only Singapore licensed fund management companies ("FMC") and registered fund management companies ("RFMC"))? Foreign fund management companies may or may not be subject to equivalent liquidity risk management requirements in their respective home jurisdictions. Accordingly, an accredited investor investing into a Singapore-domiciled fund will have a Singapore-manager (whether licensed A/I FMC or RFMC) which adheres to the Guidelines, whereas an accredited investor investing into an offshore fund managed by an offshore licensed manager, may not get the same protection if that jurisdiction does not impose similar liquidity risk management rules.<br><br>Currently, it seems that the Guidelines will also apply to 'open-ended' restricted schemes managed by Singapore FMCs or RFMCs even if these are not offered to Singapore investors. Please clarify if this is intended.<br><br>**<u>Clarification on Recognised Schemes</u>**<br><br>(a) Whilst the Guidelines do not apply to foreign fund management companies, will MAS apply the liquidity risk management framework in its review and assessment of a UCITS scheme seeking recognition (from the list of acceptable jurisdictions such as Ireland and Luxembourg) and impose additional requirements (if MAS deems necessary) or will compliance of such scheme with its home jurisdiction's liquidity risk management practices BE sufficient?<br><br>(b) If the UCITS scheme is only offered to accredited investors in Singapore under section 305 of the SFA, would this make a difference to the position in (a) above?<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br><u>Paragraphs 2.2 and 2.3</u><br><br>Paragraph 2.2 of the Guidelines provides that the Board and senior management of an FMC should ensure that the firm has a liquidity risk management function, and subject it to effective oversight. Paragraph 2.3 further provides that FMCs which manage retail CIS with daily dealing are expected to have in place a dedicated risk management function whose oversight includes liquidity risk that is independent of the portfolio management function.<br><br>Please clarify if the liquidity risk management function in the Guidelines can be undertaken by the same team within the FMC which is tasked to implement the risk management framework pursuant to paragraph 13(B)(1), Securities and Futures (Licensing and Conduct of Business) Regulations for FMCs (read with the Guidelines on Risk Management Practices issued by MAS). |

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| | | <u>Paragraph 2.3 - Clarification on smaller set-ups / CIS with less frequent dealings / accredited investors</u><br><br>Please clarify what the definition of "smaller set-ups" or a "CIS with less frequent dealings" means, such that the FMCs or RFMCs involved will not be required to put in place a dedicated risk management function and can instead designate a senior staff to be responsible for liquidity risk management. Will the size be determined by the assets under management ("AUM") of the FMCs or RFMCs? For authorised schemes, the Code on Collective Investment Schemes prescribes that there should be at least one dealing day a month. Accordingly, would a monthly-dealing, open-ended retail CIS be regarded as having infrequent dealings?<br><br>Paragraph 2.3 also states that the minimum requirement of appointing a senior staff will apply to fund management companies managing CIS offered to accredited or institutional investors only. Does this mean all licensed FMCs or RFMCs for accredited and institutional investors will not be required to have a dedicated risk management function (assuming the senior staff is able to discharge such duties effectively)?<br><br><u>Paragraph 3.3 – Advance Notice for key investors with large redemptions</u><br><br>This is not feasible as it unfairly prejudices large / key investors. For example, in the event of market turmoil, why should such large / key investor be required to give advance notice before he / it is permitted to redeem whereas a small investor can redeem immediately? Given that there are other liquidity management tools such as redemption gates and swing pricing to manage liquidity of a CIS (whereby such large / key investor bears the additional costs associated with large redemptions), it would be unfair to impose additional obligations (including prohibiting redemptions without prior notice from such large / key investor). Moreover, the relative position of an investor vis-a-vis the total AUM of a CIS is fluid and an investor may inadvertently end up holding a large number of units / shares in a CIS (if other investors have redeemed over time). This may in fact prejudice the investor should he / it fall within the category of having a large redemption order relative to the then prevailing AUM. |
| 11 | Stradegi Consulting Pte. Ltd. | **Question 1. MAS seeks comments on the applicability of the Guidelines, i.e. to apply the Guidelines to licensed and registered FMCs which have responsibility for the portfolio management of an open-ended CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage.**<br><br>Applicability of these guidelines to "open-ended CIS on a proportionate basis that is commensurate with their roles and the scale and complexity of their operations and the CIS that they manage" is very |

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| | | broad. If the criteria for applicability of guidelines is broad based, it leaves room for interpretation, loopholes and possible non-compliance. We recommend that MAS make the applicability criteria more granular and prescriptive. The guidelines must apply to any FMC managing money, irrespective of the scale and complexity. The risk management framework, and tools used may vary, however, the applicability of the guidelines must be mandated.<br><br>**Question 2. MAS seeks comments on the proposed Guidelines as set out in Annex B.**<br><br>1. The consultation paper indicates in paragraph 1.3 of Annex B "In addition to the liquidity risk management practices set out in these Guidelines, FMCs should take into account and comply with the international standards prescribed in these reports by the IOSCO, where relevant." In this regard, we believe that requiring FMCs to adhere to another set of guidelines would create confusion. The guidelines by MAS must be all encompassing, and incorporate relevant sections of IOSCO principles within the MAS' Liquidity Risk Management Framework for Fund Management Companies.<br><br>2. Do these guidelines apply to Exchange Traded Funds (ETFs) or will there be special exemption rules in place for ETFs? Will there be different treatment towards ETFs handling redemptions in kind, rather than in cash?<br><br>3. Should these guidelines also apply to ETFs, there is a need for more granular and specific guidelines to cover aspects that are specific to ETFs – such as:<br><br>a. How should liquidity in ETFs be measured i.e., secondary market liquidity and primary market liquidity (liquidity of the underlying assets)?<br><br>b. What would the liquidity tools be for ETFs, given that ETFs derive their liquidity from the secondary market for ex suspension of trading?<br><br>c. Guidelines must incorporate due diligence of market makers as well, as the operation of market makers may seriously hamper ETF liquidity.<br><br>d. Mismatch of liquidity between the ETFs and their underlying assets, especially in cases where secondary market liquidity of the underlying assets is greater than the primary market liquidity of the ETFs.<br><br>4. Paragraph 3.3 requires FMCs to take reasonable steps to enquire and obtain information about the investor profile and concentration of the CIS. We believe that the distributors may use |

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| | | their discretion and not provide this information to the FMCs in sufficient granularity. We recommend that MAS place onus on the distributors to provide such information to FMCs, when sought.<br><br>5. In paragraph 4.6, the guidelines state that the "FMC is expected to ensure that the objective criteria for reaching the decision to suspend are met". In this regard, we recommend that MAS provide some sort of sample criteria for using tools, such as suspension of redemption, to ensure that the criteria set by FMCs are in the best interest of investors. |

Monetary Authority of Singapore