

15 December 2021

Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

The below responses will be submitted to the Monetary Authority of Singapore online system on 15 December 2021.

ASIFMA AMG Response to Consultation Paper on Proposed Changes to the Complex Products Regime

Q1. MAS seeks comments on the proposal to classify all authorised and recognised CIS as EIPs, except for a small group of more complex funds as described in paragraph 2.7 which are currently subject to additional disclosure requirements and enhanced distribution safeguards for SIPs.

On behalf of the Asset Management Group (“**AAMG**”) of Asia Securities Industry & Financial Markets Association (“**ASIFMA**”), we would like to submit our response to the Monetary Authority of Singapore (“**MAS**”) Consultation Paper on Proposed Changes to the Complex Products Regime.

Our members are supportive of the move to classify all but the more complex authorised and recognised Collective Investment Schemes (“**CIS**”) as Excluded Investment Products (“**EIP**”). We also agree that regulation of all authorised and recognised CIS under the Code on Collective Investment Schemes (“**CIS Code**”) already provides a degree of risk limitation for retail investors.

Implementation considerations

We would like to understand how the regulations, such as the Securities and Futures (Capital Markets Products) Regulations (“the **Regulations**”), The Schedule to the Regulations, and notices including Notice SFA 04-N12 Sale of Investment Products (“**Notice on Sale**”) and Notice FAA-N16 Recommendations on Investment Products, will be amended to reflect such changes.

To minimise the administrative burden on converting CIS from Specified Investment Products (“**SIP**”) to EIP, such as requiring prior notice to be sent to investors and being subject to Trustees’ opinion of materiality, we would suggest that the MAS consider mandating these conversions from SIP to EIP as a non-significant change under the CIS Code. This should also be applicable to MAS 307 Investment-Linked Policies which feed into CIS for which the conversion from SIP to EIP is applicable.

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Streamlining Regulations

The Regulations also refer to “prescribed capital markets products” and “non-prescribed capital market products”, which are the equivalent for EIP and SIP, respectively. These terms (i.e. prescribed capital markets products, non-prescribed capital market products, EIP, and SIP) also appear in the disclosures in legal offering documents. We suggest MAS adopt consistent terminology in the Regulations to minimise any possible confusion.

Other comments

In reviewing the Complex Products Regime at this juncture, the MAS may wish to consider future developments in product innovation beyond the traditional CIS, debentures, and hybrid securities. Exchange traded funds (“ETFs”) now represent the majority of exchange traded products (“ETPs”) in Singapore, but in other markets, we are observing an increasing proliferation of exchange traded notes (“ETNs”), exchange traded commodities (“ETCs”) and other exchange-traded instruments (“ETIs”).

We note that the MAS’ Complex Products Regime has already implemented safeguards in respect of products (exchange-traded or otherwise) that seek to provide a leveraged or inverse return, which will continue to be treated as more complex funds as noted under Paragraph 2.7 of the consultation paper. However, as the ETP market in Singapore continues to mature and develop, our members encourage the MAS to use this opportunity to lay the foundation for more transparency, as certain ETPs with complex structures and/or certain embedded risks should not only be differentiated using the EIP/SIP designation under the Complex Products Regime, but also properly identified to investors as ETFs, ETNs, ETCs or ETIs under an ETP Classification framework.

In the United States for example, since May 2020 following the dramatic decline in oil prices which resulted in a 3x levered long crude oil-linked ETN being delisted with an expected value of zero dollars per note¹, an industry coalition has called for better identification and classification of ETPs, given the significantly different risk profiles offered by different ETPs and resultant outcomes for investors. We believe this would be an opportune time for MAS to pre-emptively consider adopting an ETP classification system alongside and complementary to its Complex Products Regime.

Q2. MAS seeks comments on the proposal to classify debentures with the following features as SIPs:

- (a) Where the interest payment is not solely based on a single fixed or floating rate;**
- (b) Where the debentures are convertible.**

No comment

Q3. MAS seeks comments on –

- (a) Whether perpetual securities should be classified as EIPs or SIPs;**

¹ The price decline reflected the embedded economics and risks of this exchange-traded note, the iPath Series B S&P GSCI Crude Oil Total Return Index ETNs; it performed as expected but with volatility and market risks significantly different than unlevered index tracking ETFs. The issuer of the notes, Barclays, exercised its issuer call option to fully redeem the notes on 30 April 2020, in accordance with the terms and conditions of the notes.

- (b) Whether there is a need to enhance the marketing and disclosure requirements on perpetual securities to ensure that the key features and risks are adequately highlighted to investors. If so, what are your views on requiring intermediaries to provide a cautionary statement and what should be contained in such a statement;**
- (c) any other suggestions on safeguards for the sale of perpetual securities.**

No comment

Q4. MAS seeks comments on

- (a) whether to align the EIP/ SIP classification of preference shares with that of perpetual securities and subject the sale of these products to the same safeguards;**
- (b) any other suggestions on safeguards for issuance of preference shares.**

No comment

Q5. MAS seeks comments on the proposal to remove the CKA/CAR assessment for advised transactions. FAs may instead integrate the consideration of the customers' knowledge or experience in SIPs in the suitability assessment when making a recommendation on SIPs.

The CKA/CAR assessment is currently managed by distributors and not asset managers. We understand from distributors that processes would be streamlined by removing the CKA/CAR assessment and integrating customers' knowledge or experience into existing suitability assessments.