



Monetary Authority of Singapore

Response to Feedback Received

P016-2021 – 3 November 2023

Response to Feedback Received on Proposed Changes to the Complex Products Regime



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1. Preface

- 1.1. On 3 November 2021, MAS issued a consultation paper on proposals to further enhance and update the complex products regime. The consultation proposals included –
 - (a) Reviewing the classifications of certain debentures and hybrid securities, namely perpetual securities and preference shares, as Excluded Investment Products (EIP)¹ or Specified Investment Products (SIP)², and revising the complexity criteria for collective investment schemes (CIS); and
 - (b) Streamlining the SIP safeguard requiring intermediaries to assess customers' investment knowledge and experience, for transactions where the intermediary has already committed to provide advice to the customer (i.e. advised transaction).
- 1.2. The consultation period closed on 15 December 2021. Considering the wide range of feedback received during the consultation and requests for further clarification, MAS decided to hold further engagement sessions and follow-up discussions with various stakeholders. MAS would like to thank all respondents for their contributions. The list of respondents is in **Annex A**, and the full submissions are in **Annex B**.
- 1.3. From the consultation and follow-up engagements, MAS received a spectrum of views, some of which went beyond the specific consultation proposals and covered the broader complex products framework and its underlying principles. In considering the various viewpoints, MAS recognises that since the complex products regime was introduced over a decade ago, there have been additional regulatory measures and ongoing efforts to uplift the financial advisory industry³, and help investors make informed investment decisions⁴.
- 1.4. In view of these developments and feedback, MAS considers it timely to undertake a broader review of the suite of measures that work together to protect and empower retail investors in accessing a wide range of investment products. MAS intends to issue a new consultation paper in the first half of 2024 to consult on broader proposals on the complex products regime, including a review of the safeguards applicable to SIPs, as well as enhancements to the Product Highlights Sheets for investment products.

¹ EIPs refer to products prescribed by MAS, which are well-established and have features generally understood by the market.

² SIPs are products that do not fall within the prescribed EIP list, and which have more complex features that the average retail investor may not be as familiar with. Enhanced distribution safeguards apply to the sale of SIPs to retail investors.

³ For example, MAS has issued various requirements and guidelines covering sales, advisory and distribution practices, as well as on promoting good culture and conduct.

⁴ For example, we have made disclosures more accessible and easier for the average investor to understand through the Product Highlights Sheet, so they can better assess the features, risks, and returns of the product. There have also been various investor education efforts to better equip retail investors in making investment decisions.



- 1.5. Given the upcoming broader review, MAS will hold back on responding to our earlier proposals on the consulted EIP/SIP classification changes and the safeguards, and will take them into consideration in the broader review. We have set out our preliminary responses to the feedback received in Sections 2 and 3 of this response paper.



2. Product Classification and Complexity Criteria

2.1. MAS sought comments on

- (a) the EIP/SIP classification for debentures with variable interest rates, debentures with convertibility features, perpetual securities, and preference shares (“consulted products”); and
- (b) the complexity criteria for collective investment schemes (CIS).

2.2. Respondents had mixed views about the appropriate classifications of the consulted products. Some respondents felt that re-classifying them as SIPs and subjecting them to the enhanced distribution safeguards was warranted, as the average retail investor may not fully understand the product features and confuse them with the plain vanilla versions⁵. On the other hand, some felt that these products should remain as EIPs as the features are not new to the market or difficult to understand. Furthermore, investors now have improved access to investment information and knowledge. Notwithstanding the mixed views, the common sentiment across most respondents was that there should be clearer disclosures of the key features and risks of the investment product, regardless of classification.

2.3. For CIS, respondents were generally supportive of broadening the scope of CIS that are classified as EIP. Some respondents provided feedback to streamline the current complexity criteria for CIS. Currently, for a CIS to be EIP, it must meet the following restrictions which must be set out in the offer documents:

- (a) Securities lending or securities repurchase in relation to the CIS must solely be for efficient portfolio management, and the total value of securities lending and securities repurchase transactions must not exceed 50% of the CIS’ net asset value at any time; and
- (b) Investments in SIPs must solely be for efficient portfolio management or hedging.

2.4. With respect to limb (a), some respondents provided feedback that securities lending and repurchase transactions do not necessarily increase risk or complexity to investors. With respect to limb (b), some respondents proposed that all exchange-traded funds which track major indices should be EIPs as they are well understood by retail investors generally. Presently, not all index funds are classified as EIP as some employ derivatives, which are SIPs, to replicate index returns (i.e. synthetic index funds). While the approaches differ, the main risk exposure of such funds is the same regardless of synthetic or physical replication. As CIS are professionally managed by fund managers, it is less essential for investors to understand all the underlying products, if the fund manager has a limited mandate to

⁵ For example, some investors may wrongly assume that perpetual securities have the same payout characteristics as plain vanilla bonds, when in fact they have no fixed maturity and may have no principal repayment, which makes them fundamentally different from a plain vanilla bond and more akin to equity investments.



replicate performance of an index. Retail investors are also able to assess the performance of a chosen index fund by comparing them with other funds tracking the same index or referring to the index itself.

MAS' Response

- 2.5. MAS acknowledges the call for clearer disclosures of product features and risks, and is of the view that this can be done by enhancing the Product Highlights Sheet (PHS). With clearer disclosures, the current SIP classification and safeguards may become of less relevance. Hence, MAS will be consulting the industry on enhancements to the PHS requirements, together with a holistic review of the safeguards under the complex products regime. The consultation is targeted for the first half of 2024. In the meantime, MAS will maintain the current product classification for all the consulted products. Nonetheless, the feedback received from this consultation will be considered in totality as part of the broader review of the regime.
- 2.6. For CIS, MAS acknowledges the feedback to rationalise the current complexity criteria.
- (a) With respect to limb (a) of the criteria, MAS understands that CIS typically use securities lending and securities repurchase transactions for efficient portfolio management⁶ only. In the case of a retail CIS that carries out securities lending and securities repurchase transactions, there are also additional counterparty requirements as well as disclosure requirements to provide salient details of such transactions. Hence, MAS will remove the restrictions in relation to securities lending and securities repurchase to streamline the complexity criteria to focus on the use of SIPs (i.e. the current limb (b)).
 - (b) With respect to limb (b), MAS agrees that funds which are only meant to replicate the performance of major equity indices should not be considered complex. Hence, MAS will expand the EIP criteria to allow funds that invest in SIPs for the purpose of directly replicating the performance of an “acceptable index” (for example, S&P 500, FTSE 100, Hang Seng Index and STI) to be classified as EIP. This is in addition to the existing criteria allowing for investments in SIPs for the purpose of efficient portfolio management or hedging. MAS will import the concept of “acceptable index” from the Code of Collective Investment Schemes to ensure that not all funds that track the performance of any portfolio of assets would qualify⁷. Funds which invest in SIPs and seek to outperform or provide inverse returns in relation an acceptable index will continue to be classified as SIPs.

⁶ A transaction is deemed to be for the purpose of efficient portfolio management if it has at least one of the following aims: (i) reduction of risk; (ii) reduction of cost with no increase or minimal increase in risk; or (iii) generation of additional capital or income for the scheme with no increase or minimal increase in risk.

⁷ Broadly, an “acceptable index” must have market characteristics of the represented market or sector; have constituents which are liquid; be sufficiently diversified; and be transparent in the index compilation methodology.



- 2.7. MAS will be making amendments to the Schedule to the Securities and Futures (Capital Markets Products) Regulations 2018 (“Regulations”) to implement the changes as described in paragraph 2.6. The changes are expected to come into effect in the first half of 2024, subject to consultation on the draft amendments and the legislative process.
- 2.8. Once the amendment to the Regulations come into effect, the responsible person for a CIS whose units were SIP prior to the amendment may initiate a review of the product classification. The responsible person for a CIS must notify the approved exchange and/or distributors of the CIS as relevant if there is a change in product classification⁸.
- 2.9. A capital markets services licensee or an exempt financial institution⁹, or a financial adviser¹⁰ may also initiate a review of product classification for overseas listed funds after the amendment to the Regulations to classify the overseas listed fund as EIP or SIP¹¹ and to apply the SIP safeguards as needed.

3. Distribution Safeguards

- 3.1. Most respondents supported the proposal to give greater flexibility to financial advisers to integrate the consideration of the customers’ investment knowledge or experience within the suitability assessment, instead of conducting a formal Customer Knowledge Assessment or Customer Account Review (CKA/CAR) for advised transactions.

MAS’ Response

- 3.2. MAS notes the broad support for this proposal. However, in view of the planned broader review of the complex products regime, MAS will not proceed with this proposal at this juncture. MAS will be considering broader changes including whether there is still a need for distribution safeguards in the form of mandatory CKA/CAR and financial advice for all SIP transactions.

⁸ In accordance with section 309B(3) of the Securities and Futures Act 2001.

⁹ This refers to a financial institution who is exempt from holding a capital markets services licence under section 99(1)(a) or (b) of the Securities and Futures Act 2001.

¹⁰ As defined in the MAS Notice on Recommendations on Investment Products (FAA-N16).

¹¹ In accordance with their obligations under Paragraphs 29J or 29K of the MAS Notice on the Sale of Investment Products (SFA 04-N12) and/or Paragraphs 41H or 41I of the MAS Notice on Recommendations on Investment Products (FAA-N16), as the case may be.



Annex A

List of respondents to the Consultation Paper on Proposed Changes to the Complex Products Regime

1. AAM Advisory Pte Ltd, which requested for confidentiality of submission
2. AIA Singapore Pte Ltd
3. Asia Securities Industry & Financial Markets Association (ASIFMA)
4. BlackRock (Singapore) Limited
5. CFA Society Singapore¹²
6. Endow.us Pte. Ltd.
7. FWD Singapore Pte. Ltd.
8. Investment Management Association of Singapore
9. Lim Beng Kim
10. Lymon Pte. Ltd., which requested for confidentiality of submission
11. Phua Chiew Pheng
12. Rohit Johri
13. Schroder Investment Management (Singapore) Ltd
14. Securities Association of Singapore, which requested for confidentiality of submission

¹² Submitted by Chan Choong Tho, CFA; Chan Fook Leong, CFA; Chris Yoong, CFA; Maurice Teo, CFA; and Tan Lay Hoon, CFA.



15. Singapore Exchange Limited, which requested for confidentiality of submission
16. St. James's Place (Singapore) Private Limited, which requested for confidentiality of submission
17. Syfe Pte. Ltd.
18. The Straits Trading Company
19. Tokio Marine Life Insurance Singapore Ltd
20. United Overseas Bank Limited
21. Respondent A
22. Respondent B
23. Respondent C
24. Respondent D
25. Respondent E
26. Respondent F
27. Respondent G

Eleven other respondents requested for confidentiality of identity and submission.

Please refer to Annex B for the submissions.



Annex B

Submissions from respondents to the Consultation Paper on Proposed Changes to the Complex Products Regime

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

S/N	Respondent	Responses from Respondent
1	AIA Singapore Pte Ltd	<p>Question 1:</p> <p>Specific to ILP Funds, AIAS agree with MAS’ proposal to classify all authorised and recognised CIS (and correspondingly ILP sub-funds that invest in authorised/recognised CIS) as EIPs.</p> <p>AIAS would like to suggest these two groups of funds stated below should similarly be classified as EIPs since they do not employ alternative investment strategies, do not embed unique features not typically encountered in traditional funds:</p> <p>1) ILP Funds that are managed as segregated mandates which do not employ alternative investment strategies, do not embed unique features not typically encountered in traditional funds.</p> <p>Offer of these ILP Funds are also accompanied by IFPS and PHS, with the necessary disclosures in place.</p> <p>Examples of such ILP Funds are AIA Growth, AIA Acorns of Asia, AIA Regional Fixed Income Fund, AIA S\$ Money Market Fund.</p> <p>2) ILP Funds that invest in funds that are non authorised/ recognised which do not employ alternative investment strategies, do not embed unique features not typically encountered in traditional funds.</p> <p>Although non authorised/ recognised, these underlying funds reside under the investment vehicle - AIA Investment Funds (“SICAV”). AIA Investment Funds is an open-ended investment company established on 23 May 2019 in Luxembourg as a société d’investissement à capital variable (“SICAV”) and qualifies as an undertaking for collective investment in transferable securities (“UCITS”) and has obtained recognition under the Directive 2009/65/EC of the European Parliament and of the Council for marketing in certain Member States of the European Union.</p> <p>Offer of these ILP Funds are also accompanied by IFPS and PHS, with the necessary disclosures in place.</p>



		<p>Examples of such ILP Funds are AIA Elite Adventurous/Balanced/Conservative Fund, AIA Global Dynamic Income Fund.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: AIAS have no issue in removing the CKA assessment.</p>
2	Asia Securities Industry & Financial Markets Association (ASIFMA)	<p>Question 1: 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.</p> <p>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.</p> <p>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.</p> <p>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</p>



		<p>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.</p> <p>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.</p> <p>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”).</p> <p>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.</p> <p>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 note , 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.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p>
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3	BlackRock (Singapore) Limited	<p>Question 1: We fully support the proposal to classify all authorised and recognised CIS as EIPs, except for a small group of more complex funds (those that employ alternative investment strategies, or embed unique features not typically encountered in traditional funds) which are currently subject to additional disclosure requirements and enhanced distribution safeguards for SIPs. We believe that this approach is balanced and proportionate considering the robust regulatory framework already provided under the CIS Code.</p> <p>As the MAS set out in the Consultation Paper, the objective of the complex products regime is to aid retail investors in better understanding the features and risks of a complex product before transacting in one. In line with this objective, we encourage the MAS to take this opportunity go one step further, to introduce a classification system that more accurately reflects the complexities, risks and structural features inherent in different types of exchange-traded products (ETPs).</p> <p>Internationally, the growing popularity of exchange traded funds (ETFs) as an investment vehicle for both institutional and retail investors is well documented. This has in turn sparked a proliferation of ETPs especially in overseas exchanges such as those in the US, UK and EU, with different features and varying degrees of complexity. Notwithstanding different ETPs can pose very different risks to holders, however, “ETF” has unfortunately become a blanket term used by many product sponsors, exchanges, investors, the financial press and even regulators to describe any product that offers exchange-tradability, when in fact these products can have a wide range of different structures and risks, such as the use of leverage to deliver a return that is a multiple of the index that the product tracks or exposure to the creditworthiness of the issuer of the underlying debt.</p>



		<p>We note that the MAS already categorises leveraged/inverse (L/I) products as SIPs, acknowledging the complex nature and very different risk profiles of these products as compared with traditional index- or basket-tracking ETFs – a distinction that we strongly support. Our suggestion now is for the MAS to implement a full ETP classification system which is adopted in the name of the product (for both existing and new products) and all product materials as well as communication in media. Such a naming convention (which we explain below) will provide clarity around the full range of different ETPs that is and may become available in Singapore and will help investors and relevant stakeholders appreciate the differences between them, especially from a risk and product complexity viewpoint.</p> <p>Recent market events serve to underscore the importance of ensuring our markets operate in a manner that ensures investors understand the very different risks and considerations that these increasingly complex ETPs pose to investors. For example, crude oil market declines in April 2020 and the equity market sell-off in February 2018 highlight the different risk profiles associated with different types of ETPs and amplify the potential pitfalls of investor confusion around the nature of the product identification as an ETF. In the United States, in April 2020, the dramatic decline in oil prices resulted in a 3x levered long crude oil-linked exchange-traded note (“ETN”) being delisted with an expected value of zero dollars per note[1]. Likewise, a steep drop in equity benchmarks in February 2018 coinciding with a large one-day increase in the VIX level resulted in several inverse VIX ETPs suffering declines in excess of 90%[2].</p> <p>Similar issues were seen in Europe and Australia during the March/April 2020 volatility, not only involving levered/inverse exposures but also single commodity products such as oil ETPs. For example, in Australia, an ETF which provides exposure to the performance of WTI crude oil futures announced on 28 April 2020 that it would temporarily change its investment strategy, to obtain its underlying exposure to WTI crude oil futures contracts by moving from using one month futures to three month futures instead. The ETF, which saw considerable inflows in the lead up to the announcement, made this decision in order to reduce the risk to the product of the June 2020 futures contract trading at a negative price (which would have reduced the product’s value to zero).[3]</p> <p>With Singapore’s eminence as a key Asian capital market growing, we can expect the local ETP market to develop and become increasingly sophisticated as well. As the MAS seeks to amend the Complex Products Regime, our view is that this is an opportune time to introduce an ETP classification system.</p> <p>Our recommendation is that the ETP classification system can sit alongside and complement the Complex Products Regime. Specifically, we believe that certain ETPs with different structures and/or certain embedded risks should be identified and categorized by the MAS (as a product naming rule) and by the exchange at the data feed level (via exchange listing rules or otherwise) as follows:</p>
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		<p>Categories of Exchange-Traded Products</p> <p>(i) ETF: Exchange-Traded Fund</p> <ul style="list-style-type: none"> • An authorised or recognised CIS regulate pursuant to Division 2 of Part XIII of the SFA that: (i) in the normal course issues (and redeems) creation units to (and from) authorized participants in exchange for a basket and a cash balancing amount (if any); and (ii) issues shares or units that are listed on the SGX and traded at market-determined prices; • Includes funds that transact on an in-kind basis, on a cash basis, or both; and • Excludes ETNs, ETCs and ETIs (as defined below) <p>(ii) ETN: Exchange-Traded Note</p> <ul style="list-style-type: none"> • A debt security issued by a corporate issuer (i.e., not issued by a pooled investment vehicle) that is linked to the performance of a market index and trades on the SGX; • May or may not be collateralized, but in either case, depends on the issuer’s solvency to deliver fully to expectations; and • Excludes products that seek to provide a leveraged or inverse return, a return with caps on upside or downside performance or “knock-out” features. <p>(iii) ETC: Exchange-Traded Commodity</p> <ul style="list-style-type: none"> • A pooled investment vehicle with units that trade on the SGX that invests primarily in assets other than securities and financial futures; • The primary investment objective of an ETC is exposure to traditional commodities and non-financial commodity futures contracts; and • May hold physical commodities (e.g., precious metals) or invest in non-financial commodity futures or commodity-based total return swaps. <p>ETI: Exchange-Traded Instrument</p> <ul style="list-style-type: none"> • Any pooled investment vehicle, debt security issued by a corporate issuer, or similar financial instrument that trades on a securities exchange that has embedded structural features designed to deliver a return other than the full unlevered positive return of the underlying index or exposure (for example, products that seek to provide a leveraged or inverse return, a return with caps on upside or downside performance or “knock-out” features); or • All products not captured by the ETF, ETN or ETC classification fall under ETI. <p>Once adopted as a naming convention by the MAS, many players in the ETP ecosystem, from issuers to exchanges, are well-positioned to help advance ETP classifications. Incorporating consistent ETP nomenclature at the exchange data feed level would not only benefit investors by providing more clarity into specific product characteristics, but also assist brokerage platforms in implementing point-of-sale guardrails to better protect investors, as well as helping innovation in a way which will not create confusion.</p> <p>We highlight these international developments for the MAS’ reference:</p>
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		<ul style="list-style-type: none"> • In May 2020, BlackRock was part of a coalition of product sponsors calling for exchanges to adopt the above described ETP classification system in the United States[4]. • Shortly afterwards, in September 2020, the US Securities and Exchange Commission (SEC) approved a new ETF rule without adopting the ETP classification scheme but encouraged market participants to continue engaging with investors and exchanges on the issue[5]. In December 2021, the SEC Chair Gary Gensler released his Fall 2021 regulatory agenda, which includes proposed amendments to an existing rule on the naming of investment funds[6]. • In November 2020, the European Fund and Asset Management Association through its ETF Task Force has issued an investor education guide intended to draw out, in a simple form, the defining features of the main types of ETPs listed across European markets[7]. <p>We would be most pleased to explain explore this issue with the MAS in further detail.</p> <p>NOTES:</p> <p>[1] The price decline reflected the embedded economics and risks of this ETN; it performed as expected but with volatility and market risks significantly different than unlevered index tracking ETFs. Barclays exercised its issuer call option, which allows the issuer to call the ETN at its discretion. See related Bloomberg article (April 21, 2020): Barclays Announces the Redemption of the iPath® Series B S&P GSCI® Crude Oil Total Return Index ETNs (the “ETNs”) and the Suspension of Further Sales and Issuance of the ETNs (https://www.bloomberg.com/press-releases/2020-04-21/barclays-announces-the-redemption-of-the-ipath-series-b-s-p-gsci-crude-oil-total-return-index-etns-the-etns-and-the)</p> <p>[2] While these products performed as designed, the dramatic jump in the VIX prompted the closure of an inverse VIX ETN by its sponsor under the terms detailed in the ETN’s prospectus (a so-called “event acceleration”). See Credit Suisse AG Press Release (Feb. 6, 2018): Credit Suisse AG Announces Event Acceleration of its XIV ETNs (https://www.credit-suisse.com/about-us/news/en/articles/media-releases/credit-suisse-announces-event-acceleration-xiv-etn-201802.html)</p> <p>[3] See BetaShares Crude Oil Index ETF announcement dated 23 April 2020: Temporary Change to OOO’s Underlying Futures Exposure from One-Month to Three-Month WTI Crude Oil Futures Contracts (https://www.betashares.com.au/fund/oil-etf-betashares/)</p> <p>[4] See the letters sent by the coalition to the heads of Cboe, Nasdaq and NYSE dated 13 May 2020 (https://www.blackrock.com/corporate/literature/publication/letters-to-exchanges-regarding-etp-classification-051320.pdf)</p> <p>[5] See the US SEC Asset Management Advisory Committee’s Preliminary Recommendations of ETP Panel Regarding Covid-19 volatility: Exchange-Traded Products, dated 16 September 2020 (https://www.sec.gov/files/prelim-recommendations-to-amac-on-etps.pdf)</p> <p>[6] See the US SEC Fall 2021 Regulatory Flexibility Agenda (https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST&currentPub=true&agencyCode=&showStage=active&agency)</p>
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		<p>Cd=3235&csrf_token=F93DDA75B0D952E153B7019FC53F68D720E4F59FC01A0970832F3257162E20C7F1A9A0711058A0E670BDD754797D30C59BC4) [7] EFAMA, Demystifying ETPs: an EFAMA guide for the European investor, dated 18 November 2020 (https://www.efama.org/newsroom/news/demystifying-etps-efama-guide-european-investor)</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: No comments.</p>
4	CFA Society Singapore	<p>Question 1: We are in agreement to the proposed change. The change will allow investors a wider choice of investment products and greater access to professionally managed and well-diversified funds.</p> <p>Question 2a: We are in agreement to the proposal. Complex pay-out structures and convertible features are typically not well understood by a certain segment of retail investors.</p> <p>Question 2b: We are in agreement to the proposal. Complex pay-out structures and convertible features are typically not well understood by a certain segment of retail investors.</p> <p>Question 3a: Perpetual securities should be classified under SIPs. There is a tendency for retail investors in Singapore to invest in hybrid securities and perpetuals securities without a clear understanding of differing terms and conditions compared to plain vanilla securities.</p>



		<p>Question 3b: There is a need for enhanced disclosure requirements. Key features that are of interest to investors and differ significantly from plain vanilla securities should be highlighted as they are often not well understood. Financial advisers should highlight these key features to clients.</p> <p>Question 3c: A financial adviser is likely to understand the motivation of a client in investing in certain securities. For example, many clients in Singapore are building up retirement funds. They may not have a long runway to accumulate retirement funds and tend to prefer lower risk and stable recurring income securities, especially if they are backed by reputable institutional investors or a sovereign. To ensure clients have internalised the key features, the financial adviser can take a step further by checking for understanding using question techniques such as requesting the client to explain what he or she understands by the issuer option of non-payment of dividends and/or non-redemption on scheduled call dates, and their implication to the client's investment goals. Checking for understanding can also take place via digital applications and ATMs. However, investors may check off boxes without truly understanding the key features, more so when they are subscribing for new issues at ATMs where a queue tends to form rather quickly.</p> <p>Question 4a: Perpetual securities should be classified under SIPs. There is a tendency for retail investors in Singapore to invest in preference shares without a clear understanding of differing terms and conditions compared to plain vanilla bonds. For example, a callable perpetual preference share (with no mandatory redemption date and/or dividend payment) can be mistaken to have features in a bond with fixed maturity, redemption date and interest payment. On a separate note, we seek MAS classification on two other securities: 1) the upcoming SPACs in Singapore; and 2) paper gold.</p> <p>Question 4b: There is a need for enhanced disclosure requirements. See response to question 3(b) and 3(c).</p> <p>Question 5: The proposal puts too much reliance on FAs to do a good and thorough job. CKA provides a baseline assessment of a client's investment knowledge and experience. CKA should be retained. Should the proposal be adopted, financial institutions would have differing standards of assessment. And there may be a tendency to race to the bottom in simplifying the assessment to attract clients. If this were to be the case, it would not bode well for the development of the capital market in the longer term. On a separate note, MAS may wish to consider rolling CAR and CKA into one assessment to simplify the process of allowing clients to transact in an SIP.</p>
5	Endow.us Pte. Ltd.	Question 1:



		<p>Generally we agree with this proposal to classify all authorised and recognised CIS as EIPs except for a small group of complex funds. When discussing EIP and SIP CIS self-classifications with Fund Managers, their explanations for the classification has not been clear and many Fund Managers opt for SIP status to err on the side of caution rather than properly assessing how to classify the fund. Many have started to reclassify some SIPs to EIPs upon our prompting which shows there exists some confusion in the industry more broadly and generally.</p> <p>Therefore, the definitions for SIPs need to be made clearer. We propose considering the following guidelines in defining what constitutes SIPs:</p> <ol style="list-style-type: none">1) Use of leverage in the strategy beyond a certain defined percentage2) Illiquid strategy (no daily redemption feature)3) Ability to put on short trades in the strategy4) For CIS, percentage of exposure in SIPs <p>A CIS that utilizes derivatives cannot be by default deemed as complex as certain instruments are more efficient for the strategy and fund managers should not be penalized for their choice of instruments such as credit default swaps (CDS). There are also countries where there are capital controls imposed on foreign investors which make derivative usage the only way to gain exposure to the market. Also, most importantly, derivatives, in and of itself by definition, do not necessarily increase the risk of an investment or a CIS. In fact, the use of derivatives could not only be more efficient and cost-effective, but also in fact when used appropriately, can reduce risk to the investor.</p> <p>We would also recommend that prior rules that suggest that securities lending conducted by a CIS implies that it should be a SIP be removed. Securities lending does not necessarily increase the risks to an investor as the activity is well-collateralized. A CIS should not be deemed as complex and tagged as an SIP because the underlying instruments purchased are themselves complex products without consideration of the level of exposure. For example, if a CIS has an investment objective that allows it to invest into perpetuals and hybrid securities, it should not immediately be considered an SIP.</p> <p>The other criteria of leverage, liquidity and shorting should be used in the assessment first. Thereafter, a threshold should be used in determining the classification. If the investment guidelines allow for more than 50% in such complex products within the CIS, then it is right to classify the CIS as an SIP.</p> <p>In addition, we seek the MAS to reconsider classifying CIS with sub-investment grade or high yield instruments as complex or as a SIP purely from a credit rating perspective as higher credit risks does not make the product more complex that retail investors cannot understand. Instead</p> <p>FAs should have a process of instituting a product risk rating that considers factors such as volatility and drawdowns in determining whether the CIS is appropriate from an investment suitability standpoint for the client. Generally, a client with a higher risk tolerance should be allowed to transact on a product with a higher risk</p>
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		<p>rating. This is independent from the consideration of whether it is an EIP or SIP. We feel it is imperative that Singapore’s FAs be providing better advice and guidance to its clients and in discharging its fiduciary duty.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: Perps should definitely be classified as SIPs as they are a more complex type of securities that most retail investors do not understand very well.</p> <p>Retail investors may not be fully aware of the risks involved in investing in perps.</p> <p>Question 3b: We do not distribute perpetual securities and have no comments, but highly recommend all distributors to have full disclosure of the risks for perpetual securities and worst outcome scenarios to explain to the lay retail investors of the risks and how it is different from general investment grade securities.</p> <p>Question 3c: No comments.</p> <p>Question 4a: We do not have strong views on the classification of preference shares but we would suggest that it be treated differently compared to perpetual securities which have the characteristics of a bond as opposed to preference shares which should often be classified as equities especially when it is a redeemable or convertible preference shares and therefore more akin to equity securities.</p> <p>Question 4b: No comments.</p> <p>Question 5: We agree and support the removal of CKA/CAR assessments and combining them into a more integrated and proper suitability assessment. FAs should be made responsible for ensuring that clients understand the products they are investing in and that they are suitable, based on financial circumstances and risk tolerance for a specific objective. This includes FAs having the duty and responsibility to conduct the knowledge assessment and acknowledgement.</p> <p>For clients who are deemed to have a lack of knowledge or experience in SIPs, the FA should be allowed to identify other relevant digital financial education modules (besides the one conducted by ABS) for the clients to take. Upon completion of the financial education module, clients can then transact in the SIPs .</p>
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		<p>We believe the Authorisation and Registration framework around Retail CIS in Singapore is sufficient. However, overseas listed products that are not Authorised or Registered in Singapore that may be deemed complex, in the current regime of classifying them into SIP/EIP, have been subjected to arbitrary judgements undertaken by FAs and distributors which defeats the purpose in conducting CKA/CAR assessment.</p> <p>Therefore, the onus should be on the FA to properly classify the products or solutions, and assess client suitability.</p> <p>On advised transactions, we recommend MAS to consider setting more specific guidelines on what constitutes evidence of an advised transaction versus that of a pure execution only trade. Our recommendations are that the following should be included:</p> <ol style="list-style-type: none"> 1) Allowing digital platforms to offer advice via automated shortlisting of solutions in line with the client risk and knowledge profile. The client risk profile is in turn determined by a scoring mechanism on questions related to client’s knowledge and experience as well as other factors such as investment objective and investment horizon. This process can be done by the automated system and does not require human intervention or advice directly from a licensed representative. 2) Client acknowledgment of having received advice and being made aware of the risks of any SIPs will be important. Although we believe most SIPs should be converted to EIPs (referring to questions #1) 3) If a portfolio constructed for the client contains EIPs and SIPs (both listed and unlisted) but is predominantly non-complex (threshold can be decided and defined by MAS), the client should still be able to proceed with the advised investment. 4) Clients should be directed to the key documents such as PHS, factsheet and prospectus for every transaction, which should be a requirement for all CIS distributed in Singapore including overseas listed products and CIS including ETFs. The lack of information and proper documentation for overseas funds is not serving the needs of protecting Singapore based investors. 5) If the client would like to proceed with the investment despite the FA telling the client that the portfolio is not suitable or the client does not have adequate knowledge, the client may opt out of advice, and can still proceed on an execution only basis. <p>We would also like the MAS to consider if the advised process for EIPs should be differentiated from that for SIPs. Given the proposal to remove CKA/CAR and more SIPs are retagged as EIPs, a more simplified process of providing advice on EIPs and assessing investment suitability should be allowed.</p>
6	FWD Singapore Pte. Ltd.	<p>Question 1: With the proposed changes, it would take approximately six months to revise the classification of our ILP funds.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p>



		<p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: With the streamlining and proposal to remove CKA/CAR, will the MAS be providing baseline guidance how FIs are expected to assess a customer’s knowledge or experience? In particular, for ILPs that are sold online, how would the FIs be able to demonstrate that clients' suitability has been considered without CAR or CKA? How often are FIs required to assess a customer’s knowledge or experience?</p>
7	Investment Management Association of Singapore	<p>Question 1: IMAS members are generally supportive of MAS’ proposal to classify all authorized and recognized (CIS) as EIPs, except for those which have more complex/alternative strategies (e.g. Hedge funds, Leverage & Inverse Products). We understand from our members that distributors have provided them with the feedback that the re-classification will simplify Customer Knowledge Assessments for unlisted SIPs as well.</p> <p>Accompanying Changes in Other Regulations</p> <ol style="list-style-type: none"> 1. One member suggests for MAS to consider mandating these conversions from SIP to EIP as a non-significant change under the Code on CIS. This should also be applicable to MAS 307 ILPs which are feeding into these affected funds which would be subject to the same conversion. This would minimize the administrative burden which may include prior notice to be sent to investors and subject to Trustees’ opinion of materiality. 2. IMAS would like to understand how would the relevant MAS regulations and notices be amended, such as: <ol style="list-style-type: none"> a. Securities and Futures (Capital Markets Products) Regulations (including Schedule on Capital Markets Products) b. Notice SFA 04-N12 Sale of Investment Products c. Notice FAA-N16 Recommendations on Investment Products <p>Disclosures in Prospectus</p> <p>Several IMAS members would like to seek clarification on disclosure impact within the prospectus in relation to SIPs. For instance, whether the relevant sub-fund be required to state why it is a SIP under the revised framework.</p>



		<p>Classification of Restricted Funds as EIPs</p> <p>It is noted that, while the Notice on Sale of Investment Products (“Notice”) is not applicable for sale of investment products to Accredited Investors, it is common for distributors to request for product manufacturers to classify Restricted Schemes as EIP or SIP in accordance with the Notice to facilitate them in their product distribution. As such, that member would like to seek clarification from MAS whether the following types of CIS can be classified as EIP:</p> <ol style="list-style-type: none">1. Funds which are non-complex in nature and are registered as Restricted Schemes for sale in Singapore2. Funds which are non-complex in nature and are registered as both Recognised and Restricted Schemes for sale in Singapore <p>One member suggested to make it a regulatory requirement for managers to disclose whether a CIS is EIP or SIP in the Singapore prospectus (if the CIS is authorised or recognised). This would help to ensure that there is no ambiguity between distributors and product providers on the classification of the fund, promoting transparency and a level playing field between different fund providers. MAS will also be made aware of which funds are classified as EIPs or SIPs. For this suggestion, the member requests that the requirement should be applied prospectively, i.e. at the next earliest prospectus lodgement following the implementation date.</p> <p>In Substance EIPs</p> <p>One member noted that the proposed changes will now tie a fund’s EIP eligibility to its registration status in Singapore. The member would like to seek clarification on how this change will affect funds that are neither authorised nor recognised but are determined to be “in substance EIPs” based on the Guidelines on Provision of Digital Advisory Services and the current EIP definition.</p> <p>Presently, it is possible to determine certain funds to be “in substance EIPs” in a discretionary portfolio offered by a digital advisor regardless of the fund’s registration status, provided that the use of derivatives is restricted to hedging and efficient portfolio management purposes among others. However, this appears to be no longer an option moving forward as the EIP definition will be tied to a registration status in Singapore and this does not provide room for interpretation.</p> <p>The member would like to seek clarification and understand how the proposed changes to the EIP definition for funds should be read with the Guidelines on Provision of Digital Advisory Services, and whether there may be funds that currently qualify as “in substance EIPs” based on the current EIP definition but no longer eligible moving forward. It may be useful for MAS to illustrate with examples.</p> <p>Reclassification for Exchange Traded Products</p> <p>MAS should consider future developments in product innovation beyond the traditional Collective Investment Schemes, debentures, and hybrid securities currently being considered. Exchange-traded funds now represent the majority of</p>
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		<p>exchange-traded products (“ETP”), but in other markets, there is an observation of an increasing proliferation of exchange-traded notes, exchange-traded commodities and other instruments (e.g. products 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).</p> <p>In the United States, for example, an industry coalition has since 2020, in the aftermath of a failure in the United States Oil Fund ETF, called for better identification and classification of ETPs, given the significantly different risk profiles encompassed and resultant outcomes for investors. It would be an opportune time for MAS to pre-emptively consider an ETP classification system as part of its Complex Products Regime as Singapore continues to build competitive capital markets that offer broad choices to investors whilst ensuring investor protection.</p> <p>Other clarifications</p> <ol style="list-style-type: none">1. Confirmation that all existing authorised and recognised schemes will be grandfathered and be classified as EIPs so long as the investment strategies of those schemes are not as described in paragraph 2.7 of the consultation paper.2. Confirmation that the EIP classification and assessment feature stops at the feeder fund level, or a ‘look-through’ principle is to be applied, i.e., is there a need to ascertain that underlying fund(s) are not complex funds as described in para 2.7? <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: For asset managers, the CKA/CAR is currently managed at the distributors’ end. Based on distributors’ feedback, it is likely that the sales process would be simpler without the CKA process. Notwithstanding, guidance is sought on whether asset</p>
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		<p>managers would need to continue to furnish the EIP or SIP classification to distributors.</p> <p>There is interest to understand how the enhanced distribution safeguards will be applied to those CIS which remains as an SIP.</p>
8	Lim Beng Kim	<p>Question 1: Agree.</p> <p>Question 2a: Agree.</p> <p>Question 2b: Agree.</p> <p>Question 3a: Perpetual should be SIP.</p> <p>Question 3b: There is no maturity date, therefore principal may not be repaid.</p> <p>Question 3c: Client need to acknowledge the risk if they wish to buy.</p> <p>Question 4a: Agree.</p> <p>Question 4b: Client need to acknowledge the risk if they wish to buy.</p> <p>Question 5: Agree.</p>
9	Phua Chiew Pheng	<p>Question 1: MAS is making the right move to get more investment products and options to retail investors. In this era, people are generally more well educated and with internet the reach to public information on talks and money management are easily available. What is critical is MAS to mandate issuers and their intermediaries to publicly provide essential information and for banks to provide basic advice to investors. Present information in the form where investors can better understand.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: Should be classified as EIPs and allow retail investors to have access to buy. Esp when the company is already listed on SGX. Perpetual securities are in fact lower</p>



		<p>risk than ordinary shares. It still ranks above ordinary shares if company encounters cash crunch. Since ordinary shares of listed companies are already on SGX, perps should be made available to investors using the Nation's SGX platform.</p> <p>Question 3b: If MAS mandates key information to be disclosed by issuer as well as its marketing agent/underwriter/book runner, it will safeguard retail investors. Importantly, an FAQ can be produced in less technical terms for retail investors to understand. Currently, issuers and their intermediaries are not mandated to disclose essential information in terms which investors can understand and it has been "buyers' beware" approach. Intermediaries like banks also often state that they can't advise investors on the risks or features. MAS could mandate issuers and their intermediaries to produce the essential information without investors requesting for it and mandating that they have to render at least basic advice instead of avoiding advise. Currently banks deem that if they do not render any advice, they have no liability.</p> <p>Question 3c: Besides addressing sale at issuance, it is opportune time for MAS to dictate how perps should be listed and traded. Currently many perpetual securities are issued and placed under OTC market instead of SGX. This OTC market highly jeopardizes investors' interests as there is no transparency to investors on what are the willing buyers' and willing sellers' prices for the perps they hold. Investment is not just about buying at IPO but managing the trade thereafter. Currently Banks/intermediaries will just quote their own bid or ask prices and also charge another layer of commission. To an investor, as there is no way to see what the market is actually asking in terms of bid/ask prices, unlike ordinary shares and a few preference shares/bonds on SGX. The whole process is opaque and unfair to the investor. Granted, many perps come in min denomination of US\$200K or S\$250K. These can continue to be EIPs and listed on SGX so that only retail investors who can afford buy them. By giving retail investors options, it indirectly will be filtering out those who have lower risk appetite. On investment, public information and transparency will greatly help retail investors.</p> <p>Question 4a: Preference shares should be EIP and listed on SGX for retail investors to have access.</p> <p>Question 4b: Critical is issuer and its intermediaries make full disclosure in terms which retail investors can better understand. FAQs are good.</p> <p>Question 5: As an additional feedback for MAS consideration. Currently banks are mandating that investors must choose the highest category of risk appetite in order to buy non-AAA/AA bonds. This means that nearly all corporate perps (even bonds/perps issued by reputable REITS) can't be purchased if investors answer questions to their investment surveys</p>
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		by choosing moderate or above moderate risk appetite. This area needs to be reviewed as many listed companies on SGX are big corporates like Capitaland, Frasers, etc.
10	Rohit Johri	<p>Question 1: CIS recognised by MAS should be classified by default as SIP while those authorised by MAS should be classified by default as EIP. CIS authorised by MAS that contain derivatives or reference stock indices in jurisdictions outside of MAS should also be classified as SIP. The disclosure norms are adequate. Enhanced distribution safeguards for SIPs are a welcome step.</p> <p>Question 2a: Debentures where the coupon rate is floating, or where coupon rate is liable to change, should be classified as SIP. Zero coupon bonds may be classified as EIP.</p> <p>Question 2b: Convertible debentures should be classified as SIP as the retail investors may not be able to comprehend all the terms and conditions.</p> <p>Question 3a: Perpetual securities are best classified as SIP as most retail investors may not be able to comprehend the details.</p> <p>Question 3b: If perps are classified as SIP, there is no further need to highlight the risks and features.</p> <p>Question 3c: No comments.</p> <p>Question 4a: Preference shares should be classified as SIP as unsophisticated investors may not be able to comprehend the risks and features of these products.</p> <p>Question 4b: Issuance of preference shares should be mandatorily accompanied by a prospectus.</p> <p>Question 5: The framework for CKA and CAR may be merged.</p>
11	Schroder Investment Management (Singapore) Ltd	<p>Question 1:</p> <ul style="list-style-type: none"> • In agreement with MAS’ proposal to classify all authorised and recognised CIS as Excluded Investment Products (EIP). • Collective investment schemes that are registered under the Singapore Authorised Scheme or Singapore Recognised Scheme are generally well understood by most retail investors. Such collective investment schemes are also professionally managed in compliance with applicable regulatory guidelines and standards.



		<ul style="list-style-type: none">• This proposed change will also open new market opportunities for all authorised and recognised CIS to be distributed via emerging digital platforms, whereby carrying out a lengthy and complex customer knowledge assessment process may not be feasible. Ultimately, this can facilitate greater competition, lower costs, while improving access for more retail investors. At present, most robo-advisors and digital platforms allocate only to ETFs due to the limited pool of EIP UTs available. Certain asset classes can be better served via unit trusts instead of ETFs (e.g. ESG, Shariah, SGD hedged fixed income, etc). This will potentially fill a huge gap in the industry where there are many investors who are dependent on human advisors to select funds but are unable to have this service via digital channels and can spur more demand from the digital native segment.• To seek clarification from MAS if this proposed change is to be adopted, can it be assumed that all collective investment schemes approved by MAS that are offered under the Singapore Authorised Scheme or Singapore Recognised Scheme will automatically be classified as EIPs? Will there be a need for a separate process to seek MAS approval for EIP status in the event managers are not sure if the investment strategy employed by the collective investment scheme would fall within the meaning of “complex funds”?• To seek clarification from MAS if this proposed change will apply to existing Authorised and Recognised Schemes, or only for schemes authorised or recognised after the regulatory amendments take place.• To seek clarification from MAS if this proposed change will affect the prospectus disclosure requirements in respect of our Authorised and Recognised Schemes. Also, will there be a requirement to update the prospectuses of our existing Authorised and Recognised Schemes to reflect the classification of the relevant schemes as EIPs/SIPs? <p>Question 2a:</p> <ul style="list-style-type: none">• There are already instances where certain issuers, e.g. Astrea IV PE Bonds, have issued debentures with interest payments linked to the performance of a pool of private equity assets. These securities have been offered to members of the public and were exempt from the requirement to conduct a Customer Knowledge Assessment.• While complexity can differ significantly from one bond issue to another, a consistent and objective set of guidelines should nonetheless be applied for future product classification purposes, given that assessing product complexity can be inherently subjective.• To seek clarification from MAS if debentures (whereby interest payments are not solely based on a single fixed or floating rate) are classified as SIPs, does it imply authorised or recognised CIS that can invest in such debentures as part of its investment strategy will also be classified as SIPs consequently? <p>Question 2b:</p> <ul style="list-style-type: none">• Similarly, there are already instances whereby local companies e.g. Singapore Airlines, have recently issued debentures that are convertible into equity, and these securities have been offered to members of the public.
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		<ul style="list-style-type: none"> • To apply a consistent and objective set of guidelines for product classification purposes, given that complexity of convertible bonds can differ significantly from one issue to another. • To seek clarification from MAS if debentures that are convertible are classified as SIPs, does this imply authorised or recognised CIS that can invest in convertible bonds as part of its investment strategy will also be classified as SIPs consequently? <p>Question 3a: No comments.</p> <p>Question 3b: To apply a consistent and objective set of standards for classification of EIP/SIP purposes, given that complexity of perpetual securities can differ significantly from one issue to another. To seek clarification from MAS if perpetual securities are classified as SIPs, does it imply authorised or recognised CIS that can invest in perpetual securities as part of its investment strategy will also be classified as SIPs consequently?</p> <p>Question 3c: No comments.</p> <p>Question 4a: To seek clarification from MAS if preference shares are similarly classified as SIPs, does it imply authorised or recognised CIS that can invest in preference shares as part of its investment strategy will also be classified as SIPs consequently?</p> <p>Question 4b: No comments.</p> <p>Question 5: No comments.</p>
12	Syfe Pte. Ltd.	<p>Question 1: Syfe agrees with and welcomes the MAS’ proposal to classify authorised and recognised CIS as EIPs to provide retail investors easier access to diversified and professionally management funds.</p> <p>However, we think this policy to provide retail investors better access to funds can be further expanded, having regard to digital advisory business models which utilise ETFs to construct portfolios for clients. In this regard, we propose that ETFs that track major indices or benchmarks should be classified as EIPs. The current definition of an “EIP” requires a review of the fund documentation to ascertain e.g. whether the manager of the fund engages in any securities lending transaction or securities repurchase transaction, whether the property of the fund is invested in certain products solely for the purpose of hedging or efficient portfolio management, etc.. In particular, it is often difficult to ascertain whether such products are solely invested into for efficient portfolio management, as such fact may not be clearly stated in the fund documentation.</p>



		<p>We believe that digital advisers should be granted more ease for the inclusion of ETFs in their managed portfolios to better serve retail investors.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: Syfe agrees with the MAS’ proposal to remove the CKA/CAR assessment for adviser transactions, and to instead integrate consideration of the customers’ knowledge or experience in SIPs in the suitability assessment when making a recommendation on SIPs. We think it would further be helpful for the MAS to acknowledge the distinct role of digital advisers (who manage funds for retail clients on a fully discretionary basis with no human adviser intervention in the advisory process), and to this end seek the following clarification from the MAS that:</p> <p>(a) digital advisers are allowed to provide retail clients (who do not pass the suitability assessment) access to complex products via their constructed portfolios without further approval from senior management on a case-by-case basis. Digital advisers rely on an automated process for suitability assessment and therefore should be deemed to have fulfilled any senior management approval requirement based on the approval by senior management of the design of the digital advisory process and assessment of suitability via the digital experience; and</p> <p>(b) digital advisers are not required to review any CKA/CAR, or other suitability assessments periodically for validity.</p> <p>Our basis for seeking the above clarifications are as follows:</p> <p>(a) We think that retail investors can and should be provided greater access to the investment universe for funds to help build tax-efficient portfolios which are</p>
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		<p>without cost leakages such as withholding tax, FX conversions and bid-ask spreads. Digital advisers can help to bridge this gap without exposing retail investors to undue risk, because of built-in safeguards in the fee structures and competitive landscape inherent in the digital adviser business model. First, digital advisers are not incentivised to include SIPs in the portfolios constructed for their customers on an individual basis. Rather, digital advisers construct their portfolios and select SIPs with the entirety of the customer base in mind, and will only include SIPs when there is a reasonable basis to do so. Second, the need to attract and retain customers on the platform for digital advisers also mean that digital advisers are incentivised to ensure a risk-reward ratio for their portfolios (and selected SIPs on the platform) that are commensurate to the risk tolerance and financial situation of each customer.</p> <p>(b) As the MAS has noted in its Guidelines on Provision of Digital Advisory Services, retail customers who utilise the services of digital advisers are self-directed and exercise their own discretion. The risk of such retail customers being subject to undue influence or active solicitation on their investment amounts during a fully-automated advisory process is therefore considerably lower compared to when they are dealing with conventional financial advisers.</p> <p>(c) As such, Syfe submits that this distinction between conventional financial advisers and digital advisers should be borne out in the application of the CKA/CAR, or other requirement for suitability assessment proposed under FAA-N16 to their respective business models. It is onerous for digital advisers to require senior management approval for each individual client (who do not pass the suitability assessment) who wishes to invest in SIPs. We submit that where the platform has advised the client that investment in SIPs may not be suitable for the client but the client chooses to proceed anyway, that the client should be considered to have taken on the responsibility to ensure the suitability of the SIP selected, notwithstanding the recommendation provided via the digital platform.</p>
13	The Straits Trading Company	<p>Question 1: We agree with the proposal, on the basis that the list of alternative investment strategies set out in paragraph 2.7 are not commonly seen/understood by retail investors, and therefore additional disclosure requirements are necessary for investor to appreciate potential downside risks.</p> <p>Question 2a: We do not agree to classify (a) as SIPs, but agree with (b). The key difference is how easily investors can assess their potential losses or risk. With (a), investors can be reasonably made aware of potential losses through fluctuations in interest payments, provided always that the range of fluctuations is well presented through different scenarios affecting the interest payments. We do not think the fluctuation of interest payment by itself makes the debenture more difficult for investor to understand. Rather the assessment on an issuer’s creditworthiness, seniority of the debenture, and sufficiency and quality of collateral are more important considerations in evaluating the financial risks of a debenture. An example of such debentures would be the Straits Trading GG notes and Straits Trading GCB notes (the “Notes” or “Fractional Products”) launched recently. Investors of these Notes</p>



		<p>receive fixed interest payments and has the potential to participate in some capital upside under certain conditions. Investment in such a Fractional Product could potentially be considered as less risky than even the listed equities and bonds of the Issuer.</p> <p>Question 2b: With (b), potential loss can occur when the bonds are being converted to equity, which investors may not be able to properly assess since the equity is largely based on market conditions at the time where the convertible bond is converted (which the investor may or may not have control over when it is being converted as well). Furthermore, it could be confusing to general investors if they are looking to purchase an essentially fixed-income instrument (which a convertible bond behaves as initially) but face potential uncertainty that comes with equity investments through the convertibility.</p> <p>Question 3a: On (a), we are of the view that perpetual securities should be classified as EIPs, as perpetual securities share similar underlying financial risks as conventional bonds however, the perpetual feature of the instrument needs to be clearly communicated to investors.</p> <p>Question 3b: On (b), we agree there is a need to enhance the marketing and disclosure requirements for perpetual securities which should go beyond template-based statements. We agree with the example of cautionary statement in the consultation paper. The risks highlighted should be product specific and linked to the issuer, such as highlighting to investors the downside scenario in the form such as if “A” happens, then “B” will occur, which will then affect the issuer in a particular way, and hence affect the risk and return profile of perpetual securities.</p> <p>Question 3c: On (c), issuer should also elaborate on rationales for issuing perpetual securities vis-a-vis other forms of funding. This will better allow investors to evaluate any potential risks of the perpetual securities by clearly understanding what is restricting the company from raising funds in other forms. For example, it would be helpful if the capital structure of the issuer is clearly presented (e.g. proportion of debt, perpetual securities, shareholders equity). Issuer should also be encouraged to present how the interest payments will be serviced (source of funding), the scenarios that could result in failure to service interest payments and in the event of failure, what are the potential remedies.</p> <p>Question 4a: On (a), We recommend that the classification of preference shares be aligned with that of perpetual securities. Preference shares and perpetual securities have quite similar characteristics from an investor’s point of view.</p> <p>Question 4b:</p>
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		<p>On (b), similar to question 3, issuer should highlight their rationales for issuing preference shares versus other forms of funding.</p> <p>Question 5: It makes sense to remove the CKA/CAR assessment since currently, a customer can still make an investment decision even if assessed to not have the requisite knowledge/experience. The issue is whether the interests between the FA and customer are properly aligned since the “next step of approval” lies with the FA’s senior management.</p> <p>Regardless of whether the CKA/CAR assessment is required, there is still substantial information asymmetry for these products between the FA and customer. Hence, the customer would be largely dependent on the inputs and advice of the FA to make an informed investment decision.</p>
14	Tokio Marine Life Insurance Singapore Ltd	<p>Question 1: Agree. As most authorized and recognized CIS are investing in plain vanilla securities, it would be more logical to classify them as EIPs.</p> <p>Question 2a: Agree. There may be added complexity to investors where the interest payment is not solely based on a single fixed or floating rate. Such debentures should be classified as SIPs.</p> <p>Question 2b: Agree</p> <p>Question 3a: The decision to classify perpetual securities as EIPs or SIPs should be dependent on the type of securities rather than tenure alone. On this note, would like to seek clarification from MAS if there is intention to categorically segregate perpetual securities. For example, perpetual bonds with fixed interest may be classified as EIP. Other types of bonds that may be dependent on more complex circumstances (i.e. performance of defined asset pool, etc) may be classified as SIP.</p> <p>Question 3b: As a form of reminder to investors, it would be good to enhance the marketing and disclosure requirements on perpetual securities. Agree in principle on the content of the example cautionary statement on perpetual securities. However, MAS may wish to consider re-ordering the points by intended importance of features on perpetual securities and including an additional statement, indicating the potential illiquidity of secondary market of perpetual securities: KEY FEATURES OF PERPETUAL SECURITIES</p> <ul style="list-style-type: none"> • The issuer is not required to return the principal amount to you as the securities have no maturity date. • The issuer may not redeem the securities on the scheduled call dates. • The terms of the securities may allow the issuer to stop paying distributions to you.

		<ul style="list-style-type: none"> You may be exposed to an illiquid secondary market and you may find it hard to sell your perpetual securities <p>Question 3c: For perpetual securities (specifically wholesale bonds) that are denominated of at least \$200,000 (thereby exempted from registering a prospectus under Exempt Bond Issuer Framework), MAS may wish to consider a requirement for investor to confirm status (i.e. whether investor is institutional/accredited/retail) so as to ensure that financial advice has been duly provided (where applicable) to retail investors.</p> <p>Question 4a: Agree to align the EIP/SIP classification of preference shares with that of perpetual securities and subject the sales of these products to the same safeguards.</p> <p>Question 4b: A proposed cautionary statement (similar to 3b) may be considered as a requirement for preference shares as well: KEY FEATURES OF PEFERENCE SHARES</p> <ul style="list-style-type: none"> You do not enjoy voting rights like common shareholders do. The terms of the securities may allow the issuer to stop paying distributions to you. If interest rates rise, the fixed dividend that once seemed lucrative at point of purchase can dwindle and be deemed to be less attractive than higher interest fixed-income securities. <p>Question 5: Agree on the proposal to remove CKA assessment for advised transactions as representatives are required to provide advice, regardless of whether the customer is assessed to have the requisite knowledge or experience. We are of the opinion that the CKA questionnaire must be completed in the scenario when client disagree with representative’s recommendation and choose to proceed with a SIP of their own choice. This will ensure that Senior Management Approval (SMA) is obtained, if needed. With the proposed removal of the CKA section, we would like to clarify if the CKA will still be mandatory for post-sale transactions (i.e. top-up) as this transaction may be performed by client without additional advice from representatives.</p>
15	United Overseas Bank Limited	<p>Question 1: We are supportive of the change and have no further comments for MAS.</p> <p>Question 2a: We seek MAS clarification on the ABS classification. For example, if a debenture has a fixed interest rate but caveats that it is based on a defined asset pool, is such a product considered ABS? In another example, a bond which is collateralised by a diversified portfolio of private equity funds, is this bond considered ABS?</p> <p>Question 2b:</p>



		<p>We are supportive to classify convertible debenture as SIP and have no further comments for MAS.</p> <p>Question 3a: In recommending such perpetual securities to customers, on top of providing the offer documents which clearly states the Terms & Conditions as well as the risk associated with investing in such products, the Bank will also assess the risk appetite and the suitability of such product to the investor, taking into account of his/her investment knowledge and experience before allowing investors to invest in such products.</p> <p>Hence to further address the concerns on the ability of investors to comprehend the features and risk of perpetual securities, we may provide further risk warnings and enhanced disclosures to investors (e.g. Most Important Disclosures form) similar to the approach undertaken in Australia.</p> <p>Hence in view of the above, there would not be a requirement to classify perpetual securities as a SIP which may further confuse investors given that the features of perpetual securities are similar to plain vanilla bond.</p> <p>Question 3b: As above.</p> <p>Question 3c: No comments.</p> <p>Question 4a: We agree that there should be additional safeguards for preference shares e.g. to reclassify it as SIP or enhance the risk disclosure statement or marketing messages. However, it need not be aligned to perpetual securities as mentioned under question 3.</p> <p>Question 4b: As above.</p> <p>Question 5: MAS should consider continuing with the standardized CKA/CAR assessment questions as it provides the same governance standard across the industry for the benefit of the retail investors.</p>
16	Respondent A	<p>Question 1: We would be grateful for the MAS' clarification that the intent is for the existing EIP-CIS criteria set out in paragraphs 1(g) and 2 of the Schedule to the Securities and Futures (Capital Markets Products) Regulations 2018 ("SF(CMP)R") to be amended such that collective investment schemes that had been recognised and classified as capital markets products other than prescribed capital markets products (or specified investment products) prior to the proposed regulatory amendment and are not complex funds (i.e. existing recognised SIPs) can automatically be re-classified as prescribed capital markets products (or excluded</p>



		<p>investment products) without the need to amend their CIS documents (as defined in paragraph 4 of the SF(CMP)R).</p> <p>Question 2a: We note that presently, debentures which are asset-backed securities or structured notes are classified as SIP. These include debentures payments in respect of which are (directly or indirectly) principally derived from cash flows generated by assets and debentures in respect of which the principal and/or interest are payable in accordance with a formula based on, among other things, the performance of any type of securities, securities-based derivatives contracts, equity interest, commodity or index.</p> <p>As such, a debenture which has a return dependent on the performance of a defined asset pool (as referred to in paragraph 2.8(a) of the consultation paper) will likely already be classified as SIP.</p> <p>Other than debentures which are asset-backed securities or structured notes, we do not think it is necessary to classify debentures as SIP just because the interest payment is not solely based on a single fixed or floating rate.</p> <p>In particular, it is respectfully submitted that debentures (in particular, fixed rate debentures including perpetual securities) which have an interest rate “re-set” feature should not be considered complex and classified as SIP by virtue of having such a feature.</p> <p>Fixed rate debentures may provide for a “re-set” of the interest rate at certain prescribed intervals, for example, five years after the issue date and every five years thereafter. Such “re-set” interest rate is typically determined based on a reference rate (for example, SORA) plus a fixed spread, which are determined at the outset and set out in the offer document.</p> <p>Fixed rate debentures with an interest rate “re-set” feature have a pay-out structure similar to plain vanilla bonds in that they promise the return of principal with regular interest payment.</p> <p>It is submitted that such a “re-set” feature is not difficult to explain to potential retail investors. The disclosure to potential retail investors should highlight that the “re-set” interest rate may be higher or lower than the initial interest rate. While there is a risk that the “re-set” interest rate may be lower than the initial interest rate, this can be clearly highlighted in the offer document, and potential retail investors can decide whether or not they wish to invest. It is respectfully submitted that such a risk is not difficult to understand, and that the risk of the “re-set” interest rate being lower than the initial interest rate does not make the debentures “complex”.</p> <p>Question 2b: We note paragraphs 2.9 and 2.10 of the consultation paper which stated that convertible debentures are more complex than plain vanilla bonds as they have</p>
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		<p>both fixed-income and equity-like characteristics (such debentures may be converted to shares at the option of either the investor or the issuer, and could gain or lose value along with the underlying stock) and that as most retail investors may commonly understand debentures as an instrument that promises the return of principal with regular interest payment, the added complexity of debentures with convertible features may not be fully appreciated or understood by investors.</p> <p>We would respectfully highlight that convertible bonds, like “regular” debentures, promise the return of principal with regular interest payment. Convertible bonds typically have a fixed interest rate, pay interest at regular intervals (e.g. annually or semi-annually) and the principal amount is to be repaid upon redemption. The conversion feature is additional to and does not detract from the foregoing structure – in other words, a bondholder who does not exercise his conversion rights will still receive regular interest payments and repayment of his principal when the convertible bonds are redeemed.</p> <p>As such, even if a retail investor does not exercise the conversion rights in respect of his convertible bonds because of lack of familiarity, he will still receive regular interest payments and repayment of his principal.</p> <p>It is possible that convertible bonds are zero coupon, in which case a bondholder can only derive gains from exercising the conversion rights or selling the bonds at a price higher than his purchase price. However, it is not necessary to classify zero coupon convertible bonds as SIP in order to deter retail participation as it would be apparent to potential retail investors that the bonds are zero coupon and they can then decide for themselves whether they wish to invest – presumably, retail investors who are looking for regular interest payments will not invest.</p> <p>It is also noted that convertible bonds may have a mandatory conversion feature, whereby the bonds are not convertible at the option of the bondholder but will be mandatorily converted into shares at a prescribed timing at the prevailing conversion price. We would respectfully submit that such features and associated risks can be readily explained to potential retail investors – essentially, that bondholders have no right to require conversion and that the bonds will be converted into shares at the prescribed timing at the prevailing conversion price, even if the conversion price is higher than the prevailing market price of the shares. Potential retail investors can then decide for themselves whether they wish to invest.</p> <p>On the point that convertible bonds may lose value along with the underlying stock, we would respectfully highlight that shares are classified as EIP and are freely tradeable by retail investors. It would accordingly be counter-intuitive to classify convertible bonds as SIP because of a potential loss of value due to the underlying stock, which is a risk present in any investment in shares.</p> <p>In addition, presently, convertible bonds may be offered to existing shareholders pursuant to a rights issue and it would be counter-intuitive to disallow convertible bonds from being offered to existing shareholders on the basis that there is a</p>
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		<p>potential loss of value due to the underlying shares (which existing shareholders are already invested in).</p> <p>On the concern that retail investors may not understand the risk-return profile of the product, we would respectfully submit that such concerns are better addressed through investor education. Addressing such concerns by curtailing retail investors' access to investment products which they currently have access to may unduly limit their investment options, and may also hamper issuers' funding flexibility. It would also hamper the development of a sophisticated investing community if lack of understanding is addressed through limiting access rather than through education.</p> <p>For the reasons set out above, we would respectfully submit that convertible bonds should continue to be classified as EIP and should not be subject to distribution safeguards for SIPs.</p> <p>Question 3a:</p> <p>In paragraph 2.12 of the consultation paper, the MAS observed that offer documentation of perpetual securities are generally clear about the terms and conditions of perpetual securities, as well as the associated risks. However, there may be investors who do not fully understand the features and risks of perpetual securities, given the feature of discretionary redemption on the part of the issuer.</p> <p>We are of the view that perpetual securities should continue to be classified as EIP and should not be subject to distribution safeguards for SIPs.</p> <p>As the MAS has observed, the features and associated risks of perpetual securities can be and have generally been clearly explained to investors. We would also respectfully note that the issuer's discretionary redemption feature is not difficult to explain or comprehend – it is essentially that the perpetual securities have no fixed redemption date and (unless there is a put option), holders have no right to require redemption.</p> <p>As set out above, we would respectfully submit that shortcomings in retail investors' understanding are better addressed through investor education rather than curtailing retail investors' access to investment products.</p> <p>It is further noted that ordinary shares are classified as EIP, and that the features of perpetual securities are similar or advantageous to ordinary shares. For instance, both perpetual securities and ordinary shares do not have a fixed maturity. Perpetual securities pay regular distributions (subject to the issuer's option to defer distributions) whereas declaration of dividends on ordinary shares is at the discretion of the issuer. Perpetual securities rank ahead of ordinary shares in terms of seniority. Accordingly, it would appear counter-intuitive to classify perpetual securities as SIP and/or subject perpetual securities to distribution safeguards for SIPs when ordinary shares are classified as EIP and are not subject to such distribution safeguards.</p> <p>Question 3b:</p>
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		<p>As the MAS has observed, the offer documentation of perpetual securities are generally clear about the terms and conditions of perpetual securities as well as the associated risks.</p> <p>Accordingly, it appears that the issue is not sufficiency of disclosure, but rather the ability of certain retail investors to fully understand the disclosure, or possibly that they did not read the offer documents in the first place. As set out above, we are of the view that issues regarding retail investors’ lack of understanding (or complacency in not making the effort to fully understand the disclosures and risks) are better addressed through investor education.</p> <p>For the avoidance of doubt, we agree that where perpetual securities are offered to retail investors, there should be clear and easy to understand disclosure on the key features and risks.</p> <p>However, we would respectfully highlight that it may not be necessary for the MAS to prescribe standard disclosures or cautionary statements as issuers and their advisers should already be mindful of the need to provide retail investors with clear and adequate disclosure, and standard disclosures or cautionary statements may end up being skimmed over by readers. That said, we have no objections if the MAS wishes to require the inclusion in retail offer documents of cautionary statements as set out in paragraph 2.16 of the consultation paper.</p> <p>We note as well that perpetual securities offered in Singapore have typically been offered pursuant to the exemptions under Sections 274 and/or 275 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) for offers made to institutional investors, accredited investors and certain other investors (“wholesale perpetual securities”). This includes, pursuant to Section 275(1A) of the SFA, offers made on terms that, among other things, the securities may only be acquired at a consideration of not less than S\$200,000 (the “Minimum Consideration Exemption”), even if the investor is not an institutional or accredited investor.</p> <p>Under the Securities and Futures (Capital Markets Products) Regulations 2018, compliance with the product classification requirements under Section 309B of the SFA is exempted where the offer is made to an accredited, expert or institutional investor. However, offers made pursuant to the Minimum Consideration Exemption are not exempted from the product classification requirements. Under the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products, the requirement to, among other things, conduct customer knowledge assessments applies when dealing in SIPs for a customer who is an individual and who is not an accredited, institutional or expert investor – this would include an individual acquiring the securities pursuant to the Minimum Consideration Exemption.</p> <p>We would respectfully highlight that investors who subscribe for wholesale perpetual securities pursuant to the Minimum Consideration Exemption should not be considered retail investors requiring the benefit of enhanced disclosures, and that there should not be standard disclosures or cautionary statements prescribed</p>
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		<p>for offer documents for wholesale perpetual securities just because those securities may be offered pursuant to the Minimum Consideration Exemption.</p> <p>Wholesale perpetual securities offered pursuant to Sections 274 and/or 275 of the SFA are exempt from the prospectus requirements and offer documents for such securities are not subject to disclosure requirements prescribed by the MAS. Where wholesale perpetual securities are to be listed on the Singapore Exchange Securities Trading Limited (the “SGX-ST”), there are also no disclosures prescribed by the SGX-ST save that pursuant to Rule 313, the offer document must contain the information that specified investors (as defined in the SGX Listing Rules) would customarily expect to see in such documents.</p> <p>Given that the disclosures in offer documents for wholesale perpetual securities are largely market driven and based on what institutional and sophisticated investors would customarily expect to see, it would be counter-intuitive for the MAS or the SGX-ST to impose prescriptive disclosure requirements on the offer documents for wholesale perpetual securities.</p> <p>Question 3c: No comments.</p> <p>Question 4a: We respectfully submit the preference shares should continue to be classified as EIP for reasons similar to the foregoing.</p> <p>Question 4b: No comments.</p> <p>Question 5: We have no objections to the proposal in Q5.</p>
17	Respondent B	<p>Question 1: We would like to propose CIS manufacturers to be the parties to determine whether their funds are to be classified as SIPs or EIPs.</p> <p>Question 2a: We are supportive of this proposal.</p> <p>Question 2b: We are supportive of this proposal.</p> <p>Question 3a: We are of the view that perpetual securities should be classified as SIPs.</p> <p>Question 3b: Yes. We prefer to have cautionary statements to illustrate the risks of such investments.</p> <p>Question 3c:</p>



		<p>No comments.</p> <p>Question 4a: Yes.</p> <p>Question 4b: No comments.</p> <p>Question 5: We would like to seek clarity on the part where approval of the FA’s senior management will still be required if the customer chooses to transact in an SIP which is not recommended by the FA. Will this approval be applied to all customers regardless of their knowledge or experience in SIPs? Or will it only apply to customers who are deemed to lack knowledge or experience in SIPs assessed by the FA reps?</p> <p>In lieu of removing CKA/CAR, what control measures would MAS expect or recommend that FAs consider to assess customers’ knowledge or experience in SIPs in the suitability assessment?</p> <p>In the case where a customer chooses not to disclose his/her existing investments & insurance; assets & liabilities; cashflow; etc., how should a rep perform the suitability assessment?</p> <p>For post sales transactions, we are generally supportive to remove CKA for such transactions, e.g. fund switch, premium top up, etc. as part of the servicing of the policy to make the servicing journey as seamless as possible in view that ILP sub-funds are price sensitive.</p>
18	Respondent C	<p>Question 1: (1) When the proposed changes goes live (and for example, all authorised and recognised CIS would qualify as EIPs), can we confirm that for the purpose of Section 309B of SFA, these CISs would also automatically be re-classified as “prescribed capital markets products”? If so, may we please understand MAS’ expectation on FIs in terms of client communication on the change in classifications?</p> <p>(2) In the SFA Notice on Minimum Entry and Examination Requirements for Representatives of Holders of Capital Markets Services Licence and Exempt Financial Institutions (“SFA Notice”) and FAA Notice on Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers (“FAA Notice”), the types of Product Knowledge and Analysis CMFAS examination modules (e.g. modules 6, 6A, 8, 8A) which an individual is required to complete depends on whether the individual is dealing in/advising on EIP and/or SIP. The consultation paper has proposed re-classification of certain EIPs and SIPs. We would like to understand the impact that the proposed product re-classification changes would have on the CMFAS examination requirements imposed on representatives under the SFA Notice and FAA Notice. For example, would a representative who has completed module 6 to deal in a</p>



		<p>security (EIP) be required to take module 6A when the security (EIP) is re-classified to become a security (SIP)? Will there be grandfathering arrangement or adequate transition period for representative to meet the CMFAS examination requirements?</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: No comments.</p>
19	Respondent D	<p>Question 1: Would the same principle be applied to ILP fund classification?</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p>



		<p>Question 4b: No comments.</p> <p>Question 5: No comments.</p>
20	Respondent E	<p>Question 1: Respondent E supports the decision to classify all authorised and recognised CIS with traditional strategies as EIPs. Given that the investment strategies are generally straightforward, it allows retail investors to understand and have more choices in their portfolio diversification, while on the other hand this may also encourage asset managers to set up more of such CIS in Singapore to help grow the industry.</p> <p>Question 2a: No comments.</p> <p>Question 2b: No comments.</p> <p>Question 3a: No comment but we would like to ask a question. If MAS decides to classify perpetual securities as SIPs, does that mean the CIS investment which underlying holds perpetual securities will also be considered as SIP instead of EIP? This is on the assumption that all recognised and authorised CIS will be classified as EIP with the exception of those with more complicated instruments.</p> <p>Question 3b: No comments.</p> <p>Question 3c: No comments.</p> <p>Question 4a: No comments.</p> <p>Question 4b: No comments.</p> <p>Question 5: Respondent E supports the proposal.</p>
21	Respondent F	<p>Question 1: No comments</p> <p>Question 2a: No comments.</p> <p>Question 2b:</p>



		<p>No comments.</p> <p>Question 3a: Respondent F is of the view that perpetual securities that are issued by real estate investment trusts (“REITs”) should continue to be classified as EIPs so long as they are not marketed to retail investors. The rationale for this is twofold – firstly, unlike other collective investment schemes, REITs are regulated by Appendix 6 of the Code on Collective Investment Schemes (the “Property Funds Appendix”) and the SGX-ST Mainboard Listing Rules, pursuant to which there are clear regulatory guidelines in relation to perpetual securities that may be issued by REITs in order to qualify for equity accounting treatment and not count towards the aggregate leverage limit which is the main rationale for REITs issuing perpetual securities. Secondly, perpetual securities issued by REITs are usually issued through private banks and marketed to institutional investors and accredited investors, who are expected to have some level of investment knowledge about the investment market and products.</p> <p>Respondent F would like to emphasise that the targeted category of investors should be a key consideration for MAS in determining the appropriate classification of perpetual securities. If they are marketed only to accredited and/or institutional investors, perpetual securities should remain to be classified as EIPs.</p> <p>Question 3b: First, the REITs perpetual securities market, being subject to clear regulatory guidelines and criteria as mentioned above, is already a consistent and transparent market from an investor’s perspective. For instance, Guidance 3 of paragraph 9.2 of the Property Funds Appendix restricts the inclusion of terms in perpetual securities that will have the effect of incentivising the REIT to redeem the perpetual securities, such as a step-up in interest rate. In general, the REITs industry is also different from the rest of the investment sectors as stronger safeguards to protect REIT investors are already in place, such as limits on REITs’ gearing in the Property Funds Appendix, and the requirement for REITs to conduct a revaluation at least once every year. As such, Respondent F is of the view that there is already sufficient information available to investors for them to evaluate and take comfort in the investment risks in perpetual securities issued by REITs.</p> <p>Secondly, REIT perpetual securities are targeted at and marketed to non-retail investors, such as private banking clients, who are sophisticated investors, and Respondent F submit that the current level of disclosure is sufficient for such investors to understand the underlying investment products and their inherent risks.</p> <p>Nonetheless, Respondent F is open to the proposal to introduce a new requirement for intermediaries to provide a cautionary statement as shown in the example in paragraph 2.16 of the Consultation Paper on Proposed Changes to the Complex Products Regime, so long as the cautionary statement only requires the intermediary to remind the investor of information about the perpetual securities which are factual in nature.</p>
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		<p>Question 3c: Other than as mentioned in the response to part (b) above, Respondent F is of the view that the current requirements for the issuance of perpetual securities by REITs already offer sufficient safeguards to its investors and does not have any suggestions on safeguards for the sale of perpetual securities.</p> <p>Question 4a: Similar to the response in question 3(a) above on perpetual securities, Respondent F is of the view that the status quo on the classification of preference shares should be kept for preference units issued by REITs so long as they are not marketed to retail investors.</p> <p>In relation to the safeguards for preference shares, the issuance of preference units is already subject to the normal regulatory regime, such as clearance with SGX-ST and required disclosures. Further, similar to perpetual securities, issuers of REIT preference units typically rely on the safe harbour provision in the SFA. As such, Respondent F is of the view that the current level of disclosure for sophisticated institutional investors and accredited investors is sufficient.</p> <p>Question 4b: Other than as mentioned in the response to part (a) above, Respondent F does not have any suggestions on safeguards for the issuance of preference shares or preference units.</p> <p>Question 5: No comments.</p>
22	Respondent G	<p>Question 1: Agree with recommendation. There are many structures that use derivatives to create more efficient products for investors. These more efficient products are also usually more cost effective with lower fees. Thus these products benefit retail investors too and thus should be classified as EIP.</p> <p>Question 2a: Agree</p> <p>Question 2b: How does this affect the capital needs of companies? Convertible bonds, debentures, notes and other loans help provide flexible financing, especially in times of uncertain cashflows like Covid-19. Whilst we agree in principle that more protection, information and risk is to be provided for such instruments; a two tier classification e.g. EIP or SIP can be improved. Thus, the proposal by Respondent G is that SIPs have the risks disclosed to investors before trading / investing would be very useful.</p> <p>Question 3a: Perpetual securities should be classified similarly to bonds. The requirements for issuing retail bonds will have to be satisfied by the issuer, if the issuer intends to</p>



		<p>issue retail perpetual securities. Thus, it should remain as EIP. However, due to the more complicated nature, these products need to be sold with advisors having investors sign off the risk disclosures and a proper client assessment conducted before the retail investor can purchase this product. Thus, it should not be promoted via the ATM or self service channels for retail investors. However, affluent investors and institutional investors should be allowed to freely trade the perpetual securities as this would allow for price discovery.</p> <p>However, we do not recommend having a higher initial investment threshold, as this leads to greater risk.</p> <p>Question 3b: Agreed with the suggestion above</p> <p>Question 3c: Whilst education can improve investor security and protection, our observation is that investors fail to keep track. In addition, some of the investments may not have sufficient research coverage.</p> <p>Respondent G proposes to use the same approach as SPACs where SIAS appoints independent research to provide ongoing research and provide independent update on the company and the perpetual security trading. We would be happy to entertain discussion on this.</p> <p>In addition, many companies classify these securities as equity and not debt on their financial statements. There should be specific recommendation that these should be identified as liabilities despite the ability to push out the redemption date.</p> <p>Question 4a: As preference shares are similar to perpetual securities, please see comments above. We share the same views for preference shares.</p> <p>Question 4b: No comments.</p> <p>Question 5: Agreed with recommendation for advised transactions.</p>
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