



Licensing - Fund Management Companies

Fund management is defined broadly and includes managing a portfolio of capital market products on behalf of a customer (whether the customer grants discretionary authority or otherwise). Any person conducting fund management activities in Singapore is required to either hold a Capital Markets Services (CMS) licence for fund management or qualify for an exemption to hold a CMS licence under the Financial Advisers Act 2001 of Singapore (FAA).

The Monetary Authority of Singapore's (MAS) licensing regime categorises fund management companies (FMCs) into three types:

- A/I Licensed FMC (A/I LFMC)
- Retail Licensed FMC (Retail LFMC)
- Qualifying VC Fund Manager Regime (VCFM)

For the purposes of this article, we will not examine the Retail LFMC requirements concerning the licensing of persons who manage monies on behalf of retail investors.

Licensed Fund Management Companies

A corporation that intends to conduct the regulated activity of fund management as an A/I LFMC will need to fulfil certain prescribed requirements.

An A/I LFMC is only allowed to carry on the business of fund management with accredited/institutional investors only, without restriction on the number of such investors.

Base Capital

An A/I LFMC is required to have a minimum of S\$250,000 in base capital, with a sufficient buffer to ensure that the base capital does not fall below this minimum threshold. Further, A/I LFMCs should also ensure that its financial resources are sufficient to comply with the risk-based capital requirements dictated by the MAS.

Staffing

A/I LFMCs are required to have a Chief Executive Officer (CEO) who is a resident in Singapore with at least 5 years of relevant experience in a managerial or supervisory capacity. The CEO must be employed full-time in the FMC's day-to-day operations.



In addition, there must be at least 2 directors possessing at least 5 years of relevant experience in a managerial or supervisory capacity. At least 1 such director must be an executive director resident in Singapore, employed full-time in the FMC's day-to-day operations, and with 5 years of portfolio management experience in areas similar to what the FMC intends to do. The FMC's board of directors should collectively have experience in portfolio management, as well as in support functions such as risk management, operations and compliance.

A/I LFMCs are required to have at least 2 representatives and 2 full-time relevant professionals residing in Singapore. These representatives must meet the minimum entry and examination requirements set by the MAS.

Physical Office

A/I LFMCs are required to operate from a physical office in Singapore. If the A/I LFMC wants to use a serviced office in the initial phases, the office should be segregated from other users' serviced offices, and the A/I LFMC's information and documents should be kept in a secured manner.

Compliance and Risk Management

For A/I LFMCs with AUM exceeding S\$1 billion, it should have an independent and dedicated compliance function in Singapore with suitably qualified staff independent from its front office. Compliance staff may perform other non-conflicting and complementary roles, such as in-house legal counsel. However, if the A/I LFMC is carrying out only research and advisory activities that are considered to be fund management, it may obtain compliance support from an independent and dedicated compliance team at its holding company, or from a related entity based overseas.

If the A/I LFMC's AUM is below S\$1 billion, it does not need to have an independent compliance function with suitably qualified staff independent from its front office. Depending on the size and scale of the A/I LFMC's business, it can either:

- (a) designate a senior staff independent from its front office (e.g. COO or CFO) to be responsible for compliance;
or
- (b) demonstrate adequate compliance oversight and support from an independent and dedicated compliance team at its holding company, or a related entity based overseas.

In the alternative to requirement (b) directly above, the A/I LFMC may engage a competent external service provider to support its compliance arrangements, subject to minimum standards.

Audit functions, Custodian and Administrator

A/I LFMCs are required to conduct audits. The MAS requires that a FMC's business activities be subject to an adequate internal audit commensurate with the scale, nature, and complexity of its operations. The internal audit may be



conducted by the FMC's internal audit function, an internal audit team from the FMC's head office, or outsourced to a third party service provider.

A/I LFMCs must also meet the annual audit requirements as set out in the Securities and Futures Act 2001 and Securities and Futures (Licensing and Conduct of Business) Regulations. The MAS may direct the FMC to appoint another auditor if the appointed auditor is deemed to be unsuitable, having regard to the scale, nature and complexity of the FMC's business.

Professional Indemnity Insurance

While it is not compulsory for A/I LFMCs to have professional indemnity insurance, many procure the same as a matter of good practice and comfort to their investors. A disclosure is required to be made to the investors on the professional indemnity insurance arrangements or absence of the same.

Qualifying Venture Capital Fund Manager Regime

FMCs managing venture capital funds may also qualify under a simplified regulatory regime and hold a CMS licence for fund management (VCFM Regime). To qualify under the VCFM Regime, venture capital fund managers must only manage funds that:

- are only offered to accredited and/or institutional investors;
- are not continuously available for subscription, and are not redeemable at the investor's discretion;
- invest at least 80% of its committed capital (excluding fees and expenses) in securities that are directly issued by an unlisted business venture that has been incorporated for no more than 10 years at the time of the investment fund's initial investment; and
- invest not more than 20% of its committed capital (excluding fees and expenses) in other unlisted businesses that do not meet the criteria mentioned in the preceding point.

The funds managed by the VCFM cannot invest in listed securities or initial public offerings, unless the funds held such securities prior to their listing.

Track Record Requirements

There is no minimum length of track record required to apply for a CMS licence under the VCFM Regime.



Staffing

A VCFM must have at least 2 directors but there is no requirement for the directors to have 5 years of relevant experience in fund management. At least 1 director must be a resident in Singapore and employed full-time in the day-to-day operations of the FMC.

A VCFM must have at least 2 relevant professionals and 2 representatives residing in Singapore, which may include directors. There is no requirement for the directors to have 5 years of relevant experience in fund management.

Compliance and Risk Management

VCFMs are exempt from certain business conduct requirements but investors may still require these safeguards as part of their contractual agreements with their respective VCFM.

VCFMs are also subject to requirements on anti-money laundering and countering the financing of terrorism (AML/CFT), and have to submit periodic regulatory returns on changes to key appointments, AUM, investor types and numbers, fund types and deals by geography and sector, and annual declaration that there was no misconduct report for the preceding year.

Professional Indemnity Insurance

As a matter of market practice, it is advisable to maintain adequate professional indemnity insurance coverage.

Note: The information in this publication is intended to provide a brief overview of the regulatory requirements for fund management in Singapore. It is not intended as, and should not be relied upon as, legal advice on the subject matter.