LEGAL UPDATE

PROPOSED REPEAL OF REGISTERED FUND MANAGEMENT COMPANIES REGULATORY REGIME

Introduction

1. In an attempt to streamline the regulatory framework for fund managers in Singapore, the Monetary Authority of Singapore (“**MAS**”) has decided to sunset the Registered Fund Management Companies (“**RFMC(s)**”) regulatory regime and to facilitate a transition of existing RFMCs into Licensed Fund Management Companies (“**LFMC(s)**”) that are restricted to serving accredited or institutional investors (“**A/I LFMC(s)**”). This article will set out the steps which RFMC fund managers have to take to utilize the simplified transitionary process which the MAS has proposed to facilitate the transition of RFMCs to become A/I LFMCs after the repeal of the RFMC regime.

04 April 2024
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Background of the RFMC Regime

2. Prior to the introduction of the RFMC regime for fund managers in Singapore, there was the Exempt Fund Manager (“**EFM**”) scheme. The EFM scheme was a transitionary arrangement to allow for the MAS to start onboarding fund managers into Singapore.

3. In 2012, the MAS repealed the EFM scheme and instead introduced the RFMC scheme which allowed for RFMC fund managers to serve only accredited or institutional investors whilst being, given the limits placed on RFMCs in relation to the size of its assets under management and the number of customers it may have, subject to lighter regulatory reporting requirements when compared to LFMCs.

4. On 24 October 2023, the MAS issued a consultation paper (PO15 – October 2023)[1] (the “**Consultation Paper**”) regarding its proposed repeal of the RFMC regime in an attempt to streamline the regulatory framework for fund managers. RFMCs that wish to continue operations should apply to the MAS to be approved as A/I LFMCs. To facilitate the transition, the MAS is proposing a simplified process for existing RFMCs that seek to become A/I LFMCs. The MAS will also stop accepting new RFMC applications from 1 January 2024. From 1 January 2024 onwards, new entrants to the fund management industry will have to apply for a Capital Markets Services (“**CMS**”) license for fund management.

[1] https://www.mas.gov.sg/publications/consultations/2023/consultation-paper-on-repeal-of-regulatory-regime-for-registered-fund-management-companies

5. In summary, all existing fund managers under the RFMC regime will, after a transition date, transition to the new A/I LFMC scheme or wind down fund management operations in Singapore.

Further Background and Reasons for Proposed Repeal of the RFMC Regime

6. The RFMC regime was introduced in order to enhance regulatory oversight, raise the standard of conduct of fund managers across the fund management industry and to assist the transition of EFMs under the repealed EFM regime.

7. In further elaboration of paragraph 3 above, RFMCs are restricted to: (a) carrying out fund management for not more than 30 accredited or institutional investors; and (b) managing not more than S$250 million of assets. As such, they are exempted from the requirement to hold a CMS license.

8. In connection with paragraphs 3 and 7 above, given that RFMCs are subject to greater restrictions when compared to A/I LFMCs, RFMCs are accordingly subject to less onerous financial and reporting notifications in comparison to A/I LFMCs under the Guidelines on Licensing, Registration and Conduct of Business for Fund Management Companies as issued by the MAS (the "**Guidelines**").

9. However, MAS observed in its Consultation Paper that: (a) most former EFMs that transitioned to RFMCs have subsequently upgraded to become A/I LFMCs; (b) most new entrants to the fund management industry tend to apply to be an A/I LFMC instead of an RFMC; and (c) the RFMC population has not seen growth in recent years.

10. Thus, MAS considers that the RFMC regime has served its purpose of transitioning former EFMs to RFMCs and thus proposes to repeal the RFMC regime to simplify and harmonise the regulatory regime and requirements applicable to fund management companies in Singapore.

Transitional and Application Submission Process in relation to the Proposed Repeal of the RFMC Regime

11. To facilitate the transition of RFMCs to become A/I LFMCs after the RFMC regime is repealed, the MAS has proposed a simplified transitionary process, as follows:

    a. RFMCs will need to submit a form setting out, among other things, its clientele and fund types, to apply for and be granted a CMS license prior to the repeal of the RFMC regime. MAS will respond to all applications within a month of submission of the form;

    b. The RFMC will be granted a CMS license only if:

        i. The RFMC has carried on business in fund management activities in a six-month time period immediately preceding the submission of the form; and

        ii. The RFMC has applied via the form within a timeline to be stipulated;

    c. RFMCs applying to become A/I LFMCs within the application window will not have to pay any application fees for the transition. Upon receiving the CMS license, the prevailing CMS annual corporate license fee and representative fees will apply on a pro-rated basis to an RFMC which has successfully transitioned to an A/I LFMC ("**Transitioned RFMC(s)**"); and

d. RFMCs that do not submit applications by a stipulated deadline will be considered to have opted to cease their fund management activities upon the repeal of the RFMC regime.

12. MAS will provide further details on the timeline and application process in due course.

Impact and Restrictions on Transitioned RFMCs following the Proposed Repeal of the RFMC Regime

13. The impact on Transitioned RFMCs is as follows:

a. **Assets under management.** Transitioned RFMCs will continue to be subject to the restriction of managing not more than S$250 million of assets, as a license condition. However, Transitioned RFMCs may, subject to MAS' approval, manage a larger amount of assets.

b. **Number of investors.** There will be no cap on the number of investors on whose behalf the Transitioned RFMC shall carry on fund management services.

c. **Compliance.** Transitioned RFMCs will be subject to reporting requirements applicable to A/I LFMCs as per the Guidelines. A successful RFMC applicant will be subject to existing RFMC reporting requirements until the date of the repeal of the RFMC regime and, following the repeal date, A/I LFMC reporting requirements will apply to the Transitioned RFMC.

d. **Financial requirements.** The financial requirements specific to AI/LFMCs, as per the Guidelines, are that they have to: (a) have sufficient financial resources which are at least 120% of their total risk requirement; and (b) report their financial returns on a quarterly basis. These requirements will now apply to Transitioned RFMCs.

e. **Approvals and Notifications.** As per the Guidelines, A/I LFMCs are required to obtain ex-ante approval (i.e. prior to the change being effected) from the MAS in relation to appointments of Chief Executive Officers, directors, representatives and changes in controllers. Transitioned RFMCs will now be subject to these requirements.

14. The differences in key operational requirements for Transitioned RFMCs as compared to RFMCs are set out in Table 1 below:

Table 1: Differences in Key Requirements between RFMCs and Transitioned RFMCs

<table>
<tr><th></th><th>RFMC</th><th>Transitioned RFMC</th></tr>
<tr><td colspan="3">Financial Requirements</td></tr>
<tr><td>Base Capital Requirements</td><td colspan="2">S$250,000</td></tr>
<tr><td>Risk-based Capital Requirement</td><td>Not applicable</td><td>Financial resources are at least 120% of total risk requirement</td></tr>
<tr><td>Reporting Frequency for Financial Returns</td><td>Annual</td><td>Quarterly</td></tr>
<tr><td colspan="3">Staffing and ownership</td></tr>
<tr><td>Minimum number of directors, representatives and relevant professionals</td><td colspan="2">2 directors (at least one with an executive role), 2 representatives and 2 relevant professionals</td></tr>
<tr><td>Competency of Chief Executive Officer (“CEO”), directors and relevant Professionals</td><td colspan="2">At least 5 years of relevant experience</td></tr>
<tr><td>Appointment of CEO, directors</td><td>Ex-post notification</td><td>Ex-ante approval required</td></tr>
<tr><td colspan="3">Business conduct and audit requirements</td></tr>
<tr><td>Risk management, internal controls and mitigation of conflicts of interest</td><td colspan="2">Adequate and effective arrangements required at all times</td></tr>
<tr><td>Compliance and internal audit</td><td colspan="2">Adequate and effective arrangements required at all times, commensurate with nature and scale of activities</td></tr>
<tr><td>Custody and valuation of assets</td><td colspan="2">Required to be conducted independently</td></tr>
<tr><td>External audit</td><td colspan="2">Annual independent audit required</td></tr>
<tr><td colspan="3">Fees</td></tr>
<tr><td>Application fee</td><td>None</td><td>S$1,000</td></tr>
<tr><td>Annual fee</td><td>S$1,000</td><td>• Fixed fee of S$4,000
• Additional fee of S$200 per representative up to, and including, the 100th representative
• Variable fee calculated at S$5 per representative from the 101st representative onwards as at 1 January of the calendar year</td></tr>
</table>

Concluding Remarks

15. Given the growth of Singapore's fund management industry, the proposed harmonization and simplification of the fund management regulatory framework is a welcome change as it brings clarity and promotes adherence to the fund management industry's compliance requirements. MAS' proposal also eases the administrative burden on RFMCs seeking to transition to an LFMC status as it affords RFMCs the opportunity to become A/I LFMCs by undergoing a simplified application process and a quicker turnaround of 1 month from MAS from the time of application.

16. The implication of this proposed repealing of the RFMC regime for fund managers in Singapore, is that either a RFMC fund manager transitions to the new LFMC regime or such fund manager needs to wind down their business in Singapore.

17. If you have any questions regarding the abovementioned matters and/or if you own a RFMC fund manager and require advice, please feel free to contact us.

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