



Regulatory Update

27th July 2013

Amended Rules on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licenses

Overview

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| Jurisdiction | Singapore |
| Executive Summary | <p>A new regime regarding capital requirements for Capital Markets Services licence holders has been introduced.</p> <p>Independent Asset Managers ('IAM') that are Licensed Fund Management Companies ('LFMC') must in general maintain:</p> <ul style="list-style-type: none"> • A Base Capital of SGD 250,000; and • Financial Resources exceeding 120% of their Total Risk Requirement. <p>The Financial Resources are basically the available shareholders' equity. In most cases, the Total Risk Requirement amounts to:</p> <ul style="list-style-type: none"> ○ SGD 100,000 for IAMs with an Annual Gross Income of SGD 2 million or below; or ○ 5% of the IAM's Annual Gross Income up to SGD 10 million plus 2% of its Annual Gross Income above SGD 10 million. <p>Conditions however apply and a full calculation must be made.</p> <p>Each quarter, the LFMC must submit a statement of assets and liabilities in Form 1 and a statement of Financial Resources and Total Risk Requirement in Form 2 within two weeks after the end of each quarter. At the end of each financial year, more comprehensive filings are required.</p> <p>Registered Fund Management Companies ('RFMC') are not affected by this regulation.</p> |
| Required Action | <p>LFMCs need to ensure that they meet the new capital requirements by the end of the transition periods. They should make calculation to determine their current status and, if necessary, establish plans how to meet the requirements by the end of the applicable transition periods.</p> <ul style="list-style-type: none"> • LFMCs must meet the new Base Capital requirement by 3 October 2013. • LFMCs must maintain sufficient Financial Resources by 3 April 2015. <p>Within two weeks after the end of each quarter, LFMCs must submit the required financial statements to the Monetary Authority of Singapore ('MAS').</p> <p>RFMCs need not take any action.</p> |
| Effective Date | 3 April 2013 |
| Transition Period | <p>LFMCs must meet the new Base Capital requirement by 3 October 2013 at the latest.</p> <p>LFMCs must maintain sufficient Financial Resources by 3 April 2015 at the latest.</p> |

**The New Rules****Risk Based Capital Adequacy Requirements**

A Capital Markets Services licence holder ('CMSL'; LFMCs are CMSLs, RFMCs not.) must maintain a Base Capital and Financial Resources above specified thresholds.

Base Capital

A CMSL carrying out only fund management to Accredited Investors must maintain a Base Capital of SGD 250,000. If the CMSL provides its services to Non-Accredited Investors, it must maintain a Base Capital of SGD 500,000 and if it manages a Collective Investment Scheme that is open to Non-Accredited or Non-Institutional Investors, it must maintain a Base Capital of SGD 1 million.

The Base Capital is the sum of

- (a) the following items in the latest account of the CMSL:
 - (i) paid-up ordinary share capital; and
 - (ii) paid-up irredeemable and non-cumulative preference share capital;
- (b) any unappropriated profit or loss in the latest audited accounts of the CMSL;

less

- (A) any interim loss in the latest accounts of the CMSL; and
- (B) any dividend that has been declared since the latest audited accounts of the CMSL.

Financial Resources

A CMSL must maintain Financial Resources not less than its Total Risk Requirement. In fact, it is held to maintain Financial Resources of more than 120% of its Total Risk Requirement. When the Financial Resources fall below 120% of the Total Risk Requirement, the CMSL must notify MAS and MAS may take measures against the CMSL.

The Financial Resources of a CMSL licensed only to carry out fund management is the sum of the following items in the latest available accounts of the CMSL:

- (a) base capital;
- (b) paid-up irredeemable and cumulative preference share capital;
- (c) paid-up redeemable preference share capital with a redemption period of not less than 2 years;
- (d) revaluation reserves;
- (e) other reserves;
- (f) interim unappropriated profit; and
- (g) collective impairment allowances;

less the following items in the latest accounts of the CMSL:

- (A) intangible assets;
- (B) future income tax benefits;
- (C) pre-paid expenses;
- (D) charged assets, except to the extent that
 - (i) the CMSL has not drawn down on the credit facility if the charge is created to secure a credit facility; or
 - (ii) a liability is incurred by the CMSL in respect of the charged asset for use in the CMSL's conduct of regulated activities;



- (E) unsecured amounts due from directors of the CMSL and their connected persons;
- (F) unsecured amounts owed by a related corporation, other than receivables which are due for settlement within 3 months;
- (G) unsecured loans and advances made by the CMSL, unless a deduction has already been made pursuant to sub-paragraphs (E) or (F) above; and
- (H) capital investments in every subsidiary or associate of the CMSL.

The Total Risk Requirement is equal to the Operational Risk Requirement, if the CMSL is only licensed to carry out fund management and its Average Adjusted Assets, at the end of each quarter, do not exceed the lower of

- (i) SGD 10 million; or
- (ii) 5 times its Financial Resources.

The Average Adjusted Assets are the average of the Asset Measure as at the end of each of the three months in the immediately preceding quarter.

The Asset Measure is the sum of the following items:

- (a) on-balance sheet assets in its accounts; and
- (b) off-balance sheet amounts including the following:
 - (i) all potential credit exposures arising from over-the-counter derivative contracts; and
 - (ii) all counterparty exposures arising from off-balance sheet commitments calculated as the product of the notional amount of the off-balance-sheet commitment and the relevant Credit Conversion Factor ('CCF');

| <i>Off-balance Sheet Item</i> | <i>CCF</i> |
|--|------------|
| Guarantees and other direct credit substitutes | 100% |
| Commitments with certain drawdown | 100% |
| Transactions, other than securities financing transactions, involving the posting of securities held by the CMSL as collateral | 100% |
| Transaction-related contingent items | 50% |
| Asset sales with recourse, where the credit risk remains with the CMSL | 100% |
| Other commitments | |
| (i) with an original effective maturity of more than one year | 50% |
| (ii) with an original effective maturity of one year or less | 20% |
| (iii) which are unconditionally cancellable at any time by the CMSL | 0% |

less

- (A) cash and cash equivalents;
- (B) deposits with any bank licensed under the Banking Act or any merchant bank, of credit quality grade 1, i.e. rated AAA – AA- by Standard & Poor's Rating services, Aaa – Aa3 by Moody's Investors Services or AAA – AA- by Fitch Ratings;
- (C) any item that is included as a deduction from Financial Resources (see above);
- (D) receivables owed by a related corporation which is due for settlement within 3



- months and not past due;
- (E) fee receivables owed by a collective investment scheme or a closed-end fund which is managed by the CMSL and due for settlement within 3 months and not past due; and
- (F) fee receivables owed by a customer account managed by the CMSL, for which the CMSL has authority and control over the settlement of the fee receivables under its investment mandate, and due for settlement within 3 months and not past due.

A CMSL that carries out fund management only shall calculate its Operational Risk Requirement as the higher of

- (a) the sum of
 - (i) 5% of its average Annual Gross Income up to SGD 10 million of average Annual Gross Income for the 3 immediately preceding financial years; and
 - (ii) 2% of its average Annual Gross Income above SGD 10 million of average Annual Gross Income for the 3 immediately preceding financial years; and
- (b) SGD 100,000.

The Annual Gross Income for a financial year of a CMSL means the total revenue as lodged by the CMSL for the financial year less the sum of fee expenses, commission expenses, and interest expenses reported as expenses in that statement, and is deemed to be zero if it is a negative amount. In addition, the following items shall be excluded: (a) any realised profits or losses arising from the sale of securities in that financial year that are classified as "held to maturity" or "available for sale", (b) any income or expense item not derived from the ordinary activities of the CMSL in that financial year and not expected to recur frequently or regularly; and (c) any income derived from any insurance recoveries in that financial year.

If the CMSL is not only licensed to carry out fund management or its Average Adjusted Assets exceed the above indicated thresholds, more complex calculations are likely to apply to the Total Risk Requirement.

Filings

The CMSL shall submit a statement of assets and liabilities in Form 1 and a statement of Financial Resources and Total Risk Requirement in Form 2 in respect of each quarter of the year no later than 14 days after the end of the period for which the statement is prepared to MAS. At the end of its financial year, the CMSL shall submit a true and fair profit and loss account and a balance-sheet in accordance with the Companies Act together with the auditor's report in Form 5 to MAS. The annual report shall be accompanied by the auditor's certification in Form 6, a statement relating to the accounts of the holder in Form 3 and a statement relating to further information of the accounts of the holder in Form 4, a statement of assets and liabilities in Form 1 and a statement of Financial Resources and Total Risk Requirement in Form 2.

The CMSL shall immediately notify MAS, if its Financial Resources fall below 120% of the Total Risk Requirements and further if it becomes aware that it will fail to meet the requirements regarding the Base Capital or the Financial Resources or actually fails them. MAS may demand remedial action or revoke the license.

Please note that additional requirements will apply to holders of a license to deal in securities or trade in futures contracts.



Transition Period

LFMCs carrying out fund management – existing LFMCs as well as companies that are newly granted Capital Markets Services licences – may adjust their calculations and, above all, their capital over specified periods.

- LFMCs must meet the new Base Capital requirement by 3 October 2013.
- LFMCs must maintain sufficient Financial Resources by 3 April 2015.

An LFMC may choose to apply the new capital requirements, each of the two requirements individually, before the end of the respective transition periods. In this case, the LFMC must give MAS written notice when it will commence to comply with the new requirement, at least 14 days before that date.

Effect

Impact on Independent Asset Managers

IAMs who are LFMCs must calculate their capital requirements in a different, slightly more sophisticated way. As a general rule, they will need to hold more capital and more assets that can easily be made liquid in case of dire financial straits.

IAMs who are only RFMCs are not affected by these amendments.

Required Action and Possible Approaches

LFMCs must make the necessary calculations and ensure that they meet the new Base Capital requirement by 3 October 2013 and the new requirement regarding Financial Resources by 3 April 2013.

LFMCs are advised to start making the calculations for the new capital requirements. Making the new calculations allows them to become familiar with the new calculations and, above all, to determine their current capital standing under the new requirements and identify any shortfalls. Knowing its shortfalls allows the LFMC to plan and implement remedial measures in time. LFMCs are in particular advised to check on their Base Capital soon, because they must meet this requirement by 3 October 2013.

Within two weeks after the end of each quarter, LFMCs must submit statements regarding their capital requirements to MAS. At this point in time, the updated forms have however not yet been published.

Please consult the following new rules for details:

- [Securities and Futures \(Financial and Margin Requirements for Holders of Capital Markets Services Licences\) Regulations;](#)
- [Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences \(Notice No. SFA 04-N13\)](#)

For more information or further discussions, please contact Water Dragon Solutions Pte Ltd, the Compliance Practice of Maroon Analytics Pte Ltd.

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