



## Licensed Fund Management Company

Insights - 07/11/2022

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Fund management activity in Singapore is a regulated business and is to be conducted via an entity set up either as branch of a foreign enterprise or a company incorporated in Singapore.

A fund management company that applies for a “licence” can do so in three types of asset management business. The first meant for retail investors, a licence that is only awarded to those entities that have experience in managing assets over SGD 1 billion for a consistent period of five years and more and the designated individuals have deep experience in managing assets for retail investors.

The second (Accredited Investors) is meant for managing assets for all types of investors other than retail investors and no limitation on asset classes.

The third type is meant for venture capital businesses only.

There are exceptions for obtaining fund management licence in Singapore, viz., those managing physical assets (real estate), those managing proprietary assets (such as Single Family Offices or Pension funds or Sovereign wealth funds etc.) and those that already have a licensed entity in Singapore in other financial services businesses, such as banking, insurance etc.

The focus of this publication will be on Accredited investors licence, which is primarily applied for by those looking to set up a wealth management business or for managing alternative investments - private equity, hedge funds, real estate funds etc.

[Learn more about Venture Capital Fund Management licensing here.](#)

### | How many professionals are needed to set up a Licensed

## **fund management company?**

A fund management company applying for an Accredited Investors licence must meet minimum staffing and competency requirements. The entity must have at least two professionals residing in Singapore who must have at least five years of experience managing assets. These two individuals will have to be full time employees of the company. The senior management will be either in the capacity of executive director or CEO responsible for day-to-day operations of the company. The LFMC must have at least one in executive director function. The MAS' approval should be sought prior to appointment of the CEO and executive directors. These individuals should also meet the fitness and probity checks of the MAS prior to appointment and should continue to be qualified as such. It is to note that a retail FMC's CEO must have 10 years relevant experience.

## **What are qualified representatives? How many such do we need for a licensed fund management company?**

All fund management companies are required to have at least 2 representatives - people who carry on fund management on behalf of the FMC (other than work ordinarily performed by accountants, clerks or cashiers). Retail LFMCs are required to have at least three representatives. Representatives are usually in direct employment of the FMC, or in arrangement with the FMC. In assessing whether a person is a representative of an FMC, it is irrelevant whether the representative is remunerated by the FMC, and whether any remuneration is by way of salary, commission, or otherwise. Some of the usual activities conducted by such representatives are portfolio management, research, marketing, trade execution etc.

## **Are there capital requirements for a licensed fund management company?**

A licensed fund management company needs to maintain a 'base' capital as well as 'risk-base' capital at all times.

### **Retail LFMC**

**Base Capital:** SGD 1 million

**A/I LFMC (managing fund vehicles):** SGD 500,000

**A/I LFMC (not managing fund vehicles eg managed accounts):** SGD 250,000

**Risk-base capital:** Both the above FMCs must maintain 120% of their total risk requirements.

It is to be noted that the fund management company must maintain a "working capital" buffer over and above the regulatory capital required minimum, in the light of the scale and scope of the operations. The base capital is not to be depleted for purposes of working capital of the FMC.

## **What compliance arrangement are deemed necessary for a licensed fund management company?**

An FMC should have in place compliance arrangements that are commensurate with the nature, scale and complexity of its business. Ultimate responsibility for compliance with applicable laws and regulations rests with the FMC's CEO and board of directors, even though compliance support may be provided by a foreign related entity and/or third-party service providers.

A retail FMC and an A/I FMC that manages above SGD 1 billion must have a dedicated and an independent (from front office) compliance function. An A/I LFMC that manages below SGD 1 billion that does not have an independent and dedicated compliance function at its holding company, or an overseas related entity may engage an external service provider to support its compliance arrangements. Where an external service provider is used, the FMC should ensure that the service provider is competent and familiar with the requirements for FMCs under the SFA and other regulations in Singapore. FMCs are encouraged to use service providers who are members of relevant professional bodies in Singapore and who are able to provide meaningful onsite presence at the FMC.

## **What are the compliance reporting obligations of a Licensed FMC?**

An FMC shall comply with its obligation to notify MAS or to seek MAS' approval, as the case may be, for relevant transactions and changes in particulars, such as appointment of new directors (executive and non-executive) or CEO, appointment or resignation or removal of representatives, changes or cessation of business etc.

The LFMC has also to submit returns/forms to the MAS on a quarterly basis that report on the financial and operational information of the business. These quarterly returns are in addition to the ones that are to be submitted along with the financial statements and both (returns and financial statements) are subject to an annual audit.

## **What are the ongoing requirements for a Licensed FMC?**

Any licensed FMC has to meet a number of duties and obligations. These are generally set out in the Securities and Futures Act and the Securities and Futures (Licensing and Conduct of Business) Regulations.

An FMC shall ensure that assets under management are subject to independent valuation and customer reporting. A third-party service provider, such as a fund administrator or custodian, perform the valuation; or an in-house fund valuation function that is segregated from the investment management function.

An FMC shall put in place mitigating measures to mitigate any conflicts of interest and, where appropriate, disclose any conflicts of interest to its customers.

FMCs (other than VCFMs) are required to put risk management frameworks in place to identify, address, and monitor the risks associated with the customer assets it manages.

An FMC should ensure that there is adequate disclosure to its customers in respect of each fund or account that it manages. Disclosures should, at the minimum, cover; the investment policy and strategy, as well as risks associated with the strategy; the terms with respect to fees, termination or exit and, where applicable, gating, side-pocketing, lock-up or suspension of redemptions, including any penalties that may apply under such circumstances; the valuation policy and performance measurement standards. Where there are investments in hard-to-value or illiquid assets, the methodology and procedures for their valuation should be disclosed; the use of leverage, to the extent permitted by the investment mandate; the counterparties, brokers and prime brokers used by the fund or account; the custodians, fund administrators and/or auditors used by the fund or account; and the circumstances under which the fund or account can be terminated, as well as the processes for effecting such termination.

All FMCs must comply with the requirements on anti-money laundering and countering the financing of terrorism (“AML/CFT”),

Prior to entering into arrangements with service providers (such as a compliance service provider or a fund administrator), an FMC should take into account the requirements set out in the MAS guidelines on outsourcing.

## **Are Licensed FMCs subject to an audit requirement?**

LFMCs (other than VCFM) are expected to have external audit arrangements in place for annual independent audits of their financial statements. Auditors are also expected to provide auditor’s reports to the MAS on the FMC’s compliance with key licensing and business conduct requirements, such as outsourcing arrangements.

LMCs (other than VCFMs) should be subject to adequate internal audit. The internal audit arrangements should be commensurate with the scale, nature and complexity of its operations. The internal audit may be conducted by the internal audit function within the FMC, an internal audit team from the head office of the FMC or outsourced to a third-party service provider. The internal audit should inquire into the FMC’s compliance with all relevant laws.

## **Do the assets managed by a Licensed fund manager need to be independently custodised?**

An FMC shall ensure that assets under management are subject to independent custody.

Independent custodians include prime brokers, depositories and banks that are suitably licensed, registered or authorised in their respective jurisdictions. A retail FMC must have the assets of the funds that are locally constituted in Singapore as Authorised funds need to be custodised by a regulated entity in Singapore that is an CIS Trustee.

Generally, assets in private equity and venture capital funds need not be subject to independent custody. This is provided that the managed assets are not listed for quotation or quoted on an approved exchange, and the fund is offered only to accredited or institutional investors. An FMC that manages private equity and venture capital funds is required to fully comply with client segregation requirements in respect of client moneys.

## **What is the application procedure and timeline for licensing?**

FMCs may apply for licensing by submitting the relevant form to MAS through the Corporate e-Lodgment System. In general, MAS takes approximately 4-6 months to process and approve an application.

Once MAS has granted a CMS licence, the FMC has 6 months to commence business in fund management, which if not achieved, licence is revoked. FMCs must submit relevant application forms, representative application forms, business profile of the company, organisation chart, any past audited financial statements of the group, group shareholding chart, are the documents amongst the many that need to be submitted to the MAS along with the application fee of SGD 1,000.

You can find out more information about setting up a fund management business in singapore, and the different types of funds available, starting with this article: [Setting up fund management business in Singapore](#).

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- Provision of meeting room facilities
- Maintenance of minute books and statutory registers
- Maintenance of Company Seal

- Preparation and filing of annual returns
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## Key Contacts



Tervinder Chal

Managing Director, Singapore, Ogier Global

Singapore

E: [tervinder.chal@ogier.com](mailto:tervinder.chal@ogier.com)

T: [+ 65 6995 2200](tel:+6569952200)



Connie Chan 陈丽芬

Associate Director 副董事

Singapore

E: connie.chan@ogier.com

T: +65 6995 2211

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