Registered 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 "license" can do so in three types of asset management business. The first meant for retail investors, a license 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 professionally.

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 license in Singapore, namely those managing physical assets (real estate), those managing proprietary assets (such as Single-Family Offices or Pension funds or Sovereign wealth funds and so on) and those that already have a licensed entity in Singapore in other financial services businesses, such as banking, insurance and so on.

The focus of this publication will be on Registered Fund Management Company (**RFMC**), 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, and so on, with limitations on number the of investors and the amount of assets it can manage.

What is the scope of a Registered Fund Management business?

A RFMC is a fund management company registered with the MAS. Such FMCs are exempt from holding a CMS licence. However, they may only carry-on business in fund management with 30 or less qualified investors, of which no more than 15 may be funds or limited partnership fund structures. The total value of assets under management cannot be more than $250 million. "Qualified investors" whom are referred as accredited investors, investments funds or closed-end funds offered in Singapore only to accredited and/or institutional investors, and limited partnerships comprising solely of partners who are accredited and/or institutional investors.

Can an RFMC manage venture capital assets?

Yes, an RFMC can manage venture capital assets if they do not want to be restricted by the business scope limitation of the VCFM, namely managed accounts or to make investments in unlisted businesses greater than 10 years.

How many professionals are needed to set up a RFMC?

An RFMC 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 RFMC 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 five years relevant experience.

Do RFMCs have to appoint qualified representatives?

RFMCs are exempted from appointing qualified representatives.

Are there capital requirements for a Registered Fund Management Company?

A Registered fund management company needs to maintain a 'base' capital of SGD 250,000 but is exempted from any 'risk-base' capital requirements.

It is to be noted that the RFMC 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 RFMC?

An RFMC should ensure that it has adequate compliance arrangements commensurate with the scale, nature and complexity of its operations. This may take the form of an independent compliance function, compliance support from overseas affiliates and/or use of external service providers that meet the requirements set out previously.

As with other FMCs, the CEO and directors of an RFMC are ultimately responsible for all compliance and regulatory matters.

What are the compliance reporting obligations of a Licensed FMC?

An RFMC 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, changes or cessation of business etc.

The RFMC has also to submit an annual return to the MAS along with the financial statements and both (the annual return and financial statements) are subject to an annual audit.

What are the ongoing requirements for a Licensed FMC?

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

RFMCs required to put risk management frameworks in place to identify, address, and monitor the risks associated with the customer assets it manages.

An RFMC 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.

An RFMCs 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 RFMCs subject to an audit requirement?

RFMCs 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.

For RFMCs, MAS will consider audit arrangements adequate if the RFMC has in place a process for regular internal reviews on the effectiveness of internal systems and controls. The CEO and directors of an RFMC are ultimately responsible for ensuring there are adequate internal controls within the RFMC and should take reasonable measures to ensure that internal controls are effective to address the risks arising in the course of the RFMC's operations.

Do the assets managed by a RFMC need to be independently custodised?

An RFMC 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.

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 RFMC 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?

RFMCs may apply for registration by submitting the relevant form to MAS through the Corporate e-Lodgment System. In general, MAS takes approximately 3-4 months to process and approve an application.

RFMCs must submit relevant 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. No fee is required for application.

<u>You can find out more information about setting up a fund management business in singapore, and the different types of funds available, starting here</u>.

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Meet the Author

[Tervinder Chal]

Managing Director

Singapore

E: tervinder.chal@ogier.com

T: + 65 6995 2200

Key Contacts

Connie Chan ▯▯▯

Associate Director ▯▯▯

Singapore

E: connie.chan@ogier.com

T: +65 6995 2211

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