

Singapore

Regulation

HEDGE FUNDS 2009

Hedge fund managers/advisors

Regulation

Authorization requirements and process

Most of the hedge fund managers operating in Singapore restrict their fund management activities to not more than 30 qualified investors and are therefore exempted from licensing. However, should the fund manager decide to market a fund to retail investors, the fund manager will have to obtain a Capital Markets Services (CMS) License from the Monetary Authority of Singapore (MAS) under the Securities and Futures Act (Chapter 289) (SFA).

Typical timescale to receive approval

Not applicable. See above.

Regulatory capital requirements

If the fund manager holds a CMS license under the SFA and manages retail hedge funds, a minimum base capital of SGD 1 million is required.

Significant restrictions on marketing to investors

Onshore hedge funds marketed to retail investors are typically not subject to investment guidelines. However authorized hedge funds must comply with the SFA, including the Code on Collective Investment Scheme issued by the MAS. There is a minimum subscription amount for single hedge funds which is SGD 100,000 and that for hedge fund-of-funds of SGD 20,000. The same applies to recognized offshore hedge funds. For both onshore and offshore hedge funds, there is no minimum subscription for capital protected/guaranteed hedge funds.

Onshore hedge funds offered to accredited investors (and other relevant persons) can only be offered to certain types of investors as defined under Section 305 of the SFA. These investors require a minimum total net asset size

or annual income exceeding a certain amount (as set out in Section 4(A) of the SFA) or at a minimum of SGD 200,000 per transaction. The same applies to offshore restricted recognized schemes.

For both onshore and offshore funds marketed to institutional investors, there are no minimum subscription requirements for all funds (including hedge funds).

Hedge fund structures

Regulation

Authorization process

A hedge fund marketed to retail investors, before being established, has to have its prospectus approved by the MAS. The fund manager must possess a CMS license. Hedge funds offered to retail investors and constituted in Singapore are called Authorized unit trusts. The regulations applicable to such unit trusts are noted below.

Restrictions on types of investments, concentration levels, and the manner in which hedge funds can invest and/or strategies

A hedge fund-of-funds should have diversification as one of its key objectives. The manager should have in place strategies to achieve adequate diversification and ensure that the fund is so diversified at all times.

Hedge fund-of-funds should be diversified across at least 15 hedge fund managers or have not more than 8 percent of its assets allocated to a single hedge fund manager.

Rules regarding the publishing of the accounts and prospectuses

Authorized unit trust funds that are available to the retail investors, including hedge funds, are required to comply with the Code on Collective Investment Schemes under the SFA. In addition, the following specifically apply to hedge funds.

The prospectus of a hedge fund must state the material differences between hedge funds and other collective investment schemes. Appendix 4 of the Code on Collective Investment Schemes contains a list of common examples (not exhaustive) of such disclosures (such as some investments may not be actively traded and may involve uncertainties, there is limited liquidity and that most of the underlying hedge funds are subject to minimal regulation).

All marketing material of authorized funds must state the fees and charges payable, the material should state that an investment in the hedge fund carries

risks of a different nature from other types of collective investment schemes which invest in listed securities and do not engage in short selling and that the hedge fund may not be suitable for risk averse investors. The material should state that in the case where the hedge fund is not capital guaranteed, it may lose all or a significant portion of its investment and in the case where it is capital protected, investors are subject to the credit risk of the guarantor and the default risk of the issuer, the material should also state that an investment in the hedge fund is not intended to be a complete investment program (above the normal risk level) and investors should consider carefully before investing and finally must make references to other inherent risks.

The manager must prepare annual accounts (audited) and reports, semi-annual accounts (non-audited) and reports and quarterly reports for each of the four quarters of the financial year. Where the hedge fund is either capital protected or when monthly reporting (containing the information that would otherwise be found in the quarterly reports) is done, then the quarterly reporting requirement is waived. The trustee should send the annual audited accounts and report within three months from the end of the financial year. The semi-annual reports should be sent within two months from the end of the period covered by the accounts. The annual audited accounts and the semi-annual accounts must be prepared in the manner prescribed by the Institute of Certified Public Accountants of Singapore (ICPAS) in Statement of RAP 7: Reporting Framework for Unit Trusts with certain modifications and disclosures, such as that of performance fees, as contained in Appendix 4 of the Code on Collective Investment Schemes. The quarterly report should contain (where applicable) qualitative disclosures of the overview of management and investments of the fund for the past quarter and going forward including that of the fund's financial performance, style drifts, market outlook, changes in key personnel and their contributing factors and contain quantitative disclosures under the categories of performance, risk and current exposure (details can be found in Appendix 4 of the Code on Collective Investment Schemes).

Time-scale of establishment of a hedge fund

The establishment of an Authorized hedge fund in Singapore may take between six months and a year.

Investors

Regulation

Restrictions on which type of investors can invest in a hedge fund and/or the minimum/maximum number of investors in a hedge fund

Hedge funds are mainly aimed at the niche market of high net worth individuals/investors and large institutions and corporations. See above for the minimum subscription amount for onshore and offshore retail funds.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.