

Conversion from RFMC to LFMC – Enhanced Compliance Obligations

The Monetary Authority of Singapore (“MAS”) will be repealing the Registered Fund Management Companies (“RFMCs”) regime as of 1st August 2024. RFMCs are in the process of submitting and transitioning to become Licensed Fund Management Company (“LFMCs”).

As RFMCs transition to become LFMCs, it is vital to understand the additional compliance obligations that they face.

We have detailed additional compliance obligations that RFMCs transitioning to LFMCs need to be aware of.

Capital Requirements

Like RFMCs, the base capital requirement for LFMCs is S\$250,000. However, LFMCs are also required to maintain a risk-based capital. LFMCs are required to maintain Financial Resources not less than 120% of Total Risk Requirement. When Financial Resources fall below 120%, LFMCs need to notify MAS and remediate the breach.

The Financial Resources of LFMCs is the sum of the following items in the latest available accounts:

- 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 LFMCs

- a) intangible assets;
- b) future income tax benefits;

- c) pre-paid expenses;
- d) charged assets;
- 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.

Total Risk Requirement is typically equal to the Operational Risk Requirement, if the Average Adjusted Assets, at the end of each quarter, do not exceed the lower of S\$10 million or 5 times the Financial Resources.

Notification of Changes

RFMCs notify MAS on changes pertaining to particulars of RFMCs, directors, representatives and relevant professionals via Form 23A which is submitted to MAS via the CeL system. These changes are required to be submitted within 14 days from the date of change.

Filings and notifications differ for LFMCs. Certain changes require LFMCs to seek prior approval from MAS. For example, LFMCs are required to obtain approval from MAS for any change in shareholders which will result in one person holding more 20% voting power or interests in the LFMCs. LFMCs also require prior approval from MAS to reduce paid-up capital.

LFMCs are required to notify MAS of changes and these filings are typically done by submitting FormSG via MAS-Tx. For example, LFMCs are required to notify MAS of resignation of CEO/Director no later than 14 days from the date of resignation, notify MAS of changes on nature of appointment of a Director as soon as practicable.

LFMCs are also required to submit form 3A to MAS to seek approval prior to appointing any new representatives which are submitted to MAS via MASNET.

Regulatory Submissions

RFMCs currently are required to submit Form 25A within 1 month from financial year end on annually on AUM, key investors, fund types etc. RFMCs submit Form 25B and audited financial returns and auditors report within 5 months after financial year end.

LFMCs are required to submit quarterly financial returns within 14 days from the end of each quarter. Form 1 (Statement of Assets and Liabilities), Form 2 (Statement of Financial Resources, Total Risk Requirement and Aggregate Indebtedness) are generally submitted on a quarterly basis. A Qualified Income Expenditure Form is also required to be filed on a quarterly basis.

Annually LFMCs need to submit Form 1, Form 2, Form 3 (Statement related to Accounts of a Holder of a Capital Market Services ("CMS") Licence), Form 4 (relating to the Accounts of a Holder of a CMS Licence – Supplementary Information, Form 5 (Auditor's Report - For a Holder of a CMS Licence), Form 6 (Auditor's Certification - For a Holder of a CMS Licence), Audit financial statements and Auditor's report.

Compliance Arrangements

RFMCs are able to outsource their Compliance to third party providers and that is also permissible for LFMCs. However, LFMCs who intend to manage more than S\$1 billion would need to have a full time dedicated compliance officer. Compliance remains the responsibility of CEOs and Directors of the regulated entities.

Risk Management

Risk management framework is a requirement for RFMCs and for LFCMs as well. Fund managers generally should have proper procedures in place to timely monitor the risk exposure and report these to the management for timely action.

We have highlighted some key MAS guidelines and Notices that RFMCs need to be aware of when they transition to become LFCMs.

	RFMC	LFCM
Guidelines on Outsourcing	✓	✓
Guidelines and Notice SFA04-N16 on Execution of Customers' Orders		✓
Guidelines on Fit and Proper Criteria [FSG-G01]	✓	✓
Guidelines on Risk Management Practices	✓	✓
Guidelines on Environmental Risk Management for Asset Managers	✓	✓
Guidelines on Individual Accountability and Conduct	✓	✓
Guidelines on Addressing Conflicts of Interest arising from a Related Corporation Issuing or Promulgating Research Analyses or Research Reports [SFA 04-G06]		✓
Guidelines on Liquidity Risk Management Practices for Fund Management Companies [SFA 04-G08]	✓	✓
Guidelines on Maintaining Records of Approval for Advertisements or Publications [SFA 13-G16]		✓
Guidelines on Standards of Conduct for Marketing and Distribution Activities by Financial Institutions [FSG-G02]		✓
Guidelines and Notice SFA 04-N02 on Prevention of Money Laundering and Countering the Financing of Terrorism - Capital Markets Intermediaries	✓	✓
Notice SFA 04-N09 Minimum Entry and Examination Requirements for Representatives of Holders of Capital Markets Services licence and Exempt Financial Institutions under the SFA		✓
Notice SFA 04-N13 Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences		✓
Notice CMG-N01 on Reporting of Suspicious Activities and Incidents of Fraud	✓	✓
Notice SFA 04-N11 Reporting of Misconduct of Representatives by Holders of Capital Markets Services Licence and Exempt Financial Institutions		✓
Notice SFA 04-N10 Entry Requirements of a Provisional or Temporary Representative		✓
Notice CMG-N02 Technology Risk Management		✓
Notice CMG-N03 Cyber Hygiene	✓	✓
Guidelines on Business Continuity Management	✓	✓

How can Waystone assist?

We will prepare you for a smoother transition from being an RFMC to LFMC:

- Update your Compliance Policies and Procedures to adhere to LFMC regulatory requirements.
- Provide assistance with financial forms computation and filing with MAS.
- Assist to provide enhanced compliance support to take care of all regulatory filings applicable to a LFMC.
- Provide training to senior management and employees to understand the Capital Market Services framework.

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