

# Converting from RFMC to LFMC – enhanced compliance obligations

The Monetary Authority of Singapore (“MAS”) has published a consultation paper on its proposal to repeal the registered fund management company (“RFMC”) regime. MAS proposes that existing RFMCs should submit a prescribed application form within a stipulated deadline to become a licensed fund management company (“LFMC”). Transitioned RFMCs would be subject to all of the same regulatory requirements as currently applicable to LFMCs.

We have detailed below the key LFMC compliance requirements that may be relevant for RFMCs that are transitioning to LFMCs.

## Capital requirements

Similar to the RFMC, the base capital requirement for LFMCs is S\$250,000. However, in addition, LFMCs are 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 must notify MAS and remediate the breach.

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 five (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 an LFMC. Certain changes require LFMC 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 than 20% voting power or interests in the LFMC. 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 carried out 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 and 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 are currently required to submit Form 25A within one month from financial year end or annually on AUM, key investors, fund types etc. RFMCs submit Form 25B, audited financial returns and auditors report within five 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 Bn would be required to have a full-time dedicated compliance officer. Compliance remains the responsibility of the CEO and Directors of regulated entities.

## Risk management

A risk management framework is a requirement for RFMCs and for LFMCs. Fund managers should ensure they have in place proper procedures to monitor the risk exposure and report these in a timely manner to the management for action.

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

	RFMC	LFMC
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	✓	✓

	RFMC	LFMC
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	✓	✓

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