

Investment management

Industry profile

SINGAPORE





As the dynamics of the market and competitive environment for the financial services sector increase in their complexity, being able to identify and adapt to the new challenges will determine the industry's dominant players.

With the further globalisation and convergence of the industry, the increasing pressures on cost control and consistent investment returns and the increasing sophistication of investors, investment managers are having to change the way they operate.

To assist financial services organisations, investors and other parties who are exposed to funds and other types of investments, PricewaterhouseCoopers global team of investment management industry experts has produced this profile to provide general, illustrative guidance only. We have focused on highlighting the extent of the industry development in key locations around the world, together with the nature and scope of its regulation. While all reasonable care has been taken in preparing this guide, there is no substitute for regulations. Should readers encounter particular problems or require further information, we encourage you to seek professional advice or to contact one of the members of our global investment management network listed at the end of this publication.

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Introduction

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Background

Since the fund management industry in Singapore began its growth in late 1994, great strides have been continually taken by the Government of Singapore, through the Monetary Authority of Singapore ("MAS"), to develop and introduce reforms, and enhance the current regulatory framework to encourage further growth.

In February 1998, the MAS unveiled a series of reforms aimed at making Singapore the pre-dominant financial centre in an increasingly competitive global market. Working closely with industry players and other government agencies, the MAS reviewed the regulatory framework and formulated strategies to stimulate growth in specific industries in the financial services sector. Some of the measures for the fund management industry include:

- positioning Singapore as the premier asset management centre in Asia, excluding Japan, for Asian mandates of global funds and the global mandates of Asian clients;
- leveraging off domestic sources of funds to attract asset managers to manage their funds out of Singapore;

and

- working with industry players and educational institutions to develop asset management expertise in Singapore.

Advantages of operating in Singapore

Fund management companies which operate in Singapore as fund managers, custodians, trustees or fund administrative agents enjoy the following advantages:

Strategic location

Situated in one of the fastest-growing regions in the world, Singapore provides easy access to Asia's emerging markets.

Reputable financial centre

The high standards of supervision and prudential management demanded by Singapore's financial regulators foster confidence and trust in the integrity of the financial markets. Singapore's ability to emerge relatively unscathed during the Asian financial crisis gives further credence to its strength as a financial centre.

Excellent infrastructure

Heavy investment in infrastructure in the early years

has resulted in an environment that facilitates the conduct of business. A well-developed physical infrastructure for transportation and telecommunications is complemented by a strong framework for legal, financial and accounting services, among others. The use of English as the language of administration and the primary language of business further facilitates the conduct of business.

Conducive working and living environment

Singapore provides an excellent working and living environment, with a sound political and legal system, and a high standard of education, housing and healthcare. A great diversity of cultural and social activities are also available.

Favourable tax environment and tax incentives

Singapore imposes tax on income that has its source in Singapore, but does not tax income with a foreign source unless it is remitted into Singapore. It also enjoys the benefit of Double Taxation Agreements with more than 30 countries. The current corporate tax rate is 24.5 per cent, which is low by international standards. Profits can be repatriated tax free once corporate tax is paid. Approved fund management companies are taxed at a concessionary rate of 10 per cent on fees derived from providing fund management services and advice to foreign investors. In addition, the Enhanced Fund Manager scheme allows fund management companies which manage at least S\$5 billion of

foreign investors' funds to enjoy tax exemption for the fee income earned from providing investment management or advisory services. Unit trusts also receive concessionary treatment that makes them appealing to non-residents.

Size and growth of the fund management industry

Funds under management in Singapore stood at S\$276.2 billion as at 31 December 2000, comprising S\$166.4 billion of discretionary managed funds and S\$109.8 billion of other assets managed on a non-discretionary basis. This represents a growth of more than 300 per cent over a period of six years from S\$65.9 billion of total funds under management in 1994. According to the MAS fund management survey for 2000, 24 new fund management outfits were established in 2000, bringing the total number of asset management companies in Singapore to 215 as compared to 191 in end-1999.

Funds under management in unit trusts have shown an even greater rate of growth, from S\$1.2 billion at the end of 1994 to S\$10.8 billion at the end of December 2001. There are now more than 300 unit trusts (including sub-funds within each umbrella fund) being offered for sale to the general public in Singapore.

Growth in the unit trust industry continues to be optimistic. From

Introduction *cont.*

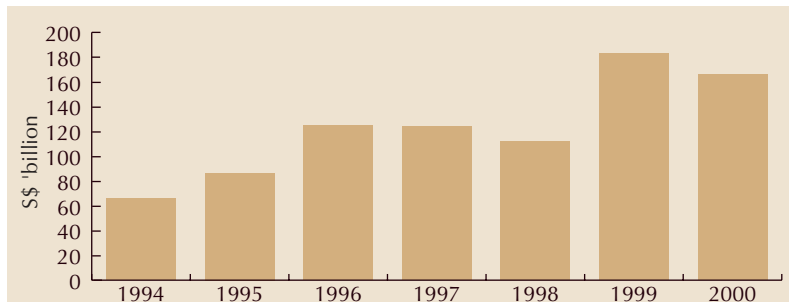


a penetration rate of about 5 per cent in the early 1990s, this is now believed to have increased to up to 15 per cent as at end-December 2001. In addition, an industry survey published in 2000 by Bermuda Trust in collaboration with GFIA Pte Ltd, an asset consultancy firm, projected that the unit trust industry in Singapore would grow by 42per cent per year from 2000 to reach S\$49 billion by end-2005.

The impending changes in legislation (see below) to allow foreign-domiciled collective

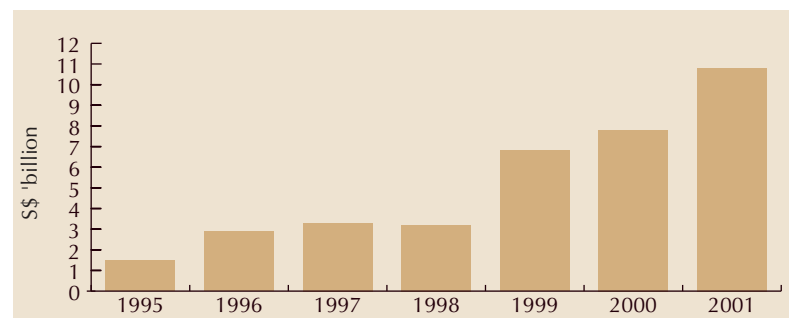
investment schemes to be registered for distribution locally, expected to take effect by mid-2002, will further accelerate the growth of the unit trust industry in Singapore. This will enable collective investment schemes from offshore jurisdictions such as Luxembourg and Dublin to be marketed directly to the investing public in Singapore, thereby providing a wider range of fund choice available and further increasing the breadth and depth of the unit trust industry.

Discretionary funds under management



Source: Monetary Authority of Singapore Survey Results – 1994 to 2000

Unit trust funds under management



Various sources, including MAS annual reports, Singapore Business Times and Micropal

Promotions and incentives

Government funds

In 1998, the MAS and the Government of Singapore Investment Corporation ("GIC") committed to place out a total of S\$35 billion to external fund managers over a three-year period from 1998 to 2000. This was intended to act as seed money to help grow the Singapore fund management industry. This is now believed to be fully placed out. In addition, the Government continues to encourage statutory boards and government-linked companies to place out their excess funds to external fund managers.

Central Provident Fund

The Central Provident Fund ("CPF") Investment Scheme for unit trusts was revamped in 1998, with subsequent revisions in 2000 and 2001 to increase the number of quality asset managers and products available to CPF members.

There are now 34 CPF-approved fund management companies managing more than 130 CPF-approved unit trusts in Singapore. In addition, 37 fund management companies (including the 34 above) have been approved under the CPF Investment Scheme to manage investment-linked insurance funds.

The CPF Investment Scheme was further revised in January 2001 to further liberalise the industry and to allow more funds to be made available for investments. As at 30 September 2001, the total investible funds under the CPF Investment Scheme

amounted to S\$86.4 billion. Of this amount, S\$24.7 billion was invested as follows - S\$2.1 billion in unit trusts, S\$8.6 billion in equities and S\$14 billion in insurance policies and deposits. This means that there is another S\$61.7 billion remaining in the CPF which is still available for investment as at end-September 2001.

Developments in the regulatory framework as at December 2001

In March 2001, the MAS conducted a public consultation exercise on drafts of the Securities and Futures Act ("SFA") and Financial Advisers Act ("FAA"). Following that exercise and consolidation of industry comment and feedback, the new SFA 2001 was passed by Parliament in October 2001 and subsequently published in December 2001.

Notwithstanding, the main provisions of the SFA affecting the investment management industry itself will not come into effect until sometime in 2002, pending the finalisation and issue of the Securities and Futures Regulations and the Code on Collective Investment Schemes (replacing the Handbook of Unit Trusts), among other things. As at end-December 2001, the FAA had not yet been published.

The Securities and Futures Act 2001

The SFA is a new legislation which will regulate Singapore's capital markets, including the investment management industry

once it takes effect in full. The SFA sets out, in a single rulebook, the legislative framework governing the capital markets industry by consolidating, and adding to, the provisions in the existing Securities Industry Act, Cap 289 ("SIA"), the Futures Trading Act, Cap 116 ("FTA"), the capital-raising provisions in the Companies Act Cap. 50, and certain provisions in the Exchanges (Demutualization and Merger) Act, Cap. 99B.

Some of the key impetus for the SFA include:

- redrafting and updating legislation to keep abreast of the many developments that have taken place in the capital markets since the enactment of the SIA and FTA;
- creating a flexible regulatory framework for intermediaries, reducing compliance cost;
- providing a comprehensive rulebook on capital markets activities;
- facilitating the development of a disclosure-based regime; and
- enhancing the market enforcement regime.

Among other things, the SFA introduces a single modular licensing framework which allows for a range of regulated

activities that are better differentiated to accommodate the business needs of the intermediaries, as well as a graduated scale of capital and compliance requirements commensurate with the risk exposure of each type of activity. The SFA will also provide for foreign funds to be offered directly to the Singapore public, in addition to being offered indirectly through a Singapore scheme currently.

The Financial Advisers Act

In response to changes in product innovation, the emergence of alternative distribution channels and as part of its continuing review of the regulatory framework for the financial services industry, the MAS introduced the FAA to govern the regulation of persons engaging in financial advisory activities, irrespective of whether advice relates to dealing with life insurance, securities or futures.

The FAA, when issued, will consolidate the existing regulatory regime governing the provision of financial advisory services in respect of securities, futures and life insurance products, which are currently contained in three different Acts - namely SIA, FTA and Insurance Intermediaries Act, Cap. 142A, into a single legislation.

The FAA will, among other things:

- provide a more flexible and streamlined licensing framework for market intermediaries, as only one licence will be required to give advice on a spectrum of products; and
- facilitate the maintenance of consistent professional standards across the financial advisory industry and set prudential requirements for those providing financial advice in Singapore.

Managers and Investment Advisers

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Regulatory framework

Fund management companies in Singapore are regulated under the following:

- Securities Industry Act ("SIA");
- Securities Industry Regulations ("SIR"); and
- Circulars and Directives issued by the MAS to investment management companies.

Supervision of the fund management industry

The MAS, as the main regulatory body overseeing the financial services industry in Singapore, has the ultimate responsibility for ensuring adequate supervision of fund management companies in the country. Recently, the MAS has changed its approach from that of a regulator enforcing regulations to one of supervision. The supervision entails monitoring and examining institutions for compliance with laws and guidelines, and assessing asset quality and the adequacy of risk management systems.

In this regard, the MAS has emphasised the need for fund management companies to put

in place sound management policies and strong internal control procedures to protect the interests of investors. In particular, fund management companies are required to ensure, *inter alia*:

- strict segregation between securities dealing, investment management activities, proprietary trading and client-related activities;
- avoidance of possible conflicts of interests;
- compliance with the investment guidelines and restrictions placed by investors;
- effective risk management systems, centralised account dealing and regular internal audits; and;
- independent, fair and proper valuation of all investments.

In addition to the MAS, the Investment Management Association of Singapore ("IMAS") issued the Code of Ethics and Standards of Professional Conduct for fund managers in Singapore in July 1999. The IMAS was established in 1997 as a representative body of investment managers to spearhead the development and growth of the fund management industry in Singapore. The Standards issued by IMAS are applicable to all members of the IMAS who provide investment

management services, investment advice or issue investment research reports.

While the Standards themselves do not carry regulatory force, they are considered as best practices and guidelines for the industry. Compliance is expected by the MAS and the CPF Board for CPF-approved fund management companies.

Licensing requirements

Investment adviser and investment representatives

A person acting as or holding himself out to be an investment adviser is required under the SIA to hold an investment adviser's licence issued by the MAS. An investment adviser is defined as a person who:

- carries on a business of advising others concerning securities;
- issues analyses or reports concerning securities as part of a regular business; or
- undertakes on behalf of a client pursuant to a contract or arrangement (whether on a discretionary basis or otherwise), the management of a portfolio of securities for the purposes of investment.

In addition, employees of a fund management company holding an investment adviser's licence, having direct liaison with clients where:

- clients' orders and instructions are taken and acted upon;
- clients are advised of investment opportunities; or

- analyses or reports concerning securities are issued;

are deemed to be "investment representatives" of the licensed investment adviser, and accordingly required under the SIA to hold an investment representative's licence.

With effect from January 2000, all new investment representative licence applicants are required to pass the Investment Representative examination before they are granted a licence. There are, however, certain exemptions available to qualified personnel. From October 2000, all investment representative licence renewal applications must be accompanied by a statement from the applicants' principal fund management companies, listing details of continuing education training which the investment representatives have received over the previous 12 months.

Criteria

There are no specific criteria that individuals or companies need to meet in order to apply for an investment adviser's licence. However, the general criteria expected are:

- a strong financial position;
- good reputation and experience; and
- the willingness to contribute to the growth and expertise of the fund management industry in Singapore.

The MAS has not prescribed a minimum capital requirement for an investment adviser that is a corporate body. Branches of foreign companies may also apply for a license to operate

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fund management activities in Singapore. However, it should be noted that the MAS might impose certain conditions on fund management companies, although this is done on a case-by-case basis.

Exemptions

Exemptions from holding an investment adviser's license are possible. To obtain an exemption, the fund management company has to apply to the MAS. It will qualify for the exempt investment adviser status if it meets one of the following conditions:

- manages a portfolio of securities on behalf of clients for investment purposes, provided the advice or management is in respect of designated investments for foreign investors (within the meaning of the Income Tax (Concessionary Rate of Tax for Approved Fund Managers) Regulations; or
- is an approved headquarters company or an approved Finance and Treasury Centre which gives advice or manages a portfolio of securities, provided the advice or management has been approved as a qualifying service in relation to that headquarters company or Finance and Treasury Centre under the Income Tax Act; or
- provides advice or manages a portfolio of securities for or on behalf of any of its related corporations, provided none of the securities managed are:
 - held on trust for another person by the related corporations;
 - the result of any investment contract entered into by the related corporations; and
 - beneficially owned by any person other than the corporation or the related corporations.
- acts, whether directly or indirectly, as an investment adviser to a maximum of 30 accredited investors.

Boutique fund management companies

Boutique fund management companies ("BFM") are usually small enterprises owned and operated by experienced investment management professionals, who cater for the needs of selected institutional and high net-worth clients. BFM's in Singapore generally operate under the exemption granted to those acting as an investment adviser to up to 30 accredited investors (see above). Accordingly, BFM's do not need to be separately licensed by the

MAS, although they are required to apply to the MAS for the exemption.

In March 1999, the MAS introduced a new category of investment adviser's licence, known as the "boutique investment adviser's licence". This is in line with its intention of developing local fund management companies and introducing greater depth and breadth to the industry. BFM's who are licensed by the MAS may apply for the Approved BFM status, which provides certain tax incentives.

Some of the qualifying criteria for a BFM licence are as follows:

- a minimum track record of three years, compared to five years for a normal investment adviser;
- funds under management of at least S\$100 million, compared to S\$1 billion of global funds under management for a normal investment adviser;
- at least two investment managers, who must meet prescribed minimum qualifications and relevant experience requirements, at least one of whom must be a shareholder;
- a clientele restricted to sophisticated investors as defined in the Companies Act;

The BFM must be a member of the IMAS.

Fund management activities

Fund management companies (other than those described above as exempt investment

advisers) in Singapore may actively manage the portfolios of institutions and corporations as well as private individuals, whether resident in Singapore or overseas. In addition, they may, together with a registered trustee company in Singapore, establish a Singapore domiciled unit trust. The unit trust may either take the form of an approved unit trust or a CPF-approved unit trust (restricted to CPF-approved fund management companies only).

Central Provident Fund (CPF) approved status

The criteria for fund management companies wishing to obtain the status of a CPF-approved fund management company include the following:

- the company must be a holder of an investment adviser's licence, or a bank licensed under the Banking Act;
- the company must have a minimum one year track record as a licensed investment adviser in Singapore and the group must have a minimum three year track record in fund management;
- the company (and its group, if applicable) must manage at least S\$500 million worth of funds in Singapore;
- the company must have a minimum of three fund managers, two of whom have at least five years of fund management experience;
- the company and the group should be in a sound financial position;

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- the company and the group must have a good regulatory compliance record in Singapore and in the other countries where they operate;
- the company must be able to show evidence of its commitment to grow its Singapore operations in areas such as:
 - the amount of funds managed; and
 - other value-added activities, such as undertaking research and investment analysis, trade execution and settlement.
- the company must demonstrate a commitment to contribute to the future development of the fund management industry in Singapore; and
- the company must be a member of the IMAS and subject itself to the Code of Ethics prescribed by the association.

Reporting requirements

The fund management company is required to file a set of audited annual financial statements with the MAS and Registry of Companies and Businesses ("RCB") within a

three months period after the end of the company's financial year.

In addition to this, the company is also required to obtain a report prepared by its auditors expressing an opinion on whether the relevant internal controls and procedures of the investment adviser's operations are adequate and in compliance with the requirements set out in the SIA and the SIR. This report must be submitted to the MAS within the same period.

There are other reporting requirements placed by the MAS on fund management companies, which do not need to be audited, but must be submitted within specified timeframes, for example, quarterly or semi-annually. Ad-hoc reporting requirements may also be imposed by the MAS.

For CPF-approved fund management companies, additional reports have to be submitted to the CPF Board as set out in the guidelines of the CPF Investment Scheme.

Additionally, fund management companies granted an exemption by the MAS from the need to hold an investment adviser's licence, are exempted from filing certain forms normally applicable to an investment adviser.

Taxation

Fund managers and investors

Fund Managers can enjoy certain tax privileges both for themselves and their non-resident clients under the Tax Exemption Scheme for Fund Management. Under the scheme, two benefits are provided:

- an incentive in the form of a concessionary tax rate or exemption from tax for the fee income derived by an Approved Fund Manager ("AFM") from managing, or from providing investment management services in relation to the designated investments of a foreign investor. The reduced tax rate is 10 per cent on fees and commissions from managing those funds, or from providing investment advice in relation to them. Where funds under management exceed S\$5 billion, or where funds managed are less but other commitment criteria are met, application for full tax exemption can be made;
- exemption from tax for foreign investors whose funds are managed by approved fund managers in relation to specified income that they derive from their designated investments. Without this exemption, there is a risk that a fund manager with discretionary powers would constitute a permanent establishment of the foreign investor in Singapore, such that his non-Singapore source income and gains

could be taxed in Singapore. (Singapore sourced income would be taxed in Singapore, except for certain types of income which are specifically exempted as described below).

A *foreign investor* is essentially a person who is not a resident in Singapore. In the case of an individual, he/she must not be a Singapore citizen; in the case of a company, at least 80 per cent of its issued share capital must be held by persons who are foreign investors in their own right. For these purposes, shares owned by the Government of Singapore Investment Corporation Pte Ltd, any statutory board, or any company wholly owned by the Minister for Finance (known collectively as *designated persons*) are ignored. A trust or pension fund is considered a foreign investor, provided at least 80 per cent of the value of the fund excluding any interest held by designated persons, is attributable to other foreign investors as defined.

There are other qualifying conditions that pertain mainly to other investment connections the investor may have with Singapore. However, application can be made to have these conditions waived by the MAS on a case by case basis.

The tax exemption for foreign investors and the reduced rate of tax for fund managers relate only to income or activities in connection with certain types of investments, known as *designated investments*. The investments are listed in the Income Tax (Concessionary Rate of Tax for Approved Fund Managers) Regulations and in the Income Tax (Income from

Managers and Investment Advisers *cont.*

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Funds Managed for Foreign Investors) Regulations. The list covers a wide range of investments, with the most notable exception being Singapore real estate.

The *specified income* of foreign investors exempted from tax basically includes the income produced by designated investments, including gains on their disposal.

Singapore dividends are not included in exempt income, but such dividends are taxed at source and there is no further tax to pay. Singapore source interest is taxable, unless it is from deposits with a commercial bank in Singapore, or is otherwise specifically exempted under the Income Tax Act.

Approved fund manager status

The fund manager for the scheme has to be approved by the MAS. Approval is usually granted to a fund manager, merchant bank or a bank holding an Asian Currency Unit licence. It could also be given to a company that has been given approval for the operational

headquarters or the finance and treasury centre incentives. As part of their reporting obligations, an approved fund manager has to affirm the non-resident status of his foreign investors.

Approved Boutique Fund Manager status

The 1999 Budget announced an extension of the Tax Exemption Scheme for fund management to smaller entities that provide fund management and investment advisory services to foreign investors.

To qualify for the incentive, the BFM must possess an Investment Adviser's licence and meet certain conditions, including minimum paid up capital and amount of funds under management in Singapore.

This incentive provides protection for the foreign investor by exempting his income from Singapore tax (see above). However, the BFM's fee income from managing the qualifying funds is taxed at the full corporate rate of 24.5 per cent and not at the concessionary rate of 10 per cent.

Unit Trusts

Regulation of unit trusts

In 1998, the MAS in conjunction with the Registry of Companies and Businesses ("RCB"), issued the Handbook of Unit Trusts (the "Handbook"), which now consolidates all unit trust regulations in Singapore. In addition, the Handbook also highlighted that all unit trusts constituted in Singapore now come under the jurisdiction of the MAS. The Handbook provides fund managers and trustees with an overview of the legal and administrative requirements governing unit trust schemes.

The Handbook is continually updated by the MAS, most recently in December 2001, to cater for changes in the regulatory landscape in Singapore as well as for developments in the industry.

For unit trusts approved under the CPF Investment Scheme, the CPF Board acts as the overseeing body to ensure that the investment of CPF funds by CPF-approved fund managers are in accordance with the Scheme.

Establishing unit trusts

At present, only unit trusts approved by the MAS may be offered for sale to the general

public. An approved unit trust is one that is constituted under Singapore law by a trust deed. It must have an approved fund manager and an approved trustee company.

Approved fund managers are those granted an investment adviser's licence by the MAS (see section on Fund Managers), while approved trustee companies are those registered under the Trust Companies Act and approved by the Ministry of Finance to act as trustee of a specific unit trust (see section on Trust Companies).

Marketing of unit trusts

Before a unit trust can be marketed in Singapore, a fund manager must first comply with the requirements of the Companies Act and Companies Regulations. These deal with the qualifications of the fund management company, the appointment of a trustee, the duties and responsibilities of the fund management company and the trustee with respect to the unit trust scheme, and the documentation requirements. These requirements are further supplemented by guidelines set out in the Handbook.

In order for units in any unit trust to be offered to the public, a prospectus and trust deed must be approved by the MAS and registered with the RCB.

The trust deed, executed by the fund manager and the trustee, constitutes the unit trust scheme, establishes the fund manager's mandate, sets out the obligations of the fund manager and trustee, and establishes the resulting trust created. The prospectus must also include a report of the auditors containing certain information about the fund management company and the unit trusts managed by that company.

The prospectus is valid for a period of 12 months from the date of issue, and if the manager intends to continue making units available to the public, it must be updated and re-lodged with the MAS/RCB on an annual basis.

Types of unit trusts

There are at present a wide variety of unit trusts available for sale in Singapore. These include unit trusts with regional or global mandates, sector funds, feeder funds and ethical funds. The MAS has also issued guidelines for the sale of capital guaranteed and futures and options funds, as well as hedge funds, but to date, none have been launched.

Unit trusts in Singapore are either approved unit trusts or CPF-approved unit trusts. (For tax purposes, approved unit

trusts are further subdivided into the old approved unit trust and the new designated unit trust – see below). For approved unit trusts, investors may only purchase units using cash. For CPF-approved unit trusts, investors may purchase units using either cash or monies in their CPF accounts. Only fund management companies approved by the CPF Board are allowed to offer such unit trusts for sale.

Distribution

Unit trusts are distributed by fund managers through their own marketing teams or arrangements with third party distributors such as retail banks and stockbroking houses. These distribution agents receive sales commissions from the fund manager for each successful sale, which at present may be up to 80 per cent of the front-end load charged to unit-holders. In addition, trailer fees are usually paid on an ongoing basis.

Restrictions on marketing and advertising

The Companies Act and Securities Industry Act, as well as prescriptions in the Handbook, provide the framework for advertisements or marketing materials produced

and distributed by fund managers and their agents. No advertisement, circular or other document containing any statement with reference to the issue, sale price of units, yield or any invitation to subscribe for units can be issued by the fund manager without the trustee's approval.

Guidelines have been issued by the MAS for the posting of financial product information on third party distributor websites. In addition, the MAS has, in conjunction with the Ministry of Finance and the RCB, also recently issued joint guidelines on the offer of unit trusts through the Internet.

Pricing

Unit trusts in Singapore are normally priced on a forward basis. Under forward pricing, the bid and offer prices are calculated at the end of the dealing day to which they relate. Accordingly, investors purchasing units and realising their holdings effectively transact at the prices ruling at that day's end.

Charges

The price at which units in a unit trust are purchased is typically based on the net asset value of the unit trust plus a front-end load of up to 5 per cent of the purchase price and other adjustments representing fiscal and purchase charges. Some funds do not charge a front-end load, but may charge a redemption fee.

The price at which unit-holders sell their holdings back to the fund manager is based on the net asset value of the unit trust,

less an adjustment that represents fiscal and sales charges.

Reporting requirements

The financial statements of the unit trust are required to be audited annually. The audited financial statements must be forwarded to unit-holders within two months of the end of the financial period. In addition, unaudited semi-annual reports must be sent to unit-holders. These disclosure requirements for annual and semi-annual reports are set out in the Handbook.

There is currently no established form and content for the financial statements of a unit trust, although a recommended accounting practice is expected to be issued in 2002.

For CPF approved unit trusts, additional disclosure requirements are set out in the CPF terms and conditions issued by the CPF Board.

Taxation of unit trusts and their unit-holders

The tax configuration of unit trusts in Singapore has been changed significantly over the past few years to foster a thriving unit trust industry. There are three types of unit trust currently recognised for tax purposes:

- The Designated Unit Trust ("DUT");
- The Approved Unit Trust ("AUT"); and
- CPF-approved Unit Trusts.

Unit Trusts *cont.*



Each of these has specific characteristics as follows:

DUT

The DUT was introduced in 1995 to provide an incentive to the unit trust market by facilitating administration and making the unit trust tax-free to foreign unit-holders. DUTs have, by and large, replaced the AUT that had previously been the standard.

Under the DUT scheme, only Singapore dividends are taxed in the trust itself. This enables the trustees to pass the imputation credit attached to the dividends onto the unit-holder. Other income and capital gains from the disposal of shares and securities are ignored at the trust level. The availability of the imputation credit to the trust on Singapore dividends means that the trust will end up with no tax liability of its own. Currently, unit-holders are assessable in respect of distributions made by the DUT in the following manner:

Non-residents receive distributions tax free; for resident individuals, capital gains distributed are tax exempt but other income remains taxable; and other residents, who are not individuals, remain fully taxable in respect of all distributions.

DUTs do not obtain tax deductions for expenses. Normally these will be regarded as recouped out of capital for tax purposes.

AUT

As noted above, the DUT has now become the norm and most, if not all, AUTs have already converted to DUT status, where applicable. AUTs were the standard however, up until year of assessment 1995. The principal difference between an AUT and a DUT is that all the income and gains of an AUT are taxable at the trust level, although in the case of capital gains, only one tenth of the gain is taxable at that level. In addition, tax deductions are

Unit-holder	Distribution of	Tax profile
Non-resident	Capital gains	Exempt
	Other income	Exempt
Resident individual	Capital gains	Exempt
	Other income	Taxable at marginal tax rate
Resident corporation/ other	Capital gains	24.5%/marginal tax rate
	Other income	24.5%/marginal tax rate

given for expenses of the trust, 50 per cent against capital gains, 50 per cent against other income.

Whilst the tax paid by the AUT can be passed onto the unit-holder as a credit against his own income tax liability, this is of little use to non-residents who cannot use that credit. The DUT was therefore introduced to make Singapore-based unit trusts more appealing to foreign investors by removing this tax charge.

CPF approved unit trusts

Certain approved unit trusts can obtain special tax treatment, provided the units can only be purchased out of funds available to members of the Central Provident Fund under the CPF Investment Scheme. Essentially, all income and gains earned by such a trust are exempt from tax, both at the trust level, and in the hands of the investor, with again the exception of Singapore dividends (to enable flow-through of the imputation credit).

Since 28 March 1998, CPF-authorized unit trusts have been able to take subscriptions in the form of cash directly from the public, as well as funds from the investor's CPF account. For tax purposes, the cash component

of such cash investment will be treated in the same manner as if the units purchased were units in a DUT.

Real estate investment trusts

There is no special tax treatment accorded to investment vehicles (companies or trusts) formed to invest specifically in real estate. Income and potential gains on the disposal of investments where a trading pattern is evident will be taxed at the basic corporate rate of 24.5 per cent. The tax so paid can be passed onto the shareholder or beneficiary however, by attaching a credit to the dividend or distribution, as the case may be.

However, where the investment vehicle is a listed company, the anti-speculation measures imposed under Section 10G of the Singapore Income Tax Act (taxation of gains on the disposal of shares in property companies) do not apply. As an administrative concession, widely held unit trusts are also excluded from the application of these measures. A widely held unit trust is one with at least 100 unit-holders, where none in conjunction with related parties owns 10 per cent or more of the units.

Trust Companies

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Regulatory framework

Trust companies in Singapore are regulated by the RCB. The applicable legislation for trust companies is the Trust Companies Act and the Trustees Act.

Registering as a trust company

To register as a trust company, applicants need to meet the following criteria:

- the company must be a public company;
- the authorised share capital must not be less than S\$500,000 divided into shares of not less than S\$10 each;
- at least one-half of the amount of every share issued by the company must remain unpaid and must not be liable to be called up, except in the event of and for the purpose of the winding up or dissolution of the company;
- the board of directors has been duly appointed in accordance with the articles of association of the company;

- at least S\$150,000 of the authorised share capital has been bona fide paid up;
- the company has deposited with the Accountant-General of Singapore, securities to be approved by the Minister of Finance to the value of S\$100,000; and
- the company is able to meet its obligations, apart from its liability to its shareholders, without taking into account the securities deposited with the Accountant-General.
- the objects of a trust company may be some or all of, but shall not exceed, those laid down in the Trust Companies Act, Cap. 336.

Additional requirements for trustees of unit trusts

The Handbook places additional requirements for trust companies intending to act as trustee for a unit trust established in Singapore. For example, the trustee must:

- have a paid-up share capital of at least S\$1 million;
- have a satisfactory financial position;

- have personnel with experience in performing the duties of a trustee of unit trusts or other relevant expertise; and
- be independent of the fund management company.

Additionally, a trustee of a Singapore unit trust has operational obligations (set out in the Handbook) to perform the following in respect of the unit trust scheme:

- send the audited financial statements of the unit trust scheme and the auditors' report to unit-holders within two months of the end of each financial year;
- submit to the RCB the annual audited financial statements of the trust company which must include a statement of its liabilities to the public in its capacity as a trustee; and
- issue certificates to unit-holders (if the trust deed so provides) within two months from the date of allotment and in this respect, take reasonable care to ensure that payment for the unit is received before certificates are issued.

Reporting requirements

Every trust company must submit the following to the Registrar of Companies on an annual basis:

- the return required by Section 197 of the Companies Act;
- a statement of the liabilities of the company to the public

in its capacity as a trustee; and

- the investments and holdings of the company under trust accounts.

The statement must be accompanied by the affidavit of the chairman or vice-chairman and the manager or secretary of the company.

Taxation

In acting as custodians, nominees, trustees and agents, trustee companies provide important support services to fund managers and investors. To promote certain trustee services and indirectly the fund management industry, the approved trustee companies scheme gives a reduced tax rate of 10 per cent for income derived from providing specified trustee services to non-residents. The services are:

- trustee or custodian services from a trust deed where both settler and beneficiaries are neither Singapore citizens nor residents;
- trustee or custodian services for a unit trust not owned or controlled by Singapore residents or citizens and whose funds are invested in designated investments;
- trustee or custodian services in respect of foreign bonds or loan stock issues; and
- custodian services in respect of stocks and shares denominated in currencies other than the Singapore dollar of companies which are neither incorporated nor resident in Singapore.

Trust Companies *cont.*

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In addition to the concessionary tax rate for the trustee company, the scheme also provides exemption from tax on the investment income earned by the trust mentioned in the first two items listed above.

Applications for the scheme have to be made to the Monetary Authority of Singapore.

Custodians and Registrars

Custodians

There are no separate licensing requirements for custodial activities.

Generally, banks may carry out custodial activities as part of their banking operations, subject to both the Banking Act and Notices and Directives issued by the MAS. Trust companies registered under the Trust Companies Act are also allowed to carry out custodial activities as part of their business. In addition, general law principles will apply with respect to trusts.

The trustee of a unit trust may appoint a custodian to hold the investments of the unit trust under a separate custodian agreement. This however, is not a statutory requirement and does not absolve the trustee from his duties under the trust deed.

Registrars

The functions of the registrar may be performed by a separate division of the fund management company or delegated to an external agency.

The registrar is responsible for maintaining the register of unit-holders. Notice of the place where the register is kept must be given to the RCB.

Appendix: Government Regulatory Bodies and Industry Trade Groups

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Government bodies and regulators

Monetary Authority of Singapore

10 Shenton Way
MAS Building
Singapore 079117
Main phone: (65) 225 5577
Main fax: (65) 229 9491
Website address:
www.mas.gov.sg

Registry of Companies and Businesses

10 Anson Road
#05-01/15
International Plaza
Singapore 079903
Main phone: (65) 222 6266
Main fax: (65) 225 1676
Website address:
www.gov.sg/rcb/information

Central Provident Fund Board

79 Robinson Road
CPF Building
Singapore 068897
Main phone: (65) 220 2422
Main fax: (65) 225 8732
Website address:
www.cpf.gov.sg

Self-regulatory and industry trade group

Investment Management Association of Singapore

10 Hoe Chiang Road
#16-02 Keppel Towers
Singapore 089315
Main phone: (65) 421 8496
Main fax: (65) 421 8662
Website address:
www.imas.org.sg

PricewaterhouseCoopers investment management contacts in Singapore

PricewaterhouseCoopers
8 Cross Street
#17-00 PWC Building
Singapore 048424
Main phone: (65) 236 3388
Main fax: (65) 236 3300
Website address: www.pwcglobal.com/singapore

Quek Bin Hwee: (65) 236 3028
Leader, Investment Management Industry Services - Singapore
bin.hwee.quek@sg.pwcglobal.com

Assurance and Business Advisory Services

Chua Kim Chiu

Peter Low

Dominic Nixon

Ooi Chee Kar

Tan Heem Juay

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Paula Eastwood

Khoo Ghee Khong

David Sandison

Our network of investment management specialists



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