CAPITAL MARKETS | FUNDS & INVESTMENT MANAGEMENT

MAS Proposes Changes to Code on Collective Investment Schemes to Facilitate Fund Product Innovation

Executive Summary

The Monetary Authority of Singapore ("**MAS**") is seeking feedback on proposed changes to the Code on Collective Investment Schemes ("**CIS Code**") to enable a wider range of new fund product types to be authorised for retail offer. The proposals are set out in the "Consultation on Proposed Amendments to the Code on Collective Investment Schemes to Facilitate Retail Fund Product Innovation" ("**Consultation Paper**") which is open for feedback until 10 August 2026. In the Consultation Paper, MAS indicates that it intends to apply the proposals to two new fund types that have received market interest, namely, futures based single-commodity funds and single-country government bond funds.

MAS proposes the following changes to the CIS Code which aim to facilitate fund product innovation and cater to a broader range of investment objectives:

1. **New Alternative Funds Appendix**: A new Alternative Funds Appendix that: (i) permits innovative fund types to deviate from the investment guidelines and borrowing limits for a collective investment scheme ("**CIS**") ("**existing investment requirements**") set out in Appendix 1 of the CIS Code if they satisfy certain factors ("**Deviation Factors**"); and (ii) imposes alternative regulatory safeguards on them.

2. **Amendments to existing investment requirements**: Proposed changes to the CIS Code and its Appendices to provide flexibility for future amendments to the existing investment requirements, enabling safeguards to be introduced for new fund types that remain largely in line with traditional funds but which do not fall within the new alternative fund framework.

This Update summarises the key proposed changes to the CIS Code and their practical implications as described in the Consultation Paper.

New Alternative Funds Appendix

Authorisation Requirements

Under the proposed new Alternative Funds Appendix, MAS will consider the following Deviation Factors in determining whether to allow an innovative fund type to deviate from the existing investment requirements in Appendix 1 of the CIS Code:

1. **IOCSO compliance**: The new fund type's compliance with the principles of the International Organization of Securities Commissions ("**IOSCO**"), as encapsulated by legislative requirements in the Securities and Futures Act 2001 and the Chapters of the CIS Code, which include having sufficiently liquid assets to facilitate fund redemptions. The key IOSCO principles include: (i) ensuring high standards of competence, integrity and fair dealing, including having effective liquidity risk management processes; (ii) ensuring proper segregation and protection of investors' funds and assets; (iii) providing adequate disclosures to investors; and (iv) ensuring a proper and disclosed basis for asset valuation, pricing and redemption of units in a CIS.

2. **Similar products in other jurisdictions**: The listing or offer history of products in other jurisdictions that are similar to the new fund type.

3. **Proposed safeguards**: Safeguards such as: (i) product-level safeguards; (ii) enhanced disclosures and distribution safeguards to mitigate the risks arising from the new fund type's novel or new structure, risk or investment policy, as well as any deviation from the existing investment requirements; and (iii) measures to ensure that the CIS will have sufficient liquidity to meet fund redemptions.

For the avoidance of doubt, MAS has clarified that the following core requirements and responsibilities will continue to apply to the new fund types and their fund managers:

1. **Key fundamental requirements set out in the Chapters of the CIS Code**: These cover areas such as asset safeguarding and liquidity standards.

2. **Fair dealing outcomes**: Fund managers' and distributors' obligations to focus on fair dealing outcomes in the design and distribution of fund products to retail investors.

3. **Complex funds distribution safeguards**: Distribution safeguards under the complex products regime will apply to new fund types that are classified as complex products accordingly.

Authorisation Process

Where MAS decides that it is appropriate to allow for a new alternative fund type to be authorised for retail offer, such a fund type will be allowed through a circular issued under the proposed Alternative Funds Appendix. The circular will set out: (i) the modified investment requirements; (ii) the alternative safeguards; and (iii) enhanced disclosures, for that specific fund type. Funds authorised as such will be required to carry a clear and prominent statement in their prospectuses, product highlights sheets and marketing materials relating to the fund, stating that the fund is offered under the new Alternative Funds Appendix as an alternative fund ("**Alternative Fund Statement**").

Issuers should consult with MAS on the new fund types sought to be offered to retail investors before applying for authorisation. Within about **three months**, MAS expects to be able to determine the necessary guardrails and to design the alternative set of requirements for most new fund types, which will be published via a circular to provide market clarity and transparency on the applicable safeguards for future interested issuers. Thereafter, funds of the same type will take **21 days** to be authorised if they fulfil the same requirements.

Amendments to Existing Investment Requirements

To cater for a new fund type that remains largely in line with traditional funds, instead of classifying this as an alternative fund, MAS proposes to amend Chapter 4 of the CIS Code to provide flexibility for future possible amendments to the existing investment requirements in the CIS Code's Appendices ("**Amendment Proposal**").

MAS will only permit such amendments if the Deviation Factors are fulfilled, and such amendments will be made in a manner that seeks to ensure that safeguards on fund investments (such as risk limits and disclosures) remain adequate. However, the flexibility for such amendments will only apply to the Appendices of the CIS Code and not the key fundamental requirements set out in the Chapters of the CIS Code, including the best practices on the management, operation and marketing of the CIS, that managers, approved trustees, directors and custodians of a variable capital company are expected to observe.

Other Matters

As illustrative examples, the Consultation Paper provides for the set of investment requirements and alternative safeguards that MAS intends to apply to two new fund types which have garnered significant market interest and which have been offered in other jurisdictions such as the European Union and Hong Kong:

1. **Futures-based single-commodity funds**: These are funds that invest in only one type of commodity through futures contracts. MAS proposes to permit such funds with appropriate product-level and naming and disclosure safeguards, under the proposed Alternative Funds Appendix.

2. **A wider array of single-country government bond funds**: While such funds are currently permitted where the issuer is a government that complies with certain requirements, including a minimum credit rating, MAS has received feedback on the limitations of such credit rating requirements. MAS proposes to amend the existing investment requirements in Appendix 1 of the CIS Code, to remove the credit rating requirements, while retaining and introducing appropriate product-level and disclosure safeguards.

For consistency, MAS will also recognise foreign funds that are comparable to new fund products that it authorises (including those authorised under the proposed Alternative Funds Appendix) and facilitate the cross-listing of a wider range of listed funds ("**Foreign Funds Proposal**").

MAS seeks views on: (i) the proposed Deviation Factors; (ii) the proposed Alternative Funds Appendix, including its proposed title and suggestions on other, more suitable titles; (iii) the proposed Alternative Fund Statement; (iv) the Amendment Proposal; and (v) the Foreign Funds Proposal.

Key Insights

The proposed changes to the CIS Code reflect MAS' approach of treading the fine line between enabling fund product innovation to increase investor choice (on the one hand) and ensuring that adequate safeguards are in place for the retail investors involved (on the other hand).

For **fund issuers** and **fund managers**, the proposals create a clearer framework for bringing innovative products to market, including futures-based single-commodity funds and a wider range of single-country government bond funds. Those who wish to leverage on the first-mover advantage should consider engaging MAS early in the product development process, given MAS' expectation of a three-month period to design the applicable requirements for most new fund types. Those seeking to obtain authorisation for specific new fund types should ensure compliance with the Deviation Factors and that appropriate safeguards are locked in, and should also be mindful of post-authorisation requirements such as the Alternative Fund Statement required to be prominently displayed. Finally, for **retail investors in Singapore**, the proposals are expected to broaden the range of investment options available locally thereby equalising the playing field with other jurisdictions such as the European Union and Hong Kong, and they should carefully consider and take advice on the different risk profiles of these new fund types when compared to traditional funds.

If you have any queries on the above, please reach out to our team set out on this page.

For regional Capital Markets matters and regional Funds & Investment Management matters, please see Rajah & Tann Asia's Regional Capital Markets Practice and Regional Funds & Investment Management Practice respectively for more information.

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