



SINGAPORE EXCHANGE LIMITED

PUBLIC CONSULTATION

PURSUANT TO SECTION 23(2) OF THE SECURITIES AND FUTURES ACT AND REGULATION 19(2) OF THE SECURITIES AND FUTURES (MARKETS) REGULATIONS 2005*, THE EXCHANGE HEREBY CONSULTS ITS PARTICIPANTS ON THE PROPOSED LISTING RULES.

HEDGE FUNDS

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DEADLINE: 28 March 2006

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1. PROCEDURE AND DEADLINE TO SUBMIT COMMENTS

- 1.1 Written submissions are to be sent to the Exchange through email, by post/courier or by fax:

Email: *lm@sgx.com*

Post/Courier: Singapore Exchange Limited
2 Shenton Way, SGX Centre 1
#19-00,
Singapore 068804

Attn: Ruth Tan
Issuer Regulation

Fax: 6535 7919

- 1.2 Supporting material may be placed in an annex. All submissions should be clearly and concisely written, and should provide a reasoned explanation for any proposed revision to the rules. Where feasible, participants should identify the specific rule on which they are commenting. In any case in which a participant chooses to suggest revisions to the text of the rules, the participant should state clearly the specific changes to the text that they are proposing.
- 1.3 All submissions should be made on or before **28 March 2006**. Submissions must be submitted in both hard and soft copies (in Microsoft Word format) and font size should be no smaller than Times New Roman 11pt. Participants submitting comments should include their personal/company particulars as well as their correspondence address, contact numbers and email addresses on the cover page of their submissions. This will facilitate contacting participants for further clarifications.
- 1.4 The Exchange reserves the right to make public all or parts of any written submission and to disclose the identity of the source. Participants may request confidential treatment for any part of the submission that the participant believes to be proprietary, confidential or commercially sensitive. Any such information should be clearly marked and placed in a separate annex. If the Exchange grants confidential treatment, it will consider but will not publicly disclose the information. If the Exchange rejects the request for confidential treatment, it will return the information to the party that submitted it and will not consider the information as part of its review. As far as possible, participants should limit any request for confidential treatment of information submitted. The Exchange will not accept any submission that requests confidential treatment of all, or a substantial part, of the submission.

2. INTRODUCTION

- 2.1 The Singapore Exchange Ltd (the “**Exchange**”) intends to introduce a listing framework for hedge funds seeking a listing on the Exchange. A hedge fund eligible for listing will be admitted to the Official List of the Exchange. However, there will be no trades in its units on the Exchange.
- 2.2 The introduction of listing of hedge funds will require amendments to be made to the Exchange’s listing rules. Any changes to the listing rules are subject to the approval of the Monetary Authority of Singapore (the “**MAS**”).

3. SCOPE OF THE CONSULTATION PAPER

- 3.1 This paper outlines the framework for the listing of hedge funds. A robust framework with the necessary safeguards is needed for the listing of hedge funds. As hedge funds have different characteristics and risk structures compared to a typical investment fund, it is proposed that the listing of hedge funds be regulated within the existing framework for investment funds (that is, Chapter 4 of the Listing Manual) with necessary adaptations and amendments.

4. LISTING FRAMEWORK FOR HEDGE FUNDS

- 4.1 The listing of hedge funds will be regulated within the existing framework for investment funds (that is, Chapter 4 of the Listing Manual) with necessary adaptations. Accordingly, the following key amendments will be made to Chapter 4 of the Listing Manual:
- a) A new section, Part V, will be introduced to set out the requirements applicable to all Specialized Funds, including Venture Capital Fund and Hedge Fund. Accordingly, Rule 404(7), which currently applies to Venture Capital Fund, will be moved from Part II of Chapter 4 to Part V of Chapter 4 and re-numbered as Rule 412. All requirements applicable to Hedge Funds will be set out in Rules 413 and 414.
 - b) While a hedge fund eligible for a listing will be admitted to the Official List of the Exchange, there will be no trading in its units on the Exchange. Accordingly, Rules 404(1)(b), 404(2)(b), 404(2)(c) and 404(2)(d) will not apply.
 - c) Arising from the above, certain consequential amendments will be made to Rules 404(3) and 409(1).
- 4.2 The Exchange invites comments on the proposed amendments to the listing rules and will take them into account when finalizing the requirements.

5. KEY FEATURES OF THE LISTING FRAMEWORK

5.1 The new listing framework for hedge funds will have the following key features:-

- (i) A hedge fund must be:
 - a) authorized or recognized under section 286 or 287 of the Securities and Futures Act; or
 - b) its units must be offered only to institutions and/or accredited investors.

- (ii) Similar to an investment fund, a hedge fund must meet the minimum asset size requirements of Rule 404. A hedge fund denominated in Singapore Dollars must have a minimum asset size of at least S\$20 million while a hedge fund denominated in a foreign currency must have a minimum asset size of at least US\$20 million.

- (iii) Where a hedge fund enters into transactions with or through a prime broker, the prime broker (or its parent company) must have:
 - a) a credit rating of at least A for long-term debt from Moody's or Standard and Poor's and P-2 or A-1, respectively, for short-term debt; and
 - b) have financial resources in excess of US\$200 million (or its equivalent in another currency).

- (iv) The investment manager of a hedge fund should have at least one principal with a minimum of five years relevant investment management experience.

- (v) While a hedge fund eligible for a listing will be admitted to the Official List of the Exchange, there will be no trading in its units on the Exchange.

**CHAPTER 4
INVESTMENT FUNDS**

PART I SCOPE OF CHAPTER

- 401 This Chapter sets out the Exchange's requirements on the listing of investment funds denominated in Singapore Dollars or in foreign currency.
- 402 An investment fund may be incorporated or established in Singapore or in another country. If it is incorporated or established in a foreign country, the fund may be required to satisfy the Exchange that there are adequate rules governing such funds.
- 403 Investments held by an investment fund need not be limited to shares and securities, but may take the form of partnership arrangements, participations, joint ventures and other forms of non-corporate investment.

PART II LISTING REQUIREMENTS FOR INVESTMENT FUNDS

- 404 An investment fund applying for listing must comply with the following requirements:-
- (1) For an investment fund denominated in Singapore Dollars:-
- (a) a minimum asset size of at least S\$20 million; and
 - (b) at least 25% of the investment fund's share capital or units is held by at least 500 public shareholders (100 in the case of a venture capital fund).
- (2) For an investment fund denominated in a foreign currency:-
- (a) a minimum asset size of at least US\$20 million (or its equivalent in other currencies);
 - (b) a spread of holders necessary for an orderly market in the shares or units of the fund;
 - (c) in the case of an investment fund incorporated or established in a foreign country, facilities for the transfer and registration of securities in Singapore (if required by the Exchange); and
 - (d) in the case of an investment fund that is an exchange traded fund incorporated or established in a foreign country, the investment fund must be listed, or approved for listing, on a foreign stock exchange acceptable to the Exchange.

Investments

- (3) An investment fund which is denominated in Singapore Dollars (other than a venture capital fund or a hedge fund) must comply with the following:-

(a) It must limit its investments in companies which are related to the investment fund's substantial shareholders, investment managers or management companies, to a maximum of 10% of gross assets;

(b) It must abide by the same investment and borrowing restrictions that govern "investment companies" prescribed by the Companies Act; and

(c) It must restrict investments in unlisted securities to 30% of gross assets.

Investment Policy

- (4) A newly formed investment fund must not change its investment objectives and policies in the first three years unless approved by a special resolution of the shareholders in a general meeting.

Investment Manager

- (5) The management company (if there is no management company, the sponsor or trustee) must be reputable and have an established track record in managing investments. Generally, the management company (sponsor or trustee) must have been in operation for at least five years.

- (6) The persons responsible for managing the investments of the investment fund must be reputable and have a track record in managing investments for at least 5 years. They must have satisfactory experience in managing the particular types of funds for which listing is sought.

~~Venture Capital Fund~~

- ~~(7) A venture capital fund must be offered for sale and be quoted for trading in denominations of at least S\$5,000.~~

PART III LISTING PROCEDURES FOR INVESTMENT FUNDS

405 The following sets out the usual steps in the listing process for investment funds:-

- (1) The applicant submits one copy of the listing application prepared in compliance with Rule 407, together with the supporting documents prescribed in Rule 409;
- (2) The Exchange considers the application and may grant approval in-principle (with or without conditions);
- (3) Where a prospectus, offering memorandum or introductory document is required, the applicant lodges the final copy of the prospectus, offering memorandum or introductory document with the government authority, and the Exchange;
- (4) The investment fund invites subscription for its securities;
- (5) The investment fund issues securities pursuant to the allotment; and

- (6) The investment fund is admitted to the Official List on satisfaction of all the conditions.

Time Schedule

- 406 The Exchange will normally decide on an application that is complete within four weeks of the date of submission of an application.

Contents of Application

- 407 The application must contain the following information:-
- (1) Structure and constitution of the investment fund;
 - (2) Full title or designation, and rights and privileges of the securities for which listing is sought;
 - (3) Names of the investment manager, investment adviser, administration agent and custodian of the investment fund; and
 - (4) The financial track record of the investment manager and investment adviser and of persons employed by them to carry out their duties as investment manager or investment adviser, stating their employment history and work experience and details of all funds managed or advised by them.
- 408 The Exchange may require the applicant to provide additional information and any other documents which it requires for a proper consideration of the application.

Documents To Be Submitted With The Application

- 409 One copy of the following documents must be submitted together with the prescribed listing fee:-
- (1) Prospectus, offering memorandum or introductory document containing the information required in Chapter 6. A checklist showing compliance with the provisions of Chapter 6 should also be submitted. If the investment fund is offered only to institutions and/or accredited investors without a prospectus, the offering memorandum or introductory document does not have to contain the information required in Chapter 6. However, the offering memorandum or introductory document submitted to the Exchange must be in final form containing information that such investors and their professional advisors would reasonably require taking into account market practice.
 - (2) The Memorandum and Articles of Association, if applicable, must incorporate the provisions set out in Appendix 2.2. A checklist showing compliance with Appendix 2.2 must also be submitted. A trust deed must be submitted, if applicable. The trust deed must comply with applicable law. For investment funds which are incorporated in a foreign country, the Memorandum and Articles of Association or other constitutive document need not incorporate the provisions set out in Appendix 2.2.
 - (3) The annual accounts of the investment fund for each of the last 5 financial years, if applicable.

Documents To Be Submitted After Approval In-Principle

410 As soon as practicable after the investment fund receives approval in-principle from the Exchange, the following documents should be submitted:-

- (1) The signed listing undertaking in the form set out in Appendix 2.3.1;
- (2) A specimen of the certificate to be issued; and
- (3) 120 copies of the prospectus, offering memorandum or introductory document.

PART IV CONTINUING LISTING OBLIGATIONS

411 An investment fund must observe the continuing listing obligations stipulated in Rule 748.

PART V SPECIALIZED FUNDS

Venture Capital Fund

412 A venture capital fund must be offered for sale and be quoted for trading in denominations of at least S\$5,000.

Hedge Fund

413 A hedge fund applying for listing must:

- (1) comply with the requirements of this Chapter, with modifications as prescribed by Rule 414.
- (2) comply with one of the following:
 - (i) the hedge fund must be authorized or recognized under section 286 or 287 of the SFA; or
 - (ii) the units of the hedge fund must be offered only to institutions and/or accredited investors.
- (3) where the hedge fund enters into transactions with or through a prime broker, the prime broker (or its parent company) must have:
 - (i) a credit rating of at least A for long-term debt from Moody's or Standard and Poor's and P-2 or A-1, respectively, for short-term debt; and
 - (ii) financial resources in excess of US\$200 million (or its equivalent in another currency).
- (4) issue an offering memorandum or introductory document that contains adequate disclosure of all material risks that are specific to the hedge fund.

414 The following will apply to a hedge fund:

- (1) A hedge fund will be deemed to have satisfied Rule 404(6) if the investment manager has at least one principal with at least 5 years of relevant investment management experience.
- (2) While a hedge fund eligible for a listing will be admitted to the Official List of the Exchange, there will be no trading in its units on the Exchange. As such, Rules 404(1)(b), 404(2)(b), 404(2)(c) and 404(2)(d) will not apply.
- (3) A hedge fund must observe the continuing listing obligations stipulated in Rule 748, with the following modifications:
 - (i) A hedge fund must announce via SGXNET its net asset value per unit, on the same date of each month. In addition, a hedge fund must immediately announce the following information relating to its operations:-
 - (a) any general suspension of calculation of net asset value;
 - (b) any change in the valuation policy;
 - (c) any proposed or actual material change in the general character or nature of the operation of the fund;
 - (d) any proposed or actual change in the investment policy and/or objective;
 - (e) any proposed or actual material change in investment, borrowing and/or leverage restrictions; and
 - (f) any change in its investment manager or custodian.
 - (ii) A hedge fund must announce its financial reports for the first half year and the full financial year in accordance with Rule 748(2). However, the hedge fund does not have to present its financial statements in the format set out in Appendix 7.2.
 - (iii) The annual report of a hedge fund does not have to include the information required by Rules 748(3)(a), 748(3)(b) and 748(3)(c). However, if the hedge fund is offered only to institutions and/or accredited investors, the annual report should contain all information that institutions and/or accredited investors would customarily expect to see in such reports.