

To:
cc: (bcc: Jeannie LEE/MTI/SINGOV)
Subject: 2nd IMAS Annual Conference

**SPEECH BY MR KOH YONG GUAN
MANAGING DIRECTOR, MONETARY AUTHORITY OF
SINGAPORE
AT THE 2ND IMAS ANNUAL CONFERENCE:
"INVESTMENT MANAGEMENT IN SINGAPORE – CHALLENGES
AND OPPORTUNITIES AHEAD"
WEDNESDAY, 17 MARCH 1999, 9:15AM
ISLAND BALLROOM, SHANGRI-LA HOTEL**

Mrs Elizabeth Sam, Chairperson, IMAS
Distinguished Guests
Ladies and Gentlemen

INTRODUCTION

1. I am happy to join you this morning at the 2nd annual conference of the Investment Management Association of Singapore (IMAS).
2. I am sure all of you must be glad to leave 1998, the Year of the Tiger, behind you. It was an extraordinary year. The sustained shock-waves stemming from the regional economic crisis unnerved international investors and precipitated capital outflows from throughout the region. It was inevitable that Singapore was affected by the deterioration in the regional environment. We had to react quickly to cushion the effects of these external developments, and turn them into opportunities to increase our overall competitiveness.
3. Even as we made adjustments to cope with the external environment, MAS undertook a comprehensive review of Singapore's financial sector, to ensure that our regulatory framework continued to match international best practice, to enhance the conduciveness of our operating environment for the sector, and to actively promote the development of Singapore as a premier financial centre. We partnered the private sector in this review, and many of you here today contributed valuable insights. We have institutionalised this process of consultation with market participants by forming the International Advisory Panel (IAP) and the Financial Centre Advisory Group (FCAG).

TAKING STOCK

4. First, let me briefly highlight some of our key initiatives last year. In Feb 98, we announced the outplacement of GIC funds to private asset managers and improvements to the regulatory structure for fund managers and unit trusts. In May, the CPF Investment Scheme was revamped and guidelines for non-CPF unit trusts were liberalised to encourage people to invest in professionally-managed funds. In July, as part of the effort to develop a broad base for long-term interest rate instruments, we issued for the first time 10-year government bonds. In August, we liberalised guidelines on the internationalisation of the Singapore Dollar, allowing foreign entities to issue bonds denominated in S\$. The same month, we announced a timetable for opening up access to the stock exchange and liberalising brokerage commissions. In November, we embarked on plans to demutualise and merge SES and SIMEX. The same month, MAS announced its own plans to place out to private fund managers S\$10 billion over 3 years. We have drawn up the qualifying criteria for managing these funds and will engage an investment consultant soon to assist us in this effort.

5. Our vision is for asset managers to use Singapore as a regional centre to manage their Asian mandates as well as some global mandates. You will notice that our strategies are aimed at both the demand side and supply side of the market. We want to create a vibrant institutional buy-side through an active asset management industry as well as attract a critical mass of issuers and financial intermediaries as suppliers of investible products.

6. We have not done badly last year considering the difficult environment. Despite the sharp fall in asset values and redemption of Asian mandates stemming from the regional financial crisis, assets under management in Singapore at end-1998 was S\$116 bn, not much lower than the S\$124 bn managed in 1997.

7. The aggregate numbers on funds managed only tell part of the story. An increasing number of asset management companies are consolidating the management of their Asian funds in Singapore. We are proud to host many prominent European and US names such as ABN-Amro Asset Management and Capital International, which now manage their global mandates from Singapore. With the introduction of the Enhanced Fund Manager scheme in February last year, we have also seen some leading asset management companies such as Morgan Stanley Dean Witter Investment Management Company, Templeton Asset Management and Schroder Investment Management expanding their activities in Singapore. These are encouraging developments. But there is still some way to go before Singapore becomes a leading asset management centre in Asia. More needs to be done.

8. Last year, we focused on making available domestic sources of funds for professional management, streamlining the regulatory structure, and developing our capital markets as the key initiatives to grow the asset management

industry. This year, we will focus on (a) attracting reputable foreign intermediaries in fixed income activities; (b) strengthening the local industry, particularly by promoting boutique fund managers; and (c) building up the skills pool in the industry. Let me take each of these areas in turn.

ATTRACTING GLOBAL DEBT INTERMEDIARIES AND LEVERAGING ON OUR TREASURY HUB

9. As Asian clients become more sophisticated and learn to invest across the whole spectrum of financial assets, there will be growing demand for debt instruments. A key component of our strategy to develop the debt capital market is to attract reputable global fixed income trading and arranging teams to base their Asian operations in Singapore. This will give our asset managers a wide range of debt instruments to invest in. And as the Asian debt markets develop, there will be demand from global investors from outside the region seeking higher yields and diversification into new markets. Being the "first movers" in this nascent market, asset management companies in Singapore will be well-placed to secure this business.

10. In addition to the debt capital market, asset managers should also leverage on Singapore's strength in foreign exchange and treasury operations. We are the second largest foreign exchange trading centre in Asia. An increasing number of corporates are also centralising their treasury functions here. Asset managers here can leverage on this advantage to offer specialisation in currency overlay techniques for managing multi-currency portfolios. Clients who want to reduce portfolio risk through currency hedging or seek enhanced returns through dynamic trading of currency exposures will find such services attractive.

STRENGTHENING THE LOCAL INDUSTRY:

PROMOTING BOUTIQUE FUND MANAGERS

11. Even as we attract the top international asset management companies to base their regional operations in Singapore, we must build up the local industry so as to provide greater depth. With this in mind, MAS will introduce a streamlined licensing scheme with appropriate incentives aimed at developing more boutique fund management firms or BFM's. These smaller firms owned and operated by experienced professionals provide specialised investment and advisory services to selected institutional and high net-worth individual clients. There are currently about a dozen BFM's in Singapore. Licensing them as Investment Advisers or IAs will improve their ability to reach out to a wider client base. In particular, indigenous boutique firms seeking to compete on a bigger playing field will have a means to grow their businesses.

12. The requirements for BFM's to qualify as IAs are as follows:

(a) The minimum track record required in the fund management business will be 3 years, compared to 5 years for a normal IA.

(b) Funds under management must be at least S\$100 mn. This is lower than the S\$1 bn of funds under management globally for a normal IA.

(c) For BFMs managing discretionary funds, i.e. where the BFM has substantial input in the investment management process and has the authority to make investment decisions, the minimum paid-up capital must be S\$500,000. This is compared to minimum paid-up capital of S\$1 mn for a normal IA.

(d) For BFMs only acting as sub-advisors and not managing funds on a discretionary basis, minimum paid-up capital will be S\$250,000.

(e) BFMs must employ at least 2 fund managers, at least one of whom must be a shareholder. Both the shareholder and one other fund manager must meet prescribed minimum qualification and relevant experience requirements;

(f) The clientele must be restricted to sophisticated investors as defined in the Companies Act, without any limit on the total number.

(f) The BFM must be an IMAS member and subject to IMAS' Code of Ethics and Standards of Professional Conduct.

13. This scheme will apply primarily to local BFMs, namely firms which are majority-owned by fund management professionals who are either Singapore citizens or permanent residents. As recommended by the SES Review Committee, members of the SES and their related companies will be considered for IA licences if they meet certain qualifying criteria. These criteria recognise the established status of SES member firms and their related companies who have considerable securities market experience and built up some research capabilities over the years.

14. We recognise, however, that some majority foreign-owned BFMs can bring specialist skills and valuable expertise to help the industry develop further. MAS is prepared to consider licensing them on a case-by-case basis if they have operated in Singapore either as an Approved Fund Manager or

Exempt IA for at least 3 years, or if their principals or shareholders have worked in Singapore for more than 3 years.

15. MAS will also extend its Approved Fund Manager tax incentive to BFM's which are licensed as IAs and which manage at least S\$100 million of discretionary funds in Singapore. As announced in this year's Budget by Dr Richard Hu, the new Approved Boutique Fund Manager or ABFM status will exempt from tax investment income earned by foreign investors from funds managed by ABFM's. ABFM status will be granted for a period of 5 years, and those firms who increase their activities in Singapore will be considered for a 5-year extension. MAS will release details of both the licensing and ABFM schemes shortly.

16. The new admission requirements for BFM's do not mean that MAS is relaxing its prudential standards. Indeed, the BFM guidelines are yet another example of our shift away from a one-size-fits-all regulatory regime to a more risk-based supervisory approach. BFM's will be subject to regular inspections by MAS. Since the setting up of a new inspection unit for the securities and asset management industries in May 98, we have carried out 32 inspections, both on a routine as well as specific basis. These inspections help us ensure that adequate internal controls and risk management procedures are in place in our asset management companies.

BUILDING UP SKILLS POOL IN THE INDUSTRY

17. Perhaps the most critical success factor for developing the asset management industry will be our ability to build a broad and deep talent pool. For a start, we must ensure that there is a ready supply of talent with strong academic qualifications in related disciplines and who also have professional qualifications like the Chartered Financial Analysts (CFAs). But these are only minimum qualifications. According to industry feedback, what is more important is "on-the-job training". Many of the top fund management companies pride themselves on their in-house investment management process. These are proprietary processes that they guard carefully since this differentiates them from the competition in the industry. Hence many of these firms would prefer any new hire, however well qualified, to have training at headquarters in order to imbibe the investment management culture of the firm. But this can be a costly and time-consuming process.

18. We are exploring how we can support such training. As announced last year, a Financial Sector Development Fund will be set up from the proceeds of the demutualisation and merger of SIMEX and SES. We propose targeting a portion of this money to support companies who wish to provide such high-end training opportunities for their employees.

19. But we cannot build a deep talent pool overnight. We recognise that foreign talent and skills have made significant contributions in developing the financial sector. Even as we develop our local expertise, we must be open to learning leading edge techniques and skills from foreign experts. In this regard, the government has led the way by introducing a scheme for further tax deduction for expenses incurred in the relocation or recruitment of overseas talent. Introduced in October last year, the scheme will allow MNCs, including financial institutions, who operate in Singapore to have the flexibility of matching the best people for the jobs here.

20. IMAS also has a significant role to help root a community of talent in Singapore. In its one and a half years of existence, IMAS has made good progress in marshalling views and support from its members on a variety of important issues, including ways to broaden and deepen the industry, increasing the overall level of professionalism within the industry, and attracting more skills and expertise to Singapore. IMAS is well-placed to do even more in the coming year.

21. First, as the custodian of professional standards here, IMAS has been working on a Code of Ethics and Standards of Professional Conduct which will be the benchmark for excellence for the community. IMAS members themselves will determine what industry best practice should be, and have the collective responsibility for ensuring that its members uphold them. This self-regulatory approach is aimed at giving practitioners a strong stake in preserving the integrity and stability of the system.

22. Second, IMAS has been working closely with MAS to develop a licensing examination for Investment Representatives (IRs), to provide for uniform industry-wide qualifications. The new examination structure is likely to be similar to that of the Dealer's Representatives' Examination and will be finalised soon.

CONCLUSION

23. Going forward, it is easy to get caught up in the immediate concerns about when and how the region will recover. These are valid and important considerations and the financing of that recovery will provide investment opportunities. But the government and MAS are not only looking to tide over the next six or 18 months, but to lay the groundwork for long term success. London and New York have a long heritage of financial transactions and innovation. We, in Singapore, do not yet have the tradition. But we have taken many steps to steadily build on our strong foundations, and we intend to proceed with a balance of prudence and boldness. MAS can only ensure that the environment for growth is in place. It is the energy and responsiveness of the private sector which will ultimately determine how fast and how far we will

progress. I am confident that MAS together with IMAS and the industry can achieve the vision of making Singapore a leading asset management centre in Asia.

24. I wish you fruitful deliberations as you consider the challenges and opportunities ahead. Thank you.