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MAS Publishes Response to Feedback Received on Proposed Harmonised Class Exemption for Single Family Offices

On 6 November 2024, the Monetary Authority of Singapore (“MAS”) published its response to feedback received on its consultation paper proposing a new class exemption for single family offices (“SFOs”) from the requirement to be licensed for fund management under the Securities and Futures Act 2001 (“SFA”).

This note summarises the key points from the consultation response.

1. Introduction

MAS had on 31 July 2023 published a consultation paper proposing a framework for SFOs operating in Singapore (the “**Consultation Paper**”). Our earlier client update on the Consultation Paper can be accessed [here](#). The Consultation Paper had proposed to harmonise the criteria for SFOs to be exempt from licensing for fund management under the SFA, and to introduce new notification and reporting requirements to better monitor the activities of SFOs in Singapore.

MAS has now published a response addressing feedback given in relation to the Consultation Paper (the “**Response**”). We summarise below the key clarifications provided by MAS in the Response.

2. Conditions for the SFO Class Exemption

In the Consultation Paper, MAS had proposed to introduce a class exemption (the “**SFO Class Exemption**”) under the Securities and Futures (Licensing and Conduct of Business) Regulations (“**SF(LCB)R**”), which would be applicable to all types of SFOs regardless of their structure so that *ad hoc* exemption applications to MAS would no longer be needed. In order to rely on the SFO Class Exemption, the SFO must meet the following criteria:

- (a) be wholly owned (whether or directly or indirectly) by members of the same family;
- (b) fund management must be conducted only on behalf of: (i) family members (including family trusts and corporations wholly owned by and for the sole benefit of the family); (ii) charities (whether in Singapore or overseas) funded exclusively by the family; or (iii) key employees, which refer to the Chief Executive Officer (“**CEO**”) and executive directors of the SFO;
- (c) be incorporated in Singapore; and
- (d) establishes and maintains business relations with at least one of the MAS-regulated financial institutions as stipulated by MAS.

The SFO must obtain a legal opinion confirming that (a) and (b) are met, and be prepared to confirm this to MAS. The SFO must also have at all times an employee who is resident in Singapore as the designated point of contact between the SFO and MAS.

Ownership structure of SFO

MAS explained that the SFO Class Exemption is intended to be class agnostic. It clarified that an SFO can be held by structures such as a charitable organisation, foundation or trust, so long as the funding for such structures originate exclusively from the family.

Permissible structures that SFOs can manage monies for

MAS clarified that an SFO will qualify for the SFO Class Exemption so long as the assets managed by the SFO originated from members of the same family. MAS will also allow arrangements where an SFO designates charitable organisations as beneficiaries for family trusts and foundations, so long as such beneficiaries do not have control over the trust or foundation assets and are merely persons designated to receive benefits. These

charitable organisations may include those not funded exclusively by the family as long as the SFO is not appointed to manage the assets of the charitable organisations.

Managing monies of charitable organisations

MAS reiterated its position that SFOs can only manage monies on behalf of charitable organisations exclusively funded by the family. It explained that allowing SFOs to manage the monies of charitable organisations that receive donations from third parties would be inconsistent with the rationale under the SFO Class Exemption, which exempts SFOs from licensing and business conduct requirements on the basis that they do not serve any third-party customers or manage third-party monies.

Managing monies of non-family key employees

MAS will expand the definition of key employees for whom fund management can be conducted under the SFO Class Exemption to include executive directors, the CEO, the Chief Financial Officer and investment professionals as such persons have sufficient financial sophistication, experience and knowledge to evaluate investment risks and protect themselves. However, MAS noted that there may be an abuse of the SFO Class Exemption such as where an SFO seeks to manage substantial assets under management (“**AUM**”) from unrelated parties by hiring them as employees. Hence, MAS will impose a limit of 10% on the percentage of AUM that can be attributed to non-family key employees.

MAS also recognised that an SFO may grant share options to its employees to incentivise performance and long-term commitment. In this regard, MAS will allow key employees to own a non-controlling stake of up to 10% in the SFO. Key employees who cease their employment with the SFO will be given a one-year time allowance to divest their investments managed by the SFO.

Definition of family members

In the Consultation Paper, MAS had proposed to define family members as lineal descendants of a common ancestor, including current and former spouses, adopted children and stepchildren. MAS had also indicated that the common ancestor should not be extremely remote.

To prevent abuse of the SFO Class Exemption by individuals claiming to be descendants of an extremely remote ancestor, MAS will impose a generational limit such that the common ancestor must not be more than five generations back from the youngest generation that established the SFO in Singapore. MAS will also expand the definition of family members to include parents-in-law and siblings-in-law, and also clarified that legally adopted children and stepchildren of the common ancestor are considered family members.

3. Maintaining Business Relations with MAS-regulated Financial Institutions

In the Consultation Paper, MAS had proposed a requirement for the SFO to establish and maintain business relations with at least one MAS-regulated financial institution to ensure that SFOs are subject to anti-money laundering and countering the financing of terrorism (“**AML/CFT**”) checks.

In the Response, MAS clarified that the AML/CFT checks that a MAS-regulated financial institution is expected to perform are set out in the relevant MAS AML/CFT notices, such as MAS Notice 626. This would include customer due diligence and ongoing monitoring checks on the SFO.

In recognition that the bulk of transactions would be done through the SFO’s fund vehicle (“**FV**”) while transactions done through the SFO itself may be largely administrative in nature, MAS will extend the requirement to maintain business relations with a MAS-regulated financial institution to the SFO’s FV.

MAS will also require the SFO and its FV to open and maintain an account with a MAS-regulated bank. This is intended to address concerns over the definition of “business relations” and concerns that the range of MAS-regulated financial institutions previously proposed in the Consultation Paper might be overly broad.

Where the SFO has a foreign-incorporated FV, the FV must open and maintain an account with a MAS-regulated bank in Singapore or with a regulated bank in a jurisdiction that complies with AML/CFT requirements consistent with the standards set by the Financial Action Task Force.

4. Notification and Reporting Requirements

Timelines for initial notification and annual reporting

In consideration of feedback received, MAS will extend the following timelines:

- (a) the timeline for SFOs to file an initial notification to MAS will be extended to within 14 days of commencement of business (instead of within 7 days of commencement of business proposed in the Consultation Paper);
- (b) the timeline for SFOs to submit an annual return will be extended to within 4 months from the SFO's financial year end (instead of 14 days after the end of each calendar year proposed in the Consultation Paper).

Legal opinion

MAS did not agree to requests to allow a wider range of service providers to provide the legal opinion which is to be provided as part of the initial notification for the SFO Class Exemption. It explained that the legal profession is regulated in Singapore and subject to professional standards and requirements, which may not be the case for other types of service providers.

Signed declaration

As part of the initial notification, SFOs are also required to furnish a signed declaration to confirm that the family members are not currently the subject of any investigation by authorities or the subject of any civil or criminal proceedings, whether in Singapore or elsewhere. In response to feedback that civil proceedings may include commercial or private disputes which do not impinge on the reputation of parties, MAS will narrow the scope of disclosure for civil proceedings to those commenced by governmental and regulatory agencies.

Point of contact

MAS clarified that the designated point of contact must be directly employed by the SFO and resident in Singapore. This is to facilitate communication between MAS and the SFO. MAS also clarified that a person would be resident in Singapore if he or she is primarily based in Singapore and has a Singapore residential address.

Annual declaration

In the Consultation Paper, MAS had proposed for SFOs to report in their annual return their total AUM and name(s) of MAS-regulated financial institution(s) with whom it has established and maintained business relations with as at the end of the calendar year.

Although respondents had suggested for additional information to be included in their annual returns, MAS clarified that it will not require more granular information to be reported in the annual return as it is not their intent to impose extensive reporting requirements on SFOs. However, MAS will require the SFO and its FV to list all the MAS-regulated banks that they have opened and maintained accounts with.

5. Implementation Plan

MAS will extend the transitional period for compliance with the SFO Class Exemption framework to 1 year from the effective date of the SFO Class Exemption framework (instead of the 6 months proposed in the Consultation Paper) to address concerns about meeting the qualifying criteria for the SFO Class Exemption. Any existing licensing exemption that an SFO has been relying on will be withdrawn, either upon the filing of the initial notification to MAS, or at the end of 1-year transitional period, whichever is earlier.

MAS also clarified that SFOs that have applied for any tax incentive under Section 13O or Section 13U of the Income Tax Act 1947, and previously furnished a legal opinion to MAS as part of their applications, will need to obtain a new legal opinion with reference to the SFO Class Exemption.

As the intent of the SFO Class Exemption framework is to harmonise the qualifying criteria for SFOs operating in Singapore, MAS indicated that it will generally not grant case-by-case exemptions unless there are exceptional reasons.

In response to feedback, MAS will provide a system-generated acknowledgment to SFOs who have successfully filed a notification for the exemption.

6. Conclusion

MAS will provide further details on the effective date of implementation, revised legislation and mode of submission for the initial notification and annual return prior to the implementation of the SFO Class Exemption framework. Any existing SFOs operating in Singapore or new SFOs that wish to operate in Singapore should consider the further guidance from MAS in the Response as it makes the necessary adjustments to comply with the new SFO Class Exemption framework.

A copy of the Consultation Paper and MAS' Response to the Consultation Paper can be obtained [here](#).

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