

Regulatory Update – MAS Proposes Consultation Paper on Hybrid Securities (June 2020)

On 5 June 2020, a question was raised in the National Parliament of Singapore as to whether the MAS will review if convertible bonds should be issued, marketed, sold or traded to retail investors in light of the complexity and risks associated with these hybrid securities.

Mr Tharman Shanmugaratnam, Senior Minister and Minister in charge of the MAS, provided a written response as followed and highlighted that the MAS is likely to issue a consultation paper on this topic by the end of 2020:

1. In regulating the sale of investment products, the MAS' objective is to empower investors to make informed investment decisions which are compatible with their investment objectives, risk appetite, and financial situation. Our approach has worked well so far, and is a common approach adopted by many advanced jurisdictions.
2. Hence, for complex investment products which the average retail investor may not understand, the MAS requires financial institutions (FIs) to implement various safeguards, including:
 - a. First, assessing a customer's investment knowledge and experience before selling the product to the customer;
 - b. Second, explaining to the customer the general features and risks associated with investing in such products; or
 - c. Third, advising the customer on the suitability of the product.
3. Convertible bonds are currently classified as non-complex as the product is well-established in the market, and the terms and features can be understood by most retail investors. It is sold as a bond, and stays as a bond, unless the investor or the issuer decides to convert it to equity.
4. However, in recent years, issuers have introduced non-conventional convertible bonds with features that retail investors may not be familiar with. For example, certain bonds may not have a fixed maturity date or may be converted to equity upon the occurrence of certain trigger events which are beyond the investor's control. The MAS is therefore reviewing the classification of these products and other hybrid securities. The MAS expects to issue a public consultation paper by the end of the year.

How we can help

ComplianceAsia tracks all consultation papers across Asia Pacific and will highlight this to all our clients once the consultation is issued. We also offer a highly cost-effective subscription based regulatory change tracking service across the region which provides our clients with information that keeps you up to date and informed about:

- Consultation papers including release dates, response deadlines, closing and finalisation;
- Changes to securities legislation when proposed and gazetted, deadlines and final implementation;
- Changes to regulatory codes and guidelines when proposed and released;
- A summary of the terms of the consultation and how it will potentially impact your business; and
- A summary of the new legislation and / or changes in rules and what steps you need to take to be in compliance with the rules.



If you would like to know about this or subscribe to receive such information, please contact Lachlan Chubb at lachlan.chubb@complianceasia.com.

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