

15 December 2021

Markets Policy and Infrastructure Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

Responses to the consultation questions were submitted [online](#)

**RE: Consultation Paper on Proposed Changes to the Complex Products Regime
(the “Consultation Paper”)**

Dear Sirs,

BlackRock, Inc. (BlackRock)¹ is pleased to have the opportunity to respond to the Consultation Paper, issued by the Monetary Authority of Singapore (MAS).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We support the MAS’ proposal to classify all authorised and recognised CIS as EIPs with certain clear exceptions, thereby expanding the scope of EIP-CIS to make it easier for retail investors to invest in diversified and professionally managed funds, including ETFs. We applaud the MAS’ efforts to continually evolve the complex products regime in Singapore in response to industry developments and feedback. As we will explain below, we recommend the MAS to additionally use this opportunity to adopt a comprehensive classification system for exchange-traded products (ETPs), to further enhance transparency especially for retail investors in order to facilitate more informed investment decision making.

We welcome the opportunity to comment on the issues raised by this response and will continue to contribute to the thinking of the MAS on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

Abdelhamid Bizid
Head of ETFs and Index Investments - APAC

Winnie Pun
Head of Public Policy - APAC

¹ BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Responses to questions

- MAS seeks comments on the proposal to classify all authorised and recognised CIS as EIPs, except for a small group of more complex funds as described in paragraph 2.7 which are currently subject to additional disclosure requirements and enhanced distribution safeguards for SIPs.**

We fully support the proposal to classify all authorised and recognised CIS as EIPs, except for a small group of more complex funds (those that employ alternative investment strategies, or embed unique features not typically encountered in traditional funds) which are currently subject to additional disclosure requirements and enhanced distribution safeguards for SIPs. We believe that this approach is balanced and proportionate considering the robust regulatory framework already provided under the CIS Code.

As the MAS set out in the Consultation Paper, the objective of the complex products regime is to aid retail investors in better understanding the features and risks of a complex product before transacting in one. In line with this objective, we encourage the MAS to take this opportunity go one step further, to introduce a classification system that more accurately reflects the complexities, risks and structural features inherent in different types of exchange-traded products (ETPs).

Internationally, the growing popularity of exchange traded funds (ETFs) as an investment vehicle for both institutional and retail investors is well documented. This has in turn sparked a proliferation of ETPs especially in overseas exchanges such as those in the US, UK and EU, with different features and varying degrees of complexity. Notwithstanding different ETPs can pose very different risks to holders, however, “ETF” has unfortunately become a blanket term used by many product sponsors, exchanges, investors, the financial press and even regulators to describe any product that offers exchange-tradability, when in fact these products can have a wide range of different structures and risks, such as the use of leverage to deliver a return that is a multiple of the index that the product tracks or exposure to the creditworthiness of the issuer of the underlying debt.

We note that the MAS already categorises leveraged/inverse (L/I) products as SIPs, acknowledging the complex nature and very different risk profiles of these products as compared with traditional index- or basket-tracking ETFs – a distinction that we strongly support. Our suggestion now is for the MAS to implement a full ETP classification system which is adopted in the name of the product (for both existing and new products) and all product materials as well as communication in media. Such a naming convention (which we explain below) will provide clarity around the full range of different ETPs that is and may become available in Singapore and will help investors and relevant stakeholders appreciate the differences between them, especially from a risk and product complexity viewpoint.

Recent market events serve to underscore the importance of ensuring our markets operate in a manner that ensures investors understand the very different risks and considerations that these increasingly complex ETPs pose to investors. For example, crude oil market declines in April 2020 and the equity market sell-off in February 2018 highlight the different risk profiles associated with different types of ETPs and amplify the potential pitfalls of investor confusion around the nature of the product identification as an ETF. In the United States, in April 2020, the dramatic decline in oil prices resulted in a 3x levered long crude oil-linked exchange-traded note (“ETN”) being delisted with an expected value of zero dollars per note². Likewise, a steep drop in equity benchmarks in February 2018 coinciding with a

² The price decline reflected the embedded economics and risks of this ETN; it performed as expected but with volatility and market risks significantly different than unlevered index tracking ETFs. Barclays exercised its issuer call option, which allows the issuer to call the ETN at its discretion. See related Bloomberg article (April 21, 2020): [Barclays Announces the Redemption of the iPath® Series B S&P GSCI® Crude Oil Total Return Index ETNs \(the “ETNs”\) and the Suspension of Further Sales and Issuance of the ETNs](#)

large one-day increase in the VIX level resulted in several inverse VIX ETPs suffering declines in excess of 90%³.

Similar issues were seen in Europe and Australia during the March/April 2020 volatility, not only involving levered/inverse exposures but also single commodity products such as oil ETPs. For example, in Australia, an ETF which provides exposure to the performance of WTI crude oil futures announced on 28 April 2020 that it would temporarily change its investment strategy, to obtain its underlying exposure to WTI crude oil futures contracts by moving from using one month futures to three month futures instead. The ETF, which saw considerable inflows in the lead up to the announcement, made this decision in order to reduce the risk to the product of the June 2020 futures contract trading at a negative price (which would have reduced the product's value to zero).⁴

With Singapore's eminence as a key Asian capital market growing, we can expect the local ETP market to develop and become increasingly sophisticated as well. As the MAS seeks to amend the Complex Products Regime, our view is that this is an opportune time to introduce an ETP classification system.

Our recommendation is that the ETP classification system can sit alongside and complement the Complex Products Regime. Specifically, we believe that certain ETPs with different structures and/or certain embedded risks should be identified and categorized by the MAS (as a product naming rule) and by the exchange at the data feed level (via exchange listing rules or otherwise) as follows:

Categories of Exchange-Traded Products

ETF	Exchange-Traded Fund	<ul style="list-style-type: none"> • An authorised or recognised CIS regulate pursuant to Division 2 of Part XIII of the SFA that: (i) in the normal course issues (and redeems) creation units to (and from) authorized participants in exchange for a basket and a cash balancing amount (if any); and (ii) issues shares or units that are listed on the SGX and traded at market-determined prices; • Includes funds that transact on an in-kind basis, on a cash basis, or both; and • Excludes ETNs, ETCs and ETIs (as defined below)
ETN	Exchange-Traded Note	<ul style="list-style-type: none"> • A debt security issued by a corporate issuer (i.e., not issued by a pooled investment vehicle) that is linked to the performance of a market index and trades on the SGX; • May or may not be collateralized, but in either case, depends on the issuer's solvency to deliver fully to expectations; and • Excludes products that seek to provide a leveraged or inverse return, a return with caps on upside or downside performance or "knock-out" features.
ETC	Exchange-Traded Commodity	<ul style="list-style-type: none"> • A pooled investment vehicle with units that trade on the SGX that invests primarily in assets other than securities and financial futures; • The primary investment objective of an ETC is exposure to traditional commodities and non-financial commodity futures contracts; and

³ While these products performed as designed, the dramatic jump in the VIX prompted the closure of an inverse VIX ETN by its sponsor under the terms detailed in the ETN's prospectus (a so-called "event acceleration"). See Credit Suisse AG Press Release (Feb. 6, 2018): [Credit Suisse AG Announces Event Acceleration of its XIV ETNs](#)

⁴ See BetaShares Crude Oil Index ETF announcement dated 23 April 2020: [Temporary Change to OOO's Underlying Futures Exposure from One-Month to Three-Month WTI Crude Oil Futures Contracts](#)

		<ul style="list-style-type: none"> • May hold physical commodities (e.g., precious metals) or invest in non-financial commodity futures or commodity-based total return swaps.
ETI	Exchange-Traded Instrument	<ul style="list-style-type: none"> • Any pooled investment vehicle, debt security issued by a corporate issuer, or similar financial instrument that trades on a securities exchange that has embedded structural features designed to deliver a return other than the full unlevered positive return of the underlying index or exposure (for example, products that seek to provide a leveraged or inverse return, a return with caps on upside or downside performance or “knock-out” features); or • All products not captured by the ETF, ETN or ETC classification fall under ETI.

Once adopted as a naming convention by the MAS, many players in the ETP ecosystem, from issuers to exchanges, are well-positioned to help advance ETP classifications. Incorporating consistent ETP nomenclature at the exchange data feed level would not only benefit investors by providing more clarity into specific product characteristics, but also assist brokerage platforms in implementing point-of-sale guardrails to better protect investors, as well as helping innovation in a way which will not create confusion.

We highlight these international developments for the MAS' reference:

- In May 2020, BlackRock was part of a coalition of product sponsors calling for exchanges to adopt the above described ETP classification system in the United States⁵.
- Shortly afterwards, in September 2020, the US Securities and Exchange Commission (SEC) approved a new ETF rule without adopting the ETP classification scheme but encouraged market participants to continue engaging with investors and exchanges on the issue⁶. In December 2021, the SEC Chair Gary Gensler released his Fall 2021 regulatory agenda, which includes proposed amendments to an existing rule on the naming of investment funds⁷.
- In November 2020, the European Fund and Asset Management Association through its ETF Task Force has issued an investor education guide intended to draw out, in a simple form, the defining features of the main types of ETPs listed across European markets⁸.

We would be most pleased to explain explore this issue with the MAS in further detail.

- 2. MAS seeks comments on the proposal to classify debentures with the following features as SIPs: (a) Where the interest payment is not solely based on a single fixed or floating rate; or (b) Where the debentures are convertible.**

No comment.

- 3. MAS seeks comments on – (a) Whether perpetual securities should be classified as EIPs or SIPs; (b) Whether there is a need to enhance the marketing and disclosure requirements on perpetual securities to ensure that the key features and risks are adequately highlighted to investors. If so, what are your views on requiring intermediaries to provide a cautionary statement and what should be contained in**

⁵ See the [letters](#) sent by the coalition to the heads of Cboe, Nasdaq and NYSE dated 13 May 2020.

⁶ See the US SEC Asset Management Advisory Committee's [Preliminary Recommendations of ETP Panel Regarding Covid-19 volatility: Exchange-Traded Products](#), dated 16 September 2020

⁷ See the US SEC [Fall 2021 Regulatory Flexibility Agenda](#).

⁸ EFAMA, [Demystifying ETPs: an EFAMA guide for the European investor](#), dated 18 November 2020

such a statement; or (c) any other suggestions on safeguards for the sale of perpetual securities.

No comment.

4. **MAS seeks comments on (a) whether to align the EIP/ SIP classification of preference shares with that of perpetual securities and subject the sale of these products to the same safeguards; (b) any other suggestions on safeguards for issuance of preference shares.**

No comment.

5. **MAS seeks comments on the proposal to remove the CKA/CAR assessment for advised transactions. FAs may instead integrate the consideration of the customers' knowledge or experience in SIPs in the suitability assessment when making a recommendation on SIPs.**

No comment.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the Consultation Paper and will continue to work with the MAS on any specific issues which may assist in the discussion of the Complex Products Regime and/or our proposed ETP classification system.