

INVESTMENT MANAGEMENT

ASSOCIATION OF SINGAPORE



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**Code of Best Practices in Advertising Collective Investment Schemes and
Investment-Linked Life Insurance Policies**

**Of Investment Management Association of Singapore and Life Insurance
Association**

On 20th January 2006, IMAS circulated a draft of the Code of Best Practices in Advertising Collective Investment Schemes and Investment Linked Life Insurance Policies to members for their comments. The purpose of the Code is to supplement regulations and laws applicable and does not replace any legislation or regulations and guidelines issued by any relevant authorities in Singapore. Responses were received from certain members during the consultation period, and also the MAS and Association of Banks.

The IMAS Regulatory Committee considered the comments received and finalised the Code. The final version has been approved by the Executive Committee of IMAS and is now circulated as attached to all IMAS members to take effect for all advertisements issued from 1st October 2006 or later.

Members should appreciate that it is not intended nor is it possible for the Code to prescribe a formula for all variations of products in the market. Rather, the Code was constructed with the intention of laying out the key principles for advertisements. As such, we would encourage members to report to IMAS advertisements of investment products (not limited to collective investment schemes or investment linked life insurance policies) that members view to be in breach of the spirit of the Code.

If members need further clarification as to how the Code should be applied, or if they have any doubts, they should consult IMAS by contacting us at enquiries@imas.org.sg.

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Chairman, IMAS

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**CODE OF BEST PRACTICES IN ADVERTISING
COLLECTIVE INVESTMENT SCHEMES AND
INVESTMENT-LINKED LIFE INSURANCE POLICIES
OF
INVESTMENT MANAGEMENT ASSOCIATION OF SINGAPORE (IMAS)
& LIFE INSURANCE ASSOCIATION (LIA)**

1 Introduction

1.1 Advertising Code

This Code of Best Practices in Advertising Collective Investment Schemes ("CIS") and Investment-linked Life Insurance Policies ("ILPs") (this "Code") is issued jointly by the Investment Management Association of Singapore ("IMAS") and the Life Insurance Association ("LIA") as guidance on the best practices on advertising CIS and ILPs.

1.2 Supplementary To Regulations

This Code aims to supplement regulations and laws applicable to the fund management and life insurance industries and their participants and provide guidance in respect of the best practices in advertising CIS and ILPs. It does not replace any legislation or regulations and guidelines issued by any relevant authorities in Singapore. Further reference must always be made to such legislation, regulations or guidelines, and in the case of inconsistency, the more stringent applicable provision will be applied. This Code does not have the force of law and should not be interpreted in a way that would override the provisions of any law, regulations or guidelines issued by the relevant authorities.

In particular, this Code aims to supplement existing regulations governing advertising of (a) CIS under Regulations 20-31 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations issued under the Securities and Futures Act, Chapter 289 of Singapore ("CIS Advertising Regulations") and (b) ILPs under Monetary Authority of Singapore Notice 307 on ILPs, specifically Appendix F of MAS 307 ("MAS 307").

1.3 Effective Date

This Code will take effect on 1 October 2006.

1.4 Regulatory Coverage

In general, the regulations contained in the CIS Advertising Regulations and MAS 307 are similar and touch on the following areas:

1.4.1 Advertisement not false or misleading;

1.4.2 Legibility and audibility;

- 1.4.3 Contents of advertisements;
- 1.4.4 Past Performance;
- 1.4.5 Comparison of past performance with another product or index;
- 1.4.6 Comparison of past performance with another form of investment;
- 1.4.7 Performance of manager or sub-manager;
- 1.4.8 Future performance; and
- 1.4.9 Specific rules for real estate investment trusts.

2 Guidance

In respect of IMAS members, this Code is established under clause 64 of the IMAS Constitution. IMAS members must comply with the guidance established by this Code.

This Code sets out IMAS' and LIA's views on what are considered best practices in preparing advertisements for CIS and ILPs, to be used as a general guide by members.

IMAS and LIA may from time to time issue specific practice notes as further guidance to members as and when undesirable or misleading advertisements or practices make their appearance.

In interpreting this Code, members should take into account the level of investment experience and knowledge of the target audience.

If a member of either Association is unsure how to interpret this Code in specific circumstances, they should consult with their Association.

3 Types of Advertising

3.1 Types of Advertising

Advertisements can take many forms, with the more common types of advertising taking the following forms:

- Product brochures
- Fact sheets
- Printed advertisements in magazines and newspapers
- Audio advertisements on radio
- Audio and visual advertisements on television
- Mailshots (sent by post, facsimile, e-mail or other media)

- Telemarketing (telephone calls and sms messaging made by call centres)
- Presentations (through meetings, seminars and conferences)
- World Wide Web/Internet advertising and email marketing
- Outdoor advertising (including billboards, buses, trains & taxis)

3.2 Regulations and Advertising Code

Advertisements in whatever form are subject to the CIS Advertising Regulations for CIS and to the MAS 307 for ILPs. Likewise, advertisements in whatever form are encouraged to follow this Code.

4 Basic Advertising Principle

4.1 Using the CIS Advertising Regulations and the MAS 307 as guiding posts, the basic principle applying to all forms of advertisements relating to CIS and ILPs is that advertisements should NOT be false or misleading.

4.2 Other basic principles of best practices in advertising which should be followed include:

- Advertisements should present a balanced picture of the product, clearly disclosing material risks as well as benefits.
- Advertisements should be clear and easily understood by the audience being addressed.
- Advertisements should not criticise other CIS or ILPs in a derogatory or other way that brings discredit to the industry.

5. Contents of Advertisements

The following is intended to serve as guidance as to best practices to be applied to specific contents of CIS and ILP advertisements.

5.1 Appropriate use of headlines

Headlines are often the first place where advertisers cross the line of giving false or misleading information on a CIS or ILP. An advertisement should not have exaggerated claims or unsupportable assertions in their headlines, such as the following:

- Using inappropriate words in the headline to convey a false impression, such as "Guaranteed to earn you returns" to describe an equities fund with no guarantee in place.
- Improper use of language and artwork for the headline to create unrealistic expectations can be false or misleading. For example, a graph showing only an increasingly positive curve, accompanied by a headline "Enjoy Strong Performance" will suggest that the fund can only go up (and not down).

- Headlines, and the text of advertisements, whether in words or artwork, should as far as possible follow language consistent with that used in the prospectus. It is accepted that the language of the prospectus might be more formal than that of an advertisement but members should aim for consistency.
- Using language such as "Invest now before it is too late!" or "Get in today to earn higher returns" is generally discouraged as they might create a false impression. However, there may be circumstances where language with such urgent tones is appropriate having regard for the product or offer being made. Members should exercise careful and responsible use of such urgent tones.

5.2 Proper Footnoting

5.2.1 Use of Footnotes

The use of footnotes should be clear and concise, with no distortion or unclear short-cuts, so as to afford investors adequate information to complete the references to the footnotes.

5.2.2 References to Award Winning Funds

References in advertisements to award winning funds should be properly foot-noted, either by identifying the award winning funds and their names and years of awards in footnotes or by referring in footnotes to a listing of the awards on the fund manager's website.

5.3 Adequate Risk Disclosure Statements

Advertisements should ensure that key risk disclosure statements are presented in such manner so as to bring reasonable attention to the statements. If need be, certain disclosure statements can be highlighted or bolded, or placed in separate paragraphs (instead of being buried in one long amorphous paragraph) for clarity.

5.4 Proper Use of Performance Data

Performance data of CIS and ILPs can easily be misused and manipulated to create false or misleading impressions, and for this reason, its treatment is highlighted in this Code.

5.4.1 Rates of Return

Rates of return and performance, whether historical or future, in advertisements are easily capable of being misrepresented and care should be taken not to manipulate such information to create false or misleading statements.

- Stating the intended aggregate distributions of the fund over a number of years and providing a breakdown by way of an asterisk in a footnote, whether in smaller print or otherwise, will be false and misleading. For example, an advertisement stating "Get 8% Return*" would be misleading if the intended distribution is 2% per annum over 4 years. The use of the asterisk leading to a footnote explanation may not be adequate to dispel the false or misleading impression created by the statement if the explanation is not given proper exposure in the advertisement. The

best practice here would be for the headline to state “Get 2% per annum over 4 years” or "Get 8% Total Return over 4 Years". In addition, the effective interest rate should be prominently stated in the main text of the advertisement.

- If an advertisement contains information on historical performance, there should be a prominent statement stating that past performance is not necessarily indicative of future performance.
- Advertising historical investment performance without adequate disclosure of unusual circumstances that have contributed to performance will be false and misleading.
- Performance data used in advertisements should be current, i.e. the end date of the period should be within 3 months of the publication date. Advertising historical investment performance based on non current selective dates or time periods may be false or misleading.
- If there is available significant different data from that used in any advertisement, the data in the advertisement should be updated.
- Advertising performance without providing disclosure that more current performance may be lower than the advertised performance will be false and misleading.
- Incorporating a predecessor manager's performance into the current manager's advertised performance without disclosure and a reasonable basis will be false and misleading. (In this instance “manager” refers to the corporate entity, not an individual portfolio manager).
- The CIS Advertising Regulations prescribe that returns of a fund be calculated either on an offer-to-bid basis or on a single pricing basis (taking into account any subscription fees and realisation fees). MAS 307 requires a statement on the basis of return calculation but it is silent on how specifically it should be calculated other than the requirement that bid-to-bid basis be used for annual and semi-annual reports. What is important is that any single basis adopted should be used consistently in the advertisement. For CIS, it is acceptable practice to show performance on a bid-to-bid basis or single pricing basis (excluding any subscription fees and realisation fees) in addition to meeting the regulatory requirements.

5.4.2 Standardised Format

- Whenever any performance data is used in an advertisement, it should be (a) sourced and (b) dated. The source and dates should be described clearly in the advertisement.
- Performance data, whether in words, charts, graphs or tables, should use a standard approach of either the first or last day of the relevant month.

- If performance is measured from a fund's launch or inception date, such launch or inception date should be clearly stated. In such case, the performance period should end on either the first or last day of the relevant month as per the previous bullet point.
- Performance data should not be presented for a period of less than one year or, if the CIS or ILP has been constituted for less than a year, the performance period should commence from the inception or launch date.
- If the performance for a period exceeding one year is presented, the average annual compounded return should be stated.
- Comparisons of fund performance with benchmarks and peer group should be done on a valid or "like-for-like" basis.
- Advertising performance without providing adequate disclosure of the performance period will be false and misleading.
- Performance data should be actual and not based on simulated or hypothetical results.
- Charts, graphs and tables should be clearly presented, without distortion.

5.4.3 Performance Projections

- CIS and ILPs are generally not permitted to advertise any prediction, projection or forecast as to their future or likely performance (this does not extend to ILP Benefit Illustrations), and cannot use words such as "targeted", "expected" or similar words or descriptions in relation to a rate of return.
- When the authorities permit an advertisement to include a projection or forecast, such as in the case of listed real estate investment trusts, advertisements stating the projected or forecasted future return should clearly refer to the bases and assumptions of such projections or forecasts in the prospectus, and include appropriate warnings about there being no assurance of such returns being achieved when that is the case.

5.4.4 Selected Sampling - No Cherry Picking

- Advertising performance based on selected dates or time periods that is unusually high and not representative of the fund's historical performance will be false and misleading.
- Creating distorted performance results based on selected information, and not all relevant data, will be a misrepresentation of returns.

5.4.5 Use of Statistics

The use of statistics in advertisements should be fair and reasonable, with no distortion or manipulation. The source of statistics should be quoted.

5.4.6 Simulated performance

- Past performance cannot be based on simulated results.
- Any representation that a model or backtested performance is actual performance will be false and misleading.

5.4.7 Other information and data

Any other information or data relating to the fund (e.g. expense ratios) should be the most up-to-date available at the publication date.

5.5 Advertisements should be legible and audible

5.5.1 Misuse of fine print

- Fine print should not be misused so as to mislead or prevent an investor from reading relevant information fairly.
- Disclaimer text on a medium, such as television, should be of sufficient size and of sufficient duration to enable the average viewer to read it
- Note that the font size of footnotes is required to be at least ½ the font size of the main text under the CIS Advertising Regulations and MAS 307, and in the case of an advertisement or publication appearing in any document, be in a font size that is at least 10-point Times New Roman.
- Members are expected to sensibly interpret the Code with respect to other non-traditional forms of advertising, e.g. taxis, buses, bus shelters, billboards, web banners, etc.

5.5.2 Advertisements should be audible on radio or television

- Reading the disclaimer text at a faster speed than would be comprehensible to the average viewer would not be regarded as audible.

5.6 Inducements

5.6.1 No Over-inducements

While there is no regulation against an advertisement using inducements such as free gifts to attract investors, care should be taken that the advertisement focuses on the investment benefits of the product and NOT disproportionately on the inducements.

5.6.2 Terms of Promotion

If promotions form part of an advertising campaign, the material terms and conditions of the promotions should be stated.

5.7 Misuse of Purportedly "Authoritative" Reports

Advertisements referring to testimonials or recommendations by sources purported to be "authoritative" when they are in fact not, can be false or misleading. The following examples bear testimony:

- Endorsement by clients and clients' experience are discouraged as they may give a false impression of the manager's ability without going into all relevant circumstances.
- Advertisements should not represent or imply any endorsement or approval by any government, statutory or similar authority.
- However, recommendations by sources which are reasonably accepted and can be demonstrated as "authoritative" are acceptable. If a member is in doubt concerning what might be regarded as authoritative, they should check with their Association.

5.8 Charges and Fees

- The nature of the relevant sales charges should be clearly stated. If the charges are back-end loaded, these charges should be identified clearly in the advertisements, instead of being mis-represented as "0% sales charges".

5.9 Specific Products/Specific Treatments

Specific products may need specific treatment in order to avoid giving false or misleading impressions. For example:

- Advertisements on guaranteed funds should state the summarised terms of the guarantee in a clear and unambiguous manner.
- Advertisements on capital protected funds should have adequate information or avoid inaccurate information so as not to blur the lines between a capital protected fund and a guaranteed fund. Stating that an investor has a guaranteed return of 95% of his capital when the product is only a capital protected fund without a guarantee, would be false and misleading.
- An advertisement stating that there are guaranteed dividends without stating any other relevant information, such as dividends may be paid out of capital, would be false and misleading.
- Advertisements highlighting the maximum potential returns of structured product funds, without regard to the probability of those returns being achieved, would be false and misleading.

6. ILPs that feed into CIS

- 6.1 Where an ILP invests into a CIS and the advertising relates to the ILP, the responsibility for complying with this Code, rests with the Life Insurance Company that issues the ILP.